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Oil weakens after overnight surge as dollar recovers

* Weak U.S. housing indicators weigh on sentiment
* US crude build counters gasoline draw, driving season nears

Oil fell below $80 on Thursday, as the dollar recovered and the euro slid on concerns over the European economy, while the surprise rise in U.S. crude stocks offset the fall on gasoline ahead of the driving season.

The euro fell to a one-year low against the yen and was down versus the dollar on nagging fears over Greece's fiscal woes, while the dollar's trade-weighted index rebounded.

U.S. crude for April delivery fell 56 cents to $79.44 a barrel at 0808 GMT, after rising by $1 on Wednesday, lifted by comments from U.S. Federal Reserve Chairman Ben Bernanke, who reaffirmed his commitment to keeping interest rates low.

London Brent crude lost 50 cents to $77.59 a barrel. "The stronger dollar against the euro is a key factor. People are concerned about issues surrounding Greece, Spain and Portugal," said Tetsu Emori, general manager at Tokyo-based Astmax Co.

The firmer dollar makes oil and other commodities more expensive for holders of other currencies, and also dragged gold down to near a two-week low.

"People are also concerned over bearish factors such as the U.S. housing indicators. The market will be looking more at these negative factors than bullish factors, which is the turning point," Emori added.

Sales of new U.S. homes unexpectedly fell to a record low in January, while demand for loans to buy homes hit a 13-year low last week, fanning fears of renewed weakness in the housing market and raising doubts over the pace of the economic recovery.

In Europe, Portugal's Socialist government, under investor pressure to cut spending and ensure it will not be the next weak link in the euro zone after Greece, has frozen civil service salaries this year as part of its plan to reduce its ballooning fiscal gap.

These countered the initial uptrend, after Bernanke said on Wednesday interest rates will stay low in view of a weak job market and low inflation.

Bernanke's testimony on Wednesday to Congress had earlier calmed investors' concerns over interest rate after the Fed said last week that discount rates will be raised to 0.75 percent from 0.5 percent, triggering an immediate rise in the dollar.

U.S. crude oil stockpiles rose by 3 million barrels to 337.5 million barrels in week ended Feb. 19 week, data from the Energy Information Agency show, countering industry group American Petroleum Institute's (API) figures on Tuesday showing a large crude inventory fall.

But U.S. gasoline inventories fell 900,000 barrels to 231.2 million barrels, versus analysts estimates of a 400,000-barrel build.

U.S. refiners normally start stockpiling in April for the start of the driving season in end-May and peaks in June-July.

China continued to show healthy demand for oil, importing 17.1 million tonnes of crude in January, up nearly 33.4 percent from a year ago, official data showed. "The market appears to be U.S.-centric... but one hard evidence is the demand we are getting from China, where it has continued to grow," said Barratt.

Gold drops to 2-wk low as dollar bounces versus euro

* Nearly 9 pct below record high By Lewa Pardomuan

Gold fell to a near two-week low on Thursday after the U.S. dollar rebounded against the euro, while firmer oil prices offered little help as investors turned cautious on bullion after it failed to sustain recent gains.

Gold dropped below the psychological level of $1,100 an ounce as uncertainties on the euro's outlook, blamed on Greece's debt crisis, prompted some investors to shift their money to the dollar or stocks. Gold struck a 1-month high around $1,130 on Monday.

Spot gold was at $1,091.00 an ounce by 0610 GMT, down 0.6 percent from New York's notional close on Wednesday. It fell to a near two-week low of $1,088.30 an ounce earlier on Thursday.

Gold was nearly 9 percent below a record high of around $1,200 hit in December.

"The perception is we're back in a period of a little bit of limbo," said Darren Heathcote, head of trading at Investec Australia in Sydney.

"Now we need to get things started again. Either we are going to go downhill further or we are going to continue with a recovery. I think we are just waiting for some impetus to push us in one direction or the other," he added.

The world's largest gold-backed exchange-traded fund, SPDR Gold Trust, said its holdings stood at 1,106.987 tonnes as of Feb. 24, unchanged from the previous business day.

U.S. gold futures for April delivery fell 0.5 percent to $1,091.70 per ounce. They bounced off an intraday low around $1,088.00 on Thursday, suggesting that bargain hunters would snap up gold at lower levels.

The euro fell to $1.3451 on Thursday after gaining around 0.2 percent the previous day as worries about a possible Greek downgrade lingered.

The dollar had weakened on Wednesday as investors trimmed huge long positions in the greenback after the Federal Reserve reiterated interest rates will stay low for a long time.

German Chancellor Angela Merkel said in a newspaper interview published on Wednesday that the euro is in a difficult position for the first time but will weather the storm, adding that debt-ridden euro zone members such as Greece had to tackle their own problems.

"We have a few contradicting factors. The euro is weak but other commodities and crude oil are firm, that's why gold hasn't dropped so much," a dealer in Hong Kong said.

U.S. crude futures edged higher above $80 a barrel on Thursday, adding to gains made the previous day after Bernanke reaffirmed his commitment to keeping interest rates low. Shanghai copper rose 0.1 percent, tracking gains on the LME.

Gold, traditionally seen as a safe haven in times of economic uncertainty, has been moving in tandem with asset classes perceived as riskier, including equities and other commodities such as oil.

Investor sentiment has been dampened by growing worries about the U.S. economy after data showing a sharp fall in U.S. new home sales on Wednesday, and jitters about tigher regulations on futures and options on commodities, said Koichiro Kamei, managing director at research firm Market Strategy Institute in Tokyo.

"Worries about regulations may be spurring funds to reduce positions in the short term, outweighing buying interest from Asian physical buyers at lower prices," he said.

The U.S. Commodity Futures Trading Commission said on Tuesday it will hold a public meeting on March 25 to examine whether position limits are needed for gold, silver and copper futures markets.

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