COLUMN-Whose London Metal Exchange is it anyway?
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Andy Home is a Reuters columnist. The opinions expressed are his own

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PRECIOUS METALS: Gold is set for its biggest weekly drop in three weeks but declines have been kept in check by a partial U.S. government shutdown that threatens to hurt economic growth, increasing bullion’s safe-haven appeal.

"I think it is very sensitive to sharp dips right now as there is no China to support," said one precious metals trader in Hong Kong, adding that any news on the Federal Reserve’s tapering of its monetary stimulus could also dampen sentiment.

FOREX: The euro held firm within a striking distance of its 2013 peak thanks to a flow of encouraging euro zone data at a time when a U.S. government shutdown is keeping the dollar pinned at eight-month lows.

"Once the market starts to think the unthinkable might happen, then the dollar could dive. The market is getting worried a little," said Katsunori Kitakura, associate manager of market making at Sumitomo Mitsui Trust Bank.
COLUMN-Whose London Metal Exchange is it anyway?

By Andy Home

LONDON, Oct 3 (Reuters) - If you judge the success of an exchange by its trading volumes, the London Metal Exchange (LME) has been doing just fine in this, its 136th year.

Volumes were up eight percent in the first nine months, extending a period of boom that has been running uninterrupted since the fateful year of 2009.

If, however, you judge an exchange by its relationship with its users, the LME is in a lot of trouble. Which means that Hong Kong Exchanges and Clearing (HKEx), which paid so richly for the LME's global metals franchise just a year ago, is in trouble, too.

Rarely in the LME's long, colourful history has it come under such sustained attack by those it is supposed to serve. The focal point for the multiple barbs being aimed at the exchange is its warehouse delivery system.

A CRISIS OF CONFIDENCE

Consumers are furious with the way things are.

"We believe that the current system is dysfunctional and prone to manipulation," was the stark message from the Aluminum Users Group, representing the North American beverage can industry.

"The current system does not work ... The LME's current practices must be changed." The call to arms by Tim Weiner, global risk manager at MillerCoors, has sent regulatory and legal waves crashing out of the U.S. Senate hearing room where he was giving testimony.

Producers are furious about the LME's proposed solution.

U.S. aluminium giant Alcoa AA.N has publicly warned HKEx "not to act carelessly", lest it send a message to users that "the LME may not be the correct forum for their price discovery process".

Others have just given up.

The North American Die Casting Association has recommended its members shift their pricing on all new contracts away from the LME's North American alloy (Nasarac) contract. The Nasarac price, they feel, has just stopped being relevant to their business.

HKEx has, it seems, bought the venerable LME just at the moment it is going through one of its periodic crises of confidence.

There was the Tin Crisis in the 1980s. The Copper Scandal in the 1990s. And now...well, what shall we call it?

The Aluminium Crisis? Maybe The Warehousing Crisis/Scandal? (Delete according to preference).

The LME’s physical delivery system is certainly the catalyst for the current storm.

But is it the cause or merely the flash point where long-building tensions, both in the aluminium market and the exchange, are now bursting to the surface?

A DYSFUNCTIONAL MARKET

If the LME warehousing system is malfunctioning, it is at least in part because the aluminium market is malfunctioning.

As one industry player put it to me recently: “For the first time in my career and the careers of all of my colleagues (those presently active and retired), we have all been dealing with a business that has become fundamentally dysfunctional.”

Supply chains are cracking, the disconnect between LME and physical prices has become a gaping chasm and the relationship between primary and secondary markets is largely broken.

The root problem is that aluminium is a market that does not obey the law of commodity supply and demand. The law states that when demand contracts, the price should fall to the point that supply adjusts.

Nice theory.

In practice, that's not what happens in this market, as Alcoa itself admitted in its open letter to the LME. When demand collapsed in the Great Financial Crisis of 2008-2009, the supply response was far too little, far too late.

"Due to the prohibitive cost of production curtailments and later re-start costs, hopes for a price recovery, the potentially devastating impact of closures on the communities that aluminum smelters operate in, and the prevalence of sovereign-funded producers, the speed of capacity closure was slower than the demand destruction and aluminum continued to be produced at a rate above that of consumption."

The result is millions of tonnes of surplus metal gathering dust in warehouses around the world.

How much? Actually, nobody really knows because another problem with this market is the lack of statistical clarity. There is no aluminium equivalent of the government-backed Study Groups whose job it is to throw some numerical light on the workings of the copper, lead, zinc and nickel markets.

The collective best guess is something like 10 million tonnes. Give or take a couple of million.

It is the ebb and flow of this surplus, from LME to non-LME storage, between LME warehouses in the same location and between LME locations, that has clogged up the exchange’s physical delivery system.

Producers are still collectively failing to cut output sufficiently to tackle this legacy mountain. Consumers have collectively failed to manage the pricing consequences.

It's somehow typical of aluminium that the two sides have offered up diametrically opposed views of what the LME's problem is and how it should go about fixing it.
METAL VERSUS MONEY

But on one thing at least they are agreed. Industrial players, whose pricing is the LME's life-blood, are being marginalised by financial players.

Or to quote Alcoa again, "the real issue is that the LME price no longer represents the fundamentals of the industry due to increased speculative trading."

"Speculative trading" has been the main driver of the LME's splendid growth story to the point, as Alcoa pointed out, that turnover in the LME aluminium contract is now 37 times the size of the physical market, up from 29 times in 2010.

Recent years have brought an influx of managed money in many guises, from hedge funds to black box CTAs to high-frequency traders. It's not so long ago that a high-frequency trader on the LME was one who couldn't wait for his broker to have a decent lunch between the morning and afternoon ring sessions. Now, trade signals are measured in milliseconds.

This is the culmination of a long, long process that started in 1991, when Goldman Sachs launched what is now the S&P GSCI commodity index.

In the intervening years industrial metals have been gradually transformed from backwater markets for specialists, who were quite capable of speculating themselves, thank you very much, to part of a new "asset class" to be sold to fund managers as a core component of any investment strategy.

For manufacturers it was bad enough that such investors/speculators (again, delete according to preference) were in "their" marketplace at all.

But things got a lot worse when financial players started wanting to own physical metal as well as paper metal, or, horror of horrors, when they wanted to own their own warehouses to put their physical metal in.

Physically-backed exchange traded funds (ETF) have been a previous flash point for the copper industry. An ongoing rear-guard action against two such proposals in the United States looks as if it's about to be outflanked by Julius Baer, which has just launched a new suite of such products.

These ones are next-generation versions with much lower storage fees, previously the main sticking-point for investors and the main source of relief for industrial players concerned about the implications for their supply chains.

The flash point in aluminium is the cash-and-carry trade, which allows investors to earn a low-risk, fixed return for simply financing (and holding) surplus metal.

It's not a particularly sexy investment but in the post-2008 world of negative real interest rates, it does at least generate a positive return. And the return improves if the metal is shifted out of high-cost LME warehouses to something a bit cheaper.

It is the cocktail of too much money and too much metal that has hobbled a physical delivery system that was never designed to handle either, let alone the combination.

TIME TO RECONNECT

So what can the LME do? Or, rather, what can HKEx do? After all, it's HKEx's London Metal Exchange now.

Except that it is also the industry's LME. Without industry's willingness to use LME pricing in its real-world supply-chain transactions, this market risks losing both body and soul.

Contracts such as aluminium and copper would become no more than metallic versions of the VIX, just another derivative for trading the next macro data event.

How can the LME's new owners reconcile the needs of the metal men, who guarantee the validity of the exchange's prices, with the needs of the money men, who have fed the exchange's recent volume growth?

Better transparency? Just about everyone thinks the LME should disclose more information about who is doing what.

Mind you, it might take something more bespoke than the U.S. Commitment of Traders format, given how adept some of this market's bigger players have become at disguising their movements.

More contracts? Why not? If the aluminium industry agrees that regional premium contracts, as suggested by Alcoa, or product contracts such as billet and casting alloy, as suggested by United Company RUSAL, are a good thing, the LME should provide them.

A shake-up of the LME's governance with wider industry participation, as suggested by the Aluminum Users Group? That looks a no-brainer, particularly given the new ownership structure, which risks stretching rather than shortening communication lines. The solution will have to be multi-dimensional because this is not a one-dimensional problem.

And, of course, it will have to start with LME warehousing itself. Warehousing, to quote outgoing chief executive Martin Abbott, is "the crunch point, the flash point between every party to this industry". It is also the crunch point at which every component of the LME's deteriorating relationship with its industrial users converges.

Warehousing has, let's face it, always been the LME's problem child. Now, already creaking under the strain of handling millions of tonnes of surplus aluminium, the LME storage system is being gamed by a powerful group of physical market players that control large parts of the exchange delivery mechanism.

Fixing warehousing would be a strong building-block for re-connecting with the exchange's industrial user base.

But just how can the LME's long and unhappy relationship with its warehousing operators be reset?

That's for tomorrow's column.

---The author is a Reuters columnist. The opinions expressed are his own---
**China's Minmetals submits first-round bid for Las Bambas mine**

LONDON, Oct 3 (Reuters) - China's Minmetals has submitted a first-round bid for Glencore-Xstrata's $5.9 billion Las Bambas copper mine in Peru, Gu Liangmin, managing director of the state-owned metals and mining company, said on Thursday.

"We have come to the first round of bids for Las Bambas. I can assure that Minmetals is very realistic and all our actions should be rational and not too aggressive," Gu said at the Metal Bulletin copper concentrates conference in London.

"We will be very cautious about our decision. It's unnecessary for Minmetals to buy assets at a crazy price or a price that we believe is not worth it."

Glencore-Xstrata agreed to sell Las Bambas this year to meet demands from China's antitrust authorities after Glencore's take-over of mining group Xstrata. The regulator feared the tie-up handed the newly formed commodities powerhouse too much clout in copper.

Glencore has long reported strong Chinese interest in Las Bambas, but there have been questions among industry analysts and observers over whether Chinese authorities will allow competition between Chinese industrial groups, or pick a horse to back.

The mining company said last month Chinese suitors might be allowed to compete against each other in the race for the mine, given strong interest.

Chinalco Mining Corp and Jiangxi Copper are among the Chinese groups also interested in the project, sources familiar with the bid have said. One of the sources said Jiangxi, China's largest copper producer, had paired up with Chinalco.

Peru's Mines Minister Jorge Merino said on Thursday that firms from several different countries have expressed interest in buying Las Bambas.

"I cannot give names of companies," Merino told reporters. "But what I can say is that there are companies from many countries - from Australia, from China, Canadian companies, there are also American companies interested in the project."

**Myanmar's resources star dims after mine reform delay**

By Melanie Burton

SINGAPORE, Oct 4 (Reuters) - A year ago Myanmar was the hot new destination for resources investors looking to make a fast buck in a country opening up to the outside world, but a new mining law is still not passed, the hot-money crowd has filed out and reality has set in.

Yet while funding options may have slimmed, opportunity is still knocking, industry participants at a conference in Singapore said this week.

"A year ago everyone was going to Myanmar. You couldn't get on a flight there because every flight was booked," said Edward Rochette, chief executive of Canadian explorer East Asia Minerals Corporation, which has applied for an exploration permit in the country.

"Investors were thinking: 'It's wide open, it's the Wild West, we'll just sign and be done'. Unfortunately, it's going to take time," he added.

Explorers have banged up against processing times for prospecting permits stretching out several years while commodity prices have fizzled and debt and equity funding markets have dried up. The country has to fight harder to attract capital.

"In up markets they (explorers) can sell the blue sky, greenfield projects. In a down market these companies are on the edge and just cannot attract capital. Most of the people here are at the small end of town," said a source from a commodities trading house who was attending the conference.

This is dampening government efforts to raise foreign capital in the mining sector and has pushed out processing times for local -foreign joint ventures to gain the right to explore, participants said.

"There's disappointments in local parties not coming through, there's disappointments in foreign parties not being able to raise money once they promised it," said Ma Cherry Trivedi of Myanmar-based Two Palms Mining Company, whose company has several permits in the application stage.

Myanmar is rich in minerals including gold, copper, lead, zinc, nickel, tin, antimony and chromite. It passed foreign investment legislation almost a year ago, but its mining law is still at least six months away.

"The government worries about fluctuations of commodity prices as well as the waiting time," said Aung Thuyein Win, a director at Myanmar's mining ministry, on the sidelines of the conference.

But if the government had rushed to pass legislation to capture better prices, it would have risked selling itself short, he said.

"The government is still waiting for foreign investors, but they have to protect locals," he added.

**DOING THE HOMEWORK**

Opportunities still exist for investors with longer-term horizons such as commodity trade houses and specialised private equity. The new mining investment law could spark a flurry of interest in companies that have obtained exploration permits.

"We are doing our homework on Myanmar right now," said one private equity investor based in Singapore, noting there was ample investment choice in existing projects elsewhere in Asia, given lower commodity prices.
**GENERAL NEWS (Continued)**

"Myanmar projects are all pretty much greenfield projects ... but if we found a management team with experience and expertise we believed in, then we'd invest," he added.

Among the companies in the queue for prospecting rights is Indonesian state-backed tin producer PT Timah which applied for an exploration permit in Myanmar last year, primarily looking for tin and tungsten.

"Timah is expanding to become a regional player," said an official from the producer, who declined to be named. "We are optimistic but need some more time."

Myanmar has approved more foreign direct investment in the past five months than all of last year, but the receding tide of mining-focused capital has left greater scope for the patient.

"I have better opportunity now without the crowds than with the crowds because I'll have actual time with the ministry," said Rochette of East Asia Minerals Corporation.

**Guinea says battling to revoke illicitly acquired mining licenses**

CONAKRY, Oct 3 (Reuters) - Guinea has begun a battle to revoke mining contracts that were fraudulently acquired under previous governments, President Alpha Conde said, adding the West African country stood to gain up to $3 billion by reawarding them.

Conde's government has accused BSG Resources (BSGR), the mining arm of Israeli billionaire Beny Steinmetz's business empire, of illicitly acquiring licences to mine one of the world's largest untapped iron-ore deposits, Simandou.

The Guinean government alleges that BSGR bribed officials and Mamadie Toure, the wife of former President Lansana Conte, to win permits to develop the northern half of the deposit. The company did not pay any money up front for the licences.

BSGR has repeatedly denied any wrongdoing and accuses the government of seeking to profit by reselling the licences.

Two BSGR employees have been arrested by anti-corruption investigators in Guinea. A third man, named by Guinea's government, was arrested and charged in the United States.

"Today we have started a battle to recover our mines which were acquired fraudulently," Conde, elected in 2010 following a protest which killed some 50 people in the run up to the vote, said in a speech late on Wednesday.

"The recovery of these mines and their sale will bring Guinea between $2.5 and $3 billion," he said, without specifying which licenses he was referring to.

BSGR struck a deal in 2010 to sell 51 percent of the northern Simandou blocks to Brazil's Vale, the world's top iron ore producer, for $2.5 billion.

Conde's government has not made any accusations of wrongdoing against Vale.

The Brazilian company paid some $500 million up front in cash to BSGR, but has said hurdles for other payments have not been met. It has also halted work on the northern half of Simandou and at the smaller Zogota project it is developing with BSGR.

Miner Rio Tinto, which is developing the southern half of the Simandou iron ore deposit, said in August it could be interested in increasing its footprint in Guinea, including additional blocks held by rivals.

Rio had initially held the whole of the Simandou but in 2008 it was accused of moving too slowly and was stripped of the northern half by Conte, who died months later.

Guinea is awaiting the results of legislative elections on Saturday which are slowing trickling in from some 12,000 polling stations across the West African country.

Initial results from a couple of provincial towns showed Conde's RPG party taking an early lead, but opposition parties performing strongly. No party is expected to win a majority in the 114-member National Assembly but the vote is seen as a trial run for the 2015 presidential poll.

Observers have warned that any dispute over the election results could plunge Guinea back into months of violent political protests which killed some 50 people in the run up to the vote.

"People want to destabilise the country from overseas, but do not fear. Nothing is going to happen," Conde told thousands of supporters at a ceremony to mark Guinea's independence day, without specifying who he was referring to.

**Nautilus gets positive ruling on Papua sea mine, shares up**

VANCOUVER, Oct 3 (Reuters) - Nautilus Minerals Inc said on Thursday an arbitrator had ruled in its favor in a dispute with Papua New Guinea over the ownership of its Solwara 1 underwater copper mining project, sending shares up more than 40 percent.

The ruling comes after a nearly two year battle, during which Nautilus accused the government of Papua New Guinea of not coming through on its share of financing for the project, and Papua New Guinea accused Nautilus of not fulfilling some of its obligations.

Nautilus plans to use technology from the offshore oil and gas industry to be the first company to mine underwater metal deposits. Its first project, Solwara 1, is located in the Bismark Sea, within the territorial waters of Papua New Guinea.

The country had exercised an option to buy 30 percent of that project in 2011 and as part of the agreement was responsible for a 30 percent share of project expenses.

The arbitrator ruled that by failing to complete the purchase of the stake and pay its share of expenses, the island nation was...
**TRADING PLACES**

**LME warehousing reform plan not good enough-EU steel lobby**

LONDON, Oct 3 (Reuters) - The EU steel lobby Eurofer has criticized the London Metal Exchange latest proposed changes to its under-fire warehousing system, rebuffing the LME’s attempts to soothe irate industrial users.

On July 1 the LME announced sweeping changes aimed at users who say its warehousing policy has led to record high physical premiums and long waiting times to take delivery of metal.

"The current proposal favours metal producers and non-physical users rather than physical end-users," the European steel association Eurofer said.

"Moreover, the 'Load-In Load-Out' proposal will have a limited impact on the market in the short to medium term," Eurofer said in a statement.

In its third effort to resolve the problem in as many years, the LME proposed linking the rate at which a warehouse with big stockpiles and wait times of more than 100 days, is required to load out material to the rate at which it brings in new metal.

Eurofer said the 'load-in load-out' proposal is based on arbitrary factors, which should be re-assessed taking into account three key elements: market conditions, metal requirements of physical users and the specificities of warehousing sites.

The LME asked interested parties to submit comments on its plan by Sept. 30 and a final decision on whether to implement the changes should be made in October.

If approved, the new rules would come into force on April 1 next year.

Aluminium users have already attacked the proposal of the exchange, the world biggest marketplace for base metals. European steel producers - big users of base metals such as zinc and nickel - said unfair practices under the LME jeopardise the functioning of the metals market.

In the contribution they submitted on Sep. 30 they urged the LME to take more adequate measures to protect EU consumers from unnecessary costs.

**MARKET NEWS**

**Big steel deals no longer goal for Severstal in U.S. -new**

By Silvia Antonioli

LONDON, Oct 3 (Reuters) - The time of big acquisitions and expensive projects at Severstal North America is over and the steelmaker will now focus on improving returns, the new chief executive said on Thursday.

Recently appointed CEO Saikat Dey, 38, said he and his new team will try to make sure they get the best return in an industry suffering from extensive over capacity and slower growth in demand.

Talking about the previous management, Dey, who joined Severstal in 2011 from McKinsey and Company, said it was "probably the right team for what was required at that point in time. The big merger and acquisition deals that we did and the divestment.

"Now we face different challenges altogether. We built the car, now we are going to drive it," he told reporters during a conference call.

Severstal North America - a wholly owned subsidiary of Russia's second largest steel producer, Severstal - has the capacity to produce a total of about 3.4 million tonnes at its U.S. plants in Dearborn, Michigan, and Columbus, Mississippi.

It is currently running near full capacity, at a 3.0 million tonnes a year, as demand for the flat steel it produces is good, especially from the growing U.S. automotive market.

The problem is that prices are "down the toilet," Dey said.

Although prices in the United States rose about 15 percent during the summer, they remain almost 30 percent below a 2011 peak, and 40 percent below their pre-crisis levels.

Increasing competition from alternative materials such as plastic, aluminium and carbon, and imports from cheaper producers in areas such as Asia are now the biggest issues.

"At this point, whether we like it or not, that 300-400 million tonnes of overhang is not going anywhere and, until that goes somewhere, fundamentally speaking, you have got an issue," Dey said.

"Consolidation, rationalization, better behavior of people taking out capacity will bring a better margin environment in the future.

"We had fairly good results. Not as good as we would like them to be, but I don’t think the group is thinking of us as the black sheep," he added.

The unit's parent company in Russia posted a net loss of $44 million in the second quarter of 2013 from a $155 million profit the year ago quarter.

**Nickel set for 140,000 tonne surplus this year**

By Freya Berry

LONDON, Oct 3 (Reuters) - Nickel producers face a global surplus of 140,000 tonnes this year due to disappointing demand and new production projects, a monthly bulletin from the International Nickel Study Group (INSG) forecast on Thursday.
MARKET NEWS (Continued)

The Lisbon-based group said that although slower economic growth in China had not yet hit the domestic nickel market and Indian usage remained high, demand was slack from other countries.
Meanwhile primary production of the metal is set to rise to 1.91 million tonnes this year and 1.97 million tonnes in 2014 and at the same time China is ramping up its nickel pig iron production.

The nickel surplus is a 40 percent increase from 2012 and INSG predicts that the excess supply will continue into next year, albeit at a lesser amount of 120,000 tonnes. It added that 2014 figures could also be hit by the introduction of Indonesia’s export ban on nickel ore.

The London Metal Exchange’s three-month nickel price CMZN3 has fallen 20 percent so far this year, making it the worst performer by far of the big six base metals.
ANALYTIC CHARTS  (Click on the charts for full-size image)

Daily LME Aluminium 3-months

Daily LME Copper 3-months

Daily LME Nickel 3-months

Daily LME Zinc 3-months

Daily LME Lead 3-months

Daily LME Tin 3-months

Daily LME Alloy 3-months

Daily LME Nasaac 3-months
MARKET REVIEW

METALS-Copper heads for weekly loss as U.S. fiscal woes weigh

By Melanie Burton

SINGAPORE, Oct 4 (Reuters) - London copper drifted, and was set for its biggest weekly loss in three weeks as worries about U.S. fiscal stability tarnished the outlook for demand, while top consumer China remained on holiday.

The shutdown of the U.S. government appeared likely to drag on for another week and possibly longer as lawmakers consumed day three of the shutdown with a stalling game and there was no end in sight until the next crisis hits Washington around Oct. 17.

And China's manufacturing growth edged up only slightly in September, official data showed this week, adding to concerns about strength of demand.

"The issues in Washington helped to soften some of the base metals, on top of the Chinese numbers," said analyst Dominic Schnider of UBS Wealth Management in Singapore.

"As China returns next week, we'll probably see a bit more support ... especially as we expect Asia's economies to gain traction into next year," he added.

Three-month copper on the London Metal Exchange was little changed at $7,190.75 a tonne by 0706 GMT, after losses from the previous session when it fell 1.2 percent.

Copper was on track to lose around 1.5 percent this week in what would be its biggest weekly decline since mid September.

The Shanghai Futures Exchange remained closed for a fourth day on Friday. It will reopen next Tuesday.

The number of Americans filing new claims for jobless benefits remained at pre-recession levels last week but growth in the massive U.S. service sector cooled in September as firms took on fewer new workers.

September nonfarm payrolls were unlikely to be released on Friday due to the shutdown.

Metals won some support from a weaker dollar. A weaker U.S. currency makes commodities cheaper for holders of other currencies.

The dollar languished near an eight-month low as the U.S. budget standoff dragged on, heightening fears it could become embroiled in the likely struggle later this month to raise the U.S. borrowing limit.

In other news, China's Minmetals has submitted a first-round bid for Glencore Xstrata's $5.9 billion Las Bambas copper mine in Peru, the managing director of the state-owned metals and mining company said.

The metals industry will gather in London next week for the LME Week, where term deals for 2014 in copper are expected to be hammered out.

PRECIOUS-Gold set to end week lower but U.S. shutdown stems losses

By A. Ananthalakshmi

SINGAPORE, Oct 4 (Reuters) - Gold is set for its biggest weekly drop in three weeks but declines have been kept in check by a partial U.S. government shutdown that threatens to hurt economic growth, increasing bullion's safe-haven appeal.

The metal's 1.2 percent loss for the week so far is largely due to a single massive Comex sell order on Tuesday that sent the price below $1,300 an ounce, but it quickly recovered as the budget impasse in Washington dragged on.

On Friday, spot gold gained 0.2 percent to $1,319.30 an ounce by 0620 GMT.

With Chinese markets closed for the National Day holiday through Monday and no major U.S. data expected due to the shutdown, gold kept to a tight range during Asian hours on Friday.

"I think it is very sensitive to sharp dips right now as there is no China to support," said one precious metals trader in Hong Kong, adding that any news on the Federal Reserve's tapering of its monetary stimulus could also dampen sentiment.

Gold traders have been closely monitoring U.S. data on the labour and housing markets to judge the strength of the economy, which could decide when the Federal Reserve will begin cutting back on its bullion-friendly stimulus measures.

Many federal agencies have stopped collecting and publishing data after Congress failed to agree on a spending bill.

Fed officials said this week that the lack of data was making it difficult to read the economy and the Fed might have to keep monetary policy easy for longer to help offset the harm caused by political fighting in Washington.

The shutdown of the U.S. government appeared likely to drag on for another week and possibly longer and there are growing fears in financial markets about the more significant mid-October deadline to raise the U.S. debt ceiling.

ANZ said gold was "a little directionless" in the $1,300-1,320 range due to the absence of strong safe-haven bids and outflows from bullion-backed exchange traded funds.

"It will be difficult to justify a gold rally in this environment," ANZ analysts said in a note. "The obvious caveat is a deterioration in the debt-ceiling negotiations that leads to a substantial re-evaluation of U.S default risk."

Platinum gained more than 1 percent to $1,379.24 an ounce due to a strike at Anglo American Platinum's AMSJ.J South African operations. The miner said it was losing an average of 3,100 ounces of production a day.
MARKET REVIEW (Continued)

FOREX-Euro eyes 2013 peak, dollar undermined by Washington impasse

By Ian Chua and Hideyuki Sano

SYDNEY/TOKYO, Oct 4 (Reuters) - The euro held firm within a striking distance of its 2013 peak thanks to a flow of encouraging euro zone data at a time when a U.S. government shutdown is keeping the dollar pinned at eight-month lows.

The yen, in a muted response, stayed near a five-week high against the dollar after the Bank of Japan kept its policy on hold, as expected.

The common currency last traded at $1.3630 EUR=, flat in Asia after stretching as far as $1.3646 overnight, a level not seen since early February when it scaled this year's peak of $1.3711. It has risen 0.8 percent on the dollar so far this week.

A number of factors supported the euro, not least of them a survey showing Italy's services sector unexpectedly grew in September for the first time in more than two years.

In contrast, growth in the massive U.S. service sector cooled last month, making for an uncomfortable reading just as the shutdown in Washington is fuelling concerns of wider economic consequences.

Fears are also growing that the current impasse would merge with a much more complex fight looming later this month over raising the U.S. debt limit. Failure to do so may lead to a historic debt default.

Although market players expect a last minute deal to avoid such an embarrassing and potentially catastrophic outcome, their nerves are getting frayed.

"Once the market starts to think the unthinkable might happen, then the dollar could dive. The market is getting worried a little," said Katsunori Kitakura, associate manager of market making at Sumitomo Mitsui Trust Bank.

The U.S. Labor Department on Thursday said the employment report for September will not be released as scheduled on Friday due to the government shutdown. It said a new release date had not been set.

This suggests any confirmation of an improving labour market that the Federal Reserve wants to see before cutting its stimulus will likely be delayed, undermining the case for dollar bulls.

"Now some people are saying tapering will have to wait until next year," said Kitakura of Sumitomo Mitsui "Those who have been expecting it in October should be having a bit of panic now. Those who have bet on December may be worried too."

The dollar index .DXY, which tracks its performance against a currency basket, wallowed at an eight-month low, having shed 0.7 percent this week.

Two senior Fed officials warned of damaging consequences if the U.S. defaults on its debt and said monetary policy was being kept easier to help offset the harm caused by political fighting.

In a client note, analysts at Societe Generale wrote "The dollar will be hobbled as long as the U.S. budget/debt uncertainties reign, but we are optimistic a resolution will be found before the Oct. 17 deadline."

They recommended investors sell the euro into strength against the dollar. They also suspect the European Central Bank will eventually be forced into action by euro area disinflation and falling excess liquidity, an outcome that will weigh on the euro.

Against the yen, the dollar stood at 97.22, having slid to a five-week low of 96.93 yen overnight, not far from an important support of its 200-day moving average at 96.63.

The Australian dollar ticked up 0.4 percent to $0.94036 hitting its highest level in almost two weeks at one point against the broadly weak U.S. dollar.