NYMEX OIL: US$86.85
+$0.36
December delivery
NYMEX N. Gas: US$3.93
+$0.36 per MMBTU
December delivery

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OIL NEARS TWO-YEAR HIGH

Oil remained near $87 a barrel Friday after reaching a two-year high as the Federal Reserve's plan to buy $600 billion of Treasury bonds to stimulate the U.S. economy drove a tide of cash into stocks and commodities. By early afternoon in Europe, benchmark crude for December delivery was up 35 cents at $86.84 a barrel in electronic trading on the New York Mercantile Exchange. Earlier in the session, it reached $87.22 -- its highest point since Oct. 2008. On Thursday, the contract climbed $1.80 to settle at $86.49. The Fed's announcement Wednesday underlined expectations that the dollar would weaken further and push up prices for commodities including oil. The strength of the dollar and the price of oil are closely linked. The dollar has been getting weaker against other currencies for weeks, ahead of the Fed decision and some expect it to remain weak as more dollars pour into the economy. Oil is priced in dollars and becomes cheaper for holders of foreign currency when the dollar falls. That interest then boosts the price. When the dollar weakens, investors would rather hold hard assets like oil and other commodities because hard assets protect them against more weakening and inflation. Despite the price jump, analysts pointed to continued weak demand as a factor which could make current levels difficult to sustain. "Oil prices are already back to the end-2007 levels but the oil fundamentals are nowhere near those of 2007," said Olivier Jakob of Petromatrix in Switzerland. Sustained higher oil prices would make themselves felt across the economy, hampering growth. "Commodity-induced inflation in emerging countries will pose a growing threat, and will eventually prompt more forceful rate hikes," said a report from MF Global in New York. "These, in turn, will ultimately slow economies down, and deflate the commodity bubble from the demand side." Oil prices hit a high for the year of $87.15 a barrel in early May, when U.S. gas prices were around $2.90 a gallon. They're heading back there again. In other Nymex trading in December contracts, heating oil rose 0.85 cent to $2.3816 a gallon, gasoline gained 0.87 cent to $2.1858 a gallon and natural gas advanced 1.7 cents to $3.873 per 1,000 cubic feet. In London, Brent crude climbed 25 cents to $88.25 a barrel on the ICE Futures exchange

OPEC LOWERS LONG TERM OIL PRICE OUTLOOK

The Organisation of the Petroleum Exporting Countries (OPEC) said Thursday oil prices would not rise above $85 until 2020, significantly lowering its forecast amid uncertainties about the global economic recovery. OPEC Secretary General Abdalla Salem El-Badri said it was unclear how economies would perform and how demand would develop after government stimulus packages run out. 'It is a fragile recovery,' he told reporters at the cartel's Vienna headquarters. Last year, the group had predicted an oil price ranging between $70 and $100 per barrel (159 litres) over the next 10 years. In this year's outlook, the range is $75 to $85. But the producers' group said economies had improved enough over the past year to warrant slightly increased mid- and long-term demand forecasts. Consumption is now expected to rise to 89.9 million barrels per day (bpd) until 2014, up 5.4 million bpd from 2009 usage. The new projection is 800,000 bpd higher than last year's because the economic outlook is now 'far brighter in most parts of the world than a year or so ago,' El-Badri wrote in the report. OPEC also raised its forecasts through 2025, although the 2030 demand figure was nearly unchanged at 105.5 million bpd. While consumption in developed countries was expected to fall in the next two decades, growth would come mostly from developing Asian countries. The 12-country group said its share in the global market would rise to 40 percent by 2030, up from 36 percent this year. The cost for adding more production capacity is considerably higher in developed countries than in OPEC member states. Policies in the US and European Union that push for fuel efficiency and higher bio-fuel use could dampen demand for OPEC oil, the group pointed out, but said oil would still account for more than 30 percent of the energy mix in the coming years. 'Changes to road transportation technologies will be evolutionary, not revolutionary,' the report said, pointing to insufficient research, development and manufacturing efforts. The current internal combustion engine would continue to be the dominant technology, OPEC said.

BP LIFTS GULF OIL SPILL BILL TO $40BN

BP lifted its estimate of the likely cost of its Gulf of Mexico oil spill to $40 billion (R279bn) yesterday, denting profits, but its underlying performance beat all expectations on higher refining margins and a lower tax rate. BP said delays in capping its blown-out Macondo well had prompted the increased charge for ending the leak, cleaning up the damage and compensating those affected. The charge, up by $7.7bn, pushed third-quarter replacement cost profit, which strips out unrealised gains or losses related to changes in the value of fuel inventories, down 63 percent to $1.8bn. Stripping out one-offs, including the oil spill costs, the underlying results rose 18 percent compared with the same period in 2009 to $5.53bn. The underlying net result was boosted by a drop in the company's effective tax rate to 25 percent from 29 percent in the same period last year. Analyst had forecast a 30 percent tax rate. The better-than-expected results, and comments that BP plans to consider reinstating its dividend next year, lifted its shares 1.9 percent by 10am in London. "With regards to BP, a lot of the uncertainty is out of the way, and it is slowly but surely getting back to business," said ETX Capital senior trader Manoj Ladwa. However, some analysts said the result was not a harbinger of better things as the tax rate was likely to revert towards normal levels. BP said it would be hard to repeat the strong profits from the refining unit. Analysts had expected BP to register an extra charge related to the oil spill in the third quarter, after delays in capping the well for good, but most had predicted a figure of $2bn to $3bn. The final cost of the oil spill could be far larger, or even smaller, than the $40bn charge BP has taken. Anadarko Petroleum and Japan's Mitsui own 35 percent of the blown out well and they are contractually obliged to share the costs. However, they claim that this obligation is void because BP was grossly negligent. Accounting rules require BP to ignore any recoverable payments that are not certain so it is possible that the partners will, in the end, pay up to 35 percent of the cost. However, if gross negligence is proven, then BP will take the entire $40bn bill alone, and will face additional federal fines. JPMorgan Chase analysts said if gross negligence was found, the final cost could be $69bn. BP shares are down 34 percent since before the spill, representing a loss in market capitalisation of over $60bn. The company said it would consider whether to reinstate its dividend payments - cancelled in the wake of the oil spill after a political outcry in the US - in early 2011. BP said the strength of its cash flows would allow it to raise its 2011 capital expenditure budget above the $18bn it had indicated.

SINGAPORE AIMS TO BE LNG TRADING HUB

Singapore seeks to become a trading hub for liquefied natural gas (LNG) and plans to build a third tank at its proposed LNG terminal in a bid to meet rising demand, chief executive of the energy regulator said on Tuesday. Lawrence Wong, chief executive of the Energy Market Authority of Singapore also said its supply contract with Britain's BG would be increased to 2.0 million tonnes per year (tpy) from 1.5 million tpy. "Demand will continue to grow not just from power generation companies, but also from industrial users that need gas as a feedstock," Wong said at an energy conference. "We can potentially develop and grow as a centre for LNG trading in the region. There is considerable interest from companies to make use of the terminal for LNG trading," Wong added, referring to spot trading. BG Group won a 20-year deal to supply LNG into Singapore in April. So far, it has found buyers for around 1.5 million tpy of gas in the power sector and was in talks with potential customers for the rest. Wong had said in September that Singapore could lease ou storage for trade at its upcoming LNG import terminal if demand in the city-state fails to absorb capacity for incoming shipments. Singapore is building a $1.05 billion import facility for LNG to help meet rising demand for the fuel from power and industry. Neighbours Malaysia and Indonesia supply Singapore with gas, but have no capacity to boost exports. The first phase of the new facility was on track for completion in early 2013, Wong had said.

FLINT AWARDED MODULE FABRICATION CONTRACT

Flint Energy Services Ltd. has announced that it was awarded a contract to fabricate production modules for Suncor Energy's Firebag SAGD bitumen extraction projects near Fort McMurray, Alberta. Work on the fixed-price contract valued at $18.5 million starts immediately, and work will continue through to the second quarter of 2011, employing up to 200 workers at Flint's fabrication facilities in Sherwood Park,B.