INSIDE OIL

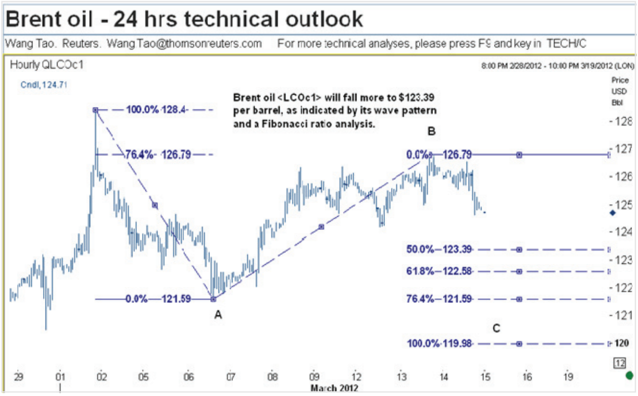
Thursday, March 15, 2012

Futures as on Mar 14	Close	Net Change	Pct change
NYMEX light crude	$105.43	$1.28	1.2%
NYMEX RBOB gasoline	$3.3470	$0.0076	0.2%
NYMEX heating oil	$3.2618	$0.0094	0.3%
ICE Brent crude	$124.97	$1.25	1.0%
ICE gas oil	$1,038.50	$2.00	0.2%
DME Oman crude	$124.00	$0.65	0.5%
NYMEX Natgas	$2.284	$0.015	0.7%

Asia Cash Prices	Price	Net Change	Differential	Diff Change
Dubai Crude	$124.30	$0.10	2.37	$1.10
Tokyo Naphtha (Ts)	$1,105.50	$6.50	13.50	$0.00
Gasoline (92 RON)	$135.60	$0.20	14.99	$0.52
Diesel (0.5 pct)	$137.66	$0.45	0.18	$0.03
Jet-Kerosene	$137.42	$0.60	0.45	$0.00
Fuel Oil (180 cst)	$753.55	$1.90	1.45	$1.15
Fuel Oil (380 cst)	$741.20	$0.90	0.40	$0.02

CHART OF THE DAY

Click on the chart for full-size image



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- Argentine provinces pull several YPF concessions
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JOHN KEMP ON THE MARKETS

COLUMN-Trading an oil bubble is tricky

If the oil market is heading towards either a sharp price spike linked to Iran or a repeat of last year's flash crash, it will be as big a surprise to market participants and oil analysts as hitting an iceberg was to the captain of the Titanic.

John Kemp is a Reuters market analyst. The views expressed are his own.

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TODAY'S MARKETS

OIL: Oil futures dropped on Wednesday after data showed U.S. crude stockpiles rose last week for the fourth time in a row and the dollar strengthened, tempering investor appetite for riskier assets. "WTI (West Texas Intermediate) futures are increasingly showing the strains of a 10-million-barrel build at Cushing since mid-January," said Jim Ritterbusch, president of Ritterbusch & Associates in Galena, Illinois.

NATURALGAS: Front-month U.S. natural gas futures slid slightly on Wednesday but managed to remain above Tuesday's 10-year spot chart low as weaker crude, mild late-winter weather and swelling inventories all pressured prices. "Though the near-term outlook appears negative for prices, longer-term, low prices in the U.S. should encourage increased industrial demand as industries like those involved in chemical production take advantage of the low price," optionsXpress analysts Mike Zarembski and Rob Kurzatkowski said in a market update.

EURO COAL: Oversupply pushed European coal prices down by over $1.00 on Wednesday, with further price falls likely, traders and analysts said. "That April trade wasn't for U.S. coal which trades at a discount, it was delivery into Rotterdam so totally standard and I can't remember I saw a trade at such a big discount, that is extremely bearish," one trader said.

COMMODITIES: Oil prices closed lower as did most other commodities on Wednesday after the the dollar strengthened, tempering investor appetite for riskier assets.

GLOBAL MARKETS: Asian shares eased on Thursday on renewed concerns about Chinese growth, but a brighter global economic outlook underpinned the dollar and kept investor risk appetite intact, reducing the appeal of safe-haven government debts. "The support for the USD responds to perceived positive news from the US, rather than negative news from Europe. This positive twist has extended the rally into equities," Barclays Capital analysts said. "We believe that the drivers behind a higher USD/JPY remain intact," they said.

EVENTS TO WATCH TODAY (GMT)

- U.S. EIA NATURAL GAS STOCKS WEEKLY (1430)
- U.S. PPI FEB (1230)

CLICK HERE TO SEE UPCOMING EVENTS AND CONFERENCES

MARKET NEWS

Petrobras platform tilted by effort to put out fire

RIO DE JANEIRO, March 14 (Reuters) - The slight tilting of an oil drilling rig serving Brazil's state-controlled oil company Petrobras was caused by a build up of water that was used to extinguish a fire in one of its columns, the company said on Wednesday.

The Alaskan Star listed as much as 3 degrees from normal after the fire on Tuesday, Brazil's energy regulator ANP said. The fire on the platform operated by Queiroz Galvao was put out and the platform stabilized.

Petrobras confirmed to Reuters that water used to extinguish the fire caused the platform to tilt after accumulating in one of the rig's columns. The company said the platform was being prepared to resume operations in the Albacora field 193 km (121 miles) off the coast of Rio de Janeiro where it is stationed.

Chevron sees pricey oil destroying U.S. demand

March 14 (Reuters) - Chevron Corp Chief Executive John Watson sees demand for oil being destroyed in the United States as a result of higher gasoline prices and an underperforming U.S. economy.

"We're seeing that right now," he said. "If you look at the peak in U.S. oil consumption it was about 21 million barrels a day as little as about three years ago. It's now down to about 19 barrels a day ... and high prices are partially contributing to that."

"The other component in the United States is a relatively weak economy," Watson added in an interview aired on CNBC on Wednesday.

Iran oil bosses calm over sanctions, trust in Asia

KUWAIT, March 14 (Reuters) - Iranian oil officials show no signs of alarm as oil markets fret about a loss of supply from their country due to international sanctions, saying their Asian customers remain loyal and there is no easy and quick substitute for their crude.

They say the West is unrealistic to hope that Saudi Arabia - the only country in the world that can quickly boost supplies - will help replace the lion's share of Iranian barrels. They also judge that Western politicians, heading for re-election this year, lack the courage to face a further rally in oil prices.

Tesoro CEO: US refiners need to expand exports

SAN DIEGO, Calif., March 13 (Reuters) - The profitability of U.S. petroleum refiners will increasingly depend on the industry's ability to expand its exports of refined oil fuels, Tesoro CEO Gregory Goff said.

The United States became a net exporter of refined products in 2011 for the first time since 1949, with net exports at 439,000 barrels-per-day, according to government data.

Goff said global developments are encouraging U.S. exports of refined fuels.

Argentine provinces pull several YPF concessions

BUENOS AIRES, March 14 (Reuters) - Argentina's Chubut and Santa Cruz provinces have stripped the country's biggest energy company, YPF, of several concessions, citing lack of investment, according to provincial decrees signed on Wednesday.

YPF , controlled by Spain's Repsol , is under heavy pressure by the Argentine government to increase oil and natural gas output. The South American country's economy has boomed in recent years, spurring energy demand while costly fuel imports eat into its cherished trade surplus. "We have said enough!" Chubut Governor Martin Buzzi said in a speech carried by local radio in which he called for energy self sufficiency in Argentina.

Petrochina-Ineos to let Morgan Stanley deal expire

BEIJING/LONDON, March 14 (Reuters) - PetroChina Co Ltd will

ramp up oil trading in Europe via a joint venture with Ineos in April, letting a five year supply and marketing contract with Morgan Stanley expire at end-March, a source with the venture said on Wednesday.

The expiry is a blow to Morgan Stanley , whose revenue from commodities fell for the third consecutive year last year.

PetroIneos Trading Ltd, the London-based joint venture between PetroChina and UK petrochemical maker Ineos Group Ltd will start crude supply and fuel marketing for two refineries in France and Scotland, the source said.

Cushing oil storage capacity may jump 14 pct by Sept-Genscape

NEW YORK, March 14 (Reuters) - Crude oil storage capacity at the Cushing, Oklahoma, delivery point for the U.S. oil futures contract may increase by nearly 14 percent by September, according to industry data provider Genscape.

The key U.S. oil hub currently has an operational capacity to store 68.7 million barrels, Genscape spokesman Abudi Zein said, adding that another 9.5 million barrels of storage was visibly under construction and could be completed by September.

Inventory levels at Cushing -- which can impact the price of U.S. oil futures -- swelled by nearly 10.4 million barrels in the eight weeks to March 9, according to weekly data from the U.S. Energy Information Administration released on Wednesday.

Russia first Arctic offshore oil in tax breaks limbo

MOSCOW, March 14 (Reuters) - Gazprom has upped the stakes for the government to produce a quick resolution on tax breaks on Arctic offshore oilfields, hinting it will delay the first oil from its Prirazlomnoye project until the policy is set.

A Gazprom spokesman told Reuters on Wednesday that output from the much-delayed Prirazlomnoye project - the only major oil deposit expected to come stream in Russia this year - will now be launched in the second half of the year, instead of the first quarter, seen previously.

BEYOND THE HEADLINES

COLUMN

Trading an oil bubble is tricky

By John Kemp

LONDON, March 14 (Reuters) - If the oil market is heading towards either a sharp price spike linked to Iran or a repeat of last year's flash crash, it will be as big a surprise to market participants and oil analysts as hitting an iceberg was to the captain of the Titanic.

Even if market participants strongly suspect a bubble (or crash) is underway, there is no useful way to predict, even roughly, at what level prices will turn or when. Even with a good theory of how bubbles and crashes occur, picking turning points remains impossible.

Both the timing and level of major turning points remain unpredictable in advance. There is no evidence they can be forecast successfully using objective data such as turnover, open interest or realised volatility. If they could, the bubble would never get underway. Indeterminacy is fundamental to bubbles and crashes.

CROWDED TRADES

In principle, the processes which cause bubbles and anti-bubbles (crashes) in oil and other assets with strong forward-looking price components are well understood.

Usually some shift in fundamentals triggers a herding response from investors, causing a bubble to inflate, and then when the trade has become crowded some other fundamental shift, or profit-taking, triggers a rush for the exits, sparking the crash.

The behavioural micro-foundations of bubbles and crashes have been well described by analysts such as Didier Sornette ("Why Stock Markets Crash"), George Soros ("The Alchemy of Finance") and Robert Shiller ("Irrational Exuberance").

It is part of a literature in economics, physics and biology examining the theory of critical events in complex systems, and accords well with the pattern of new paradigms followed by irrational exuberance and ultimately revulsion repeatedly associated with sharp price increases and crashes in financial markets.

At least some of the elements of a bubble were present during the run up in oil prices in H1 2008 and again in H1 2011. There are some signs Brent and especially U.S. oil futures have again become a crowded trade ripe for a setback.

Unfortunately, the theory of crowded trades and critical events laid out by Sornette, Soros and Shiller is not much help to investors trying to anticipate when the oil market might peak and begin to reverse. Critical events are necessarily unpredictable. Even with better understanding and more computing power, major turning points will remain unfathomable.

PRIOR VOLATILITY

Ideally, investors would like to identify early warning phenomena signalling an increased risk of a market criticality ahead, like the foreshocks which sometimes precede a major earthquake. But there is no evidence it is possible to identify reliable warning signs from public data predicting the timing/level of a major turning point with sufficient accuracy to be useful in trading.

If trades become crowded prior to a major turning point, the market should become less liquid, and prices more volatile. Rising volatility should therefore be a possible indicator that a peak or trough is approaching. In practice, however, increases in observed volatility come after major oil market discontinuities not before.

The attached chart shows realised volatility in front-month Brent futures since the start of 2008 as well as three key turning points: the peaking of oil prices in July 2008; the global economy's acceleration into a deep recession following the insolvency of Lehman Brothers in September 2008; and the mysterious "flash crash" in oil markets on May 5, 2011 http://graphics.thomsonreuters.com/ce/OIL-DISCONTINUITIES.pdf

On the eve of each major event, realised volatility over the previous 20 trading sessions had not been significantly different from the long-run average since 2000 of 33 percent.

In the days before Brent prices peaked on July 11, 2008, realised volatility was 30-32 percent. It had surged to an unusually high 45 percent early the previous month but dropped back well before the price peak was reached.

On the eve of the Lehman crisis in September 2008, realised volatility was 33 percent, exactly in line with the long-term average. In the run up to the flash crash, realised volatility was just 22 percent, well below normal.

In the case of the July 2008 price peak, the turning point proved smooth, at least initially, and volatility remained at 30-35 percent throughout the remainder of July, August and early September, even as prices fell by a third. By contrast, both the Lehman moment and the flash crash saw a sharp rise in volatility, but in both cases it occurred after the shock, not before.

HITTING THE ICEBERG

Shocks appear to be unanticipated by market participants.

There is a good theoretical reason why critical events should come as a surprise. As Sornette, Soros, and Shiller acknowledge, the process of a bubble or a crash cannot get underway and propagate if the end point is known with certainty. Uncertainty about how far prices might rise or fall before correcting is fundamental to the existence of a critical event.

At first glance. It seems possible to identify individual hedge funds or analysts who appeared to predict turning points.

The warning by researchers at Goldman Sachs about a short-term setback in oil prices issued early in April 2011, several weeks before the flash crash, has been cited as one example of successful premonition.

But the same research team failed to spot the previous turning point in oil prices in 2008, even months afterward.

Hedge fund titan John Paulson appears to have been no more consistently successful spotting turning points in the gold market. Advance identification of a critical event depends on a good measure of luck, or the ability to withstand enormous margin calls for a protracted period. There is no evidence anyone can do it consistently.

It leaves investors in a quandary. There are plenty of signs oil prices may be in a bubble -- especially the large speculative positions being run by hedge funds and other money managers, almost all of whom are betting on a further big rise in prices.

BEYOND THE HEADLINES *(Continued)*

At least some brave contrarians are now betting the spike will reverse.

But even if the market is indeed in a bubble, which seems probable, there is no accurate way to predict whether it will end this week, this month, or in six months time, and whether prices will peak at $128, $130, $150 or even $200 per barrel.

We can't even identify reliable signals that would show the end is nigh.

--John Kemp is a Reuters market analyst. The views expressed are his own--

COLUMN

Stars aligning for new highs for Brent and at Cushing

By Robert Campbell

NEW YORK, March 14 (Reuters) - Geopolitical worries, optimism over the state of the global economy and faltering non-OPEC oil production have put the prospect of a new record high crude oil price this summer onto the oil market agenda.

Unlike the last nominal record run in 2008, this may well come as crude oil stocks at Cushing, Oklahoma, the delivery point for West Texas Intermediate crude oil futures, surge to a new record high above 42 million barrels.

Nothing could better illustrate the difficult transition currently underway in the oil market. Put simply, a critical fault point in today's market is the unfinished transition from dominance by the developed world to dominance by Asia.

The bull case for oil has been long unchanged: demand for crude is growing and supplies are struggling to keep pace. The International Energy Agency's lasted downward revision to its view of non-OPEC oil supply growth this year underscores this argument.

Fears that tightening Western sanctions against Iran could constraining Tehran's crude oil exports or even trigger a shooting war add further to concern about the state of supply especially as spare oil production capacity is limited.

Indeed, until evidence emerges that oil demand growth is slowing rapidly or that demand is actually contracting on a global basis, supply fears appear set to dominate the market.

Demand may already be slowing due to the impact of higher prices, but lags in data delivery mean this will not be known with much certainty for months.

Of course in times of strong demand consuming countries can draw down inventories to cover temporary shortfalls in supplies.

Oil stocks in the developed world can be said to be tight as they are now 68.9 million barrels below their average level over the last five years. But this ignores the fact that oil demand in the industrialized world is also substantially lower.

In terms of days of demand cover, the developed world's oil stocks are 1 day above the five-year average at 57.8 days, according to the International Energy Agency's most recent monthly oil market report.

So from the perspective of what is needed to meet demand, developed world stocks cannot be said to be overly tight.

LOCATION, LOCATION, LOCATION

However the IEA argues in this month's oil market report that the fact that OECD stocks are lower in absolute levels remains important as it illustrates the lack of flexibility in the global market.

This cannot be denied but it evades a critical point. The shrinking role of the developed world in market makes stock levels in these countries less important.

No industry holds more inventory than economically necessary, so why should we expect developed world stocks to stay near levels better associated with a different era of stronger and growing demand?

As important as absolute stock levels may be on a global basis, the location of stocks is critical. Oil in the wrong place does no one any good, particularly if it cannot be quickly and cheaply moved to meet shortfalls.

Take the mounting stockpile at Cushing. Seasonal refinery maintenance and rising inland North American oil have led to huge increases in stockpiles there, a trend that could within weeks take stocks to new record highs above 42 million barrels.

These stocks will not do anyone much good in the event of a crisis. As the dislocation between WTI and Brent crude prices shows, there is simply not enough infrastructure to move this oil to market even with the current huge economic incentives.

This applies on a global level and the Libyan crisis of 2011 illustrates this point well.

The IEA's strategic stocks release probably stabilized the oil market last year but the immediate impact was blunted by the fact that the much-needed crude oil was mostly held in the United States rather than in Europe where it was needed.

A release of IEA stocks to tackle a shortfall in Asia risks having even less short-term impact for the same logistical reasons.

So even if oil stocks in the developed world were higher in absolute terms today it would only offer limited comfort to buyers in Asia.

After all the real problem is the (presumably) limited stocks held by the growing nations of the developing world.

ASIAN STOCKBUILDING

However stockbuilding in the developing world seems to be behind at least some of the recent strength in oil prices.

Although difficult to verify due to a lack of hard data the strong demand pull coming from Asia as indicated by relative crude oil prices suggests inventory accumulation for both commercial and strategic purposes is underway in Asia.

A lack of hard data makes quantifying these movements difficult. Reuters' Clyde Russell calculated in a recent column that China's oil inventories may be growing by 670,000 barrels per day.

Similarly OPEC's own monthly oil market report suggested Chinese stockbuilding may be as high as 800,000 bpd.

See OPEC report, page 36: http://r.reuters.com/sub27s

If stockbuilding in China really is this high it goes some way to explaining some of the recent strength in the oil market, especially if other developing nations are assumed to be doing the same thing.

BEYOND THE HEADLINES *(Continued)*

There is plenty of anecdotal evidence to back up this assumption. For instance Thai authorities have ordered local refiners to build up stocks of crude oil and products as tensions in the Middle East grow, according to local media reports.

See link: http://r.reuters.com/hyb27s

So what are we to make of all this? It is probably true that on a global level oil inventories are tight. And on a commercial level stocks may well be tighter if much of the recent assumed stock-building in Asia is strategic in nature.

But it is a risky assumption to assume a linear relationship exists between stock movements in the developed world and those in the developed world.

After all it is economically rational for developed world oil companies to reduce inventories in absolute levels to match falling demand.

We should expect developed world oil stocks to continue to fall in absolute terms although that doesn't necessarily mean that developing world stocks are falling.

Indeed, the draw down of Western stocks in absolute levels may well be what is stabilizing the market as it gets to grips with a round of Asian stockbuilding.

Unfortunately this is where the growing opacity of the oil market becomes problematic for analysts. The hope is that the current spate of Asian buying is helping to build stocks. The worry is that the calculations end up being wrong.

--Robert Campbell is a Reuters market analyst. The views expressed are his own--

Obama, UK's Cameron discussed tapping oil reserves-sources

By Matt Falloon and Jeff Mason

WASHINGTON, March 14 (Reuters) - President Barack Obama and British Prime Minister David Cameron discussed the possibility of releasing emergency oil reserves during a meeting on Wednesday, two sources familiar with the talks said, the first sign that Obama is starting to test global support for an effort to knock back near-record fuel prices.

Obama raised the issue during a broad bilateral meeting at the White House, according to a UK official with knowledge of the discussion.

Asked about the talks, a senior Obama administration official said: "No agreement was reached. We will continue to work together to address energy security and oil price issues."

While U.S. officials have said for weeks that they will consider all possible measures - including a release from the U.S. Strategic Petroleum Reserve (SPR) - to prevent prices from derailing a nascent economic recovery, Wednesday's meeting was the clearest indication that diplomatic talks were moving ahead.

Discussions could last as long as several months before any decision is made, one of the sources said.

Obama's approval ratings have come under pressure from rising gasoline prices, which have hit seasonal record highs, and the White House is eager to show exasperated Americans that it is doing all it can to keep fuel costs in check.

Unleashing emergency stockpiles would almost certainly prompt attacks from U.S. Republicans, however, who blame Obama's energy policies for high prices at the pump and could paint an SPR release as a gimmick to appease voters during an election year.

Benchmark crude oil prices have rallied 16 percent this year as new European and U.S. sanctions begin to choke off crude exports from Iran, while supplies from other smaller producers including Sudan and Syria have also been cut.

A release of reserves would be the second such intervention in the past year after the world's consumer nations sanctioned their biggest ever release last June in the wake of Libya's civil war. Prior to that, U.S. officials had spent about six weeks quietly shoring up the support of International Energy Agency (IEA) member nations and key OPEC allies.

While likely to be popular with many Americans, tapping the SPR alone could antagonize allies in Europe, several of whom remain unhappy over last year's action and are unlikely to back another release. The head of the Paris-based IEA, Maria van der Hoeven, has said in recent weeks she sees no current need for consuming nations to release strategic reserves.

Analysts say that Obama would likely prefer to press forward with the legitimacy of full IEA member support, but realistically may have to settle for the backing of just a handful of other consumer nations.

ALL OPTIONS OPEN

Top U.S. officials including Energy Secretary Steven Chu and Treasury Secretary Timothy Geithner have said publicly in recent weeks that a U.S. SPR release is among the options the government is considering.

U.S. gasoline prices are at their highest seasonal levels ever, with retail gasoline near $3.80 a gallon on average.

Gasoline prices tend to rise as the high-demand summer driving season approaches, raising the specter of prices in coming months topping the record of $4.11 a gallon reached in July of 2008. U.S. officials have also recently pressed major overseas crude suppliers like Saudi Arabia to boost output and keep a lid on prices.

"We think the markets are tight. Therefore, we think there is a need for more production," U.S. Deputy Energy Secretary Daniel Poneman told a conference in Kuwait on Wednesday, prior to the talks in Washington. "Oil prices at current levels are so high that it's not consistent with a sustained economic recovery."

The U.S. SPR, the world's largest strategic reserve, can hold as much as 727 million barrels of light oil, equivalent to just over a month of U.S. daily consumption.

US regulator says gasoline price probe not needed

By Roberta Rampton and Diane Bartz

WASHINGTON, March 14 (Reuters) - The lone Republican on the U.S. Federal Trade Commission said he is skeptical about the need for an ongoing investigation into high gasoline pump prices, noting that similar investigations failed to show market manipulation was behind past price spikes.

BEYOND THE HEADLINES *(Continued)*

Commissioner Thomas Rosch said this year marks at least the third time in his six years at the FTC that rising gasoline prices have spurred calls for the agency to probe whether consumers are being gouged at the pump. Each time, the commission, charged with preserving competition and protecting consumers, has come up with the same answers: the oil market is large and global and is controlled by supply and demand forces beyond the agency's reach.

"We've been around this block a number of times since I've been here. We have yet to figure that price manipulators have anything significant at all to do with prices at the pump," he said in an interview.

Rosch, an antitrust lawyer with a reputation for probing agency staff recommendations, reflected the commonly held view among academics, analysts and oil industry executives that rising oil prices are driven by supply and demand rather than any nefarious trade.

The FTC opened a probe in June 2011, during the height of last summer's gasoline price spike, to see whether there were anti-competitive activities or manipulation in oil and gasoline markets. With prices rising again, Democrats in the U.S. Senate have called on the FTC to complete its probe.

"As the economy is just starting to turn the corner, it is incumbent upon the Federal Trade Commission to protect the American consumer and conclude and release the results of their investigation in potential price-fixing by oil refiners," said Charles Schumer, the third-ranking Democrat in the Senate, earlier this month.

Rosch, a self-described "rock-ribbed Republican's conservative" whose term on the FTC expires in September, said he's frustrated at the renewed calls for the FTC to crack down on price manipulation after previous investigations came up empty.

TASK FORCE A "CHARADE"

The FTC is also a member of a multi-agency task force led by Attorney General Eric Holder to look into whether fraud or manipulation are playing a role in elevated gas prices.

Holder said last week that the working group is active and that he expects the FTC to soon complete a report on energy market issues. Rosch said he believes the task force is a "charade" designed to make consumers think the White House is taking action.

"I don't know about anything that's happening at the task force level or in terms of the price manipulation rule," said Rosch, noting that he holds a minority opinion around the FTC commission table.

"I don't think there's anything to be done, period," he said.

Echoing other Republicans, he said he thinks President Barack Obama should allow more aggressive expansion of domestic oil resources, and should also have allowed the Keystone XL oil pipeline from Canada to move forward.

Obama delayed TransCanada's $7 billion pipeline, saying it needed more environmental study for a portion of the route that originally was slated to go over Nebraska's Ogallala aquifer.

TransCanada has said it will soon propose a new route. Rosch, who owns a farm in the middle of the aquifer, said he believed the pipeline should have gone ahead because of the oil it would bring from Canada.

"If the president had sent a strong signal that he was willing to invest in domestic exploration and that he is willing to import Canadoian oil, that it would have made a difference, a significant difference" in prices, he said.

U.S. import prices rise in February on higher oil

By Lucia Mutikani

WASHINGTON, March 14 (Reuters) - U.S. import prices rose in February on sharply higher oil costs, but there were few other signs of imported inflation pressure and food prices posted their largest decline in three years.

Import prices rose 0.4 percent after a downwardly revised flat reading in January, the Labor Department said. Prices in January were previously reported as having risen 0.3 percent.

Outside petroleum, import prices fell 0.2 percent last month, pointing to a lack of inflation pressure elsewhere.

"We are going to see higher inflation because of the higher gasoline and oil prices, but overall, if you look at the underlying core inflation, it should remain relatively subdued," said Gregory Daco, a U.S. economist at IHS Global Insight in Lexington, Massachusetts.

Compared to February last year, import prices were up 5.5 percent - the smallest gain since December 2010 and down from a 6.9 percent increase in the 12 months through January.

The report came a day after the Federal Reserve said the recent steep run-up in oil and gasoline prices would push inflation up only temporarily. But some economists do not share the Fed's contention. They worry the central bank's easy monetary policy stance is a recipe for inflation above the Fed's 2 percent target.

Consumer prices were up 2.7 percent year-on-year in January, according to the Fed's favored gauge.

"The year-over-year inflation rate on import prices is likely to moderate further in the early spring and some Fed officials may see these data as providing evidence of easing inflation pressures," said John Ryding, chief economist at RDQ Economics in New York.

"For our part, we do not expect that inflation will slow to the Fed's forecast for 2012 and we remain concerned about the medium-term inflation outlook given the highly accommodative stance of monetary policy."

Data on Thursday is expected to show that energy pushed up producer prices a relatively steep 0.5 percent last month, according to a Reuters survey, while the consumer price index on Friday is expected to advance 0.4 percent.

Graphic-mortgages applications: http://link.reuters.com/wah44s

Graphic-import, export prices: http://link.reuters.com/cyb27s

PETROLEUM PRICES SOAR

Last month, imported petroleum prices jumped 1.8 percent after gaining 0.3 percent in January. Imported food prices fell 3.0 percent in February - the biggest decline since February 2009 - reversing January's 2.3 percent increase.

The Labor Department also said export prices rose 0.4 percent last month, the largest increase in five months.

BEYOND THE HEADLINES *(Continued)*

A separate report from the Commerce Department showed the U.S. current account deficit widened to 3.24 percent of gross domestic product in the fourth quarter from 2.84 percent in the prior three months.

The deterioration in the current account - the broadest measure of U.S. trade - reflected rising imports, falling exports and a lower surplus of investment income as payments of interest, dividends and profits on U.S.-owned assets abroad increased. Corresponding receipts on foreign-owned assets in the United States fell during the quarter.

Daco of IHS Global Insight said the United States' income surplus was set to erode over time given the need to finance the hefty U.S. deficits in trade and the federal budget.

He said, at the same time, the deficit in goods and services trade was set to widen.

"Domestic activity will gradually accelerate and pull in more imports from abroad, while higher oil prices raise the oil import bill. In the meantime, a depressed European economy and weaker emerging markets growth will weigh down on exports," he said.

A third report showed demand for U.S. home purchases rose for the third week in a row last week, though applications for refinancing sagged and pulled a gauge of overall mortgage finance activity lower.

Economists are hopeful the housing sector will no longer drag on the economy this year, although sales and construction activity remain at depressed levels.

European refining cutbacks to offer prospects -BNP

By Simon Falush and Zaida Espana

LONDON, March 14 (Reuters) - Europe's ailing refining sector will offer investors good opportunities once it trims back its current overcapacity BNP Paribas' European heads of energy said.

"It's not the right time in the cycle for private equity to invest in European refining assets, (but) I think yes, there will be opportunities," BNP's head of European energy sales, commodity derivatives, Fasil Nasim said.

"A lot of simple, non-sophisticated refineries will be shut down and converted into storage assets, and a decent amount of investment should go into upgrading capacity," he told Reuters at the Bank's London headquarters.

Europe's refining sector has suffered as rapid expansion of complex refineries in China and India heated up competition, while ever higher oil prices and slack demand in Europe further dented profit margins.

High-profile victims include Petroplus , Europe's largest independent refiner by capacity, which shut three of its least complex plants after filing for insolvency.

The forced closures are presenting good investment opportunities to bargain hunters, with trading house Gunvor snapping up the company's plant in the heart of Europe's main oil hub of Amsterdam-Rotterdam-Antwerp.

"There are structural changes in the market that will happen which will then become attractive investment opportunities for investors but I don't think the time is right at the moment," Nasim said.

"You need to start to see more refineries shut down, (and) you need to see investment and upgrading at certain refineries that present good economic opportunities".

While western Europe faces overcapacity, new investment growth opportunities could focus on Turkey, a large consumer of middle distillates. The country consumed 300,000 barrels per day (bpd) of diesel in 2011, out of which around 170,000 bpd of that was imported.

"Parts of Europe are long refining capacity but parts such as Turkey are massively short of distillates and import massive amounts of gasoil and diesel."

M&A OPPORTUNITIES

BNP Paribas, France's largest listed bank, cut down its trade finance business, which provided funds for energy projects, during the latest phase of the credit crisis.

Its investment-banking division is now targeting a $65 billion cut in U.S. dollar funding needs by end-2012, from $60 billion.

The bank is positioning itself to tap an expected flurry of private equity money into the oil and gas sector, with some M&A activity structured as potential leveraged buyouts (LBOs).

"There are M&A opportunities. There will be a return of leveraged buyouts and private equity money coming into the oil and gas space," Nasim said.

"So we are trying to generate more relationships with venture capitalists to look at bringing in acquisition opportunities and risk management expertise."

A more rigorous approach to regulating banks in the commodities sphere in the United States to limit their activities in physical assets could help banks like BNP Paribas that don't have this exposure, Nasim said.

"It could bring banks to a level playing field, working in a physical environment where you have assets to trade and service a client franchise ... it's not that clear where you draw the line," he said.

The Volcker rule in the United States, which restricts banks' ability to trade with their own funds for profit and also greatly limits their ability to invest in hedge and private equity funds, will likely lead to smaller players leaving energy trading, Nasim said.

"The wallet size that is distributed across banks is shrinking, so I think there will be less banks competing for a smaller wallet," he said.

The bank's head of oil trading Spyros Gkinis said the oil market would continue to be volatile, but fears about an escalation in rhetoric between Iran and the West mean Brent crude prices will find support at around $120 a barrel.

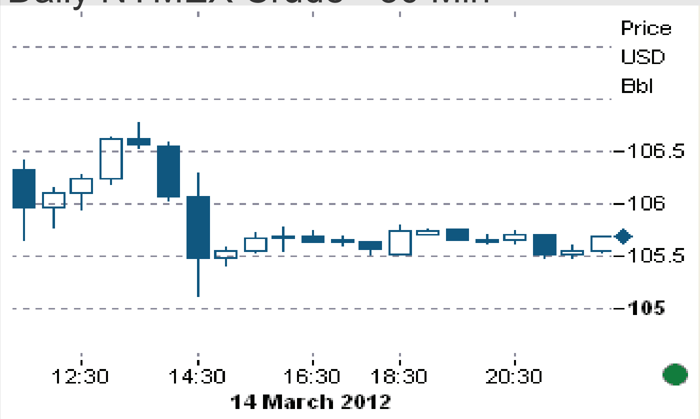
"If Iran is resolved the market can fall between $10-15, a Brent floor is at $110," he said.

MONTH AHEAD EVENTS CALENDAR

Date	Energy events/Indicator (Times in GMT)
Today	WASHINGTON - Energy Information Administration issues weekly petroleum stocks and output data - 1430 GMT.
Tomorrow	LONDON - April 2012 ICE Brent Crude Futures contract expires.
Mar-19	BEIJING - The 12th China International Petroleum & Petrochemical Technology and Equipment Exhibition (CIPPE 2012 Beijing) (to March 21).
Mar-20	NEW YORK - NYMEX April 2012 Light Sweet Crude Oil futures contract expiry.
Mar-21	ANKARA, Turkey - 11th Turkish International Oil and Gas Conference and Showcase (to March 22).
Mar-21	Argus Mideast Gulf and Indian Ocean Oil Conference 2012 (to March 22). Link: http://www.argusmedia.com/Events/AMGIO-2012-
Mar-22	WASHINGTON - EIA issues weekly U.S. underground natural gas stocks - 1430 GMT
Mar-25	ABU DHABI - MEDW The Middle East Downstream Week 2012 (to March 28). Link: http://www.wraconferences.com/the-middle-east-downstream-week-13 h-annual-meeting-/s4/a105/-
Mar-27	JOHANNESBURG - Clean Technology World Africa (to March 28).

ANALYTIC CHARTS

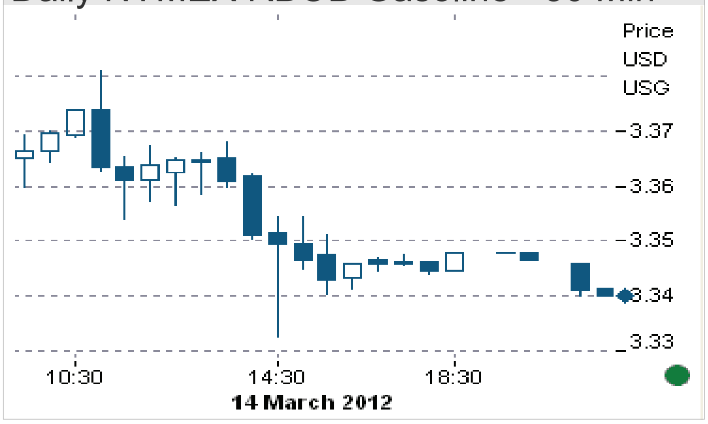
Daily NYMEX Crude - 30 Min



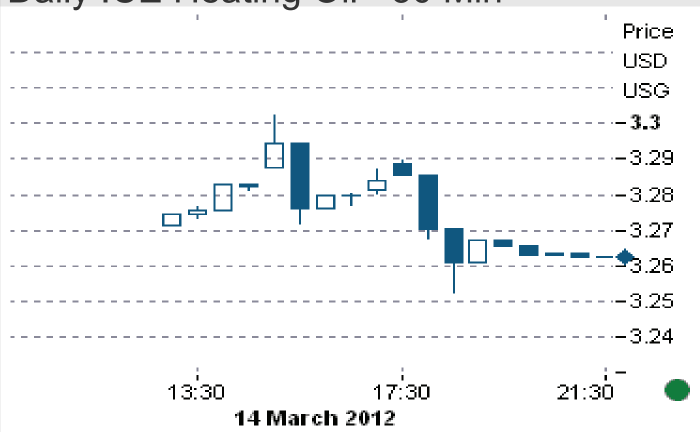
Daily ICE Brent Crude - 30 Min

Daily ICE Gas Oil - 30 Min

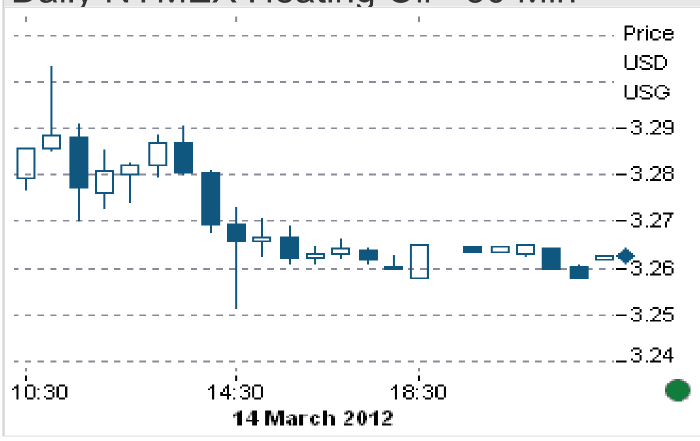
Daily NYMEX RBOB Gasoline - 30 Min



Daily ICE Heating Oil - 30 Min



Daily NYMEX Heating Oil - 30 Min



(Inside Oil is compiled byShashwat Sharma and Pradip Kakoti in Bangalore)

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