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Daily Commodities Report 29th June 2010

Gold bounces in volatile trade

* Coming Up: U.S. Consumer Confidence for June; 1400 GMT

Gold bounced on Tuesday as bargain hunters resurfaced after a price drop, with sentiment underpinned by Europe's debt crisis and record high ETF holdings, although it struggled to revisit last week's all-time high.

Investors will closely watch debt auctions by France and Spain later this week after lukewarm demand for Italy's sale of 7 billion euros of government bonds on Monday highlighted lingering worries about euro zone debt troubles.

Spot gold rose $3.75 to $1,239.80 an ounce by 0533 GMT, having risen as high as $1,262.45 an ounce on Monday, just below a record around $1,264 struck on June 21, before losing much of the gain to a bout of profit-taking.

"Gold is likely to remain pretty well supported in the current quarter. Safe-haven demand for gold remains prominent," said David Moore, a commodity strategist at Commonwealth Bank of Australia in Sydney, adding that Monday's decline did not represent a fundamental change in gold views.

Asian stocks were on course on Tuesday for their worst quarterly performance since the end of 2008, as the tepid nature of the rich world's recovery from global recession keeps investors on the defensive.

U.S. gold futures for August delivery added $2.00 an ounce to $1,240.6 an ounce, having hit a high around $1,263 on Monday -- its strongest price since last Monday's all-time high at $1,266.50.

Gold has struck a record because of worries the sovereign debt crisis in Europe could spread and the U.S. economy is slowing, but some analysts felt the metal was vulnerable to profit taking whenever it rose towards the peak.

"Hence, a cautious investor should carefully weigh the upside potential against the downside risks and not be blinded by goldÂ’s glittery charm," said Ong Yi Ling, investment analyst at Phillip Futures.

The euro hit an all-time low against the Swiss franc on Tuesday on funding concerns about the euro zone. Investors were getting a bit wary about growth-linked currencies and the euro amid festering problems in the euro zone.

China equity plunges, worries about Europe debt sap metals

* Shanghai-LME arbitrage closed as China losses outpace
* Coming up: U.S. consumer confidence for June, 1400 GMT

London copper fell 3 percent on Tuesday while Shanghai copper was down nearly 2 percent, dragged down by a firmer dollar and sharp falls in China's stock market amid worries about the economic recovery. "It's the stock market that is dragging down the metals, even though copper's fundamentals are not bad," said a Shanghai-based trader, adding that copper might move even lower in the short term.

Europe's financial crisis also remains a concern, as banks are due to repay nearly half a trillion euros to the European Central Bank on Thursday, leaving a potential liquidity shortfall in the financial system of over 100 billion euros.

These concerns boosted the dollar, adding to the pressure on metals prices ahead of what are expected to be weak U.S. non-farm payrolls at the end of the week.

Shanghai's benchmark third-month copper futures contract fell 1.9 percent to close at 52,940 yuan a tonne, retreating from a near one-month high of 54,490 yuan in the previous session.

Three-month copper on the London Metal Exchange fell to $6,675 a tonne by 0701 GMT, down nearly 3 percent.

The Shanghai-LME arbitrage closed, and LME stood at a premium of 127 yuan over Shanghai.

"Risk aversion is boiling to the surface. There are quite valid growth concerns around," said a Singapore-based trader, adding that inflation concerns would prompt demand for metals, leaving copper rangebound between $6,000 to $7,000 in the short term.

But some traders believe the pullback to be only temporary.

"We probably won't see a clear trend in the short term. But in a month or two, we are likely to see copper return to the territory of $7,300 to $7,500. There's a bright future, but the path won't be straightforward," said a trader based in the eastern province of Zhejiang.

Supporting sentiment, LME copper stocks fell another 1,075 tonnes on Monday to 453,175 tonnes, the lowest since early December.

The ratio of cancelled warrants -- material earmarked for delivery -- to total tonnage rose to 7.04 percent, the highest since June 2009.

Traders and analysts said the spot market in China has been improving, with spot prices now enjoying a premium to futures.

"Traders are holding onto their inventories and are unwilling to sell, betting on prices moving higher, causing the tightness in the spot market," said a second Shanghai-based trader.

An upside target for LME copper at $7,014 has been aborted after a rebound on Monday stalled at $6,885, and LME copper is now expected to fall to minor trendline support at $6,630 a tonne, said Wang Tao, a Reuters market analyst.

The weakness in China's equity markets also cut through Shanghai-traded zinc, driving prices of the over-supplied metal about 4 percent lower.

Supply fundamentals weigh on prices

* Large U.S. crop expected to be confirmed by USDA
* Wet U.S. weather not major concern

U.S. grains and oilseeds futures were narrowly mixed on Tuesday, staying close to yearly lows ahead of more news expected to point to the harvesting of bumper crops in the United States.

Supply fundamentals are keeping a lid on prices across the grains commodities complex with the market focused on weather in the northern hemisphere which is supportive of bumper harvests.

Worries about too much rain posing a threat to the U.S. corn crop have been swept aside for the time being with a record harvest still expected, according to Stephen Jennings, an adviser at Halifax Investments.

He said supply fundamentals were at the forefront with crop conditions in the United States largely supportive of another year of high yields, even though wet weather had hindered crop development.

A U.S. Department of Agriculture (USDA) report on weekly crop conditions, released late on Monday, showed heavy rain had hampered develop of some crops but not enough to alter market expectations of a record corn crop and a near record soybean crop in the U.S. Midwest.

"We've had a very early planting of the U.S. corn crop which we haven't seen for a number of years so, based on fundamentals, I would be looking to sell into any rally," said Jennings.

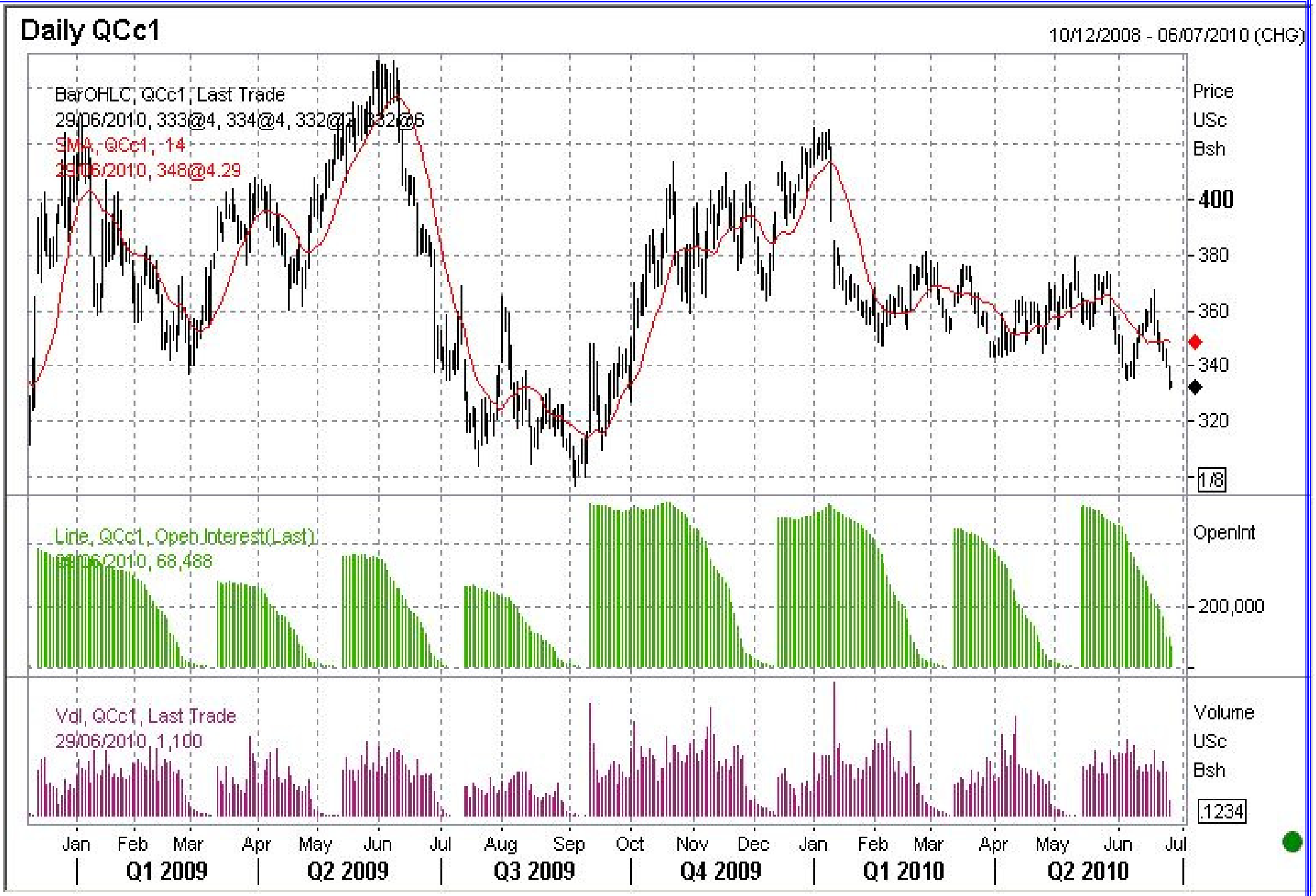
He said weather events had largely been priced into the grains and oilseed markets, leaving little room for gains in prices across the soft commodities complex.

"With wheat we're still looking at a very large crop globally so that is going to put pressure on prices," said Jennings.

Chicago Board of Trade corn for July delivery eased 0.22 percent to $3.33 per bushel by 0515 GMT, remaining in a bearish downtrend with the charts suggesting a dive to $3.28 after support broke at the $3.35 level.

Jennings said the USDA's annual planted acreage report to be released on Wednesday is likely to cement expectations of a record U.S. corn crop this year and a near record soybean crop. Supply fundamentals were bearish, he said.

"The market will be dissecting the USDA report with attention being paid to the supply-side," he said.



FRONT MONTH CORN