COLUMN—LME and its warehousers; a long, unhappy marriage

How about this for a neat summary of the heated debate swirling around the London Metal Exchange’s (LME) malfunctioning warehousing system?

Andy Home is a Reuters columnist. The opinions expressed are his own
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BASE METALS: London copper barely moved as a lack of progress in resolving the U.S. fiscal standoff cooled demand expectations, while top consumer China was absent for the last day of its week-long break.

“There is a lot of uncertainty over the U.S. and it looks like it’s going to drag on until the debt ceiling becomes the critical issue to tackle in mid-October - it seems commodities are reacting a bit more to this than one may have expected,” said analyst Stefan Graber of Credit Suisse in Singapore.

PRECIOUS METALS: Gold nudged up in Asian trading as the near-week long U.S. government shutdown raised fears Congress may struggle to raise the debt ceiling in time, burnishing bullion’s safe-haven appeal.

“These are critical events that can move the markets greatly,” said Brian Lan, managing director of GoldSilver Central Pte Ltd in Singapore. “If we don’t see any progress till the 17th, I think we will see gold spike to $1,400.”

FOREX: The dollar dropped against the yen and the Swiss franc as the weekend produced little progress in Washington over the U.S. budget standoff, keeping the greenback stuck close to 8-month lows against a basket of major currencies.

“If things do not improve, the market may focus on the risk of a U.S. debt default. In that case, considering the possibility of unwinding of yen short positions, the yen is likely to rise,” said Osamu Takashima, chief FX strategist at Citigroup Global Market Japan.
COLUMN-LME and its warehousers; a long, unhappy marriage

By Andy Home

LONDON, Oct 4 (Reuters) - How about this for a neat summary of the heated debate swirling around the London Metal Exchange's (LME) malfunctioning warehousing system?

"Serious concern was expressed about the independence of warehouses, relationships between warehouse companies and members which are potentially open to anti-competitive and market distorting behaviour, long term storage and incentives offered by warehouses which can restrict the availability in practice of LME stocks, perceived excessive charges levied by warehouse companies for taking stocks out and the speed with which stocks can be taken out of warehouses."

This kaleidoscope of concern, however, does not come from the recent U.S. Senate Banking Committee hearings on Wall Street banks' ownership of physical assets such as LME warehouses. Nor does it come from any of the responses to the LME's latest proposal for tackling the long load-out queues at many of its good-delivery locations.


It is proof that LME warehousing, the critical point at which paper and physical metal markets meet, has always been a source of conflict and discontent.

All that has really changed is the scale of the problem after the wholesale consolidation of the LME warehousing sector under bank and merchant ownership.

FOR BETTER...

Actually, things had been even worse prior to 1998. That policy paper marked a watershed moment for the LME, ushering in what amounted to a complete overhaul of the exchange's compliance function.

Warehousing was also transformed. Introduction of the SWORD electronic warrant system was accelerated to provide transparency on who owned what in LME sheds.

Incredibly from today's perspective, warrants had previously been bearer documents and warrant transfer had taken place by motorcycle courier at the end of the London trading day.

The LME stocks reports were changed to show a breakdown of available (open) tonnage and non-available (cancelled) tonnage. Warehouse operators were required to notify the LME of maximum rental and load-out (FOT) charges for any financial year. These were then published.

"Chinese walls" were introduced for warehouse operators that were owned by trading entities to prevent the misuse of sensitive information.

After intense and often acrimonious debate a new LME warehousing contract with the exchange's warehouse operators became effective at the start of 2000.

The cumulative effect was to drag the LME's warehousing operations out of the dark ages of the 1980s and 1990s.

Older readers may want to pause to remember and younger readers to imagine what LME warehousing was like before these changes.

A compliance department that had virtually no visibility on who owned registered stocks, or in rumoured worst-case scenarios, whether stocks were even where they were supposed to be rather than en route to where they were supposed to be.

Leaks of information about stock movements at a time when the LME stocks reports could still move prices.

Warehouse operators that were actually dealing in LME warrants on their own account, an offence which cost Henry Bath, now owned by JP Morgan Chase JPM.N, 50,000 pounds in fines in 1999.

 Increases in FOT charges that were often arbitrary and could take place without warning at any time.

It took the calamitous events of the Sumitomo Copper Crisis to revolutionise the exchange's delivery function.

...FOR WORSE

Some issues have proved more intractable, though. LME warehousers' enthusiasm about getting metal into their sheds, most commonly by offering "freight incentives" and discounted rental deals, has always been in sharp contrast to their reluctance to see it go.

The minimum stipulated load-out rate was raised to 1,500 tonnes per day in 2003 after much horse-trading with warehouse operators.

Even back then it was widely treated as a "de facto" maximum load-out rate. Sometimes it was just ignored.

Metro was prohibited from warranting metal in its Long Beach and New Orleans sheds in 2002 after the LME upheld complaints it had "failed to demonstrate it can meet acceptable delivery out rates". Metro ended up paying a 50,000-pound fine.

Steinweg was fined 10,000 pounds in 2003 for the same offence, slowing deliveries of lead from its Singapore sheds, purportedly because the metal was going to a rival warehouse.

High load-out charges have also been the subject of frequent and vociferous criticism, culminating in the International Wrought Copper Council formally complaining to the European Commission in 2006.

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INSIDE METALS

October 7, 2013
The LME the same year commissioned Europe Economics, the same consultancy used more recently to look at the aluminium queues, to undertake a comprehensive study on FOT charges. It was well understood even then that high out-charges could be used to pay "freight incentives" for attracting metal in, leading to "disproportionate amounts of warranted metal accumulating in certain locations, thereby distorting the market." ("A review of the possible consequences of a change in contract terms from in-warehouse to FOT basis with respect to all metals traded on the LME", Europe Economics, Feb. 20, 2007)

When Goldman Sachs GS.N bought Metro in 2010 and started building up the original aluminium queue in Detroit, the bank didn't have to reinvent the wheel. It simply dusted down a well-thumbed warehouser manual for revenue maximisation.

True, the game was raised several levels, but then there was a lot more aluminium around after the Global Financial Crisis. And a lot more money to finance that metal thanks to quantitative easing.

NO SILVER BULLETS

So why, if all the core problems of the LME's warehousing function were well understood over a decade ago, have they not been fixed?

The simplest part of the answer is because the LME hasn't, and never has had, the legal power to dictate to its warehouse operators anything that pertains to their commercial business.

Any attempt to set maximum rental charges, cap FOT charges or restrain the use of "freight incentives" would fall foul of competition law.

All would be silver bullets for resolving the underlying fault-lines between LME users and LME warehousers, precisely the same fault-lines which have once again been opened up by the aluminium queues.

So too would be prohibiting ownership of warehouse operators by market players, whether they be Wall Street banks or physical market power houses such as Glencore-Xstrata and Trafigura.

But precedent, as lawyers are all to happy to point out, is a powerful thing.

And the trading-warehousing conflict of interest is hard-wired into the LME's history.

It didn't start when Goldman Sachs bought Metro. It didn't even start when Metallgesellschaft bought Henry Bath in 1986.

It started in 1877, when Henry Bath became a founding member of the LME. Bath was a merchant, shipping copper ore from Chile, a producer, with a smelter in Swansea, and a forward metal dealer out of its office in London. ("Henry Bath and Son, a company and family history", Michael Jackson, updated 2010).

And it was also a warehouser. Indeed, it both established the first LME warehouse and issued the first ever LME copper warrant in 1883.

It was, in other words, the 19th century equivalent of Glencore, controlling the supply chain from mine to market, including a significant part of the LME storage function.

NO CONSENSUS

Deprived of such silver bullets, the LME has had to look at either more structural solutions, such as shifting the entire basis of its contracts from in-warehouse to FOT, or, as is now the case, trying to micro-manage the system.

The 2007 study into switching to a free-on-truck (FOT) basis reveals two other major historical hindrances to resolving the eternal LME warehousing conundrum.

The first has been a consistent lack of consensus about what to do. Not just between warehousers and everyone else but between brokers, traders, producers, manufacturers and warehousers. Often between LME board members.

"The views expressed by one person were often at odds with those advanced by another, and sometimes the arguments offered were not consistent in themselves."

"In some cases the interrelationship between markets was poorly understood, and there was a wide array of views on the ways in which any change in the LME price, everything else being equal, would affect the premium."

"There were also significant differences on matters of fact."

The palpable frustration of the report's authors still resonates six years on.

And any of those comments could equally apply now, witness the very differing views of the LME warehousing problem expressed by aluminium producers and by consumers.

BETTER THE DEVIL YOU KNOW?

Even more fundamentally, there has always been the fear of unintended consequences, which in the case of the 2007 FOT study resulted in a no-change recommendation.

As Phillip Crowson, who chaired the LME committee examining the issue, wrote at the time: "The consequences, which are often unpredictable, of such changes may be far more damaging than the original concern, and may not adequately solve it."

The very importance of the LME's warehousing function in linking paper and physical markets means the more dramatic a change in the warehousing rules, the more dramatic the potential impact.

Consider the uncertainty right now about the implications of the LME's latest proposal to link load-in and load-out rates, a far less dramatic step than changing the terms of delivery reference.

In its July 2 consultation paper, the LME conceded that "this policy could itself unintentionally create an artificial supply and demand dynamic in LME markets."
Many other commodity exchanges allow for physical delivery but the LME's combination of prompt date and warrant system is unique. There is no existing template, against which rule changes can be measured for likely impact.

Get it wrong and the consequences could be disastrous, both for the LME and for the industries it is supposed to serve.

It's not as if the LME hasn't repeatedly looked at alternatives over the 15 intervening years since that "Market Aberrations" document.

It's looked at just about everything, even running its own warehousing operations. ("LME Warehousing Policy - The Way Forward", May 2000)

But time and again, fear of getting it wrong has caused it to stay with the "devil it knows".

ADVERSARIAL RELATIONSHIP

The latest proposed rule change, the third in three years, is yet another example of applying a band-aid to what is fundamentally a dysfunctional relationship between the exchange and its warehouse operators.

So how might the LME try to fix this long, unhappy marriage?

The best answer was probably provided six years ago by Phillip Crowson, who spent many years leading various consultations into LME warehousing back in the early 2000s.

It comes in two main parts.

"Warehouse companies are an integral component of the LME system, but there appears to be far too much of an adversarial relationship rather than constructive cooperation. This has to change."

The LME has repeatedly disciplined and fined its warehouse operators. It has even been to the British High Court with one (Albatros in 2000).

It initially barred them from its warehousing committee and then only let them in as "observers", requiring they leave the room before any votes were taken.

Even now, when there are six warehouse representatives on the warehousing committee, the recent decisions to change load-out rates were taken by an executive committee for fear that the warehousing committee was too conflicted.

Warehousers have responded in kind, resisting any moves that might impact on "their" business, even if "their" business affects everyone else in the market.

And any time the LME has changed its rules, the collective response has been an aggressive hike in already high storage fees, serving only to widen one of the core fault-lines in the relationship.

Given the importance of the delivery function to the operations of the LME, something, to quote Crowson, "has to change".

WHERE IS THE WAREHOUSING TSAR?

Crowson's second recommendation was that "the LME should continue careful monitoring and analysis in order to optimise warehouse numbers and locations as market circumstances change. The criteria for determining warehouse locations and registering warehouse companies should also be periodically reviewed."

There was a burst of enthusiasm along these lines in the early 2000s but the impetus seems to have long since faded.

Why is New Orleans still a good-delivery location for zinc, given the build-up of the world's surplus in a port far removed from any zinc consumption hub?

Why has Pacorini, Glencore's warehouser, been allowed to open 54 registered storage units in Vlissingen, giving it a dominant logistics presence in the Dutch port? Does the market really need this sort of warehousing capacity in a location so close to other good-delivery locations?

The LME seems to have forgotten that it still has the ultimate say on how many registered units are allowed where.

The answer to both of Crowson's recommendations would be for the LME to change its whole governance of warehousing.

Much criticism has been levelled at outgoing LME chief executive Martin Abbott for not doing more about the multiplying load-out queues. Some of that criticism is justified.

But why was it the chief executive who was taking primary responsibility in the first place? Where was the LME's warehousing tsar?

A board member focused only on warehousing and one with the executive authority to pull warehousers into line if necessary.

Someone who could take a strategic view of warehouse registration rather than see it as a box-ticking exercise.

Phillip Crowson came close to fulfilling such a role by default in the early 2000s but since then it has been a hole in the LME's regulatory structure.

The exchange may be legally constrained in what it can do with its recalcitrant warehousers but it is also guilty of forgetting just how important its warehousing function is, both to its own efficient functioning and to the efficient functioning of the physical markets.

If the LME wants to get serious about its warehousing problems, it should get serious about the business of LME warehousing and treat seriously those who are in the business of LME warehousing.

An LME warehouse tsar would be an important first step to righting this unhappy marriage.

Who knows? With a better relationship, the two sides might even agree to look again at some of those silver bullets.
GENERAL NEWS

Blumont committed to Discovery deal despite Blumont share slump

MELBOURNE, Oct 7 (Reuters) - Blumont Group’s sudden share price slump will not affect its plan to invest $108 million in Botswana copper miner Discovery Metals, the head of Blumont’s copper unit said on Monday.

Shares in Blumont Group shares dived 56 percent on Friday - one of three firms to see their stocks slide dramatically, sparking trading halts and queries from the Singapore Exchange.

Those events came after Blumont announced it had agreed on a proposed S$146 million takeover of Australian-listed coal explorer Cokal, which it called off later in the day due to the share price fall.

Asked on Monday whether Blumont was having second thoughts about the Discovery Metals deal, Blumont Copper CEO Ines Scotland said: "Absolutely not. We think the Discovery transaction will add great shareholder value."

Scotland said Blumont's share price slump had nothing to do with the fundamental value of Blumont's portfolio.

"It seems to be due to shorters in the market driving the price down and some knowledge gaps at the SGX about the vision that Blumont are executing," she said in an email to Reuters.

The $108 million investment by Blumont Copper covers an already purchased 11.6 percent stake in Discovery Metals and plans to buy $100 million in convertible bonds. Blumont Copper is 85 percent owned by Blumont Group.

The other two Singapore-listed firms to suffer volatile trading in their shares were gold miner LionGold Corp Ltd and investment firm Asiasons Capital Ltd.

All three were cleared to resume trading on Monday, subject to restrictions barring short-selling of their shares and requiring anyone buying the shares to pay up in cash when their orders are executed.

The restrictions are imposed where the exchange thinks there has been manipulation or excessive speculation. LionGold and Asiasons sought on Monday to have their trading halts continue, saying they have announcements pending.

Indian customs clear remaining gold at Mumbai airport—officials

MUMBAI, Oct 5 (Reuters) - India's customs department has cleared more than a tonne of gold, part of which was owned by Bank of Nova Scotia, the biggest gold importing bank, at Mumbai airport after rule clarifications at a high-level meeting held last month, industry and bank officials said on Saturday.

Gold imports into India, the world's biggest buyer of the metal, had virtually stopped after a July 22 circular which tied domestic consumption to exports.

"More than one tonne of gold was stuck at Mumbai airport and everything has been released. People have taken delivery of gold and the festival season has started with a good news for exporters," Pankaj Kumar Parekh, vice chairman of the Gems and Jewellery Export Promotion Council told Reuters.

The resumption of imports after a two month gap is positive for exporters like Rajesh Exports and Shree Ganesh Jewellery ahead of the peak Christmas season.

It is also positive for domestic jewellers in the run up to the festival season, which peaks with Dhanteras in November, the biggest gold buying festival.

"We were after the customs since two months and finally our consignment has been cleared. We will start processing our orders from Monday," said an official with a private bullion importing bank in Mumbai, who wished not to be named due to company policy.

India, battling with a record high trade deficit and a weak currency, is trying to curb imports of dollar-denominated gold, the most expensive non-essential item in its import bill.

India may import a total of 30 tonnes in October, half of the normal average, out of which 6 tonnes might go for exporters and 24 tonnes for the domestic market, Parekh said on Oct. 1.

India imported 393.68 tonnes of the yellow metal from April to Sept. 25, slightly higher than the normal average of 60 tonnes per month.

A finance ministry official estimated gold imports at between 750 and 800 tonnes in the fiscal year through March 2014.

Sable Mining receives decree to export through Liberia

By Stephen Eisenhammer

LONDON, Oct 7 (Reuters) - Guinea-focused iron ore miner Sable Mining said it had been granted permission to export through Liberia by the Guinean government, which could increase the viability of its Nimba project.

Liberia, which neighbours Guinea, has an existing rail link to the Atlantic and offers a far shorter export route for Sable's Nimba iron ore project.

The company, whose chairman is the former England cricket player Phil Edmonds, said the decree was the first to be issued in Guinea and was an important step towards starting production in 2015 and hitting 5 million tonnes per year production after that.

West Africa, and particularly Guinea which is home to the giant Simandou deposit, is seen as the next major frontier for iron ore, but a dire lack of infrastructure and the huge investments needed to build it have crippled projects.
**GENERAL NEWS (Continued)**

"The issuance of our export decree, the first granted by the Government of the Republic of Guinea, is a major endorsement for Sable Mining and represents yet another critical milestone achieved by our team," Andrew Groves, Sable chief executive, said in the statement.

In an interview with Reuters last month Groves said the mining licence and export decree would be vital evidence the company could deliver on its plans. The next step he said would be to raise $200-300 million next year.

**Brazil strikes foreign tax deal with companies - report**

SAO PAULO, Oct 5 (Reuters) - Brazil's government has reached a deal with big local companies on how to tax their foreign profits, a measure that should help resolve 70 billion reais ($31.8 billion) in tax disputes and help encourage greater investment abroad, Folha de S.Paulo newspaper reported on Saturday.

The deal should give a boost to tax collection of several billion reais, Folha said, at a time when the government is struggling to meet its fiscal savings goal for 2013.

The companies affected are some of Brazil's biggest including miner, state oil company Petroleo Brasileiro and steelmaker Gerdau.

The deal will allow the companies to enter a special renegotiation of tax debts the government said they owed for profits earned outside Brazil. Going forward, the companies will be allowed to set up holding companies to process foreign earnings as long as they are reported transparently and not based in so-called tax paradises, Folha said.

Brazil has one of the world's most complex taxation systems, according to the World Bank, and companies frequently dispute the government's accounting of what they owe.

The finance ministry did not immediately respond to a request for comment.

**TRADING PLACES**

**London Metal Exchange to boost reporting transparency**

SINGAPORE, Oct 7 (Reuters) - The London Metal Exchange is planning to publish new information about the futures positions of hedge funds and other traders, responding to calls for greater transparency, the Financial Times reported.

The LME has dropped its resistance to publishing detailed reports on the number of commodity contracts held by hedge funds, commercial users and other market participants, the FT said in its Sunday edition, citing people familiar with the discussions.

"We are aware of the market comment on this matter. The LME welcomes and will continue to listen to and consider market views," said an official at Hong Kong Exchanges and Clearing (HKEx), which bought the LME for $2.2 billion last December.

The LME, the world's largest market place for industrial metals, has faced criticism for under regulating its market and allowing long queues to grow in its warehousing network that has resulted in a flurry of lawsuits in the United States.

Regulation is set to be a hot topic at this week's industry week event in London.

Last month, Russia's United Company Rusal and U.S.-based sent open letters to the LME, urging it to match its U.S. rival, the CME Group, in providing more data about the make-up of investors positions.

Currently, the LME provides open interest data and limited long-short positioning data showing when large positions emerge, but it does not show whether positions are held by speculators or industrial interests.

In the United States, the Commodity Futures Trading Commission (CFTC) requires exchanges to release detailed positioning information. The resulting Commitment of Traders weekly reports are closely watched by investors.

HKEx is already taking a tougher regulatory stance over its new market, proposing an overhaul of the LME's controversial warehousing system which is due to be voted on this month.
NEW YORK, Oct 4 (Reuters) - Ormet Corp will immediately close its 270,000-tonne-per-year aluminum smelter in Hannibal, Ohio, a casualty of historically low metal prices and "uncontrollable" power costs, the company said on Friday.  
The move follows a ruling on Wednesday by the Public Utilities Commission of Ohio (PUCO), which approved some major changes to Ormet's power contract with energy supplier American Electric Power Co Inc.  
The state power regulator listed a number of conditions, including requiring the company, which filed for bankruptcy protection in February, to employ at least 650 full-time workers through 2018.  
Under those terms, costs would have increased by some $108 million next year, rather than falling by $54 million as outlined in Ormet's plan.  
"Due to the decision, Ormet cannot emerge from bankruptcy and must immediately shut down operations," Ormet said in a statement.  
Hannibal, which uses as much energy as the city of Pittsburgh, is one of the smaller plants in the global aluminum market, but it is the region's largest employer and Ohio's largest energy user.  
This closure will affect about 600 people, Ormet said.  
Securing a new power deal was the final hurdle in the company's efforts to emerge from Chapter 11 protection, although it will still be unprofitable unless aluminum prices also recover, management has said previously.  
London Metal Exchange prices are languishing close to or below the cost of production for many makers.  
Aluminum producers, including Rusal OAO and Alcoa Inc have cut output to reduce the excess, which could be as high as 10 million tonnes, analysts said.  
Ormet's suspension might provide some support to prices in the United States, but it is unlikely to make a big dent in the 400-million-tonne-per-year market.  
The smelter is currently producing about 90,000 tonnes per year. The plant has a total of six potlines with an annual capacity of about 270,000 tonnes per year.  
Ormet would not reopen the plant unless it secured lower-priced power and aluminum prices recovered, the company said.  
Aluminum prices on the London Metal Exchange are around $1,850 per tonne, below the cost of production for a large portion of the global smelting capacity.  
The company also has an alumina refinery in Burnside, Louisiana, which feeds the smelter. The status of the refinery was not known.

By Clara Ferreira-Marques and Douglas Busvine  
LONDON, Oct 6 (Reuters) - When he took the helm of Norilsk Nickel last December as part of a deal that ended a long-running shareholder battle, Russian billionaire Vladimir Potanin hinted he saw himself in the job for roughly two years.  
Almost a year on, Potanin is clearly relishing his role at the centre of a major turnaround and indicates he has no plans to stand down as chief executive of the world's largest producer of nickel and palladium.  
"I don't like deadlines," the 52-year-old Potanin told Reuters over tea in an upmarket London hotel late on Friday after a long day spent wooing investors.  
His departure could be years away as he develops the Norilsk management into a world-class team, he said.  
"For a rich and reasonably successful guy, it is impossible not to enjoy your job, otherwise why would you spend so much time and effort doing it? I am a great fan of Norilsk and I like this kind of challenge."

Potanin, whose more than $14 billion fortune began in banking, has long been a major shareholder in Norilsk, securing stock at a bargain-basement price in the loans-for-shares privatisations that followed the collapse of the Soviet Union and spawned a new oligarch elite.  
He now holds a 30 percent stake, the single largest.  
Until late last year, Potanin had rejected a direct role in managing the company, saying he preferred to leave the day-to-day running to professional managers. That has changed.  
"When you supervise something, it is one thing. When you are in the middle of something, there is a different pace of life," said Potanin, sporting a sober grey suit instead of his customary open-necked black shirt.  
He is now spearheading an austerity effort that echoes Norilsk's diversified peers in the mining sector, trimming back to its core assets, cutting spending, and even dividends - albeit still with sector-beating yields. And there is flexibility for more if markets worsen dramatically, he said.  
Norilsk, which mines some of the world's largest nickel-copper-palladium deposits in Russia's far north, has battled lacklustre prices - nickel has dropped by a fifth this year - and an image tarnished by years of draining infighting between key investors. Potanin and rival billionaire Oleg Deripaska, who owns 28 percent of Norilsk through indebted aluminium producer Rusal 0486.HK, were at loggerheads for more than four years.  
Potanin has kept the largest stake but ceded control last year, with a deal that brought in Chelsea soccer club owner Roman Abramovich as peace enforcer.
A FINE BALANCE
Under a new strategic plan unveiled over the past weeks, Norilsk will focus on its Russian assets - particularly the lucrative deposits in the Arctic where it sees potential to boost exploration and cut costs. It will sell off operations in Australia, South Africa and Botswana, bought during an expansion spree over the past decade, but now seen as too small.
The only overseas asset still under review is Harjavalta, a refining operation in Finland, Potanin said, which could remain.
It will trim spending to $2 billion a year, the bulk of that to go on growing the Polar Division, Norilsk's core dating back to its origins as a Stalin-era mine, where Norilsk has world-class reserves and some of the best ore grades in the industry.
It has also hammered out an agreement between shareholders to pay lower dividends - 50 percent of core profit or at least $2 billion in 2013 and 2014. Potanin said that number had been stress-tested for a further drop in prices and significant cost overruns, but, like spending and other related plans, could come down still further in case of major shifts in the market.
"Even with the fact that some shareholders would have liked higher dividends, everyone is reasonable," he said, adding the deal, which will require some borrowing in addition to Norilsk cash, satisfied those looking for high payouts and those hankering instead for a stronger balance sheet.
At these levels, Norilsk's dividend yield is over 8 percent, compared to a sector average it estimates at below 5 percent.
"We have shown the ability to find that balance, which leads me to the conclusion that our model is sustainable for a period of several years. But we are ready in case of dramatic changes to react quickly."
Norilsk plans a modest nickel production increase of under 3 percent at most over the coming five years, but is still facing a market that could hit a painful surplus this year.

Potanin said Norilsk sees the nickel price as close to the bottom as, he believes, many loss-making rivals cannot continue to endure costs of $18,000 per tonne and above, compared to a nickel price CMNI3 of closer to $14,000.
"They can survive quarters, but not years," said Potanin.
In the meantime, the metals behemoth will capitalise on its position as one of the world's lowest-cost producers, with enviable metal content in its ore. It also continues to benefit from its role as supplier of high quality nickel to the European steel sector - a position it says cannot be usurped by nickel pig iron, a cheaper substitute which has battered nickel miners.
More than half of Norilsk's sales are to Europe, and it expects the market for high quality nickel to recover faster than demand for nickel pig iron, which also depends significantly on low-cost input from places like Indonesia, now cracking down on the export of mineral ores.
Norilsk is also revamping its sales model to consider selling not just refined nickel and other metals, but also intermediate products, and looking to an improved recovery of precious metals to help boost the bottom line.

Voestalpine expects return to growth for Europe steel demand in 2014

FRANKFURT, Oct 7 (Reuters) - Austrian steelmaker Voestalpine expects demand for steel to return to growth next year after three years of declines driven by a slump in demand for cars, construction and appliances, its chief executive said.
"At least 2 percent should be doable," Wolfgang Eder told the Sueddeutsche Zeitung newspaper in an interview published on Monday.
He said Voestalpine's customers had started restocking in the summer, allowing the company to push through price increases for the fourth quarter.
There could be further price increases early next year, he said, following some positive signals from southern Europe.
ANALYTIC CHARTS (Click on the charts for full-size image)
MARKET REVIEW

By Melanie Burton

SINGAPORE, Oct 7 (Reuters) - London copper barely moved as a lack of progress in resolving the U.S. fiscal standoff cooled demand expectations, while top consumer China was absent for the last day of its week-long break.

Three-month copper on the London Metal Exchange was little changed at $7,255 a tonne by 0303 GMT, after gains of 1 percent in the previous session.

The Shanghai Futures Exchange will reopen on Tuesday after a week-long holiday break. The absence of China drained liquidity from the market, where less than 1,000 lots have changed hands.

Copper prices have been trapped in a $7,000-$7,500 band since early August and remain down more than 8 percent for the year.

Washington entered the fifth day of a partial government shutdown on Saturday with no end in sight even as another, more serious conflict over raising the nation’s borrowing authority started heating up.

"There is a lot of uncertainty over the U.S. and it looks like it's going to drag on until the debt ceiling becomes the critical issue to tackle in mid-October - it seems commodities are reacting a bit more to this than one may have expected," said analyst Stefan Graber of Credit Suisse in Singapore.

A prolonged U.S. budget standoff would hit global markets very hard, the Bank of Japan warned on Friday as it said it was ready to top up its existing massive stimulus if the recovery underway in the world's third-largest economy was threatened.

Graber said that in China, strong spending on power grids could slow towards year-end, cutting some momentum from copper demand, while the latest round of manufacturing figures also flagged stalling growth.

"In terms of demand, overall it looks okay but it's hard to see any catalyst for a move higher," he added.

China is expected to import more refined copper in 2014 as Beijing steps up building of power networks, rail lines and low-cost homes, while domestic production is likely to be squeezed by tight scrap supply, industry sources said.

China accounts for around 40 percent of global refined copper demand.

In other metals, tin gave back 1.6 percent to trade at $23,619 a tonne, having soared by 5.5 percent on Friday, boosted by supply worries from top exporter Indonesia. Tin prices hit $24,000 a tonne on Friday, which was the highest since March 15.

Shipments by Indonesia’s biggest tin exporter have been curtailed after new rules on domestic trading in August.

By A. Ananthalakshmi

SINGAPORE, Oct 7 (Reuters) - Gold nudged up in Asian trading as the near-week long U.S. government shutdown raised fears Congress may struggle to raise the debt ceiling in time, burnishing bullion’s safe-haven appeal.

Failure to raise the U.S. borrowing limit by Oct. 17 will push the world’s biggest economy into an unprecedented debt default. Congress is already divided on a spending bill, resulting in a partial government shutdown that is hurting the economy and delaying key data releases.

During the last debate over the U.S. debt ceiling in 2011, gold hit an all-time high of $1,920 an ounce. An agreement was reached by Congress only at the last minute.

“These are critical events that can move the markets greatly,” said Brian Lan, managing director of GoldSilver Central Pte Ltd in Singapore. “If we don’t see any progress till the 17th, I think we will see gold spike to $1,400.”

“Economic data or any news on the debt ceiling will determine the direction that gold and silver will take. Until then, it will be range bound,” Lan said.

The U.S. imbroglio pushed the dollar lower on Monday, keeping the greenback stuck close to 8-month lows against a basket of major currencies. A weaker dollar makes it easier for holders of other currencies to buy gold and other dollar-denominated commodities.

Spot gold rose 0.3 percent to $1,314.60 an ounce by 0627 GMT, also lifting silver and palladium. Platinum added to gains on Monday after a 1.3 percent increase on Friday, as mine strikes and curbs threatened to hurt supply.

Gold has recently lost some of its safe-haven appeal after geopolitical tensions in Syria eased. Though the U.S. shutdown did not spark a lot of safe-haven bids, the prospect of a debt default did, traders said.

“Sentiment remains hesitant towards gold, which has been reflected in the market positioning,” Barclays analysts said in a note.

"While the temporary U.S. government shutdown has not proved to be a positive driver for prices, the risk of a debt ceiling breach holds scope to spark interest given gold’s response in 2011.”

INVESTORS AWAITS PHYSICAL DEMAND

The Commodity Futures Trading Commission’s weekly Commitment of Traders data, which details positions in U.S. futures and options markets and is a keenly watched measure to judge investor sentiment, was not released on Friday due to the partial government shutdown.
MARKET REVIEW (Continued)

With no key U.S. data coming in, traders are now eyeing any pick up in physical demand, especially from China which has been closed for a week for the National Day holiday. Some dealers said they expected Chinese demand to be good at the current price levels, and a lot stronger if prices fell below $1,300.

In top buyer India, importers were ready to process orders from Monday after the customs department cleared more than a tonne of gold stuck at airports.

FOREX-Dollar slips as no sign of progress in U.S. budget standoff

By Hideyuki Sano

TOKYO, Oct 7 (Reuters) - The dollar dropped against the yen and the Swiss franc as the weekend produced little progress in Washington over the U.S. budget standoff, keeping the greenback stuck close to 8-month lows against a basket of major currencies.

Republican House Speaker John Boehner vowed on Sunday that there is “no way” Republican lawmakers will agree to a measure to raise the debt ceiling unless it includes conditions to rein in deficit spending.

The comment raised fears the U.S. Congress and President Barack Obama could fail to reach a deal on raising the ceiling by Oct. 17, when the Treasury has estimated it will have effectively run out of cash.

The dollar index stood at 80, down slightly on the day and not far from eight-month low of 79.627 hit on Thursday. As traders who had bought back the dollar before the weekend to close their positions began the week by selling the dollar afresh, the dollar fell 0.4 percent against the yen to 97.07 yen, edging near a five-week low of 96.93 yen touched last month.

"If things do not improve, the market may focus on the risk of a U.S. debt default. In that case, considering the possibility of unwinding of yen short positions, the yen is likely to rise," said Osamu Takashima, chief FX strategist at Citigroup Global Market Japan.

"If the dollar falls to around 95 yen, underhedged Japanese exporters may try to sell the dollar, further accelerating the dollar's fall," Takashima added.

Technically, the dollar/yen’s 200-day moving average, at 96.68 on Monday, is seen by many as a key support level to watch. The dollar also fell against the Swiss franc, another safe-haven currency, to 0.9042 franc, down 0.3 percent from late last week and slipping towards a 19-month low of 0.89675 set on Thursday.

The euro also held firm at $1.3571, not far from Thursday's eight-month high of $1.36465 against the broadly weak dollar. Although most investors still expect an eleventh-hour deal to raise the debt ceiling and avert a historic debt default, the standoff has already led to a government shutdown, raising concerns the still fragile U.S. economic recovery is now in jeopardy of being derailed.

Should there be no deal by Oct. 17, analysts think the Treasury is still likely to opt to make good on its debt and interest payments to avoid a meltdown in financial markets -- but at a greater cost.

In such a case, Washington would have to radically slash and delay other spending, which should surely damage the economy far more than shutting down national parks and stalling medical research projects.

The brinkmanship in Washington has prompted investors to push back expectations that the Federal Reserve will scale back its stimulus, undermining the case for dollar bulls.

The government shutdown also delayed the release of economic data, including September U.S. payrolls data, originally due on Friday, which would be one of the most important data to gauge the strength of a recovery in the U.S. job market.

"If we can't have data to look at, nothing can go forward," said a frustrated currency trader at a Japanese bank.

(Inside Metals is compiled by Pradip Kakoti in Bangalore)

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