



Oil Rises to a Record After Pickens Says Prices May Reach \$150

By Mark Shenk



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May 20 (Bloomberg) -- Crude oil rose above \$129 a barrel in New York for the first time after billionaire hedge-fund manager **Boone Pickens** said oil will reach \$150 a barrel this year because supply isn't keeping up with demand.

Producers are "running out of oil," Pickens, the

founder and chairman of Dallas-based BP Capital LLC, said on CNBC today, reiterating comments he made to Bloomberg News on April 29. Goldman Sachs Group Inc. and Deutsche Bank AG also said in the past month that prices would rise.

"It's not just **Boone Pickens**; just about every big global bank has raised its price forecast in recent weeks," said **John Kilduff**, vice president of risk management at MF Global Ltd. in New York. "When prices last fell below \$20 in 2001 there was a surplus. That's no longer the case. There's now a deficit."

Crude oil for June delivery rose \$2.15, or 1.7 percent, to \$129.20 a barrel at 12:55 p.m. on the New York Mercantile Exchange after reaching a record \$129.60. Prices have doubled from a year ago. A strengthening of the euro against the dollar added to the gains.

The June contract expires today. The more-active July futures contract rose \$2.10, or 1.7 percent, to \$128.82 a barrel. Contracts for delivery in 2011 and 2012 are up more than 4 percent, a signal that investors don't expect prices to drop.

The weakening dollar prompted the purchase of commodities as a hedge against the currency's decline. The European Central Bank may keep rates at a six-year high to curb inflation.

"I would recommend that the ECB keep rates constant until there is clear evidence the financial crisis is over," **Wolfgang Franz**, one of five advisers to the German government and head of the ZEW Center for European Economic Research, told reporters in Mannheim today.

German Prices

German consumer prices rose 2.6 percent in April from a year earlier after jumping 3.3 percent the previous month, the most in 12 years, according to the Federal Statistics Office in Wiesbaden. The ECB aims to keep inflation in the euro region below 2 percent.

The dollar has declined since Sept. 18, when the Federal Reserve began cutting rates to ease financial-market strains and stave off a recession. The U.S. central bank cut **rates** seven times while the ECB left rates unchanged. The dollar fell 1.1 percent to \$1.5677 per euro at 12:57 p. m. in New York.

"Oil is up because the dollar is being pounded on the bigger-than-expected increase in German inflation," said **Addison Armstrong**, director of market research at TFS Energy LLC in Stamford, Connecticut. "The likelihood that the ECB will cut rates to be more in line with those in the U.S. is reduced by the German inflation numbers."

Oil and Gas

Pickens's BP Capital Energy Equity Fund fell 14 percent in the first two months of the year amid soaring prices for natural gas and crude oil. He told CNBC on Feb. 21 that he was short on both oil and natural gas. A short is a bet that prices will fall.

"Pickens is well respected in the industry, even though he made the mistake of shorting oil in February," said **Brad Samples**, commodity analyst for Summit Energy Inc. in Louisville, Kentucky.

Oil advanced on May 16 when Goldman Sachs boosted its estimate for the second-half of the year to \$141 a barrel, from \$107, citing supply constraints. Credit Suisse Group AG and Societe Generale SA raised their oil prices forecasts for 2008 and 2009 today, citing investor flows and limited supply.

Brent crude oil for July settlement rose \$2.28 or 1.8 percent, to \$127.34 a barrel on London's ICE Futures Europe exchange. The contract touched a record \$127.90 today.

Chinese Earthquake

The May 15 earthquake in China, the most powerful temblor to strike the country in 58 years, damaged power infrastructure and hampered coal transportation in the southwest. China has dispatched 33,000 kilowatts of diesel generators to help boost electricity supply to the quake-hit areas, the industry regulator said yesterday.

"There a coal shortage in China because of the earthquake, which is increasing the call on diesel," Kilduff said. "That's why heating oil and gasoil were the first markets to move higher today."

Heating oil for June delivery climbed 9.81 cents, or 2.7 percent, to \$3.7732 a gallon in New York. Futures jumped to \$3.792 a gallon today, the highest since trading began in 1978. Some

traders use heating-oil futures to hedge their purchases of diesel and jet-fuel, which are chemically similar.

President George W. Bush prefers to prevent Iran from obtaining a nuclear weapon through "peaceful diplomatic means," White House spokeswoman Dana Perino said today, dismissing a report by Israel's Army Radio that said Bush intends to attack Iran in months ahead.

Iran has the second-biggest proved oil reserves and is the second-biggest producer in the Organization of Petroleum Exporting Countries. Almost a quarter of the world's oil flows through the Strait of Hormuz, a narrow waterway between Iran and Oman at the mouth of the Persian Gulf.

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Last Updated: May 20, 2008 13:34 EDT

