MarketWatch

New 'super-spike' might mean $200 a barrel oil

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Goldman's projections foretell persistent turbulence in energy prices

NEW YORK (MarketWatch) -- With $100-a-barrel here for now, Goldman Sachs says $200 a barrel could be a reality in the not-too-distant future in the case of a "major disruption."

Goldman on Friday also boosted by $10 the low end of its 2008-2012 projected range for crude to $60 a barrel -- significantly lower than current prices, to be sure, but a possible mark for oil if "normalized" trends return to the marketplace.

With the dollar's fall continuing and financial markets roiled by the credit crunch, commodities like oil have been drawing the fancy of increasing numbers of investors. Accordingly, Wall Street firms have been eager to adjust forecasts to incorporate fresh data on the global economy and energy supplies.

Goldman analysts Arjun Murti, Kevin Koh and Michele della Vigna said prices have advanced more quickly than Goldman had forecast back in 2005, when it predicted a range of $50 to $105 a barrel as part of its "super-spike" oil theory.

"We characterized the upper end of the band as more likely to be driven by geopolitical turmoil and that recession was a key risk to our view," the analysts said. "In fact, oil prices have reached $100 a barrel without extraordinary turmoil, and the U.S. currently appears to be in recession."

Tacking on $15 a barrel to all of its oil estimates, Goldman now sees average selling prices of $95 a barrel for 2008, $105 a barrel for 2009 and $110 a barrel for 2010. The high end of its range is now $135 a barrel -- but Goldman hinted that prices could be headed even higher.

"As the lack of supply growth and price-insulated non-OECD demand suggest a future rebound in U.S. gross domestic product growth or a major oil supply disruption could lead to $150-$200 a barrel oil prices," Goldman said.

While saying it has a bullish long-term outlook, Goldman acknowledged that oil prices could correct from recent highs.

Favorite picks among energy stocks include Frontier Oil FTO, +4.93% Cabot Oil & Gas COG, +8.75% and Pride International PDE in the U.S. as well as Eni E, +2.39% Repsol REP, +6.97% and Gazprom overseas.

Goldman also reiterated its view that oil prices could fall as normal market conditions return over the next four years.

"The core of our 'super-spike' view is that oil prices will keep rising until demand declines globally on a multiyear basis, resulting in the return of excess capacity and a lower cost structure," Goldman's analysts said. "Given this view, once excess capacity returns, we think prices can move sharply lower."

The analysts reiterated their "attractive" view on the European energy sector, but kept a neutral view on the Russian sector due to costs. It upgraded Transneft and Sibir Energy to neutral from sell after underperformance, and cut Imperial Energy to sell from neutral on capital-spending requirements.

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