MARKET WATCH: 'Mother of all stock draws' hikes crude to $95/bbl

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HOUSTON, Nov. 1 -- Crude futures prices soared above a record $95/bbl in after-hours trading Oct. 31, leaving the market posed for possible $100/bbl oil in the near future.

The December contract for benchmark US sweet, light crudes shot up $4.15 to a record front-month closing price of $94.53/bbl, then continued climbing to $95.28/bbl in after-hours electronic trading on the New York Mercantile Exchange. That jump came after US Department of Energy officials surprised the market with what one analyst called "the mother of all stock draws" from commercial crude storage at Cushing, Okla., instead of the slight build that traders were expecting.

The Energy Information Administration said commercial US crude inventories dropped 3.9 million bbl to 312.7 million bbl—the lowest level in 2 years—during the week ended Oct. 26. Gasoline inventories increased by 1.3 million bbl to 195.1 million bbl in the same period, while distillate fuel stocks were up 800,000 bbl to 135.3 million bbl (OGJ Online, Oct. 31, 2007).

"We thought that the size of the [Oct. 30] correction [down to $90.38/bbl] had diminished the chances that we would be able to open the $95/bbl doors to $100/bbl," said Olivier Jakob, managing director of Petromatrix GMBH, Zug, Switzerland. "The high-to-low daily range on the December [contract for benchmark US light, sweet crudes] reached $6.36/bbl yesterday and under such extreme volatility it is impossible to exclude the reach of $100/bbl before the end of the week." Such strong volatility in intraday trading "clearly shows that we are currently outside of normal trading parameters," Jakob said.

Paul Horsnell at Barclays Capital Inc. in London said, "Our conservative expectation is for [benchmark US crude] to average $90.70/bbl this quarter.

Most of the crude inventory decline was at the key Cushing delivery point for NYMEX, where oil stocks fell 3.1 million bbl to 15.1 million bbl. "The world economy is taken hostage by a few million barrels in Cushing, and there is little that the Organization of Petroleum Economic Countries can do about it," Jakob said.

The sharp drop in crude inventories "occurred without any up tick in refinery runs, following only a minor rise in imports," Hornell noted. "The overall build [of crude and petroleum products] is down to its lowest since October 2005," he said.

"For the second week in a row, the DOE inventory report shocked the market," said analysts in the Houston office of Raymond James & Associates Inc. "With the crude market entrenched in backwardation, there is no incentive to store crude. And with a partial shut-in of Petroleos Mexicanos production this week [due to earlier storms in the Gulf of Mexico], do not be surprised to see crude inventories decrease again next week."

US stocks of high-sulfur distillates are just below the 5-year range, "despite a change of specifications for off-road diesel," said the Societe Generale Group (SGG) in Paris. "Demand increased last week as did imports and production. Especially cold weather is expected next week in the US Northeast, which should further boost demand," they reported. Ultralow-sulfur diesel stocks increased by just 340,000 bbl, "thanks to a jump in imports, a sharp fall in deliveries, and a slight increase in production," SGG reported.

Jacques H. Rousseau at Back Bay Research LCC, a research partner for Soleil Securities Corp., said, "We believe that weak demand for refined products should allow refiners to build inventories to comfortable levels heading into 2008, which should keep downward pressure on refining margins, absent any material amount of unplanned downtime."

However, US gasoline demand through October was 0.4% higher than in the same period in 2006, "which can be considered as being very robust indeed in the face of a 29.2% rise in retail prices," Horsnell said.

In other news, the US dollar hit a record low against the euro after the Federal Open Market Committee, cut the fed funds rate by 0.25% to 4.5% Oct. 31. That was in line with most expectations "but is leaving the jury out on whether any further cuts are likely this year," Jakob said.

Energy prices

The January contract gained $3.68 to $93.27/bbl Oct. 31 on NYMEX. On the US spot market, West Texas Intermediate at Cushing was up $4.15 to $94.54/bbl. Heating oil for November delivery climbed 8.32¢ to $2.51/gal on NYMEX. The November contract for reformulated blend stock for oxygenate blending (RBOB) increased 8.29¢ to $2.34/gal.

The December natural gas contract jumped up 30.9¢ to $8.33/MMbtu on NYMEX. On the US spot market, gas at Henry Hub, La., gained 14¢ to $7.16/MMbtu. EIA reported the injection of 66 bcf of natural gas into US underground storage in the week ended Oct. 26. That surpassed the consensus of Wall Street analysts and compared with injections of 68 bcf the prior week and the withdrawal of 9 bcf during the same period a year ago. US gas storage now exceeds 3.5 tcf, up 56 bcf from year-ago levels and 272 bcf above the 5-year average.

In London, the December IPE contract for North Sea Brent crude increased $3.19 to $90.63/bbl. The November gas oil contract escalated by $17.75 to $787/tonne.

OPEC offices in Vienna were closed Nov. 1 for a public holiday so no price information was available on the group's basket of 12 reference crudes.

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