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$100 Oil Looms for JPMorgan, Merrill on Fed Plan: Energy Markets
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By Mark Shenk and Grant Smith

Nov. 4 (Bloomberg) -- Oil may return to $100 a barrel for the first time since the 2008 financial crisis as the U.S. Federal Reserve's stimulus measures weaken the dollar, drawing investors to raw materials.

Crude may rally to three digits next year as central banks pump cash into their economies to revive growth, according to JPMorgan Chase & Co. and Bank of America Merrill Lynch. The Dollar Index sank 7 percent in the past two months as the Fed moved closer to extending a bond-purchase program, luring investors to commodities including oil.

"It's likely to push prices upwards," said Antoine Halff, head of energy research at Newedge USA LLC in New York and former principal administrator at the International Energy Agency. "The past few years have shown that the more liquidity in the system, the more cheap money in the system, the more money flows into commodities, in particular energy."

The Fed said yesterday it will spend $600 billion buying long-term securities in a program known as quantitative easing.
A Labor Department report tomorrow will probably show the U.S. unemployment rate held at 9.6 percent for a third month, according to a Bloomberg survey.

Oil has climbed 8.9 percent this year, lagging behind other commodities that typically benefit from a depreciation of the dollar, as U.S. crude inventories remain above their five-year average. Gold has gained 26 percent, trading at a record in London last month. Cotton has risen 85 percent, reaching an all- time high today.

Dollar's Decline

The dollar declined versus 14 of its 16 most-traded peers this year, losing 15 percent against the Japanese yen. The U.S. currency slipped as much as 1 percent yesterday to $1.4244 a euro, the lowest level since Jan. 20.

Crude for December delivery advanced as much as $1.99, or 2.4 percent, to $86.68 a barrel today on the New York Mercantile Exchange following the Fed's announcement. It's the highest intraday price since May 3, when futures rose to $87.15. The commodity last traded above $100 on Oct. 2, 2008.

"Quantitative easing will reassert the strong, negative pressure on the dollar," said Lawrence Eagles, global head of commodities research at JPMorgan in New York. "If we see the dollar shift, all other things being equal, oil prices will rise."

Gains in commodities may stoke inflation in the biggest consumer nations just as they emerge from the recession. Fed Chairman Ben S. Bernanke must follow a "careful tightrope act"
to prevent higher inflation expectations from taking hold, according to James D. Hamilton, a University of California, San Diego economist and

former visiting scholar at the Fed board and the New York and Atlanta district banks.

'Balancing Act'

"The Fed is clearly worried that the recovery is taking too long, so they want to be proactive," said Adam Sieminski, chief energy economist at Deutsche Bank AG in Washington.

"Bernanke has a delicate balancing act. He wants to stimulate the economy, without increasing inflation fears."

Members of the Organization of Petroleum Exporting Countries have signaled they may seek a higher price range for oil as the depreciation of the U.S. currency erodes the purchasing power of their dollar-denominated exports.

Saudi Arabia's Oil Minister Ali Al-Naimi said in Singapore on Nov. 1 that a range between $70 and $90 a barrel is satisfactory for consumers. The kingdom had previously indicated a preferred target of $75 a barrel.

OPEC's Range

"Al-Naimi spoke of a $70-to-$90 range for the first time," said Francisco Blanch, head of commodity research at Bank of America Merrill Lynch Global Research in New York. "The next threshold is $90 if al-Naimi says he won't be putting any more oil in the market until we get to that level."

Growth in emerging markets will help reduce stockpiles of crude in 2011, said David Greely, head of energy research at Goldman Sachs Group Inc. in New York. Inventories rose 1.95 million barrels to 368.2 million last week, the highest level since May, the Energy Department said yesterday.

Global oil demand will climb by 2.1 million barrels a day to 86.9 million this year and to 88.2 million in 2011, the Paris-based IEA said on Oct. 13. OPEC spare production capacity dropped to about 5.8 million barrels a day last month, down from a seven-year high of 6.8 million in March 2009, according to a Bloomberg News survey of oil companies, producers and analysts.

"You have high U.S. inventories which are beginning to draw, and OPEC spare capacity which will need to return to the market in 2011," Greely said. "As that OPEC spare capacity begins to draw down, you set the stage for higher prices."

'Forecasts Overblown'

Forecasts that oil will exceed $100 a barrel are exaggerated because of the supply surplus, according to Sarah Emerson, managing director of Energy Security Analysis Inc. in Wakefield, Massachusetts.

"This is a well-supplied market and that won't be changing anytime soon," Emerson said. "At the end of the day fundamentals matter. That's what 2008 shows."

Oil surged to a record $147.27 a barrel on July 11, 2008, before plunging 78 percent in the next five months to a low of $32.40 as the financial crisis unfolded. It has traded in a $23 range this year, the narrowest since 2006.

"There are guys on Wall Street who think this market should be at $95 and have tried to take it there several times over the last year and a half, and have been wrong," said Stephen Schork, president of Schork Group Inc., a consulting company in Villanova, Pennsylvania.

Hedge funds and other large speculators increased wagers on rising crude prices by 9.3 percent in the seven days ended Oct. 26, according to the Commodity Futures Trading Commission's Oct. 29 Commitments of Traders report.

"The one key risk for the Fed is that energy prices will get out of hand," Merrill Lynch's Blanch said. For oil, "we will probably move past $90 by the end of the year, and then $100. We aren't likely to see oil rise to $130 or $140, which would put us back in a recession."

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