

Oil rises amid US chill, Iran tensions

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ECONOMY

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By

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Oil rose on Monday as a burst of cold weather boosted heating demand in the United States and as world powers discussed tightening UN sanctions on Iran, the world's fourth-largest oil exporter.

US crude rose 26 cents to \$US61.40 a barrel, just below the 2007 high of \$US61.80 hit on Friday. London Brent was up 47 cents to \$US61.35.

Analysts said wintry weather sweeping across the key Midwest and North-east heating markets was supporting oil's gains, and added that prices could find even more strength heading into the spring, with gasoline demand picks up.

"It is the first time this year that the large speculative funds are showing a net long position in crude oil," said Olivier Jakob, an analyst at Swiss-based Petromatrix.

Oil prices have swung between a high of \$US78.40 last July, when fighting flared in Lebanon, and a month low of \$US49.90 in January, when an expected influx of fund money failed to materialise, disappointing oil investors.

A steady recovery in prices since late January has been supported by gradually tightening supplies - China has twice cut output since November - and by concerns over a possible disruption of Iran's oil supplies.

Iran

Officials from the UN Security Council plus Germany were meeting in London on Monday to consider possible further steps after the latest UN deadline for Tehran to halt its nuclear program came and went unheeded.

"Iran is a key factor for oil prices recovering from just below \$50. However, it is a psychological fact that many market players are sceptical at the same time," said Tetsu Emori, the chief strategist at Mitsui B Futures.

Over the weekend, President Mahmoud Ahmadinejad said Iran's nuclear program had "no brake and is in reverse gear," and a deputy foreign minister said Iran was prepared even for war.

US Secretary of State Condoleezza Rice said the Iranian program needed a "stop button."

Vice President Dick Cheney said all options were on the table following Iran's refusal to heed the UN deadline.

News of a militant attack on foreign nationals in Saudi Arabia was also potentially bullish, analysts said.

Prices had begun to rally following data last Thursday showing an unexpected drop in weekly US gas stocks. A Reuters survey showed analysts expect another drop in this week's data.

The focus of oil traders and refiners has shifted from heating oil to gasoline as the market readies for a summer motor fuel demand in the United States, the top consumer.

"The shift towards summer-grade gasoline is the catalyst we believe will continue to underpin refining margins and, if followed by the funds, as has been the trend, may provide the impetus for a seasonal price higher by oil," Citigroup analysts said in a report.

The Organization of Petroleum Exporting Countries, which pumps more than a third of the world's oil, has its sights on the second quarter, when demand for its crude typically slows from a winter peak.

The group's new secretary-general told Reuters its existing supply cuts should balance the market, if compliance by its members were improved.

"If we are able to improve the percentage of the cut, this will do the trick," said Abdullah al-Badri.

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