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Oil Rises as OPEC Ends Capacity Offer, U.S. Freeze Spurs Demand

By Alejandro Barbajosa

Dec. 12 (Bloomberg) -- Crude oil rose, exceeding $60 a barrel in New York for a sixth consecutive day, as OPEC ended its offer to sell every barrel it can pump and freezing weather in the U.S. increased demand.

OPEC delegates from Nigeria and Libya said today the group will let its offer to pump at capacity expire Dec. 31 because they had little demand for that extra oil. Saudi Arabia's oil minister, Ali al-Naimi, said the organization may cut output before the second quarter. In the U.S., temperatures in New York City will fall as low as 15 degrees Fahrenheit (minus 9 Celsius) this week.

``People would look at that as bullish, especially if we get sustained cold weather in the U.S.,'' said Rob Laughlin, a broker in London for Man Financial, part of the world's largest hedge-fund company. ``They may cut back output if things are oversupplied.''

Crude oil for January delivery rose as much as 1.5 percent, or 89 cents, to $60.28 a barrel on the New York Mercantile Exchange, where it was up 76 cents at 1:39 p.m. London time. Prices have declined 15 percent from a record $70.85 at the end of August. They're still almost double their level of two years ago.

Delegates from the Organization of Petroleum Exporting Countries, the source of more than a third of the world's oil, agreed at a meeting today in Kuwait they would maintain quotas for production at a record high to avoid ``scaring'' the market.

``The Saudis are the most pragmatic member of OPEC, recognizing the risk of high prices'' to the world economy, said Richard Savage, the global head of commodities research at Bank of America in London. ``They don't want to flood the market, but they want to let inventories build. You need the cushion in stocks because of the lack of spare production capacity.''

Spare Capacity

In September, OPEC offered its entire spare capacity of about 2 million barrels a day to world markets, effectively suspending its self-imposed production quotas during the fourth quarter. The move was aimed at preventing shortages and lowering prices from the record in August, when Hurricane Katrina struck the Gulf of Mexico, paralyzing the U.S. oil industry in the region.

``It was a symbolic gesture,'' said Hakan Kocayusufpasaoglu, ABN Amro's director for commodity derivatives in London. ``It was, however, showing their intent to'' provide what was necessary to keep the market well supplied, he said. ``Taking it away is sending a signal that it's not necessary to have the spare capacity.''

Like the IEA

OPEC may adopt a similar procedure to the International Energy Agency in deciding whether to tap the last 2 million barrels a day of capacity, OPEC's president, Sheikh Ahmad Fahd al-Sabah, who is also Kuwait's oil minister, said yesterday. The Paris-based IEA coordinates the release of emergency stockpiles in the event of supply disruptions.

``Anything that indicates that supply may be diminished, even if none of these extra barrels have been taken, may have a moderate bullish impact on prices,'' Jason Schenker, an economist at Wachovia Corp. in Charlotte, North Carolina, said from London.

Brent crude for January settlement added $1.05, or 1.8 percent, to $58.36 a barrel on London's ICE Futures exchange.

``The message OPEC is trying to send out is that they are behaving responsibly, and that the target price has shifted up because of reasons outside of their control,'' said Deborah White, a commodities economist at Societe Generale SA in Paris. ``They might indeed have to cut for the second quarter of next year.''

World oil demand declines seasonally in the second quarter, when temperatures rise in the northern hemisphere and demand for heating falls before the beginning of the U.S. driving season, when gasoline consumption surges as vacationers take to the roads. Stockpiles usually increase in the quarter. OPEC will meet again on Jan. 31 to discuss production levels.

Northeastern Demand

``The second quarter is going to be a huge challenge for OPEC, especially if rising stockpiles coincide with falling prices,'' Bank of America's Savage said. ``If they are going to try to prevent a major stock-build, they have to start cutting in February, before the weaker demand period. Unless you've seen a price collapse, January is going to be too early to tell.''

Heating demand in the Northeast, where about 80 percent of U.S. heating oil is consumed, will be 13 percent above average in the week starting tomorrow, the forecaster Weather Derivatives said today. World oil demand typically reaches its highest level in the fourth quarter, when homes and businesses in Europe, the U.S. and Japan burn more fuel.

Natural gas in the U.S. jumped as much as 4.3 percent to $14.925 per million British thermal units, approaching last week's record of $15.52 on Nymex.

Total SA, Europe's third-largest oil company, expects to fulfill its contracts to deliver fuels around the U.K. after explosions yesterday engulfed its Buncefield oil depot, the fifth-largest in the U.K. The depot is one of the biggest fuel suppliers to Britain's Heathrow airport, Europe's busiest.

U.S. gasoline prices at the pump are rising, reflecting a rebound in wholesale prices. The national average was at $2.175 a gallon yesterday, up from $2.171 a gallon two days ago. The average is still down 29 percent from a record $3.057 a gallon on Sept. 2, according to the AAA motorist organization.

--With reporting by Rishaad Salamat in London and Stephen Voss, Jim Efstathiou Jr., Maher Chmaytelli and James Cordahi in Kuwait City. Editor: King (dst, ldk)