AT THE BELL

Markets: Rising energy prices ‘coming at the wrong time’

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Oil is becoming a dirty word in the markets as rising prices threaten to choke off the economic recovery. Investors around the world will spend the week focused as much on the New York Mercantile Exchange and the ICE Futures Europe exchange in London as they are on the turmoil in North Africa and the Middle East.

“This is coming at the wrong time,” says Tony Demarin, president of BCV Asset Management in Winnipeg. “Rising energy prices are not healthy for a global economic recovery still trying to find its legs.”

The price of Brent crude oil rose above $110 (U.S.) a barrel last week. If it settles at more than $120, while gasoline prices at the pump strike $4-a-gallon in the U.S., the economic recovery will be at risk, Mr. Demarin says.

Other market watchers peg the critical price at slightly different levels. At $150 a barrel, U.S. economic growth would be cut by a full percentage point, and both consumer and business confidence would start to melt, economists at the Bank of Montreal say.

Middle Eastern and North African countries supply more than one-third of the world’s oil. If a tier one producer such as Saudi Arabia or Iran falls into political turmoil, fear of shortages could easily drive oil prices to $200 a barrel, Mr. Demarin says.

But none of this speculation means it’s time to panic, he adds. “We’re talking about a geopolitical wild card.” For now, BCV is advising clients to stick to a diversified portfolio tilted toward energy stocks and high-quality, blue chip companies.

Corporate profits are proving remarkably strong, and if oil prices don’t derail the recovery, markets could deliver returns of 5 to 7 per cent by year end and major indices could hit new highs in 2012, Mr. Demarin notes.

Some experts believe the turmoil in the Middle East and North Africa will bring buying opportunities. “For investors still looking to make some shifts out of bonds to equities, opportunities may arise to re-enter the markets at more interesting levels, in developed and particularly in emerging market equities,” Mark Moller Andersen, a strategist at UBS AG, wrote in a note this past week. “We stress that equities are still likely to outperform bonds in 2011.”

Bullish outlooks like these assume that central banks will refrain from raising interest rates or taking other action that could imperil the recovery. Investors will be particularly eager to hear U.S. Federal Reserve chairman Ben Bernanke reconfirm his support for quantitative easing when he gives his semi-annual monetary policy report to Congress on Tuesday and Wednesday.

Markets will also be keeping a close eye on economic data. The U.S. employment situation report on Friday is expected to show 180,000 non-farm payroll additions in February but an increase in the jobless rate to 9.1 per cent from 9.0 per cent.

On Monday, Canadian data is expected to show that GDP growth accelerated to an annualized rate of 3 per cent in the fourth quarter, more than the central bank's forecast of 2.3 to 2.8 per cent. In fact, economists at TD are forecasting growth of 3.5 per cent, but say the figure is unlikely to nudge the central bank into early action.

The Bank of Canada announces its interest rate decision on Tuesday morning and is widely expected to keep rates on hold while maintaining a cautious tone about the state of the recovery.