

HD **UPDATE 1-**China steel, iron ore at one-week highs on recovery bets

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* Optimism on Chinese economy spurs demand hopes

* Steel traders' inventory at lowest since late 2012 (Adds globalORE deal, updates prices)

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By Manolo Serapio Jr

SINGAPORE, July 29 (Reuters) - Chinese steel and iron ore futures rose to their highest in more than a week on Tuesday on hopes that a brightening economic outlook would spur demand for the two commodities, although property sector risks kept advances in check.

Stocks in Hong Kong edged up to more than 3-1/2-year highs and those in the mainland held to Monday's sharp gains. The rally was fuelled by optimism that the world's second-largest economy has turned a corner and that more growth-friendly policies are ahead.

The most-traded iron ore contract for January 2015 delivery on the Dalian Commodity Exchange hit a session high of 690 yuan (\$110) a tonne, its loftiest since July 18. It closed up 1 percent at 684 yuan.

Rebar for January 2015 rose 1.3 percent to end at 3,105 yuan per tonne on the Shanghai Futures Exchange, after peaking at 3,115 yuan, also its highest since July 18.

"The sentiment towards the second half for China has really improved but we still believe that the stimulus we have seen is minuscule and the property market remains tough," said Helen Lau, senior mining analyst at UOB-Kay Hian Securities in Hong Kong.

Optimism over China's economy rose after HSBC's preliminary survey showed manufacturing activity there quickened to an 18-month high in July, suggesting that government measures to stimulate the economy had been effective.

Some analysts say more stimulus may be needed to counter a cooling property market and increasing risks in the financial system, such as deteriorating credit quality.

China will release its official purchasing managers' index for the manufacturing sector on Friday.

Gains in steel prices came as Chinese traders' inventories of steel products fell further to 13 million tonnes on Friday, based on data tracked by industry consultancy Mysteel.

That is the lowest stockpiles of steel held by traders since the last week of 2012, when they stood at 11.88 million tonnes, said Lau.

Inventories could fall further in the second half of 2014, as stockpiles did in 2012. If supported by strong end-user demand, that could sustain a rally in steel prices through early next year as it did in 2012 through early 2013, said Lau.

Another scenario would be that Chinese steel traders would restock from August, but then the price gains would be milder as it would not be backed by end-user demand, which is what happened in 2011, she said.

"I think what we might see is a watered down version of 2012, but we're not as pessimistic that it would be like 2011 again," said Lau.

THREAT TO IRON ORE

A 170,000-tonne cargo of 62-percent grade Australian Pilbara iron ore fines for delivery to China in September was sold on the Singapore-based globalORE platform at \$96.50 a tonne on Tuesday, according to globalORE's website. That was up from the sale of a same-grade cargo at \$95 on Friday.

The threat for iron ore prices remains the excess supply that has kept spot prices below \$100 a tonne since May 19.

A faster-than-expected increase in iron ore production by the world's biggest miners in Australia and Brazil this year is pushing less efficient smaller suppliers from Europe to Australia to the Middle East to cut output or shut altogether.

By 2015, major producers in Brazil and Australia will account for 1.15 billion tonnes or 83 percent of world seaborne ore trade, according to Australian government data, up from 71 percent in 2012.

Exports from Iran - the world's eighth-biggest supplier on the seaborne market - fell by a third in June from a year ago to just 1.2 million tonnes, according to Iranian industry data, a figure largely in line with numbers later released by China's customs.

Iron ore for immediate delivery to China <.IO62-CNI=SI> stood at \$94.30 a tonne on Friday, according to data compiled by Steel Index. There was no pricing reference published on Monday due to a public holiday in Singapore.

Iron ore is down nearly 30 percent this year, having fallen to a 21-month low of \$89 in mid-June.

Rebar and iron ore prices at 0706 GMT

Contract	Last	Change	Pct	Change
SHFE REBAR JAN5	3105	+40.00		+1.31
DALIAN				
IRON ORE DCE DCIO SEP4	695	+6.00	+0.87	
METAL BULLETIN INDEX	94.65	+0.63		+0.67

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