INSIDE METALS

Friday, May 18, 2012

CHART OF THE DAY

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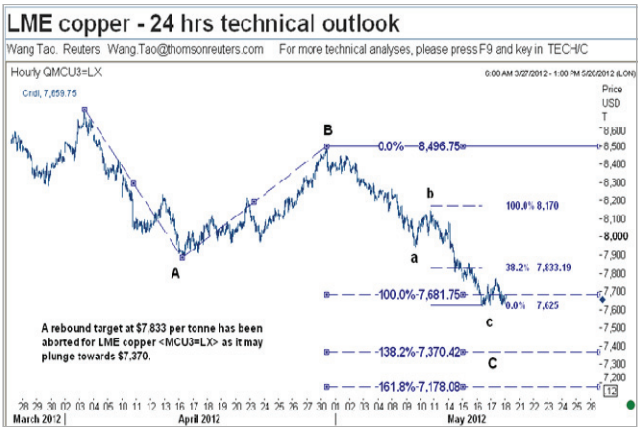

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FEATURE

FX COLUMN-Bank downgrades could rock forex players' world

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Some banks may lose business, a smaller number could gain. Client exposures and risk may become even further concentrated amongst a limited number of market participants.

Neal Kimberley is an FX market analyst for Reuters. The opinions expressed are his own -

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TODAY'S MARKETS

BASE METALS: London copper peeked above four-month lows on Friday on short-covering and signs that Greeks are warming to pro-austerity parties, allaying some fears the country could leave the euro zone.

"LME copper started rising after bouts of short-covering on the ShFE this morning ... I think this triggered the metal's upward momentum and helped lift London prices," said a Shanghai-based trader with an international firm.

PRECIOUS METALS: Gold rose on Friday, after posting its largest one-day gain in more than three months in the previous session, but prices were on track to drop for a third straight week on mounting worries over the euro zone debt crisis.

"With the reduction in net long positions, the risk of further downside diminishes," said Nick Trevethan, a senior commodity strategist at ANZ in Singapore.

FOREX: The euro hit a four-month low on Friday, extending declines prompted by fears Greece may leave the euro zone and on contagion jitters after Moody's downgraded 16 Spanish banks.

"I get a sense that for now traders would want to square their positions heading into a news-packed weekend with G8 as the main event," said Sumino Kamei, senior currency analyst at the Bank of Tokyo-Mitsubishi UFJ.

FEATURE

FX COLUMN-Bank downgrades could rock forex players' world

By Neal Kimberley

LONDON, May 17 (Reuters) - Foreign exchange traders must be considering the practical implications for their counterparty lists if a Moody's review of 114 European institutions, due by end-June, results in widespread downgrades.

Some banks may lose business, a smaller number could gain. Client exposures and risk may become even further concentrated amongst a limited number of market participants.

On Monday, Moody's downgraded the long-term debt and deposit ratings for 26 Italian banks, prompting the Italian Banking Association to call the move an "assault against Italy, its companies and its families".

The stakes are high.

Banks' FX desks and other investors have minimum credit rating requirements for their counterparties. If those are no longer met, future transactions may be diverted to better-rated banks, leaving others out of the deal loop.

With 114 names in focus, the review could leave fewer counterparties eligible for even the safest banks to trade with.

Corporate treasurers, real money investors and central bank dealers will be wary of the potential concentration of risk if more trades have to be done with fewer names.

The 2012 Euromoney Foreign Exchange poll shows four banks dominating 48.26 percent of FX transactions. Ten banks accounted for 78.76 percent of the global pie.

Apart from the pressure on finite individual credit lines, too much risk with any single institution is not healthy, especially with the euro zone debt crisis deepening by the day.

It is also a potential headache for the dominant players. They also need to liquidate their positions and if the pool of eligible or willing participants shrinks, that could be problematic.

While not a perfect analogy, seasoned traders of niche currencies may recall how, in the pre-electronic age, the sheer lack of marketmakers meant the intraday spot FX market in those pairs often resembled a gigantic game of "pass the parcel".

Investors may choose to tweak their credit criteria, perhaps opting to take an average of two or three rating agencies instead of requiring a particular rating across the board.

Others might prefer merely to lower their credit threshold. A double-A rating has effectively become the new triple-A as the universe of top-rated banks has contracted. Perhaps a further lowering of the credit rating bar will be needed.

But there is a limit to how far any investors can compromise their own credit standards.

The risks are not only to future trades.

Banks will be thumbing through their International Swaps and Derivatives Association agreements, which govern forex contracts, to see what Additional Termination Event (ATE) clauses have been written in.

A rating-related ATE would give a counterparty the right to close out existing contracts with a given bank if the bank's credit rating fell below a certain level.

In the jargon, the counterparty might try to novate the deal - transferring the contract from one party to another by mutual consent of the original parties and of the new one.

There might be a limit to the appetite to take on new trades, presumably by a bank of a higher credit standing, as reassigning the trade uses up the new party's credit lines without the chance to make money on the transaction.

VALUE

Alternatively, the original parties could bring forward the value dates of existing contracts through a process of net present valuing, enabling the contracts to mature immediately.

The better-rated name would no longer have the exposure to the downgraded bank and would probably re-create a similar trade to replicate the original exposure, albeit risking the market moves in the meantime, with a higher rated entity.

It is easy to see why a better-rated party might prefer to tweak his credit policies to avoid going to all this trouble.

But even if they adopted that stance, they might not be willing to conduct as high a share of their future trades with the downgraded institutions.

No one in the foreign exchange market should be under any illusions. If widespread credit rating downgrades follow the Moody's review, there will be knock-on effects to actual trading relationships. It might not be a pretty sight for many banks.

(Neal Kimberley is an FX market analyst for Reuters. The opinions expressed are his own)

TRADING PLACES

Aluminium premiums hit China imports -trade

By Polly Yam

HONG KONG, May 17 (Reuters) - China, the world's top aluminium consumer, is cutting purchases of the metal after premiums for spot primary aluminium over London Metal Exchange prices hit a record in Asia, traders said on Thursday, adding to pressure on global prices.

Falling export orders for Chinese aluminium products at a major trade fair last month will also further depress imports of primary metal in the second and third quarter, they said.

Record premiums in Asia have prompted owners of bonded aluminium stocks in China to re-export some metal duty free.

Traders estimated up to 100,000 tonnes of aluminium ingots, the most popular type in the international market, are now in bonded warehouses in Shanghai and Guangdong province.

Spot aluminium ingots traded at a premium of more than $200 per tonne over cash London Metal Exchange aluminium prices for delivery to South Korea, the highest in Asia since 2009 when increased Chinese buying had driven up premiums to about $190.

This time, however, Chinese buyers are not prepared to pay high premiums to import the metal as domestic demand cools.

"We got enquiries from Chinese end-users and merchants for imports. But the metal is too expensive and they turned down our offers," a trader at an international trading house said.

The persistent wide spread between cash and forward aluminium prices on the LME continues to tie up millions of tonnes of aluminium in warehouses.

The benchmark three-month LME aluminium price was quoted $41.5 per tonne higher than the cash price on Wednesday.

Aluminium prices on the LME are trading 1.7 percent lower than a month ago at $2,042 a tonne.

At last month's Canton Trade Fair in Guangdong, manufacturers of aluminium products - who import primary aluminium for processing duty-free exports - received fewer orders for the second and third quarter than in the last two quarters, traders and sources at manufacturers said.

"Five to six manufacturers are now importing a total of about 2,000 tonnes of ingots a month. In the same period last year, we each imported 3,000 tonnes a month," said a manager at a factory in Guangdong, the processing base for exports in China.

In the first four months, China's primary aluminium imports surged 149 percent from a year ago to 186,241 tonnes but the bulk was imported as a financing tool, while the country maintains a relatively tight credit policy.

The factory manager said that imports of aluminium to use as collateral for financing were likely to fall since credit did not appear to be as difficult to get as before.

And with demand for aluminium products cooling the factory manager expected some manufacturers in Guangdong to stop production in July or August.

China's aluminium demand for end-use demand so far this year has been lukwarm because of government restrictions on the property sector, the main consumer for aluminium products, Wang Weidong, senior analyst at state-backed research firm Antaike said, adding that stocks of aluminium products were high currently in China.

MARKET NEWS

Bosnia's Aluminij sounds alarm over losses

SARAJEVO, May 17 (Reuters) - Bosnia's sole aluminium smelter Aluminij Mostar will cut jobs and kick-start additional cost savings after reporting a first-quarter loss of 20 million Bosnian marka ($13 million), double what it had expected for the whole year.

The country's top exporter, located in the southern town of Mostar, blamed the loss on higher electricity prices and volatile raw materials costs. It had expected a loss of 10 million marka for 2012.

Aluminij did not specify the number of job cuts but did say it would delay new borrowing, abolish overtime and start an early-retirement programme. "The alarm has set off, and unless these measures bring results by July 1, we will launch further cuts," it said on its website. In March, Bosnian utility EPHZHB, which supplies Aluminij with 125 megawatt-hours of electricity a year, increased prices by about 12 percent.

Aluminij, with annual output of around 160,000 tonnes of metal, posted a profit of 1.2 million marka last year.

It planned to finish this year an upgrade of its foundry to boost annual output by 30,000 tonnes, much of it destined for long-term partner Glencore International . It is now unclear whether it is in a position to proceed with the plan.

Much of Aluminij's output goes to the construction and auto industries in the European Union. Item 2:

China exports 110,000 T of refined copper -trade

By Polly Yam

HONG KONG, May 17 (Reuters) - China's smelters and merchants are delivering around 110,000 tonnes of refined copper cathode to London Metal Exchange (LME) warehouses in South Korea, traders said on Thursday, in a rare hefty outflow of inventories that could pressure copper prices.

MARKET NEWS *(Continued)*

Four large Chinese smelters have each exported about 20,000 tonnes of cathode under a duty-free tolling scheme and the rest was re-exported from duty-free bonded warehouses in Shanghai by merchants, a trading manager at a large Chinese smelter said.

"LME prices should be pressured when the exports start to show on LME stocks," said a trader at an international trading house, adding that the shipments should start showing on LME warehouse data in one to three weeks since processing the warrants will take time.

To put the size of the latest shipment in perspective, the 110,000 tonnes of exports is near 4 times China's total exports in the first quarter.

Benchmark three-month copper on the LME fell near 4 percent from a month ago to $7,738 per tonne by 0736 GMT on Thursday.

The exports come just two weeks after the trading unit of Jiangxi Copper Co Ltd , the country's top producer, said a group of copper smelters as well as trading firms would export refined copper cathodes to LME to help ease tight global supplies and trim near-record stockpiles at home.

Since the plan was announced, the market has been questioning how much copper China could feed back into the international market, since it has already stocked up massive amounts of the red metal at its ports.

China daily crude steel output at record high-CISA

By Ruby Lian and Fayen Wong

SHANGHAI, May 18 (Reuters) - China's daily crude steel output rose to a record 2.045 million tonnes in the first 10 days of May, data from the China Iron & Steel Association (CISA) showed on Friday, defying expectations that poor demand will force mills to pare output.

China's steel market is over supplied, as demand for the construction metal has stayed sluggish since late last year due to a year-long government clamp down on the property market and the cooling economic growth.

But steel mills, trying too maximize their profits despite a slower-than-expected seasonal recovery in demand, have increased output. China is the world's largest steel producer.

"Small steel mills are still able to make a tiny profit, and as far as I know, the majority of steel mills haven't put production cuts to their agenda yet," said Hu Zhengwu, an analyst with industry consultancy Custeel.com.

Hu expects Chinese daily steel production to stand at around 2 million tonnes in May.

Chinese steelmakers have kept crude daily runs at record levels since March, but industry sources reckon the recent fall in rebar prices and slower consumption could trigger a cut in production by next month.

"I expect steel prices to stabilise a bit in the coming two weeks, but June will not be promising," Hu added.

Benchmark rebar steel futures on the Shanghai Futures Exchange have fallen around 0.6 percent, or over 200 yuan, since April.

Some mills have already started to postpone delivery of iron ore, as a slow steel market cuts demand for the raw material and producers expect a further drop in prices.

CISA estimates are based on the 80 or so medium and large-sized steel mills which produce around 80 percent of China's total output.

Nucor to buy ArcelorMittal's Skyline Steel LLC

May 17 (Reuters) - Steelmaker Nucor Corp said it will buy steel foundation distributor Skyline Steel LLC from ArcelorMittal for about $605 million.

Skyline Steel, which operates in the United States, Canada, Mexico and the Caribbean, will become a wholly owned unit of Nucor after the deal is completed.

In April, North Carolina-based Nucor reported a drop in first-quarter profit on pricing and margin weakness, as well as competition from foreign imports.

ArcelorMittal will continue to provide Skyline Steel with sheet piling and wear resistant products.

Separately, ArcelorMittal, the world's largest steelmaker, said the sale will have a limited impact on its wider business.

Schnitzer Steel sees margin pressure on higher costs

May 17 (Reuters) - Schnitzer Steel Industries Inc said margins have compressed in the current quarter on higher costs for raw materials and freights.

The company sees sales volumes in its steel manufacturing business falling slightly, compared with the second quarter. Prices and utilization are expected to be in line with the quarter.

Ferrous sales volumes are expected to be in line with the second quarter figure of 1.4 million tons, the company, which manufactures and exports recycled ferrous metal products, said in a statement.

Schnitzer Steel expects a rise of 5 percent to 10 percent in non-ferrous selling prices and a 10 percent to 15 percent fall in non-ferrous volumes.

The company's shares, which have lost 46 percent of their value over the past year, closed at $32.34 on the Nasdaq on Thursday.

MARKET NEWS *(Continued)*

Some Chinese steel mills defer iron ore shipments -sources

By Manolo Serapio Jr and Ruby Lian

SINGAPORE/SHANGHAI, May 17 (Reuters) - Some Chinese steel mills have postponed delivery of iron ore from miners including top supplier Vale as a slow steel market cuts demand for the raw material and producers expect a further drop in prices, sources at mills and traders said on Thursday.

The move reflects slowing appetite from the world's biggest consumer of iron ore, which is also a huge market for other commodities, amid a shaky global economy that has prompted mining giant BHP Billiton to put the brakes on an $80-billion spending plan.

"We are postponing shipments from a major miner because now no one has the courage to buy cargoes due to arrive in June," said an iron ore purchasing official with a midsize Chinese steel mill.

"We are buying the long-term iron ore contract on a quarterly pricing basis, but it's obvious that spot iron ore prices will fall further in June. Some Chinese steel mills have started to think about shipment deferrals since April."

The mills are delaying iron ore deliveries as sluggish steel demand in China, the world's top producer and consumer, dragged down prices to multi-month lows this week, squeezing already thin profit margins.

Spot iron ore fell to $135.10 a tonne on Wednesday, its lowest since late February, as key Shanghai rebar futures sagged to 5-1/2-month lows.

An official who buys iron ore for another medium-sized Chinese steel mill which has a long-term contract with top miners said his company had delayed shipments since last month and been reluctant to make any recent purchases.

"They're (Chinese mills) already knocking them back on the contracts. I know sellers on long-term contracts who have told me that they've had stuff deferred," said a physical iron ore trader in Singapore, who said the postponed shipments include those with contracts with Brazil's Vale and BHP Billiton.

BHP Billiton declined to comment. Officials for Vale in China were not immediately available for comment.

BHP Billiton on Wednesday said it was rethinking its $80 billion five-year expansion plan, mapped out in 2011, given the more challenging global environment.

LESS MONEY

Chinese mills also sought to delay shipments in October when iron ore prices slid nearly 31 percent as weak steel demand forced producers to curb output.

At that time, miners had to tweak pricing mechanisms to more closely reflect spot rates. Previously, quarterly contract prices were based on the average of the prior quarter instead of the current three-month period.

Before prices were based on quarterly and then spot rates in the past two years, iron ore contracts were set annually every year for four decades.

"Steel mills and miners are now more flexible in taking or delivering cargoes.

When prices rise quickly, miners are using various excuses to delay shipments and choose to sell when they believe prices are good enough," said the official with the first steel mill.

The shipment postponements meant more cargoes were finding their way into the spot market, driving down prices that are already 30 percent down from last year's peak.

But given the fat margins that iron ore miners make on sales, traders say Vale, BHP Billiton and Rio Tinto are unlikely to incur any losses from their biggest revenue earner.

"From a producer point of view even if they sell in the spot market for $120, they're still earning $60-$80 a tonne," said a Hong Kong-based trader.

"It's not even about making a loss, it's just about less money to make."

Analysts and traders say China has to curb steel output further to depress supply and fuel a recovery in steel prices that would revive appetite for iron ore.

China's crude steel output eased 1.6 percent to 60.575 million tonnes in April from a record high in March, government data showed on Tuesday.

Russia NLMK sees stronger Q2 after earnings miss

MOSCOW, May 17 (Reuters) - Novolipetsk Steel , Russia's fourth largest steelmaker, said on Thursday it expects sales and margins to increase in the second quarter after it missed market expectations with a first quarter net profit of $173 million.

The company, controlled by billionaire Vladimir Lisin, said the market is improving after prices dropped by 5 percent in the first quarter compared to the October-December period, although the second half picture remains unclear as the euro zone's woes continue.

"In Q2, we expect revenue growth of 10 percent based on continued increase in sales. We expect an EBITDA margin of approximately 17-19 percent," NLMK said in a statement.

The global picture is mixed at present. Market leader ArcelorMittal last week forecast higher second quarter net profit on strong U.S. sales, while Germany's top producer, ThyssenKrupp issued a grim outlook on Wednesday because of the euro zone crisis.

"However, as the EU crisis enters a new phase, the steel sector's short-term prospects are still uncertain and we think that prices in Q3 could remain flat against H1," NLMK added later.

MARKET NEWS *(Continued)*

Analysts had forecast the company to post a first quarter net profit of $191 million, down from $392 million in the year-earlier period.

Despite the sharply lower first-quarter result, they also thought the company's fortunes would improve in the current quarter thanks to strengthening steel prices.

NLMK also said first-quarter earnings before interest, taxes, depreciation and amortisation (EBITDA) reached $432 million, above the $431 million poll forecast but also less than the $587 million year-earlier result.

Its EBITDA margin was 14 percent.

It also said revenues were $3.09 billion, less than the $3.13 billion poll forecast and above the $2.36 billion 2011 first quarter result.

NLMK is a major exporter, shipping about 71 percent of its products abroad to markets in Europe, the United States, the Middle East and southeast Asia.

These markets performed well last quarter.

"Our international assets posted double digit sales growth (compared to the previous quarter) supported by stronger demand, including +17 percent for NLMK Europe and +16 percent for NLMK USA," chief financial officer Galina Aglyamova said in a statement.

Net debt stood at $3.54 billion as of March 31, compared to $3.36 billion at the end of last year.

At 0859 GMT, the shares were down 1.4 percent at 50.64 roubles, outperforming the overall MICEX index which was down 0.9 percent at 1,322.94.

China increases rare earths export quota-MOC

SHANGHAI, May 17 (Reuters) - China has issued an additional 10,680 tonnes of rare earths export quotas for this year, bringing the total amount issued so far to 21,226 tonnes, the Ministry of Commerce (MOFCOM) said on Thursday.

Baotou Steel Group, the parent of Baotou Steel Rare-Earth Hi-Tech , China's top producer of the minerals, has been given a quota for 1,447 tonnes, while the Aluminum Corp of China (CHINALCO) has received a quota for 970 tonnes, MOFCOM said.

The increased allocation comprises 9,490 tonnes of light rare earths and 1,190 tonnes of heavy rare earths.

China, the world's largest producer of rare earths, set its export quota at 30,184 tonnes last year and the government has said the 2012 quota would be largely steady.

Beijing normally issues the allocation in two tranches, usually at the beginning and the middle of each year. It has yet to issue the second tranche of the quota for 2012.

Rare earths, minerals essential to the modern global economy, are used in all sorts of cell phone, television, computer and military technology.

China's attempts to restrict output and exports have caused widespread alarm overseas, but Beijing has insisted that its attempts to impose order on the sector were primarily motivated by environmental concerns and are compliant with World Trade Organisation rules.

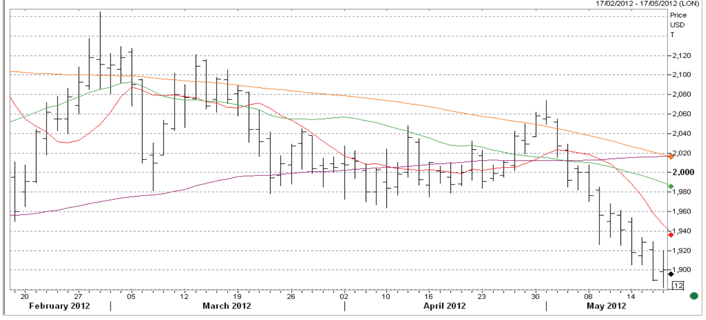
ANALYTIC CHARTS *(Click on the charts for full-size image)*

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-London copper inches above 4-mth lows; euro zone weighs

By Carrie Ho

SHANGHAI, May 18 (Reuters) - London copper peeked above four-month lows on Friday on short-covering and signs that Greeks are warming to pro-austerity parties, allaying some fears the country could leave the euro zone.

Still, worries about Spain's finances and reports of Chinese copper inflows onto the London Metal Exchange (LME) will likely cap gains in the session.

Three-month LME copper inched up 0.4 percent to $7,682 a tonne by 0425 GMT, after closing almost flat in the previous session.

The most active August copper contract on the Shanghai Futures Exchange (ShFE) fell 0.3 percent to 55,580 yuan ($8,800) a tonne, a partial rebound after a steeper fall at the open.

The Shanghai contract rose 1.9 percent on Thursday, much more than its London counterpart, after diving on Wednesday to its cheapest since Dec. 20.

"LME copper started rising after bouts of short-covering on the ShFE this morning ... I think this triggered the metal's upward momentum and helped lift London prices," said a Shanghai-based trader with an international firm.

"London copper is also tracking the rise of base metals like aluminium, zinc and lead, which started floating higher since yesterday. Those metals are trading closer to their marginal production cost than copper, so they have rebounded faster," he added.

Copper prices may also have been weighed down this week by a hefty inflow into LME warehouses from China.

Traders said China's smelters and merchants may have added around 110,000 tonnes to LME warehouses in South Korea.

The exports came just two weeks after the trading unit of Jiangxi Copper Co Ltd , China's top producer, said a group of copper smelters as well as trading firms would export refined copper cathodes to LME to help ease tight global supplies and trim near-record stockpiles at home.

Regarding the euro zone, a poll showing Greek voters returning to pro-bailout parties helped improve sentiment ahead of a snap election in Greece next month, which many still fear could empower anti-austerity leftists and prompt Greece to quit the euro.

Separately, a German Bundesbank board member told Reuters in that euro zone banks are in better shape than before the financial crisis, and those in Germany are equipped to cope with Greece taking a turn for the worse.

Any price gains in the session will be fragile in light of the debt issues still clouding the euro zone.

Even as investors were able to take a brief respite from fears of a Greek default, bad news in Spain - the euro zone's fourth-largest economy - illustrates Europe's dire economic situation.

Spain's borrowing costs spiked at a bond auction on Thursday, while shares in its troubled lender Bankia dived as 16 other banks suffered a credit ratings cut. Official data also confirmed that the country was back in recession.

Contributing to investor caution was the high number of new claims for U.S. jobless benefits last week, which suggested sluggish growth in hiring.

Factory activity in the mid-Atlantic region also contracted in May, worrisome signs for a still-fragile economic recovery.

PRECIOUS-Gold extends gains, but heads for 3rd straight weekly drop

By Lewa Pardomuan

SINGAPORE, May 18 (Reuters) - Gold rose on Friday, after posting its largest one-day gain in more than three months in the previous session, but prices were on track to drop for a third straight week on mounting worries over the euro zone debt crisis.

Investors are now awaiting the release of U.S. commitment of traders data later in the day after speculators trimmed their length in gold by 23,563 contracts to 92,498 contracts in the week ended May 8 due to a sharp pullback in prices, marking the lowest net long position since Dec. 16, 2008.

"With the reduction in net long positions, the risk of further downside diminishes," said Nick Trevethan, a senior commodity strategist at ANZ in Singapore

"Looking ahead, prices are going to be very contingent on the news flow and the headlines we are getting out of Spain and Greece in particular."

Bullion raced to a record of around $1,920 an ounce last September on fears the euro zone debt crisis could spiral out of control, but this year, the precious metal is moving in tandem with assets that are perceived to be risky.

Gold added $2.21 an ounce to $1,575.46 by 0253 GMT, off a 4-1/2-month low at $1,527 struck on Wednesday.

Gold rallied more than 2 percent on Thursday, biggest one-day rise since January, supported by a decline in regional U.S. factory activity that fueled hopes for more monetary stimulus.

U.S. gold for June delivery hardly moved at $1,575.60 an ounce.

For a 24-hour gold technical outlook:

http://graphics.thomsonreuters.com/WT1/20121805091854.jpg

Euro debt crisis:

http://r.reuters.com/hyb65p

MARKET REVIEW *(Continued)*

Asian shares tumbled on Friday and were on track for their worst weekly showing since September, amid signs of growing instability among Spanish banks and political turmoil in Greece, with investors adding the latest weak U.S. data to the list of risk factors.

Spain's borrowing costs shot up at a bond auction on Thursday and its troubled banks suffered a double blow, with shares in part-nationalised Bankia diving and 16 lenders - including the euro zone's biggest - having their credit ratings cut.

"We'd like the market to hold at $1,550-$1,560. If it does that, then I think there's a fair chance we could continue higher towards $1,600 level, perhaps re-establishing the range there," said Trevethan.

"But if the headlines out of Europe continue poorly, we may retest the lows."

The euro hit a four-month low, extending the decline prompted by fears Greece may leave the euro zone and contagion jitters after Moody's downgraded 16 Spanish banks.

JEWELLERS SELL

In the physical market, higher bullion prices prompted selling from jewellers and speculators, but premiums for gold bars were mostly steady at $1.10 to $1.20 to London prices in Singapore. Earlier this week, dealers noted buying interest from Thailand, Indonesia and India.

"I am so confused in this kind of market. We did buy scraps from Monday to Wednesday, but now we are selling. The market has gone up and down so much," a dealer in Singapore said.

"Thailand is selling gold, and I am not sure what India is doing right now."

Gold demand in top consumer India is likely to moderate in 2012 as higher inflation trims disposable income at a time prices are stubbornly high on a weak rupee, the head of the World Gold Council in the country told Reuters.

Holdings of the largest gold-backed exchange-traded-fund (ETF), New York's SPDR Gold Trust , rose 0.17 percent on Thursday from Wednesday, while, that of the largest silver-backed ETF, New York's iShares Silver Trust , climbed 1.08 percent during the same period.

FOREX-Greek, Spanish woes push euro towards 2012 low; yen off highs

By Antoni Slodkowski

TOKYO, May 18 (Reuters) - The euro hit a four-month low on Friday, extending declines prompted by fears Greece may leave the euro zone and on contagion jitters after Moody's downgraded 16 Spanish banks.

Worries that a possible Greek exit from the euro zone would put pressure on other ailing European economies weighed on the currency, which last fetched $1.2674 , down 0.2 percent on the day. It has shed 4.1 percent in May, zeroing in on its 2012 low of 1.2624.

A drop below that level would take the euro to its lowest since August 2010, but traders suggested the euro's fall may now slow somewhat, adding that there might be options-related plays that could lend it support on Friday.

"I get a sense that for now traders would want to square their positions heading into a news-packed weekend with G8 as the main event," said Sumino Kamei, senior currency analyst at the Bank of Tokyo-Mitsubishi UFJ.

"After a sharp decline this month we may enter a wait-and-see mode around $1.26, at least until Greek election in mid-June," she said.

Further dampening risk appetite, U.S. data showed manufacturing in the mid-Atlantic states unexpectedly contracted in May and new claims for U.S. jobless benefits last week stuck at levels suggesting sluggish growth in hiring.

Euro debt crisis: http://r.reuters.com/hyb65p

Asset performance since Greek election:

http://link.reuters.com/keh38s

INCREASINGLY WORRIED

Investors are increasingly worried Greece could leave the euro following a second election in June. A poll, however, showed Greece's conservatives have overtaken the anti-bailout leftist SYRIZA in popularity.

But with the political situation in Greece volatile and the outcome of the elections still far from certain, most analysts viewed them as an important risk event.

"The second round of the Greek election may well put the actual exit process in motion, and we would likely see EURUSD test 1.20 in that scenario," said Jens Nordvig, global head of currency and fixed income strategy at Nomura Securities.

Option traders also expressed scepticism about the euro, driving one-month euro/dollar implied volatility to a three-month high at 11.47 percent .

As market players bet on more euro weakness, three-month risk reversals showed a firm bias for bearish euro bets, last standing at -3.4 percent, near five-month highs, pulling away from -2.15 percent at the start of the month.

RECOUPING LOSSES

The dollar and the euro recouped some of the hefty losses sustained versus the safe-haven yen the day before.

The euro inched up 0.1 percent to 100.71 yen , off its lowest since Feb. 7 at 100.56 yen .

The next support level for the cross was seen at 100 yen, where a large option trigger was reported by a Tokyo-based options trader.

MARKET REVIEW *(Continued)*

"It seems like people are now trying to brace themselves for the break of that trigger level," the dealer said.

Worried by the yen's renewed strength, Japanese Finance Minister Jun Azumi said in a veiled reference to intervention he was monitoring currency moves with extra care.

After rapid overnight moves in the Japanese currency, one-month euro/yen volatility shot up to 13.1/14.1 percent , the highest level in 5 months. Meanwhile, the greenback also regained some ground against the yen and added 0. 2 percent to 79.42 yen , above a three-month low of 79.13 yen plumbed on Thursday.

There were stop losses below 79.00 yen and 78.80 yen, while offers were likely to cap the dollars advance around 79.50, traders said.

Weak Asian bourses and soft China housing data yanked the legs from under the Australian dollar, which fell to the lowest since late November at $0.9826 .

Souring the mood further, Australia and New Zealand Banking Group said that current volatile conditions in global markets have seen wholesale funding market for Australian banks freeze again.

(Inside Metals is compiled by Shashwat Sharma in Bangalore)

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