FEATURE

COLUMN-LME nickel tightness; bullish or bearish?
Is it time to rethink nickel, this year’s stand-out underperformer of the London Metal Exchange (LME) base metals pack?
Andy Home is a Reuters columnist. The opinions expressed are his own
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TODAY’S MARKETS

BASE METALS: London copper held steady but was set to close lower for a third week in four as fitful global factory growth and fears China will clamp down on credit tarnished the outlook for metals demand.
“The longer China prolongs the recent tightening, the more it's going to squeeze out liquidity and raise the risk of a more significant pull back in demand in general,” said Thomas Lam, chief economist at DMG & Partners Securities in Singapore.

PRECIOUS METALS: The dollar set a fresh two-year low versus the euro on Friday, pressured by strengthened expectations the U.S. Federal Reserve will maintain its asset purchases through early next year.
China’s central bank added fuel to fears on Thursday it was clamping down on inflation risks as it allowed cash to drain from the financial system for a second straight week, sparking a jump in short-term rates and sidelining appetite for risk.
“If the time frame that you're looking at is the rest of this year, it's hard to say that the euro will be weak,” Ino said.

FOREX: The dollar set a fresh two-year low versus the euro on Friday, pressured by strengthened expectations the U.S. Federal Reserve will maintain its asset purchases through early next year.
The dollar also set a fresh 8-1/2-month low versus a basket of currencies and slipped to a two-week low against the yen.
“If the time frame that you're looking at is the rest of this year, it's hard to say that the euro will be weak,” Ino said.

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- Big miners may balk on streaming as S&P changes tack
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- Russian steelmaker MMK says Q3 steel output down 7 pct
- BHP says talks continue over Guinea iron ore stake sale
- London Mining gets government go-ahead for Greenland project

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- Greenland votes to allow uranium, rare earths mining
COLUMN-LME nickel tightness; bullish or bearish?

By Andy Home

LONDON, Oct 24 (Reuters) - Is it time to rethink nickel, this year’s stand-out underperformer of the London Metal Exchange (LME) base metals pack?

Analysts at Barclays Capital certainly think so, putting out a report last week titled “The case for upside nickel exposure in Q1 2014”. They’re not alone. Others are also warming to the argument that the market’s fundamentals are starting to shift.

Outside of China a supply-side response to low prices is building, while the fast-approaching Indonesian ban on unprocessed mineral exports threatens to cut the feed-line for China’s giant nickel pig iron (NPI) sector.

Positioning on the LME nickel contract is still structurally short with this week’s short-covering rally viewed as a potential harbinger of what a bigger change in positioning might mean.

Adding a little spice to the mix, tightness has flared across the front part of the LME curve this week. “Tom-next”, the shortest-dated spread in the LME system, flexed out to $12 per tonne backwardation on Tuesday. The full cash-to-three-month period was valued at $49 contango at yesterday’s close, the narrowest backwardation on record of 234,084 tonnes in Thursday’s report.

Which brings us back to that spread flare-out earlier this week. The mechanics of what happened are pretty straightforward. As shorts closed out positions and sought to borrow the spreads to adjust their dates, they ran into a dominant long position acquiring, while the fast-approaching Indonesian ore flows is no more than a theoretical “known unknown”. Analysts expect more of the same in the coming weeks, although the supply picture will also depend on the fortunes of the multiple projects still ramping up in a classic example of commodity market bad timing.

The two closures remove around 35,000 tonnes from the supply chain.

THE SUPPLY RESPONSE

Nickel is a market suffering from chronic oversupply. The International Nickel Study Group (INSG) has forecast a 140,000-tonne surplus this year and a 120,000-tonne surplus next year.

Which is why the LME three-month price has been bombed out below the $15,000-per tonne level since the second quarter of this year.

Until quite recently the expected narrative was that such low prices would force out the higher-cost part of China’s NPI sector. But that’s not happened, largely, as BarCap points out, due to “cost deflation in the NPI sector outpacing price declines”.

Now attention is turning to higher-cost producers outside of China. BarCap argues that “at current price levels on a C1 (cash cost) basis, close to one-third of producers are losing money; on a total cash-cost basis, this rises to a half.”

And a supply response is starting to take shape. Glencore Xstrata has mothballed its Falcondo ferronickel operations in the Dominican Republic, while Brazil’s Votorantim has shuttered its Fortaleza nickel matte plant.

The two closures remove around 35,000 tonnes from the supply chain.

THE INDONESIAN QUESTION

Of course, the really big supply question is what happens in January, when the Indonesian government implements its ban on unprocessed ores.

In theory, this puts at risk the flow of nickel ore to China, on which the fast-expanding NPI sector depends.

There is still no clarity on what might or might not happen at the start of next year. Some sort of policy fudge is still widely expected, although the Indonesian government’s hard-line stance on exports of tin serves as a powerful statement of intent.

Chinese importers are taking no chances with flows of Indonesian ore up 28 percent in the January-September period and port stocks building.

That provides some cushion in the event of a severe curtailment of ore supply at the start of next year.

Beyond the very short term, though, there is a strong case to be made that NPI costs will rise.

If, as some expect, a total ban is avoided but in part replaced with higher export taxes, the effect on NPI production costs will be the same.

The most probable impact, one way or the other, is that the NPI cost curve will rise, dragging up the floor price with it.

STOCKS AND SPREADS

The only problem with the bullish argument is one of timing. Not enough supply has yet been cut to bring the market back to anywhere near balance, while right now what happens to Indonesian ore flows is no more than a theoretical “known unknown”.

In the interim, LME nickel stocks are still rising, hitting a fresh all-time record of 234,084 tonnes in Thursday’s report.

Which brings us back to that spread flare-out earlier this week. The mechanics of what happened are pretty straightforward. As shorts closed out positions and sought to borrow the spreads to adjust their dates, they ran into a dominant long position accounting for 40-50 percent of available stocks.

The LME’s futures banding report shows a cluster of sizeable short positions sitting on the November prime prompt date (Nov. 20), promising more potential for spread tightness.

It all seems a bit strange given such high stocks.
FEATURE (Continued)

STRUCTURAL STRESS

Or maybe not.
As Leon Westgate, analyst at Standard Bank London, pointed out in a research note earlier this week, "nickel is not particularly well disposed to cope with bouts of additional borrowing interest at the moment."
All those stocks are being financed with an associated short futures hedge position that is being continuously rolled.
The ratio of nickel stocks to total market open interest has been rising steadily for many months and is now over 17 percent.
The result, to quote Westgate, is that "there are significantly more natural borrowers of the nearby spreads than is the case in some of the other LME metals."
Only aluminium has a higher stocks-to-open-interest ratio and that market has also been prone to counter-intuitive cash-date squeezes.

In both cases the LME market's ability to cope with the short-hedging of historically high stocks is being stress-tested.
The issue is well understood in the aluminium market, which saw repeated contractions in the nearby spreads over the course of 2011 and 2012.
It is a newer phenomenon in the nickel market.
But the key takeaway is that nickel spread tightness is less a bull signal for the three-month price than a reminder of why the price might struggle, in the short term at least, to build any sustainable rally.

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

GENERAL NEWS

South Africa's AMCU to canvass members over Implats strike

JOHANNESBURG, Oct 25 (Reuters) - South Africa's Association of Mineworkers and Construction Union (AMCU) said it will canvass its members on Monday at Impala Platinum on whether to go on strike after wage talks failed.
A government mediator on Thursday granted the union permission to call a strike against Implats, the world's second-largest producer of the precious metal.
"We will first have to consult with our members to check what route they want to take," AMCU's National Treasurer Jimmy Gama told Reuters on Friday.
"If they say they want to go on strike, we will serve the employer with the notice."
Implats said it had offered its lowest-paid workers increases of at least 8 percent for 2014 and then annual raises of 7 percent for the following two years. South Africa's inflation rate is currently 6 percent.
Known for its uncompromising stance in negotiations, AMCU has been pushing for a more than doubling of the minimum basic pay for entry-level miners to 12,500 rand ($1,300) a month under the populist battle cry of a "living wage."
On Wednesday, AMCU president Joseph Mathunjwa said he expected to reach a similar impasse this week with Anglo American Platinum, the world No. 1 platinum producer.
The union had also rejected increases of up to 8 percent from gold producers, which were accepted by its rival, the National Union of Mineworkers.

Big miners may balk on streaming as S&P changes tack

By Nicole Mordant
Oct 24 (Reuters) - A change in the way ratings agency Standard & Poor's accounts for a novel type of mining project funding may drive big miners away from this cash source at a time when fundraising is already tight.
S&P said this month it will start classifying streaming deals - where miners get cash upfront in exchange for agreeing to sell future production of a by-product like silver or gold at a set price – as debt rather than as non-debt financing.
Until now, one attraction of streaming deals for large mining companies, many of which have high debt levels, was that ratings agencies did not view the transactions as debt.
The S&P revision, which other rating agencies have not followed, leaves big miners with streaming deals with less headroom for borrowing, unless they want to overload on debt and perhaps put their credit rating at risk.
It may dim expectations that financiers like Silver Wheaton Corp that provide streaming deals can boost business by wooing global mining majors after a breakthrough deal this year. These financial firms remain confident, however, of finding a workaround.
"Some CFOs who we are speaking to, they will pay attention to this, put that in the mix of what they are thinking about, and it may impact their decisions," said Paul Brink, senior vice-president of business development at Franco-Nevada Corp, a Toronto-based stream and royalty company competing with Silver Wheaton, Royal Gold Inc and others.
He said ratings was just was "one of many" issues CFOs look at when deciding on a streaming deal. Streaming finance has mostly been used by small and mid-sized miners especially after investors soured on the mining sector when lower metal prices and high-profile cost blow-outs on mine developments made it harder for firms to raise capital.

A few large companies did dip their toes into streaming. They include Goldcorp Inc in 2007 and Barrick Gold Corp, the world's biggest gold producer, in 2009 to help fund its big Pascua-Lama silver and gold project.

Silver Wheaton's $1.9 billion gold streaming deal in February with Brazilian mining giant Vale SA raised talk the world's biggest diversified miners were warming to the idea. Analysts tipped Rio Tinto Plc, BHP Billiton Plc and Glencore Xstrata Plc. as possible candidates for streaming deals.

One source briefed by Barrick on the matter told Reuters that Barrick has been considering a further streaming deal to pay for any additional outlay at its suspended Pascua-Lama project on the border of Chile and Argentina.

The change in S&P's position could foil this plan, and put further pressure on Barrick, as the rating agency has already cut its corporate credit rating twice in the last 15 months. BHP, Glencore and Rio declined to comment while Barrick, Goldcorp and Vale did not respond to requests for comment.

SPEED BUMP

S&P's move will put "a speed bump" in the rationale for big companies to do streaming deals, said a financial advisor who has been involved in streaming deals but asked not to be identified as he is not authorized to speak to the media. "If the streams are treated as debt, why not just take on more debt? You might as well just go to a bank and borrow more money. Why do you have to go through this rigmarole?" he said.

Demand from small- and mid-sized companies for streaming finance is expected to continue. This part of the market is largely unaffected by S&P's move as only big companies that issue debt on public markets tend to have credit ratings.

S&P, which is part of McGraw Hill Financial Inc MHFI.N, says it does not expect to change ratings on any of the miners affected by its revision, which came as it reviewed methodology due to the increasing number of streaming deals. Its change will apply to all new and historical streaming transactions. Its methodology is "meant to bring comparability amongst competitors as well as recognize the economics of a given transaction," said Mark Solak, director of corporate ratings at S&P.

"In this case, we believe the economics of these transactions are more like debt," he said.

Other rating agencies disagree. "There are certainly some debt-like attributions to streaming transactions but by and large we don't consider them debt," said Darren Kirk, senior credit officer at Moody's Investors Service, part of Moody's Inc.

Ernie Lalonde, senior vice president of mining at Toronto-based rating agency DBRS, said he did not view streaming deals as debt, partly because they have no interest payments.

SURPRISED AND DISAPPOINTED

Vancouver-based Silver Wheaton, the world's biggest streaming company, said it was "both surprised and disappointed" not to have been consulted by S&P ahead of its criteria adjustment, with which it disagreed. "We would have appreciated the opportunity to work with S&P to clarify and, where possible, consider modifying the terms and conditions of streaming transactions that they considered implied a debt-like treatment," Chief Executive Randy Smallwood said in an emailed response Reuters' questions.

Smallwood and Franco-Nevada's Brink both expect demand for streaming deals to continue, not least because it is more flexible than traditional debt. There are no fixed payments and the up-front payment does not attract interest.

There is "ample opportunity to work with future potential partners to further fine-tune streaming agreements in order to achieve a desired outcome from a credit ratings perspective", Smallwood said.

Goldcorp delays Argentina project, warns on Mexico tax

By Nicole Mordant and Allison Martell

VANCOUVER/TORONTO, Oct 24 (Reuters) - Goldcorp Inc raised its cost estimate for building a gold mine at its Cerro Negro site in Argentina by up to a third on Thursday, and said production at the project, which is one of the company's three big mining developments, would be delayed.

Goldcorp, the world's biggest gold miner by market value, also said a 7.5 percent royalty proposed by Mexico on mining companies will likely drive away its new investments if it cannot get the returns it wants.

The Vancouver-based miner said it had increased its capital cost estimate on Cerro Negro to between $1.6 billion and $1.8 billion from $1.35 billion before. In 2011, Goldcorp estimated the cost at $749 million.

Cerro Negro has faced several challenges, including a permitting delay that held up construction of a key power line, rapid inflation in Argentina, the country's high taxes, and some productivity problems.

Goldcorp also said it has suspended further exploration at Cerro Negro, and has deferred some development there. First production will be delayed by at least three months, to midyear 2014.

Even so Goldcorp's stock ended 4.5 percent higher on the Toronto Stock Exchange at C$27.76 after the gold miner reported
better-than-expected third quarter earnings. Other gold mining stocks were also firmer, boosted by a stronger gold price.

“We continue to believe that despite the challenges being faced in Argentina, Goldcorp remains the best senior gold producer, in terms of quality of asset base, production growth, and a solid balance sheet,” Scotia Capital Tanya Jakusconek said in a note to clients.

Goldcorp now expects to produce between 130,000 ounces and 180,000 ounces of gold from Cerro Negro in 2014, down from a previous forecast of about 400,000 ounces.

Soaring costs and a steep drop in the price of gold have prompted miners of the metal to slow down or cancel new projects around the world.

Along with the Cochenour project in Ontario and Éléonore in Quebec, Cerro Negro is one of Goldcorp’s most important new developments for boosting gold output over the next five years.

Goldcorp will “continue to engage at the provincial and federal levels in Argentina to see constructive solutions to the challenges before us at Cerro Negro”, Chuck Jeannes, Goldcorp’s chief executive said on a conference call.

MEXICAN TAX

The proposed Mexican royalty on mining companies’ pre-tax earnings could push Goldcorp’s overall tax rate in Mexico into the mid-40 percent level and make it one of the highest-cost jurisdictions for the miner, Jeannes said in an interview.

He said the royalty will not push Goldcorp to close down any existing operations in Mexico but it would make the miner think twice about developing new mines.

“My concern is that this will impede new investment in the country as opposed to cause us to shut anything down today,” Jeannes said specifically mentioning Goldcorp’s Camino Rojo project where exploration is continuing.

Goldcorp’s operations in Mexico include the Penasquito mine, which is one of its biggest new mines, Los Filos and El Sauzal. It also has a second development project, Noche Buena.

The royalty proposal is part of President Enrique Pena Nieto’s plan to bolster Mexico’s feeble tax haul, a reform which focuses on reaping more income tax from higher earners, closing corporate loopholes and widening the tax base. Mexico’s Senate technically has to approve the fiscal reform bill by the end of the month. If approved it will be effective from Jan. 1, 2014.

Jeannes said Goldcorp was in talks with government officials on the proposal.

EARNS DOWNS, OUTPUT, COST FORECASTS LARGELYUNCHANGED

Earlier, Goldcorp said its net earnings for the third quarter fell to $5 million, or 1 cent a share, from $498 million, or 61 cents a share, a year earlier on the back of weaker gold prices.

Excluding some one-off and unusual items, profit declined to $190 million, or 23 cents a share, from $441 million, or 54 cents a share, in the year-before quarter. Revenue fell to $929 million from $1.28 billion.

Analysts, on average, had expected earnings of 20 cents a share on revenue of $1.11 billion, according to Thomson Reuters I/B/E/S.

Gold prices have fallen sharply since the beginning of the year, nearing a three-year low at about $1,180 an ounce in late June. Gold was at about $1,347 on Thursday, down 20 percent this year.

Goldcorp’s average realized gold price for the quarter was $1,339 per ounce, down from $1,685 an ounce in the previous quarter. All-in sustaining costs rose to $992 per ounce from $801 an ounce. Gold sales rose 5.5 percent to 652,100 ounces.

For 2013, Goldcorp narrowed its gold production output forecast to between 2.6 million and 2.7 million ounces at an all-in sustaining cost of between $1,050 and $1,100 per ounce. Last quarter it said it expected to produce 2.55 million to 2.8 million gold ounces in 2013, at all-in sustaining costs of $1,000 to $1,100 an ounce.

Capital spending remains on track at $2.6 billion.
Russian steelmaker MMK says Q3 steel output down 7 pct

Russian steel major MMK said third-quarter crude steel output fell 7 percent quarter-on-quarter to 2.9 million tonnes due to routine maintenance at one of its blast furnaces.

MMK, controlled by billionaire Viktor Rashnikov, said it mined 820,000 tonnes of coking coal in the same period, down 23 percent quarter-on-quarter.

Crude steel output for the nine months fell 3 percent year-on-year to 9 million tonnes, it said.

BHP says talks continue over Guinea iron ore stake sale

LONDON, Oct 24 (Reuters) - Mining company BHP Billiton said it was still in talks to sell its stake in a major iron ore deposit in Guinea, despite lengthy negotiations that have prompted questions over the potential for a deal.

Sources familiar with the matter said in December that BHP had selected mining venture B&A Mineracao, co-founded by the former boss of Brazil's Vale Roger Agnelli, as the preferred bidder for its slice of the Mount Nimba iron ore deposit.

Their talks have now dragged almost a year. At least one source familiar with the matter has since said interest on the suitor's side had cooled.

"The discussions continue," BHP CEO Andrew Mackenzie told shareholders at the group's London annual general meeting on Thursday, adding that B&A had not yet reached a decision.

Mount Nimba - like other major iron ore projects in Guinea including the giant Simandou deposit - has faced questions over the stability of the West African country and the possibility of exporting through neighbouring Liberia, which is vital to making mines profitable at current prices.

It has also been unclear whether BHP would continue the talks, started under its previous management team, if buyer appetite eased off and at a time when iron ore prices have held up.

Mackenzie said BHP was in no rush to sell assets cheaply if they are not proving a problem to the company. Yet he also said there was no change of direction in West Africa as BHP concentrates on its Pilbara operations in Australia.

"We have over 100 years of resource in the Pilbara, and by far and away the best opportunity for this company is, in a capital efficient way, to grow the productive capacity of the Pilbara - that overwhelms our strategy for iron ore," he said.

BHP, the world's largest miner, owns just over 40 percent in the venture behind the Mount Nimba deposit, and gold miner Newmont owns another 40 percent.

BHP decided last year to pull out of Mount Nimba as it exits iron ore and other projects across West Africa.

B&A officials could not immediately be reached for comment.

London Mining gets government go-ahead for Greenland project

LONDON, Oct 24 (Reuters) - Iron ore producer London Mining said on Thursday it had received the go-ahead from the Greenland government for a 15 million tonne a year mine in the country, paving the way to attract partners for the project.

The Isua project which will cost an estimated $2.3 billion has been controversial in Greenland as fears its construction would attract a flood of Chinese workers into the country. The government has also been under pressure to revise taxes and royalties for major mining projects.

London Mining, whose flagship project is in Sierra Leone, said the exploitation licence was for 30 years and included a revised royalty agreement which would increase over the lifetime of the project.

The company said the new terms would not impact on the value of the project.

London Mining chief executive Graeme Hossie said the mine in Sierra Leone would remain the company's focus but the licence would help bring in partners.

"The 30-year exploitation licence for Isua is an important validation of the extensive work to date and provides a solid basis for discussions with potential funders and partners required to move the project forward," he said in the statement.

Greenland votes to allow uranium, rare earths mining

NUUK, Oct 25 (Reuters) - Greenland's parliament voted on Thursday to end a decades-long prohibition on mining for radioactive materials like uranium, further opening up the country to investors from Australia to China eager to tap its vast mineral resources.

The move will not only allow the mining of uranium deposits, but also of rare earths, minerals used in 21st century products from wind turbines to hybrid cars and smart phones and that are currently mostly extracted by China.

With sea ice thawing and new Arctic shipping routes opening, the former Cold War ally of the West has emerged from isolation and gained geopolitical attention from the likes of Beijing and Brussels thanks to its untapped mineral wealth.

"We cannot live with unemployment and cost of living increases while our economy is at a standstill. It is therefore necessary that we eliminate zero tolerance towards uranium now," Greenland Prime Minister Aleqa Hammond was quoted as saying by local newspaper Sermitsiaq during the debate.

Hammond's government won the heated debate by 15-14 votes.

The possibility of uranium mining has been criticised by environmental groups. Earlier, a group of non-governmental organisa-
MARKET NEWS (Continued)

tions warned uranium mining in Greenland could threaten the Arctic region's pristine ecological system.

While Greenland is self governing, it is still a part of the Kingdom of Denmark. The former colonial ruler still has a say in security and defence issues and the uranium decision may need to be approved by the Danish parliament - possibly putting the two nations on a diplomatic collision course.

"Concrete actions on the mining and export of uranium will potentially have far-reaching implications for foreign, defence and security policies and are as such a matter for the Kingdom," Denmark's Minister for Trade and European affairs said in a statement after the vote in Greenland's parliament.

Greenland's "zero tolerance" policy on mining radioactive materials is inherited from Denmark, but the island is keen to develop mining to help pay for welfare and jobs in this country with a population of around 57,000 people, mostly Inuits.

Since Greenland won self-government in 2009, most politicians have aimed for growing autonomy and eventual independence.

The more revenues from mining or oil, the more Greenland means itself off Denmark's annual grant that accounts for more than half the island's budget.

One rare earth deposit being explored by Australian-owned Greenland Minerals and Energy could be one of the largest outside China, which accounts for more than 90 percent of global production.

But still, mining production could be a long way off.

"I think the Danish government is prepared for the no-tolerance to be lifted" said Cindy Vestergaard, senior researcher at Danish Institute for International Studies.

"After that the Greenlanders and the Danes are going to start hammering all the legal aspects. We will not be mining on Friday, nor next year, or 2015."

Separately, iron ore producer London Mining said on Thursday it had received the go-ahead from the Greenland government for a 15 million tonne a year mine in the country, paving the way to attract partners for the project.

The Isua project which will cost an estimated $2.3 billion has been controversial in Greenland as fears its construction would attract a flood of Chinese workers into the country.
MARKET REVIEW

METALS-Copper set to end down for 3rd week in four on demand doubts

By Melanie Burton

SINGAPORE, Oct 25 (Reuters) - London copper held steady but was set to close lower for a third week in four as fitful global factory growth and fears China will clamp down on credit tarnished the outlook for metals demand.

China's central bank added fuel to fears on Thursday it was clamping down on inflation risks as it allowed cash to drain from the financial system for a second straight week, sparking a jump in short-term rates and sideling appetite for risk.

"The longer China prolongs the recent tightening, the more it's going to squeeze out liquidity and raise the risk of a more significant pull back in demand in general," said Thomas Lam, chief economist at DMG & Partners Securities in Singapore.

"The best growth years for China are probably behind us," said Lam, adding that there was little in the way of global growth prospects to give metals prices a lift.

Factories in China boosted production this month, but U.S. manufacturing output fell for the first time in four years while the euro zone economy lost momentum, surveys on Thursday showed.

Three-month copper on the London Metal Exchange edged up 0.2 percent to $7,186.50 a tonne by 0315 GMT from the previous session when it finished little changed.

Copper prices fell to the lowest since Oct. 11 at $7,137 a tonne on Thursday. Prices were set to close the week down by around 1 percent and remain more than 9 percent off this year.

The most-traded January copper contract on the Shanghai Futures Exchange was flat at 51,680 yuan ($8,500) a tonne.

Other metals looked set to close flat or slightly higher, supported by consensus shifting for the United States to start curtailing its huge bond-buying program pushing out to next year, which kept the dollar near a two-year low against the euro.

A weaker dollar makes metals cheaper for holders of other currencies.

LME nickel was set to log gains of more than 3 percent for the week, as prospects Indonesia may turn off supply next year triggered a technical rally.

In other news, Greenland's parliament voted on Thursday to end a decades-long prohibition on mining for radioactive materials like uranium, further opening up the country to investors from Australia to China eager to tap its vast mineral resources.

The U.S. Commodity Futures Trading Commission will release its weekly commitments of traders reports over the next two weekends as it resumes functions after the partial U.S. government shutdown, starting with the report for Oct. 4 on Friday.

FOREX-Dollar on defensive, hits fresh 2-year low vs euro

By Lisa Twaronite and Masayuki Kitano

TOKYO/SINGAPORE, Oct 25 (Reuters) - The dollar set a fresh two-year low versus the euro on Friday, pressured by strengthened expectations the U.S. Federal Reserve will maintain its asset purchases through early next year.

The dollar also set a fresh 8-1/2-month low versus a basket of currencies and slipped to a two-week low against the yen.

The euro edged up 0.2 percent to $1.3825 and rose to as high as $1.3833, its highest level since November 2011.

The single currency shrugged off data the previous day showing the pace of growth in euro zone business unexpectedly eased this month as global data suggested the recovery remains fragile elsewhere as well, with U.S. manufacturing output dropping for the first time in four years.

While there is some caution about the euro's outlook in the wake of its recent gains, the single currency will probably stay firm over the next few months, said Teppei Ino, an analyst for the Bank of Tokyo-Mitsubishi UFJ in Singapore.

"I think everybody is wondering whether it is really heading toward $1.40," Ino said.

Still, the euro seems likely to be supported over the next few months, given the backdrop of dollar weakness, he said.

"If the time frame that you're looking at is the rest of this year, it's hard to say that the euro will be weak," Ino said.

In the near term, the euro could take its cues from the German Ifo survey due on Friday.

The dollar index, which measures the greenback's value against a basket of currencies, touched an 8-1/2-month low of 78.998 on Thursday, according to Reuters calculations.

The dollar index is down about 0.8 percent for the week, having weakened 3.4 percent in October and 11.5 percent this year.

The single currency shrugged off data the previous day showing factories in China boosted production this month, but U.S. manufacturing output dropped for the first time in four years.

The euro is up 0.3 percent versus the yen for the month.

Although the expectations for the Fed to keep its massive bond-buying stimulus for longer remain intact, it's hard to say that the euro will be weak," Ino said.

Against the yen, the dollar set a two-week low of 96.94 yen and last stood at 97.00 yen, down 0.3 percent on the day.

Although the expectations for the Fed to keep its massive bond-buying stimulus for longer tend to boost risk appetite and hurt the safe haven yen, the dollar has struggled versus the yen this week as U.S. bond yields have fallen, eroding the greenback's yield attraction.

But with the 10-year Japanese government bond yield wallowing at even lower levels and having slipped below 0.60 percent on Thursday for the first time since May 9, a focus is whether Japanese investors will step up their overseas investments.

"As the JPY weakening trend strengthened over the past year, the main JPY sellers have been foreign investors, especially hedge funds," said Citi forex strategists in a research note.
MARKET REVIEW (Continued)

These early bets that Japanese investors would increase overseas investments failed to materialise, as Japanese yields did not fall enough to raise the appeal of overseas investments, and institutions instead repatriated funds.

"Now that JGB yields are passing the 'yield threshold' we are seeing an increasing likelihood that Japanese investors will finally invest more overseas," the Citi strategists said.

PRECIOUS-Gold set for second weekly gain on U.S. stimulus hopes

By A. Ananthalakshmi

SINGAPORE, Oct 25 (Reuters) - Gold was hovering near a one-month peak y and looked set to end higher for a second straight week on hopes that weak U.S. data would deter the Federal Reserve from starting to scale back its economic stimulus measures this year.

The number of Americans filing new claims for unemployment benefits fell less than expected last week, while U.S. manufacturing grew at its slowest pace in a year in early October, data showed on Thursday.

Spot gold had eased 0.3 percent to $1,342.21 an ounce by 0630 GMT but was still not too far from the $1,351.61 hit on Thursday, the highest since Sept. 20. The metal has gained about 2 percent this week.

"Weak employment data signals a positive effect for gold as markets adjust their expectations regarding a tapering (of the U.S. stimulus)," said Chen Min, a precious metals analyst at Jinrui Futures in Shenzhen.

"However, it is still too early to reach the conclusion that the U.S. recovery is stagnant," Chen said, adding the flow of data had been disrupted by a partial government shutdown earlier this month caused by political wrangling over the budget.

Chen and some other analysts believe gold prices do not have much room to rise as investor sentiment has been dampened by volatile price movements this year, outflows from exchange-traded funds and a global economic recovery.

After 12 years of gains, gold has fallen nearly 20 percent this year on fears the Fed would begin cutting back its easy-money policy by trimming its $85 billion monthly bond purchases, which have fuelled gold's appeal as a hedge against inflation.

But the metal has rallied 8 percent, or nearly $100 an ounce, in less than two weeks as weak U.S. economic data and lingering budget uncertainties in Washington increased gold's safe-haven appeal.

"The recent trend in gold and its volatile reaction to the most recent economic release show the market is still heavily data-dependent for price direction," HSBC analysts wrote in a note.

"While we are bullish on gold longer term, further gains may be difficult to achieve in the near term."

PHYSICAL DEMAND

The gain in spot prices has done nothing to revive soft physical demand in most of Asia and elsewhere.

Premiums on the Shanghai Gold Exchange fell to multi-month lows of $2 an ounce on Friday. That compares to highs of $30 seen in April-May.

However, in India premiums were at a record high of $120 an ounce as dealers struggled to meet festive demand amid tight supplies.