INSIDE METALS

Tuesday, August 20, 2013

CHART OF THE DAY

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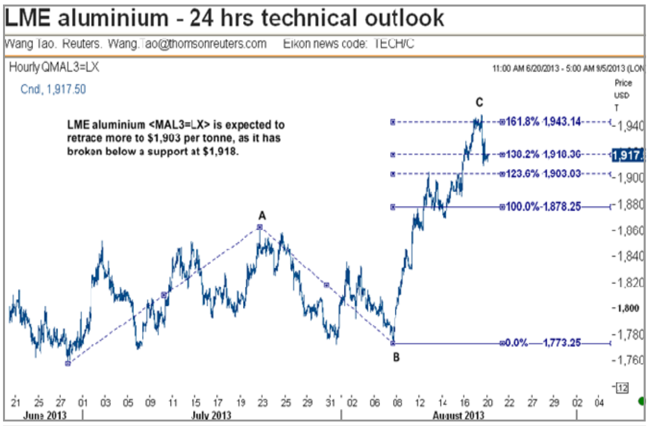

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FEATURE

COLUMN-Indonesian tin: no need to panic just yet

Indonesian exports of tin fell to 6,466 tonnes in July, the lowest monthly level since August 2012.That was hardly surprising. The market had been braced for just such an outcome in light of the government's new rules on shipments from what is the world's largest exporter of the soldering and packaging metal.

Andy Home is a Reuters columnist. The opinions expressed are his own

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TODAY'S MARKETS

BASE METALS: London copper was treading water as caution over the timing of any pullback in U.S. monetary stimulus capped prices, but the market was underpinned by signs of resurgent global growth that have lifted copper to three weeks of gains.

"I do expect some better numbers from China in the next 1-2 months and that gives us support for another leg up in copper prices, but it's clearly not going to be sustained," he said.

PRECIOUS METALS: Gold eased but wasn't far from two-month highs hit in the previous session, with investors awaiting minutes from the U.S. central bank's July policy meeting for clues on when it will begin scaling back its commodities-friendly stimulus steps.

"We need a correction. The rally looks a bit overdone to me," said one Hong Kong-based precious metals trader. "The correlation with the dollar and U.S. yields have not been working at all since last week."

FOREX: The U.S. dollar held steady versus a basket of currencies while the kiwi fell after New Zealand's central bank announced home lending restrictions and also said the New Zealand dollar was overvalued.

The U.S. dollar's moves versus the yen and the euro were limited as the market awaited the minutes of the U.S. Federal Reserve's July policy meeting due on Wednesday.

"The yen tends to attract buying when tensions in the market increase," he said.

FEATURE

COLUMN-Indonesian tin: no need to panic just yet

By Andy Home

LONDON, Aug 19 (Reuters) - Indonesian exports of tin fell to 6,466 tonnes in July, the lowest monthly level since August 2012.

That was hardly surprising. The market had been braced for just such an outcome in light of the government's new rules on shipments from what is the world's largest exporter of the soldering and packaging metal.

It's what happens next that will be critical.

Not just for the tin market, which is still characterised by underlying supply deficit. But also for other markets such as nickel, which faces similar supply disruption once Indonesia brings into force a promised ban on the export of unprocessed minerals at the start of next year.

CHANGING THE RULES

Tin has long been a testing ground for Indonesian policy on its minerals sector.

A ban on the export of tin ores and concentrates has been in place for several years, ostensibly to enforce some semblance of order on what were previously anarchic mining operations on the tin-rich islands of Bangka and Belitung.

Since then quality rules have been incrementally tightened and loop-holes plugged.

The latest purity regulations, which came into effect at the start of July, mark the logical conclusion of the government's drive to ensure the country is generating the highest possible value-add on its mineral exports.

Although there has been some last-minute compromise on the permitted lead content of exported tin, the minimum purity threshold of 99.9 percent stands, meaning that what Indonesia exports from now on will be some of the highest-quality metal in the international market.

The question, though, is how many Indonesian operators can actually produce tin to the new standards.

Dominant producer PT Timah certainly can. Some of the smaller Bangka-Belitung producers probably can. Many of them probably can't, or not yet at least.

There is another quirk to the new tin export policy which was announced, in typically Indonesian fashion, at the eleventh hour.

From the end of this month, all 51 registered tin exporters will also have to trade on the domestic market operated by The Indonesia Commodity and Derivatives Exchange (ICDX). The stated objective is to enhance the international pricing power of the country's tin sector.

Very few operators appear geared to do so. As of last month only two local producers were registered: PT Timah and PT Refined Bangka Tin.

Nor is it clear whether the ICDX contract is capable of absorbing what is likely to be one-way trade flow from the country's exporters. After trading 116 lots last year, this year's activity has been limited to a single lot traded on July 22.

CUSHIONING THE IMPACT

July's reduced export flow is proof that the new purity rules have had a tangible impact.

The only surprise is that exports weren't lower.

PT Timah has said it will produce 27,000-31,000 tonnes this year, implying monthly exports of 2,250-2,500 tonnes.

The logical inference is that July's exports include some flow from the Bangka-Belitung smelters, suggesting either that several of them are capable of producing to the new purity standards or that there has been some flexibility in permitting non-compliant exports.

The next couple of months' figures will provide more insight into what is actually happening.

That said, the base-case scenario must be that July's shipments are a good indicator of what to expect in terms of monthly flows over the short term with downside risk coming from how the requirement to trade on the ICDX pans out.

What are the implications for tin prices?

The first important point is that exports had predictably surged ahead of the new export rules. At 11,111 tonnes June's exports represented the highest monthly flow since December 2011.

Indeed, cumulative exports of 61,477 tonnes over the first seven months of this year were still running at the fastest rate since at least 2008.

That should provide some cushion to international supply, if Indonesian shipments hold July's reduced levels or drop further in the coming period.

Another form of cushioning has come from China, both the world's largest producer and consumer of tin.

It imported a net 30,000 tonnes of tin last year, a multi-year high. But imports have steadily declined this year, totalling just 7,400 tonnes in the first half. Indeed June's net imports of 515 tonnes were the lowest monthly draw on the rest of the world since February 2011.

There is no reason to expect a sudden rebound. Quite the contrary, in fact, with many analysts speculating that the country may have over-stocked with the potential for a shift to net exports if the price is right.

LME TENSE BUT NO PANIC

Nor are there any immediate signs of panic on the London Metal Exchange (LME) tin market.

Registered stocks stand at 14,055 tonnes, up 1,255 tonnes on the start of the year.

FEATURE *(Continued)*

Sure, the amount of cancelled tonnage, meaning metal that is earmarked for physical drawdown, is high at 4,365 tonnes.

But this indicator has recently been volatile with metal in Johor, where most of the LME tin stocks are located, being frequently cancelled only to be put back on to warrant.

The LME tin price has staged a strong rally over the last few weeks, hitting a four-month high of $22,320 per tonne earlier this month.

Uncertainty over Indonesian supply has certainly been in the mix, but it's difficult to separate it out from the same short-covering momentum that has recently driven just about all the LME metals higher.

Nearby tin spreads, which should be a sensitive indicator of supply concerns, swooned into backwardation at the start of August but the benchmark cash-to-three-months period ended last week valued at $22 per tonne contango.

Some tightness is apparent at the very front of the curve, the cash-to-September spread quoted in small backwardation on Monday morning.

That, however, may reflect more technical than fundamental tightness. The September prime prompt date is crowded with five significant short positions squaring off against four sizeable long positions.

Things can change very fast in the low-liquidity LME tin market. But right now the nearby structure looks tense rather than panicky.

BROADER IMPACT

What are the broader implications for Indonesia's minerals exports?

Nickel is the current focal point of the promised wholesale ban on unprocessed exports next year. That's because China's fast-expanding nickel pig iron sector is almost completely dependent on Indonesian nickel ore exports.

As with tin, some cushioning against supply disruption is already being put in place. China's ore imports from Indonesia have been running at record levels this year, leading to significant stocks build within the country.

Tin has also shown there is plenty of potential for some mutually acceptable blurring of how the rules are enforced between government and operators.

In tin's case it has been evidenced by the relaxation of the lead content on exports and by the push-back of the requirement to trade the ICDX, originally due to come into force at the start of July.

It may yet be postponed again, given intense lobbying and legal threats by some of the Bangka-Belitung smelters.

Most observers are expecting a similar blurring of the official lines when it comes to the January 2014 clampdown.

That there will be some impact on flows of nickel ore is not in doubt. But the current betting is that it may turn out to be less drastic than implied by official statements.

But what tin also demonstrates is that the Indonesian government is serious about enforcing value-add on its minerals sector and will, over the long term, probably get what it wants.

It's just there is plenty of room for short-term wriggle by local exporters seeking ways around official policy.

Just how much we'll find out from the tin export flow over the next few months.

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

GENERAL NEWS

Costs at AngloGold Ashanti's main Ghana mine unsustainable-CEO

By Matthew Mpoke Bigg

ACCRA, Aug 19 (Reuters) - The cost structure at AngloGold Ashanti's flagship Ghana gold mine is unsustainable and the company is looking to make cuts to counter rising costs and falling production, Chief Executive Srinivasan Venkatakrishnan said on Monday.

Production costs per ounce have more than doubled since 2008 at Obuasi, which is Ghana's largest mine. A fall in gold prices this year has worsened the financial strain and the company's Ghana unit is relying on its parent company for funding.

"Obuasi is currently making losses at the operating level ... The current cost structure at the operation is clearly unsustainable," Venkatakrishnan told Reuters via email.

AngloGold Ashanti, Africa's biggest gold producer, swung to a loss in its second-quarter results issued this month.

AngloGold will spend $30 million to $40 million this year on a long-term plan to build a ramp to improve access to the ageing Obuasi mine and speed mechanization in a bid to raise production volumes and lower costs there.

"We are looking across the business at reducing costs and improving productivity by investing capital in the new ramp access," Venkatakrishnan said.

The mine's biggest expenses are payroll and electricity. Venkatakrishnan said the company wants to eliminate wasteful expenditures and is also considering worker layoffs.

GENERAL NEWS *(Continued)*

Ghana is the second largest gold producer in Africa and Obuasi is its most prominent mine. Mining is the top source of government revenue. The country exports gold, cocoa and oil.

"Government is very concerned about what is happening. They (AngloGold) came up with various options that are being considered and so we are waiting to hear what they intend to do," President John Mahama said in an interview on Monday.

Mahama urged mining companies to cut costs and employ more Ghanaians rather than expatriates. However he ruled out a reduction in corporate income tax on mining companies, which is currently fixed 35 percent.

Ghana's is aiming to reduce its budget deficit to 9 percent of GDP after it ballooned to 11.8 percent in 2012.

"When you are trying to cut a deficit, reducing corporate income taxes (on the mining sector) at this time is not an option that we will consider favourably," he said.

RAMP IS CRUCIAL

Venkatakrishnan said Obuasi produced 58,000 ounces during the second quarter at a total cash cost of $1,560 per ounce. The spot gold price was $1,367.29 an ounce at 1450 GMT on Monday.

Obuasi produced 357,000 ounces at $633 per ounce in 2008 and 280,000 ounces at a total cash cost of $1,187 per ounce in 2012.

The company has a long-term mechanisation plan that will lead to layoffs but no fixed number has been settled on, he said in an email sent through the company's senior vice president for investor relations Stewart Bailey.

"Our ramp access plan is currently hitting its milestones and will be managed very closely. Essentially it must keep hitting these milestones in order to retain its ongoing access to capital from the group," Bailey said by email.

The Ghana Mineworkers' Union said AngloGold Ashanti notified it of 450 coming job losses out of a total workforce of more than 5,000 people, said senior union official Erik Gyima.

AngloGold merged with Ashanti Goldfields Corporation in 2004 but found maintaining the century-old mine cost more than expected, according to a former AngloGold executive.

"When we bought Ashanti the idea was that Obuasi had big potential but it needed big money. Anglo was going to put in the money to develop the potential. But Obuasi was more broken than people thought," said the executive who took part in the merger.

Indian gold imports set to resume after 4-week halt as export rule clarified

By Siddesh Mayenkar and A. Ananthalakshmi

MUMBAI/SINGAPORE, Aug 19 (Reuters) - Indian traders said they will start importing gold again over the next week or so after the central bank clarified a new rule that brought the flow of the precious metal into the world's top gold consumer to a standstill at the end of July.

A resumption of imports would ease tight domestic supply and prices ahead of a festival and wedding season that kicks off next month. Indian imports would also support benchmark international gold prices, which hit a two-month high on Monday.

Indian traders stopped imports on July 22 due to confusion over a rule issued by the Reserve Bank of India that was aimed at stemming the flow of gold into the country, not stopping it completely.

Gold imports are a big contributor to India's record trade deficit, so the central bank is trying to slow them down.

The confusion centred on a rule that required importers to re-export at least 20 percent of all imports, known as the 80/20 rule.

Last week, the Reserve Bank issued detailed guidelines on how the rule would work, but the complexity of the rule had prevented banks from importing immediately. Banks are the main importing agencies for gold into India.

"I've spoken to many banks and I believe imports may start within this week. (Last week's) circular has clarified many things for importers," said Bachhraj Bamalwa, director of the All India Gems and Jewellery Trade Federation.

"Once the imports start, premiums will come down," said Bamalwa, who expects premiums charged on London prices to fall to $10 an ounce from $40 on Monday.

Since the rule is new, the importing agencies are taking time to get a grasp on the many operational procedures involved, including the undertaking that needs to be submitted to the customs department once the goods are delivered to an exporter for the next lot of imports.

"From operational or concept point of view the RBI circular is very clear. We would take at least a minimum of 10 days to start importing again," said an official with foreign bank importing bullion in Mumbai.

To cut its import bill, India has tightened rules to curb gold consumption, increased import duty three times in eight months to a record 10 percent and banned imports of coins and medallions.

GENERAL NEWS *(Continued)*

Analysts have said the moves may curb imports but not demand which is at heightened levels due to a fall in gold prices, and could prompt an increase in local premiums and smuggling.

BUYING FROM SINGAPORE

The higher taxes have not curbed India's appetite for gold. India's gold imports rose to $2.9 billion in July from $2.45 billion in June.

The imports were shipped in the first three weeks of July, according to the gems and jewellery trade body, as the 80/20 rule came into effect in the later half.

Traders have said gold is also brought into the country through unofficial means.

Dealers in Singapore said they have seen an increase in buying from Indian dealers and jewellers since last week's hike in import duty to 10 percent, but they were not sure if it was entering India through legal means.

"We are seeing a lot of buying from Indian nationals over the counter from us," said Brian Lan, managing director of Singapore-based dealer GoldSilver Central Pte Ltd.

Gold forms an essential part of a bride's dowry in India and is considered auspicious as a gift or offering at religious festivals.

"The more the Indian government tries to curb gold consumption, the more likely a black market will occur as there will always be a demand for gold in India," said Lan.

U.S. gold coin sales plunge in August as retail buying fades

By Frank Tang

NEW YORK, Aug 19 (Reuters) - Demand for U.S. gold coins has plunged in recent weeks as the unprecedented buying by retail investors that helped bullion prices recover from their historic sell-off four months ago has almost vanished.

Record highs in U.S. stock markets, combined with little clarity about when the U.S. central bank may start curbing its bond-buying stimulus have prompted investors to hold back their physical gold purchases.

With less than 2 weeks left in August, total sales of U.S. Mint American Eagle gold bullion coins for investors stood at 3,000 ounces on Monday. That is a far cry from 39,000 ounces for the whole of August 2012 and the monthly average of almost 100,000 ounces for the first seven months of this year, according to data on the U.S. Mint website.

Projected sales for this month will be one of the lowest tallies for August since the U.S. Mint launched the American Eagle coins program for investors in 1986.

"Demand right now is next to nothing," said Michael Kramer, president of Manfra, Tordella & Brookes (MTB), a major U.S. coin dealer in New York.

Unlike previous years when sales were limited by a lack of gold coin blanks, the U.S. Mint has not experienced any supply issues this time around.

Physical gold coin sales are highly seasonal and are typically slowest in the summer months of June, July and August when many investors are on vacation, dealers said.

But August sales at just a fraction of the meteoric levels of recent months will reignite concerns that ebbing physical demand could remove a key price support for bullion.

Much of the recovery in prices since their drop in April has been attributed to small investors and collectors buying anything from jewelry to coins at bargain prices.

Bullion posted a record two-day $225 drop in mid-April as institutional investors pulled money out of gold betting on an end to the U.S. Federal Reserve's years-long stimulus program.

Prices have rebounded 15 percent since hitting a three-year low at $1,180 an ounce on June 28. On Monday, gold was down 0.7 percent at $1,366 an ounce.

But the highs in equity markets and resurgent fears that the Fed will taper its massive stimulus sooner rather than later have scuppered physical gold purchases.

"There are plenty of people who would buy a whole lot more, but there has to be clarity which way gold is going, and that's what people are waiting for," Kramer said.

SECONDARY SUPPLY RISES

The dramatic fall in demand for new coins comes as investors also sell coins they bought during the run-up in prices over the past decade to cash in on expectations that prices have little room to rise further.

Many long-term coin customers who had bought gold at much lower prices years ago have opted to take profits, said Roy Friedman, executive vice president at Dallas-based Dillon Gage, one of the top U.S. coin dealers.

"Over the course of the last couple of weeks, several large liquidations have come into the market on all gold bullion coins."

Similarly, MTB's Kramer said that he saw several 10,000-15,000 ounces sales by large customers a few weeks ago, although such sales have stopped recently.

Mints around the world are experiencing a similar slowdown in sales.

Sales of 2013 Gold Maple Leaf coins have been slower in recent weeks compared to July, Chris Carkner, a managing director at the Royal Canadian Mint, told Reuters.

Traders question whether the pace of buying will pick up given the amount of gold coins and bars already bought this year.

"If gold is just moving $10 here and there, it is not going generate a lot of buying interest," said David Beahm, vice president of New Orleans-based retail coin dealer Blanchard & Co.

"However, it doesn't take much for gold prices to go a lot higher," Beahm said, adding that could reignite coin buying.

TRADING PLACES

Copper, zinc premiums steady in Europe ahead of warehouse reforms

By Harpreet Bhal

LONDON, Aug 19 (Reuters) - Costs to obtain physical copper and zinc have held steady in Europe in recent months as availability has remained tight, offsetting potential supply pressure in the wake of proposals aimed at easing bottlenecks to access metal.

Steady premiums for the two metals contrast with falls in aluminium premiums in response to a plan by the London Metal Exchange (LME) aimed at reducing lengthy waiting times for customers, which if implemented, could ease up supply of metal.

Long delays to receive material led to an uproar in the aluminium market, where consumers have brought lawsuits against banks and trading houses, including Goldman Sachs, Glencore Xstrata and JP Morgan Chase, as well as the LME.

Traders said copper and zinc premiums have yet to come under pressure from the fallout of the aluminium premiums scandal, but the knock-on effect will likely be that premiums are prevented from going any higher than current levels.

"The results coming out of the aluminium disaster will also be a rule for all other metals," a Europe-based physical metals trader said.

"Premiums are capped now and the next step will be a deduction. But as long as rates are low, there is still money to be made in this (metals storage) business."

Apart from aluminium, copper and zinc are also subject to long waiting periods to collect material from specific warehouses where metal is locked-up in financing deals that take advantage of low borrowing costs to sell metal forward and store it cheaply in the interim.

Warehouse operators make money from building up stocks and allowing queues of many months to form among customers to withdraw metal, all the while charging them for storage.

But unlike aluminium, premiums for copper and zinc have not skyrocketed, and are at levels that customers are still willing to pay, and the market is not chronically oversupplied.

"At the moment it (the premium) is workable for the market. And people are willing to pay, and not complaining like in aluminium where premiums were 15 percent of the metal price. It is a smaller part of the costs," a zinc trader said.

TIGHT MARKET

Premiums for copper, paid over the cash prices were quoted at around $100-110 per tonne. Zinc premiums paid over cash have held steady at around $135-140 a tonne.

Traders said the copper market remained tight, as scrap supply was low and producers were keen to keep premiums at elevated levels ahead of term-premiums negotiations during LME Week in early October. And with copper premiums in top consumer China being much higher than in Europe, at around $200 a tonne, traders said any excess material was being diverted there. "With such a big difference in premiums, not so much material is coming to Europe. That's why the market here is tighter," another copper trader said.

Copper stocks have been on a downtrend since hitting a 10-year high in June while zinc stocks, at just over 1 million tonnes, have also been falling in recent months.

Whereas warehouses had previously offered steep incentives to attract metal into storage, traders said they expected incentives to drop once industry reopens following the summer lull as the market digests the LME's proposals. The LME in early July came up with a proposal, aiming to link load-in and load-out rates for warehouses with queues where waiting times are more than 100 calendar days. It is open to the metals market for a three-month consultation period.

"The warehouse companies are a bit unsure about further developments because nobody can be sure about how this will pan out," the trader said. "So they are a bit more careful in being too aggressive in offering incentives."

MARKET NEWS

Russia's Rusal may delay aluminium project to help ease glut

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By Adam Jourdan and Polina Devitt

SHANGHAI/MOSCOW, Aug 19 (Reuters) - Russia's Rusal , the world's largest aluminium producer by output, may delay the start of production at one of its biggest projects, seeking to ease a global glut of the metal.

Rusal , led by Russian tycoon Oleg Deripaska, and other big aluminium makers are cutting output in response to record inventories and stubbornly low prices of aluminium, used in vehicles and packaging.

U.S. producer Alcoa Inc , Rusal's main rival, last week suspended production at smelters in Brazil as part of a review of its capacity.

Rusal reported a steeper-than-expected loss for the second quarter earlier on Monday and said it may postpone the start of production at its Boguchansk smelter in Siberia to 2014.

"Very probable that we would not start it this year and postpone it till the next year," first deputy chief executive Vladislav Soloviev told a conference call with analysts.

Rusal said it would cut aluminium output by 357,000 tonnes, or around 8.5 percent of production, more than the 7 percent previously planned, as it seeks to support prices near four-year lows.

MARKET NEWS *(Continued)*

"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.

George Buzhenitsa, an analyst at Deutsche Bank in Moscow, estimates the global aluminium surplus at 750,000 tonnes this year and at 1.75 million tonnes in 2014, excluding 5.4 million tonnes in stockpiles held at London Metal Exchange warehouses.

Rusal said it plans to produce about 3.8 million tonnes of aluminium this year and about 3.7 million tonnes in 2014, down from 4.2 million tonnes in 2012.

The 588,000 tonne-per-year Boguchansk smelter had been expected to pour its first metal later this year.

Rusal has already invested $862 million in Boguchansk and would need to spend another $749 million to complete the first phase of the smelter, which has a capacity of about 300,000 tonnes.

"It is the only possible decision, taking into account the current market situation," Buzhenitsa said, commenting on the potential project delay.

However, attempts by producers to cut global aluminium supply may not be enough as proposed rule changes for industrial metals warehouses and increased scrutiny by regulators could unleash stored aluminium, putting further downward pressure on prices.

The price of aluminium , hit four-year lows below $1,800 a tonne in late June. Prices have since recovered to $1,924 but are still down more than 6 percent for the year.

Rusal reported a recurring second-quarter net loss of $208 million, due to falling prices and lower output, compared with a revised profit of $125 million a year earlier.

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

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

Shares in Hong Kong-listed Rusal closed 0.8 percent higher on Monday.

China's avg daily steel output rebounds 2.7 pct in early Aug -industry data

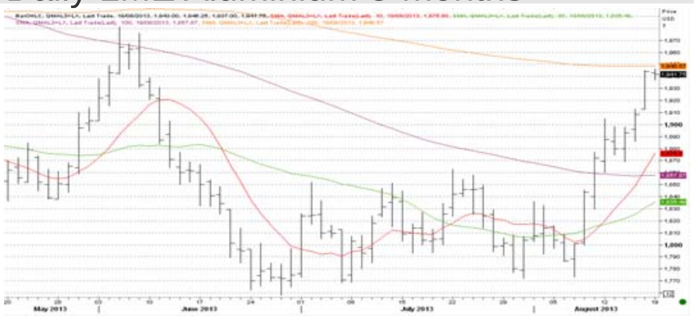
SHANGHAI, Aug 20 (Reuters) - China's average daily crude steel output bounced up 2.7 percent to 2.140 million tonnes between Aug. 1-10 from July 21-31, China Iron & Steel Association (CISA) data showed on Tuesday.

CISA estimated the country's total production based on its members, including more than 80 large steel mills that account for about 80 percent of China's total steel output.

CISA members produced 1.76 million tonnes of crude steel on an average daily basis during the first 10 days of August, growing by 5.5 percent from the preceding period, data showed.

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 takes a breather after three-week rise; Fed eyed

By Melanie Burton

SINGAPORE, Aug 20 (Reuters) - London copper was treading water as caution over the timing of any pullback in U.S. monetary stimulus capped prices, but the market was underpinned by signs of resurgent global growth that have lifted copper to three weeks of gains. China's economic backdrop is brightening and so is its metals demand, said analyst Dominic Schnider of UBS Wealth Management in Singapore. In the short term, this is being overshadowed by uncertainty over the impact of a potential U.S. stimulus tapering programme, he added.

"I do expect some better numbers from China in the next 1-2 months and that gives us support for another leg up in copper prices, but it's clearly not going to be sustained," he said.

U.S. benchmark bond yields hit a two-year high near 3 percent on Monday and emerging market currencies from India to Indonesia tumbled as markets braced for the Federal Reserve to start withdrawing support for the U.S. economy.

China's tight focus on reining in any evidence its economy was overheating would compel it to take cooling steps if factory activity picked up momentum too quickly, which should act as a brake on metals prices, Schnider added.

China's HSBC flash PMI is due on Thursday.

Three-month copper on the London Metal Exchange edged up 0.14 percent to $7,315 a tonne by 0253 GMT, after a loss of 1.3 percent in the previous session. Copper prices logged gains for a third week running last week, hitting $7,420 on Friday, the highest in more than 10 weeks. Prices are still down almost 8 percent on the year.

The most-traded December copper contract on the Shanghai Futures Exchange sank 0.68 percent to 52,520 yuan ($8,600) a tonne. Costs to obtain physical copper and zinc have held steady in Europe in recent months as availability has remained tight, offsetting potential supply pressure in the wake of proposals aimed at easing bottlenecks to access metal.

In China, premiums for metal in the country's bonded zones have dropped around $15 since Aug. 8 to $180-$210, according to price provider Shmet, reflecting a lack of appetite by consumers to chase prices at higher levels.

PRECIOUS-Gold edges lower after recent gains as stimulus outlook awaited

By A. Ananthalakshmi

SINGAPORE, Aug 20 (Reuters) - Gold eased but wasn't far from two-month highs hit in the previous session, with investors awaiting minutes from the U.S. central bank's July policy meeting for clues on when it will begin scaling back its commodities-friendly stimulus steps.

The precious metal has risen about 6.5 percent over the last 10 sessions, also supported by signs of increasing physical demand from China and India, and a possible halt in big outflows from exchange-traded funds (ETFs).

Traders said they expected a further drop in prices as gold losses its momentum that was prompted by technical buying once prices crossed $1,350 last week.

"We need a correction. The rally looks a bit overdone to me," said one Hong Kong-based precious metals trader. "The correlation with the dollar and U.S. yields have not been working at all since last week."

U.S. benchmark bond yields hit a two-year high near 3 percent on Monday and major U.S. stock indexes fell for a fourth straight session as markets braced for the U.S. Federal Reserve to start withdrawing its $85 billion monthly asset purchases.

The yield on benchmark 10-year Treasury notes is up sharply from 1.60 percent in early May, before the Fed started signalling its intentions to pare back its quantitative easing if the economy continued to strengthen.

Spot gold shed 0.1 percent to $1,363.90 an ounce by 0355 GMT.

The Fed, which is due to release the minutes of its July policy meeting on Wednesday, had indicated earlier that it could start tapering the bond purchases if the labour and housing markets continued to recover.

The withdrawal of the stimulus would be big blow to gold which hit an all-time in 2011 on the back of easy money from central banks around the world.

It has lost nearly a fifth of its value this year on stimulus worries and outflows from bullion-backed ETFs.

"Once September rolls around, gold's upside becomes more suspect and we could be in store for a much more concerted decline as we think that the Fed will indeed deliver its first tapering instalment," INTL FCStone analyst Edward Meir said.

PHYSICAL DEMAND

Buying from China was quiet today, traders said, as dealers awaited more clarity on the Fed stimulus. Shanghai gold futures fell on Tuesday after a three-session rise.

Indian traders said they will start importing gold again over the next week or so after the central bank clarified a new rule that brought the flow of the precious metal into the world's top gold consumer to a standstill at the end of July.

Data from the U.S. Mint showed that August sales of American Eagle gold bullion coins stood at just 3,000 ounces as of Monday, far lower that the 39,000 ounces for the whole of August last year and the monthly average of almost 100,000 ounces for the first seven months of this year.

MARKET REVIEW *(Continued)*

FOREX-Dollar index holds steady; kiwi falls on RBNZ comments

By Masayuki Kitano

SINGAPORE, Aug 20 (Reuters) - The U.S. dollar held steady versus a basket of currencies while the kiwi fell after New Zealand's central bank announced home lending restrictions and also said the New Zealand dollar was overvalued.

The U.S. dollar's moves versus the yen and the euro were limited as the market awaited the minutes of the U.S. Federal Reserve's July policy meeting due on Wednesday.

The kiwi dollar was the big mover, falling 1 percent to $0.7985 .

The move lower followed home lending restrictions announced by New Zealand's central bank governor, Graeme Wheeler, to help cool off an overheated market without having to raise interest rates.

More importantly, markets reacted to a change in rhetoric, with the RBNZ describing the kiwi as overvalued, rather than high as it had in the recent past. Wheeler also said that while a rate rise might be needed next year, it wasn't needed now.

While the U.S. dollar gained ground against the New Zealand dollar, the greenback's performance versus the yen and euro were fairly subdued.

The dollar held steady against a basket of major currencies, with the dollar index last at 81.246, little changed on the day.

Investors are now looking ahead to minutes of the Federal Reserve's July meeting, awaiting fresh clues on whether the Fed will taper its bond-buying programme in September.

The dollar held steady versus the yen at 97.59 yen , while the euro edged up 0.1 percent to $1.3347 .

Against the yen, the euro rose 0.1 percent to 130.25 yen , but remained below a two-week high of 131.05 yen set on Monday.

Recent weakness in U.S. and Japanese equities, due partly to market expectations that the Fed could start scaling back its monetary stimulus as early as next month, have helped support the yen, a traditional safe haven currency that tends to attract demand in times of market stress.

Satoshi Okagawa, senior global markets analyst for Sumitomo Mitsui Banking Corporation in Singapore, said recent turmoil in emerging markets such as India, Brazil and Indonesia has also helped spur demand for the yen.

"The yen tends to attract buying when tensions in the market increase," he said.

Okagawa said demand for yen was also offsetting the dollar-positive impact from a recent rise in U.S. Treasury yields and capping the dollar's moves versus the Japanese currency.

(Inside Metals is compiled by Pradip Kakoti in Bangalore)