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Oil rises above $77 a barrel on hopes over economy

* Expectations of strong demand lift sentiment
* Stocks rally, weaker dollar offer support

Oil rose towards $78 a barrel on Wednesday, supported by the weaker dollar and rally in equities markets, as optimism over the global economy stoked hopes for higher fuel demand.

Asian stock markets, led by Japan and Hong Kong, extended their rise after U.S. shares posted their biggest daily percentage gain in three months on Tuesday, signalling a return of risk appetite among investors. [.N]

U.S. crude for March delivery rose 55 cents to $77.56 a barrel at 0803 GMT, marked by thin trading volumes, after closing 3.9 percent higher on Tuesday, the highest percentage gain since the 5.8 percent rise on Sept. 30. London Brent crude for April climbed 45 cents to $76.13 a barrel.

"The market is purely focused on expectations of an economic recovery rather than on inventories," said Jonathan Barratt, managing director of Commodities Broking Services in Sydney.

"The inventory build-up will in itself help contain the prices. But people feel that demand will continue to rise."

Trade was still muted in most parts of Asia as traders slowly returned from holidays.

"I expect things to really pick up when China returns from their holiday. As a result, people are starting to preempt that," Barratt said.

"I wouldn't be surprised that oil will be at $80.00 a barrel by the weekend."

Crude inventories in the United States were expected to have risen by 1.9 million barrels in the week ended Feb. 12, as imports that had been delayed by weather along the Gulf Coast came ashore, an initial Reuters poll found.

Distillate stocks, which include heating oil and diesel, fell 1.6 million barrels, with demand for heating fuel seen higher after two heavy snowstorms hit the U.S. East Coast, while gasoline supplies rose 1.6 million barrels, the poll showed.

The report from industry group American Petroleum Institute
(API) will be released at 2130 GMT on Wednesday -- delayed by a day this week due to Monday's federal Presidents' Day holiday -- while the the Energy Information Administration's data is due at 1600 GMT on Thursday.

Expectations of economic recovery saw Asian shares jump on the back of strong financial and resource stocks, as Hong Kong and Chinese investors shrugged off China's latest move to temper robust lending.

Oil was also hoisted by the softer dollar, which fell 1.3 percent versus the euro late on Tuesday. The euro held on to gains at $1.3774 on Wednesday, as investors cut short positions on views that its fall over Greece's debt problems had run its course.

Traders also said buying interest for distillates, slow since last April, has started to show signs of improvement. Global distillate stocks, although still heavy, are at gradually drawn down.

Ongoing tensions between the U.S. and Iran may continue to support prices, as President Mahmoud Ahmadinejad said that any country that tried to impose new sanctions on Iran would regret its actions, as the U.S. and Russia voiced concerns about Tehran's nuclear programme.

Focus on the euro, whether improving sentiment stays

* SPDR Gold holdings rise 0.3 pct, first rise since Feb 5

Gold prices steadied near two-week highs on Wednesday after rallying on a rise in the euro the day before, with investors continuing to take their cue from the single currency for direction.

In the near-term, if investors keep cutting short positions on the view they had sold the single currency too much on worries about Greece, there is scope for bullion to test its upside, traders said.

Spot gold rallied to two-week highs on Tuesday as the euro recovered from recent hefty losses against the dollar and as investors snapped up the precious metal to hedge against debt default risks in Europe.

"As is the case a day after a strong rally, gold has steadied as investors take a break from buying, but gold is likely to extend gains as sentiment for the euro is improving," said Tetsu Emori, general manager at Astmax Co.

The euro's recovery sparked buying in oil and other commodities as a weaker dollar makes dollar-denominated commodities cheaper for holders of non-dollar currencies.

Rallying commodities and gains for equities markets also boosted sentiment, reflecting the return of risk appetite among investors, traders said.

Spot gold had edged up to $1,119.60 an ounce as of 0636 GMT, compared with New York's notional close of $1,118.95. It rose as high as $1,120.80 on Tuesday, its highest since Feb. 3.

U.S. gold futures for April delivery were slightly firmer at $1,120.50 an ounce, compared with $1,119.80 on the COMEX division of the New York Mercantile Exchange. Futures ended up $29.80, or 2.73 percent, on Tuesday at their highest settlement level since Jan. 19.

Euro-priced gold was at 812.56 euros an ounce on Wednesday, slipping from a record high 819.07 euros an ounce hit the day before. Gold priced in sterling and South African rand also rose to one-month highs on Tuesday.

European finance ministers said on Tuesday that Greece should present a report by March 16 setting out a timetable for the implementation of budget target measures for 2010, and another by May 15 setting out policy measures needed to comply with the finance ministers' decision. Quarterly reports will be required from then on.

"The problems weighing on the euro are not resolved, but it's also hard to see the euro plunge below recent lows on the Greece issue alone as the problem has been addressed and steps are being discussed," Emori said.

The euro steadied on Wednesday to hold sharp gains made the previous day against the dollar as investors cut short positions on views that the fall in the euro over Greece's debt problems had run its course.

Soy slips half a percent after gains on short-covering

* Wheat little changed, holds on to 4-week high

U.S. soybean futures fell half a percent on Wednesday as investors booked profit on the back of hefty supplies, following a rally to three-week highs. Wheat held on to the previous session's gains to a four-week peak and corn was nearly flat, after being pushed up on Tuesday by the weak dollar and strong crude oil.

"We had a bounce overnight in line with all other commodities and a weaker U.S. dollar, however the trade feels that underlying fundamentals of large supply are weighing on soybean prices," said Garry Booth, a trader with MF Global Australia.

"After a bounce overnight, the market is retracing some of those gains."

Soybean futures had been pressured in recent weeks by estimates of record harvests in South America this year, which came on top of large U.S. supplies.

Soybean exports from Brazil are expected to reach a record of 3 million tonnes, shipping agents said, as the country's harvest of a record crop begins to pick up.

Argentina's Buenos Aires Grains Exchange sees record production of 52 million tonnes and the U.S. Department of Agriculture expects 53 million tonnes, although there have been some concerns over excessive rains.

For a factbox on crop forecasts, see Chicago Board of Trade soy for March fell 0.4 percent, or 3- cents, to $9.61- a bushel by 0348 GMT, March delivery wheat fell 1- cents to $5.03- and March corn lost half a cent to $3.66- a bushel.

On Tuesday, wheat notched up its biggest one-day gain since it rose 5 percent on Dec. 28, mainly on short-covering and following news Australia trimmed its forecast wheat production slightly.

The Australian government's commodity forecaster estimated the wheat harvest at 21.656 million tonnes, down from a December estimate of 21.993 million tonnes, as extreme heat followed by heavy rain late last year affected grain quality and yield.

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