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## Daily Commodities Report 22<sup>nd</sup> July 2010

### Oil slips to midpoint of recent range on econ worries

- \* Hurricane Center lowers probability of storm formation
- \* Coming Up: US existing home sales for June; 1400 GMT

Oil slid for a second day on Thursday, a day after Fed chief Ben Bernanke rekindled unease across financial markets over the pace of economic recovery, while rising U.S. inventories also kept prices in check.

Bernanke's comment that the prospects for the U.S. economy were "unusually uncertain" in testimony to lawmakers on Wednesday sent crude prices back down to the middle of a tight trading range of less than \$5 over the past two weeks, after touching a July peak above \$78.50 a barrel earlier in the day.

U.S. crude for September declined as much as 40 cents to \$76.16 and was down 23 cents at \$76.33 by 0647 GMT, while ICE Brent shed 22 cents to \$75.15.

"Unusual uncertainty means the market cannot have solid confidence of economic recovery," said Ken Hasegawa, a commodity derivatives manager at brokerage Newedge in Japan.

Bernanke faces another round of testimony on the economy to U.S. lawmakers on Thursday.

Asian stocks slipped and the yen rose on Thursday ahead of European bank stress tests. The results of the European Union examination of banks are due on Friday and are expected to show generally positive results for Greece, Italy and Ireland and a few failures in Portugal and Spain.

"The crude oil market is waiting to go higher to \$80, \$85 and \$90, but it still needs time," Hasegawa said. "Everyone understands that the (U.S.) inventory level is relatively high. That is one of the bearish factors that may be capping it down."

U.S. crude stockpiles rose 360,000 barrels in the week to July 16, government statistics from the Energy Information Administration showed on Wednesday, against a forecast for a drop of 1.4 million barrels.

Rising crude imports helped offset an increase in refinery capacity utilization. Higher refinery use boosted gasoline inventories 1.1 million barrels, more than a forecast gain of 900,000 barrels. Distillate stocks jumped up 3.9 million barrels, more than double the expected rise.

Shell Oil Co But an updated forecast that cut the chances of a storm developing also dampened crude prices.

The U.S. National Hurricane Center said on Thursday a weather system hovering over the Bahamas, eastern Cuba and Hispaniola had a 40 percent chance of becoming a tropical cyclone in the ne 2020876289 two days, down from as high as 70 percent on Wednesday.

Storms in the region can follow a westward path towards the oil-rich Gulf of Mexico.

"It is possible that some supply disruption due to a hurricane would be a supportive factor," Hasegawa said.

### Gold extends losses, near 2-month low

- \* Coming Up: U.S. weekly initial jobless claims; 1230 GMT

Gold slipped more than half a percent on Thursday and could revisit its weakest level in two months as investors sold bullion to cover equities losses ahead of Europe's bank stress test results this week.

Gold has fallen more than 6 percent since hitting a lifetime high around \$1,264 an ounce in late June on worries the debt crisis in Europe would spread.

But dealers expected more losses if the results of the European Union examination of banks due on Friday show generally positive results for Greece, Italy and Ireland and a few failures in Portugal and Spain as expected.

"If it's positive for risk assets, it would definitely dent demand for gold. I would look at on the downside of probably \$1,175 but I don't see it dropping below that," said Ong Yi Ling, investment analyst at Phillip Futures in Singapore.

"I think even if we see buying for gold today, it wouldn't be too significant because people are really looking towards that big event at the end of the week."

Gold fell \$7.60 to \$1,184.20 by 0532 GMT, within sight of a two-month low at \$1,175.35 hit on Tuesday. Comments from Federal Reserve Chairman Ben Bernanke that the U.S. economy faced "unusually uncertain" prospects also weighed on gold, but spurred a rally in bonds.

In the physical sector, jewellers waited for more declines in prices after snapping up gold bars earlier this week ahead of the festive season in India and Indonesia, but dealers in Tokyo saw steady demand from the electronics sector.

Stocks dropped across Asia on concerns about the health of the U.S. economy while the euro regained strength on growing optimism major listed banks could pass the EU stress tests.

U.S. gold futures for August delivery fell 0.55 percent to \$1,185.3 an ounce.

"Gold is likely to be bound in a tight range, before the results of stress tests on European banks are released tomorrow, which may give a direction on the future move of gold," said Li Ning, an analyst at Shanghai CIFCO Futures.

Silver tracked gold lower, while platinum and palladium were under pressure from weaker equities.

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### Corn down 0.5 pct on profit-taking after gains

\* U.S. Corn Belt to stay warm, moist next 10 days

\* Wheat ticks down, after gaining on crop concerns

Chicago corn futures fell around half a percent on Thursday, giving up some of the previous session's gains as investors booked profit amid favourable crop weather in the U.S. corn belt.

Wheat fell 0.4 percent after climbing 2 percent in the previous session on renewed concerns over drought reducing crop sizes in Europe.

Crop weather in the U.S. Midwest remains mostly favorable for pollinating corn and developing soybean crops, with few changes from Tuesday's warm and moist outlook.

Updated forecasts showed rains on Thursday and Friday tracking farther north across the eastern corn belt, potentially missing parts of central Illinois and Indiana.

"It's a bit of profit-taking today, but grains is more of a fundamentals story rather than anything else and the weather which will dominate direction," said Jonathan Barratt, managing director of Commodity Broking Services in Sydney.

"Wheat is holding up very well there is more concern obviously with the drought. At the moment there is still more news to come and that is what's helping the wheat market."

Chicago Board of Trade wheat peaked at \$5.94 on Wednesday, close to the 13-month high of \$5.98-½ a bushel hit on July 15. Traders had noted some profit taking during the past few days but continued fundamental concerns about the European crop sparked Wednesday's gains.

On Thursday, CBOT September delivery corn fell 0.6 percent to \$3.77-½ a bushel and August soybeans dipped 0.5 percent to \$10.09-¾ a bushel. CBOT September wheat fell 0.4 percent to \$5.86 a bushel.

The market also noted news that Argentina's Agriculture Ministry on Wednesday trimmed its monthly estimate for 2009/10 soy output to a record 52.7 million tonnes from a previous estimate for 54 million tonnes, saying the sowing area was smaller than it previously estimated.

The wheat market, which has risen 33 percent since late June, has been propelled by expectations of lower crop in Europe.

"A break through above \$6.00 will be a technical point which will push it lot higher," said Barratt.

The Russian government will sell grain from its stocks to domestic animal and poultry breeders, as well as processors, to cushion damage from a severe drought, the Agriculture Ministry said in a statement on Wednesday. The wheat producing areas in Australia, the world's fourth largest exporter, face average rainfall and warmer-than-normal conditions in the three months to October, the period in which wheat crops mature.

A dry winter in much of Western Australia has reduced the country's expected grain crop and Australian Crop Forecasters recently trimmed its wheat crop forecast to 21.9 million tonnes from 22.5 million tonnes.

But even with the cut, Australia's wheat crop is seen broadly in line or a touch above the 21.7 million tonnes harvested in 2009/10.

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