

Oil price surges past \$80 barrier

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Crude oil prices jumped to a record high of \$80 a barrel on Wednesday, as the market judged this week's move by the Organisation of the Petroleum Exporting Countries to increase production as "too little, too late".

The jump in oil prices came as other commodities, such as wheat, hit all-time highs at a time when industrialised countries' central banks are under pressure to hold down interest rates to insulate economic growth from financial turmoil.

US West Texas Intermediate on Wednesday hit an intra-day record of \$80 a barrel, above the previous high of \$78.77 a barrel reached early last month.

In real terms, adjusted for inflation, oil is at its highest price since the early 1980s, but still well below its peak, equivalent to \$109 a barrel in today's money, reached in late 1979. Jeffrey Currie, of Goldman Sachs in London, said that Opec's 500,000 barrels a day production boost from November 1 was "too little, too late".

Opec, which controls about 40 per cent of the world's oil output, this week raised its production for the first time in more than two years in an attempt to sustain global economic growth and allay concerns about falling crude inventories.

Confirmation of the rapid decline in oil inventories came from the US Department of Energy, which on Wednesday reported a 7.1m barrel drop in oil stocks to 322.6m barrels, the lowest level in eight months. The fall was almost triple market expectations. US crude inventories have shrunk by almost 10 per cent since late June.

Adam Sieminski, chief energy economist at Deutsche Bank in Washington, said: "If Opec wanted to calm the market it should have increased production by 1m barrels a day in October, rather than wait to November to pump just 500,000 b/d more."

Crude oil traders warned that prices could soon surge even higher because speculators who had built up large positions that would become profitable above \$80 were pushing up the price.

The price jump came despite a warning from the industrialised countries' energy watchdog that the US subprime crisis could damp oil demand growth. The International Energy Agency cut its demand forecast for the fourth quarter by 250,000 b/d, to 87.8m b/d, and reduced the 2008 consumption outlook by 160,000 b/d, to 88m b/d.

The energy watchdog warned that more downward adjustments were probable. "It is likely that credit conditions in the US and other developed countries will tighten. As such, we may further revise our 2008 forecast as events unfold," it said.

It said, however, that there were no indications that oil demand was "poised to contract dramatically in the US and neither in emerging economies, which account for the bulk of oil demand growth."

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