Oil Prices Rise As Supply Drops

NEW YORK (AP) — The price of oil rose more than 1 percent as the Energy Department reported a bigger than expected drop in supplies of crude oil and gasoline. By late morning, benchmark oil for October delivery was up $1.24, or 1.2 percent, to $106.66 a barrel on the New York Mercantile Exchange, reversing Tuesday's decline of $1.17 a barrel. The Energy Department said supplies of crude oil fell 4.4 million barrels last week, almost three times more than analysts expected. At 355.6 million barrels, the nation's supply of crude oil is 3.3 percent below year-ago levels. Gasoline supplies dropped by 1.6 million barrels. Analysts expected gasoline supplies to remain unchanged.

With the supply report out of the way, the market can return its focus to the U.S. Federal Reserve's much-anticipated decision on monetary policy. Following the 2008 financial crisis, the U.S. central bank has been buying bonds and other assets to push down interest rates and make loans more available. Global stocks and commodities surged as the new money generated by the unconventional program, which is currently running at $85 billion a month, flowed through the financial system. The Fed, however, is widely expected to begin winding down the program as the U.S. economy shows signs of a sustained, albeit gradual recovery and could announce the first reduction Wednesday afternoon.

The prospect of a reduction in stimulus pushed down oil prices earlier this week. Oil fell a combined $2.79 a barrel Monday and Tuesday. But now traders are looking ahead, seemingly less fearful of the impact of "tapering," since analysts believe the Fed will keep official interest rates low to keep the U.S. economy chugging along. Analysts at Capital Economics said in a commentary that "a small reduction is probably now discounted and the Fed may choose to reiterate its conditional commitment to keep interest rates very low for a long period."

Investors will also be monitoring fresh information on U.S. stockpiles of crude and refined products. Brent crude, the benchmark for international crudes used by many U.S. refineries, was up 50 cents to $108.69 a barrel on the ICE Futures exchange in London. In other energy futures trading in New York:

- Wholesale gasoline rose two cents to $2.69 per gallon.
- Natural gas fell three cents to $3.75 per 1,000 cubic feet.
- Heating oil was flat at $3.00 per gallon.

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