Gold price drop jolts West Africa from mining dreams

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BASE METALS: London copper edged down, but was holding above a two-week low in the previous session, as hopes the U.S. Federal Reserve will maintain its massive stimulus programme into next year underpinned prices.

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Weak U.S. economic data and fears top consumer China may tighten credit have eroded the outlook for metals demand, with LME copper falling almost 1 percent last week.

PRECIOUS METALS: Gold was hovering near five-week highs as traders bet the U.S. Federal Reserve would stick with its bullion-friendly stimulus measures at a policy meeting later this week.

"We believe the tapering will definitely be delayed and that's positive for precious metals," said Brian Lan, managing director of GoldSilver Central Pte Ltd. "Gold prices will close above $1,400 by the end of the year."

FOREX: The dollar licked its wounds, steadying against major counterparts before the U.S. Federal Reserve’s policy-setting meeting following a testing week in which it tumbled to two-year lows against the euro.

Economists and market participants widely expect Federal Open Market Committee members, meeting on Tuesday and Wednesday, to keep the Fed's bond-buying stimulus unchanged at $85 billion per month.

I think everyone expects it to be dovish," said Gareth Berry, Singapore-based G10 FX strategist for UBS, referring to the Fed's meeting this week.
Gold price drop jolts West Africa from mining dreams

By Joe Bavier and Matthew Mpoke Bigg

ABIDJAN/ACCRA, Oct 25 (Reuters) - This year's drop in world gold prices has been deeply sobering for West African countries, from established producer Ghana to promising newcomer Ivory Coast, whose prospects of mineral wealth are being snatched away.

As miners' stock prices plummet and they have to consider suspending or halting new projects, many fear the dream that inspired West Africa's gold rush may be gone for good and regional economies may be in for an abrupt awakening.

Just a year ago, there was reason to believe in the golden future of a region that had long been handicapped by challenging terrain, underdeveloped infrastructure and political risk.

Economic uncertainty was fuelling demand for gold and traditional producers were struggling to keep up.

Until July, South Africa - Africa's largest gold producer and the world's number five exporter - had seen output decline for 27 consecutive months.

West Africa appeared destined take up some of the slack. From 6.7 million ounces - around 8 percent of the global supply - in 2012, output was expected to rise to 11 million ounces by 2015, mostly from production in the region's top exporter Ghana.

Investors pumped money into companies - many of them junior - that had a toehold in the region.

"The mining industry was in a state of over-exuberance before the correction," Randgold Resources Mark Bristow told Reuters.

"In my mind, it wasn't sustainable ... There has been a lot of mining development that hasn't given value to shareholders or the host governments."

Though gold prices had steadily risen, so too had the industry-wide costs of mining lower and lower ore grades. In West Africa, added factors like high energy prices further inflated costs.

Gold prices rallied from around $250 an ounce in 2001 to a record $1,920.30 an ounce a decade later but are set to snap 12 years of gains in 2013 after falling by more than a fifth in the year to date.

When the bubble burst, miners large and small were hit hard.

BURSTING BUBBLE

Africa’s biggest gold producer, AngloGold Ashanti said in August its cost structure in Ghana was unsustainable and it would make cutbacks. It suspended excavation last month at the Yatela Mine in Mali, which it owns with Canadian mid-tier miner .

Canada's Kinross Gold Corp recorded a net loss in the fourth quarter of 2012 due to two mines in Mauritania and Ghana. It now plans to cut 300 jobs and has frozen expansion in Mauritania until at least 2015.

Endeavour Mining, which has three gold mines producing more than 300,000 ounces per year in Mali, Ghana and Burkina Faso, has also planned cuts.

"There's no way around it but to suck it in and hold your breath," Neil Woodyer, the company's CEO, told Reuters.

While miners already in production may be able to survive by tightening their belts and paying prices don't fall further, the scores of juniors who bet on West Africa in the past few years won't get off so easily.

Nearly 12 percent of all new gold discoveries over the last two decades have been in West Africa, a fact that has helped small miners raise exploration funds in Toronto, Sydney and London's junior AIM market.

Nowhere was this more true than in Ivory Coast, which had long neglected mining in favour of agricultural commodities like cocoa and has only three producing mines. Its untapped gold potential fuelled a wave of interest after the end of a decade-long political crisis in 2011.

But with gold stocks losing on average 40-50 percent of their value since January, financing has dried up and work under Ivory Coast's 81 exploration permits has slowed to a trickle.

"There are very few that are now active. I don't know if it is even 10 percent," said Nouho Kone, president of the Professional Grouping of Ivory Coast Miners.

"Most projects are so little advanced that practically nothing is proven. They're so far from being able to estimate their reserves that the risks for investors are big."

Exploration is in a similar holding pattern across the region.

PAIN AHEAD

With the U.S. Federal Reserve expected to roll back its quantitative easing programme, many analysts believe gold prices may fall further as investors switch to assets offering better returns.

For mining-dependent regional economies, the consequences could be dire.

Although Ghana's current economic boom is often chalked up to its new oil wealth, its gold exports were worth $5.6 billion last year, nearly as much as oil and cocoa combined.

Gold contributed 27 percent of the country's foreign exchange and furnished more than $700 million to government coffers, according to data from Ghana Chamber of Mines (GCM).

"We are not going to repeat that feat this year. Payment to the GRA (Ghana Revenue Authority) is going to shrink," said Toni Aubynn, GCM chief executive.

The impact on Africa's third biggest producer Mali, where gold accounts for 75 percent of export receipts and 25 percent of GDP, is potentially even worse. Just two mines, Sadiola and Morila, historically accounted for 80 percent of Mali's output.
Freeport switches to LME for cobalt pricing amid benchmark furor

NEW YORK, Oct 25 (Reuters) - Freeport-McMoRan Copper & Gold Inc. said on Friday it will use London Metal Exchange pricing data for some $200 million worth of annual cobalt sales, shifting from a published benchmark that has been an industry standard for decades.

Freeport said it will turn to LME-based pricing for cobalt and cobalt hydroxide supply contracts from Jan. 1 2014, instead of Metal Bulletin, which assesses benchmark prices for global metals twice a week.

The U.S. copper and cobalt producer linked the move to improving trading volumes on the London exchange's youngest contract.

Also, increased regulatory scrutiny in the wake of the Libor rate-rigging scandal and the Platts oil-price probe has pushed commodity investors, traders, end users and producers to clear trades on exchanges. This is considered more transparent than use of published prices, and less vulnerable to manipulation.

It is unclear if other producers, traders or end users will follow the lead of Freeport, one of the world's biggest cobalt producers whose move reflects growing volume in the minor metal contract that was launched in February 2010.

"We believe there is general acceptance amongst customers and supplies to move to LME-based pricing for cobalt," said Freeport senior vice president David Elliott in a statement.

The LME's copper contract is used as the benchmark for global trade.

Even so, news of Freeport's decision comes at a sensitive time for the 136-year old exchange, which has been slapped with lawsuits and roiled by regulatory scrutiny over its handling of its warehousing policy.

KEY PRODUCER SUPPORT

Freeport sold just over 11,000 tonnes of cobalt, which is mainly used in magnets, catalyst and super alloys for gas turbine blades in aircrafts, for around $195 million last year, according to its 2012 annual report.

That equates to almost 15 percent of global annual output.

Luring a big producer to use a contract is viewed as key for a new contract's success.

Trading in the LME’s aluminum contract, now by far its biggest by volume and open interest, only took off when producers started pricing off it some seven years after its launch in 1977.

Still the cobalt contract is tiny compared with the LME’s more established base metals contracts and even compared with its steel billet product which has struggled amid stiff competition from rival exchanges.

In the first nine months of this year, LME cobalt turnover rose to 10,720 contracts, up 5 percent from the same period of 2012, according to LME data.

But open interest, a reflection of liquidity in a market, was just 675 lots on Wednesday, the most recent exchange data.

That's less than 1 percent of global annual output.

It also compares with volume of almost 50 million lots of primary aluminium between January and September and open interest of 1.2 million lots, equivalent to 30 million tonnes.

HEIGHTENED REGULATION

Efforts to more rigorously regulate financial benchmarks in the wake of the scandals have unnerved some metals traders that rely on the published prices for their contracts.

Metal Bulletin has said earlier this year that several companies had stopped contributing to the assessment since the Libor incident and Platts probe.

The draft law follows public outrage at European banks for fixing the Libor late last year and an European probe this year into suspected manipulation of oil benchmarks compiled by Platts, part of McGraw Hill Financial Inc.

Metal Bulletin which canvasses producers, consumers, brokers, and traders for their assessment of a metal's benchmark price.

The identity of these participants is not revealed, and the assessments they give can be based on bids and offers rather than actual deals done.

Freeport's Climax molybdenum subsidiary is not affected by the change, it said.

The LME’s molybdenum contract, launched at the same time as cobalt, has not been as successful as cobalt, with just over 400 contracts traded in the first nine months of the year and 41 futures contracts in open interest.

Turkey, Kazakhstan raise gold reserves in September

NEW YORK, Oct 26 (Reuters) - Turkey and Kazakhstan raised their gold holdings in September, while Russia's bullion reserves eased, according to preliminary data from the International Monetary Fund.

Investors are closely monitoring any possible shift in central bank attitudes toward gold after bullion prices rose to a three-month high above $1,430 an ounce on Aug. 28. Spot gold XAU= edged up 0.3 percent to $1,350 on Friday.

Turkey's central bank raised its gold holdings by 2.91 tonnes to 490.261 tonnes in September, extending its gold-buying trend to a third consecutive month, preliminary data from the International Monetary Fund showed.

Turkey, which has the world's 11th-largest gold reserve, also lifted its holdings by 23 tonnes in August to 487 tonnes. Turkey's central bank last year allowed commercial banks to hold a portion of their lira reserves in gold.
Kazakhstan, the central Asian country which has been an active buyer in the official-gold sector, bought 2.5 tonnes gold to 137 tonnes in September, the IMF's International Financial Statistics report showed.

Russia, which has the world's seventh largest reserves of gold, reported a 0.4 tonne decrease in September to bring the country's total to 1,015.1 tonnes, according to the IMF's data.

In August, Russia boosted its holdings by about 13 tonnes to 1,016 tonnes, the biggest gain since December, the IMF data showed.

Bullion holdings by central banks are keenly watched by gold investors since the group became net buyers in 2010 after two decades as net sellers. The 2008 global economic crisis triggered resurgent official-sector interest in gold.

A change in central banks' buying and selling patterns tend to affect global gold prices.

In April, news that Cyprus was looking to sell gold reserves to ease its financial burden sent spot prices falling by the most in 30 years.

Year to date, gold was down 19 percent, at risk of an annual loss after 12 straight years of gains.

Miner Noricum wants Austrian gold to shine

By Sarah Young

LONDON, Oct 25 (Reuters) - Noricum Gold, a miner listed on London's junior market, said it could revive Austria's gold mining industry by 2015 by digging gold from a site which was last used to supply arsenic in the 1930s.

Austria has a history of gold mining which dates back over 2,000 years to Roman times. The country, more famous for its ski resorts and idyllic green pastures than what is under the ground, today mines iron-ore, talc and tungsten.

Noricum, a minnow worth around 10 million pounds ($16 million), has been exploring at its Rotgulden licence in southern Austria since 2011.

It expects to be able to confirm that it has an initial resource of up to 100,000 ounces of gold by next year, ahead of further potential growth when it explores the rest of the area.

"On a wider regional scale, we're potentially looking at a million ounce-plus high-grade resource once we get out and start drilling these other targets," Noricum's managing director Greg Kuenzel said in an interview.

At more than a million ounces, Noricum would be a Europe-based rival to other London-listed gold miners, which mainly work in Africa. They include Burkina Faso-focused Amara Mining and Shanta Gold, active in Tanzania.

Mining companies are under pressure from increasingly cautious investors to move away from projects in non-traditional mining countries where a lack of good roads, railways, water and power, as well as skilled workers, can hike costs.

Noricum said it expected to start producing between 5,000 and 10,000 ounces of gold annually from 2015 and would be able to use a ready-made plant to process it, keeping start-up costs to an estimated $2 million to $3 million.

"When you take into account the savings from the logistics side of things when you're comparing it to other jurisdictions more commonly associated with gold exploration, I think we come out in front," he said.

The estimated cost of production would be in the region of $400 to $800 per ounce of gold, Kuenzel said.

That level would compare favourably with the cost of production at some medium-sized Africa-focused companies, where recent production costs have come in at over $1,000 per ounce in a year which has seen gold prices plunge nearly 20 percent.

Spot gold was trading at around $1,342 per ounce on Friday. Kuenzel said he did not expect the price of gold to fall beyond $1,200 an ounce.

TRADING PLACES

LME board makes decision on warehousing, gives no details

By Eric Onstad and Veronica Brown

LONDON, Oct 25 (Reuters) - The London Metal Exchange (LME) decided on Friday whether to overhaul its controversial warehousing network which is plagued by backlogs, but said it would only reveal details later.

The world's biggest and oldest metals marketplace has come under increasing regulatory and legal scrutiny over its metal storage practices, with complaints about long queues to withdraw physical metal from its warehouses.

"An in-principle decision has been made, and an announcement will be made in due course with the results and details of the consultation," a brief emailed statement said following an LME board meeting.

The statement did not say why the LME - acquired by Hong Kong Exchanges and Clearing last year for $2.2 billion - was delaying the announcement and spokeswoman Miriam Heywood said no further comment was available.

In July, the LME proposed new rules to overhaul the delivery system from next April that would force warehouses to release more stocks once the wait-time breaches 100 days.

An industry source said he had no knowledge of the decision, but expected that the proposals would be adopted.
"I'd be really surprised if they moved away from the preliminary plan. They've done a lot of work, so I don't see why they'd change," said the source, who declined to be identified. "They've suitably upset enough people."

COMPLAINTS, LAWSUITS

Clients of the warehouses say the system inflates prices for aluminium, mainly used in packaging and transport, even though the market is in global oversupply.

This has resulted in U.S.-based lawsuits by consumers, distributors and others alleging aluminium price-fixing and anti-competitive behaviour by investment banks, large trading houses and the LME.

Earlier this month the LME's new chief executive Garry Jones said he was ready to fight the lawsuits, and that critics should not expect a silver bullet to fix their concerns with it.

The LME has been caught in the middle of criticism of the proposed new rules from both major producers and end-users of the metal.

Consumers, including brewer MillerCoors LLC and aluminium products maker Novelis, want drastic changes to warehousing rules to bring down what they pay to get metal, known as a premium.

Producers, however, are worried that drastic changes could unleash the stocks onto the market, hitting a price that is already languishing.

Both Russia's United Company Rusal and U.S. Alcoa Inc, the world's two biggest aluminium producers, have publicly lobbied for the LME to leave its warehousing rules unchanged.

The LME's crisis in warehousing has also emboldened rivals. Earlier this month, the U.S.-based CME Group Inc announced plans to launch a physically deliverable aluminium futures contract that could compete with the LME's $54 billion market.

Overproduction in the aluminium sector has sent record amounts of aluminium into warehouses since the global financial crisis hit in 2008.

LME warehouses hold 5.4 million tonnes of the metal, but it is concentrated in only two locations. Two-thirds of the total is stuffed into sheds in the U.S. automaking centre of Detroit and the Dutch port of Vlissingen.

Since LME rules allow warehouse operator to deliver only a trickle of metal to customers compared to how much they take in, huge backlogs have built up to access the metal.

This has been lucrative for the warehouse owners since they earn rental income for the metal caught in the backlogs.

Specs cut gold longs, raise silver, copper length

Oct 25 (Reuters) - Hedge funds and money managers cut bullish bets in futures and options of U.S. gold markets for the week ended Oct. 1, but they increased their net longs in silver and copper futures, a report by the Commodity Futures Trading Commission showed on Friday.

Earlier this week, the CFTC said it will release its postponed weekly commitments of traders reports over the next two weeks, as it resumes function after the partial U.S. government shutdown.

The group, known as Managed Money, cut its net longs in gold by 5,716 lots to 72,938, CFTC data showed.

Speculators raised net longs in silver by 410 contracts to 12,607, and boosted bullish bets in copper futures and options by 2,549 lots to a net long of 7,832, according to the CFTC.

Among platinum group metals, speculators lowered platinum futures and options net longs by 3,056 to 26,046 contracts, while they increased bullish bets in palladium longs by 840 to 22,882 lots.
MARKET NEWS

China Oct average daily steel output extends fall-CISA

SHANGHAI, Oct 28 (Reuters) - China's average daily crude steel output was 2.107 million tonnes in the second 10 days of October, down 1 percent from the preceding Oct 1-10 period, data from the China Iron & Steel Association (CISA) showed on Monday.

CISA estimates China's total production based on its members, including more than 80 large steel mills that account for about 80 percent of total steel output.

CISA members produced 1.712 million tonnes of crude steel on an average daily basis during the period, declining 3 percent from the preceding period, data showed.

Egypt's Ezz Steel plans $1 billion investment

By Hadeel Al Shalchi

CAIRO, Oct 27 (Reuters) - Egypt's largest steel maker Ezz Steel plans to invest $1 billion to build two steel plants in the country once the government pushes through a stimulus package to boost spending on large infrastructure projects, a firm official said.

Kamel Galal, the company's investor relations manager, told Reuters that his firm was planning to build the plants in Ain el-Sokhna, a region near the strategic Suez Canal.

He did not give a time frame for the projects. One would be a direct reduced iron factory with an annual capacity of 1.85 million tonnes and the second a flat steel plant with a capacity of 1.2 million tonnes.

"We already have the land and the licences for two brand new factories," he said.

The economic slump, violent unrest and political disarray since a popular uprising toppled autocrat Hosni Mubarak in 2011 has hurt demand for cement and steel used in construction.

Steel mills and other energy-intensive industries have also faced power cuts or been forced to buy electricity from private suppliers at high prices.

The army-backed government, which took power after Islamist President Mohamed Mursi was ousted in July, is promising to resolve problems such as power shortages, using some of the $12 billion in aid promised by Egypt's wealthy Gulf Arab allies.

Earlier this month the government announced it would spend 29.6 billion Egyptian pounds ($4.30 billion) on a stimulus package aimed to start showing, "It's a matter of 'Show me the money'. We have to start seeing the government's stimulus package realized. The direction is great, but it needs to start showing," Galal said.

MORE CHALLENGES

Galal said the government had to commit to spending on large infrastructure projects which had all but "disappeared".

Saudi Arabia, Kuwait and the United Arab Emirates, fiercely opposed to Mursi's Muslim Brotherhood movement, promised more than $12 billion in loans, grants and fuel shipments after the army, prompted by mass protests, overthrew the country's first democratically elected president.

But Ezz, a leading Middle East steel producer, faces an added challenge besides the economy.

Founder Ahmed Ezz quit the board of Ezz Steel and its subsidiary Ezz Dekheila in 2011 to fight corruption charges as prosecutors investigated figures closely associated with the ousted government of Hosni Mubarak.

Ezz, a top official in Mubarak's now disbanded political party, was jailed in 2011.

"Of course Ahmed Ezz being in jail has affected us globally," Galal said. "Banks delayed their loans, the country changed the way it viewed us, the way people generally treated us changed."

He said a direct reduced iron factory was due to come online in January 2015 that should shave $50 to $100 off the cost of each tonne of iron it makes.

ThyssenKrupp could set up steel processing in Brazil - report

FRANKFURT, Oct 25 (Reuters) - Germany's ThyssenKrupp could seek a partner to set up steel processing in Brazil if it fails to sell its steel mill in the Latin American country, the Wall Street Journal Deutschland reported, citing sources.

ThyssenKrupp has for more than a year been trying to offload its Steel Americas business, comprising the steel slab-producing mill in Brazil and a rolling mill in Alabama.

The Brazil plant has the capacity to produce up to 5 million tonnes of slab a year, part of which is sold to the Alabama mill for processing into flat products shipped mostly to carmakers.

A new processing plant in Brazil could take up the output of slabs that ThyssenKrupp can no longer ship to its plant in Alabama if it finds a buyer for only the U.S. plant, the WSJ Deutschland said.

ThyssenKrupp reiterated that it was in "far advanced" talks with one bidder over the sale of both Steel Americas plants and aimed to strike a deal soon. It is also in talks with other interested parties, it said, without providing details.

ThyssenKrupp owns 73 percent of the plant in Brazil, called CSA, while the rest belongs to Brazil's Vale.

A source familiar with the situation told Reuters last month that ThyssenKrupp could give up trying to sell the plant in Brazil, having made no progress in sales negotiations with Companhia Siderurgica Nacional.
MARKET REVIEW

METALS-London copper eases, US stimulus hopes lend support

By Melanie Burton

SINGAPORE, Oct 28 (Reuters) - London copper edged down, but was holding above a two-week low hit in the previous session, as hopes the U.S. Federal Reserve will maintain its massive stimulus programme into next year underpinned prices.

Weak U.S. economic data and fears top consumer China may tighten credit have eroded the outlook for metals demand, with LME copper falling almost 1 percent last week.

"I don't think there will be any huge surprises coming out of this week's Federal Reserve meeting - they will leave asset purchases on hold," said Tim Radford of Sydney-based advisor Rivkin.

Asset purchases tend to be supportive for base metals by eroding the dollar, and by increasing liquidity available to business and commodities investors.

"We have Chinese PMI (purchasing manufacturer's index) on Friday. If we see any upside in those numbers we'll probably see support for metals. For now commodity markets are trapped in range and I can't see them going anywhere until we see some real economic trends establish themselves," Radford said.

Three-month copper on the London Metal Exchange eased by 0.2 percent to $7,170 a tonne by 0249 GMT, but above Friday's low of $7,113. LME copper dropped last week for a third week in four, but remains in the wider $7,000-7,420 range it has held since early August.

The most-traded January copper contract on the Shanghai Futures Exchange edged up 0.1 percent to 51,470 yuan ($8,500) a tonne.

Orders for a wide range of U.S.-made capital goods plummeted in September and consumer sentiment weakened sharply in October, signs that a budget battle in Washington has held back the economy.

Economists and market participants widely expect Federal Open Market Committee members to hold steady on purchasing $85 billion of assets next month when they meet on Tuesday and Wednesday. Most expect the central bank to delay tapering its stimulus to at least March next year.

China money rates and policy are also in focus after they shot up last week to their highest levels since June as regulators signalled they are considering mild tightening to rein in rampant inflation in the country's housing market.

Metals imports are commonly used as a way to circumvent the country's strict currency controls, as traders obtain dollar based credit to import metals that are then resold on the local market, with the money raised used to invest in higher yielding local assets like real estate. A clamp down on this sector, or on credit, could erode metals demand.

A top Chinese leader has promised "unprecedented" economic and societal reforms at the Communist Party's much anticipated plenum meeting next month, state media reported on Saturday.

Before that, markets will get a reading on China's manufacturing activity, with official PMIs on Nov. 1. Reflecting an improving view on copper for the week ended Oct. 1, hedge funds and money managers increased their net longs in copper futures and options by 2,549 lots to 7,832, according to the CFTC as it begins to release its postponed reports after the partial U.S. government shutdown.

In other metals, broker Triland said zinc prices may rise further this week, as growing confidence in the auto and steel sectors could spark fresh chart-based buying, since prices closed above the 200-moving day average on Friday.

"If consumers have run down stocks as much as possible, as we hear they have done, they may well be forced to pay higher prices before too long," it added in research note.

LME zinc traded down 0.4 percent on Monday and has shed around 5.5 percent this year, but is still the second best performer in a weak base metals complex, behind tin with losses of around one percent.

PRECIOUS-Gold hovers near 5-week high as Fed policy meeting looms

By A. Ananthalakshmi

SINGAPORE, Oct 28 (Reuters) - Gold was hovering near five-week highs as traders bet the U.S. Federal Reserve would stick with its bullion-friendly stimulus measures at a policy meeting later this week.

Bullion has fallen nearly 20 percent this year as investors dumped gold holdings for better-performing stock markets and on fears that the end of easy money from the U.S. central bank would dim the metal's inflation-hedge appeal.

In the past two weeks, however, gold has gained about 6 percent as weak U.S. data and budget battles in Washington looked set to deter the Fed from scaling back asset purchases.

"We believe the tapering will definitely be delayed and that's positive for precious metals," said Brian Lan, managing director of GoldSilver Central Pte Ltd. "Gold prices will close above $1,400 by the end of the year."

Spot gold was down 0.2 percent at $1,349.96 an ounce by 0628 GMT. On Friday, the metal hit $1,355.20 - its highest since Sept. 20.

Platinum XPT= gained as much as 0.7 percent on fears that strikes in South Africa could curb supply.

The Fed's policy-setting committee will release a statement on its decision on Wednesday at the end of a two-day meeting.
MARKET REVIEW  (Continued)

The central bank is unlikely to make any shift in monetary policy this week and will continue to buy back bonds at an $85 billion monthly rate as it waits for more evidence of how badly Washington's budget battle has hurt the economy.

Traders are also closely monitoring physical demand in Asia, the biggest consumer of gold, where demand has become subdued following a big rush earlier this year.

"Physical demand is quiet because of higher prices. The only market that is buying is India," said Lan.

FOREX-Dollar steadies after selloff; focus on Fed, China money rates

By Lisa Twaronite and Masayuki Kitano

TOKYO/SINGAPORE, Oct 28 (Reuters) - The dollar licked its wounds, steadying against major counterparts before the U.S. Federal Reserve’s policy-setting meeting following a testing week in which it tumbled to two-year lows against the euro.

Economists and market participants widely expect Federal Open Market Committee members, meeting on Tuesday and Wednesday, to keep the Fed’s bond-buying stimulus unchanged at $85 billion per month.

Most expect the central bank to delay tapering its stimulus until at least March next year.

"I think everyone expects it to be dovish," said Gareth Berry, Singapore-based G10 FX strategist for UBS, referring to the Fed’s meeting this week.

"In fact, there’s every likelihood that we’ll see the Fed communicate a willingness to delay before they taper," he said. "That would confirm market expectations and would probably lead to an extension of this dollar weakness that we’ve been seeing over the last week or so."

Investors will also keep a wary eye on Chinese short-term rates, after they surged last week to their highest level since a June "

"For the coming week, the market will continue to focus on the development in China’s money market and the outcome of the U.S. economic data/FOMC rate decision," strategists at Barclays said in a note to clients.

"While the consensus forecast now looks for March 2014 tapering, their policy decision is ultimately data-dependent and incoming U.S. data are worthy of close attention," they added.

The euro held steady at about $1.3808, after having risen to as high as $1.3833 on Friday, its highest since November 2011 on trading platform EBS.

The euro is testing resistance right at Friday’s high, which coincides with the 61.8 percent retracement of its May 2011 to July 2012 decline.

The euro remained buoyant despite downbeat German Ifo business sentiment data on Friday, which unexpectedly showed a decline for the first time in six months.

For the euro, "we have seen one critical level after another breaking with no visible pullback nor correction," said a trader for a Japanese bank in Singapore.

Against a basket of currencies, the dollar held steady at 79.205, still not far from a near nine-month low of 78.998 touched on Friday.

The dollar added 0.3 percent against the yen to about 97.63 yen, edging away from a more than two-week low of 96.94 yen hit on Friday.

The dollar remained supported against the yen on the view that the yield differential between Japanese government bonds and U.S. Treasuries will persist, as the Fed eventually moves toward tapering its stimulus while the Bank of Japan maintains its ultra-easy stance. The BOJ is widely expected to maintain its monetary policy stimulus at its policy review on Thursday to meet its target of two percent inflation in two years.

At that meeting, the BOJ will also release its latest long-term economic forecasts. Sources close to the central bank have told Reuters that it is expected to revise up economic growth for the fiscal year beginning in April 2014 to around 1.5 percent from the current 1.3 percent.

(Inside Metals is compiled by Pradip Kakoti in Bangalore)

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