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BASE METALS: London copper edged down as a lack of progress on the U.S. fiscal deadlock eroded appetite for risk assets, while Chinese consumers were content to wait for lower prices.

London copper is showing no sign of breaking out of the $7,000-$7,500 range it has held for the past two months, with swelling supply also dousing investor interest and quelling any urgency for consumers to stock up.

"Everyone seems to be waiting to see what happens in the U.S. ... we are already seeing markets being a bit shaky," said economist Alexandra Knight of National Australia Bank in Melbourne.

PRECIOUS METALS: Gold was lower as the U.S. government shutdown dragged on for a second week, but the metal was supported by increasing fears the deadlock could spill over to talks about raising the U.S. debt ceiling.

"The support for gold will strengthen as we get nearer to the critical (deadline) next week," said Song Seng Wun, an economist at CIMB. "Until the fear of U.S. government default subsides, gold will gain from safe-haven buying."

FOREX: The dollar got some relief against the yen on Wednesday from news President Barack Obama has tapped dovish Federal Reserve Vice Chairwoman Janet Yellen to head the U.S. central bank, though the U.S. budget impasse kept the greenback near an eight-month trough against a basket of currencies.

"It might be counterintuitive that the dollar rose on news that a dove is likely to be the next head of the Fed, but the news itself removed some of the uncertainty, and therefore contributed to risk-on sentiment," said Ayako Sera, market economist at Sumitomo Mitsui Trust Bank in Tokyo.
Obama to choose Yellen for top Fed job, markets relieved

By Mark Felsenthal and Jeff Mason

WASHINGTON, Oct 8 (Reuters) - U.S. President Barack Obama will nominate Fed number two Janet Yellen on Wednesday to run the world's most influential central bank, providing some relief to markets that would expect her to tread carefully in winding down economic stimulus.

The nomination will put Yellen on course to be the first woman to lead the institution in its 100-year history. The advocate for aggressive action to stimulate U.S. economic growth through low interest rates and large-scale bond purchases would replace Ben Bernanke, whose second term as Fed chairman expires on Jan. 31.

If confirmed by the U.S. Senate, which is expected to endorse her, she would provide continuity with the policies the Fed has established under Bernanke. Analysts say she would move cautiously in reining in policies in place to shore up the world's largest economy.

Expectations that the Fed might start to taper its stimulus program have roiled financial markets since May and the central bank shocked investors in September by maintaining its cash injections of $85 billion a month in full.

"Thank God Yellen will be nominated under the current circumstances. You don't want a change at the central bank right now," said Dan Fuss, a portfolio manager at Loomis Sayles in Boston. "This Yellen news is one uncertainty lifted from already nervous markets."

Her nomination would come during a political stalemate in Washington that has closed the U.S. government and threatened a U.S. default if lawmakers fail to raise the $16.7 trillion debt ceiling by an Oct. 17 deadline.

U.S. stock index futures rose and the dollar slipped on the news of Yellen's pending nomination. The debt standoff is fueling expectations the Fed may delay any plans to reduce its stimulus for now.

If confirmed, she would join the Fed's honor roll along with such household names as Paul Volcker and Alan Greenspan, predecessors as head of an institution that can influence the course of the world economy.

"I believe she'll be confirmed by a wide margin," said Senator Charles Schumer, a Democrat from New York.

Described as a "good egg" by fellow Fed policymaker Richard Fisher and a "very able person" by Japan's Chief Cabinet Secretary Yoshihide Suga, her most immediate challenge may be to determine when the Fed should scale back its bond buying.

After September's surprise decision against tapering, many economists now think the Fed will not move until Bernanke has left office.

Obama turned to Yellen, 67, after his former economic adviser Lawrence Summers withdrew from consideration in the face of fierce opposition from within the president's own Democratic Party, raising questions about his chances of congressional confirmation. The contest between Summers and Yellen played out all summer in a public way not usually associated with the selection of the top U.S. central banker.

Obama is scheduled to announce his nomination at the White House at 3 p.m. EDT (1900 GMT), a White House official said on Tuesday. Bernanke is expected to attend.

RESPECTED ECONOMIST

Yellen has enjoyed strong support from Democrats. In an unusual move, 20 Senate Democrats signed a letter earlier this year pressing Obama to turn to the former professor from the University of California at Berkeley.

Her Republican backing is much softer. Many Republicans worry Fed policy of holding overnight interest rates at zero and buying bonds aggressively to drive other borrowing costs lower could lead to asset bubbles and an unwanted pickup in inflation.

"I voted against Vice Chairman Yellen's original nomination to the Fed in 2010 because of her dovish views on monetary policy," Senator Bob Corker of Tennessee said in a statement. "We will closely examine her record since that time, but I am not aware of anything that demonstrates her views have changed."

Senator Richard Shelby of Alabama, another Republican, said he has concerns about her "proclivity to print money" and her record as a bank regulator.

Still, Yellen is expected to garner enough support to secure the 60 votes needed to overcome any procedural hurdles in the 100-seat Senate. Democrats control the chamber 54-46.

A respected economist whose research has taken her deep into theories of monetary policy, Yellen has earned a reputation as one of the Fed officials most worried about unemployment and least concerned about inflation.

"With employment so far from its maximum level and with inflation running below the committee's 2 percent objective, I believe it's appropriate for progress in the labor market to take center stage in the conduct of monetary policy," she said in March.

Yellen studied economics at Yale University and taught at Berkeley for more than a decade before her first stint as a Fed board governor from 1994 to 1997, a post she left to head President Bill Clinton's Council of Economic Advisers.

She later served as president of the San Francisco Federal Reserve Bank, where her first-hand view of the overheated real estate market helped her see the dangers of the housing bubble earlier than many of her colleagues.

As Fed chair, Yellen would arguably be the most powerful woman in the world.
Shuang Ding, an economist at Citi in Hong Kong, said in a research note that "under a tighter credit environment and local fiscal constraints," he said, adding this could translate to slower growth in Q4.

Analysts expect credit conditions to tighten again later this year, as the key to an effective monetary policy.

"However, incoming data in September suggest that month-on-month growth appears to be flattening and will likely soften un-der a tighter credit environment and local fiscal constraints," he said, adding this could translate to slower growth in Q4.

China GDP growth to pick up in Q3, then seen slowing again

BEIJING, Oct 9 (Reuters) - China's annual economic growth is forecast to have quickened in the September quarter after slowing through the first half of the year, but the pick-up is expected to be shortlived as the government pushes on with its reform agenda.

Beijing has a growth target of 7.5 percent for 2013, which would be the weakest rate in more than 20 years, and has repeatedly said it would accept slower growth if that is the cost of fighting high unemployment, has never dissented on a Fed policy decision.

But she also has not shied away from advocating rate rises if she feels the situation calls for it. In 1996, after then-Fed Chairman Alan Greenspan had repeatedly put off raising rates, she and a colleague went to him to argue that the central bank was at risk of courting inflation.

Once again, the central bank is facing criticism from some quarters that it is risking inflation. Its controversial bond purchases have put the Fed on track to buy some $3 trillion in mortgage and Treasury debt.

The easy money was aimed at digging the U.S. labor market out of the deep hole caused by the 2007-2009 recession. While it pushed U.S. borrowing costs to record lows and sent U.S. stocks to record highs, the loose policy also fueled resentment in some emerging markets, who had to contend with a flood of hot money as investors sought higher returns.

Now, the flood gates are reversing. The mere mention by Bernanke in May that the Fed could soon begin to ease up on its monthly purchases sent global financial markets reeling and U.S. borrowing costs sharply higher. Currencies and equities in many emerging markets plunged - underscoring the delicate task Yellen would face.

After slowing in nine of the past 10 quarters, the economy looks to have stabilised since mid-year after Beijing acted to head off a sharper downturn that could have set back its reform efforts.

President Xi Jinping said on Monday a "7 percent annual growth rate will suffice" to meet a medium-term goal of doubling per capita income by 2020, adding "the slowdown of the Chinese economy is an intended result of our own regulatory initiatives."

POLICY IMPACT

The government has loosened policy at the margins by accelerating infrastructure investment, sustaining spending in public housing, and cutting taxes for small firms.

Recent data has shown some impact, with factory output growth hitting a 17-month high of 10.4 percent in August and retail sales growing at 13.4 percent, their fastest pace this year.

"Economic data released since the beginning of July have been generally positive, benefiting from improving external demand and government efforts to manage growth expectations," Shuang Ding, an economist at Citi in Hong Kong, said in a research note.

"However, incoming data in September suggest that month-on-month growth appears to be flattening and will likely soften under a tighter credit environment and local fiscal constraints," he said, adding this could translate to slower growth in Q4.

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"Looking forward, we expect Q4 growth momentum to be somewhat weaker than in Q3 due to tapering restocking demand and weaker credit growth," Tao Wang, an economist at UBS in Hong Kong, said in research note.

Monetary data is likely to give some clue. New bank loans are likely to slip to 650 billion yuan ($106 billion) in September from 711.3 billion yuan in August, the poll showed, while annual growth of M2 money supply is likely to edge down to 14.2 percent from August's 14.7 percent.

On the trade front, the median forecast was for exports to rise 6 percent from a year ago, slower than growth of 7.2 percent in August, while import growth was seen at 7.0 percent, steady with the previous month's rate.

Consumer inflation is expected to rise 2.9 percent in September, quickening from 2.6 percent in August but still well below the central bank's 3.5 percent target for 2013.

A seasonal rise in food prices is considered the main factor pushing up headline consumer prices, analysts said.

In a further sign of a stabilising economy, producer prices are forecast to fall 1.4 percent in September from a year earlier, easing from a fall of 1.6 percent in August. However they will still have fallen for a 19th consecutive month.

**Egypt-focused miner Centamin says on track to beat 2013 guidance**

LONDON, Oct 9 (Reuters) - Egypt-focused gold miner Centamin said it expected to exceed its 2013 output guidance of 320,000 ounces after its mining operations continued to perform strongly despite a political crisis in the country.

Centamin on Wednesday posted gold production of 84,757 ounces in three months to September 30, 39 percent higher than in the same period last year, and bringing its year-to-date output to 265,397 ounces.

The company said it was on track to start commissioning a new part of its mine in the fourth quarter.

The steady performance comes despite the upheaval in the country. Egyptian military on July 3 overthrew President Mohamed Mursi and Mursi supporters and security forces have repeatedly clashed since with 57 people reported dead on Sunday, in one of the bloodiest days since the military took power.

**Antofagasta sees cooling project costs as prices ease**

By Clara Ferreira-Marques and Silvia Antonioli

LONDON, Oct 8 (Reuters) - Chilean miner Antofagasta Plc expects the cost of new projects to fall further following two years of declines, as copper prices weaken into 2014, taking the steam out of rampant inflation that has hampered development.

London-listed Antofagasta has struggled, along with peers, to contain operating costs and the cost of building and expanding mines in an environment of rising prices over the last decade. But it said on Tuesday that inflation was cooling.

Diego Hernandez, who took the helm at Antofagasta last year, said project costs had already dropped 10 to 15 percent in the last two years.

"We don't feel that that's enough because project costs have increased much more than any inflation rate," Hernandez said in an interview, on the sidelines of London Metal Exchange week.

Since 2000, the cost of building and developing mines spiralled as China's voracious appetite for natural resources boosted metal prices to record highs, increasing competition for resources and lengthening the time miners and contractors had to wait for key pieces of equipment.

That rise has been sharply felt by Antofagasta, which has built new mines to boost production, replace ageing deposits and counter weakening ore grades. Its $1.9 billion Antucoya mine, a project paused last year over cost concerns and resumed in March, is an often cited example: it is the same size and uses the same technology as its El Tesoro mine, but, roughly a decade later, will cost $1 billion more to develop.

"We have had the same approach in the last 20 years, now it is not working anymore and it is time to change and be more creative," chief executive Hernandez said.

That will involve economies of scale for projects, defining costs in advance, making greater use of installed automation, but also simpler steps like using internal teams rather than contractors.

Hernandez said the next project to come before the board would be the Encuentro Oxides project, which will extend the life of its El Tesoro operations, and which could be approved for construction by the end of the year or early in 2014.

Apart from project costs, Antofagasta is trying to keep a lid on the cost of producing at its existing mines - a cost that has risen sharply in Chile, though productivity has lagged rival producing nations, Hernandez said.

**PRICE DIP, NO DIVIDEND PROMISE**

Copper hit a record high in early 2011 above $10,000 a tonne but has since lost a third of its value. The metal has fallen eight percent this year, trading around $7,200 on Tuesday.

Hernandez said he expected copper prices to dip into 2014 as the market swings into surplus this quarter after years of deficit. Production would likely exceed supply in 2014 and 2015.

"If we expect a surplus by the end of this year then next year we expect a lower price... but I don't think the market will change too much from where it is now," he said.

Shares in Antofagasta, majority owned by Chile's Luksic family, have long traded at a premium to its London peers, largely because of generous payments to shareholders - the company has paid special dividends in nine of the last 10 years.
GENERAL NEWS (Continued)

Yet the miner dampened hopes of a special dividend for 2013 when it released half-year results this summer, and Hernandez said on Tuesday it was still too soon to take a decision.

"Our commitment is a payout of 35 percent (of profit) and that is always what we try to achieve. But no other promises or speculation," he said.

Chileans are set to vote for a new president next month, with former president Michelle Bachelet a front runner. Hernandez said the election, whatever the outcome, was unlikely to bring fundamental changes in terms of tax and royalties - though improving structures like Chile's power generation would be key.

He said a stability agreement signed after a devastating 2010 earthquake, froze royalties, and the total tax burden should also remain broadly similar.

Starved of gold, Indians may import record volumes of silver

By Siddesh Mayenkar

MUMBAI, Oct 9 (Reuters) - Indian silver imports are on pace to hit a record high this year as the wedding and festival season drives up buying of the precious metal instead of the traditional gold, made scarcer and dearer by official measures aimed at cutting the trade gap.

Higher silver demand in the world's biggest buyer may help support prices, which have fallen almost 30 percent this year on the international market and are on track for their biggest annual drop in almost three decades.

The increase in buying is unlikely to spark a fresh policy response from authorities, as in the case of gold, since the value of silver that is imported is far lower than that of gold and therefore not critical to the trade balance.

"There has been a massive improvement in silver imports and we will continue to see more. Investors are taking advantage of lower prices and the lack of restrictions on silver imports as of now," said Harmesh Arora, director with the Bombay Bullion Association.

According to the GFMS metals consultancy, India imported 4,073 tonnes of silver from January to August, more than double the 1,921 tonnes in the whole of 2012, when a jump in prices in the peak season hurt demand. The record high was 5,048 tonnes in 2008.

India, also the world's biggest buyer of gold, has raised the import duty on bullion three times this year, taking it to 10 percent, and in July the government told importers that a fifth of their purchases would have to be turned around for export, leaving only 80 percent for domestic use.

SECOND CHOICE

The import duty on silver was also raised to 10 percent in August from 6 percent, but prices remain far apart: gold is about 60 times more expensive than silver in dollar terms.

Gold has a special place in Indian culture, bought as a hedge against inflation and traditionally used for gifts at weddings and festivals. Silver does not enjoy the same status.

The value of silver imports in 2012 was $1.8 billion, whereas gold imports cost $52 billion.

Even record shipments of silver are therefore unlikely to put any strain on the trade deficit, in contrast to the impact of gold, which is India's second-biggest import item after oil.

India imported 393.68 tonnes of gold from April to Sept. 25, slightly higher than the average 60 tonnes per month. But government restrictions have led to a sharp slowdown, with imports in August and September at just 10.5 tonnes.

Silver prices have halved from their peak above $49 per ounce struck on April 28, 2011, while gold has shed 29 percent over the same period.

"Going forward, the recovery will be sharper in silver compared to gold," said Gnanasekar Thiagrajan, director with Commtrendz Research, noting that silver would be in demand as an industrial metal, too.

For now, much of the silver flooding in is finding its way to rural areas, where industry officials expect a surge in disposable incomes after a bountiful monsoon boosted agricultural harvests.

"There is less gold available, so rural people will gradually move to silver. It will be a more of a default option than a conscious choice," said Rajesh Khosla, managing director with refiner MMTC PAMP.

"I don't think we will see any policy changes in silver as the impact is so small that they don't bother to look at anything like that," Khosla added, ruling out the kind of restrictions placed on gold imports.

And the competition from platinum will be muted, since local prices are quite similar to gold, and far higher than silver. Gold and platinum fetch about 29,000 rupees per 10 grammes while silver costs 500 rupees.

Imports of platinum in the first half of 2013 rose only 10 percent from a year before to 2.1 tonnes, according to the Platinum Guild International, a trade body, and the industry is not anticipating any jump because of the gold restrictions.

"Our sales are stable so far ... There could be a small rise in sales from here," said Gautam Choksi, vice-president for finance with Hindustan Platinum, a supplier of alloy to jewellers.
LME changes hurt aluminum premiums -Alcoa executives

NEW YORK, Oct 8 (Reuters) - Global aluminum premiums have fallen due to "confusion" over the London Metal Exchange's (LME) proposal announced on July 1 to overhaul its warehousing policy, Alcoa Inc Chief Financial Officer and Vice President William Oplinger said on Tuesday.

Premiums paid on top of the LME benchmark price have dropped 17 percent in Europe, 4 percent in Japan and 11 percent in the United States in just three months, he said.

The comments came as Alcoa Chairman and Chief Executive Officer Klaus Kleinfeld lashed out at the LME's latest proposal to solve a years-long crisis that has damaged the exchange's reputation and cost industrial users billions of dollars in additional expenses.

In Tuesday's conference call, Kleinfeld said the LME was "very irresponsible" by going public with its proposal without consulting the industry first.

The call followed the release of better-than-expected third-quarter results as cost cutting efforts offset weak LME prices.

Alcoa executives also renewed their call for the LME to improve transparency by publishing more data and to establish a regional premium contract as a way to solve a long crisis that has damaged the 136-year old exchange's reputation.

Under severe pressure to resolve the problem, the LME's new owners outlined sweeping changes to its warehousing policy in July after complaints from end users, including Novelis Inc and beverage can makers, about long wait times and big incentives paid by warehouses to lure metal to their facilities.

Those factors led to record physical prices and distorted supplies, they said. UK and U.S. regulators are also investigating.

Under the new system, the LME would link the rate at which a warehouse with big stockpiles and wait times of more than 100 days is required to load out material to the rate at which it brings in new metal.

Rather than confusion over the issue, traders and end users say that premiums have come off record highs because warehouses have reined in those incentives since the rule change was proposed. If approved, it will come into effect on April 1, 2014.

Premiums in the United States have fallen to 10-11 cents per lb from a record 12 cents before the announcement in July.

Producers worry that premiums will fall as a result of the rule changes, hurting profits, even as LME prices are close to or below many smelters' cost of production.

Without higher premiums to offset low underlying prices, producers are likely to shut down more capacity to remove the excess in the global market, analysts say.

Alcoa has shuttered 16 percent, or 650,000 tonnes, of its annual capacity.

Even so, premiums have found some support from financing deals, which keep metal locked up in long-term storage and therefore off the market, Alcoa executives said on Tuesday.

In financing deals, traders store metal in warehouses because of low borrowing costs and a wide forward pricing, and sell it forward at a higher price.

Market participants have also increased the rate at which they move metal out of LME-registered warehouses and into lower-cost storage facilities.

That has created a "bigger and bigger" stockpile of off-exchange stock, Kleinfeld said.

LME-registered stocks are over 5.3 million tonnes and analysts and traders estimate a similar amount is stored outside of the LME system.

Rusal lobbies for no change to LME warehouse rules

By Susan Thomas and Polina Devitt

LONDON/MOSCOW, Oct 8 (Reuters) - Russia's United Company Rusal, the world’s largest aluminium producer, is urging the London Metal Exchange to leave its controversial warehousing rules unchanged or risk damaging the whole market, Deputy CEO Oleg Mukhamedshin said on Tuesday.

The LME, the world’s biggest marketplace for industrial metals trading, has proposed rules that would force warehouses to release more stocks than they take in if delays of more than three months build up.

Rusal and U.S.-based Alcoa have already called on the LME to release more detailed data on long and short positions as well as inventories, and both want the exchange to delay a decision.

The metals warehousing business has stoked controversy as warehouse firms have made money by building up stocks and allowing queues to grow for clients seeking to withdraw material, all the time charging rent for storage.

End users say those steps have caused long wait times in warehouses which have distorted supplies and inflated physical prices to record highs.

But Mukhamedshin said the new rules could drive metal off the LME and make an already opaque market even less transparent.

"We think there is no need to change," Rusal Deputy Chief Executive Oleg Mukhamedshin told Reuters in an interview.

Rusal and Alcoa, the world’s second-largest aluminium producer, form a powerful lobby, and the LME’s new owner appears to have heeded the call for more transparency.

Hong Kong Exchanges and Clearing Chief Executive Charles Li said on Monday he was open to publishing detailed reports on the number of commodity contracts held by hedge funds, commercial users and other market participants.
MARKET NEWS (Continued)

He also acknowledged that whatever changes the LME makes with the warehousing proposal "some people will applaud, others will say it won't make a difference and others will say 'We don't like it at all.'"

A decision on the proposal, originally expected this month, could also be pushed into November. If adopted, it will come into effect next April.

"The proposed changes were drafted with no consultation," Mukhamedshin said. "It's important to make sure that all voices are heard because the existing rules have a long history. That is why we think the proposal has to be postponed and more time spent on discussing the consequences."

The 136-year old LME hopes the proposal will head off an escalating crisis over its warehousing policy that has drawn scrutiny from UK and U.S. regulators and ease frustration among industrial users, including beer and can maker MillerCoors LLC and Novelis which manufactures sheet used to make cans.

"They are facing lawsuits and of course they are trying to react, but it's only a small part of the market and it's better not to damage the whole market," Mukhamedshin said.

The LME is also facing a challenge to its dominance in the $54 billion aluminium market. CME Group Inc CME.O plans to launch a physically deliverable aluminium futures contract to rival the LME's contract.

Many metal users have complained that record high physical prices are unjustified by supply-and-demand fundamentals. The market is burdened by a massive global surplus.

The premium represents the additional cost of delivering metal from an LME warehouse in Detroit or New Orleans or a producer plant to the Midwest and is paid on top of the LME benchmark.

Producers worry that premiums will fall as a result of the rule changes, hurting their profits while LME prices are close to or below many smelters' cost of production.

Without higher premiums to offset low underlying prices, producers are likely to shutter more capacity to remove the excess washing around the global market, analysts say.

**Chile reviews how it funds cash-strapped miner**

By Maytaal Angel and Silvia Antonioli

LONDON, Oct 8 (Reuters) - Chile's government is reviewing the way it funds state-owned copper miner Codelco following requests from some members of parliament, the country's mining minister told Reuters on Tuesday.

The world's top copper miner, which gives all of its profits back to the state, is struggling to finance an ambitious, multi-year investment plan, previously estimated at about $27 billion.

The government has awarded Codelco $1 billion for 2013, an amount which the miner deemed insufficient.

Codelco, which produces about 11 percent of the world's copper, has since reduced its planned investment for this year to around $4 billion from $4.5 billion.

"We are analysing how we give Codelco money but have not made a decision yet. Problem is, more money to Codelco is less money towards education, infrastructure, etc," said Chile's mining minister Hernan de Solminihac, who was in London to attend a major mining industry event, LME Week.

He explained that the review started two months ago and was being conducted jointly by the treasury and the mining ministry. Solminihac would not be drawn on when the group might present its findings.

Codelco said recently it plans to ask banks to help finance its investments this year, after being promised less capital from the government than it expected. The company has about $2.7 billion of the $4.5 billion it originally forecast, its CFO said in August.

Codelco's battle for capital comes as it struggles to rein in costs while global Copper prices tumble. Capital constraints have also led the miner to say it will review projects that have not yet begun.

"We support Codelco's investments but first Codelco must find money in the private markets, then we'll provide the money necessary for them to keep their investment grade status," said Solminihac.

Codelco's copper output in the first half of the year fell 1 percent to about 758,000 tonnes because of diminishing ore grades and harder mineral in its deposits. Its earnings before tax and extraordinary items fell 28 percent during the period.

Copper prices, which are priced globally on the London Metal Exchange, fell about 15 percent in the first half of the year and are down around 9 percent year to date.

**China's planned iron ore futures a threat to dominant swaps market**

By Manolo Serapio Jr and Ruby Lian

SINGAPORE/SHANGHAI, Oct 8 (Reuters) - China's imminent launch of its first iron ore futures contract could pose a threat to the $28 billion swaps market in the commodity by exploiting massive untapped hedging potential at home.

The contract to be offered by the Dalian Commodity Exchange, likely before year-end will be China's latest stab at boosting its extraordinary iron ore market exposes its legion of steel mills to more risks.

By being the first yuan-denominated iron ore futures contract, the Dalian exchange can easily draw on the growing hedging appetite in China, a market that bourses in Singapore, the United States and Europe have been trying to tap for years.
Beijing has kept a tight rein on overseas derivatives trading by state-owned firms after many lost billions of dollars in offshore futures during the global financial crisis.

The lack of a domestic hedging tool has led Chinese companies to increase their use of the U.S. dollar-denominated cash-settled swaps offered by the Singapore Exchange (SGX) and CME Group.

"The market is in China, so Dalian's futures will attract a big number of domestic companies because this can help them avoid currency volatilities and restrictions which is a big challenge to Singapore's swaps," said Zhao Qian, a senior broker with CITIC Securities Futures in Shanghai.

"In the longer term, Beijing hopes to gain more pricing power via its own futures and it is hoping it can become a market benchmark." China buys at least 60 percent of the world's seaborne iron ore and last year that reached a record 744 million tonnes, almost seven times the size of swaps cleared by the Singapore Exchange, pointing to the huge hedging opportunity in China.

"There's no doubt the Dalian exchange will do a lot because there is a hell of a lot of untapped liquidity in China that is not trading iron ore swaps," said a Singapore-based broker. With more than 127 million tonnes traded last year, the swaps market accounts for just over a tenth of the 1.1 billion tonnes of seaborne iron ore sold annually.

But the volume is rapidly increasing. In January to September this year, nearly 210 million tonnes of swaps have been traded, valued at $28.3 billion based on the average price of about $135 a tonne. SGX clears over 90 percent of global iron ore swaps.

A launch of the futures contract may happen before the year ends after the Dalian Commodity Exchange secured regulatory approval in mid-September. It will be the first iron ore futures contract that is backed by physical delivery.

If the strong debut of China's thermal coal futures on the Dalian bourse is any indication, the iron ore contract should see brisk demand. China is also the world's top consumer of coal.

COMPLEMENTARY PRODUCT?
The iron ore futures contract adds to China's suite of hedging tools for steelmaking raw materials that includes coking coal and coke. Its Shanghai Futures Exchange has rebar, the world's most liquid steel futures, that iron ore swaps traders closely track for trading cues.

SGX, on its part, is not worried about the Dalian contract launch, saying it is a complementary product to its swaps and that there is a market for swaps outside of China.

"If liquidity grows onshore in China, liquidity offshore is able to grow because you're leaning on another layer," Michael Syn, head of derivatives at SGX, told Reuters.

"And the Chinese aren't the only ones playing on iron ore. There's still as many people outside of China who need to hedge as there are in China," Syn said.

SGX began offering cash-settled iron ore futures in April in response to regulatory changes in the United States where some of its clients are. But bulk of its business remained in swaps.

Some market participants say the size of each lot - 100 tonnes based on Dalian's plan - may be too small for big Chinese mills to hedge and may only draw retail investors looking to make quick cash. In comparison, each lot of SGX's swaps is 500 tonnes.

Providing adequate liquidity may be a tough task for a fledgling futures market. Previous attempts to launch iron ore futures have suffered from low liquidity, including contracts from the Singapore Mercantile Exchange, India's Multi Commodity Exchange and Indian Commodity Exchange and CME.

Nonetheless, the market looks headed towards futures, traders say.

"Swaps brokers are very well aware that this will eventually happen, futures is the way to go. These brokers should start looking for jobs," said a Singapore trader who handles physical trades.

China arrests chairman of world's largest tin producer over bribes

BEIJING, Oct 9 (Reuters) - Chinese authorities have arrested and charged the chairman of the world's largest producer of refined tin, Yunnan Tin Co, for accepting bribes, a provincial government said, in the latest example of the country's crackdown on graft.

President Xi Jinping has made fighting corruption a key plank of his new administration, saying the problem is so severe it could affect the ruling Communist Party's survival.

Yunnan Tin chairman Lei Yi had been charged with taking 20 million yuan ($3.27 million) in bribes from four people, the Yunnan government said on one of its official websites, including from the chairman of a company called Leed International Education Group in which Goldman Sachs has a stake. Goldman Sachs declined to comment.

The Yunnan government website said Lei had taken money from Leed's chairman Li Hongtao to help smooth the way for Leed to buy Yunnan Tin's 45 percent stake in a private college which both companies had set up in 2009. The tin company is based in the southwestern province of Yunnan.

The website report made no mention of Goldman Sachs, saying simply that Leed was co-founded by a "foreign investment group".

A person familiar with the matter said that Goldman Sachs' private equity arm signed an agreement with Li in 2008, in a deal worth under $70 million that ultimately formed Leed.
MARKET NEWS  (Continued)

An official at Yunnan Tin said the company had not received any legal documents about Lei’s case and the company was still trying to confirm the details.

For now, Lei was still chairman and the legal representative for the company, the official said, adding that production and sales had not been affected.

Yunnan Tin said on July 6 that Lei’s corporate duties had been assumed by a deputy as Lei was under investigation for “serious discipline violations”, a phrase normally used to describe corruption.

An executive at Leed’s public relations department in Beijing, who gave her family name as Wang, said the education company would not comment on the matter and was unable to provide contact details for Li.

Yunnan Tin had output of around 70,000 tonnes of refined tin last year, nearly double the number 2 producer, Malaysia Smelting Corp Bhd.

Chinese authorities have announced the investigation or arrest of a handful of senior officials this year, and probes have begun to reach into powerful state-owned industries.

Among them, former executives from oil giant PetroChina are being investigated in what appears to be the biggest graft probe into a state-run firm in years.
ANALYTIC CHARTS (Click on the charts for full-size image)
MARKET REVIEW

METALS-London copper drifts as U.S. impasse drains risk appetite

By Melanie Burton

SINGAPORE, Oct 9 (Reuters) - London copper edged down as a lack of progress on the U.S. fiscal deadlock eroded appetite for risk assets, while Chinese consumers were content to wait for lower prices.

London copper is showing no sign of breaking out of the $7,000-$7,500 range it has held for the past two months, with swelling supply also dousing investor interest and quelling any urgency for consumers to stock up.

"Everyone seems to be waiting to see what happens in the U.S. ... we are already seeing markets being a bit shaky," said economist Alexandra Knight of National Australia Bank in Melbourne.

"Our central forecast is that it will be resolved. Given we don't see it having a material impact on GDP growth, any shift in commodity prices as a result of the shutdown are likely to be short lived."

President Barack Obama refused to give ground in a fiscal confrontation with Republicans on Tuesday, saying he would negotiate on budget issues only if they agreed to re-open the federal government and raise the debt limit with no conditions.

Three-month copper on the London Metal Exchange eased to $7,222 a tonne by 0219 GMT, down 0.2 percent from the previous session when it finished little changed.

The most-traded January copper contract on the Shanghai Futures Exchange slipped 0.5 percent to 52,200 yuan ($8,500) a tonne.

China markets were back for a second day following a week of holidays, improving volumes, albeit marginally. Total turnover stood at less than 2000 lots.

A downwards revision to global growth by the International Monetary Fund was also fanning negative sentiment, Knight added.

The IMF expects global output to expand 2.9 percent this year, down from its July estimate of 3.1 percent, making it the slowest year of growth since 2009.

Annual industry week, LME week in London continues on Wednesday, with regulation of its backlogged warehousing network a hot topic.

Global aluminium premiums have fallen due to "confusion" over the London Metal Exchange’s proposal announced on July 1 to overhaul its warehousing policy, Alcoa Inc Chief Financial Officer and Vice President William Oplinger said on Tuesday.

Britain’s financial watchdog homed in on the LME’s warehousing crisis, stressing the importance of its global storage network to maintain the integrity of the market.

Chile’s government is reviewing the way it funds state-owned copper miner Codelco following requests from some members of parliament, the country's mining minister told Reuters on Tuesday.

PRECIOUS-Gold traded lower U.S. budget gridlock, debt ceiling fears

By A. Ananthalakshmi

SINGAPORE, Oct 9 (Reuters) - Gold was lower as the U.S. government shutdown dragged on for a second week, but the metal was supported by increasing fears the deadlock could spill over to talks about raising the U.S. debt ceiling.

Gold has been drifting between $1,300 and $1,330 an ounce in the past five sessions, with some safe-haven bids providing support despite a lack of U.S. economic data or a strong rebound in physical demand.

President Barack Obama refused to give ground in a fiscal confrontation with Republicans on Tuesday, saying he would negotiate on budget issues only if they agreed to re-open the federal government and raise the debt limit with no conditions.

Congress faces an Oct. 17 deadline to increase the $16.7 trillion borrowing limit to avert the risk of a default on U.S. debt.

"The support for gold will strengthen as we get nearer to the critical (deadline) next week," said Song Seng Wun, an economist at CIMB. "Until the fear of U.S. government default subsides, gold will gain from safe-haven buying."

Spot gold rose 0.02 percent to $1,318.50 an ounce by 0623 GMT. Gains were limited as the U.S. dollar rose on Wednesday after policy dove Janet Yellen was tapped to head the Federal Reserve.

Other than the debt ceiling deadline, traders are also looking at the Federal Reserve policy meeting later this month for clues on whether the U.S. central bank will begin trimming its stimulus this year.

The Fed stunned markets in September when it stuck to its stimulus measures, saying the bank needs to see more economic recovery before it can begin tapering. The release of economic data has been hampered in the past week due to the shutdown.

CIMB’S Song said the tapering would probably not begin this year due to the uncertainties around the U.S. debt ceiling.

WEAK CHINA SUPPORT

Traders had expected gold prices to get a boost when China reopened on Tuesday after a week-long holiday, but buying in Shanghai has been muted.

"The return of China yesterday to the gold market resulted in little price action. With the spot gold price around $20 an ounce lower than when (the holidays) began, the market was hoping..."
for a bit of a bounce, but this didn't eventuate," ANZ analysts said.

Data from Hong Kong showed on Tuesday that China imported more than 100 tonnes of gold for a fourth straight month from Hong Kong. But some analysts have questioned whether demand can stay at these levels through the rest of the year.

FOREX-Dollar advances vs yen as Yellen tapped to lead Fed

By Lisa Twaronite and Ian Chua

TOKYO/SYDNEY, Oct 9 (Reuters) - The dollar got some relief against the yen on Wednesday from news President Barack Obama has tapped dovish Federal Reserve Vice Chairwoman Janet Yellen to head the U.S. central bank, though the U.S. budget impasse kept the greenback near an eight-month trough against a basket of currencies.

Obama will announce his selection of Yellen later on Wednesday. If confirmed by the U.S. Senate, Yellen would replace Ben Bernanke, whose second four-year term ends on Jan. 31.

Against the safe-haven yen, the dollar rose about 0.5 percent on the day to 97.38 yen, moving away from a two-month low of 96.55 touched on Tuesday, and from Wednesday’s session low of 96.83 yen. The dollar broke below its 200-day moving average against the yen for the first time since November on Tuesday, but the break was not sustained.

The euro was slightly lower at $1.3563.

"It might be counterintuitive that the dollar rose on news that a dove is likely to be the next head of the Fed, but the news itself removed some of the uncertainty, and therefore contributed to risk-on sentiment," said Ayako Sera, market economist at Sumitomo Mitsui Trust Bank in Tokyo.

The dollar index erased early losses thanks to the weaker yen, and was up about 0.1 percent at 80.128. But it did not stray far from a 79.627 trough hit last Thursday, a low not seen since early February.

Strategists and market participants were sceptical that the risk-on mood would last long, in light of the continued standoff in Washington.

"I wouldn’t expect this rally in risk to be too sustainable given much bigger issues at play including the U.S. government shutdown. The Oct. 17 initial deadline looms large as well," said Sue Trinh, senior currency strategist at RBC in Hong Kong.

Concerns are rising that a resolution will not be reached before that deadline when Congress must decide whether to raise the government's borrowing limit, or the U.S. faces an historic debt default.

The uncertainty is likely to leave investors reluctant to take on big positions, and keep major currencies in tight ranges.

"It seems increasingly likely that the impasse in Washington is going to persist up to or even beyond the Oct. 17 soft deadline for raising the debt ceiling, implying near-term risks to the downside for the USD," analysts at BNP Paribas wrote in a client note.

"We think USD/JPY is particularly vulnerable in light of stretched short yen positioning and the yen's structural tendency to perform well in periods of elevated risk aversion and market stress," they said.

On the other hand, Brown Brothers Harriman strategists told clients "We think risk-reward pays to be long the greenback, with stops below 96.50 yen."

Still, while there is no sense of panic in financial markets yet, signs of unease have started to emerge, such as investors' waning appetite for U.S. Treasury bills.

Normally an uneventful offering, Tuesday’s sale of one-month bills met such weak demand that investors sought the highest yields in five years, against a backdrop of concern about the possibility of default. Traders expect the dollar would underperform safe-haven currencies such as the yen and Swiss franc if a worst-case scenario cannot be averted and the U.S. defaults on its obligations, but emerging market currencies would be hit even harder.

A senior U.S. Treasury official called on Congress to reopen the government and raise the debt ceiling or risk hurting the United States’ international reputation as a safe haven and stable financial centre.