INSIDE METALS

Monday, December 23, 2013

CHART OF THE DAY

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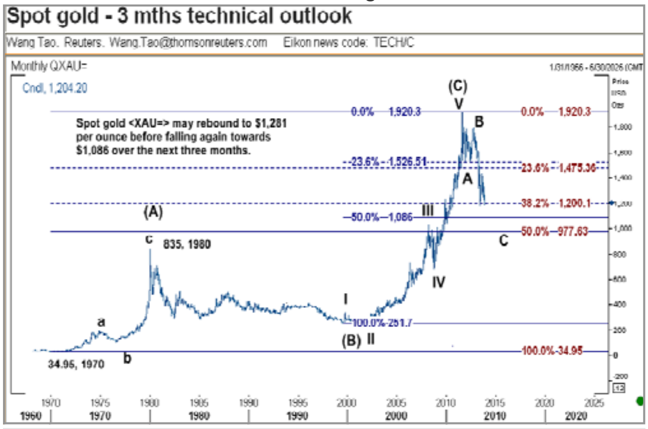

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FEATURE

COLUMN- Aluminium-China versus the rest of the world

The global aluminium production sector is becoming ever more polarised.

China's national output of the light metal has risen by 3.36 million tonnes annualised since the first quarter of this year.

That in the rest of the world has contracted by 1.06 million tonnes over the same period.

China is now within a whisker of producing half of the world's aluminium output. Average daily production in November was 65,130 tonnes, according to the China Nonferrous Metals Industry Association.

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

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TODAY’S MARKETS

BASE METALS: London copper futures steadied after modest losses last week as investors largely took the Federal Reserve's decision to start cutting its monetary stimulus in their stride. "If not handled properly, it has the potential to trigger a 'credit event' that could reverberate throughout the economy," INTL FCStone analyst Edward Meir, said on the interbank rate conditions in China.

PRECIOUS METALS: Gold held steady after its biggest weekly loss in a month, but the metal was still at the risk of falling back below $1,200 an ounce as investors fretted over the impact of U.S. stimulus tapering. "There seem to be subtle shifts in sentiments for more bullishness after $1,200 was broken," said Joyce Liu, an investment analyst at Phillip Futures Pte Ltd.

FOREX: The U.S. dollar, euro and yen barely budged in Asia on Monday in the absence of fresh impetus as a holiday in Japan dampened liquidity in a market already wading through thin year-end conditions. "After such a volatile couple of weeks which came to a head with the FOMC announcement last week, markets are very much sidelined at the moment," said Sue Trinh, senior currency strategist at RBC in Hong Kong.

FEATURE

COLUMN-Aluminium-China versus the rest of the world

By Andy Home

LONDON, Dec 20 (Reuters) - The global aluminium production sector is becoming ever more polarised.

China's national output of the light metal has risen by 3.36 million tonnes annualised since the first quarter of this year.

That in the rest of the world has contracted by 1.06 million tonnes over the same period.

China is now within a whisker of producing half of the world's aluminium output. Average daily production in November was 65,130 tonnes, according to the China Nonferrous Metals Industry Association. That everywhere else was 65,630 tonnes, according to the International Aluminium Institute (IAI).

It may, indeed, have already got there. Both agencies include an estimate for unreported production. That for China currently stands at 200,000 tonnes per month. That for the rest of the world at 65,000 tonnes.

If it hasn't, it's probably only a matter of time since the increasingly divergent production trends show no signs of stopping.

Graphic on global production trends:

http://link.reuters.com/mac65v

RAMP DOWN

Outside of China the world of aluminium smelting is characterised by high stocks, low prices and producer pain.

Producers have announced cutbacks of around 1.2 million tonnes this year. November production fell to an annualised 23.94 million tonnes, the lowest run-rate since February 2010, when output was still recovering from the Great Financial Crisis.

However, not all of those cutbacks have yet shown up in the IAI figures through November.

Included in the net 1.06-million tonne decline since March is one non-price related outage, namely that of a 370,000-tonne per year potline at the new Ma'aden smelter in Saudi Arabia.

Alcoa, which operates the plant in a joint venture with Saudi Arabian Mining Co, said in October it had halted the line after "a period of pot instability" during the commissioning process.

It said it would accelerate the commissioning of the second potline but the overall impact on the plant's output and time-line to full operation is unclear.

However, it's noticeable that annualised production in the IAI's Gulf category has dropped sharply by just over 200,000 tonnes annualised over the course of October and November.

The implication is that production elsewhere has a bit further to fall as targeted high-cost smelters continue to ramp down, particularly in North America and Russia, where the curtailments are concentrated.

RAMP UP

China is not immune from the same price and margin pressures affecting producers everywhere else.

Older capacity has been closed. Probably not as much as should have been, given local governments' habit of subsidising loss-making plants.

The real game-changer this year, however, has been the ramp-up of greenfield capacity in the country's northwestern provinces, particularly Xinjiang, where a new generation of smelters using trapped coal reserves as a cheap power source is pushing national production ever higher.

Along with steel, aluminium is a regular on Beijing's list of bloated industries, blighted by overcapacity and in need of restructuring.

The latest salvo in the long-running battle between central and regional governments was fired in October, when China's State Council issued a new plan, promising to focus on "establishing and perfecting" market mechanisms to rein in recalcitrant sectors.

There are already reports of tougher environmental constraints on the steel sector, particularly on mills located near to smog-plagued Beijing.

Any impact on the country's aluminium sector, though, seems so far negligible, given the strength of the upwards trend in production over the last few months.

The real Achilles heel of the smelter sector is its reliance on imports of bauxite, particularly Indonesian bauxite.

That country's pending ban on exports of unprocessed minerals might pose some risk of disruption to affected Chinese smelters, but probably not any time soon.

The current consensus is that Chinese buyers have built up stocks ahead of the January 15 deadline and have also started looking elsewhere, particularly Australia, India and Guinea, for alternative supplies.

THREATS AND TENSIONS

Well, at least China is also the fastest-growing user of aluminium and so far at least any over-production is largely staying in China.

At least in terms of primary metal.

The country is still a marginal net importer, largely thanks to a prohibitive 15-percent export tax and to preferential tax treatment for operators tolling imported metal into products.

Which is why Klaus Kleinfeld, head of Alcoa, famously described it as existing in a parallel universe, cut off from the rest of the world.

It's a view that conveniently ignores the steady flow of semi-fabricated aluminium products out of the country.

Net exports were a not inconsiderable 2.16 million tonnes in the first 10 months of this year.

FEATURE *(Continued)*

The best that can be said is that there has been no marked acceleration in this overflow from the Chinese market. The figure is up 14 percent on last year but broadly equivalent to 2011 levels.

The danger, though, is that this outflow will start accelerating as the domestic market struggles to cope with the scale of new production currently ramping up in the northwest.

The threat is compounded by the fact that the rest of the world just might shift into supply-demand deficit next year as the cutbacks in production start to bite.

Not sufficiently large a deficit to erode high legacy stocks but enough to incentivise Chinese exporters to lift sales.

There is certainly a tension between the twin trends of fast-increasing Chinese aluminium production and steadily declining output everywhere else.

Product flows will be the best gauge to measure how that tension is resolved in the coming year.

--The opinions expressed here are those of the author, a columnist for Reuters.--

GENERAL NEWS

China cash squeeze persists even after c.bank reassures market

SHANGHAI, Dec 23 (Reuters) - China's cash market squeeze showed little sign of easing on Monday, reinforcing the view the central bank has shifted to tighter monetary policy.

The central bank appears to be trying to force banks to curb risky lending practices in the shadow banking system amid rising concerns about excessive debt. Rapid growth in the world's second-largest economy over the last four years has also fanned fears about a property market bubble.

The key seven-day bond repurchase rate initially opened lower but then spiked to 8.9 percent on a weighted-average basis by mid-morning on Monday, up from 8.21 percent on Friday.

The central bank announced after market close on Friday that it had injected 300 billion yuan ($49.41 billion) via short-term liquidity operations from Dec. 18 to 20. The seven-day rate reached as high as 10 percent on Friday, the highest level since June.

The People's Bank of China (PBOC) also emphasised that excess cash reserves in the banking system -- a key measure of liquidity -- stood at more than 1.5 trillion yuan, a high level by historical standards. But market players took a different view.

"The PBOC appeared to stress that cash reserves are abundant in comparison to previous years, but the market has expanded sharply in recent years and demand in the interbank market has far exceeded the previous years' levels," said a money market trader at a major state-owned commercial bank in Shanghai.

A suspiciously low opening trade on Monday may also reflect the central bank's attempt to calm the market. The seven-day repo opened sharply lower at 5.57 percent. In recent days traders have expressed suspicion that such low opening quotes on benchmark rates reflect intervention by the central bank in an effort to guide trading.

The unusual timing of Monday's opening trade bolstered such suspicions. The opening trade on the seven-day repo came unusually early at 9:01 A.M. Shanghai time (0101 GMT), but the next trade, at 7.60 percent, did not occur until nearly an hour later and, according to data from the National Interbank Funding Center. Rates continued to rise further.

Traders say that a large volume of maturing debt near the year-end, which banks need to roll over, have contributed to the spike in rates. The market is interpreting the PBOC's tough stance as an unofficial shift towards tighter monetary policy.

"I think the PBOC understands the situation, but it is still eager to force banks to cut their leverage in the face of high property prices, which ignores official cooling steps," said the money market trader.

The market will be watching closely to see if the central bank injects cash at regular open market operations on Tuesday. The PBOC has skipped such operations for five straight sessions.

Guinea sets Jan deadline for more answers from Vale, BSG -source

CONAKRY, Dec 20 (Reuters) - A committee reviewing Guinea's mining contracts has set a January deadline for BSG Resources and Brazilian partner Vale to provide more information on their disputed mine deal, according to a source present at a hearing this week.

BSG Resources, the mining arm of Israeli billionaire Beny Steinmetz's business conglomerate, is fighting to maintain its right to develop half of the giant Simandou iron ore concession in Guinea, after the West African country's government accused it of bribing officials to secure the deal in 2008.

BSGR has repeatedly denied the allegations of wrongdoing. It says Conakry is using the contract review to undermine its position in the country and has said the hearing earlier this week - part of the process - was a "charade".

Vale - which became BSGR's partner in the Guinea venture in 2010, two years after the initial deal was struck - has denied involvement in any events leading up to the license being allo-

GENERAL NEWS *(Continued)*

cated in the first place in 2008, weeks before the death of then-president Lansana Conte.

The government's technical committee had summoned representatives from VBG - the joint venture between BSGR and Vale in Guinea - to answer questions on Monday, but the source said on Thursday that uncertainties remained.

"Without giving you the details of the dossier, we can tell you that there were essential questions that were not answered at all" by VBG, said the source, directly involved in the closed-door talks but who asked not to be identified.

The source said a full written transcript of Monday's hearing would be sent to VBG along with further questions in the next two weeks. The company will then have a maximum of eight days to respond - effectively, a three-week deadline.

"VBG did indeed attend the administrative hearing organised by the (committee). But you must know that you can't ask a CEO questions that are up to shareholders to answer," a VBG official said, asking not to be identified.

A spokesman for BSGR said the company was not in a position to comment until it had received formal notification from the technical committee. Vale confirmed VBG attended the hearing, but said it had no additional information.

The future of BSGR's northern half of Simandou, a deposit seen as key to boosting government revenues for one of Africa's poorest countries, is unlikely to be immediately determined by the technical committee's hearing.

But the outcome of that process is an important prerequisite ahead of a final decision on BSGR's future in Guinea.

TRADING PLACES

Speculators turn net long in copper, cut gold longs-CFTC

Dec 20 (Reuters) - Hedge funds and money managers sharply boosted bullish bets in the copper futures and options markets, shifting into a net long for the first time in six weeks, a report by the Commodity Futures Trading Commission showed on Friday.

Speculators also trimmed net longs in gold and turned their positions in silver into a net long for the first time in three weeks, the CFTC Commitments of Traders report showed.

The increase in copper longs reflects a recent spike in industrial metal prices, underpinned by a better U.S. economic outlook including the GDP and nonfarm payrolls data, said Frank McGhee, head precious metals dealer at Chicago commodities brokerage Alliance Financial LLC.

Managed money added 21,912 long contracts to copper to turn the market into a net long of 20,688 lots, the first net long position since the week of Nov. 10, CFTC data showed.

Speculators boosted net longs in silver futures and options by 2,643 lots to a net long of 1,921.

In gold, they pared the market's total longs by 924 contracts for a net long of 32,524.

Among platinum group metals, speculators decreased platinum's net longs by 2,066 to 14,206 contracts, and they slashed palladium by 2,272 to a net long of 18,428 lots.

MARKET NEWS

China to impose tiered power pricing for aluminium smelters

SHANGHAI, Dec 23 (Reuters) - China will impose tiered power pricing on all aluminium smelters starting from January in an attempt to weed out inefficient plants and tackle severe overcapacity in the sector.

The aluminum industry has been suffering from overcapacity for years, depressing prices and forcing many producers, including Aluminum Corp of China Ltd (Chalco), the country's top aluminium maker, to suffer heavy losses.

The move to revise power tariffs, which account for about 40 percent of a smelter's operating costs, is the latest in a series of measures to slim the bloated sector and comes as Beijing has vowed to let market forces play a decisive role in the allocation of resources.

Power prices will remain unchanged for smelters that do not use more than 13,700 kilowatts (KWs) for each tonne of aluminium produced, while those that use between 13,700-13,800 KWs will be charged an additional 0.02 yuan per KW, the National Development and Reform Commission (NDRC) said in a statement.

Smelters that consume more than 13,800 KWs of power for each tonne of aluminium produced will be charged an additional 0.08 yuan per KW, the NDRC said.

Plants that exceed the 13,700 KWs/tonne threshold will also be barred from direct negotiations with power companies for lower energy prices.

The NDRC said local governments must not arbitrarily reduce power prices for aluminium companies and must stop all previously offered subsidies.

Local governments must also stop giving fee deductions and other incentives to smelters that are equipped with their own power generators, the NDRC said.

China currently has about 30 million tonnes of primary aluminium smelting capacity annually, but less than 24 million tonnes of yearly capacity operated in November, based on official production data.

Beijing has been issuing broadbrush rules aimed at reining in overcapacity in sectors such as aluminium and steel for about a decade, but plans have usually faltered due to resistance from local governments anxious to boost growth.

But China's new leaders appear to be getting more serious over the issue with the government in July setting stricter limits on power consumption and emissions on operating smelters.

The State Council, China's cabinet, also issued a slew of development guidelines for sectors facing overcapacity: new projects expanding capacity are forbidden, projects under construction should be reappraised, illegal capacity should be cleared up and outdated capacity should be eliminated in an orderly way.

The commission said it was working with relevant departments on ways to restructure other sectors that are also plagued by overcapacity.

The Big Squeeze - mystery hand scoops up copper

By Eric Onstad and Josephine Mason

LONDON/NEW YORK, Dec 20 (Reuters) - Someone has made a near billion-dollar bet on copper this week, virtually cornering the world's key stocks of the metal.

That has stoked worries of a supply squeeze, as warehouses run low on a raw material vital to global industry, and has raised questions about commodity exchanges' efforts to curb attempts to manipulate prices by aggressively heavy trading.

The London Metal Exchange does not identify investors holding positions but data on Friday showed that a single participant was holding 50-80 percent of available copper stocks on the LME, which handles the bulk of trade in the metal. The position was nominally worth up to $753 million.

Earlier in the week, one investor - presumably the same - had held over 90 percent of short-term trading instruments on LME copper - a position worth at least $862 million on paper. Traders have no clear idea who is behind it.

The firm doing the buying would not have had to put up all the cash up front and may well have had hedging positions and real requirements for physical copper. But it appears nonetheless to be a substantial gamble on prices rising.

And since the very fact of building up such a dominant position fuels fears of scarcity, it was little surprise that prices did in fact increase - LME cash copper gained 5 percent through December as the long position grew, hitting a four-month high on Monday before shedding about 1 percent.

That link between an aggressive, large buyer and fears of supply shortages driving prices higher is one that exchanges, including the LME, have historically tried to contain.

But the LME, under scrutiny from government regulators, said it has no plans to cap the size of investors' positions - though it does have other mechanisms to thwart manipulation.

"The LME has a robust position management system in place to deal with dominant positions," said spokeswoman Miriam Heywood, adding there was no plan to change those rules.

The world's oldest metals marketplace has already been overhauling practices on warehousing - its system of ensuring physical stocks exist to back trades concluded on the exchange.

It has done so in response to allegations of manipulation in its larger aluminium market, which industrialists say has distorted global supply and inflated prices.

MARKET TIGHT

MARKET NEWS *(Continued)*

With its copper stocks shrinking, the impact of any future squeeze could be more severe than what happened this week, said analysts, who noted a 19-month high in the key price spread between copper for immediate delivery and that for future delivery - a measure of fears that ready supply may run short.

"The tightness is there. It's bubbling underneath," said Wiktor Bielski, head of commodities research at VTB Capital.

"There are just a lot of things that could all of sudden turn quite nasty for anybody who needs spot copper and doesn't have any cover."

The low stocks combined with an outage at a smelter in the Philippines, Chinese demand that has been running more strongly than expected and concern about Indonesia's plans to boost its own industry by banning the export of unprocessed ore could all contribute to a volatile mix.

Among those potentially hardest hit by a spike in prices are the numerous speculators who have taken short positions on the LME - selling copper for future delivery in the hope of buying it more cheaply later, before the contracts fall due.

They were betting that the copper market would move into surplus as new mines churn out more supply. But backlogs in processing the ore have limited the amount of refined metal being produced and prices have failed to fall significantly.

"I don't see this situation abating," said one trader. "There's really no copper around at the moment."

The crunch may come in the new year, said analyst Leon Westgate at Standard Bank in London: "It looks like in the early part of next year there's going to be a bit of a battle on the cards in copper," he said.

Copper stocks in LME-registered warehouses have declined by 44 percent since June to 382,550 tonnes. Moreover, much of that has already been earmarked for delivery or is located at warehouses suffering from delivery backlogs.

Two thirds of the total copper stock has been "cancelled" in preparation to be shipped out to buyers.

Most of the rest is in three warehouses - at New Orleans, Antwerp and Johor in Malaysia - where queues for other metals makes in hard to secure their copper for rapid delivery.

Bielski said that, of the nearly 400,000 tonnes in official LME stocks, only about 16,000 were actually available now.

The owner of Grasberg in Indonesia, the world's second largest copper mine, warned this month that output could slide 60 percent next year if the government strictly implements a planned ban on unprocessed ore exports.

That could tempt speculative buying, Bielski said: "Someone, somewhere is going to see this as an opportunity in the next couple of months."

REGULATIONS

In the United States, the commodities derivatives regulator has stepped up its efforts to limit speculation, proposing a cap on the number of contracts that a single trader can hold in U.S. energy, metal and agricultural markets.

The LME’s smaller U.S. rival in copper, the CME, has set a limit of 1,200 lots. Each contract is worth over 11 tonnes.

The LME does not intend to follow. It already has rules to limit the profit a speculator can make by scooping up so much supply on any day that traders with short positions are unable to cover them at the close. Any party holding a position worth over half of LME available stocks must supply metal to short-position holders at very modest price premiums.

The copper market, trading an annual output of about 20 million tonnes, is smaller than aluminium, theoretically making it easier to squeeze. In a scandal in the 1990s, a Japanese trader was jailed for trying to corner the market in the metal in a gamble that cost his employers over $2 billion.

American billionaires the Hunt brothers also lost heavily when an attempt to drive up the price of silver collapsed in 1980 after a change in exchange rules to curb manipulation.

On the LME last week, as short holders scrambled to cover, the benchmark cash to three-month spread flipped into backwardation - meaning copper for immediate delivery is more expensive that later-dated contracts. The premium surged to $30 per tonne on Monday, the highest since May 2012.

That is a $46 turnaround from last month, when the market was in contango, with cash copper $16 a tonne cheaper than metal for delivery in three months.

While benchmark LME copper prices also surged this week and may see further volatility, the greatest impact of any future squeeze could be a strong backwardation, analysts said.

Westgate said his research showed that there was strong potential for further spikes in spreads since historically when available copper stocks declined to levels of around 130,000 tonnes, spreads are more volatile and can trade anywhere from a $50 contango to a $250 backwardation.

China steel output seen up 2-3 pct to 800 mln T in 2014 – industry

BEIJING, Dec 22 (Reuters) - China's total crude steel output is likely to increase to 800 million tonnes in 2014 but growth will slow to 2 to 3 percent on the year, the head of its steel association said, with the government trying to tackle over capacity.

China imports about two thirds of global seaborne iron ore supplies and big mining firms like Rio Tinto have banked on rising demand from the world's biggest steel producer to justify their own big expansion plans.

But Beijing has drawn up a series of guidelines aimed at tackling a huge domestic steel surplus that has inflated global iron ore prices and eroded margins on the domestic market, causing

MARKET NEWS *(Continued)*

hundreds of firms to suffer losses. Next year's growth rate is already expected to be much slower than 2013.

Zhang Changfu, secretary-general of the China Iron and Steel Association, said total crude steel output was likely to end this year at 782 million tonnes, up 9 percent from 2012, according to a report by the official Xinhua news agency.

Total output over the first 11 months of the year hit 712.8 million tonnes, up 7.8 percent on the year, China's iron ore imports rose 10.9 percent over the same period to reach 746.1 million tonnes.

The government issued policies in October to try to rein in its bloated steel industry, vowing to bring market discipline and tougher technological and environmental standards to a sector cosseted by years of soft loans and local government protectionism.

Indonesia's Timah lifts force majeure on tin shipments – official

JAKARTA, Dec 23 (Reuters) - Indonesia's top tin exporter PT Timah has lifted a force majeure on shipments declared on August 30, an official at the state-owned firm said on Monday, as conditions improved after the government introduced a rule forcing domestic producers to trade on a local exchange.

Timah, which cited customers who had not registered to trade tin on the approved domestic exchange as the reason for the force majeure, expects sales of about 24,500 tonnes this year, and rising to 25,000-30,000 tonnes in 2014.

Timah Corporate Secretary Agung Nugroho confirmed the lifting of the force majeure in a text message to Reuters.

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

London copper steady in holiday-shortened week

SINGAPORE, Dec 23 (Reuters) - London copper futures steadied after modest losses last week as investors largely took the Federal Reserve's decision to start cutting its monetary stimulus in their stride.

Copper has bounced back nearly 10 percent from the year's low of $6,602 in June as concerns about liquidity in top consumer China buoyed demand for the metal as a loan collateral, while sustained declines in copper stockpiles pointed to tighter near-term supply.

Investors are keeping an eye on liquidity conditions in China where the benchmark interbank rate on Friday hit its highest level since the June cash crunch, with the central bank saying it has added $50 billion in three days to the interbank market.

"If not handled properly, it has the potential to trigger a 'credit event' that could reverberate throughout the economy," INTL FCStone analyst Edward Meir, said on the interbank rate conditions in China.

China accounts for about 40 percent of the world's copper demand and analysts say recent imports of the metal may have been used for financing rather than being consumed by end-users.

But Beijing's recent clampdown on copper financing, which has driven China's apparent demand in the second half of this year, may affect flows of the metal into China in the first half of 2014, investment bank Macquarie said in a note.

Chinese copper demand has been hit by the rising cost of raising cash to pay for the metal, traders and industry sources said, and may not pick up strongly until factories boost output after the Lunar New Year holidays.

Three-month copper on the London Metal Exchange eased 0.1 percent to $7,229.75 a tonne by 0712 GMT. Volume on LME Select was 2,495 lots, about half of what's usually traded around this time.

Copper is still down almost 9 percent this year, reflecting expectations of growing supply as more mines go on stream.

The most-traded copper for March delivery on the Shanghai Futures Exchange closed up 0.2 percent at 51,270 yuan ($8,400) a tonne.

Trading appetite is likely to be thin this week with the London Metal Exchange shut on Wednesday and Thursday for Christmas Day and Boxing Day holidays.

"We expect to see rather sharp price swings over the balance of the year, as illiquid trading conditions will only exacerbate the movements," Meir said.

LME aluminium was nearly flat at $1,783.50 a tonne and aluminium in Shanghai gained 0.3 percent to 13,965 yuan a tonne.

China will impose tiered power pricing on all aluminium smelters from January to eliminate inefficient plants and tackle severe overcapacity in the sector.

In Indonesia, top tin exporter PT Timah has lifted a force majeure on shipments declared on Aug. 30 as conditions improved after the government introduced a rule forcing domestic producers to trade on a local exchange.

LME tin was little changed at $22,945 a tonne after hitting a 10-day high of $23,145 on Friday.

Gold lingers around $1,200, taper worries remain

SINGAPORE, Dec 23 (Reuters) - Gold held steady after its biggest weekly loss in a month, but the metal was still at the risk of falling back below $1,200 an ounce as investors fretted over the impact of U.S. stimulus tapering.

Prices were supported in thin Asian trading as holdings of SPDR Gold Trust, the world's largest gold-backed exchange-traded fund, rose 5.40 tonnes to 814.12 tonnes on Friday - the first inflow since Nov. 5.

"There seem to be subtle shifts in sentiments for more bullishness after $1,200 was broken," said Joyce Liu, an investment analyst at Phillip Futures Pte Ltd.

"However, the upside is limited due to the year-end holiday season and with prices now treading close to $1,200, a break below that level may shift market sentiment back to bearishness."

Spot gold edged up 0.02 percent to $1,202.90 an ounce by 0744 GMT. It rose 1 percent on Friday on short covering after losing 4 percent in the previous three sessions.

Gold fell 3 percent last week after the Fed said the U.S. economy was strong enough to scale back its massive bond-buying stimulus, winding down an era of easy money that saw gold rally to an all-time high of $1,920.30 an ounce in 2011.

The metal has fallen nearly 30 percent this year on fears that a scale back of stimulus would hurt its inflation-hedge appeal.

The decline this year is gold's biggest fall in 32 years.

Physical demand picked up in Asia as prices fell towards $1,200 last week but not to the same level seen during earlier price drops this year.

Volumes traded on the Shanghai Gold Exchange on Monday for the 99.99 percent purity gold contract were 14.83 tonnes, lower than Thursday's two-month peak.

Premiums edged up $2 to $18 an ounce from Friday.

Dollar drifts as market succumbs to holiday mode

SYDNEY, Dec 23 (Reuters) - The U.S. dollar, euro and yen barely budged in Asia on Monday in the absence of fresh impetus as a holiday in Japan dampened liquidity in a market already wading through thin year-end conditions.

The dollar bought 104.05 yen drifting in a slim 103.92/104.08 range after easing back from a five-year peak of 104.64 scaled on Friday.

MARKET REVIEW *(Continued)*

Equally subdued, the euro was steady at $1.3674 having climbed off a two-week trough of $1.3625 on Friday. Against the yen, the common currency stalled at 142.28, off a five-year high of 142.90.

The greenback rose last week after the Federal Reserve took a first step towards winding down its massive stimulus program, trimming its monthly asset purchases by $10 billion to $75 billion.

But profit taking was quick to set in given investors had been speculating for months on the timing of such action. "After such a volatile couple of weeks which came to a head with the FOMC announcement last week, markets are very much sidelined at the moment," said Sue Trinh, senior currency strategist at RBC in Hong Kong.

The pullback in the greenback helped lift both the Australian and the Canadian dollars off 3-1/2 year troughs. The Aussie was last at $0.8925 AUD=D4, while the loonie traded at C$1.0641 per U.S. dollar.

Data on Friday supported the Fed's decision with revised figures showing the world's biggest economy grew at its fastest pace in almost two years in the third quarter.

Analysts at BNP Paribas said upcoming U.S. data need to meet a certain threshold of strength in order to maintain the dollar's upward momentum.

"However, with the Fed having begun the tapering process now, the burden of proof has shifted somewhat — data now has to be just strong enough to keep tapering on track, as opposed to the presumably stronger track record needed to justify a start to the tapering process," they wrote in a note to clients.

U.S. data due for release this week include personal income and spending on Monday and durable goods on Tuesday.

Investors are also keeping an eye on China's money markets where rates rose even after the country's central bank last week sought to allay fears of a cash crunch by injecting $50 billion in three days into the interbank market.

(Inside Metals is compiled by Vikas Vasudeva in Bangalore)

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