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NEW YORK – Oil prices dropped to their lowest level in two months as the U.S. dollar rose and government data showed that energy demand continues to slump.

Benchmark crude for January delivery dropped \$1.75 to US\$70.87 a barrel on the New York Mercantile Exchange. Prices dropped as low as \$70.53 a barrel earlier in the day.

The Energy Information Administration said gasoline supplies increased while the nation's consumption of petroleum products fell to its lowest level since the week of July 10.

"Demand is just so soft," said Andrew Lebow, senior vice-president and broker at MF Global. "We're expecting consumption to return with the rebound, but so far we're not seeing it."

The EIA report also said U.S. crude supplies dropped last week, though analysts said that typically happens toward the end of the year as refineries cut down on their inventories.

The dollar also pulled crude prices lower. Crude is priced in U.S. currency, and a rise in the greenback makes it tougher for investors holding foreign currencies to buy energy commodities.

At the pump, retail gas prices dipped slightly to a new national average of \$2.633 a gallon – about 71 cents a litre – according to auto club AAA, Wright Express and Oil Price Information Service. A gallon of regular unleaded is 3.1 cents cheaper than it was last month, but it is 93.5 cents more expensive than a year ago.

In other Nymex trading in January contracts, heating oil lost 5.73 cents to \$1.9336 a gallon while gasoline lost 5.64 cents to \$1.8682 a gallon. Natural gas gave up 10.6 cents to \$5.008 per 1,000 cubic feet.

In London, Brent crude for January delivery fell \$2.46 to \$72.73 on the ICE Futures exchange.



Men work at a pump jack in a PetroChina oil field in northwestern China, Nov. 4, 2007.

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