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Oil Advances to Highest Price in a Week on Stimulus Speculation

By Grant Smith

Sept. 4 (Bloomberg) -- Oil climbed to the highest level in more than a week in New York on speculation that central banks will take more steps to boost economic growth, spurring demand for raw materials.

Futures gained as much as 0.9 percent from the Aug. 31 close. European Central Bank President Mario Draghi told officials yesterday he would be comfortable buying three-year government bonds to cut borrowing costs for nations in financial distress. Leaders are meeting in Rome and Berlin today, two days before the ECB holds its policy meeting. The U.S. Energy Department will release its weekly report on oil stockpiles and demand Sept. 6.

"The ECB will obtain a broader mandate over time," said Hakan Kocayusufpasaoglu, chief investment officer at Archbridge Capital in Zug, Switzerland, who correctly predicted in May that oil prices would recover. "All commodity-related assets, and especially the ones with tight supply-demand balances will rally" as a result of central bank action.

Oil for October delivery increased as much as 90 cents to \$97.37 a barrel in electronic trading on the New York Mercantile Exchange, the highest intraday price since Aug. 27, and was at \$96.88 at 1:24 p.m. London time. There was no floor trading yesterday because of the U.S. Labor Day holiday, and transactions since the Aug. 31 close will be booked with today's trades for settlement. Prices are 2 percent lower this year.

Brent oil for October settlement rose 44 cents to \$116.22 a barrel on the London-based ICE Futures Europe exchange. The European benchmark grade's premium to West Texas Intermediate expanded to as much as \$19.32, the widest since Aug. 17.

Stimulus Outlook

Oil has technical support at \$95.76 a barrel, along the bottom of an uptrend channel on the daily chart, according to data compiled by Bloomberg. This channel started from \$77.28, the 2012 intraday low traded on June 28. Buy orders tend to be

clustered near chart-support levels.

Draghi may unveil details of his bond-purchase program when he holds his first press conference after the summer break on Sept. 6. He told lawmakers in a closed-door meeting yesterday that purchasing short-dated bonds doesn't constitute state financing, according to Jean-Paul Gauzes, a member of the European Parliament.

European Union President Herman Van Rompuy is traveling to Berlin for talks with German Chancellor Angela Merkel today as Italian Prime Minister Mario Monti welcomes French President Francois Hollande to Rome. U.S. Federal Reserve Chairman Ben S. Bernanke said Aug. 31 that he wouldn't rule out more stimulus.

Isaac, Leslie

"Speculators are looking to bet that the ECB will deliver more stimulus," said Michael Poulsen, an analyst at Global Risk Management in Middelfart, Denmark, who last month correctly predicted oil's gains would stall. "It will be a balancing act for the ECB. In the oil market, the medium- and long-term trend remains for higher prices."

The U.S. Energy Department report will be released a day late this week because of Labor Day. The holiday marks the end of the U.S. summer driving season, the peak demand period for gasoline. Refiners often idle processing units for maintenance in September and October as consumption of the motor fuel drops and before heating-oil use increases.

About 58 percent of oil output and 39 percent of natural-gas production from the Gulf of Mexico remained shut because of Hurricane Isaac, a U.S. Bureau of Safety and Environmental Enforcement report showed yesterday. Daily crude capacity was cut by as much as 95 percent as Isaac moved through the Gulf last week.