INSIDE METALS

Wednesday, September 5, 2012

CHART OF THE DAY

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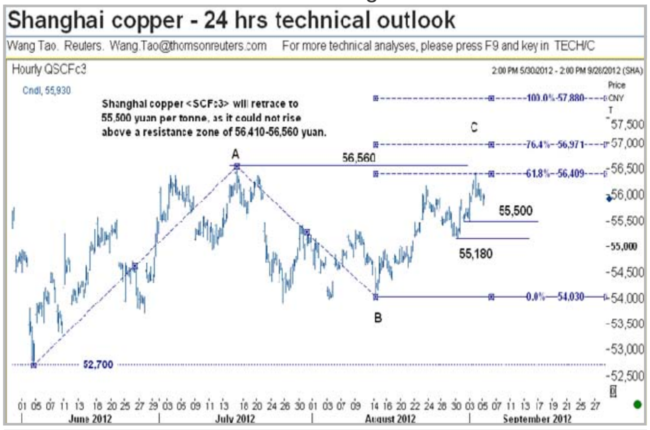

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COLUMN- Future present; signals from the curve

Metal prices for forwards delivery are no predictor of what prices will actually be at a future date.Rather, each metal's forwards curve is a snapshot of future expectations anchored on the current price.

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

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TODAY'S MARKETS

BASE METALS: London copper was steady supported by hopes that central banks will announce new plans to lift global growth following a boost to China's railroad spending and ahead of a European Central Bank meeting on Thursday.

"If there is an announcement of more free money from the U.S. or EU or government-mandated spending on construction in China, obviously this is going to put the wind behind copper's sails," said Matt Fusarelli, analyst at Australia-based consultancy AME Group.

PRECIOUS METALS: Gold inched lower on Wednesday, but did not stray far from a near six-month high hit in the previous session as weak U.S. data reinforced hopes of stimulus measures, while investors eyed a key European Central Bank meeting this week for trading cues.

"It is a little too early to go full throttle," said Dominic Schnider, an analyst at UBS Wealth Management in Singapore.

FOREX: The euro dipped slightly against the dollar in Asian trading on Wednesday, but support for the single currency stayed intact a day ahead of a European Central Bank meeting that is expected to unveil more details of a long-awaited debt-buying plan.

"The euro is finding the going a little bit easier. The prospect of the collapse of the euro is becoming a distant memory with many former bears," said Andrew Wilkinson, chief economic strategist at Miller Tabak & Co.

FEATURE

COLUMN

Future present; signals from the curve

By Andy Home

LONDON, Sept 4 (Reuters) - Metal prices for forwards delivery are no predictor of what prices will actually be at a future date.

Rather, each metal's forwards curve is a snapshot of future expectations anchored on the current price.

But that doesn't mean that forward prices are meaningless. Indeed, the shape of the curve can say a lot about the current dynamics of any market.

Take, for example, the state of play right now in the main base metal contracts traded on the London Metal Exchange (LME), captured in this graphic: http://link.reuters.com/sys42t

One of the things that should jump out is the fact that all the metals, with the marginal exception of copper, are in contango, meaning forward-dated prices are higher than short-dated prices.

Such a curve structure signals expectations of market surplus, an extension into the future of the current nervousness about the state of metals demand, both in China and the rest of the world.

But there is a harder link between the forwards curve and current dynamics thanks to the stocks financiers, who need a forward contango to make a turn on holding metal.

PLAYING THE ALUMINIUM CURVE

And the metal the financiers still love most is aluminium, the LME metal showing the steepest forward contango.

The light metal is burdened by high legacy stocks and current over-production relative to demand.

Structural excess has kept the market in sustained forward contango ever since 2008, when producers deluged the LME system with unsold units at the time of The Great Contraction.

The contango is narrowing again right now in reaction to the pocket of tightness on the September-October 2012 spread , valued last night at $2.5 per tonne backwardation.

But, as the next graphic shows, it is still only a marginal move relative to the sporadic short-dated squeezes that characterised both 2010 and 2011: http://link.reuters.com/wys42t

A would-be financier is still going to be enticed by gross returns ranging from almost five percent over a 12-month period to 10 percent over a 24-month period.

Of course, you need to deduct the cost of money and the cost of storage to arrive at the real net return, but one is negligible and the other infinitely negotiable.

In a world of negative real interest rates, financing aluminium remains a low-to-no-risk way of locking in a positive return.

Hence the continued investor demand for more metal to finance, witness the 1.684 million tonnes of aluminium queuing to be loaded out of LME sheds.

As the single biggest cost variant, warehousing defines the current aluminium market. All that LME metal, or a very large part of it, is earmarked for storage somewhere cheaper.

And financing defines accessibility to metal, as those holding short positions on the September date are currently finding out.

THE NEW GAME IN TOWN?

The financing game may well be moving to zinc, another market characterised by high stocks and over-production.

The zinc forward curve has sharply steepened over the last month, as shown in the next graphic, which compares the cash-to-18-month spreads for the galvanising metal and "sister" metal lead: http://link.reuters.com/vys42t

Right now the zinc contango would generate a gross return of almost 4 percent for holding metal for a 12-month period. At the end of June the gross return would have been under two percent.

This shift in forward market structure is being transmitted back to the spot market by the resulting investment appetite for zinc units.

There has been a sudden surge in cancellations of LME zinc stocks, today's warehouse report showing another 26,850 tonnes moving into the "departure lounge" at Johor in Malaysia.

That brings total cancelled tonnage across the LME system to 147,375 tonnes, equivalent to 15.5 percent of registered tonnage.

As with aluminium these sorts of tonnages imply investment rather than manufacturing demand and, as with the light metal, the driver is almost certainly warehouse rent differentials.

Off-market is cheaper than on-market. A tied warehouse operator, one that is owned by a trading entity, is probably the cheapest of all, for the lucky owner at least.

And as also with aluminium, surging investment demand for LME-stored zinc is driving up premiums for metal in specific locations.

Those for zinc in Southeast Asia, for instance, tripled over the course of August.

FUNDAMENTALS FIGHT BACK

Lead's forwards curve is moving in the opposite direction to that of "sister" metal zinc.

At around $60 contango the cash-to-18-months spread has shrunk from over $80 in June and over $120 in the first quarter of this year.

Such a flattening of the forward contango reduces dramatically the profitability of any stocks-finance trade, which is not to say

FEATURE *(Continued)*

that there aren't still large chunks of LME-registered lead locked down in legacy deals.

Nor does it mean that the heavy metal is immune from the sort of "warehouse wars" that plague aluminium. The market is still waiting to see whether the metal that disappeared over summer from LME-registered sheds in Europe ever reappears.

But the curve has contracted to the point that gross returns are now minimal, just 0.6 percent for six months or 1.6 percent for 12 months.

Even the cheapest storage option makes that sort of gross return difficult to convert into a positive real net return.

Which suggests that current hits on LME stocks are coming either from manufacturers short of material or from merchants looking to hoard metal in anticipation of further tightness ahead.

As such, the change in the LME lead market's forward structure reflects a reassertion of bullish fundamentals at the expense of stocks financiers, who need feast not famine to make a profit.

CONTANGO COPPER?

Tightness of supply, present and expected future, prevents a metal's forward curve moving out to levels that attract financiers.

This has historically been the case with copper, which for many years has been defined by chronic supply shortfall.

Forward backwardation not contango has therefore been a hallmark of the red metal.

That is still true of the far-forward curve but one of the noteworthy features of this market over the summer months has been a flattening of the shorter-term curve, which is now in very mild contango out to around two years.

This evolution has coincided with spot price weakness, as shown in the next graphic: http://link.reuters.com/tys42t

It is quite possible, even probable, that the entire forward curve returns to backwardation if spot prices recover back above the $8,000 level.

And if they don't, it will be because of a tangible shift in dynamics from supply deficit to supply surplus. "Tangible" because the surplus would have to hit the LME system, rather than the bonded warehouse zone in Shanghai.

At which stage the shift in dynamics would be echoed by a more structural shift in curve shape.

We're not there yet, or not quite at any rate.

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

GENERAL NEWS

Vale adds provision for 'probable' royalty loss

By Guillermo Parra-Bernal and Sabrina Lorenzi

BUENOS AIRES/RIO DE JANEIRO, Sept 4 (Reuters) - Brazil's Vale , the world's second-largest mining company, said on Tuesday it will set aside an additional 1.1 billion reais ($539 million) to cover potential losses related to a tax and royalty dispute with the government.

The extra provision was made after Vale, the world's largest iron-ore exporter, decided it will likely lose an attempt to deduct the cost of transportation from the value used to determine royalty payments on minerals, the company said in a statement.

Adding a previously provisioned 314 million reais, Vale has now set aside 1.41 billion reais against the government's claim. The additional provision comes after Vale changed the outlook on the dispute with the government to a "probable loss."

The amount provisioned is not sufficient to pay the 4 billion reais the government says Vale owes, Marco Antonio Valadares, head of royalty collection at Brazil's mining and minerals agency DNPM, told Reuters on Tuesday.

A commodities boom over the past decade prompted Brazil's federal, state and municipal governments to seek greater control and revenue from natural resources. The government has signaled that it hopes to resolve the dispute with Vale over royalties by the end of the month.

"We believe Vale's decision to provision a larger amount related to a dispute on past royalties suggest we are getting closer to a settlement," Carlos de Alba, a New York-based mining and metals analyst with Morgan Stanley & Co, said in note to clients.

"While we do not think the charge comes as a total surprise to the market, the number does seem on the low end of recent estimates," he said, adding that he thinks a potential settlement could be "marginally positive" for the stock.

Vale preferred shares, the company's most-traded class of stock, closed down 2.93 percent at 32.12 reais in Sao Paulo, its biggest decline in nearly two weeks. The stock, which has fallen to its lowest levels in nearly three years, is on track for its worst decline in three weeks. Rising potential royalty payments come as the price of iron ore, responsible for nearly three quarters of Vale's revenue and more than 90 percent of the company's profit, plunges.

Iron ore, the main steel ingredient, fell by about a third in the last two months, surprising company officials. Iron ore with 62 percent iron content fell 2.5 percent to 86.90 a tonne in the Chinese spot market, according to Steel Index, a three-year low.

The latest provision narrows what Vale believes it will have to pay to less than a third of what the government wants from a sixth. While Vale has discarded its argument that it should be able to discount transportation payments from the calculation, courts are considering issues that could change the royalty calculation, the company said in a statement.

GENERAL NEWS *(Continued)*

Market analysts expect Vale to face extra royalty payments of 800 million to 4 billion reais, said Alba, who expects the royalty issue to be settled for about 3 billion reais.

Vale and other mining companies face rising pressure from the state governments of Minas Gerais and Pará, Brazil's largest iron ore producing regions, to pay more in fees and other royalties.

On Monday, a court in Switzerland said Vale misused a fiscal exemption pact signed in 2006 that could incur a charge of $233 million.

As potential royalty costs rise, the company has been facing a decline in prices of iron ore, rising costs in Brazil, and pressure from the government to invest in low-return projects such as steel mills.

BOND OFFERING

In a separate filing with Brazilian securities regulators, Vale announced the sale of 30-year dollar-denominated bonds for general corporate purposes.

On Tuesday Vale launched the sale, pricing $1.5 billion reais of debt a t 99.198 with a coupon of 5.625 percent, which puts its y ield at roughly 3 00 basis points above U.S. Treasuries, IFR reported.

BB Securities, Bradesco, Citigroup, JPMorgan and Santander led the sale. The senior unsecured bond is SEC registered and rated Baa2/A-/BBB+ by Moody's, S&P and Fitch.

Investors placed firm bids for the securities worth $3.75 billion, or more than double the amount set at launch and more than six times the minimum set when the sale was announced, the source said.

The source declined to be named because the transaction is in the works.

Standard and Poor's rated the proposed sale "A minus" and Fitch Ratings rated it "BBB plus". Moody's gave the bonds a "Baa2" rating. All rankings are investment-grade.

Vale hired the investment-banking units of Banco do Brasil , Banco Bradesco , Citigroup Inc. , JPMorgan Chase & Co and Banco Santander to manage the transaction.

S.Africa's Gold Fields closer to ending strike

JOHANNESBURG, Sept 4 (Reuters) - South African bullion miner Gold Fields said on Tuesday that trade union leadership intervention in a wildcat strike made a return to production more likely. About 12,000 workers have been on strike at the east section of its KDC mine in South Africa for almost a week.

Spokesperson Sven Lunsche said the company was losing 1,650 ounces of production a day and it had until Monday used stockpiles, it was now two days that the stay away had impacted directly on production.

Unlike the violent strikes that have tainted the South African platinum industry, Gold Fields believes worker discontent stems from an internal dispute within the local branch leaders of the NUM and its members.National Union of Mineworkers president Senzeni Zokwana addressed a mass meeting at the mine on Tuesday and has agreed to bring the branch leaders and disgruntled members face to face on Wednesday.

"This is positive development that could see the workers returning to duty soon," said Lunsche.

"The president's intervention has made a return to production more likely."

Shares of Gold Fields have shed 6.56 percent in the last five days, which is in line with the 6.34 percent fall in the JSE's Gold Mining Index.

MARKET NEWS

Southern Copper pushing ahead with expansion plans

By Teresa Cespedes

NEW YORK, Sept 4 (Reuters) - Southern Copper is pushing forward with expansion plans in Peru worth more than $1.6 billion despite lower global prices for the red metal that have trimmed revenue so far this year, Chief Executive Oscar Gonzalez said.

Its projects depend on obtaining regulatory approvals from Peru's government and persuading community groups that it will rely on reclaimed or desalinated water and won't affect scarce water supplies.

The unit of Grupo Mexico forecasts the average copper price this year to be around $3.60 a pound, down from $4 a pound last year, he said, which has cut revenues 3.4 percent

"What we can do is invest to produce more and lower costs because we can't do much with respect to prices," Gonzalez told Reuters.

He said the company could generate savings by improving its transportation infrastructure in Peru, where it is planning an expansion of about $600 million at its Toquepala mine and is redrafting an environment impact study for its $1 billion Tia Maria mine project.

"If the (mining) ministry approves the study early next year ... Tia Maria would be ready by late 2014 to produce in early 2015," he said.

Peru's government asked the company to overhaul its environmental mitigation plan last year after community protesters urged the company to use water from the Pacific Ocean for its mine, instead of freshwater.

MARKET NEWS *(Continued)*

Southern Copper, which expects Tia Maria to boost its production by 120,000 tonnes per year, has been meeting with local leaders and is holding public hearings in nearby communities to discuss the project and finish its new draft of the environmental impact study in a couple of months.

The company is also waiting approval for environmental impact assessment for the expansion of Toquepala, a mine in the southern region of Tacna, which would duplicate its milling capacity.

Though softer prices and a slowdown in China have prompted some global miners to pull back on new projects, that has not yet happened in Peru, where costs tend to be lower.

Southern Copper, one of the world's leading copper producers with mines and plants in Peru and Mexico, expects output to rise slightly this year.

"Production was 650,000 tonnes last year and this year will be up slightly on better output in Mexico, mainly at Buenavista," Gonzalez said.

Southern Copper controls the Buenavista and La Caridad projects in Mexico, and operates the Toquepala and Cuajone mines as well as a refinery in Peru. Its Ilo smelter in Peru is undergoing maintenance for a month and has been halted.

"Peruvian production will be almost the same or a bit lower because of low grades."

He added that the company is renegotiating labor contracts with three Peruvian unions. The contracts expire in August.

In Toquepala the company is building a conveyer belt to replace truck and train transportation of its minerals, an upgrade it has planned for its Cuajone mine as well.

"The transportation belt will give us savings of almost $10 million per year," he said. "We expect that we'll be able to recuperate revenues in coming months to finish this year like we did last year."

Peru, the world's No. 2 copper producer after Chile, relies of minerals for 60 percent of its export earnings.

Europe's spare copper stuck in Glencore's Dutch warehouses

By Maytaal Angel

LONDON, Sept 4 (Reuters) - A warehouse company owned by commodity trader Glencore has attracted most of Europe's scarce copper stocks to its backlogged warehouses in the Dutch port of Vlissingen, exacerbating a supply squeeze for product makers.

According to data from the London Metal Exchange (LME), the world's leading metals marketplace, Europe currently holds some 14,500 tonnes of copper stocks in warehouses monitored by the exchange.

However, just over 10,000 tonnes of that total are located in Vlissingen, where there is a costly queue of around a year to get metal out of the port's 37 warehouses, all but two of which are owned by Glencore unit Pacorini.

That means that available LME copper in Europe in effect amounts to just under 4,500 tonnes, compared with over 42,500 tonnes this time last year. Moreover, traders say that off-exchange supplies are also tight, citing recent shipment delays, and material redirected to North America.

"Vlissingen is a special case. In Europe there's no stock basically, and it's mostly in Vlissingen," a Europe-based trader said, adding, "If a warehouse gives you an attractive price to put material in, you put material in."

Glencore declined to comment on the increase in stocks at its Vlissingen warehouses.

A lot of surplus copper has been shipped to China for financing purposes this year. In Europe, copper users have booked few long-term supply deals, spooked by a regional debt crisis that ate into demand and clouded the outlook.

That, along with the copper stuck in Vlissingen, has resulted in supply tightness, which has pushed premiums to buy LME warrants, or titles to ownership, for delivery in Rotterdam to $90-110 a tonne from $70-90 early August.

Off-exchange spot premiums for Rotterdam copper are slightly lower at $70-85 a tonne as buyers who need immediate supply turn to LME warehouse stocks rather than buying copper to be shipped from South America or other producing countries.

Premiums, both off or on exchange, are what is paid above the LME base price to secure physical delivery.

"There's nothing available. I'm not engaging in the copper market as it's too hard to get hold of metal. I've heard (warrant) premiums trade higher than $110. If people need it soon, they'll pay whatever," a metals trader said.

"Stocks at consumer yards have come down. Everyone expected a weaker market in Europe, and if you leave yourself exposed, all of a sudden you're scrambling to satisfy consumer requests when they come in."

A MARKET OF LAST RESORT?

The LME has come under heavy criticism for the queues that have built up at some approved warehouses, given that they undermine the exchange's role as a market of last resort for industry, distort market balances and inflate premiums.

If the 10,000 tonnes of copper sitting in Vlissingen were available for immediate delivery, for example, the rise in premiums would be mitigated.

On April 25, the LME delisted Vlissingen as a delivery point for copper, effective July 25, to prevent a logjam in copper deliveries after more than half a million tonnes of aluminium were stuck waiting to leave the port.

MARKET NEWS *(Continued)*

But by July 25, LME copper stocks in Vlissingen had already risen to 10,150 tonnes from a mere 2,175 tonnes on April 25. LME copper stocks in the rest of Europe, meanwhile, plunged from 34,325 tonnes to just 4,425.

Critics say that building huge stockpiles is profitable for warehouse owners, who charge rent for each tonne stored and tend to deliver metals at the LME-mandated minimum rate, which for Glencore amounts to just 3,000 tonnes a day from Vlissingen.

While buyers can secure supplies of copper through off-exchange spot deals, premiums are at risk of rising if LME stockpiles, which are supposed to function as a last resort for industry, run low.

"We've definitely seen an increase in demand, but that doesn't say things are picking up in Europe, it's just that consumers didn't book out long-term contracts for the third and fourth quarter," said a London-based physical copper trader.

China steel use in home building won't peak until 2024-RBA study

SYDNEY, Sept 5 (Reuters) - China's demand for steel to build homes will not peak for another 12 years, a study from the Reserve Bank of Australia (RBA) predicts, boding well for the outlook for Australia's iron ore exports.

In a study paper on Chinese residential construction, RBA researchers Leon Berkelmans and Hao Wang used projections of urbanisation rates, building size and construction quality to estimate that steel use would not peak until 2024 when it would be 30 percent higher than in 2011.

Iron ore is Australia's single biggest export earner making over A$60 billion dollars ($61.4 billion) a year, but a recent plunge in prices for the steel-making mineral has threatened to put a dent in the domestic economy. The study suggests Chinese demand for steel will continue to grow for some time yet.

"Residential construction is a key driver of Chinese economic growth and, given its use of steel, construction is an important determinant of the demand for iron ore, which is one of Australia's most significant exports," the study noted.

The study predicted Chinese home building would continue to grow rapidly until 2017 and not fall below current levels until 2030. In 2011, 1.9 billion square metres of residential floor space was built in China, more than the entire residential building stock in Australia.

The building boom is needed in part to house the 20 million annual increase in the urban population. In 1990, just over one quarter of the Chinese population lived in urban areas; today over half do. The urbanisation rate will continue to climb to around 70 percent by 2030, the study predicted.

"We project the urban population will reach almost one billion by 2030 from its current level of 691 million, and then stabilise," the paper said.

The study estimated that residential construction currently uses about 14 percent of China's crude steel output, but this would grow as quality improved, buildings became taller and included more amenities such as underground car parks.

More new homes would also require more appliances to fill them and more commercial buildings and infrastructure to support them, adding to the demand for steel.

Flagging China zinc demand hits hopes for increased Q4 use -trade

By Polly Yam and Melanie Burton

HONG KONG/SINGAPORE, Sept 4 (Reuters) - China's demand for refined zinc weakened further in August from July, traders said on Tuesday, diluting hopes for a fourth-quarter rise in consumption in the world's top consumer of the metal.

China's worsening demand could pressure benchmark London Metal Exchange zinc prices , which have already fallen nearly a sixth from the year's high struck in January, thanks to a global economic slowdown.

Traders and smelters in May had expected zinc, used in construction, to reap the benefits of China's push to fast-track investment in railways and other projects, with demand projected to rise around the fourth quarter.

Instead, demand had fallen further in August, traders and sources in smelters said. Although figures for August are not yet available, implied consumption of refined zinc fell 10.6 percent in July, after a rise of 11.1 percent in June from the previous month.

"It's obvious to us that the inflow has been far more than the outflow since August," said a purchaser at an alloy plant which uses refined zinc to make alloys for the textile and transport sectors. "In June and July, the outflow was more," he said, referring to his firm's refined zinc stocks.

"We no longer see demand will be good in the fourth quarter," said a trader at a large zinc smelter, adding that current large stockpiles of the metal would meet any additional demand, resulting in only minimal impact from the infrastructure projects.

More than 1 million tonnes of refined zinc ingots, the most popular type in the Chinese and international markets, were stored in public and private warehouses in China, he estimated.

The stocks are higher than 780,000 tonnes estimated by Feng Juncong, senior analyst at state-backed research firm Antaike, but lower than 1.4 million tonnes a year earlier.

Large zinc smelters in China, also the world's top producer of zinc, were running at 60 to 70 percent of capacity due to weak demand, Feng said.

CONCENTRATE

But the bulk of zinc miners in China were maintaining normal production as they were still making profits, Feng said.

MARKET NEWS *(Continued)*

China produced 445,000 tonnes of zinc in the form of concentrate in July, up 19.3 percent from a year ago, according to the latest official data, which also showed that production of refined zinc dropped 9.9 percent from a year ago to a 29-month low of 366,000 tonnes in July.

In June, production of zinc in concentrate had surged 21 percent on the year to a record 496,000 tonnes, which was higher than production of refined zinc at 420,000 tonnes.

Slower production was prompting smelters to cut purchases of raw material concentrate at home and abroad, traders said.

"Miners are hearing of concentrate piling up in the market. They are worried about the future," said a trader based in Shanghai.

Some miners have turned to international trading houses in hopes of signing term supply contracts, he said, adding that he expected trading houses to store the concentrate in warehouses in China while they wait for higher prices.

China's 30 percent export tax would deter the trading houses from exporting the concentrates, traders said.

Zinc smelters were also cutting orders for imports of spot concentrate, pushing up treatment charges in Asia, traders said.

Spot treatment charges, paid by overseas sellers to Chinese smelters for converting the concentrate into refined zinc, were about $105 to $110 a tonne for standard grades, compared to about $101 to $102 a month ago and nearly double from the first quarter of the year, traders said.

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

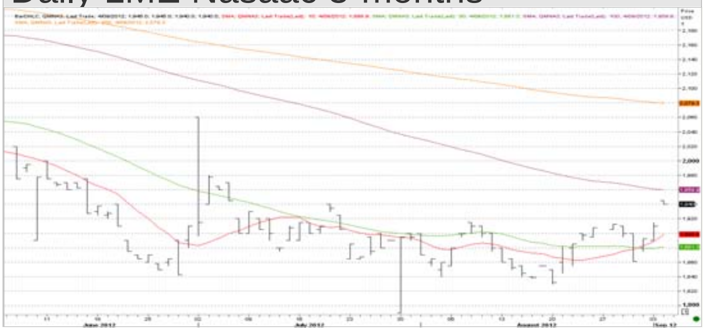
Daily LME Zinc 3-months

Daily LME Lead 3-months

Daily LME Tin 3-months

Daily LME Alloy 3-months

Daily LME Nasaac 3-months



MARKET REVIEW

METALS-Copper finds support on stimulus hopes ahead of ECB meeting

SINGAPORE, Sept 5 (Reuters) - London copper was steady supported by hopes that central banks will announce new plans to lift global growth following a boost to China's railroad spending and ahead of a European Central Bank meeting on Thursday.

A string of worsening factory reports from top metals user China, the United States and Europe this week has darkened the outlook for commodities demand, but has also raised expectations that monetary officials will have to ease policy or boost spending, providing a year-end fillip to prices.

China has rolled out a series of plans for infrastructure spending, aiming to lift confidence that the government is committed to keeping economic growth from sagging further, upping its target for railway construction this year to 496 billion yuan ($78.14 billion), from 470 billion yuan. The ECB is expected to outline rather than detail its strategy at a meeting on Thursday to keep the pressure on politicians to bring their deficits and debts under control.

"If there is an announcement of more free money from the U.S. or EU or government-mandated spending on construction in China, obviously this is going to put the wind behind copper's sails," said Matt Fusarelli, analyst at Australia-based consultancy AME Group. "Things are cooling down in China but we're still expecting demand growth of 5 percent for copper, in part due to the rollout of electricity projects. We are expecting copper to outperform other metals over the next six months."

Three-month copper on the London Metal Exchange was trading at $7,639.50 per tonne by 0350 GMT, up 0.1 percent from Tuesday when it ended down about 0.5 percent.

Copper hit a one-week high of $7,700 on Monday but has struggled to find momentum in recent months and has remained below $8,000 since mid-May, down from a 2012 peak of $8,765 per tonne in February.

The most-traded December copper contract on the Shanghai Futures Exchange slipped 0.16 percent to 55,930 yuan ($8,800) per tonne.

The global manufacturing downturn gathered pace in August, with output and new orders falling at the fastest in more than three years, a business survey showed on Tuesday.

This week, China's official PMI fell below 50 for the first time since November, while a similar survey from Markit, sponsored by HSBC, showed activity shrinking at the fastest pace since March 2009.

A trader in China's Guangzhou province said anticipation of further easing by Beijing had been supporting domestic prices. However, the trader said he saw copper prices falling in future as U.S. equity strength attracted investor funds and Chinese industrial demand growth moderated.

"We are less enamoured by base metals at this stage. Although an easing play should benefit the complex, any upside advance here will run headlong into the fact that Chinese demand is slowing markedly," INTL-FC Stone said in a research note.

PRECIOUS-Gold inches down, holds near 6-mth top; ECB eyed

By Rujun Shen

SINGAPORE, Sept 5 (Reuters) - Gold inched lower on Wednesday, but did not stray far from a near six-month high hit in the previous session as weak U.S. data reinforced hopes of stimulus measures, while investors eyed a key European Central Bank meeting this week for trading cues.

U.S. manufacturing activities shrank at their sharpest clip in more than three years last month, feeding hopes the Federal Reserve could act soon to shore up the frail economy. The ECB is also under increasing pressure to cut excess borrowing costs ahead at a policy setting meeting on Thursday.

Investors may adopt a cautious approach before the meeting, and the all-important U.S. non-farm payrolls data due on Friday, analysts said.

"It is a little too early to go full throttle," said Dominic Schnider, an analyst at UBS Wealth Management in Singapore.

"Will QE really come? Policymakers are heating things up, but will what eventually comes out to be as big as the market is looking for?"

Gold's fortune this year has largely hinged on the Fed's attitude towards another round of quantitative easing, or QE3, which, if materialised, could further boost gold's appeal to investors seeking a hedge against inflation caused by rampant cash printing.

Encouraged by Fed Chairman Ben Bernanke's comment last week on the grave conditions of the U.S. labour market which kept the door wide open for more stimulus measures, spot gold advanced to $1,698.45 on Tuesday, its highest level in nearly six months.

According to technical analysis, a bullish target at $1,711 an ounce has been aborted for spot gold, as the resistance near $1,700 proved strong, Reuters market analyst Wang Tao said.

Spot gold edged down 0.2 percent to $1,691.64 an ounce by 0619 GMT. U.S. gold was little changed at $1,694.40.

A slightly stronger dollar also weighed on gold.

GOLD ETF HOLDINGS HIT RECORD HIGH

Holdings of gold-backed exchange-traded funds rose to a record high of 71.889 million ounces (2,038 tonnes) by Sept. 4. SPDR Gold Trust , the biggest gold ETF, reported its holdings rose to 1,293.138 tonnes, the loftiest level since mid-March.

Silver ETF holdings stood at 501.503 million ounces, easing from 504.431 million hit in late August, the highest level since May 2011.

MARKET REVIEW *(Continued)*

Spot silver dropped 0.6 percent to $32.12 an ounce, easing from a 4-1/2-month high of $32.42 hit in the previous session.

"Although physical silver demand remains sluggish, the sentiment is bullish after prices broke above the 200-day moving average convincingly," said a Shanghai-based trader, adding that investors may hold off on action until Friday's U.S. jobs data.

The Relative Strength Index readings on spot gold and silver remained above 70, suggesting they were still in overbought territory.

FOREX-Euro slips but support seen intact as ECB awaited

By Lisa Twaronite

TOKYO, Sep 5 (Reuters) - The euro dipped slightly against the dollar in Asian trading on Wednesday, but support for the single currency stayed intact a day ahead of a European Central Bank meeting that is expected to unveil more details of a long-awaited debt-buying plan.

The European unit was down 0.3 percent at $1.2526 , off its Tuesday session high of $1.2629 but still not far from Friday's high of $1.26378 on trading platform EBS, which was its strongest level since early July.

In early Asian trading, the euro bumped through stop-loss orders which were said to have been placed at Tuesday's low of $1.2555, as well as at $1.2550, which was a 50 percent retracement of its recent rise from $1.2465 on Aug. 28 to Friday's high. Further stops were said to lie below $1.2475.

The drop was limited as investors awaited the ECB's plan, which is likely to focus on buying shorter maturities to bring down soaring bond yields of southern euro zone countries.

"The euro is finding the going a little bit easier. The prospect of the collapse of the euro is becoming a distant memory with many former bears," said Andrew Wilkinson, chief economic strategist at Miller Tabak & Co.

ECB President Mario Draghi told European lawmakers on Monday that purchases of short-term sovereign bonds to help debt-burdened countries like Spain and Italy would not breach European Union rules, according to a recording obtained by Reuters.

The euro "is range bound but seems to be quite well supported. The high expectations for the ECB meeting on Thursday remain after Draghi's closed-door meeting on Monday," Wilkinson said.

Still, fears that the ECB could disappoint and trigger a further euro correction prompted some investors to take profits on its recent gains.

"Some investors are wary that the euro's rally ahead of the ECB meeting will turn out to be, 'buy the rumour, sell the fact," with so many key details of the debt-buying plan still unclear, such as volume," said Kimihiko Tomita, head of foreign exchange for State Street Global Markets in Tokyo.

Some have said that unless the ECB sets no limits on its bond purchases, investors could pile in to dump paper on the bank, threatening the success of the plan.

MORE WEAK U.S. DATA

Apart from the ECB meeting on Thursday, key U.S. data this week will come on Friday, when the monthly employment report is expected to show employers increased payrolls by 125,000 workers last month, down from July's 163,000.

The dollar was steady against its Japanese counterpart at 78.38 yen .

The Australian dollar slipped 0.3 percent to $1.0190 after dropping to a six-week low of $1.0182 on growing speculation the Reserve Bank of Australia will cut interest rates to cushion the economy from falling commodity prices.

Government data on Wednesday showed Australia's gross domestic product rose 0.6 percent in the second quarter, at a slower pace from the previous quarter when it jumped 1.4 percent.

Australia's central bank held rates steady on Tuesday as widely expected, though a slowdown in China has left the country's commodity-fuelled economy vulnerable.

(Inside Metals is compiled by Akanksha Mohanty in Bangalore)