INSIDE METALS

Friday, March 22, 2013

CHART OF THE DAY

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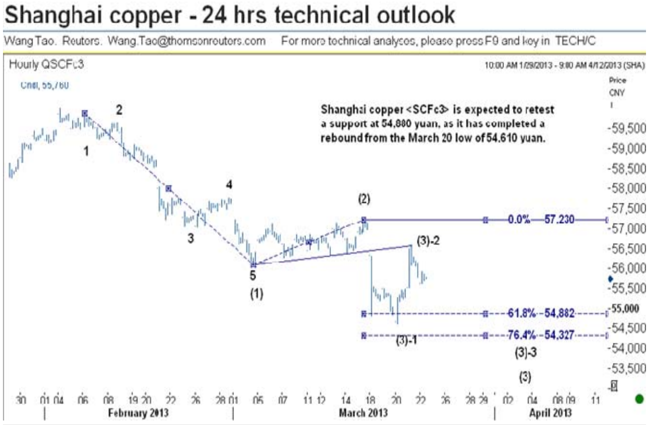

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COLUMN- Gold bulls get a sniff of hope from Cyprus, India

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

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TODAY'S MARKETS

BASE METALS: London copper rose on signs of resurfacing Chinese demand and a U.S. recovery, but worries over a Cypriot default and a deepening economic malaise in the euro zone put the metal on track for its biggest weekly loss in a month. "The right outlook for copper is neutral to bearish, while the market focuses on what is happening in Europe. I still think we're still going sideways," said Jonathan Barratt, chief executive of Barratt's Bulletin, a Sydney-based commodity research firm.

PRECIOUS METALS: Gold traded near a 3-1/2-week high underpinned by safe-haven demand on the fear of a potential financial meltdown in Cyprus, which has put bullion on track for its biggest weekly rise in four months.Gold traded near a 3-1/2-week high underpinned by safe-haven demand on the fear of a potential financial meltdown in Cyprus, which has put bullion on track for its biggest weekly rise in four months. "Gold is likely to stay firm in the short term thanks to Cyprus," said Li Ning, an analyst at Shanghai CIFCO Futures.

FOREX: The yen steadied after investors scrambled to cover bearish positions in the previous session after the new Bank of Japan governor played down the chance of an emergency meeting, while glum economic news and Cyprus debt crisis kept the euro under pressure. "Kuroda has repeatedly said he'll do as much as he can to reach the 2 percent inflation target, so an emergency meeting seemed quite plausible for a lot of people," said Makoto Noji, senior strategist at SMBC Nikko Securities.

FEATURE

COLUMN-Gold bulls get a sniff of hope from Cyprus, India

By Clyde Russell

LAUNCESTON, Australia, March 22 (Reuters) - Until Cyprus's banking woes hit the headlines last week it had all been downhill for gold this year, with investors selling amid a slew of analyst downgrades.

The question is whether the Cyprus situation is just a temporary blip in an otherwise bearish story, or whether the 3.6 percent rally in spot gold since the Feb. 21 year low is the start of something more sustained.

The recent downgrading of gold price forecasts by several leading banks would suggest that the market has grown weary of waiting for gold to resume its decade-long rally and finally crack the $2,000-an-ounce mark.

The bearish view is supported by the recent drop in net-long positions, as reported by the Commodities Futures Trading Commission, to the lowest level in six years, as well as the 7.3 percent drop so far this year in exchange-traded fund holdings.

Furthermore, the fear that monetary easing in the United States, Europe and Japan will eventually stoke rampant inflation has so far remained just that - a fear, so far unrealised and with little short- to medium-term prospect of materialising.

But to my mind the most convincing bearish argument has been slower physical demand, particularly from top consumers India and China.

I have long argued that for gold to resume its rally, which peaked at just over $1,925 an ounce in September 2011, it will take renewed buying from China and India.

And it is here that the gold bulls may just be able to take some comfort, as there are signs that demand in both nations, which together account for about 40 percent of the physical market, may be increasing.

India's gold imports surged 23 percent in January from a year earlier, reaching an 18-month high of 100 tonnes.

While this was inflated by a rush to buy ahead of an increase in gold import taxes, but anecdotal evidence from traders in India suggests that the new impost didn't curb purchases as much as feared.

The obvious risk to Indian gold demand is that the authorities take further, and more decisive, steps to limit imports in an effort to lower the current account deficit.

But the lack of new measures in the budget presented last month and a tacit acknowledgement that the government has limited scope to prevent gold imports suggest that Indian demand may well recover in 2013, after declining 12 percent last year.

Turning to China and here the picture is somewhat more mixed, with anecdotal reports of stronger demand contrasting with a slump in gold exports from Hong Kong to China, the main way the precious metal enters the Middle Kingdom.

The net flow from Hong Kong to China fell to a three-month low in January despite buying ahead of the Lunar New Year holiday in early February.

It may take a few months yet to see if China's gold demand is likely to increase in 2013 after being flat in 2012.

But if India's demand can recover strongly and China's growth is even only moderately higher, this should be enough to offset lower demand from ETFs.

This of course assumes that net redemptions from ETFs don't increase much from the 157 tonnes sold so far this year, and perhaps the recent gain in the price to around $1,615 an ounce will convince investors to keep their bullion holdings.

A further, contrarian indicator for gold is that the cutting of long positions by funds has in the past led to a price rally.

Net-long positions dropped to 39,631 by March 9, the lowest since March 2007, before recovering slightly last week to 43,195.

When net longs dropped in July last year, gold went from around $1,600 an ounce to almost $1,800 by October.

It seems that gold does indeed have some room to stage a rally, but there's no convincing evidence that it will be a sustained move higher.

One message that was apparent from attending the Mines and Money conference in Hong Kong this week is that the investment community has grown tired of waiting for gold to resume its upward trend.

In a conference full of gold miners and gold bugs, it was hard to find voices that thought the precious metal was down for the count. But even they acknowledged that trying to sell private equity and other investors on gold projects has become incredibly difficult.

A resumption of demand growth in China and India may just be the catalyst for gold to rally, but the evidence for this just isn't in yet. For now, a rally built on Cyprus will remain decidedly shaky.

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

GENERAL NEWS

Cyprus risks euro exit after EU bailout ultimatum

By Michele Kambas

NICOSIA, March 22 (Reuters) - The European Union gave Cyprus till Monday to raise the billions of euros it needs to secure an international bailout or face a collapse of its financial system that could push it out of the euro currency zone.

In a sign it was at least preparing for the worst, the Cypriot government sought powers on Thursday to impose capital controls to stem a flood of funds leaving the island if there is no deal before banks reopen following this week's shutdown.

Parliament will reconvene later on Friday to debate a raft of government crisis measures after lawmakers adjourned a late-Thursday sitting saying they needed more time for consultation.

Even those measures looked likely to fall short of a promised "Plan B" to raise the 5.8 billion euros demanded by the EU in return for a 10 billion euro lifeline from the EU and IMF.

The European Central Bank said it would cut off liquidity to Cypriot banks without a deal, and a senior EU official told Reuters the bloc was ready to see the island banished from the euro to contain damage to the wider European economy.

Angry Cypriot lawmakers on Tuesday threw out a tax on deposits, calling the EU-backed proposal "bank robbery".

After more talks on Thursday, the currency union's finance ministers urged Cyprus to table a new proposal.

Trying to placate its lenders, the government proposed to parliament a "solidarity fund" that would bundle state assets, including future gas revenues, as the basis for an emergency bond issue, likened by JP Morgan to "a national fire sale".

It also sought the power to impose capital controls on banks, a type of measure unseen since before the country joined the single currency bloc five years ago.

ECB PATIENCE FLAGS

The European Central Bank, which has kept Cyprus's banks operating with a liquidity lifeline, said the government had until Monday to get a deal in place, or funds would be cut off.

"Thereafter, Emergency Liquidity Assistance (ELA) could only be considered if an EU/IMF programme is in place that would ensure the solvency of the concerned banks," the ECB said.

In Brussels, a senior European Union official told Reuters that an ECB withdrawal would mean Cyprus's biggest banks being wound up, wiping out the large deposits it has sought to protect, and probably forcing the country to abandon the euro.

"If the financial sector collapses, then they simply have to face a very significant devaluation, and faced with that situation, they would have no other way but to start having their own currency," the EU official said. Cypriot banks, crippled by their exposure to Greece, the centre of the euro zone debt crisis, have been closed all week and are not due to reopen until Tuesday.

Long queues formed on Thursday at ATMs still dispensing cash, and there were angry scenes outside parliament where several hundred protesters, many of them bank employees, rallied after rumours the second-largest lender, Cyprus Popular Bank , was to be wound up.

Chanting "Hands off the bank", several demonstrators jostled with riot police.

"We have children studying abroad, and next month we need to send them money," protester Stalou Christodoulido said through tears. "We'll lose what money we had and saved for so many years if the bank goes down."

The central bank said it was readying measures to keep Popular Bank afloat. Some banking officials said it could be split between good and bad assets.

LIMITED OPTIONS

Under the levy rejected by parliament, EU lenders, notably Germany, had wanted uninsured bank depositors to bear some of the cost of recapitalising the banks, but Cyprus feared for its future reputation as an offshore banking haven and planned to spread the burden also to small savers whose deposits under 100,000 were covered by state insurance. Lawmakers threw it out.

In Moscow since Tuesday, Cypriot Finance Minister Michael Sarris said he was discussing possible Russian investments in banks and energy resources, as well as an extension of an existing 2.5-billion-euro Russian loan.

He said Cyprus had no plans to borrow more money from Russia and add to its debt mountain. The Russian Finance Ministry had said on Monday that Nicosia sought an extra 5-billion-euro loan. The chairman of the euro group of finance ministers, Dutchman Joreon Dijsselbloem, told the European Parliament in Brussels that Moscow informed the EU it had no intention of ploughing more money into Cyprus.

Senior euro zone officials acknowledged in a confidential conference call on Wednesday that they were "in a mess" and discussed imposing capital controls to insulate the currency area from a possible collapse of the small Cypriot economy.

Cyprus itself refused to take part in the call, minutes of which were seen by Reuters. Several participants described its absence as troubling and reflecting the wider confusion surrounding the island's predicament.

London Mining forecasts surge in output at Sierra Leone mine

By Brenton Cordeiro

March 21 (Reuters) - London Mining Plc reported a smaller full-year loss, helped by higher iron ore production at its Marampa mine in Sierra Leone, and said it expected output from the mine to more than double in 2013.

GENERAL NEWS *(Continued)*

The miner said it expected to produce between 3.3 million and 3.6 million dry metric tonnes in 2013, and forecast sales in the range of 3.6 million to 3.8 million dry metric tonnes.

The sales forecast includes a stockpile of around 390,000 wet metric tonnes of ore the company kept aside at the end of 2012 as it sought to ship the ore at higher prices.

Iron ore prices have rebounded from their 2012 low of $87 per tonne and are now at roughly $134, backed by demand from China as the country's steel mills replenish their stocks.

London Mining said its plan to expand capacity at Marampa to 5 million tonnes per year by the end of 2013 was on track.

The company said it had started looking for strategic partners as it plans to eventually boost Marampa output to 16 million tonnes per year.

"Marampa is a strong-value proposition producing really high-quality ore and we've got more ore to come that we haven't placed with either Glencore or Vitol, so there's potential for further finance-related offtake arrangements there as well," Chief Executive Graeme Hossie said on a post-earnings call.

The company, which also has operations in Greenland, Saudi Arabia and Colombia, said it was in talks with potential partners for its Isua magnetite iron ore project in Greenland.

London Mining's loss before interest, tax, depreciation and amortisation narrowed to $14.2 million in the year ended Dec. 31 from $36.4 million a year earlier. Full-year production of 1.63 million wet metric tonnes, or 1.52 million dry metric tonnes, was ahead of its target of 1.5 million dry metric tonnes, the company had said in January. London Mining shares, which have halved in value over the past year, were up marginally at 136 pence at 1030 GMT on Thursday the London Stock Exchange.

TRADING PLACES

Total commodity AUM fall to $410 bln in Feb -Barclays

March 21 (Reuters) - Total global commodity assets under management fell to $410 billion in February from $430 billion in January, Barclays Capital said in a research note on Thursday.

After four months of withdrawals, commodity index flows turned positive again in February. The modest inflow to commodity index investments was not enough to offset record outflows from gold ETPs, BarCap said. Exchange Traded Product flows had their weakest month on record in February, with net redemptions of $5.7 billion, surpassing the previous weakest month, set in May 2011 by $1.7 billion, it said.

AUM for ETPs tumbled to $196 billion, falling $15.7 billion, to their lowest since July.

"Unsurprisingly, flows were dominated by the precious metals complex and gold in particular. The energy sector also suffered net redemptions but only to the magnitude of $232 million," BarCap said.

Despite positive interest across some sectors, AUM fell across the board, with energy AUM at their lowest since May 2012.

MARKET NEWS

Grupo Mexico sees 2013 copper output up at 850,000 tonnes

MEXICO CITY, March 21 (Reuters) - Mexican miner Grupo Mexico will produce 850,000 tonnes of copper this year, the company's chief financial officer Daniel Muniz said on Thursday.

Increased production will allow the company to likely become "the second-biggest copper producer in the world," by 2015, Muniz added, speaking at an event held by U.S. news company Bloomberg in Mexico City.

Grupo Mexico runs mines in Mexico, Peru and the United States, including the Buenavista mine in northern Mexico, one of world's largest copper mines.

The mining and infrastructure giant produced 826,209 tonnes of copper last year, its highest ever, the company said in its fourth-quarter report released in January.

Grupo Mexico's shares are up more than 4 percent this year on Mexico's stock exchange, but fell by nearly 1 percent on Thursday.

Copper treatment charge benchmark established at $70/T - Aurubis

HAMBURG, March 21 (Reuters) - The provisional increase in 2013 global copper ore treatment and refining charges (TC/RCs) to $70 a tonne and 7 cents a lb has now been established as this year's benchmark, Aurubis, Europe's biggest copper smelter, said on Thursday.

The 10 percent increase had previously been agreed in January only for six months.

MARKET NEWS *(Continued)*

"On the international copper concentrate markets, the benchmark of $70 a tonne and 7 cents a lb for good qualities has been established for framework contracts for 2013, as confirmed by the last contract signings in the past few weeks," Aurubis said in a market report.

TC/RCs are paid by miners to smelters to refine concentrate into metal and are a key part of the global copper industry's earnings.

The benchmark increase will be positive for earnings in the world's copper smelting industry. It is one reason why copper sector is performing better than other areas of the metals industry such as steel.

"The current volumes under annual contracts strengthen smelters' position in spot business, so it can be assumed that TC/RCs will increase as the year goes on."

The benchmarks are for long-term smelting contracts for large volumes, spot business is for smaller deals.

Aurubis said on March 6 that spot deals has been agreed recently way over the benchmark at $80 a tonne and 8 cents a lb.

In the European copper scrap market, good volumes are still readily available and buyers have a good supply, Aurubis said on Thursday.

But sellers' interest in new business is reserved due to lower copper prices, it said.

"Copper product markets are mixed," it said. "Strip products are in higher demand, especially in the U.S."

"Increased demand from the wind power sector as well as in Italy has created positive momentum for rod in a difficult environment. Poor weather conditions and restrictive lending in Southern Europe have had a negative influence, however."

Aurubis said in February it expected big new offshore wind farm projects to boost copper demand.

World copper market in 340,000 T deficit in 2012 - ICSG

LONDON, March 21 (Reuters) - The world refined copper market deficit deepened last year to 340,000 tonnes, from 216,000 tonnes in 2011, due to constrained growth in refined production and a surge in usage in China, the International Copper Study Group (ICSG) showed on Thursday.

Last year, world usage of refined copper grew by around 3.1 percent, or 608,000 tonnes, from the year before to 20.5 million tonnes, mainly owing to strong growth in China consumption, the ICSG said in a report.

China more than offset an almost 4 percent fall in usage in Japan, the European Union and the United States. Without China, world usage would have fallen 2.2 percent.

But anecdotal evidence, supported by high imports of refined copper into China in the first half of last year, suggested that unreported inventories held in bonded warehouses in the country increased significantly last year, the ICSG said.

"Industrial use of copper in China might have been significantly less than apparent use calculated using only reported inventories," it said. "Accounting for this inventory increase would significantly alter the calculated market balance."

World refined production of copper rose 2.5 percent to 16.5 million tonnes last year. China was one of the main drivers of production as it expanded capacity, as was Japan as it recovered from the impact of the earthquake and tsunami in 2011.

But production in Chile, the world's largest producer of refined copper, fell 6 percent, and in the United States it fell 3 percent owing to a series of smelter maintenance shutdowns.

The ICSG figures also showed that the market was in a surplus of 170,000 tonnes in December versus a surplus of 28,000 tonnes in November.

U.S. steel companies urge action on imports from China

WASHINGTON, March 21 (Reuters) - U.S. steel companies on Thursday urged Congress and the White House to take action against what they said was a flood of unfairly traded steel from China, partly by reforming U.S. trade laws to make it easier to win import protection.

"The government of China's continued subsidization of its steel industry and manipulation of its currency continues to threaten our future," Edward Kurasz, an executive vice president at Allied Tube & Conduit, told a congressional panel.

The plea came shortly before the U.S. International Trade Commission approved steep punitive duties on stainless steel sinks from China that the Commerce Department had found were unfairly priced and subsidized.

The decision was a victory for Elkay Manufacturing. The Illinois company has struggled in the face of rising imports from China, which totaled nearly $118 million in 2011.

Kurasz urged Congress to pass legislation directing the Commerce Department to treat undervalued currencies as a subsidy under trade law. That would open the door for more cases seeking countervailing duties on Chinese imports.

He also called for Congress to reform the U.S. International Trade Commission, which last year rejected industry requests for anti-dumping and countervailing duties on galvanized steel wire and circular weld pipe from a variety of countries.

"We are very concerned that the commissioners are not adhering to the laws as written by Congress," Kurasz said.

The Commerce Department found illegal pricing or subsidies in both cases, but the ITC blocked duties "because domestic industries were showing modest improvement due to increases in demand after the depth of the recession," he said.

Kurasz also urged the U.S. Trade Representative's office to work with other governments to bring a World Trade Organization case against China for subsidizing its domestic steel companies in ways that violate global trade rules.

MARKET NEWS *(Continued)*

John Ferriola, president of Nucor Corp, told the panel that China has 35 percent more steel-making capacity than it needs to meet domestic demand. Much of China's extra production is exported to the United States as part of a "surge" that also includes steel from Turkey, South Korea and others, he said.

"Last year, steel imports increased 17 percent from 2011 and a whopping 38 percent from 2010 ... Steel imports were up in every major product area and from most major steel producing countries," Ferriola said.

The steel company chief also said India, Egypt, and Brazil have all recently taken actions to restrict steel imports, putting further pressure on the U.S. market.

But "China is by far the worst offender. Its highly subsidized steel industry is government owned and controlled, and its market remains heavily distorted and closed to outside competition," Ferriola said.

Argentine court tells Vale it cannot dismantle potash project

BUENOS AIRES, March 21 (Reuters) - An Argentine court has ordered Brazilian miner Vale SA to refrain from dismantling its Rio Colorado potash project, which the company suspended last week saying it was no longer viable, a provincial government said on Thursday.

Vale, the world's No. 2 miner, says the estimated $6 billion project has been hit by soaring costs it attributes to Argentina's rampant inflation and controlled exchange rate, in a row that is threatening to renew trade tensions between South America's two largest economies.

The Argentine government says Vale is demanding unrealistic tax breaks, and has barred the company from firing at least 6,500 workers and subcontractors on the fertilizer project.

The government of Mendoza province said on its website that a provincial court had agreed to a petition filed by Argentina's main construction trade union, and ordered Vale to "abstain from ... dismantling installations (and) removing tools, machinery and other work implements" from Rio Colorado.

A spokesman for Vale in Argentina was not immediately available to comment.

A source with direct knowledge of Vale's plans told Reuters previously that the company, the top global producer of iron ore, plans to sell the fertilizer project to recoup the $2.2 billion it has invested so far.

Vale may also try to develop potash mines in Brazil and Canada that it had put on hold to find new sources of the mineral, a source of potassium needed for Brazil's giant agricultural sector.

Brazil, the largest global producer of coffee, orange juice and beef, imports about 90 percent of its potash needs from as far away as Canada, Jordan and Russia. The government had been counting on new supplies from Argentina.

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-LME copper up, but set for biggest weekly drop in four

By Melanie Burton

SINGAPORE, March 22 (Reuters) - London copper rose on signs of resurfacing Chinese demand and a U.S. recovery, but worries over a Cypriot default and a deepening economic malaise in the euro zone put the metal on track for its biggest weekly loss in a month.

Copper prices fell to seven-month lows this week, triggering some restocking by Chinese consumers, but concerns over euro zone contagion have eclipsed signs of improving demand, both from top consumer China and through a nascent recovery in the U.S. housing market.

Three-month copper on the London Metal Exchange rose 0.4 percent to $7,609.75 a tonne by 0729 GMT, reversing losses from the previous session, when it fell half a percent.

Copper prices are headed for a drop of 1.9 percent this week, in the biggest decline since late February. Prices are recovering from a seven-month trough at $7,486.25 a tonne hit on Tuesday, but are still down around four percent on the year.

The most-traded July copper contract on the Shanghai Futures Exchange fell 0.71 percent to 55,630 yuan ($9,000) a tonne.

"The right outlook for copper is neutral to bearish, while the market focuses on what is happening in Europe. I still think we're still going sideways," said Jonathan Barratt, chief executive of Barratt's Bulletin, a Sydney-based commodity research firm.

"A pick-up in prices will be led by an improvement in demand. If we're not seeing draws in copper inventories but we're seeing builds, then it's fairly apparent people aren't making the orders they need to for a resumption in demand in the second and third quarters," he added.

The European Union gave Cyprus until Monday to raise the billions of euros it needs to secure an international bailout or face a collapse of its financial system that could push it out of the euro currency zone.

Economic malaise in the euro zone deepened in March even before Cyprus ran into debt trouble, but manufacturing in the United States and China improved, surveys showed on Thursday.

A clutch of data pointed to growing momentum in the U.S. economy during the first quarter, with jobless claims trending lower and factory activity and homes sales both on the rise.

"With fundamentals weak, any Q2 pick-up will be short-lived and we advise investors to be prepared to trade price rallies from the short side...be prepared to...sell base metals on any significant rally," Barclays said in a note.

PRECIOUS-Gold heads for biggest weekly rise in 4 months on Cyprus

By Rujun Shen

SINGAPORE, March 22 (Reuters) - Gold traded near a 3-1/2-week high underpinned by safe-haven demand on the fear of a potential financial meltdown in Cyprus, which has put bullion on track for its biggest weekly rise in four months.

The clock is ticking for Cyprus to come up with a solution to clinch an international bailout, otherwise it could face the collapse of its financial system and likely exit from the euro zone.

The Cyprus crisis has offered gold a helping hand, after investors had been pulling out of the precious metal and piling into stock markets which have rallied this year on a brighter economic outlook.

Spot gold was little changed at $1,612.96 an ounce by 0651 GMT, after rising to a 3-1/2-week high of $1,616.36 in the previous session. The metal was headed for a weekly gain of about 1.3 percent in its third weekly ascent, its biggest weekly rise in four months.

U.S. gold traded nearly flat at $1,612.40, on course for a 1.2 percent weekly gain.

"Gold is likely to stay firm in the short term thanks to Cyprus," said Li Ning, an analyst at Shanghai CIFCO Futures.

"Though Cyprus is a small economy, there are concerns about the risk of contagion if the crisis there doesn't get solved properly."

Euro zone finance ministers offered a $13 billion bailout last weekend but demanded a levy on deposits in Cyprus, which shocked investors and triggered worries that similar measures could be imposed on other countries.

EYES ON KEY RESISTANCE AT $1,620/OZ

Traders and analysts are eyeing key resistance at $1,620 an ounce, a price unseen since Feb. 26. A break above that level could rekindle enthusiasm in trading.

"The slow movement in prices has really drained the interest in the market," said a Hong Kong-based trader.

"If we can break through $1,620, more people will take a look at it and think maybe there will be some momentum."

But there is considerable pressure from the continuous outflow from gold-backed exchange-traded funds. Holdings of these funds are seen as a barometer of investment interest in gold.

Holdings of SPDR Gold Trust , the world's largest gold ETF, fell 0.902 tonnes from the previous session to 1,221.26 tonnes on March 21, the lowest since July 2011. The fund is headed for a twelfth week of outflows.

MARKET REVIEW *(Continued)*

The new Bank of Japan governor is expected to take aggressive steps to kick-start the world's third-largest economy in its first policy meeting early next month, which could support sentiment in gold as a hedge in its role as a hedge against inflation.

"The bar is very high now for people to buy gold based on the idea that central banks are being overactive," said the Hong Kong-based trader. "But there is still logic to the argument that it's going to be gold supportive going forward."

FOREX-Cyprus debacle keeps euro in doldrums, yen steadies

By Sophie Knight and Ian Chua

TOKYO/SYDNEY, March 22 (Reuters) - The yen steadied after investors scrambled to cover bearish positions in the previous session after the new Bank of Japan governor played down the chance of an emergency meeting, while glum economic news and Cyprus debt crisis kept the euro under pressure.

The dollar held firm versus the yen at 94.95 yen by late morning in Asia, after having dropped roughly 1.2 percent on Thursday. The euro edged up 0.2 percent to 122.58 yen , regaining a bit of ground after having slid 1.5 percent on Thursday.

Investors betting on new BOJ governor Haruhiko Kuroda calling a policy review earlier than the scheduled one on April 3-4 reversed their yen short positions after he made no mention of such a meeting at his inaugural news conference on Thursday.

"Kuroda has repeatedly said he'll do as much as he can to reach the 2 percent inflation target, so an emergency meeting seemed quite plausible for a lot of people," said Makoto Noji, senior strategist at SMBC Nikko Securities.

"But what the market has really put its chips on is easing on a scale that exceeds what has been reported in the media. That means there is a lot of room for disappointment," he added.

Despite its gains, the Japanese currency remained contained in a well-worn range against the euro on Friday and was not far off a 3-1/2 year trough against the greenback of 96.71 set last week.

Over the next few days, yen weakness could be tempered by repatriation flows as the end of Japan's fiscal year on March 31 looms, traders said.

"We see further rallies above 96.00 meeting with increased resistance, while over the coming months we expect USD/JPY to eventually slide back towards 90.00," said Vassili Serebriakov, strategist at BNP Paribas.

The U.S. dollar is up around 9 percent against the yen this year, while the euro is 7 percent higher, highlighting the extent of bearishness already priced in.

However, the Japanese currency's slide against the euro hit an obstacle this week as Cyprus has struggled to find a solution to its debt crisis, with debate raging over whether depositors should be lumped with a tax to raise the billions of euros it needs to secure an international bailout.

Trying to speed things along, the European Union gave Cyprus till Monday to make a final decision. A failure to do so could mean a collapse of its financial system, which could in turn lead to an exit from the euro currency zone.

Adding to the gloom, Standard & Poor's cut Cyprus's credit rating deeper into junk status and a survey showed the euro zone's economic downturn has deepened this month, even before Cyprus's bailout debacle.

However, the euro edged up to $1.2914 , moving away from a 4-month trough around $1.2843 set on Tuesday.

Lending support was higher demand and lower costs at a Spanish bond sale, suggesting yield-hungry investors are not expecting the financial turmoil in Cyprus to spread to other parts of the euro zone. Still, analysts said the risk for the euro is to the downside. "While we expect a constructive solution to emerge in the coming days, EUR/USD is likely to continue to face headline risk as capital controls will likely need to be imposed once banks re-open. There is also near-term risk for the euro from softer economic data," BNP's Serebriakov added.

With no major economic data due in Asia on Friday, the focus is squarely on developments in Cyprus, where lawmakers will debate emergency legislation tabled by the government later on Friday to confront the island's financial crisis.

(Inside Metals is compiled by Pradip Kakoti in Bangalore)

THOMSON REUTERS