INSIDE METALS

Wednesday, June 5, 2013

CHART OF THE DAY

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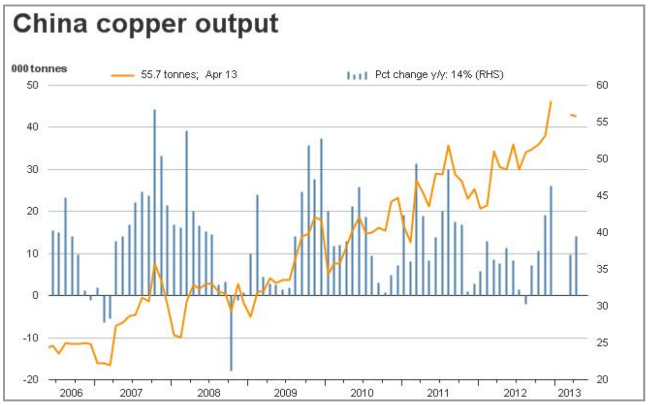

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COLUMN-Conditions not yet right for iron ore rally

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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 fell from near two-week highs hit the previous session as traders took to the sidelines ahead of Friday's U.S. jobs report, while steady buying from Chinese consumers underpinned prices. "The conditions on the ground are still pretty mixed in China but there is still the potential for the manufacturing sector to be slightly stronger than the market expects," analyst Natalie Rampono of ANZ in Melbourne said.

PRECIOUS METALS: Gold recovered on Wednesday from a near 1 percent fall in the previous session as investors' hopes of the U.S. bond-buying program staying intact for some more time overshadowed their fears of slowing bullion demand in India, the world's top consumer. "Traders are positioning themselves for the upcoming labour data in the United States. If the data is weak, there will be stronger justification for letting the bond-buying stay a while longer," said Joyce Liu, an investment analyst at Phillip Futures.

FOREX: Asian shares hit 2013 lows on Wednesday as uncertainty over when the Federal Reserve would begin trimming its massive stimulus programme fanned worries about funds exiting the region, raising caution before key U.S. jobs data later this week. "Wariness over an exit from the Fed stimulus is driving Asian shares lower on worries that the ample money invested here could flee, although an improving U.S. economy should be seen as positive for many export-reliant Asian economies," said Hirokazu Yuihama, a senior strategist at Daiwa Securities in Tokyo.

FEATURE

COLUMN-Conditions not yet right for iron ore rally

By Clyde Russell

LAUNCESTON, Australia, June 5 (Reuters) - It's probably too early for iron ore producers to get excited about the rebound in prices this week, but there are signs that the current three-month slump may be easing.

Spot iron ore jumped 4.2 percent on Tuesday to $116.60 a tonne, recovering some of last week's more than 10 percent plunge.

However, the shape of the futures curve of iron ore swaps traded in Singapore doesn't suggest a rally is imminent, rather it's pointing to less downward pressure.

The curve was in mild backwardation in early trade on Wednesday, with the six-month contract trading at $114.87 a tonne, 97 percent of the value of the front-month contract.

This stands in sharp contrast to the strong backwardation that prevailed on Feb. 20, when spot iron ore reached its 2013 peak of $158.90 a tonne. At that time the six-month contract was only 86 percent of the value of the front-month.

The curve usually trades in mild backwardation and in the past four years a change to steep backwardation, where longer-dated contracts trade at a large discount to short-dated ones, has led to sharp price declines.

From the peak in February, spot iron ore prices crashed 30.5 percent to the year's low of $110.40 a tonne on May 31.

In a March column, I suggested that prices may drop as much as 40 percent, based on the shape of the curve.

This was based on the 37 percent drop in prices between April 21, 2010 and July 13 of that year, when just prior to the decline the six-month contract had been at 84 percent of the value of the front-month.

The easing of the backwardation in the curve recently suggests that future price declines will be more limited, but it's important to note that the conditions for a rally have yet to emerge.

The curve has in the past gone into contango, where near-dated contracts trade at a discount to those with longer maturities, just prior to rallies. The six-month contract was 9.8 percent higher than the front-month on Sept. 5 last year, just before iron ore staged a 83 percent rally that peaked in February this year.

Futures curves are supposed to be the pricing reflection of the sum total of the market knowledge, so it's worth looking at what the fundamentals are saying about iron ore.

Graphic of Singapore iron ore swaps curve:

http://link.reuters.com/beg68t

China, which buys about two-thirds of global seaborne iron ore, has yet to experience a marked tailing off in imports of the steel-making ingredient.

Imports were 67.1 million tonnes in April, the third-highest on record, and year-to-date inbound shipments were 3.7 percent higher over the first four months of 2013 compared to the same period last year.

May figures are due next week and could exhibit similar strength, especially in view of a 21 percent jump in iron ore exports from Australia's Port Hedland in May over April.

The jump in exports from the port that handles one-fifth of all seaborne iron ore trade suggests that the running down of inventories in China may well have run its course.

Port inventories in China are currently just under 75 million tonnes, well down on levels close to 100 million tonnes that prevailed in August last year, meaning that there may be a limit to how much more de-stocking is likely.

If the inventory situation is slightly bullish to neutral for iron ore imports, the real concern is in the steel sector.

So far this year steel mills have been increasing output despite mounting signs of slack growth in demand.

Crude steel output was 65.65 million tonnes in April, down slightly from a record high in March, and output for the first four months was 8.4 percent higher than the same period in 2012.

There hasn't been any pullback in May, with data from the China Iron & Steel Association showing daily output of 2.185 million tonnes a day in the 10 days from May 11 to 20, just 0.3 percent below the record achieved the prior 10 days.

But, steel inventories have been rising and were probably 40 percent higher at the end of May than at the end of March.

Steel producers are reluctant to idle output as they don't want to surrender market share, but eventually the likelihood is that higher-cost manufacturers will have little choice.

Baoshan Iron & Steel Group, whose listed unit is China's biggest steelmaker, expects output to rise just 1-2 percent in 2013, down from 3 percent in 2012 and average growth of 10 percent a year between 2006 and 2011.

If this forecast is correct, it implies falling steel output for the rest of 2013, given the first four months saw fairly strong growth.

This in turn is bearish for iron ore, but if prices do fall much from current levels, it's smaller Chinese producers that will face more pressure to idle mines than the low-cost giants, namely Brazil's Vale and the Australian pair of Rio Tinto and BHP Billiton .

Overall, the current market situation and outlook give little reason to expect a rally any time soon in iron ore, or Shanghai steel prices.

While the bias is still to the downside for iron ore prices, the potential losses from the current price are probably limited to $10-15 a tonne.

And finally, China's iron ore imports may surprise with their resilience in coming months as steel-makers prefer cheaper imported supplies over higher-cost domestic output.

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

GENERAL NEWS

India jumps to curb gold buying after May imports surge

By Rajesh Kumar Singh and Siddesh Mayenkar

NEW DELHI/MUMBAI, June 4 (Reuters) - India's central bank took tougher measures to curb gold imports on Tuesday after buying soared in May and threatened to widen a current account deficit which is already at a record.

The moves could slash June imports, industry experts said, but the government continued to fret and weighed options in case the central bank's move again failed to stem the import flow.

Indians, the world's biggest buyers of bullion, swept up 162 tonnes of gold last month - at least twice normal volumes - as they tried to beat the Reserve Bank of India's last move on May 13. The buying spree started in April when global prices slid.

India's average monthly imports this year are now already nearly 104 tonnes, outstripping even the record levels of 2011 and rattling the government, which had hoped that hiking import duty by half to 6 percent in January would curb demand.

Finance Minister P. Chidambaram said on Monday imports would have to be checked and this time, the Reserve Bank acted swiftly to extend its May ban on deposit-based purchases to cover all imports apart from those used to make jewellery for export.

Spot gold fell over one percent to $1,396 an ounce as the market worried demand would be hit.

Industry experts predicted sharp falls in imports during June. Robin Bhar, senior analyst at Societe Generale in London, said June imports could be 50 to 100 tonnes while the Bombay Bullion Association said they could slide to 30-40 tonnes.

"There will be a shortage of gold ... imports will slow down at the moment, unless there is a sudden downfall (in prices)," said Harmesh Arora, director at the Bombay Bullion Association.

Domestic prices dropped sharply in April, tracking global trends and undermined by a stronger rupee. Gold futures hit a year low of 25,720 rupees per 10 grams on April 16.

Prices have partly recovered and the rupee has weakened but domestic gold futures are still trading around 27,000 rupees - roughly equivalent to $1,351 per ounce - as global spot gold prices were quoted around $1,396 per ounce.

In May, the central bank announced its plans for limiting imports early in the month, providing a two-week buying window before it implemented a ban limited then to banks importing to cover purchases by jewellers on payment of a deposit only.

The measures now aim to curb anything other than cash purchases, which could hit hard India's huge number of small, family jewellers who make up about 60 percent of the market.

IMPORTS SURGE TO STALL?

Economists felt the surge in imports would not last long, linking it to lower prices. As a result, they held off raising estimates for the current account deficit (CAD), which hit an all-time high of 6.7 percent of GDP in the December quarter.

Robert Prior-Wandesforde at Credit Suisse said slowing inflation, which reduces gold's attraction as an investment, and stabilising prices should also help to reduce gold purchases.

"We expect gold demand to remain strong but not as strong as in recent months," he said. He expects the CAD to narrow to 3.5 percent of GDP in 2013/14 on improved exports.

India also embarked on sales of inflation-indexed bonds on Tuesday for the first time in over a decade and hopes to woo retail investors with them later this year.

"Clearly, with inflation coming off and the offer of inflation-indexed bonds, we are starting to see a set of factors coming together which should weaken the temptation to get ever larger quantities of gold," said Aninda Mitra, India economist at Capital Economics.

And if the measures don't work, the government has a raft of other options, including hiking import duty to 12-15 percent for a couple of months to cool buying, finance ministry officials said, although an import duty hike would be a last resort as it can simply encourage smuggling.

"There are lots of measures that people have proposed - some very clever, some moderately clever and some rude force like ban the gold imports, shoot the smuggler, lots of things like that," said Raghuram Rajan, chief economic adviser at the Finance Ministry.

"The government is not without options. I think the RBI just took options today. Let us wait and see," he added.

London-listed Goldplat suspends Kenya gold mine operations

NAIROBI, June 4 (Reuters) - Goldplat Plc said on Tuesday it had suspended its Kenyan operations to focus on cash generating activities in South Africa and Ghana, due to low gold prices and uncertainty over a new local ownership law.

London-listed, Africa-focused Goldplat, which has assets in Kenya, South Africa, Ghana and Burkina Faso, said it had retrenched staff and was maintaining a skeleton operation at its Kilimapesa mine in western Kenya to stem financial losses.

It began mining at Kilimapesa in January 2012, pouring the first bar of gold ever produced in Kenya.

But a weaker gold price and a mining law introduced in October that requires foreign-owned firms to cede 35 percent of their local mining operations to Kenyans had dimmed its outlook.

"In order to eliminate losses caused by continued operational constraints and the current uncertain gold price environment, the company has put the Kilimapesa Gold Mine in Kenya on a care and maintenance programme until the project economics can justify the reopening of the mine," the company said in a statement.

GENERAL NEWS *(Continued)*

Gold fell below $1,400 an ounce on Tuesday, extending losses on worries over demand in the world's largest consumer, India, after the government further restricted imports of the metal.

Goldplat said the processing plant at the mine will continue to process stockpiles of ore to cover the costs of the care and maintenance programme.

"It is always disappointing to suspend any operation but it is of paramount importance that we make sure that all our operations are profitable and do not represent a drain on the resources of the rest of the company," Goldplat's chief executive officer Russell Lamming said.

The company warned that uncertainty over the local stake rule in Kenya would affect its operations as well as those of other investors in the nascent mining industry in east Africa's biggest economy.

Kenya's Cabinet Secretary for mining Najib Balala said last week the country is ready to engaging mining firms on the controversial rule to reach a common position.

Workers at Implats shaft in S.Africa end illegal strike

JOHANNESBURG, June 5 (Reuters) - Workers at a shaft owned by platinum producer Impala Platinum in South Africa ended a one-day illegal strike and operations resumed on Wednesday, the company said.

"Everything is back to normal. Workers went back to work last night," spokesman Bob Gilmour said.

Canada's Barrick delays Pascua-Lama mine start again

TORONTO, June 4 (Reuters) - Canada's Barrick Gold Corp said it would delay beyond 2014 the startup of its Pascua-Lama gold mine in Chile and Argentina, and as a result would likely exceed its current project budget of up to $8.5 billion.

Its shares fell 3.4 percent to C$21.22 on Tuesday morning on the Toronto Stock Exchange.

In a filing with Canadian regulators late on Monday, Barrick attributed the delay to water management work required by Chile's environmental regulator. The miner did not make clear when it expects the controversial mine to start production or how much it now plans to spend on the development.

A Chilean court in April partially halted construction of Pascua-Lama, which straddles the border of Chile and Argentina, to weigh claims by indigenous communities that Barrick has damaged pristine glaciers and harmed water supplies.

Chile's new environmental regulator then also halted work in May, citing serious violations, and said the company must complete a water management system in accordance with its permits before restarting the build.

The head of the regulator told Reuters last week that the water management infrastructure needs would likely take one to two years to complete.

"While the company is assessing opportunities for potential reductions in certain expenditures, the delay beyond 2014 is expected to result in a related increase in capital cost," Barrick said in the filing.

While all nonenvironmental work is stopped in Chile, construction continues on the Argentine side of the project.

The delay is just the latest hurdle for the project, which Barrick has had on its books for more than a decade. Last year, the miner pushed back first production by a year and raised its estimate of capital costs about 70 percent.

Pascua-Lama, which Barrick expects to produce 800,000 to 850,000 ounces of gold annually over its first five years, is important to the world's largest gold producer as it looks to replace depleted mines.

But the first bi-national mine in the world is located at very high altitudes in the Andes Mountains, where the weather is harsh and unpredictable.

Cost overruns and delays at the mine have led to some speculation that Barrick might scrap the project as part of its drive to reel in capital spending, a trend that has swept across the sector over the past year.

The company has said it is evaluating alternatives for the project in light of the legal and regulatory issues, and the current commodity price environment.

Gold prices fell sharply in April and are now trading around $1,400 per ounce, well below the $1,700 per ounce that Barrick has forecast for the year in February.

Barrick's Toronto-listed shares have fallen more than 40 percent so far this year.

MARKET NEWS

Beijing's forced sale of Glencore Peru mine may play into China's hands

By Denny Thomas

HONG KONG, June 4 (Reuters) - Beijing's demand that Glencore Xstrata Plc sell a copper mine in Peru may bring rich dividends for China Inc., as two companies linked to Chinese state-backed groups are weighing rival bids for the $5 billion-plus project.

Interest from Chinese state companies in Glencore's Peruvian mine is a rare case of an asset sale forced by a government as a condition of merger approval working in favour of its own national champions, and underscores China's new-found clout in regulating global takeovers.

Chinalco Mining Corp International and Hong Kong-listed MMG Ltd , both linked to a Chinese state-owned enterprises, are considering offers for Glencore Xstrata's Las Bambas mine, according to people close to the matter, less than three months after Beijing blessed Glencore's $35 billion purchase of Xstrata.

Under the deal struck with Beijing's Ministry of Commerce in April, Glencore has three months to begin the process of selling Las Bambas, one of the group's biggest development projects, with the expectation of finding a buyer by the end of August 2014.

If the company does not get a binding sale and purchase agreement by the deadline, and have a transfer of ownership by the end of June 2015, Glencore has the option to sell other project sites.

People familiar with the matter say that Glencore intends to explore a sale and has hired BMO Capital Markets and Credit Suisse to advise on the process. No deadlines for the auction have been set, the people said.

Chinalco Mining Corp International, a unit of China's state-run aluminium group, and MMG Ltd, controlled by China's Minmetals, are in talks with banks to advise them on bids for Las Bambas, which is slated to produce a minimum of 400,000 tonnes a year.

"I'm not sure they're trying to create opportunities," said an Asia investment banker not directly involved with the deal, referring to the Chinese government. "But is it coincidental? Probably not entirely."

The Glencore-Xstrata deal closed after Glencore agreed in April to sell the Peruvian mine.

MMG is controlled by state-owned China Minmetals Corp and headquartered in Melbourne, with an Australian CEO, Andrew Michelmore. It owns copper, lead and zinc mines in Australia, Laos and Democratic Republic of Congo, and has repeatedly said it is looking for acquisitions of between $1 billion and $7 billion to help it meet a five-year target to grow into a mid-sized, global diversified miner.

An MMG spokeswoman declined to comment.

FINANCING

Chinalco Mining Corp, which raised $400 million through a Hong Kong IPO in February, is developing a copper-molybdenum-silver mine in central Peru. The company has a market value of just $1.5 billion and it would need funding from its parent or other institutions to finance any bid.

"Chinalco Mining International follows closely valuable M&A opportunities in the market," the company said in a statement. "However, at this stage, we have not made any decisions regarding the potential bidding process."

People familiar with the matter say Chinalco Mining and MMG are in talks with investment banks to pursue a bid, and that they are not the only companies interested. The two companies are yet to appoint any investment banks to advise on the deal, the sources said.

"The impression in the market is that China would love for this to end up in Chinese hands," said one person familiar with the process. "That would likely be an overhang on any process. No one wants to go in and spend the time and money to be a stalking horse for a Chinese bidder," the person said.

MMG shares fell 2.3 percent on Tuesday, while Chinalco Mining lost 0.8 percent. The benchmark Hong Kong share index was flat. Glencore shares were up 1 percent in London.

Sources declined to be identified as the sale process is confidential. A Glencore spokesman declined to comment.

At the time of the Glencore-Xstrata deal, Chinese authorities were focused on Glencore's influence over the copper market. The forced divestment reflects China's appetite for metal and the political side of the regulator's mission, as much as Glencore's own weight.

Combined, Glencore and Xstrata account for roughly 7 percent of global copper supply, and analysts and traders have estimated that Glencore controls between 10 and 14 percent of Chinese copper concentrate imports.

Xstrata approved development of Las Bambas over a four-year period in August 2010, four months before Glencore first unveiled merger plans with Xstrata. Demand for copper has since waned, with the metal's price down about 8 percent this year.

India's No. 4 iron ore producing state sees 33 pct output jump this year

By Krishna N Das

NEW DELHI, June 4 (Reuters) - India's fourth-largest iron ore producing state expects to raise production by a third to about 37 million tonnes this fiscal year, even as mining restrictions in two other states turn the country into an importer of the steel-making ingredient.

Chhattisgarh produced 27.7 million tonnes in the year ended March 2013, with all of that output going to local steel mills, said N.K. Xaxa, mines director of the mid-eastern state.

MARKET NEWS *(Continued)*

The higher production would benefit companies such as JSW Steel Ltd which have been forced to import iron ore amid steady steel demand and falling output of the raw material.

"Demand is very high, so we are raising production," he told Reuters. "We've not been able to meet demand of the local steel companies because of some geopolitical issues."

Xaxa declined to specify why the state's output will rise this year.

State-owned National Mineral Development Corp , Steel Authority of India Ltd , Essar Steel and Chhattisgarh Mineral Development Corp are some of the iron-ore lease holders in Chhattisgarh, Xaxa said, adding that his department has sanctioned 18 leases. JSW and Essar Steel buy ore from NMDC.

India's output of iron ore is estimated to have fallen to about 140 million tonnes in the year ended March 31, 2013, from 207 million in 2011, after the Supreme Court placed a ban on mining in Karnataka and Goa states following allegations of irregularities. Output was 167.3 million tonnes for the 2012 fiscal year.

In April, the top court allowed some mines in Karnataka to resume operations subject to conditions. Goa, India's No.1 iron ore exporting state, expects court approval to resume by year-end the production and export from mines with a capacity of about 40 million tonnes.

Xaxa said he did not think there was any irregularity with respect to iron ore mining in Chhattisgarh.

Liberia wants neighbours to cooperate to boost mining hopes

By Clara Ferreira-Marques

LONDON, June 4 (Reuters) - West African neighbours Guinea, Sierra Leone and Liberia should work together to resolve a dire lack of rail, port and power infrastructure that has held back the region's mining ambitions, a senior Liberian government official said.

Sam Russ, deputy minister of operations at the ministry of mines in Liberia, said the region should collaborate on export links to make the most of major iron ore deposits, pointing to potentially lucrative cooperation with Guinea to the north.

The billions of dollars required to build rail or road have frozen many West African iron ore projects and rendered others all but impossible in an environment of uncertain prices and tough access to cash. Russ told an investor conference in London that cooperation could help resolve that.

"Our economies are certainly too small to take on these massive investments. If we think about collaborating, we can do a lot," Russ said, pointing to the proximity of some deposits.

Key for Liberia - an emerging iron ore producer but also one of the region's least explored destinations - would be cooperation with Guinea. That could, he said, help unlock the potential of Guinea's giant Simandou mine and benefit Liberia.

"The Guinean government seemed more open to discussions," he said of a mining industry meeting earlier this year, adding signals had since been "more positive". The two would have to agree on issues including tariffs, routes and other key issues.

A WAY OUT

Mining companies hoping to work in Guinea's south, including those tapping the Simandou deposit, have for years studied the possibility of exporting through Liberia - a shorter route to the sea, instead of following a far longer route to Conakry.

But Guinea has long been cold on the idea of exporting through Liberia, hesitating to hand control of key infrastructure to a neighbour.

Infrastructure has been a key factor in holding back the development of Simandou - becoming a major issue for both Rio Tinto , owner of the concession for the southern half of Simandou and for Brazil's Vale and Israeli diamond billionaire Beny Steinmetz's BSG Resources, holding the rest.

Rio's plans - at a cost estimated at as much as $20 billion - involve exporting across Guinea instead of following the shortest route to the sea through Liberia. This means it will have to build almost 700 km (430 miles) of rail, 35 bridges and a four-berth wharf 11 km offshore.

The Vale-BSGR concession was originally given agreement to ship ore through Liberia, in exchange for building a $1 billion passenger and freight railway from Conakry to Kerouane in the south east. But it is unclear that still stands.

The future of the Nimba project in Guinea, a majority stake in which is currently being sold by BHP Billiton , is also likely to depend on an export route through Liberia.

Investors in the region said they would welcome cooperation between the three countries, pointing to other cross-border co-operations, like exports from Zambia through its neighbours.

"One of the silver linings of the commodity cloud is that these conversations (corridors, tariffs) now take place in a more realistic context," said Philip Baum, chairman of Russian gold miner Nord Gold, active in Guinea. "It's a slam dunk to transport the material through Liberia."

Steel giant ArcelorMittal has been exporting iron ore from the Yekepa mine in Nimba county in Liberia, which borders Guinea, since 2011. The rail link it uses, down to the port of Buchanan, has been closely eyed by producers considering mines across the border in Guinea.

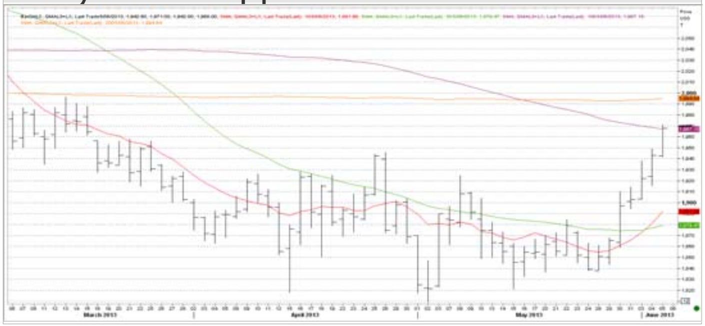
Joseph Mathews, head of ArcelorMittal's west African operations, said the group would welcome cross-border cooperation, but cautioned Guinea and rivals there could not rely on existing infrastructure alone.

"The capacity is currently around 5 million tonnes, and we will upgrade that to 15 to 18 million tonnes," he said of ArcelorMittal's refurbished rail link. "But that does not suddely create space for another producer that needs another 15 million tonnes." It is currently running at full capacity.

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 slips from near 2-week highs as U.S. jobs eyed

By Melanie Burton

SINGAPORE, June 5 (Reuters) - London copper fell from near two-week highs hit the previous session as traders took to the sidelines ahead of Friday's U.S. jobs report, while steady buying from Chinese consumers underpinned prices.

Three-month copper on the London Metal Exchange had fallen 0.50 percent to $7,417.75 a tonne by 0231 GMT, paring gains of 1.6 percent from the previous session.

LME copper hit its highest since May 22 on Tuesday, recovering from 18-month lows below $6,800 a tonne plumbed in late April. It is still down more than 6 percent for the year.

The most-traded September copper contract on the Shanghai Futures Exchange climbed 0.68 percent to 53,420 yuan ($8,700) a tonne.

"The conditions on the ground are still pretty mixed in China but there is still the potential for the manufacturing sector to be slightly stronger than the market expects," analyst Natalie Rampono of ANZ in Melbourne said.

China's official purchasing managers' index (PMI) beat market expectations at the weekend, although a survey of smaller private sector firms in the country showed a contraction.

"Nonfarm payrolls on Friday will probably be pretty big for commodity markets across the board because of expectations related to the timing of the Fed's tapering of bond purchases," Rampono said.

A sooner than expected end to monetary support could undermine commodities by pushing up the dollar and reining back liquidity available to investors.

Kansas City Fed President Esther George said on Tuesday that slowing the pace of bond buying would not mean tightening U.S. monetary policy and would help wean financial markets off their dependence on ultra-easy money.

Adding support to copper prices, Freeport McMoRan Copper and Gold Inc's Indonesian copper mine will not be able to resume output until a probe into a deadly tunnel collapse is completed in about three months time, a government official said this week.

The shutdown is expected to trim around half a percent from this year's copper supply, but combined with other kinks could trim a small market surplus or tip the market back into deficit.

PRECIOUS-Gold gains as U.S. bond-buying hopes outweigh India import curbs

By A. Ananthalakshmi

SINGAPORE, June 5 (Reuters) - Gold recovered on Wednesday from a near 1 percent fall in the previous session as investors' hopes of the U.S. bond-buying program staying intact for some more time overshadowed their fears of slowing bullion demand in India, the world's top consumer.

Investors are awaiting U.S. nonfarm payroll data on Friday, a key factor in determining whether the U.S. Federal Reserve would start winding down its $85 billion monthly bond purchases. Gold, seen as a hedge against inflation, would benefit if the purchases continue.

U.S. job growth probably picked up only slightly in May, according to a Reuters survey of economists, suggesting the economy is still in a rut and not ready for the Fed to dial back its monetary support. "Traders are positioning themselves for the upcoming labour data in the United States. If the data is weak, there will be stronger justification for letting the bond-buying stay a while longer," said Joyce Liu, an investment analyst at Phillip Futures.

Spot gold rose 0.3 percent to $1,403.51 an ounce by 0700 GMT, after falling 0.9 percent on Tuesday due to new import rules imposed by India. U.S. gold rose $6.1 to $1,403.3.

Comments by Fed officials in recent weeks have fuelled speculation the central bank could be just a few months away from tapering a bond-buying program intended to keep interest rates low and boost employment. Chairman Ben Bernanke said last month the U.S. housing and employment markets have to show continued recovery for the monetary stimulus to be eased.

INDIA CONCERNS

New rules by India's central bank on Tuesday sparked fears of slowing demand in the country, where gold is bought in abundance for weddings and auspicious days.

India extended a ban on deposit-based purchases to cover all imports apart from those used to make jewellery for export.

The move came after Monday's data showed gold imports in India, which is aiming to cut its current account deficit, jumped to around 162 tonnes in May from 142.5 tonnes in April despite a rebound in prices.

"Markets are speculating that the India ban would reduce imports in June," said Liu of Phillip Futures. "It makes sense because we don't have any major festival in June like we had in April and May." Declines in holdings of gold-backed exchange-traded funds (ETFs) resumed. Holdings of SPDR Gold Trust , the world's largest gold ETF, fell 0.3 percent to 1,010.45 tonnes on Tuesday. The outflows had stopped last Wednesday after a three-week period that saw investors exit in droves.

MARKET REVIEW *(Continued)*

GLOBAL MARKETS-Asian shares hit 2013 lows on Fed stimulus jitters

By Chikako Mogi

TOKYO, June 5 (Reuters) - Asian shares hit 2013 lows on Wednesday as uncertainty over when the Federal Reserve would begin trimming its massive stimulus programme fanned worries about funds exiting the region, raising caution before key U.S. jobs data later this week.

"Wariness over an exit from the Fed stimulus is driving Asian shares lower on worries that the ample money invested here could flee, although an improving U.S. economy should be seen as positive for many export-reliant Asian economies," said Hirokazu Yuihama, a senior strategist at Daiwa Securities in Tokyo.

European stock markets will likely ease, with financial spread-betters predicting London's FTSE 100, Paris's CAC-40 and Frankfurt's DAX would open down as much as 0.5 percent. A 0.2 percent drop in U.S. stock futures also pointed to a lower Wall Street open. Comments on Tuesday from two Fed officials added to concerns the world's largest economy will be left with reduced Fed support at some point this year.

Dallas Fed President Richard Fisher said there must be a practical limit to the Fed's balance sheet and the central bank cannot deliver quantitative easing "to infinity," while Kansas City Fed President Esther George said slowing the pace of bond buying would not mean tightening U.S. monetary policy and would help wean financial markets off dependence on ultra-easy money.

Markets have been buffeted by U.S. stimulus jitters since Fed Chairman Ben Bernanke last month suggested the potential roll back of the massive bond-purchase programme this year if the economy improves further. The Fed's quantitative easing has been a major source of support for global markets.

MSCI's broadest index of Asia-Pacific shares outside Japan slid as much as 1 percent to a six-month low, after snapping a four-day losing streak on Tuesday. Australian shares shed 1.1 percent to a five-month low as slower-than-expected first quarter growth and weakening demand for metals in China weighed. Hong Kong shares slipped 1.2 percent to a six-week low and Shanghai shares edged down 0.4 percent.

"It's a little tricky at the moment. Nobody quite knows the timetable for the Fed's tapering, so high dividend names are not exactly popular right now, but neither are beta names," said Linus Yip, a strategist with First Shanghai Securities.

Markets showed subdued reaction to HSBC/Markit's purchasing managers' index for China's services industry, which expanded modestly in May from April. Daiwa Securities' Yuihama said stability in Japanese equities would help calm Asian bourses, which had lately been taking their cue from Japan's highly volatile stock market.

Trading remained extremely choppy for Japanese stocks, with the benchmark Nikkei average adding as much as 1.3 percent before beginning a tumble that left it off 3.9 percent for the day to a fresh seven-week lows. The Nikkei was now up 26 percent for the year, while two weeks ago, when it scaled a A 5-1/2-year peak, its gain for 2013 was 53 percent.

Japanese stocks have been pulled down in recent sessions by anticipation of Fed tapering and as investors began to wind down their excessive expectations for Prime Minister Shinzo Abe. What appeared to be speculative buying pushed the Nikkei to session highs and lifted the dollar up along to its day's peak, before a sharp retreat in the Nikkei sparked yen buying as Abe's speech on growth strategy offered no surprises, traders said.

Abe pledged to boost incomes by 3 percent annually and set up special economic zones to attract foreign businesses in the latest tranche of measures aimed at boosting growth in the world's third-biggest economy.

"Dollar/yen was completely swung around by the Nikkei, and the way the Nikkei gyrated seems to suggest that there are still those who have been hurt by recent volatility and incentives to sell into rises remain intact," said Hiroshi Maeba, head of FX trading Japan for UBS in Tokyo.

The dollar was down 0.4 percent against the yen at 99.65 , after rising to the day's high of 100.47 and the session low of 99.55, approaching Monday's three-week low of 98.86. The dollar index, measured against a basket of six key currencies, was down 0.10 percent at 82.686, near Monday's three-week low of 82.428.

(Inside Metals is compiled by Pradip Kakoti in Bangalore)