INSIDE METALS

Thursday, March 28, 2013

CHART OF THE DAY

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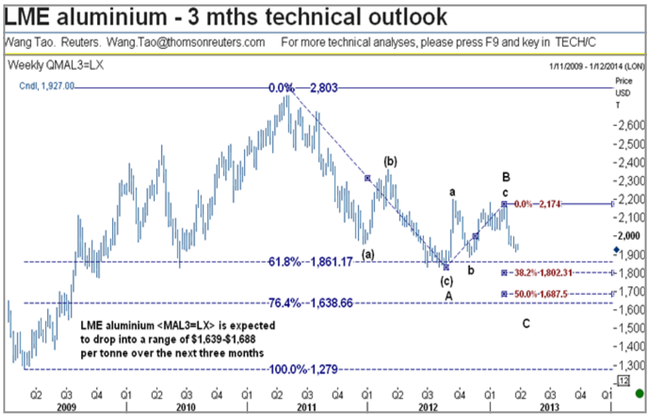

TRADING PLACES

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FEATURE

COLUMN-Fundamentals and behaviour in commodity prices

Fundamental changes in supply and demand account for less than a third of short-term movements in commodity futures prices, according to an authoritative new study by researchers at UNCTAD and the Swiss Federal Institute of Technology.

John Kemp is a Reuters columnist. The opinions expressed are his own

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TODAY'S MARKETS

BASE METALS: London copper edged down towards a one-week low hit in the previous session as caution emerged over a possible bank run in Cyprus, while prices were set to end the month and quarter down due to a lack of robust Chinese demand.

"We are in the peak seasonal demand time of the year - March and April - fundamentally this is about as good as we're going to get," said analyst Ivan Szpakowski of Singapore Credit Suisse.

PRECIOUS METALS: Gold held steady above $1,600 an ounce on worries the Cyprus rescue deal could become a blueprint for solving banking crises in the euro zone, supporting the precious metal's safe-haven appeal.

"We continue to maintain the short-term outlook out of Europe remains uncertain enough to give the gold market a degree of support for the balance of the week and heading into early next week," said Edward Meir, metals analyst at

FOREX: Asian shares fell as weak euro zone data, a sluggish debt auction in Italy and fears of a potential run on Cyprus's banks stoked investors' concerns about instability in Europe.

"Multiple factors are denting sentiment, with uncertainties over the future of Cyprus despite the bailout, Italian political instability and bad economic indicators from the euro zone," said Hirokazu Yuihama, a senior strategist at Daiwa Securities in Tokyo.

CLICK HERE FOR LME CHARTS

COLUMN-Fundamentals and behaviour in commodity prices

By John Kemp

LONDON, March 27 (Reuters) - Fundamental changes in supply and demand account for less than a third of short-term movements in commodity futures prices, according to an authoritative new study by researchers at UNCTAD and the Swiss Federal Institute of Technology.

Reflexive trading, when prices respond to past price changes rather than new information about fundamentals, now accounts for 60 to 70 percent of price moves in the main futures contracts, up from less than 40 percent before 2005.

The authors examined price moves in Brent oil, U.S. crude, soybeans, sugar, corn and wheat futures using an elaborate procedure designed to separate movements related to the arrival of new information from those in which one price change begets another.

"We find an overall increase in the level of short-term endogeneity since the mid-2000s to October 2012, with a typical value nowadays around 0.6-0.7, implying that at least 60 to 70 percent of commodity price changes are now due to self-generated activities rather than novel information", according to Vladimir Filimonov, David Bicchetti, Nicolas Maystre and Didier Sornette in a paper published on March 21.

The paper marks a breakthrough in research into the formation of commodity futures prices. It brings research on commodity markets into the academic mainstream, integrating behavioural and fundamental approaches, and follows pioneering work in other asset classes by George Soros ("The Alchemy of Finance" 1987), Sornette ("Why Stock Markets Crash" 2003) and Robert Shiller ("Irrational Exuberance" 2009).

If their paper is correct, commodity futures markets may actually have become less efficient at discovering prices in recent years, not more, as a result of high-frequency trading and other aspects of financialisation.

Sornette is one of the world's foremost authorities on price formation and market microstructure, so the findings cannot easily be dismissed by researchers and policymakers who insist markets are efficient and all changes reflect fundamentals.

RISE OF THE MACHINES

The authors put forward various possible explanations for the rising reflexivity in commodity futures markets including the increased prevalence of algorithmic and high-frequency trading; more behavioural trading and herding; hedging; margin calls and stop-loss orders.

Since hedging, margin calls and stop-loss orders have been a constant feature of commodity markets, the most likely explanation for rising reflexivity lies with the increase in computer-driven and behavioural trading.

The authors present some startling numbers to illustrate the rise of algorithmic and high-frequency trades in commodities.

Using the Thomson Reuters Tick History (TRTH) database , which contains 2 petabytes of tick-by-tick data on more than 45 million unique instruments across more than 400 exchanges, the authors show the big increase in the number of trades since 2005 has been accompanied by a sharp fall in the number of contracts in each transaction.

There are more transactions, but each one is much smaller than before. The average volume per transaction fell from between five and 40 contracts in 2005, depending on the commodity, to less than three per transaction in 2012 for all.

By 2009, the median volume for all commodities was just one contract per transaction. In other words, more than half of all transactions consisted of just one lot.

Larger trades are becoming increasingly rare. In 2005, 10 percent of all Brent trades were for at least 13 contracts. By 2011, the top 10 percent of Brent trades were for just two contracts or more.

The rising flurry of small transactions is mirrored across markets and is characteristic of algorithmic and high-frequency traders.

MARKET EFFICIENCY

To distinguish between price changes that are initiated by fundamentals versus other changes, the authors employ a Hawkes self-excited conditional Poisson model, which has become the gold standard for modelling discontinuous financial data.

It can be likened to a family tree. Some price moves are initiated by external events such as new data. These primary price moves can be described as zero-order, mother or immigrant events. Other price moves are triggered by previous ones. These can described as first-order, second-order etc, daughter or descendant events.

"Every zero order (mother) can trigger one or more first-order events (daughters), each of whom becoming mother-event in turn can trigger several daughters (second-order events or granddaughters) and so on over many generations," the authors explain.

"First-order, second-order and higher-order events form the cluster of aftershocks of the main event as a result of the self-excited (endogenous) generating mechanism in the system."

The researchers compared the number of zero-order events with those that were apparently first-order or higher descendants to calculate a branching ratio or reflexivity index. The higher the index, the greater the proportion of descendant trades.

For a reflexivity index of 0.8, which is where Brent peaked in late 2008 and 2009, there were five times as many price moves as the number that would exist if each were reacting to fundamentals alone. Four out of five trades appeared to react to pre-

FEATURE *(Continued)*

vious trades rather than be triggered by external fundamental news.

The more first- and higher-order price movements there are compared with zero-order initiating events, the longer it takes the market to find a new equilibrium, and the less efficiently it operates.

"It takes more and more time for the system to adjust to new immigrants due to the larger and larger number of triggered descendants and the longer and longer sequences of generations. This means that the convergence process to any true price becomes longer and longer, in other words less and less efficient," the authors write.

"Rather than agreeing rapidly on the 'correct' price after the arrival of some unanticipated news, the traders take longer, not knowing on what price to settle."

PRICES AND BUBBLES

Strictly speaking, the research is applicable only to price movements over short intervals, up to 10 minutes or so. "Our reflexivity indices are not particularly designed to capture longer-term herding mechanisms, which are responsible for bubble formation on times scales of months to years," the authors admit.

However, they go on to observe, "we surprisingly find that the mechanisms working at longer-term scales sometimes seem to cascade down to the shorter intervals on which we compute our indices.

"The most remarkable result obtained from the calibration of the branching ratio is its very large increase during the period when oil prices started to accelerate (2007 and 2008). The fact that our methodology identifies a growing reflexivity during the ascent of the price and, even more so, during its collapse, is particularly interesting in view of other analyses that documented strong evidence for the existence of a bubble during that period."

Brent's branching index climbed to almost 0.8 in the run-up to the price peak in July 2008 and rose even further as prices collapsed in the final months of the year and into 2009.

Branching indexes for Brent and other commodities show other localised peaks during periods when cross-asset risk-on/risk-off trading has been especially pronounced - periods when herding behaviour has seemed to be maximised and commodity-specific fundamentals have seemed to be relegated to a secondary role.

The high levels of reflexivity identified in the study "highlights the failures of the efficient markets hypothesis and provides evidence that price dynamics are partly driven by positive feedback mechanisms".

In layman's terms, if their econometrics is correct, Filimonov, Bicchetti, Maystre and Sornette have proved what traders have always instinctively understood: prices are driven by a combination of fundamentals and behavioural factors, in proportions which vary over time.

For all that this seems like common sense, this view has proved remarkably controversial, with the debate polarised between market fundamentalists and those who detect the hand of speculation behind every rise in commodity prices.

Perhaps this study will move the debate forward towards a more productive synthesis.

The paper on "Quantification of the High Level Endogeneity and of Structural Regime Shifts in Commodity Markets" can be downloaded at http://ssrn.com/abstract=2237392. Despite the technical mathematics, the authors explain their tests and results clearly, and the paper is worth reading in full.

(John Kemp is a Reuters market analyst. The views expressed are his own)

GENERAL NEWS

Australia's Newcrest cuts gold production, shares fall 6 pct

SYDNEY, March 28 (Reuters) - Australia's Newcrest Mining , the world's no. 3 gold producer, cut its gold production guidance for the 2013 financial year on Thursday, sending its shares down more than 6 percent. Newcrest said it cut the guidance to 2.00 to 2.15 million ounces, the mid-point of which was around 10 percent below the original minimum guidance level.

The original guidance was no longer achievable due to restricted production capacity and continuing challenges with poor ground conditions at its gold plants, the company said in a statement. It maintained its annual copper production guidance of 75,000 to 85,000 tonnes.

Newcrest shares plunged 6.2 percent to A$20.51 by 0331 GMT.

Guinea picks global advisers for mining review

By Bate Felix and Saliou Samb

CONAKRY, March 27 (Reuters) - Guinea has chosen global law firm DLA Piper and three other advisers to help review and, if need be, renegotiate mining contracts signed by previous governments, the head of the review body told Reuters.

The review, pledged by President Alpha Conde after he came to power in 2010, will scrutinise contracts with companies such as BHP Billiton , Vale , Rio Tinto , RUSAL and BSGR to ensure the mineral-rich but impoverished West African nation is benefiting sufficiently from deals.

GENERAL NEWS *(Continued)*

"Our objective is to point out to our partners areas in their contracts where the country is at a flagrant disadvantage, and discuss openly with them," Nava Toure told Reuters.

"They should no longer view us as this fuming vigilante with a knife clenched in the teeth, coming to right the wrongs of the past," said Toure, president of a technical committee reviewing 18 mining deals.

Guinea is the world's top supplier of the aluminium ore bauxite and is also home to the Simandou iron ore deposit - the world's largest undeveloped iron ore reserve - now held by Rio Tinto and BSGR.

Alongside DLA Piper, one of the world's biggest law firms by revenues and number of lawyers, Guinea had picked Canadian law firm Heenan Blaikie and French firms Orrick Rambaud Martel and Gide to take part in a process now due to be completed by the third quarter of 2014.

The firms would advise the technical committee, Toure said in his downtown office in Guinea's seaside capital, Conakry.

Guinean officials have criticised a lack of openness when the contracts were signed, particularly those agreed during the two years of military rule before Conde's 2010 election.

The government is also overhauling the mining code, the set of laws covering how the mining industry is regulated by the state, to ensure they allow the government a fair share in resource profits.

The mining review, coupled with political instability and challenges to secure financing, have led to cuts in investment by mining groups, including BHP Billiton, Vale, Rio Tinto and RUSAL over the last year.

The reviews of contracts and the mining code are seen by some in the mining industry as part of a trend by African governments to seek more resource revenues.

BSG Resources, the mining arm of Israeli billionaire Beny Steinmetz's business empire, has accused the government of trying to use the process to confiscate its rights to Simandou.

Other companies operating in Guinea have kept a lower profile, saying they will cooperate with the review, although BHP has said it is pulling out of the country, seeing better prospects elsewhere.

Toure said contracts would be reviewed on a case by case basis, taking into consideration the needs of investors, including companies that were trying to find financing for projects and could not afford uncertainty.

"We'll bring forward projects that need to be dealt with speedily," he said.

TRADING PLACES

London Metal Exchange to bolster benchmarks with tougher rules

By Susan Thomas and Josephine Mason

LONDON/NEW YORK, March 27 (Reuters) - The London Metal Exchange, spurred by new regulatory pressure across financial markets, plans to tighten rules for its trading floor where global benchmark prices for materials like copper are reached, industry sources said.

They said the changes aim to increase liquidity and thus curb sharp price moves at the end of the shouted "open-outcry" trading sessions, so prices reached then gain extra credibility.

The initiative is partly a response to the spotlight shone by regulators on all benchmark pricing mechanisms after the Libor rigging scandal last year that exposed interest rate manipulation by banks in London.

"With the Libor issues out there, everyone is becoming very sensitive as to how prices are set or fixed, so every little thing you can do to improve that is a good thing," said one source familiar with the matter.

About a dozen trading companies and banks pay the LME for the right to send traders onto the circular floor known as the "Ring" in the LME building on Leadenhall Street in London's City financial district, where they shout bids and offers and clinch deals on behalf of themselves or for clients.

While many other financial markets have scrapped such voice trading to conduct business electronically and by telephone, many metals traders say retaining open outcry as well offers the best way to discover prices that truly reflect the market.

Faith in this mechanism means businesses worldwide use some prices reached in Ring trading as the basis for their trades in physical copper, aluminium, lead, tin, zinc and nickel.

But sources say some LME members and the exchange itself, worry that floor traders often do not take on orders that are big or risky enough to truly represent the market at the end of the last part of the day's open outcry business, the "kerb".

The fear is that these crucial prices, used by market participants to calculate daily profit and loss, can be based on trading of a few or even one lot - 25 tonnes in copper's case.

"By not taking on enough risk it starts becoming a one-lot market. There needs to be more risk-taking to ensure proper liquidity and a representative price," said a source at an LME Category 2 broking company, which places orders by telephone through a Category 1, or Ring-dealing, member.

One rule due to take effect this year is that any deal at the final kerb trading close must be for a minimum of 10 lots, with some exceptions, three sources familiar with the matter said.

TRADING PLACES *(Continued)*

The LME, which was bought last year for $2.2 billion by Hong Kong Exchanges and Clearing (HKEx) , declined to confirm or comment on the new rule.

The change seeks to prevent the closing price of a metal being based on small tonnages, which could skew the level.

"With smaller lots, the bids and offers that are made are not really there to be traded for any volume and that reduces the credibility of that price," said another executive at a Category 2 member firm.

"Doing it this way (a larger size) enhances the ability for the price to be credible. It makes the Ring more relevant."

A larger minimum trading size would also help reduce the potential to deliberately push prices one way or another in the moments before the 5.00 p.m. kerb close.

"I think the feeling is that 99 days out of 100 there's no problem," the first source said. "If the close does have a problem on one day in 100, (they) are trying to iron out that one day."

CLOSER TO HOME

Unlike the Libor rate, which is based on bankers' opinions, the LME's metals levels are traded prices. There is no suggestion of any regulatory investigation of any LME price mechanisms.

But all exchanges are alert to increased scrutiny of benchmarks which is beginning to focus on precious metals price discovery, which uses a different method to LME mechanisms.

The U.S. Commodity Futures Trading Commission has had "a couple" of conversations about whether the daily setting of prices for gold and silver in London is open to manipulation.

The International Organisation of Securities Commissions (IOSCO), a global group for markets regulators, is conducting a wider review of price benchmarks and is set in May to publish a report with principles on how to compile them to avoid rigging.

Meanwhile, a second rule due to come into effect in the LME is designed to ensure business done in the Ring is concluded as quickly and efficiently as possible after the close.

From June, the LME will bring forward by 15 minutes and will narrow to 15 minutes from 20 the time "window" in which LME members can object to a price after the close of Ring trading.

"This latest modification is part of a series of enhancements designed to add further efficiency and transparency to the procedures used to establish the closing prices," the LME said in an emailed comment.

CME to offer PGM, copper options in New York gold, silver pits

NEW YORK, March 27 (Reuters) - U.S. derivatives exchange CME Group Inc said on Wednesday it will make platinum, palladium and copper floor-traded options accessible to its gold and silver option pits in a bid to boost floor trading volume in New York.

The change will be effective April 1, CME Group said in a statement.

Gold and silver options are currently by far the most popular metal options on the CME Group trading floor located in downtown New York.

Floor traders said that making platinum group metals (PGMs) and copper options available at the gold and silver pits will increase overall trading volume due to growing interest in PGMs and copper amid an improving U.S. economic outlook.

CME's move came a month after it added platinum and palladium options onto its Globex electronic platform in response to rising interest.

CME now offers platinum and palladium options trading on its New York Mercantile Exchange floor and for clearing through its own over-the-counter clearing system known as ClearPort.

But traders said there are currently too few market makers and not enough pit trading to make it worthwhile.

MARKET NEWS

Antofagasta resumes pricey Antucoya project after cost review

LONDON/SANTIAGO, March 27 (Reuters) - Chilean miner Antofagasta said on Wednesday it was resuming construction of its Antucoya copper mine after halting the expensive project in December to carry out a review of its costs.

Antofagasta said the full review gave it greater certainty over development costs, citing a "renegotiation of principal construction contracts for the project, additional detailed engineering, and an updated resource model following further drilling of the deposit."

The London-listed miner said Antucoya was now expected to cost $1.9 billion, up from a previous estimate of $1.7 billion, and produce an average of 85,000 tonnes of copper cathodes during the first ten years of its mine life.

That would put the cost per tonne of annual production a little over $22,000, making it one of the most capital intensive projects in the industry.

"The detailed review of the Antucoya project and the measures we have taken since December 2012 have provided us with the level of certainty in relation to the development costs for the project that we sought, thereby enabling us to resume construction," said Antofagasta's CEO Diego Hernandez.

MARKET NEWS *(Continued)*

The company said on Wednesday mining operations are expected to start during 2015.

Antofagasta, which is controlled by Chile's wealthy Luksic family, approved the project in 2011, selling a 30 percent stake to Japanese trading house Marubeni Corp to help shoulder the burden of the costs.

SPIRALLING COSTS

The project located in the arid, northern Atacama region, around 45 km east of Antofagasta's Michilla mine, is emblematic of soaring costs in mining.

For miners in world No.1 copper producer Chile, steep power prices are one of the biggest headaches.

Antofagasta said roughly $500 million had been spent on the project before it was suspended. Part of the remaining costs could be partially funded via "project finance at the asset level," the company added.

Antofagasta warned when it published 2012 production numbers earlier this year that it would not increase output this year, while costs would jump by over a third due to greater spending at two key mines, Esperanza and Los Pelambres.

Copper production last year came in at 709,600 tonnes, beating Antofagasta's full-year forecast of 700,000 tonnes, and 11 percent higher than the previous year.

Shares of Antofagasta closed 0.39 percent stronger on Wednesday, before the announcement to resume Antucoya's development was made, outperforming a broadly flat sector.

Guinea picks global advisers for mining review

By Bate Felix and Saliou Samb

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The mining review, coupled with political instability and challenges to secure financing, have led to cuts in investment by mining groups, including BHP Billiton, Vale, Rio Tinto and RUSAL over the last year.

The reviews of contracts and the mining code are seen by some in the mining industry as part of a trend by African governments to seek more resource revenues.

BSG Resources, the mining arm of Israeli billionaire Beny Steinmetz's business empire, has accused the government of trying to use the process to confiscate its rights to Simandou.

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"We'll bring forward projects that need to be dealt with speedily," he said.

MMG braces for zinc output fall as big Australia mine nears end

SYDNEY, March 28 (Reuters) - China's MMG Ltd expects an 8 percent drop in its zinc production this year as its Century zinc mine in Australia, the world's second largest, nears depletion, its chief executive said on Thursday.

The mine, scheduled to run dry in three years and a major supplier to Holland's Budel smelter, which is owned by Nyrstar , produced a record 514,000 tonnes of zinc metal in concentrate in 2012, according to MMG Chief Executive Andrew Michelmore. That was second in output only to Alaska's Red Dog mine, owned by Teck Resources .

MARKET NEWS *(Continued)*

"This (decline) is mainly driven by the lowering of grades from the Century mine as it heads for its closure in 2016," Michelmore said in a teleconference with media and analysts.

MMG, which also operates two smaller zinc mines in Australia, expects total 2013 production of 550,000 tonnes.

Zinc prices have tumbled 14 percent since February, hurt by oversupply and weak demand from steelmakers that use the metal as a rust retardant.

Benchmark three-month London Metal Exchange zinc stood at $1,912 a tonne at 0450 GMT.

MMG is digging a second mine in Australia that will replace less than half the output of Century, exacerbating a looming supply pinch on global markets that could surface in the next few years as industrial productivity in China and the United States grows and other mines close, according to Michelmore.

The global zinc market was in surplus by 40,000 tonnes in January, the most recent data from the International Lead and Zinc Study Group shows.

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 on Cyprus worries, slow China buying

By Melanie Lee

SINGAPORE, March 28 (Reuters) - London copper edged down on Thursday towards a one-week low hit in the previous session as caution emerged over a possible bank run in Cyprus, while prices were set to end the month and quarter down due to a lack of robust Chinese demand.

The seasonally strongest second quarter gets underway next week, but industry sources in top consumer China say they are underwhelmed by orders which represent only a modest improvement from last year.

"We are in the peak seasonal demand time of the year - March and April - fundamentally this is about as good as we're going to get," said analyst Ivan Szpakowski of Singapore Credit Suisse.

Optimism over a recovery in the euro zone at the start of the year has proven unfounded even though the U.S. economy was improving, he said. "It's not a recipe for a great rally, but it's modestly positive ... Still as we progress through the remainder of the year, we think that activity and demand is going to slow."

Three-month copper on the London Metal Exchange fell by 0.14 percent to $7,596.25 a tonne by 0714 GMT, adding to a small decline from the previous session.

Prices were set to finish the week with losses of almost one percent for a first-quarter fall of more than 4 percent, extending a 3 percent drop seen in the last quarter of 2012.

The most-traded July copper contract on the Shanghai Futures Exchange fell by 0.61 percent to close at 55,300 yuan ($8,900) a tonne. European stock index futures pointed to a slightly lower open on Thursday as concerns about a potential run on Cyprus's banks, set to reopen almost two weeks after being shut by the government, kept investors on edge.

Underpinning prospects for metals demand, recent data left little to suggest that the U.S. housing market recovery is stalling, as contracts to buy previously owned U.S. homes fell in February, held back by a shortage of properties. The London Metal Exchange will be closed Friday and Monday for Easter celebrations. China's official Purchasing Manufacturer's Index for March is due on Monday.

PARTIAL RECOVERY

Traders in Asia noted firming premiums for bonded copper stock in Shanghai, but said that consumer appetite remained weaker than last year. "For consumption, it is not very encouraging news. Seasonally it's slightly better but not fundamentally," said one trader in Shanghai. Deals were reported at $70-$85 with an offer heard as high as $90. Bonded premiums were around $55 around a month ago.

PRECIOUS-Gold holds above $1,600 as Cyprus fallout supports

By Lewa Pardomuan

SINGAPORE, March 28 (Reuters) - Gold held steady above $1,600 an ounce on Thursday on worries the Cyprus rescue deal could become a blueprint for solving banking crises in the euro zone, supporting the precious metal's safe-haven appeal.

Gold is on track for a 1.6 percent gain in March, its first monthly rise in six, amid concerns about the financial stability of the euro zone stoked by the crisis in Cyprus, where hundreds of anxious depositors are expected to besiege banks when they finally reopen later in the day. "We continue to maintain the short-term outlook out of Europe remains uncertain enough to give the gold market a degree of support for the balance of the week and heading into early next week," said Edward Meir, metals analyst at futures brokerage INTL FCStone.

"Although the Cypriot situation will likely fade from the headlines over the course of the next month, the unusual circumstances behind the country's rescue will likely linger for some time longer." Gold was little changed at $1,604.20 an ounce by 0722 GMT, still below a 1-month high around $1,616 hit last week. It rallied to an all-time high around $1,920 in September 2011, when a worsening debt crisis in Europe sparked a buying rush.

U.S. gold dropped $2.30 to $1,603.90 an ounce.

The physical market was mostly subdued as jewellers and speculators stayed on the sidelines ahead of the Easter holiday, keeping premiums in Hong Kong and Singapore unchanged at between $1.20 and $1.50 an ounce to the spot London prices.

"We are trading within those premiums," said a dealer in Singapore, who offered gold bars at $1.20 above the spot price. "It's quiet out here."

CYPRUS EYED

The Cyprus bailout is the first in Europe's single currency zone to impose losses on bank depositors and raises the prospect of savers pulling money out of some other euro zone countries perceived to be weak -- a worry that supports gold.

But German Finance Minister Wolfgang Schaeuble said Cyprus was a very special case and the European Union had found the right solution for it with its deal for a 10 billion euro bailout tied to the imposition of losses on bank depositors.

Cyprus will reopen its banks with tight controls imposed on transactions to prevent fleeing depositors from cleaning out the vaults in a catastrophic bank run. "Of course we are waiting for the banks to reopen today," said Ronald Leung, director of Lee Cheong Gold Dealers in Hong Kong, referring to the lenders in Cyprus. "I think for the time being gold is rangebound. The upside at $1,610 or $1,615 will be capped for a while. When the price dips below $1,600, maybe there will be scale-down buying."

Also underpinning gold was hopes the Federal Reserve will maintain its loose monetary policy after top policymakers said the U.S. central bank should continue its bullion-friendly bond-purchases at least through 2013.

Fears that central banks' money-printing to buy assets will stoke inflation have been a key driver in boosting gold, sending prices to an 11-month high last October after the Fed announced its third round of aggressive economic stimulus.

GLOBAL MARKETS-Asian shares fall, euro shaky as Europe worries mount

By Chikako Mogi

TOKYO, March 28 (Reuters) - Asian shares fell on Thursday as weak euro zone data, a sluggish debt auction in Italy and fears of a potential run on Cyprus's banks stoked investors' concerns about instability in Europe.

MARKET REVIEW *(Continued)*

European markets were seen subdued, with financial spreadbetters predicting London's FTSE 100, Paris's CAC-40 and Frankfurt's DAX to open down as much as 0.3 percent.

Benchmark indices in Spain and Italy were likely to open flat and 0.3 percent lower respectively.

A 0.4 percent fall in U.S. stock futures pointed to a weak Wall Street start. Japan's Nikkei stock average closed down 1.3 percent, as euro zone worries prompted profit taking in exporters and financials. The negative tone for Asian equities was compounded by the latest restrictive move by China, with its banking watchdog ordering banks to strengthen checks on the underlying assets of a range of wealth management products to ward off potential risks to the financial system.

The MSCI's broadest index of Asia-Pacific shares outside Japan fell 0.7 percent, wiping out the previous day's gains, which had taken the index to a one-week high.

Thursday is the last trading day for the first quarter for many Asian markets, which will be closed on Friday for the Good Friday holiday. The pan-Asian index was set for its smallest quarterly gain since the second quarter last year with a 0.9 percent rise, which would also be its worst first quarter in four years.

"Multiple factors are denting sentiment, with uncertainties over the future of Cyprus despite the bailout, Italian political instability and bad economic indicators from the euro zone," said Hirokazu Yuihama, a senior strategist at Daiwa Securities in Tokyo.

Despite their recent retracement, Asian shares outside of Japan have generally stayed in a range for the first three months of 2013, holding near the upper end close to their highest levels since August 2011, as improving U.S. economic growth and hopes China will stay on a recovery track helped boost investors' risk appetite. "China's move to tighten property regulations has been the biggest drag for Asia. Looking ahead, whether China can keep recovering will be the main issue speficic to this region," Yuihama said, adding that Southeast Asian markets may be exposed to the biggest adjustments if negative news spurred broader selling.

China shares, by far the worst regional performer on Thursday, were headed for their worst loss in nearly a month, hurting Hong Kong markets, with banks taking a hit after they were ordered to tighten control over wealth management products (WMP) and improve transparency. Hong Kong shares slid 1.3 percent and Shanghai shares slumped 2.7 percent.

"The timing of the announcement caught the market by surprise, although people were already expecting the regulators to act," said Hong Hao, chief strategist at Bank of Communication International Securities. Trading slowed generally as market players closed positions ahead of the Easter holidays.

"Whatever is happening in Europe in terms of Cyprus and the ramifications of that, maybe a lot of traders just don't want to be long or don't want to have positions over this long weekend," said Winston Sammut, investment director at Maxim Asset Management.

EURO VULNERABLE

Cypriots are expected to besiege lenders in the morning as banks reopen for the first time in almost two weeks.

Authorities imposed restrictions on cash withdrawals and may curb the use of credit cards abroad to keep a rein on money flows after the country agreed to a bailout deal that will wipe out some senior bank bondholders and impose losses on large depositors. In Italy, the government's cost of borrowing over five years rose to its highest since October at an auction on Wednesday, reflecting investor wariness over a lack of progress in forming a new government and worries about Cyprus's bailout. Meanwhile, data on Wednesday showed confidence in the euro zone economy fell more than expected in March after four straight months of gains.

"Headline risks for the euro should persist, although a positive turn of events in either country would probably come as a greater surprise given the market's subdued expectations," said Vassili Serebriakov, strategist at BNP Paribas.

The euro was at $1.2789, hovering near a four-month low of $1.2750 touched on Wednesday.

The dollar was down 0.1 percent but still near Wednesday's 7-1/2-month peak of 83.302 against a basket of key currencies.

Fears about the euro zone underpinned safe-haven U.S. Treasuries and gold, while 10-year Japanese government bond yields fell to 0.510 percent, the lowest level since June 2003, on expectations strong stimulus measures will be announced by the Bank of Japan next week at its first policy meeting under new leadership.

Such anticipations drove the BOJ's benchmark interest rate down on Wednesday to 0.059 percent, the lowest since since July 13, 2006, which was one day before the central bank ended its policy to keep the overnight call rate effectively at zero percent. U.S. crude futures rose 0.2 percent to $96.77 a barrel while Brent added 0.3 percent to $110. London copper eased 0.2 percent to $7,590.50 a tonne, with prices set to end the month and quarter down due to a lack of robust Chinese demand.

(Inside Metals is compiled by Pradip Kakoti in Bangalore)

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