

16:00 13Jan2009 U.S. crude hits record discount to Brent

By Joshua Schneyer

NEW YORK, Jan 13 (Reuters) - U.S. front-month crude futures hit a record discount to Brent on Tuesday, dragged down by slumping demand and swollen inventories.

U.S. West Texas Intermediate crude oil futures for February delivery the New York Mercantile Exchange dipped to a \$7.00 a barrel discount to European benchmark Brent crude during intraday trade -- a record according to Reuters data.

"What we are seeing is unprecedented, with Brent looking amazingly strong," said Rick Mueller, an analyst at Energy Security Analysis Inc.

U.S. oil demand has dropped sharply as recession hits the world's top consumer, sending prices for U.S. crude from a record above \$147 a barrel in July to below \$39 a barrel as inventories rise, especially in the Cushing, Oklahoma, delivery point for the NYMEX contract.

Cushing levels hit a record high of 32.2 million barrels in the week to Jan. 2, a jump of 4.1 million barrels over the last week of December.

"Record storage levels at Cushing are a major factor, and I expect that stocks will continue to build. Demand is weak and there's a stronger and stronger incentive to store crude in the United States," said Mueller.

WTI crude -- lighter, sweeter crude than Brent and more suited to gasoline production -- has historically traded at a premium to the North Sea benchmark grade.

Over the past 400 trading days the front-month WTI contract has averaged 42 cents a barrel premium to Brent futures, according to Reuters data.

The so-called trans-Atlantic crude spread, or the price differential between the Brent and WTI benchmark crudes, helps determine the profit oil companies and traders can earn by importing European or African crudes to the United States.

The steep crude market contango -- where forward prices trade at a discount to later months -- has

also encouraged companies to put oil into storage for sale at higher prices later.

On Tuesday, the February front-month WTI contract traded at a \$6.99 discount to the March contract.

While demand and inventory levels drag down U.S. crude, Brent futures have been bolstered by OPEC production cuts and the loss of Russian natural gas supplies to Europe in the midst of a cold snap.

Brent and other North Sea grades can be processed into distillates like heating oil to substitute for Russian gas.

While some analysts said WTI's discount to Brent was unlikely to tighten soon, others said it was not sustainable and that cheap prices would prompt refiners to start drawing down stocks.

"This is probably as wide as it gets. The front month looks very cheap and crack spreads are widening now," said Chris Jarvis, senior analyst with Caprock Risk Management.

"I expect to see it start reversing as early as this week. It may take a while."

The EIA will next release weekly U.S. inventory data on Wednesday.

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