INSIDE METALS

Monday, July 1, 2013

CHART OF THE DAY

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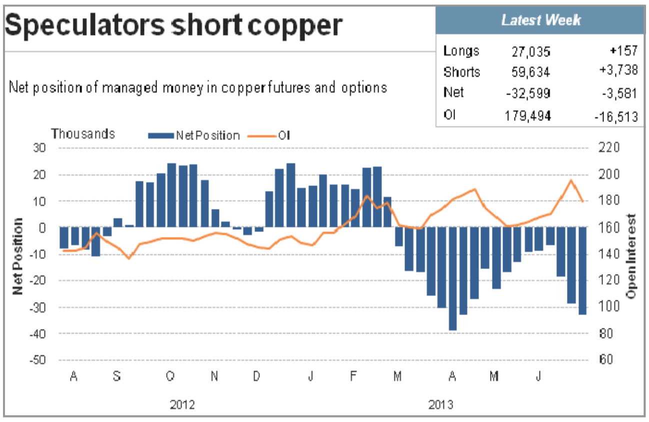

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- Rio Tinto wins end to human rights abuse lawsuit in U.S.
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COLUMN-Sober Australia commodity forecasts contrast with market gloom

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

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TODAY'S MARKETS

BASE METALS: London copper firmed technical buying, but remained near three-year lows after data showing that growth in China's vast manufacturing sector contracted in June underlined sluggish prospects for metals demand.

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PRECIOUS METALS: London copper firmed technical buying, but remained near three-year lows after data showing that growth in China's vast manufacturing sector contracted in June underlined sluggish prospects for metals demand.

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FOREX: The dollar was broadly firm as traders greeted the start of a new quarter that could see the U.S. Federal Reserve beginning to wind down its stimulus, even as other major central banks are expected to maintain their super-easy monetary policy.

"This week will be huge for bond bears if the payrolls report validates the Fed's decision to lower its unemployment forecasts," noted analysts at JPMorgan.

FEATURE

COLUMN-Sober Australia commodity forecasts contrast with market gloom

By Clyde Russell

LAUNCESTON, Australia, July 1 (Reuters) - Separating reality from sentiment is often a challenge in commodity markets, and Australia's government forecaster has made a solid effort to present a sober picture that's at odds with the current gloom.

The latest quarterly outlook from the Bureau of Resource and Energy Economics (BREE) forecasts Australia's commodity exports will rise in both volume and value terms in the 2013/14 fiscal year that started Monday.

While it's true that the growth rates expected aren't of the order seen in the early years of the so-called commodity super-cycle last decade, the outlook is far from the rhetoric of a boom that's gone bust, or is about to.

Australia is the world's largest exporter of iron ore and coal, and is likely to become the biggest shipper of liquefied natural gas by 2020 once the seven plants currently under construction are completed.

Australia's output of metals and other minerals is expected to rise 4.7 percent in 2013/14, while energy production will gain 3.1 percent, according to the quarterly outlook published June 26 by the bureau.

In value terms, the forecast gains look more impressive with metals and minerals expected to increase 12.6 percent to A$119.2 billion ($109.2 billion) and energy by 9.5 percent to A$77.4 billion.

The caveat here is that much of the gain in value is due to a forecast 8.7 percent decline in the Australian dollar over 2013/14 from the prior fiscal year, but even in U.S. dollar terms both value and volumes are expected to increase.

In fact, the increase in Australian dollar terms may be greater than what BREE assumes, given that the forecaster is factoring in an average exchange rate of 94 U.S. cents to an Australian dollar, which is higher than the prevailing 91.5 U.S. cents .

Most currency analysts expect further declines for the Australian dollar as economic growth in China moderates and the U.S. currency strengthens as the Federal Reserve tapers its monetary stimulus.

But the main question to be asked of the BREE report is whether the forecaster is justified in its optimism for increasing export volumes for major commodities, given the easing in Chinese demand growth.

CHINA DEMAND QUESTIONS

Iron ore is the single biggest commodity export from Australia, and the bureau expects 610 million tonnes to be shipped out in 2013/14 at a value of A$66.76 billion.

This would be a 14.4 percent gain in volume and a 16.5 percent jump in value, and on the surface appears at odds with the current market assessment of China steel industry.

While Australia will have the capacity to increase exports, the question is whether China, which consumes two-thirds of global seaborne iron ore, will have the demand.

The bureau's assumption is that China's steel demand will rise in the second half of 2013 and into next year on the back of state-funded infrastructure construction.

This will boost China's iron ore import demand to 774 million tonnes in 2013 and 805 million in 2014, up from 745 million in 2012.

The bureau assumes largely steady import demand from the European Union, Japan and South Korea.

On the supply side Brazil's exports are expected to rise moderately in 2013 to 336 million tonnes from 327 million last year, while India, formerly the world's third-biggest shipper, is expected to export a mere 2 million tonnes, and turn to a net importer by 2014.

This implies that virtually all of the increase in seaborne iron ore demand will be met by Australia, and that this will help keep prices relatively stable and around current levels.

Iron ore contract prices are forecast to average $112 a tonne in 2013/14, while the current spot price is $116.50.

The main risk to this forecast isn't around the supply side, rather it's that China's steel demand won't accelerate, and furthermore won't be able to absorb the current build-up in inventories caused by mills still producing near record amounts even as demand growth slackens.

Optimism on China is also behind the bureau's forecasts for both coking and thermal coal.

Exports of coking coal, used for steel-making, are expected to rise to 160 million tonnes in 2013/14 from 150 million the prior year, while the average price is forecast at $160 a tonne.

Thermal coal shipments will rise to 190 million tonnes from 182 million, while the price will dip slightly to $92 a tonne from $95.

The problem here is that spot thermal coal at Australia's Newcastle port , the Asian benchmark, dropped well below the forecast level to trade at $78.87 a tonne on June 27, while coking coal is also weaker at under $140 a tonne.

Weaker Chinese demand is largely behind the recent price declines in both types of coal, so once again the bureau is assuming China's economy will regain momentum.

However, the key point is probably that China doesn't have to gain a lot of momentum to change the short-term gloom to something more modestly positive.

The bureau assumes China will achieve its official target of 7.5 percent economic growth in 2013 and next year.

FEATURE *(Continued)*

While the partial data on the economy, such as industrial production and exports, suggest that China lost momentum in the second quarter of 2013, there aren't widespread fears that China will fail to achieve its target.

What the BREE report is ultimately saying is that if China does manage to make its 7.5 percent economic growth target, then commodity demand will rise moderately and prices will be largely steady to slightly higher.

It also means that the fiscal year just ended was the real weak spot for commodities and that the 2013/14 year will be a return to growth.

Australia's minerals and energy exports are forecast at A$196.6 billion in 2013/14, up a staggering 41 percent from what was achieved in 2009/14 and 11.4 percent above 2012/13.

These aren't numbers that speak to the end of a boom, in fact what they show is that the gains in commodity export volumes and value have been consolidated.

--Clyde Russell is a Reuters market analyst. The views expressed are his own.--

GENERAL NEWS

Bear market in gold pummels Einhorn's Greenlight fund

By Jennifer Ablan

NEW YORK, June 30 (Reuters) - Investors in David Einhorn's Greenlight Capital Management's offshore gold fund were down 11.8 percent in June, bringing their year-to-date losses in the fund to 20 percent, two sources close to the matter said on Sunday.

Einhorn, one of the most widely followed hedge fund managers and known for warning about Lehman Brothers' precarious finances before it collapsed, has also seen his flagship $8 billion Greenlight Capital fund under recent pressure though it is still up for the year.

In June, Greenlight's flagship portfolio was down 1.1 percent but still up net 7.4 percent year to date, according to one of the sources.

Einhorn, largely known for going both long and short on stocks, formed the Greenlight gold fund to include the same investment strategy as the main fund but offers a share class backed by physical gold.

The gold fund, with a minimum investment of $1 million, had $929 million under management and 266 investors as of March, according to a recent regulatory filing.

The sources said the fund's dollar-denominated class represents a "majority" of the gold fund and is up 7.1 percent for the year. The remainder is in the gold-denominated class, which is down 11.8 percent in June alone and 20 percent so far this year. That's consistent with the sector's plunge this year.

The gold-denominated fund gives Greenlight investors exposure to gold through the fund's investments, then reprices them in gold as opposed to U.S. dollars.

Gold , which fell below $1,200 an ounce on Thursday for the first time in three years, posted its largest quarterly loss in at least 45 years amid fears the U.S. Federal Reserve may wind down its stimulus program.

After Friday's rally of 2.3 percent, gold is still 23 percent lower for the second quarter, its biggest decline since at least 1968, according to Reuters data.

Einhorn has said he prefers investing in gold bars, as opposed to the popular gold exchange-traded fund, SPDR Gold Shares , partly to have better control over his investment and keep a lid on trading expenses.

In 2009, Einhorn said at the annual Value Investing Congress that he was holding gold as a hedge for what he described as unsound U.S. policies.

"If monetary and fiscal policies go awry," investors should buy physical gold and gold stocks, he said at time. "Gold does well when monetary and fiscal policies are poor and does poorly when they are sensible."

This March, a month before the big April swoon in gold prices, the Greenlight Gold fund completed a financing deal with HSBC for an unspecified sum, according to a financing statement. The fund also has a financing agreement with Goldman Sachs.

Einhorn's dedicated gold fund will not be the only portfolio in the $2.2 trillion hedge fund industry that got burned in June from an investment in precious metals.

In April, a dedicated gold fund managed by John Paulson was down about 27 percent, bringing the year-to-date decline at 47 percent. Soon after, Paulson, who is the largest investor in the fund, limited the release of performance figures for his gold fund, worried it was getting too much attention in the media.

Earlier this year, the Paulson gold fund had about $700 million in assets. Paulson also invests in gold miners and in the gold ETF for his Advantage funds, which have about $5 billion in assets.

Einhorn's flagship fund also invests in gold. Earlier this year, the manager listed gold as one of the five largest positions in the fund. Reuters previously reported that Einhorn stores some of his gold in a secure facility in Queens, New York.

Dan Loeb's $12 billion Third Point firm also had a sizable position in physical gold in his portfolios but people familiar with the matter said he exited the positions in the spring.

GENERAL NEWS *(Continued)*

An investor with Loeb who did not want to be identified said the Third Point Partners fund fell 1.7 percent in June, but was still up 13.2 percent for the year.

Latest Barrick mine delay fans price tag fears

By Julie Gordon

TORONTO, June 30 (Reuters) - Barrick Gold Corp has slowed spending at its Pascua-Lama project in South America, delaying first output to 2016, but that may not be enough for the its shareholders, who worry that the final price tag may creep beyond what the mine is worth.

While the flagship development, which straddles the border of Chile and Argentina, is one of the richest untapped gold deposits in the world, the string of delays and budget overruns have been a nightmare for world's top producer and its investors.

"They should walk from Pascua-Lama," said John Ing, president of boutique investment and research firm Maison Placements, adding that the embattled miner also needs to divest non-core assets, cut exploration spending and slash hefty board salaries if it wants to turn its fortunes around.

Barrick said late on Friday that it would re-sequence construction of the controversial project to target first production by mid-2016, deferring some $1.5 billion to $1.8 billion of planned capital spending in 2013 and 2014.

The company has not updated the market on capital costs, last projected to be up to $8.5 billion.

The delay was in-line with a scenario that Credit Suisse analyst Anita Soni outlined earlier this week, as the bank downgraded Barrick to 'Neutral' from 'Outperform'.

Soni estimated that a mid-2016 start-up would boost capital costs by about 20 percent to $10 billion and could shock the market, which was anticipating first production in late 2015.

"In our view, a mid-2016 start-up for Pascua would be a negative surprise to the street," she said in the Tuesday note.

That surprise could lead to another stock dive for Barrick, whose shares have already tumbled to their lowest point in more than 20 years, dragged down by Pascua-Lama, along with worrisome debt levels and the declining gold price.

But the alternative, walking away indefinitely, would not be an easy feat for the company. Once complete, the gold mine will be one of the cheapest in the world to operate, producing some 800,000 to 850,000 ounces a year at all-in sustaining costs of just $50 to $200 per ounce, in its first five full years.

And Barrick has already spent nearly $5 billion on the project, with mining and processing facilities partially built. The cost of shuttering the site would likely top $1 billion, according to analysts, and the company would also have to pay out Silver Wheaton , which has rights to part of the mine's silver output.

Still, with the new delay and the recent drop in the gold price - which fell 23 percent in the second quarter - Barrick expects to take a writedown of up to $5.5 billion on the value of Pascua-Lama, a tough pill to swallow for investors.

"The Pascua impairment is higher than expected, but I didn't expect to see the gold price fall so far, so maybe it is not that surprising after all," said a portfolio manager, whose firm owns shares in Barrick Gold.

The fund manager, who declined to be named due to company policy, said that the delay is positive in light of sagging gold prices, but the downside is new cash flows from the mine are also delayed.

"Retail investors may be a bit spooked by this news, but less uncertainty is better," the fund manager said.

BACK ON TRACK?

Uncertainty has plagued Pascua-Lama over the last few years, as bad project management and environmental issues led the development wildly off-track. When construction was approved in 2009, the world's first bi-national mine was supposed to cost less than $3 billion to build, with production in early 2013.

After numerous delays, Pascua-Lama is now slated to start-up in mid-2016, and costs are expected to balloon again, hurting the rate of return for the project.

The potential of further budget overruns is a concern for investors, who worry that Barrick is not filtering enough cash into dividends and restraining its debt load, which has threatened the company's investment-grade credit rating.

"Barrick does have some of the best assets in the world, it's just they also have $16 billion in debt, which is potentially an issue at these gold prices," said Chris Beer, a portfolio manager with RBC Global Asset Management.

Indeed, rating agency DBRS put the miner under review with negative implications on Friday, citing troubled investment decisions, declining gold prices and difficulties with development projects, among other factors.

Barrick, aware of changing market conditions, has already slashed planned capital spending and reduced staff at sites around the world. The company is not currently building any new mines, with notable exception of Pascua-Lama.

And while the challenges at the project have hurt investors, prompting some to demand it iced, those who bought into Barrick with the expectation that the Toronto-based miner would produce gold - and lots of it - say the rich mine is worth the wait.

"I think Pascua-Lama has come out of their core mission of what they should be doing," said Caesar Bryan, a portfolio manager for the Gabelli gold fund. "There have been some mistakes, and it has been hard, and that is unfortunate. But it is absolutely what they should be doing."

GENERAL NEWS *(Continued)*

Rio Tinto wins end to human rights abuse lawsuit in U.S.

By Jonathan Stempel

June 28 (Reuters) - Benefiting from a recent U.S. Supreme Court decision, Rio Tinto Plc has won the dismissal of a nearly 13-year-old U.S. lawsuit accusing the Anglo-Australian mining company of complicity in human rights abuses on the South Pacific island of Bougainville.

Friday's ruling by a majority of an 11-judge panel of the 9th U.S. Circuit Court of Appeals ends litigation begun in 2000.

Roughly 10,000 current and former Bougainville residents had sought to hold Rio Tinto responsible for human rights violations and thousands of deaths linked to polluting a copper and gold mine it once ran.

The ruling follows the Supreme Court's April 17 decision in Kiobel v. Royal Dutch Petroleum Co , where the justices limited the sweep of a 1789 U.S. law that lawyers had used for roughly three decades to fight human rights abuses worldwide.

Five justices said the Alien Tort Statute was meant to cover international law violations occurring in the United States, and that violations elsewhere must "touch and concern" U.S. territory "with sufficient force" to displace that presumption.

The Bougainville residents alleged that after workers in 1988 began to sabotage the Rio Tinto mine, the company goaded Papua New Guinea's government to exact retribution and conspired to impose a blockade, leading to thousands of civilian deaths.

On April 22, the Supreme Court threw out an earlier 9th Circuit ruling that let the lawsuit proceed, and asked it to revisit the matter in light of Kiobel.

Steve Berman, a lawyer for the Bougainville plaintiffs, did not immediately respond to requests for comment.

He had asked the 9th Circuit to send the case back to the Los Angeles district court so that his clients could try to proceed with other claims, "sans invocation of the ATS."

Kiobel was also cited this week by a Virginia federal judge who dismissed a lawsuit accusing defense contractor CACI International Inc of conspiring to torture detainees a decade ago at the Abu Ghraib prison in Iraq.

The judge in that case said that because the alleged abuse occurred outside the United States, he lacked jurisdiction to consider claims by four former detainees. They plan to appeal.

The case is Sarei et al v. Rio Tinto Plc et al, 9th U.S. Circuit Court of Appeals, No. 02-56256.

China's 2013 gold demand to top 1,000 T -China Natl Gold

SHANGHAI, June 28 (Reuters) - China's gold consumption is set to exceed 1,000 tonnes for the year, having reached about 800 tonnes in the first half, state-owned China National Gold said on Friday.

China National Gold, the country's largest producer, said Beijing should take advantage of the current rout in prices to build reserves of the bullion to ensure economic and financial safety.

"Physical gold sales reached about 800 tonnes in the first half ... I expect full-year sales to exceed 1,000 tonnes," Sun Zhaoxue, President of China National Gold Group Corp, told reporters at the sidelines of a financial conference.

China's 2012 gold consumption was 832.18 tonnes, up 9.35 percent from a year earlier, showed data from China Gold Association.

Consumption in China, the world's second-largest consumer after India, jumped more than 36 percent to 456.2 tonnes in the first four months of the year.

A price correction in April sparked frenzied buying with consumption reaching about 137 tonnes in that month alone, according to the gold association.

Gold steadied on Friday after falling to its lowest since August 2010 but stayed on track to post its worst quarter since at least 1968 as fears persisted that the U.S. Federal Reserve will wind down its monetary stimulus soon.

Gold prices would likely fluctuate around current levels but could rise later in the second half if worries about U.S. fiscal debt resurface to put pressure on the greenback, Sun said.

Gold remains an attractive investment in the medium term, Sun said, adding that a price of around $1,500 a tonne was a fair level since average global production cost was at about $1,200 a tonne with some higher-cost miners hovering at about $1,400 a tonne.

Sun said the firm was still eyeing opportunities to acquire gold mines in Africa but the recent rout in prices has widened the gap between buyers' and sellers' price expectations.

TRADING PLACES *(Continued)*

Speculators slash gold longs to 6-year low-CFTC

June 28 (Reuters) - Hedge funds and money managers last week slashed their bullish bets in gold futures and options to their lowest levels in six years, as bullion prices fell to a three-year low, a report by the Commodity Futures Trading Commission (CFTC) showed on Friday.

The group also switched its position in silver futures and options to a net long, and it increased its net short position in copper, the top U.S. derivatives regulator said in its weekly Commitment of Traders report.

The price of gold tumbled almost $90, or 7 percent, in the period covered by the CFTC report, which covered activities in the week to June 25, after Federal Reserve Chairman Ben Bernanke laid out a strategy to roll back the bank's $85 billion monthly bond purchases in a recovering economy.

"People are shying away from gold at the moment, and the shorts are in charge," said Miguel Perez-Santalla, vice president at BullionVault in New York.

Speculators decreased their net long in gold by 7,754 contracts to 31,197, their weakest since June 2006, CFTC data showed.

Analysts said, however, a bearish stance among funds is a sign that the gold market is near a bottom and could rally sharply on short-covering.

"From the retail side, people are jumping back in all week long, although at a tepid pace. The market is totally overdone," said Perez-Santalla.

Traders will now focus on next week's industry data after the gold market posted more losses after Tuesday. Bullion posted its largest quarterly loss in at least 45 years.

In silver futures and options, speculators added longs by 685 contracts to a net long of 586 contracts.

Speculators in copper increased their net short positions by 3,581 lots to a net short of 32,599, CFTC data showed.

MARKET NEWS

Colombia turns down expansion of BHP Cerro Matoso nickel mine

BOGOTA, June 29 (Reuters) - Colombia's environmental licensing authority has turned down a request from BHP Billiton's Cerro Matoso nickel mine to expand the site, one of the world's largest producers of ferro nickel, it said in a statement on its website. The request was denied because existing environmental permits cannot be modified to enable mining projects to be expanded, the authority, known as ANLA, said.

No one at ANLA was reachable on Saturday to provide further details or to clarify whether other options exist to expand the decades-old project, which last year produced more than 47,000 tonnes of nickel, according to the National Mining Agency.

Located near the town of Montelibano in northern Colombia, the Cerro Matoso mine has a lateritic nickel ore deposit and a low-cost ferro nickel smelter. The smelter and refinery are integrated with an open-cut mine. About two thirds of the world's nickel output is used to make stainless steel.

At the end of 2012, Cerro Matoso updated certain parts of its mining contract and increased royalties paid to the government.

Russian tycoon bids for control of Swiss steelmaker

LUCERNE, Switzerland, June 28 (Reuters) - Russian tycoon Viktor Vekselberg has launched a bid to control Swiss steelmaker Schmolz+Bickenbach after he failed to win support from shareholders to raise more capital and install his preferred candidate on the company's board.

On Friday, Vekselberg's investment vehicle, Renova, agreed to pay a group of long-time shareholders about 58 million Swiss francs for a 20.46 percent stake in the Swiss firm. The group, Schmolz+Bickenbach GmbH & Co KG (S+B KG), descendents of the company's founders, retains a similar stake.

The two parties, which have been allies in fighting for a restructuring at Schmolz+Bickenbach, then agreed to pool their shares, giving them a combined stake of 40.46 percent. This forces new stakeholder Vekselberg, under Swiss law, to make an offer to buy the remaining shares in Schmolz+Bickenbach.

In a statement, Renova's subsidiary, Venetos Holding AG, said it planned to make an offer around July 12 of 2.85 Swiss francs for each Schmolz+Bickenbach share. This offer is below the closing price of 2.90 francs on Friday.

The tender offer is worth 200 million Swiss francs for the remaining 59.5 percent of Schmolz+Bickenbach that Renova and S+B KG do not already own, Renova spokesman Rolf Schatzmann told Reuters.

The value of the offer could rise to 397 million francs if the 330 million francs capital increase decided at Friday's AGM is executed while the tender offer is running. In that case, Renova would still bid for 59.5 percent of the company's shares but would then offer only 1.26 francs per share.

However, Schatzmann said the offer is just a way of gaining control of the company to force a restructuring. He said Renova hopes existing shareholders will retain their shares rather than sell them.

MARKET NEWS *(Continued)*

Schmolz+Bickenbach's board and its founding family have been at odds over the future direction of the company, with the founders believing that the firm needs to raise more capital to secure its financial strength.

Vekselberg typically seeks to gain influence over the companies he invests in by building up a substantial minority stake, as he has done previously at Swiss machinery and equipment makers Sulzer and Oerlikon .

Earlier on Friday, Schmolz+Bickenbach shareholders backed a rights issue to raise $350 million, rebuffing calls from S+B KG which had allied with Vekselberg to seek a bigger capital increase of 430 million francs ($453 million).

Schmolz+Bickenbach will now offer shareholders seven new shares for two existing shares at a subscription price of 0.80 Swiss francs, a discount of 74 percent to Thursday's closing price. The new shares will begin trading on July 10.

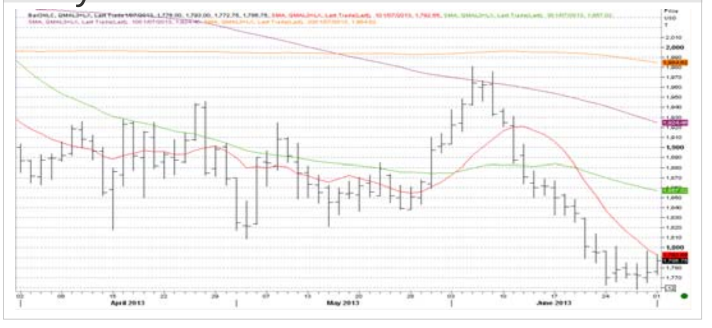
The company said it would use the money to cut interest payments by repaying around $200 million in loans.

Like other European steelmakers, Schmolz+Bickenbach is struggling to find buyers for its steel because the euro zone's problems have flattened demand in the region, while slowing growth elsewhere has limited exports of goods such as cars.

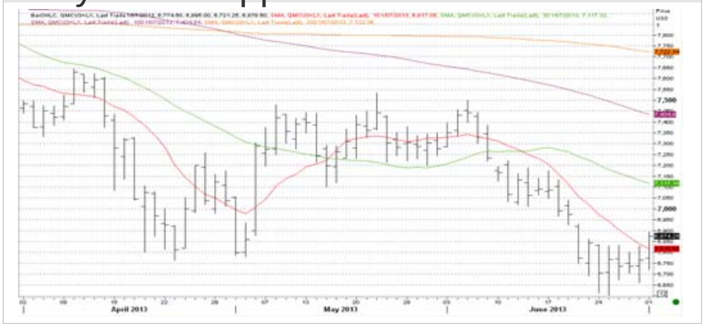
The company, which has around 10,000 employees, had opposed the larger capital increase as an excessive burden for existing shareholders.

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

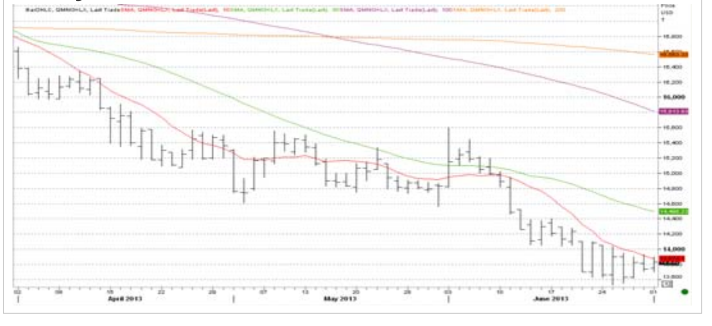
Daily LME Aluminium 3-months



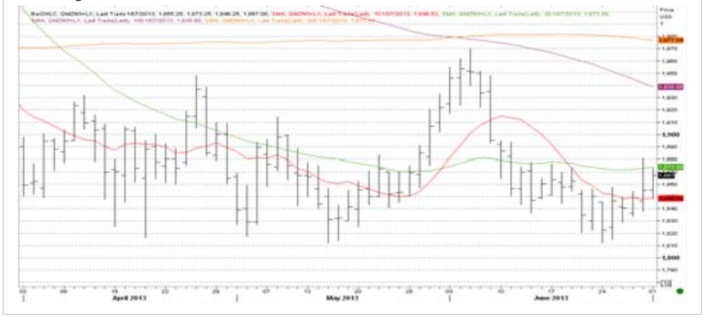
Daily LME Copper 3-months



Daily LME Nickel 3-months

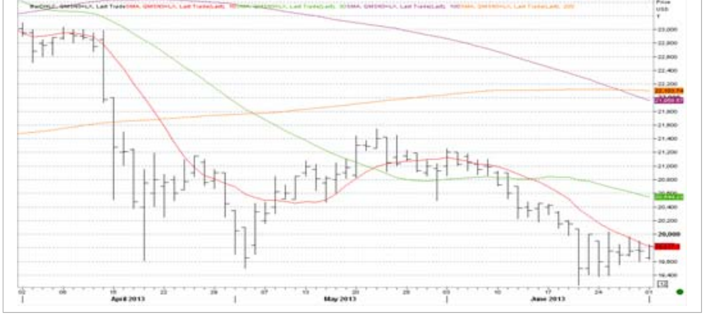


Daily LME Zinc 3-months



Daily LME Lead 3-months

Daily LME Tin 3-months



Daily LME Alloy 3-months

Daily LME Nasaac 3-months

MARKET REVIEW

METALS-Copper firmer; near 3-year lows on growth worries

By Melanie Burton

SINGAPORE, July 1 (Reuters) - London copper firmed technical buying, but remained near three-year lows after data showing that growth in China's vast manufacturing sector contracted in June underlined sluggish prospects for metals demand.

Reinforcing worries about tepid second-quarter growth in the world's top metals consumer, China's official purchasing managers' index (PMI) slipped to 50.1 in June from 50.8 in May. A private sector report also showed factory activity reached its lowest in nine months.[ID:nL3N0F42IF] [ID:nB9N0EW01D]

"I expect copper demand to weaken over the next several months," said Chunlan Li, a Beijing-based analyst with consultancy CRU.

She pointed to a slowdown after the seasonally strongest second quarter and lower monetary supply in China in the second half as the two main factors likely to crimp demand.

"Copper tube demand started decreasing from mid to late June and we have also seen some impact on the wire market," she added.

Three-month copper on the London Metal Exchange traded at $6,774.25 a tonne by 0322 GMT, up by 0.36 percent from the previous session when it closed little changed.

Copper ended June down more than 7 percent, its biggest monthly loss since Sept 2011. Prices sank to $6,602 a tonne on June 25, the lowest level in three years.

Traders said the latest price strength was technical in nature and expected it to prove fleeting. "We might see a short squeeze rally to $7,000 but the bounce should be sold into," said a trader in Shanghai.

Easing nearby worries over liquidity, China's key short-term lending rate on Monday fell to its lowest level since the peak of a cash crunch last month, while stocks showed signs of stabilisation as traders shifted their focus back to the economy.

The most-traded October copper contract on the Shanghai Futures Exchange climbed by 0.87 percent to 48,810 yuan ($8,000) a tonne.

Investor sentiment continues to sour towards commodities and to copper in particular. Hedge funds and money managers boosted their short positions in Comex copper by 3581 contracts to 32,599 contracts, the most since early April, a report by the Commodity Futures Trading Commission (CFTC) showed on Friday.

In one bright spot for copper demand, U.S. consumer sentiment improved in late June, ending the month close to a near six-year high set in May, as optimism among higher-income families rose to its strongest level in six years, a survey released on Friday showed.

PRECIOUS-Gold climbs as equities ease after weak China data

By A. Ananthalakshmi

SINGAPORE, July 1 (Reuters) - Gold gained 1 percent after posting its biggest quarterly fall ever, as bearish economic data from China hurt Asian stocks and boosted bullion's safe-haven appeal.

Comments from a U.S. Federal Reserve official on the need to maintain the bank's stimulus measures for longer also helped gold recover some losses from last week when it fell 5 percent to three-year lows.

Investor confidence in the metal has been eroded after it plunged 23 percent in April-June, as fears over an early end to the Fed's $85 billion monthly bond purchases hurt gold's appeal as an inflation hedge.

"What really needs to happen now for gold to regain the trust of investors is that at the very least it needs to consolidate for a few days and gain a little bit more credibility," said a precious metals trader in Hong Kong.

Spot gold rose 0.75 percent to $1,242.40 an ounce by 0644 GMT, while Comex gold rose about $18 to $1,241.80. Gold fell below $1,200 an ounce last week for the first time since 2010.

Outflows from gold backed exchange-traded funds (ETFs) have accelerated due to the recent decline in prices. Outflows from SPDR Gold Trust , the largest gold ETF, have totalled nearly 13 million ounces so far this year.

"Every time prices try to come back, there seems to be steady selling coming out of the West," the trader said.

Hedge funds and money managers slashed their bullish bets in gold futures and options to their lowest levels in six years, as bullion prices fell to a three-year low, a report by the Commodity Futures Trading Commission showed on Friday.

San Francisco Federal Reserve Bank President John Williams said on Friday he had backed off from his earlier view that the Fed should start cutting back on stimulus this summer in part because inflation has been lower than he expected.

Asian equities edged lower on Monday after China's factory activity reached its lowest in nine months in June, deepening worries about the world's second-largest economy.

WEAK PHYSICAL DEMAND

Despite gold prices being close to three-year lows, strong physical demand from India and China - the top two gold consumers - has failed to materialize.

In April, Asian demand helped cap some of the metal's losses when prices fell the most in 30 years. However, this time demand has not picked up to the same levels, dealers and traders have said.

Barclays cut its forecast for gold prices on Monday, citing weak demand and ETF outflows.

MARKET REVIEW *(Continued)*

FOREX-Dollar holds firm as markets eye Fed's departure from easy money

By Wayne Cole and Hideyuki Sano

SYDNEY/TOKYO, July 1 (Reuters) - The dollar was broadly firm as traders greeted the start of a new quarter that could see the U.S. Federal Reserve beginning to wind down its stimulus, even as other major central banks are expected to maintain their super-easy monetary policy.

The Australian dollar touched near three-year lows versus the U.S. dollar, though it managed to stage a modest comeback in the wake of a less dire-than-expected reading on China's manufacturing sector.

Friday's report on U.S. payrolls will be even more critical than usual as a upside surprise would only fan speculation about an early start to tapering by the Federal Reserve, likely lifting both Treasury yields and the dollar.

"This week will be huge for bond bears if the payrolls report validates the Fed's decision to lower its unemployment forecasts," noted analysts at JPMorgan.

Rising yields and an improving domestic economy give the U.S. currency a big advantage over the euro and yen where policy is expected to stay super-easy for a long time to come.

That is reflected in the dollar index which hit a four-week peak of 83.344 on Friday, having recovered all the way from a 80.498 trough in just eight sessions. The index was up a shade at 83.136 on Monday.

Against the yen, the dollar rose to a high of 99.55 yen , a level not seen in nearly four weeks, before giving up some the gains to trader at 99.38 yen, still up 0.2 percent from late New York on Friday.

"Technically, the dollar/yen seems firmly supported at the bottom of Ichimoku cloud and it looks like it could test the cloud top near 101.30 yen," said Bart Wakabayashi, head of forex at State Street Global Markets in Tokyo.

"The market will focus on the Fed's tapering of stimulus, unless there's a clear signal from the Fed that it will not be on the cards this year," he added.

Indeed, Fed Governor Jeremy Stein on Friday highlighted September as a possible time when the U.S. central bank will need to consider reducing its bond-buying programme.

Japanese economic news continued its better run with sentiment at big manufacturers improving markedly in the latest Bank of Japan survey. Notable was a big rise in business investment plans.

Yet these are just early days in the BOJ's massive quantitative easing campaign which is set to run for much of the next two years.

Against the euro, the dollar was on top at $1.3010 and angling to test resistance in the $1.2983/2990 area.

The European Central Bank and the Bank of England have policy meetings on Thursday and the former is likely to emphasise that the eurozone economy is in a much different stage of recovery than the United States.

"President Draghi is likely to use the press conference to "speak soft", said analysts at RBC Capital Markets.

"We expect the ECB to continue emphasising that extraordinary accommodative policies will continue, and that it has other options if looser monetary policy is needed."

Also holding a policy meeting this week is the Reserve Bank of Australia (RBA) and, while it is widely expected to hold rates steady at 2.75 percent, analysts suspect it will welcome the recent decline in the local dollar while keeping a bias to ease further.

The Australian currency touched a three-year low of $0.9110 early Monday and traders assume it is only a matter of time before it tests 90 cents, though it has rebounded after China's manufacturing data turned out to be less dire than expected.

China's official purchasing managers' index (PMI) slipped to 50.1 in June from 50.8 in May, but was above the median forecast of 50.0. However, a separate private report painted a slightly gloomier picture of the sector.

"Chinese economic outlook is still uncertain, so Asian emerging market currencies and the Aussie will remain under pressure for the time being," said a trader at a Japanese bank.

(Inside Metals is compiled by Pradip Kakoti in Bangalore)