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Talk of Oil at $100 Returns as Options Bets Jump: Energy Markets
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By Grant Smith and Mark Shenk

Nov. 29 (Bloomberg) -- Oil's return to $100 has become the biggest bet in the crude options market.

The price of options to buy December 2011 futures at $100 a barrel jumped 14 percent on Nov. 24, the largest one-day gain in three months, according to data compiled by Bloomberg. So-called open interest for the contract has risen 51 percent this year to 45,424 lots, the highest for any crude option on the New York Mercantile Exchange.

The increase in trading of $100 options shows some investors anticipate oil will rise at least 19 percent to levels last reached in 2008. While crude is up 7.4 percent this year as the economy recovers, Morgan Stanley said Nov. 1 that prices will reach $100 next year as spare production capacity shrinks. At the same time, BNP Paribas SA said Nov. 18 further price gains "will be difficult" as the Federal Reserve seeks to revive the U.S. economy through an extended stimulus program and Europe struggles to contain its sovereign debt crisis.

"The tug-of-war in oil prices continues as the short-term debt market concerns obscure improving oil-market fundamentals," Lawrence Eagles, global head of commodities research at JPMorgan Chase & Co. in New York, said in a Nov. 26 report.

Options contracts that give investors the right to buy December 2011 futures at $100 a barrel rose to $5.55 on Nov. 24, from $4.87 the day before, the largest increase since Aug. 27, Bloomberg data show. They have averaged $6.38 this year and ended last week at $5.46.

Not So Quick

When asked today about crude rising to $100, Deutsche Bank AG Chief Energy Economist Adam Sieminski in Washington said "oil could get that high but I don't really think it's going to get there in the next six months."

"Oil will just continue to get stronger as the fundamentals improve, things really begin to look good in 2012, 2013, 2014," Sieminski said in an interview with Deirdre Bolton on Bloomberg Television's "Inside Track."

Oil futures snapped two weeks of declines on the Nymex last week, rising 2.8 percent. The front-month January contract gained 1.8 percent today to $85.24 a barrel at 12:13 p.m. in New York. December 2011 futures traded at $88.11.

"There are definitely risks to the downside but you still have other risks out there to the upside," said Jeff Currie, London-based head of commodities research at Goldman Sachs Group Inc., which correctly predicted last year that oil would reach $85 by the end of 2009 and now sees it trading at $100 in 12 months. "U.S. economic data has surprised to the upside. This shifts the focal point back toward the U.S."

Irish Bailout

A gain to $100 would trail the record $147.27 a barrel reached on July 11, 2008.

Oil futures have dropped 4.2 percent since Nov. 11 after China said it will raise bank reserve requirements to stem lending and Ireland headed toward talks on a European Union-led bailout.

Crude had surged 6.6 percent in the five-days ending Nov. 5, the week the Fed announced it would purchase an extra $600 billion of bonds in a second round of so-called quantitative easing.

'Sugar Rush'

With the "sugar rush" from quantitative easing over, "another leg up in prices will be difficult," Harry Tchilinguirian, BNP Paribas's head of commodity markets strategy in London, said in a Nov. 18 note.

Hedge funds cut bets on rising oil the week before last, reducing so-called net long positions by 15 percent, the most in almost three months, according to the Commodity Futures Trading Commission's weekly Commitments of Traders report released Nov.
19. Bets on gains in oil prices climbed to the highest level in at least four years in the week before the Fed's announcement.

Americans increased spending for a fifth month in October, with household purchases rising 0.4 percent, the Commerce Department said Nov. 24. The number of people filing unemployment claims fell to 407,000, the lowest level in more than two years in the week ended Nov. 20, the Labor Department reported the same day.

Even if the U.S. recovery falters, investors are banking on China sustaining crude prices. The world's fastest-growing oil user will consume 9.6 million barrels a day in 2011, second only to the 19.1 million barrels a day to be used in the U.S., according to the Paris-based International Energy Agency.
China's oil demand will rise 4.2 percent next year while that of the U.S. will decline 0.2 percent, the IEA said.

Record World Demand

"Global oil demand is set to hit a new record in 2011," said Francisco Blanch, New York-based head of commodities at Bank of America Merrill Lynch. "The underlying economic picture is still positive. We are still looking for economic growth because of quantitative easing and accelerating growth in emerging markets."

Most members of the Organization of Petroleum Exporting Countries, which supplies 40 percent of the world's oil, have said they're comfortable with prices between $70 and $90 a barrel. Libya views $100 as acceptable. OPEC Secretary-General Abdalla El-Badri said prices at $100 wouldn't necessarily damage the global recovery or prompt it to increase production unless accompanied by a supply disruption.

"If there is a physical shortage, I think OPEC will act," El-Badri said in a Nov. 24 interview in London. OPEC meets next in the Ecuadorean capital Quito, on Dec. 11.

Senior analysts at the IEA, founded by consuming countries in 1974 in response to the Arab oil embargo, also expect oil prices to grind higher in time.

"In terms oil markets, I believe the age of cheap oil is over," IEA Chief Economist Fatih Birol said at a conference in Budapest on

Nov. 26. “There may be zigzags in the future according to the economy, this and that, but the general trend is we will see higher oil prices.”

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