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Was the OPEC decision to keep supply unchanged a surprise?

It was - OPEC has been saying it wants to balance the market and although that objective had been reached, they did not increase production. The official explanation is that they're erring on the side of caution, but they are also setting the system up for more volatility - the market is now looking towards a supply increase at some point. On the other hand, the decision gives OPEC full control, as commercial inventories will continue to be driven down while they hold all the spare capacity.

At what point does US shale production start to increase?

These prices will call for a reaction from shale - there are already signals of that from all the hedging going on. Some of the larger companies have indicated they may not rush to bring shale back too quickly, but shale is by no means dead. Rather, it has changed, with the big boys replacing the mom-and-pop shops. That may remove the old spontaneity in the industry, but it will not hold back forever.

What's the impact of rising prices on the global economic recovery?

\$70/bl oil is bad for economic development. However, it is not countries in Southeast Asia or even India that will drive global economic growth. That will be determined by the EU, the US and China, for whom these price levels are not a serious stumbling block as oil's role in their economies has diminished. Secondly, the US, now an exporter, on balance benefits from higher oil prices. Higher oil and commodity prices also fuel inflation, and we are today facing the risk of a demand onslaught hitting the US economy on the back of the massive stimulus. We've already seen the markets starting to react, shorting US Treasuries which has pushed yields up. The US Federal Reserve Chairman Powell last week, failed in his attempt to reassure markets against inflationary dangers. ■

**Paraphrased comments*

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