While crude prices will continue to fluctuate seasonally, here's a hopeful sign that price pressures may moderate for the next year or so…

WORLD ECONOMY

Energy Watchdog Expects Oil Markets to Stay Tig

Supply Constraints Likely to Persist As Demand Rises

Global oil markets will remain tight over the next five years, the International Energy Agency warned Tuesday, in a gloomy assessment that offered little respite for consumers battered by record-high oil prices.

The view of the Paris-based energy watchdog, which is funded by the world's biggest oil-consuming nations, helped push oil prices to near-record levels. Benchmark crude oil rose 97 cents a barrel, or 0.7%, to settle at $140.97 Tuesday in New York, a Nymex closing record. U.S. oil futures set a new intraday high of $143.67 a barrel early Monday.

By Guy Chazan in Madrid and Natalie Obiko Pearson in London

The IEA forecast global oil supply capacity will rise to just 96.2 million barrels a day in 2013 from 90.4 million barrels a day this year, including crude production from the Organization of Petroleum Exporting Countries, OPEC natural gas liquids and non-OPEC production.

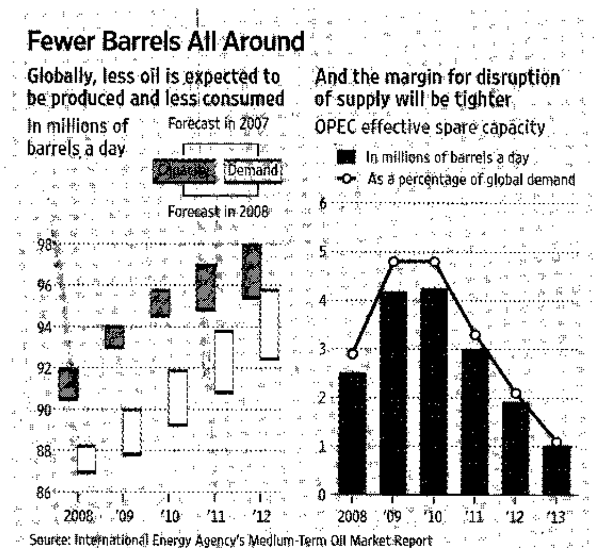
Most of that growth will come early before sharply tapering off. Between 2011 and 2013, capacity will grow by less than one million barrels a day annually, the IEA said.

The IEA's outlook jibed with the views of oil company executives at an industry conference in Madrid, who said the red-hot oil market reflects deep-seated pessimism about the industry's ability to open the spigot to satisfy rising demand.

Christophe de Margerie, head of French energy giant **Total** SA, said there was enough oil available, but confidence was lacking that "the system will deliver oil in the future—knowing that to deliver new oil and gas will take 8 to 10 years."

The IEA's report provided scant comfort for a world desperate for relief from the escalating cost of fuel. The oil shock is already badly denting the global economy, with consumers restricting their travel, truck drivers and fishermen striking in Europe and airlines reducing routes or closing down altogether. Saudi Arabia tried to cool the markets by adding 200,000 barrels a day of production last month, but prices continued to climb.

The IEA said it expected crude producers to boost supply in response to an oil price that has doubled since the last medium-term oil market report, issued a year ago. But that hasn't happened. Demand for fuel was still strong in developing countries, and that, combined with supply constraints, "continue[s] to paint a tight market picture," the agency said.



"What we're seeing here is an absence of obvious reactions to price signals," said Lawrence Eagles, editor of the IEA report. He noted that it takes time for the impact of prices to filter through, especially on the supply side, where "things move much, much more slowly."

Perhaps one of the most disappointing figures to emerge from the IEA report was its assessment of oil production by nations outside the OPEC cartel. Non-OPEC supply was "paltry to say the least," said Mr. Eagles, the IEA's head of market analysis, and had been revised down since last year's market report. He said crude supply from non-OPEC countries would remain at or below 39 million barrels per day over the next five years, though it would rise after 2013.

That is sobering news for a world that has come to rely heavily on non-OPEC oil in recent years. A massive boost in Russian crude output earlier this decade helped slake the big surge in demand from China and India as their turbo-charged economies took off. But the Russian engine has stalled, with some fearing production could even decline this year. Meanwhile, output has long been falling at traditional non-OPEC sources like the North Sea and Mexico.

OPEC spare capacity, though rising over the next couple of years, will fall "to negligible levels" in 2013, the report said. That is bad news because low spare capacity reduces the market's ability to respond to sudden increases in demand.

Chakib Khelil, the Algerian minister of energy and mines and the president of OPEC, tried to counter the view that OPEC wasn't doing enough to slake the world's thirst for oil. He told the Madrid gathering that OPEC was collectively investing $150 billion in new projects that would boost production capacity by four million barrels a day by 2012.

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Note the spike in excess oil production in years 2009 and 2010. Perhaps shaping up to be a period of softer oil prices, followed from 2011 on by tightening supply & likely higher prices.