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Andy Home is a Reuters columnist. The opinions expressed are his own
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COLUMN-Indonesia's tin market grab gains traction

By Andy Home

LONDON, Oct 29 (Reuters) - Tin trading volumes on Indonesia's International Commodities and Derivatives Exchange (ICDX) exchange have been accelerating this month.

The new market's fast start reflects the Indonesian government's mandate that all exports of the soldering and plating metal must be traded on a local exchange before leaving the country.

That's a strong incentive for local producers to sign up, although not all have done so yet.

The rising volumes on the ICDX, at any rate, promise some relief for international buyers after exports by the world's largest tin exporter plummeted to multi-year lows in September, when the new rules kicked in.

For the longer term, one question is whether the exchange sees volumes grow to match previous "normal" export levels and aids Indonesia's attempt to carve out more pricing power for itself.

That may change the global tin market landscape and would not be such good news for the London Metal Exchange (LME), which currently owns the international tin pricing franchise.

VOLUMES GROW

The very first tin trade on the ICDX took place on Aug. 30 this year. Over the course of September total volumes were 795 tonnes, almost exactly matching the actual level of exports last month.

That in itself says much about the tough line being taken by the Indonesian authorities despite vociferous criticism from some local operators and broader concerns that such resource nationalism may prove counter-productive in terms of future investment in the country.

It's also a marker for the looming clamp down on exports of unprocessed minerals due to come into force at the start of next year.

This month's ICDX volumes have grown to 2,735 tonnes through today. Based on September's correlation of ICDX trading and exports, that should give some idea of what to expect in terms of October export volumes.

Graphic on Indonesian tin exports:
http://link.reuters.com/sag34v

Graphic on ICDX tin trading:
http://link.reuters.com/keg34v

It's worth noting that the most liquid of the five ICDX contracts has been that for tin with a maximum 300 parts per million of lead.

The Indonesian policy on tin exports as first stated was to prohibit all exports failing to meet the higher purity standard of 100 parts per million of lead.

Relaxing that requirement was a key concession to win over the independent producers operating on the tin-rich islands of Bangka and Belitung. Many simply don't have the technology to hit such purity standards.

Looking at the trading patterns over the last two months, the softening of the purity specification has been critical to the increased activity on the ICDX.

The exchange's two highest-purity contracts, for a maximum lead content of 50 ppm and for "4 Nines" (99.99 percent) tin, have recorded turnover of just 30 tonnes and zero respectively.

DISRUPTION CONTAINED (SO FAR)

Even assuming more activity before the end of the month, October's trading volumes and, therefore, export levels will still be far short of historical norms.

Exports averaged 8,800 tonnes per month in the 12-month period prior to the Aug. 30 rule change.

The drop over September and October combined is likely to amount to some 13,000-14,000 tonnes.

Judging by price and stock developments on the LME, the international market is, so far at least, coping with this loss of supply.

Nearby LME spreads flared out at the start of September when it became clear that this latest Indonesian move was no bluff. The cash-to-three-months period flexed into $125 per tonne backwardation at one stage. Right now, though, it is trading in relatively benign contango, although this being tin, a low-liquidity LME contract, that could change just about any time.

LME stocks have fallen by 1,875 tonnes since the start of September but at 12,900 tonnes they are little changed on the start of the year. Cancelled tonnage, meaning metal that has been earmarked for physical departure, has actually fallen from 4,175 at the start of September to a current 3,160 tonnes.

The inference is that consumers and merchants have drawn down existing off-market stocks to compensate for lower Indonesian availability.

Such stocks were probably built in advance of the September deadline for the new export rules. It's noticeable that exports were running at a particularly fast clip in the first eight months of this year, up 11 percent at 68,000 tonnes.

Moreover, there is an awareness that stocks within Indonesia will have been building, particularly among those local producers who haven't yet signed up for trading on the ICDX.

It's only if the export choke lasts for several months that a more dramatic price reaction is likely to emerge.

WHOSE MARKET?
Developments over the last couple of months should leave no doubt as to Indonesia's ambition to establish an alternative pricing mechanism for the tin market.

There are still plenty of hurdles to overcome, first and foremost getting buy-in from all the local producers and from international tin players.

One faction of the Bangka-Belitung tin producers is still lobbying to set up its own local market, using the Jakarta Futures Exchange.

International buyers, meanwhile, remain largely conspicuous by their absence on the ICDX with the notable exception of Japanese trade house Toyota Tsusho.

But the Indonesian authorities can take some comfort from the increased activity on the ICDX in recent weeks and, assuming they don't blink, the obvious minimum outcome is for volumes to grow to match Indonesia's tin export capacity of around 8,000-9,000 tonnes per month.

At first sight that shouldn't alarm the LME's new owners, Hong Kong Exchanges and Clearing. Over nine million tonnes were traded on the LME tin contract last year and the franchise has a deep history working for it.

But a straight volume comparison is not particularly helpful. The LME offers a full forward curve with multiple spreads, all of which go towards that headline volume figure. Tin trading on the ICDX, by contrast, is a simplistic cash auction process. A more like-for-like comparison would be the LME's cash volumes, which were 7,500 tonnes last month and 5,005 tonnes this month through last Friday.

Moreover, LME stocks liquidity is already largely concentrated in southeast Asia, attesting to trade flows in the international tin market. There are just 30 registered tonnes in Europe (at Rotterdam) and 110 tonnes in the U.S. (at Baltimore). Everything else is split between Singapore, South Korean and Malaysian locations.

The LME may own the international tin trading franchise, but the distribution of stocks highlights the increasing shift of physical liquidity to the Asian region.

### PRODUCER PRICING

What the LME contract has going for it is credibility.

The Indonesian authorities have been explicit in their ambition to achieve higher prices for their tin exports.

This has been a long, long process, beginning with the original attempts to control the fractious independent Bangka-Belitung operators.

Preventing exports of non-processed tin and then tightening the purity rules on metal exports have been important further steps.

Forcing exporters to use a local exchange, creating a rival price reference point to the LME, marks the culmination of the process.

But the aim is unchanged. The Indonesian authorities want higher tin prices and the ICDX is intended ultimately to deliver that goal. Actually, it's already happening. The ICDX 300 contract has been trading at a steady premium to the LME contract since the middle of this month.

That means that it risks being no more than a front for cartel-like pricing by a country which enjoys a strangle-hold on tin supply.

The history of producer pricing, in tin as with other commodities, is not a happy one. The danger is always that producers overplay their hand, generating pricing imbalances that ultimately lead to precisely the opposite outcome than that desired, namely a price collapse.

Right now tin buyers will be hoping for increased volumes on the ICDX because that means more exports.

They may take a more ambivalent stance going forwards, if Indonesia uses its newly-emerging pricing power to attempt artificially to control the tin price.

Andy Home is Reuters columnist. The opinions expressed are his/her own.)

### GENERAL NEWS

**Gold miners reduce hedge book in Q2, expected to cut more**

LONDON, Oct 29 (Reuters) - Gold miners are likely to keep cutting their forward sales of the metal this year after reducing outstanding positions by another 16 tonnes in the second quarter, Societe Generale and Thomson Reuters GFMS said on Tuesday. The outstanding volume of gold delta-hedged against producers' hedge contracts fell by 529,000 ounces (16 tonnes) in the second quarter, according to the Global Hedge Book Analysis prepared by SocGen and GFMS.

That took the remaining global hedge book to 3.09 million ounces (96 tonnes), its lowest since the data series began in 2002, the report said.

Hedging future output allows producers to lock in prices but can backfire if spot prices rise above the hedged price. During the financial crisis, miners lost millions of dollars closing out hedged positions as the gold price rallied.
That has left them wary of adding new positions, even after gold prices fell 20 percent this year.

The report showed that 29 companies cut their delta-adjusted positions in the three months to end-June, led by Crocodile Gold with a 270,000 ounce (8 tonne) reduction, while 15 companies increased their positions.

Two-thirds of the added delta-adjusted hedging was attributable to increases at Vancouver-based B2 Gold Corp, Mexico's Minera Frisco and OceanaGold, which operates primarily in New Zealand, the report said.

"Evidence of new hedging activity subsequent to the end of Q2 has been limited so far; producers have instead been seeking to protect margins through cost-containment measures," it said.

"Consequently, we expect the overall trend of global net hedging to persist throughout the remainder of 2013."

Rio Tinto's former boss says miners were "too slow" to react

LONDON, Oct 29 (Reuters) - Mining companies were too slow to respond to changing investor demands from mid-2011 as sentiment deteriorated, failing to spot the wave of change which eventually swept out a generation of executives, the former boss of miner Rio Tinto said on Tuesday.

"We didn't react fast enough," said Tom Albanese, chief executive of Rio Tinto until he was ousted in January - one of a string of executives toppled by writedowns at the world's largest mining firms, as boom-year deals soured.

Recalling Rio's half-year earnings, released in August 2011, Albanese told an industry gathering that the company had felt at the time that it was announcing positive numbers. Indeed, it reported record cash flow and record profits.

Investors, though, were watching screens "filled with red", he said, and the mining group's shares fell. Instead of demanding more growth, investors had begun to feel nervous.

"It felt like panic was setting in... We said this is not us, this is not our problem. We should have said this is us, this is our problem," the U.S.-born mining veteran said, in one of his first public appearances since his departure from Rio.

"At that point the sentiment changed very quickly - a matter of three weeks - and it never turned. It probably took us 18 months to get that."

Albanese left Rio in January 2013, ending his six-year tenure at the top after the world's third-largest mining company announced a $14 billion writedown almost entirely on the value of his two most significant acquisitions, the Alcan aluminium group and Mozambican coal.

The deal to buy Mozambique-focused coal miner Riversdale - pursued as Rio came under pressure to move into what was seen as the next coking coal frontier - completed in June 2011, just months before the turning point Albanese identified.

"Even if we had had that clairvoyance in August 2011, it would have been very hard to turn back," he said of projects approved before that turning point, arguing investors were pushing for growth only months before.

OPPORTUNITY KNOCKS

Since the spring of 2011, five of the world's six largest diversified mining companies have changed their chief executive. Most of these former bosses of major listed firms have since chosen to eschew public markets, preferring private ventures.

Albanese is the only one of the big names to have stayed in the industry with a full-time job at a listed company, albeit a smaller one. He announced last month he had taken a senior advisory role at Indian mining firm Vedanta.

But he said on Tuesday there would be opportunities for rivals who, like Xstrata's Mick Davis or Vale's Roger Agnelli, have chosen private firms to pursue deals at a time he said would prove fruitful as some firms struggle - ahead of an improvement in the sector from 2015.

Davis, ejected from Xstrata after the takeover by Glencore earlier this year, has gone on to set up X-2 Resources, which last month announced it had received $500 million each in backing from trading house Noble and private equity group TPG. Agnelli set up B&A Mineracao last year.

"The market is going to be weak this year and for a period of time," he said. "I look at that, from a mining perspective, as the time to go for consolidation, to build the foundation for the next few years ... to strengthen your position for what should be a pretty good run."

Barrick Gold may raise Pascua-Lama costs once more

TORONTO, Oct 29 (Reuters) - Barrick Gold Corp will likely raise the cost estimate for its huge Pascua-Lama mine project in South America for the third time in less than two years when the world's top gold producer reports results on Thursday.

Much has changed since November, when Toronto-based Barrick pegged the cost of the gold and silver project at $8.5 billion, and markets are anxious to see the company's new capital cost estimate.

High in the Andes, on the border between Chile and Argentina, Pascua-Lama is Barrick's biggest and most important growth project. It's risky, but the potential is great: when and if the mine is completed, it is expected to have exceptionally low operating costs, which could pay dividends for years to come.

Since Barrick released its November estimate, regulators have halted construction on the Chilean side of the project, citing serious environmental violations. Barrick has agreed to build a new water management system to meet their concerns, and said in June it would defer some spending that had been scheduled for 2013 and 2014.
GENERAL NEWS (Continued)

These changes are widely expected to raise the overall cost of the project, possibly by a billion dollars or more. Barrick said in June that it was "focused on minimizing" capital cost increases. "That number could be massive," said Salman Partners analyst David West. "When you’re talking about re-engineering a project, all bets are off. Nobody really knows." But Chris Mancini, analyst at the Gabelli Gold Fund, said he does not think the cost of the new water system will be exorbitant. Gabelli holds some 2.9 million Barrick shares.

"My hope is that it’s not much more than it was last time they updated," he said of the new capital cost estimate.

Barrick’s third quarter results are likely to be overshadowed by the news on Pascua-Lama. Analysts, on average, expect earnings to fall to 50 cents a share, from 85 cents a share a year earlier, according to Thomson Reuters IBES.

Hurt by the problems in Chile, a drop in the price of gold and other issues, Barrick’s shares hit C$14.22 in July, their lowest point since 1992, before rebounding nearly 50 percent. The shares were at C$20.78 on Tuesday.

Because a rise in Pascua-Lama’s capital cost is so widely expected, a modest increase could be seen by markets as good news. Options trading in the stock has been brisk over the past week and upside calls lead downside puts by a factor of five to three, according to options analytics firm Trade Alert. Shares rose 19 percent in the two weeks to Monday’s close.

"The flow has been decidedly bullish, and to see a stock run up into earnings, traders may have already priced in the positive news," said Henry Schwartz, president of Trade Alert.

NEW FINANCING?

Barrick may face questions on Thursday about how it will pay for cost increases at Pascua-Lama. J.P. Morgan analyst John Bridges said in a recent note to clients. He said the company could sell more assets or sign new streaming deals. One source briefed by Barrick on the matter told Reuters that the miner has been considering a further streaming deal to pay for any additional outlays.

But that may be off the table now that ratings agency Standard & Poor's has said it will start classifying streaming deals - where miners get cash upfront in exchange for future sales at a set price - as debt, rather than nondebt financing.

That could make Barrick cautious as S&P has already cut its credit rating on the company twice in the past 15 months.

$10 BILLION QUESTION

The history of cost overruns and delays at Pascua-Lama is extensive. In July 2012, Barrick said the cost of building the project could be as much as $8.0 billion, up from its previous estimate of $4.7 billion to $5.0 billion. Last November it bumped up the top end of the estimate to $8.5 billion.

The latest word is that first production should come by mid-2016. Until the summer of 2012, the mine had been expected to start up sometime in 2013.

Credit Suisse analyst Anita Soni estimated last month that the new capital cost could be $10 billion. RBC Capital Markets analyst Stephen Walker recently pegged the figure at $9.0 billion, but observed that other analysts are more pessimistic.

"The market is concerned that total capital estimate could be well in excess of $10 billion," he wrote.

Any large cost increase is likely to revive calls from some investors for Barrick to suspend the project. But that decision would be complicated by the billions it has already spent.

When it last reported earnings, Barrick had spent about $5.4 billion on Pascua-Lama. The question facing it now is not whether the mine is worth spending $8.5 billion, or even $10 billion, to build. Barrick must ask itself whether the mine is worth the billions still unspent.

The reward could be significant. Pascua-Lama is expected to produce 800,000 to 850,000 ounces of gold a year at bargain basement all-in sustaining costs of only $50 to $200 per ounce in its first five years.

"What's done is done," Mancini said. "From this point forward you have to look at how much more needs to be invested."

TRADING PLACES (Continued)

Specs boost gold, silver longs, cut copper length –CFTC

Oct 29 (Reuters) - Hedge funds and money managers raised bullish bets in futures and options of U.S. gold and silver markets for the week ended Oct. 8, but trimmed their net longs copper, the latest report by the Commodity Futures Trading Commission showed.

The group, known as Managed Money, boosted its net longs in gold by 11,728 lots, or 12 percent, to 84,666, CFTC data showed. Last week, the CFTC said it will release its postponed weekly commitments of traders reports as it resumed function after the partial U.S. government shutdown. The agency expects to resume its regular release schedule on Friday, Nov. 8. (Full Story)

Speculators raised net longs in silver by 2,366 contracts, or 14 percent, to 14,973, but they cut bullish bets in copper futures and options by 3,418 lots, or nearly half, to a net long of 4,414, according to the CFTC.

Among platinum group metals, speculators lowered platinum futures and options net longs by 3,174 to 22,870 contracts, while they decreased bullish bets in palladium longs by 985 to 21,897 lots.
**MARKET NEWS**

**Chile Sept copper output rises 5.4 pct on smoother operations**

Oct 29 (Reuters) - Chile, the world's largest copper producer, mined 489,170 tonnes of the metal in September, a 5.4 percent jump from the year before, boosted by smoother operations at some deposits, the government said on Tuesday.

Chile, which produces one-third of the world's copper, is struggling with dwindling ore grades in many of its aging deposits, although new mines have helped increase output in 2013. "Higher production is explained by the recovery of productive levels in an important mine that operated irregularly during 2012, as well as the higher output clocked this month due to improved operations at copper mines," the INE statistics agency said in its report.

World-No. 3-copper-mine Collahuasi has recovered after a disastrous 2012, with production soaring 43 percent to 297,340 tonnes in the first nine months of this year.

Improved output at the Escondida, the largest copper mine on Earth, has also bolstered output from Chile.

Copper production in the first nine months of the year increased 6.3 percent to roughly 4.24 million tonnes, the INE added. The government forecasts Chile will produce around 5.7 million tonnes of copper this year, an increase of almost 5 percent on last year and a historic high.

Still, copper output in September fell a slight 0.8 percent from August.

**Nippon Steel raises profit forecast on cost cuts, domestic demand**

TOKYO, Oct 30 (Reuters) - Nippon Steel & Sumitomo Metal Corp, the world's No.2 steelmaker, raised its full-year profit forecast on Wednesday on cost cuts and strong steel demand in Japan, lifted by the "Abenomics" stimulus programme.

Japan's overall crude steel production for the April-September period hit a five-year high, buoyed by solid construction demand from government infrastructure spending and a rush to build homes ahead of a sales tax hike next year.

Nippon Steel, Japan's top steel producer, said its recurring profit grew nearly nine-fold to 173.7 billion yen ($1.77 billion), which is pretax and before one-off items, in the April-September half from a profit of 19.5 billion yen a year ago.

It now expects 340 billion yen in recurring profit for the year to March 2014, above the 300 billion yen it forecast three months ago.

The new figure, however, is lower than a consensus estimate of 366.46 billion yen in a poll of 17 analysts in Thomson Reuters I/B/E/S, and compares with year ago profit of 76.9 billion yen.

Helped by market expectation for its earnings recovery, shares in Nippon Steel have gained about 60 percent this year, outperforming the Nikkei average's about 38 percent gain. But, as of 0542 GMT, Nippon Steel shares were down 2.9 percent, underperforming the benchmark, which was up 1.1 percent.

Nippon's upgraded profit forecast flies in the face of a prolonged slump in prices in Asia brought on by massive crude steel output from China.

Last week, POSCO, the world's fifth largest steelmaker, posted its steepest quarterly fall in operating profit so far this year.

**U.S. Steel to partially shut Ontario mill**

TORONTO, Oct 29 (Reuters) - United States Steel Corp X.N said on Tuesday it will permanently shut down iron and steel-making operations at its Hamilton, Ontario, mill at the end of this year.

The integrated mill was idled in 2010, but the steelmaker had not ruled out restarting production if the market improved. Coke-making and steel finishing operations in Hamilton are not affected, said U.S. Steel spokeswoman Courtney Boone.

The decision is a blow to Hamilton, long the center of Canada's steel industry, which has been hit hard by plant closures over the last decade.

"It is disappointing, very disappointing for both our workers and the community in Hamilton that has a long history of making good steel," said United Steelworkers spokesman Tony DePaulo.

U.S. Steel's mills in Hamilton and Nanticoke, Ontario, were the subject of a legal dispute with the Canadian government over job-protection promises made when the company bought Canadian steelmaker Stelco in 2007.

When the conflict was settled in 2011, a Canadian minister said U.S. Steel had agreed to operate both plants until 2015.

"We are in compliance with our agreement with the Government of Canada," said Boone, who declined to comment further.

A spokeswoman for Minister of Industry James Moore said the shutdown is a business decision.

"The government does not get involved in the day-to-day decisions of companies," said spokeswoman Jessica Fletcher, in an emailed statement. "The government's settlement with U.S. Steel contains commitments which provide economic benefit for Canada."

A slowdown in China, the world's biggest consumer and producer of steel, combined with massive excess capacity, has weighed on steelmakers' profits around the world.

At the same time, a fairly strong Canadian dollar has raised costs for U.S.-based manufacturers operating in Canada.
When it was operating, the Hamilton works had an annual raw steelmaking capacity of 2.3 million short tons.

COST CUTTING

Chief Executive Mario Longhi said the Hamilton closure, part of an initiative dubbed "Project Carnegie" after steel magnate Andrew Carnegie, would reduce costs by about $50 million a year. The change will also allow it to shut down two aging coke batteries at Gary Works in Indiana. The company will let some iron ore supply contracts expire in 2013 and 2014.

In Hamilton, 47 nonunionized employees will be affected, Boone said, but the move does not affect any unionized workers. At Gary Works, 120 employees will be reassigned.

U.S. Steel will take a noncash charge of about $225 million in the fourth quarter because of the closure, Longhi said. The company reported its third quarter results on Monday, taking a $1.8 billion impairment charge linked to the weak market.

Shares jumped on the news, closing up 8.8 percent at $25.47 on the New York Stock Exchange.

Tata steel says could cut around 500 uk jobs

LONDON, Oct 29 (Reuters) - Tata Steel, Europe's second-largest steel producer, said on Tuesday it could cut around 500 jobs under plans to restructure the part of its British business that supplies the construction and engineering industries.

Changes to its long products business - which makes tubes, rails and rods, used in many industrial sectors - will affect management and administrative jobs at sites in northern England, primarily Scunthorpe, where 340 positions could be lost, Tata said.

It blamed a prolonged downturn in demand, particularly for construction steel in Britain, a market which is at about half of 2007 levels.

"European steel demand this year is expected to be only two-thirds of pre-crisis levels after falls in the past two years," Karl Koehler, CEO of Tata Steel's European operations, said.

"On top of the challenging economic conditions, rules covering energy and the environment in Europe and the UK threaten to impose huge additional costs on the steel industry."

The $500-billion-a-year steel industry, a gauge of the health of the global economy, has suffered from a drop in demand from austerity-hit Europe and worries about the outlook for the Chinese economy.

Tata has battled tough conditions in Europe almost since taking over steelmaker Corus in 2007, just before the global financial crisis, and Tuesday's cuts follow a major restructuring of its long products unit in 2011, with the loss at the time of about 1,500 jobs in Britain.

Tata said then that it was mothballing parts of its Scunthorpe plant to refocus on high-value markets.
ANALYTIC CHARTS  (Click on the charts for full-size image)
Copper hits one-week high ahead of Fed decision

SINGAPORE, Oct 30 (Reuters) - London copper rose to its highest level in a week, while aluminium gained for the fourth session in five on expectations the U.S. Federal Reserve will maintain its bond-buying at an unchanged pace to aid a patchy economic recovery.

Three-month copper on the London Metal Exchange was up 0.8 percent at $7,260 a tonne at 0707 GMT, having earlier reached $7,273, its highest since last Wednesday.

LME aluminium rose 0.4 percent to 1,890.50 a tonne, inching close to last session's two-month high of $1,905.75.

"Continued availability of liquidity would likely mean more funds for investment in metals and low interest rates makes financing through metals an attractive option," said Joyce Liu, an investment analyst at Phillip Futures Singapore.

"Keeping the current rate of asset purchases also suggests the dollar may remain pressured going forward, making dollar-denominated LME metals attractive and giving Chinese players more incentive to import."

LME copper prices are expected to remain in the $7,700-7,420 band that has contained the metal since early August.

The most traded January copper contract on the Shanghai Futures Exchange added 1.6 percent to 52,080 yuan ($8,600) a tonne. Earlier it hit its highest in a week at 52,200 yuan.

A majority of U.S. primary dealers polled by Reuters on Tuesday said the Federal Reserve would not start cutting its monthly bond purchases until March next year, and that the recent government shutdown and stand-off over raising the U.S. debt ceiling had significantly affected the Fed's timing.

The Federal Reserve is expected release a statement at 1800 GMT after the two-day policy meeting.

Copper fell from near one-month highs last week after a tepid U.S labour report underlined the weak fundamental outlook for the metal.

U.S. consumer confidence fell sharply in October, reinforcing the case for the Fed to delay winding down its economic stimulus.

Gold holds ground as investors eye Fed stimulus outlook

SINGAPORE, Oct 30 (Reuters) - Gold edged higher as investors bet the Federal Reserve would stick to its bullion-friendly stimulus measures but the metal was still trading below five-week highs as a stronger dollar kept gains in check.

Gold has gained about 7 percent from a three-month low hit on Oct. 15 on hopes that weak U.S. data and the repercussions of budget battles in Washington would prompt the Fed to delay the winding-down of its $85 billion monthly bond purchases.

Spot gold ticked up 0.2 percent to $1,346.11 an ounce at 0702 GMT after hitting a session low of $1,339.14 earlier.

Gold prices slipped on Tuesday from the previous session's five-week high as traders took profits after the dollar strengthened, raising the possibility that Fed expectations might already be priced into markets.

"Gold has always been right up there as the commodity that is most exposed to any Fed decision to cut back on bond purchases," said Song Seng Wun, an economist at CIMB.

"The (Fed) meeting will decide whether more money will be taken off the table or whether there will be a rebound."

Song said any rise in gold would depend on U.S. economic data, among other key factors determining when the Fed moves to reduce its stimulus.

The Fed will make a statement later on Wednesday at the end of its two-day meeting. It is widely expected to say it will continue with its stimulus measures and will not reduce its asset purchases.

Chinese gold prices recovered slightly on Wednesday after ending at a discount to global prices in the previous session for the first time this year. Fears of a credit tightening had prompted Chinese investors to sell bullion for cash.

Indian premiums stayed near record highs due to a supply crunch.

Dollar hits 1-week high as markets price for Fed to hold policy

SYDNEY/SINGAPORE, Oct 30 (Reuters) - The dollar touched a one-week high against a basket of major currencies as investors further trimmed bearish positions ahead of the outcome of the Federal Reserve policy meeting.

Investors had sold the greenback heavily in the run up to the Oct 29-30 meeting on growing expectations the U.S. central bank will maintain its massive bond-buying stimulus programme through to early next year.

As is usual after such a decisive move, investors decided to book some profits ahead of the Fed's decision due 1800 GMT.

The dollar index inched up 0.1 percent to 79.648, having touched a high of 79.692 earlier on Wednesday, its highest level since Oct. 22. Just last Friday, the dollar index had plumbed a nine-month low at 78.998.

"Fed meetings have not been friendly to the USD this year, with the dollar weakening following every meeting in 2013 with the exception of June," analysts at BNP Paribas wrote in a client note.

"However, with markets already having adjusted to a much more dovish view on the Fed outlook heading into today's meeting, we think the USD is likely to hold up better this time."
MARKET REVIEW (Continued)

The euro held steady at $1.3741, having backed off from a 23-month peak of $1.3833 set just a few days ago. Traders said the currency's repeated failure to cleanly break above $1.3800 had made it vulnerable to a correction. Since September, the common currency has gained roughly 7 U.S. cents.

Against the yen, the dollar held steady at 98.17 yen, clinging close to a one-week high around 98.28 yen set on Tuesday.

"It's basically some short covering of the dollar, which had been sold earlier," said Satoshi Okagawa, senior global markets analyst for Sumitomo Mitsui Banking Corporation in Singapore.

Market players will probably hold off from aggressive dollar buying, given the uncertainty about the U.S. economy's outlook in the wake of this month's 16-day partial government shutdown, Okagawa said.

The lack of clarity may also help limit dollar selling versus the yen in the next few months, he said.

"Even if you get one or two strong figures, or weak numbers... I think it will be hard to tilt positions too heavily," Okagawa said.

Economic indicators due later on Wednesday include a reading on U.S. private sector employment in October from payrolls processor ADP, which comes ahead of the closely watched nonfarm payrolls data for October due on Nov. 8.

A majority of U.S. primary dealers polled by Reuters last week said the Federal Reserve would not start cutting its monthly bond purchases until March of next year and said the recent government shutdown and standoff over raising the U.S. debt ceiling had significantly impacted on the Fed's timing.

The Australian dollar touched a 2-1/2 week low after having fallen the previous day following the Reserve Bank of Australia's latest attempt at talking down the currency.

The Aussie held steady at $0.9477. It fell to $0.9459 earlier on Wednesday, its lowest level since Oct. 14.

Immediate support is seen around $0.9410, the 38.2 percent retracement of its Aug-Oct rally. A break there will pave the way for a deeper correction.

(Inside Metals is compiled by Vikas Vasudeva in Bangalore)

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