



Oil: rising prices, threatening Gaddafi, reassuring oil companies

Oil prices soared again on Wednesday, March 2: the oil barrel gained 2.60 \$ hitting 102.23 \$ as clashes continued between the opposition and the Libyan leader, raising further concerns about the production of the country. By mid-day, world stock markets fell, while the Libyan leader indicated that oil production in his country was "at rock bottom".

In the meantime, the Executive Director of the Royal Dutch oil group Shell, Peter Voser, explained that increases in oil prices would continue in the short term. However, Peter Voser added that oil-exporting countries would stabilize the market on a longer term perspective. The International Energy Agency (IEA) also explained that Saudi Arabia, the largest exporter of oil, was able to remedy any disruption in Libyan exports.

More alarming, a fund manager at Goldman Sachs said that high oil prices could burn out of control in the event of another shock similar to that recorded in Libya.

No deliveries of Libyan oil since February 19

In the wake of Wall Street (- 1.38% for the Dow Jones - 1.61% for the Nasdaq), European and Asian stock markets fell at closure.

In addition, the Libyan leader has threatened to "bring in Indian and Chinese companies to replace Western companies(...). We will all die to defend our oil, and let all those who threaten our oil hear this" said Gaddafi.

The last oil cargo to leave Eastern Libya goes back to Saturday 19 February. Vast areas of the east are in the hands of the opposition and a majority of foreign oil companies in Libya have totally or partially suspended crude oil production in the country since the beginning of violence in the country on February 15.

Libya, an OPEC member, normally exports 1.49 million barrels per day, mostly (85%) to Europe, according to the International Energy Agency.

Investors "worried"

For Christian Parisot, an economist at Aurel, "even if Saudi Arabia is committed to ensuring market stability, investors are still worried and still fear a shortage."

For Gordon Kwan, of Mirae Asset Securities, it is unnecessary to focus on the risks of a possible decline in oil production. "The real problem is the destabilization and potential political changes in the Middle East and throughout North Africa." Markets await the possible spread of instability to countries like Iran. "The market is watching closely if the disturbances spread to Iran", the fourth largest oil producer, said Kazuhiro Takahashi, an analyst at Daiwa Securities Capital Markets.

Unexpected decline in crude inventories and gasoline

According to figures released on Wednesday by the U.S. Department of Energy, crude oil inventories fell 400,000 barrels to reach 346.4 million barrels in the US last week. After a long series of weekly gains, analysts were surprised and were expecting an increase of 1 million barrels.

Gasoline inventories fell 3.6 million barrels to 234.7 million barrels, which is again a surprise as analysts had originally forecast an increase of 100,000 barrels.

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