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Oil Drops to Six-Month Low on Rising Stockpiles, Greek Crisis

By Grant Smith

May 16 (Bloomberg) -- Oil dropped in New York to the lowest level in more than six months after U.S. crude stockpiles grew and talks to form a coalition government in Greece collapsed, raising concern that Europe’s debt crisis will worsen.

West Texas Intermediate futures slid as much as 2.3 percent, declining for a fourth day. U.S. inventories rose 6.6 million barrels last week, data from the American Petroleum Institute indicated. A government report today may show a gain of 1.8 million, according to a Bloomberg News survey. Greece will schedule new elections as early as June 10, which German Finance Minister Wolfgang Schaeuble said will be a referendum on whether the country stays in the euro.

“We have demand destruction at the same time that supply risks are being relieved,” said Hakan Kocayusufpasaoglu, chief investment officer at Archbridge Capital in Zug, Switzerland, who predicts that commodities will recover in the second half of the year. “What took the market by surprise is how quickly the European economic situation deteriorated. If Greece leaves, it sets a precedent, and the consequences for Europe would be catastrophic.”

Crude for June delivery dropped as much as $2.17 to $91.81 a barrel in electronic trading on the New York Mercantile Exchange, the lowest intraday price since Nov. 3. It was at $92.72 at 12:41 p.m. London time. Yesterday, the contract fell 0.8 percent to $93.98. Prices are 6.7 percent lower this year.

Brent oil for June settlement, which expires today, slipped 0.6 percent to $111.56 a barrel on the London-based ICE Futures Europe exchange. The more-actively traded July future retreated 0.9 percent to $110.49. The front-month price for the European benchmark contract was at a premium to WTI of $18.76, after closing at $18.26 yesterday, the widest gap since April 13.

Cushing Record

Oil in New York has long-term technical support at $89.83 a barrel, according to data compiled by Bloomberg. On the weekly chart, that's the 50 percent Fibonacci retracement of the fall to $32.40 in December 2008 from a record high of $147.27 in July that year. Buy orders tend to be clustered near chart-support levels. Futures last traded at that price in November 2011.

Crude inventories at Cushing, Oklahoma, the delivery point for contracts traded on the New York Mercantile Exchange, rose 2.8 million barrels last week to a record 46.9 million barrels, according to the industry-funded API.

"Demand destruction is back on the agenda," said Jonathan Barratt, chief executive of Barratt's Bulletin, a commodity-markets newsletter in Sydney. "The market is going to remain weak over the next month or so until we get some clarity of what's happening in the world. The Greek turmoil is a problem."

Seaway Reversal

The reversal of the Seaway pipeline tomorrow to move crude away from the storage hub at Cushing for the first time may do little to ease the glut that has kept WTI below Brent for an unprecedented 21 months, according to Citigroup Inc. and Barclays Plc.

The line's capacity of 150,000 barrels a day won't make much difference to stockpiles amid "really heavy" refinery maintenance, said Amrita Sen, a London-based analyst at Barclays. Supplies will rise as production surges, Ed Morse, global head of commodities research at Citigroup in New York, said in an April 16 note.

U.S. gasoline stockpiles dropped 2.6 million barrels last week, the API said. They are forecast to fall 100,000 barrels in today's Energy Department report, according to the median estimate of 12 analysts surveyed by Bloomberg. Distillate inventories, a category that includes diesel and heating oil, slid 1.6 million barrels compared with a projected 150,000 barrel gain.

The API collects stockpile information on a voluntary basis from operators of refineries, bulk terminals and pipelines. The government requires that reports be filed with the Energy Department for its weekly survey.

Greek Crisis

Post-election attempts to form a government in Greece broke down yesterday after nine days as President Karolos Papoulias failed to broker a coalition in meetings with party leaders in Athens. New elections may be held next month. Four surveys have given the lead to the anti-bailout Syriza party that says it would tear up the conditions attached to 240 billion euros ($306 billion) of aid.

The euro weakened to an almost four-month low, making dollar-denominated oil more expensive for holders of the European single currency.

Shell's Voser

New York crude has dropped 17 percent since March 1, when concern that Western sanctions against Iran would disrupt Middle East supplies helped drive prices to $110.55 a barrel, the high for the year. Brent has fallen 14 percent since reaching $128.40 the same day.

Iran and International Atomic Energy Agency inspectors extended a round of negotiations over the Persian Gulf nation's nuclear program after two days of talks ended in Vienna yesterday with both sides saying progress had been made. IAEA inspectors will meet again with their Iranian counterparts on May 21 in the Austrian capital.

Royal Dutch Shell Plc Chief Executive Officer Peter Voser said he expects weaker oil prices in the second half of the year as demand growth slows in China and other emerging markets.

Prices in the first half had been elevated because of tensions between Iran and Israel, Voser said in a television interview in Rotterdam today.