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Oil Rises to Six-Month High Above $85 on Supply, Stimulus Bets
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By Grant Smith

Nov. 3 (Bloomberg) -- Oil advanced to a six-month high of more than $85 a barrel on signs U.S. crude inventories are dropping and speculation stimulus measures by the Federal Reserve will weaken the dollar.

Crude stockpiles in the U.S., the world’s biggest oil consumer, dropped 4.1 million barrels last week, the most since July, the industry-backed American Petroleum Institute said yesterday. The Energy Department will release its own report today. The Fed, wrapping up a two-day meeting today, may announce a plan to purchase at least $500 billion in long-term securities, according to economists surveyed by Bloomberg News.

“We can expect higher prices, maybe up to $90 or even higher,” said Sintje Diek, an analyst with HSH Nordbank in Hamburg. “We’ve seen higher prices in the last days because of quantitative easing. This means higher inflows into riskier assets. But the fundamental picture hasn’t changed. We’re still oversupplied.”

Oil for December delivery rose for a third day, gaining as much as $1.14, or 1.4 percent, to $85.04 a barrel on the New York Mercantile Exchange, the highest price since May 4. The contract was at $84.92 at 11:41 a.m. London time. Brent crude for December settlement was up $1.09, or 1.3 percent, at $86.50 a barrel after climbing as high as $86.63 a barrel on the ICE Futures Europe exchange in London.

The dollar has dropped more than 10 percent versus the euro since Aug. 27, when Fed Chairman Ben S. Bernanke said the central bank “will do all that it can” to sustain economic growth, fueling speculation that a resumption of asset purchases would debase the dollar.

## Quantitative Easing

This policy, known as quantitative easing, may weaken the dollar, bolstering investors’ demand for oil. The U.S. currency declined against most of its major counterparts yesterday, falling 1 percent to $1.4034 per euro in New York.

“The news tonight from the Fed on the quantitative easing will be the big thing for the oil market,” said Serene Lim, an energy and commodity strategist at Australia and New Zealand Banking Group Ltd. in Singapore. “Everyone is a bit cautious ahead of the report. The inventory levels being drawn down are seen as a positive.”

U.S. crude stockpiles decreased 1.1 percent last week to 367.6 million barrels, according to yesterday’s API report. Gasoline supplies declined by 3.2 million barrels to 219.7 million and distillate inventories dropped 4.7 million to 161.4 million, the industry group said.

An Energy Department report today is forecast to show distillate fuel stockpiles, including diesel and heating oil, fell to their lowest level since July. Inventories probably declined 1 million barrels in the week ended Oct. 29, according to the median estimate from 17 analysts surveyed by Bloomberg News. All respondents said supplies would fall.

U.S. crude inventories probably increased 1.5 million barrels, the survey showed. Stockpiles rose 5.01 million barrels to 366.2 million in the week to Oct. 22, the highest level since July and 13 percent above the five-year average.

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--Editors: John Buckley, Rob Verdonck

To contact the reporters on this story:
Grant Smith in London at +44-20-7330-7353 or gsmith52@bloomberg.net

To contact the editor responsible for this story:
Stephen Voss on +44-20-7073-3520 or sev@bloomberg.net