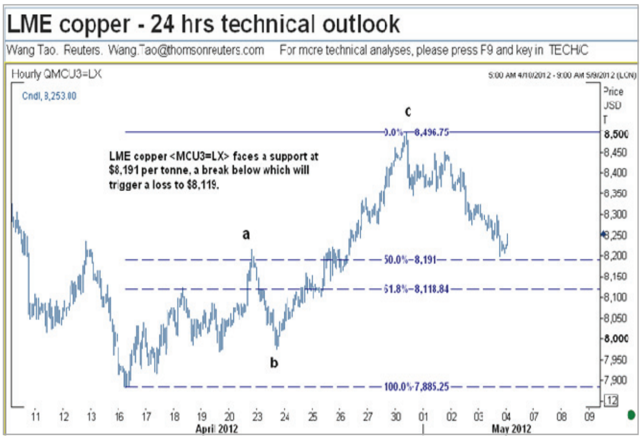
INSIDE METALS

Friday, May 4, 2012

CHART OF THE DAY

Click on the chart for full-size image



Click here for LME charts

TRADING PLACES

- LME to invest in Asia, expand Singapore office-CEO

GENERAL NEWS

- Indonesia to impose tax, curbs on raw metal exports

MARKET NEWS

ALUMINIUM:

- N.Am Feb aluminum shipments rise 8 pct vs year ago

COPPER:

- Contractors end protest at Escondida mine in Chile
- Antofagasta's copper output stutters

NICKEL/STEEL:

- Brazil govt wins appeal in tax dispute with Vale
- India's Orissa state mulls cap on iron ore output-official

FEATURE

COLUMN-Nickel supply could surprise again

Stocks of nickel on the London Metal Exchange (LME) have been creeping upwards, the headline figure hitting an eight-month high of 103,902 tonnes earlier this week. What sits in the statistical light of the LME's warehouse system is quite possibly matched by a similar sized tonnage of "dark" inventory stored in Shanghai's bonded warehouse zone.

Andy Home is a Reuters columnist. The opinions expressed are his own

Click here to read more..

TODAY'S MARKETS

BASE METALS: London copper edged up on Friday, after touching one-week lows in the previous session, although the modest gains reflect caution ahead of a key U.S. jobs report after a recent spate of soft data underscored the fragility of the U.S. recovery.

"Copper remains bound in small ranges as we await clearer trading cues. While ShFE copper's upside is limited by high stockpiles in China, LME copper's upside is capped by fears of a tightening squeeze in the LME cash-to-three-months premium," Great Wall Futures analyst Li Rong said.

PRECIOUS METALS: Gold held near its weakest in a week on Friday as cautious investors and jewellers stayed on the sidelines ahead of the release of a U.S. payrolls report, which could revive hopes of a third round of U.S. Federal Reserve bond buying.

"Whether or not the data is going to be bad, the market is still in a range trade. The upside is a bit limited for a little while. Nobody wants to enter the market, said Ronald Leung, director of Lee Cheong Gold Dealers in Hong Kong.

FOREX: The dollar held steady versus the yen and euro on Friday, but could face downside risks if U.S. jobs data disappoints and stirs renewed speculation about further monetary easing from the U.S. Federal Reserve.

"We've gone back to that situation where when the weaker data comes out, we start to price in more chance of QE3 and therefore the dollar goes weaker," said Rob Ryan, FX strategist at BNP Paribas in Singapore, referring to the possibility of the Fed launching another bond-buying programme.

THOMSON REUTERS

FEATURE

COLUMN

Nickel supply could surprise again

By Andy Home

LONDON, May 3 (Reuters) - Stocks of nickel on the London Metal Exchange (LME) have been creeping upwards, the headline figure hitting an eight-month high of 103,902 tonnes earlier this week.

What sits in the statistical light of the LME's warehouse system is quite possibly matched by a similar sized tonnage of "dark" inventory stored in Shanghai's bonded warehouse zone.

No wonder the LME price is looking a bit bombed out below $18,000 per tonne and the market is hoping for some sort of supply response to stop the rot.

Nickel supply is characterised by two towering "known unknowns", Chinese nickel pig iron (NPI) production and the new generation of high pressure acid lead (HPAL) projects.

The former has consistently out-performed market expectations. The latter has consistently under-performed.

Will either change?

The market would love the answer to be yes and no respectively. Actually, it might be no and yes. NPI...NO CHANGE?

The Chinese NPI sector was born out of crisis, namely the super-charged LME price rally to over $50,000 per tonne in 2007.

That bubble quickly deflated but NPI production proved to be no flash in the pan.

China's output last year is estimated by analysts at Macquarie Bank to have been around 275,000 tonnes of nickel contained. That would make it the second largest global supplier after Russian giant Norilsk Nickel .

It is a fragmented, relatively high-cost sector that has a key vulnerability, its reliance on imports of low-grade nickel ore, primarily from Indonesia.

The Indonesian government is clear it wants to stop the mass export of unprocessed minerals, whether they be nickel ore, bauxite or copper concentrates, to nurture the development of a national metals processing sector.

Far from clear is how and when it is going to do this. A deluge of official pronouncements, many of them contradictory, have created only confusion.

Exports will be banned from 2014. Some may be banned as soon as this month. Details as to what form of processing will be required are conspicuous only by their absence.

Symptomatic of China's longer-term response to this threat is the recently-announced move by port operator Da Feng Port Group to build a ferronickel plant in Indonesia.

Symptomatic of China's short-term response is the first-quarter surge in nickel ore imports to 7.7 million tonnes, a level that exceeded total imports over the whole of 2009.

But no-one is really expecting a full ban any time soon. Least of all China's NPI producers, who, according to Macquarie, are about to bring another 100,000 tonnes of capacity on line this year.

More certain, given this morning's announcement by the Indonesian authorities, is an interim tax on ore exports.

This will inevitably push up further the costs of an already high-cost sector, reinforcing a view that NPI will be the first part of the nickel supply chain to respond to the current depressed price environment.

But such a calculation assumes that NPI production costs are fixed, which is far from the reality.

Costs have been steadily coming down as NPI producers switch technologies and integrate into the stainless steel producers that are their main customers.

For example, that 100,000 tonnes of new capacity Macquarie expects to come on line this year is primarily new electric arc furnace technology, much more energy-efficient than existing NPI capacity, with a break-even nickel price of "well under $8 per pound", according to the bank.

Whatever hurdles the Indonesian authorities may put in the way, every indication is that Chinese NPI producers will adapt and survive, collective production will keep rising and costs will keep falling.

The only good news for an over-supplied Western market is that this production stream is geographically limited to China.

Any impact on the international market is one only of displacement, a reduction in the need to buy refined nickel units from the rest of the world.

HPAL...ALL CHANGE?

In terms of supply outside of China the market has been able to take a sanguine view of the new HPAL projects, which have promised so much and delivered so little.

None has epitomised the technical problems of HPAL better than the Goro project in New Caledonia. Over budget and years behind schedule, many analysts' private view was that Goro would never produce meaningful amounts of metal.

Vale , which inherited the project when it bought Canadian producer Inco, would beg to differ.

"The test of the integrated operations of (the renamed) VNC was successful, proving that we can produce nickel oxide (NiO) on a sustainable basis," it said in its Q1 results.

That won't stop the refinery closing again for a "general overhaul", during which time the operation will revert to producing an intermediate hydroxide product.

But Vale intends to bring it back into action in June and is forecasting production of 22,000 tonnes of nickel contained this year. From October "we will be ready to move towards reaching maximum capacity in 2013."

FEATURE *(Continued)*

Typical, as Londoners say of the city's bus service. You wait ages for one to come along and then three arrive together.

Or in the case of HPAL projects, make that four.

First Quantum bought the Ravensthorpe project in Australia after BHP Billiton threw in the towel on making the thing work.

The company has since broken the HPAL hoodoo by delivering the project on cost and on time at the end of last year.

Ravensthorpe produced 6,617 tonnes of payable nickel in the first quarter and First Quantum is targeting full-year production of 36,000-40,000 tonnes.

Sherritt International , meanwhile, expects its Ambatovy project in Madagascar to produce first metal this quarter with unchanged full-year production guidance of 8,000-13,000 tonnes.

In Papua New Guinea the much-delayed Ramu HPAL project is also now in its commissioning stage and on (revised) target for full capacity run-rates around the middle of next year, according to minority partner Highlands Pacific .

Between them these four projects could generate around 200,000 tonnes of extra supply over the coming year or so.

That is over and above other new projects such as Anglo-American's Barro Alto (ramping up) and Xstrata's Koniambo (due in the second half of this year), using tried and tested ferro-nickel technology.

Analysts have been taking a bear view on the nickel market for some time because of the amount of new supply due to come on stream in the near future.

Few, if any of them, were factoring in successful commissioning of the big HPAL projects.

That may be about to change and it doesn't bode well for a market that is pinning its upside hopes on supply-side restraint.

--Andy Home is a Reuters columnist. The opinions expressed are his own--

GENERAL NEWS

Indonesia to impose tax, curbs on raw metal exports

By Fergus Jensen and Neil Chatterjee

JAKARTA, May 3 (Reuters) - Indonesia will impose a new export tax on metal ores and prohibit the shipment of raw minerals unless miners submit plans to build smelters, in a decision likely to shake up mining in one of the world's major metals exporters.

The tax is an average 20 percent duty on 14 mineral ore exports including copper, gold and nickel from Sunday, slightly lower than expected but enough to hurt miners in Southeast Asia's biggest economy.

"Miners can export with a condition that there will be export duties imposed. The figure is being calculated, on average it is 20 percent for 14 metals," Energy and Minerals Minister Jero Wacik told a news conference.

The regulation "will not allow anyone to export raw material, unless they submitted a roadmap to build a smelter", he said, in a confirmation of an existing rule aimed at stopping small miners, which have ramped up shipments in the past year.

The decision comes at the end of months of uncertainty for the mining industry, which has been unsettled by a series of regulations this year as Indonesia seeks to derive more revenue from a sector that already contributes around 12 percent of GDP.

The issue of how best to develop the G20 country through its mineral resources is especially fraught ahead of elections in 2014, when President Susilo Bambang Yudhoyono must step down after two terms.

Two ratings agencies recently awarded Indonesia investment-grade status in recognition of strong growth and falling debt, though Standard & Poor's last month held its rating one notch below investment grade, citing policy slippage in a reference to the new mining rules.

Indonesia is the world's leading exporter of thermal coal, but Wacik said the export duties will not apply to that mineral, leaving open the possibility of a future tax on exports.

Similar duties have been imposed on palm oil as for mineral ores.

Indonesia's metal production:http://link.reuters.com/xej47s

Currently there are no export taxes on metal ores, said an executive at state nickel and gold miner PT Aneka Tambang , though some miners have to pay low single-digit royalty charges.

As a result, the new duties are likely to hit the profits of miners, some of whom criticised the measure.

"The government wants to kill a mouse in a rice field, but they're burning the whole field," said Tjahyono Imawan, president of the Indonesian Mining Services Association.

The duty will also be applied to tin, silver, lead, zinc, chromium, platinum, bauxite, iron ore and manganese. The government wants to push miners to process raw ores domestically and export higher-value finished metals, ahead of a ban on 14 raw metal exports in 2014.

The tax may lead some small miners of ores such as nickel and bauxite, many of whom have been given mining permits by local authorities under Indonesia's decentralised government system, to halt exports altogether rather than pay the tax or submit plans to build a smelter.

Much of this ore is shipped to China, often under the radar of central government officials. Some miners have been ramping up nickel exports ahead of the tax, industry sources say.

GENERAL NEWS *(Continued)*

"Hopefully, the glut of supply will be capped and the Chinese will have to buy more primary nickel," said a nickel trader in London. "However, given the current ore stocks and plentiful Philippine supply, I see no short to medium end to the oversupply scenario," he added.

Another London trader said the duty would either make nickel pig iron more expensive, which could hurt demand or reduce profits for miners if they did not pass the extra cost on.

Metals prices in London were mostly little affected by news of the tax. Copper fell to its lowest in a week and tin bid lower amid ongoing concerns that weak global growth will hurt demand for commodities, but nickel prices edged up 1.2 percent.

PUSH FOR SMELTERS

Raw tin ore exports have already been banned, and so the tax on raw minerals should not affect miners such as PT Timah in the world's largest exporter of tin. Tin miners have already built smelters and export refined tin.

"There will be a push to make smelters," Wacik said, adding that miners would not be allowed to export raw ores after May 6 without paying the tax.

The push for domestic refining via taxation follows a path taken by the government on palm oil and cocoa beans, in the world's top exporter of the edible oil and third-largest cocoa producer. The export taxes on those commodities have already spurred significant investment in domestic processing.

Indonesia's metals miners mostly export raw ores.

The country is home to Freeport McMoRan Copper & Gold Inc's Grasberg mine, with the world's largest gold reserves and second-biggest copper reserves, as well as Newmont Corp and Vale Indonesia .

Newmont's Indonesian copper and gold mine will not be affected by the new government duty, its Indonesia chief said on Thursday, echoing previous comments by other miners such as Freeport that have long-standing contract-of-works (COW) agreements designed to protect them from tax changes.

However, the government has said it will negotiate all contracts, including royalties and a recent rule requiring foreign miners to divest at least half their assets after 10 years of production, a change seen as part of a growing trend of global resource nationalism.

"The fact is that it is not what business wants ... but I think over time a middle path will be found," said Martiono Hadianto, chief executive of Newmont Nusa Tenggara and also chairman of the Indonesia Mining Association, about the tax.

TRADING PLACES

LME to invest in Asia, expand Singapore office-CEO

SINGAPORE, May 4 (Reuters) - The London Metal Exchange (LME), the world's biggest marketplace for industrial metals, will invest heavily in Asia and is planning to expand its Singapore office, Chief Executive Martin Abbott said.

"Asia is going through structural changes, and the LME will invest heavily in the region," Abbott said in a speech at an LME seminar in Singapore on Friday, without disclosing details of any spending plans.

In particular, Abbott said he is confident about the continued industrialisation and urbanisation in China, the world's biggest buyer of many industrial metals including copper.

The LME handles about 80 percent of global futures trading in industrial metals.

In February last year, the Singapore Exchange, in partnership with the LME, launched small-size, cash-settled metal futures.

The 135-year-old LME is in the midst of a bidding process, with potential buyers of the bourse expected to submit binding bids by May 7.

MARKET NEWS

N.Am Feb aluminum shipments rise 8 pct vs year ago

NEW YORK, May 3 (Reuters) - Demand for U.S. and Canadian aluminum products, measured as shipments from domestic producers plus imports, rose by 8.0 percent in February over the year-ago period and grew by 1.7 percent over January, an aluminum group said in its latest report.

Total demand increased to an estimated 1.857 billion lbs in February from 1.720 billion in February 2011, and was up from 1.827 billion lbs shipped in January, according to the Aluminum Association's Aluminum Situation report.

Demand for semi-fabricated, or mill, products increased by 9.8 percent in February to 1.225 billion lbs from 1.116 billion a year earlier, but slipped 1.4 percent from January when 1.242 billion lbs were shipped.

In its breakdown of U.S. and Canadian mill products, the association said demand for aluminum sheet and plate was up by 7.9 percent to 726.4 million lbs in February from 673.4 million lbs a year earlier, and was even with January shipments.

Shipments of extruded products surged 15.6 percent to 280.4 million lbs in February from 242.5 million lbs in February 2011, but edged up by 1.5 percent from 276.3 million in January.

MARKET NEWS *(Continued)*

February shipments of aluminum ingot for castings and other uses increased by 4.6 percent to 631.5 million lbs from 603.9 million a year earlier, and were 8.1 percent higher than 584.1 million lbs shipped in January, the report said.

U.S. and Canadian producer inventories rose by 1.0 percent in February to 2.327 billion lbs from 2.305 billion in February 2011, but fell 3.3 percent from January's 2.406 billion lbs, the report said.

The association's Index of Net New Orders of aluminum mill products rose 4.0 percent in March over February. March Orders dropped 3.4 percent from March in the previous year. On average, orders recorded by domestic producers during the first quarter were up by 4.9 percent compared with the same period last year.

Contractors end protest at Escondida mine in Chile

By Fabian Cambero and Alexandra Ulmer

SANTIAGO, May 3 (Reuters) - Contract workers late on Thursday ended a partial blockade on roads to Chile's giant Escondida mine, a union leader told Reuters, in a short disruption that both he and majority owner BHP Billiton said had not affected output at the world's No. 1 copper mine.

"We've unblocked access to the mine," said the vice president of Escondida's contract workers union, Roberto Rojas, who added production had not been hit by the labor action. "Escondida mine is going to review our demands and give us an offer."

Contract workers had put their tools down late on Wednesday and blocked access roads to the mine, but unionized workers did not join the industrial action and continued working their shifts, Escondida union secretary Marcelo Tapia said earlier.

"Production is unaffected" by the protest over a bonus dispute, spokesman Ruban Yogarajah of Escondida's majority owner, global miner BHP Billiton , said earlier on Thursday from London.

The ageing Escondida has become symptomatic of mining challenges in the world's top copper producer Chile, where the lynchpin sector was hit by a wave of labor unrest and extreme weather last year.

In 2011, Escondida's output plummeted 24.6 percent from a year earlier to 819,261 tonnes of copper, its lowest level in nearly a decade, due to sinking ore grades and a two-week strike between July 21 and Aug. 5 last year.

Last year's strike stoked supply fears that helped push the price of copper to near four-month highs in August and led the company to declare a force majeure.

At the time, the company said the work stoppage did not significantly affect production and gave no guidance on output losses.

The mine aims to boost production to more than 1.3 million tonnes a year by 2015, or about 5 percent of the global copper market.

Antofagasta's copper output stutters

By Clara Ferreira-Marques

LONDON, May 3 (Reuters) - First-quarter copper production at Chilean miner Antofagasta fell 13 percent on the previous three months amidst rising development costs, the London-listed firm said on Thursday.

Esperanza, a flagship growth project that hit troubles in its production build-up last year, saw damage to a key conveyor belt in the quarter which held up throughput in February and March.

That prompted Antofagasta to warn the mine's full-year production would be at the lower end of forecast ranges. It also weighed on the miner's total output for the quarter, down 12.9 percent on the last three months of 2011 and at the lower end of analysts' forecasts.

Antofagasta's shares were trading down 4.7 percent by 0905 GMT at 1105 pence, underperforming a 0.7 percent drop in the broader UK mining sector.

"They are guiding down to the low end of the (expected production range for Esperanza), which implies a downgrade if there are any further issues. That mine isn't going to plan at the moment," analyst Andy Davidson at Numis said.

"Perhaps a 4 percent sell-off is a bit harsh, but we'll have to shave a bit off our full-year production estimate, so there will be some downgrade to our numbers."

The miner also raised its estimate of development costs for Antucoya, the first of its new mines due to come on stream, to $1.7 billion from an initial $1.3 billion. The miner had warned in March that it was negotiating with contractors at the mine and said costs could rise. It is now finalising contracts.

Antucoya, set to start production in the second half of 2014, has been cited by the company itself as an example of the escalation in costs, from labour to power, that has plagued the mining industry across commodities and geographies.

Antucoya is the same size and uses the same technology as Antofagasta's El Tesoro mine, which was constructed a decade ago and is also in Chile's Atacama region, but will cost over five times more.

Antofagasta said its copper output in the first quarter was up 25.5 percent at 162,900 tonnes on the same quarter a year ago, when Esperanza was coming into production.

Output in the quarter was also hit by planned maintenance work and lower grades at its main Los Pelambres mine.

Lower production drove up cash costs before by-product credits, which came in at 163.6 U.S. cents per pound, up from 151.3 cents in the fourth quarter.

MARKET NEWS *(Continued)*

Brazil govt wins appeal in tax dispute with Vale

BRASILIA, May 3 (Reuters) - Brazil's highest court overturned an injunction that had suspended collection of disputed tax claims from Vale SA , the world's largest iron-ore producer, the company said on Thursday, adding it would appeal the ruling.

The miner is fighting four tax bills issued by the federal tax authority, totaling 30.5 billion reals ($15.83 billion) on its earnings abroad. Vale said this is tantamount to double taxation as it paid taxes to foreign governments.

The Superior Court of Justice ruled in favor of the federal tax authority in its appeal against an injunction granted in March that suspended payment of the taxes by Vale. Vale says it will now appeal in order to reinstate that suspension.

"Vale remains confident in its arguments and will continue to pursue all appropriate legal actions until a final decision on the merits is reached," it said in a statement.

A statement on the court's website confirmed that the company still had the right to appeal the decision.

A Vale spokesperson said the company would not have to make an immediate payment should the tax authority request it, since since it planned to appeal against the latest ruling.

The dispute over whether the taxes are due is waiting to be judged and is part of a run of appeals begun in the last decade, including one by the National Industry Confederation (CNI), against payment of tax on earnings on foreign operations.

Brazil's government is also seeking $3 billion in additional royalty payments from Vale, claiming the company has understated the value of its production. Switzerland's government is also pursuing the company for income tax arrears that Vale disputes.

Key Brazilian mining state Minas Gerais state is seeking an 1.2 billion reais (US$642.83 million) in additional tax from the company, saying Vale should have based its tax payments on the value of its output, not production costs.

India's Orissa state mulls cap on iron ore output-official

BHUBANESWAR, India, May 3 (Reuters) - India's top iron ore producing state of Orissa is considering a 4 percent cut in its output to curb illegal mining, a government official said, reducing still further already depleted exports from the No. 4 producer.

The state government is examining a proposal from its mines department for the cut, which would be based on its estimated output of 60 million tonnes in the last fiscal year to March 2012.

"We cannot allow indiscriminate mining, over-production," said Deepak Mohanty, director of mines in the state government, adding the proposal was still being reviewed.

"Maybe the exports will be affected a little bit," he said Mohanty, when asked about the impact on exports from Orissa.

In the year to March 2011 -- the latest data available -- Orissa exported about 16.14 million tonnes, mostly to China.

India used to export about 100 million tonnes a year of iron ore -- half its production -- but clampdowns on illegal mining and the federal government's desire to keep production for domestic steel mills has slashed that figure.

In Karnataka state, which used to supply about 25 percent of India's overseas sales, a series of legal and administrative interventions have resulted in a halt to exports and severely restricted mining.

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

Daily LME Aluminium 3-months

Daily LME Copper 3-months

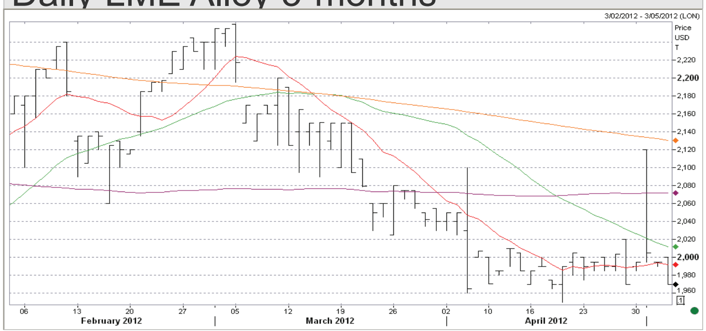
Daily LME Nickel 3-months

Daily LME Zinc 3-months

Daily LME Lead 3-months

Daily LME Tin 3-months

Daily LME Alloy 3-months



Daily LME Nasaac 3-months

MARKET REVIEW

METALS-LME copper edges off 1-week low ahead of US data

By Carrie Ho

SHANGHAI, May 4 (Reuters) - London copper edged up on Friday, after touching one-week lows in the previous session, although the modest gains reflect caution ahead of a key U.S. jobs report after a recent spate of soft data underscored the fragility of the U.S. recovery.

Three-month copper on the London Metal Exchange was up 0.3 percent to $8,256.50 a tonne by 0354 GMT, after hitting a one-week low of $8,200 on Thursday.

Copper is down around 1.9 percent for the week so far, on track for its first weekly loss in three, as recent patchy economic data in big copper consumers China and the United States as well as a deepening slump in the euro zone cast doubts on the outlook for raw material demand. The most-traded copper contract for August delivery on the Shanghai Futures Exchange ticked up 0.2 percent to 58,240 yuan ($9,200) a tonne by its midday close, helped by reports of a slight pickup in spot purchases in China.

"Copper remains bound in small ranges as we await clearer trading cues. While ShFE copper's upside is limited by high stockpiles in China, LME copper's upside is capped by fears of a tightening squeeze in the LME cash-to-three-months premium," Great Wall Futures analyst Li Rong said.

Adding to the cautious mood was news that U.S. services employment declined in April to its lowest level since December, tempering the impact of another set of numbers that pointed to the biggest weekly fall in jobless claims since May 2011.

The mixed labor market indicators precede Friday's much watched payrolls report in which analysts expect to see a rebound in hiring during April.

U.S. businesses outside the farm sector are expected to have added 170,000 jobs last month, according to a Reuters survey, after rising a meagre 120,000 in March.

The markets continued to worry over the euro zone's efforts to manage its debt crisis. European Central Bank President Mario Draghi urged euro zone governments to agree a growth strategy to go hand in hand with fiscal discipline, but as thousands of Spaniards protested in the streets he gave no sign the bank would do more to address people's fears about the economy.

One of the world's major metals exporters, Indonesia, will impose a new export tax on metal ores and prohibit the shipment of raw minerals unless miners submit plans to build smelters.

Market players said the move may increase input costs for some metal smelters in China.

In industry news, contract workers late on Thursday ended a partial blockade on roads to Chile's giant Escondida mine, a union leader told Reuters, in a short disruption that both he and majority owner BHP Billiton said had not affected output at the world's No. 1 copper mine.

PRECIOUS-Gold near 1-week low ahead of U.S. jobs data

By Lewa Pardomuan

SINGAPORE, May 4 (Reuters) - Gold held near its weakest in a week on Friday as cautious investors and jewellers stayed on the sidelines ahead of the release of a U.S. payrolls report, which could revive hopes of a third round of U.S. Federal Reserve bond buying.

The closely-watched report is expected to show a gain of 170,000 in April, according to a Reuters poll of economists, but investors are braced for lacklustre job growth last month following a trail of weak U.S. indicators.

A weaker-than-expected gain in the widely-watched U.S. data could hit the dollar as it would raise expectations of a third round of quantitative easing to stimulate the economy, boosting gold's safe-haven appeal.

Gold hardly changed at $1,636.30 an ounce by 0329 GMT, having dropped on Thursday to its lowest since April 25 at $1,630.70 after U.S. data showed services employment declined in April to its lowest level since December.

"Whether or not the data is going to be bad, the market is still in a range trade.

The upside is a bit limited for a little while. Nobody wants to enter the market, said Ronald Leung, director of Lee Cheong Gold Dealers in Hong Kong.

"We have to see physical buying coming back before gold can stabilise. Otherwise, we can test $1,625 again. We don't know when the Indians will come back."

A weak rupee, which makes dollar-priced gold more expensive for buyers in India, has curbed sales in the world's largest consumer of bullion. Most jewellers are also well-stocked after lower-than-expected sales on auspicious Akshaya Tritiya, which fell on April 24.

For a 24-hour gold technical outlook:

http://graphics.thomsonreuters.com/WT1/20120405091330.jpg

U.S. gold added $2.20 an ounce to $1,637 after hitting a 1-week low on Thursday on a steadier euro and as investors turned their attention to the payrolls data after the ECB kept rates steady at 1 percent as expected.

Cash gold rallied to a record of around $1,920 last September on fears the euro debt crisis could spiral out of control and stall global growth.

In addition to the U.S. jobs data, the euro faces additional event risk from elections in France and Greece on Sunday, the results of which could stir worries about the countries' commitment to fiscal austerity.

In Singapore, a centre for bullion trading in Southeast Asia, dealers noted limited physical buying from interest from Thailand and Indonesia, while India remained on the sidelines.

MARKET REVIEW

"I heard Indian jewellers are planning another strike. There's not much coming or going into India lately. We've only managed to sell a small amount of silver," said a physical dealer.

"Well at times like this, you want to be the first person that a customer will call. Alternatively, you can sit back and wait," he added.

Jewellers in India called off their three-week-old strike in early April on assurances from Finance Minister Pranab Mukherjee that the government would consider scrapping a budget proposal to levy excise duty on unbranded jewellery.

FOREX-Dollar steady before US jobs; euro above 2-week low

By Masayuki Kitano

SINGAPORE, May 4 (Reuters) - The dollar held steady versus the yen and euro on Friday, but could face downside risks if U.S. jobs data disappoints and stirs renewed speculation about further monetary easing from the U.S. Federal Reserve.

The euro was little changed at $1.3156 , having bounced off the previous day's two-week low after European Central Bank chief Mario Draghi on Thursday gave no strong hints about the possibility of more monetary stimulus.

After the ECB kept rates steady at 1 percent as expected and an uneventful Spanish bond auction on Thursday, focus now shifts to U.S. jobs data later on Friday as well as elections in France and Greece on Sunday.

The U.S. payrolls report is expected to show a gain of 170,000 in April, according to a Reuters poll of economists.

A disappointing result is seen likely to put the dollar under pressure.

"We've gone back to that situation where when the weaker data comes out, we start to price in more chance of QE3 and therefore the dollar goes weaker," said Rob Ryan, FX strategist at BNP Paribas in Singapore, referring to the possibility of the Fed launching another bond-buying programme.

The dollar held steady versus the yen at 80.17 yen , staying above a 10-week low of 79.64 yen hit on Tuesday on trading platform EBS.

Yen-related flows are likely to be thinner than usual with Japanese markets closed on Friday for a public holiday.

Traders say market positioning bodes ill for the dollar against the yen since currency speculators are still thought to be holding hefty short positions in the yen, suggesting the yen could surge against the dollar if such bets are unwound.

Data released last week showed that currency speculators held a net short position in the yen of 55,903 contracts in the week ended April 24.

That is not far from 67,622 contracts logged in late March, which was the biggest in almost five years.

Some traders say the dollar could drop towards 77 yen to 78 yen in the near term if U.S. jobs data comes in weak.

Besides the U.S. jobs data, the euro faces additional event risk from elections in France and Greece on Sunday, the results of which could stir worries about the countries' commitment to fiscal austerity.

Francois Hollande, front-runner and first-round winner in the French presidential race, has promised to shift the debate in Europe towards promoting growth if he is elected.

In Greece, surveys showed no clear winner emerging from the elections, with the two main parties garnering barely enough seats for a parliamentary majority.

Either the two main parties will secure just enough to work together, or steps will have to be taken to form a broad coalition with minor parties firmly opposed to the European Union's austerity measures.

Not all are convinced that the election results will pose an immediate downside risk to the euro, however.

"Most people at this stage know that there is going to be some turmoil out of Greece to some extent," said BNP Paribas' Ryan.

(Inside Metals is compiled by Shashwat Sharma in Bangalore)