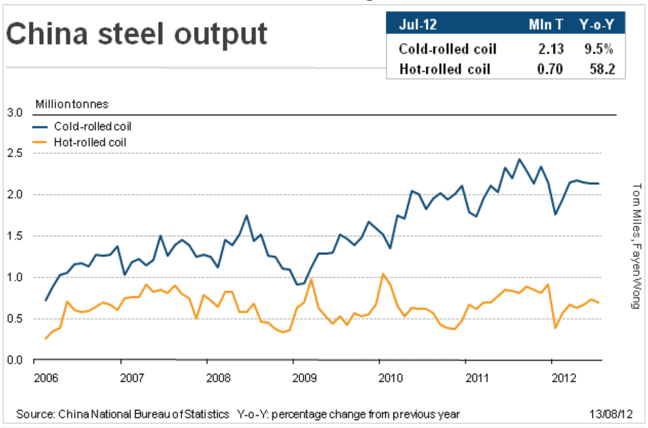
INSIDE METALS

Thursday, September 27, 2012

CHART OF THE DAY

Click on the chart for full-size image



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TODAY'S MARKETS

BASE METALS: London copper edged up from two-week lows hit in the previous session, supported by traders betting on a fourth-quarter recovery in metals demand in China, though an upcoming holiday and simmering concerns over Europe's debt crisis capped gains.

Copper product makers in top metals consumer China, where demand is expected to improve modestly in the fourth quarter, are getting their houses in order before a week-long holiday beginning on Monday that is likely to pare volume and direction from the market.

"You're only two days away from the start of big holidays in China, so people are looking to square books and cut risk," said Ivan Szpakowski, a Credit Suisse analyst in Singapore.

PRECIOUS METALS: Gold edged up from a two-week low hit in the previous session, but continued worries over the euro zone debt crisis that has lifted the dollar and weakened oil is expected to cap bullion's gains.

Investor worries about euro zone's ability to contain the debt crisis, now in its third year, heightened as anti-austerity protests in Greece and Spain, the two most vulnerable countries in the bloc, turned violent.

"The excitement over the last few weeks in metals has come to an end as economic performance and weak oil prices depress market sentiment," said a Singapore-based trader.

FOREX: The euro held steady versus the dollar, hovering hovered near a two-week low, as violent protests against austerity measures in Spain and Greece highlighted the challenges facing highly-indebted euro zone countries.

The single currency held steady at $1.2878 , not far from a two-week low of $1.2835 set the previous day.

"In this environment, unless there is news of a Spanish bailout, I think the momentum is for a weaker euro," said Mitul Kotecha, head of global foreign exchange strategy for Credit Agricole in Hong Kong.

GENERAL NEWS

China's Zhongrun takes 42 pct stake in gold miner Noble

MELBOURNE, Sept 27 (Reuters) - Chinese firm Zhongrun Resources Investment Corp has agreed to buy a 42 percent stake in Noble Mineral Resources Ltd for A$85 million ($88 million), sending shares of the Australian gold miner soaring 25 percent.

The move by Zhongrun, a $1 billion company with major stakes in several Toronto- and London-listed mining companies, is the latest in a string of Chinese investments in gold miners.

Demand in China for bullion has jumped, with gold sought for jewellery and as an inflation hedge.

Noble Mineral said it planned to use the A$85 million raised to speed up the ramp-up of its Bibiani mine in Ghana to produce 150,000 ounces of gold a year, pay down debt and expand its resource base.

Zhongrun agreed to pay A$0.16 and A$0.18 a share for two sets of shares to be issued to two different arms of Zhongrun.

It also will be issued options over a further tranche of shares exercisable at A$0.23 a share, or A$55 million, which would increase the Chinese firm's stake to 51.6 percent if exercised.

The options are exercisable over a three-year period although the period was not specified.

The announcement sent Noble Mineral shares to A$0.15, though that was well short of a record A$0.805 the company's shares touched last year.

Zhongrun's move into Noble Mineral follows Shandong Gold Group's plan to buy a majority stake in Australia's Focus Minerals Ltd , Zijin Mining Group's takeover of Norton Gold Fields in Australia. China National Gold Group Corp is also in talks to buy a stake in African Barrick Gold Plc .

Rothschild advised Noble Mineral on evaluating a range of proposals the company received to raise funding.

Amplats CEO says will not negotiate with illegal strikers

JOHANNESBURG, Sept 26 (Reuters) - World No. 1 platinum producer Anglo American Platinum will not negotiate on wage demands being made by illegal strikers at its key Rustenburg operations, its chief executive said on Wednesday.

Chris Griffith was speaking on a conference call after the company said it would take action which could include dismissals against workers who did not return to the shafts by Thursday. The company has lost 20,000 ounces in the stoppages since Sept 12.

MARKET NEWS

China copper TC/RCs up 30 pct on higher concentrate supply -trade

HONG KONG, Sept 26 (Reuters) - China's spot treatment and refining charges (TC/RCs) for copper surged 30 percent in the past month and are set to rise further, traders said on Wednesday, as the supply of metal concentrate increases at a time of low purchases by the top consumer.

TC/RCs, a profit indicator of copper smelters, are paid by overseas sellers to Chinese smelters for converting copper concentrate into metal and typically rise when supply increases or demand falls. Charges are deducted from the sale price based on London Metal Exchange copper .

"There are sellers in the market, but the Chinese have not bought a lot," said a trader at an international trading house who declined to be identified as he is not authorised to speak to the media.

"(Global) mines' production have improved and the market is no longer short of materials. India and Japan are not in the market. The only place spot concentrates can go to is China."

Chinese smelters received $65 per tonne and 6.5 cents per pound in TC/RCs for spot clean, standard concentrate imports this week and the last, which is the highest level for this year and up from $50 per tonne and 5.0 cents per pound fetched in August.

These rates are also higher than the $60-$63.5 and 6-6.35 cents locked in for term shipments this year.

Higher spot TC/RCs mean smelters such as Jiangxi Copper Company Ltd will have to pay less for concentrate imports. This, together with an expected increase in concentrate supply, could boost term shipments TC/RCs for 2013.

Chinese smelters are already asking for TC/RCs higher than $65 and 6.5 cents, traders said, as some sellers are keen to sell concentrates scheduled to leave producers' ports between October and November.

CONCENTRATE SUPPLY TO RISE

Smelters expect concentrate supply to increase as the new Oyu Tolgoi copper-gold mine in Mongolia comes online, traders and sources at smelters said. Oyu Tolgoi is said to be one of the three largest copper and gold deposits in the world.

The Oyu Tolgoi project is 66 percent owned by Turquoise Hill Resources Ltd , which is majority-owned by Rio Tinto .

At least one Chinese smelter recently signed a term contract with Rio Tinto for Oyu Tolgoi concentrates starting at the end of this year, two sources at separate Chinese smelters said.

But there are concerns about the gold content in the Oyu Tolgoi concentrate and its impact on import costs, given high bullion prices , sources at some smelters said.

MARKET NEWS

They also expressed concern about high transport fees. Concentrates from Oyu Tolgoi will be delivered to a border point between Mongolia and China's northern province of Inner Mongolia. That location does not have a rail connection as of now and a buyer would have to use road transport.

"High gold content would make our financing costs higher. We also don't know how to move the concentrates to our smelter," said a trading manager at a large smelter, which had not signed a term contract for Oyu concentrates.

Output from the world's largest copper mine, Chile's Escondida, jumped 18 percent in the first half from a year ago. Escondida, which is majority-owned by global miner BHP Billiton , has this year increased its copper output month by month.

The world's No. 3 mine Collahuasi also expects its output to improve in the second half from the first.

ArcelorMittal to shut French steel furnaces- paper

PARIS, Sept 27 (Reuters) - Steel maker ArcelorMittal has decided to definitively shut two idled steel furnaces in northern France, prompting the Socialist government to scramble to keep the plant operational as it battles rising unemployment, newspaper Liberation said.

Industry Minister Arnaud Montebourg is due to visit the site at Florange, in the Moselle region close to Belgium and Germany, on Thursday.

Liberation reported, without citing its sources, that the Socialist government was negotiating with the world's largest steel maker to buy the two blast furnaces for a single euro so that it can then find a company willing to operate them.

The plant, which became a symbol of France's industrial decline during May's presidential election, is the last survivor of a once-bustling steel region after the neighbouring ArcelorMittal mill of Gandrange was wound down despite former President Nicolas Sarkozy's promise to protect it.

Florange's furnaces were shuttered in July and October 2011 amid a slump in international steel prices.

Socialist President Francois Hollande had slammed Sarkozy's record on job creation during his successful campaign for the presidency. He vowed to revive a flagging industrial sector which has lost 750,000 jobs in the past decade.

Hollande, whose approval rating hit a fresh low of 46 percent at the weekend, has staked his reputation on reversing the upward trend in unemployment by the end of next year through state-sponsored job plans, more industrial investment and labour market reforms.

In a blow to Hollande, however, unemployment passed the psychological threshold of 3 million in August, its highest level since June 1999, data showed on Wednesday.

Amid complaints from business leaders over France's flagging competitiveness, several major companies have announced big layoffs in recent weeks, including carmaker Peugeot , retailer Carrefour and pharmaceutical firm Sanofi .

China's Baosteel suspends production at loss-making plant

SHANGHAI, Sept 27 (Reuters) - Baoshan Iron & Steel Co (Baosteel), China's biggest listed steelmaker, said it has suspended production at a loss-making plant in Shanghai, in a sign of the intense pressure on the sector as steel prices trade near three-year lows.

The steelmaker is one of the first major Chinese mills to publicly announce it is suspending production, but with the world's second-biggest economy cooling and banks restricting lending to an industry that built up $400 billion of debt during years of double-digit growth more suspensions are likely.

The plant, in Shanghai's Luojing district which produces steel plates used for ship building, oil rigs and construction, has been losing money due to weak demand and high costs, the firm said in a statement to the Shanghai Stock Exchange.

"With demand from the shipbuilders so weak, other producers such as Angang Steel are also facing pressure," said Helen Lau, a senior metals analyst at UOB-Kay Hian, noting further suspensions would depend on whether firms could compensate losses from other profitable units.

In an effort to kickstart the economy, Beijing approved some $150 billion worth of infrastructure projects earlier this month, but there are doubts steel demand in the world's largest producer will pick up soon.

"The government's infrastructure investment may only improve sentiment ... but I don't expect a big lift in steel demand," Zhang Dianbo, assistant president of Baosteel, told reporters at an industry conference.

China steel output: http://link.reuters.com/jab87s

China steel trade: http://link.reuters.com/sec59s

Baosteel at a glance: http://link.reuters.com/nur82t

China's crude steel production fell 2 percent in mid-September to 1.857 million tonnes per day after a surprise 1.2 percent increase in early September.

HEAVY LOSSES

UOB-Kay's Lau said the Loujing plant was also more costly to run because of its technology, whereby furnaces use the Corex smelting process of gasifying non-coking coal to produce pig iron.

A Baosteel source, who has worked at the Luojing plant, told Reuters the facility would eventually be shut as part of broader plans to relocate operations away from Shanghai.

MARKET NEWS *(Continued)*

Chinese steel makers, already battling over capacity, have been struggling with razor thin profits or losses since Beijing's clamp down on the real estate sector hit steel demand.

The Luojing plant, which Baosteel acquired in 2008 for 14 billion yuan ($2.22 billion) and has an annual capacity of 3 million tonnes, halted its first furnace in July 2011, according a report in a weekly publication called Investor China.

The second furnace, which was operating at a monthly loss of 100 million yuan, was suspended along with the complex earlier this month, the paper said, citing a worker at the plant.

IRON ORE PRICE

China's steel rebar futures, mainly used in construction, have slumped as much as 24 percent this year to touch a three-year low of 3,206 yuan in early September. Prices has since ticked up after the government approved some $150 billion yuan worth of infrastructure projects.

Weak demand has also hurt iron ore, a key steel making ingredient. The price of ore has fallen to three-year lows at below $87 a tonne earlier this month as waning steel demand in China cut demand for the raw material.

Iron ore prices have since bounced back to above $100, but remain 30 percent off this year's peak as Chinese steel mills curb output.

Baosteel posted a 53-percent drop in first-half profit, excluding one-off items, and expects steel prices to remain under pressure for the rest of this year.

Baosteel shares slipped 0.22 percent by 0339 GMT, against a 0.27 percent gain in the broader Shanghai index.

S.African mine labour strife halts slide in chrome

LONDON, Sept 26 (Reuters) - The impact of South African mine labour unrest has spread beyond precious metals to UG2 chrome ore, a by product of platinum and key ingredient in stainless steel, with output cuts putting a floor under prices after four months of decline.

In recent months, violent labour unrest over pay has disrupted production at some of the largest South African platinum mines, including those owned by Anglo American Platinum , Lonmin and Aquarius Platinum .

South Africa accounts for more than 80 percent of global platinum supply, but it also produces over half of the world's chrome. Both markets are in global surplus, but uncertainty created by production cuts has induced fresh buying.

Although disputes at some south African shafts have been resolved, strikes are in full force at others and continuing to spread, raising worries that prolonged disruptions might hit production further.

So far strikes have cut output of UG2 chrome ore by about 150,000-250,000 tonnes, market players said, a significant enough amount to have an effect on prices, even in an over supplied market.

"The strikes in Lonmin have removed about 100,000 tonnes a month of UG2 which is no small amount," said a European ferrochrome trader, adding an additional 50,000-80,000 tonnes have been cut due to strikes at other mines.

PRICE FLOOR

The reduced output has stemmed a 4-month price decline in ferrochrome - the processed product of chrome, with projections now looking at rising values even though economic slowdown has depressed demand from stainless steel makers, industry players said.

Prices of high carbon ferrochrome in Europe stand at around $1.02-1.10 per lb in Europe, with low carbon material selling at between $2.05 and 2.10 per lb.

Prices have fallen by around 10 percent in the last four months.

"There is an output reduction although it is difficult to assess how much; this has already been priced in platinum but not in the chrome and ferrochrome yet," an industry source said.

"Producers can still rely on stocks for now but these stocks are not been replenished and when the Chinese come back to the market after the National Day holiday next week prices will likely rise especially if the problems in South Africa continue."

He estimated that ferrochrome spot prices will move up, pushing the European benchmark price up $0.05-0.10/lb to about $1.20-1.30/lb in the first quarter next year.

Adding to supply concerns, works at some chrome mines, including the Xstrata's Kroondal mine and the Samancor Western chrome mine were also briefly suspended earlier this month due to increased protests in the area.

In the meantime, South African ANC renegade Julius Malema, who has backed wildcat miners' strikes, said he would visit a platinum mine run by Impala , a large platinum and UG2 chrome ore producer, on Thursday, to press for a wage strike there.

BRIEF RESPITE

While the loss of output is expected to be significant, its effect is likely to be only temporary as platinum miners should quickly make up for the lost supply once operations restart, market players said.

UG2 chrome ore, which has a lower chrome content compared to chrome ore, was considered waste by platinum miners until a few years ago.

More recently however, technological developments have made it possible to use this by-product as a raw material for stainless steel ingredient ferrochrome and UG2 chrome now makes up

MARKET NEWS *(Continued)*

for about 50-70 percent of South Africa total chrome ore export, an industry analyst said.

Although it is difficult to estimate South Africa's UG2 chrome ore production as stocks figures are not available, domestic consumption and exports stood at 2-3 million tonnes per annum in the last three years.

Traders said longer-term plans by firms to process more UG2 chrome from South Africa are likely to put pressure on prices from next year when new capacity is expected to come on stream.

"That's one of the sources where we could see more material coming from next year and it can have a negative impact on chrome (prices) considering the stainless steel market is still pretty awful at the moment," a second European trader said.

Brazil's Vale sees iron ore prices between $100/T and $120/T

DALIAN, China, Sept 27 (Reuters) - Brazil's Vale SA , the world's largest producer of iron ore, sees prices of the commodity hovering between $100-$120 a tonne and is pushing ahead with its own mine expansion projects, a senior executive said on Thursday.

Vale sees China's steel output rising between 3 percent and 5 percent next year, with Jose Carlos Martins, executive director of its ferrous and strategy division saying he was not fretting about a decline in iron ore prices, which have lost a fifth since the start of the year, to stand around $104 a tonne.

"I believe that prices will stay around this level for a while. At between $100 and $120 ... with a lot of volatility," Martins told reporters on the sidelines of an industry conference in the coastal city of Dalian.

Iron ore prices sagged to three-year lows at below $87 a tonne this month as waning steel demand in China hit appetite for the raw material. Prices have since rebounded above $100, but remain 30 percent below this year's peak.

Martins said he was not losing sleep over the price fall, as it had only driven high-cost producers out of the market.

"Being a low-cost producer and being focused on cost and quality, we believe that no matter the growth, we see space for our company, our projects and our ore to get the market," he said.

Vale also said it expects its 2013 iron ore output to reach 320 million tonnes.

This compares with expectations of 2012 output at 312 million.

The slump in prices has forced about 40 percent of mines in China, which analysts say have among the highest output costs in the world, to suspend production, an official of the country's association of metallurgical mines said.

Australia's Fortescue Metals Group slammed the brakes this month on plans to triple its iron ore capacity, cutting $1.6 billion in planned capital spending this year, axing hundreds of jobs and selling a power station to preserve cash.

China's CISA urges govt to cut taxes on iron ore miners

DALIAN, China, Sept 27 (Reuters) - Industry body the China Iron & Steel Association (CISA) is lobbying the government to reduce taxes on domestic iron ore miners to help them ride through tough times, a senior official of the association said on Thursday.

China produces about 1 billion tonnes of iron ore each year and buys 60 percent of the steelmaking raw material traded globally, but some domestic producers were forced to cut output after world prices hit three-year lows below $87 this month.

Zhang Changfu, vice-chairman of the association, said low prices had already affected the construction of new iron ore projects in China, adding that average costs were around $80 per tonne.

Any moves by Beijing to cut miners' taxes and reduce their costs could reduce the competitive edge of foreign producers, especially those with higher costs or locations further afield.

"The tax burden on domestic iron ore development is very heavy and there are all sorts of charges. We are calling on the government to cut taxes," Zhang told reporters on the sidelines of an industry conference in Dalian.

Zhang did not give details of the tax charges and how much they account for in total production costs.

Chinese ore has a lower iron content than that of many other countries, so producers spend more to extract the mineral, compared with global miners such as Vale , Rio Tinto and BHP Billiton .

That means they feel the pinch sooner when prices fall.

September's fall in iron ore prices to $86.70 a tonne, a level unseen since October 2009, has forced many high-cost miners in China to curb output, industry sources said, a move that could reduce the surplus in a market weighed down by near record Chinese stocks.

Iron ore prices have since bounced back to above $100, but remain 30 percent off this year's peak as Chinese steel mills curb output.

Colombia to renegotiate terms of BHP's Cerro Matoso mine

BOGOTA, Sept 26 (Reuters) - Colombia will renegotiate outdated contract terms including royalty payments for BHP Billiton's Cerro Matoso nickel mine in a bid to get a better deal for the Andean nation, government officials and a tribunal said on Wednesday.

MARKET NEWS *(Continued)*

Cerro Matoso, which bills itself as the world's second largest producer of ferro nickel, has been in discussions with government officials for months over its agreements as Colombia tries to get better terms from the mining firm.

A Colombian tribunal, which solves disputes between companies and the government and whose decisions are binding, said the country must negotiate more favorable conditions.

BHP has two contracts which expire on Sunday but a third contract will remain in effect. That contract, however, was signed in 1996 and must take into account new international standards and mining legislation, the tribunal said.

National Mining Agency Director Maria Constanza Garcia said that the government hoped to complete the process on the conditions for the contract in the coming months.

The company was not immediately available for comment.

In the nearly two decades since the agreement was signed, the Andean country has become a magnet for foreign direct investment mainly into its oil and mining sectors thanks mostly to improved security.

Located near the town of Montelibano in northern Colombia, the Cerro Matoso mine has a lateritic nickel ore deposit and a low-cost ferro nickel smelter. The smelter and refinery are integrated with an open-cut mine.

About 65 percent of nickel is used to manufacture stainless steels, and 20 percent in other steel and non-ferrous alloys, often for highly specialized industrial, aerospace and military applications, according to the International Nickel study group.

The government says that it expects Cerro Matoso output at 51,100 tons in 2012. The mine produced 37,810 tons of nickel last year, 23.5 percent lower than the 49,443 tons produced in 2010 as one of the furnaces was off, the government said.

Cerro Matoso has an estimated reserve life of 40 years.

INTERVIEW-Worldsteel flags end to fast China steel demand growth

By Silvia Antonioli

LONDON, Sept 26 (Reuters) - Expectations for a pick-up in Chinese steel demand growth after years of decline have been overblown, said the head of the World Steel Association (Worldsteel), as industrialisation in the world's top consumer points to less intense usage in the future.

That also threatens to exacerbate oversupply problems which this year have hurt global steel prices and sent profits and shares of many of the top steelmakers to multi-year lows.

Miners have also been badly affected by a fast drop in prices of steel raw materials including iron ore, which has lost about 40 percent of its value in the last year.

"Realisation is growing that China has reached the beginning of the end of its very fast growth curve in steel demand and that has already had some impact on the raw materials suppliers," said Edwin Basson, director general of the steel producers body.

"Many people thought the rapid growth phase could go on for longer that is the case; even as we speak, some say it's a temporary slowdown and demand growth will continue. I think we have come to a turning point, where growth in China will be slower rather than faster."

After more than a decade of steep demand growth, China has experienced a worse-than-expected slowdown in demand this year, exacerbating the industry's problems.

Capacity expansion approved four or five years ago, when consumption was soaring, is now coming on stream, adding to pain in already oversupplied regions such China and South America, Basson said.

Europe, which is also oversupplied, has responded more promptly than other areas by cutting production quicker and shutting down some plants.

Further shutdowns, however, may be difficult to achieve as labor unions, governments and local authorities will continue to influence the decision making process, especially at a time of economic slowdown.

"You know, if we take some of the present examples in Europe, that capacity is very difficult to close down at the moment," Basson said.

"Closures might be part of the answer in some regions; in other regions, especially where you still have potential for growth, delaying new investment might be part of the answer."

Basson, a former executive at ArcelorMittal , the world's largest steelmaker, said that profitability in the steel industry has not improved in the last year, despite a decline in raw materials prices.

"For our members, the shorter-term challenge is to be sustainable given weak demand conditions and given difficult trading conditions which could last for a number of quarters," Basson said.

"Longer term, all of us in the industry have to come to grips with what will be the appropriate response to this gap between capacity and existing demand levels."

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

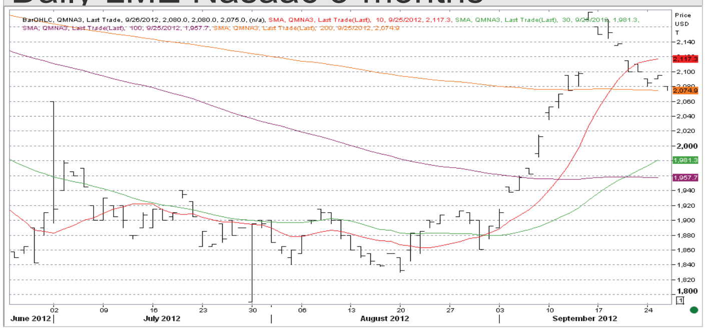
Daily LME Zinc 3-months

Daily LME Lead 3-months

Daily LME Tin 3-months

Daily LME Alloy 3-months

Daily LME Nasaac 3-months



MARKET REVIEW

METALS-Copper recovers from 2-week low; EU worries cap gains

SINGAPORE, Sept 27 (Reuters) - London copper edged up on Thursday from two-week lows hit in the previous session, supported by traders betting on a fourth-quarter recovery in metals demand in China, though an upcoming holiday and simmering concerns over Europe's debt crisis capped gains.

Copper product makers in top metals consumer China, where demand is expected to improve modestly in the fourth quarter, are getting their houses in order before a week-long holiday beginning on Monday that is likely to pare volume and direction from the market.

"You're only two days away from the start of big holidays in China, so people are looking to square books and cut risk," said Ivan Szpakowski, a Credit Suisse analyst in Singapore.

"The other thing people have been looking at is how much central bank action flows through to the real economy, but for that we may have to wait until top tier data next week."

Three-month copper on the London Metal Exchange had risen 0.23 percent to $8,138.50 a tonne by 0327 GMT, reversing losses from the previous session when it hit two-week lows of $8,082.

Prices, which were down by more than 10 percent on the year in June have since rallied to log gains of 7.5 percent for the year so far, after the U.S. Federal Reserve and the European Central Bank announced stimulus measures earlier this month.

The most-traded January copper contract on the Shanghai Futures Exchange slipped 0.71 percent to 58,730 yuan ($9,300) a tonne.

Underlining the slowdown in China's economic growth, industrial profits fell 6.2 percent to 381.2 billion yuan ($60.49 billion) in August from a year ago, the government said on Thursday, quickening the pace of a drop in earnings this year.

China accounts for around 40 percent of global metals demand.

Investor appetite for risk was also tempered by uncertainty over a bailout for Spain and signs Europe is struggling to find a unified approach to tackling its debt crisis as global lenders wrangled over Greek restructuring.

"We would want to sell into any near-term strength as prices look likely to move down to $8,000, and possibly $7,800, in the next four to six weeks - as the stimulus fever burns out and market jitters about Europe and China return to the fore," said ANZ in a research note Also weighing on metals, the euro was at two -week lows on Thursday, having suffered a third day of declines. A stronger dollar makes commodities more expensive for holders of other currencies.

NICKEL CUTS

LME nickel prices have so far rallied more than 17 percent from 3-year lows of $15,247 hit in August, but a dim outlook for the stainless steel sector on the back of China's growth slowdown, and mounting supply suggests near term price strength won't be sustained.

Colombia's government said it expects output from the Cerro Matoso nickel mine to rise to 51,100 tons in 2012 from 37,810 last year. It also announced it would renegotiate outdated contract terms including royalty payments from the BHP Billiton mine.

On Wednesday Global miner Xstrata said it was suspending operations at its Cosmos nickel mine in Western Australia due to prolonged weak prices for the metal and a strong Australian dollar.

PRECIOUS-Gold edges up from 2-week low; euro zone worries weigh

SINGAPORE, Sept 27 (Reuters) - Gold edged up on Thursday from a two-week low hit in the previous session, but continued worries over the euro zone debt crisis that has lifted the dollar and weakened oil is expected to cap bullion's gains.

Investor worries about euro zone's ability to contain the debt crisis, now in its third year, heightened as anti-austerity protests in Greece and Spain, the two most vulnerable countries in the bloc, turned violent.

"The excitement over the last few weeks in metals has come to an end as economic performance and weak oil prices depress market sentiment," said a Singapore-based trader.

Spot gold rose about 10 percent in the last five weeks to a near 7-month high on stimulus measures by central banks. But prices have come off this week, dropping to a two-week low of $1,737.50 on Wednesday.

By 0525 GMT, gold edged up 0.3 percent $1,756.99 an ounce. U.S. gold had inched up 0.3 percent to $1,759.60. The metal may see a further correction as the greenback stays firm amid euro zone concerns, traders said. A strong dollar weighs on commodities priced in the greenback by making them more expensive for buyers holding other currencies.

"We may see gold further fall to $1,700 to $1,720 level, but the correction won't be too dramatic due to the safe-haven nature of gold," the Singapore-based trader said. Sluggish oil prices also dented interest in gold. High oil prices are usually associated with rising inflation, which tends to add to the appeal of gold as a hedge against rising prices. The correlation between the two stood at 0.367, just a hair below a six-month high hit earlier in the week. A reading of 1 indicates perfect correlation in which the two assets move in the same direction.

Graphic: Gold-oil correlation

http://link.reuters.com/xer82t

MARKET REVIEW *(Continued)*

SPDR Gold Trust , the world's largest gold-backed exchange-traded fund, suffered its biggest one-day drop in holdings since May, as the amount of gold it held dropped over 10 tonnes from a record high of 1,331.331 tonnes to 1,320.777 tonnes by Sept. 26.

"The drop in holdings may have something to do with window-dressing of funds at the end of the quarter," said Lynette Tan, an analyst at Phillip Futures in Singapore.

"But gold will continue to be supported as the U.S. 'fiscal cliff' comes around at the end of the year."

The fiscal cliff refers to Washington's deadline to agree on a plan to shrink the federal budget or trigger $600 billion in spending cuts and higher taxes that were put in place last summer, a potentially heavy blow to the already frail economy.

Other metals in the complex all held steady in early Asian trade, with this week's worse performer palladium rebounding to $627 from a 3-1/2-week low of $613.50 hit in the previous session.

Spot platinum was up 0.1 percent to $1,630.

An illegal strike spread through AngloGold Ashanti's South African operations on Wednesday, while Anglo American Platinum said it could start firing unlawful strikers on Thursday, as the country's miners grapple to rein in weeks of labour unrest.

FOREX-Euro stuck near 2-week low, focus on Spain's woes

SYDNEY/SINGAPORE, Sept 27 (Reuters) - The euro held steady versus the dollar on Thursday, hovering hovered near a two-week low, as violent protests against austerity measures in Spain and Greece highlighted the challenges facing highly-indebted euro zone countries.

The single currency held steady at $1.2878 , not far from a two-week low of $1.2835 set the previous day.

The euro has support at the 200-day moving average near $1.2826, with additional support seen roughly around $1.2740, the 38.2 percent retracement of the July to September rally.

Spain's reluctance to request a bailout and trigger the European Central Bank's new bond-buying programme has weighed on the euro, which came under pressure on Wednesday as Spanish 10-year bond yields again topped 6 percent.

"In this environment, unless there is news of a Spanish bailout, I think the momentum is for a weaker euro," said Mitul Kotecha, head of global foreign exchange strategy for Credit Agricole in Hong Kong.

A request by Spain for a bailout could change the picture, but such action does not appear imminent, he added.

Such a formal request for aid is a condition needed for the ECB to activate its new bond buying scheme and help lower Spain's borrowing costs.

"I think eventually we'll crack through the 200-day moving average and move lower, with the euro/dollar likely to test below the $1.28 level," Kotecha added.

Demonstrators have clashed with police on the streets of Athens and Madrid this week in an upsurge of popular anger at new austerity measures being imposed on two of the euro zone's most vulnerable economies.

"Spain will be the focal point of the markets today as Prime Minister (Mariano) Rajoy presents his economic reforms and 2013 budget," analysts at BNP Paribas wrote in a client note.

Still, investors were wary of getting too bearish on the euro since sentiment could shift if Spain were to ask for aid. As well, nobody wanted to stock up on the U.S. dollar as the Federal Reserve is running its own stimulus programme.

That confluence of factors saw the common currency down just around 2.2 percent from a peak of $1.3173 set on Sept. 17, only a small correction that could yet turn full-scale if sentiment continued to sour, traders warned.

At the back of the market's mind is Moody's review on Spain's ratings expected this week. A possible sovereign rating cut could take the country below investment grade and add further pressure on policymakers.

The euro's woes helped keep the safe haven yen on firm footing. The euro eased 0.1 percent versus the yen to 100.01 yen , having hit a two-week low of 99.71 yen the previous day.

The dollar dipped 0.1 percent to 77.68 yen , inching back in the direction of a seven-month low of 77.13 yen hit on Sept. 13, the day the Fed announced its new round of aggressive monetary stimulus.

(Inside Metals is compiled by Shruthi G in Bangalore)