INSIDE METALS

Thursday, August 15, 2013

CHART OF THE DAY

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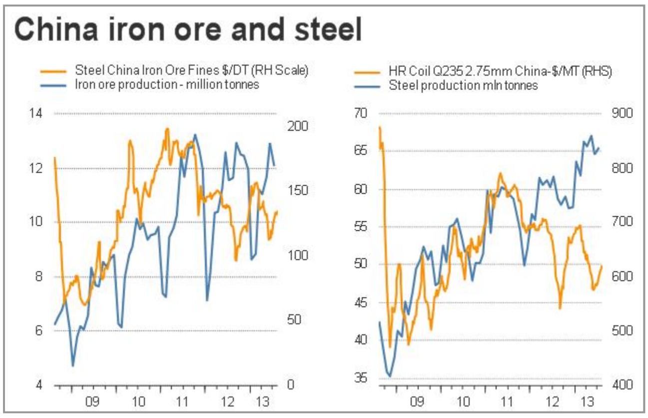

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Gold demand from India, China could hit record 1,000 T each in 2013 -WGC

India's gold demand could reach a record 1,000 tonnes this year as consumers buy for the festival and wedding season in the second half, the World Gold Council said, which may scuttle the country's efforts to curb its imports and a trade deficit. *Click here to read more*..

TODAY'S MARKETS

BASE METALS: London copper hovered near nine-week highs after European economic growth figures this week built on robust China data and fuelled confidence a global economic recovery is slowly taking root. "The market is realising Europe is coming out of recession, the U.S. is doing OK and China is doing better, so everyone is getting optimistic," said analyst Dominic Schnider of UBS Wealth Management in Singapore.

PRECIOUS METALS: Gold extended gains as tame U.S. inflation pointers fueled hope the Federal Reserve may not scale back its commodities-friendly bond buying soon, and as the world's top gold-backed exchange traded fund's (ETFs) holdings rose for a second time in a week. "What is important is that the outflows have slowed," said Han Pin Hsi, global head of commodities research at Standard Chartered Bank in Singapore.

FOREX: Asian stocks got off to a weak start, as uncertainty over when the U.S. Federal Reserve may start to pare back its stimulus offset any cheer from a brighter economic picture in Europe. "Due to thin trade, we need to brace for unpredictable moves in late trade such as leveraged ETF trade and futures trade by program traders," said Toshihiko Matsuno, a senior strategist at SMBC Friend Securities.

FEATURE

Gold demand from India, China could hit record 1,000 T each in 2013 -WGC

By A. Ananthalakshmi and Siddesh Mayenkar

SINGAPORE/MUMBAI, Aug 15 (Reuters) - India's gold demand could reach a record 1,000 tonnes this year as consumers buy for the festival and wedding season in the second half, the World Gold Council said, which may scuttle the country's efforts to curb its imports and a trade deficit.

Demand from China, which is on course to challenge India's position as the top gold consumer this year, could also soar to a record 1,000 tonnes in 2013, the WGC said.

Strong physical buying from the world's biggest consumers, who account for nearly 60 percent of global demand, will help prop up prices of the metal that have shed about 20 percent this year after 12 consecutive annual gains.

Consumer demand has however not been enough so far to compensate for a sharp drop in investor appetite this year, the WGC said in its quarterly report on Thursday.

India, which wants to keep imports below 850 tonnes in 2013, has raised import taxes three times in eight months. On Wednesday, it banned overseas purchases of gold bars and coins to rein in dollar spending.

But the resilience in Indian demand has offset government efforts to curb imports, which revived in July after dropping in June.

"We've seen that demand is robust," Somasundaram PR, WGC's India managing director, told Reuters. "Once the monsoon is over, rural incomes will rise and that will have its own impact on demand."

"There are also a lot more marriage and festival dates in October and November in the fourth quarter," said Somasundaram, who estimated full-year demand between 900 tonnes to 1,000 tonnes for both India and China.

Hitting the upper end of that range would be record annual consumption for both the countries, he said.

The rural population accounts for about 60 percent of gold demand in India, where the precious metal forms an essential part of a bride's dowry and is considered auspicious as a gift or offering at religious festivals.

India's demand reached 566 tonnes in the first half of the year, a 50 percent jump but still lower than China's 600 tonnes, the industry-funded WGC said in its report.

Demand this year has been particularly strong as falling prices have prompted consumers across the world to buy bullion in the form of jewellery, bars and coins.

Analysts say India's moves to curb imports have been unable to stifle demand, thus pushing local prices to around $50 an ounce above London spot prices.

GRAPHIC: Global gold demand - http://link.reuters.com/bup42v

RECORD BUYING IN CHINA

China's gold-buying spree in the first six months of the year is likely to continue into the second half amid festivals and uncertainty about the economy, which has seen a slowdown in nine out of the past 10 quarters.

"The falling gold price is key. But there are also other macroeconomic conditions that are pushing (the Chinese) to gold," said Albert Cheng, WGC's managing director for the Far East region.

Fears of an economic slowdown and lingering worries over a credit crunch are increasing gold's appeal as a safe haven in China, he said.

The demand from India and China has partly compensated for the near 600-tonne outflow from gold-backed exchange-traded funds. Global gold demand for the second quarter fell 12 percent because of the ETF outflows.

"If not for China and India picking up the de-hoarding in the Western world, this number would be bigger," Cheng said.

GENERAL NEWS

Gold demand hits 4-year low in Q2 despite eager consumers - WGC

By Jan Harvey

LONDON, Aug 15 (Reuters) - Gold demand hit a four-year low in the second quarter despite surging appetite for jewellery, coins and bars, the World Gold Council said on Thursday, as investors left bullion funds and central bank buying more than halved.

April's selloff - which saw spot gold slump $200 an ounce in two days in its sharpest slide in 30 years - and another retracement in June sent bar and coin demand to record highs, and jewellery buying to its strongest in nearly five years.

Consumer gold demand, covering jewellery, bars and coins, rose more than half to 1,083 tonnes last quarter compared with a year earlier, the WGC said.

But a 402.2-tonne outflow from gold-backed exchange-traded funds - popular investment products that issue securities backed by physical gold - and a 93.4-tonne drop in central bank purchases knocked overall demand down 12 percent to a net 856.3 tonnes, its lowest since the second quarter of 2009.

"It's clear that this will be a down year in tonnage terms for demand," the WGC's managing director for investment, Marcus Grubb, said.

"The key will be how successfully that gold coming back in from the ETFs is re-absorbed by the other categories of investment,

GENERAL NEWS

and other areas that are growing strongly, like jewellery demand."

The second quarter's heavy liquidation from gold-backed ETFs brought outflows for the year to 578.7 tonnes. The WGC said speculation that the Federal Reserve may be set to curb its bullion-friendly quantitative easing had spooked investors.

Gold prices have fallen by around a fifth this year, hitting a three -year low in June of $1,180.71 an ounce. They are currently at around $1,320 , some $600 below their September 2011 record high of $1,920.30 an ounce.

Central bank buying has also eased, the WGC's data showed. It said it expects official-sector purchases of 300-350 tonnes this year, down from 544.4 tonnes in 2012, after a 100-tonne drop in the first half.

This year's price volatility is likely to have affected the timing of central banks' gold buying, Grubb said.

CONSUMER DEMAND SOARS

ETF liquidation and lower central bank demand outweighed a broad-based surge in consumer buying. India and China, by far the largest consumers of physical gold, saw demand for jewellery, coins and bars soar by 71 percent to 310.0 tonnes and 87 percent to 275.7 tonnes respectively.

China was the biggest market for gold bars and coins, demand for which more than doubled in India and China. India led jewellery demand, with consumption of 188.0 tonnes.

Global jewellery demand for gold, which has fallen in recent years as higher bullion prices deterred buyers, rose more than a third in the second quarter to 575.5 tonnes.

In the Middle East, demand for jewellery increased by a third, and coins and bar offtake by two-thirds. Turkish consumer demand rose 73 percent to 64.3 tonnes.

U.S. jewellery demand rose 2 percent to 20.3 tonnes, its second successive quarterly increase after it climbed for the first time since 2005 in the first three months of the year.

"Some of that is due to the impact of lower prices, but it's also due to the impact of a gradually improving economy in the United States," Grubb said. "We do expect that turnaround in the U.S. to continue."

U.S. coin and bar demand nearly doubled to 24.3 tonnes, while European bar and coin demand rose 14 percent to 85.8 tonnes. Jewellery demand softened a touch in Europe, however, with declines reported in the UK and Italy.

On the other side of the market, gold supply fell to 1,025.5 tonnes from 1,087.9 tonnes in the second quarter of last year. Mine supply rose 18.2 tonnes to 717.2 tonnes, but flows of scrap gold onto the market dropped by a fifth to 308.3 tonnes as prices fell, giving sellers less incentive to cash in.

"That's the weakest recycling number we've had for many quarters, and it reflects the price action in April," said Grubb.

Paulson & Co more than halves gold ETF stake in Q2

By Frank Tang

NEW YORK, Aug 14 (Reuters) - Paulson & Co more than halved its stake in SPDR Gold Trust , the world's biggest gold-backed exchange-traded fund, in the second quarter, when the bullion price lost nearly a quarter of its value.

The prominent U.S. hedge fund, led by longtime gold bull John Paulson, owned 10.2 million shares in the ETF on June 30, compared to 21.8 million shares on March 31, a filing with the U.S. Securities and Exchange Commission showed on Wednesday.

That marks the first time Paulson cut his gold ETF stake since the fourth quarter of 2011.

In addition, Paulson also dissolved his stake in Barrick Gold Corp , the No. 1 gold mining company.

Investors pay close attention to the quarterly filings by Paulson and other notable hedge-fund managers because they provide the best insight into whether the so-called "smart money" has lost faith in gold as a hedge against inflation and economic uncertainty.

Their massive stakes in SPDR Gold Trust, backed by 400-ounce physical gold bars, also have tremendous influence in gold prices as redemptions in the ETF require selling the metal in the open market.

SPDR Gold Trust held 968.3 tonnes of gold at the end of the second quarter, down 252.6 tonnes, or 21 percent, from the first quarter.

"Paulson got out of half of his position, who's to say he's not going to get out of his other half over the next three months," said Comex gold options floor trader Jonathan Jossen.

During the quarter, Third Point's Daniel Loeb also slashed his holdings in the gold ETF, while George Soros switched to owning massive put options in the second quarter from holding calls in Market Vectors Junior Gold Miners ETF in the previous quarter.

Boston-based Baupost, one of the industry's most-revered hedge funds run by Seth Klarman, boosted its stakes in Canadian gold mining shares by initiating a 3.3 million share position in Yamana Gold and 2.1 million shares in Kinross Gold while keeping his 21.7 million stake in NovaGold Resources .

SHORT-TERM BOTTOM?

The price of gold fell 23 percent during the second quarter, highlighted by a record two-day $225 drop on April 12 and April 15, as a better overall global economic outlook hit gold's appeal as a hedge.

Many traders said that gold's free fall to a three-year low at $1,180 an ounce on the last day of June was a result of forced selling by funds as they met client redemption requests.

GENERAL NEWS *(Continued)*

However, that could also suggest that funds are done or close to finish selling their gold, indicating that resurgent buying could lift bullion prices.

"There is a large possibility the washout needed after the big decline occurred in Q2. That could signal a short-term low was in place for gold," said Adam Sarhan, chief executive officer of Sarhan Capital.

Despite relentless selling by funds, retail investors continue to buy physical gold coins and bars to take advantage of the bargain gold prices, while Asian physical jewelry and investment demand also rose to unprecedented levels.

Spot gold rose 0.7 percent to near $1,345 an ounce on Wednesday after the filings by Paulson and other hedge-fund managers.

Kenya recruits Chinese expertise for mineral resources survey

NAIROBI, Aug 14 (Reuters) - Kenya has assigned China's Geological Exploration Technology Institute of Jiansu to conduct a joint nationwide aerial survey of the east African nation's mineral deposits, stepping up plans to exploit its mineral resources.

The survey is expected to last 24 to 36 months and will establish the country's potential mineral wealth, Mining Secretary Najib Balala said, a week after he increased royalties on minerals and revoked some mining licences.

A proper legal framework and aerial surveys are key in making Kenya a mineral hub in the region, Balala said in a statement on Wednesday.

Since gaining independence from Britain in 1963, successive Kenyan governments have failed to exploit fully the country's mining potential, with foreign exploration companies discouraged by poor infrastructure and an outdated legal framework.

The country also lacks a comprehensive record of its mineral reserves, even though recent exploration has discovered deposits of titanium, gold and coal.

Balala said the survey will cover the whole of Kenya and will be financed by the Chinese government at a cost of up to 6 billion shillings ($68.5 million). He did not specify when the survey would begin.

Though Kenya has proven mineral deposits, its mining sector remains a relatively small contributor to national output.

Last week Balala raised royalties on gold, of which Kenya is a relatively small producer, to 5 percent of gross sales value from between 2.5 percent and 3 percent. He also revoked some mining licenses after a review launched in May to help Kenya to claim a bigger share of earnings from the sector.

Platinum miner Lonmin recognises AMCU union, averts strike threat

By Sherilee Lakmidas

JOHANNESBURG, Aug 14 (Reuters) - Platinum producer Lonmin and South Africa's hardline AMCU said they signed a recognition accord on Wednesday in a move that averts threatened strike action by the union.

The agreement, reached two days before the first anniversary of the massacre of 34 striking workers shot by police at Lonmin's Marikana mine, opens the way for wage talks between the Association of Mineworkers and Construction Union and the company that are expected to start within weeks.

While the deal heads off a potential strike over recognition, the pay talks are expected to be extremely tough, given AMCU is demanding pay hikes as high as 150 percent from Lonmin rival Anglo American Platinum , the world's top producer of the precious metal.

Members of AMCU, which claims most of Lonmin's workforce, have twice this year staged brief illegal strikes at its mines and had threatened to down tools again unless the company recognised it as the dominant union.

The agreement formally recognises AMCU as the majority union at Lonmin, the world's third largest platinum producer.

AMCU, which exploded onto South Africa's labour scene last year as it wrested tens of thousands of members on the platinum belt from the once unrivalled National Union of Mineworkers (NUM) in a turf war, has a well-earned hard line reputation.

Lonmin was at the centre of the labour violence last year in which more than 50 people were killed and has been recovering from a 2012 illegal strike, rooted in the AMCU/NUM rivalry, which forced it to turn to investors to raise more than $800 million to avoid breaching lending terms.

In recent months AMCU has displayed more disciplined focus, orchestrating brief closures to show displeasure while pursuing talks without resorting to the protracted and often violent wildcat action that marked its emergence.

In wage talks with gold and other platinum producers it is taking a forceful stance, seeking huge pay raises for the lowest-paid workers at a time when metal prices are falling.

But on Wednesday, Lonmin management and AMCU's leadership displayed a warmth unheard of just a few months ago.

At a press briefing, Lonmin's new chief executive Ben Magara, an affable Zimbabwean, introduced AMCU president Joseph Mathunjwa as "Bra Joe" - South African slang for brother.

"I'm delighted to announce the signing of our recognition agreement ... This is key to achieving peace, stability and prosperity for all," Magara said.

GENERAL NEWS *(Continued)*

CHRISTIAN SOLDIER

Mathunjwa, a powerful orator who has won a loyal following in the shafts with his appeals to social justice, African nationalism and evangelical Christianity, said AMCU could do business with companies if treated with respect.

"It is possible to reach agreement with AMCU as long as you treat AMCU with dignity and respect," said Mathunjwa, the son of a Salvation Army preacher who thanked God and Jesus at the media conference for opening the way to a resolution.

AMCU's turf war with NUM rumbles on and members of both unions are still being killed, though it is not clear if these are all linked to union rivalry or to criminal activity in a country with sky-high rates of violent crime.

NUM is a key political ally of the ruling African National Congress and the government is keen, ahead of elections in 2014, to avert a repeat of last year's mayhem and violence which triggered credit downgrades for Africa's largest economy.

If Lonmin can get through this financial year without strikes, it expects to produce more than 700,000 ounces of platinum, around 15 percent of South African output.

Labour strife has spread to other industries. South Africa's biggest union for manufacturing plans to launch an open-ended nationwide strike on Monday in the country's key auto sector in a dispute over pay affecting over 30,000 assembly line workers.

MARKET NEWS

Alcoa to curtail production in Brazil, close a line in U.S.

Aug 14 (Reuters) - Alcoa Inc said on Wednesday it is temporarily cutting production at its aluminum smelters in Brazil, and will permanently shut down part of its operations in Massena, New York.

The changes, which should be complete by the end of September, are part of a review announced in May amid a tough market for aluminum.

Alcoa said it is temporarily stopping production at smelters in Brazil that have annual capacity of about 124,000 tonnes, and will permanently close a 40,000 tonne potline at its Massena East plant. Massena East's current capacity is about 125,000 tonnes per year.

The company expects to take between $5 million and $10 million in after-tax restructuring charges in the third quarter, or about 1 cent a share, of which about half will be non-cash.

Alcoa said in May that it would review 460,000 tonnes, or about 11 percent, of its smelting capacity. In May it announced closures at its Baie-Comeau smelter in Quebec, and said it would delay the construction of a new potline there.

After the latest closures and curtailments, about 16 percent of its capacity will be sitting idle.

Chile's Escondida copper mine hit by surprise strike

By Fabian Cambero

SANTIAGO, Aug 14 (Reuters) - Workers began a surprise strike at the world's largest copper mine, Chile's Escondida, on Wednesday to demand improved working conditions and a bonus.

The work stoppage at Escondida, controlled by global miner BHP Billiton , kicked off at 8 am local time (1200 GMT) and was initially planned to last 24 hours.

The copper market is likely to keep a close eye on the strike, particularly if there are any signs of it being prolonged, though with the global market still expected to be in surplus it has reacted calmly so far.

The mine's union stunned the copper market in 2011 by staging a two-week work stoppage, sending the mine's output tumbling.

But copper prices were near a nine-week high in early Asian trade on Thursday, supported by data showing a recovery in the euro zone economy and as optimism on growth in China boosted confidence about demand for industrial materials.

Workers at Escondida are due to convene at 8 am local time on Thursday to decide whether to pick up their tools again, a union leader told Reuters.

"We're going to wait until tomorrow to see if the company gives us any signals," union representative Marcelo Tapia said. "Once we meet we'll decide whether to extend the protest or take another type of action."

Tapia said earlier on Wednesday all operations had been halted at the mine which produced 1.1 million tonnes of copper last year, about 20 percent of the output from No. 1 copper producer Chile. Copper prices had slumped around 16 percent by late June, but have since recouped half of those losses on signs of China's growth is stabilising.

The 2,500 unionized workers have launched the strike to demand improved working conditions and a bonus. Union leaders say an annual bonus linked to profit hasn't been distributed this year. Workers at BHP's far smaller Spence and Cerro Colorado mines are also striking.

Labor action has been galvanized in mining powerhouse Chile as workers seek to get their issues heard ahead of the November presidential election.

Escondida's workers clinched a new contract agreement in January, at the time easing fears of labor unrest at the mine.

BHP and Rio Tinto , which own 30 percent of Escondida, have declined to comment on the stoppage.

MARKET NEWS

Job cuts ahead as Rio puts Mongolian expansion on hold

LONDON, Aug 14 (Reuters) - Rio Tinto said on Wednesday it would have to cut up to 1,700 jobs in its Mongolian operation, after a more than $5 billion underground expansion of the giant Oyu Tolgoi copper mine was suspended.

The expansion was put on ice last month as the global miner said the Mongolian government wanted parliament, currently in recess, to approve financing for the project.

Mongolian Prime Minister Norov Altankhuyag said last week that Rio did not need to seek parliamentary approval for the development's package.

The delay marked the latest bump in the road for Rio at one of its biggest projects - and one of the world's largest untapped copper deposits - which started exporting from an open pit mine in July after two last-minute hiccups in securing government approval.

Mongolia has raised concerns about the costs of the Oyu Tolgoi expansion and the potential that rising expenditure will delay when it starts receiving its share of profits.

The government has also complained that locals are not well represented in the management of the project.

A Rio spokesman said that the delay was now being implemented.

"There will be up to 1,700 redundancies for our employees and contractors," a Rio spokesman said.

"(Oyu Tolgoi is) still an operating business, exporting concentrate to our international customers, and infrastructure projects outside of the underground mine such as the road construction to Tsagaankhad will continue."

At the end of April 2013, Oyu Tolgoi employed 11,750 people, almost 90 percent of them Mongolian nationals.

Rio said Oyu Tolgoi shareholders - itself and the government - were still "fully committed" to resolving the issues holding back the underground development.

Oyu Tolgoi, two-thirds owned by Rio's Turquoise Hill Resources unit, is a vital new source of growth for the miner, currently dependent on iron ore mining in Australia.

It is also critical for Mongolia, as the International Monetary Fund estimates it will generate up to a third of Mongolia's GDP by the time the mine reaches full production in 2021.

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

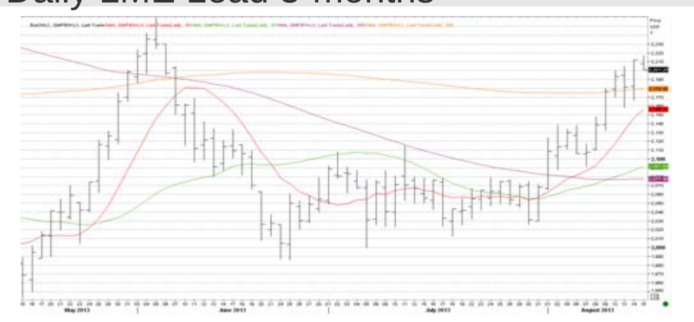
Daily LME Aluminium 3-months

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 stays near 9-week high on global recovery hopes

By Melanie Burton

SINGAPORE, Aug 15 (Reuters) - London copper hovered near nine-week highs after European economic growth figures this week built on robust China data and fuelled confidence a global economic recovery is slowly taking root.

Signs that the pace of growth in top metal consumer China is steadying after contracting for more than two years has driven a rally in copper prices this month, sustained by signs of U.S. recovery and a nascent revival in Europe.

"The market is realising Europe is coming out of recession, the U.S. is doing OK and China is doing better, so everyone is getting optimistic," said analyst Dominic Schnider of UBS Wealth Management in Singapore.

The economies of Germany and France grew faster than expected in the second quarter, bettering a widely heralded expansion in the United States and pulling the euro zone out of a 1-1/2 year-long recession.

"Still, once you're close to $7,800 you really want to consider repositioning yourself because growth momentum is still weak," he added.

Three-month copper on the London Metal Exchange traded little changed from the previous session at $7,323.50 a tonne by 0223 GMT.

Copper prices hit 9-week highs of $7,354.75 a tonne on Tuesday and has recouped about half of the year's losses of more than 16 percent seen in late June.

The most-traded December copper contract on the Shanghai Futures Exchange climbed 0.5 percent to 52,440 yuan ($8,600) a tonne.

However, uncertainty over the time horizon for the United States to start scaling back its huge bond-buying scheme kept currencies constrained and pinned back metals' advances.

Commodity-friendly stimulus erodes the dollar which makes the asset class, priced in the greenback, cheaper for holders of other currencies.

The U.S. Federal Reserve risks pushing inflation even lower if it tapers bond purchases too aggressively and could take a more cautious approach by initially only scaling back by a small amount, a senior central banker said on Wednesday.

Also lending support to prices, workers began a surprise strike at the world's largest copper mine, Chile's Escondida, on Wednesday morning to demand improved working conditions and a bonus.

PRECIOUS-Gold adds to gains as U.S. data, SPDR inflows lift sentiment

By A. Ananthalakshmi

SINGAPORE, Aug 15 (Reuters) - Gold extended gains as tame U.S. inflation pointers fueled hope the Federal Reserve may not scale back its commodities-friendly bond buying soon, and as the world's top gold-backed exchange traded fund's (ETFs) holdings rose for a second time in a week.

Traders ignored tighter import rules in India and outflows from other gold ETFs, pushing up prices for a sixth session out of seven on hopes of rising demand from investors and physical buyers.

Outflows from the eight biggest gold ETFs tracked by Reuters have totalled nearly 20 million ounces, or $27 billion, so far this year. Rare inflows tend to boost market sentiment.

"What is important is that the outflows have slowed," said Han Pin Hsi, global head of commodities research at Standard Chartered Bank in Singapore.

"We are seeing signs that there is a little bit of confidence coming into the market. And we could be close to the bottom in terms of the ETF outflows," he added.

Spot gold gained 0.4 percent to $1,339.86 an ounce by 0336 GMT after gaining around 1 percent in the previous session.

U.S. producer prices were flat in July, which could add to worries at the Federal Reserve that inflation is running too low, indicating the U.S. central bank might not end its stimulus until inflation begins to trend higher.

The Fed risks pushing inflation even lower if it tapers bond purchases too aggressively and could take a more cautious approach by initially only scaling back by a small amount, a senior central banker said on Wednesday.

Holdings of SPDR Gold Trust rose for the first time since June 10 last Friday and had remained unchanged before rising 0.23 percent to 913.23 tonnes on Wednesday, raising hopes that the worst of outflows from the fund is over.

Quarterly reports from top U.S. hedge funds showed that many had reduced, and in some cases completely exited, their stakes in SPDR amid a sharp drop in prices this year. Longtime bull John Paulson halved his stake in SPDR.

Physical demand, however, seemed to be picking up with the recent stabilization in prices bringing back buyers.

Shanghai gold futures rose more than 1 percent and were trading at a $23 premium to London spot.

Silver rose more than 1 percent to its highest in a month as holdings in the world's largest silver-backed exchange-traded fund, iShares Silver Trust , rose to a four-month high.

Platinum rose to its highest in more than two months, while palladium hit its highest since late July.

MARKET REVIEW *(Continued)*

GLOBAL MARKETS-Dollar, stocks slip on Fed stimulus uncertainty

By Lisa Twaronite

TOKYO, Aug 15 (Reuters) - Asian stocks got off to a weak start, as uncertainty over when the U.S. Federal Reserve may start to pare back its stimulus offset any cheer from a brighter economic picture in Europe.

The dollar was also on the defensive, with a lack of clarity about the Fed's stimulus plans in the coming months, as well as comments from Japanese ministers shooting down a media report earlier this week that the government is considering cuts in corporate tax.

The greenback sank about 0.4 percent against the Japanese currency to 97.65 yen , while the euro fell 0.2 percent to buy 129.86 yen .

The stronger yen and fading tax-cut hopes pressured Tokyo's Nikkei stock average, which fell 1.7 percent, off a one-week closing high hit on Wednesday. Thin summer conditions amplified moves, market participants said.

"Due to thin trade, we need to brace for unpredictable moves in late trade such as leveraged ETF trade and futures trade by program traders," said Toshihiko Matsuno, a senior strategist at SMBC Friend Securities.

Japanese government spokesman Yoshihide Suga and Finance Minister Taro Aso both downplayed this week's report in the Nikkei business daily that the government is considering lowering the corporate tax. Aso said such cuts would not have an immediate impact on the economy.

MSCI's broadest index of Asia-Pacific shares outside Japan slipped 0.1 percent.

Against a basket of major currencies, the dollar fell about 0.3 percent as the euro rose about 0.3 percent to $1.3265 .

Data on Wednesday showed that the economies of Germany and France grew more quickly than expected in the second quarter, pulling the euro zone out of an 18-month recession.

Government debt to GDP in Asia: http://link.reuters.com/weg42v

Global interest rates: http://link.reuters.com/xyb96s

The yield on benchmark 10-year Treasury notes edged away from nearly two-year highs hit earlier this week. A selloff of U.S. Treasuries on Monday and Tuesday saw yields post their biggest two-day increase since early July on speculation that signs of U.S. and European economic growth might lead the Fed to taper its $85 billion-a-month in asset purchases as early as September.

A Reuters poll on Wednesday showed a majority of economists expect the Fed to reduce bond purchases at its Sept. 17-18 policy meeting.

"The market is getting nervous about tapering. I expect that to happen in September and the dollar to start rising then. But it is likely to go through some adjustment before that as there are concerns that tapering could spark risk-off trading as it did in May-June," said Hideki Amikura, forex manager at Nomura Trust and Banking.

Recent U.S. data sent mixed signals on the strength of the economic recovery, and comments from Fed officials fell short of clarifying the bank's policy outlook.

St. Louis Federal Reserve President James Bullard said on Wednesday that the Fed risks pushing inflation even lower if it tapers bond purchases too aggressively, and could take a more cautious approach by initially only scaling back by a small amount.

U.S. producer prices were flat in July, data on Wednesday showed, suggesting domestic inflation will likely stay below the Fed's 2 percent target for the foreseeable future.

Data on Thursday will include the July consumer price index, industrial production, jobless claims for the most recent week and a U.S. mid-Atlantic business survey.

In commodities markets, copper slipped 0.3 percent to $7,296.50, moving away from a nine-week high hit on Tuesday. Gold slipped to $1,339.89 per ounce.

Brent crude prices rose 0.4 percent to $110.62 a barrel, extending gains from the previous session on a drop in U.S. oil inventories. Investors also feared unrest in Egypt could choke key supply routes or spill over into key oil producing nations.

(Inside Metals is compiled by Pradip Kakoti in Bangalore)