Daily Energy Markets
VIEWS YOU CAN USE

Consultancy
Intelligence
Publishing

Christof Rühl

Senior Research Scholar - Center on Global Energy Policy
Columbia University

How much of the oil price rise is being pushed by fundamentals?

Low spare capacity hasn't been on the agenda since the 1970s and today, although aggregate spare capacity is sufficient to deal with these price spikes, it is concentrated in Saudi Arabia, and a little bit in Kuwait and the UAE, and they are showing no sign of making up the shortfall from other members. The question is whether that will be sustained and for how long and whether they give in and steer the market with a more gradual increase or not. Another part of fundamentals is expectations and there are reasonably well-founded expectations that supplies from the US and from outside OPEC+ are in general increasing fast enough to have a trend change in inventories - not only by 2023, but at the latest, by this summer. In the meantime, on the demand side, it's far from clear whether China and others will exercise continued strong demand. And the most important factor seems to be that we are entering an interest cycle hike, which is higher than expected, and that could put pressures on economic growth just at the point in time when the supply side in oil markets is responding.

Inflation policy outlook?

Stabilizing inflation would be good news in the sense that expectations of future inflation will be more anchored, and so the demands for wage increases will be further removed. If inflation rates go up, then you immediately have people losing trust in the system and demanding wage increases. That's the dangerous situation we're in right now. What we are seeing is the ugly picture of unraveling expectations, which is exactly what central banks wanted to avoid – that they are losing control over the narrative. The inflation numbers are spilling over into people's electricity, food and other bills. If oil and natural gas prices do calm down in the spring or summer, that would obviously be beneficial for economic policymakers. But either way, when we have inflation at 7% in the US and 5% in Europe, even if interest rates are increased by two or three percent over the year, we still have negative interest rates. That means we still have expansionary monetary policy and more money sloshing around than can be deployed for expenditures. And that means high demand for assets, such as equities and real estate in terms of price bubbles, and also energy. ■

**Paraphrased comments*