

# INSIDE COMMODITIES

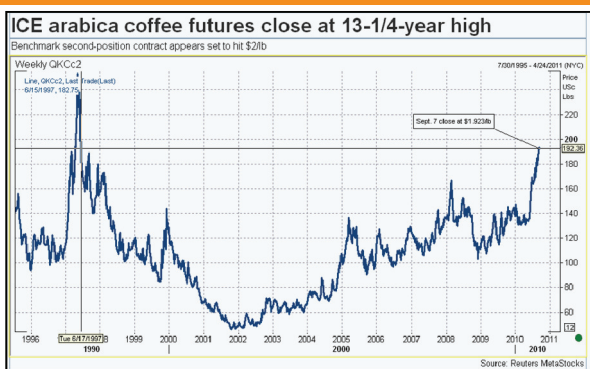
COMPILED ON WEDNESDAY, SEPTEMBER 08, 2010

This daily newsletter is available to Thomson Reuters customers via their desktop terminal. Simply type COM/BRIEF into a news browser (F9) and press ENTER. If you would like to receive this newsletter via email please register at [http://online.thomsonreuters.com/commodities\\_preference/](http://online.thomsonreuters.com/commodities_preference/)

Index (Total Return)	Close 07 Sept	Change	YTD
Thomson Reuters/Jefferies CRB	272.66	0.38%	-3.29%
S&P GSCI	4154.717	0.10%	-8.37%
Rogers International	3198.76	0.00%	-2.32%
Dow Jones - UBS	134.9887	0.31%	-2.71%
Cont Commod Indx	510.91	0.30%	5.79%
Other Market Performance			
US STOCKS (DJI)	10447.93	-1.03%	-0.84%
US DOLLAR INDEX	82.82	0.95%	6.37%
US BOND INDEX (DJ)	267.87	0.76%	9.59%

Contract	(AS OF 0649 GMT)	Price	Change	Net Change	YTD
NYMEX light crude		\$73.85	-0.32%	-\$0.24	-6.64%
NYMEX RBOB gasoline		\$1.93	-0.20%	\$0.00	-5.83%
ICE gas oil		\$654.75	1.28%	\$8.25	1.73%
NYMEX natural gas		\$3.90	1.12%	\$0.04	-30.87%
Spot Gold		\$1,258.85	0.31%	\$3.95	14.53%
LME Copper		\$7,625	-0.05%	-\$4.00	3.44%
LME Aluminium		\$2,168	0.14%	\$3.00	-2.91%
CBOT Corn		\$4.51	-0.11%	-\$0.01	8.93%
CBOT Wheat		\$7.02	-0.11%	-\$0.01	29.73%
Malaysia Palm Oil (3M)		R2,650	0.84%	R22	-1.31%

## CHART OF THE DAY (Click on the chart for full-size image)



## REUTERS INSIDER (Click on the headlines to view the show)

- Sell Corn on Rallies, Cautiously Buy Soy, Says Ag Columnist

## MARKET NEWS (Click on the headlines below to jump to the story)

### ENERGY

- Sinopec oil platform in Bohai Bay tilts over
- Australia LNG 2009-10 output at record high -report
- Report: BP probe to spread blame for spill
- Boone Pickens sees oil at \$85/barrel by end of year
- Venezuela says August oil exports fall 8.7 pct yr/yr

### AGRICULTURE

- Indonesia may import 400,000 T white sugar for 2011
- Colombia coffee output up 55 pct in Aug-growers
- Tunisia's grain harvest is 1.08 mln T-minister
- USDA to buy \$30 mln worth of chicken dark meat

### BASE METALS

- Qatalum aluminium plant to restart mid-September
- China steel output up in Aug, but pace eases
- China's Jinchuan targets nickel, copper M&A -report
- Argentine Aluar continues aluminum plant expansion

## BEYOND THE HEADLINES

- Blast rips through Mexico oil refinery, kills one
- India minister sees 24 mln T sugar output
- Rain damage to delay Guatemala coffee harvest
- Ukraine grain delays persist, Russia ban to late 2011
- Europe Q3 stainless demand down -Outokumpu
- Copper demand to pick up in H2, drive prices
- Egypt's wheat bill up, but bread riots unlikely
- Talvivaara CEO sees stable nickel price in H2
- Nod for Australia's Labor likely boost for CO2 laws

## FACTBOX

- Mexico's refining capacity and fuel demand
- Energy disasters in the Americas 2010

## TODAY'S MARKETS (Click below to read the full report if you are a 3000 Xtra or RTC user)

**OIL:** Oil fell for a third straight session, with the U.S. benchmark depressed by brimming petroleum stockpiles, as Asian equities declined on investor attempts to reduce risk exposure. "As soon as there is some fear of risk of a double-dip, people pull out of commodities and equities," said Tony Nunan, a risk manager with Tokyo-based Mitsubishi Corp.

**BASE METALS:** Copper prices pared early losses in London and Shanghai futures turned positive on strong Japanese machinery data and hopes of firm import figures that overcame jitters about Europe's banking sector. "The worries about Europe never really went away, people just looked harder at the United States. The weak Gernam number and the absence of U.S. numbers meant the focus moved back to Europe," Ben Westmore, economist at National Australia Bank said.

**PRECIOUS METALS:** Gold gained, within sight of a 2-month high hit the previous day, as global stocks tumbled and the euro slipped on renewed fears about the health of the global economy. "stress tests" published more than a month ago underestimated some lenders' holdings of potentially risky government debt.

**GRAIN:** U.S. soybean futures fell 0.3 percent after China's strong soyoil purchases drove them to an eight-month high, with corn and wheat also losing ground, as a strong dollar weighed on commodity markets. "It is probably a little bit of strength in the U.S. dollar which is putting pressure on grains and other commodities," said Brett Cooper, a senior manager of markets at FCStone Australia.

**GLOBAL MARKET NEWS:** Asian stocks fell, with Japan's big exporters among the heaviest losers as a rise in the yen to a new 15-year high threatens to erode their overseas earnings. "It's the same old ugly contest -- which currency is the least unattractive," said a dealer at a local bank in Sydney.

## EVENTS TO WATCH TODAY (GMT)

- JAPAN BANK LENDING YY AUG. (2350)
- JAPAN PAJ WEEKLY OIL INVENTORY DATA SEP. 4 (0300)
- GERMANY INDUSTRIAL OUTPUT MM JUL. (1000)
- U.S. MORTGAGE INDEX WEEKLY (1100)
- U.S. ICSC CHAIN STORES YY WEEKLY (1145)
- CANADA BOC RATE DECISION (1300)
- U.S. EIA SHORT-TERM ENERGY OUTLOOK SEP. (1600)
- U.S. API WEEKLY CRUDE STOCKS SEP. 4 (2030)

## US OIL STOCK FORECAST FOR SEPTEMBER 03

REUTERS FORECAST		ACTUAL (WEEK ENDED AUG 27)	
CRUDE	↓ 0.6 MLN		361.7 MLN
DISTILLATE	↑ 0.7 MLN		175.2 MLN
GASOLINE	↓ 0.9 MLN		225.4 MLN
UTILIZATION	↓ 0.4 PT		87.0 PCT

[CLICK HERE TO SEE UPCOMING EVENTS AND CONFERENCES](#)

**Qatalum aluminium plant to restart mid-September**

OSLO, Sept 8 (Reuters) - Qatar's Qatalum aluminium smelter will resume production in a few days and now aims to hit full capacity by the end of the first quarter of 2011, co-owner Norsk Hydro said on Wednesday.

The 50/50 joint venture between Qatar Petroleum and Hydro had originally planned to reach full production by the end of 2010, but an August power failure delayed those plans.

Qatalum has a design capacity of 585,000 tonnes from a total of 704 production cells. 444 of the cells had been started by the time the plant lost power on Aug. 10, forcing a restart.

The 260 cells that had not yet been in production would continue their rampup as planned, Hydro said at the time.

**Indonesia may import 400,000 T white sugar for 2011**

JAKARTA, Sept 8 (Reuters) - Indonesia could import up to 400,000 tonnes of white sugar for 2011 to make up for reduced production after prolonged heavy rain, with the government expected to



decide volumes later on Wednesday, officials and traders said.

Expected imports from Southeast Asia's biggest sugar consumer may help prop up prices in a world market where supplies are only seen balancing higher demand.

"We will import, but we haven't decided the amount and time," Coordinating Economics Minister Hatta Rajasa said on Wednesday.

"There's a shortage of about 400,000 tonnes because output is estimated to fall to 2.3 million tonnes because of the rainy season."

**China steel output up in Aug, but pace eases**

SHANGHAI, Sept 8 (Reuters) - Chinese steel production remained high in August, but could slow in September after several provinces ordered steel mills to limit production.

China produced 1.7 million tonnes per day of crude steel in August, data from the China Iron & Steel Association showed, higher than an average 1.66 million tonnes per day in July.

Steel mills ramped up production after steel prices rebounded from the middle of July, in an anticipation of rising demand in September and October.

However, CISA data also suggested crude steel production slowed in the last 11 days of August after output in several provinces was affected by reduced electricity supply.

**Sinopec oil platform in Bohai Bay tilts over**

BEIJING, Sept 8 (Reuters) - An oil platform in the shallow waters of Bohai Bay off eastern China's Shandong province lurched dangerously on Tuesday night, dumping four people into the water and trapping 32 others on the facility, the Ministry of Transport said.

Oil valves on the No.3 platform had been shut down and the platform remained stable, the ministry said, citing reports by operator China Petroleum & Chemical Corp's (Sinopec) Shengli Oilfield.

As of Wednesday morning, two people were still missing while the rest had been rescued and relocated, the ministry said in releases on its website ([www.moc.gov.cn](http://www.moc.gov.cn)).

**China's Jinchuan targets nickel, copper M&A -report**

BEIJING, Sept 8 (Reuters) - China's top nickel producer, Jinchuan Group Ltd, wants to buy overseas nickel and copper assets to boost its production of the two metals by about half, Jinchuan president Wang Haizhou was quoted as saying on Wednesday.

The company is in talks for a nickel project in Vietnam and a copper project in Kyrgyzstan, Wang told the China Daily newspaper in an interview.

It is also looking for nickel resources in Indonesia, the Philippines, South Africa, Canada, Cuba and Australia, and investing in copper projects in Chile, Peru, Kazakhstan, Congo and the Philippines.

Jinchuan wants to boost nickel output from 130,000 tonnes last year to 200,000 tonnes by 2015, and lift copper output by 45 percent to 600,000 tonnes in two years, he said.

**Australia LNG 2009-10 output at record high -report**

SYDNEY, Sept 8 (Reuters) - Australia's liquefied natural gas production hit a record high for the 2009-10 financial year, boosted by rising demand in north Asia, according to an industry report released on Wednesday.

LNG production grew by 7.5 percent last year to 18.7 million tonnes per annum (Mtpa), up from 17.4 Mtpa, Australia-based energy advisory firm EnergyQuest said.

"The growth in LNG production was driven by growing demand for Australian LNG in Japan, China and Taiwan," EnergyQuest Chief Executive Officer, Graeme Bethune, said in a statement.

Japan, Australia's biggest LNG customer, imported two-thirds of Australia's LNG exports in 2009-10, while China imported 20 percent.

Exports could ramp up even further in the next year when Woodside Petroleum's 4.3-Mtpa Pluto project in Western Australia is due to come online, the report said.

**Report: BP probe to spread blame for spill**

HOUSTON, Sept 7 (Reuters) - BP Plc's internal probe of the deadly April 20 blowout that unleashed the massive Gulf of Mexico oil spill will assign blame to BP as well as other companies involved in the well's operations, The Wall Street Journal reported on Tuesday.

The BP probe, which will be released on Wednesday, is one of many launched after the blowout led to an explosion aboard the Deepwater Horizon drilling rig that killed 11 men and caused the worst offshore oil spill in history.

The Journal said the report would explain why engineers missed key signs the well was unstable, such as worrisome pressure tests.

### Boone Pickens sees oil at \$85/barrel by end of year

LAS VEGAS, Sept 7 (Reuters) - Oilman and natural gas proponent T. Boone Pickens sees the price of oil rising to \$85 per barrel by the end of the year.

In late December of last year, OPEC Secretary-General Abdullah al-Badri said \$75-\$85 a barrel was a "comfortable" level for oil prices.

Referring to previous OPEC forecasts, Boone Pickens said; "They've already told you what the deal was. They told you they had a finite resource and they had to protect generations into the future."

"They don't care about selling any more oil than they are selling, and they'll tell you pretty well what the price is going to be. They told you, first of this year, they wanted the price (at) \$85. They'll have it by the end of the year," he said in an interview on the sidelines of an alternative energy conference in Las Vegas.

### Colombia coffee output up 55 pct in Aug-growers

BOGOTA, Sept 7 (Reuters) - Colombia's coffee production rose 55 percent in August to 615,000 60-kg bags versus 397,000 sacks produced in the same month last year, the country's growers' association said on Tuesday.



Coffee exports from the Andean country rose 26 percent in August to 596,000 60-kg sacks from 474,000 bags in August 2009, a statement issued by the association said.

Coffee production in the first eight months of the year rose to 5.4 million 60-kg bags, four percent higher from the same period a year earlier.

The improved output is a positive sign for this Andean country, the world's top producer of high-quality washed arabica beans, which aims to produce 10 million bags this year after seeing output drop to 7.8 million bags in 2009 due to unfavorable weather and a tree renovation program.

### Tunisia's grain harvest is 1.08 mln T-minister

TUNIS, Sept 7 (Reuters) - Tunisia's grain harvest this year is 1.08 million tonnes, the agriculture minister said on Tuesday, a crop much smaller than last year's which could force the country to import more wheat at soaring world prices.

"The harvest this year is less than half of what it was last year. It has gone from 24.5 million quintals (2.45 million tonnes) to 10.8 million quintals this year," minister Abdesalem Mansour said in televised remarks.

Tunisian officials had previously forecast a grain crop of 1.1 million tonnes. They blamed poor weather conditions for the smaller harvest this year.

### Argentine Aluar continues aluminum plant expansion

BUENOS AIRES, Sept 7 (Reuters) - Argentina's biggest aluminum producer Aluar said on Tuesday it expects to bring on stream another 48 new electrolytic cells at its main plant early next year.

The primary aluminium plant, located in the southern city of Puerto Madryn, has already installed 24 electrolytic cells, which will boost capacity by 15,000 tonnes per year (tpy) when they become fully operational.

The cells are the second phase of a \$1.5 billion expansion, which aims to increase annual production to 465,000 tonnes from last year's 412,000 tonnes.

"We estimate that during the first quarter of 2011, we will finish installing the 48 additional electrolytic cells that will allow our plant's capacity to increase by 30,000 tpy," Aluar said in a note to the Buenos Aires Stock Exchange.

The company exports about 80 percent of what it produces, supplying primary aluminium, semi-elaborated and finished products to carmakers, construction companies and other industries.

### Venezuela says August oil exports fall 8.7 pct yr/yr

CARACAS, Sept 7 (Reuters) - Venezuelan oil exports fell 8.7 percent in August to an average of 2.34 million barrels per day as a drop in sales of crude and products offset rising output from the Orinoco belt, the energy ministry said on Tuesday.

South America's top crude producer has had slowly declining foreign sales and output since early 2009, when it applied a 360,000 bpd cut in line with an OPEC decision.

The data, certified by an independent auditor, showed crude sales of 1.53 million bpd and oil product exports of 361,863 bpd last month, compared with 1.72 million bpd and 461,156 bpd in August 2009.

### USDA to buy \$30 mln worth of chicken dark meat

CHICAGO, Sept 7 (Reuters) - The U.S. Agriculture Department said on Tuesday it will buy up to \$30 million worth of chicken dark meat for federal food programs to help the U.S. chicken industry, which has been hurt by Russia banning the meat.

Chicken industry officials said the purchases should be mostly chicken leg quarters and would be bought through the end of the year.

"The National Chicken Council has reason to believe that it would be primarily chicken leg quarters, because that is where the greatest need is," said Bill Roenigk, NCC vice president.

Russia was an important buyer of U.S. leg quarters but banned them beginning in January because a chlorine rinse used here violated its food safety policy.

Russia has since lifted the ban on many U.S. chicken plants after they switched to other rinses.

MONTH AHEAD EVENTS CALENDAR

Date	Events/Indicator (Times in GMT)
<b>Energy</b>	
Thursday	3rd International Conference on Passive and Low Energy Cooling for the Built Environment (PALENC 2010)(to Oct. 1), Rhodes Island, Greece
Sep-12	World Energy Congress (to Sept. 16), Montreal, Canada
Sep-13	World Nuclear Association 35th Annual Symposium (to Sept. 17), London
Sep-13	Electric Market Forecasting Conference (to Sept. 17), Stevenson, WA
<b>Metals</b>	
Sep-20	Metal Bulletin's 25th International Aluminium Conference (to Sept 22)., MANAMA
Sep-22	CRU's Asian Steel Packaging Conference (to Sept 24). KUALA LUMPUR
Sep-22	CRU's and ITRI's Asian Steel Packaging Conference (to Sept. 24). KUALA LUMPUR
Sep-27	Metal Bulletin's Chromite 2010 (to Sept 28), JOHANNESBURG, SOUTH AFRICA
Sep-28	Metal Bulletin's 15th Galvanizing and Coil Coating Conference (to Sept 29). ISTANBUL, TURKEY
Sep-29	Metal Bulletin's South African Ferro-alloys Conference (to Sept 30). JOHANNESBURG, SOUTH AFRICA
Sep-30	Steel Business Bulletin: SBB World Steel Raw Materials Conference 2010 (to Oct. 01). LONDON

## Blast rips through Mexico oil refinery, kills one

By Gabriela Lopez

CADEREYTA, Mexico, Sept 7 (Reuters) - An explosion ripped through a major Mexican refinery on Tuesday, killing one worker and pushing gasoline and diesel prices higher on worries state oil monopoly Pemex will have to import more fuel.

Pemex, the world's No. 7 crude producer and a large fuel importer, said a 32-year-old engineer was killed and two workers suffered serious burns on more than 75 percent of their bodies when a compressor failure at the Cadereyta refinery's gas oil hydrotreater triggered an explosion and a fire.

Another eight workers suffered lesser injuries and were being treated in a hospital.

The blast forced Pemex to shut the hydrotreater and the coker at Cadereyta, Mexico's most sophisticated refinery and its third largest, with a capacity of 275,000 barrels per day.

"We felt the windows shake. It was only a few seconds, but the whole building shook," said Jose Luis Garza, a government employee in Juarez, about 10 miles (15 km) from the refinery in northern Mexico.

Pemex did not say how long the two units, which support gasoline and diesel production, would be out of service, but in the meantime it said crude oil processing has been reduced by 15,000 bpd to 200,000 bpd.

The cause of the accident is under investigation.

U.S. oil product futures jumped after the 9:20 a.m. (1420 GMT) explosion, before paring gains in late trading.

The explosion comes in a year marred by serious accidents in the North American oil industry, including the Deepwater Horizon spill, a major pipeline accident in Michigan and an explosion at a Gulf of Mexico natural gas platform.

Hydrotreaters, which remove sulfur from fuels under high pressure in the presence of explosive hydrogen gas, are a critical component of modern refineries. Cokers transform low-value heavy fuel oil into motor fuels.

The two units were operating at the time of the accident.

### FUEL IMPORTS

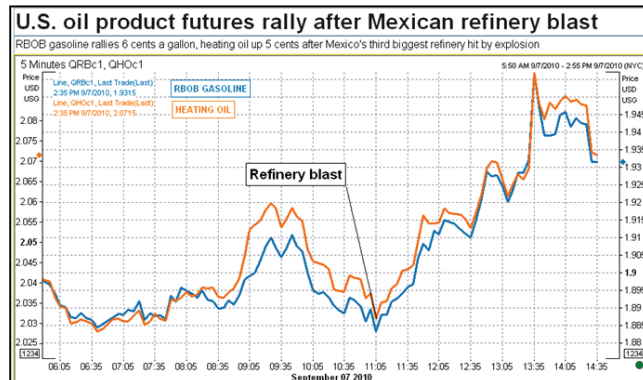
The blast could force Mexico, which already relies on imports for more than 40 percent of domestic gasoline demand, to significantly boost fuel imports.

Pemex, which imports fuel due to a lack of refining capacity, bought 432,000 bpd of fuel from the United States in June, making it the top importer of U.S. refined products, according to the U.S. government.

"Mexico is already short of refining capacity and this will make it even shorter," said Antoine Half, deputy head of research at Newedge Group in New York. "It could well raise oil product prices as Mexico needs to increase imports."

A Gulf Coast products trader said it was "hard to gauge" whether Pemex would pull more U.S. exports in the aftermath of the explosion. "Pemex already moves a lot of cargoes off the Gulf Coast," the trader said.

Oil exports account for about a third of government revenues in Mexico, which is struggling with its deepest recession since 1932.



A Reuters poll forecast likely sugar exports from India at 1.5 million tonnes from Oct. 1.

## Rain damage to delay Guatemala coffee harvest

By Sarah Grainger

GUATEMALA CITY, Sept 7 (Reuters) - Slow repairs to roads and bridges knocked out by this weekend's heavy rains in Guatemala will complicate the start of the next coffee harvest set to begin soon, the national coffee organization said on Tuesday.

Ricardo Villanueva, who heads the organization known as Anacafe, said landslides from the deluge that killed some 45 people across the country also blocked transport routes making it impossible for coffee exports to reach ports.

"The government doesn't have the capacity to repair the network, which has been destroyed in all areas of the west, where most of the coffee is produced," Villanueva told Reuters in an interview.

"This is really serious because it's not just about the shipments of coffee, but also the movement of fuel, movement of workers and products," he said. "It's a disaster."

The country's 2009/10 coffee harvest is coming to a close this month, but there are still around 150,000 60-kg bags of coffee left to be exported. Those shipments could be delayed weeks, he said.

Production in the upcoming 2010/11 season is expected to reach between 3.6 million and 3.76 million 60-kg bags, up from 3.375 million in 2009/10 but more rains may cause excessive humidity and fungus that could damage crops.

"Starting at the end of September the new harvest begins and we're going to have problems transporting the coffee to the processing plants and then later from the plants to the ports," Villanueva said.

Neighboring Honduras -- which sees 2010/11 coffee output at 3.38 million bags -- was also hit by the recent storms. Honduras suffered infrastructure damage on highways and roads leading to coffee farms like in Guatemala, Marcial Flores, the manager of Honduras' national coffee institute said. The sector has asked for government support to ensure repairs are finished before the harvest begins.

The two countries are Central America's top coffee producers.

## Ukraine grain delays persist, Russia ban to late 2011

By Pavel Polityuk and Denis Dyomkin

KIEV/MOSCOW, Sept 7 (Reuters) - Major exporter Ukraine is holding ships carrying a month's grain supply in its ports, traders said on Tuesday, while Russia said it had enough grain to feed itself but would maintain an export ban until late 2011.

The Russian statement could bring some clarity and reassurance to a market frustrated by conflicting statements from a country that before this summer's record heatwave and resulting drought was the world's third largest wheat exporter.

Ukraine's Customs Service, reacting to lower harvests after severe weather and increased demand in the absence of Russian sales, has blocked in ports 24 vessels bound for

export carrying 379,647 tonnes of grain, mostly wheat, traders' union UZA said in a statement on Tuesday.

"According to the latest data, about 20 ships are staying in ports without official explanations. Some of the ships have been in port for more than one and half months," UZA said.

But traders said the real volume of grain held back at ports could be much higher.

"The data provided by UZA is just a tip of the iceberg and this is just 25 percent of the real volume. UZA counts ships of large exporters only, while there are also many ships of small traders in ports," a large Ukrainian trader told Reuters.

The Ukrainian government last month proposed limiting exports of the two key commodities wheat and barley to 2.5 million tonnes between September and December but has put off a final decision until October.

### RUSSIA OFFERS SOME CLARITY

Russia on Tuesday sought to remove uncertainty over the fate of its grain export plan, with the Kremlin clarifying that the embargo -- introduced on Aug. 15 and originally slated to end on Dec. 31, 2010 -- would remain in place until after next year's harvest has been collected.

The statement followed Russian President Dmitry Medvedev's comments on Monday that the export ban might be lifted earlier than the end of this year, which appeared to contradict Prime Minister Vladimir Putin, who has said it may be extended to late 2011.

"When speaking about the possible cancellation of the ban on the export of grain, the president meant next year's harvest," the Kremlin spokesman told reporters.

The clarification should be welcomed by traders, who had been frustrated by a string of conflicting statements from Russia and the resulting see-saw moves in grain prices.

However the size of Russia's grain stocks -- and whether it would need to import wheat this year -- remained unclear.

Agriculture Minister Yelena Skrynnik said Russia had enough grain to feed itself, revising up the carry over grain stocks estimate to 26 million tonnes from 21.7 million. This appeared to contradict Medvedev's comments on Monday that the country would need to look for grain -- which are also in line with analysts' expectations.

The Kremlin and top economic officials have been at pains to reassure the public, already feeling the inflationary effects of the drought and worried about shortages.

"There will be enough grain for food and for the feeding of animals," Interfax news agency quoted Skrynnik as saying.

Russia plans to harvest 60-65 million tonnes of grain in 2010 compared to 97 million in 2009, and, according to official estimates needs around 77 million tonnes to meet domestic needs.

### NO REPEAT OF FOOD RIOTS?

Ukrainian agriculture officials have said that turmoil on the local grain market is a result of Russia's decision to ban exports after its record drought slashed grain crops.

They said foreign traders could accelerate grain exports from Ukraine in a bid to cover an absence of Russian produce on the world's market and this could leave Ukraine without enough wheat to cover local needs.

*(Continued on page 7)*

Uncertainty about Russia's grain output and the duration of its export ban had sent prices soaring on international grain markets, with key wheat prices hitting two-year highs early in August, although well below 2008 levels when concerns over food shortages sparked riots in a number of countries. Analysts said Egypt, a major buyer of Russian wheat forced to look elsewhere for grain, was unlikely to face 2008-style disorder over food supplies.

"I do not see the situation escalating to public unrest and riots similar to what happened in 2008, because international wheat prices are not rising to 2008 levels," said Magdy Sobhy at the Al Ahram Centre for Political and Strategic Studies.

The UN's Food and Agriculture Organisation Assistant-Director General Hafez Ghanem reiterated FAO comments last week that the world was not headed for a repeat of the 2007/2008 food crisis and said the international community should act together to tackle future volatility.

"Given the importance of food markets in fighting hunger and ensuring economic stability FAO feels that the international community, perhaps under the leadership of the G20, should start looking at ways of dealing with higher volatility," he said.

The FAO has called an emergency meeting for Sept. 24 in Rome for governments to confront weaknesses in the global food system and find ways to boost reserves.

### Europe Q3 stainless demand down -Outokumpu By Svetlana Kovalyova

ROME, Sept 7 (Reuters) - Stainless steel demand in Europe is expected to fall 10-20 percent in the third quarter from the previous quarter and pick up later this year, the head of Finland's steel maker Outokumpu said on Tuesday.

The third-quarter demand for the metal used mainly to make cutlery, kitchen and medical equipment was hit by customers' destocking and the summer holiday lull, Outokumpu CEO and President Juha Rantanen told Reuters in an interview.

"That's more or less how we see the European market -- down 10-20 percent compared to the second quarter," Rantanen said on the sidelines of Metal Bulletin's international conference on stainless steel. "We expect the volumes to pick up later this year... We expect to see some recovery in demand," he added.

Rantanen confirmed the company's guidance for an underlying operating loss, excluding inventories and one-off items, in the third quarter, but declined to give forecasts for the final quarter of this year.

Outokumpu, a leading European stainless steel maker, swung to an underlying operating profit in the second quarter after a year-ago loss but missed forecasts and warned of a third-quarter loss due to continuing sluggish demand.

The company has said a decline in the nickel price from year-high levels had led to some destocking by distributors.

Rantanen said Outokumpu might be interested in buying or building a mill outside Europe as part of its push to expand operations abroad and has been looking at locations including India, the Middle East and South America, but had made no decision yet.

### KEMI MINE EXPANSION

Rantanen said Outokumpu's Kemi mine in Finland, the only chromium mine in the European Union, was expected to finish doubling of its capacity in 2015.

"It will be operating in the second half of 2013 and fully up and running in 2015," he said.

Outokumpu had put on hold Kemi expansion plans in 2008 when the global economic crisis hit metals demand. The mine's current annual capacity is 1.3 million tonnes of the ore used in stainless steel to prevent corrosion and it is expected to be increased to about 2.7 million tonnes. Rantanen said the company does not plan to raise its 25 percent stake in Finland's nickel maker Talvivaara.

### Copper demand to pick up in H2, drive prices By Maytaal Angel

LONDON, Sept 7 (Reuters) - Europe's demand for copper will rise by some 3 percent in the second half versus the first, driven by improved end-use consumption, rather than restocking, Swedish copper fabricator Elektrokoppar said on Tuesday.

The privately owned firm, Europe's fifth largest copper wire rod producer, said global demand for refined copper will largely mirror the uptick in Europe and that copper prices will, as a result, evidence an upward bias.

"We'll see a rise of 3 percent in demand for copper in Europe. Global demand will increase as well by a couple percentage points," Astor Brorsson, Elektrokoppar's head of marketing, sales and metal procurement told Reuters.

"We see a good market on winding wire (and) we don't think there's much restocking, we saw that in spring now it is real demand out there. (Our) order books look reasonably good for September."

Real demand or end use consumption is seen as a sustainable price driver, in contrast to restocking, which tends to drive demand and prices for a finite time period.

Brorsson said while copper demand no longer impacted prices the way it used to, he still expects investors to jump on the bandwagon if the demand trend holds, especially given latest indications that the U.S. economy is stabilising.

"If we see an increase in demand and stocks continue to go down, investors will put money into copper. I don't expect prices to go below \$7,000 for the rest of the year, (the risk) is rather to the upside," he said.

Benchmark copper on the London Metal Exchange traded at around \$7,500 a tonne on Tuesday. The price is only 16 percent below an all time high of \$8,940 struck in July 2008 - making it a costly feed for fabricators such as Elektrokoppar.

Brorsson, whose company buys most of its copper through term contracts, said supplies are not tight as such in Europe, and that he expects overall, the global copper market will be balanced this year and next.

All the same, a balanced market could still drive prices given that supply growth prospects look dim in the longer term, and given long-standing expectations that weak demand would leave the global market in surplus this year.

*(Continued on page 8)*

On China, the world's top copper consumer, Brorsson said he expected an uptick in copper imports from the Asian giant in the second half even if the country missed double-digit economic growth figures.

This in turn will help keep copper prices elevated, as will a stabilisation in the U.S. economy, which is set to benefit from U.S. president Barack Obama's pledge to spend \$50 billion on road, rail and runway infrastructure.

Global copper demand is expected to total 18.6 million tonnes this year, according to Societe Generale, with China accounting for 6.9 million tonnes, the U.S. 1.5 million tonnes and western Europe 2.9 million tonnes.

## Egypt's wheat bill up, but bread riots unlikely

By Sherine El Madany and Edmund Blair

CAIRO, Sept 7 (Reuters) - Egypt, the world's biggest wheat importer, faces a higher bill for bread subsidies in the next year but has adequate financial resources and stocks to avoid any rerun of the violent protests of 2008.

Egypt raced to redo orders after drought-hit Russia halted grain exports in August, which sent wheat prices surging. Cairo had booked 540,000 tonnes of Russian wheat from July until then.

The speed at which it has refilled its wheat order book reflects a determination to avoid any shortages of subsidised bread on which many poor people in the country of 78 million depend. The government has repeatedly said supplies are secure.

Shortfalls two years ago, coupled with rising prices of other commodities, led to clashes between protesters and police.

In Egypt, securing basic staples is politically sensitive at any time, but analysts say the government is particularly wary now because it wants to head off any kind of unrest before parliamentary and presidential elections this year and next.

"I do not see the situation escalating to public unrest and riots similar to what happened in 2008, because international wheat prices are not rising to 2008 levels," said Magdy Sobhy at the Al Ahram Centre for Political and Strategic Studies.

Wheat prices surged in 2008 after several years in which global consumption of wheat had outstripped production.

But a Western industry expert based in Cairo said the latest price rise followed a couple of record global harvests, with supplies outpacing demand, so prices are unlikely to rise as high as that.

"Prices went a lot higher a couple of years ago, and I don't expect them to continue to climb so much this season or this marketing year because of the (global) stocks that have built up over the last two years," he said.

His comments echo those of a U.N. Food and Agriculture Organisation economist, who said the Russian export ban did not mean a repeat of the 2007/2008 food crisis.

### 'ENOUGH MONEY'

Egypt has paid about \$280-\$290 a tonne for wheat from France, Canada and the United States in August and September, while in June it paid around \$165 a tonne for some Russian wheat. In early 2008, Egypt paid \$450-\$480 a tonne for some shipments.

As prices rise, the government is taking no chances and has bought stocks to last to January, a comfortable cushion.

Egypt consumes some 14 million tonnes of wheat a year, about half of that imported and most of it by state buyer the General Authority for Supply and Commodities (GASC), which bought some 5.5 million tonnes via international tenders in fiscal 2009/10.

The government will have a bigger bill than planned this financial year to pay for the small, flat subsidised loaves, so-called 'baladi' bread, which weigh roughly 100-125 grammes and each cost 5 piastres (less than 1 U.S. cent).

Cairo has said it expects to spend an extra 2.5 billion to 4 billion pounds in 2010/11 to make up the shortfall after the Russian ban. But experts say Egypt can easily cover this.

"We forecast around 3 billion pounds, which constitutes around 0.2 percent of GDP," said Mohamed Abu Basha, an economist at EFG-Hermes investment bank. "It is not a significant increase, and we have enough money to pay the difference."

Egypt's economy has defied the global slowdown, continuing to grow even during the credit crunch at near 5 percent. It has also built up the central bank's foreign reserves to record levels, now in excess of \$35 billion.

"They seem to have the hard currency. It is has not been an issue for them. Definitely wheat is going to be something that is a top priority for the government and they are going to make sure they have the budget," said the Western expert.

He also said 'baladi' bread can be made with a range of wheat varieties, giving GASC a wide choice for sourcing. GASC recently added Argentina to its list of usual suppliers -- the United States, France, Germany, Canada and Australia. But some Cairo traders said Egypt, which bought only from Russia in July, was too slow to spot the impact of a drought.

"There were signs ahead of time that Russia was facing some problems in wheat supply, and Egypt should have taken pre-emptive action by diversifying its sources," said one. There has been some grumbling and the occasional modest protest of a few dozen people about price rises in recent weeks.

But analysts say the latest price rises are mainly fuelled by seasonal factors due to Ramadan, a month when Muslim families and friends often gather for big meals to break each day's fast. Inflation has still held fairly steady at just over 10 percent.

No one expects President Hosni Mubarak's National Democratic Party to face a significant challenge in either November's parliamentary poll or the 2011 presidential vote, but the government wants to avoid giving opponents any ammunition.

"We will not see bread queues or riots because the government is well prepared ahead of elections season to avoid any negative impact on the NDP in the elections," said Sobhy.

*(Continued on page 9)*



## Talvivaara CEO sees stable nickel price in H2

By Terhi Kinnunen

HELSINKI, Sept 7 (Reuters) - Talvivaara Mining expects nickel prices to be flat in the second half of 2010 versus levels touched earlier in the year, its chief executive said on Tuesday. "The economy is struggling and nickel demand is not growing much, so I am not expecting big changes," Talvivaara CEO Pekka Pera told Reuters in an interview.

"In the short term I am not expecting big changes in nickel's euro price. But if the dollar weakens against euro nickel's dollar denominated price will rise," he added.

The price of nickel, a key ingredient of stainless steel, reached this year high of \$27,290 per tonne in April, but has since slipped to around \$22,000 a tonne.

Talvivaara has been increasing production at its mine in Sotkamo in eastern Finland, and is currently ramping up the second production line at its metals plant.

Pera repeated the firm's estimated total nickel production this year would be around 15,000 tonnes, and added zinc output would be between 35,000 and 40,000 tonnes.

Talvivaara aims to reach annual production of 50,000 tonnes of nickel in 2012, but doubling that to 100,000 tonnes would require new investment and new environmental permits. "Five years is the fastest possible time frame for that. At the earliest in 2017 (new production capacity) could be in use." Currently Finnish authorities are processing Talvivaara's application for a permit to extract uranium as a by-product from its mine.

Pera said he hoped a new uranium recovery line could be in use next year.

## Nod for Australia's Labor likely boost for CO2 laws

By David Fogarty, Climate Change Correspondent, Asia

SINGAPORE, Sept 7 (Reuters) - Australia is now much more likely to introduce a price on planet-warming carbon pollution after support by independents and Greens returned the Labor Party to office on Tuesday.

Independents Rob Oakeshott and Tony Windsor backed Labor on Tuesday, with climate change among their top issues, ending a 17-day wait after an inconclusive Aug. 21 election left neither major party with a majority in the lower house of parliament.

Analysts and industry say a weakened Labor, which held a majority previously and had tried to pass carbon trading laws, will be under pressure from the Greens to revive carbon trading legislation that sectors such as power generators are demanding.

"At the core of Australia's policy framework must be a price on carbon," Carl McCamish, executive general manager of sustainability for major power generator and retailer Origin Energy.

Voters punished Labor in part because of the government's decision in April to shelve emissions trading laws, a step that angered a large number of Australians who wanted stronger action on climate change and industries demanding policy certainty.

"Ongoing uncertainty risks delaying both the investment necessary to meet Australia's long-term baseload electricity needs and the investment in lower-carbon technology

required to gradually reduce Australia's emissions," McCamish said in emailed comments to Reuters.

Australia is among the developed world's most polluting nations on a per-capita basis, with coal used to generate more than 80 percent of electricity.

The previous Labor government won support for laws mandating 20 percent renewable energy generation by 2020. But the laws aren't enough to cut the nations' rising carbon emissions.

## CLAMOUR FOR CARBON

Last week 19 Australian energy companies, including generator and retailer AGL, TRUenergy and unlisted Pacific Hydro, wrote an open letter in support of a price on carbon to drive a shift to cleaner gas and new-generation renewables, such as geothermal.

"Investors have been looking for some clear political direction on climate change and it appears we may get it," said Nathan Fabian, chief executive of the Investor Group on Climate Change, which represents institutional investors with total funds under management of about \$600 billion.

"A carbon price is sorely needed just for pure certainty for business so we can get on planning the energy transformation that we need," Lane Crockett, general manager, Australia, Pacific Hydro, a global clean energy investor, told Reuters on Tuesday.

The Greens, whose support is crucial to Prime Minister Julia Gillard's government, have backed an interim price on carbon, a massive boost in renewable energy investment and in the past have called for a tough carbon cut target for 2020.

The Greens will hold the balance of power in the upper house Senate from July next year, further adding pressure on Gillard to bring in some form of carbon pricing, either through an interim tax or to push through reworked emissions trading laws.

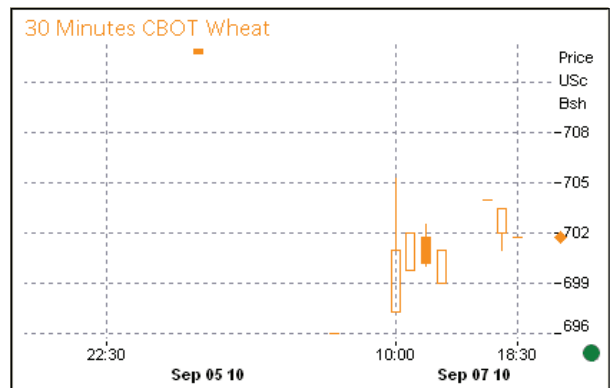
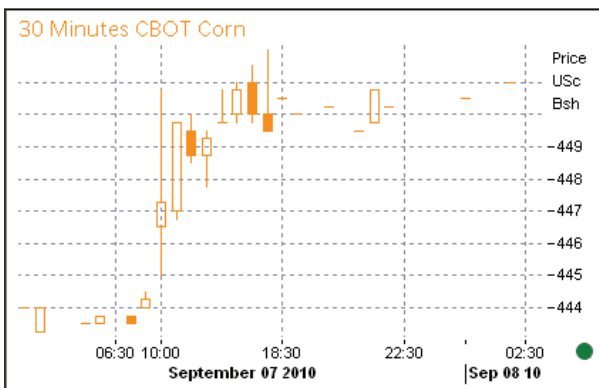
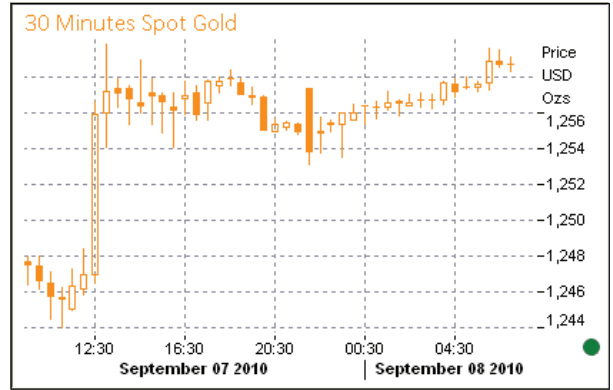
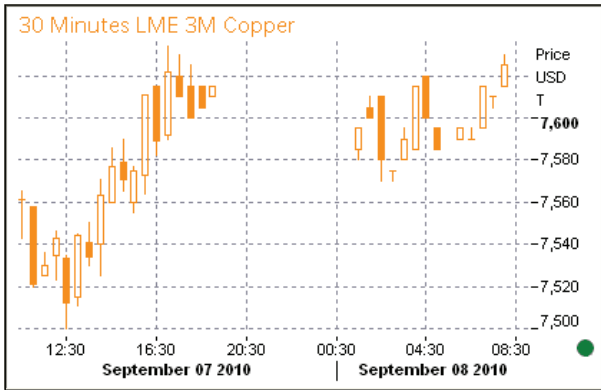
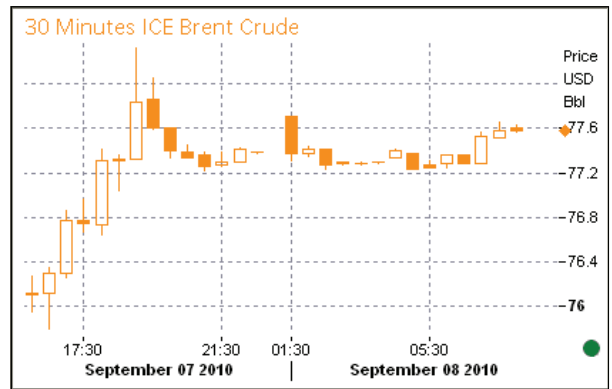
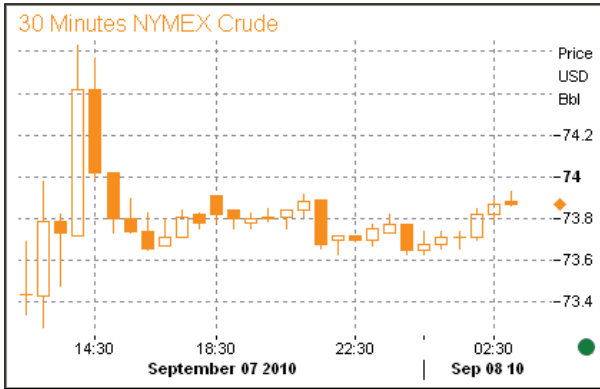
"There's no doubt we'll get a price on carbon," said Martijn Wilder, global head of Baker & McKenzie's climate change practice. "In my view you don't want an interim process, you want to go straight into having an effective means of controlling carbon," he told Reuters.

A revived emissions trading scheme looked likely, some analysts said, but hinged on the Greens, which previously demanded a 40 percent cut in emissions by 2020 compared with Labor's unconditional cut of 5 percent by 2020 from 2000 levels.

"Without a majority in either chamber of parliament, the government is likely to revise the emissions trading scheme it proposed under Prime Minister Rudd in order to win legislative support," said Tim Jordan, a Deutsche Bank analyst for environmental, social and governance, in Sydney.

Reaction from the power trading market was muted on Tuesday, an analyst said, with the feeling it would be some time before the government could move on a carbon price.

"It's very difficult for (power) pricing to go beyond 2012," the analyst said.



### Your subscription:

If you have not already registered and would like to receive future copies of this news brief or would like to subscribe to other commodities news briefs from Thomson Reuters please click [here](#)

Thomson Reuters commodities news briefs:

- Inside Oil
- Inside Agriculture
- Metals Insider
- Coal Weekly
- Biofuels & Renewables Weekly
- Carbon Market Weekly
- Freight Monthly
- India Agriculture Monthly
- Oil Swaps Forward Curve Monthly

To unsubscribe to this news brief click [here](#)

If you have any subscription queries please email: [vijay.vora@thomsonreuters.com](mailto:vijay.vora@thomsonreuters.com)

### For more information:

Learn more about our products and services for commodities professionals, click [here](#)

Send us a sales enquiry, click [here](#)

Contact your local Thomson Reuters office, click [here](#)

### Editorial:

**Richard Mably** (Global Editor, Commodities & Energy)  
+44-207-542-6280, [richard.mably@thomsonreuters.com](mailto:richard.mably@thomsonreuters.com)

**Camila Reed** (Editor, Commodities and Energy, EMEA)  
+44-20-7542-8065, [Camila.Reed@thomsonreuters.com](mailto:Camila.Reed@thomsonreuters.com)

**Jonathan Leff** (Editor, Commodities & Energy, Americas)  
+1-646-223-6068, [jonathan.leff@thomsonreuters.com](mailto:jonathan.leff@thomsonreuters.com)

**Sambit Mohanty** (Editor in Charge, Commodities & Energy, Asia), [sambit.mahanty@thomsonreuters.com](mailto:sambit.mahanty@thomsonreuters.com)  
+65-6870-3084

### Privacy statement:

To find out more about how we may collect, use and share your personal information please read our privacy statement [here](#)