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Daily Commodities Report 2nd August 2010

Tropical depression forming in mid-Atlantic -NHC

* Coming Up: U.S. manufacturing PMI; 1400 GMT

Oil rose towards 12-week highs above \$79 on Monday, driven by investor appetite for commodities and energy risk, with macroeconomic indicators in top consumers the United States and China showing slower but sustained growth.

U.S. September crude rose 24 cents to \$79.19 a barrel by 0200 GMT, having reached a 12-week high of \$79.69 last week and climbed 4.35 percent last month. ICE Brent gained 19 cents to \$78.37.

Money managers increased bets that prices would rise, the so-called net long crude oil positions, to the highest level since May on the New York Mercantile Exchange in the week to July 27, the Commodity Futures Trading Commission said on Friday, when wheat surged to cap its biggest monthly gain since 1959.

"Long positions are starting to creep back into the market," said Ben Westmore, a commodities analyst at National Australia Bank in Melbourne, adding, "It's a gradual process of regaining confidence that there is not going to be a default soon," in a reference to the euro zone's debt crisis.

"The market is aware of the fact that it's going to be a pretty slow recovery in the U.S. and the euro zone, so although oil demand will grow over the next 12 months or so, it's going to be a slow, gradual process," Westmore said.

U.S. gross domestic product expanded at a 2.4 percent annual rate, missing expectations for growth of 2.5 percent, after an upwardly revised 3.7 percent growth pace in the first quarter.

"People are looking more closely at the U.S. GDP number and although the core of the market was disappointed, it was not too far from expectations and there was a revision upwards to the first quarter," said Westmore. "It was slightly more positive."

China's official purchasing managers' index (PMI) fell to a 17-month low in July of 51.2 from 52.1 in June, the China Federation of Logistics and Purchasing (CFLP) said on Sunday.

The PMI is designed to provide a timely snapshot of business conditions and a figure above 50 indicates expansion.

But Japan's Nikkei average climbed 1.3 percent on Monday as investors snapped up shares of firms with robust corporate earnings, helping the market shrug off the lacklustre U.S. and Chinese economic data.

A tropical cyclone forming in the mid-Atlantic also lent support to oil prices as the hurricane season enters what in recent years has been a period of peak activity between August and early October.

The U.S. National Hurricane Center (NHC) said late on Sunday that a tropical depression may be forming in the mid-Atlantic, assigning an 80 percent likelihood that the system may become a tropical cyclone within the next 48 hours.

Attention this week will remain on U.S. economic data, with the Institute for Supply Management manufacturing index expected later on Monday, followed by July payrolls on Friday.

U.S. crude inventories posted their biggest weekly increase since 2008 in the week to July 23 as imports surged, while gasoline stockpiles climbed for a fifth consecutive week and supplies of distillates including diesel for a ninth.

"The oil balance is not going to tighten too much," Westmore said.

Wheat climbs 2.5 pct on Black Sea crop concerns

* Corn, wheat rise tracking gains in wheat futures

U.S. wheat jumped 2.5 percent on Monday to a 22-month high as the market started a new month on a bullish note following its biggest monthly gain since at least 1959 in July on Black Sea crop concerns.

Corn and soybean futures gained more than 1 percent, tracking the bull run in wheat despite favourable

"We can say that physical buying at the lower end in the Asian region absorbs selling from the ETF. There's more interest over there at \$1,170 or below," said Ronald Leung, director of Lee Cheong Gold Dealers in Hong Kong.

"Gold has recovered due to some kind of technical buying. But I think the market is still thin. Both investors and jewellery makers have been buying at the lower end."

U.S. gold futures for December delivery rose \$1.5 to \$1,185.4 an ounce after settling up 1.1 percent. Gold had risen after data showed U.S. economic growth slowed in the second quarter, raising concerns about the recovery in the rest of 2010.

Platinum rose to its strongest since late June on fund buying driven by gains in stock markets and industrial metals such as LME copper. Sister metal palladium matched a five-week high hit on Friday.

Platinum and palladium are used by the auto industry in catalytic converters to clean tailpipe emissions.

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