



Crude Oil, Gas Gain as Colder Weather Spurs Demand for Heating

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By Bill Murray

Nov. 21 (Bloomberg) -- Crude oil gained and U.K. natural gas jumped to a more than eight-month high as forecasts for colder weather in Europe and the U.S. stoked expectations heating demand will climb.

Freezing temperatures struck parts of Britain and Germany and may continue through the week, the U.K.'s national weather service said today. Heating demand in the northeastern U.S. this week will be a third above normal as temperatures drop, according to Missouri-based forecaster, Weather Derivatives.

Forecasts are now predicting "very cold weather in December, January and February," said Hakan Kocayusufpasaoglu, a commodities trader with ABN Amro in London. "It could be so cold" prices may return to near-record levels, he said.

Crude oil for January delivery rose as much as 97 cents, or 1.7 percent, to \$58.18 a barrel in electronic trading on the New York Mercantile Exchange. It was trading at \$57.73 a barrel at 2:14 p.m. London time. The Organization of Petroleum Exporting Countries said two days ago it's unlikely to cut output as demand is rising in the U.S. and Europe.

U.K. natural gas for delivery today at the National Balancing Point surged as much as 68 percent to 1.22 pounds (\$2.10) a therm, according to Spectron Group prices, the highest since March 3.

Oil prices were underpinned on concern hurricane-damaged platforms in the Gulf of Mexico won't be repaired quickly enough to meet demand. Daily Gulf output last week had its smallest gain in eight weeks and remains 47 percent below normal after disruptions caused by Hurricanes Katrina and Rita, the U.S. Minerals Management Service said.

Freezing Temperatures

Temperatures of zero degrees Celsius (32 degrees Fahrenheit) or less were recorded this morning in at least one location in all nine of the U.K. regions tracked by Britain's Met Office. A low of -6 Celsius was recorded in the southeast, in Redhill and Benson, according to information on the Met Office Web site.

Nighttime temperatures in Frankfurt may drop as low as minus 7 Celsius and will also fall below freezing in cities including Munich and Berlin, the Met Office forecast.

Germany is Europe's largest heating oil market and the world's second biggest, after the U.S. Britain is Europe's No. 1 natural gas market.

Last month, the U.K. Met office said Britain may experience its coldest winter in a decade.

If the weather stays as cold as predicted, crude prices may approach the record \$70.85 a barrel reached on Aug. 30, the day after Hurricane Katrina made landfall and wrecked rigs and platforms in the Gulf of Mexico, Kocayusufpasaoglu said.

"Beyond Thursday, you can't see any mild weather for as far ahead as the models look," said Adrian Crocker, a senior meteorologist with U.K.-based British Weather Services. "By Friday, we're into a straight northerly flow, straight from the Arctic."

OPEC Production

OPEC pumped 30.1 million barrels a day last month, 360,000 barrels a day less than September, according to Bloomberg data. Most members are producing near full capacity to keep up with demand.

Saudi Aramco, the world's largest oil producer by output, will increase drilling rig operation by 28 percent to 115 rigs by the end of next year to boost capacity, a company spokesman said.

U.S. demand for distillates, which include heating oil and diesel, has peaked in January in four of the past five years, according to U.S. Energy Department data.

The U.S. is the world's biggest oil user, accounting for about a quarter of global consumption. Its stockpiles of crude oil and distillate were 10 percent and 7.7 percent higher, respectively, than a year earlier in the week ended Nov. 11.

U.S. Gulf Output

``If we pass into a cold snap, it's going to underpin prices," said Jonathan Copus, an oil analyst with Investec Securities in London. Heating oil supplies are average, ``but it wouldn't take much to fall short."

The amount of oil production shut in the Gulf of Mexico fell 18,472 barrels a day, or 2.5 percent, to 717,807 barrels, according to data compiled by the U.S. Minerals Management Service. That's about 53 percent of normal output.

Production of distillates, which includes heating oil and diesel, for the week ended Nov. 11 rose 2.5 million barrels to 123.4 million barrels, according to the Energy Department.

Brent crude oil for January today rose 71 cents, or 1.3 percent, to \$55.59 a barrel on London's ICE Futures exchange.

Regular gasoline at the pump in the U.S., averaged nationwide, fell to \$2.21 a gallon yesterday from \$2.22 a day before. Prices are down about 28 percent from a record \$3.057 a gallon on Sept. 2, according to the AAA, the nation's largest motoring organization.

To contact the reporters on this story: Bill Murray in London at wmurray1@bloomberg.net;

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