INSIDE METALS

Wednesday, September 4, 2013

CHART OF THE DAY

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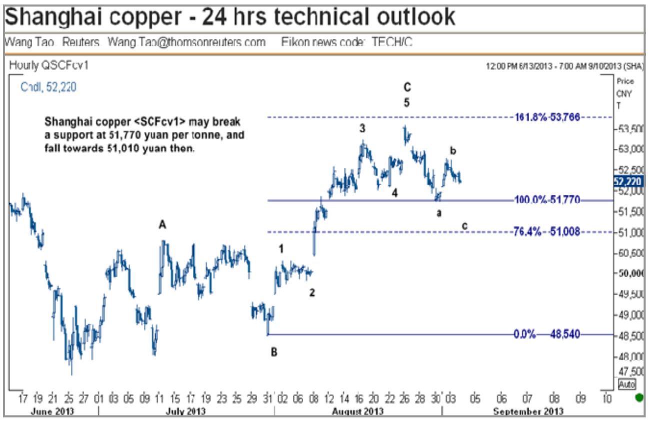

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COLUMN-Waking up to the new copper supply narrative

State Chilean copper producer Codelco's first-half results were a reminder of the market's historic supply challenges.

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

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TODAY'S MARKETS

BASE METALS: London copper prices edged lower hurt by receding appetite for risk as an air strike on Syria looked more likely, but supported by signs the global economy is finally getting on track.

Improved prospects for global growth after a string of upbeat factory activity reports led by the China and the United States have brightened the outlook for metals demand, helping lift copper from three-week lows last week.

"The lift from China should have been substantially more, but you've got emerging market currency concerns and Syria engulfing confidence," said Jonathan Barratt, chief executive of Sydney-based commodity research firm Barratt's Bulletin.

PRECIOUS METALS: Gold traded lower as U.S. President Barack Obama won support from key Congressmen for a limited strike against Syria.

Obama secured the backing of Republicans John Boehner and Eric Cantor in his call for limited U.S. strikes on Syria to punish President Bashar al-Assad for his suspected use of chemical weapons against civilians.

"Markets are very quiet today as we are waiting for more developments in Syria," said Peter Fung, head of dealing at Hong Kong's Wing Fung Precious Metals.

FOREX: The dollar traded lower against major rivals in Asian trading with the dollar index sticking close to a six-week peak after U.S. data on Tuesday reinforced expectations that the U.S. Federal Reserve will begin reducing its stimulus soon.

Caution ahead of this week's central bank meetings as well as the possibility of a U.S. military strike on Syria were likely to keep major currency pairs in recent ranges, market participants said.

"I think the BOJ would like to take new actions, to give some expectations to the market, but the Japanese economy remains steady, so for now, they will not act," said Masashi Murata, senior currency strategist at Brown Brothers Harriman in Tokyo.

FEATURE

COLUMN-Waking up to the new copper supply narrative

By Andy Home

LONDON, Sept 3 (Reuters) - State Chilean copper producer Codelco's first-half results were a reminder of the market's historic supply challenges.

Headline production from the company's own mines, excluding its holdings in the El Abra and Los Bronces operations, fell 1 percent relative to the first half of 2012.

Three of Codelco's six mines reported lower output. That at Radomiro Tomic was unchanged. Only two, Teniente and Gaby, managed to buck the negative trend.

The company's costs rose sharply, and it is struggling to find the money to deliver on its investment programme.

This, remember, is the world's largest producer.

And until very recently its uphill battle to maintain production from a portfolio of aging mines with declining grades was part and parcel of a broader market narrative of constrained supply and high prices.

That global narrative is changing, however, and Codelco is increasingly an outlier among the world's major copper producers.

CHILEAN BOOM

Codelco is no longer representative of even the Chilean copper sector.

National copper production is surging, up a massive 16 percent year-on-year in July, according to the INE statistics agency.

The scale of the July jump is overstated by a low base point in July 2012, but cumulative production growth was still an extremely robust 6.3 percent in the first seven months of this year, compared with a 10-year average of just 1.4 percent growth, according to analysts at Macquarie Bank.

Evidently, higher production is coming from mines other than those operated by Codelco.

The single most important driver has been Escondida, the world's largest mine, where stakeholders, led by majority owner and operator BHP Billiton , have invested heavily to return production to historic levels.

Escondida's annualised output in the second quarter was 1.24 million tonnes, a run rate not seen since 2009.

Similar investment programmes are paying off for other local producers such as Antofagasta and Anglo American , which reported first-half production increases of 8.4 percent and 7.0 percent, respectively.

GLOBAL BOOM

Nor is it just Chile.

Global mine production increased by around 9.0 percent in the first five months of this year, according to the International Copper Study Group (ICSG).

Production of concentrates, as opposed to straight-to-metal SX-EW output, rose by an even faster 10.5 percent.

It is the rehabilitation of another historic copper-mining powerhouse, the African Copper Belt, that is the global standout. Regional copper production jumped 33 percent in the January-May period, according to the ICSG.

This growing supply surge has not yet affected the refined copper market. It remains transfixed on the state of demand, particularly Chinese demand. Witness the Monday jump in the London Metal Exchange three-month copper price on the release of a better-than-expected Chinese purchasing managers index figure.

But it is starting to impact the copper raw materials market in the form of rising treatment and refining charges, the fees charged by smelters for converting concentrates into metal.

UK analysts IntierraRMG note that, "whereas late July, spot deals between miners and smelters for clean material could be signed in the low 70s and 7s, today the figure is edging over $80 per tonne and 8 cents per lb". ("Copper Briefing Report", September 2013).

"Gone also are the deals in the 50s and 60s between miners and traders where, with the exception of contracts for clean material needed urgently for blending, the market rate is approaching $80 per tonne and 8 cents per lb," it adds.

DIMINISHING DISRUPTION

Another change in copper mine narrative this year has been the relative lack of supply disruption.

The two big hits so far have come from the pit collapse at Rio Tinto's Bingham Canyon mine in Utah and the fatal cave-in at Freeport McMoRan's Grasberg mine in Indonesia.

Based on the companies' most recent guidance, each will cost around 100,000 tonnes in lost copper production - not enough to cause analysts to make any revision to their disruption allowances.

There is the potential for more disruption, however, from strike action, particularly in Chile and Indonesia.

A mid-week deadline is fast approaching for a proposed walkout by union members at Codelco's small Salvador division while tensions are also simmering at the far more important Escondida.

Perhaps the main "known unknown", though, is the pending labour contract negotiations at the Grasberg mine in Indonesia.

Two years ago workers embarked on a protracted walk-out, the first in the mine's history. The production impact lasted well into 2012.

It goes without saying that already strained management-union relations have not been helped by the fatal tunnel collapse earlier this year.

FEATURE *(Continued)*

MORE TO COME

This wouldn't be the copper market if there wasn't the potential for the unexpected to happen, which is why the analyst community builds a disruption allowance into its supply calculations.

But any further supply hits are going to do no more than delay the inevitable.

The full force of this building supply wave is going to hit next year as new mines such as Oyu Tolgoi in Mongolia and Toromocho in Peru hit their full stride.

Even Codelco has a new mine, Ministro Hales, due to start commissioning around the turn of the year, and with a bit of luck it will no longer be reporting headline declines in output this time next year.

Macquarie Bank notes that "the top 10 growth projects alone are expected to deliver close to a million tonnes of copper" in 2014. ("Copper Outlook", Sept. 2, 2013).

It is forecasting global copper mine growth of close to 7 percent next year, which if achieved, would be the fastest rate of growth in a decade.

IntierraRMG is projecting a more conservative 5.5 percent growth rate, but even that translates into refined market surplus.

CHANGE OF NARRATIVE

All of which makes the current bullish undertone to the LME copper market slightly curious.

But the refined market is still overly focused on its own dynamics, most recently the sharp shift in fund positioning from short to neutral, and on flows of refined metal into China as a proxy for demand in the world's largest single buyer.

Overlooked, though, is the even faster growth of China's imports of copper concentrates and the potential for higher domestic refined output.

That in itself is perhaps the best indicator of the step-change that is taking place at the mine stage of the production chain.

Moreover, the refined copper market has got so used to the old narrative of supply woe that it risks underestimating the impact of the new one.

Codelco's first-half results may have been one of the last chapters in that old story. Those national Chilean production figures are a sign that a new story is fast unfolding.

--The author is a Reuters columnist. The opinions expressed are his / her own--

GENERAL NEWS

S. Africa union eases wage position as gold strike bites

JOHANNESBURG, Sept 4 (Reuters) - South Africa's main mining union said on Wednesday it had offered to lower its wage increase demands to gold companies, raising hopes of a possible compromise that could limit the duration of a strike that has already hit producers.

The stoppage over a wage dispute in South Africa's gold industry called by the National Union of Mineworkers (NUM) began at the evening shift late on Tuesday, with many miners refusing to go underground, producers said.

Production at 17 of the 23 mines currently in negotiations was either partially or severely affected, the Chamber of Mines said.

NUM had offered the chamber, which negotiates on behalf of gold companies, a more flexible position, a NUM spokesman said.

"We said to them: 'If you are prepared to move, then we may be prepared to move,'" Lesiba Seshoka said in comments broadcast by SAFM radio.

NUM, which represents two-thirds of miners in the gold sector, had been seeking wage increases of up to 60 percent, while gold producers had been offering 6.5 percent.

Asked by Reuters, Seshoka said talks with employers were continuing but he would not confirm media reports that NUM had drastically reduced its demand to a 10 percent pay hike.

"There are no revised formal offers by either party but there has been discussions," Charmane Russell, a spokeswoman for the companies grouped in the Chamber of Mines, told Reuters.

"The employers and the NUM have come much, much closer to finding one another," she said.

On Tuesday, President Jacob Zuma had appealed to gold companies and unions to try to avert a strike in the iconic but waning South African industry, which once produced a third of the world's bullion but is now in rapid decline.

Monsoon rains on Indian drive to curb gold imports

By Rajendra Jadhav and Siddesh Mayenkar

MUMBAI, Sept 4 (Reuters) - A heavy monsoon this year will bring a bounty to India's rural population and a much needed boost to a struggling economy, but more cash in the hands of farmers brings an unwelcome consequence for India's government - more demand for gold.

Gold is one of the biggest items in a record current account deficit that has helped push the rupee to an all-time low, and as New Delhi scrambles to stop the decline it has taken measures to curb gold imports and consumption.

Ironically, swelling agricultural incomes will likely make the government's task on gold tougher, even as they help growth. About 60 percent of Indian gold demand comes from rural ar-

GENERAL NEWS *(Continued)*

eas, where buyers use it to store wealth as they lack regular access to banking networks.

"Last year I bought 20 grams. This year, I am planning to buy 30 grams," said Nilesh Jagtap, a 36-year-old farmer in the western state of Maharashtra looking forward to a bumper sugar cane crop.

"Gold helps in many ways. Whenever I need money, I pledge (gold) with the bank. I can even sell it during a medical emergency," said Jagtap, who lives in the western state of Maharashtra.

In 2010, the last year that rains were heavily above average, demand soared 37 percent in the fourth quarter after harvests. At current prices a similar rise would be worth $4.7 billion, according to Reuters calculations.

Increased demand from the world's biggest gold buyer will buoy global prices for the metal, which climbed about 5 percent in August but are down 17 percent so far this year.

Imports ground to a halt in late July due to uncertainty over new regulations aimed at reducing the flow, but were likely to pick up again once authorities have clarified how the rules will work. A prolonged stoppage could cause smuggling to rocket as India is dependent on imports for most of its gold.

Gold's lustre has been further burnished by the country's current economic woes, with Indians hoping to hedge against the falling rupee and consumer price inflation of nearly 10 percent.

Domestic gold prices hit a record high of 35,074 rupees ($531) per 10 grams on Aug. 28, equivalent to about $1,633 per ounce, largely as the rupee slid against the dollar.

But international dollar prices for bullion are currently about 27 percent below an all-time peak of $1,920.30, leaving plenty of room for investors to bet on realising gains longer-term.

FEELING FESTIVE

India still relies on the monsoon in over half its farmland, with generous rains this year prompting farmers to plant nearly 7 percent more crops than last year and promising bumper yields when they are harvested. An official at the finance ministry confirmed farm output in 2013 could climb 6-7 percent from the year before.

"This year, the monsoon was good and farmer incomes are set to rise. I am expecting higher sales during upcoming festivals than last year," said Mangesh Devi, a jeweller in Maharashtra whose customers are mainly sugar cane and vegetable growers.

The wedding season, when parents shower gold on their daughters as dowries, will coincide with the harvest, along with a host of festivals where buying gold is considered auspicious.

And the finance ministry concedes gold demand and imports will rise in the lead-up to the wedding season, which peaks in early November this year. Traditional jewellery for brides includes necklaces made of multiple strands of gold and gems that can cost upwards of 100,000 rupees.

"There are cultural factors, you can't do much about them," a second ministry official told Reuters.

STILL MURKY

India's passion for gold pushed imports to an all-time high of 162 tonnes in May and duty is now at a record 10 percent as the government tries to stop the damaging outflow of dollars for bullion.

Gold is India's most expensive non-essential import, accounting for 13.3 percent of the total bill and helping to push the current account deficit to $88 billion, or a record 4.8 percent of GDP, in 2012/13.

The central bank has also moved to curb supplies by insisting 20 percent of all imports be made into jewellery for export. Customs authorities have yet to issue clarifications on how the rule will work and as a result, imports have totally dried up since the central bank announced the rule on July 22.

In theory, it should mean monthly imports are contained at around 30 tonnes - under half last year's monthly volumes based on annual exports.

But the World Gold Council suggests India's gold demand - not too different from imports - could be over 70 tonnes a month in the second half, hitting a record 1,000 tonnes for the full year to match China.

Some of that demand will be covered by recycling if imports are tight, though some is already being met by smuggling, experts said. "There is nothing available through official channels, (so) supply is happening through unofficial channels," said Mehul Choksi, chairman and managing director of Gitanjali Gems, one of India's leading jewellery chains.

Whatever the source, demand is likely to outstrip supply and that means domestic prices could rise.

Premiums paid for imports over international prices could swell to $50-60 an ounce in coming months from the current $35-40, said Bachhraj Bamalwa, director with the All India Gems and Jewellery Trade Federation. He sees demand of some 350-400 tonnes over the next five months. But farmers such as Jagtap may not be deterred by price hikes as they take a longer view of their investment.

"Over the years, my experience is that gold's value rises," he said.

Romanians continue protest against gold mine

BUCHAREST, Sept 3 (Reuters) - Roughly 1,000 people gathered in Romania's capital late on Tuesday for a third day of protests against plans to start an open-cast gold mine in the small Carpathian town of Rosia Montana.

GENERAL NEWS *(Continued)*

The catalyst for the protests, which started on Sunday when thousands of people took to the streets in cities across Romania, was a move by the leftist government last week to approve a draft bill allowing the project to go ahead.

The bill, which needs parliament's approval to take effect, allows Canada's Gabriel Resources Ltd to mine 314 tonnes of gold and 1,500 tonnes of silver through its local arm, Rosia Montana Gold Corporation (RMGC) in which the Romanian state also holds a minority stake.

The bill also gives the mine "special national interest" status, which will make it easier for RMGC to expropriate the few locals who oppose the project and who own land needed for the mine, a move critics have said is unconstitutional.

On Tuesday, protesters blocked the Calea Victoriei (Victory Avenue) in downtown Bucharest, banging plastic bottles on the pavement and setting up tents. Riot police surrounded them. The protests, which have been promoted through social media, have so far been largely peaceful.

"Fundamental laws are being broken for a foreign corporation to start operation," said Vladimir Bortun, a 27-year-old independent publicist and translator who has attended all the protests. "We have very few means of expression left."

Bortun said protesters planned on writing their parliamentarians asking them to reject the bill.

Earlier on Tuesday, President Traian Basescu told reporters he welcomed a debate in parliament on the project, which has been kicking around for 14 years.

Mine supporters, which include Basescu and Prime Minister Victor Ponta, say the project could bring billions of euros in taxes and many jobs to an economically depressed region.

Environmental and civic right groups have fiercely opposed it, saying it could lead to an ecological disaster.

Uruguay's Congress okays bigger taxes on mega mining projects

MONTEVIDEO, Sept 3 (Reuters) - Uruguay's Congress on Tuesday passed new rules imposing hefty taxes and environmental standards on potential mega mining projects that have yet to start operating in the small South American country.

The house of representatives, controlled by leftist President Jose Mujica's party, passed the package of new rules by a 52-30 vote. The legislation passed the senate last month.

Most opposition lawmakers voted against the measure, which will require large mining projects to pay a yearly fee, a 25 percent tax on corporate profits and another tax of up to 38 percent on profits. The law also introduces tougher environmental standards, including new rules for mine closures.

There are no big mining projects currently in Uruguay, which has significant iron reserves but mainly exports agricultural goods.

"Uruguay will now also have mining as one of its principal contributors to gross domestic product," said house member Julio Battistoni, a Mujica ally. "Now we are going to be able to develop parts of the interior of the country that otherwise would go undeveloped."

The new law could affect iron miner Zamin Ferrous' plans to get its $3 billion Aratiri project up and running.

The Swiss-based firm expects Aratiri - which would be the biggest private investment ever made in Uruguay - to produce around 18 million tonnes of iron ore per year starting in 2015.

TRADING PLACES

Glencore leads foreign investment in UK firms to 6-year high

LONDON, Sept 3 (Reuters) - Foreign investment in British companies hit a six-year high of 23.4 billion pounds ($36.4 billion) in the second quarter as the economy started to grow, though the bulk came from one deal - Glencore's takeover of Xstrata, data showed.

Swiss-based commodity trader Glencore in May acquired full ownership of mining company Xstrata for $30 billion, creating one of the world's largest diversified mining groups

Including that deal, foreign companies spent the highest sum to buy British firms in the three months to June since the second quarter of 2007, up from just 3.5 billion pounds in the first quarter, the Office for National Statistics said on Tuesday.

The ONS added that there were signs of a broader pick-up in foreign interest in British companies as well.

"The M&A market may be recovering as investors renew their appetite for investment. This follows a long period in which companies have focused on paying off debts, improving cash flow and restructuring their balance sheets," the agency said.

British firms remained wary of deals overseas, however, with both purchases and disposals of foreign firms at their lowest levels since records began in 1987.

Domestic merger activity also was muted, with purchases amounting to 2.1 billion pounds between April and June, up on the quarterly average for 2012 but well below levels before the financial crisis.

MARKET NEWS

China's Chalco stalls aluminium smelter project in Malaysia

HONG KONG, Sept 3 (Reuters) - Aluminum Corp of China (Chalco) , the top producer of the metal in China, has suspended a smelter project in Malaysia worth more than $1 billion, a company spokesman said on Tuesday.

"The project is stalled now," the spokesman told Reuters.

Chalco signed a frame agreement with Malaysian company Gulf International Investment Group Holding in 2010 to jointly build the aluminium smelter in Sarawak using local cheap hydropower. The plant was set to have 370,000 tonnes of capacity a year, according to Chalco's website.

The agreement had not been proceeded since then because preparation work of the project was not done, the Chalco spokesman said. He did not give details or a timeframe for the suspension.

The smelter in Malaysia had been planned to start production in 2013, local media reported.

U.S. Steel's locked-out Canadian workers vote to accept contract

By Allison Martell

Sept 3 (Reuters) - Workers locked out at U.S. Steel Corp's Lake Erie works at Nanticoke, Ontario, have voted to accept a new five-year contract, and will start heading back to work "in the coming days," the company said on Tuesday.

The lockout, which started on April 28 and affected about 1,000 workers, shut down raw steel production at the Canadian mill and weighed on the steelmaker's second-quarter results.

U.S. Steel said in an emailed statement that it expects all employees to be back at work over the next 30 days. It did not say when shipments would resume. It can take weeks, sometimes months, to restart a blast furnace.

In a note posted on its website, United Steelworkers Local 8782 said 79 percent of its members participated in the vote, and 57 percent voted to accept the deal.

The integrated Lake Erie mill has the capacity to produce as much as 2.6 million tons of raw steel each year, and accounted for about 10 percent of U.S. Steel's raw steel output in 2012.

The lockout is the third at a facility formerly owned by Canadian steelmaker Stelco since U.S. Steel acquired Stelco in 2007.

U.S. Steel declined to discuss the specifics of the new deal, but called it "a fair contract that will help to make Lake Erie works sustainable and competitive".

There is a chance ThyssenKrupp may keep Steel Americas -source

DUESSELDORF, Germany, Sept 3 (Reuters) - There is a chance that German steelmaker ThyssenKrupp could end up keeping its loss-making Steel Americas business, after trying for more than a year to find a buyer for the plants in Brazil and Alabama, a person close to the matter said.

"Plan B is to keep the plants," the person told Reuters following a meeting of ThyssenKrupp's supervisory board on Tuesday.

Holding on to the plants is just one of several options, the source said.

A second person said there was hardly any hope that a deal could be struck to sell the plants.

ThyssenKrupp wants to sell Steel Americas because the business is sapping its finances and slowing a planned shift from its traditional steel business to higher-margin products and services such as elevators, submarines and parts for manufacturing plants.

Sources have said in the past that ThyssenKrupp was in talks with Brazil's Companhia Siderurgica Nacional (CSN) , among others.

"You cannot negotiate forever if the other side just wants to push down the price," the source said, adding ThyssenKrupp could cut the plants' output for now to cut costs.

A German newspaper earlier reported that ThyssenKrupp was set to set to scrap the sale of Steel Americas to launch a quick and much-needed capital increase. ThyssenKrupp brushed off the report, saying sales talks were continuing with no change.

But pressure is rising on Chief Executive Heinrich Hiesinger to find a solution quickly as ThyssenKrupp, a symbol of Germany's industrial prowess, is at risk of breaching loan covenants when its financial year ends at the end of the month.

At the end of June, its gearing ratio - how much debt it has compared to equity - had jumped to 185.7 percent from 148.2 percent three months earlier.

If it remains above 150 percent at the end of ThyssenKrupp's fiscal year, banks could cancel an undrawn 2.5 billion euro ($3.3 billion) credit line because of a breach of covenants.

Indonesia's top tin exporter Timah says halts tin shipments

SINGAPORE/JAKARTA, Sept 4 (Reuters) - Indonesia's top tin exporter PT Timah said it has stopped tin shipments and declared force majeure since new regulations forcing domestic producers to trade on a local exchange came into force last Friday.

MARKET NEWS *(Continued)*

Indonesia is the world's biggest exporter of tin and the shortfall is already feeding into global prices, with cash tin on the London Metal Exchange soaring to the highest premium against the benchmark contract in more than ten months on Tuesday.

Responding to a question asking whether the company had declared force majeure, Timah corporate secretary Agung Nugroho said in a text message: "Yes, we have since the Inatin is implemented, 30th August".

Indonesia's total refined tin exports rose almost 3 percent in 2012 to 98,817 tonnes, with top tin miner PT Timah contributing about 30 percent.

The Indonesia Commodity and Derivatives Exchange (ICDX) launched the country's only physical tin contract , known as Inatin, last year. As of last Friday, all 47 registered tin ingot exporters must trade on a domestic exchange before shipping material.

But Nugroho said the company was forced to declare force majeure because its customers had not registered with the exchange.

"We have to trade our tin in an Indonesian exchange, the ICDX, and customers can only buy our tin if they become a member first. They are not ready to be a member," he said.

Traders in Singapore were bracing for a shortfall in exports to stretch into the next few months.

"There is a very clear law in Indonesia that you can't export tin if it doesn't go through one of the approved exchanges," said one trader at a merchant.

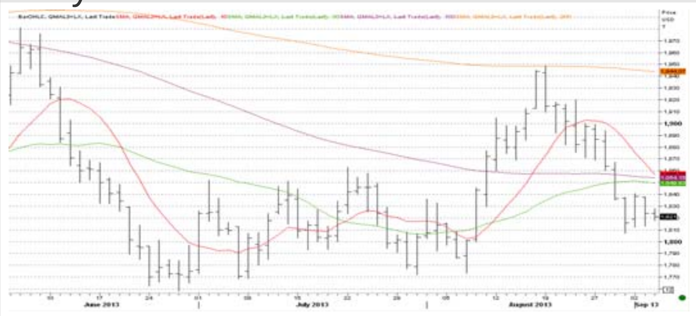
"There is only one at the moment, Inatin, and that's not working. They are fixing some of the latest issues but far less material will come out of Indonesia. And that certainly is going to have a big effect on the tin market."

Three month tin prices on the London Metal Exchange rose 1.6 percent on Tuesday, and were last trading down 0.2 percent at $21.524 a tonne.

An ICDX spokesman said the company's CEO was unable to give an immediate comment.

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

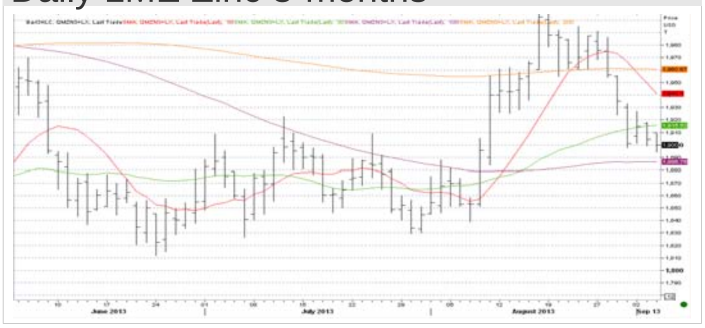
Daily LME Aluminium 3-months



Daily LME Copper 3-months

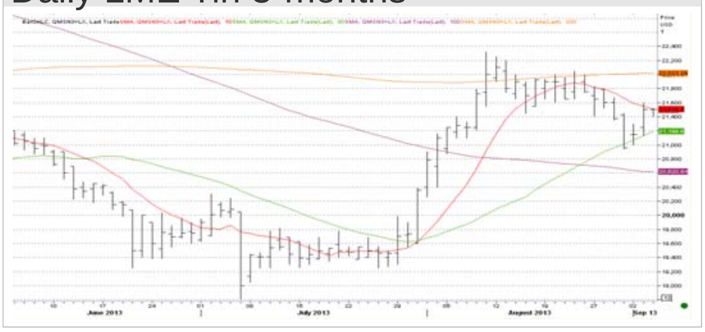
Daily LME Nickel 3-months

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 drifts as Syria dents risk appetite, growth hopes support

By Melanie Burton

SINGAPORE, Sept 4 (Reuters) - London copper prices edged lower hurt by receding appetite for risk as an air strike on Syria looked more likely, but supported by signs the global economy is finally getting on track.

Improved prospects for global growth after a string of upbeat factory activity reports led by the China and the United States have brightened the outlook for metals demand, helping lift copper from three-week lows last week.

But potential upheaval in the Middle East and a rout in emerging market currencies ahead of the U.S. trimming its huge bond buying programme are giving investors pause for thought.

"The lift from China should have been substantially more, but you've got emerging market currency concerns and Syria engulfing confidence," said Jonathan Barratt, chief executive of Sydney-based commodity research firm Barratt's Bulletin.

"The longer it takes to resolve Syria the more sapping of confidence we'll see that will eventually drag on copper," he said, adding that he expects copper to remain in a broader $7,000-$7,500 range for now.

Three-month copper on the London Metal Exchange had edged down 0.28 percent to $7,225 a tonne by 0238 GMT. It finished little changed the session before.

Copper prices are consolidating after falling to three-week lows of $7,081.50 a tonne last week, and have been trading in a broader $7,080-$7,420 band for most of the past month.

The most-traded December copper contract on the Shanghai Futures Exchange slipped 0.44 percent to 52,190 yuan ($8,500) a tonne.

Led by firm U.S. growth, the outlook is gradually improving for advanced economies while even crisis-weary Europe is at last joining the recovery, the OECD said on Tuesday.

Global manufacturing activity grew at its fastest pace in over two years in August as new orders flooded in at a rate not seen since February 2011, while stronger-than-expected figures from the U.S. supported views the Federal Reserve would soon slow its bond-buying.

President Barack Obama won the backing of key figures in the U.S. Congress, including Republicans, in his call for limited U.S. strikes on Syria to punish President Bashar al-Assad for his suspected use of chemical weapons against civilians.

Highlighting a supply pipeline that continues to fall short of expectations, Mexican miner Grupo Mexico expects to produce 820,000 tonnes of copper in 2013, down 3.5 percent from its previous estimate, the president of the company's Minera Mexico subsidiary said.

PRECIOUS-Gold traded lower as Obama garners support for Syria strike

By A. Ananthalakshmi

SINGAPORE, Sept 4 (Reuters) - Gold traded lower as U.S. President Barack Obama won support from key Congressmen for a limited strike against Syria.

Obama secured the backing of Republicans John Boehner and Eric Cantor in his call for limited U.S. strikes on Syria to punish President Bashar al-Assad for his suspected use of chemical weapons against civilians.

Leaders of the U.S. Senate Foreign Relations Committee said they reached an agreement on a draft authorization for the use of military force in Syria that was much narrower than the request made by Obama, paving the way for a vote by the committee on Wednesday.

Spot gold edged up 0.06 percent to $1,412.84 an ounce by 0348 GMT on Wednesday, after pushing past $1,400 in the previous session as a missile test by Israeli forces training in the Mediterranean with the U.S. Navy set nerves on edge.

"Markets are very quiet today as we are waiting for more developments in Syria," said Peter Fung, head of dealing at Hong Kong's Wing Fung Precious Metals.

"Until then we will be in a very tight trading range. It looks like prices can go either side from here but tensions in Syria situation will give some support."

Rising geopolitical tensions spur safe-haven buying in gold as investors dump riskier assets such as stocks.

Asian shares slipped on Wednesday after a four-day winning run as the likelihood for action against Syria increased.

"The potential for Mideast tensions to intensify would be bullish for bullion," HSBC analysts wrote in a note. "A key reason for gold to rally in response to Mideast tensions is the potential for oil supply disruptions that a U.S. strike or an escalation of the conflict may trigger."

Gold is seen as a hedge against oil-led inflationary pressures.

Gold prices were also supported by labour strikes that began in South Africa's gold mines, with some workers failing to go underground for the evening shift.

The stoppage was called by the National Union of Mineworkers, which represents two-thirds of the workers in South Africa's gold mines, after talks between unions and companies broke down last week.

SPDR Gold Trust , the world's largest gold-backed exchange-traded fund, saw its holdings fall 1.8 tonnes on Tuesday to 919.23 tonnes but they were still 10 tonnes above a four-year low hit in early August.

MARKET REVIEW *(Continued)*

FOREX-Dollar traded lower, underpinned by Fed tapering expectations

By Lisa Twaronite

TOKYO, Sept 4 (Reuters) - - The dollar traded lower against major rivals in Asian trading with the dollar index sticking close to a six-week peak after U.S. data on Tuesday reinforced expectations that the U.S. Federal Reserve will begin reducing its stimulus soon.

Caution ahead of this week's central bank meetings as well as the possibility of a U.S. military strike on Syria were likely to keep major currency pairs in recent ranges, market participants said.

The dollar index , tracking performance against a basket of six major currencies, last traded at 82.382, up slightly on the day. It rose to 82.516 on Tuesday, its highest since July 22.

The dollar was buying 99.58 yen , nearly flat on the day after hitting a one-month high of 99.86 yen on Tuesday and gaining more than 1 percent on Monday.

The yen spiked to an intraday high of 99.41 yen against the dollar after a moderate earthquake shook Tokyo dealing rooms in the morning but it quickly erased its gains. There were no immediate reports of injuries or damage and no tsunami warning was issued after the magnitude 6.5 tremblor, centred about 580 km (360 miles) south of Tokyo.

Data on Tuesday showed the U.S. manufacturing sector grew last month at its fastest pace in more than two years, while construction spending rose in July.

The data provided more evidence to support market expectations that the Fed will begin tapering its stimulus at its policy meeting on Sept. 17-18, unless U.S. payroll numbers due on Friday fall short of forecasts.

Economists polled by Reuters estimated U.S. payrolls expanded by 180,000 jobs in August while the unemployment rate remained steady at 7.4 percent.

The Bank of Japan began its two-day meeting on Wednesday. It was expected to maintain a massive monetary stimulus it launched in April that will nearly double the monetary base to 270 trillion yen by the end of 2014 to achieve a 2 percent inflation target. The BOJ will consider further monetary easing if Prime Minister Shinzo Abe decides to raise the sales tax as planned to 8 percent from 5 percent in April, the Asahi newspaper reported on Wednesday, citing several sources.

Japanese Finance Minister Taro Aso said on Tuesday that Japan will tell G20 nations at a summit this week that it will proceed with a planned two-stage sales tax hike, and consider compiling an extra budget for fiscal spending to ease the pain on the economy.

"I think the BOJ would like to take new actions, to give some expectations to the market, but the Japanese economy remains steady, so for now, they will not act," said Masashi Murata, senior currency strategist at Brown Brothers Harriman in Tokyo.

"Everyone is cautious about Syria, which is keeping dollar/yen in a range for now. Action there could weigh on the dollar, so nobody wants to make big moves now," he added.

President Barack Obama won the backing of key figures in the U.S. Congress, including top Republicans, in his call for limited U.S. strikes on Syria to punish President Bashar al-Assad for his suspected use of chemical weapons against civilians.

Central banks in the euro zone, the UK and Canada will also meet this week.

The euro stayed near Tuesday's low of $1.3173, its lowest since late July, and was last slightly lower at $1.3165 .

The Australian dollar jumped after data showing Australia's second quarter gross domestic product rose 0.6 percent in the second quarter from the previous quarter, when it rose 0.5 percent. That was enough to send the local unit higher as there had been fears the report would be much weaker.

The Aussie hit an intraday high of $0.9103 and was last trading at $0.9097 , up 0.4 percent, moving away from August's three-year low around $0.8848. Resistance was said to lie at the 55-day moving average around $0.9114. The pair last closed above that average on April 30, when it was trading around $1.0350. The GDP data provided scant sign of any recovery in business investment, justifying the Reserve Bank of Australia's recent move to cut its cash rate to a record low 2.5 percent and keep the door open to more easing.

(Inside Metals is compiled by Pradip Kakoti in Bangalore)