

Oil Analysts Raise Price Forecasts on Demand Growth

July 6 (Bloomberg) -- Oil analysts raised their price forecasts for this year as demand increases and threats to output loom in the Persian Gulf, Nigeria and the Gulf of Mexico.

Crude oil will average \$67.25 a barrel, \$9.25 higher than expected at the start of the year, according to the median forecast in a survey of 28 analysts by Bloomberg News conducted June 19 through June 29. The projection is \$10.55 above last year's record average on the New York Mercantile Exchange.

Oil jumped 23 percent this year to about \$75 a barrel on speculation the dispute over Iran's nuclear program will disrupt Persian Gulf exports and concern hurricanes may again reduce Gulf of Mexico supplies. World oil consumption will rise by 1.5 percent to 84.9 million barrels a day, led by China and the U.S., according to the International Energy Agency.

"More and more we are confident that prices will hit or exceed our forecast," said Kevin Norrish, a director of commodities research for Barclays Capital in London who expects oil to average \$68 a barrel in 2006. "In the short term things look tight, and in the longer term there are a lot of question marks."

Yesterday, oil for August delivery touched \$75.40, a record intraday price on the New York Mercantile Exchange, after North Korea launched at least seven missiles, deepening concern about a possible disruption to Asian economies. Oil was at \$75.11 a barrel in after-hours electronic trading on the exchange today at 8:03 a.m. London time.

Playing Catch-Up

Analysts have been playing catch-up with surging oil prices. They started this year with a forecast of \$58 a barrel, below the \$67.13 average price through the first six months. While raising estimates the past 24 months, analysts lagged behind oil's gains.

At the end of the first quarter, analysts said oil would average \$63 a barrel this year. Crude oil in New York touched a record \$75.35 on April 21.

The International Energy Agency in Paris, adviser to 26 oil-consuming countries, said in a June 13 report that supply from outside the Organization of Petroleum Exporting Countries is coming more slowly than expected. The forecast for a 1.5 percent increase in global demand compares with a 1.3 percent gain last year and a 4.1 percent jump in 2004.

Oil is likely to average \$67.65 a barrel in the third quarter, according to the survey. The market will be bolstered by the Atlantic Ocean hurricane season, which lasts from June through November. Hurricanes threaten U.S. Gulf of Mexico production platforms and refineries along the coast.

Hurricane Katrina

Prices jumped to a then-record last August after Hurricane Katrina struck Louisiana and Mississippi, toppling platforms, destroying undersea pipelines, flooding onshore processing plants and shutting refineries.

The Gulf accounted for more than a quarter of U.S. oil production before Katrina. Damage from that storm and from Hurricane Rita the following month hasn't been fully repaired, and oil production remains 16 percent below pre-storm levels, according to the U.S. Minerals Management Service.

“A direct hit by a hurricane on the U.S. Gulf Coast would add \$4 a barrel to the quarterly average,” said Peter Beutel, president of energy consultant Cameron Hanover Inc. in New Canaan, Connecticut. “The acceptance by Iran of the incentive package would take \$2.50 a barrel off the average.”

Iran has yet to respond to a package offered by the European Union and the U.S. that provides incentives for the country to halt uranium enrichment. Foreign ministers meeting in Moscow last week said they expect a response from Iran today. Iranian officials have said they will respond by Aug. 22.

Iran, Russia

Iran is the world's fourth-biggest oil producer. The U.S. has accused Iran of using its atomic research as cover for development of nuclear weapons. Iran says the program is aimed solely at increasing electricity output.

In Russia, crude oil production growth is slowing. The country is expected to raise output by at most 5.2 percent to 10.1 million barrels of oil a day by 2009, the Russian Economy Ministry said on June 6. Russian output surged 41 percent between 2000 and 2005, according to the U.S. Energy Department. Russia is the world's second-biggest oil exporter.

“We started the year with very strong expectations for non-OPEC supply growth,” Norrish said. “U.S. output is still well down from where it was before the hurricanes, Russian export growth has slowed, and North Sea production is lower than expected.”

Oil output in the North Sea was 5.9 million barrels a day last year, down 5.6 percent from the peak in 1999, the Energy Department estimates.

Next Year

Rising output worldwide as increased investment begins to yield results is causing analysts to forecast declining prices in 2007. The median forecast is for an average price of \$62 a barrel in New York next year.

“Production and demand are coming into balance,” said Simon Wardell, an energy analyst with Global Insight Inc. in London. “OPEC and non-OPEC countries have a lot of projects coming on in the second half of the year. We don't expect a huge decline in prices in 2007, with a retreat to about \$60.”

The average price for Brent crude oil, which is traded on the London-based ICE Futures exchange, is likely to be \$67.88 a barrel in the third quarter and \$66.38 on average for the full year, according to the survey. Brent oil futures will average \$60 a barrel in 2007, according to the median forecast.

Brent crude oil for August settlement traded at \$74.01 a barrel, down 3 cents, at 8:04 a.m. London time.