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Oil prices hover around $100 per barrel

By Paul Davidson

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U.S. oil prices on Wednesday hit $100 a barrel for the first time in more than two years as growing unrest in Libya shut down much of that country's oil production and the prospect of protests in Saudi Arabia increased.

West Texas Intermediate crude for April delivery hit $100 a barrel in midday trading before closing up $2.68 at $98.10. The benchmark light, sweet crude last reached $100 in October 2008.

In London, Brent crude prices jumped $5.67 to $111.25, a 28-month high.
Benchmark U.S. oil prices are up 16% since Valentine's Day on fears that Middle East uprisings will disrupt supplies. Some of those fears were realized Wednesday after reports that 50% to 60% of Libya's oil production was shut down as foreign oil firms fled the country.

Meanwhile, Reuters reported that hundreds of people on Facebook are calling for a "day of rage" across Saudi Arabia, the region's top oil producer.

"This is probably the most serious threat to the global oil market since the Persian Gulf War," says Phil Flynn, analyst with futures brokerage PFGBest Research.
Surging oil prices are affecting gasoline. Wholesale gasoline prices in the U.S. jumped 11.3 cents Wednesday to $2.71 a gallon.

That likely will push average retail prices past $3.25 a gallon within days, says Tom Kloza, chief analyst for the Oil Price Information Service. The national average retail price for regular unleaded rose nearly 2 cents to $3.19 a gallon Wednesday, according to AAA.

Kloza expects gas prices to reach $3.50 to $3.75 by April, then fall to $3.25 by midsummer. "This does look like a panic reaction," he says.

But **Bernard Baumohl** of The Economic Outlook Group predicts gas prices will "remain elevated throughout 2011" amid instability in the Middle East, and "take considerable steam out of the recovery."

Libya is a key oil supplier to Europe, and its light, sweet crude is easier and less expensive to refine than the heavier grades produced by Saudi Arabia.
Europe relies on Libyan oil as a substitute for North Sea Brent. The Libyan strife is the latest development to drive up Brent's price in recent months, including poor weather and supply disruptions in the North Sea.

Brent's $13 price premium to West Texas Intermediate far exceeds the usual $1 disparity between them and has intensified debate about whether WTI should stay the U.S. benchmark. West Texas is plentiful, but pipelines to bring it to Gulf Coast refineries are limited. Most U.S. refiners buy oil close to Brent's prices, says Bill Day spokesman for Valero, the largest independent refiner.