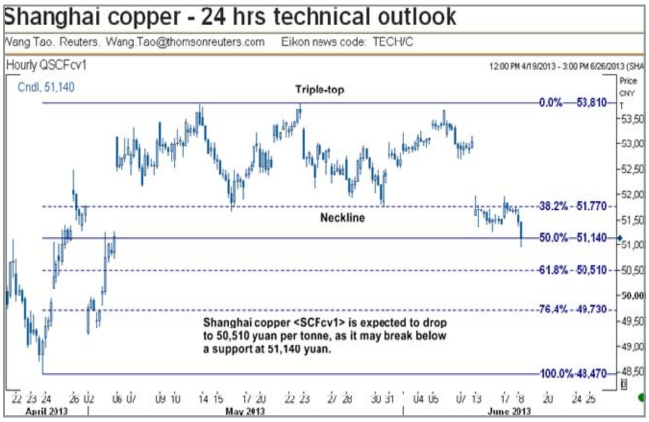
INSIDE METALS

Tuesday, June 18, 2013

CHART OF THE DAY

Click on the chart for full-size image



Click here for LME charts

GENERAL NEWS

- Indian gold futures seen falling; US Fed, rupee eyed
- Peru protesters push to stop $5 billion Newmont mine

MARKET NEWS

COPPER:

- Indonesia may decide this week on Freeport mine operations-minister

NICKEL/STEEL:

- Russian steelmaker sees no silver lining on low prices
- Brazil mining bill to test Rousseff's relationship with investors
- China's crude steel output hit record in May -industry website

ZINC/LEAD:

- China's Yuguang shuts lead, zinc capacity for maintenance

FEATURE

Oil traders diversify into food and metals in quest for profits

Energy trading houses are diversifying into food commodities and metals, which makes them likely to invest in assets such as port capacity as they copy their rival Glencore Xstrata to escape excessive reliance on oil.

Click here to read more..

TODAY’S MARKETS

BASE METALS: London copper eased for a second straight session on Tuesday, with investors cautious as they wait for more clues on the outlook for U.S. stimulus at a two-day Federal Reserve meeting starting later in the day.

"The copper market has been reluctant to rally despite news on supply disruptions," said analyst Sijin Cheng at Barclays Capital in Singapore. "The FOMC meeting is a big factor."

PRECIOUS METALS: Gold fell on Tuesday for a second straight session as muted physical demand weighed on prices, alongside fears of any cut in the U.S. Federal Reserve's $85 billion monthly bond purchases.

"There is not much buying interest. The sentiment right now is low," said a trader in Hong Kong.

GLOBAL MARKETS: Asian shares eased on Tuesday as investors waited for Federal Reserve Chairman Ben Bernanke to clarify the U.S. central bank's plans for its stimulus programme - with the mere suggestion of fine-tuning it enough to unnerve market sentiment.

"The Federal Reserve has really been driving the top-down investment themes globally with quantitative easing and record low U.S. rates," said Peter Esho, investment adviser at Wilson HTM. "It has implications really into all other asset classes."

FEATURE

Oil traders diversify into food and metals in quest for profits

By Emma Farge and Sarah McFarlane

GENEVA/LONDON, June 17 (Reuters) - Energy trading houses are diversifying into food commodities and metals, which makes them likely to invest in assets such as port capacity as they copy their rival Glencore Xstrata to escape excessive reliance on oil.

Oil giants Vitol and Mercuria have expanded in agricultural commodity markets by recruiting traders in the past 18 months, while Gunvor and Mercuria have also hired metals specialists and begun trading for the first time.

Traders and analysts say there is limited money to be made solely as a middle man, leaving acquisitions of port and storage assets as the most effective next step.

The four "ABCD" companies that dominate the global trade in agricultural goods, Archer Daniels Midland Co , Bunge Ltd , Cargill Inc and Louis Dreyfus Corp all have extensive operations along the supply chain.

So do top metals players Glencore and Trafigura.

"Most of the traditional agricultural companies have got assets, it's not crucial, but it's probably useful as it helps you manage your supply better and therefore manage your performance risk better," said Steve Jesse, head of agriculture for Europe and Americas at Commonwealth Bank Australia.

ABN AMRO's global head of agricultural commodities, Suzanne Larsson-Nivard, said she expected energy companies to acquire assets including storage and port capacity, to ensure a substantial position in agricultural markets.

A spokesperson at Vitol, which sourced around three quarters of its more than $300 billion in revenues last year from oil, said it was aiming to boost its turnover by diversifying.

"The market is highly competitive and margins extremely thin. This modest move into mainstream ags leverages our core strength in logistics, and contributes to an increase in overall volumes."

While revenues have been growing among the top five energy traders, margins have been disappointing. By expanding their operations they broaden their growth opportunities.

"There's a trend of energy and metals trade houses moving into the agricultural markets," said Andrew Kerr, founder of commodity recruitment firm Opportune City Resources.

"It's diversifying the book - they were already in the big commodities such as oil and in order to see growth they are looking to diversify."

FINANCIAL CLOUT

Oil prices have stayed roughly steady for a couple of years near the $100 a barrel levels where lynchpin OPEC producer Saudi Arabia wants them.

Robert Piller, director of Aupres Consult and commodities lecturer at the Geneva Business School, said this stability has offered fewer opportunities to exploit price dislocations.

"Traders get frustrated by thin margins and are always looking to increase them. It's a less volatile period for oil prices and now they are huge companies trying to figure out how to grow," he said, explaining the trend.

Other trade sources said that energy traders were motivated by Glencore Xstrata's success story and had noted that it had consistently had bigger margins outside of energy markets.

Glencore's $30 billion takeover of miner Xstrata was clinched this year. Glencore has built on its trading business through acquiring assets along the supply chain, notably via its $6 billion purchase last year of Canadian grain merchant Viterra.

Many large traders in the sector share a common history with the Zug-based giant and have senior staff who trained under oil trader Marc Rich, whose firm was later renamed Glencore.

"It's about using financial clout to gain exposure to new markets combined with a little bit of 'be like the Jones'. They want to replicate Glencore Xstrata," said an industry source, familiar with oil traders' strategies.

Glencore's adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) margin by commodity sector over the past three years shows that on average energy was the weakest of the three - energy, metals and agriculture - averaging just 0.6 percent.

In 2012, the same margin for energy was 0.4 percent compared with 2 percent for agriculture and 3 percent for metals.

However, grains traders said that margins could also be thin in their market, which was why agricultural asset investments were likely to be an inevitable next step for the new entrants.

"Bunge, Cargill etcetera benefit from being all along the supply chain so can make money from different parts depending what is happening in a given year," said a European trader.

AGRICULTURE BULLS

Crops are weather dependent and this uncertainty can boost volatility, while rising demand from emerging economies has fuelled a bullish long-term outlook for food markets.

"The increasing demand for agricultural products from China continues as strong as ever - it's urbanisation and improving wealth and living standards of the population which is driving demand growth for certain commodities," said Commonwealth Bank Australia's Jesse.

Besides investing in assets, industry sources said that another way that energy traders could succeed in new markets was by setting up barter deals between oil and other commodities.

This was a strategy used in the 1990s by Vitol shortly after its entry into the sugar market. It supplied Cuba with oil products in exchange for sugar exports, two sources familiar with the matter said.

FEATURE *(Continued)*

"Some big players could take advantage of their strong position in certain markets to capture other commodities export business flow there," said Philippe Steiner, vice president of Commodity Trade Invest, a commodity trade finance specialist.

GENERAL NEWS

Indian gold futures seen falling; US Fed, rupee eyed

MUMBAI, June 18 (Reuters) - Gold futures in India are seen falling this week due to lower domestic demand with investors awaiting the outcome of a U.S. Federal Reserve meeting for directions.

Investors are closely watching the Fed's two-day policy-setting meeting that begins later on Tuesday as a string of healthy U.S. data has increased speculations the bank could scale back its bond-buying programme, hurting gold's appeal as a hedge against inflation.

In an effort to contain gold imports and record current account deficit, the Indian government raised the import duty by a third to 8 percent on June 5, following a ban on consignment imports by the central bank.

The country's gold imports fell from an average of $135 million in the first half of May to $36 million in the second half, Finance Minister P. Chidambaram said last week.

"Gold should be broadly down due to lower intake in China and India," said Harish Galipelli, head of commodities and currencies at JRG Wealth Management.

The actively traded gold for August delivery was 0.39 percent higher at 27,977 rupees per 10 gram on the Multi Commodity Exchange (MCX) at 0613 GMT. Selling is advised at 28,200 rupees for a target of 27,550/27,500 rupees, said Galipelli. Investors will also keep an eye on the rupee's movement for direction. The rupee, which hit a record low on June 11, plays an important role in determining the landed cost of the dollar-quoted yellow metal. Silver for July delivery on the MCX was 0.53 percent lower at 43,826 rupees per kilogram. Selling is advised at 44,600 rupees, targeting 43,000 rupees, said Galipelli.

Peru protesters push to stop $5 billion Newmont mine

By Mitra Taj

PEROL LAKE, Peru, June 17 (Reuters) - Thousands of opponents of a $5 billion gold project of Newmont Mining circled a lake high in the Andes on Monday, vowing to stop the company from eventually draining it to make way for Peru's most expensive mine.

Lake Perol is one of several lakes that would eventually be displaced to mine ore from the Conga project. Water from the lakes would be transferred to four reservoirs that the U.S. company and its Peruvian partner, Buenaventura , are building or planning to build.

The companies say the reservoirs would end seasonal shortages and guarantee year-round water supplies to towns and farmers in the area, but many residents fear they would lose control of the water or that the mine would cause pollution.

"Hopefully, the company and the government will see the crowd here today and stop the project," said Cesar Correa, 28, of the town of Huangashanga in the northern region of Cajamarca.

He was one of many protesters who arrived at Lake Perol on foot or on horseback, some wearing ponchos, as well as traditional broad-brimmed straw hats or baseball caps.

Others carried blankets and bags of potatoes and rice - planning to camp out at the site for weeks to halt the project.

The company said about 1,000 protesters were present, though protesters said their flock swelled to 5,000 or 6,000. A Reuters witness estimated 4,000 people at the protest.

"Why would we want a reservoir controlled by the company when we already have lakes that naturally provide us water?" asked Angel Mendoza, a member of a peasant patrol group from the town of Pampa Verde.

The controversy over Conga - which many in the business sector see as essential for the country's bustling economy - has posed a major challenge to President Ollanta Humala during his nearly two years in office.

He has twice shuffled his cabinet in the face of violent protests against the project.

The protest on Monday was largely peaceful and there were no clashes with police, though a handful of protesters threw rocks and set fire to a wall near one reservoir.

Newmont and Buenaventura said in a statement: "As stated previously, we will only build the proposed Perol reservoir if we are able to secure all the necessary permits and complete an intensive public involvement process with neighboring communities."

"We respect everyone's right to safely and responsibly express their opinion, whether they oppose mining or support economic development," the statement said.

In May, a minor clash between protesters and police marked an ended nine months of relative calm when Humala's government said it would stop trying to overcome local opposition to the mine.

The new round of protests came after a top official for the Conga project, Chief Executive Roque Benavides of Buenaventura, told Reuters water from Perol would be transferred to a new reservoir later this year. He later said the project might be in jeopardy if water from the lakes could not be transferred.

MARKET NEWS

Indonesia may decide this week on Freeport mine operations-minister

JAKARTA, June 18 (Reuters) - Indonesia's government may decide this week on whether to allow Freeport McMoRan Copper and Gold Inc to resume open-pit mining, the Minister of Energy and Mineral Resources said on Tuesday, five weeks after a tunnel collapse killed 28 workers.

Freeport suspended operations at the world's No.2 copper mine in West Papua on May 15, a day after a training area in a tunnel caved in on 38 people.

The final report from a government probe into the tunnel collapse was given to the Minerals Ministry on Monday.

"Freeport has passed on a letter (requesting) permission to reopen the open-pit," Energy and Minerals Resources Minister Jero Wacik told reporters. "We will decide this week whether to allow the open pit (to reopen) or not."

Wacik was reported in the Jakarta Globe newspaper on Tuesday as having said that a decision on whether to reopen the copper and gold mine was due to be made next week.

Freeport Indonesia could not be reached for comment.

The head of the probe said last week the initial findings of the investigation had been discussed at ministerial level.

Papua-based Freeport union officials have said production should not resume until all investigations into the accident are completed. They would also like to evaluate the final report and see if Freeport implements all recommendations.

"The open pit (mine) is relatively safer, but the steep slopes still need to be monitored closely," Wacik said on Tuesday at a news conference. "The underground (mine) is still shut."

"There are indications (from the investigation) that the ground movements were caused by weathering (or) corrosion," he added, referring to the May accident.

Arizona-based Freeport declared force majeure last Wednesday to free itself from obligations to deliver copper concentrate from its Grasberg mine.

Although production was suspended one day after the tunnel collapse, workers at the mine have been carrying out maintenance duties.

Russian steelmaker sees no silver lining on low prices

By Allison Martell

NEW YORK, June 17 (Reuters) - Steel prices have not improved through the second quarter and may not rise "any time soon," a senior executive at Severstal , Russia's second-biggest steel producer, told Reuters on Monday.

Deputy Chief Executive Thomas Veraszto said prices in the second quarter have been in line with the first quarter.

"We don't see really any silver lining at this point in time, that prices may pick up any time soon," said Veraszto, who oversees corporate development for Severstal, which has operations around the world.

Hot-rolled-coil prices for delivery to the Midwest were at $605 per ton on Friday, having recovered from $585 in mid-May, according to the CME's website. The May price was the lowest in several years.

The company's net earnings dropped 90 percent in the first quarter from a year earlier, as the slowdown in Chinese growth, Europe's debt crisis, and a glut of steel production around the world weighed on prices.

Veraszto said prices have improved slightly in North America, but he is not much encouraged by the uptick, because there has been no dramatic jump in demand. Worldwide, the industry has a "deep structural problem," he said, with excess capacity and over-supply.

Veraszto spoke on the sidelines of the Steel Success Strategies conference in New York.

Brazil mining bill to test Rousseff's relationship with investors

By Jeb Blount

RIO DE JANEIRO, June 17 (Reuters) - Brazil, the world's second-largest producer of iron ore and a major producer of key metals, plans to unveil a bill overhauling its 46-year-old mining law on Tuesday in President Dilma Rousseff's latest effort to tighten state control of natural resources.

The bill will also test the government's efforts to reduce tensions with investors, many of whom believe Rousseff's economic polices are erratic and her attitude toward business "heavy handed".

Her previous reforms of the oil and electricity industries, designed when she was chief of staff to her predecessor and implemented during her presidency, have triggered a surge in costs and a decline in revenue in those industries, causihg share prices to fall.

In addition to iron ore, Brazil is also a major producer of copper, gold, bauxite, nickel and manganese.

The mining industry also faces a slowdown as growth eases in China, the main mineral and metals markets. When the bill was first proposed in 2009, the industry was in one of its most prosperous periods ever, despite the impact of the U.S. real estate and banking crisis.

While the bill is expected to saddle mining companies with new taxes and regulations, companies like Brazil's Vale SA , the world's No 2 mining company, Canada's Yamana Gold Inc. , and Norway's Norsk Hydro ASA could see a smaller impact than many feared when the legislation was first proposed in 2009.

MARKET NEWS *(Continued)*

"The overarching concern here is that the government is facing a crisis of confidence in the business community," said Christopher Garman, Latin America director with Eurasia Group, a political risk advisory. "That crisis is forcing them to moderate. Because of it, while the bill is largely a negative for the industry, it's probably going to be less of a negative than expected."

The government's slow, four-year gestation of the bill may also turn out to be a blessing in disguise, he added.

"If the industry was still growing robustly the pressure to raise taxes and regulation would have been stronger," he said.

ROYALTIES TO DOUBLE

The bill is expected to double royalties on mineral output to 4 percent and tighten rules for owners of mining claims, forcing them to explore and develop their areas or lose their rights.

The bill will also create a mining agency to regulate the industry and a system of mineral-rights auctions, similar to those used for oil and gas, to speed development of large mineral reserves and resources considered "strategic", such as potash, an essential fertilizer.

Brazil, the world's largest producer of beef, chicken, coffee, sugar and orange juice and No. 2 soybean exporter, must import 90 percent of its potash needs even though it has some of the world's largest deposits of the mineral.

Despite new costs and rules, most in the industry agree the existing 1967 code needs revision. In anticipation of the bill, the government stopped issuing nearly all mining permits more than a year ago, putting the industry's future in doubt.

"Tomorrow (Tuesday) we'll finally know the rules and have clarity on how the industry will develop," said Marcelo Tunes, director of Brazil's National Mining Association or Ibram. "In any case, the unblocking of the industry has begun."

USE OR LOSE

Because all Brazilian subsurface mineral rights belong to the federal government and owners of the surface property have no direct say in their development, the government is the only arbiter of who can exploit those resources.

Currently mining concessions are granted on a first-come-first-served basis and holders of concessions are under no obligation to develop them.

In some more extreme cases, individuals and families have snapped up key rights to iron ore and other minerals and sat on them for decades, passing them onto their offspring as assets with little thought as to how or when they will be developed.

Mines and Energy Minister Edison Lobao has long decried such practices and has vowed to end them.

But if "use-it-or-lose-it" provisions pass they could lead to years of legal challenges. Brazil's constitution strictly prohibits laws that reduce or eliminate existing rights.

NEW ROYALTY FIGHT?

As for the bill's royalties provisions, they threaten to deepen fresh, political wounds from the country's unfinished debate over offshore oil and gas royalties. Brazil's 2010 oil reform took away royalties from producing states that may try to claw them back in the mining bill.

The stakes, though, are lower. Oil royalties earned Brazil 26 billion reais ($12 billion) in 2012. A doubling of mining royalties will only add about 4 billion reais to government coffers, Garman said.

China's crude steel output hit record in May -industry website

SHANGHAI, June 18 (Reuters) - China produced a record 67.03 million tonnes of crude steel in May, up 2 percent from the previous month, industry consultancy Custeel said late on Monday, citing data from the National Bureau of Statistics.

The average daily output in the world's top consumer and producer was 2.16 million tonnes in May, down 1.2 percent from April but still the third highest after peaking to 2.21 million tonnes in February, data on Custeel's website showed.

With a glut in supply persisting, some Chinese steelmakers are tentatively curbing output by starting plant maintenance, but the cuts looks like being too little to help ease the pressure on steel prices that dropped to a nine-month low last week .

Steel prices will only be substantially supported if the average daily output drops to about 1.95 million tonnes amid weak growth in demand, traders said.

China, contributing nearly half of the world's steel output, produced a total of 301.19 million tonnes of crude steel in the first five months, up 8 percent from a year ago. This was much higher than an annual growth of 3 percent in 2012.

China's Yuguang shuts lead, zinc capacity for maintenance

By Polly Yam

HONG KONG, June 18 (Reuters) - Henan Yuguang Gold and Lead Co Ltd , the top lead producer in China, has closed 100,000 tonnes of lead-smelting capacity for maintenance, a company source said on Tuesday, which will cut refined metal production by more than 10,000 tonnes.

The lead capacity was closed on Sunday for maintenance that will last 42 days, the source said.

"We should cut 250 tonnes of lead production a day (during maintenance)," the source said.

The brief closure was unlikely to have a big impact on the spot market in China, the world's top producer and consumer of lead, as demand is currently sluggish, the source said.

MARKET NEWS *(Continued)*

"Demand for spot lead is lower than the corresponding time in last year and two years ago because of the domestic economic slowdown," he said.

Lead prices of the front-month contract on the Shanghai Futures Exchange , which usually reflect domestic demand for physical metal, fell more than 8 percent from this year's high of 15,320 yuan ($2,500) in February. The contract ended the morning session on Tuesday at 13,975 yuan a tonne.

Yuguang has a total of about 400,000 tonnes of refined lead capacity in China.

Yuguang's sister company has also shut 100,000 tonne of zinc-smelting capacity for 20 days for maintenance, the source said.

The sister company has another 100,000 tonne of zinc capacity, which the source said was running as normal.

Minmetals Futures' analyst Chen Yuan said domestic lead and zinc prices should be supported by the closures at Yuguang and the sister company although the two metals faced seasonal weak demand in July and August.

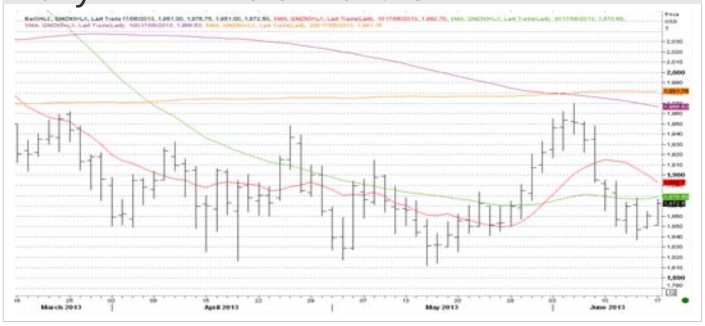
ANALYTIC CHARTS *(Click on the charts for full-size image)*

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-London copper drops for 2nd day as market eyes Fed

By Naveen Thukral

SINGAPORE, June 18 (Reuters) - London copper eased for a second straight session on Tuesday, with investors cautious as they wait for more clues on the outlook for U.S. stimulus at a two-day Federal Reserve meeting starting later in the day.

Asian shares fell while commodities were on the back foot, with the mere suggestion of fine-tuning in the Fed's bond buying programme enough to unnerve markets.

"The copper market has been reluctant to rally despite news on supply disruptions," said analyst Sijin Cheng at Barclays Capital in Singapore. "The FOMC meeting is a big factor."

Three-month copper on the London Metal Exchange had dropped 0.2 percent to $7,070.50 a tonne by 0406 GMT. Copper prices finished last week down nearly 2 percent in their steepest weekly decline since mid-April.

The most-traded October copper contract on the Shanghai Futures Exchange fell 1.1 percent to 51,160 yuan a tonne.

Market volatility was likely to remain elevated until the outcome of the Fed meeting and Chairman Ben Bernanke's news conference on Wednesday.

Bernanke has said the Fed may decide on slowing its $85 billion monthly purchases of Treasuries and mortgage-backed securities in its next few meetings if the economy showed signs of improving.

Supply concerns have underpinned copper with operations at Freeport McMoRan Copper and Gold Inc's mine in Indonesia shut for the past month after a deadly tunnel collapse.

The firm declared force majeure last week to free itself from obligations to deliver copper concentrate from the Grasberg mine. Still, data showed LME stocks jumped by 11,400 tonnes, reminding investors of an expected surplus this year.

In other metals, aluminium prices ticked higher, snapping an eight-session losing streak on bargain-hunting. LME three-month aluminium rose 0.2 percent to $1,848 a tonne after dropping to its weakest since May 15 in the last session.

The aluminium sector, burdened by overproduction, was jolted on Monday when LME data showed an inflow of 59,600 tonnes of stocks into warehouses, which sent the total to a new record of 5.28 million tonnes.

PRECIOUS-Gold slips on weak physical demand; Fed meet eyed

SINGAPORE, June 18 (Reuters) - Gold fell on Tuesday for a second straight session as muted physical demand weighed on prices, alongside fears of any cut in the U.S. Federal Reserve's $85 billion monthly bond purchases.

Investors are closely watching the Fed's two-day policy meet that begins later on Tuesday as a string of healthy U.S. data has increased speculation the bank could scale back its bond buys, hurting gold's appeal as a hedge against inflation.

Physical demand is falling off in India and China, the top two consumers of bullion, from peak levels seen after the historical sell-off in April.

"There is not much buying interest. The sentiment right now is low," said a trader in Hong Kong.

Spot gold fell $1.40 to $1,382.95 an ounce by 0403 GMT after losing about 0.4 percent on Monday as U.S. stocks rallied ahead of the Fed meeting.

Shanghai gold futures fell 0.5 percent.

Any signs of a significant slowdown in the Chinese market would be a big blow to bullion prices as investors expect China to offset slower buying from India.

Another trader in Hong Kong said premiums there have fallen to $2 an ounce over London spot prices, from a high of $6 seen last month. Hong Kong sells mainly to buyers in China.

Demand in India has eased since the government hiked its import duty on bullion by a third in an effort to reduce its current account deficit.

The country's gold imports fell from an average of $135 million in the first half of May to $36 million in the second half, Indian finance minister said earlier this week.

FED CONCERNS

Recent strong U.S. housing and labour data has raised the possibility of the Fed slowing its bond purchases sooner than expected.

Most economists expect the Fed to scale back the size of its bond purchases by the end of the year, and a sizeable number expect reduced buying as early as September, according to a Reuters poll.

Bullion is down more than 17 percent so far this year as investors have shunned its safe-haven appeal.

Holdings in SPDR Gold Trust , the world's largest gold-backed exchange-traded fund, stood at 1,003.17 tonnes on Monday -- their lowest in more than four years.

GLOBAL MARKETS-Asian shares ease as Fed meeting keeps markets on edge

TOKYO, June 18 (Reuters) - Asian shares eased on Tuesday as investors waited for Federal Reserve Chairman Ben Bernanke to clarify the U.S. central bank's plans for its stimulus programme - with the mere suggestion of fine-tuning it enough to unnerve market sentiment.

MARKET REVIEW *(Continued)*

European stocks are seen easing, with financial spreadbetters predicting London's FTSE 100, Paris's CAC-40 and Frankfurt's DAX will open down as much as 0.3 percent. U.S. stock futures traded almost flat, hinting at a subdued Wall Street start after a rise overnight. MSCI's broadest index of Asia-Pacific shares outside Japan fell 0.2 percent, with Chinese and Australian bourses leading the declines. The materials sector in the pan-Asian index was the top loser. Australian shares faced selling in high-yielding stocks while Hong Kong shares slipped 0.5 percent after two days of gains with investors selling recent outperformers. Shanghai shares also struggled to gain as the People's Bank of China again refrained from injecting funds into the interbank market despite short-term funding costs staying high.

South Korean shares bucked the trend and rose 0.9 percent while Southeast Asian shares were also mostly higher.

The Fed's bond-buying programme, along with very accommodative monetary policies by other central banks to promote growth, such as the Bank of Japan, has underpinned market sentiment broadly, providing investors abundant funds they could put to work in higher-yielding "risk" assets, such as shares.

"The Federal Reserve has really been driving the top-down investment themes globally with quantitative easing and record low U.S. rates," said Peter Esho, investment adviser at Wilson HTM. "It has implications really into all other asset classes."

Market volatility was likely to remain elevated until the outcome of the Fed meeting and Bernanke's news conference on Wednesday.

"The sensitivity of asset prices to headlines and seemingly inconsistent moves among them - U.S. Treasury yields moving higher but the U.S. dollar coming under pressure...shows the degree of nervousness and confusion among investors regarding the most likely path of the Fed's monetary policy," Barclays Capital said in a research note.

DOLLAR OUTLOOK MIXED

Japan's benchmark Nikkei stock average gave up early gains and fell 0.2 percent, swinging from Monday's 2.7 percent rise.

The dollar rose 0.3 percent against the yen to 94.78 , off its 10-week low of 93.75 yen hit on Thursday, but well below last month's 4-1/2-year peak of 103.74 yen. Against a basket of six key currencies, however, the dollar index was down 0.09 percent.

Uncertainty over the Fed's thinking has weighed on the dollar recently, but its fall against the yen has also been linked to speculators and investors cutting back their yen short positions after the Bank of Japan took no action last week to quell a highly volatile domestic bond market.

The sell-off in the Nikkei, sparking yen buying, erased gains made since the central bank's big-bang stimulus unveiled on April 4, which had helped propel the index up to a 5-1/2-year high last month. Growing views that Prime Minister Shinzo Abe may not deliver as aggressive a reform as previously hoped for also led to the unwinding of short-yen and long-Nikkei positions.

"The Fed is likely to stress its commitment to stimulus and signal that any tapering will not mean tightening liquidity, and that should tame recent market jitters and induce stability," said a senior official at a big Japanese investor.

At a meeting of leaders of the Group of Eight developed countries on Monday, the euro zone came under pressure to press on with a banking union and Japan was urged to follow up on massive central bank stimulus with structural reforms and measures to tackle its budget deficit.

The G8 said in a statement world economic prospects remained weak even though downside risks have lessened due partly to policy action taken in the United States, the euro zone and Japan. Data on Tuesday showed Japan's industrial output rose 0.9 percent in April, showing a steady pickup in firms' productive activity, while Monday's economic reports showed firming recovery in U.S. housing markets.

"In general any decision to taper would signal confidence in the ongoing recovery of the U.S. economy, that is potentially an upside for markets depending on how investors take it."

U.S. crude futures inched up 0.1 percent at $97.85 a barrel and Brent also was up 0.1 percent to $105.55.

Spot gold fell 0.3 percent to $1,380.41 an ounce as muted physical demand and fears of any cut in the Fed's $85 billion monthly bond purchases weighed on sentiment.

(Inside Metals is compiled by Pradip Kakoti in Bangalore)