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Oil May Rise as Nigeria Adds to Supply Fears: Survey

Published: Monday, 16 Jan 2012 | 9:58 PM ET By: Sri Jegarajah Anchor, CNBC Asia Pacific

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Benchmark crude oil prices may rise this week as supply fears from Nigeria, Africa's largest producer, add to disruption threats from Iran, CNBC's weekly survey showed.



Nearly sixty percent of this week's sample group, or seven out of twelve respondents, expect oil prices [CLCV1 100.79 2.09 (+2.12%) I to climb this week despite the risks continuing to originate from the euro zone, highlighted by S&P's downgrade of nine sovereigns in the region including

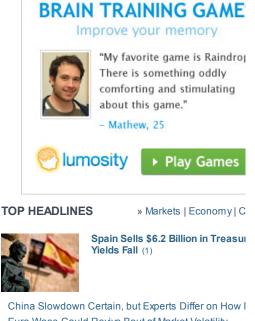
France.Two respondents forecast a pullback while the remaining three expect prices to remain unchanged.

"While the macro forces of a slowing economy are the overriding influences, the geopolitical risks in the short term are powerful enough to merit shorting the market a dangerous proposition," said Roubini Global Economics' Shelley Goldberg. "The threat of sanctions against Iran's nuclear program both in the west and the east, as well as concern of a strike in Nigeria, Africa's largest crude producer, should support the markets in the near term."

Nigerian trade unions called off strikes and protests on Monday, ending a major confrontation over fuel prices after President Goodluck Jonathan said he would cut them by one third, Reuters reported.

Although the deal did avert a threat by oil workers to shut down production, the main umbrella union in Nigeria's second biggest city of Kano, in the north, said protests and strikes would continue there. Sporadic violence has been worst in Kano, where anti-government sentiment is currently riding highest.

David Kotok, Chief Investment Officer of Cumberland Advisors, has been warning on the supply risks of Nigeria since at least November. "Jonathan went too far on the gas price," said Kotok, who has a bullish call on the oil market this week. "If he backs down, he is a weakened president. If he doesn't, he will face huge unrest. He cannot win now. Situation is explosive and very bad for



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the oil importing nations."

Should strike action disrupt the country's oil industry, it would add to already hefty risk premium that's been accumulating in the price of oil as investors attempt to price in the threat from Iran.

"Iran is a big part of what is happening in the crude complex right now," said Peter Turville-Ince, Director at Compass Global Markets. "Improving U.S. economic data is also helping with the only real hindrance in the short-term being the euro."

Though the weakness in the euro is restraining any move higher in the broader commodities market, Turville-Ince said "we remain bulls above \$97.50 and even though we have not broken back above resistance at \$100.10 we will become short term bulls again as Iranian tensions come to the forefront. Support at \$98.50 should hold into any further weakness."

The European Union - Iran's second biggest oil customer after China, buying some 450,000 barrels per day of its 2.6 million bpd exports - is expected to agree to embargo Iranian oil at a foreign ministers meeting on January 23, Reuters reported on Monday.

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though they would likely result in a redirection rather than a halt to crude flows."

Roubini Global Economics' Goldberg said although Saudi Arabia was capable of compensating for Libya's 1.6 million barrel a day shortfall last year, "they are less likely to cover a potential 4 million barrels of Iran output."

Downside risks included the lingering euro zone debt crisis and a slowdown in emerging markets. "Global oil demand looks flat for now," said PFGBest's Tom Weber but "scary talk about Nigeria unrest and Hormuz closure will still be at the forefront."

Specific to the industry, RGE's Goldberg highlighted a series of refinery closures both in Europe and the U.S. eastern seaboard occurring against a backdrop of shrinking margins. "This will inevitably leave more supply without a home."

Petroplus, Europe's largest independent refining company, earlier this month began shutting down three of its five refineries, halting about a quarter of a million barrels of daily production, the Financial Times reported on January 5. Since the 2008-09 financial crisis, 2.6 million barrels a day of capacity has disappeared from advanced economies, according to the International Energy Agency.

"The Atlantic Basin oil balance will be tighter this year given refinery capacity losses on both sides of the Atlantic Ocean and the potential for long-lasting Petroplus refinery

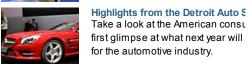
outages," wrote Deutsche Bank's Soozhana Choi.

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