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OIL DRIFTS LOWER AS STOCKPILES RISE

Oil fell for a second straight session on Monday as the end of the driving season in the United States and record petroleum stockpiles there fuelled doubt that supplies would drain in the face of tepid economic growth.

U.S. crude for delivery in October fell as much as 0.7 percent to $74.09 and was down 22 cents at $74.38 a barrel by 0638 GMT, while ICE Brent crude shed 3 cents to $76.64.

Oil's correlation with stock markets has diminished in the past two sessions as the fundamentals of an oversupplied market and hurricanes deviating from the oil-rich Gulf of Mexico weigh on sentiment. Asian equities touched one-month highs on Monday, while a stock rally on Friday sent copper to a four-month high.

"We are awash with oil, thoughts about anything happening with the hurricanes have been put to the side and there is nothing on the geopolitical front to worry us," said Peter McGuire, managing director at CWA Global Markets in Sydney.

"There isn't much to drive the market higher. Traditionally, this time of year we are going into a quiet period when demand comes down."

The U.S. driving season, the summer period when gasoline consumption peaks, runs from the Memorial Day holiday in late May to the present Labour Day holiday.

While U.S. gasoline demand accounts for more than 10 percent of the world's oil use, refiners are set to decrease the amount of crude they process in coming weeks as they enter autumn maintenance, in preparation to crank up output of winter fuels.

The New York Mercantile Exchange, the home for U.S. crude benchmark West Texas Intermediate, will, because of Monday's U.S. Labour Day holiday, combine trades happening Sunday evening, Monday and Tuesday into a single trading session, with just one settlement by the close of Tuesday's trade.

U.S. weekly inventory reports are typically delayed by one day to Wednesday and Thursday on weeks when a holiday falls on Monday.

Front-month U.S. crude has traded between $64.24 and $87.15 this year, posting the high in early May and the low later that month as the European credit crisis rattled markets. Prices have most of the time remained between $70 and $80, a range that OPEC says is high enough to foster investment in capacity expansion and low enough to sustain economic recovery.

DEMAND EXPECTATIONS

Oil fell on Friday, driving prices to their third weekly drop in four weeks after data showed the U.S. non-manufacturing sector grew in August for an eighth straight month, but at a slower pace than in July and at a rate that was below expectations.

Investors in the crude market shrugged off equity rallies in Wall Street on Friday and in Asia on Monday after a separate report showed U.S. employment dropped far less than expected and private hiring was a positive surprise.

The strength of equities based on expectations of future economic growth helped bolster oil prices and kept the focus off high U.S. oil inventories for the past three months. Total U.S. petroleum stockpiles are at their highest level since weekly records began in 1990.

G20 delegates agreed on Saturday that the global economic recovery would endure although the speed of expansion may slow, a South Korean official said.

As a reflection of an improving outlook for crude demand from emerging markets, Saudi Arabia raised its official selling prices (OSPs) for benchmark Arab Light and other grades to customers in Asia, the U.S. and Europe in October, state oil company Saudi Aramco said on Sunday.

GOLD RECOVERS, AFTER DIP FOLLOWING PAYROLL FIGURE

Gold held steady on Monday as bargain hunting helped the metal defy pressure from firming stock markets and shrug off growing optimism the U.S. economy would not fall back into recession.

But bullion was likely to trade in a tight $10 range, with U.S. investors away for the Labour Day holiday, while silver was hardly changed after rallying to its strongest since March 2008 on Friday as investors booked profits and ETF holdings dropped.

Spot gold added 26 cents to $1,248.30 an ounce by 0534 GMT, having fallen as low as $1,235.70 on Friday on a U.S. labour market report that was much less weak than feared. Gold struck a lifetime high around $1,264 an ounce in late June.

"I am actually just expecting gold to trade between $1,240 and $1,250 region. It's just a bit of a range bound between these two levels," said Ong Yi Ling, investment analyst at Phillip Futures in Singapore.

"I would still expect gold to be supported as it was able to rebound quite sharply from its session low of about $1,235 all the way to $1,245 level. The ISM non-manufacturing data was actually not as good."

U.S. gold futures for December delivery was barely moved at $1,250.3 an ounce.

Asian stocks touched one-month highs on Monday after the latest U.S. jobs data soothed investors worried about a second recession in the world's biggest economy.

U.S. non-farm payrolls fell 54,000, the Labour Department said, a much smaller drop than the predicted 100,000. The U.S. non-manufacturing sector grew in August for an eighth straight month, but at a slower pace than July and at a rate that was below expectations.

"There's a bit of buying at lower prices. It looks like everybody is still slightly bullish on gold because the U.S. economy is only recovering very slowly," said a dealer in Hong Kong.

"Silver lags gold, so it's worth buying. There's a selling in silver today but it's not aggressive," said the dealer, adding that the metal had attracted buying from the industrial sector last week.

The ratio of gold to silver -- or how many ounces of silver are needed to buy an ounce of gold -- held near its lowest level since April at around 62.

COPPER CONTINUES TO RISE

Copper prices rose 1 percent Monday, with London flirting with the four-month high struck in the previous session after stronger-than-expected U.S. jobs data last week.

Three-month LME copper rose $64 to $7,704 a tonne by 0347 GMT. On Friday, copper hit a session peak of $7,750, its highest since late April in response to better-than-expected U.S. payrolls data.

"Business confidence is the biggest uncertainty that the economy is struggling with. U.S. data has been rather mixed recently, but the payrolls data has soothed fears of a double dip," Barclays Capital analyst Yingxi Yu said.

Yingxi added: "Within metals, we are seeing increasing divergence. Copper and tin are performing better than their peers. With fewer macro fears as we emerge from the early recovery phase, we will see fundamentals playing a more important role."

Inventory trends also remain supportive. Copper inventories in warehouses monitored by the Shanghai Futures Exchange fell 4 percent from a week earlier.

LME stocks fell 1,800 tonnes on Friday to 397,675 to their lowest since November last year when prices were around $1,200 lower than current values. When copper hit its record high of $8,940 in July 2008, stocks stood at around 120,000 tonnes.

"Copper is now less than 15 percent off the record and there people out there drooling to see prices break it," a trader in Hong Kong said.

Next month the great and the good in the metals world gather in London for the annual LME Dinner, when miners, smelters and consumers get together to thrash out supply deals for the following year in what is termed the "mating season". "In the very near term, that might be difficult, but towards the end of this month and the start of the mating season in October, sparks could fly," the trader added.

The week of the event is frequently a nexus of volatility as prevailing sentiment crystalises on one side of the market or the other to send prices soaring or sliding.

The mood in 2008 was especially depressed, triggering a string of falls that saw copper slide $2,000 in two months from $8,200 in mid-October. The mood last year was more positive with a rally from below $6,000 in October that peaked at around $7,800 in early January.

Tin rose 1.2 percent to $21,450. Worries about supply from top exporter, Indonesia and declining inventories have pushed ton prices up 27 percent this year, making it the top performer in the LME complex. Like copper, tin is around 15 percent off its all-time high struck in May 2008.

In other metals, LME zinc rallied 1.6 percent, while Shanghai metal gained 2 percent. LME zinc has risen 11 percent in the past seven sessions, its strongest performance since mid-June.

Traders noted buyers had returned to the futures market in a big way in the past two weeks as producers and merchants held back physical sales in China on hopes of higher prices, given the threat of supply disruption from maintenance outages.

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