Oil price close to US$120

New record high; some experts say price could hit US$200, others expect it to ease

BY JESSICA CHEAM

Crude oil hit a new record of nearly US$120 a barrel yesterday as a workers’ strike closed a major British oil pipeline and fresh violence in Nigeria reignited supply fears.

Rationing is already being enforced at some British outlets amid panic buying.

Soaring oil prices are hurting Singapore car drivers at the petrol pump, just as they are adding to corporate costs around the globe – fuelling growing inflation fears.

The question on everybody’s lips now: Just how high will oil prices go?

Experts and other oil industry figures are split. Some say it could hit US$200 a barrel, but others expect the price to ease to an average of US$95 a barrel this year and the next.

Still, the latest developments are adding to the jitters.

Oil for June delivery rose as much as US$1.41, or 1.2 per cent, to US$119.93 a barrel in after-hours electronic trading on the New York Mercantile Exchange yesterday – the highest since futures began trading in 1985, reported Bloomberg.

The contract eased back to US$119.04 a barrel by noon in Europe, up 52 US cents from last Friday’s close of US$118.52.

The shutdown of one of Britain’s biggest oil refineries over a pension-row strike was expected to prompt more panic buying of petrol yesterday as motorists, particularly in Scotland and northern England, rushed to pumps to stock up.

Also in Nigeria last Friday, the key armed group in the southern oil-producing region sabotaged a supply pipeline owned by Shell.

In a report last Friday, Mr Adam Seminsky, Deutsche Bank’s chief energy economist, said there was a huge risk that oil price “will escalate until it gets to some level when demand finally collapses because ordinary people can no longer afford to burn as much energy as they are burning now”.

Organisation of Petroleum Exporting Countries (Opec) president Chidib Kheili reportedly does not rule out oil hitting US$200 a barrel even with adequate supply.

At a seminar at the National University of Singapore yesterday, Professor Sam Ouliaris of the economics department had a more conservative estimate. He sees average oil prices at about US$95 a barrel for this year and the next, and cited several key reasons for the recent hikes: tight supply, disruption of oil facilities, Opec’s limited excess capacity, and the declining US dollar, in which oil contracts are priced.

Speculative activity by hedge funds – lured to commodities trading because of the volatility of equity markets and low interest rates – has also contributed to the price hikes, he added.

Fuelling panic buying: Workers at Britain’s Grangemouth refinery are on strike over pay 

FUELLESS PANIC BUYING: Workers at Britain’s Grangemouth refinery are on strike over a pension row. The move is expected to spark panic buying of petrol as motorists rush to stock up.

High prices ‘here to stay’

GET used to high crude oil prices, says National University of Singapore economics professor Sam Ouliaris. Here are five reasons why:

- Tight supply because of a limited increase in oil output and a disruption in supplies.
- Opec’s position that it is not raising output.
- A declining United States dollar makes oil more pricey, as oil contracts are denominated in that currency.
- Speculation in the market because of the presence of hedge funds.
- Opec’s limited excess capacity (now 2.6 per cent of world consumption).

Other conclusions from Prof Ouliaris:
- One long-term solution is to minimise growth in consumption, particularly in the transport sector.
- Existing subsidies on crude oil should be removed, to reduce consumption.
- Global consumption is likely to rise even faster because of the rapid development of emerging economies.