INSIDE METALS

Friday, January 17, 2014

CHART OF THE DAY

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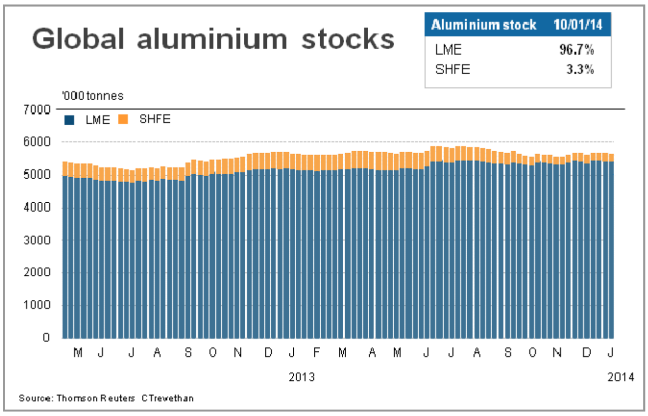

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COLUMN-Aluminium premiums go supernova: Andy Home

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

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TODAY'S MARKETS

BASE METALS: London nickel fell as traders locked in profits after a ban on Indonesian ore exports that came into force at the weekend triggered a rally that could lead to its biggest weekly gain in nearly a year. "Nickel's gains may just have been an initial reaction to the export ban and we could see it wash out a bit over the coming weeks," said James Glenn, analyst at National Australia Bank in Melbourne.

PRECIOUS METALS: Gold was holding steady but was headed for its first weekly drop in four weeks as a string of U.S. data showed more strength in the recovery of the world's largest economy, dimming the metal's safe-haven appeal. "Looking ahead the gold market may be more interested in the next FOMC meeting slated for 28-29 January," said James Steel, chief precious metals analyst at HSBC.

FOREX: The U.S. dollar faded a little after a mixed bag of U.S. economic data, while the Australian dollar was vulnerable after disappointing jobs figures the previous day knocked it below an important support level to a 3-1/2-year low. The Australian currency, sometimes used as a proxy for bets on the Chinese economy because of Australia's dependence on raw materials exports to China, could remain at centre stage ahead of a slew of Chinese data on Monday.

FEATURE

COLUMN-Aluminium premiums go supernova: Andy Home

By Andy Home

LONDON, Jan 16 (Reuters) - The new year has started with a bang in the U.S. aluminium market.

Physical premiums have gone supernova in the space of a couple of weeks. The benchmark Midwest transaction price, as assessed by Platts, a leading global energy, metals and petrochemicals information provider, has exploded from 12 cents per lb ($265 per tonne) to 19 cents per lb ($419 per tonne).

Predictably, the tremors have already crossed the Atlantic into the European market, where physical premiums are now also surging higher.

The gap between the London Metal Exchange (LME) basis price and the "all-in" price paid by manufacturers to get physical metal has never been wider.

The speed of the move has dumbfounded most market players, not least those U.S. manufacturers who had successfully lobbied the LME to curtail the load-out queues at its warehouses as a way of bringing physical premiums down.

Those queues, particularly the one at Detroit, are still in the mix but the scale of the price move has lifted premiums way beyond any level that could be explained by simple load-out waiting times.

The North American aluminium market appears to be short of units and some participants appear to be caught in an acute physical squeeze.

Graphic on Platts U.S. and European premium assessments:

http://link.reuters.com/zyw95v

SO MUCH METAL...

It's all so counter-intuitive, isn't it, when there are 1.56 million tonnes of aluminium sitting in LME warehouses in Detroit?

That, of course, is part of the problem, just as it has been for several years.

Most of that metal is locked up in a load-out queue with the rest of it trapped behind. All of it is owned by somebody and, it's probably fair to infer, not the entity that is running short of physical units right now.

The Detroit queue, according to aluminium users such as Novelis and MillerCoors, has served artificially to inflate the physical premium in the U.S. market. The LME agrees, which is why it has changed its rules to force faster load-out at affected warehouses from May.

The aluminium queue at Detroit, however, has simply grown ever longer. It is now a nominal 410 days, assuming a daily load-out rate of 3,000 tonnes.

That's working days. LME warehouse operators, however, charge rent by the calendar day. And Metro, which dominates LME storage in Motown, charges more than anyone else.

On that basis the rent on a tonne of aluminium cancelled today would be around $275 until it is ready for loading on to a truck, which will cost another $39.95. The total cost of getting aluminium out of Detroit, therefore, is around $315 per tonne.

The cost will rise further from the start of April, when new rent rates will apply. Metro will increase its aluminium rent from $0.48 per tonne per day to $0.51, the most aggressive hike of any of the LME warehouse operators.

Set against that, the delivery rate at Detroit should start accelerating from May, when the LME's new formula linking load-in to load-out rates kicks in. Since the start of the LME's first calculation period in July, Detroit has received 100,000 tonnes more than it has loaded out, meaning faster load-out in the May-July period.

Now, until a few days ago, the lengthening queue and the rising rental at Detroit would have largely explained rising physical premiums.

But the Platts Midwest premium is now over $100 per tonne higher than the cost of getting metal out of LME storage in Detroit.

The physical price, in other words, has disconnected from the queue price, breaking the apparent linkage that caused all the original furore over LME warehousing practice.

...SO LITTLE METAL

The phenomenon can be partly explained by the shifting supply dynamics of the North American market.

Alcoa has just announced the closure of another two potlines, with 84,000 tonnes of annual capacity, at its Massena East smelter in New York state.

Since 2011 Alcoa has closed a total of 200,000 tonnes of operating capacity in the United States, comprising 124,000 tonnes at Massena and 76,000 tonnes at its Rockdale smelter in Texas.

Another 105,000 tonnes have been shut down at the Baie Comeau smelter over the border in Canada, where Rio Tinto has also closed its 100,000-tonnes-per-year Shawinigan smelter.

Independent U.S. producer Ormet has also just closed up shop, taking another 270,000 tonnes out of the regional equation.

North American production was running at an annualised 4.68 million tonnes in November, the lowest run rate since September 2010, according to figures from the International Aluminium Institute.

While overall production has been contracting, its ownership has been consolidating.

Century Aluminum last year bought the Sebree smelter from Rio Tinto, bringing the 200,000-tonnes-per-year operation into the orbit of Glencore, physical aluminium powerhouse and 41.7 percent owner of Century.

The irony is that while analysts are concerned that aluminium producers have still not slashed enough production to rebalance

FEATURE *(Continued)*

the global market, the concentration of closures in North America and Europe has widened structural deficits in both regions.

That underlying regional tension is now being tested by the combination of strong investor demand for stocks to be financed and robust manufacturing demand for metal to be converted for actual usage.

SHORT AND CAUGHT?

What is not so easily explained is the ferocity of the move in U.S. premiums since the start of January.

There is a strong sense that someone is short of pre-committed metal and is now having to pay the eye-watering price.

It's probably not an actual aluminium consumer, given the implied scale of physical short position.

Moreover, Klaus Kleinfeld, president and chief executive at Alcoa, talking on the company's results conference call last week, said "we are receiving calls from our normal customers, but not people that are saying I can't get my hands on aluminum."

The most likely suspect is a merchant that has for whatever reason miscalculated actual availability.

That suggests that this premium spike could have further to run until physical metal can be diverted from another region or the premium rises to a level that entices stock-financiers to release metal.

Time, as they say, will tell.

What is more certain is that there will be no fast reconnect between LME and the "all-in" aluminium price any time soon.

That's a problem for aluminium end-users the world over. And it's also a problem for the LME, which has explicitly targeted the load-out queues as a way of engineering that reconnect.

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

GENERAL NEWS

Struggling small miners vulnerable to mid-sized rivals

By Stephen Eisenhammer

LONDON, Jan 16 (Reuters) - A year of tumbling share prices and a shrinking pool of funding have left smaller mining companies vulnerable to the approaches of medium-sized rivals with cash in the bank and an eye for a bargain.

Investors and executives told Reuters they saw opportunities for mid-caps and turnaround specialists in regions such as Latin America and Africa as some small companies, typically those involved in the capital-intensive early stages of a project, struggle to secure funding from banks or the market.

The gold sector is likely to see the most M&A activity as the metal price languishes 25 percent lower than a year ago, and a number of potential deals are already in the works. Equities were hit even harder than bullion; the Thomson Reuters Global Gold Index of 43 gold miners more than halved in 2013.

Industry insiders said the trend would also spread across base metals and iron ore. Nearly all junior miners were hit last year, with the Thomson Reuters index of 144 resources companies listed on London's alternative market (AIM) down 33 percent in 2013.

"Many of the smaller exploration companies are very short of cash and may well go under this year unless either new equity is found or the company is acquired," said Ian Coles, partner at law firm Mayer Brown who specialises in mining finance.

With the biggest miners under pressure to cut spending and streamline operations, it is second-tier rivals with spare cash from strong producing assets that are most likely to drive deals.

"It's a very opportunistic environment ... If it's M&A, it will be mainly well financed, cash flow-rich, mid-sized producers that may opportunistically look at projects and companies," said Markus Bachmann, manager of precious metals and global resources funds at Craton Capital.

A number of potential deals have already emerged. On Tuesday Canada's Goldcorp bid for smaller rival Osisko for $2.4 billion. Last month Asanko Gold agreed to buy Africa-focused PMI for $173 million, while Centamin's $37 million offer for Ampella Mining was recommended by the target's board.

Neil Gregson, manager of the JP Morgan Global Natural Resources fund, picked out Lundin and Northern Star Resources as potential consolidators.

As well as Africa, Gregson said he expected Latin America to see acquisitions, singling out copper in Peru.

"There's quite a few of these juniors around who have copper discoveries, but when your market cap has gone from $500 million to $100 million and the capital project is $2 billion you're never going to be able to finance it, so you have to do a deal," he told Reuters.

A LOT OF STRESS

One firm expressing a desire to pick up assets this year is gold miner Mandalay Resources, which has a market valuation of $240 million, according to Thomson Reuters data.

Mandalay bought the Challacollo silver project in Chile from Silver Standard Resources in December for $15.8 million and is looking for more acquisitions.

GENERAL NEWS *(Continued)*

"If you're a counter-cyclical buyer, this is a pretty good time to look at the market place," Chief Executive Brad Mills told Reuters.

"We do see a lot of stress; unfunded juniors, exploration and development projects that are really stuck. It presents a good deal of opportunity," added Mills, who was formerly chief executive of platinum producer Lonmin and now also runs a private investment vehicle involved in copper, gold, and iron ore ventures.

X2, the new venture of former Xstrata boss Mick Davis, is also currently raising funds and is expected to purchase assets this year. On the smaller side of the spectrum, International Mining and Infrastructure Corporation, which bought Cameroon-focused iron ore miner Afferro last year, has said it is looking to make further acquisitions.

David Archer, who built Savage Resources from an initial $1 million of investment into a $350 million business in the 1980s and 1990s, is now chief executive of Savannah Resources, which is looking to build a portfolio of assets in Africa.

"We are actively evaluating a range of projects and hope we can secure one in the first half of 2014," Archer told Reuters.

Savannah is eyeing gold and copper along the Nubian shield on the Western flank of the Red Sea.

"There are certainly distressed companies with decent assets out there," Archer said.

S.Africa's AMCU union to strike at Lonmin next week

JOHANNESBURG, Jan 16 (Reuters) - South Africa's Association of Mineworkers and Construction Union (AMCU) said on Thursday its members had voted in favour of a strike over wages at world No. 3 platinum producer Lonmin and they would down tools next week.

"On Monday the management at Lonmin will be served with a 48-hour strike notice," Evans Ramokga, an AMCU activist on the platinum belt, told Reuters.

AMCU members have voted in favour of a stoppage at Impala Platinum over wages, and the union will canvas its rank and file at the world's top producer Anglo American Platinum on Sunday at a mass rally in the platinum mining town of Rustenburg.

The three are the world's top producers of the precious metal and account for more than half of global output.

A simultaneous stoppage at all three would hit a key South African export at a time when the rand currency is near five-year lows and deal a fresh blow to investor confidence in the continent's biggest economy.

Ramokga said it was possible that Amplats and Implats would also be served with 48 hour strike notices - a legal requirement in South Africa - on Monday.

At Amplats and Lonmin, the union is seeking a minimum monthly wage of 12,500 rand ($1,200) for entry-level workers - more than double current levels, under the populist battle cry of a "living wage". At Implats the union scaled back its demand late last year to just over 8,500 rand.

Companies have said they can ill afford steep increases as power and other costs soar against the backdrop of depressed prices for the white metal used in jewellery and emissions-capping catalytic converters in automobiles.

Man at centre of Guinea mine scandal can prove documents are fake

By Silvia Antonioli and David Rohde

LONDON/NEW YORK, Jan 16 (Reuters) - A former advisor to mining company BSG Resources being held in the United States in connection to a bribery investigation involving mining concessions in Guinea has been granted permission by a U.S. judge to prove that documents related to the charges against him are forgeries.

Frederic Cilins, a French national who used to represent BSG Resources (BSGR), was arrested in Florida in April on charges of obstructing a criminal investigation, tampering with a witness and attempted destruction of documents sought by a grand jury.

The U.S. is investigating potentially illegal payments made to Guinean officials and to Mamadie Toure, a wife of the deceased former president Lansana Conte, to obtain mining concessions for BSRG in Guinea, and transfers of those payments into the United States.

The outcome of the investigation could influence Guinea's decision on whether to strip BSGR, the mining arm of Israeli billionaire Beny Steinmetz's business conglomerate, of the rights to develop a portion of Simandou, one of the world's largest untapped iron ore deposits.

Cilins claimed the documents, which include contracts and records of payments and gifts to Toure and Guinean officials, are forgeries.

The U.S. government had claimed the authenticity of the documents was inadmissible as evidence because it was irrelevant to the obstruction charges.

U.S. District Judge William H. Pauley III said in a court ruling on Wednesday that the documents can be tested as they are material to Cilins' defense.

"To the extent Cilins can test the original contracts' authenticity without destroying them, he may do so," Pauley said. "If Cilins believes that destructive testing is required, he may make a further application to this Court."

A spokesman for BSGR said the company welcomes the latest development in Cilins' case.

GENERAL NEWS *(Continued)*

Guinea is currently carrying out a review of how the company obtained the mine and its results are expected to be made public within a month.

BSGR has vigorously and repeatedly denied the allegations of wrongdoing and has in the past said it believes the committee's procedure to be "fundamentally unfair."

Gold output from Ivory Coast Ity mine jumps 50 percent in 2013

ABIDJAN, Jan 16 (Reuters) - Gold output from Ivory Coast's Ity mine soared over 50 percent to 2.5 tonnes (89,595 ounces) in 2013 compared with the previous year due to round-the-clock operations, the mine's managing director said on Thursday.

Daniel Yai said production was expected to fall to about 2.2 tonnes in 2014 because of the low grade in the area currently exploited. The firm plans to invest 100 billion CFA francs ($207.35 million) over three years to extend the life of the mine.

"We were operating 16 hours per day. We moved to a 24 hours operation, that explains the increase in production," Yai told Reuters.

Ity is Ivory Coast's oldest gold mine located in the western Zouan Hounien region. Toronto-listed La Mancha, controlled by Egyptian tycoon Naguib Sawiris, holds a majority stake in the mine.

Ivory Coast state miner Sodemi sold a 9 percent stake in the project to La Mancha last year, increasing La Mancha's controlling interest to 55 percent, while a group of investors led by Ivorian soccer star Didier Drogba holds 5 percent.

The Ivorian state still owns 10 percent of the mine, which has produced more than 800,000 ounces of gold since it opened in 1991.

"To extend the life of the mine for another 17 years, we will invest about 100 billion CFA francs starting this year for the construction of a new plant which will start production in 2017," Yai said.

Ivory Coast, the world's largest cocoa grower, is trying to expand its mining industry, left underdeveloped for decades as the government concentrated its efforts on its agricultural commodities sector.

The country's total gold production stood at around 12 tonnes last year and the government has forecast annual output reaching around 25 tonnes by 2015 as new mines come on stream.

Alamos Gold forecasts lower full-year production

Jan 16 (Reuters) - Alamos Gold Inc forecast lower full-year production and higher cash costs as output from its high-grade Escondida deposit in Mexico winds down.

Alamos shares fell as much as 15 percent on the Toronto Stock Exchange as well as the New York Stock Exchange in early trading on Thursday.

The miner, which operates in Mexico, Turkey and United States of America, said it expects the Escondida deposit to be depleted by the first quarter of this year.

Alamos forecast 2014 production to fall to 150,000-170,000 ounces of gold from 190,000 ounces in 2013.

The company expects total cash costs to increase to $700-$740 per ounce of gold sold from an estimated $500 per ounce in 2013 due to more expensive underground mining to supply high grade ore to the mill.

Revenue halved to $53.8 million in the fourth quarter, reflecting lower gold prices and fewer ounces sold.

Alamos Gold shares, which have fallen more than 10 percent in the last three months, were trading at C$11.88 on the Toronto Stock Exchange on Thursday morning.

MARKET NEWS

Oversupply sends LME aluminium stocks to record high

LONDON, Jan 16 (Reuters) - Aluminium inventories in warehouses registered by the London Metal Exchange (LME) have climbed to a record of nearly 5.5 million tonnes, more evidence of a market weighed down by oversupply.

The price of aluminium, mainly used in transport and packaging, fell 13.2 percent last year and has extended its losses by nearly 1 percent so far in January.

LME stocks have surged more than fourfold since the global financial crisis in 2008, with demand insufficient to absorb an output glut and producers reluctant to cut capacity.

LME inventories rose by 38,800 tonnes on Wednesday from the previous day to 5,492,325 tonnes, data showed on Thursday. The previous record was 5,486,100 tonnes, set in July last year.

Despite the abundance, however, most of the stocks are unavailable to the market because they are tied up in finance deals or stuck in removal queues at warehouses. This has led to record highs in Europe this week for premiums, or prices to get aluminium out of storage. While stocks are still expanding, some analysts believe the situation may begin to turn around later this year.

This would result from more capacity cuts, higher use of aluminium in autos and a ban by Indonesia on exports of unprocessed ore, which includes bauxite, a raw material for producing aluminium. "What has been a substantial surplus in the aluminium market over recent years is probably giving way to what is going to be a market in broad balance or a small deficit," said Nic Brown, head of commodities research at Natixis in London.

"Indonesia provides two thirds of China's bauxite imports, and with the export ban you are cutting off a significant supply to the Chinese market."

India PM: POSCO to start work on steel plant in coming weeks

By Krishna N Das

NEW DELHI, Jan 16 (Reuters) - South Korea's POSCO will be able to start work on its planned $12-billion Indian steel plant over the coming weeks, India's prime minister said on Thursday, ending an eight year delay for environmental and legal clearances.

Manmohan Singh said the firm's request for an iron ore mining licence - the final regulatory hurdle for the project which would be the biggest foreign direct investment in India - was at an "advanced stage of processing".

The 12 million-tonnes-per-year plant in the eastern state of Odisha, formerly Orissa, will help world No.4 steel producer India to expand output. India produced 77.6 million tonnes of crude steel in the past fiscal year, a fraction of top producer China's nearly 800 million last year. India's total iron ore reserve was estimated at 28 billion tonnes as of 2010 by the Indian Bureau of Mines.

India's new Environment and Forest Minister Veerappa Moily last week gave approval to the plant but asked POSCO to spend 5 percent of the total investment on social commitments, which would raise the project's cost to $12.6 billion.

South Korean President Park Geun-hye's current visit to India seems to have pushed forward the project that has been hobbled by the delays in getting clearances, acquiring land and obtaining an iron ore mining licence. "I am very happy that the large-scale POSCO steel project in Odisha is set to be operational in the coming weeks, following the revalidation of its environmental clearance," the Indian prime minister said after a meeting with Park, referring to the start of construction work for the project. "Grant of mining concession for the project is also at an advanced stage of processing." POSCO is expected to receive a prospecting licence, which is generally valid for three years and after which a prospector needs to apply for a mining lease.

Access to iron ore, the main raw material in making steel, is the most important factor in POSCO deciding to set up the plant in India, experts have said. POSCO officials say the company came to India to have a strong base in an emerging economy as its presence in China was below expectations.

Odisha lies in the heart of India's mining belt and holds a third of the country's iron ore reserves, a quarter of its coal, half its bauxite and more than 90 percent of its nickel and chromite. The state accounted for about a fifth of all industrial investment proposals in India in the last four years.

PROTESTS

POSCO first signed an agreement with the state in June 2005 to build the plant on 4,004 acres of land. It is seeking 2,700 acres to begin the project's first stage, which involves setting up two 4-million-tonne plants in two phases.

More than 1,700 acres have already been handed over to the company, Trade Minister Anand Sharma said on Wednesday.

"We'll do everything possible to have the project expedited," Sharma said.

"The government would like to reinstate its commitment to foreign direct investment prior to the general elections (due by May) by expediting the process," said Ashima Tyagi, senior consultant at InfralineEnergy, a research and information services provider. POSCO may have received most of the government clearances but it is still waiting for India's environmental court to lift a ban on felling trees for the project. The court's order was pending the environment ministry's revalidation of lapsed clearance for POSCO, which finally came through last week.

Though the company hopes the court will remove its order, it could still face some protests from environmentalists and other activists. POSCO's spokesman in India, IG Lee, did not immediately reply to requests for comment.

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-LME nickel poised for 6 pct weekly gain on Indonesia export ban

By Melanie Burton

SYDNEY, Jan 17 (Reuters) - London nickel fell as traders locked in profits after a ban on Indonesian ore exports that came into force at the weekend triggered a rally that could lead to its biggest weekly gain in nearly a year.

Prices for refined metal have surged nearly 6 percent this week as traders bet that rising costs for producers of nickel pig iron, a low-cost alternative to refined nickel for makers of stainless steel, will lift the floor for LME nickel prices.

"Nickel's gains may just have been an initial reaction to the export ban and we could see it wash out a bit over the coming weeks," said James Glenn, analyst at National Australia Bank in Melbourne.

"There are plenty of stockpiles in China that should act as a bit of a buffer. But people will probably be watching the Indonesian (economic) numbers to see if there is any hint of distress from the export policy," he added.

A drop in exports may pile more pressure on Indonesia's slowing economy, forcing the government to water down its policy, some industry sources say.

Indonesia's nickel production will decline by 84 percent from last year to 9 million tonnes this year, the chief economic minister said on Thursday, as a ban on nickel ore hits output from the world's largest exporter.

Three-month nickel on the London Metal Exchange dropped by 0.4 percent to 14,630 a tonne on Friday. The metal is set to post its biggest weekly rise since early February 2013.

In other metals, copper was set to close the week flat as expectations of growing supply this year eclipsed a nearby shortfall in refined metal, with traders holding off on purchases ahead of the Lunar Near Year which starts at the end of the month.

Three-month copper on the London Metal Exchange was barely changed at $7,310 a tonne by 0244 GMT compared to the previous session when it lost half a percent. Prices reached a one-week high of $7,370 on Thursday.

The most-traded April copper contract on the Shanghai Futures Exchange slipped 0.2 percent to 51,690 yuan ($8,500) a tonne.

Expectations of global growth have fanned hopes that metals' fortunes may revive, although recovery is still tilted towards rich nations which use less metal than emerging economies.

A much better year lies in store for most of the world’s major developed economies, although weak inflation will persist, complicating central banks' ability to get interest rates back to normal, Reuters polls forecast on Thursday.

Traders have already noted a recovery in demand for zinc, used in galvanising, in Europe.

"For the first time in months (if not years) we are seeing offers emerge for zinc on warrant in LME warehouse in Antwerp and Rotterdam," London-based broker Triland said in a note.

"There is immediate buyer interest in these warrants so that is encouraging for the state of the zinc market in general."

PRECIOUS-Gold poised to snap 3-week rally on economic outlook

By A. Ananthalakshmi

SINGAPORE, Jan 17 (Reuters) - Gold was holding steady but was headed for its first weekly drop in four weeks as a string of U.S. data showed more strength in the recovery of the world's largest economy, dimming the metal's safe-haven appeal.

Markets fear that an economic recovery could prompt the U.S. Federal Reserve to continue or increase the pace of tapering its bullion-friendly monetary stimulus.

Other markets were also quiet on Friday with the dollar struggling after two days of gains and Asian stocks trending lower as Wall Street ended weaker on downbeat earnings.

"Looking ahead the gold market may be more interested in the next FOMC meeting slated for 28-29 January," said James Steel, chief precious metals analyst at HSBC.

"In the near term, we are likely to see sideways trading, as the impact of a negative investment climate is offset by good physical demand."

Spot gold was flat at $1,242.86 an ounce by 0349 GMT, and was heading for a 0.3 percent drop for the week.

The latest economic data from the U.S. showed that the number of Americans filing new claims for unemployment benefits fell for the second consecutive week last week, suggesting a sharp step-down in job growth in December was likely to be temporary.

The better labour market tone was also captured by a survey on Thursday showing an acceleration in manufacturing activity in the Mid-Atlantic region, accompanied by a rise in factory jobs.

Earlier this week, the World Bank raised its forecast for global growth for the first time in three years as advanced economies started to pick up pace, adding to the pressure on gold prices.

In China, premiums for 99.99 percent purity gold on the Shanghai Gold Exchange rose slightly overnight to $14 an ounce from $13.

Buying from China, the biggest gold consumer, has been robust in recent weeks ahead of the Lunar New Year holiday on Jan. 31.

Among other precious metals, platinum gained 0.4 percent as members of South Africa's Association of Mineworkers and Construction Union voted in favour of a strike over wages at the world's third-biggest platinum producer Lonmin.

MARKET REVIEW *(Continued)*

AMCU members have voted in favour of a stoppage at Impala Platinum, and the union will canvas its rank and file at Anglo American Platinum as well. The three are the world's top producers of the platinum and account for more than half of global output.

FOREX-Dollar takes a breather, Aussie shaky near 3-1/2-year low

By Hideyuki Sano

TOKYO, Jan 17 (Reuters) - The U.S. dollar faded a little after a mixed bag of U.S. economic data, while the Australian dollar was vulnerable after disappointing jobs figures the previous day knocked it below an important support level to a 3-1/2-year low.

The Australian currency, sometimes used as a proxy for bets on the Chinese economy because of Australia's dependence on raw materials exports to China, could remain at centre stage ahead of a slew of Chinese data on Monday.

Speculators have been building bets against the Aussie in recent sessions as more fluid currencies, such as the euro and the yen, confine themselves to a holding pattern without a clear short-term trend.

The Aussie slipped 0.2 percent from late U.S. levels to $0.8804, having slumped more than 1 percent on Thursday to as low as $0.8777 - a low not seen since August 2010.

The Australian dollar's outlook has worsened as it has broken below key support from its triple bottom around $0.8850, and traders say the currency is at risk of falling below major support levels against other currencies as well.

The Aussie fell 0.2 percent to 91.78 yen, edging near its December low just above 91 yen, while the euro stood at A$1.5460, within sight of a three-year high near $1.56 hit in late December.

The drubbing came after a surprise drop in Australian payrolls rekindled speculation about another cut in interest rates by the Reserve Bank of Australia.

The Aussie had better luck only against the kiwi, which fell 0.7 percent against the U.S. dollar to $0.8292.

Yet ironically the kiwi's underperformance was due largely to profit-taking in short Aussie/kiwi plays - bets that the kiwi will outperform.

The Aussie has fallen 16 percent from a peak against the kiwi last March to an eight-year low of NZ$1.0534 on Thursday, not far from an all-time low around NZ$1.0420 marked in 2005.

CHINESE DATA

While the Aussie could benefit from short-covering ahead of a long U.S. weekend, its fate hinges largely on a raft of Chinese data due on Monday, including October-December gross domestic product and December industrial output and retail sales.

With much of the market's wrath directed at the Aussie, the other major currencies pretty much traded sideways.

The dollar index was at 80.93, having slipped 0.1 percent overnight. The index is still back to where it was before last week's weak payrolls report sent it crashing.

Providing more evidence that the U.S. jobs figures were probably an exception, data on Thursday showed jobless claims fell in the latest week.

But consumer inflation was tame, giving the Federal Reserve leeway to keep an easy policy while disappointing earnings from Goldman Sachs and other banks sapped risk appetite.

Against the yen, the greenback eased to 104.27 yen from Thursday's one-week peak of 104.925 but stood still well within its familiar range between 104 and 105.

The euro fetched $1.3617, with no sign of breaking out of its $1.3550-$1.3700 range in the past weeks.

Sterling, however, was softer at $1.6340 after hitting a one-month low of $1.6316 on Thursday.

The pound is struggling to extend gains given that a lot of good news about the economy has already been priced in, traders said.

UK retail sales data due out later on Friday will offer more clues on how the British economy, a bright spot in Europe, is travelling.

(Inside Metals is compiled by Pradip Kakoti in Bangalore)