

# DAILY ENERGY MARKETS FORUM

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#### Nothing seems to be holding oil prices back?

The core reason has been shale not returning as fast as expected - because of capital constraints or stricter financial restructuring by shale investors. Regardless, it's just a delay and shale will be back by Q1 2022. The other factor influencing market sentiment is what is now an almost unanimous opinion on expectations that the US Fed rate increase of 1-1.5% will happen by 2023. The question is whether markets at some point sell off due to any uncertainty and create financial instability.

#### Yet the appetite for risk on is very solid despite these signals from the Fed?

It's simply the massive wall of money so even if markets react adversely, they will bounce back because people have to put their money somewhere. I would expect that as the tapering starts in earnest, we will see more volatility but also the upward drift to continue. The long-term problem will be how to pay off the debt buildup.

#### How will this affect emerging markets?

We will even see a split within the G7 on economic recovery. The US is growing and so will the UK most likely but Japan, I'm not so sure. Historically, when Fed policies turn restrictive, they could trigger a crisis in emerging markets or in the corporate sector globally - it's never certain. But the more the Fed concentrates on what happens in the US, the higher the risk that something goes wrong in emerging markets or with non-triple A rated corporate bonds more broadly.

#### OPEC's decision at its July 1 meeting?

They're likely to make a short-term announcement only and keep options open. They need to err on the side of caution as it's not clear that demand will bounce back as strongly as projected. If it does cross certain thresholds, they can always release more oil. They will signal flexibility - ready to rein in any rally while at the same time taking as much money off the table as possible. The start of 2022 is also something to watch - with shale returning, the OPEC agreement expiring and the Fed signaling whether they will raise rates the year after. The economic situation in China, including inflation and its financial sector issues, will make its way back into the news and may not be as stable as some would suggest. ■

*\*Paraphrased comments*

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