FEATURE

COLUMN-LMEWeek: One elephant, no bazooka, little commitment

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And it was the one that was not on the official agenda.

Andy Home is a Reuters columnist. The opinions expressed are his own

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TODAY’S MARKETS

BASE METALS: London copper edged up but was still facing its biggest weekly loss in a month due to concern over the U.S. fiscal deadlock, although signs of a possible resolution may lend support.

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PRECIOUS METALS: Gold snapped a three-day losing streak, but was still heading for a weekly decline as its safe-haven appeal dimmed and the dollar rebounded on signs the U.S. government was taking steps towards resolving its budget impasse.

"The market has lost some support as the U.S. looks closer to a bipartisan deal," said Victor Thianpiriya, an analyst at ANZ. "ETF selling has resumed, indicating that sentiment is worsening," he added.

FOREX: The dollar edged up in Asian trading, holding just below two-week highs against major currencies hit the previous day and approaching this month’s high against the yen on signs the U.S. budget impasse might be heading towards a resolution.

"We believe the U.S. government will get around the issue of debt ceiling and reach an agreement to avoid any potential non-payment. Rightfully the markets have also been calm thus far," strategists at Citigroup wrote in a report to clients.

GENERAL NEWS

South Africa’s Amplats says miners return to work after strike ends
Chinese lead shortlist for Glencore’s $5.9 bln Peru mine - sources
Kinross to cut 300 jobs in Mauritania gold operations and Spain

MARKET NEWS

COPPER:

- Newmont cuts copper output forecast for 2013
- JX Nippon Mining to begin Caserones copper mining operation in Jan 2014

NICKEL/STEEL:

- Colombia’s Cerro Matoso ferronickel mine partly reopening

TIN/MINORS:

- Tumbling Indonesian tin exports could short-circuit electronics industry
COLUMN-LMEWeek: One elephant, no bazooka, little commitment

By Andy Home

LONDON, Oct 10 (Reuters) - There was only really one topic of conversation at London Metal Exchange (LME) Week this year. And it was the one that was not on the official agenda.

At the opening event, the LME’s Monday morning seminar, the new chief executive Garry Jones echoed the Hong Kong Exchanges (HKEx) message of sunny Chinese uplands.

Outgoing deputy chief executive Diarmuid O’Hegarty chaired a round-table discussion on the impact of new European Union market regulations.

It was only at the closing Q&A session that someone, actually the Financial Times, had the temerity to ask about the elephant in the room.

What precisely does the LME intend to do with its malfunctioning warehousing system?

THE ELEPHANT IN THE ROOM

Away from the official podium, it was the question that was asked at every cocktail party, every lunch and every coffee meet.

Consumers are still profoundly unhappy with the LME’s latest proposal to cap load-out queues at 100 days. “A first but insufficient step for solving the systemic flaws of the LME warehousing system,” according to European steel lobby group Eurofer, the latest heavyweight to weigh into the debate.

The big aluminium producers were in town to argue just the opposite. “We think there is no need to change,” said Oleg Mukhamedshin, deputy chief executive of Russian giant United Company RUSAL.

Everyone else is still trying to figure out what are the implications for the aluminium market, particularly physical premiums. Consensus thinking right now is they will go lower but not back to anything that might be deemed a historical norm.

But it will all depend on what exactly the LME does next.

MISSING: ONE BAZOOKA. PLEASE RETURN TO CHARLES LI

And on that key question there was no official answer.

The LME, according to HKEx chief executive Charles Li, not carrying a bazooka this week, has had an extensive consultation with industry and heard, not entirely surprisingly, a wide array of views.

A decision may come at a board meeting later this month. Or maybe not.

“We’ll make a decision. It could be in October, could be in November, could be any time after the board meeting,” according to Jones.

Feeling enlightened? No? Nor is anyone else.

Li did at least concede that the LME might look to enhance transparency, maybe something along the lines of a U.S.-style Commitment of Traders Report, as suggested by both consumers and producers.

It’s not exactly controversial stuff. After all, no exchange is going to argue that more transparency isn’t in principle a good thing.

But, according to Li, “we need to figure out how to do it”.

Good things, as they say, come to those that wait. Just ask your average U.S. aluminium consumer.

STEALING THE LIMELIGHT

CME Group, by contrast, did want to talk about warehousing, or at least up to a point.

The U.S. exchange stole the LME’s limelight by announcing it was at an advanced stage towards launching its own aluminium contract.

A physically-delivered one with “transparency that only CME can offer,” according to Harriet Hunnable, director of metals at the exchange.

Not that she would be drawn on exactly how it would work, or critically, where the physical liquidity would come from.

It’s not as if CME hasn’t tried before. A previous attempt to challenge the LME’s aluminium pricing dominance fizzled out due to an overwhelming lack of interest.

There is no doubt that there is more interest in an alternative to the LME contract this time around.

But whether any new CME offering can gain real traction will depend on the devilish delivery detail.

Good things, as they say...

DEMAND STRONG, COMMITMENT WEAK

Leaving aside the elephant and the missing bazooka, there was a generally upbeat narrative running through this year’s LME Week.

Gerard Lyons, economist and keynote speaker at the LME seminar, set the tone with a positive assessment of the global economy, “divided, disconnected but still growing”.

Most other analysts agreed.

China’s metals demand is now deemed to have been stronger this year than previously thought, although this was less a revelation than a culmination of accumulating evidence from markets as diverse as iron ore and copper.

Other BRICS have disappointed and the “I” in that grouping seems to be in the process of morphing from India to Indonesia.
But the underlying story of new world urbanisation and industrialisation continues to run. There is even hope for the old world, led by the U.S., assuming a rational outcome from the irrational politicking of Washington ahead of the debt ceiling deadline.

If the LME "Street" wasn't exactly swinging from the rafters, it's because of the recent lack of directional commitment across most of the LME base metals suite. Weeks of sideways grind have sidelined just about everyone apart from the black-box traders who can trade the noise in otherwise range-bound markets.

WINNERS AND LOSERS

Hope comes in the form of divergent supply-side drivers. Demand is doing well enough but, most agree, it is the state of supply that will differentiate winners from losers in the LME pack.

On that basis aluminium and nickel (CMNI3> are the losers and will remain so until supply is sufficiently curtailed to make a dent on large and growing inventories of both. That said, both look pretty well supported at the lows at the moment. Shorting either, it is generally felt, is a tricky proposition given the amount of existing short positioning, both by stocks financiers and by technical traders, with the attendant risk of occasional sharp upside spikes.

Copper is on the road from deficit to surplus but with sufficient uncertainty about timing and degree to keep most in wait-and-see mode.

Tin is the obvious winner, given the current choke-hold on supply from Indonesia, the world's largest exporter. Exports last month fell below 1,000 tonnes for the first time since 2007. Going long now, though, is the equivalent to squeezing into an already crowded room with the attendant risk of being crushed in any stampede for the exit.

Which leaves lead and zinc as the picks of LME Week.

Lead is supported by a strengthening bull narrative, underscored by the forecast from the International Lead and Zinc Study Group (ILZSG) that the market is heading for its first year of deficit in five years. Throw in the impact of the closure of the last primary smelter in the U.S. on physical flows and premiums and the bull cocktail gets even spicier.

There is also a distinct buzz about the zinc market at the moment, although without any obviously supportive fundamental backdrop. Indeed, ILZSG expects another year of surplus in 2014 and another one after that. Yet it is definitely on the "Street's" radar, judging by the chatter over the last few days. Listen to some of the whispers in the shadows, though, and things may not be quite as straightforward as they appear.

Beware false signals, not least LME zinc stocks, which are increasingly concentrated in locations such as New Orleans, Antwerp and Detroit.

Yup, it's that elephant again. And no bazooka in sight!

--The author is a Reuters columnist. The opinions expressed are his own--
GENERAL NEWS

South Africa’s Amplats says miners return to work after strike ends

JOHANNESBURG, Oct 11 (Reuters) - Miners at Anglo American Platinum’s operations in South Africa have started to return to work, a spokesman said on Friday, after the company clinched a deal with the union to end a near two-week strike over job cuts.

Amplats, as the unit of global miner Anglo American is known, said it would grant "voluntary separation" packages to 3,300 employees it had previously sought to lay off.

A spokeswoman for Amplats told Reuters that miners had started reporting for duty from the morning shift on Friday. She declined to comment further.

Separately Amplats CEO Chris Griffith told a state radio station the strike had cost the world's top platinum producer 44,000 ounces or "nearly 1 billion rand ($100 million) in lost revenue".

"These individuals were offered voluntary separation packages before the strike. They did not need to lose two-weeks wages, they did not need to go on strike," he told SAFM radio.

Amplats had already rowed back from an initial target of 14,000 job cuts under intense government and union pressure and still has to complete a tough round of wage talks.

Amplats was forced to review operations after last year's wildcat strikes helped push it into its first-ever annual loss. A return to profitability hinges on an overhaul of its Rustenburg mines, northwest of Johannesburg.

Its shares closed 4 percent higher on Thursday.

Chinese lead shortlist for Glencore's $5.9 bln Peru mine - sources

By Clara Ferreira-Marques and Anjuli Davies

LONDON, Oct 10 (Reuters) - Two groups of Chinese miners, in partnerships that will pit giant Chinalco against rival Minmetals, lead a shortlist of suitors for Glencore Xstrata’s $5.9 billion Las Bambas copper mine in Peru, according to sources involved in the process.

Glencore agreed this year to sell the Las Bambas project to meet demands from China’s competition authorities after its record-breaking takeover of mining group Xstrata. The Chinese regulator feared that the tie-up handed the newly formed commodities heavyweight too much power in copper.

Several sources said that initial bids for Las Bambas - due to begin production in 2015 and one of the largest copper mines to come on the block in recent years - had come in around the $6 billion mark, including the sum invested in construction so far.

Suitors will begin due diligence next week and could fine-tune their numbers, which are close to analysts’ estimates of the mine’s value and, two of the sources said, above Glencore’s target price.

In a research note published in May, Nomura analysts put the end-2014 value of the mine at about $6.2 billion.

Copper has been among the most resilient metals even as the commodity price cools, making copper assets desirable even for miners under pressure to rein in spending.

HUNGRY CHINA

China already consumes about 40 percent of the world’s copper and has remained particularly hungry for significant sources of supply. Las Bambas is expected to produce more than 450,000 tonnes of copper a year in its first five years of operation and an annual 300,000 tonnes thereafter.

Providing details of the shortlist for the first time, the sources said there were five to six groups of suitors, led by Chinalco, which has partnered with Jinchuan, and rival Minmetals, partnering with CITIC. Chinalco already has a presence in Peru with the Toromocho mine.

Unusually, both Chinese groups have gone on the shortlist, though it is unclear if both sets of Chinese suitors will submit binding offers next month.

"It is like playing a game of poker with two hands," one of the sources said as the groups prepare for due diligence.

A Chinalco spokesman was not immediately available to comment. MMG, which drives Minmetals' base metals expansion abroad, Jinchuan and CITIC Resources declined to comment. Minmetals said last week that it had submitted a bid but would not pay a “crazy” price.

Glencore declined to comment on the process but said publicly last month that it had seen robust Chinese interest and expects a sale agreement before the year end.

WESTERN SUITORS

There are also non-Chinese suitors, the sources said, including mid-tier Western miners, potentially with existing Peruvian presence.

Among the miners named by several of the sources is Newmont Mining Corp, which said in a newspaper interview last week that Las Bambas was "interesting" and has also indicated that it could seek to increase copper production.

Other, sources, however, question Newmont’s appetite, while the company itself has declined to say whether or not it is in the running for either all or part of Las Bambas.

By the time a sale is agreed this year, Glencore Xstrata estimates that it will have spent $3.3 billion on Las Bambas, one of the largest mines in Xstrata’s project portfolio. It has estimated the total construction cost will be $5.9 billion.

At current bid levels - and at a time when most major producers are under pressure from investors to pull back on deals and...
GENERAL NEWS (Continued)

new projects - all buyers are expected to form consortiums ahead of the final round, the sources said.
That would mean a Las Bambas ownership structure harking back to the copper expansions of the 1990s, before boom-year prices encouraged bold solo projects.
Some of Latin America's largest copper operations are already joint ventures. They include Chilean mines Collahuasi, a partnership between Glencore Xstrata and Anglo American, and Escondida, the world's largest copper mine and a venture that includes BHP Billiton and Rio Tinto.

Glencore has notified shortlisted suitors, the sources said. The miner is pressing for second-round binding offers by mid-to-late November, with a deal to be agreed by the end of the year.

Kinross to cut 300 jobs in Mauritania gold operations and Spain

NOUAKCHOTT, Oct 10 (Reuters) - Canadian miner Kinross Gold Corp plans to cut 300 jobs at its mining operations in Mauritania and at a regional administrative office in Spain, the company said in a statement on Thursday, citing the decline in the price of gold.

MARKET NEWS

Newmont cuts copper output forecast for 2013

Oct 10 (Reuters) - Newmont Mining Corp cut its forecast for full-year copper production on Thursday, blaming lower-than-expected throughput at its Boddington mine in Australia and lower-than-expected ore grade processed at its Batu Hijua operation in Indonesia.
The large, U.S.-based gold and copper miner said it now expects to produce 135-145 million pounds of copper this year, down from a previous forecast of 150-170 million pounds. It left unchanged its full year gold production forecast at 4.8-5.1 million ounces.

Newmont, releasing preliminary quarterly operating results, also said it produced 1.283 million ounces of gold and 34 million pounds of copper during the third quarter.
Third-quarter production was boosted by increased mill throughput at its operations in Nevada and higher grades and increased productivity at its Tanami mine in Australia.
Newmont's 2013 gold production is expected to benefit from increased mill throughput in Nevada and the start of commercial production at its Akyem mine in Ghana later this year.
Preliminary gold and copper sales in the third quarter were 1.263 million ounces and 35 million pounds, respectively.
Newmont will release its third-quarter earnings on Oct. 31.

Spot gold has fallen sharply this year, from above $1,600 an ounce to a near 3-year low of about $1,180 in late June. The precious metal was trading at about $1,296 by 1900 GMT on Thursday.
Kinross said it has carried out a broad review of its costs in order to solve the problems posed by the price drop.
"The company today announced downsizing in Mauritania and the regional office in Las Palmas (Spain). These cuts will affect about 300 employees in Tasiast, our administrative offices in Nouakchott and Las Palmas," the statement said.
The company did not say how the job cuts be split between the Tasiast mine and the two administrative offices. It said it would still have about 3,000 employees and sub-contractors working at the mine after the cuts.
Gold miners have announced billions in writedowns over the last two years, as ill-advised deals, underperforming assets and the plunging gold price have wreaked havoc on their books.
Kinross said in July it would defer to 2015 a decision on the expansion of the Tasiast mine after it took a big non-cash charge linked to the fall in gold price and suspended its semi-annual dividend.

The company's stock is down 43 percent this year, in line with other big gold producers as the sector takes a pounding from lower gold prices and high operating costs.

JX Nippon Mining to begin Caserones copper mining operation in Jan 2014

TOKYO, Oct 11 (Reuters) - Japan's JX Nippon Mining & Metals Corp said on Friday that it will start operations at Chile's Caserones copper mine in January 2014.
JX Mining said it expected initial investment in the Caserones mine development at $4.2 billion, up from its earlier estimate of $3 billion.
JX Nippon Mining, which is stepping up its acquisitions to hedge against an increase in ore prices amid declining profit margins from smelting, aims to raise the volume of copper content from its own mine interests for refining to an annual 250,000 tonnes in 2015, and then to 350,000 tonnes by around 2020, its parent JX Holdings Inc 5020.T said in March. Around 100,000 tonnes of in-house copper content in concentrate was used to refine metal in 2012.
PPC, the world's No.3 copper smelter, was set to start producing copper concentrate at its 75 percent-owned Caserones mine in Chile late this year after spending nearly $3 billion in development.
Caserones, slated to produce 150,000 tonnes of copper annually, will boost its metal self-sufficiency rate to 50 percent of its total output in 2015, making it less dependent on big miners such as Freeport McMoRan Copper & Gold Inc and BHP Billiton.

Colombia's Cerro Matoso ferronickel mine partly reopens

BOGOTA, Oct 10 (Reuters) - Colombia's Cerro Matoso, the world's No. 2 ferronickel producer, partially restarted operations on Thursday after protesting indigenous groups lifted their blockade of the mine's entrance.

Cerro Matoso, owned by mining multinational BHP Billiton, supplies 4 percent of the world's ferronickel. A surplus of nickel, the metal derived from ferronickel, has driven its price down around 20 percent so far this year.

News of the mine's closure on Wednesday helped London-traded nickel contracts to firm on Thursday to $13,750 a tonne, up from a closing price of $13,660 per tonne in the prior session.

The intervention of the regional and national governments made it possible to resume dialogue with indigenous community leaders and restart both mining and on-site industrial processing operations, the company said in a statement.

"Cerro Matoso trusts that this rapprochement will make it possible to normalize completely all the company's operations," it said.

The company has not explained the reasons for two weeks of protests by the indigenous groups, but a mining ministry source told Reuters the demonstrators were seeking compensation for pollution from the mine which they say has damaged their health.

Colombia's ferronickel production surpassed 47,000 tonnes in 2012, according to National Mining Agency data.

Colombia's mining sector, much of whose output is still extracted by artisanal or illegal miners, has attracted a lot of investment, together with the oil sector, helped by a vast improvement in the country's security situation. A decade-long U.S.-backed offensive against the country's left wing guerrilla groups, the FARC and smaller ELN, has slashed their numbers.

Tumbling Indonesian tin exports could short-circuit electronics industry

By Melanie Burton and Michael Taylor

SINGAPORE/JAKARTA Oct 11 (Reuters) - Tin buyers are becoming increasingly nervous about securing enough of the metal in coming months to supply industries such as electronics, after new Indonesian trading rules cut shipments by the world's biggest exporter nearly 90 percent last month.

More than half of global tin goes into solder used in electronics, to make circuit boards for products ranging from smartphones to tablets produced by firms such as Blackberry and LG Electronics. Tin is also widely used in food packaging as a protective coating to line containers.

Fearing disruption, tin suppliers snapped up record Indonesian stocks in the first half of the year, and have ample metal on hand for the next one to two months, traders said.

Further out, however, there could be a threat to the operations of electronics makers if export problems persist.

"The biggest issue is for the consumers in Asia, where Indonesia is two thirds of supply in some cases," said Peter Kettle of global industry group ITRI.

"For somewhere like Japan or Korea, Indonesia is absolutely critical and there is just not enough tin around from other sources to replace it," he added.

A major Japanese solder maker, which buys tin from Indonesia, said it was carefully watching how things develop.

Indonesia brought in new rules on Aug. 30 to force tin ingot shipments to trade via a local exchange before export. The new policy aimed at giving Jakarta greater influence over prices has slashed trade and meant that the long-established process of buyers and sellers agreeing term deals has stalled.

PT Timah, Indonesia's biggest tin exporter, in late August declared force majeure on shipments as its buyers had not joined the Indonesian Commodity and Derivative Exchange (ICDX), the only approved exchange for tin trade.

The stand-off with tin buyers, some of whom are reluctant to use an exchange still establishing itself, helped push September exports down to 786 tonnes last month, from more than 6,000 tonnes in August, the lowest since early 2007.

Benchmark tin prices on the London Metal Exchange have climbed by more than 10 percent since late August as buyers stocked up due to worries about Indonesian supply, helping make it the best performer in a weak base metals complex this year.

Some buyers are waiting things out in the hope that Indonesia relaxes rules to revive exports, to help cash-starved producers.

"People are worried about it but they're not panicking yet because recent history suggests that the Indonesians will find a way -- it's just a question of how long that takes," said Leon Westgate at Standard Bank in London.

A tin consumer who buys from Indonesia and sells products to electronics companies said the firm was already looking for alternative sources of supply, though these appear limited.

"We have a deadline -- everything has to be decided by mid-November," he added, referring to the latest point his company must secure its monthly supply deals for 2014 shipments.
MARKET NEWS (Continued)

MAKE TIN A MODEL
At the metals industry’s biggest event in London this week, the consensus was that Indonesia would give some ground to allow exports to flow.

But some traders noted a concern that Jakarta would hold out in order to make tin a model of how it intended to squeeze more from other commodities exports.

Indonesia has long sought to have a greater sway over global tin prices through trading at home, with officials complaining that speculators have too much influence over LME prices.

An Indonesian regulatory official last month said that tin trading rules were designed to boost prices, but some traders said because Indonesia’s physical tin contract did not have futures it was tough to hedge and lacked sufficient trade.

ICDX’s most liquid contract traded 159 lots (795 tonnes) in September compared to 195,084 lots (975,420 tonnes) traded on the LME.

The Indonesian exchange’s chief executive Megain Widjaja said via email ICDX did plan to introduce futures contracts and said there should be alternative ways to hedge in the meantime.

Indonesia in July also issued rules on new purity levels to lower lead content in tin exports with the aim of boosting the value of exports.

But under the new trading rules, buyers can no longer choose the specific brand of metal they get, meaning some traders said there is a risk the tin they get via the exchange may have impurities that make it useless for consumers.

Widjaja of ICDX said the purity of the metal was guaranteed by a ministerial decree and checked by surveyors, while it also carried out its own checks.

A QUARTER OF WORLD SUPPLY
Indonesia usually exports around 100,000 tonnes of tin a year, more than a quarter of the world’s supply, selling to buyers in Japan, China, Malaysia, Thailand and Singapore.

Tin stocks in LME warehouses have slumped by 15 percent since the new rules came into play to hit nine-month lows of around 13,000 tonnes and there are few readily available alternative sources of tin globally.

So far, there is no sign of a desperate scramble to buy stocks that could show up as cash futures prices trading at a premium to three-month futures prices, known as backwardation.

But a metals trader at a Western bank said beyond a month or so supply risks were rising.

“We need to follow up quite carefully on what will happen in the next few weeks and then if there is no change, it’s going to be a bit more worrying for the rest of the big players.”
MARKET REVIEW

METALS-London copper faces biggest weekly loss in a month

By Melanie Burton

SINGAPORE, Oct 11 (Reuters) - London copper edged up but was still facing its biggest weekly loss in a month due to concern over the U.S. fiscal deadlock, although signs of a possible resolution may lend support.

Copper prices have drifted this week towards the lower end of their two-month $7,000-$7,500 range but they could rebound if a solution to the U.S. fiscal impasse is forthcoming, traders and analysts said.

"There has been quite a bit of improvement in overnight markets in the U.S. on the hope of a resolution, but so far there is insufficient detail. We are not out of the woods yet," said Thomas Lam, chief economist at DMG & Partners Securities in Singapore.

"Metals fundamentals might soften in the fourth quarter, but I don't think it will be dramatic. The bigger driver is Fed policy, and if the Fed decides to taper at the December meeting it could lead to a stronger dollar, so we may see some softening in base metals prices as a result," he added.

European markets opened with small gains and Asian markets hit three week highs, tracking top U.S. stock indexes which posted their strongest rise in more than nine months on Thursday after signs of progress in negotiations to raise the U.S. debt limit.

President Barack Obama and Republican leaders appeared ready to end a political crisis that has shuttered much of the U.S. government and pushed the country dangerously close to default after meeting at the White House on Thursday.

Three-month copper on the London Metal Exchange had edged up 0.1 percent to $7,153.50 a tonne by 0713 GMT, after 0.6 percent gains in the previous session.

On Thursday the price had slipped at one point to $7,081 a tonne, the lowest since Sept. 18, and it is set to chalk up a 1.5 percent weekly loss, the largest since mid-September.

The most traded January copper contract on the Shanghai Futures Exchange closed up by 0.47 percent at 51,650 yuan ($8,400) a tonne.

Metals demand continues to be fanned by growth in top consumer China where premiums for metal in China's bonded zones have climbed $5 to $175-$205 this week, according to China price provider Shmet.

China's economic growth should exceed 7.5 percent this year, deputy central bank governor Yi Gang was quoted by Xinhua as saying, the latest expression of confidence from Beijing that the world's No. 2 economy is steadying, ahead of third quarter GDP figures to be released next week.

In metals news, Newmont Mining Corp cut its forecast for full-year copper production on Thursday, blaming lower-than-expected throughput at its Boddington mine in Australia and lower-than-expected ore grade processed at its Batu Hijau operation in Indonesia.

Tin buyers are becoming increasingly nervous about securing enough of the metal after new Indonesian trading rules cut shipments by the world's biggest exporter nearly 90 percent last month, although at LME week in London, the consensus was that Indonesia would give some ground to allow exports to flow.

Still, traders have upped their long bets on tin into the year end. The LME's futures banding report shows one significant long position between 20-29 pct of outstanding futures positions in November, and two positions in the same band for December.

PRECIOUS-Gold set for weekly loss on stronger dlr, US budget stand-off

By A. Ananthalakshmi

SINGAPORE, Oct 11 (Reuters) - Gold snapped a three-day losing streak, but was still heading for a weekly decline as its safe-haven appeal dimmed and the dollar rebounded on signs the U.S. government was taking steps towards resolving its budget impasse.

Gold has been trading in a tight range since the U.S. shutdown began last week, with investors believing worries over raising the debt ceiling would be only short-lived.

Soft physical demand, lack of economic data and outflows from gold backed exchange-traded funds (ETFs) have also dragged on prices.

"The market has lost some support as the U.S. looks closer to a bipartisan deal," said Victor Thianpiriya, an analyst at ANZ.

"ETF selling has resumed, indicating that sentiment is worsening," he added.

"The only support in the market right now is China, and that is a little bit stronger today with the move below $1,300." Spot gold had risen 0.4 percent to $1,290.24 an ounce by 0627 GMT, after dropping for three straight sessions. The metal was headed for a 1.5 percent weekly drop and its sixth decline in seven weeks, bringing the year's losses to 23 percent.

The dollar edged up in Asian trading on Friday, holding just below two-week highs against major currencies. Some traders said gold prices could stay below $1,300 an ounce due to a lack of strong fundamentals. But short-covering and a pick up in physical buying could boost prices in the near term.

"There are signs of a short-covering technical rebound after prices touched a one and a half week low of $1,282," said Philip Futures analyst Joyce Liu.
MARKET REVIEW (Continued)

Liu said gold prices could fall below June lows of $1,180.71 in the next few months.
Holdings of SPDR Gold Trust, the world’s largest gold-backed exchange-traded fund, dropped 0.2 percent, or 1.80 tonnes, to 896.38 tonnes on Thursday. That marked a fresh four-year low. The ETF, seen as the best measure of gold investor sentiment due to the amount of bullion it holds, has seen outflows of about 400 tonnes this year.

FOREX-Dollar ticks higher on hopes of U.S. debt deal

By Lisa Twaronite
TOKYO, Oct 11 (Reuters) - The dollar edged up in Asian trading, holding just below two-week highs against major currencies hit the previous day and approaching this month’s high against the yen on signs the U.S. budget impasse might be heading towards a resolution.
No deal emerged from a 90-minute meeting between President Barack Obama and Republican leaders, but talks continued into the night in an effort to reopen the government and avert a possible U.S. debt default.
The fiscal standoff has heightened fears that the U.S. debt ceiling will not be raised by the Oct. 17 deadline, triggering a default on some short-term U.S. debt.
"We believe the U.S. government will get around the issue of debt ceiling and reach an agreement to avoid any potential non-payment. Rightfully the markets have also been calm thus far," strategists at Citigroup wrote in a report to clients.

The dollar was up 0.4 percent at 98.49 yen as of 0350 GMT, just below the day’s high of 98.56 yen on the EBS trading platform.
That was its highest level since Oct. 1 and well above a two-month low of 96.55 yen plumbed on Tuesday. Support was said to lie at the 200-day moving average of 96.87 yen.
"Monday is a public holiday in Japan and some are reluctant to be dollar-short over the long weekend, in case a deal is reached then," said an analyst at a foreign exchange research firm in Tokyo.
Japanese Economics Minister Akira Amari said on Friday that if the current standoff was allowed to continue, the United States might default on its debt, and he urged politicians there to show some responsibility.
The dollar index, which tracks the U.S. unit against a basket of six major counterparts, was up slightly at 80.448.
It rose as high as 80.595 on Thursday, its highest since Sept. 26, but it remained not far off an eight-month low of 79.627 touched on Oct. 3.
The euro was also slightly higher at $1.3538.
Hopes raised by the Republican offer lifted investors’ risk appetite and helped Asian shares hit three-week highs on Friday, after major U.S. stock indexes showed their biggest gains in more than nine months on Thursday.
The U.S. government was partially shut for a 10th day on Thursday.
The fiscal impasse and risk of a U.S. debt default have taken the spotlight off the Federal Reserve for now, but once the default danger passes, market participants will again be trying to work out when it will start reducing its stimulus.

(Iinside Metals is compiled by Pradip Kakoti in Bangalore)
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