

15:49 16Dec2009 UPDATE 8-Oil rises to near \$73 after U.S. crude stock drop

- * U.S. crude stocks fell by 3.7 mln barrels last week-EIA
- * Fed interest rates held near zero to spur economic recovery
- * OPEC seen unlikely to lift output targets at meeting
- * Iranian missile test draws criticism from U.S., U.K.

(Adds detail throughout; updates prices.)

By Joshua Schneyer

NEW YORK, Dec 16 (Reuters) - Oil surged 2.8 percent to near \$73 a barrel on Wednesday after data showed crude stocks in the United States fell more than expected last week, easing concerns about flagging demand.

Crude inventories declined by 3.7 million barrels in the week to Dec. 11, according to the U.S. Energy Information Administration, eclipsing analyst forecasts for a more modest draw of 1.8 million barrels. [EIA/S]

Crude for January delivery <CLc1> settled up \$1.97 a barrel at \$72.66, after rising to as much as \$73.55 a barrel earlier. London Brent crude <LCOc1> rose \$1.50 to \$73.55 a barrel.

The unexpectedly large drop in U.S. crude stocks helped to narrow the discount of NYMEX crude to Europe's benchmark Brent. NYMEX barrels traded within 19 cents of Brent barrels on Wednesday, following discounts of more than \$1.00 a barrel on every other trading day this month. <CL-LCO1=R>

A 2.9-million-barrel draw in U.S. distillate stocks, which include heating oil and diesel, was almost five times bigger than the 600,000-barrel dip analysts expected, while gasoline stocks grew less than expected.

The data showed that part of a U.S. fuel surplus is being worked off after demand was battered this year by the recession.

"The best news here, in terms of market stabilization, is the big draw in distillates," said Brad Samples, analyst at Summit Energy in Louisville, Kentucky.

Oil rose for a second day after a nine-session rout in which prices plummeted 11.3 percent from levels above \$78 a barrel on Dec. 1. Analysts

attributed the fall to persistently low fuel demand and rising U.S. crude inventories.

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Relationship between U.S. crude stocks and the oil price
<http://link.reuters.com/dyd37g>
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The U.S. Federal Reserve opted on Wednesday to hold interest rates near zero amid "subdued" inflation risks, and said rates should remain exceptionally low for an extended time to help spur an economic recovery. [ID:nTRU002430]

Oil pared earlier gains following the afternoon Fed statement, as the U.S. dollar <.DXY> firmed to trade almost unchanged against a basket of foreign currencies, after weakening earlier. A slide in the dollar often pushes oil higher, making the commodity cheaper for holders of foreign currencies.

OPEC's No. 2 oil exporter Iran tested a long-range missile earlier Wednesday, with a reported range of 1,250 miles that would put Israel and U.S. military bases within striking distance. The test drew criticism from the U.S. and U.K governments, which are among Western powers considering new sanctions on Iran over its nuclear program. [ID:nWBT013420]

The Organization of the Petroleum Exporting Countries (OPEC), whose daily production meets around a third of global crude demand, will convene in Angola to discuss output policy on Dec. 22.

But few expect OPEC to scale back the 4.2 million barrels a day in production cuts the group has agreed upon since last year. Most members are comfortable with the current range of oil prices.

Oil has risen sharply since collapsing toward \$32 a barrel at the peak of the financial crisis last December, but it's still a far cry from record prices above \$147 a barrel reached in July 2008.

"Prices are back very close to the \$75 price level that they (OPEC members) view as a sweet spot," said Chris Jarvis, senior analyst at Caprock Risk Management in New Hampshire.

The producer group said on Tuesday it sees the oil market staying weak

until the second half of next year, as a recovery in oil demand is countered by a huge volume of excess supply amassed during the economic crisis.

[ID:nLDE5BE1V0]

(Additional reporting by David Sheppard in London, Edward McAllister, Eileen Moustakis and Robert Gibbons in New York and Jennifer Tan in Singapore; Editing by Christian Wiessner)

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11:00 16Dec2009 INSTANT VIEW 5-US crude stocks, distillates inventories fall

NEW YORK, Dec 16 (Reuters) - U.S. crude oil inventories dropped more than expected last week as imports fell, a government report showed on Wednesday.

Stockpiles of distillates were also off more than expected, while gasoline inventories rose in the week to Dec. 11, according to the weekly report from the U.S. Energy Information Administration. [EIA/S]

U.S. crude prices traded up \$2 to \$72.69 a barrel after the report was released. [O/N]

HIGHLIGHTS FROM EIA REPORT (In million barrels)

- Crude	-3.7	(forecast -1.8)
- Distillate	-2.9	(forecast -0.6)
- Gasoline	+0.9	(forecast +1.3)
- Refinery utilization	-1.1 pct pts	(forecast +0.3)

HIGHLIGHTS FROM TUESDAY'S API REPORT (In mln barrels)

- Crude	+0.924
- Distillate	-2.6
- Gasoline	+2.1

Click here for the EIA status report: [ID:nEIA000108]
[ID:nEIA000109]

Click here for Tuesday's API report: [ID:nAPI000032]

ANALYST COMMENTS:

BRAD SAMPLES, ANALYST, SUMMIT ENERGY, LOUISVILLE,
KENTUCKY:

"The best news here in terms of market stabilization is the big draw in distillates. It looks like the crack spreads in distillate are a good trade to get into. This shows that refiners' efforts to reduce distillate yields is finally coming through. Of course, a lot of the draw is probably weather related. Cold weather is boosting demand, and we need that."

"The draw in crude was expected, but not something this big. Imports are falling to new lows for the year and we are continuing to see OPEC's efforts on the market."

TIM EVANS, ENERGY ANALYST, CITI FUTURES PERSPECTIVE, NEW YORK:

"The EIA report was bullish across the board, with a drop in U.S. commercial crude stocks despite a drop in the refinery operating rate as imports dropped. Fog in the Houston Ship Channel and bad weather that shut Mexican oil export terminals may have played a role in the low level of imports.

"Inventories at the Cushing, Oklahoma delivery point for NYMEX WTI futures rose, extending the uptrend there."

"Distillate inventories fell last week on a decline in refinery production and a big surge in demand.

"Gasoline stocks rose, extending their seasonal uptrend, but this was below the midpoint on expectations and also a relatively supportive figure. Refinery output declined but imports were up and demand fell last week, so the backup figures were more bearish than the top line inventory figure.

"The overall report was bullish, with a drop in total petroleum inventories for last week. Somehow the EIA also came up with total petroleum demand of 19.6 million barrels per day, up a remarkable 1.2 million bpd from the prior week."

MIKE ZAREMSKI, SENIOR COMMODITIES ANALYST FOR
OPTIONSXPRESS, CHICAGO

"This report was bullish across the board, with the big draw in crude oil and distillates.

"The weaker dollar, after a bit of a recovery, is adding fuel to the fire today.

"It seems to be the same story though, with refinery rates still falling, and no incentive for refiners to produce gasoline and distillates. We have seen a big drop in imports reflecting that. It shows that demand is lackluster."

CHRIS JARVIS, SENIOR ANALYST, CAPROCK RISK MANAGEMENT,
HAMPTON FALLS, NEW HAMPSHIRE:

"With seasonal demand strong driven by broad-based cold weather nationally, coupled with a drop in refinery utilization and crude imports, today's EIA data was bullish across all fronts. The only data point that was moderately bearish was the uptick for stocks at Cushing.

"Overall, today's data showed fundamental strength, which

would certainly back higher prices if the dollar begins to slide back against the euro. We also believe the data will likely keep OPEC on the sidelines as prices are back very close to the \$75 price level that they view as a sweet spot."

ADDISON ARMSTRONG, DIRECTOR OF RESEARCH, TRADITION ENERGY, STAMFORD, CONNECTICUT:

"The crude draw number is bullish but not overtly so. It looks like this was somewhat expected and was already in the price. The big surprise here has been the (draw in) distillates, and heating oil is reacting accordingly."

"I'm a little puzzled where those 3.7 million barrels (of crude) that came out of storage have gone, since refiners are cutting back. Implied demand is down, and that may temper the upside."

(Reporting by New York Energy Desk)

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