

# DAILY ENERGY MARKETS FORUM

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### Christof Rühl

Senior Research Scholar - Center on Global Energy Policy  
Columbia University



#### Is the US Fed position on an interest rate rise by 2023 a surprise?

The statement last week was the beginning of a tighter approach, not the end of it. So far, the messaging that everything is under control has worked. Now, they have to backpedal a bit and that's a good way to prepare for the long term. I would expect to see more of this with the way the global economy is recovering, as bottlenecks emerge, and also taking into account the damage higher rates of inflation can ultimately do to emerging markets.

#### Is a rate increase more damaging because of these unprecedented debt levels?

We have had a systemic extreme monetary policy that has created an environment of low interest rates for an unprecedented length of time. That's like a bonfire for inflation. We have also had loose fiscal policy. As far as structural policy is concerned, the hard stuff like dealing with the minimum wage and companies regulation, that hasn't even been touched. In my eyes, the latter, especially in Europe, is what will unleash growth and inflation in the sense that the government will spend more than it earns. At some point, it starts to finance that with the very money created by the central bank and that would go into assets first and then prices. All of this would happen amidst unprecedented debt levels. In the group of developed economies, we are now at about 300% of GDP - a record level for the government, the private sector and households. When interest rates rise, the weakest of these three will be the first to default. What's most worrisome is that it's completely unclear today how this debt will ever be repaid. All of these factors are fertile ground for politicians to come out and say that we need to have 4-6% inflation.

#### The US Dollar strengthened last week after the Fed statement?

I never understood the opinion that the dollar would weaken. The Fed's signals that they would go ahead to raise interest rates will make the dollar more attractive, as will the risk of volatility. The dollar has weakened considerably already so I see it strengthening. ■

*\*Paraphrased comments*

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