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Energy Oil Traders Bet Mideast Political Instability Will Last

By Stanley Reed

April 8 (Bloomberg) -- The Mideast uprisings and a recovering world economy have pushed oil prices to the highest levels since 2008: $121 recently for Brent crude. Yet except for Libyan crude, which provides 2 percent of world supplies, oil is flowing unimpeded.

Still, traders are focused on a new perception that an Age of Uncertainty has arrived in the Mideast that isn't going away anytime soon, Bloomberg Businessweek reports in its April 11 issue.

Hakan Kocayusufpasaoglu, an oil trader who runs hedge fund Archbridge Capital in Zug, Switzerland, puts it bluntly: "They are all failed states," he says of the oil producers. "I think there is a decent chance of the contagion spreading." He says prices are headed toward $150 a barrel,

Before the uprisings, traders assumed that oil was readily available from reliable sources. Now the need to replace Libyan oil, plus fast-rising world demand, has pared OPEC's spare capacity to perhaps 3.3 million barrels a day, from around 6 million barrels last year, figures Amrita Sen, an analyst at Barclays Capital in London.

Longer-term, leadership changes in Egypt and possibly Libya could mean stiffer financial terms for international oil companies operating in those countries. Even wealthy states such as Saudi Arabia, which face no dire threats now, are likely to find it ever more expensive to satisfy the needs of their youthful populations.

Balance Budget

Saudi Arabia’s King Abdullah recently promised $150 billion in new housing, wage increases, and other benefits. These deals mean the kingdom needs oil at $85 to $90 per barrel to balance its budget -- a huge increase from around $25 per barrel in 2003, figures Rachel Ziemba, an analyst at Roubini Global Economics in London. “The social contract is becoming less and less sustainable,” she says, adding that as the fiscal pressure builds, Saudi Arabia may no longer be so willing to play the role of swing producer, pumping new crude when it’s needed to cool the market.

What does this mean for prices? “There is a $15-to-$20 unrest and fear premium in the market,” says Ray Carbone, president of Paramount Options in New York and a trader at the New York Mercantile Exchange. “We wouldn’t see the premium evaporate if Muammar Qaddafi left Libya tomorrow. I don’t see us returning to where prices were anytime soon.” Goran Trapp, Morgan Stanley’s chairman of oil liquids in London, one of the firm’s trading groups, says the risk of real disaster, such as a Saudi-Iran war, is not even priced yet into the market.