

Oil Surges to 2-Month High as Supply Drops Most in 15 Months

Last Updated: August 19, 2009: 15:56 EDT

Aug. 19 (Bloomberg) -- Crude oil rose more than \$3 a barrel after a government report showed that U.S. inventories declined the most in 15 months as imports tumbled and refineries increased operating rates.

Stockpiles dropped 8.4 million barrels last week, the most since the week ended May 23, 2008, the Energy Department report showed. Imports slipped 1.41 million barrels a day to 8.11 million, the biggest drop and lowest rate since September when hurricanes struck the Gulf of Mexico coast.

"Refiners were probably nervous about rising stockpiles and the outlook for lower gasoline demand in the months ahead, so they reduced purchases," said Rick Mueller, a director of oil markets at Energy Security Analysis Inc. in Wakefield, Massachusetts. "You can't help but pay attention to the massive drop in imports."

Crude oil for September delivery increased \$3.23, or 4.7 percent, to \$72.42 a barrel at 2:42 p.m. on the New York Mercantile Exchange, the highest settlement since June 11. Prices are up 62 percent this year.

The September contract expires tomorrow. The more-active October contract climbed \$2.74, or 3.9 percent, to \$73.83.

The drop left inventories at 343.6 million barrels a day in the week ended Aug. 14, or 15 percent higher than the department's revised figures for the year-ago period.

"We are still looking at more than 340 million barrels of oil, which is still a pretty good number," Mueller said. "This is by no stretch of the imagination a low inventory number."

Crude-oil supplies were forecast to increase 1.2 million barrels, according to the median of 13 analyst responses in a Bloomberg News survey. Gasoline stockpiles were forecast to decline 1 million barrels.

Shock to System

“Today’s numbers were a shock to the system,” said Richard Ilczyszyn, a senior market strategist with Lind-Waldock in Chicago. “We are poised to reach the \$75 price point. If we do, you will see a wave of buying.”

Gasoline inventories dropped 2.18 million barrels to 209.8 million, the fourth-straight decline, according to the report. Supplies were 3.8 percent higher than revised numbers for a year earlier.

Gasoline for September delivery rose 3.44 cents, or 1.7 percent, to end the session at \$2.0346 a gallon in New York.

“One week does not a trend make,” Stephen Schork, president of the Schork Group Inc. in Villanova, Pennsylvania, said on Bloomberg Television. “We are at the end of the gasoline season, so demand to boil that oil is going to continue to fall.”

Gasoline consumption in the U.S. peaks during the summer, when Americans take vacations. The so-called driving season lasts from the Memorial Day weekend in late May to Labor Day in early September.

Refinery Operations

Refineries operated at 84 percent of capacity last week, up 0.5 percentage point from the prior week, the department said. It was the first increase in five weeks.

“There may be a bit of a correction in the import number next week, but a lot of it is genuine,” said Antoine Halff, head of energy research at Newedge USA LLC in New York. “It’s a combination of refineries reining in deliveries because they are operating at very low rates and choosing domestic grades of feedstock when they do make purchases because they are cheaper.”

Brent crude oil for October settlement rose \$2.22, or 3.1 percent, to end the session at \$74.59 a barrel on the London- based ICE Futures Europe exchange. Brent futures are \$2.17 a barrel higher than oil traded in New York.

“It shouldn’t be a surprise that inventories dropped because there’s a huge oversupply and WTI is depressed compared to Brent,” said Michael Lynch, president of Strategic Energy & Economic Research, in Winchester, Massachusetts.

Chinese Impact

Oil dropped as much as 1.7 percent early today after the Shanghai Composite Index, China's benchmark, slumped 4.3 percent. Chinese banks are reining in lending, raising concern that economic growth will falter in the world's second-biggest oil consuming country.

"The crude-oil market has been fairly resilient," said John Kilduff, senior vice president of energy at MF Global in New York. "The Chinese news sent us lower early today, but we were able to shake it off. Expectations of a recovery of demand in China have been a rationale for oil moving higher."

Dollar Drop

Oil also gained as the dollar declined against other currencies, increasing the appeal of commodities to investors looking for an inflation hedge. The dollar fell 0.7 percent versus the euro to \$1.4231, from \$1.4136 yesterday.

"Tomorrow we will probably return to trading on what's happening in the financial markets," Halff said. "Equities and the dollar have been the dominant drivers for the last few months and we will probably continue to follow that playbook in the months ahead."

Members of the Organization of Petroleum Exporting Countries should maintain oil production targets when ministers meets on Sept. 9 in Vienna to decide quotas, Kuwaiti Oil Minister Sheikh Ahmed al-Abdullah al-Sabah said.

Oil volume in electronic trading on the Nymex was 678,094 contracts as of 3:13 p.m. in New York. Volume totaled 585,759 contracts yesterday, 9.9 percent higher than the average over the past three months. Open interest was 1.17 million contracts.

First Published: August 19, 2009: 15:56 EDT