INSIDE METALS

Friday, May 17, 2013

CHART OF THE DAY

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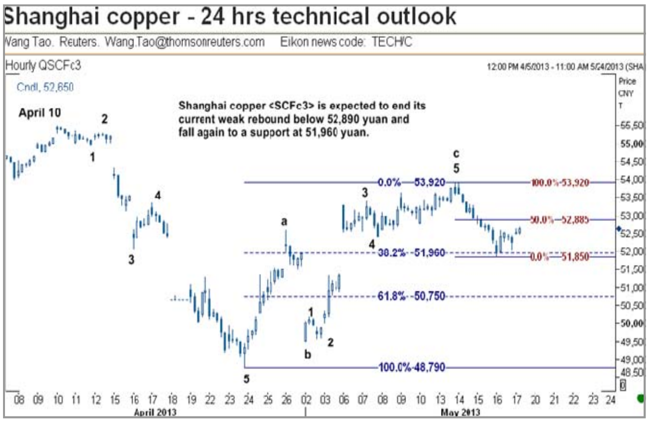

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COLUMN-China, India demand not enough to save gold

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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 edged lower to remain on course to end a three-week upward streak, undermined by a firmer dollar and indications that demand from top consumer China is unlikely to pick up strongly as Beijing shuns stimulus measures.

"Given the slightly weaker growth we are expecting out of China that means demand will come off and there's potential for disappointment in copper imports in May with financing deals being curbed," said Natalie Rampono, commodity strategist at Australia and New Zealand Banking Group.

PRECIOUS METALS: Gold fell for a seventh straight session, in its longest losing streak since March 2009, as the dollar strengthened and investors cut exposure to the precious metal, fearing further drops and choosing equities instead.

Gold has lost nearly 6 percent of its value in the six sessions through Thursday as stocks gained on the back of strong U.S. economic data, and on fears the Federal Reserve could end its bullion-friendly bond buying program.

"Many people are waiting on the sidelines as they are expecting another drop," said Brian Lan, managing director of GoldSilver Central Pte Ltd in Singapore.

FOREX: The U.S. dollar approached a 10-month high against a basket of currencies on Friday after a regional Federal Reserve chief said the U.S. central bank could begin easing up on stimulus this summer, sharpening the high-yielding Aussie's fall.

"At the previous policy meeting, the Fed essentially said whether it will reduce or expand its bond buying is 50-50. But markets are now suspicious that Bernanke may signal it's something like 55-45 when he testifies in the congress on May 22," said Minori Uchida, chief FX analyst at the Bank of Tokyo-Mitsubishi UFJ.

FEATURE

COLUMN-China, India demand not enough to save gold

By Clyde Russell

LAUNCESTON, Australia, May 17 (Reuters) - Not even renewed physical gold demand from India and China, the world's top buyers, appears to be enough to spark the precious metal's rally, but may be sufficient to stem further losses.

It should be abundantly clear to the gold bulls by now that the three main factors that drove the metal to its all-time high of $1,920.30 in September 2011 were an unusual combination, rather than the harbinger of further gains.

At that time gold was rallying because Asian physical demand was strong due to rising wealth and higher-than-normal inflation in China and India, Western investor flows into exchange-traded funds (ETFs) amid fears over excessive monetary easing and recession in developed economies, and unprecedented central bank buying.

Since then, all three factors haven't been present at the same time, causing gold to trend modestly lower to around the $1,600 an ounce mark, before it plunged 17 percent in the first two weeks of April to hit a two-year low of $1,321.35.

Firstly, Asian demand eased as China and India's economic growth eased and inflation dropped, with Indian demand slumping 11 percent in 2012 and China's growing a tepid 1 percent.

Secondly, ETF investors finally gave up waiting for the much-promised, by many analysts at any rate, rally to above $2,000 an ounce and started liquidating holdings.

The SPDR Gold Trust, the largest gold-backed ETF, saw holdings plummet to a four-year low of about 1,041 tonnes on Thursday. The holdings hit a record high of about 1,233 tonnes in December last year.

Lastly, central bank buying stopped rising, with World Gold Council data on Thursday showing first quarter net purchases at 109.2 tonnes, the lowest since the second quarter of 2011 and well below the 133.3 tonnes quarterly average in 2012.

The WGC report shows very neatly the rotation of influences of positive and negative factors driving gold prices that I wrote about on Feb. 18, with Asian physical demand picking up while ETF demand wanes.

China maintained its place as the world's top buyer of gold, with first quarter demand of 294.3 tonnes, a very strong 45 percent gain from the fourth quarter of last year and 20 percent up from the same period a year earlier.

India's consumption fell 2 percent in the first quarter to 256.5 tonnes from the fourth quarter, but was 27 percent higher than the same quarter last year.

Together, gold demand in the two Asian giants is up 18.6 percent in the first quarter of 2013 from the last quarter of 2012, and by 23 percent from the same period a year earlier.

However, ETF holdings plunged by a record 176.9 tonnes in the first quarter, having risen by 88.1 tonnes in the last quarter of 2012 and by 53.2 tonnes a year earlier.

The ETF outflow was behind most of the drop in total gold demand to 963 tonnes in the first quarter, the lowest in three years.

But it wasn't the whole negative story for gold, with demand dropping by 48.3 tonnes in the first quarter from the fourth quarter of last year -- the bulk of which is accounted for by lower central bank net purchases.

The bad news for gold bulls is that ETF redemptions have continued unabated since the end of the first quarter, with the SPDR losing 72 tonnes since the start of April, compared with about 120 from the peak in early December to the end of March.

So where does gold go from here?

It's clear that renewed physical demand in India and China isn't enough to trigger a major rally, especially if ETF holdings continue to sink.

However, if ETF holdings start to stabilise, then physical demand could see prices push higher, but gains to $2,000 an ounce is well out of reach, and even the pre-April price of $1,600 may be optimistic.

A stronger U.S. dollar on the back of brighter prospects in the world's biggest economy, coupled with an easing of financial meltdown fears in Europe will limit gold's investment appeal in the developed world.

Lower economic growth in India, coupled with central bank efforts to limit gold imports to try and lower the current account deficit, probably mean demand in the South Asian nation won't rise much more.

China remains the best hope for gold, with lower prices clearly tempting buyers.

But gold can't hope to rally with two of its three legs wobbly, and the one good leg, namely Asian demand, isn't enough to offset weak investment demand and waning central bank buying.

At least one of these two bearish factors will have to ease, or at least stabilise, if prices are to gain any traction.

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

GENERAL NEWS

Freeport Indonesia mine shut for second day, five dead

JAKARTA, May 16 (Reuters) - Operations at Freeport-McMoRan Copper & Gold Inc's Indonesian mine remained halted for a second day, as rescuers raced to find 23 workers still trapped underground after a training tunnel collapse at the world's No.2 copper mine.

Thirty-nine workers were attending an underground training class at the Grasberg complex in remote West Papua province, when the tunnel collapsed on them early on Tuesday morning. Five people have died, Freeport said in a statement on Thursday.

The company temporarily suspended mining activities on Wednesday, as a mark of respect for those killed and trapped, while the statement added that pay talks with unions that began on May 13 had also been put on hold.

Union leader Virgo Solossa told Reuters there was no problem with the suspension of pay talks, adding that he planned to attend a union meeting on Thursday to decide on any response to the tunnel accident at the Grasberg complex - which also holds the world's largest gold reserves.

The cause of the accident was still unclear. The training tunnel was located outside the mining area and around 500 meters from the entrance of the Big Gossan mine.

Eleven people have now either been rescued or managed to escape the tunnel collapse, according to the Freeport statement.

"The rescuers have been working around the clock for two days now and they continue to strive to reach the rest of our trapped colleagues in the shortest time possible," President Director of Freeport Indonesia Rozik Soetjipto, who is now at the mine site, said in the statement.

The tunnel collapse is one of a number of worker-related incidents at the Papua mine in recent years, including a strike in late 2011 that lasted for three months.

Freeport declared a force majeure on some concentrate sales about one month after workers began to strike in 2011, freeing itself from some of its contractual supply obligations. Traders, however, do not expect the current shutdown to impact supply.

The mine would typically have several days of ore stockpiled on site, while up to a month of material may be stored at port, suggesting there was little risk the miner would default on supplies to customers, a Singapore based trader said.

Freeport Indonesia's sales are expected to reach 1.1 billion pounds of copper and 1.2 million ounces of gold in 2013, up 54 percent and 31 percent over 2012, respectively.

Benchmark copper on the London Metal Exchange was down around 0.4 percent at $7,168 a tonne by 0729 GMT.

Amplats says S.Africa miners report for morning shift

JOHANNESBURG, May 17 (Reuters) - Miners at South Africa's Anglo American Platinum (Amplats) reported for work on Friday, a company spokeswoman said, despite earlier calls for a strike by some union leaders.

Amplats spokeswoman Mpumi Sithole said all workers had reported for the morning shift at the world's biggest platinum miner and there had been no trouble.

"Everything is normal at Amplats this morning. Workers are going underground and there have been no incidents," Sithole said.

Unions and worker committees had threatened to start a strike on Friday in protest at Amplats' plans to cut as many as 6,000 jobs to try to restore the company to profitability.

The threats sent the company's shares to an eight year low of 286 rand on Thursday, close to half this year's high of 508.99 rand in January.

The rand also tumbled to its lowest since April 2009 amid concerns the labour unrest might spread through the rest of the mining sector, hitting growth in Africa's biggest economy.

More than 50 people were killed last year in labour unrest in South Africa's platinum belt, including 34 strikers gunned down by police at Lonmin's Marikana platinum mine, 120 km northwest of Johannesburg.

TRADING PLACES

Ex-BP boss Hayward takes Glencore chair after Xstrata clearout

By Clara Ferreira-Marques and Emma Farge

LONDON/ZUG, Switzerland, May 16 (Reuters) - A shareholder coup at newly merged commodities group Glencore Xstrata ousted its chairman and all former Xstrata directors on Thursday, replacing him with former BP boss Tony Hayward, excoriated for his role in the Gulf of Mexico oil spill.

The move returns Hayward to the limelight at one of London's largest firms, while Sir John Bond, the former chairman of Xstrata and British blue chips HSBC and Vodafone, suffered the ignominy of an 81 percent vote to unseat him.

Bond, who had drawn fire from shareholders for backing a generous retention package for Xstrata executives in the run-up to the takeover, announced his failure to be re-elected at the start of the new group's first annual general meeting, with a comment so brief many people in the room did not realise he was leaving.

Hayward, already a director, will fill the role until a replacement is found and will run the nominations committee, key as Glencore rebuilds its board. He is not in the running to take the job permanently.

TRADING PLACES *(Continued)*

The abrupt clean-up at the top hands Glencore a freer hand to restructure the $68 billion group as it begins a three-month evaluation period after the acquisition of Xstrata closed earlier this month.

It also puts paid to any lingering notion that the deal was a combination of equals and raises questions about whether new directors can be strong enough to act as effective counterweights to Glencore's pugnacious chief executive and largest shareholder, Ivan Glasenberg.

"It was an odd transition, yes, but it was a takeover, so it was never going to be gentle," said one industry analyst, who declined to be named.

Glencore, though, was at pains on Thursday to assure shareholders it would go through an orderly process to find suitable candidates for director roles and the top job. It will bring in external advisers, invited shareholder feedback and said Hayward would return to his role as senior independent director once a chairman was found.

Anne Fraser, Head of Corporate Governance at SWIP, one of the group's largest 10 shareholders, said: "What matters now is to secure the appointment of an independent chairman who commands the support of both external and internal shareholders. The chairman would then be well placed to lead a refreshment of the board."

Glencore was criticised in 2011, at the time of its listing, for its appointment of Hong Kong veteran and colourful former legionnaire Simon Murray as chairman. Analysts and investors questioned whether he could keep Glasenberg in check and represent minority shareholders.

Murray was replaced by Bond after the Xstrata takeover.

Corporate governance has been a growing concern in a London-listed mining sector tainted by shareholder and boardroom tussles like those at ENRC and Bumi .

TAKING CONTROL

Investors and analysts had expected Glencore to put its stamp on the combined miner and trader following the mining industry's largest takeover, but Bond's ousting with immediate effect was unexpected as he was already due to leave.

"The time to do this would have been before the meeting, to give people time to respond," analyst Paul Gait at Sanford Bernstein said. "It does speak of an organisation for whom this is a relatively new process."

The scale of opposition to Bond's nomination was evidence of what one analyst described as the disgruntlement of investors still reeling from the failure of Xstrata's board to secure the best price. That role fell to top shareholder Qatar.

Shareholders also voted against the re-election of three other Xstrata directors - Con Fauconnier, Peter Hooley and Ian Strachan. A fourth director, Steve Robson, resigned earlier.

Bond, a former banking heavyweight, had agreed last November to stand down as chairman after criticism over the 140 million pound ($223 million) "golden handcuffs" package for key Xstrata managers.

"I recognise and respect the strong opposition among many to the retention arrangements which the board felt appropriate to ensure management stability," he said.

Glencore managers own almost 25 percent of the group, making them the largest group of shareholders, but under the terms of the merger Glasenberg could not oppose Xstrata directors.

Thursday marked the end of an era for veteran Bond, but for Hayward, who was ousted from BP after a series of gaffes during the Deepwater Horizon oil spill in 2010, the appointment at Glencore, albeit temporary, furthers his comeback since his appointment to the Glencore board in 2011.

A new chairman is expected to be appointed by the end of the year, a second source with knowledge of the matter said.

MARKET NEWS

Alcoa to cut production, delay new line at Quebec smelter

May 16 (Reuters) - Aluminum producer Alcoa Inc said on Thursday it was permanently closing two potlines at its Baie-Comeau smelter in Quebec, with total capacity of 105,000 tonnes, and delaying the construction of a new potline at the facility.

The shutdown, set for August, is part of a review of 460,000 tonnes of operating capacity, announced on May 1, due to weak aluminum prices and high costs.

Alcoa said it now plans to put the site's new potline into service in 2019 rather than 2016.

The company said the lines set for closure are "among the highest-cost smelting capacity in the Alcoa system." It said the shutdown would cut greenhouse gas emissions at the plant by 40 percent. The potlines use Soderberg technology, which is less energy efficient than newer ways of smelting aluminum.

Alcoa expects restructuring charges related to the closures of $135 million to $155 million, or 11 cents to 13 cents a share, on an after-tax basis in 2013.

Alcoa spokeswoman Monica Orbe said the Baie-Comeau work force would be reduced by about 500 employees through retirements and attrition. Some 1,400 people work at the facility now.

Alcoa shares were unchanged at midday, trading at $8.50 on the New York Stock Exchange.

MARKET NEWS *(Continued)*

Small China copper importers hit as banks choke off credit

By Fayen Wong and Polly Yam

SHANGHAI/HONG KONG, May 16 (Reuters) - Some Chinese banks have stopped funding smaller copper importers, trade sources said, putting the squeeze on a billion- dollar financing play in the world's top consumer of the metal as Beijing cracks down on currency speculation.

The crimp on importers, who use the metal in trade financing, could push up supply in the international market and pressure already weak global copper prices further, though it would benefit domestic copper prices .

China's refined copper imports reached $5.42 billion in the first quarter of this year, with traders estimating that about half of the shipments were used for financing.

Several Chinese banks in Shanghai, the eastern industrial provinces of Zhejiang and Hebei and the southern province of Guangdong have stopped issuing letters of credit (LCs) to smaller firms that trade copper, the sources said.

China Construction Bank , the country's No. 2 bank, and Industrial Bank Co are among banks that have scaled back trade loans to copper, two traders said.

Beijing set new rules last week to crack down on fake trades amid signs that hot money inflows have helped push the yuan to a series of record highs in recent weeks. The rules, to take effect from June 1, require banks to tighten the management of their foreign exchange lending and types of clients that are able to access those loans.

Any trading companies whose capital flows do not match their commodity trade flows will find it difficult to get U.S. dollar LCs.

Some banks have asked clients not to open LCs in the near future if they had not booked prompt shipments, while some were only willing to issue LCs with a maturity of three months, sources said. LCs are typically one-year long.

"Some of the banks have stopped issuing dollar loans since late April because there was talk that Beijing was going to roll out measures to crack down on forex borrowing," said a Shanghai-based trader.

China Construction Bank and Industrial Bank could not be reached for comments, despite several attempts to contact them.

FATTER REWARDS

Many credit-starved firms in China have turned to importing copper since late 2011 because trade financing offered much lower interest rates than bank loans, which were also hard to obtain for private firms.

Some investors have used loans obtained from copper imports to bet on yuan appreciation or to reap fatter rewards from other sectors like property.

Firms using copper for financing purposes typically import the metal and either trade the warrants or use it as a collateral for financing deals with foreign banks, with the goods stored in bonded warehouses. Warrants are receipts for stocks issued by warehousing companies.

The repeated sale of warrants among companies means the capital flows would significantly exceed the value of physical shipments - in turn inflating China's trade value.

China ran a capital and financial account surplus of $102 billion in the first quarter, up from $20 billion in the fourth quarter last year, reflecting the heavy capital inflows.

An appreciating yuan, which is up 1.32 percent this year, makes financing trades more profitable as fewer yuan are required to repay the loans.

While trade in copper, which is most actively used for financing deals, would be the most affected from the latest curbs, other commodities which investors use as collateral for financing, such as rubber, could also be affected.

CANCELLING ORDERS

The credit squeeze has already forced some firms to cancel import plans.

"Some of our clients were unable to get LCs with one-year maturity and have cancelled their spot copper imports," a trader at an international trading firm said. An LC with shorter maturity date increases financing costs for buyers.

"We are not ruling out a possibility some may default on term shipments in coming months," said a trader at an international trading house.

There are no estimates on how much of this year's term shipments, estimated by traders at about 180,000-220,000 tonnes per month of refined copper, could potentially be affected.

Some banks had already scaled back on loans for copper financing since late last year as bulging copper inventories at Shanghai bonded warehouses, which hit a record 1 million tonnes in January, raised payment risks.

And banks in Guangdong have required importers of copper to present a buyer as a condition to issue LCs, trade sources said.

Some doubted whether the new steps will have the desired effect.

"This will have some impact on import demand in the near term but it will be hard for regulators to draw up clear rules on what qualifies as a legitimate copper trade," said a base metals analyst who did not want to be identified.

"Regulators have been trying to step up supervision on trade financing since late last year but the market has always been quick to evolve and find some loopholes in the system."

MARKET NEWS *(Continued)*

Vedanta sends Dubai copper to India after Sterlite closure

By Krishna N Das

NEW DELHI, May 16 (Reuters) - Vedanta Resources Plc is exporting 4,000 tonnes of refined copper a month from Dubai to customers of India's Sterlite Industries, whose smelter will stay shut until at least May 22 when a court resumes hearing a case over its closure.

The plant, run by Vedanta unit Sterlite Industries , meets half of India's copper demand. The closure of the facility, which produces 30,000 tonnes of refined copper a month and exports nearly half of that to China, has tightened supply and driven up prices.

The smelter was closed on March 30 after residents complained of emissions that led to breathing problems.

The shutdown has led to a doubling of copper imports to about 8,000 tonnes per month from countries like Russia, P. Ramnath, chief executive of Sterlite Copper, told Reuters. "Because of the shutdown, the gap has increased between demand and supply, which has basically resulted in premiums going up," metals trader Ushdev International's Managing Director Ashwin Rathi told Reuters last Friday. "I don't think the Sterlite issue would be resolved any time soon."

Ramnath said that Vedanta's unit Fujairah Gold Fze had been exporting to India since April to help Sterlite's customers cope with the shortage.

London-listed resources conglomerate Vedanta, controlled by billionaire Anil Agarwal, reported a 21 percent rise in full-year earnings and said it was confident operations would resume at the Sterlite smelter.

Vedanta did not book an impairment on the asset and said it was in "full state of preparedness" to restart the smelter and that the cost of shutdown was "not very significant."

Justice Swatanter Kumar of the National Green Tribunal, the fast-track court hearing the case, on Thursday asked the pollution control board of Tamil Nadu state to provide data on emissions from the plant before the next hearing.

No decision is expected that day as the court said it will have to hear the arguments of more parties.

Italian steel industry proposes duty on EU steel scrap export

By Silvia Antonioli

BRUSSELS, May 16 (Reuters) - Italy's steel industry has asked the European Commission to impose an environmental export duty on scrap, a key steelmaking ingredient, the head of Italian steel body Federacciai said on Thursday, aiming to rebalance an unfair situation.

Federacciai said steel scrap exported from the EU should be subject to a duty equal to the environmental costs producers incur when they make the steel that is eventually recycled.

Local steel mills compete for scrap supply with foreign buyers, who often do not face the same constraints as those in Europe bound by the Kyoto Protocol climate pact.

"European scrap is exported to...China and other countries who have not signed the Kyoto Protocol. The paradox is that we pay carbon emission costs when producing that steel which is then recycled and they don't, and they also come and take our scrap," Federacciai president Antonio Gozzi said.

The proposal has been included in an action plan currently being drafted by the European Commission directorate general for industry and enterprise, which is aiming to support the troubled EU industry, Gozzi said.

"It is a satisfaction for the Italian industry that our proposal has been included in the action plan," Gozzi said in an interview on the sidelines of a conference organised by the European steel body EUROFER.

"This is not a protectionist measure but is to re-establish a fair trade because there is asymmetry at the moment."

Europe, which is the world's second largest producer of steel, uses steel scrap as a raw material for about 40 percent of its steel production.

Environmentalists liked the proposal under which the money raised through the duty would be invested in research on green technology and World Trade Organization officials had also found the proposal "very elegant because it balances a currently unbalanced situation", the head of Federacciai said.

EUROFER president Wolfgang Eder, however, said he opposed any restriction on scrap exports as it would be hypocritical since the European industry is pushing for other countries such as Russia, Ukraine and India to lift restrictions on their raw materials exports.

ILVA'S ISSUES

Gozzi said protectionism, subsidies and fair trade were the hot topics at a meeting on Thursday between steelmakers and European ministries.

"There is talk of protectionism once again. I don't know if it is the right thing but certainly leaving all borders open without monitoring trade creates some problems," Gozzi said.

Federacciai, like the Italian government and most European states, is in favour of using public funds to mitigate the social effects of restructuring and plant closures in the suffering steel sector, he said.

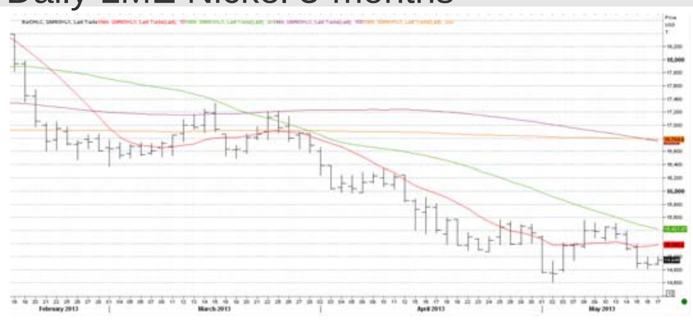
Representatives of some other states such as the UK however appeared not to be keen on any form of aid. France and Belgium, on the other hand, were pushing for even more explicit forms of aid, according to Gozzi.

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

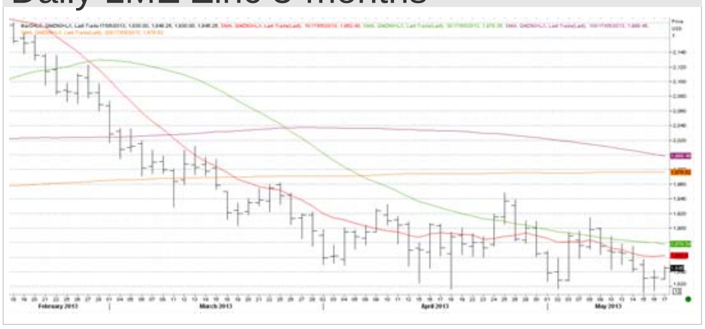
Daily LME Aluminium 3-months

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 eyes first weekly drop in four on China woes

By Manolo Serapio Jr

SINGAPORE, May 17 (Reuters) - London copper edged lower to remain on course to end a three-week upward streak, undermined by a firmer dollar and indications that demand from top consumer China is unlikely to pick up strongly as Beijing shuns stimulus measures.

China's top leaders agreed that reforms would be the only way to put the world's second-largest economy on a more sustainable growth footing, sources close to the government said, skipping policy stimulus for fear it could worsen local government debt and inflate property prices.

China accounts for around 40 percent of global copper consumption and its imports of the metal have fallen this year as the economy recovers at a modest pace, driving copper prices down by about 9 percent so far in 2013.

"Given the slightly weaker growth we are expecting out of China that means demand will come off and there's potential for disappointment in copper imports in May with financing deals being curbed," said Natalie Rampono, commodity strategist at Australia and New Zealand Banking Group.

Three-month copper on the London Metal Exchange eased 0.4 percent to $7,251 a tonne by 0312 GMT. It is down 1.7 percent for the week so far after falling to a 1-1/2-week low of $7,101 on Wednesday.

China's copper imports dropped 7.4 percent from the previous month to 295,799 tonnes, the lowest since June 2011, data showed last week.

The fall reflects softer consumption as well as an increasing squeeze on Chinese importers that use the metal in trade financing.

Some Chinese lenders have stopped funding smaller copper importers which could lift supply in the international market and pressure prices further.

The most-traded September copper contract on the Shanghai Futures Exchange gained 0.8 percent to 52,460 yuan ($8,500) a tonne after falling for the past three sessions.

The stronger dollar is also weighing on London copper with the greenback near a 10-month high versus a basket of currencies on expectations the Federal Reserve could begin scaling back on economic stimulus.

An appreciating greenback makes it costlier for holders of other currencies to buy the dollar-denominated metal, thereby suppressing demand.

PRECIOUS-Gold falls further in longest losing streak in four years

By A. Ananthalakshmi

SINGAPORE, May 17 (Reuters) - Gold fell for a seventh straight session, in its longest losing streak since March 2009, as the dollar strengthened and investors cut exposure to the precious metal, fearing further drops and choosing equities instead.

Gold has lost nearly 6 percent of its value in the six sessions through Thursday as stocks gained on the back of strong U.S. economic data, and on fears the Federal Reserve could end its bullion-friendly bond buying program.

Spot gold was down 0.34 percent at $1,380.91 an ounce by 0538 GMT, having fallen to a four-week low of $1,369.29 on Thursday as renewed liquidation in gold ETFs and a recent drop below the $1,400-per-ounce level spooked investors.

The metal is down 17 percent for the year and is on track for its worst weekly decline in a month. Holdings in SPDR Gold Trust , the world's largest gold-backed exchange-traded fund, fell to their lowest in four years.

Physical demand was also quiet on Friday as consumers in the biggest gold buyers, India and China, wait for prices to stabilize or drop further, traders and dealers said.

"Many people are waiting on the sidelines as they are expecting another drop," said Brian Lan, managing director of GoldSilver Central Pte Ltd in Singapore.

Demand in India is being hurt by central bank curbs on gold imports. Limits on bank consignments have hit supply and triggered a sharp jump in premiums.

Indian gold futures fell 1.5 percent on Thursday, extending losses for a second straight session to their lowest level in nearly a month, in line with global markets.

Lan said buying in India had fallen significantly from Monday, which saw the celebration of Akshaya Tritiya, considered an auspicious day to buy gold.

Premiums quoted in India on gold bars were as high as $5 an ounce, another physical dealer said.

Premiums for gold bars in Hong Kong, the main source of gold for China, hit record highs this week on supply constraints.

"Premiums for gold kilo bars have increased quite substantially. In Asia, gold bars are hard to come by," Lan said.

Gold demand fell 13 percent to a three-year low of 963 tonnes in the first quarter, as rising jewellery demand and strong appetite for coins and bars failed to offset a sharp drop in investment, the World Gold Council says.

Spot gold is headed towards a low last seen in April, when fears of European countries liquidating gold reserves sent gold prices tumbling.

MARKET REVIEW *(Continued)*

FOREX-Dollar approaches 10-mth high as markets reassess Fed outlook

By Sophie Knight and Hideyuki Sano

TOKYO, May 17 (Reuters) - The U.S. dollar approached a 10-month high against a basket of currencies on Friday after a regional Federal Reserve chief said the U.S. central bank could begin easing up on stimulus this summer, sharpening the high-yielding Aussie's fall.

Currency markets took their cue from comments by John Williams, the president of the Federal Reserve Bank of San Francisco, who said the Fed could completely exit its easing by the end of the year. Investors see Williams' thinking as close to that of the Fed's top officials such as Chairman Ben Bernanke and Vice Chair Janet Yellen.

"At the previous policy meeting, the Fed essentially said whether it will reduce or expand its bond buying is 50-50. But markets are now suspicious that Bernanke may signal it's something like 55-45 when he testifies in the congress on May 22," said Minori Uchida, chief FX analyst at the Bank of Tokyo-Mitsubishi UFJ.

The dollar index , which measures the currency's value against a basket of six major currencies, gained 0.4 percent to 83.886, nearing a 10-month high of 84.094 set on Wednesday.

A break of its July peak of 84.100 could open the way for a test of 84.929, a 76.4 percent retracement of its fall from the 2010 peak of 88.708 to near a three-year low of 72.696 hit in 2011.

But Mitsubishi's Uchida said barring further evidence the Fed is moving towards scaling back stimulus, the dollar index could peak out around the current level.

"U.S. bond prices gained sharply yesterday despite William's comments. Each market has its own interpretation now and there's no broad consensus on the Fed's stance yet," he said.

Speculation about the Fed's possible exit from stimulus is having the most pronounced impact on the Australian dollar, which has enjoyed the status of highest-yielding major currency for years.

Having already lost 2.1 percent on the week by late U.S. levels, the Aussie skidded further on Friday , shedding 0.6 percent to $0.9763 to an 11-month low. If it closes below $0.9871, it would mark its first weekly close below its 200-week average since July 2009.

The currency's 5.7 percent tumble this month accounts for nearly all of its 6 percent loss on the year, as a fall in commodity prices in recent months raises concerns about a slowdown in China, the biggest buyer of Australia's natural resources.

"I can't see it falling beyond its low of 0.96 from last June, as it's not in bad enough shape to justify that... but for now the lack of an explosive bounce in the Chinese economy, against a stronger recovery in the U.S. has shifted attention to USD," said Soichiro Tsutsumi, vice president of trading at eWarrant Japan Securities.

VOLATILITY

Implied volatilities on the Aussie have shot up in the past few days, with one-month volatility near an eight-month high , suggesting investors are expecting mercurial trade ahead.

"We've been seeing some Japanese selling in the kiwi and the Aussie, and we see some profit taking on yen crosses," said Tim Kelleher, head of institutional FX sales at ASB.

Against the yen , the Australian dollar lost 0.4 percent to 99.86, its lowest since May 2. The New Zealand dollar sagged in sympathy, dropping 0.4 percent to 83.07 yen . Against the greenback, it dropped 0.6 percent to $0.8124, its lowest in six months.

Despite its strength against the Antipodean currencies, the yen gave up 0.1 percent against the dollar, which fetched 102.30 yen , not far from Wednesday's 4-1/2-year high of 102.77 yen.

Patchy U.S. data is still blunting the dollar's gains, with Thursday a case in point. Factory activity in the U.S. mid-Atlantic region contracted in May as new orders fell to their lowest level in almost a year, while new claims for jobless benefits spiked.

The next block of resistance lies around 103 yen, analysts say.

(Inside Metals is compiled by Pradip Kakoti in Bangalore)