INSIDE METALS

Thursday, July 11, 2013

CHART OF THE DAY

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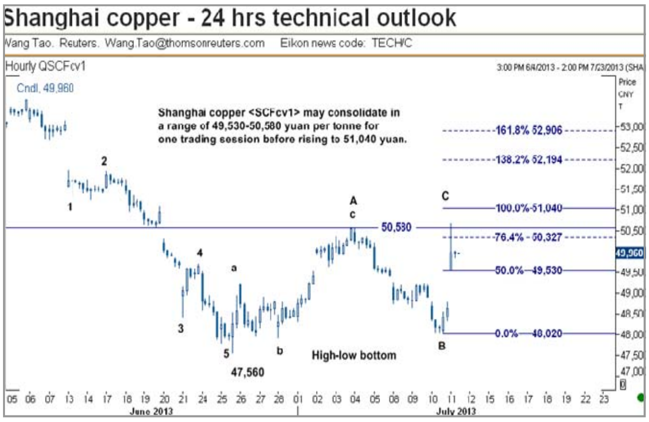

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FEATURE

COLUMN-Aluminium: A tough business about to get tougher?

Every three months Alcoa provides a regular update on just how tough it is to be in the aluminium business. The U.S. producer has traditionally kicked off the quarterly Wall Street reporting season, setting the market tone by what its results say about the strength or otherwise of the manufacturing economy.

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

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TODAY'S MARKETS

BASE METALS: London copper rallied more than 2 percent to its highest in a week after U.S. Federal Reserve Chairman Ben Bernanke said accommodative monetary policy would be needed for the foreseeable future.

Shanghai copper rallied more than 4 percent at one stage as some investors rushed to cover short positions, while solid turnover in LME copper suggested the upward move may have further to run.

"The Fed minutes stabilised markets, then we really took off when Bernanke spoke - he sounded more dovish than the minutes," said INTL FC Stone analyst Ed Meir.

PRECIOUS METALS: Gold jumped to its highest level in more than two weeks after Federal Reserve Chairman Ben Bernanke said the U.S. central bank would continue its accommodative monetary policy for now to support the economy.

That marks bullion's fourth day of gains in its longest winning streak since mid-April, pushing prices of other precious metals and U.S. gold futures to multi-week highs.

"Bernanke was quite dovish in his comments. Maybe we won't see a pullback in quantitative easing as quickly as we anticipated," said Amber MacKinnon, an analyst at Nomura Securities in Sydney.

FOREX: The dollar tumbled on Thursday after dovish comments from Federal Reserve Chairman Ben Bernanke prompted markets to reassess expectations that the Fed would start to reduce stimulus as early as September.

"The dollar's latest rally was started by nothing other than Bernanke's comments last month (that the Fed could reduce stimulus.) Few people would have thought he would suddenly turn dovish," said a trader at a Japanese bank.

FEATURE

COLUMN-Aluminium: A tough business about to get tougher?

By Andy Home

LONDON, July 10 (Reuters) - Every three months Alcoa provides a regular update on just how tough it is to be in the aluminium business.

The U.S. producer has traditionally kicked off the quarterly Wall Street reporting season, setting the market tone by what its results say about the strength or otherwise of the manufacturing economy.

Not any more.

Alcoa is now by far the smallest component of the Dow Jones Industrial Average. While the Dow has risen around 18 percent over the last 12 months, the Alcoa stock price has fallen more than 10 percent. The company's credit rating has just been downgraded to junk status by Moody's Investment Services.

Now its results say more about the aluminium market than about the corporate earnings season.

It's not that Alcoa isn't enjoying healthy demand growth for its products. Quite the opposite. It is reaping its fair share of a market that is growing faster than just about any other industrial metal thanks primarily to expanding applications in the transport sector.

The problems are all to do with making the stuff that goes into all those applications.

So while Alcoa's engineered products segment reported a 23-percent year-on-year improvement in after-tax operating income (ATOI) to $193 million in the second quarter, its primary metal segment recorded an ATOI loss of $32 million.

The key question, and the first to be asked on Alcoa's quarterly conference call, is whether an already tough business is about to get even tougher, if the London Metal Exchange (LME) decides to change its warehousing rules.

THE PRICE OF THE METAL

Alcoa, like every other producer of the light metal, is being squeezed by a low LME aluminium price. Benchmark LME three-month aluminium last week fell through the $1,800 per tonne level for the first time since the depths of the Great Financial Crisis.

Alcoa, also like every other producer of the light metal, is getting some relief from historically high physical premiums. Those for delivery into the Midwest U.S. ended the second quarter at $261 per tonne, up 16 percent year-on-year, according to the company.

Yet even the combination of base price and physical premium still spells trouble for the global smelter sector. Alcoa estimates that around a third are under water on a cash cost basis.

Few, though, are actually closing.

China, where much of that higher-cost capacity is located, is, to quote Alcoa chief executive and chairman Klaus Kleinfeld, "living on a different universe".

Even in the West governments are propping up plants that on paper should have long ago shut up shop.

Alcoa itself, however, has to live in this universe, "earth", as Kleinfeld calls it. The company has already shuttered around 13 percent of its global smelter capacity and has put another 460,000 tonnes under review.

That says a lot about the aluminium price, even including that high physical premium bonus.

The problem for Alcoa and every other aluminium producer now, though, is the potential for physical premiums to fall, removing a vital financial life-line.

THE PRICE OF THE QUEUE

Physical premiums have in the past been a relatively minor component of any producer's gross sales price. They have tended to be no more than a way of responding to regional supply-demand dynamics over and above the outright price.

That all changed as the infamous load-out queues started forming in key LME good-delivery locations, first and foremost Detroit.

As of last week, there were 1,017,425 tonnes of cancelled aluminium in Motown, all of it waiting its turn for physical load-out. Based on the average rate of load-out over the previous 30 days, the length of that queue is around 370 working days, or, after factoring in weekends and public holidays, around 525 calendar days.

All of that metal is still paying rent to the warehouse operators. And since it is on its way out, it's probably fair to assume that any previous discounted rental deals between warehouser and metal owner are void and that the metal is paying full rental of 48 cents per tonne per day. Calendar day, that is, even though LME-registered warehouses are required only to work on business days.

Right now, then, the queue at Detroit is equivalent to just over $250 per tonne in storage costs alone.

The similarity with the current U.S. Midwest premium is not coincidental.

As the queues have built, physical premiums have risen to reflect the cost of getting metal out of what is supposed to be "the market of last resort".

The circle is completed by the fact that the warehousers can use the queue revenue to bid for more metal directly from producers in the form of "freight incentives", setting a de-facto floor price for the physical premium at which others, mainly manufacturers, must also buy.

That, in a nutshell, is why aluminium consumers have been so vociferous in asking the LME to change its load-out requirements.

FEATURE *(Continued)*

That's also why, after unsuccessfully tinkering with the load-out rates, the LME is now consulting on a more drastic option, aimed at effectively capping queues at 100 calendar days.

PREMIUM IMPACT

Given the mechanics of the relationship between the LME load-out queue and physical premiums, it looks like something of a no-brainer that capping the queue length would affect the premium.

At 100 calendar days the storage costs for aluminium awaiting load-out in Detroit would fall to under $50 per tonne, which presumably would translate into a similar decline in the "freight incentive" offered by warehousers for fresh intake.

Assuming, that is, that they want any more metal because of the resulting requirement to load out faster.

On paper, it looks like an already hostile climate for aluminium producers such as Alcoa is going to get a lot more hostile, forcing far more significant cutbacks than have taken place up to now.

A counter argument to this notional outcome, and one alluded to by Alcoa on its conference call, is the fact that most of the metal awaiting load-out from the LME system is destined not for manufacturers but for off-market storage under finance deals.

Those finance deals are predicated on the LME price curve not the physical premium.

If financing remains a profitable trade, financial demand for surplus metal isn't going to disappear. Would-be stocks financiers would still be in competition with aluminium consumers for spare units, implying some support for physical premiums, even if not inflated by the current queue dynamic.

PRICE IMPACT?

But then, would financing still be profitable?

What would be the impact of an LME rule change on the LME price of aluminium? We're in unknown territory here but just about everyone in this market is trying to work through the potential scenarios.

How would the price react to a rapid decline in LME stocks? There are, after all, 2.24 million tonnes of LME aluminium earmarked for physical delivery, representing around 41 percent of the total.

And what if warehouse operators started shunning fresh intake, even at times when shorts are trying to deliver against their positions, a scenario explicitly mentioned in the LME's consultation document?

Higher outright prices? More cash-date squeezes? Or both?

A tightening forward curve would of course undermine the profitability of the financing trade. The question is to what extent, if at all, the outright price would offer producers any compensatory lift.

There are no easy answers to these questions and no, Alcoa couldn't offer any either.

There are still too many moving parts to consider, not least the fact that a rule change is by no means certain in itself.

The single most important part, though, is the role of metal financing in soaking up the mountains of surplus aluminium sitting around the world.

A disorderly unwind has long been a worst-case scenario for this market, an aluminium apocalypse.

This is why the first question asked on the Alcoa conference call was about the LME load-out consultation paper.

The upside for Alcoa or any aluminium producer looks limited. The downside, on the other hand, looks very frightening indeed.

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

GENERAL NEWS

Guatemala seek 2-year moratorium on new metal mining

By Mike McDonald

GUATEMALA CITY, July 10 (Reuters) - Guatemala President Otto Perez asked the country's congress on Wednesday to impose a two-year moratorium on new mining licenses to calm tensions in mostly indigenous communities opposed to the industry.

"We are bringing a bill to congress in which we declare a two-year moratorium," Perez said in a speech late Tuesday night. "We are asking congress to not give any more metal-mining licenses."

In May, Guatemala's government declared an emergency in four towns, suspending citizens' rights to protest in an area where people died during demonstrations against the Escobal silver mine belonging to Canadian miner Tahoe Resources Inc.

Tahoe Resources received the final operating permits in April for its Escobal mine. The company's top executive, Kevin McArthur, has said he does not expect the project to be affected by the moratorium request.

Government officials said they hope the request for the moratorium will also encourage congress to consider reforms to Guatemala's mining law, including a proposal presented last year to hike mining royalties from 1 percent of a company's gross income to 5 percent.

"We hope Congress opens a great debate ... so we can have a law that is in accordance with all our needs," Perez added.

However, mining companies invested in Guatemala were less enthusiastic about the proposal, and pointed to a growing aversion to foreign investment in the mining sector.

"They've been less receptive to foreign investment," said Randy Reifel, president of Canadian miner Chesapeake Gold Corp , which owns the 900 hectare El Escorpion concession, 85 kilometers (53 miles) southeast of Guatemala City.

"It's a challenging place," he added, noting that a recent fall in metals prices only lessened the country's attraction.

Reifel added that the El Escorpion project would not be affected by the proposed moratorium.

For a moratorium to pass, Guatemala's 158-member congress must approve it with a majority vote in three separate debates.

It remains unclear when those votes will be cast due to an extended backlog of pending legislation.

Last year, Guatemala's government, under pressure from industry, withdrew a proposal to acquire as much as a 40 percent stake in new mining projects.

Mining in Guatemala accounts for about 2 percent of gross domestic product.

Indian jewellers may ban sale of gold coins, bars for 6 months

MUMBAI, July 10 (Reuters) - India's jewellers could continue a voluntary ban on sales of gold coins and bars for six months, in support of the government's efforts to curb imports, a trade body said in a statement on Wednesday.

The All India Gems and Jewellery Trade Federation, which has more than 40,000 members, added that over 65 percent of jewellers had agreed to the ban on sales of bars and coins, which account for about 35 percent of total business.

"The jewellery community is one in supporting the country in times of crisis. We are happy to help with this voluntary action," Haresh Soni, chairman of the federation, said in the statement.

The trade body had appealed to jewellers to stop sales of coins and bars in late June.

India's current account deficit swelled to a record 4.8 percent of gross domestic product in the fiscal year ending March 31, 2013, and gold is the second-largest item in the iport bill.

The government has hiked import duty to 8 percent and the central bank has tightened availability of supplies in an effort to rein in imports, which hit a record 162 tonnes in May.

Goldman Sachs sees no strong catalyst for mining sector turnaround

July 10 (Reuters) - Goldman Sachs said it was focusing on single-stock buying opportunities in the mining sector as it does not see any strong catalyst for a sector-wide turnaround at a time when commodity prices are languishing.

Goldman Sachs said its negative outlook on the mining sector was reinforced by expectations of a weaker Chinese economy and lower iron ore and copper prices.

According to a Reuters poll, China's economy likely grew 7.5 percent between April and June from a year ago, slowing from the previous three months as weak demand dented factory output and investment growth.

Iron ore prices are down nearly 16 percent this year as sluggish economic activity curbs Chinese demand.

Goldman counted global mining majors such as Rio Tinto Plc and Anglo American Plc among its top "sell"-rated stocks, citing negative earnings momentum and the dependency of their free cash flow on iron ore.

"We see upside potential to nickel, aluminium and zinc prices but these do not impact our large-cap coverage sufficiently to get overly positive," Goldman said.

Asset sales and cost cuts would not be enough to compensate for the weak underlying performance of large-cap mining stocks, the brokerage said.

GENERAL NEWS *(Continued)*

"While the sector has underperformed it is not particularly cheap...and those that look cheap on near-term earnings estimates are facing big declines in 2015," the brokerage said in a note dated July 9.

Instead Goldman said it favoured mining companies that focused on funded growth and strong free cash flows.

Goldman Sachs upgraded Canada's First Quantum Minerals Ltd to "buy" from "neutral", attributing the upgrade to its industry-leading growth, an attractive project portfolio and an improving cost position.

The brokerage also upgraded London-listed Vedanta Resources Plc to "buy" from "neutral", saying the company offered near-term earnings growth helped by its aluminium, copper, zinc, and energy businesses.

Rio Tinto's London listed shares were down 1.22 percent at 2703 pence at 0906 GMT on Wednesday, while Anglo American shares were down 1.5 percent at 1262 pence.

TRADING PLACES

London Metal Exchange nears prize of warehouses in China

By Polly Yam

HONG KONG, July 10 (Reuters) - China's top planning body is preparing to let foreign exchanges open commodities warehouses in free-trade zones, sources with government links said, which would grant the London Metal Exchange coveted access to the industrial giant.

The LME, the world's biggest marketplace for industrial metals such as copper and aluminium, is likely to be the first to win permission and get round the current ban on foreign bourses setting up depots in mainland China.

It would be a triumph for the LME's new owner, Hong Kong Exchanges and Clearing (HKEx) , whose chief executive Charles Li promised, during the $2.2 billion takeover last December, to shepherd LME-registered warehousing into China.

The LME has sought for many years to set up delivery networks in China to grow its business.

"The National Development and Reform Commission (NDRC) is definitely going to bring the LME into China," one of the two sources, who has knowledge of the government's free-trade zone policy, said on Wednesday.

The sources said the NDRC was working on guidelines for the policy to allow the LME to operate warehouses in the newly-approved free trade zone in Shanghai. An announcement on the first LME warehouse could come before the end of the year.

Asked to comment, an HKEx spokeswoman said its efforts to gain access to mainland warehouses continued and it had no dates for a decision.

"We are still working on the mainland warehouse initiative but we don't have a timeline," the spokeswoman said.

The London-based futures exchange oversees a global warehouse network where its clients can choose to take delivery of consistent quality metals also including lead, zinc, nickel and tin. The LME earns warehouse fees and a percentage of rent.

China is the top consumer of most raw materials and warehouses linked to foreign exchanges there could increase the influence of the world's second-largest economy over commodities trade.

It would also accelerate the opening of China's commodities markets to foreign investors. At present the metals business is dominated by the Shanghai Futures Exchange, which has its own warehouse system.

The move would encourage China's huge industry to use LME metals contracts to manage international price risk and boost LME trading volumes - a boon for Li who has come under pressure to justify the sum his company, which runs Hong Kong's stock exchange, paid for the LME.

The opening of LME sheds in China would help manufacturers there by cutting logistics costs which are a major factor in the premiums or surcharges consumers pay, on top of LME contract prices, to obtain metal.

"We need LME warehousing in China, our clients want it and we've been trying for six years to make this happen," a senior metals industry source said. "This is a big step forward, but it depends on the time frame."

CONVERTIBILITY

In a related development this month, the official China Daily reported that China had approved the establishment of a free trade zone in Shanghai that would experiment with convertibility of the yuan currency.

Beijing's new leaders, who took over in March, have signalled they want to quicken the process of making the yuan fully convertible over the next few years, as part of efforts to increase its use in trade and support wider financial reforms. The commodity warehouses, being in the free-trade zones, could be pioneers in this process.

Top metals producers in China are already building storage depots in Shanghai's free-trade zone.

One, Jiangxi Copper , China's biggest producer of the metal, was willing to get approval from the LME, a company source said. The firm already runs a logistics company there.

TRADING PLACES *(Continued)*

Jinchuan Group , China's third-largest copper producer and top nickel producer, and Maike Metals, China's top private metals trader, are jointly building a warehouse in the zone, trading sources said.

Other free trade zones, once established, could also host warehouses operated by foreign businesses.

The eastern port city of Tianjin and Zhoushan Islands near Ningbo, the third-largest port of China, have also submitted proposals to Beijing to establish free-trade zones, the first source with knowledge of the policy said.

Boosting logistics business in the free-trade zones is expected to bring in more international banks, one of the sources said.

"Trade is always linked to financing, which has to be done by big banks. That also relates to the yuan going into the international market," the source said, declining to be named because he was not authorised to talk about the topic.

MARKET NEWS

Brazilian Indians block iron ore miner Vale's Carajas railway

SAO PAULO, July 10 (Reuters) - Brazilian Indians seeking better public services blocked a key railway carrying iron ore from global miner Vale's giant Carajas mine to port, the company said on Wednesday.

Vale did not say how much iron ore had been held up by the protests, which were not directed at the company. The railway, known as EFC, carries close to 100 million tonnes of iron ore a year, or nearly 10 percent of the world's 1 billion tonnes of seaborne exports.

The line connects the Carajas mining complex in Brazil's Amazonian state of Pará with the Port of Ponta da Madeira near São Luis, the Atlantic port capital of Maranhão state on Brazil's Northeast coast.

The railway moves a third of Vale's iron ore output of about 300 million tonnes a year and is being expanded along with Carajas to make up for declining output in Brazil's central highlands.

COAPIMA, an organization representing indigenous groups in Maranhão, said various tribes were demonstrating to demand better services, including health care, on their reservations.

Vale said a local court ruled the protesters should be evicted from the railway but the order had not yet been carried out. The miner, the world's second-largest, last week received permission from Brazil's Environmental Protection Agency to build a $19.5 billion expansion to Carajas.

Brazil, which has set about 13 percent of its territory for Indians, is struggling to defuse a series of conflicts with natives over farmland, proposed hydroelectric dams, and mines.

President Dilma Rousseff, who will likely run for re-election next year, has tried to prevent more violence since two Terena Indians were killed when police evicted members of the tribe from a former congressman's cattle ranch last month.

Indians were generally not involved in massive protests that rocked cities across Brazil in late June and focused on a range of urban grievances from government corruption to inadequate public transportation and hospitals.

China's Baosteel keeps August prices unchanged

SHANGHAI, July 11 (Reuters) - China's Baoshan Iron & Steel Co Ltd , the country's biggest listed steelmaker, will keep prices for its main products steady in August, it said in a statement on Thursday

Wuhan Iron & Steel , another leading Chinese steelmaker, raised prices for its main products by 50-100 yuan($8-16) a tonne for August in response to the recent rebound in steel prices, traders said.

POSCO set to get India iron ore licence-sources

By Krishna N Das

July 10 (Reuters) - India is expected to grant an iron ore exploration licence to POSCO for its planned $12 billion steel plant in the country, two government officials told Reuters, in a step that should speed up the project stuck for eight years.

The Supreme Court in May handed a decision on a licence to the federal government, raising the South Korean firm's chances of getting access to iron ore for the project billed as India's largest foreign direct investment.

"POSCO India should get the license in a month or so," said a senior government official involved with the decision-making. "The government is looking at it positively."

Another official directly involved in the matter said the government was speeding up the process given that the Supreme Court has already ruled against a lower court order declining a prospecting licence for POSCO.

Prospecting licences are generally valid for three years, after which a prospector has 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.

"We are hopeful that the central government will give its approval soon," POSCO-India spokesman IG Lee told Reuters.

The government is currently looking at the legal aspect of the process of granting a licence, another source said.

POSCO first signed an agreement with eastern Odisha state in June 2005 to set up the steel 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.

The company is expected to get the land for the first project later this month, two government official said.

POSCO has said that if it gets the required land this year, the first-phase of the plant may be commissioned sometime in 2018. At full production of 12 million tonnes, the project would have accounted for 16 percent of India's total current annual steel output of 76.7 million tonnes.

Trader Stemcor in talks with India steelmakers on iron asset sale

By Silvia Antonioli

LONDON, July 10 (Reuters) - UK's Stemcor, the world's largest independent steel trading company, is in talks with Indian steelmakers including Jindal Steel and Power , about the sale of its iron processing assets in the Indian state of Odisha.

The trading firm has come under pressure to raise funds since it was forced to ask lenders to freeze its repayments when it was unable to refinance an $850 million syndicated loan that was due to mature on May 7.

The privately-owned firm has put up for sale its wholly owned project Brahmani River Pellets Ltd, which includes a 4 million tonnes a year iron beneficiation plant in Barbil and a pellet plant complex in Jaipur, which are connected via a 220-kilometre underground slurry pipeline, sources said.

"The asset is openly for sale. They have spoken with almost every steel mill in the country about a possible takeover of the asset. They also came to us but we have not taken any decision yet," V.R. Sharma, chief executive of the steel business of Indian firm Jindal Steel and Power said by telephone.

He declined to comment on any price involved and Stemcor declined to comment on the potential sale.

Other major steelmakers in India are Tata Steel , Steel Authority of India and JSW Steel .

Tata Steel declined to say whether it was in talks with Stemcor over a potential acquisition of the assets.

Steel Authority of India and JSW were not immediately available.

Stemcor's Indian beneficiation plant takes low grade iron ore fines from various local mines and refines them while the pellet plant, located near local steelmakers, converts low-grade iron fines into value-added pellets.

Iron ore is a key ingredient to produce steel and India is a main supplier of spot cargoes to China, the world's largest buyer of the metal.

Low supplies push European zinc premiums to year high

By Harpreet Bhal

LONDON, July 10 (Reuters) - European premiums for physical zinc have reached their highest levels this month in a year because availability is constrained by a lack of material coming into the region, and large amounts of metal remain locked up in financing deals.

Higher premiums mean customers are forced to pay more to secure physical delivery of the metal used for galvanising.

Traders said premiums for special high grade zinc in the spot market in Rotterdam, paid over the cash price was quoted at around $140-150 a tonne, up from around $120-$130 in the first half of the year.

In southern Europe, premiums had rocketed to above $200 a tonne, as consumers scrambled for material due to a lack of spot availability from Italy's primary zinc smelter Portovesme, market sources said.

Traders said supply was moving to regions where premiums were higher, such as Asia, leaving Europe lacking in material.

"Material from South America is not really coming in to Europe. Premiums in Asia and the U.S. are higher and producers are better off if they sell there," a Europe-based trader said.

"There is very little material here in Europe," he said.

Premiums for zinc in South East Asia firmed in June as traders reported difficulty sourcing the metal given shrinking London Metal Exchange stocks, with premiums quoted at $180-195 a tonne.

Traders said zinc's widening contango, where future prices are at a premium to cash, had prompted warehousers to pay more to attract metal for storage in financing deals, keeping premiums firm and pricing out consumers.

"I'm hearing about some bottlenecks in output from the warehouses, and customers can't get to their material easily," another zinc trader said.

In a typical financing deal, a bank or commodity trader buys zinc from a producer, sells it forward at a profit and strikes a warehouse deal to store it cheaply away from the market, taking advantage of the market's contango structure.

The discount for cash prices to three-month zinc widened to $34 a tonne, from $28.25 last week. .

Banks and trading houses that own London Metal Exchange (LME) warehouses can take advantage of the exchange's global network to store material and collect rent.

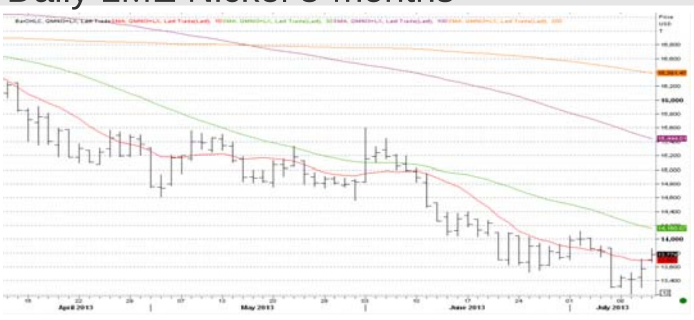
Reflecting tightening supplies, zinc stocks in LME warehouses have been falling since early June, with data on Tuesday showing stocks are at their lowest level since October last year at 1.02 million tonnes.

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

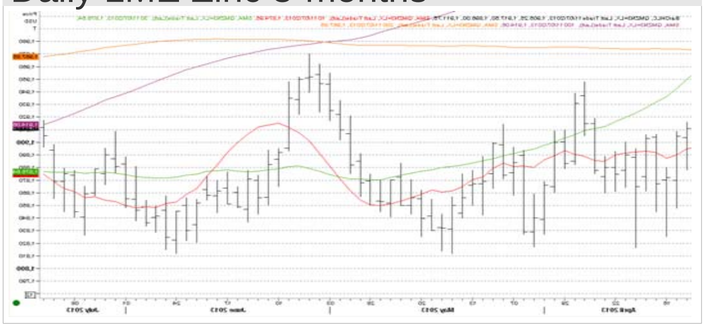
Daily LME Aluminium 3-months

Daily LME Copper 3-months

Daily LME Nickel 3-months

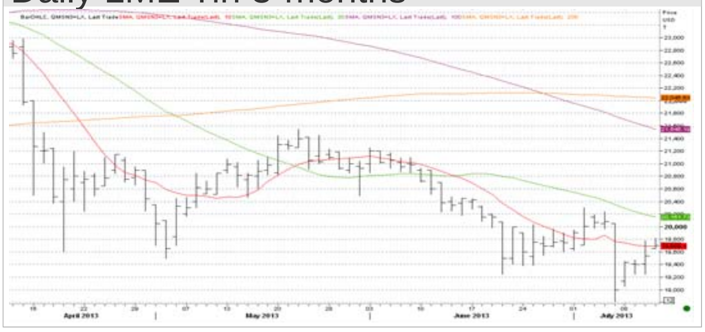


Daily LME Zinc 3-months



Daily LME Lead 3-months

Daily LME Tin 3-months



Daily LME Alloy 3-months

Daily LME Nasaac 3-months

MARKET REVIEW

METALS-Copper hits one-week high after dovish Fed comments

By Melanie Burton

SINGAPORE, July 11 (Reuters) - London copper rallied more than 2 percent to its highest in a week after U.S. Federal Reserve Chairman Ben Bernanke said accommodative monetary policy would be needed for the foreseeable future.

Shanghai copper rallied more than 4 percent at one stage as some investors rushed to cover short positions, while solid turnover in LME copper suggested the upward move may have further to run.

"The Fed minutes stabilised markets, then we really took off when Bernanke spoke - he sounded more dovish than the minutes," said INTL FC Stone analyst Ed Meir.

"It's swinging the pendulum from an imminent cessation of easing to one where we're not sure if he's going to pull the trigger in September."

Bernanke reiterated the need for monetary policy accommodation for the foreseeable future and cast doubt over the strength of the U.S. labour market, after monetary policymakers released the results of their most recent minutes.

About half the Fed's policymakers felt the central bank's bond-buying stimulus should be brought to a halt by year end when they met in June, but many wanted reassurance the U.S. jobs recovery was on solid ground first.

A weak dollar has lubricated industry in the world's second biggest economy, underpinning metals demand and fuelling investment in commodities.

Three-month copper on the London Metal Exchange hit its highest since July 4 at $6,994 a tonne, before edging back to $6,945.75 by 0210 GMT, still up 1.77 percent and extending gains from the previous session.

The most-traded November copper contract on the Shanghai Futures Exchange surged more than 4 percent to 50,790 yuan, the highest since June 19, before easing to 49,940 yuan a tonne, up 3.22 percent.

Hopes for looser policy were also driving gains in China, after dismal trade figures for June sparked hopes Beijing would need to cut banks' reserve rate requirement ratio

China warned on Wednesday of a "grim" outlook for trade after a surprise fall in June exports, raising fresh concerns about the extent of the slowdown in the world's second-largest economy and increasing the pressure on the government to act.

China's top planning body is preparing to let foreign exchanges open commodities warehouses in free-trade zones, sources with government links said, which would grant the London Metal Exchange coveted access to the industrial giant.

PRECIOUS-Gold climbs to 2-1/2 week high on Fed stimulus hopes

By A. Ananthalakshmi

SINGAPORE, July 11 (Reuters) - Gold jumped to its highest level in more than two weeks after Federal Reserve Chairman Ben Bernanke said the U.S. central bank would continue its accommodative monetary policy for now to support the economy.

That marks bullion's fourth day of gains in its longest winning streak since mid-April, pushing prices of other precious metals and U.S. gold futures to multi-week highs.

Gold, which is still down about 25 percent this year, had taken a beating after Bernanke said in May and June that the Fed could begin tapering its bond purchases later this year.

But comments from him on Wednesday suggested that stimulus could last longer, supporting prices of gold as it is typically seen as a hedge against inflation.

"Bernanke was quite dovish in his comments. Maybe we won't see a pullback in quantitative easing as quickly as we anticipated," said Amber MacKinnon, an analyst at Nomura Securities in Sydney.

"We are likely to see a short-term rally in gold up to around $1,400 and then a fall back to current levels."

Spot gold had risen 2 percent to $1,289.49 an ounce by 0638 GMT. It earlier climbed 2.7 percent to $1,298.36 - its highest since June 24.

Comex gold jumped as much as 4 percent to a two- and-a-half week high of $1,297.2. Spot silver climbed 4.8 percent to $20.26 - its highest in three weeks.

Platinum and palladium jumped to three-week peaks.

Spot gold may break a resistance zone of $1,294-$1,302 per ounce and rise more to $1,331, said Reuters technical analyst Wang Tao.

CAUTION PERSISTS

But traders said there was lingering uncertainty over the outlook for Fed stimulus.

"People are cautious. They don't really know what to do as just recently gold fell to a three-year low on tapering comments from the Fed and now they are saying the opposite," said a trader in Hong Kong.

Bernanke on June 19 said the U.S. economy was expanding strongly enough for the Fed to begin scaling back its stimulus later this year and end the measures by mid-2014.

Physical demand in key markets India and China has been subdued, different from the rush to buy in April when prices dropped about $200 in two days. A near-term rally in spot prices could further hit demand.

MARKET REVIEW *(Continued)*

FOREX-Dollar tumbles after dovish Bernanke trip up bulls

By Hideyuki Sano

TOKYO, July 11 (Reuters) - The dollar tumbled on Thursday after dovish comments from Federal Reserve Chairman Ben Bernanke prompted markets to reassess expectations that the Fed would start to reduce stimulus as early as September.

Bernanke's comment came during early Asian trading hours, when market liquidity is at its lowest, triggering a rapid barrage of stop-loss selling of the dollar, exaggerating price action, traders said.

The Fed chief said the U.S. central bank would continue to pursue an accommodative monetary policy as inflation remained low and the unemployment rate might be understating the weakness of the labour market.

"The dollar's latest rally was started by nothing other than Bernanke's comments last month (that the Fed could reduce stimulus.) Few people would have thought he would suddenly turn dovish," said a trader at a Japanese bank.

Before Bernanke's comments, markets were already trying to come to terms with the minutes from the Fed's June policy meeting which showed many board members indicated further improvement in the labour market outlook would be required to slow the pace of asset purchases.

A majority of market players were expecting the Fed will likely start to slow its monthly asset purchases of $85 billion per month by September this year.

The euro roared to a three-week high of $1.32085 at one stage, up more than 3 percent from Wednesday's low of $1.2765. It easily spiked above $1.3010, the 38.2 percent retracement of its June-July fall, then $1.3167, the 61.8 percent level.

The euro last traded at $1.3121, up 1.2 percent on the day.

The dollar also fell against the yen, dropping to a two-week low of 98.20 yen , though it held above a key support from the cloud bottom on the daily Ichimoku charts at 98.155.

It last stood at 98.62 yen, a fall of 1.1 percent from late U.S. levels.

The dollar extended losses after the Bank of Japan kept its policy on hold even though the outcome was widely expected as traders were nervous after the greenback's slump earlier.

The currency pair is flirting with another important chart point, the tenkan line on weekly Ichimoku charts at 98.75, with a weekly close above that level seen as a sign the dollar is retaining its upward bias.

The U.S. currency also fell 1.4 percent against the Swiss franc to 0.9452 franc, hitting a two-week low of 0.9405 franc at one point.

Still, many traders said that it was premature to call an end to the dollar's uptrend, especially as they expect the U.S. economy is likely to continue to outperform many other developed economies.

"Bernanke was more dovish than expected. Nonetheless, he was also repeating what he has been saying all along and the market may have over-reacted," said Hiroshi Maeba, head of FX trading Japan for UBS in Tokyo.

Commodity currencies also jumped against the dollar, with the Australian dollar climbing as high as $0.9300 to pull further away from a 34-month trough of $0.9036 plumbed just last week.

The Aussie was also helped by data showing sharp rise in Australian employment in June, even as the jobless rate hit its highest since 2009.

The Aussie was last at $0.9293, up 0.9 percent from late U.S. levels.