China's Monetary Moves Undercut Crude Oil Rally

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Crude oil prices took a dive on Friday after a week of gains from U.S. blizzards were undercut by another move in China to tighten monetary policy.

China's central bank raised reserve requirements for its banks for the second time this year as it tries to curb lending and avoid asset bubbles from forming in an overheated economy. China is the world's second-largest importer of oil, after the U.S., and one of the world's fastest-growing economies, so energy markets are very sensitive to any change in conditions there.

Blizzard conditions in the U.S. Northeast had propelled West Texas Intermediate prices back up above $75 earlier in the week. But a decline of some 1.5% on Friday pushed prices down near $74 a barrel again. Still, oil was ahead about 4% on the week.

A revised forecast from the International Energy Agency raised expected demand for crude this year by 120,000 barrels a day to 1.6 million. However, the IEA said the increase was due to growth in emerging economies, with demand remaining flat in industrial countries, despite the unusually severe winter. The new moves in China raise question marks about that anticipated increase in demand.

U.S. data on inventories, which came out late due to snow-related government closures in Washington, showed gasoline inventories rising by 2.3 million barrels, about 1%, much more than expected. But analysts said that may be due to the simple fact that people aren't able to drive in snowbound cities. Distillate inventories, including heating oil, fell less than expected despite the inclement weather.

A pledge by European Union leaders that they would do what it takes to keep Greece from sliding into default briefly took some of the pressure off the euro, but markets remained concerned at the lack of detail about any rescue plan. A weakening euro means a stronger dollar, which puts downward pressure on energy futures. The crisis in southern Europe threatens economic recovery in the EU and further dampens optimism for energy demand.

Bloomberg reported that Gary Gensler, chairman of the Commodity Futures Trading Commission, is proving to be a formidable adversary for hedge funds and other participants in derivatives trading as he pushes for reform, including restrictions in energy futures trading. Despite, or perhaps because of, his 18 years at Goldman Sachs, Gensler is insisting on position limits for energy trades and trying to close any loopholes that would let funds slip through on end-user exemptions, Bloomberg said.

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