INSIDE METALS

Monday, August 12, 2013

CHART OF THE DAY

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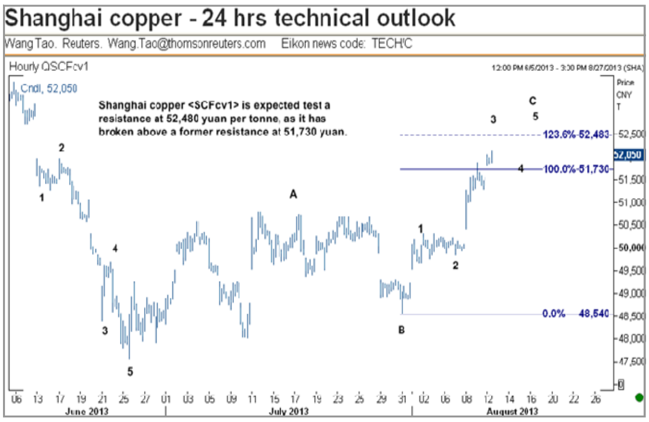

Click here for LME charts

TRADING PLACES

- Specs cut copper shorts and gold, silver longs -CFTC

GENERAL NEWS

- Japan growth slows in Q2, adds to sales tax uncertainty
- China's H1 gold consumption jumps 54 percent -CGA
- Australia's Newcrest plunges to first annual loss in 11 years

MARKET NEWS

ALUMINIUM:

- Russia should consider state aluminium stocks - deputy PM
- CME reports first trade of aluminum Midwest premium contract

COPPER:

- Codelco will turn to banks to cover financing gap - newspaper

NICKEL/STEEL:

- Steel Americas cloud hangs over Germany's ThyssenKrupp

FEATURE

BREAKINGVIEWS-Angry aluminium users should sue the Fed as well

Commodity traders' warehouse chickens may be coming home to roost. A bevy of class-action lawsuits allege that JPMorgan , Glencore Xstrata , and Goldman Sachs conspired with the London Metal Exchange to pump up the price of aluminium by trapping it inside LME-approved warehouses.

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TODAY'S MARKETS

BASE METALS: London copper edged to its highest in two months as signs of stabilising growth in top metals consumer China brightened the outlook for demand.

China's factory output grew in July at its fastest pace since the start of the year, adding to a run of data suggesting the world's No.2 economy may be stabilising after more than two years of slumping growth.

"We saw a strong rally on the back of Chinese trade data last week, helped by dollar weakness, so a bit of consolidation is on the cards for this week especially if we see USD strength which should weigh on commodities," he said.

PRECIOUS METALS: Gold climbed more than 1 percent to its highest in nearly two weeks on soft U.S. data and as holdings in the world's biggest gold exchange-traded fund rose for the first time in two months.

Holdings in SPDR Gold Trust grew 0.2 percent to 911.13 tonnes on Friday - the first increase since June 10. The fund has seen over 14 million ounces in outflows this year, about $19 billion at current prices.

"The inflows into SPDR are good news," said a trader in Hong Kong. "The fund tends to have an impact on prices because of its size. But I don't think (inflows) will persist as fundamentals for gold are still negative."

FOREX: The dollar edged higher versus the yen on position squaring having slipped earlier as data showed Japan's economy grew at a slower-than-expected pace in the second-quarter, prompting investors to trim their exposure to risk.

The dollar rose 0.3 percent to 96.54 yen by early afternoon, pulling away from a seven-week low of 95.81 yen set last Thursday.

"The dollar is starting to show some firmness on the downside, at levels below 96.00 yen," said a trader for a Japanese bank in Singapore.

FEATURE

BREAKINGVIEWS-Angry aluminium users should sue the Fed as well

By Kevin Allison

LONDON, Aug 9 (Reuters Breakingviews) - Commodity traders' warehouse chickens may be coming home to roost. A bevy of class-action lawsuits allege that JPMorgan , Glencore Xstrata , and Goldman Sachs conspired with the London Metal Exchange to pump up the price of aluminium by trapping it inside LME-approved warehouses. The users' ire is understandable, even if the metal is about 10 percent cheaper than it was when big commodity traders entered the metal storage business in 2010. But warehouse owners don't deserve all the anger.

There's a whiff of ambulance-chasing to the lawsuits. Warehouse waits have caused grumblings for three years, but plaintiffs' lawyers only sprang into action after congressional hearings brought the problem to the attention of the bank-hating public.

Stockpiles of surplus aluminium built quickly after the 2008 crisis, but LME rules meant warehouse owners - mainly big banks and traders, including JPMorgan, Glencore and Goldman, which acquired leading warehouse companies in 2010 - only needed to let a trickle out of approved facilities. Eventually long waits developed at some sites.

The artificial scarcity meant that, despite weak aluminium prices, end users had to pay an unusually large premium over the LME price for immediate delivery - while warehouse owners collected rent on product stuck in storage. Traders probably also made money by exploiting the gap between physical and LME prices.

Plaintiffs may have a hard time proving a conspiracy. JPMorgan says there are no delivery delays at its warehouses. In a public defence of warehousing just before the first lawsuit was filed, Goldman, whose Detroit warehouses have experienced long wait times, said it didn't control what customers did with their metal and attributed the delays to a financial speculators' carry trade. They buy metal, put it into lower-rent non-LME warehouses, and sell it forward, pocketing the difference between spot and forward prices, minus storage costs.

The explanation glosses over the bank's contribution: it loaded out only a bare minimum of metal, despite long wait times. But Goldman raises a valid point: the wheeze wouldn't work at all without central bankers' ultra-low interest rates, which reduce the opportunity cost of hoarding. If angry industrial buyers want to strike at the root cause of the problem, they should sue the Fed as well.

CONTEXT NEWS

- Goldman Sachs, Glencore Xstrata and JPMorgan Chase & Co have been named in U.S. class-action lawsuits alleging they violated anti-trust rules by manipulating the price of aluminium. The first suit, filed in Michigan last week, named Goldman Sachs and the London Metal Exchange as defendants. A second suit, filed in Florida on Aug. 6, also included JPMorgan and Glencore. A third suit was filed in Louisiana on Aug. 7.

- The class-action cases revolve around long queues to retrieve aluminium from some LME-sanctioned warehouses. Industrial aluminium buyers have been complaining since 2010 that persistent delays removing metal from storage - which can stretch to over a year at some LME-approved sites - have artificially boosted prices final users must pay for the metal. The queues are partly the result of LME rules, which stipulate that only a certain amount of metal needs to be loaded out of authorised warehouses each day.

- Warehouse owners and outgoing LME CEO Martin Abbott have said the complaints over long lines at warehouses are unjustified, arguing there is no shortage of metal. Goldman, JPMorgan and the Hong Kong Exchange , which owns the LME, said the various lawsuits lacked merit. Glencore did not comment.

- Glencore, JPMorgan and Goldman all bought leading warehouse companies in 2010. The LME requires traders who own warehouse subsidiaries to operate them at arm's length to avoid conflicts of interest.

GENERAL NEWS

Japan growth slows in Q2, adds to sales tax uncertainty

By Leika Kihara and Stanley White

TOKYO, Aug 12 (Reuters) - Japan's economy grew at a slower-than-expected rate in the second quarter, offering ammunition to those seeking to delay a scheduled sales tax increase even as government debt has risen past 1,000 trillion yen ($10.4 trillion).

Capital expenditure unexpectedly fell for a sixth straight quarter, a sign that companies are yet to boost spending despite the feel-good mood generated by Prime Minister Shinzo Abe's reflationary policies over the first half of 2013.

The world's third-largest economy grew an annualised 2.6 percent in April-June, a third straight quarter of expansion but below both a forecast of 3.6 percent growth and a downwardly revised 3.8 percent rate in the first quarter.

"There is no need to raise the sales tax in a hurry," Koichi Hamada, a key adviser to Abe and a professor emeritus at Yale University, told Reuters.

"One idea is to delay everything by one year. I feel that raising the sales tax as scheduled might hurt the economy."

Abe was elected last December on a platform of aggressive fiscal and monetary stimulus to revive Japan's economy.

GENERAL NEWS *(Continued)*

An immediate impact of 'Abenomics' was a sharp weakening of the yen, a surge in share prices and exceptionally strong personal consumption in early 2013, but there are questions over his commitment to the third leg - structural reform.

As part of efforts to curb its debt, which is about double the size of its GDP, Japan is due to raise its 5 percent sales tax rate to 8 percent next April and then to 10 percent in October 2015.

Public debt exceeded 1 quadrillion yen -- or 1,000 trillion yen -- for the first time in June, Finance Ministry data shows, highlighting the need for higher taxes or other new revenue.

But the GDP data may weaken the case for the tax hike, and sources have said Abe is worried it may dampen spending and delay Japan's escape from 15 year of deflation.

"Growth above 2 percent is still considered high, so it wouldn't lead to a complete postponement of the sales tax hike. But the government could make tax hikes more incremental, without delaying the timing," said Takeshi Minami, chief economist at Norinchukin Research Institute.

The Nikkei 225 share average fell to a six-week low on the weaker than expected data as confidence was hit by the combination of weak capital spending and the expected sales tax increase affecting consumption, but it later pared its fall.

STRONG SPENDING, WEAK INVESTMENT

On a quarter-to-quarter basis, Japan's economy grew 0.6 percent in April-June, data released by the Cabinet Office showed on Monday. External demand added 0.2 percentage point to growth, while domestic demand contributed 0.5 point.

Private consumption rose 0.8 percent from the March quarter, more than a median market forecast of a 0.5 percent increase, on robust spending on food, travel and consumer electronics.

But capital expenditure slid 0.1 percent, much weaker than a median market forecast for a 0.7 percent increase and marking the sixth straight quarter of decline.

"The economy has been steadily rising since the inauguration of the Abe administration last year," Abe told reporters.

"I'll continue to take all possible care about the economy. I'd like to focus on the economy, including implementation of further growth strategies in the autumn."

Government officials have said the preliminary GDP data and revised figures due on Sept. 9 would be key factors in the tax debate, with a final decision possible by early October.

Critics of the planned two-stage tax hike are calling for a delay or at least a more moderate pace of increase.

"Growth is lower than I expected, so you cannot say that the conditions are appropriate to raise taxes as scheduled," Etsuro Honda, a professor at Shizuoka University and an influential adviser to Abe, told Reuters.

Honda has repeatedly said he favours raising the sales tax by 1 percent per year and that he is worried about Japan's progress in escaping 15 years of mild deflation.

But Bank of Japan Governor Haruhiko Kuroda has said the tax hikes are needed and would not hurt the economy. Kuroda has also said Japan can raise taxes and still escape deflation.

China's H1 gold consumption jumps 54 percent -CGA

SINGAPORE, Aug 12 (Reuters) - China's gold consumption jumped 54 percent in the first half of the year to 706.36 tonnes, the China Gold Association said, as lower prices of the precious metal attracted buyers.

China, which is set to overtake India as the world's biggest gold consumer this year, consumed 832.18 tonnes in all of 2012 and about 460 tonnes in the first half of 2012.

Output in China, the world's biggest gold producer, reached 192.82 tonnes, up 9 percent from a year ago, the association said in a statement on its website on Monday.

Australia's Newcrest plunges to first annual loss in 11 years

MELBOURNE, Aug 12 (Reuters) - Newcrest Mining , the world's fifth largest gold producer, reported its first annual loss since 2002 on Monday, hit by A$6.2 billion ($5.7 billion) in writedowns it flagged in June after gold prices plunged.

Newcrest and its peers have all been hammered by a 26 percent plunge in gold prices this year, and been forced to book huge writedowns, slow expansion projects and slash costs. Canadian rival Barrick Gold Corp last week announced the biggest writedowns in the gold industry at $8.7 billion.

The Australian gold miner reiterated it would focus on slashing costs and boosting production from its lowest cost mines, as it looks to shore up cashflow and fend off another downgrade in its credit rating.

"At a gold price of A$1,450 per ounce all operations are projected to be free cash flow neutral or positive in the 2014 financial year," Newcrest said. Gold last traded at $1,329 (A$1,447) an ounce .

Rating agency Moody's Investors Service cut Newcrest's credit rating by a notch to Baa3 in July and said it expected the company's debt to earnings ratio to remain under pressure over the next 12 to 18 months.

Newcrest reported a net loss of A$5.78 billion, after wiping A$6.2 billion off the value of its mines, goodwill on its Lihir takeover and its stake in Evolution Mining . The writedown was slightly worse than it warned in June, due to the falling Australian dollar.

GENERAL NEWS *(Continued)*

Underlying profit slumped 58 percent to A$451 million for the year to June 2013, missing forecasts around A$490 million, according to Thomson Reuters I/B/E/S.

For this year, Newcrest is forecasting gold output of 2.0-2.3 million ounces, compared with 2.1 million ounces mined in the year to June 2013. It warned that gold output in the current quarter would be lower than the June quarter.

Newcrest shares have lost nearly half their value this year, with most of the hammering coming in June just ahead of and after its profit warning, which raised concerns among regulators and investors about selective disclosure to analysts.

The stock rose 5.8 percent to a one-week high of A$12.15 on Monday, valuing the company at more than A$9 billion.

Newcrest last year listed its shares on the Toronto Stock Exchange in a bid to tap a bigger base of gold industry investors, but said on Monday it had failed to reap the expected benefits.

It plans to delist its TSX shares in the current quarter.

TRADING PLACES

Specs cut copper shorts and gold, silver longs -CFTC

Aug 9 (Reuters) - Hedge funds and money managers cut their net short positions in copper futures and options and their net long positions in gold and silver in the week to Aug. 6, a report by the Commodity Futures Trading Commission showed on Friday.

Speculators reversed moves in copper made last week, when they nearly doubled their copper net shorts for the biggest increase in bearish bets since late February.

An improved U.S. and European economic outlook boosted demand hopes for industrial metals, analysts said. With four straight days of gains, copper prices jumped nearly 4 percent this week - their biggest weekly rise since September 2012.

Traders now await next week's CFTC data after China, the world's top consumer of metals, reported stronger trade and factory data this week.

Specs cut net longs in silver futures and options by 2,318 contracts to 4,358, while they cut net long positions in gold by 17,415 lots to 48,103, according to the CFTC.

Among platinum group metals, specs raised platinum futures and options net longs by 1,655 to 26,526 contracts, while they also increased bullish bets in palladium longs by 1,103 to 24,073 lots.

MARKET NEWS

Russia should consider state aluminium stocks - deputy PM

MOSCOW, Aug 9 (Reuters) - Russia's government should consider creating state aluminium stocks which could help the country's metals giant Rusal by supporting global prices, deputy prime minister Arkady Dvorkovich said on Friday.

Rusal, the world's largest aluminium producer, earlier this week urged the government to create stocks to counter a 15 percent fall in the price of aluminium this year.

State stocks would create an additional buyer for aluminium and keep material off the market, helping to prop up the price of the metal.

"Such a mechanism should be created, from my point of view, to make it possible to use in case a critical situation arises," Dvorkovich told reporters.

Dvorkovich said the government's budget did not have the money for such stocks now. He did not say whether the government planned to buy aluminium from the company and did not comment on the volume of any possible deal.

Rusal CEO Oleg Deripaska told Interfax in an interview that it may cut production by 350,000 tonnes this year after being hit by the sharp fall in the aluminium price.

CME reports first trade of aluminum Midwest premium contract

NEW YORK, Aug 9 (Reuters) - CME Group Inc said on Friday that the initial trade of its first aluminum Midwest premium futures contract was made earlier this week.

The contract is designed to manage price risk related to the rising U.S. Midwest premium over the benchmark LME aluminum contract.

In a statement, CME said a physical trader and a major dealer completed a 54-lot strip deal of the Aluminum MW U.S. transaction premium Platts futures on Thursday, with Jeffries Bache brokering the transaction.

CME launched the aluminum premium contract on April 30 last year.

The premium on U.S. Midwest aluminum has increased to nearly 9 cents a lb from 4 cents a lb over the past three years, and is now a larger component of the aluminum consumer's cost and risk, CME said.

In recent weeks, U.S. regulators and lawmakers increased their scrutiny on how Wall Street's biggest banks run their commodity businesses, pressing for a closer look at their roles in owning warehouses and in trading everything from oil to metals.

MARKET NEWS *(Continued)*

In July, JPMorgan Chase & Co. said it was quitting the physical metals business due in part to regulatory pressures, while Goldman Sachs responded by offering customers immediate access to aluminum stored in its warehouses.

Codelco will turn to banks to cover financing gap - newspaper

LIMA, Aug 10 (Reuters) - Chile's state-owned Codelco, the world's top copper producer, plans to ask banks to help finance its investments this year after being promised less capital from the government than it expected, a local newspaper reported, citing its chief financial officer.

Codelco CFO Ivan Arriagada told El Mercurio that the company now has only about $2.7 billion of the $4.5 billion in capital it originally forecast for this year.

"We'll cover the balance for financing the investment plan this year with other sources of local and foreign bank financing," Arriagada was quoted as saying in a report on Saturday.

The Chilean government, which receives all of the firm's profits, has said it will give back $1 billion of its 2012 proceeds to help the miner meet financing needs. Codelco said it needs more.

The company's battle for capital comes as it struggles to rein in costs while global copper prices tumble.

Arriagada said the firm will cut back on capital expenditures while striving to move forward with important projects to help offset declining ore grades at its ageing deposits.

Codelco has said it wants to spend about $27 billion through 2016 to boost annual output from roughly 1.7 million tonnes of copper to more than 2 million tonnes.

But some initiatives will take longer to roll out, Arriagada said, such as the expansion of the Andina mine, which the company hopes to turn into its main operation in coming years.

Steel Americas cloud hangs over Germany's ThyssenKrupp

By Maria Sheahan

FRANKFURT, Aug 11 (Reuters) - Pressure is growing on ThyssenKrupp to shore up its strained balance sheet by raising new capital as talks on selling its loss-making steel mills in the Americas drag on.

Once a symbol of German industrial prowess, ThyssenKrupp has been trying for more than year to offload the mills in Brazil and the U.S. state of Alabama, together known as Steel Americas.

With quarterly results due this week, no agreement appears in sight despite its aim for a deal by the end of September. The longer talks last, the more the benefit of any proceeds is eaten up by losses at Steel Americas. These were over half a billion euros in the first half of ThyssenKrupp's financial year alone.

ThyssenKrupp has emphasised it still has 8 billion euros of cash and undrawn credit lines, but analysts say Tuesday's third quarter results could show it is now in breach of some loan covenants, further shrinking the funds available to it.

At the end of March, the firm had 5.3 billion euros of net debt and its equity has been shrinking, prompting Moody's to cut its credit rating to "junk" status earlier this year.

Brazil's Cia. Siderurgica Nacional (CSN) is seen as the most likely buyer of Steel Americas but price is a sticking point. Analysts estimate it may sell for as little as 2.3 billion euros, much less than the book value of 3.4 billion.

Chief Executive Heinrich Hiesinger is likely to be grilled both on the Steel Americas sale and the company's finances during a conference call with analysts on Tuesday evening.

He faces a dilemma. Until the steel mills are sold, the company will struggle to persuade investors to participate in a capital increase that is expected to total between 750 million and 1 billion euros.

"Sooner or later, a bigger rights issue is likely to be tabled," said Joerg Schneider, a fund manager at Union Investment.

For the quarter, ThyssenKrupp is expected to report a 46 percent drop in net profit to 58.5 million euros.

PATRIARCH

The recent death of Berthold Beitz, patriarch of the Krupp Foundation - ThyssenKrupp's biggest shareholder - should give Hiesinger a freer hand in strategic decisions.

But it has also added to the uncertainty as the Foundation does not have the means to participate in a large capital increase on its own. Should it stand by the wayside when the company sells new shares, its 25.3 percent stake would be diluted and it would lose its blocking minority in the company.

That in turn would raise expectations of a breakup of the firm, something politicians in German industrial regions where ThyssenKrupp is a major employer want to avoid at all costs.

The favoured solution involves RAG, a German state-owned trust that controls chemicals maker Evonik . It is expected to buy shares itself or lend money to the Krupp Foundation to preserve the blocking minority. But first, Hiesinger must seal the Steel Americas deal.

ThyssenKrupp began building the Brazilian mill about seven years ago, aiming for low-cost production in Latin America's biggest economy. However, wage inflation, rising iron ore costs and appreciation of the Brazilian currency made output much more expensive than expected, just as U.S. steel demand shrank.

ThyssenKrupp has sunk roughly 12 billion euros ($16 billion) into Steel Americas. The disaster cost former Chief Executive Ekkehard Schulz his job and led to the removal of supervisory board chairman Gerhard Cromme earlier this year.

MARKET NEWS *(Continued)*

Hiesinger, who replaced Schulz in early 2011, is shifting the company away from the volatile steel sector to higher-margin businesses such as elevators and factory equipment. But his efforts have been overshadowed by the crisis over Steel Americas. ThyssenKrupp's shares have lost about 45 percent since Hiesinger took over.

"Both the pending sale of Steel Americas and the potential rights issue have been a big overhang for ThyssenKrupp's shares for months," Nomura analyst Neil Sampat said. "Dealing with these issues will take away a big part of investors' uncertainty."

Talks having been going on for months, slowed by the fact that Brazilian miner Vale , which owns 27 percent of Brazilian mill CSA, needs to approve any deal and Brazilian government agencies are also involved in negotiations.

COMPETITIVE DISADVANTAGE

Completing the sale is crucial to Hiesinger's strategy. Steel Americas has sucked up time and money that could have been invested in the capital goods businesses.

Marco Scherer, a fund manager at DWS, says the firm's two most promising units - elevators and plant engineering - have been neglected, allowing rivals to innovate, become more efficient and win market share.

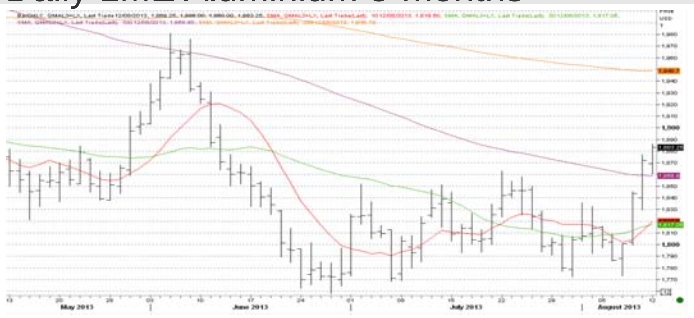
The elevator business is the world's fourth-biggest behind OTIS, Schindler and Kone. It has annual sales of 5.7 billion euros and is seen as a cash cow. But breakneck expansion has left it with a cumbersome mix of brands and product lines.

Switzerland's Schindler is among the competitors trying to take advantage. Earlier this year, it suspended its target for an operating profit margin of 14 percent in order to build factories, launch new products and spend more on market research.

"It's not yet about a competitive advantage, but first about eliminating the competitive disadvantage," Commerzbank analyst Ingo-Martin Schachel said.

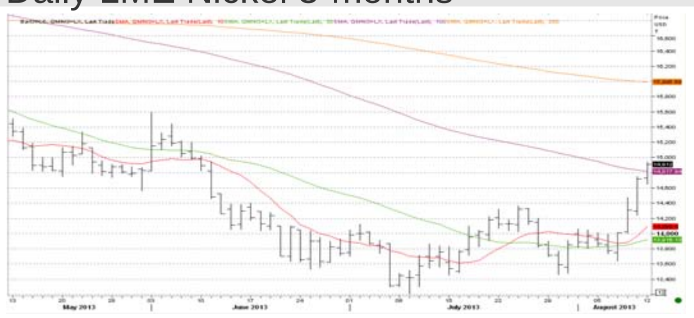
ANALYTIC CHARTS *(Click on the charts for full-size image)*

Daily LME Aluminium 3-months

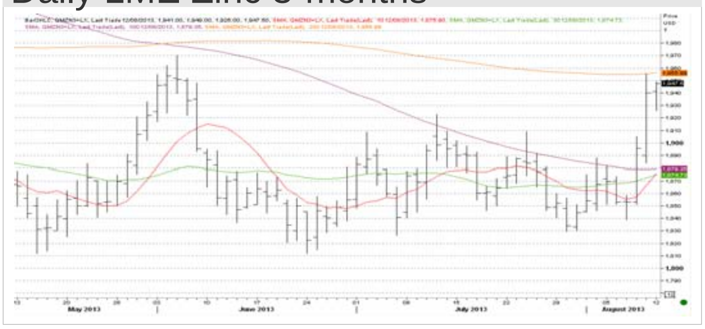


Daily LME Copper 3-months

Daily LME Nickel 3-months



Daily LME Zinc 3-months

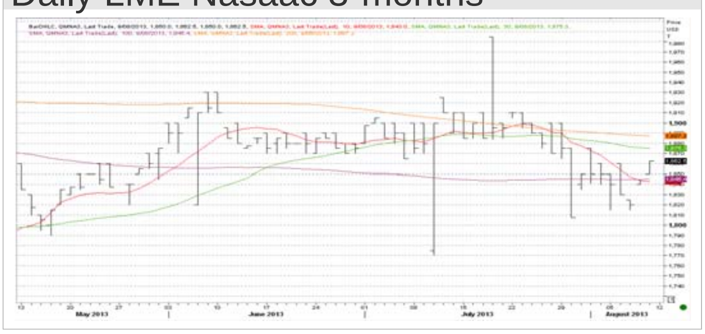


Daily LME Lead 3-months

Daily LME Tin 3-months

Daily LME Alloy 3-months

Daily LME Nasaac 3-months



MARKET REVIEW

METALS-London copper extends gains to 2-mth high on China outlook

By Melanie Burton

SINGAPORE, Aug 12 (Reuters) - London copper edged to its highest in two months as signs of stabilising growth in top metals consumer China brightened the outlook for demand.

China's factory output grew in July at its fastest pace since the start of the year, adding to a run of data suggesting the world's No.2 economy may be stabilising after more than two years of slumping growth.

But without major economic releases from China this week, metals direction could come from a rebound in the U.S. dollar, said analyst Tim Radford at Sydney-based advisor Rivkin.

"We saw a strong rally on the back of Chinese trade data last week, helped by dollar weakness, so a bit of consolidation is on the cards for this week especially if we see USD strength which should weigh on commodities," he said.

Radford said triggers for a rebound in the greenback could include retail sales data and a speech by St. Louis Federal Reserve President James Bullard, which may sway expectations over when the U.S. could begin to curb its huge bond buying programme.

Bullard makes remarks on Wednesday in Paducah, Kentucky, and on Thursday in Louisville in the same state.

Three-month copper on the London Metal Exchange had climbed 0.37 percent to $7,301.25 a tonne by 0715 GMT from the previous session when it closed up 1.2 percent. It earlier hit its loftiest since June 7 at $7,318.50 a tonne, which traders said was fuelled as some shorts rushed to cover their positions.

Copper prices finished last week up 3.8 percent, the biggest weekly gain since September 2012, with prices hitting the highest since June 7 at $7,298 a tonne.

The most-traded November copper contract on the Shanghai Futures Exchange climbed 1.75 percent to 52,460 yuan ($8,600) a tonne on Monday.

Reflecting a less bearish view on copper, hedge funds and money managers cut their net short positions in copper futures and options in the week to Aug. 6, a report by the Commodity Futures Trading Commission showed.

Still, copper's rebound has blunted demand from China. Premiums for copper in China's domestic market fell to around $20 late last week from more than $60 at the start of the month.

CME Group Inc said on Friday that the initial trade of its first aluminium Midwest premium futures contract was made earlier this week.

PRECIOUS-Gold climbs for 4th day, SPDR holdings rise

By A. Ananthalakshmi

SINGAPORE, Aug 12 (Reuters) - Gold climbed more than 1 percent to its highest in nearly two weeks on soft U.S. data and as holdings in the world's biggest gold exchange-traded fund rose for the first time in two months.

Holdings in SPDR Gold Trust grew 0.2 percent to 911.13 tonnes on Friday - the first increase since June 10. The fund has seen over 14 million ounces in outflows this year, about $19 billion at current prices.

Outflows from ETFs have had a big impact on gold, which has lost about 20 percent of its value in 2013.

Investors have been exiting gold in favour of higher-yielding stocks as the metal's safe-haven appeal has been dented by a recovering U.S. economy. Talk of a pullback in U.S. stimulus measures has also hurt bullion.

"The inflows into SPDR are good news," said a trader in Hong Kong. "The fund tends to have an impact on prices because of its size. But I don't think (inflows) will persist as fundamentals for gold are still negative."

Spot gold had gained 1.2 percent to $1,329.74 an ounce by 0408 GMT. It hit $1,333.31 earlier - its highest this month.

Silver rose 2.2 percent, while platinum touched fresh two-month highs.

Gold's sharp jump was in part due to some technical buying after prices broke through resistance around $1,320, traders said.

Spot gold is expected to test further resistance at $1,336, with a good chance of breaking through that and rising towards $1,356, said Reuters technicals analyst Wang Tao.

Gold has also been boosted by data showing U.S. wholesale inventories fell unexpectedly for a second straight month in June, prompting economists to trim their second-quarter economic growth estimates.

Investors are watching economic data to gauge when the Federal Reserve will begin reducing its commodity-friendly stimulus measures. Weak data could prompt the U.S. central bank to hold back on the cuts.

CHINA DEMAND

China's gold consumption jumped to 706.36 tonnes in the first half of the year, compared with 832.18 tonnes in the whole of 2012, the China Gold Association said on Monday.

Gold's decline after 12 annual gains has released pent-up demand across the world for jewellery, bars and coins.

MARKET REVIEW *(Continued)*

China is expected to overtake India as the world's biggest gold consumer this year, with India taking steps to limit imports and reduce its trade deficit.

FOREX-Dollar bounces back vs yen after dipping on soft Japan GDP

By Masayuki Kitano

SINGAPORE, Aug 12 - The dollar edged higher versus the yen on position squaring having slipped earlier as data showed Japan's economy grew at a slower-than-expected pace in the second-quarter, prompting investors to trim their exposure to risk.

The dollar rose 0.3 percent to 96.54 yen by early afternoon, pulling away from a seven-week low of 95.81 yen set last Thursday.

It set an intraday low of 95.97 yen earlier in the session after data showed Japan's economy grew an annualised 2.6 percent in April-June, a third straight quarter of expansion but slower than expected.

The greenback later bounced back on position squaring, however, after running into bids near the 96.00 yen level.

"The dollar is starting to show some firmness on the downside, at levels below 96.00 yen," said a trader for a Japanese bank in Singapore.

Market players said the near-term outlook for the dollar against the yen will hinge on U.S. economic data due this week, such as retail sales coming up on Tuesday, as well as moves in Tokyo share prices.

The yen could be headed for further gains if Tokyo shares continue to weaken after the disappointing GDP data, said Satoshi Okagawa, senior global markets analyst for Sumitomo Mitsui Banking Corporation in Singapore.

"If share prices slide, the 95 yen level (for the dollar) is right around the corner," Okagawa said.

The yen has shown a strong inverse correlation to Japanese shares in recent weeks and market players noted that speculators have taken recent sharp falls in the Nikkei as a signal to buy the currency.

The yen, a traditional safe haven currency, usually attracts good buying interest in times of market stress.

Dollar buying interest at levels below 96.00 yen may support the greenback versus the yen in the near term, said Jeffrey Halley, FX trader for Saxo Capital Markets in Singapore.

"We filled a lot of bids in dollar/yen...each side of 96.00 and the street obviously have them as well," Halley said.

"I still expect dollar/yen to resolve to the downside this week. But for today the street has a definite bias to (dollar) bids in good size under 96.00, so it will be slow going," he added.

Elsewhere, the euro eased 0.1 percent versus the dollar to about $1.3325 .

The euro took a brief spill to $1.3313 earlier in the session after Der Spiegel reported on Sunday the Bundesbank was warning that Greece would need more financial assistance by early next year.

Against a basket of currencies, the dollar inched up 0.1 percent to 81.231, but was still not far from last week's seven-week trough at 80.868.

"A key focus is on the DXY as the decline approaches the important 80.50/88 support zone," said analysts at JPMorgan. "This area includes the August '11 uptrend line and June low."

"Given the importance of these levels and the oversold and diverging momentum setup, some pause/retracement seems close."

Dealers noted positioning in the market had also become more favourable to consolidation as speculators had pared their bets in favour of the dollar for a third straight week.

The value of the dollar's net long position fell to $21.62 billion in the week ended Aug. 6 from $24.45 billion.