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Crude Oil Falls as OPEC Ministers Support Current Output Levels

By Bill Murray

March 7 (Bloomberg) -- Crude oil fell as OPEC ministers announced support for continuing current production quotas and as stockpiles remained above average.

Production ceilings are "already adequate" and won't be changed, Mohamed al-Hamli, United Arab Emirates oil minister, said today. He joined ministers from Saudi Arabia, Kuwait, Iran, Algeria and Libya in opposing an output cut when the group meets tomorrow in Vienna.

The Organization of Petroleum Exporting Countries expects global crude supply to outpace demand by up to 2 million barrels a day from April through June as demand for heating fuels diminishes.

"The reason it is drifting lower is that the world is building stocks" of crude, said Hakan Kocayusufpasaoglu, a commodities and derivatives trader with ABN Amro Holding NV in London. "We're going to enter a very peaceful period when second-quarter demand falls."

Crude oil for April delivery fell 11 cents to \$62.30 a barrel in electronic trading on the New York Mercantile Exchange at 1:54 p.m. London time. The Brent crude-oil contract in London fell 14 cents to \$62.20 a barrel.

Yesterday, prices closed at \$62.41, the lowest since March 1. Prices are 16 percent higher than a year ago.

U.S. crude-oil inventories have jumped 7.6 million barrels to 328.3 million in the three weeks ended Feb. 24, according to the Energy Department. Last month's gains left crude supplies 12 percent higher than normal for this time of year.

Stockpiles Increase

Stockpiles in the week ended March 3 probably rose 1.75 million barrels, or 0.5 percent, from a week earlier, according to eight analysts surveyed by Bloomberg News.

"Typically, the second quarter is a low demand period" before the start of the U.S. summer driving season, said Sam Tilley, an energy analyst with Sueden U.K. Ltd. Higher inventories of crude "will give us a bit of a buffer" as demand rises during the summer.

Demand in the U.S. usually increases by 5 percent during the summer months when vacationers take to the roads on holidays.

Violence aimed at oil companies in the western delta region of Nigeria has been propping up oil prices. There were kidnappings, and attacks on pipelines and export terminals, in January and February.

Production from Royal Dutch Shell Plc's Nigerian joint venture has fallen by 455,000 barrels a day since Feb. 19 because of attacks. Chevron Corp.'s venture in the country has cut 13,000 barrels a day.

Nigeria Threats

The market rose last week because the Nigerian rebels said they wanted to cut more than a million barrels of Nigeria's production, said Deborah White, a commodities economist with Societe Generale SA in Paris.

Nigerian crude "tends to be light, sweet crude; therefore, it's like losing refining capacity" because the crude is easier to refine than other blends and is more valued by refiners, she said.

The country is OPEC's sixth-biggest producer, with a daily output of 2.36 million barrels, and is the fifth-biggest

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supplier of U.S. oil imports.

Violence may occur all year, ahead of Nigerian presidential elections in 2007, Citigroup Inc. analysts including James Neale and Jonathan Wright said in a report last week.

OPEC has kept its 28 million-barrel-a-day output target for 10 of its members for eight months to meet faster-than-expected demand from countries such as China. The 11th member, Iraq, is not subject to quotas.

High Production

OPEC pumped an average 30 million barrels a day in 2005, a figure last exceeded in 1979, when the same 11 members averaged 30.5 million barrels a day, according to OPEC data.

"OPEC is quite convinced that there is no shortage in oil supplies," said Rob Laughlin, a senior broker in London with Man Financial Ltd, part of the world's largest hedge-fund company. "If the market comes down, they could organize a telephone meeting and immediately cut production."

Oil also has risen on concern that Iran will cut exports if the country is punished for restarting its nuclear program. The U.S. and Europe have asked the United Nations' atomic policing agency to consider sanctions against the country. Iran denies it would cut exports.

Iran will remain a "steady" source of energy for foreign nations as the UN prepares to decide what action to recommend, Hossein Kazempour Ardebili, Iran's OPEC governor, said yesterday.

"There won't be a situation where one will need to compensate for Iran's reduced output," Kazempour told the state-run Iranian Students News Agency, or ISNA.

--With reporting by Angela Macdonald-Smith in Sydney, Will Kennedy in Singapore, James Cordahi, Alejandro Barbajosa and Stephen Voss in Viennacrudea, and Marc Wolfensberger in Tehran.
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