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Oil Falls to Eight-Week Low as Al-Naimi Signals Increased Supply
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By Ben Sharples and Ann Koh

Jan. 25 (Bloomberg) -- Crude oil fell to the lowest in almost eight weeks after Saudi Arabian Oil Minister Ali al-Naimi signaled OPEC may bolster production and maintain spare capacity to meet rising fuel demand.

Futures settled at a five-week low yesterday after al-Naimi said he was "optimistic" about energy markets and that oil prices would be stable. Saudi Arabia, the largest producer in the Organization of Petroleum Exporting Countries, will have spare production capacity of about 4 million barrels a day to maintain the global "supply-demand balance," he said.

"These comments indicate that the Saudis find increasing discomfort as oil approaches triple digits," said Victor Shum, a senior principal at consultants Purvin & Gertz Inc. in Singapore. "It's not due to supply tightness that we have \$90 to \$100 oil. We do have a well supplied market today, a lot of inventories, a lot spare OPEC production capacity."

The March contract declined as much as 49 cents, or 0.6 percent, to \$87.38 a barrel in electronic trading on the New York Mercantile Exchange, and was at \$87.52 at 2:11 p.m. Singapore time. Prices, down 4 percent this year, had settled at \$86.75 on Dec. 1. Yesterday, the contract lost \$1.24, or 1.4 percent, to \$87.87.

An Energy Department report tomorrow will probably show that U.S. crude inventories climbed 1.25 million barrels last week from 335.7 million, according to the median of 12 analyst estimates in a Bloomberg News survey.

Market 'Not Tight'

Brent crude for March settlement slid 19 cents, or 0.2 percent, to \$96.42 a barrel on the London-based ICE Futures Europe exchange. Yesterday, it fell 99 cents, or 1 percent, to \$96.61.

"This market is not tight by any means," Ben Westmore, a minerals and energy economist at National Australia Bank Ltd. in Melbourne, told Rishaad Salamat on Bloomberg Television's "On the Move Asia." "There still needs to be a recovery in developed world demand before we see a justified sustained increase in the oil price."

U.S. crude stockpiles climbed 2.62 million barrels in the week ended Jan. 14, the first increase in seven weeks, the department said last week.

Worldwide oil demand may increase in 2011 by 1.8 million barrels a day, or 2 percent, Saudi Arabian Oil Minister al-Naimi said in Riyadh. OPEC's policy is to meet any additional requirement for crude, he said.

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