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Oil sours economic rally

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A recently released PricewaterhouseCoopers survey reveals that senior executives have replaced terrorism with risk of energy supply as a primary concern in 2008.

Leading oil-importing economies that share these concerns meet today in the Swiss resort of Davo — a week ahead of the next Opec meeting in Vienna — amid mounting worries that record oil prices are worsening the global economic outlook.

Having reached a high of $100.09 a barrel three weeks ago, crude oil prices bounced back to $87.50 a barrel on Wednesday in anticipation that slower economic growth will reduce energy demand.

It's understood that high oil prices have staunched interest rates cuts in Europe where the Bank of England and the European Central Bank remain worried about high inflation.

However, energy supply concerns are a guilt-edged sword. According to a recently released McKinsey report, the current wave of soaring oil prices could see Arab Gulf states invest more than $3,500bn in offshore markets by 2020.

Net foreign wealth of the six-member Gulf Co-operation Council (GCC) reached $1,900bn in 2006, double the level in 2003 with outflows of about $200bn in 2006.

Given these figures, McKinsey expects GCC foreign investment to eclipse previous investment flows by considerable quantums. Armed with these incoming warchests, McKinsey also expects Gulf investors to change their investment approach. Instead passively investing in stock markets and treasury bonds, they're now expected to aggressively take over companies.

The sharp rise in GCC fortunes is expected to reignite Middle East's sovereign wealth funds stakes in Wall Street banks. But rather than injecting foreign capital now, there's growing concern that Gulf money will stay in the region until ailing global economies improve.

Mustaf Abdul Wadood, managing director of Abraaj Capital expects Middle East investors and sovereign wealth funds, with almost $2,000bn invested overseas, to shun international markets for the time being.

According to Kito de Boer, McKinsey's managing director for the Middle East only an unrealistic oil price fall, lower than $30 a barrel, plus rising domestic investment could stop Gulf states continuing to sink petrodollars into the international economy.

"If oil prices remain at a level over $50 a barrel, this will become a structural shift of global capital flows on a material scale."

Mark Story