Oil surges towards $120 as Libya unrest cuts supply

REUTERS, *London*

Oil surged more than 7.5 percent to its highest since August 2008 on Thursday on concern unrest in Libya could spread to other major oil producers in the Middle East, including Saudi Arabia.

Brent crude futures for April spiked up $8.54 per barrel to a peak of $119.79 before easing back to around $114.00 by 5.35 a.m. EST.

Disruption stemming from the revolt in the world's 12th-biggest exporter has cut at least 400,000 barrels per day (bpd) from Libya's 1.6 million bpd output, according to Reuters calculations.

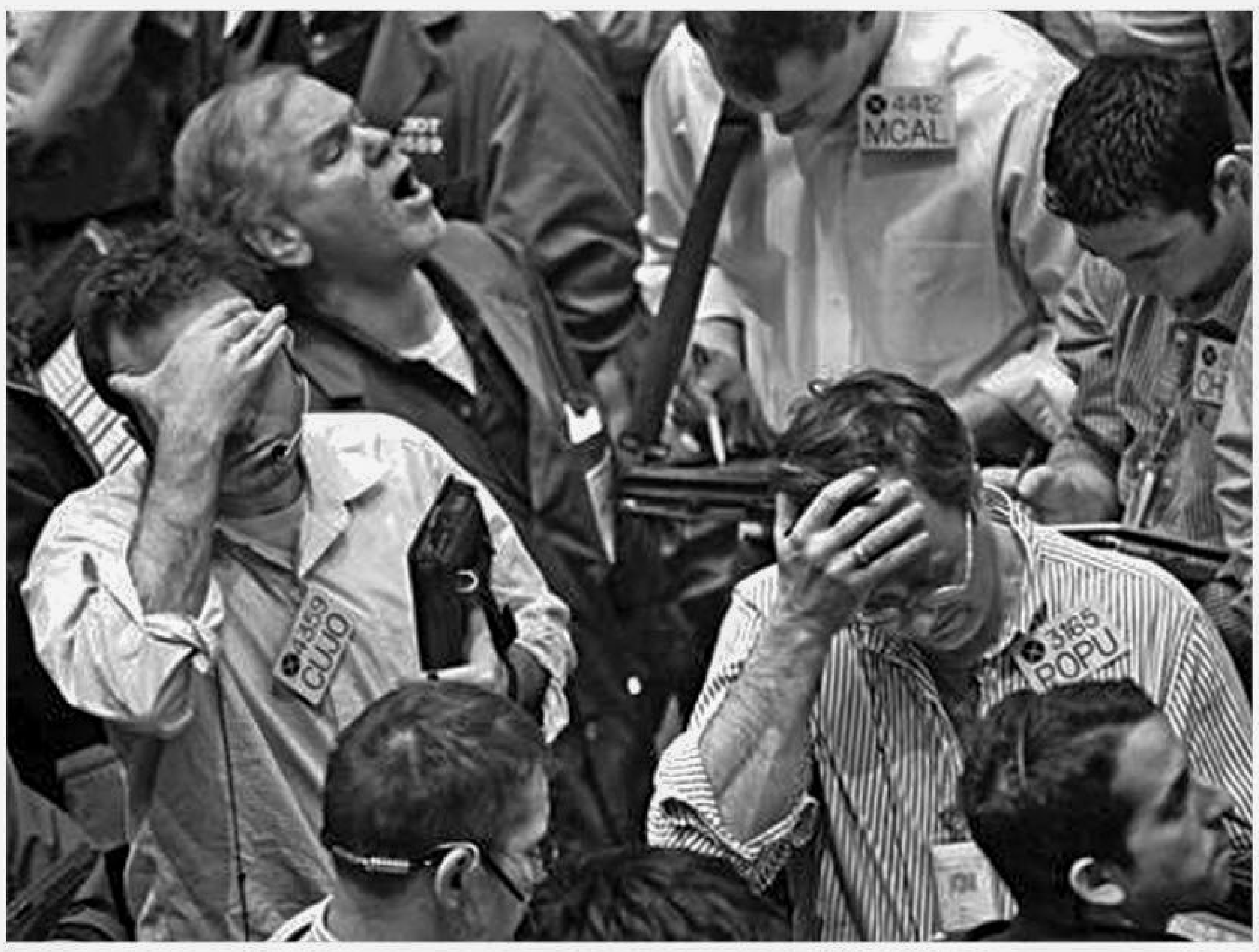
ENI Chief Executive Paolo Scaroni provided an estimate of a much more dramatic fall in Libyan output.

"There are 1.2 million barrels (per day) less on the market," Scaroni told reporters in Rome.

Eastern areas holding much of Libya's oil have slipped from the control of Muammar Gaddafi, who has unleashed a bloody crackdown on protesters to keep his 41-year grip on power.

Goldman Sachs said the spread of unrest to another producing country could create severe oil shortages and require demand rationing.

"The market cannot accommodate another disruption, in our view, with the problems in Libya potentially absorbing half of OPEC's spare capacity," analyst Jeffrey Currie said in a research note.



REUTERS

Traders work in the oil options pit on the New York Mercantile Exchange in New York City on Tuesday.

Reuters market analyst Wang Tao said technical charts showed Brent could be on course for a rise to $158 per barrel in 2011, well above its 2008 high of $147.50, while he expected US crude to touch $159 per barrel.

US crude for April delivery rose as high as $103.41, the highest September 2009. It was up $2.50 at $100.59 at 1035 GMT.

The cuts from Libya represent the first disruption to supply as a direct result of protests that have swept through the oil-producing regions of North Africa and the Middle East.

The concern for oil markets is how unrest might affect Saudi Arabia, which not only pumps around 10 percent of the world's oil but is also the only holder of significant spare crude production capacity that can be used to plug outages.

Without Saudi Arabia's 4 million bpd of spare capacity, there is little margin in the global oil supply system to deal with output disruption.

Senior Saudi sources said on Thursday the kingdom could supply high quality, light oil to replace any lost Libyan crude.

"Saudi is willing and capable of supplying oil of the same quality, either Arab extra light or through blending," one source said. "OPEC stipulates that it is able to supply all types of oil if needed," the source added.

To date, Saudi Arabia has escaped popular protests that have raged across the Arab world, toppling the long-time leaders of Egypt and Tunisia and spreading as far as Saudi neighbor Bahrain.

Barclays Capital said on Thursday Opec producers needed to make an explicit move to reassure the market over oil supplies if they wished to exert any downward pressure on prices.

"Unless we see an explicit move from ... producer countries, i.e. Saudi Arabia, I don't think there is necessarily going to be any downward pressure on (oil) prices," BarCap oil analyst Amrita Sen said.

Saudi King Abdullah returned home on Wednesday from a three-month medical absence and unveiled benefits for Saudis worth $37 billion in an apparent bid to insulate the oil exporter from protests in the region.

Hundreds of people have backed a Facebook page campaigning for a "day of rage" across the kingdom on March 11 to demand an elected ruler, greater freedom for women and the release of political prisoners.

Weekly US oil inventory data from industry group API showed on Wednesday that petroleum stocks had risen by 163,000 barrels last week, after analysts polled by Reuters had forecast a bigger rise of 1.2 million barrels.

Distillate inventories fell a less-than-expected 534,000 barrels and gasoline supplies fell 1.6 million barrels, API data showed, bucking analyst expectations for a rise.

The US Energy Information Administration's weekly inventory figures are due to be released later today.

Weaker dollar would help global growth

AFP, *Washington*

The International Monetary Fund called for a weaker dollar to help the United States reduce its deficits with the rest of the world and rebalance the global economy, in a report released Wednesday.

In the report prepared for a Group of 20 finance chiefs meeting last week, the IMF said that its calculations showed the dollar remains "on the strong side" of medium-term fundamentals, while the euro and the Japanese yen were "broadly in line" and several Asian currencies, including China, were undervalued.

To address global imbalances, the G20 should allow the dollar to fall, the Washington-based institution said.

"Some further real effective depreciation of the US dollar would help ensure a sustained decline of the US current account deficit towards a level more consistent with medium-term fundamentals, helping to support more balanced growth," the IMF said.

The widening US current account deficit -- a broad measure of trade in goods, services, income and payment -- rose a fifth straight quarter in the third quarter last year, to $127.2 billion, according to the latest US official data.

The issue of a weak dollar is particularly sensitive in Brazil, where the government has said an international "currency war" is under way with the United States pumping cheap dollars into its post-crisis economy, while China's yuan sinks in tandem.

The IMF report was provided to finance ministers and central bank governors of the G20 major developed and emerging economies for their meeting Friday and Saturday in Paris.

The G20 countries reached agreement on a series of economic indicators to measure imbalances within and between countries, with the goal of helping nations avoid a repeat of the problems at the heart of the 2008 financial crisis.

The IMF urged stepped-up G20 efforts to sustain the global economic recovery, citing elevated downside risks for advanced economies and "overheating" in some emerging economies.

Among the threats to global growth, the IMF highlighted "insufficient progress in developing medium-term fiscal consolidation plans, especially in the United States and Japan" and "sovereign and banking sector risks in the euro area periphery."

Nigerian state energy firm wants to boost exports to China

AFP, *Abuja*

Nigeria's state energy firm wants to boost exports to China as the poorly performing company works to restructure as part of wide-ranging industry reforms, its head said on Wednesday.

"For export, China is looking very good," Austen Oniwon, group managing director for the Nigerian National Petroleum Corporation (NNPC), told a major industry conference in the capital Abuja.

Speaking of China's energy needs, he said, "somebody has to fill this gap and I believe that NNPC and its partners should be ready."

Last year, Nigeria and a Chinese state firm signed a 23-billion-dollar deal to build three refineries and a petrochemical complex in the west African nation.

Oniwon did not provide numbers or specifics on potential exports to China in a speech that largely focused on exploiting Nigeria's extensive gas reserves. Much of Nigeria's gas is currently flared -- burned off -- in part because of a lack of infrastructure to capture and use it.

The country's gas reserves have been estimated as the world's eighth-largest.

The government wants to use those reserves to fire new power plants to address its woeful electricity supply, with outages daily occurrences in Africa's most populous nation, and to increase liquefied natural gas exports.

Most of Nigeria's gas exports have gone to Europe, according to 2009 figures from the US Energy Information Administration, while some 15 percent went to Asia.

Oniwon also spoke of boosting Nigeria's refining capacity, with the country importing much of its fuel despite its huge crude reserves. Nigeria's four refineries rarely operate at capacity, held back by poor maintenance and corruption.

"Today we are probably the only OPEC country that exports raw materials and imports finished products from the same raw materials that we export," he said.

"This is not an acceptable position at all to be in."

The NNPC, widely viewed as corruption-ridden, is to be restructured with the aim of making it into a commercially viable company as part of sweeping reforms planned for Nigeria's oil industry.

AFP

A policeman on fire is helped by a colleague during clashes with demonstrators in central Athens on Wednesday. Police fired tear gas near the Greek parliament yesterday as clashes broke out with protesters throwing stones and firebombs during a demonstration against austerity measures.

Manmohan vows to tackle inflation as food prices climb

REUTERS, *New Delhi*

Indian Prime Minister Manmohan Singh vowed on Thursday to control inflation, a problem that has sparked street protests this week and added pressure on the government already under fire over corruption scandals.

Food inflation in India is among the highest in Asia, and it accelerated slightly in the middle of February despite policymakers' projections that prices would ease to single digits.

Singh said inflation in the last 18 months has become a problem and suggested that the government could introduce measures including revamping India's archaic public distribution system -- often seen as supply side bottlenecks contributing to inflation -- in the budget to be announced next week.

Some economists fear that policies to protect consumers from high inflation such as fuel and food subsidies and a food security bill will derail government plans to keep the budget deficit under 4.8 percent of gross domestic product in the next fiscal year that starts on April 1.

"Our government stands committed to control inflation," Singh told parliament, adding that he would bring a food security bill to parliament soon. "The government's function is to ensure that we control inflation but in a manner which we do not hurt the growth of employment opportunities."

"The only way we can control inflation is through increased production and increased productivity of agriculture."

India's food index rose 11.49 percent in the week ending Feb. 12. The fuel price index climbed 12.14 percent in the year to Feb.12, higher than the previous week's 11.92 percent, government data showed on Thursday.

Singh said headline inflation would ease to 7 percent by end-March, from 8.23 percent in January.

REUTERS

Labourers push a handcart filled with sacks of vegetables in Srinagar yesterday. Indian food inflation is among the highest in Asia and food prices have been in double digits, sparking protests and keeping pressure on the government.

Overall headline inflation remained stubbornly high at more than 8 percent in January despite seven rate hikes by the central bank since March, with more tightening expected at the bank's mid-quarter policy review in mid-March.

Finance Minister Pranab Mukherjee is expected to announce a populist budget on Monday ahead of a series of state elections that are seen as key test of support ahead of a 2014 general election.

On Wednesday, at least 100,000 trade unionists, including those from Singh's Congress party, marched in the Indian capital to protest high inflation.

Police in New Delhi on Thursday fought back with batons, water-cannons and tear gas hundreds of members of the main opposition Bharatiya Janata Party, who were protesting against corruption and high food prices.

Singh said that the government was committed to bring in a law to offer cheap grains to the poor, a scheme seen taking off the edge of voter anger and improving the electoral chances of Congress in several key state polls this year.