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What's your take on last week's oil price surge and equities hitting new highs?

Unlike 2008, when it was good for the market for the Fed to pump money for longer, now the market reaction is all over the place. It's not clear if, when the Fed does actually start tapering, whether the market expects bond yields to go up or down. It's not clear if bond yields will fall when equity prices go up or down. And even if equity prices go down, it's not clear at what point this leads to deleveraging and problems in the financial sector or when that would feed back to economic growth and oil prices. What is clear is that the common perception now is that no matter what happens on the virus front, it's going to be increasingly a problem of the non-vaccinated and that it's unlikely there will be another full-scale global lock down.

Do we expect more clarity on the direction of interest rates anytime soon?

Inflation numbers in the US have been going up but the Fed is still saying not to worry and that it's a temporary blip. But other indicators outside the consumer basket, such as house prices, are very high. If inflation goes up, there will be an interest rate reaction that will hurt economic growth going forward. We also still have a system full of bottlenecks with material shortages all over the place and it's not just containers stuck in China or semiconductors. It's plastic, paper etc., so all those will drive prices up. If by chance lockdowns do come back to OECD countries, from an economic point of view the interest rate discussion could be deferred a little bit. I think the first half of 2022 will be the decisive period for rates because it will be after the winter, and we will either be fine or growth numbers will be coming in lower than expected on the back of economic inactivity. As far as oil prices go, supply will have also increased by the start of 2022 and prices could come under pressure if growth expectations are muted at that point.

Expectations for the OPEC meeting this week?

OPEC is unlikely to change tack. They will continue to monitor the situation. We don't yet have the full demand which we had expected by now so they will produce as much as is needed. And Saudi Arabia, with the flexibility of supply that it has made on its quota, can continue to fine tune if required. ■

**Paraphrased comments*

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