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Where is the global economic recovery as we approach the end of Q2?

We are in firm recovery territory, at least in the US, and that is also spreading over to Europe and other places on the globe. US GDP growth indications are looking very strong, albeit from a base effect of a 2020 that tanked, and the numbers are going to continue to look stellar. With that, inflationary pressures will build. The Fed is going to support fiscal expansion and not put a break to these price increases. We have in front of us a period of rapid growth in 2021 and inflation of perhaps 3% to 5% for the next few years. There is the danger that this gets out of hand in a world which hasn't seen inflation for 25 or 30 years but I cannot see another way out of these enormous debt levels without having nominal GDP growth supported by some inflation. That will then erode the debt, which is fixed in nominal terms and doesn't adjust. If you had zero inflation, the economy would have to grow at 3, 4 or 5%. That's not feasible.

Why is US shale still not responding at these prices?

Why it has responded slower than expected is a real puzzle. For the last 15 weeks, the growth rate of shale has been about half as much as the 20 weeks before that. Shale will come back but the issue is there's usually a lag of at least six months between the start of drilling and output so we should expect very limited reaction until the winter. Shale producers can hedge, so if something goes wrong with OPEC policy, these higher prices would be there for them later on.

Should we expect the negotiations with Iran to reach an outcome this week?

I'm a bit skeptical. There's clearly a desire on the part of the US and European Union to get this done but historically, this kind of consolation has always led Iran to step back at the last minute. If so, we will be left in a grey zone again where Iranian barrels increase without a formal agreement and which will more or less be tolerated by OPEC. ■

**Paraphrased comments*

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