Oil nears $100, but 2008-style surge not on cards

REUTERS, *New York*

Nearly three years to the day after oil prices first pierced $100 a barrel, they are again threatening to break triple digits on a wave of fund-led optimism, but similarities between 2008 and 2011 end there.

Even the most bullish analysts are quick to recite a litany of reasons why oil will not surge to near $150 again this year. Such a sharp spike would deal the world economy a heavy blow it can ill afford.

The list is long: oil companies are stepping up spending plans before supply reaches a crisis point; resource nationalism has eased; the dollar has firmed; and concerns that oil production is near peaking have subsided.

By far the most compelling reasons, however, are short-term supply fundamentals: There is far more oil in storage, far more fuel capacity at refiners worldwide, and far more idle oil wells that OPEC can reactivate when it chooses, braking the market's rally in a way it could not three years ago.

Analysts expect an additional 8 percent gain in average prices in 2011, according to the latest Reuters poll, although the conditions for a "super-spike" have dissipated.

"To a substantial degree, oil is not like it was then because there are bottlenecks that have been overcome both in refining and production capacity," said Edward Morse, managing director at Credit Suisse.

At the same time consumer nations have since built up crude inventories, with stockpiles from members of the Organization for Economic Cooperation and Development now at 60 days worth of demand, compared with 53 days in 2008.

Oil demand growth jumped 2.2 million barrels per day (bpd) in 2010, the biggest rise in six years, and forecasts for an addition 1.5 million bpd of use in 2011, according to a Reuters poll.

Although those gains will boost consumption to beyond the previous record high in 2007, supply has risen far more during the recession after a host of multibillion-dollar projects -- ones that had been planned during the boom years prior to 2008 -- came to fruition.

Members of the Organization of the Petroleum Exporting Countries currently hold 5 million to 6 million bpd of spare oil production capacity to draw on, up to three times the amount the group had at the lowest point in 2008, primarily from top exporter Saudi Arabia.

While experts debate at what price -- or under what conditions -- OPEC would willingly begin pumping more crude, there is little doubt that doing so would douse prices. In 2008, OPEC said it was effectively pumping flat out.

"It is not in the Saudi interest to have a global economic recovery jeopardized by $100-plus oil," said Jan Stuart, a global oil economist at Macquarie in New York.

"Given the spare capacity, I don't think you are going to have the same upward spiral that you had in 2008."

Saudi Oil Minister Ali al-Naimi, OPEC's most influential member, in December reiterated he preferred prices between $70 and $80 a barrel, below current $89 levels and the 26-month peak near $92 hit earlier in the month.

And while supply from outside the group is set to rise a marginal 400,000 bpd this year, about one-third the rate of 2010, there have been a host of more positive signs of late. In 2008, non-OPEC output actually fell by nearly 400,000 bpd.

The wave of resource nationalism that cut international oil company access to reserves in the middle of the last decade has eased, with Venezuela and Russia now welcoming seeking more investment from foreign companies.

Globally, energy companies are expected to raise exploration spending 11 percent next year to the highest level in 25 years, according to a Barclays Capital forecast. That could prevent the kind of upstream supply crunch that resulted from a reluctance to invest five years ago.

Further support for non-OPEC production has come from the slower decline of mature fields like Mexico's giant Cantarell, while discoveries in deepwater off Brazil have added some 26 billion barrels of exploitable reserves -- enough to fuel the entire world for about 10 months.

"The big story I think in 2008 was the collapse of supply growth, as non-OPEC supply failed to grow for several years in a row," said Antoine Halff, first vice president of research for Newedge Group in New York City.

Any shortfall in 2011 could also be met by projected higher output from OPEC members such as Nigeria and Iraq, which has no formal production ceiling like other members and expects to add about 400,000 bpd of output during the year, analysts said.

The fury of fresh speculative money into oil from investors eager to cash in on the commodities rally that started in 2002 has also been widely blamed for oil's 2008 record run.

Similarly speculators, excited by the prospect of higher fuel consumption as the economy recovers, hit a record net long position in December for crude contracts on the New York Mercantile Exchange.

Analysts say investors interested in energy and commodities have become more sophisticated since 2008 when many poured cash into simple, long-only funds.

According to Barclays Capital, 43 percent of commodities investors will invest in the asset class through actively managed portfolios in 2011 to try to cash in on recovery-driven gains.

AFP

A motorist prepares to put fuel in his car at a petrol station in Camberley on Sunday. Motorists are having to pay record prices at the pumps after a government fuel duty was added ahead of the VAT rise.

Asian, European car markets end 2010 on a high

REUTERS, *Paris/Seoul*

Asian and European car markets ended 2010 on a high, with South Korean automakers predicting rising 2011 sales on US and China growth, while drivers flocked to bag the last scrapping bonuses in France.

Carmakers are increasingly relying on growth in high-profile emerging markets like China, Brazil, Russia and India, while the US market is gradually recovering.

The French car market saw 370,000 orders registered in December, 30 percent more than the same month last year, carmaker Renault's commercial director for France, Bernard Cambier, told BFM radio on Monday.

France originally offered a scrapping bonus of 1,000 euros ($1,339), but it was gradually reduced to 500 euros before finally ending on New Year's Eve.

"It was an absolutely phenomenal month: we had a market of orders for 370,000 cars, which allows us to start the year with a very comfortable order book," Cambier told BFM.

Renault itself saw orders rise "almost 46 percent" year-on-year in December, Cambier said.

French car sales or registration figures for December -- which lag behind orders as customers register their cars when they are delivered -- are due out at 1100 GMT.

Spanish, Belgian and Italian car sales figures are also due to be published on Monday.

Hyundai Motor Group and its affiliate Kia Motors aim to boost vehicle sales by 10 percent this year after robust December sales, as the sector shows a gradual recovery, led by China and the United States.

Hyundai Motor shares rose 2 percent on Monday, while shares in Kia Motors jumped 3.75 percent in a broader market up 0.9 percent, with Hyundai expected to outperform other car makers this year.

In Asia, Hyundai, the world's No.5 automaker along with Kia, is expected to outperform its peers and gain more market share, driven by new models and its strength in compact cars.

US car sales figures are due out on Tuesday, and December is expected to be the third straight month that US auto sales hold above 12 million vehicles on an annualised basis, capping a year of gradual recovery for the auto sector, analysts said.

Hyundai said on Monday it would target sales of 6.33 million cars in 2011, up 10 percent from 5.75 million units sold in 2010. The auto giant did not give a breakdown of Hyundai and Kia sales targets.

Asia factory output powers ahead

REUTERS, *Mumbai*

Asian factory output powered ahead in December to underline emerging markets' lead in the global recovery although data showed an increasing inflation threat in the region even as growth is tepid in developed economies.

Purchasing managers' indexes in both China and India fell but also showed that the pace of factory output was still expanding solidly. The sectors in both countries have been growing for close to two years.

South Korea's factories posted their strongest growth in December in seven months.

The US purchasing managers' index (PMI) due to be released later is forecast to rise slightly to 56.9 in December from 56.6 the previous month, which would provide further evidence that the country's recovery is gaining traction.

Early figures from Europe showed Ireland and Spain -- two countries under pressure over high debt levels -- ended the year on a strong note. Ireland's PMI hit its highest level since May and Spain's index rose off the back of its strongest monthly surge in foreign orders in over a decade.

A euro zone PMI is due around 0900 GMT, but is expected to be flat as the region tackles its debt woes.

"Overall, the manufacturing sector is picking up momentum once again, notwithstanding China's PMI easing a bit -- but that number is still above 50," said Rob Subbaraman, economist at Nomura in Hong Kong.

"After a bit of inventory build-up around mid-2010, in recent months there have been signs IP (industrial production) and exports are gathering steam again. It is partly due to overseas demand, and partly due to the inventory overhang easing," he said.

Emerging economies, such as China and India, have revived from the global financial crisis much faster than developed countries, raising expectations of two-tier global growth.

Huge public debt in developed economies, used for stimulus spending during the crisis, could weigh on their growth for some years to come, analysts say, while in comparison emerging markets' fiscal positions are relatively healthy.

Reflecting emerging markets' economic strength, Singapore on Monday said its economy grew at an annualised rate of 6.9 percent in the fourth quarter and 14.7 percent in all of 2010.

Indonesia said its consumer price index (CPI) rose to nearly 7 percent in December from a year earlier.

Both figures beat forecasts and highlighted the risk that Asia's growth may come at the cost of tighter monetary policy.

"For Singapore and most of Asia, asset inflation and rising CPI continue to be the key risks to growth. Monetary policy is still at exceptional (loose) levels in much of Asia still," said CIMB economist Song Seng Wun.

Data on Monday showed that India's HSBC Markit PMI fell to 56.7 from 58.4 in November, which was the highest reading since May 2010. A reading above 50 shows expansion.

REUTERS

Technicians work on engines used for water pumps inside a manufacturing unit of PM Diesels in Rajkot, 216 km west of Ahmedabad.

EU hails new financial surveillance

AFP, *Brussels*

The European Union hailed the 2011 kickoff this weekend of a series of new post-crisis pan-European watchdogs aimed at tightening regulation of the finance industry.

"Europe is learning from the crisis," said Michel Barnier, the European Commissioner for Internal Markets and Services.

"It is giving itself a new apparatus of surveillance and supervision -- to detect problems early and to act in time."

The bodies include the Frankfurt-based European Systemic Risk Board and a trio of authorities for banks, insurance and stock, respectively based in London, Frankfurt and Paris.

The role of the Frankfurt-based Board is to alert and make recommendations to EU countries or supervisory authorities whenever it detects threats to financial stability.

The three other authorities will be able to propose Europe-wide technical standards, mediate between authorities of member states, temporarily ban or restrict trade in financial products, and urge national authorities to take mea-

China pledges support for troubled Spain economy

AFP, *Beijing*

China is willing to make "positive efforts" to help Spain with its economic recovery, state media on Monday quoted Beijing's ambassador to Madrid as saying, as a top Chinese official prepared for a visit.

Vice Premier Li Keqiang will pay a three-day visit to Spain from Tuesday, for talks likely to touch on Spain's financial woes amid fears of a sovereign debt crisis in Europe, which is China's biggest export market.

Li's meetings with Prime Minister Jose Luis Rodriguez Zapatero and Finance Minister Elena Salgado will "play a key role" in financial stabilisation, Xinhua news agency quoted the ambassador, Zhu Bangzao, as saying.

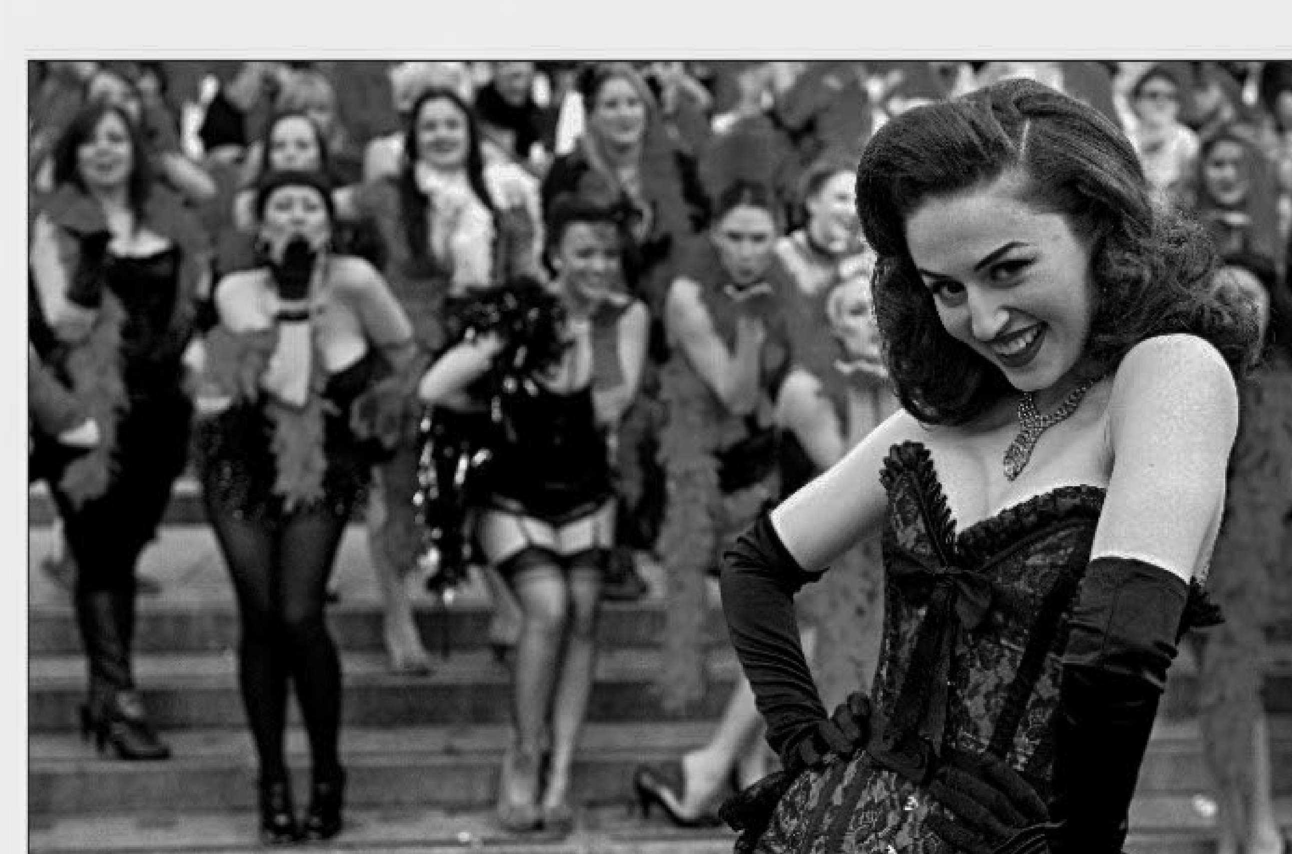
Their talks will focus on expanding trade and economic cooperation and will also help "restore market confidence," Zhu said. The report gave no further details.

The Spanish economy, the EU's fifth largest, slumped into recession during the second half of 2008 as the global financial meltdown compounded the collapse of the once-booming property market.

China has pledged to help support struggling eurozone economies against the threat of a debt crisis after Greece and Ireland were forced to resort to international financial bailouts.

A Chinese foreign ministry spokeswoman last month said Europe would be a "major market" for investment of Beijing's massive foreign exchange reserves.

China has pledged to buy bonds from Greece and Portugal, but it has not yet made any concrete commitments on the size of its investment.



AFP

Burlesque dancer Kimberley Dunne (C) poses with a group of Virgin Holidays staff in Trafalgar Square, central London during a photocall to launch the company's January sale yesterday.