Financial News

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Oil Prices Rise to $65 a Barrel

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Oil Prices Rise to $65 a Barrel, a New High, Though Analysts Say Supply Fears Are Overblown

Oil prices zoomed higher Wednesday, touching a new high of $65 a barrel, with buyers focused on refinery snags, shrinking U.S. inventories of gasoline and motorists' growing thirst for fuel despite record-high costs.

The latest rally -- crude futures have risen 14 percent in three weeks -- highlights just how nervous the market has become to output threats. It doesn't seem to matter, analysts said, that the country has enough fuel in inventory to offset routine supply disruptions.

The heightened sensitivity comes amid strong demand in the United States and China, the world's top consuming nations, where high prices have tempered rising fuel consumption only slightly.

"People talked about $60 crude slowing economies around the world. But here in the U.S., (Federal Reserve Chairman) Alan Greenspan is telling us the economy is doing great and getting stronger," said James Cordier, president of Liberty Trading Group in Tampa, Fla. "It bodes well for crude testing the $70 range."

Even so, Cordier said he has been stunned by the recent runup in oil and gasoline prices and the apparent lack of any response from motorists. Gasoline prices averaged $2.37 a gallon nationwide last week, up 49 cents from last year. Demand picked up by 1.4 percent from a year ago, according to government data.

Cordier said prices at the pump may continue climbing "until consumers are crying uncle, which they're not."

Light sweet crude for September delivery climbed as high as $65 a barrel on the New York Mercantile Exchange. The contract settled $1.83 higher at $64.90 a barrel, the highest level since Nymex trading began in 1983.

In other Nymex trading, gasoline futures jumped 7.39 cents to $1.8963 a gallon, while heating oil rose 6.22 cents to $1.8388 a gallon.

Natural gas futures also surged, rising 42 cents to close at $9.071 per 1,000 cubic feet. Traders attributed the runup in part on extremely strong demand from gas-fired power plants.

While oil prices are about 40 percent higher than a year ago, they would need to surpass $90 a barrel to exceed the inflation-adjusted peak set in 1980. That -- and the fact that the U.S. economy burns fuel much more efficiently than it did 25 years ago -- helps explain why the country's financial engine is still going strong, analysts said.

Energy markets have been extremely jumpy about a spate of refinery outages in recent weeks. Some traders said the recent U.S refinery troubles -- the latest reported by BP PLC on Wednesday -- is evidence the industry and its aging infrastructure are having difficulty maintaining output at high levels.

But analysts and industry officials said refinery snags are not out of the ordinary for this time of year, when plants run hard to meet peak gasoline demand.

"Hiccups are an unfortunate reality of operating refineries," said Bryan Caviness, who follows the industry for Fitch Ratings in Chicago.

"There have not been any more than what you typically see, but the impact (on prices) has certainly been greater than what you've seen in years past," he added.

A BP spokesman wouldn't comment on how much production would be lost at its Texas City refinery, though the unit that went down because of a leak has the capacity to process 80,000 barrels of fuel per day. The U.S. burns about 9.5 million barrels of gasoline a day.

Mary Rose Brown, a spokeswoman for San Antonio-based refiner Valero Energy Corp., said she has been getting calls from the financial media about minor production snags that in years past would not have received any attention. "Everybody's asking, so we tell," she said.

But Fitch's Caviness noted that "a side benefit" of refiners' willingness to talk about even the smallest production glitches is that it makes energy traders jumpy, and tends to push prices -- and hence refiners' profits -- higher.

The transition of power in Saudi Arabia last week following the death of King Fahd has also unnerved markets, as did the security-related closure of the U.S. embassy earlier this week in the world's largest oil-producing nation.

OPEC pledged Tuesday to pump more oil if needed, though the market has tended to brush off such talk. That's because worldwide demand is averaging some 84 million barrels a day. Excess production capacity is about 1.5 million barrels a day and the type of oil available -- sour crude -- is not the preferred variety for making transportation fuels.

Data released Wednesday by the U.S. Department of Energy showed that crude oil inventories grew by 2.8 million barrels last week to 320.8 million barrels, or 10 percent above year ago levels. The supply of distillate fuel, which includes heating oil, increased by 2.6 million barrels to 129.9 million barrels, or 6 percent above last year.

The agency data showed a 2.1 million barrel decrease in the nation's supply of gasoline, putting inventories at 203.1 million barrels, or 4 percent below last year.

U.S. refiners operated at 95 percent of capacity last week, a slight decline from the week before.
