INSIDE METALS

Monday, October 22, 2012

CHART OF THE DAY

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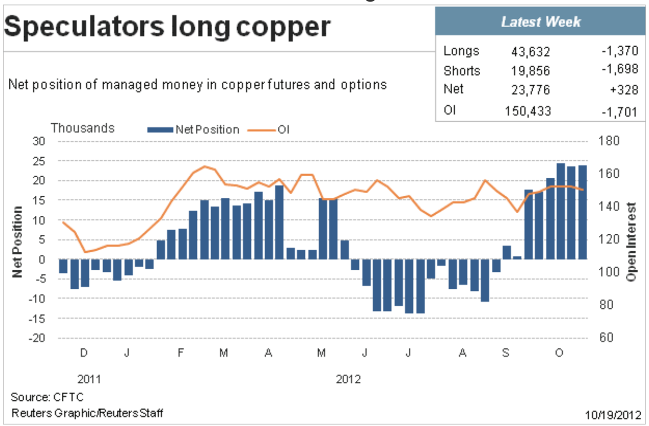


Click here for LME charts

TRADING PLACES

- China metal trader muscles into supply chain
- LME wants to add iron ore, coking coal to products

GENERAL NEWS

- Japan Sept exports fall 10.3 pct year/year - MOF
- Gold Fields mine strike ends in South Africa
- Managed money cuts gold, silver longs, adds copper length

MARKET NEWS

ALUMINIUM:

- Talks begin on swaps to hedge steep aluminium premiums

COPPER:

- China Sept copper output robust on tight scrap supplies

NICKEL/STEEL:

- China iron ore output at 11-month high; rebar at record
- Sundance suitor wins China bank support for $1.4 bln bid

TODAY'S MARKETS

BASE METALS: London copper touched a one-month low after disappointing earnings from leading U.S. companies and a bigger-than-expected fall in Japan's exports dented appetite for riskier assets. Asian equities dipped after U.S. stocks suffered on Friday their worst day since late June, following disappointing results from Dow components General Electric and McDonald's , both barometers of the overall health of the world's largest economy.

"London copper has held up well today despite bad news on U.S. earnings and the Japanese economy due to a weaker dollar and a stronger euro," said a Shanghai-based trader.

PRECIOUS METALS: Gold slipped to its weakest in a month before recovering slightly as prices became more attractive, but speculators unwinding long positions and worries about the health of the global economy could curb gains. Falling equities could force speculators to cash in gold to cover losses and to turn to the safety of the dollar, although the metal could find support at around $1,700, a level which may spark more buying from jewellery makers ahead of the year-end festive season.

"There is still a chance that we'll see more selling, but just like this morning, it is evident that there's likely to be some good buying if gold gets closer to $1,700. Personally, I think $1,700 will be held," said Yuichi Ikemizu, branch manager for Standard Bank in Tokyo.

FOREX: The euro crept up after Spain's prime minister won a boost for his austerity drive with a regional election victory while yen slid to a two-month low against the dollar on expectations of more stimulus from the Bank of Japan. The Canadian dollar made a rare big retreat in Asia trade to hit a two-month low on expectations that the central bank may drop its hawkish tone following tame inflation data.

"The euro will likely be peaking out around $1.32. There will remain uncertainty on Spain's bailout request. And if it does, the market may think that the euro will have run out of euro-positive factors," said Minori Uchida, chief forex analyst at the Bank of Tokyo-Mitsubishi UFJ.

GENERAL NEWS

Japan Sept exports fall 10.3 pct year/year - MOF

TOKYO, Oct 22 (Reuters) - Japan's exports fell 10.3 percent in September from a year earlier, down for the fourth straight month, Ministry of Finance data showed on Monday, suggesting anti-Japanese sentiment in China over a territorial spat was adding to a slump in shipments.

The fall in exports, a key driver of the world's third-biggest economy, was bigger than economists' median forecast for a 9.6 percent drop and followed a 5.8 percent annual fall in August, the data showed.

Exports to China, the top destination for Japanese shipments, fell 14.1 percent in the year to September. Exports to Europe fell 21.1 percent, the data showed.

The trade balance came to a deficit of 558.6 billion yen ($7.04 billion) in September, against a 570.1 billion yen deficit projected by economists.

It was the third straight month of deficits. Imports rose 4.1 percent from a year earlier.

Gold Fields mine strike ends in South Africa

JOHANNESBURG, Oct 19 (Reuters) - Miners ended a strike at South African bullion producer Gold Fields on Friday, while President Jacob Zuma pledged to speed up investment to ease grievances fuelling the worst labour unrest since apartheid.

But a month-long strike at Anglo American Platinum , the world's top producer of the precious metal, showed no sign of ending. Workers were also still off the job at Harmony Gold's Kusasalethu mine.

With the government calling on miners to return to work, companies have become emboldened to issue sacking ultimatums to thousands of illegal strikers, a hard-ball negotiating tactic that appears to be having some effect.

Gold Fields, the world's No. 4 producer, said about 11,000 miners, threatened with dismissal unless they went back by Thursday, had returned to work after a month-long stoppage at its KDC West operations in Carletonville, 40 km (25 miles) west of Johannesburg.

It sacked 1,500 miners who had not turned up for work at KDC West and gave 8,500 workers on a wildcat strike at KDC East, another part of the mine, until early next week to report, or lose their jobs.

SAFRICA-MINES/TIMELINE - http://link.reuters.com/xac23t

SAFRICA-MINES/ GRAPHIC - http://link.reuters.com/qyz92t

About 15,000 workers have been fired in the past two weeks, although analysts say most are likely to be re-hired because of the huge cost and time required to recruit replacements.

About 35,000 miners, or about 7 percent of the industry's total workforce, are on strike and facing threats of dismissal, although roughly the same number have returned to work. Mining firms are expected to use the strife to scale down less-profitable operations, leading ultimately to job losses and causing headaches for Zuma's ruling ANC, which has made reducing chronic unemployment a priority.

Miners' pay has risen steadily since the end of apartheid but poverty is entrenched in the rural areas from which most come. As wages have increased, so have the number of dependents, with a typical miner's salary now supporting eight to 10 relatives.

INEQUALITY

"The failure to invest in basic services in black communities over the decades of colonial oppression and apartheid is a critical element in the persistence of inequality today," Zuma told a conference on infrastructure development.

He said the government would speed up its $100 billion plans to build more houses for the poor, roads, schools and other infrastructure in an effort to alleviate the rural poverty that engulfs much of the nation.

Zuma's ruling ANC and its old ally, the COSATU labour federation, have in the past kept a lid on strikes by encouraging deals for steady wage rises.

But many strikers are now balking at the system, saying labour leaders are more concerned about maintaining close ties with politicians and company bosses than protecting workers.

Nearly 50 people have died in unrest since August, including 34 striking miners shot dead by police on Aug. 16 at Lonmin's Marikana mine in the deadliest incident of its kind since the end of white-minority rule in 1994.

Thousands of Lonmin workers staged a one-day walkout on Thursday to protest against the arrests of colleagues suspected of murdering rival labour leaders. Lonmin said on Friday it was back to normal operations.

Managed money cuts gold, silver longs, adds copper length

Oct 19 (Reuters) - Hedge funds and money managers cut their gold futures positions last week for its first decline in nine weeks, as initial optimism based on the U.S. Federal Reserve's monetary stimulus launched in September began to fade. Managed money increased its net longs - essentially bullish bets - in gold by 13,789 lots to 184,404 lots in the week ended Oct. 16, down from a 14-month high in the previous week, data from the Commodity Futures Trading Commission's (CFTC) Commitments of Traders showed. The group also trimmed silver's net longs while it boosted copper's length.

Graphics package: http://r.reuters.com/buv87r

Analysts said the jump in gold longs last week indicated heavy fund buying that led to several failed rallies at just below $1,800 an ounce, and that triggered technical selling.

GENERAL NEWS *(Continued)*

The price of U.S. benchmark COMEX gold futures for December delivery had dropped about 2 percent during the period covered by the report.

Gold posted its second consecutive weekly loss. It fell over 1 percent to a one-month low on Friday due to tumbling U.S. equities on economic uncertainty around the world.

Speculators also slashed silver's net length by 2,235 to 36,382 lots, its first decline in 12 weeks. Also, the group increased copper length by 328 lots to 23,776 contracts.

TRADING PLACES

China metal trader muscles into supply chain

LONDON, Oct 19 (Reuters) - Chinese metals merchant Ocean Resources, armed with more than half a billion dollars in new credit lines, is expanding its business rapidly by locking in ore supply from mines overseas and increasing metals distribution at home.

The firm is shifting its focus to buying ores directly from mines rather than just trading in the futures market and importing refined metal. It expects to double turnover over two years to over 10 billion yuan ($1.6 billion) in 2013.

"Setting up in ores and concentrates is an important step for our company. We have turned our focus to mining," Duan Hansen, the firm's assistant general manager said in an interview.

The company has purchased 100 percent of a gold mine in Shangxi province and has ventured into its first deal to buy copper ore directly from a miner it is helping to ramp up abroad.

"We have signed an exclusive agreement for a mine development in Morocco," Hansen said.

Helped by Beijing's measures to ease the money supply, Ocean Resources in July signed a $4 billion yuan credit line with China Construction Bank, in addition to existing credit facilities with Standard Bank and Standard Chartered.

As part of its financing and distribution strategy, the company each month imports around 7,000 tonnes of copper cathode, which it plans to increase to 10,000 tonnes next year.

It also has been importing copper, zinc and lead concentrates, which it sells to domestic smelters.

As it expands, Ocean Resources plans to set up representative offices in London, Singapore and Hong Kong by 2015.

It will also next month open an office in Shenzhen city, Guangdong Province, part of one of China's special economic zones, where it plans to take advantage of its access to credit to supply and finance smaller merchants and end-users who are suffering from slowing growth and razor-thin profit margins.

China's economy has slowed over the past seven quarters to a growth rate of 7.4 percent in the third quarter from a year ago.

"The real physical economy in today's China is having a hard time. Greece and Europe's sovereign debt issues have a very big impact on Chinese enterprises," Hansen said.

BLIND EYE

Ocean Resources also profits from currency arbitrage, shopping around merchants and miners for suppliers in euros, sterling, Canadian or Australian dollars.

"Trafigura and Glencore only accept dollars, so we have to find other sellers (which is possible) with enough banking support - not just credit lines but also FX policy," Hansen said.

Since China's regulators have clamped down on simpler forms of cash-for-commodity financing in recent years, traders have turned to exotic instruments such as offshore yuan forwards and interest rate differentials to squeeze a little extra profit out of their metal or to boost cash flow for their business.

Beijing turns a blind eye to this type of financing for companies involved in the physical cycle of buying and selling - at least for now.

"It's legal of course but it's a grey area," Hansen said.

LME wants to add iron ore, coking coal to products

LONDON, Oct 19 (Reuters) - The London Metal Exchange, under ownership of Hong Kong Exchanges and Clearing Limited , wants to expand its product offering beyond base metals to iron ore, coking coal and iron ore shipping, HKEx CEO Charles Li said on Friday.

"This is by virtue of our proximity to China and understanding of China, but on the other hand creating a mutual venue for the supply side of the business," Li told Reuters in an interview.

HKEx is in the final stages of its $2.2 billion purchase of the LME, which should conclude by the end of this year.

In the longer term, he would like to commercialize and modernize the LME so that it becomes a full fledged commodity exchange.

"Some people take that to mean a monthly contract - that's not what we're going to do," he said. "If you mean there will be a strong IT infrastructure, the answer is yes. If you mean self clearing the answer is yes."

The LME's contracts are based on hundreds of specific forward dates, rather than on simple monthly delivery system of most futures contracts.

TRADING PLACES *(Continued)*

In its trading pit, known as the ring, the six major non-ferrous metals and two aluminium alloy contracts are traded sequentially in four five-minute bursts of open outcry, with 12 ring-dealing firms taking orders from their customers and their own back office. In this way, live brokers are often better able to manage the complex delivery system, supporters say.

Another ambition of the new entity will be the opening of LME warehousing in China, the world's top consumer of copper.

Li said he hoped that would be achieved in the context of China's efforts to open its capital markets, including paving the way for international use of the renminbi currency.

"I don't have a timetable for it but I would like to believe that this is something that is hopefully not too far away."

THORNY ISSUE

He acknowledged that warehousing was a thorny issue and that he wanted to "get his arms" around a problem that has dogged the LME in recent years.

LME regulations allow companies operating warehouses in the global network registered by the exchange to release only a fraction of their inventories each day.

This, along with financing deals, results in long queues for metal and an artificial tightness in immediate supply that has pushed up premiums, the amount paid above the spot price to secure physical delivery, infuriating metals consumers.

"There are so many factors in here and honest people should be allowed to disagree and the process needs to be debated in a calm and disinterested manner so that the solution actually addresses the problem rather than creating unintended consequences," Li said.

On the 135-year old institution's structure Li said a new users committee would be created, involving senior figures from the manufacturing sector including fabricators.

That committee will report directly to the new LME board.

Li said the new board would have strong metal expertise, but would also reflect its new owners.

MARKET NEWS

Talks begin on swaps to hedge steep aluminium premiums

LONDON, Oct 19 (Reuters) - Banks are in talks on offering a derivative to hedge aluminium premiums, which would help companies that now have to pay steep surcharges to get physical supply despite a global glut of the metal, banking and industry sources said.

The regulations of the London Metal Exchange (LME), which is being acquired by the Hong Kong stock exchange, allow companies operating warehouses in the global network it registers to release only a small fraction of their inventories each day.

This, along with financing deals tying up stockpiles, causes long queues for aluminium, and an artificial tightness in immediate supply of the metal used to make a wide range of vehicles and household goods.

The result is that the premiums industrial buyers pay above the spot price to secure physical delivery have been pushed to record highs.

Senior banking and industry sources said on Friday preliminary discussions are underway on launching a swap product.

"Yes, there could be a product to hedge aluminium premiums," a banking source said.

Such a facility would help to address consumer frustration.

"There's quite a bit of discussion about whether that's an opportunity for both banks and traders," said an industry source who declined to be named. "There seem to be a number of participants who have an interest, but there's nothing definitive yet."

Among issues to be discussed is whether the swap, an over- the -counter derivative product widely used across commodity markets, would gain sufficient critical mass.

Trading volumes in iron ore swaps have grown since their 2008-2009 launch but at around 100 million tonnes a year, this derivatives market still represents a tiny fraction of a physical market of more than one billion tonnes per year.

The LME has struggled to modify its warehousing system to satisfy traders, consumers and the warehousing companies. It has launched a six-month review into the issue.

COMPLEX

Hong Kong Exchanges and Clearing Limited (HKEx), which has agreed a $2.2 billion purchase of the world's biggest base metals marketplace, has promised to tackle the matter of warehousing.

The Hong Kong company's CEO, Charles Li, has acknowledged warehousing as a thorny issue.

"If the issue is that people are not comfortable with the way the premium is determined - and there might be different ways for us to do that - this would be more in the tweaking and modification process rather than a radical change," Li told Reuters in an interview during LME week.

"But the jury is out, and we as the new owner obviously have the broader interest of the market in mind."

The LME has already raised the minimum load-out rate for warehouses to placate angry users but is now conducting the review as the bottlenecks and resulting high premiums show little sign of easing.

MARKET NEWS *(Continued)*

The LME's CEO Martin Abbott said earlier this week that as the warehousing review was now under way, the exchange would not be commenting for some time and an exchange spokesman also declined on Friday to comment on the swaps concept.

Duty-paid physical aluminium in Rotterdam was quoted at a record high premium of $270-290 a tonne from $260-280 at the end of August. By contrast, LME three-month aluminium prices touched a three-year low at $1,827.25 a tonne in mid-August, and are down more than 5 percent so far this month.

The global aluminium market is in oversupply with total stocks worldwide of around 10 million tonnes, most of which are tied up in long term financing deals - being used as collateral.

"If you had a premium swap it would give consumers the opportunity to hedge premiums on a forward basis. It would help them protect their exposure. They have limited capabilities at the moment," said Jeremy East, Standard Chartered Bank's global head of metals trading.

"But it is a derivative, and you need to build up an acceptable benchmark which it can be financially settled against," he said, adding that Standard Chartered is not involved in launching such a product.

Details on how such a product would work are still sketchy, but some sources have suggested that there could be two benchmarks, one based on an agreed assessment of the aluminim premium in Europe and one in the United States.

China Sept copper output robust on tight scrap supplies

SHANGHAI, Oct 22 (Reuters) - Chinese copper production matched its second-highest level this year in September as tight scrap supplies and favourable export policies encouraged smelters to keep output high, although primary aluminium output dropped from a record high in August.

Metal demand in China, the world's top consumer and producer of copper, aluminium, lead, zinc, nickel and tin, has fallen this year after economic activity slowed in global markets.

But hopes that appetite will rebound in the fourth quarter and early next year on the back more infrastructure spending have encouraged miners and smelters to ramp up production.

Refined copper output rose 4.3 percent from a year ago to 511,000 tonnes in September, unchanged from August.

"Chinese refined copper output has remained at a high level this year partly due to the tightness of copper scrap, and partly due to expectations of downstream demand lifting in the fourth quarter on more infrastructure spending and further monetary easing by Beijing," said CIFCO Futures analyst Zhou Jie.

"Also, now that a lot of smelters can export their output cheaply under the tolling tax cut, they are inclined to produce more."

China's copper smelters are hoping to increase refined copper exports following a tax adjustment that has reduced their costs to export.

ALUMINIUM

Production of primary aluminium fell 4 percent from the previous month to 1.67 million tonnes in September, but was still comfortably above the average 1.4 million tonnes last year. Output increased 9.3 percent from a year earlier as new plants came on stream.

Analysts said China's aluminium output is expected to stay at elevated levels as plants will likely increase their production as a rise in railway investment helps boost orders for alloy producers.

However, chronic overcapacity is set to keep a lid on domestic prices and could limit imports, said Chen Dixi, an analyst at Jinrui Futures Co.

Prices are currently hovering at around 15,400 yuan ($2,500) on the Shanghai Futures Exchange.

China iron ore output at 11-month high; rebar at record

SHANGHAI, Oct 22 (Reuters) - China's iron ore production hit its highest in 11 months in September, official data showed on Monday, as a rebound in prices of the steelmaking raw material encouraged small privately owned miners to resume output.

Chinese iron ore output is being closely watched as higher iron ore and steel prices since early September have been linked to a drop in production by higher-cost, small miners.

But the increased output is unlikely to cut China's reliance on imports, given the low grades of domestic iron ore. Raw iron ore in China has about 15 percent iron content on average compared to around 60 percent for material found in Australia and Brazil.

China, the world's top iron ore buyer, imports about 60 percent of the globally traded steelmaking raw material.

September's output of 129.06 million tonnes of ore was an 11 percent rise from August and a 20 percent increase from a year ago, data from China's National Bureau of Statistics showed. It was the highest since October 2011 when iron ore output hit an all-time high of 132.4 million tonnes.

"The only reason for rising output I can think of is that some small miners and steel mills, which suspended or cut output, have resumed production," said Qiu Yuecheng, an analyst with Xiben New Line Co Ltd, a spot steel products trading platform in Shanghai.

Output of rebar, widely used in construction and mostly produced by smaller, privately-owned mills, hit a record high of 15.82 million tonnes in September, up 17 percent from a year ago, data showed.

A seasonal pick-up in demand on the back of increased construction activity has helped rebar prices rebound by more than 10 percent since early September. Spot iron ore prices surged more than 30 percent after hitting a near three-year low.

MARKET NEWS *(Continued)*

China's average daily crude steel output rose to 1.932 million tonnes in September, up 2 percent from 1.894 million tonnes in August.

January-September output of iron ore jumped 17 percent to 968 million tonnes from a year earlier, while rebar output over the period rose 14 percent to 128.7 million tonnes.

Sundance suitor wins China bank support for $1.4 bln bid

MELBOURNE, Oct 22 (Reuters) - China's Hanlong Group took a big step towards sealing a long-delayed $1.4 billion takeover of Sundance Resources by securing a loan commitment from China Development Bank, with the news sending the Australian firm's shares up 9 percent on Monday.

Sundance said the bank has agreed to provide Hanlong a debt facility of up to $1.022 billion, subject to credit approval processes, and added Hanlong had also received a commitment from Bank of Deyang Co Ltd to finance loans for the remainder.

Sundance was targeted last year by Hanlong for its Mbalam iron ore project on the border of Cameroon and the Republic of Congo, a new source of iron ore that could help trim China's dependence on the big three iron ore producers, Vale , Rio Tinto and BHP Billiton .

The takeover, now expected to close on January 8, had been delayed due to China Development Bank's reluctance to sign off on a loan for the deal and earlier delays in securing mining agreements with the governments of Cameroon and Congo.

Investor relief that Hanlong was closer to lining up funding saw Sundance shares jump as much as 9 percent when they opened on Monday after more than two weeks on a trading halt.

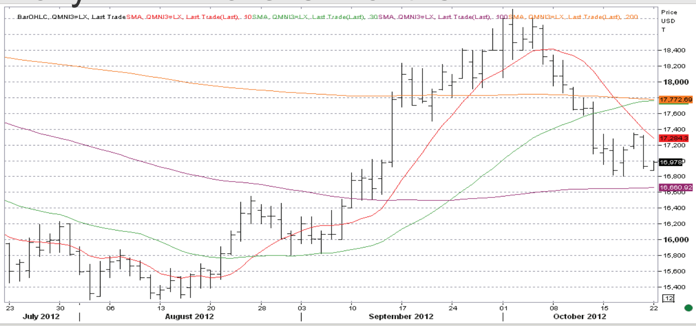
But the stock, last up 6 percent at A$0.36, continued to trade 20 percent below the value of Hanlong's A$0.45 a share offer, reflecting lingering uncertainty the deal will go ahead within three months.

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

Daily LME Aluminium 3-months

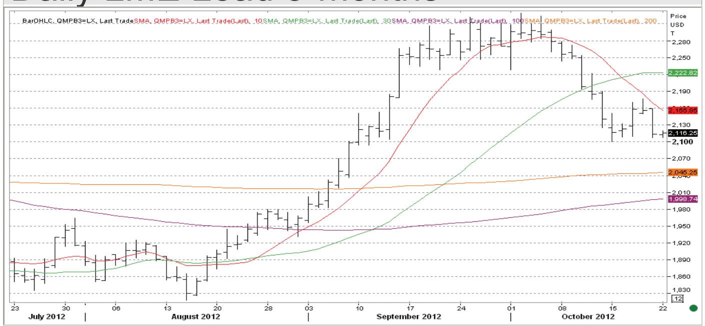
Daily LME Copper 3-months

Daily LME Nickel 3-months

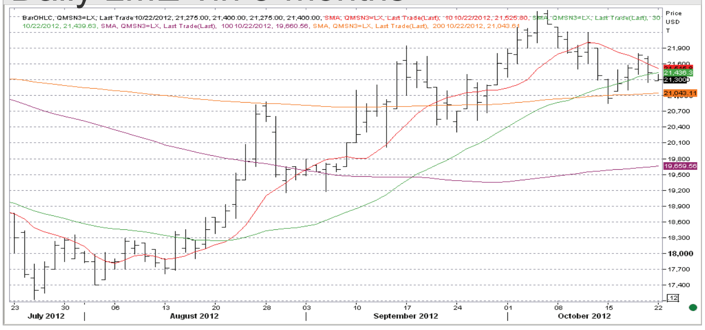


Daily LME Zinc 3-months

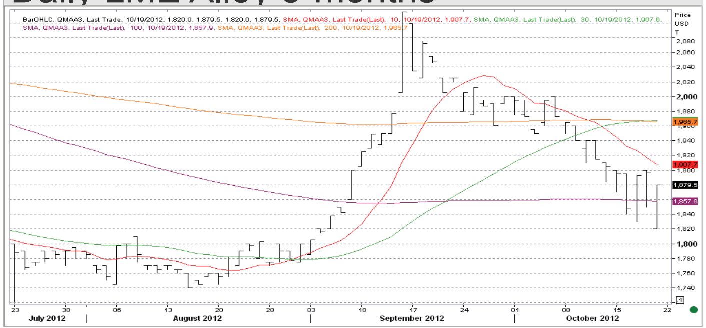
Daily LME Lead 3-months



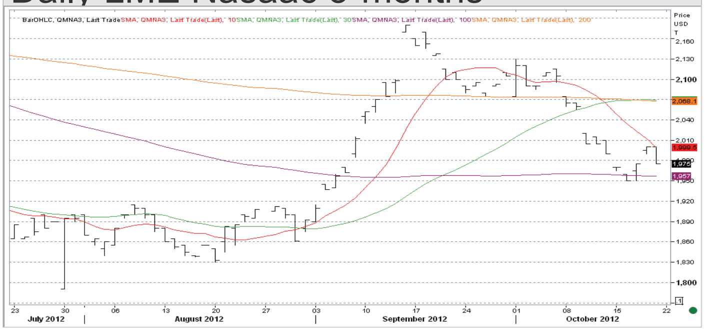
Daily LME Tin 3-months



Daily LME Alloy 3-months



Daily LME Nasaac 3-months



THOMSON REUTERS

MARKET REVIEW

METALS-Copper touches 1-mth low; equities, Japan exports weigh

SHANGHAI, Oct 22 (Reuters) - London copper touched a one-month low after disappointing earnings from leading U.S. companies and a bigger-than-expected fall in Japan's exports dented appetite for riskier assets.

Asian equities dipped after U.S. stocks suffered on Friday their worst day since late June, following disappointing results from Dow components General Electric and McDonald's , both barometers of the overall health of the world's largest economy.

Investors' confidence was further dampened by data that showed Japanese exports fell more than expected in September and sentiment among manufacturers tumbled the most since last year's earthquake.

Fears over the world's third largest economy were further underlined by Bank of Japan Governor Masaaki Shirakawa's warning that the country's now-resilient capital spending may be hurt.

Three-month copper on the London Metal Exchange fell $2.50 to $8,012.50 per tonne by 0702 GMT, off a trough of $7,964.25 hit earlier in the session, its lowest since Sept. 10.

"London copper has held up well today despite bad news on U.S. earnings and the Japanese economy due to a weaker dollar and a stronger euro," said a Shanghai-based trader. A weaker greenback makes dollar-denominated commodities such as London copper cheaper for holders of other currencies, whereas a stronger euro benefits Europeans who buy dollar-denominated assets and is often seen as a barometer of improved sentiment over Europe's economy.

London copper looks well-supported at $7,900, said CIFCO Futures analyst Zhou Jie. "Losses will be capped in the near-term, since many investors are betting on Beijing rolling out more infrastructure spending or monetary easing programmes to support the Chinese economy," Zhou said.

Economists polled by Reuters expect further cuts by the end of the year in the reserves China's banks are required to hold, as the world's second largest economy looks set to stage a tepid rebound in the fourth quarter. The most active January copper contract on the Shanghai Futures Exchange fell 1 percent to close the session at 57,890 yuan ($9,300) per tonne, paring losses from its earlier session trough of 57,500 yuan, its cheapest level since Sept. 7. Copper futures were pressured by weak demand for physical copper in top consumer China, where spot copper is trading at a discount to the ShFE front-month contract of up to 100 yuan. Also indicative of sluggish Chinese downstream demand for copper are rising stocks in ShFE-monitored warehouses, which by Friday had jumped more than 8 percent on the week and a significant 48.5 percent since early June.

"The rise in inventories was due to China's sluggish downstream demand for copper, as well as its recent high copper imports and output levels," said Great Wall Futures Analyst Li Rong.

Data on Monday showed Chinese copper production in September matched its second-highest level this year as tight scrap supplies and favourable export policies encouraged smelters to keep output high. China's imports of copper rose 11 percent in September on the month to 394,837 tonnes, the General Administration of Customs said last week.

PRECIOUS-Gold rebounds from 1-month low; jewellers set to buy

SINGAPORE, Oct 22 (Reuters) - Gold slipped to its weakest in a month before recovering slightly as prices became more attractive, but speculators unwinding long positions and worries about the health of the global economy could curb gains.

Falling equities could force speculators to cash in gold to cover losses and to turn to the safety of the dollar, although the metal could find support at around $1,700, a level which may spark more buying from jewellery makers ahead of the year-end festive season. Gold was standing at $1,724.46 an ounce by 0639 GMT, up $4.47, but still down from an 11-month peak of $1,795.69 marked in early October. It hit a low of around $1,713 an ounce earlier on Monday. "There is still a chance that we'll see more selling, but just like this morning, it is evident that there's likely to be some good buying if gold gets closer to $1,700. Personally, I think $1,700 will be held," said Yuichi Ikemizu, branch manager for Standard Bank in Tokyo.

"In the other metals as well, I think we're coming closer to the bottom of the current range," he said, referring to industrial metals. U.S. gold for December was steady at $1,725.70 an ounce after falling to its lowest in more than a month in early trade.

For a graphic on CFTC: http://r.reuters.com/buv87r

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

Asset performance: http://link.reuters.com/muc46s

Risk on or risk off?: http://link.reuters.com/bar72t

Hedge funds and other big speculators have cut their bullish bets on U.S. commodities to the lowest levels since the end of August, with funds mostly bailing out of gold after its repeated failure to breach the $1,800-an-ounce mark. Cash gold powered to a record of about $1,920 in 2011, when investors turned to the metal as a safe haven during the debt crisis in Europe. European Union leaders face two months of tough bargaining on money, power and the future governance of the euro zone before they can boost confidence that the existential threat to the single currency has faded. Investors are turning their attention to the U.S. Federal Reserve's policy meeting on Tuesday and Wednesday after the central bank announced its third round of aggressive economic stimulus last month, which eventually sent gold prices to a peak in October. While investors welcomed the Fed's plan for more economic stimulus, known as quantitative easing, the move underscored worries that the U.S. economy may be in worse shape than feared.

MARKET REVIEW *(Continued)*

In other markets, shares in Asia fell on Monday as lacklustre earnings from leading U.S. companies and a sharp drop in Japan's exports, a key driver of the world's third-biggest economy, dented risk appetites and prompted investors to take profits on recent gains. The euro crept up after Spain's prime minister won a boost for his austerity drive with a regional election victory while yen slid to a two-month low against the dollar on expectations of more stimulus from the Bank of Japan. The physical gold market saw light buying from jewellery makers in Asia, with top consumer India likely to step up purchases because of the festive season there, which will peak with Diwali and Dhanteras next month. Weddings also take place during this period, with gold jewellery is an essential part of the dowry Indian parents give to their daughters."There are very good orders from India. I guess there will be more buying as prices come off," said a dealer in Singapore.

FOREX-Euro halts slide; yen, Canadian dollar hit 2-month low

TOKYO/SYDNEY, Oct 22 (Reuters) - The euro crept up after Spain's prime minister won a boost for his austerity drive with a regional election victory while yen slid to a two-month low against the dollar on expectations of more stimulus from the Bank of Japan. The Canadian dollar made a rare big retreat in Asia trade to hit a two-month low on expectations that the central bank may drop its hawkish tone following tame inflation data. The euro stabilised around $1.3048 , up about 0.2 percent from late U.S. levels, helped by Prime Minister Mariano Rajoy's victory in his home region of Galicia on Sunday, which was seen as removing a hurdle for Madrid to apply for international aid. The euro had fallen for two days late last week from a one-month peak of $1.3140 after Spain made no moves to seek help at a European Union summit. Uncertainty over when Spain would request a bailout to drive down the cost of its borrowings remained, and traders expect the euro to stay in a range. Some analysts said the euro has limited chance of breaking above its September high of $1.31729. "The euro will likely be peaking out around $1.32. There will remain uncertainty on Spain's bailout request. And if it does, the market may think that the euro will have run out of euro-positive factors," said Minori Uchida, chief forex analyst at the Bank of Tokyo-Mitsubishi UFJ.

COUNTING ON EASING

The yen slipped to fresh two-month low against the dollar on growing expectations of more policy stimulus from the Bank of Japan when it meets next week. The dollar rose to 79.60 yen , about 0.4 percent above its late U.S. levels last week, having clearly broken above its 200-day moving average, at 79.43 on Monday.

Japan's exports tumbled sharply as China-bound trade stalled following the two countries' diplomatic spat while manufacturer sentiment hit its gloomiest since early 2010, piling the pressure on the Bank of Japan. Some analysts, however, remained sceptical that the BOJ will deliver any major action at its Oct. 30 meeting and warned about holding long dollar/yen positions.

"There is a lot of hope there that they will do something big. History is sadly a poor lead and it would be prudent to pare down these long USDJPY positions early and maintain a strategy of buying on dips," said Sebastien Galy, strategist at Societe Generale.

The Canadian dollar was another big loser, sliding to a two-month low as the market positioned for a more dovish tone from the Bank of Canada at its rate setting meeting on Tuesday. Data on Friday showed the country's September inflation at a low of 1.2 percent, providing little justification for the central bank to maintain a hawkish position. The currency was not helped after Ottawa's surprise decision to block Malaysian state oil firm Petronas' bid for Canadian gas producer Progress Energy Resources , throwing a much larger Chinese deal in the Canadian resource sector into question. In addition, the latest weekly data from U.S. financial watchdog showed speculators' net long positions in the Canadian dollar are the biggest among major currencies, at about 9.5 billion U.S. dollars, leaving the Canadian unit vulnerable to profit-taking.

The U.S. dollar rose to as high as C$0.9949 , matching its high in late August. The Australian dollar also stayed on the back foot after the government reaffirmed its commitment to deliver a budget surplus, reinforcing views that a more frugal public sector will give the central bank reason to cut interest rates further.

In its mid-year update, the government announced A$16.4 billion ($17 billion) in new savings and tax measures over four years to protect a wafer-thin budget surplus for 2012/13.

The Aussie stood at $1.0325 , flat from late U.S. levels.

(Inside Metals is compiled by Shruthi G in Bangalore)