

Analysts Warn Oil-Price Jump Looks Like 2008 Spike

By BEN CASSELMAN

Oil's rapid rise to as high as \$70 a barrel is sparking fears of a repeat of last year's energy-price rollercoaster. Crude oil futures touched \$70 a barrel on the New York Mercantile Exchange on Friday before falling off slightly to close down 37 cents to \$68.44. Prices remain well below their level of a year ago, when oil topped \$125 a barrel, but the climb has been even steeper this year. Prices are up more than 50% since the start of the year and have more than doubled since mid-February. This time last year, prices were up just 33% year-to-date. Some energy experts see similarities between the two run-ups. In both cases, the rise came despite warnings that supply-demand fundamentals didn't support big price increases, and in both cases, energy analysts appeared to drive the market upward. On Thursday, Goldman Sachs analysts predicted that oil prices will hit \$95 a barrel by the end of next year, echoing the bank's prediction of \$200 oil in May 2008. "What we are seeing here is a replay," said Ann-Louise Hittle, head of oil market analysis for the consulting firm Wood Mackenzie. "It's the same phenomenon." Experts argue there are two main forces behind the recent rise in prices, both with strong parallels to last year's climb. First, investors are putting money into oil as a hedge against inflation and a weakening dollar; last year, investors were guarding against a weakening stock market. Second, investors are betting that early signs of economic recovery suggest a looming shortage of oil. A year ago, oil bulls argued rising demand in China and India would lead demand to outstrip supply. "Now it's anticipation of recovery. Last year it was anticipation of China's growth going through the roof forever," said Bruce Bullock, director of the Maguire Energy Institute at Southern Methodist University in Dallas. To be sure, there are significant differences between this year and last. A year ago, the global economy was cooling but not yet in recession, and demand for oil was still rising worldwide. OPEC was producing at close to its maximum possible rate, whereas now the oil cartel's members are producing millions of barrels a day less than their capacity. Some analysts warn that with prices being driven by investor sentiment, not market fundamentals, the leap in prices could give way to an equally sharp drop -- just like last year. "There may be enough momentum to carry us up to just \$72.50, but then I think the correction is going to be just that dramatic," said Guy Gleichmann, president of United Strategic Investors Group, a commodities brokerage in Hollywood, Fla. Moreover, some experts argue the rise in energy costs could actually help slow the economy down. Retail gasoline prices have risen 23% since the end of April, to \$2.52 per gallon on average, which Tom Kloza, chief oil analyst for the Oil Price Information Service, warned could lead consumers to pull back their spending. Gasoline at \$2.50 a gallon "has got that peculiar resonance that really can contribute to the malaise of consumers," Mr. Kloza said. Oil producers that slashed spending when prices were falling have been reluctant to resume drilling now that prices are rebounding. On Friday, Baker Hughes Inc. reported that the number of drilling rigs operating in the U.S. had fallen by 12 to 887, nearly 1,000 lower than a year ago. "There's some momentum behind this contraction in investment that's going to take a while yet to play out regardless of the change in oil prices," said Karr Ingham, an energy economist based in Amarillo, Tex. But there are signs that the industry is gaining confidence in the recovery. The Russian oil company TNK-BP this week said it would increase its capital spending by \$400 million to \$3.7 billion, Reuters reported. Exxon Mobil Corp., the biggest Western oil company, has in recent days announced investments in large, long-term projects, which analysts said will be viewed as a green-light for others to pick up the pace of their spending.