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Crude Declines for a Third Day on China Slowdown, European Debt
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By Christian Schmollinger and Grant Smith

Nov. 1 (Bloomberg) -- Oil dropped for a third day in New York on speculation commodity demand will falter as Chinese manufacturing slows and European leaders struggle to contain the region's debt crisis.

Futures slid as much as 2.2 percent, after posting their biggest gain last month since May 2009, amid signs of higher production from OPEC members as Libya bolstered exports. China's Purchasing Managers' Index fell for the first time in three months in October, a report showed. Greek Prime Minister George Papandreou said he will submit the European Union's new financing deal for a national referendum.

"The list of things weighing on the market is long," said Olivier Jakob, managing director at Petromatrix GmbH in Zug, Switzerland, who correctly predicted that this year's oil rally would stall. "There's the Chinese PMI, the Greek referendum taking EU leaders by surprise, the euro-dollar collapsing."

Oil for December delivery declined as much as $2.06 to $91.13 a barrel in electronic trading on the New York Mercantile Exchange and was at $91.45 at 8:50 a.m. London time. Futures fell 0.1 percent yesterday and climbed 18 percent in October.

Brent oil for December settlement dropped 1.4 percent to $108 a barrel on the London-based ICE Futures Europe exchange. The European benchmark contract's premium to U.S. futures was at $16.55 a barrel, compared with a gap of $16.37 at yesterday's close, the lowest in more than four months.

China, Europe

China's Purchasing Managers' Index fell to 50.4 from 51.2 in September, the China Federation of Logistics and Purchasing said today. That compared with the median estimate of 51.8 in a Bloomberg News survey of 16 economists. The nation is the world's second-biggest oil user, after the U.S.

"China's economy is hitting a bottom and then will recover," said Tetsu Emori, a commodity fund manager with Astmax Ltd. in Tokyo.

Papandreou's referendum risks pushing Greece into default if it is rejected by voters. An opinion poll published Oct. 29 showed most Greeks believe the accord on a new bailout package and a debt writedown is negative.

Also weighing on oil was a Bloomberg News survey showing production by the Organization of Petroleum Exporting Countries rose in October to the highest level in almost three years as gains in Libya and Angola outpaced a Saudi cut.

Production increased 125,000 barrels, or 0.4 percent, to average 30.1 million barrels a day, the most since November 2008, according to the survey of oil companies, producers and analysts. Daily output by the 11 members with quotas, all except Iraq, climbed 200,000 barrels to almost 27.5 million, 2.6 million barrels more than their target.

Inventory Outlook

Libyan output rose 245,000 barrels to 345,000, the highest level since March, the survey showed. Production in the North African nation had tumbled from almost 1.6 million barrels a day in January, before an uprising against the government of Muammar Qaddafi disrupted output.

U.S. crude stockpiles probably rose 1 million barrels last week, a Bloomberg News survey showed before an Energy Department report tomorrow. Stockpiles increased by more than 4.7 million barrels in the prior week ended Oct. 21, the biggest increase since August, according to the Energy Department.

Inventories of diesel and heating oil may have declined as fuel consumption climbed to the highest level in almost three years, the survey showed. Distillate supplies fell 1.9 million barrels, or 1.3 percent, in the seven days ended Oct. 28, according to the median of 10 analyst estimates. Stockpiles dropped by 4.3 million barrels in the prior week.

Gasoline inventories slid 900,000 barrels, or 0.4 percent, last week, the survey showed. A decline of that size would leave supplies at the lowest level since April. The Energy Department is scheduled to release its weekly report at 10:30 a.m. tomorrow in Washington.

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