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LME considers move to self-clearing, but no decision yet

COMMODITIES

London—The London Metal Exchange last week gave its strongest signal yet that it may opt to follow the trend among a number of rival exchanges and clear its own contracts rather than going through a third party.

At present LME contracts are cleared by LCH.Clearnet, the exchange's contracted central counterparty clearing house. But the LME said last week it was giving "serious consideration" to the possibility of building its own clearing house, though no definitive decision has yet been made.

"After several months of feasibility studies, we have reached the point at which deeper examination of the issues requires some discussion in the public arena, hence the decision to make this announcement," the LME's chief executive, Martin Abbott, said in a notice to members on May 3.

The LME's decision to examine self-clearing "is driven by strategic considerations arising from the ability of an exchange to manage and develop its own clearing services in a world where the horizontal clearing model is being steadily eroded," the notice said.

Other exchanges have taken a similar view of late.

NYSE Euronext, which also currently clears through LCH.Clearnet, last year announced its intention to build its own clearing services in Europe, with a view to them being operational from late 2012.

CME Clearing Europe — a wholly owned London-based subsidiary of the US-based CME Group, which operates the COMEX and NYMEX exchanges in New York — began clearing over-the-counter energy and commodity derivative products on

(continued on page 14)

RTI, Timet, follow ATI in reporting better titanium earnings

LIGHT METALS

Louisville—On the heels of a 25% increase in titanium shipments from Allegheny Technologies, two other titanium manufacturers also reported improving results for the first quarter based on a rebound in titanium end markets.

Improving aerospace markets lifted RTI International Metals to higher sales and a first-quarter profit, the company said last week, although net income fell from a year earlier when the titanium fabricator was aided by a one-time, $15 million settlement with a customer.

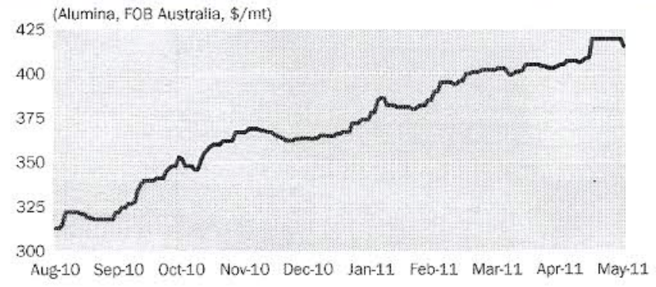
Encouraged by the results, Dawne Hickton, RTI vice chair, president and CEO, told analysts during a conference call: "While we started the year with a bit of uncertainty, we join the voices of the cautiously optimistic" about the company's earnings outlook for 2011. She said RTI experienced a "significant amount of spot activity" in its titanium business in the first three months of this year that was unexpected.

During Q1, RTI posted net income of $2.3 million, or 8¢/share, down from $11.4 million, or 38¢/share, in Q1 2010. But sales rose to $120.9 million, a more than 12% gain from last year's $107.9 million. Hickton attributed the improving sales to strong demand from RTI's major customers, including Airbus.

Allegheny Technologies is seeing much the same, according to comments made during an April 27 analysts call about its Q1 results. Airbus has charted "aggressive targets to build more A320s than ever and increase the build rate for the A330 family," noted Richard Harshman, the company's new CEO, who succeeded Patrick Hassey who retired on April 29. "These build rates are supported by record backlogs of

(continued on page 18)

LME turmoil spills into alumina



Alumina prices lost some ground May 6 in the Asia Pacific region, triggered by two days of extraordinarily deep losses in London Metal Exchange aluminum and the broader commodities markets. The Platts daily Australian price benchmark slipped to $415.50/mt FOB, down $4/mt from the previous day and from a week earlier, but up $10.50/mt from a month earlier. On May 6, LME three-months metal was offered at $2,600/mt, down $170/mt, or more than 6% below mid-week prices. It closed May 6 at $2,608/mt.

Data Source: Platts

This Week in Metals

Commodities sell-off makes for volatile copper market	2
US ferrosilicon prices up slightly on barge delays	5
Platinum could rise 'comfortably' above $1,900/oz: GFMS	8
Nearby aluminum tight on financing: Century	11
Disrupted coal/iron ore flows hit dry bulk freight: Genco	15
ETF Securities unveils first zinc, lead funds	16

COPPER

Commodities sell-off makes for volatile copper market

London— Price volatility was the key driver toward the end of last week, as three-months copper took a beating on the London Metal Exchange, alongside a wider commodities selloff, according to sources.

Three-months copper closed kerb trade on May 6 at $8,820/mt, down from a final close of $9,320/mt on April 28. One physical trader said that he was "really pleased to see the move" on anticipation of the arbitrage window between the SHFE/LME opening up. "I have seen a few traders trying to buy cheap material. Over the last few months premiums in China have been around $0-20, and sometimes even small discounts. I offered material at $70 and people came back with $60." He said that he is holding back on concluding any deals in the hope of premiums in China rising sharply.

The trader added that, in his view, Chinese consumers had been trading hand-to-mouth. "They are crying out for material. Hopefully, the [arbitrage] window will open and we can trade volatile markets rather than static [ones]," he said. The trader noted that liquidity in China was tight as the government attempts to cap inflationary and borrowing concerns. The result for the trader has been to buy cheap material from "distressed sellers," especially those who do not have an international base, and sell it at a profit to larger outfits via Hong Kong.

Still, a second trader said that his outlook for China was fairly negative. He noted that material in bonded warehouses remained high and even with lower prices the Chinese do not appear to have any urgency to buy. He added that material in LME warehouses was also "ever-increasing. The Chinese appear far from imminent to start restocking." The trader said that the hefty selloff was affecting technical traders and this could fuel further downside pressure. However, he noted that even at $8,800/mt prices are "still way in excess of any aspirations seen last year." On May 6 copper in LME-registered warehouses stood at 467,175 mt, up from 463,650 mt on April 28.

In Europe, the trader said, the cathode market was flat with the rod market slow. "It's not brilliant," he said. He added that he has not had any recent inquiries, "particularly from the Far East." However, the trader did say that the selloff should narrow the recent disconnect between the futures and physical markets.

Premiums in Europe were heard lower this week with the bulk of Platts' contacts quoting $70/mt plus LME cash for Grade A CIF Rotterdam material. One buyer said that he had concluded deals at $70/mt. An Italian trader agreed. He also said that the market in Italy remained slow. "I have sold some material around $35-40 on the back of the lower

Metals Week price index

	May 5	Week Ago	Month Ago	Year ago
MW Base Metals	441.8	457.4	456.5	371.4
MW Precious Metals	451.8	493.4	474.1	330.2
MW Nonferrous Composite	445.8	471.8	463.5	354.9

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LME prices today," he said. "There is some activity, but not much. There is no news." Platts' assessment for Grade A copper in-warehouse Rotterdam fell to $60-70/mt from $60-90/mt, plus LME cash last week. The assessment for Grade A CIF Livorno material stayed at $30-40/mt, plus LME cash, with CIS cathode at $0-60/mt, quality dependent, unchanged.

A producer source said that the premium in Rotterdam "could be around $70. There are not a lot of trades being done. There should be a pickup in business, but there is not. I have sold some standard grade material, but that is a different story; it ranges from a big discount to flat."

A fabricator said that business was "OK. It depends where in the world. The Far East is not too good, Europe is so-so. In Brazil, business is good. I have no clue on premiums as I have not bought recently. I don't see why they should be above $70 [in Rotterdam]. There is so much hidden stock out there" [a reference to stocks in bonded warehouses in China]. The fabricator source added that the market in Europe was inconsistent: "One month it's good, the next month bad. There is volatility on the price and on sales concluded. It is very difficult to have a clear view."

— Ben Kilbey

New data suggest Q1 copper saw supply-chain squeeze

Washington—Data released last week on the copper market's fundamentals suggest that the market experienced a widespread supply-chain compression, rather than a demand slump in the first quarter of this year, according to some analysts.

But as key players like China continue to put the brakes on economic activity to rein in inflation, some market watchers are less certain how robust copper demand will be in the current quarter and for the rest of the year. New data released last week by the International Copper Study Group showed total reported copper stocks jumped nearly 70,000 mt in January, but there was also a seemingly contradictory copper deficit of 20,000 mt in the same month. The ICSG data further showed that demand for refined copper shot up by 11% in the year through January, in stark contrast to a 3% year-on-year rise in refined copper production levels during the same period.

"Such a picture ties in with our view that, despite softer market indicators in Q1 such as rising LME stocks, the key factor behind this was not significantly weaker demand levels but rather a large scale and widespread compression of the supply chain," Barclays Capital said in a report last week. "Moreover, given such a compression effect is finite and end-demand remains robust as the ICSG data indicate, bullish momentum in fundamentals is likely to be reasserted when the destocking effect draws to an end during the current quarter."

Commenting on the Barclays report, "William Adams, a market analyst with basemetals.com, told Platts, "I agree the rise in stocks does suggest destocking as consumers avoid paying these prices and yes, destocking can only last a certain period of time." However, he cautioned, "If stocks are bigger than originally thought, then destocking might well go on for longer than the market anticipates."

Predictably, much of the timing as to when destocking winds down hinges on China, William Adams said, "If copper has been imported [into China] as a means of getting credit and then once imported, the metal is lent to the market and the proceeds used to finance other projects, then there may be a lot of copper in China that has already been accounted for as consumption — albeit in 'apparent' consumption — when in effect, it is just sitting in warehouses. If China now clamps down on this form of raising finance, then there may be a lot of metal that needs to be sold."

Referring to the somewhat conflicting ICSG data, market analyst Edward Meir, with Man Financial, told Platts. "It's a bit of a disconnect; if you have a deficit, stocks should not be building." But he agreed at least part of the explanation is supply compression. Noting that a number of copper producers reported much lower production in the first quarter, Meir said "I think a lot of ore grades are getting depleted, so it's harder to milk the same amount of copper out of existing mines, and you've had weather issues at some facilities," all of which combined to shrink the copper supply chain in the first quarter.

But regardless of what the ICSG data suggest about copper's Q1 fundamentals, analysts agreed that the market is looking to China to reignite demand , but not all agreed on when that might happen, or what it would take. Now that China's industrial growth has measurably slowed and is now even flirting with contraction, combined with its substantial buildup in stocks, China will be a much more "price-sensitive" buyer, said basemetals.com's Adams, so it could take copper falling to $8,000/mt to lure China back into buying mode. He said copper prices could conceivably sink to $8, 500/mt "in a month or so."

However, market analyst Leon Westgate, with Standard Bank, had a different view. "The actual price level doesn't matter; it's the arbitrage," he told Platts. Currently, he said, given the current LME and Shanghai Futures Exchange price differential, along with exchange rates and taxes, importers of copper into China would be losing roughly $225 /mt. 'It's really a case of when the arbitrage window opens, and it becomes profitable to take metal back into China," he said.

Westgate added that he was skeptical of a copper demand comeback this quarter. "I think demand will return in the second half at the earliest," he said. Especially in light of the Chinese central bank's recent pronouncement that it would make curbing inflation a priority over economic growth, he said, "China's return may be longer than people expect."

— Laura Gilcrest

Elsewhere in copper...

China bonded stocks near 1-mil mt: Chinese industry sources last week said that current domestic bonded copper inventories had reached 820,000 mt and were getting closer to 1 million mt. The figure was higher than the 600,000 mt reported by the local news media. Copper inventories at Shanghai Futures Exchange warehouses have been dipping for several consecutive weeks and, as a result, some Chinese copper sector experts expect some bonded cargoes to be delivered to the SHFE warehouses in the coming months. Other industry sources, however, were skeptical. A Beijing-based investment bank source said: "The capacity of the warehouses just can't accommodate such gigantic copper inventories." The southwestern China-based trader said: "The bonded cargo owners are just unwilling to sell now as they wish to sell later, when prices are higher." SHFE copper stocks on May 6 stood at 123,042 mt for the week, down from 128,268 mt on April 29.

USW, Asarco talks to start in May: The United Steel Workers union and US copper producer Asarco are expected to begin labor talks in mid-May, although no specific dates have been set yet, a USW official said last week. Manny Armenta, USW District 12 sub-director in Arizona, said in an interview he believed there was sufficient time to reach a new contract with the company before the existing one-year agreement expired on June 30. The accord covers about 1,500 hourly workers at Asarco operations in the US Southwest. "Basically, there've been a couple of conversations" about starting the talks, he said. "We've got through arbitration here a couple of weeks ago and talked about getting some dates and stuff. It's just a matter of getting people's schedules on the same page." Armenta noted Asarco is "still operating the mines and the price of copper is still hanging in there." The Grupo Mexico subsidiary produces about 400 million lb/year of copper from three mines in Arizona. The company's Hayden smelter in Arizona has a capacity of 720,000 mt/year. Asarco also has a copper refinery in Texas with a capacity of about 279.5 million lb/year. Asarco officials could not be reached for comment. The company emerged from five years in Chapter 11 bankruptcy reorganization in late 2009.

Codelco to invest $30 billion in mines: Chile's Codelco plans to invest $30 billion over the next decade as the state-owned copper producer seeks to renew and expand its aging mine operations, Chairman Gerardo Jofre told Santander's Sixth Annual Investor Summit in Santiago last week. The company, the world's largest copper producer, plans to invest $3.5 billion annually through 2015 and $2.5 billion a year between 2016 and 2020. A series of projects will allow the company to produce 2 million mt/year from 2019 through 2034, up from 1.8 million mt/year currently, he said.

China imports thin on weak demand: Chinese copper import trade was thin last week amid lackluster demand from domestic downstream copper processing as well as tighter domestic liquidity, market participants in China said. "We got no copper import deals this week since demand from copper consumers is limited. Also, some of our copper processing clients are now having plant maintenance, so they're unwilling to buy," a copper trader in southwestern China said. Another copper trader in south China said: "Lately we haven't got any copper import deals. We'd rather wait until spot domestic prices dip close to around Yuan 60,000/mt ($9,235/mt) to resume trading." Platts assessed CFR China premiums for imported Chilean copper at $40-65/mt May 5, unchanged from the week before.

Stalled Tia Maria costs $435 million: SCC: Southern Copper has spent $435 million on its Tia Maria copper project in Peru, derailed before construction even started, the Mexican company said last week, reiterating its commitment to the project despite violent protests and the government's reversal of its earlier approval. "The total budget to execute this project is $601 million, of which we had budgeted $324 million for 2011," Southern Copper said in a statement. SCC also reiterated comments that it would wait for Peruvian elections to end and then provide all documents that officials would require to allow the project to proceed. The statement came a week after Mexican President Felipe Calderon met with Peruvian top officials, reportedly to show concern for Mexican assets in Peru and specifically those of Southern.

STEEL & FERROALLOYS

Global molybdenum usage to rise 4.5%/year through 2019: IMOA

London—Global molybdenum usage is set to grow by 4.5%/year between 2009 and 2019, with the power generation, building and construction and transportation markets driving consumption, according to a survey for the International Molybdenum Association, published last week.

The report forecasts that the three markets with the most growth potential are power generation, building and construction and transportation. Each of them is predicted to increase the amount of molybdenum they use by around 6%/year between 2009 and 2019.

The growth is partly driven by some fast-growing or new applications, IMOA said in a statement, adding that for power generation this includes renewable energy, notably wind turbine gears and shafts and conventional coal power plants where superalloys will find increased use as higher operating temperatures are required to improve efficiency.

In building and construction, the main growth driver is urbanization, particularly in China, India and the Middle East, the industry group said.

For transportation, "it is the rise in off-road vehicles for the building/construction sector, railway transport expansion in India, China, North Africa and the Middle East and the increasing use of duplex grade stainless steel in chemical tanker applications instead of epoxy coated materials," IMOA said.

Other growth segments include the process and mechanical engineering industries, both with an annual forecast growth rate of 4.9%.

Currently, IMOA forecasts that moly use will increase by 4.5% annually between 2009 and 2019. Regionally, China (5.8%/year) and Other World (4.8%/year) are expect to grow faster than Europe and America (both below 3%) according to the report, which was prepared for IMOA by leading market researcher, Markus Moll.

"This research clearly shows that molybdenum has a wide-ranging and well balanced end-use structure distributed between capital goods and consumer products and late, mid and early cyclic industries," said IMOA's secretary-general, Tim Outteridge, in the statement. "This will ensure sustainable future growth," he added.

The oil and gas industry remains the dominant end user of molybdenum, accounting for 20% of the global market, using the metal in refinery catalysts, down-hole hardware and flow control products, heat exchangers and gas pipelines.

The survey showed that the second-biggest user of steels and alloys containing moly is the transport industry. Passenger cars, heavy vehicles and off-road vehicles, ships and trains make up 18% of global moly usage.

Chemical and petrochemical processing, which makes up 15% of global demand, is the third-largest moly-using industry segment.

Mechanical engineering, currently particularly strong in Europe and also regaining momentum in the US, is the fourth-biggest moly user, taking a 12% share of the global market, IMOA said.

According to IMOA figures, globally around 212,000 mt of moly (including moly in scrap) was used in 2009 to produce the following materials: engineering steels (34%), stainless steels (26%), tool and high-speed steels (10%), cast iron (7%), superalloys (5%), molybdenum metal (5%) and chemical products (13%).

Regionally, China is the largest user of molybdenum, requiring 26% of all moly worldwide.

"It is expected that China's importance will increase in the next 10 years to reach a share of more than 30% by 2019," IMOA said.

Molybdenum trade was relatively subdued last week and prices were essentially flat compared with the previous week.

The Platts Dealer molybdenum oxide price was set last week at $16.90-17.10/lb, down from $16.90-17.15/lb.

"This week, we tried to sell at over $17.00/lb [ex-bonded China warehouse], but buyers just bid $16.85/lb, so we did no deal," a Chinese moly trader said. "Lately demand has been poor, so we feel rather gloomy about moly prices over the next few weeks. It's hard to see a clear picture of how the world economy is developing, with many uncertain factors," he said.

Another Chinese trader, who reported no spot oxide sales for the past months of this year, said: "We have 130 mt of oxide stocks in Europe, but we'd rather hold them for sales later, when prices rebound. We bought these cargoes earlier at high cost, so prices must exceed our purchase costs to justify selling."

Last week, a northwestern China-based trader sold 20 mt of Western oxide at $17.20/lb CIF India, prompt cash, to an Indian consumer; and a Liaoning trader reported a 20 mt oxide sale at $16.90/lb in-warehouse Rotterdam, prompt cash, to a European trader.

The Liaoning trader said: "We see deals done at $16.90-17.00/lb in-warehouse Rotterdam levels this week being absolutely normal due to lackluster demand."

Although back in April, some Chinese moly traders said in-warehouse Rotterdam prices had a chance of hitting $18.00/lb in May, on anticipation of traders and the downstream sector replenishing stocks, the Liaoning source said: "It will be hard for prices to break beyond $17.50/lb in the next few weeks as actual demand turned out to be not so strong this month."

— Andy Blamey

US ferrosilicon prices up slightly on Mississippi barge delays

New York—Extensive flooding in the Mississippi river system, causing major delays to barge movements, helped trigger a flurry of spot market activity in ferrosilicon last week, pushing prices up slightly, market participants said.

The Platts US ferrosilicon (75%Si) price assessment rose to $1.03-1.05/lb FOB Pittsburgh/Chicago warehouses May 4, up from $1.02-1.04/lb a week earlier.

A producer reported selling 200 mt of ferrosilicon to a trader on cash terms at $1.05/lb in-warehouse Pittsburgh for immediate release, while a consumer reported buying three truckloads for May delivery at $1.05/lb delivered buyer's works, Midwest, because of delays to long-term supplies headed to the mill by barge.

"We've got some delays to material coming up by barge, because of all the flooding," said the purchasing agent at the consumer, adding that this was the main reason for buying spot material.

A trader agreed that the ferrosilicon price had inched up because of the flooding. "The river system condition is creating some energy [in the market]," the trader said.

Another consumer said he was keeping an eye on the spot ferrosilicon price because of the possibility of delays to his long-term supplies. "Our supplier is running tight, because I think he's been diverting some truckloads [to the spot market] to people screaming for material because their barge is stuck," said the consumer. "I don't want to say [our supplier] is short-changing us, but he's got a truckload due into us next week and, while I don't mind it slipping a week, it can't go beyond that."

Several traders said that transit delays of two to three weeks for barges from New Orleans to Pittsburgh were being seen. The normal transit time is three weeks, according to market sources.

But the first trader said the flooding situation in the river system may soon improve. "There is a wall of water heading down to New Orleans and the current is said to be moving at around 10 knots. It might get better fairly soon after that wall of water hits New Orleans," the trader said. He said the delays were affecting ferrosilicon more than other alloys.

He said ferrosilicon prices were also being supported by the Chinese export price for ferrosilicon moving higher. Traders said that Chinese ferrosilicon prices had been seen at around $1,530-1,535/mt FOB, equating to around $1.04/lb landed in the US as a replacement cost.

The trader said the fears of a ferrosilicon surplus from Japan seeking to postpone taking delivery of ferrosilicon after the March earthquake and tsunami had proved to be unfounded. He said the Japanese "could soon be in the market for third-quarter requirements at the end of May or early June. ... The Chinese price is underpinning things a bit in the US."

A second trader said that while imports of ferrosilicon from China had a long lead time, he suggested the rise in the US price was as much to do with higher prices from China as the flooding in the US. "The two [factors] combined have certainly pushed ferrosilicon off the bottom," he said.

The US Coast Guard has imposed water restrictions in the Ohio River from Pittsburgh to Cairo, Illinois, Chief Warrant Officer Lionel Bryant said May 4 from the joint information center in Fikeston, Missouri.

"There are no port closures, just restrictions," Bryant said. "They mainly have to do with vessel speed and wakes. It will last until the high-water conditions subside."

Bryant said that a safety zone was established near Hickman, Kentucky, while a levee was reinforced, and that stretch of the Mississippi River would be closed for a undetermined period of time.

The Ohio River Valley has been hit with heavy rains that battered southern Illinois, southwest Indiana, western Kentucky and southeast Missouri.

— *Anthony Poole, with Tom Sosnowski*

US ferrous scrap market shows softness; exports strengthen

New York—There are "signals of softness" in the US ferrous scrap market, according to David Hodory, vice president of marketing and communications for the David J. Joseph Company, one of the nation's largest scrap metals recyclers and a unit of electric-furnace steelmaker Nucor.

"We're getting signals of softening," Hodory told listeners on a webinar hosted by Steel Orbis last week.

There are signs there may be a little more scrap available than is needed in May, and a little less demand than there has been previously, he said during the presentation, without discussing specific prices.

This jibed with information from market participants last week, who suggested that the US market would still settle down in May compared with April pricing levels, possibly $10-20/lt lower for obsolete grades of ferrous scrap, such as shredded.

That stands in contrast to exports, as prices of scrap into Turkey, including US export cargoes, rose steadily last week.

A Northeast scrap dealer said he thought Turkish mills would continue shopping for scrap.

"They still have quite a few cargoes to buy," he said, adding that continued demand would push prices gradually higher than the last sale at $469/mt CFR Turkey.

"The next sale will probably be at $470," he added, which proved correct with a sale recorded at $470.50/mt CFR into Turkey the next day.

The domestic market, however, will see softness in May, said the Northeast scrap dealer. Without providing specific pricing because markets had yet to settle finally, he acknowledged he was supplying scrap domestically at pricing levels down from those seen in April.

One Northeast steel trader also saw softness in the US ferrous scrap market, but noted that currency exchange rates may come into play as well. Increased export activity has been fueled by a weaker dollar against the euro, which in turn is underpinning the domestic market, the trader said. "We think the weak dollar will sustain pricing at better levels than expected," he said. Taking the analyses a step further, he added that steel mill profits could be squeezed if scrap stays stronger than expected while steel prices soften.

Hodory offered a caveat to his observations of May market softness, saying that there had been similar such signals in the past three months and scrap pricing had stayed rangebound during that time. He added that the US scrap market had been "robust" so far this year and had enjoyed "uncharacteristic price stability."

Looking forward, however, Hodory said he saw "uncertainty" in scrap markets through the end of the second quarter and into the third. In the long term, Hodory said that it would probably take higher prices to maintain the volume of scrap collections.

Another factor weighing on pricing has been the rapid growth of shredder deployment in the US, which is up some 60% from around the year 2000 to about 270 shredders nationally now. Hodory said this represented "a lot of capital deployment, which has implications on price." Scrap sources have also said that the abundance of shredders leads to acute competition for shredder feed, driving up prices for feedstock primarily constituting auto hulks but also including appliances and other materials.

Eurozone scrap merchants have begun to feel the benefits of surging scrap price levels into Turkey after a week when US, UK and Black Sea recyclers dominated trade, market participants said May 5.

One Russian ferrous scrap merchant encapsulated the bullish sentiment among recyclers, provoked by demand boosts that were felt further down the supply chain. The merchant was offering A3 demolition material on May 5 at $470/mt CFR Turkey, up $50/mt on mid-April sale prices.

Now that demand for Turkish reinforcing bar has improved, recyclers on the European continent have started to sell to Turkish mills.

So far, a Scandinavian recycler has achieved a sale including 22,000 mt of shredded scrap and 6,000 mt of Heavy Melting Scrap I/II (90/10 blend) for an average cost of $470.50/mt CFR Marmara. An internationally active scrap merchant also sold at $465/mt CFR Turkey for HMS I/II (80/20 blend) sourced from its yards in The Netherlands, up from continental European sales at $449/mt CFR Iskenderun at the beginning of the last week of April.

Caution over the potential longevity of this scrap boom remains.

"There are a lot of inquiries from Turkish mills, but very few offers from recyclers at the moment," a trader said. "I fear that now a couple of scrap merchants have sold off the continent, others — who have plenty of stocks — will rush to sell to Turkish buyers, then bringing the market down again."

Eurozone suppliers, particularly those in western European terminals, had not sold at these levels. Furthermore, it was proving more profitable to sell internally than look to the export market, one eurozone trader said.

Port terminals were still offering only Eur270-275/mt ($397.74-405.11/mt) for Heavy Melting Scrap I/II (70/30 blend), while one large recycler based in Germany was receiving up to Eur280/mt delivered to steel works for the same grade.

"Demand from Turkish mills for some continental European material is down due to the euro-dollar exchange rate and quality issues," the first eurozone trader said.

While currency issues are outside merchants' control, quality standards are not and, according to one Scandinavian trader, perceptions of quality are more changeable. Steelmakers in Turkey operate a payment-on-site policy for secondary steel purchases, and after several cargoes of HMS I/II (70/30 blend) from European terminals were deemed below expected quality levels, demand —and then prices for the grade —fell.

"With [HMS I/II] (70/30 blend), the Turkish mills complain about its quality only when demand for finished products is low, and so scrap needs fall; when they need scrap — as they do now — then selling [the grade] becomes less of a problem," the trader said.

— Matthew Lerner, with Ciaran Roe in London

Elsewhere in steel & ferroalloys...

China's APT, ferrotungsten prices up: Chinese export prices of ammonium paratungstate, or APT, and ferrotungsten gained last week, tracking higher Chinese domestic tungsten concentrate prices as tight supply persisted, Chinese industry sources said. Domestic tungsten concentrate prices were mostly heard around Yuan 150,000/mt ($23,091/mt) ex-works last week, up from about Yuan 140,000/mt the previous week. "The concentrate supply continues to be tight and the latest order from the government on the output quota did not help much," a Hunan-based APT producer said. According to a statement from the Ministry of Industry and Information Technology, China's tungsten concentrate output has been capped at 87,000 mt in 2011, up about 9% from 2010. "We have no inquiries or any trade done this week but we are keeping our offers [of ferrotungsten] at $55/kg [FOB China] and not lowering them. Concentrate supply is really tight," said a Jiangsu-based trader. A Jiangxi-based APT trader added: "Prices are generally on an upward trend in the long run in view of tight concentrate supply." A Henan-based ferrotungsten trader said: "On top of that, the cost of production has gone up, thereby adding to the prices." Platts raised the weekly Chinese APT (with 88.5% tungsten trioxide) assessment to $410-430/metric ton unit FOB China from $400-420/mtu the previous week. The Chinese ferrotungsten (with 75% tungsten content) assessment was revised upward to $53-55/kg FOB China from $52-55/kg. APT is the feedstock for ferrotungsten. The Chinese Ministry of Land and Resources stopped accepting applications for new tungsten mines in March 2010.

Silicomanganese bids fall: European silicomanganese markets remained quiet last week with low bids seen, but little business was concluded, market participants said. "Silicomanganese remains very weak and I'm hearing lower transactions," one European based trader told Platts. "I heard that around 200-300 mt of 65:16 material with 0.10 phosphorous was sold to an East European consumer below $1,300/mt DDP basis." The trader, however, added that this price was not representative of the market. "It's impossible to buy below $1,300 from the Indians so I don't know how realistic this price is," he said. A second trader agreed that Indian silicomanganese suppliers were holding offers above $1,300/mt CIF, and in a few cases refraining from offering material. However, he questioned how long a $1,300/mt floor for Indian material will last. "South Africans are offering better-quality material below Indian prices, [so] we might see Indians drop their offers to compete," the trader said. A third source, supplying Europe, concurred that silicomanganese prices were weak. "Low bids are being made at Eur900/mt DDP now, which is Eur880/mt CIF. It looks bad," he said. Platts assessed 65% silicomanganese at Eur900-930/mt on a DDP North Europe basis, down from Eur920-950/mt a week earlier.

Vale begins Oman iron ore production: Brazil's Vale, the world's largest iron ore producer, has begun iron ore pellet production at its $1.356 billion pelletizing plant in the industrial complex in the coastal city of Sohar, in Oman, the company said. The Vale compound includes a two-unit pelletizing plant, each with a capacity of 4.5 million mt/year of direct-reduction pellets, together with a distribution center with an annual capacity of 40 million mt/year, using a 1.5 km jetty built by Sohar Industrial Port Company. Three ship loaders and one ship unloader have already been delivered, according to Vale, and a long-term agreement has been signed with Oman Shipping Company for the construction of four very large iron ore carriers with a loading capacity of 400,000 mt, which will be leased to Vale. In May 2010, the company formed a partnership with the Omani government with the sale of a 30% stake in the facility to Oman Oil Company. "Oman's strategic location outside the Arabian Gulf, with the advantage of deep water seas, and its heavy infrastructure investments to provide leading logistics networks, advanced energy and power supply technologies and world class facilities at Sohar Industrial Port, were key to our decision to establish our operations in the Sultanate," Vale CEO Roger Agnelli said in a statement. Vale had record iron or production of 307.8 million mt in 2010, surpassing the 301.7 million mt produced in 2008.

Vale sees record Q1 earnings: Brazilian mining group Vale saw record revenues and earnings in the first quarter of 2011, helped by a 10% increase in Chinese iron ore imports to 177.3 million mt in the first quarter compared with Q1 2010, the company said last week. Net earnings in the three months to March 31 rose to $6.8 billion from $1.6 billion in the corresponding 2010 period. Revenues also soared, to $13.5 billion from $6.8 billion a year earlier, Vale said in its earnings statement. As a consequence of the surge in Chinese iron ore imports, Vale said the iron ore market remained tight. "After the downward volatility between mid-February and mid-March — when the Platts index for 62% Fe dropped to $165 [per metric ton] from $193 — prices bounced back, reaching $183 by the end of April," Vale said. It said that given the demand prospects and tightness in supply, with no major projects coming on stream in 2011 and 2012, "we expect iron ore prices to remain hovering around a high plateau." It said that global stainless steel production reached a new all-time record in Q1 2011 of 8.6 million mt, on a seasonally adjusted basis, adding strong pressure on nickel demand. Non-stainless steel markets also saw broad-based strength in the first quarter, which is likely to hold over the next few months. Vale said the Japanese earthquake impacted demand from the automotive industry, but this is being offset by a surge in battery production for equipment and power generation.

PRECIOUS METALS

Platinum could rise 'comfortably' above $1,900/oz by end-2011: GFMS

London—The price of platinum could be "comfortably north of $1,900/oz" by the end of 2011 according to GFMS' *Platinum & Palladium Survey 2011*, launched in London May 5.

Executive chairman Philip Klapwijk said the price increase should be bolstered by "higher investment on the back of a supportive macroeconomic environment and bullish gold prices."

GFMS sees platinum as registering a gross surplus of almost 1 million oz in 2010, a 10% increase to the highest level in GFMS' 12-year data series. It also noted a sixth consecutive year of a gross surplus being recorded. "The core message here, therefore, is that, despite a decent rise in fabrication demand as the world economy got back on its feet, there was an even greater supply response, partly as a result of firmer platinum prices," Klapwijk said.

For 2011, GFMS is expecting another sizable gross surplus, partly as mine output is set to rise, due mainly to forecast gains in North America, with both jewelry and autocatalyst scrap also forecast to increase. Demand is expected to grow modestly on the back of disruptions in Japan after the recent earthquake — and resulting catastrophic tsunami — still sluggish diesel sales, substitution limiting autocatalyst needs and the higher price weighing on jewelry demand.

Looking back over platinum's performance in 2010, GFMS said that a key change in demand was a 16% increase in autocatalyst fabrication, but the level achieved remained well below pre-financial-crisis levels due to a "sluggish recovery in Europe's diesel sales, plus further thrifting for palladium." Led by China, on the back of higher prices, there was a 17% drop in global jewelry consumption.

On the supply side, jewelry scrap increased by 30% with autocatalyst scrap up by a notable 15%. In addition, output in South Africa for the first time in four years climbed 3%, bolstered in part by an increase in release of material from the process pipeline, according to the GFMS survey. Zimbabwe also helped offset losses elsewhere, contributing to a 2% global rise in production.

Meanwhile, the price of palladium is likely to push higher in 2011, "perhaps reaching $975/oz" before the end of the year, helped in the main by ongoing investment demand across the precious metals sector.

The principal change in 2010 for palladium was the return to a "substantial gross deficit," according to the survey. GFMS estimates the deficit at 550,000 oz, largely attributable to a 30% "or near 1.2 million oz recovery in autocatalyst demand to a 10-year high." This was not only put down to an increase in car sales, but also to thrifting from more expensive sibling platinum. There was also a notable recovery for electronics offtake, again hitting a 10-year high, the survey said.

There was a notable negative in the market in 2010, according to GFMS, as jewelry offtake fell to 300,000 oz, like platinum, mainly on the back of losses in China.

On the supply side, after three years of losses, production rose 5%, with the bulk of gains seen in South Africa. Auto scrap also climbed by more than 20% due to higher prices forcing participants to release previously hoarded metal.

GFMS believes that the return of the deficit is in bulk related to the increase in the price, with investment interest seen as "critical."

"We certainly saw some profit-taking in the over-the-counter market as investors closed out long established positions," Klapwijk said. "However sentiment was lifted by the launch of the first ever US Exchange Traded Fund and the inflow of over a million oz into all ETFs over the year was remarkable."

Russian state reserve releases are believed to have hit 800,000 oz in 2010, with investor appetite needed to "overcome [these] substantial disposals."

In 2011, GFMS sees palladium marking another gross deficit, although perhaps less dramatic. Gains for autocatalyst demand should offset a forecast increase in North American production.

GFMS sees ETF investment remaining "significant, if well short of 2010's impressive volumes. Sales from Russian government reserves should also again feature in 2011, although thereafter only residual volumes are expected as the sales program winds down."

— *Ben Kilbey*

Silver sinks on fund liquidation, technicals and margin increases

Washington—After looking poised to smash through its 31-year high in late April, silver prices tanked last week, a victim of new margin requirements, overbought technical indicators and large hedge fund selling.

Silver for July delivery on the COMEX division of the New York Mercantile Exchange lost nearly 25% of its value last week to settle at $35.287/oz. Silver in London fixed at $34.200/oz — a loss of $14.500/oz from April 28.

Several factors throughout the week pressured silver. The first was the flight from save-haven investments early in the week — following the death of al Qaeda chief Osama bin Laden — followed by a surprise rate hike by India's central bank, newfound strength in the US dollar after the European Central Bank gave no indications of further rate increases and liquidation by large hedge funds.

But the most often cited reason was repeated margin requirement increases for speculators trading COMEX silver futures.

The CME Group, operators of the New York Mercantile Exchange, have raised margin requirements five times since April 25. The increases came before July silver tested the $50/oz level twice: once on April 28 and again on April 29.

Silver outpaced gold to the upside in April, rising 28% compared with just 8% for gold. For the year to April 29, silver rose nearly 56.5% while gold rose only 9%.

"There was undoubtedly a need to raise margin rates, both for the companies and the exchange," one senior desk trader in Chicago said. Another senior desk trader in Chicago felt the margin increases definitely had a bearish impact on speculative investors. "That's huge, because people who have long positions have to ante up or get out," gold specialist Michael Daly of commodities brokerage PFGBest said.

But several sources questioned the impact of the margin increases, noting that they began early the previous week as silver was still rising. Senior trader Graham Leighton of Societe Generale earlier last week said the drop may have begun with the expiration of positions held by two large fund players that had been trading the gold/silver ratio, well after the first margin increases were announced.

Given the thin market conditions with London out on holiday May 2, the bin Laden news and the pace with which silver rose this year, it was not surprising to see precious metals decline, Leighton said.

A physical PGM trader in the Northeast largely agreed that fund players were unwinding long positions, but questioned why the selling hadn't begun in the after-hours of April 29. Instead, the selling began May 1 in Asia.

"Why didn't they start selling Friday [April 29] after they went home if they were that concerned about it? I think it was just a little bit overweighted," he added, noting that selling in silver accelerated May 3 after it broke below its 21-day moving average of $42.180/oz. "When we broke through that, that's when things got a little silly."

The heavy selling was due to the massive number of players long silver who were trying to unwind their positions, the trader said. "When you have so many people on one side of the boat and they all try to get out, sometimes the boat tips over," he said.

Adding to the bearish sentiment was a drop in the iShares Silver Trust, the largest silver exchange-traded fund, the trader said. That decline continued for the remainder of the week.

Analysts with UK investment bank Barclays noted that nearly 118 mt of silver left iShares on May 5 and 522 mt on May 4. At 10,269 mt, iShares now holds the lowest amount of physical silver since October 2010, Barclays analysts said.

"A drop in investment demand has weighed upon prices given they lack fundamental support," Barclays said in a report. Barclays has maintained that silver was one of the few commodity bubbles in the making.

Like many market watchers, analyst James Moore of thebulliondesk.com agreed that silver had gone too high too quickly. "It was a correction that was long overdue; the market was obviously overextended to the upside.

But silver prices could once again approach record levels later in the year, Moore said. "Silver is still the poor man's alternative," he said. "Plus, there have been a lot more industrial applications in recent years. There has been a lot of genuine investment demand for coins, bars on the retail side, and I think that's still there. I think dip buying will keep the metal underpinned," Moore said.

— *Nick Jonson*

Elsewhere in precious metals...

Price adjustments: Platts has made the following adjustments to its NY dealer PGM prices: **platinum**, $1,760-1,885/oz; **palladium**, $700-800/oz and **rhodium**, $2,150-2,250/oz.

NUM plans one-day strike: South Africa's National Union of Mineworkers is planning to shut down the mining industry for a day later this year, which could cost the industry millions of dollars in lost production. The NUM says mine fatalities in the first quarter of this year are 26% up on the same period last year. NUM General Secretary Frans Baleni told a press briefing in Johannesburg May 3 that the union planned to close down the industry for a day in either September or October in protest against a lack of safety in the mines. He said the union was also enforcing a day of mourning at mines after each fatality and regional protests beginning May 7 in the gold - and platinum-rich North West Province. All actions were likely to hit production, he said. Baleni said: "There have been strides made in safety by the industry because of our pressure, but we want to keep pushing. We want to sell our labor but we do not want to sell our souls." employers' group, The Chamber of Mines, said in a statement: "The Chamber finds the NUM's announcement to stop production regrettable. Safe production will not be achieved by stopping production."

Rhodium slips on little interest: The Platts New York Dealer rhodium price range slipped last week to $2,150-2,250/oz from $2,200-2,300 a week earlier as investors remained on the sidelines and consumer demand held steady. "The investor interest just hasn't been there," one physical trader said, referring to a surge in rhodium prices a year ago on speculative buying by two US investment banks. Rhodium prices eventually reached a high of $2,850-2,975/oz the week of April 22, 2010. One PGM refiner said there had been steady activity in rhodium. "But you don't really see the big moves in either direction," the refiner said. "It's a market that's more or less in balance, with maybe a small surplus." When prices do rise, automakers feel pressure to engineer less rhodium in their emissions control applications, the refiner said. Rhodium is used in catalytic converters to control nitrous oxide emissions. Although high prices are no longer an issue, automakers remain sensitive to price increases in the current economic climate, the refiner added. "We move a little bit of metal all the time, but I think it's just drifting lower in sympathy with the other metals," the refiner said.

Hochschild to revise forecast: Hochschild Mining said last week that following a 15-day production stoppage at its San Jose gold/silver mine in Argentina it will be revising its full-year production estimates. Production was due to restart on May 4, but the company did not confirm whether output had been restarted and did not respond to requests for confirmation by press time. No details were given on new production estimates. Negotiations continue with the Argentine Mining Labour Association with a full agreement yet to be reached, a statement said. Hochschild will be revising its full-year production estimates for the San Jose mine and evaluating the corresponding impact on overall group 2011 production.

New demand to support gold: CEO: Physical demand in China and India and a shift away from paper assets are likely to keep gold prices higher, despite the overall trend of rising interest rates, Agnico-Eagle Mines CEO Sean Boyd told Platts in a recent interview. The shift away from paper assets has been growing since the implosion of the dotcom bubble of the late 1990s and will likely continue, Boyd said. That trend could even gather speed if consumer demand from China and India were to increase. "I think people realize the affinity for gold in countries like India and now China," he said. "What they probably don't understand is the need for China, and even the Chinese population, to own gold." As emerging economies such as China and India become wealthier, people in those countries feel the need to own gold. "I think you're going to see gradual demand increases coming out of that part of the world to the extent they could take up to half to two-thirds of annual mine output," Boyd said. Along those lines, data from the International Monetary Fund released Wednesday indicated that Mexico's central bank purchased 93.3 mt of gold in February and March, while Russia bought 18.8 mt and Thailand 9.3 mt.

Chavez backs new production law: Venezuela's President Hugo Chavez said he planned to create a new law to encourage investment in gold production in the country, which currently has an official output of about 11 mt/year. Chavez will pass the law by decree under special powers the country's national assembly granted him in January, after major flooding in the country. Chavez said in remarks carried by state television that in addition to official production, another 11 mt of gold could be leaving the country every year as contraband. According to existing Venezuelan law, industrial gold producers must sell 60% of production to the Central Bank of Venezuela but can export 30% and sell the remaining 10% inside the country. The small mining sector can export 50% of its production, sell 25% to the internal market and the remaining 25% to the Central Bank. Official estimates of Venezuela's gold reserves fluctuate between 2,000 and 12,000 mt, most located in the region of Guyana, in the state of Bolivar.

ALUMINUM

Nearby aluminum tight on financing, warehouse flow: Century

New York—Nearby physical aluminum remains tight and is driving both near-record and record premiums due to financing transactions and the slow flow of metal from warehouses, Logan Kruger, CEO of Century Aluminum, told investors during a conference call May 3.

"Despite substantial inventories around the world, physical metal remains tight in many regions," Kruger said. "Financing transactions play an obvious part in the perpetuation of this condition, as do the logistics of removing metal from warehouses."

Aluminum inventories are currently at about 58 days of global demand, Kruger noted, as a combination of cheap capital and the forward contango continue to contribute to additional financing deals. "At least in the near-term, low-interest rate environment we anticipate that these transactions will continue," Kruger said. "We continue to see volatility in the near-term contango and are currently experiencing a bit of a squeeze, but low interest rates remain supportive of the financing deals."

The trickling of metal out of LME-registered warehouses is the main force behind record or near-record high premiums seen globally, according to the CEO.

"Even when financing deals do start to unwind, there is another mitigating factor: Due to the logistical constraints of moving large quantities out of warehouses with the current daily volume requirements, we believe the impact of any unwinds will be substantially muted by the pace at which metal can physically leave the warehouse," Kruger said. "As a result, the aluminum market is currently experiencing a period of physical tightness and premiums in the US Midwest, Europe and Japan are all at or near record levels despite the substantial inventory overhead."

The company's chief financial officer, Mike Bless, added, "The US Midwest premium is at an all-time high due to a combination of building economic activity and a lack of readily available material." The Platts P1020 premium assessment for the Midwest Transaction price was 9¢/lb plus LME cash as of the end of last week.

Turning to overcapacity in China, Kruger expressed cautious optimism that the country's regulators were becoming more involved in limiting new capacity. Although Kruger noted that China, India and Brazil continue to post robust results that have led to growing concerns about economic overheating, he also said there has been a consistent and "now seemingly serious effort" by the Chinese government to rein in expansion in the sector.

"These programs in the past have produced mixed results as capacity continued to be built without approval from the central government," he said. "As you would guess, it remains to be seen whether this iteration produces more tangible results. But I would note that the frequency and seriousness of the government's communication have been increasing."

Speaking about political instability in the Middle East, Kruger predicted that it could impede on the region's supply growth.

"In addition to China and India, [the Middle East has] represented significant growth in primary aluminum capacity during the recent past," Kruger said. "Continued instability in this part of the world could have a further dampening effect on the growth of supply. Political risk and unrest in the Persian Gulf and the Middle East may also challenge aluminum supply growth as these regions were expected to be primary growth vehicles outside of China."

Pricing supported by supply and demand, oil costs

The CEO noted that aluminum on the LME continues to be supported by supply and demand dynamics, as well as a shift in the cost curve primarily driven by the price of oil. The LME cash price during the first quarter of the year averaged $2,500/mt, the highest quarterly level since the third quarter of 2008, Kruger said.

"The recent strength in pricing was driven by a variety of factors including improving demand, a weak dollar, high energy prices and a strong investment sentiment toward all commodities," he added.

During the quarter, the company witnessed strong aluminum demand in Europe and North America, primarily due to continued improvement in the transportation sector. In China, continued infrastructure spending and urbanization underpinned demand in the quarter, while both India and Brazil were expected to see strong demand as their construction and industrial sectors thrive.

Hawesville produces below expectations

Century saw lower than expected output from its Hawesville, Kentucky, smelter during the first quarter as a result of operational issues following the restart of its fifth potline, the company said May 3."At Hawesville we energized the first cells in line five at the end of Q1 and we are methodically starting cells according to process stability," said Wayne Hale, the company's chief operations officer, during the call.

"With the confluence of new people with no previous experience and the restart of line five there have been subsequent operational challenges affecting production and output from the balance of the plant," he explained. "We expect [the] plant to be on track by end of the second quarter and producing at full capacity in the third quarter."

Earlier this year, Century said it expected to resume normal capacity at its 244,000 mt/year Hawesville smelter in the first half of 2011 following the restart of the fifth potline in Q4 2010. The potline was curtailed in March 2009 due to depressed aluminum prices.

Equity research firm Dahlman Rose commented on Hawesville's setback in its report May 4, saying: "Shipments fell below our forecast, as the ramp-up of the fifth potline at Hawesville affected production at the rest of the facility and progressed slower than we expected. The reported Hawesville restart cost was also higher than we anticipated."

The company's operations cost of sales for the quarter included a $6.4 million charge for the restart of a curtailed potline at Hawesville. The restart of the fifth potline, which is one of five at the smelter, was slated to result in an additional 4,370 mt/month of primary aluminum output.

On the heels of lower than anticipated output in the first quarter, Bless said domestic shipments were expected to recover in the current quarter. "We see shipments up between 6% and 7% Q2 over Q1 and then in Q3 over Q2 up an additional 7% to 8%," he said.

Looking out to the fourth quarter, the company will complete the upgrade of Hawesville's high-voltage control systems, resulting in an increase in metal production across all potlines, the company said.

— *Meghann McDonell*

Asia Pacific alumina punctured by deep loss in LME aluminum

Singapore—The price of alumina lost some ground May 6 in the Asia Pacific region, triggered by two days of extraordinarily deep losses in LME aluminum values and the broader commodities markets.

The Platts Australian price benchmark slipped to $415.50/mt FOB, a decrease of $4/mt from May 5 and from a week ago, but up $10.50/mt from a month earlier.

As Asian business drew to a close that day, the LME three-month offer price for aluminum was around $2,600/mt, down $170/mt, or more than 6% below mid-week prices. The LME three-months price closed May 6 at $2,608/mt.

An alumina producer said May 6 that since a substantial amount of tonnage is still priced off the LME, the steep selloff has caused alumina to weaken. "Although alumina [fundamentals] are not necessarily linked to the LME, buyers will look at the LME," he explained. Also, LME-linked resale volumes from China may become more affordable, the producer suggested.

A second producer expected alumina prices to hold up in the longer term despite the current commodities selloff and wider economic concerns. Alumina production costs remained high due to bauxite and caustic soda, the official noted.

The producer also said that "alumina demand [outside of China] is looking good for the rest of the year. People are still looking for volumes. They don't have all their commitments lined up. Supply is still tight. There have been ongoing issues and there's not much [new capacity] coming for the rest of the year."

A Pacific region-based smelter said it thought alumina buying interest may have slipped to $410/mt FOB Australia for June and July. Another Pacific region-based smelter said it was approached by two traders last week seeking to offload June cargoes from Australia. As the smelter did not need additional cargoes they did not discuss prices.

An Atlantic region-based smelter buyer suggested that a buyer today may ask for 15.5% of the LME, matching the equivalent percentage of the last known traded spot price of nearly $420/mt. "But alumina can't realistically drop $20/mt in one go," the smelter official conceded. The LME offer price was $2,750/mt at the time.

The smelter source thought there may be uncommitted alumina cargoes in Brazil, Jamaica and the US. "With such a big move in the LME and oil, I have no idea what buying interest for alumina would be," said a trader who may have considered paying $415/mt earlier last week.

The trader also said it had been approached by a Chinese reseller of an Australian cargo to be shipped in July, although no price was mentioned.

A producer suggested last week that certain market participants may circle back to a Brazilian deal done two weeks prior at $415/mt FOB, as a price reference for the Australian market. But market participants have been at odds over whether Australia commanded a premium over Brazil, and by how much. Two days before the Brazil parcel traded at $415/mt, an Australian lot had changed hands at the equivalent of $419.50/mt with 30-days' credit.

The Platts China domestic alumina price benchmark closed last week at Yuan 2,690/mt ($413.69/mt) ex-works Henan, dropping Yuan 10/mt from May 5 based on lackluster demand. Market participants said tighter cash flow from credit restrictions was stifling demand. The Henan benchmark lost Yuan 30/mt over the week and Yuan 60/mt from a month ago.

Shipping sources said Asia's handysize freight rates were being buoyed by high bunker prices. But rates may come off in the near term as a spate of public holidays last week in Japan, China, Hong Kong, Malaysia, Singapore, Taiwan and Thailand have curtailed chartering activity, a ship owner said.

— *Joanna Lim*

Elsewhere in aluminum...

Japanese spot Al premiums up: Spot premiums for primary aluminum on a CIF Japan basis jumped about 5% last week to an 11-month high of $118-120/mt plus London Metal Exchange cash. This is up from $113-114/mt the previous week, tracking the gains in US and European markets, industry sources said last week. The latest premiums are the highest since June 14, 2010. Despite signs of weakness in the Japanese automotive and electronics sectors hit by a shortage of semiconductor devices, Japanese spot premiums climbed $5.50/mt following a recent $5/mt rise in US and European premiums. Two of the Japanese deals done last week at $118-120/mt CIF Japan were from sellers who reported business in Europe and the US as well as in Asia. One cargo, for more than 1,000 mt, was shipped last month while another, believed to be a smaller cargo, will be shipped in the weeks ahead. Spot demand had come from the construction and beverage cansheet sectors, local sources said. Some plants are enjoying robust orders from the housing sector, which had outperformed initial expectations. The March 11 earthquake has increased domestic demand for home repairs, a housing material dealer said. Producers of aluminum sheet for beverage cans continued to operate their plants during the May 3-5 public holidays. Sheet makers aim to produce as much as possible before July, when they are required to cut power usage by 15-25%, sources said.

Japan says no reconstruction boom yet: Japan's third-largest aluminum housing material maker, Sankyo Tateyama group, has not seen any change in output after the March 11 earthquake, because reconstruction demand has yet to emerge, a company official said last week. Despite expectations for housing reconstruction demand after the earthquake, Sankyo Tateyama group's production of aluminum sliding doors and other housing parts remained unchanged in April-May from the pre-earthquake levels, at the annualized rate of 120,000 mt, company spokesman Toshinari Matsuzawa said. The 120,000 mt/year production is for three companies under the Sankyo Tateyama group in northwestern and southern parts of Japan unaffected by the earthquake. The government has called for the construction of 70,000 prefabricated homes to replace more than 100,000 homes and buildings destroyed by the earthquake. Reconstruction demand was expected to boost aluminum demand, but housing construction is lagging, Matsuzawa said. Other sources close to the company cited a shortage of heat-resistant materials, wooden panels and other materials as factors slowing housing construction. "If things speed up with the housing developers, and we need to be building houses after houses, we will be running at full rates. This could push up aluminum sliding door demand temporarily," Matsuzawa said. "But for the longer term, I am seeing a slight fall in demand. Some housing projects stopped due to the earthquake. The aftershocks are continuing in Ibaraki prefecture and areas around Tokyo which has a negative impact on consumer attitude for new homes. People will not buy houses when tremors are continuing," Matsuzawa added. He said the 70,000 prefabricated homes are temporary shelters and the real reconstruction demand will emerge next year when earthquake-affected people start looking for their permanent residences. Japan produced 508,442 mt of aluminum housing materials in the April 2010 to March 2011 fiscal year.

India's Nalco boosting alumina stocks: India's Nalco does not plan to issue a sell tender for alumina to be shipped in June, a company official said last week. Until recently, Nalco typically had a sell tender every four to six weeks for a 30,000 mt cargo. Its last sale was two months ago for a shipment in late March. The official said Nalco has committed its alumina to its term contract buyers. Another Nalco executive has said that the company would need to build its alumina stocks ahead of the wet season, which typically falls between June and the first half of September. Nalco's alumina refinery and aluminum smelter are about 600 km apart, with alumina transported by rail to the smelter. As heavy rains and flooding have disrupted rail services in the past, the company plans to boost alumina stocks at the smelter's site. The company is in the process of commissioning a revamped section of its alumina refinery, with the new wing tipped to start commercial production from late May. The executives said it was too soon to know if Nalco will have a July alumina cargo for sale through a tender.

Japan Daiki to resume alloy output: Japan's largest secondary aluminum alloy producer, Daiki Aluminum Industry, plans to restart alloy production at the earthquake-hit Shirakawa plant this week, a company official said May 2. The Shirakawa plant in Fukushima prefecture resumed aluminum can recycling April 17, the official said. The Shirakawa plant in the Fukushima prefecture was shut due to equipment damage following the massive earthquake that hit northeast Japan March 11. Equipment repair work was completed in April, and 20 Shirakawa plant workers who were moved to the Shinshiro plant in the Aichi prefecture will be returning to the Fukushima prefecture by this week, the official said. The Shinshiro plant that closed in 2009 was restarted last month to replace the lost Shirakawa production. "The Shinshiro plant shut April 27 as the Shirakawa plant will be restarting," the official said. Daiki's four plants produce around 20,000 mt/month of secondary aluminum alloy.

CVG Alcasa to get $403 mil from China: Venezuela is set to disburse $403 million from the China-Venezuela Fund to help modernize the ailing CVG Alcasa aluminum smelter, the Venezuelan News Agency reported last week. The resources will be used to update technology at the Puerto Ordaz plant's potlines 3 and 4 and to build an extrusion facility where potlines 1 and 2 once operated, among other projects, the AVN report said. Basic Industries and Mining Minister Jose Khan, who made the announcement at a government function in Caracas, said the work would be undertaken by the Aluminum Corporation of China or Chinalco, which had a team due to arrive at the site soon. Chinalco officials have made several visits to the 170,000 mt/year Alcasa smelter in the past two years, which has seen its primary aluminum production plummet due to higher production costs and lack of investment in ongoing operations. Metal production fell to around 95,000 mt in 2010.

Ormet plans Burnside aluminum job fair: US aluminum producer Ormet plans to hold a job fair later this month to hire employees for its long-idled alumina refinery in Burnside, Louisiana, providing a further indication that the plant is expected to be reopened later this year, a United Steel Workers union official said May 5. Sonny Sanders, a USW staff representative, said the job fair is scheduled for May 22-23. "It looks like we're getting close," he said about restarting the 600,000 mt/year refinery. According to Sanders, the Ohio-based company has talked about rehiring some employees who worked at the facility when it was closed in late 2006. The plant had slightly less than 300 employees when it was shuttered. Ormet President and CEO Michael Tanchuk could not be reached for comment. However, he has made no secret of Ormet's desire to reopen Burnside now that all six potlines are running again at the company's 260,000 mt/year smelter in Hannibal, Ohio. Earlier this year, Tanchuk said "everything looks promising" for a refinery restart this year, although he added a final decision had not been made.

Rio Tinto CEO rejects Alcoa takeover talk: Anglo-Australian miner Rio Tinto dismissed market talk last week that it was planning a multi-billion-dollar takeover bid for US aluminum major Alcoa. Rio Tinto CEO Tom Albanese told reporters at the company's annual meeting in Perth May 5 that there was no basis to the talk. "I've seen some I call it 'trader chatter' over the past day or two," he said. "It sort of disappeared as quickly as it emerged, and I thought that spoke for itself." Albanese said Rio Tinto had "made it very, very clear" that its focus was on investing in its own Tier 1 projects and on "smaller" acquisitions. Alcoa spokesman Mike Belwood told Platts he had no comment on the rumor. Analysts contacted by Platts said the combination would face serious antitrust issues, and none could substantiate the rumor. Rio Tinto Chairman Jan Du Plessis said at the meeting that Rio Tinto's strategy of "investing in and operating large, long-term, cost-competitive mines and businesses" remained unchanged. "Following the significant capital expenditure commitment we made in 2010, this strategy has been underwritten by the board earmarking a further $13 billion in capital expenditure for this year," du Plessis said. "While our focus remains on organic growth, we will also continue to invest in carefully targeted small to medium-sized acquisitions. Our recent successful achievement of majority control of Riversdale Mining, the Australian-listed company, with strategic coal interests in Mozambique, is a good example of this."

COMMODITIES

LME mulls self-clearing

...from page 1

May 6. Initial products are energy, rapeseed oil and freight. ICE Futures US also has an in-house clearing operation in the UK, ICE Clear Europe.

"I don't see the added value for the LME to self-clear, at this time, unless they anticipate expanding their product line to include many new asset classes and LME members want to own their own clearing portal," commented one market observer. "It would have been a good business decision 10 or 20 years ago, when they first went to the LCH, since this would have enabled them to operate a full vertical exchange silo, similar to others," he added. "Competitive clearing venues are already well established and new ones like CME are coming into the field, so I can't see what commercial value LME would obtain at this late stage."

But, according to Abbott, the LME believes that self-clearing "would also be accretive to earnings" at the exchange.

According to LCH.Clearnet's annual report, its commodities and energy clearing revenue fell by Eur4.0 million last year to Eur25.4 million ($37 million at current exchange rates), principally due to the loss of data capture revenue which has been internalized by the LME.

The move to take its clearing operations in-house would presumably allow the LME not only to tap into an existing revenue stream but also a potential growing pool of future revenues resulting from the current regulatory drive to bring more and more over-the-counter business through clearing.

Announcing the proposed launch of CME Clearing Europe in March of this year, the company's CEO, Andrew Lamb, said the move was "timely in light of the need for enhanced risk management in commodity markets and the imminent legislative change mandating the clearing of OTC derivatives."

A period of engagement and consultation with shareholders, members and other stakeholders will now be necessary before a final decision can be taken, the LME said last week, adding that no deadline has been set for reaching a definitive decision.

Any switch to self-clearing on the LME's part would require the approval of the Financial Services Authority, the UK markets regulator. An FSA spokesman confirmed last week that "there is a regime of rules that would apply" should the LME go down the self-clearing route.

LCH.Clearnet said last week it had not received notice from the LME or indeed any indication regarding the likely time frame.

"We value our relationship with the LME and shall continue to provide the LME and its members with an excellent service and the benefit of our unique experience in clearing for this complex market — we are a leader in commodities clearing globally," said Ian Axe, chief executive of LCH.Clearnet, in a statement.

"Market participants tell us they are looking for proven, efficient and consolidated clearing offerings. LCH.Clearnet is best placed to continue to deliver this," he added.

In 2010, 120.3 million lots of metal were traded on the LME, while the total value of trading on the exchange was $11.63 trillion.

— *Andy Blamey*

Disrupted coal/iron ore flows hit dry bulk freight: Genco

New York—Weather-related disruptions to coal and iron ore exports from Australia and the effects on trade of the Japanese earthquake all contributed to lower dry bulk freight rates in the first quarter of 2011, Gerry Buchanan, president of New York-listed dry bulk shipowner Genco Shipping and Trading, said last week

Talking to analysts at the company's first-quarter earnings conference call, Buchanan said BHP Billiton saw a 14% drop in coal production in the first quarter and noted that ship broker RS Platou estimated total coal output from Queensland fell by 30 million mt in Q1 2011, down 15% from Q1 2010. Meanwhile, Rio Tinto's iron ore production dropped by 16% in the first quarter, he said.

However, he also noted that the cyclone season was coming to an end and that normal cargo flows of coal and iron ore from Australia should resume during the second quarter.

Since the Japanese earthquake and tsunami and the power shortages it created, "the Japanese government's efforts have been towards reducing power consumption," he said, resulting in coal-fired power plants, as well as nuclear plants, staying offline. "Once these coal plants come back online that will stimulate coal imports as several nuclear plants remain offline," Buchanan said.

He said Japan's recovery and rebuilding efforts would also stimulate demand for iron ore, metallurgical coal, cement and forest products toward the end of this year, with a positive effect likely on dry bulk carrier demand.

On the ship supply side, Buchanan said ongoing delays to deliveries of new ships and conversions of dry bulk carriers to other ship types, especially container ships, "should help alleviate concerns about oversupply." He said there was a 40% slippage of the delivery schedule during 2010 and predicted a similar level of slippage would occur this year.

In the meantime, the combination of suppressed freight rates, high bunker fuel prices and high prices being offered by ship breakers would continue to stimulate ship scrapping, Buchanan predicted.

Quoting figures from Clarkson Research Services, he said that 6.7 million dwt of dry bulk carrier capacity had been scrapped so far this year compared with 5.7 million dwt in the whole of 2010. The year-to-date 2011 figure included 25 Capesize bulk carriers, which Buchanan said was more than were scrapped in the whole of 2010, but did not give a comparative figure.

Buchanan noted that more ship-breaking capacity was coming on stream. "Bangladesh yards have resumed operating and have begun purchasing dry bulk vessels [to break]," he said, adding that Bangladesh ship-breaking yards typically pay higher prices for ships than their competitors in other parts of the Indian subcontinent. He also said older ships were being discriminated against in the charter market, "which is why scrapping is on the increase."

Buchanan told analysts that slow-steaming was being deployed in the dry bulk sector as a means to counter the effects of high bunker prices and to help increase fleet utilization. "We're working with several charterers in working out the best economical speeds to run the ships at," he said.

Last week, Genco reported a drop in first-quarter earnings as a result of increased operating expenses from operating an expanded fleet, despite an increase in revenues.

In the three months to March 31, 2011, net income fell to $12.17 million from $33.1 million a year earlier, according to the company's earnings statement. Total revenue rose to $101.5 million in the quarter from $94.7 million a year earlier. The Q1 2011 figure included $100.6 million in voyage revenue, up from $94.68 million in Q1 2010, and $810,000 in service revenue compared with none a year earlier.

"During the first quarter, we completed the acquisition of 13 Supramax vessels, solidifying Genco's position as an owner of a sizeable and modern dry bulk fleet that adheres to stringent operational standards," Buchanan was quoted as saying in the company's earnings statement.

Genco attributed the higher voyage revenues to the increased size of its fleet, which helped mitigate lower time charter revenues. Genco owned and operated a fleet of 50 ships in Q1 2011 compared with 35 ships in Q1 2010.

Genco's fleet utilization in Q1 2011 was 99.4% compared with 99.6% in Q1 2010.

Time charter equivalent earnings in Q1 2011 fell to $19,155/day from $30,248/day in the year-ago period, Genco said.

— *Anthony Poole*

Elsewhere in commodities...

Glencore's IPO to fund asset investments: Commodity trading giant Glencore will use most of the approximately $10 billion it expects to raise from its initial public offering this month for capital investment in zinc, copper, coal, and oil and gas projects, the company said in a 1,600-page IPO prospectus issued on May 4. The budding mining conglomerate estimates its net proceeds from this month's IPO in London and Hong Kong at $7.5 billion, after the deduction of underwriting commissions and expenses for the global share sale, it said. The $7.5 billion will be used to fund, in order of priority, the $2.2 billion cash portion of a deal to raise its stake in Kazakhstan zinc producer JSC Kazzinc to 93% from 50.7%; approximately $5 billion in aggregate capital expenditure for the three calendar years to December 31, 2013; and the reduction of borrowing costs and improvement of financial flexibility by paying down debt obligations with any portion left over from the preceding, Glencore said. Of the $5 billion in scheduled capital expenditures to the end of 2013, $834 million will go to expansion projects for Kazzinc; $1.04 billion for Katanga Mining projects in the Democratic Republic of the Congo; $512 million for Mopani Copper Mines in Zambia; $919 million for Prodeco coal mines in Colombia; $791 million for exploration and development of its West African oil assets in Equatorial Guinea; and $900 million for other industrial assets. Glencore is targeting an initial share price of GPB4.8-5.8 ($7.95-9.60) in the highly anticipated initial public offering that it expects will raise around $10 billion, excluding any additional funds from an over-allotment option, the company said. The mid-point of the price range implies a market capitalization for Glencore of about $61 billion, it said. The planned listing, first announced by the company in April, will mark a high-profile move into the public arena for Glencore, which emerged in 1993-1994 following a management buyout of the company set up by the secretive oil trading pioneer Marc Rich. The IPO was published the day before a massive commodities-wide selloff on May 5, affecting the value of exchange-traded commodities globally. According to the UK's Financial Times, the IPO was fully subscribed within hours of the prospectus being published. Share trading in Glencore is due to start on May 24.

Screen-based FFAs win approval: Freight indices compiler the Baltic Exchange has won approval from the UK's Financial Services Authority to offer screen-based trading on forward freight agreements, the Baltic Exchange said May 4. The FFAs will be operated by the Baltic's subsidiary Baltic Exchange Derivatives Trading and its Baltex central screen-based trading solution for the dry FFA market will "go live shortly," it said. "In establishing and funding the Baltex system, the Baltic continues its core role in facilitating the development of the shipping marketplace in all its forms," said Mark Jackson, chairman of the Baltic Exchange. "This is the right response to broad market developments and emerging regulatory change." The FSA approval means that Baltex is also authorized in all European Economic Area countries, the Baltic said. It also has provisional approval from the Swiss Financial Market Supervisory Authority and Monetary Authority of Singapore, it said. Users of Baltex will be able to trade FFAs on four Capesize routes: the key Tubarao-Qingdao (C3) and the Western Australia-Qingdao (C5) iron ore routes; and the Richards Bay-Rotterdam (C5) and Puerto Bolivar-Rotterdam (C7) thermal coal routes. Users will also be able to trade three trip charter Panamax routes, largely geared to the grain trade, and the S7 Supramax East Coast India-China route, which carries iron ore. Additionally, users will be able to trade the average time charter FFAs of Capesizes, Panamaxes, Supramaxes and Handysize vessels. Baltex has been developed internally by the Baltic Exchange over the last two years, the exchange said. Screens will provide live FFA prices and will support processing through the international clearing houses CME, LCH, NOS and SGX. A transaction's status will be displayed in real time, it said. Until now, freight derivatives trading has largely been an over-the-counter business with transactions carried out through the services of freight derivatives brokers and with limited protection of risk of default to counterparties.

LEAD & ZINC

ETF Securities unveils first zinc, lead exchange-traded funds

London—ETF Securities has launched the first zinc and lead exchange-traded commodities on the London Stock Exchange, the UK-based company said last week

At the same time, ETFS also debuted a third base-metal product, ETFS Physical Aluminum. The new products follow on from the listing of physically backed ETCs in copper, nickel and tin last December.

However, not all zinc market watchers are convinced the new ETFs, particularly for zinc, are a good thing. The physical industrial metal securities are backed by physical metal stored at London Metal Exchange warehouses, the ownership of which is evidenced by LME warrants or warehouse receipts held by the issuer. All physical metal is held in LME-approved warehouses and conforms to LME standards.

The issuer will initially hold metal as LME warrants "but may move some (but not all) metal off-warrant as assets build up in order to stay within lending guidance and to reduce storage fees," ETFS said in a statement. The costs of holding the industrial metal ETCs will comprise a management fee as well as storage and insurance fees, the company said, adding that storage fees will be capped at the warehouse fees published annually by the LME, "but may be reduced over time if the issuer is able to negotiate lower fees once assets build up."

The LME approves and licenses a network of warehouses and storage facilities around the world — currently standing at more than 600 approved warehouses and compounds in 37 locations across the US, Europe and Asia — but it does not operate the warehouses nor does it set the rates charged for rent or handling.

"Today's listings come amid a period of significant buoyancy in industrial metals, with spot metal prices for copper and tin hitting record highs," said Mark Weeks, managing director of ETF Securities Marketing, in the statement.

The three-months zinc price on the London Metal Exchange closed the week May 6 at $2,140/mt. "Investors are increasingly looking at hard assets as a way to hedge against growing concerns about sovereign risk, currency debasement and potential inflation," Weeks said. "They are also looking at ways to tap into the rapidly rising commodity demand by China and other emerging market economies. These new products are expected to be of interest to such investors, especially those who prefer to have their securities backed by physical metal."

Nevertheless, some zinc market players remain skeptical, arguing that a zinc ETF and other base-metal funds could lead to the next market "bubble" at risk of collapse. "They are a very bad thing, and the reason is, as the marker goes up, they will exacerbate the moves on the upside because they're basically creating a new consumer," a US-based trader told Platts. "As the market goes up, then all of sudden, interest rates are going to go up and it's not going to make sense to hold physical material anymore. Then you're going to start seeing selling. [Investors] are all going to try to sell at the same time ... and the door is only so big and everyone can't get through the door at the same time."

It is such a contingency that would create the potential for the zinc market and other base metal markets to implode, he said. "It's going to be awful when the market turns," he said. "It's going to make past commodity collapses look like a tea party." The trader said such a scenario could plausibly occur as early as next year.

Proponents of the zinc ETF counter that, with the global zinc market already in staggering overhang, the new "consumer" that the fund creates would have little impact on existing supply, compared with the possible effects of an ETF for copper. Indeed, given the approximately 1 million mt in zinc stocks currently on the LME and the Shanghai Futures Exchange — along with a substantial addition of unreported stocks — "you'd have to have an exceptionally large ETF or a good number of smaller ones to put a dent in that sort of visible stock holding," said a market analyst.

— Andy Blamey, with Laura Gilcrest in Washington

Elsewhere in lead & zinc...

Xstrata sees lower Q1 zinc, lead output: Xstrata reported last week that first-quarter zinc concentrate production fell by 6% to 240,749 mt, compared with the same period of 2010, mainly due to a planned reduction in volumes at the Antamina mine. The global diversified mining company said in its Q1 production report that the plan for the Australian mine had progressed into higher copper but lower zinc ore. Operations were also affected over the first quarter by flooding and power shortages due to the severe weather in Queensland. Zinc metal production was 14% lower at 182,357 mt compared to Q1 2010 as a result of the closure of the Kidd Metallurgical site in May 2010, the Switzerland-based producer said. Xstrata reported that lead-in-concentrate production was down 8% in the first quarter at 53,764 from Q1 2010, again as a result of extreme weather conditions. In turn, lead metal output also decreased, falling 16% to 51,777 mt compared to the corresponding period in 2010.

US used battery prices at 35-40¢: The price of used automotive lead-acid batteries dipped below 40¢/

lb last week to a wide range of 35-40¢/lb, market sources said, as the lead scrap market followed the London Metal Exchange lead price lower. "We're in the 38-40¢ price range right now," said a buyer of 50% lead starter-lighter ignition automotive batteries. "It's probably going to drop further because you can't afford to pay [current battery prices] with where the LME lead market is," the source added. "Something's got to give on scrap." LME three-months lead closed at $2,280/mt on May 6, compared with $2,509/mt earlier in the week. The buyer noted that current supply is plentiful. Another used battery consumer put the current price range at 35-38¢/lb. "We're not buying a whole lot right now, because [sellers] are hoping the price is going to go back up and they'll get 42¢, 43¢ again," he said. In the first half of April, used battery prices spiked as high as 45¢/lb, then eased later in the month to a range of 40-41¢/lb.

Boliden's Q1 refined lead output up14%: Sweden-based Boliden's lead production from smelters for January to March was up 14% quarter on quarter at 5,135 mt but showed little change from the same period in 2010, while alloys production was down 15% compared with the previous quarter at 10,671 mt, the company said last week. The company mined 12,613 mt of lead in the first quarter, down around 4% from 13,212 mt in the same period last year but steady compared with Q4 2010. Production was down due to lower grades at its Tara mine and reduced ore production at Garpenberg, Boliden said in its interim report for the first quarter. In the report, Boliden said: "Bergsoe's production was limited in the first quarter by the availability of materials. Raw material availability improved towards the end of the period." The Bergsoe lead smelter recycles lead metal, primarily from car batteries. Boliden estimated that global lead consumption grew by 7% in the first quarter of 2011 in comparison with the corresponding period in 2010, and global metal production in smelters by approximately 9%. The company added that global mined production was up 9% over the same period but fell short of smelters' demand.

Lead smelters may face new EPA rules: US secondary lead smelters may be facing stricter air emission standards, the US Environmental Protection Agency said last week. The agency said it is proposing new standards that would cut lead and arsenic emissions by 63% and would, for the first time, require lead smelters to control emissions of dioxins. EPA said lead smelters would have the option to choose the most practical and cost-effective emissions control technology to cut their emissions, technology that the agency said is readily available and already in use by many lead smelters. The agency said the new standards would cover fewer than 20 secondary smelters located in the US. EPA said it is required to issue a final rule on the new air standards by December 2011.

LIGHT METALS

Titanium earnings up

...from page 1

about 7,000 airplanes," he said. Airbus planned to complete the development and begin ramping up production of the A350 extra-widebody plane later in the decade, he added.

Harshman told analysts that ATI "and other members of the supply chain are being told to get ready for unprecedented production rate increases between now and 2013." Boeing, he said, "has set aggressive targets to build more 737s than ever, build more 777s than ever, deliver the 787 in the third quarter of 2011 and then significantly and quickly ramp up its production rate."

Overall, RTI's Hickton said she sees rising strength in the marketplace. "We have started to see spot prices move upward, and they could move higher," she said. "Ferrotitanium has moved up in recent months. We're also seeing our lead times push out to 25 weeks for billet and 40 weeks for sheet."

William Hall, RTI senior vice president and CFO, said the company's titanium group saw quarterly sales increase to $69.3 million from $61.6 million a year earlier. "Sales were 3.1 million lb at an annual realized price of $20/lb," he said, compared with sales of 2.2 million lb at an average realized price of $19.35/lb in the first three months of 2010.

Harshman said the higher build rates translate into greater demand for ATI's specialty metals for both airframes and engines "than any previous cycle." The expanded global air carrier fleet also increases demand for ATI's high-value, rotating-quality titanium alloys and nickel-based superalloys used in jet engine spare parts and engine replacement kits.

"There is significant interest in our game-changing ATI 425 alloy, with much qualification activity ongoing," the ATI CEO added. "Our ATI 718-plus nickel-based superalloy is growing in new aero engine applications."

RTI is also focused on a new engine alloy. Hickton said that "one of the things we're looking at is we supply a particular type of titanium alloy and we're seeing an increasing use of that alloy on some of the [airplane] engines. Overall, as the engine inventory has burned down in the last down cycle, we're seeing an overall pickup with some of our traditional engine customers." RTI has "capacity in place" to add to its sales volumes in the next couple of years.

Asked about titanium sponge and scrap pricing, Hickton said scrap pricing "has pretty much leveled off a little bit," although titanium has moved up. While RTI is not in the spot market to buy sponge, "We're starting to see some of the sponge market move up ... there's some tightening in the current sponge market, but that's not the situation we find ourselves in.

Hickton said, however, that RTI's Japanese suppliers were not affected by the earthquake and tsunami.

ATI, which produces its own sponge, has seen higher volumes and improving yields at its new Rowley, Utah, plant, Harshman said. "We have commissioned 34 of the 36 furnace sets," he said. "The sponge chemistry is outstanding, and is meeting premium-grade specifications." ATI is using Rowley sponge to feed its West Coast melting operations for industrial applications, expecting to reach a 20 million lb/year annualized rate of output in the second.

Harshman said sponge and scrap availability remained tight. ATI's ability to supply its own sponge with Rowley, as well as the available capacity from the company's long-idled sponge facility in Albany, Oregon, "will enable ATI to continue to grow," he said.

RTI's Hickman said that while spot prices for the company's sales overall are on the rise, "it's still not the majority of our business." In the first quarter, 70-80% of RTI's business was with long-term agreements, with the remainder largely spot. Hickton predicted spot prices could be 8-9% higher by the end of 2011, impacting business heading into 2012 and 2013.

Hickton was also asked about RTI's prospects for mergers and/or acquisitions. "We've got a short list, if you will," she replied. "We've been pretty actively looking. At this point, there's nothing I'm prepared to comment on," although she noted her company is "looking at opportunities on the fabrication side of the business to support our existing facilities."

Timet also saw higher sales, shipments

Like RTI and ATI, Titanium Metals Corp. attributed its improving Q1 earnings to improved demand for titanium products in the commercial aerospace and industrial sectors. Also releasing Q1 results last week, Timet reported net sales of $252.0 million for the first quarter of 2011 compared with $217.5 million for Q1 2010 on the back of an increase in product volumes and higher average selling prices, the US titanium producer said.

Timet shipped 1,495 mt of melted products at an average selling price of $22.80/kg in Q1, up from 1,140 mt at $19.75/kg in Q1 last year. Mill product shipments reached 3,910 mt at an average price of $52.05/kg, compared with 3,395 mt at $51.85/kg in the year-earlier period.

"During the first quarter, demand throughout the commercial aerospace sector improved as build rates for legacy aircraft strengthened and pipelines for new programs begin to fill," said Bob O'Brien, Timet president and CEO, in a statement.

"Our bookings rate is solid and our backlog has grown to $680 million from $580 million at December 31, 2010," he added. "We also have seen demand in the industrial sector begin to improve as infrastructure and chemical projects are reinvigorated by the global economic recovery."

Increasing demand across these sectors favorably affected spot prices during the quarter, "and we anticipate this trend will continue over the course of the year," O'Brien said.

Timet reported net income attributable to common stockholders of $28.9 million in the first quarter, compared with $16.7 million in Q1 last year.

— Bob Matyi, with Andy Blamey in London

Elsewhere in light metals...

CMC starts Pingyao on schedule: Australia-listed China Magnesium Corp. said April 29 it started production of pure magnesium at its Pingyao magnesium plant in China's northern Shanxi province as expected (MW, April 18, page 3). Initial production from new furnaces installed at the long-mothballed plant will be at the rate of 2,000 mt/year of pure magnesium, the company said in a statement. CMC announced plans in December 2010 to increase the capacity of the idled plant to 20,000 mt/year from 5,000 mt/year by December 2011. CMC Managing Director Tom Blackhurst noted the startup made CMC the first Australian company to achieve commercial production of pure magnesium, despite others' attempts. CMC completed a farm-in deal to take a 75% interest in the plant on November 15, 2010. Its 90.7%-owned unit CMC China now wholly owns the plant. CMC began trading on the Australian Securities Exchange on November 9. The company targets eventually selling all of the output to two automobile production plants currently under development in Shanxi province.

Slade now VP at US Magnesium: US Magnesium has appointed Susan Slade as vice president of marketing, working in tandem with Cam Tissington, vice president of sales. Slade had previously been director of marketing. Both will report to Mike Legge, president and CEO of the company, the sole US primary magnesium producer. In announcing the change, the company noted that US Magnesium is investing over $70 million to expand the electrolytic plant in Rowley, Utah, resulting in a more than 20% increase in production capacity for both magnesium and chlorine. As previously reported, magnesium capacity is being increased to 63,500 mt/year from 52,000 mt/year.

TIN

Minsur's Q1 revenue up 18% Peruvian tin miner Minsur said last week its first-quarter earnings rose despite what appeared to be rather weak output, according to production data available so far. Minsur, a company owned by the local Brescia group, said in statements filed May 4 with the Lima stock exchange that sales revenue increased 18% to Sol 664 million ($236 million) and net income jumped 30% to Sol 33.5 million. Results were in line with most miners in Peru, with earnings boosted by higher prices. Production information was not released but, according to data from the Energy and Mines Ministry, Minsur's tin output declined in February by 30% year on year, to 2,049 mt. Cumulative output for January and February was 4,335 mt, 27% less than the previous year. March data have not yet been posted by the ministry. Minsur has been facing declining reserves for several years and has come up empty when exploring for more tin.