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Crude Oil Rises a Second Day After U.S. Economic Stimulus Plan

By Grant Smith

Jan. 25 (Bloomberg) -- Crude oil rose for a second day on speculation that the U.S., the world's largest energy consumer, may skirt recession.

Oil's rise extended a gain of more than $2 yesterday on the back of an economic stimulus package announced by U.S. lawmakers. The plan follows an emergency interest rate cut by the Federal Reserve on Jan. 22. The International Energy Agency urged OPEC to boost output at next week's meeting to ease the strain on consuming nations.

Oil's gain ``is based on an amalgamation of interest rate cuts, potential bail out of bond insurers and the stimulus package,'' said Hakan Kocayusufpasaoglu, director of commodity derivatives at Credit Suisse Group in London. ``The market's pricing in quite extreme interest rate cuts, so the expectation is of a lot of stimulus.''

Crude oil for March delivery climbed as much as $1.32, or 1.5 percent, to $90.73 a barrel in electronic trading on the New York Mercantile Exchange. It was at $90.44 at 2:01 p.m. in London.

Yesterday the contract jumped $2.42, or 2.8 percent, to $89.41, the biggest one-day gain since Jan. 2. Futures reached a record $100.09 a barrel on Jan. 3. Prices are up 66 percent from a year ago.

Speculation that tax rebates for households and businesses would allow the U.S. to avoid recession outweighed the impact of larger-than-expected increase in crude and gasoline inventories reported by the Energy Department yesterday.

The closure of a North Sea oilfield added to supply disruptions. StatoilHydro ASA, Norway's biggest producer, shut its 54,000 barrel-a-day Oseberg South oilfield because of reduced helicopter capacity at the platform during bad weather.

Brent Crude

Brent crude for March settlement gained as much as $1.47, or 1.7 percent, to $90.54 a barrel on London's ICE Futures Europe exchange, and traded at $90.24 at 2:01 p.m. London time. The contract yesterday rose $2.45, or 2.8 percent, to close at $89.07 a barrel. Brent touched a record $98.50 Jan. 3.

``Even though a recession risk is there, we've seen oil prices bouncing back'' in the past few days, International Energy Agency head of research Fatih Birol said at a press conference at the World Economic Forum in Davos, Switzerland.

``We want OPEC to see the current situation and get the market signals right,'' Birol said today. ``But we cannot order them to produce more.''

The Organization of Petroleum Exporting Countries doesn't need to raise output at its Feb. 1 meeting as the market is ``well supplied'' and demand is likely to fall in the second quarter, ministers from Qatar, the United Arab Emirates and Iraq said yesterday at the World Economic Forum in Davos, Switzerland.

`Least Resistance'

``OPEC may choose the path of least resistance and just rollover their official quotas,'' said Mike Wittner, head of oil market research at Societe Generale in London. ``They will start to trim output informally in March or April: they're concerned about a possible softening of the economy and possible softening of oil demand.''

Futures markets suggest the Federal Reserve will cut rates next week, prompting the dollar to fall against the euro. The

U.S. currency has dropped more than 5 percent against the euro since the Fed lowered the overnight lending rate on Sept. 18. A weaker dollar makes commodities priced in U.S. dollars cheaper for overseas investors.

``To the degree the market believes that a stimulus package will stave off recession, then sentiment improves in risky assets such as equities and commodities,'' said Dariusz Kowalczyk, chief investment strategist at CFC Seymour Ltd. in Hong Kong.

Crude Inventories

U.S. crude-oil inventories rose 2.3 million barrels to 289.4 million in the week ended Jan. 18, the Energy Department said in a report yesterday. Gasoline supplies increased 5.1 million barrels to 220.3 million barrels, the biggest gain since December 2006, the report showed.

Demand in terms of products supplied by refiners climbed 1.4 percent to 20.7 million barrels a day during the week of Jan. 18, the Energy Department report said.

The gain in demand came as refiners reduced their processing runs to 86.5 percent of capacity from 87.1 percent the previous week.

Refiners in the U.S., including Valero Energy Corp., the country's biggest, are reducing runs as high crude prices are cutting into profits. Tesoro Corp. also said it was lowering output.

--With reporting by Maher Chmaytelli in Davos, Switzerland.
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