INSIDE METALS

Wednesday, May 23, 2012

CHART OF THE DAY

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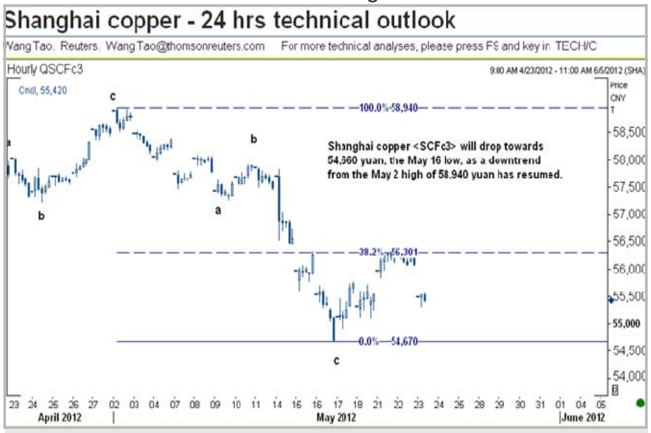

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COLUMN-Commodities will take time to respond to China growth

Can the disappointment over China's softening commodity demand in April be simply washed away with a few comments that the authorities intend to bolster infrastructure spending?

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

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TODAY'S MARKETS

BASE METALS: Copper retreated on Wednesday from a one-week high hit in the previous session ahead of a meeting of European leaders, with investors wary that a failure to tackle the region's debt crisis will hit global demand for industrial metals just as China is slowing and a U.S. recovery is fragile.

"There are more reasons to stay wary than to cheer. All signs point to Chinese copper demand being sluggish, with downstream orders still weak. China's economy is slowing, the euro zone crisis remains an issue while a U.S. recovery is still uncertain," said CIFCO analyst Zhou Jie.

PRECIOUS METALS: Gold eased on Wednesday extending sharp losses made in the previous session as investors were sceptical that an informal European Union meeting later in the day would yield steps to help solve the region's debt crisis.

"Can it solve the debt crisis? No," said Dick Poon, manager of precious metals at Heraeus in Hong Kong, "Everyone is worried about Greece withdrawing from the euro zone and the global economy, and would rather keep cash on hand than buying anything."

FOREX: The safe haven dollar climbed to a 20-month high against a basket of currencies on Wednesday as fears of a messy Greek exit from the euro zone weighed on the euro and kept the single currency pinned near a recent four-month low.

"The (Papademos) comments were like very strong poison, and the market got flung around by them," said Satoshi Okagawa, senior global markets analyst for Sumitomo Mitsui Banking Corporation in Singapore.

FEATURE

COLUMN-Commodities will take time to respond to China growth

By Clyde Russell

LAUNCESTON, Australia, May 22 (Reuters) - Can the disappointment over China's softening commodity demand in April be simply washed away with a few comments that the authorities intend to bolster infrastructure spending?

It would seem simplistic to think so but commodity prices have generally responded favourably, or for the most part stopped declining, after a state-backed newspaper said the world's largest commodity buyer will fast track project approvals.

The exception so far is iron ore, with spot prices dropping for a 10th consecutive day on Monday. They are now 12.4 percent off their highest for 2012.

Copper has gained 1.7 percent this week and Brent crude is up by a similar margin, so at best it's been a cautious response to China's plans to spur growth, as well as hopes a European summit can go some way to solving that region's financial woes.

For once, investors may be getting it right by being restrained, instead of the more normal swings from boom to gloom and back again that have characterised market moves since the 2008 global financial crisis.

While the recent sell-off on the back of perceived weakness in China's April commodity trade data may have been overdone, it's likely that numbers will be soft for some months to come as it will take at least two quarters to turn around China's demand.

Like any large economy, China will take some time to ramp up stimulus, and the process is unlikely to be even.

A common metaphor for big economies is that they are like supertankers; hard to stop once they getting going, even harder to get going from anchor and difficult to change direction.

An alternative metaphor for China used by an analyst at a major Australian bank is that China is more like a flotilla of small ships, getting them all to sail together and in the same direction is the challenge.

No matter what your preferred metaphor is, the message is the same: China is unlikely to grow its commodity demand much until at least the third quarter.

Graphic of China's commodity stockpiles:

http://link.reuters.com/kug38s

In some ways this isn't surprising, and probably the softness in the April numbers shouldn't have been unexpected either, for it was known that China's industrial production and Purchasing Managers' Indexes had been trending downward for several months.

In fact, the most surprising thing so far about China and 2012 is that commodity demand was as strong as it was in the first quarter.

Refined copper imports were 40 percent higher in the first quarter from the same period last year, and despite slowing in April, the first four months of 2012 actually increased, jumping 76 percent gain over the same period last year.

Iron ore imports were up 5.6 percent in the first quarter, and by 6.5 percent in April over the first four months of 2011, despite the actual volume slipping in April to 57.68 million tonnes, the lowest since October.

Crude oil imports gained 11.3 percent in the first quarter, with April's year-on-year increase easing slightly to 9.3 percent as volumes dropped to 22.26 million tonnes, the lowest since November.

It's worth pointing out that January, February and March were three of the four strongest months on record for oil imports and April's number was above every month in 2011 bar November.

So, if you look at the year-on-year comparisons for China's imports of major commodities, they don't look nearly as bad as taking April's figures in isolation.

But April more than likely heralds a period of weaker growth rates for commodity imports, that will last for several months until the stimulus kicks in.

Towards the end of last year, many analysts expected a soft first quarter for China's commodity demand.

They didn't get it, but they will likely get a weak second quarter, especially for iron ore and copper as stockpile overhangs are cleared.

But whether investors will see through the current softness to stronger demand in towards the end of the year is questionable, it's likely that prices will be hostage to headlines with fundamentals playing second fiddle.

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

GENERAL NEWS

Anglo, Codelco restart talks to end Chile dispute

By Clara Ferreira-Marques and Erik Lopez

LONDON/SANTIAGO, May 22 (Reuters) - Anglo American and Chilean copper giant Codelco have agreed to go back to the negotiating table in a push to end a damaging and increasingly acrimonious dispute over the global miner's operations in the country's central-south region.

The miners, which had been due to appear before a Santiago court as part of standard "conciliation" proceedings, instead asked on Tuesday for a month-long suspension of the court battle, opening a window for talks that will last until June 22.

The two sides have been at odds since last October, in a spat over Codelco's long-standing option to buy a minority stake in the coveted Anglo American Sur (AAS) properties, including the flagship Los Bronces mine.

After two months of secret talks in December and January came to nothing, the market had been bracing for a multibillion- dollar, tricontinental legal battle that could drag on for up to five years.

Investors have fretted a drawn-out battle would damage both Chile and Anglo, proving a dangerous distraction for the London -listed miner's management and one of the largest legal battles to land in Chilean courts.

"The fact they are talking, or are going to talk, has got to be positive. If they can settle, it avoids the potential for a dispute in the courts that is not only expensive, but is destructive in terms of relationship," analyst Des Kilalea at RBC in London said.

"But the negotiating positions are far apart. They have a long bridge between them at the moment."

News of the talks helped Anglo shares higher and the stock was up 3.14 percent by 1539 GMT, in line with a 3.16 percent rise in a recovering mining sector.

"We welcome this opportunity to re-engage with Codelco and explore whether a solution may be achievable," Anglo Chief Executive Cynthia Carroll said. "From the outset, we have been consistently in favour of discussing a commercial solution that takes into account the interests of both parties."

Codelco said the talks would be confidential. It was not immediately clear where or how the process would take place.

Codelco Chief Executive Diego Hernandez said the Chilean miner would explore again "if we could have points of agreement with Anglo American to manage to overcome this controversy in a consensual manner."

A lawyer for one of the miners told Reuters: "They decided to suspend the procedure to see the possibility of sitting down to talk ... There's a good mood between the companies".

While sector experts said the rapprochement was positive, the deep divergences over the controversial option are seen as challenging to bridge.

"It's something logical given the time that's gone by. What could be happening is that both sides are doing this together, so neither of the parts pushes forward with the case," said Jose Antonio Gaspar, a law professor at the Universidad Diego Portales in Santiago.

Growing monetary and administrative costs could also have triggered the shift, Gaspar added.

"GOOD FAITH"

The spat centres on an option agreement dating back to 1978. Codelco, the world's largest copper producer, said in October it planned to exercise the option to buy a 49 percent stake in AAS, when the option window opened this January.

Just weeks later, however, Anglo surprised markets with the pre -emptive sale of a 24.5 percent stake in AAS to Mitsubishi, with a $5.4 billion deal that dented Codelco's ambitions but which it says secured better value for investors.

Codelco says Anglo violated the Chilean legal principle of "good faith" by selling the stake pre-emptively. Both Anglo and Codelco have sued each other for violating the option contract.

Anglo's properties in southern Chile include not only expansion project Los Bronces - where Anglo has invested around $2.8 billion - but the El Soldado mine, the Chagres smelter and the Los Sulfatos and San Enrique Monolito exploration projects. Under the Codelco agreement, if the option is exercised Anglo would recoup its portion of investment made in Los Bronces.

Ironically, Los Bronces was formerly known as 'La Disputada,' or 'the disputed one.'

Analysts have estimated the south Chilean assets make up 17 percent of Anglo American's net asset value - roughly equivalent to its platinum operations.

Anglo has held talks over the years with Codelco to try and buy out the decades-old option, but failed, prompting accusations from some investors that it did not do enough and underestimated the Chilean heavyweight.

Anglo says its latest offer, made last summer, was "meaningful."

Codelco, the world's biggest copper miner, is battling dwindling ore grades, extreme weather and labor unrest as it seeks to produce 2.1 million tonnes of the red metal by 2020.

The Los Bronces deposit is adjacent to its Andina mine, and would be a major boost to the state miner's production.

TRADING PLACES

CME no longer in bidding for LME

LONDON, May 22 (Reuters) - U.S. exchange group CME is no longer in the bidding for London Metal Exchange, leaving InterContinental Exchange and Hong Kong Exchanges and Clearing Ltd (HKEx) still in the race.

The LME, the world's largest metals marketplace, confirmed the thinning of the field, after sources familiar with the matter told Reuters the CME was out of the running.

"The Board of the LME has decided to continue discussions with two parties regarding their proposals for the potential acquisition of the LME ... This process will continue over the coming weeks," it said in a notice On Tuesday.

The sources said no proposals have been put to shareholders.

CME declined to comment.

Sources had told Reuters on Friday that a 1.2 billion pound ($1.9 billion) bid from Hong Kong for the LME could be hard to beat on price and carried assurances about maintaining the LME's 135-year-old traditions.

MARKET NEWS

Norsk to shut Australia aluminium smelter

SYDNEY, May 23 (Reuters) - Norsk Hydro will shut its 180,000-tonnes-per-year aluminium smelter in Australia due to low metals prices and a dismal economic outlook, the latest producer to take steps to stem losses.

The country's smelters have been hammered by high costs that make it difficult to compete with Chinese producers, as well as falling metals prices that have led top miners BHP Billiton Ltd and Rio Tinto to scale back expansion plans.

Oslo-based Norsk Hydro, which in January shut down one of three operating lines at the Kurri plant, said on Wednesday that it was starting talks with workers with a view to closing the remaining operations.

"The profitability of Hydro's Kurri Kurri plant has suffered as a result of the continued weak macro-economic conditions, with low metal prices and an uncertain market outlook, as well as the strong Australian dollar," the company said in the statement, released on the company's website.

With the overhang of high inventories and a 12 percent drop in prices since March, aluminium producers are losing money.

Production cuts aimed at attacking a global supply glut total around 850,000 tonnes so far this year, not counting the latest move by Norsk Hydro.

"Against global production of more than 43 million tonnes forecast this year, on its own closing Kurri Kurri doesn't amount to much," said Alan Copeland, a commodities analyst for Australia's Bureau of Resources and Energy Economics.

"But it's part of a larger movement underway in the sector."

Nearly all the curtailments have been in Europe, Rio Tinto's permanent closure at the end of March of its 175,000-tonne per year Lynemouth smelter in the United Kingdom being the latest.

Some of what has been announced is only now ramping down and some, namely Alcoa's Portovesme smelter in Italy, has been deferred.

In Australia, Alcoa Inc , part of the Alcoa World Alumina and Chemicals partnership with Alumina Ltd , is weighing the future of its Point Henry smelter. A decision is expected in June.

Rio Tinto signalled a major retreat from its aluminium business last October when it unveiled plans to sell 13 assets, including smelters and alumina refineries, only four years after buying aluminium giant Alcan in one of the sector's biggest ever deals.

Rio Tinto in March scrapped plans to build an aluminium smelter in Malaysia at a cost of $2 billion.

Glencore takes control of Mutanda with $480 mln deal

LONDON, May 22 (Reuters) - Commodities trader Glencore has taken majority control of its fast-growing Mutanda copper operation in Congo with deals worth $480 million, marking the first step in a planned merger of the mine with its nearby Kansuki concession.

Mutanda, in central Africa's copper belt, is one of Glencore's main growth assets and a key operation in the Democratic Republic of Congo alongside its Katanga asset, largely thanks to its high ore grades and low expansion costs.

But Tuesday's deal, with two related, privately controlled groups - High Grade Minerals (HGM) and Groupe Bazano - whose ownership is not disclosed by Glencore, is also likely to revive debate over the opacity of deals in one of Africa's most promising but also most challenging mining destinations.

Glencore, a lightning rod for campaign groups since its listing last May, earlier this month faced calls for greater transparency around its deals in Congo.

The company said on Tuesday it had paid $340 million in cash to acquire both a further 24.49 percent in Samref Overseas, the top holding company above Mutanda, taking its hold in the controlling entity to almost 75 percent, and a further 1 percent in Samref Congo, a second holding company. The deals take its indirect equity interest in Mutanda Mining to 60 percent.

Glencore, hoping to accelerate development of the copper operations with Tuesday's move, has also acquired shareholder debts amounting to around $140 million.

"The acquisition represents a significant first step towards achieving Glencore's previously announced intention to merge the Mutanda and Kansuki mining operations," Glencore said.

Glencore has the right to acquire the remaining 25.5 percent stake in Samref Overseas still held by HGM for $430 million in December next year, subject to the terms of a put and call option agreement.

The combination of Mutanda, already producing at an annualised copper rate of 78,000 tonnes per year, and the extensive Kansuki concession will produce 160,000 tonnes per year of copper cathodes and 23,000 tonnes of cobalt in hydroxide by the first half of next year.

Analysts welcomed what they said was progress on Glencore's plan to integrate Kansuki and Mutanda and boost its production profile, but anti-corruption group Global Witness said Glencore should give more detail on its counterparties in the deal.

The pressure group earlier this month revived concerns over the sale of a direct 20 percent stake in Mutanda last year by Congolese state mining company Gecamines to influential Israeli businessman Dan Gertler for $120 million, a price tag which some analysts have said was below its real value.

Glencore has said that at the time it did not wish to increase its holdings in Congo.

Consumers swoop on Malaysian tin after price plunge

By Melanie Burton and Polly Yam

LONDON/HONG KONG, May 22 (Reuters) - Consumers pounced on inventories of tin in Malaysia as prices of the metal plunged this month, making it more attractive to Chinese importers, and as they sought to avert any developing bottlenecks at warehouse gates, trade and industry sources said.

Orders for tin from London Metal Exchange (LME) warehouses in Johor have surged more than five-fold or 4,660 tonnes so far in May, tying up 43 percent of stocks in sheds monitored by the LME, the market of last resort.

Prices for benchmark three-month tin futures plunged by 16 percent to hit $19,150 a tonne last week, levels last seen in January, as wider markets dropped on concerns a Greek exit from the euro zone could derail global growth. LME tin has since steadied around $19,400 on Tuesday.

Traders said attractive price differentials between Chinese domestic and international prices this month had prompted Chinese merchants and smelters to import tin, used extensively as solder and in the country's electronics industries.

MARKET NEWS

"We've seen a lot of interest in tin from the Chinese since a month ago. This is the first time the arbitrage window has opened since around October to November last year," a trader based in Singapore said.

Merchants imported tin with a purity of 99.8 percent from Indonesia and Malaysia and sold the metal to solder tin producers in China, undercutting domestic Chinese prices.

Smelters processed the imported tin into the local 99.9 percent purity standard and sold the metal in the domestic market, the traders said.

"We have been importing refined tin for processing because prices are favorable for imports," a trader at a smelter in China's southwestern Yunnan province said.

The costs of import were near 5,000 yuan ($790)per tonne lower than domestic prices of tin ingots with 99.9 percent purity on Tuesday, based on a premium of $250 and including China's import tax and value-added tax.

Last time the differential between Chinese and international prices moved in favour of imports, Chinese premiums shot up to $800-$1,000 according to the first trader. "Premiums are now at $400-500 (a tonne)," he said.

Several London-based traders quoted premiums for small volumes of tin in Johor at $75 and higher above LME cash for good quality material in warehouses run by Henry Bath. Singapore warrants were quoted $175 upwards, depending on the brand.

Chinese imports may climb further as domestic tin prices rise.

The bulk of tin mines and ore processing plants in a large tin mining area in Yunnan, the top tin producing province in China, have been shut this week due to environmental issues, sources said, while the prices for tin ore have been rising this week, supporting prices for refined tin ingots.

"We raised our spot price by 500-1,000 yuan per tonne this week due to the crackdown. Tin prices should be rising as the supply of ores falls," a sales manager at a tin smelter said.

Spot refined tin ingot traded at about 154,250 yuan a tonne in China on Tuesday.

GRAPHIC ON JOHOR TIN STOCKS
http://link.reuters.com/sab48s

WAREHOUSE GAMES

In Johor, one of the LME warehouse locations criticised for long queues to take out metal, consumers have acted fast to ensure supplies do not get stuck in a backlog and further squeeze a market already expected to be in deficit this year, several London-based traders said.

Consumers have raised concerns about the LME's warehousing system, where deliveries of metal have been delayed by up to a year, stuck behind mountains of aluminium in Detroit, Vlissingen and increasingly Johor.

The LME said last month its board had accepted in principle a proposal for warehousing companies to deliver at least 60 tonnes a day of tin or nickel or a combination of the two metals per warehouse location.

"It's consumer driven. There's no games in warehouses like in aluminium or zinc. Consumers are moving the metal to other locations to make sure they can access it in future," said one trader based in London.

Traders said delays are centred on sheds run by Glencore - owned Pacorini, where delivery times sag out to August, with little delays for metal stocked by Steinweg and JP Morgan-run Henry Bath, where premiums are firmer because of shorter delivery times.

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 comes off one-week high on Europe caution

By Carrie Ho

SHANGHAI, May 23 (Reuters) - Copper retreated on Wednesday from a one-week high hit in the previous session ahead of a meeting of European leaders, with investors wary that a failure to tackle the region's debt crisis will hit global demand for industrial metals just as China is slowing and a U.S. recovery is fragile.

There are nagging fears of a messy Greek exit from the euro zone as well as concerns over contagion after ratings agency DBRS put four euro zone countries - Spain, Italy, Portugal and Ireland - on review for possible downgrade in case of Greece's non-compliance with bailout conditions.

At a summit later on Wednesday leaders from the European Union are expected to discuss the idea of regional bonds jointly underwritten by all euro zone member states.

Three-month copper on the London Metal Exchange slipped 1 percent to $7,661.50 a tonne by 0426 GMT, g iving up some of the gains chalked up on Tuesday, when prices hit a one-week high of $7,816.

The most-active September copper contract on the Shanghai Futures Exchange fell 1.4 percent to 55,080 yuan ($8,700) a tonne, after touching a one-week high of 56,130 yuan on Monday.

Analysts noted that many Chinese investors are sticking to safe plays due to uncertainties in copper's demand outlook and global economics.

"There are more reasons to stay wary than to cheer. All signs point to Chinese copper demand being sluggish, with downstream orders still weak. China's economy is slowing, the euro zone crisis remains an issue while a U.S. recovery is still uncertain," said CIFCO analyst Zhou Jie.

Many traders closed their long positions ahead of an informal summit of EU leaders late on Wednesday, which is expected to discuss the idea of regional bonds jointly underwritten by all euro zone member states.

New French President Francois Hollande supports the proposal but Germany's long-standing opposition is unlikely to change, raising the risk of political deadlock in the euro zone.

Fears of a euro zone contagion spreading has gripped global markets in recent weeks, revived by fears that Greece would leave the euro zone bloc and cause a messy default, while Spain's banking stability was also in focus following a raft of downgrades for its 16 lenders.

Adding to market jitters, ratings agency DBRS put the sovereign credit ratings for Spain, Italy, Portugal and Ireland on review for possible downgrade on Tuesday, citing the risk that Greece may not comply with the terms of its bailout program.

Even as the world looks to China, the world's top copper consumer for support, there is little sign that Beijing - faced with its own problems of inflation and high local government debts - was ready to combat slowing growth with aggressive policies.

The World Bank cut its economic growth forecast for China this year to 8.2 percent on Wednesday and urged the country to rely on easier fiscal policy that boosts consumption rather than state investment to lift activity.

The latest data from the United States, however, was a rare bright spot amid the gloom. The pace of sales of existing homes in April rose to its fastest in nearly two years and a falloff in foreclosures helped bring a surprise jump in prices.

In tin, consumers pounced on inventories of the metal in Malaysia as prices plunged this month, making it more attractive to Chinese importers, and as they sought to avert any developing bottlenecks at warehouse gates, trade and industry sources said.

PRECIOUS-Gold slumps on scepticism of EU meeting

By Rujun Shen

SINGAPORE, May 23 (Reuters) - Gold eased on Wednesday extending sharp losses made in the previous session as investors were sceptical that an informal European Union meeting later in the day would yield steps to help solve the region's debt crisis.

Gold fell to as low as $1,555.89 an ounce earlier in the day, its lowest level in nearly a week, tracking a weaker euro as investors fretted about the possibility of a Greek exit and its implications for the global economy.

Investors will be watching the outcome from the EU summit, but confidence is on the wane since Germany and France are likely to confront each other on the idea of mutualised European debt.

"Can it solve the debt crisis? No," said Dick Poon, manager of precious metals at Heraeus in Hong Kong, "Everyone is worried about Greece withdrawing from the euro zone and the global economy, and would rather keep cash on hand than buying anything."

Gold has lost its safe haven appeal to the dollar, U.S. Treasuries and German Bund, partly as a strengthening dollar makes the metal less attractive to buyers holding other currencies.

The dollar index hit its highest level since September 2010, on course for its fourth consecutive weekly rise, while the euro moved close to a four-month low against the greenback hit last week.

Spot gold lost 0.6 percent to $1,558.96 an ounce by 0333 GMT after falling 1.5 percent the previous day.

U.S. gold slumped 1.1 percent to $1,558.90, after a 1.3 percent fall in the previous session.

MARKET REVIEW *(Continued)*

Holdings of SPDR Gold Trust , the world's largest gold-backed exchange-traded fund, fell a hefty 1.4 percent to 1,265.43 tonnes by Tuesday, the lowest level in nearly four months and after failing to breach above $1,600.

Other precious metals weakened as well. Spot silver dropped 1.2 percent to $27.78, on course for its biggest daily decline in a week.

"The stronger dollar is pressuring silver, even though the lower prices of the metal has lured back some buying from industrial users in Asia," said a Shanghai-based trader.

Spot platinum lost 0.7 percent to $1,428.94, extending a 1.5-percent dip in the previous session, despite rekindled supply concerns following operation disruption at the world's biggest platinum mine Rusternburg.

Impala Platinum , the world's second-largest platinum producer, said it was losing 3,000 ounces a day as most workers were not reporting for duty at its Rustenburg mine because of fresh unrest between rival unions.

FOREX-Dollar hits 20-mth high, Greece exit fears dent euro

By Masayuki Kitano

SINGAPORE, May 23 (Reuters) - The safe haven dollar climbed to a 20-month high against a basket of currencies on Wednesday as fears of a messy Greek exit from the euro zone weighed on the euro and kept the single currency pinned near a recent four-month low.

The euro dipped to around $1.2643 earlier, very close to last week's four-month trough of $1.2642, and not far from a 2012 low of $1.2624 set in January. A drop below the January low would take the euro to its lowest level since August 2010.

The euro's drop had accelerated the previous day after Dow Jones quoted former prime minister Lucas Papademos as saying Greece had no choice but to stick with a painful austerity program or face a damaging exit from the euro zone, a risk he said was unlikely to materialize but was real.

"The (Papademos) comments were like very strong poison, and the market got flung around by them," said Satoshi Okagawa, senior global markets analyst for Sumitomo Mitsui Banking Corporation in Singapore.

The dollar index rose as high as 81.830 against a basket of currencies, its highest level since September 2010, as investors shunned risk.

The euro was last down 0.1 percent from late U.S. trade on Tuesday at $1.2670 . A trader for a European bank in Tokyo said there was persistent euro-selling from U.S. hedge funds.

The single currency pared some of its losses after CNBC reported on its website that Papademos said there are no preparations underway in Greece for possibly exiting the euro.

A trader for a European bank in Singapore said the previous day's market reaction had seemed a bit overdone anyway. He added that there were some euro bids in the $1.2620 to $1.2600 area.

"I'm surprised that (the) Papademos comment had such an impact. He didn't actually say much and I think his intention is to put pressure on the voters to vote for the pro-austerity parties," the trader said.

Market players said a clear breach of the January low could open the way for the euro to fall further.

"There may be some very minor support at the August 2010 low (of $1.2588) but generally, think most market players targeting $1.25," said Andrew Robinson, FX analyst for Saxo Capital Markets in Singapore.

"The excessive euro short positions on IMM may be a cause for concern in the background," he said, referring to the record net short euro position held by currency speculators that suggests the euro could bounce if short-covering kicks in.

Markets were keeping an eye on an informal summit of European Union leaders later on Wednesday, where France will push for a joint euro zone bond. However Germany, Europe's largest economy, opposes the move and continues to champion austerity measures.

BOJ STANDS PAT

The safe haven dollar rose broadly as investors dumped riskier assets and currencies.

The Australian dollar, usually seen as a proxy for global growth, was hit hard and touched a six-month low of $0.9742 . It later trimmed some of its losses, and was last down 0.4 percent at $0.9763 .

The New Zealand dollar, another currency that often comes under pressure in times of market stress and when there is heightened uncertainty about the global economy, hit a five-month low of $0.7490 .

The greenback, however, sagged against the yen after the Bank of Japan kept its monetary policy unchanged.

While the decision was in line with the expectations of most market players, a small number of participants had been speculating the BOJ could follow up with new easing steps after its monetary easing in April.

The dollar fell 0.4 percent versus the yen to 79.62 yen . T he greenback had risen 0.8 percent against the yen on Tuesday as the yen retreated after Fitch downgraded Japan's sovereign credit rating.

Market players said Fitch's rating downgrade was unlikely to have a lasting impact on the yen, since Japan's government debt is largely funded by domestic investors.

(Inside Metals is compiled by Shashwat Sharma in Bangalore)

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