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Oil Futures Hit High of $88 a Barrel

By JAD MOUAWAD

Oil futures rose above $88 a barrel in New York trading today, their highest level ever, because of unrest in the Middle East.

Crude oil for November delivery rose as much as $2.07 to $88.20 a barrel on the New York Mercantile Exchange during midday trading after jumping nearly 3 percent yesterday. Oil futures, which have gained $9 in the past six trading sessions, are up more than 43 percent this year.

On an inflation-adjusted basis, today's prices are getting close to records reached in the early 1980s when an energy crisis and the Iranian revolution pushed oil prices up to about $100 in today's money.

This week's surge is being fueled by the threat of a Turkish military incursion in northern Iraq. The sudden tensions in a highly volatile region gave rise to fresh concerns about further instability in the oil-rich Middle East. Iraq is the third-largest holder of known oil reserves, after Saudi Arabia and Iran. Turkey is a key passage for oil exports from Iraq and the Caspian Sea.

On Monday, the Turkish cabinet asked Parliament for permission to launch an attack on Kurdish separatists in northern Iraq.

Analysts note that since the American invasion of 2003, oil exports from northern Iraq through Turkey have been sporadic because of frequent bombings against Iraq's northern pipeline. But as oil producers are straining to meet the global growth in oil demand, commodity traders are focused on anything that might affect energy supplies.

“Markets hate uncertainty,” said Lawrence Goldstein, an economist at the Energy Policy Research Foundation. “The fundamentals are very supportive of high oil prices. But the majority of the latest run-up has nothing to do with the fundamentals of the markets, but has to do with fear.”

Despite the rally of the past week, the Organization of the Petroleum Exporting Countries ruled out an emergency release of oil supplies. At its last meeting in Vienna, in September, the oil cartel agreed to a modest increase of 500,000 barrels a day in supplies.

OPEC's secretary-general, Abdalla Salem el-Badri, said in a statement today that OPEC was concerned with rising prices. But he pointedly added that “there has been no interruption in crude supplies.”

“While the organization does not favor oil prices at this level, it strongly believes that fundamentals are not supporting current high prices and that the market is very well supplied,” Mr. Badri said. “The rising oil prices which we are currently witnessing are, however, largely being driven by market speculators.”

In fact, investors, commodity index funds, and other hedge funds have recently returned to the energy sector, analysts said, boosting investments in oil and other commodities and contributing to the rising prices. Also, many investors are buying into oil to hedge against the decline in the value of the dollar. Since the beginning of the year, the dollar has declined nearly 8 percent against the euro. It recently traded close to its record low against the euro at $1.42.

Commodity markets also seem to have shrugged off the risks of a recession in the United States, the world's biggest oil market, after the Federal Reserve cut interest rates last month. A slowdown in the United States would reduce global oil demand, and depress prices.

Despite the high prices, global oil consumption is rising, especially in China and the Middle East.

But not everyone is convinced that demand growth will grow as strongly as was suggested by the International Energy Agency, an energy adviser to industrialized countries. In its last monthly report, released last week, the energy agency said it expected global demand to jump by 2.4 percent next year, to 88 million barrels a day.

Some analysts said this figure was unrealistically high given the slowdown in global growth. Oil demand is expected to grow by 1.5 percent to 85.9 million barrels a day in 2007.

"There is a perception that fundamentals are more bullish than they actually are," said Roger Diwan, an analyst at PFC Energy, an oil consultant firm. He called the forecast by the energy agency "unrealistic."

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