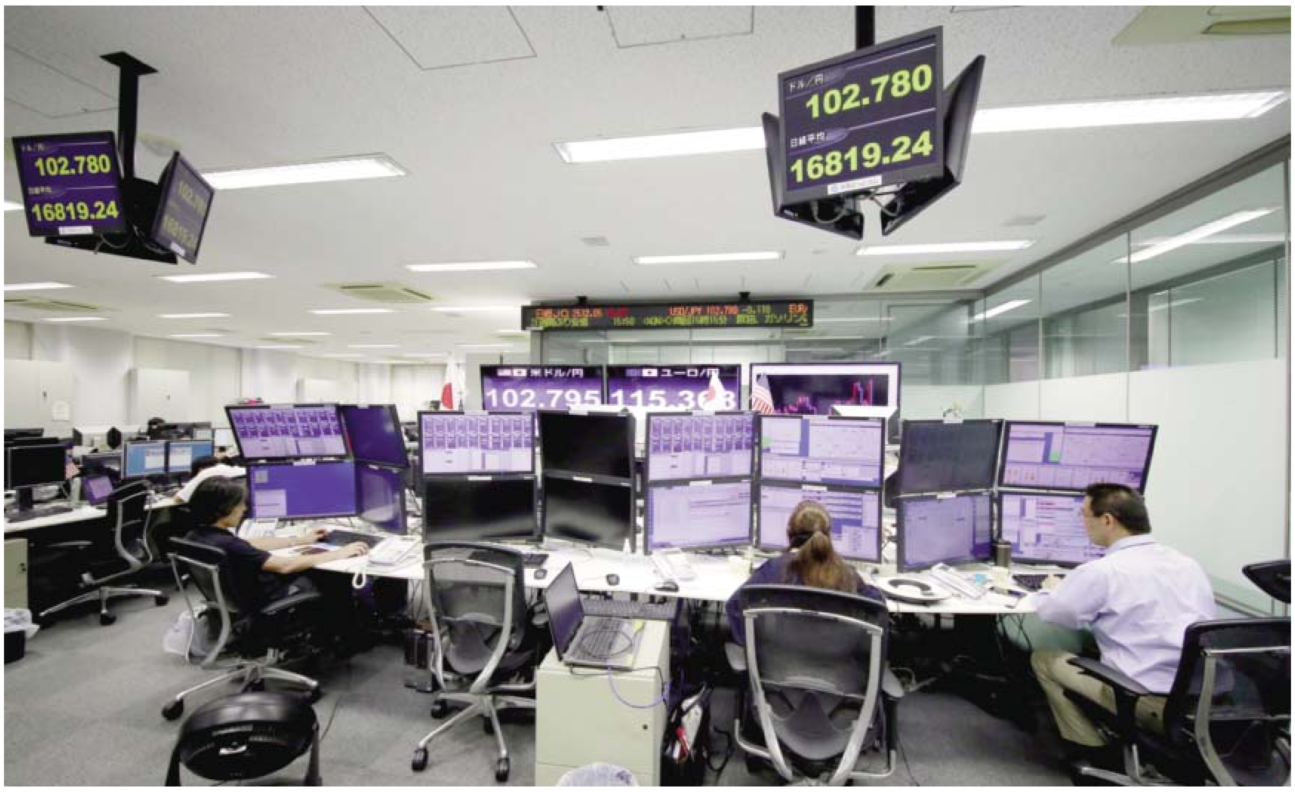

TOKYO: Money traders monitor computer screens with the day's exchange rate between yen and the US dollar at a foreign exchange brokerage in Tokyo. — AP

Gold loses shine as US Fed feelings lift dollar

European shares choppy

LONDON: Growing expectations that US interest rates will rise before the end of the year lifted the dollar and bank shares yesterday but took the shine off gold, one of the year's best- performing assets so far. Investors were already looking to US jobs data today as the dollar hit a four-week high against the yen and pinned Britain's sterling firmly to a three-decade low. European shares endured a choppy session. Beaten-down banking stocks provided the biggest boost, while reports of a takeover sent German lightbulb maker Osram to a record high.

German industrial orders data also came in surprisingly strong but the region's big markets - Britain's FTSE, Germany's DAX and France's CAC - still dipped in and out of the red. Wall Street was also set for a subdued start. "By and large the dollar is continuing to trade well," said Societe Generale strategist Alvin Tan. "Expectations about the Fed raising rates are edging up and that has been helped by the good run of US data ... The big one though is tomorrow with the non-farm payrolls report."

Strong US jobs numbers could cement expectations of a Federal Reserve rate increase, most likely in December. The median forecast of economists polled by Reuters is for payrolls to rise by 175,000. The Fed-sensitive two-year US government bond yield reached a four-month high of 0.857 percent on Wednesday as rate futures markets started pricing in a more than 60 percent chance rates would rise before the end of the year. Europe's benchmark bond yield edged back below zero, however, as minutes of the European Central Bank's last meeting soothed investors' nerves about it eventually winding down its stimulus program.

Euro-zone yields, including the bloc's top-rated German debt, which is usually seen as a safe haven in times of stress, have shot higher this week after reports about possible ECB moves. The minutes said underlying price growth showed no sign of recovery and "it was therefore of crucial importance to preserve the very substantial degree of monetary support currently embedded" in its forecasts.

Losing shine

A growing number of Fed officials have expressed the need for higher rates in recent weeks and US traders were getting ready for a pre-payrolls appetiser in the form of weekly jobless claims figures due at 1230 GMT (8:30 a.m. ET) The threat of tighter monetary policy in the US and possibly Europe in future as well hit precious metals hard. Gold slumped to $1,264.7 per ounce, just off a 3 1/2-month low of $1,262.2 it had hit overnight. Silver also sagged to $17.69 after having tumbled to $17.565 per ounce, its lowest since late June. "A surprise on the upside (of US jobs numbers) will make market watchers expect an even higher probability of a rate hike and that could bring gold prices down," said OCBC Bank analyst Barnabas Gan.

"I would advise to buy on dips for gold simply because the fall in gold prices is very much driven by very short-term factors," Gan said, who has a year-end forecast of $1,350 an ounce. In the currency market, the dollar rose to a one-month high of 103.67 yen and last stood at 103.63 yen. The British pound was at a new three-decade low of $1.2666 on worries about Britain's exit from the European Union. The euro slipped too to $1.1185, as the dollar's jostling and lingering concerns over the health of Deutsche Bank and other parts of the banking system offset the lacklustre speculation about ECB tapering.

Oil prices began to perk up ahead of US trading having slipped from three-month highs after Saudi Arabia trimmed the price of its flagship crude in Asia. International benchmark Brent futures was last at $51.93 a barrel, after rising as high as $52.09 on Wednesday, the highest since early June. US crude futures traded at $49.85, flat on the day but up 2.7 percent on the week. "Markets are hoping that they will not just agree on a cut next month but will also come up with a series of cuts in the future," said Hirokazu Kabeya, chief global strategist at Daiwa Securities. "But unless we have more evidences of cooperation, it is hard to see oil prices rising much further." — Reuters

Asia stocks up

TOKYO: Asian shares firmed yesterday thanks to stronger US economic data, while growing prospects of a near-term US rate hike and possible tapering of stimulus in Europe hit gold and lifted the dollar to one-month highs versus the yen. MSCI's broadest index of Asia-Pacific shares outside Japan rose 0.4 percent while Japan's Nikkei gained 0.6 percent. On Wednesday, US S&P 500 Index gained 0.43 percent, led by banks and energy companies. US services sector activity recovered sharply in September from six-year low hit in August, following similarly upbeat news from US factories on Monday.

"Both manufacturing and service indexes recovered from big falls in August. While it is not clear what the underlying US economic trend is, given the recovery in Japanese and Chinese surveys the global economic cycle appears to be rebounding for now," said Chotaro Morita, chief bond strategist at SMBC Nikko Securities. Growing optimism on the US economy boosted bets that the US Federal Reserve will raise interest rates in December. The policy-sensitive two-year US note yield hit a four-month high of 0.857 percent on Wednesday. Interest rate futures are pricing in about a 60 percent chance the Fed will hike by its December meeting. The 10-year US Treasuries yield also rose to 1.706 percent, compared to around 1.60 percent at the start of week. A strong US payrolls report today could cement expectations of a rate hike. The median forecast of economists polled by Reuters is for non-farm payroll to rise 175,000. The rise in bond yields partly stemmed from speculation the European Central Bank may eventually taper its bond buying after Bloomberg reported on Tuesday the bank would probably wind down the monthly 80-billion euro ($90 billion) scheme.

Euro-zone bond yields have picked up since then, with Germany's 10-year Bund yield rising back to near zero percent from 2 1/2-month low of minus 0.16 percent hit last week. The spectre of tighter monetary policy in the US and Europe hit precious metals hard. Gold extended losses, hitting a 3 1/2-month low of $1,262.2 per ounce and last stood at $1,267.4. Silver also fell to $17.69 after having fallen to $17.565 per ounce, its lowest since late June. In the currency market, the dollar rose to a one-month high of 103.67 yen and last stood at 103.37 yen.

The British pound recovered slightly after hitting a three-decade low of $1.2686 on Wednesday on worries about Britain's EU exit. It last traded at $1.2747. The euro was little changed at $1.1209, with pressure from concerns about the health of Deutsche Bank offset by speculation about the ECB's tapering. Oil prices rose to their highest since June on a combination of the fifth unexpected weekly drawdown in US crude inventories and hopes that major producers will agree to cut output next month. The US Energy Information Administration said crude stockpiles fell 3 million barrels last week, well below the build of 2.6 million barrels forecast by analysts in a Reuters poll.

International benchmark Brent futures rose to as high as $52.09 per barrel on Wednesday, the highest since early June and last stood at $51.53, up 5 percent so far this week. US crude futures traded at $49.50, down 0.6 percent on the day but up 2.6 percent on the week. "Markets are hoping that they will not just agree on a cut next month but will also come up with a series of cuts in the future," said Hirokazu Kabeya, chief global strategist at Daiwa Securities. "But unless we have more evidences of cooperation, it is hard to see oil prices rising much further." — Reuters

Oil holds near 2016 highs after US inventory drop

LONDON: Oil prices held steady yesterday, underpinned by a surprisingly large drop in US inventory levels the previous day to stay within sight of this year's highs hit in June. Brent crude futures were virtually unchanged at $51.85 per barrel at 1120 GMT, after hitting a high of $52.09 the previous day. US futures were down 9 cents at $49.74 a barrel. Both contracts hit their highest in nearly four months on Wednesday after US data showed crude oil stockpiles fell 3 million barrels last week to 499.74 million barrels, confounding expectations for an increase.

Still, inventories are near record highs and even the prospect of a modest cut in production from the world's largest exporters might not be enough to fuel a more sustained rally, analysts said. "Optimism on the OPEC deal and surprising storage declines pushed oil prices to the upper end of the recent trading range. Both trends are temporary and unlikely to mark the easing of the oil supply glut," said Norbert Ruecker, head of commodity research at Swiss bank Julius Baer.

"We see more downside than upside from today's price levels," he added. Traders said a decline in prices early in yesterday's session reflected a weaker physical crude market after top exporter Saudi Arabia cut the price of its crudes to Asia for November in a sign that the global fuel glut is persisting. Hefty refinery maintenance in Europe, and the ensuing drop in demand for crude, has also put the physical North Sea oil market under pressure, forcing sellers to offer barrels of grades such as Forties at their weakest since July. — Reuters