INSIDE METALS

Wednesday, July 25, 2012

CHART OF THE DAY

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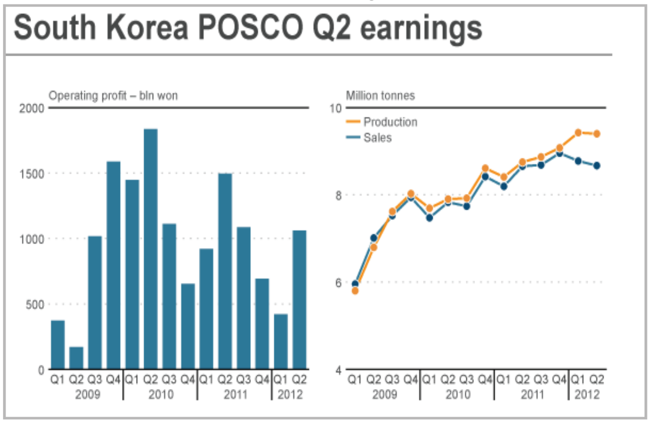

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PREVIEW-Sales, output help Brazil's Vale limit profit tumble

Profit at Vale likely hit its lowest level in more than two years in the second quarter as a weakening Brazilian currency and a slowing Chinese economy offset rising output and sales of iron ore, a Reuters poll of analysts showed on Tuesday.

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TODAY'S MARKETS

BASE METALS: London copper fell to a one-month low as renewed worries over Greek and Spanish sovereign debt hit risk appetite and curbed expectations of metals demand, before erasing losses alongside the euro to trade little changed. Soaring borrowing costs for Spain and concerns that Greece may not meet its bailout terms fueled jitters about the euro zone, knocking fragile confidence after a report showed an improving economic picture in China on Tuesday.

"People are still shifting their thinking to accept less than double digit growth from China. We do know that Chinese demand has slowed, but it's certainly not a negative outlook for copper," said Matt Fusarelli, analyst at Australia-based consultancy AME Group.

PRECIOUS METALS: Gold inched higher on Tuesday, extending gains into a second straight session as poor economic data from both sides of the Atlantic helped raise hopes for further monetary stimulus measures, which would increase gold's appeal as an inflation hedge.

"Intervention by central banks in the form of stimulus will help gold break away from the range, but when it will take place is a tricky question," said Nick Trevethan, senior metals strategist at ANZ in Singapore.

FOREX: The euro hovered near two-year lows in Asia as investors gave it and risk currencies a wide berth after a sell-off in global stocks amid mounting fears that debt-ridden Spain will need a bailout.

"Borrowing costs in Spain have already reached unsustainable levels and the price action in the euro suggests that investors believe it should only be a matter of time before there is a need for a sovereign bailout," said Kathy Lien, managing director of FX strategy for BK Asset Management.

FEATURE

PREVIEW-Sales, output help Brazil's Vale limit profit tumble

By Guillermo Parra-Bernal and Sabrina Lorenzi

SAO PAULO/RIO DE JANEIRO, July 24 (Reuters) - Profit at Vale likely hit its lowest level in more than two years in the second quarter as a weakening Brazilian currency and a slowing Chinese economy offset rising output and sales of iron ore, a Reuters poll of analysts showed on Tuesday.

An 11 percent drop in the Brazilian real hampered Vale's ability to protect its balance sheet from a surge in debt-servicing costs higher while failing to produce significant revenue gains or cost savings from it. Taxes also likely rose from the first quarter, subtracting from profits.

Improving sales volumes of iron ore and pellets on a quarterly basis were probably the most positive highlight of Vale's results in the second quarter, most analysts said. But predictions for realized prices were mixed, with some analysts betting on a decline while a majority expected sequential gains of as much as 5 percent.

Vale, the world's second largest diversified miner, likely e arned $2.998 billion in the second quarter, down 21.7 percent from the prior three months, according to the average estimate of 10 analysts in a Reuters poll.

The company is scheduled to release second-quarter earnings on Wednesday, after markets close.

Analysts tend to follow Vale's quarterly data more closely than year-on-year numbers because the former help them visualize operational and sales performance trends. Compared with the year-earlier period, net income at the Rio de Janeiro-based miner is expected to have tumbled 53.5 percent, the analysts said.

A surprising event such as a significant decline in expenses could surface and spark gains in the company's shares, analysts said. Vale's preferred shares , one of the most-widely traded stocks in Sao Paulo, are down 4.9 percent this year as slowing demand for iron ore in China and tax disputes with Brazil's government are expected to weigh on profits.

"We do not believe that the second-quarter operating performance will trigger a significant positive impact on the stock," a team of Santander Investment Securities analysts led by Felipe Reis said in a recent client note.

During the second quarter, Vale produced 80.5 million tonnes of iron ore, up 0.4 percent from a year earlier. Output jumped 15 percent from the first quarter, when heavy rains crimped production and a problem with a railway bridge slowed movement of ore from its mines to ports and terminals in March.

Iron ore is the source of about three-fourths of Vale's revenue. Vale produced a record 14.3 million tonnes of pellets in the quarter, up 12 percent from the first quarter of this year and up 8.5 percent from the year-earlier period.

Average Chinese iron ore spot prices were slightly higher in the second quarter, but prices and demand have slipped since the end of June, suggesting that Vale may struggle with falling revenue through year-end. China is the world's biggest consumer of iron ore and producer of steel.

ROOM FOR IMPROVEMENT?

Some analysts, however, are hopeful that Vale's outlook will improve in coming months.

"Despite the recent cooldown in the iron ore spot price owing to slowing demand from China, we think the downside is limited, as ore supply from India should decrease in the third quarter as a result of the Monsoon period," Espirito Santo Investment Bank analyst Juliano Navarro said in a report.

Base metals production, however, slid in the three months ended June 30. Vale said nickel output fell 3.6 percent to 56,000 tonnes over the quarter, while copper fell 4.4 percent to 63,000 tonnes.

As a result, revenue likely rose 13.9 percent to $12.596 billion in the quarter from the prior three months, the poll showed. On an annual basis, revenue slumped 16 percent.

Earnings before interest, tax, depreciation, amortization and other items, known as adjusted EBITDA, came in at $6.265 billion, the poll found. Compared with the first quarter, EBITDA rose 26.2 percent, while, on an annual basis, the indicator dropped 30.9 percent.

Yet, most analysts said that such levels for EBITDA, a popular gauge of profitability among analysts and investors, could be considered to be a new running-rate level for the company.

Reis and his team expect full-year EBITDA to fall from a record $24 billion in 2011.

Management will host a conference call to discuss results on Thursday. Investors will focus on: capital expenditures deployment and execution; the company's view on iron ore prices; China's demand for the mineral, and steps to control debt and expenses.

EBITDA was 49.7 percent of revenue in the quarter, signaling that profitability is sliding toward levels below those of prior years, the poll showed.

GENERAL NEWS

Vale shares sink after CFO resigns ahead of results

SAO PAULO, July 24 (Reuters) - Shares of Brazilian miner Vale sank on news of its chief financial officer's sudden departure to join aluminum producer Votorantim, just before Vale's second quarter results are due on Wednesday.

Vale's preferred shares, the company's most liquid, were down 4 percent at 35.38 reais in late Tuesday afternoon on the BM&FBovespa exchange, whose leading index of blue chips, the Bovespa, was down 0.97 percent.

Analysts were surprised by the departure of CFO Tito Martins, who has been working with Vale Chief Executive Murilo Ferreira to improve transparency and communications with the market, but they did not expect a shift in the company's direction.

"Mr. Martins was a very well respected executive. ... Nonetheless, we see no shift in strategic focus and expect investors to take the transition in a neutral manner," Barclays analyst Leonardo Correa said in a note to clients.

Vale, the world's largest iron ore producer, said late Monday night that Martins, who had been with the company since 1985, would leave to pursue other business interests.

On Tuesday afternoon, Brazilian industrial conglomerate Votorantim, said Martins will head its mining and metals division Votorantim Metais.

Martins will be replaced by Luciano Siani, a former McKinsey & Co consultant and executive at Brazil's BNDES development bank, who joined Vale in 2008 as director of strategic planning.

Vale is expected to report its lowest quarterly earnings in two years on Wednesday after the market closes.

Profit was likely hit by a weakening Brazilian currency and a slowing Chinese economy, but rising output and sales of iron ore is expected to help mitigate some of the bad news, a Reuters poll of analysts showed on Tuesday.

Miner Antofagasta picks ex-Codelco boss as CEO

LONDON/SANTIAGO, July 24 (Reuters) - Chilean copper miner Antofagasta Minerals has appointed Diego Hernandez, the former head of state miner Codelco ,as its new chief executive, scooping up one of the biggest names in copper as it battles operational challenges.

London-listed Antofagasta has seen output dented by troubles at its flagship Esperanza mine, and with several growth projects in the pipeline, analysts welcomed the arrival of an industry heavyweight who has helped Codelco face its own production challenges.

The miner's shares closed 1.75 percent higher on Tuesday, outperforming a 0.6 percent dip in the UK mining sector.

The miner has also appointed Nelson Pizarro, 71, a well-respected but lower profile veteran currently with Lumina Copper , as an independent, non-executive director. Pizarro, another former Codelco executive who ran Andina and Chuquicamata for the mining giant, has also worked for Antofagasta in the past, overseeing the construction and start-up of the key Los Pelambres mine, now core to its portfolio.

"This is a big score for Antofagasta Minerals," said Gustavo Lagos, a professor at Universidad Catolica's Mining Center in Santiago. "They now have the two most reputed professionals in Chilean mining."

Antofagasta surprised the market in March with the abrupt departure of long-serving chief executive Marcelo Awad.

Analysts speculated at the time the departure was related to Esperanza's troubled ramp-up, but the company attributed the change to a shift to a new generation of growth projects that required new leadership.

Hernandez has been rumoured to be a contender for the top job at Antofagasta since the former BHP Billiton executive stepped down from his position at Codelco, the world's largest copper producer, in May, after two years at the helm.

That departure, as the copper producer seeks to end a bitter contract dispute with miner Anglo American , was blamed on differences between Hernandez and Codelco's board. A hands-on executive, Hernandez was irked by what he deemed excessive interference.

Antofagasta said Hernandez, 63, would start on Aug. 1, taking over from Chairman Jean-Paul Luksic who has held the chief executive role in the interim.

"(It's) good to have finished the uncertainty period," a high-placed source at Antofagasta told Reuters, adding that Hernandez appeared "committed to his team, aggressive (and the) Codelco guys only speak good things about him".

EXECUTION

Hernandez will be taking the helm of Antofagasta as it pushes ahead with major growth projects starting with Antucoya, set to start production in the second half of 2014, against a background of soaring costs.

Analysts said the execution of Antucoya in particular would be crucial for the group.

"The biggest thing the company needs to focus on is ensuring that when it commits to a project, it has fully assessed all the engineering requirements, the process requirements - so it doesn't get blindsided by the problems that bedevilled it at Esperanza," analyst Peter Mallin-Jones at Canaccord said.

"But he is coming on at the very beginning stages for the next wave of projects - Antucoya, Telegrafo, Caracoles .... It is a very positive move for Antofagasta."

GENERAL NEWS *(Continued)*

Hernandez, formerly head of base metals at BHP, was named copper man of the year for 2010 by the Copper Club and is widely respected in the industry as a capable manager with strong technical know-how.

He took over as Codelco's CEO in 2010, seeking to boost the state miner's efficiency and buoy production in its tired mines. Heads of Codelco, which produces around 11 percent of world copper, usually stay on for four years, the length of a presidential term in Chile.

Hernandez has also run Escondida and Collahuasi, two of the world's largest copper mines, and has worked with Brazil's Vale in non ferrous metals.

"I think Diego Hernandez must have asked for some sort of guarantee of autonomy to run the company, because we saw what happened in Codelco," said Lagos. "Diego is not someone who is going to be going up to the 21st floor (where Luksic has his office) every day."

Freeport Indonesia offers further stake to government

JAKARTA, July 24 (Reuters) - Freeport McMoRan Copper & Gold Inc has offered Indonesia a further 9.36 percent stake in its local subsidiary, which runs the world's second biggest copper mine, a move that appeared aimed at easing pressure over new mining rules.

Such a stake could be worth more than $1 billion, although the company gave no estimates itself.

Indonesia's government, which already owns 9.36 percent of Freeport Indonesia as its only other shareholder, is pushing for a bigger slice of mining revenues through higher royalties and new regulations that require foreign miners to sell 51 percent of assets after 10 years of production.

Those changes have shaken the industry in one of the world's top metals producers and an export tax and demand for more domestic refining affected copper shipments in June.

U.S.-based Freeport, the world's biggest listed copper company, did not say on Tuesday why it had offered to sell a bigger stake in its Indonesia operations to the government. It said it was protected from the new rules on divestment by its long-term operating agreement.

Indonesia will account for a about a quarter of Freeport's forecast copper production this year.

Freeport Indonesia spokesman Ramdani Sirait said the national government had offered the additional stake to the local administration in Papua province, home of its Grasberg mine, and that authorities there had shown interest.

"However, Freeport McMoran also sees an initial public offering as an option for divesting the shares," he said.

Freeport has previously said it was considering a share offer in Jakarta without indicating its possible size.

Lawyers say that may be a way for the company to manage the impact of the new foreign ownership rules, and would follow the path taken by Vale SA in listing a unit in Indonesia.

HARD TO VALUE

If not, it might have to follow U.S miner Newmont , which has already been forced to divest a majority stake.

Any move by Freeport to sell a 9 percent stake would cut Freeport's share of revenues from one of the world's richest mines at a time it needs to invest billions to dig ore from deeper underground in its remote mountain project.

The value of its Indonesian unit was not immediately clear.

Freeport, which has a market capitalisation of $32 billion, sold a 10 percent stake in its Indonesian operations to Indonesia's Bakrie Group for $212.5 million in January 1992, and then bought half of it back at the end of that year at almost the same price.

Since then copper prices have soared.

According to local media, Freeport in 2009 offered a 9.36 percent stake to the Indonesian government for $1 billion, but no deal was reached.

On a sales basis, Freeport Indonesia's output is forecast at 930 million pounds of copper this year, a quarter of the company's total forecast copper production this year. Its Indonesia mine also has the world's largest gold reserves and produces silver.

The local government of Papua, where a separatist movement has long pushed for a greater share of resource revenues, may be unable to afford the stake, industry sources said.

Newmont ended up selling a stake to the central government and to local governments in a deal funded by the politically connected Bakrie Group.

"The new policy primarily benefits politically influential conglomerates, especially the Bakrie Group," said Kevin O'Rourke, an independent Jakarta-based risk consultant.

TRADING PLACES

London Metal Exchange shareholders vote on takeover

LONDON, July 25 (Reuters) - London Metal Exchange (LME) shareholders decide on Wednesday whether to accept a $2.2 billion offer by the Hong Kong stock exchange for the 135-year-old institution, the world's largest marketplace for materials such as copper, aluminium and zinc.

A survey published by Reuters on Monday with responses from 38 of the banks, funds and industrial users entitled to vote -- more than half of the total -- showed that most of those who had reached a decision would vote yes to a sale of the exchange at an extraordinary general meeting.

That would get the vote past the first hurdle of a positive outcome from 75 percent of total shares in favour of the offer from Hong Kong Exchanges and Clearing (HKEx) that the LME board endorsed last month over a bid from InterContinental Exchange .

However, the LME's system of voting, designed to give a big voice to smaller shareholders, means that in a second part of the process, when votes of those attending the meeting are counted, the overall outcome could still go either way if industrial users turn out in force.

"We will vote against, and our proxy papers have been filed," said an executive at an industrial company.

"The people I have talked to feel very uneasy about the consequences of a sale."

Industrial shareholders -- metals producers and traders -- have voiced objections to the takeover since the start of the process, fearing any sale might alter its unique, complex structure of futures trading and low fees.

However, HKEx Chief Executive Charles Li has promised that until at least Jan. 1, 2015, HKEx will preserve the LME brand, the open-outcry trading and the structure.

While Li has failed to convince some about the deal, others are more optimistic about a favourable vote.

"There is very little opposition to the whole thing," one top executive at a shareholding company said on Tuesday.

Aluminium producer Norsk Hydro ASA , a small shareholder, has also said it will vote in favour of the deal.

The LME board, which includes shareholder Goldman Sachs and major commodities trader Sucden Financial, voted unanimously in favour of HKEx's offering, not least because it is seen providing a vital gateway to China, which consumes 40 percent of the world's copper.

The LME's top shareholder is JPMorgan , with 1.4 million shares, followed by Goldman with 1.23 million.

MARKET NEWS

Copper market set to benefit from China stimulus - Minmetals

SYDNEY, July 25 (Reuters) - Minmetals Resources Ltd , a unit of China's biggest metals trader, on Wednesday said that new stimulus spending in China is set to lift the global copper market.

Copper prices have tumbled about 25 percent over the past 12 months, largely on weakening demand in China, the world's largest importer and consumer of the metal.

It said the market for metals in China over the second quarter had been generally softer compared with 2011, underscored by declines in copper cathode imports that inflated London Metal Exchange inventories of the metal.

"However, China's stocks have simultaneously reduced," the company said. "Total exchange stocks at the end of the second quarter were lower than at the start of the April and amounted to only seven days' global consumption."

Premiums paid for imported copper cathode also improved toward the end of June, it added. "Recent fiscal stimulus actions in China are expected to improve credit tightness and there are also expectations of increased spending on infrastructure and housing in the second half of 2012, resulting in improved Chinese copper demand," the company said.

Chinese Premier Wen Jiabao has said Beijing needs to step up efforts to create jobs by spending more on infrastructure projects.

China's annual economic growth slowed to 7.6 percent in the second quarter, just above the government's 7.5 percent full year target and the weakest quarter since the first quarter of 2009.

Minmetals said it produced 31,931 tonnes of copper cathode and 6,429 tonnes of copper in concentrate in the second quarter, up 74 percent and 5 percent respectively from a year earlier.

The sharp rise in cathode output reflected production from the recently acquired Kinsevere mine in the Democratic Republic of Congo and higher operating levels at its Sepon mine in Laos, Minmetals said.

Hong Kong-listed Minmetals also said its Century zinc mine in Australia, the world's third-largest and set to run dry by 2015, produced a record 141,382 tonnes in the second quarter, but warned that output would drop over the rest of the year.

Output over the quarter was up 6 percent on the previous quarter and 10 percent over the same period a year earlier, according to Minmetals.

"Planned maintenance will result in lower production in the second half of 2012," Minmetals said.

MARKET NEWS *(Continued)*

ArcelorMittal sees tough market continuing into H2

BRUSSELS, July 25 (Reuters) - ArcelorMittal, the world's largest steelmaker, forecast tough market conditions would continue into the second half of the year, particularly in Europe, after a divestment gain swelled second-quarter earnings and helped it cut debt.

Steelmakers globally are struggling with falling demand in Europe and Japan and slowing growth in China, the world's largest producer and consumer. The only bright spot has been a pick-up in the Americas.

"Market conditions in the first half have been very challenging, indeed more challenging than we had expected due to a combination of factors, not least the still unresolved crisis in the euro zone," Chief Executive Lakshmi Mittal said in a statement.

He added the company expected operating conditions to be broadly similar in the second half.

"Europe remains our biggest concern and the severity of the situation is reflected in the performance of our European operations. Our focus throughout the remainder of the year remains on further improving competitiveness and reducing debt."

The steelmaker, whose capacity is more than double that of its nearest rival, said on Wednesday it sold less steel in the second quarter than in the first three months, but at higher prices and it benefited from a rebound in iron ore mining volumes.

ArcelorMittal said quareterly core profit (EBITDA) was $2.45 billion, against the average forecast of $2.18 billion in a Reuters poll.

However, the second-quarter number included a $339 million gain from the sale to Nucor Corp of U.S. specialist steel distributor Skyline Steel, part of its bid to bring down debt.

Stripped of that gain, first half core profit was marginally below that of the second half of 2011. ArcelorMittal had forecast it would be higher.

The company gave no concrete outlook, but said steel shipments would be lower in the second half than the first, with similar earnings per tonne. Iron ore shipments are still seen up 10 percent over the full year.

Indonesia nickel mining,sales stop after govt restrictions-Assoc

JAKARTA, July 25 (Reuters) - Most of Indonesia's nickel mining operations and exports of nickel ore have stopped since the government restricted exports of unprocessed minerals in May, and levied a 20 percent export tax, the Indonesian Nickel Association (ANI) said on Wednesday.

"Most nickel mining has stopped, and it turns out government efforts to restructure the industry are taking a long time," ANI deputy chairman H. A. Fadillah told Reuters.

POSCO expects China's steel market to bottom in Q3

SEOUL, July 24 (Reuters) - South Korea's POSCO , the world's fourth-biggest steelmaker, expects the Chinese steel market to bottom out in the third quarter due to Beijing's stimulus measures, but said the rebound will be weak.

Senior Executive Vice President and CFO Park Ki-hong told reporters that he was "concerned about" the strength of the expected economic recovery in China, the world's top steel consumer and producer, after POSCO reported its second straight quarter of profit decline.

Global steel demand has been slowing, hit by weaker economic growth in China and Europe's protracted debt woes. POSCO on Tuesday cut its full-year sales outlook to 37.5 trillion won ($32.70 billion) from 37.7 trillion won.

"China's steel demand will not dramatically improve this year, as it will take time for rate cuts and more liquidity to affect the real economy," said Lee Won-jae, a steel analyst at SK Securities. "Steel prices are falling even now."

China's waning steel demand, coupled with the country's chronic oversupply, has driven Chinese exports of the metal to the highest level in more than three years, exacerbating prices in South Korea where POSCO sells 60 percent of its products.

"South Korean steelmakers including POSCO are conducting a feasibility study on whether to file anti-dumping complaints against Japanese or Chinese steel imports," said an official at the Korea Iron & Steel Association.

"It is a real headache. Oversupply is a problem facing the global steel industry, and the problem will not abate easily," the official said, declining to be identified because of the sensitivity of the matter.

The rising tide of steel exports has already precipitated a volley of complaints from other countries preparing possible trade action against China on the grounds of alleged predatory pricing.

China boosted first-half exports of the metal used in cars and construction to 27.26 million tonnes, the highest for a six-month period since 2008.

GRAPHIC: POSCO earnings http://link.reuters.com/pyv59s

POSCO PRICES

The average selling price of POSCO's carbon steel was 926,000 won per tonne in the April to June quarter, compared with 1.011 million won a year earlier and 930,000 won in the previous quarter.

POSCO, the first major Asian steel mill to report earnings, said second-quarter operating profit fell 29 percent from a year earlier to 1.06 trillion Korean won on a parent basis, compared with an average forecast of 1 trillion won in a Reuters poll of 21 analysts.

While profit was lower than 1.5 trillion won a year earlier, it was a sharp improvement from 422 billion won in the previous quarter, thanks to cost controls.

MARKET NEWS *(Continued)*

POSCO's dominant position in the domestic market, along with its cost competitiveness, will help the company outperform its regional peers in this earnings season.

Nippon Steel , the world's No.6 steelmaker, is forecast to report a fall in recurring profit of almost 40 percent to 35.05 billion yen ($442.5 million) for April to June.

A number of Chinese steel mills have slipped into the red in the first half or seen net profit more than halved because of tepid demand and a sharp decline in prices.

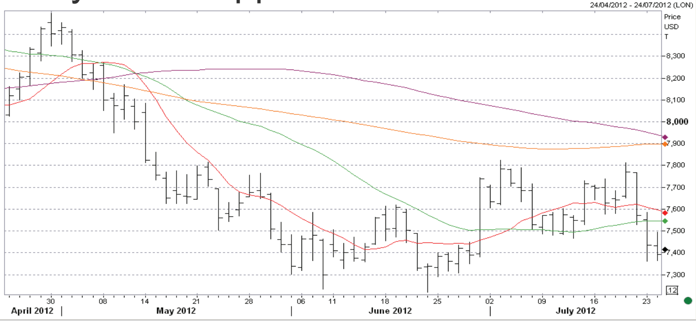
Shares in POSCO, which counts backed by billionaire investor Warren Buffett's Berkshire Hathaway as a major shareholder, have fallen 5 percent this year, compared with a 2 percent drop in the broader market.

The stock rose 0.83 percent on Tuesday to close at 362,500 won, ahead of the earnings announcement.

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

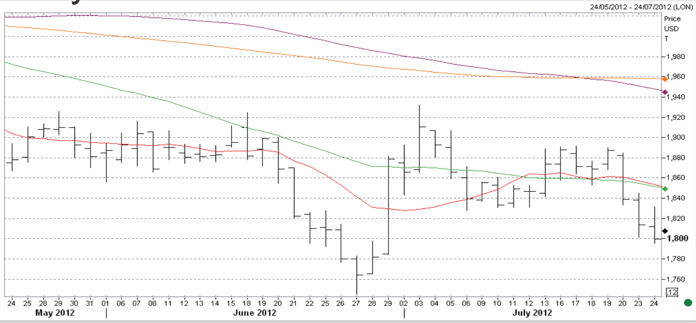
Daily LME Aluminium 3-months

Daily LME Copper 3-months



Daily LME Nickel 3-months

Daily LME Zinc 3-months

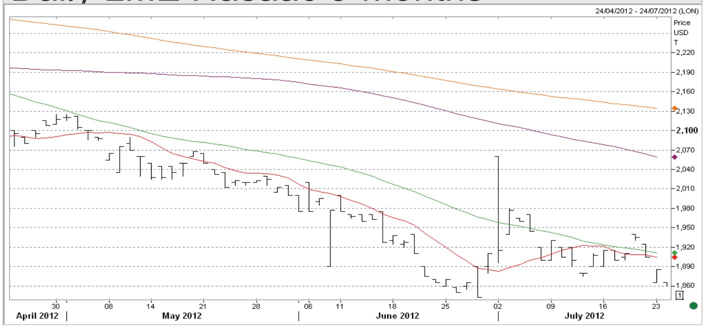


Daily LME Lead 3-months

Daily LME Tin 3-months

Daily LME Alloy 3-months

Daily LME Nasaac 3-months



THOMSON REUTERS

MARKET REVIEW

METALS-Copper steadies from one-month low; debt woes weigh

SINGAPORE, July 25 (Reuters) - London copper fell to a one-month low on Wednesday as renewed worries over Greek and Spanish sovereign debt hit risk appetite and curbed expectations of metals demand, before erasing losses alongside the euro to trade little changed.

Soaring borrowing costs for Spain and concerns that Greece may not meet its bailout terms fueled jitters about the euro zone, knocking fragile confidence after a report showed an improving economic picture in China on Tuesday.

China is the world's top consumer of copper, accounting for 40 percent of refined demand last year. A report on Tuesday showed China's manufacturing output in July grew at its fastest pace in nine months, which helped briefly improve sentiment towards metals.

"People are still shifting their thinking to accept less than double digit growth from China. We do know that Chinese demand has slowed, but it's certainly not a negative outlook for copper," said Matt Fusarelli, analyst at Australia-based consultancy AME Group.

"The catalysts just aren't here for another short-term price rally ... But we do expect prices to recover towards the later part of the year," he added.

Three-month copper on the London Metal Exchange traded at $7,436.25 at 0246 GMT, up 0.26 percent from the previous session when it logged a small advance. Prices earlier fell to $7,355 a tonne, the lowest since June 28, and are down just over 2 percent for the year.

The most-traded November copper contract on the Shanghai Futures Exchange traded flat a 54,480 yuan ($8,500) a tonne.

Investors continued to give the euro and risk currencies a wide berth on Wednesday following a selloff in global stocks as worries about the euro zone debt crisis festered, however the euro was off its intraday lows. [USD/]

Spain paid the second highest yield on short-term debt since the birth of the euro at an auction on Tuesday, and EU officials said Greece had little hope of meeting the terms of its bailout, casting fresh doubt on its future in the euro zone.

A softer dollar makes commodities less expensive for holders of other currencies.

On Wednesday, volumes for LME copper were solid with almost 3,000 lots having changed hands, suggesting bargain hunters were coming in to support prices.

"There has been various bits of consumer buying first thing but only light. The main buyers seem to be CTAs and hedge funds trading the range," a Singapore based trader said.

In industry news, LME shareholders decide on Wednesday whether to accept a $2.2 billion offer by the Hong Kong stock exchange for the 135-year-old institution.

A survey published by Reuters on Monday with responses from 38 of the banks, funds and industrial users entitled to vote -- more than half of the total -- showed that most of those who had reached a decision would vote yes to a sale of the exchange at an extraordinary general meeting.

PRECIOUS-Gold edges higher for 2nd day, stimulus hopes support

SINGAPORE, July 25 (Reuters) - Gold inched higher on Tuesday, extending gains into a second straight session as poor economic data from both sides of the Atlantic helped raise hopes for further monetary stimulus measures, which would increase gold's appeal as an inflation hedge.

The latest figures showed that the U.S. and euro zone economies were still struggling in July, and a Wall Street Journal reported that the U.S. Federal Reserve was close to taking new steps to boost U.S. economic growth.

Gold has been trading largely sideways for the past few months as a lack of clarity on further monetary easing has kept investors wary. Gold stands to benefit from a rising inflation outlook resulting from rampant cash printing by central banks.

"Intervention by central banks in the form of stimulus will help gold break away from the range, but when it will take place is a tricky question," said Nick Trevethan, senior metals strategist at ANZ in Singapore.

If the Fed remained silent on a further round of quantitative easing, known as QE3, gold prices could move higher from late August as India's wedding season approaches, he added.

Investors are looking to the Fed's next policy meeting on July 31 and Aug 1 for clues on the central bank's attitude towards the bond purchasing programme.

"We are stuck in consolidation mode right now, with $1,550-$1,560 being a floor for the time being. If we break the key $1,530 level, it could trigger all sorts of nastiness," said Trevethan.

Spot gold had inched up 0.2 percent to $1,583.69 per ounce by 0331 GMT, extending gains into a second straight session.

The U.S. gold futures contract for August delivery gained 0.4 percent to $1,583.20.

Technical analysis indicated spot gold may be trapped in the range between $1,554.34 and $1,599 per ounce for the time being, said Reuters market analyst Wang Tao.

Spot gold 24-hour technical outlook:

http://graphics.thomsonreuters.com/WT1/20122507095616.jpg

"Cash is king these days," said Dick Poon, manager of precious metals at Heraeus in Hong Kong. "People would rather hold cash as they are not sure what will happen in the euro zone."

Physical dealers described a yawning market as buyers patiently waited on the sidelines for bargain-hunting opportunities.

MARKET REVIEW *(Continued)*

"Buying interest for physical gold is out there, but it is very choosy and price-sensitive," said ANZ's Trevethan.

FOREX-Euro hovers near 2-year lows as Spanish worries unabated

TOKYO, July 25 (Reuters) - The euro hovered near two-year lows on Wednesday in Asia as investors gave it and risk currencies a wide berth after a sell-off in global stocks amid mounting fears that debt-ridden Spain will need a bailout.

Spiking Spanish borrowing costs are fuelling fears for the region's stability, and European Union officials said Greece had little hope of meeting the terms of its bailout.

This saw the euro trade at $1.2071, after it slumped to a fresh two-year low of around $1.2042 in the previous session. It stayed firmly on track to test the 2010 nadir of $1.1876, analysts said.

"Borrowing costs in Spain have already reached unsustainable levels and the price action in the euro suggests that investors believe it should only be a matter of time before there is a need for a sovereign bailout," said Kathy Lien, managing director of FX strategy for BK Asset Management.

Against the yen, the single currency fetched 94.31 yen , having carved out a new 12-year low of around 94.12. The euro, though, managed to recoup lost ground against high-beta currencies like the Australian dollar. It was last at A$1.1802 , recovering from a dip to A$1.1729.

Traders in Tokyo cited talk of a euro/yen option barrier at 94.00 and stop-loss offers under the level.

Markets reacted cautiously to a Wall Street Journal article saying U.S. Federal Reserve officials were moving closer to taking new steps to spur activity and hiring.

"This is in line with our economist's expectations and we expect that the market moving towards this view to lead to a reversal of the USD's recent rally," BNP Paribas analysts wrote in a client note.

They said based on their fair-value models, the euro looked substantially undervalued across the board following its falls in recent weeks.

"We recommend going long EURUSD, targeting a return to fair value of 1.2420 with the stop loss at 1.1870, slightly below the 5 year low of 1.1877," they added.

Spain economic overview http://link.reuters.com/quf25s

Euro debt crisis graphics http://r.reuters.com/hyb65p

MORE PAIN IN SPAIN

Spain paid the second highest yield on short-term debt since the birth of the euro at an auction of three- and six-month bills on Tuesday, indicating difficulties in future debt sales.

Delivering yet more bad news for Europe, Moody's changed the outlook on its provisional top-notch rating for the European bailout fund to negative. The action was expected given its move earlier in the week to slap a negative outlook on Germany, the Netherlands and Luxembourg.

"Both the Moody's action and the Spanish woes have been known for months, so with the market so short euros, there's a chance of a short-covering bout in the euro," said Teppei Ino, currency analyst at the Bank of Tokyo-Mitsubishi UFJ in Tokyo.

In data collated to July 17, speculators had slightly increased bets against the euro .

Changes in speculative positions after Valencia sought help under an 18-billion-euro program will only appear in data collated through July 24. It is Spain's most indebted region alongside Catalonia.

With the euro on the backfoot, the dollar index remained near a two-year peak of 84.100 set the day before, and was last at 83.97.

Against the yen, the greenback traded at 78.13 , holding above a 7-week trough around 77.94 set early in the week.

The broadly firmer greenback saw the Australian dollar retreat to a 1-1/2 week low of $1.0211 , before it steadied around $1.0222.

It was not far from the lower-end of its uptrend channel drawn from the June 1 low and the 100-day moving average at $1.0195.

The Aussie ignored consumer inflation data which came broadly in line with market expectations.

(Inside Metals is compiled by Shruthi G in Bangalore)