INSIDE METALS

Monday, August 19, 2013

CHART OF THE DAY

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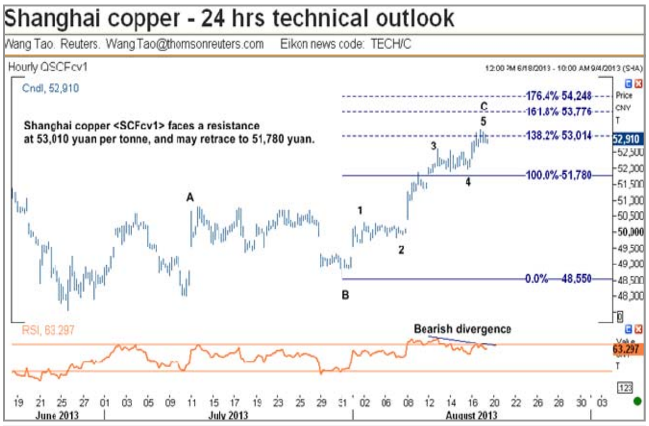

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COLUMN-Mongolia, Rio Tinto playing high stakes on copper mine

Is Rio Tinto's dispute with the Mongolian government over the expansion of the Oyu Tolgoi copper and gold mine the signal that the nation's commodity boom is over, or is it just a hiccup?

Clyde Russell is a Reuters columnist. The opinions expressed are his own

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TODAY'S MARKETS

BASE METALS: London copper eased as markets waited for more clues on when the U.S. Federal Reserve may trim its commodity-friendly stimulus, after climbing for three of the past four weeks on evidence of resilient growth in China and a weaker dollar.

Copper prices have found support ahead of a seasonally stronger period for demand in top consumer China, but growth concerns are likely to resurface and curb potential gains, said analyst Tim Radford at Sydney-based adviser Rivkin.

"The key thing that is really driving the copper market is a weaker dollar ... If we see the USD weakness end then that will weigh on commodity markets - copper is probably due for a pull back," he added.

PRECIOUS METALS: Gold extended gains to a fourth session hitting fresh two-month highs, helped by weak U.S. data and further inflows into the world's biggest bullion-backed exchange traded fund.

The metal has now risen for eight sessions out of nine, gaining 8 percent on the back of a weaker dollar, short covering and technical buying.

"Last quarter what was tugging at gold prices was the fight between money managers who are very bearish on gold and physical buyers who were quite bullish," said Joyce Liu, an investment analyst at Phillip Futures in Singapore.

FOREX: The dollar inched higher versus a basket of currencies with the near-term focus on the minutes of the Federal Reserve's July policy meeting due later this week.

"July's FOMC meeting minutes will be closely read to see whether officials were concerned about the summer rise in U.S. market interest rates holding back the recovery," Mansoor Mohi-uddin, head of foreign exchange strategy for UBS, said in a weekend research note.

FEATURE

COLUMN-Mongolia, Rio Tinto playing high stakes on copper mine

By Clyde Russell

LAUNCESTON, Australia, Aug 19 (Reuters) - Is Rio Tinto's dispute with the Mongolian government over the expansion of the Oyu Tolgoi copper and gold mine the signal that the nation's commodity boom is over, or is it just a hiccup?

Certainly, Mongolia's reputation as a desirable investment destination and one of the few remaining countries ripe for developing natural resources has taken a battering recently.

Rio Tinto , the world's second-largest mining company, said on Aug. 14 that it will cut 1,700 jobs at Oyu Tolgoi after a $5 billion expansion of the project was put on hold last month.

The dispute is over how the expansion gets financed, and the Mongolian parliament has been recalled from its summer recess for an emergency session to try and deal with the matter.

But the real issue is how long it will take for Mongolia to get significant amounts of money from the mine, which is slated to boost the economy by 35 percent by 2020.

Rio Tinto's Turquoise Hill Resources subsidiary owns 66 percent of the mine, while the government owns the other third.

The government has said Oyu Tolgoi, which has an operating open pit and a planned underground expansion, is at least $2 billion over budget.

The higher the capital cost of the mine and any expansion, the longer it will take to pay off the investment, thus delaying returns.

The Mongolian authorities are also said to be concerned about the management fees charged by Rio Tinto for operating the facility, and whether local workers should be on the same pay scales as foreigners.

So far Rio Tinto has played its cards close to its chest, saying publicly that both it and the government remain committed to expanding the project and resolving any issues.

The stakes are high for both parties, thus increasing the likelihood of an eventual compromise and resolution.

For Rio Tinto, Oyu Tolgoi represents one of the world's largest untapped copper reserves, and its development will lessen the global miner's reliance on its iron ore mines in Western Australia.

Longer term, copper may be a better bet than iron ore, given the paucity of new copper reserves, the aging of existing mines and still strong demand from industrialisation in China and India.

In contrast, iron ore supply looks set to swamp demand in the next few years as Rio Tinto, its Australian competitor BHP Billiton and Brazil's Vale all increase capacity, while demand growth in top consumer China is expected to taper.

MONGOLIA NEEDS MINES

For Mongolia, the development of the Oyu Tolgoi copper mine and the Tavan Tolgoi coal mine is the ticket to economic prosperity, with export earnings forecast at a combined $7 billion by 2020, a huge amount for a country whose gross domestic product was $10.2 billion last year.

It's no surprise that both the Mongolian government and Rio Tinto want to secure the best possible terms for themselves in developing the Oyu Tolgoi deposit.

But both will have to be wary about escalating the current dispute to the point where the viability of the investment is called into question.

Firing some 1,700 workers is a fairly dramatic step by Rio Tinto, and the company appears to be betting that the Mongolian authorities need it more than Rio needs them.

There may be some truth to that.

If the Rio Tinto investment does go sour, it would put Mongolia off the map for virtually any Western company for decades.

Given the lack of a good relationship with China, it's unlikely Mongolia wants to become dependent on investment from its giant southern neighbour.

In fact, landlocked Mongolia would love to be able to sell its resources, such as coal, to countries other than China, but a lack of infrastructure to ship through northern neighbour Russia is a major obstacle.

Mongolian President Tsakhia Elbegdorj, who won re-election in June with a slim majority, is keen to exert more control over foreign mining investments.

What this is likely to mean in practice is that the government wants a bigger share of the revenues without having to stump up capital for development.

While this can certainly be legislated, it will alter the risk-reward equation for assessing resource projects and potentially discourage new investment.

Both the Mongolian government and Rio Tinto have too much at stake to endure a protracted dispute.

But this doesn't mean that both parties will work quickly to resolve the issues. This will take leadership on both sides.

The upcoming emergency sitting of parliament on Sept. 2-6 sets the stage for compromise all round.

But the government is likely to be feeling more pressure than Rio Tinto, given lower commodity prices and a 43 percent slump in foreign investment in the first half of this year, both of which hurt the budget.

--The author is a Reuters columnist. The opinions expressed are his own--

GENERAL NEWS

Glencore to take up to $7 billion hit on Xstrata assets

LONDON, Aug 18 (Reuters) - Glencore Xstrata is expected to write down the value of assets inherited from Xstrata by as much as $7 billion when it reports first-half earnings on Tuesday - the first full set of results since the takeover that created the mining giant in May.

Glencore's management, no strangers to Xstrata given the trader's 34 percent stake in the miner, have been reviewing Xstrata's assets as owners over the past three months and they had been expected to book a hit alongside maiden results.

Analysts and an industry source said on Sunday the group writedown, mostly on the value of former Xstrata assets, would likely amount to $5 billion to $7 billion.

Nickel assets - including Xstrata's $5 billion Koniambo operation in New Caledonia - are likely to take the brunt of the pain as nickel prices languish at less than a third of their 2007 highs and supply continues to exceed demand.

But the value of other assets including copper projects, which accounted for a large slice of Xstrata's pipeline of future mines and expansions, could also be cut back.

The mining industry has been pummelled by billions of dollars in writedowns since the start of the year, paying the price for boom-year deals and big-ticket projects that soured as prices fell. Rio Tinto announced in January $14 billion of impairments tied to underperforming Mozambican coal and Canadian aluminium operations - a cut that resulted in the abrupt exit of its chief executive.

Glencore declined to comment on Sunday.

A consensus estimate of 13 analyst forecasts provided by Glencore saw half-year core profit, or earnings before interest, tax, depreciation and amortisation (EBITDA) at $5.88 billion, and attributable profit, or net earnings, of $1.7 billion.

Glencore, which has published first-half output in line with forecasts, has not provided pro forma year-ago numbers.

Aurubis adds new unit to increase gold output at Hamburg plant

HAMBURG, Aug 16 (Reuters) - Aurubis , Europe's biggest copper producer, inaugurated a unit on Friday that uses a new process to increase gold output from its main Hamburg copper refinery to about 50 tonnes a year from 35 tonnes.

Aurubis currently produces gold from the small volumes contained in copper ore and from scrap metal.

The company said it had invested over 50 million euros ($66.3 million) in a new unit to remove gold from the waste sludge that comes out of production of copper anodes.

About 8,000 tonnes of sludge from Aurubis copper refineries in Germany, Belgium and Bulgaria will be transported to Hamburg for refining, Chief Executive Peter Willbrandt said in a statement. Aurubis had previously passed on some sludge for processing by other companies.

The unit was inaugurated on Friday by German Environment Minister Peter Altmaier, who said the company's new process for drying sludge would reduce energy consumption by over third from existing processes.

MARKET NEWS

RUSAL posts $208 mln loss as aluminium prices slide

SHANGHAI, Aug 19 (Reuters) - Russia's United Company RUSAL Plc , the world's largest aluminium producer, swung to a loss of $208 million in the three months ended June, as global aluminium makers struggle with a glut of metal in the market.

The company, led by Russian tycoon Oleg Deripaska, blamed falling prices and lower output for the sharp downward swing from a year ago that pushed Q2 losses well beyond forecasts.

"Our industry remains in a crisis of its own making with oversupply leading to excess of stock overhanging the market," Deripaska said in a statement.

RUSAL , which competes with U.S. aluminium maker Alcoa Inc , reported a recurring net loss for the quarter of $208 million, compared with a revised profit of $125 million for the same period a year earlier.

The company had been expected to post a loss of about $142 million, according to seven banks and brokerages polled by Reuters.

RUSAL said on Monday it would cut aluminium output by 357,000 tonnes, or around 8.5 percent of production, more than previously planned cuts of 7 percent, as it seeks to support prices in the face of a global supply glut. It produced 4.2 million tonnes of aluminium in 2012.

Top aluminium makers are taking broader action in the face of record global inventories and stubbornly low prices. Alcoa last week suspended production at smelters in Brazil as part of a review of 460,000 tonnes of capacity.

The price of aluminium , mainly used in transport and packaging, hit four-year lows below $1,800 a tonne in late June. Prices have since recovered to $1,945 but are still down more than 6 percent for the year.

Proposed rule changes for industrial metals warehouses and increased scrutiny by regulators could also unleash stored aluminium, adding to the global surplus and putting further downward pressure on prices.

Recurring net profit is defined as adjusted net profit plus the company's net effective share in Russian miner Norilsk Nickel .

MARKET NEWS *(Continued)*

RUSAL's total net loss in the first half of the year was $439 million, the company said, including a one-off $234 million loss related to a Norilsk Nickel share sale.

Shares in Hong Kong-listed Rusal were trading down 4.5 percent at about 0240 GMT on Monday.

Warehouse upheaval to pile pressure on aluminium smelters

By Melanie Burton and Eric Onstad

SINGAPORE/LONDON, Aug 16 (Reuters) - Proposed rule changes for industrial metals warehouses and increased scrutiny by regulators are likely to unleash stored aluminium, adding to the global surplus and forcing more smelters to shut.

The new rules will slash the profitability of financing deals that have locked up metal in London Metal Exchange (LME)-registered warehouses and kept millions of tonnes of aluminium off the market, which has supported prices.

"The conclusion we've drawn from the warehousing financing issues is that it is pretty much coming towards the end game," consultant Marco Georgiou of CRU in London said.

But the shift out of these deals will take years, and the resulting cuts in production capacity may take even longer.

Benchmark aluminium prices will need to slide below recent four-year lows to force producers, many of which are already suffering heavy losses, to cut output.

LME-registered warehouses hold 5.5 million tonnes of metal. Much of it is tied up in financing deals, in which investors take advantage of low borrowing costs to sell aluminium forward and store it cheaply in the interim.

Backlogs in deliveries from the LME warehousing network have created long queues and inflated the premiums to obtain physical metal, sparking complaints from consumers.

Those complaints have led to a string of U.S. lawsuits and an LME proposal to overhaul its delivery system from next April.

PREMIUMS AND PRESSURE

As the new rules force warehouses to release more stocks, LME prices and premiums are expected to decline.

"Premiums have started to fall already, and we'd expect if the LME implements the proposals, then we'll see a reduction in warehouse queues from next year ... that would push premiums down further," Georgiou said.

The increased stocks on the market will add pressure on aluminium smelters to curtail capacity.

Smelters in Europe and North America are likely to feel the greatest impact. U.S. producer Alcoa Inc and Russia's Rusal have recently announced cutbacks. China, the world's biggest producer, is not directly affected by the premiums, and its smelters may keep churning out metal.

CRU estimates it will take until 2017 for the knock-on effects of the new rules to force the shutdown of 700,000 to 1 million tonnes of annual production capacity outside China.

The scope of the predicted shutdowns compares with a surplus on the global aluminium market that is forecast to increase from 825,385 tonnes this year to 1 million tonnes in 2014, according to a Reuters poll of analysts.

PRICE EFFECTED

Analysts differ on how the new LME rules will affect two elements of the total aluminium price - the LME price and the premium for delivery of metal. The LME proposal has already started to have an impact on premiums since it was announced last month.

Duty-paid premiums in Europe are down by as much as $35 a tonne to $260-$285 a tonne. Record premiums have been a lifeline for aluminium smelters, adding to the price they can charge to metals consumers at a time that the underlying LME price has fallen by nearly a third from a peak of $2,803 a tonne in May 2011.

Nomura estimates profitability of warehousing would fall by $127 per tonne in Europe and $82 a tonne in the United States and that premiums would probably fall by about a similar amount.

"It is fair to conclude that there will be downward pressure on physical premiums ... but we are in uncharted waters. You'll only get more cutbacks if the LME price does not rise to compensate," analyst Stephen Briggs at BNP Paribas said.

Some investors in Europe and the United States are seeking to hedge exposure on premiums, said Kamal Naqvi, head of EMEA commodities sales at Credit Suisse, which trades premium swaps.

"We've seen interest pick up in aluminium premia swaps in the last few weeks," he said. "There is two-way interest, because there is so much uncertainty regarding timing and scale of any possible decline in aluminium premia."

Last week, CME Group announced the trade of its first aluminium Midwest premium futures contract.

Nomura analyst Neil Sampat estimates that, as more metal is released on to the market, LME prices could slide to $1,500 a tonne, down a fifth from current levels.

For the moment, the appetite for finance deals has diminished slightly but not disappeared.

"It had been a pretty steadily growing business, but I wouldn't say it's growing at the moment," said one physical trader in London.

Higher forward prices for aluminium are still in play - a market structure known as contango - making financing deals profitable.

MARKET NEWS *(Continued)*

"I think that now it is front page news in broadsheet newspapers, we will see companies starting to reduce positions (because of the risk to reputation)," a trader based in New York said.

China July refined copper output falls to 5-month low

By Polly Yam

HONG KONG, Aug 16 (Reuters) - China's July production of refined copper fell 5.93 percent from the previous month to a 5-month low due to reduced supply of raw material copper scrap but output was still up 11.24 percent from a year earlier because of expanded capacity.

Reduced supply from domestic producers could mean the world's top consumer and producer of refined copper will need to import more metal, supporting global copper prices , which have fallen more than 6 percent this year.

China produced 534,560 tonnes of refined copper in July, the lowest since February and down from 568,240 tonnes in June, data from the National Bureau of Statistics showed on Friday.

Tightness in the supply of scrap limited production, said Yang Changhua, chief copper analyst at state-backed research firm Antaike Information Development Company Limited.

Still, smelters increased output using concentrates as feed and have expanded capacity, industry sources said. At least 200,000 tonnes of new capacity using concentrate started production in the first half of the year.

Yang said refined copper production was likely to fall this month from July, since temperatures at multi-year highs were affecting smelter workers in some inland provinces.

A large smelter plans to close 200,000 tonnes of capacity in late August for maintenance, which would cut production by more than 10,000 tonnes of refined copper, a source at the smelter said.

He said the firm chose that time due to high temperatures and weak demand for sulphuric acid, a by-product from copper smelting.

In the first seven months, refined copper production rose 12.38 percent year on year to 3.76 million tonnes, the data showed.

China's July primary aluminium production inched 0.22 percent lower to 1,839,023 tonnes from a record 1,843,089 in June, the data showed.

Output was up 8 percent from July 2012.

Aluminium output stayed strong due to new capacity startups in northwestern provinces even though some existing capacity closed due to low domestic prices , which have fallen more than 5 percent this year.

Production in the northwestern region of Xinjiang, a rising powerhouse in aluminium production in China, produced 214,499 tonnes in July, the data showed.

Top aluminium-producing province Henan produced 269,261 tonnes in July.

Aluminium production rose 8.55 percent to 12.49 million tonnes in the first seven months of the year from the same period in 2012.

China's Hebei province to cut 86 mln T of steel capacity by 2020 -report

BEIJING, Aug 19 (Reuters) - China's top steelmaking province of Hebei plans to slash its annual crude steel capacity by around a quarter, or 86 million tonnes, by 2020 as part of efforts to tackle air pollution, a government newspaper said on Monday.

The move, if successful, could ease overcapacity in China and boost steel prices in the world's biggest producer and consumer of the alloy. But it may dampen demand for steelmaking ingredients iron ore and coal.

China Environmental News, a paper published by the Ministry of Environmental Protection, said Hebei would aim to reduce total capacity by 60 million tonnes before 2017 and by another 26 million tonnes before 2020, according to policy documents.

New policies expected to be announced soon will impose higher emissions and technology standards on local steel mills and improve monitoring systems, the paper said. Firms that fail to comply with the higher standards will be forced to close.

Beijing was engulfed in hazardous smog in January this year, prompting a public outcry and a vow by the central government to tackle the sources of the problem.

Of the 10 Chinese cities with the worst air pollution, seven are in Hebei, and around a fifth of the pollution drifting over Beijing originates from the province, studies have shown.

Rapid growth in Hebei's steel sector has raised provincial coal consumption to around 300 million tonnes, up more than a third in just five years. China is now considering a plan to cut total coal consumption in the Beijing-Tianjin-Hebei region by a combined 100 million tonnes a year.

But with many small mills in the region operating without official approval, it remains unclear how much steel the province actually produces. Official data are believed to be unreliable but estimates range between 300-400 million tonnes.

The city of Tangshan, where much of Hebei's steel capacity is concentrated, launched a campaign in May this year to cut the power supplies to 199 highly polluting enterprises. However, local firms have been known to shut temporarily in order to evade checks.

According to figures produced by the Hebei metallurgical industry association, Hebei's total steel output in June stood at 15.54 million tonnes, down 10 percent from May.

MARKET NEWS *(Continued)*

Beijing and the provincial government have struggled to impose their will on Hebei's industries, with many power plants, steel mills and cement factories operating in violation of pollution guidelines.

According to a document issued earlier this month by the local environment bureau and seen by Reuters, many local steel mills have failed to meet environmental standards even following renovations, but they are continuing to operate.

Equipment is not being used properly, emissions data is being falsified and mills are also continuing to add capacity, the document said, adding that all steel firms will be forced to implement detailed overhaul plans by the end of the year.

U.S. panel approves import probe of steel pipe from nine countries

WASHINGTON, Aug 16 (Reuters) - A U.S. trade panel on Friday approved a Commerce Department investigation that could lead to steep duties on steel pipe from South Korea, India and seven other countries that is used in oil and natural gas production and which domestic manufacturers say is being sold in the United States at unfairly low prices.

The U.S. International Trade Commission voted 6-0 that there was a reasonable indication that U.S. manufacturers are injured by imports of "oil country tubular goods" (OTCG) from the nine countries. That allowed the probe to proceed.

The Commerce Department launched the investigation last month, acting on a petition filed by U.S. Steel, Maverick Tube Corporation, TMK IPSCO and other manufacturers who accuse their foreign competitors of unfairly undercutting U.S. prices to grab sales and market share.

The main U.S. steel industry group, the American Iron and Steel Institute, praised the vote.

"U.S. companies and their workers deserve to have a fair shake, and we applaud today's vote as an important move towards providing U.S. steel producers relief from unfairly traded OCTG imports," the group's president Thomas Gibson said.

But a rival organization representing steel importers criticized the action, arguing the U.S. OCTG sector is currently profitable even if "some overly aggressive suppliers (have) created an inventory overhang in the U.S. market."

"With a profitable and growing industry in the U.S., along with growing demand for OCTG from all sources, domestic and imported, this is not an industry that needs trade protection," said David Phelps, president of the American Institute for International Trade.

The Commerce Department will make a preliminary decision on duties in coming months and a final decision in 2014.

Other countries named in the case are the Philippines, Saudi Arabia, Taiwan, Thailand, Turkey, Ukraine and Vietnam.

Indonesia July refined tin exports drop 42 pct on month - trade ministry

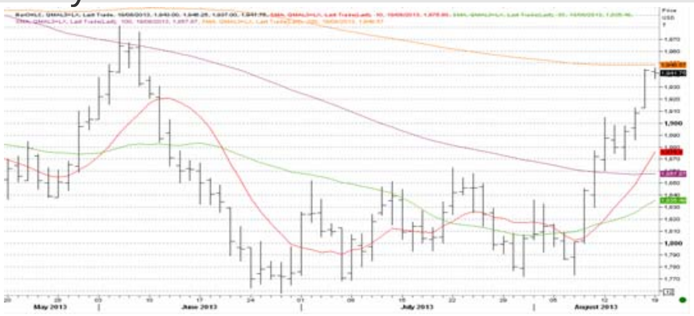
JAKARTA, Aug 19 (Reuters) - Refined tin shipments from Indonesia, the world's top exporter of the metal, dropped 41.8 percent in July to 6,465.95 tonnes from 11,111.38 tonnes in June, a trade ministry official said on Monday, as new trading and purity rules hurt.

Refined tin exports from Southeast Asia's top economy also dropped 22.1 percent from the same month a year ago.

The decline in Indonesia's shipments could push up prices for the metal used in electronic goods.

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

Daily LME Aluminium 3-months

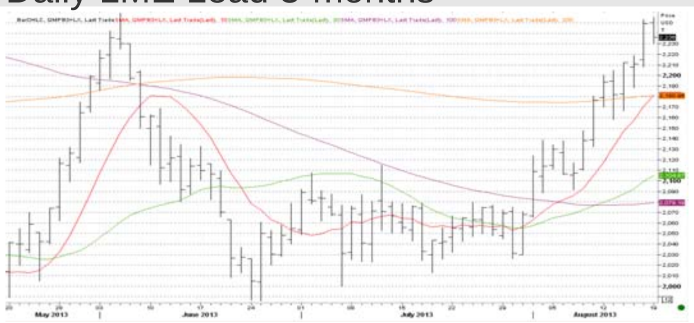


Daily LME Copper 3-months

Daily LME Nickel 3-months

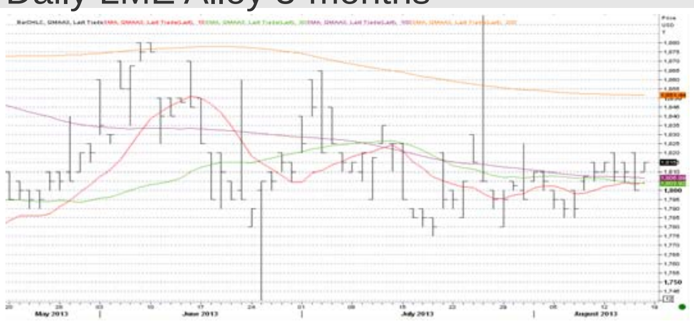
Daily LME Zinc 3-months

Daily LME Lead 3-months



Daily LME Tin 3-months

Daily LME Alloy 3-months



Daily LME Nasaac 3-months

MARKET REVIEW

METALS-Copper eases after gaining for 3 weeks out of 4 on global outlook

By Melanie Burton

SINGAPORE, Aug 19 (Reuters) - London copper eased as markets waited for more clues on when the U.S. Federal Reserve may trim its commodity-friendly stimulus, after climbing for three of the past four weeks on evidence of resilient growth in China and a weaker dollar.

Copper prices have found support ahead of a seasonally stronger period for demand in top consumer China, but growth concerns are likely to resurface and curb potential gains, said analyst Tim Radford at Sydney-based adviser Rivkin.

"The key thing that is really driving the copper market is a weaker dollar ... If we see the USD weakness end then that will weigh on commodity markets - copper is probably due for a pull back," he added.

Three-month copper on the London Metal Exchange had slipped 0.54 percent to $7,359.75 a tonne by 0704 GMT, after climbing 1.2 percent the session before.

Copper prices have recovered by more than 11 percent from three-year lows plumbed in late June, but still remain down by around 7 percent for the year.

The most-traded December copper contract on the Shanghai Futures Exchange closed barely changed at 52,740 yuan ($8,600) a tonne.

Markets are waiting to see if minutes of the Fed's last policy meeting will provide some clarity on when it might start scaling back stimulus - with far-reaching implications for borrowing costs across the globe. The minutes are due on Wednesday.

Glencore Xstrata is expected to write down the value of assets inherited from Xstrata by as much as $7 billion when it reports first-half earnings on Tuesday - the first full set of results since the takeover that created the mining giant in May. BHP Billiton will also report on Tuesday.

RUSAL , the world's largest aluminium producer, said it would cut aluminium output by 357,000 tonnes, or around 8.5 percent of production, more than previously planned cuts of 7 percent.

Proposed rule changes for industrial metals warehouses and increased scrutiny by regulators could also unleash stored aluminium, adding to the global surplus and putting further downward pressure on prices.

The dollar held firm versus a basket of currencies on Monday and stayed above a recent seven-week low, getting support after U.S. 10-year Treasury yields set a two-year high on Friday. A weaker dollar makes assets priced in the greenback cheaper for holders of other currencies.

PRECIOUS-Gold extends rally on U.S. data, SPDR inflows

By A. Ananthalakshmi

SINGAPORE, Aug 19 (Reuters) - Gold extended gains to a fourth session hitting fresh two-month highs, helped by weak U.S. data and further inflows into the world's biggest bullion-backed exchange traded fund.

The metal has now risen for eight sessions out of nine, gaining 8 percent on the back of a weaker dollar, short covering and technical buying.

Signs of increasing physical demand, and a turnaround in the outflows from gold-backed ETFs have also supported prices.

"Last quarter what was tugging at gold prices was the fight between money managers who are very bearish on gold and physical buyers who were quite bullish," said Joyce Liu, an investment analyst at Phillip Futures in Singapore.

"The outlook (for gold prices) is slightly better now as it looks like we have bottomed out on the outflows."

SPDR Gold Trust , the world's largest gold-backed ETF, posted a 0.4 percent increase in holdings last week to 915.32 tonnes - its first increase since November 2012.

The fund has seen about $19 billion in outflows this year, and has weighed heavily on gold prices that have lost nearly a fifth of their value in 2013.

Hedge funds and money managers raised net long positions in gold and silver, a report by the Commodity Futures Trading Commission showed on Friday, indicating that investors' sentiment towards gold may be changing.

Spot gold rose 0.3 percent to $1,379.51 an ounce by 0305 GMT, after hitting a two-month peak of $1,384.10 earlier.

Bullion climbed the most in five weeks last week, posting a 5 percent gain. Silver gained 14 percent - its biggest weekly increase in almost five years.

Liu said charts show that the momentum for gold prices is still positive.

Spot gold is expected to break a resistance at $1,386 per ounce and rise more to $1,403, Reuters technicals analyst Wang Tao said.

ECONOMIC DATA

Shanghai gold futures rose more than 2 percent on Monday. Demand from China and India is set to soar to a record 1,000 tonnes each in 2013, the World Gold Council said last week.

U.S. consumer sentiment ebbed in August and residential construction rose less than expected last month, potentially dimming hopes of an acceleration in economic activity in the third quarter and increasing gold's safe-haven appeal.

Economic data is being monitored by investors to gauge when the U.S. Federal Reserve would begin tapering its massive stimulus measures.

MARKET REVIEW *(Continued)*

Minutes of the Fed's July policy meeting are due to be released on Wednesday.

FOREX -Dollar struggles to gain traction, Fed minutes in focus

By Masayuki Kitano

SINGAPORE, Aug 19 (Reuters) - The dollar inched higher versus a basket of currencies with the near-term focus on the minutes of the Federal Reserve's July policy meeting due later this week.

Moves in the greenback were subdued overall, with the dollar index edging up 0.1 percent to 81.352 and staying above a seven-week low of 80.868 set earlier in August.

The greenback struggled to gain traction even as the U.S. 10-year Treasury yield set a fresh two-year high of about 2.871 percent on Monday, having exceeded Friday's peak of 2.866 percent.

U.S. Treasury yields have been rising recently on the back of market expectations that the Fed could start scaling back its bond-buying programme as early as September.

Such expectations have been bolstered in recent sessions by some encouraging U.S. data, including a drop in weekly jobless claims to a near six-year low.

Still, while higher U.S. yields can increase the attractiveness of dollar-denominated assets and give a boost to the dollar, the impact has been offset recently by an improvement in euro zone and UK economic indicators, which have given a lift to the euro and sterling and kept a lid on the greenback.

A focal point for markets this week is the minutes of the Federal Reserve's July 30-31 policy meeting, due to be released on Wednesday.

"July's FOMC meeting minutes will be closely read to see whether officials were concerned about the summer rise in U.S. market interest rates holding back the recovery," Mansoor Mohi-uddin, head of foreign exchange strategy for UBS, said in a weekend research note.

"If the minutes still point to the FOMC committee continuing to consider slowing down bond buying, the dollar will benefit," he added.

Against the yen, the dollar edged up 0.2 percent to 97.69 yen .

The impact of the Fed minutes on the dollar's moves versus the yen will hinge on the reaction of equity markets, said Koji Fukaya, CEO at FPG Securities in Tokyo.

"The short-term outlook will depend on what happens to equities," he said. "If they fall further, we could see a risk-off type of short-covering in the yen," Fukaya added.

Market expectations that the Fed will start scaling back its monetary stimulus have recently dented U.S. equities as well as Japanese shares, and given support to the yen.

The euro eased 0.1 percent to $1.3324 , having backed off Friday's intraday peak of $1.3380. Still, the single currency was not too far from a seven-week high of $1.3401 set on Aug. 8.

While the euro has been supported by a recent run of solid European economic data, such a situation probably won't last for too long, said Daisuke Karakama, market economist for Mizuho Bank in Tokyo.

"I think the April-June GDP will be the peak for the euro zone this year," Karakama said.

Data released last Wednesday had shown that the economies of Germany and France grew faster than expected in the second quarter, pulling the euro zone out of a 1-1/2 year-long recession.

"Since Europe will probably worsen from here, I think there will be a phase when the dollar starts to attract demand against the euro," Karakama added.

The Australian dollar edged up 0.4 percent to $0.9215, having risen to as high as $0.9234 earlier, where it met heavy technical resistance. Traders suspected that the bounce had more to do with how short the market had been than any other factor.

(Inside Metals is compiled by Pradip Kakoti in Bangalore)