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Oil prices are caught between a possible recessionary demand drop and possible sanctions.

China's leadership is clearly poised to execute its zero Covid policy until the party conference in November so that's bad for energy markets. It may be buying more oil for restocking but what's very clear is that the economic and political picture is deteriorating very fast. Growth forecasts are now going coming in below 4%. We are not only seeing the consequences of the lockdown and of the overleveraged financial crisis, but also the political campaign for more egalitarian distribution of wealth, which hit the tech sector for example. All of that is leading to a decline in investment and productivity. In terms of EU sanctions, we've had lots of detailed proposals from the US, but this time around, sanctions are totally unilateral and decentralized - we have voluntary decisions country by country and across fuels. That's been successful so far, but the moment the conflict situation is no longer ratcheted up, the system will recalibrate, flows will go to Asia and the money will continue to flow to Russia. The cracks are beginning to emerge in EU sanctions policy.

Has the panic on inflation settled down a little?

We don't see it accelerating anymore and we might see it coming down a little but it's not over. We should also remember that Europe and the US are much better placed to withstand inflation and an oil price shock than the emerging markets. Energy expenditures per person are less in terms of percentage of income and they have lower oil intensity and less vulnerability in terms of trade, as well as a sophisticated system of energy storage and distribution.

How much of the current oil price is a war premium?

You can never specify but I would think that without the war, we would be in the same range as before around the $80s. That seems to be the upper end of an oil price in an undisturbed world. And if we had oil from Libya, Nigeria, Iran, Venezuela, the world would have more than enough oil. But this is unlikely to happen.

How come the German DAX is stable despite an energy crunch crisis?

The German economy came out of Covid very strong, but it does have one central weakness – it is export dependent. If these deglobalization trends continue and if they are cut off from export markets because economies slow down, then they will be in trouble. But internally from a consumption demand point of view, Germany is okay. ■

**Paraphrased Comments*