Christof Rühl
Senior Research Scholar - Center on Global Energy Policy
Columbia University

The trend on oil is downwards and volatility is huge.

Given that current forecasts are converging towards excess supply for the third and fourth quarter, oil prices are likely to decrease to the $80-90/bl range. There are also safety valves in the system such as the SPR release still taking place and OPEC spare capacity of around three million bd, and the fact that there are members under sanctions where supply could be activated. OPEC has two goals. They like $100 better than $80 and want to keep a floor on prices. Secondly, they want Russia to continue to be part of the organization. They don't want to lose the 'Plus' in OPEC Plus, and the last thing Russia needs is lower oil prices, so the argument for stable prices holds water. On the other hand, with margins and spare capacity very thin, any surprise on the political side has the potential to produce huge price spikes. But even there, Russian discounts would soon normalize and that in turn would have an impact on China's ability to increase their inventories. Inventories are low in the OECD but that's not necessarily true for China and India.

Outlook for gas?

Everything points toward a big conflict in the winter. Russia has lost so much gas shipments into Europe that they must know they're unlikely to get that back. This means there's very little for them to lose and probably something to gain by increasing the pressure towards winter. That's what everybody here in Germany at least is getting ready for.

Has US Fed policy now been fully absorbed into markets?

We're in a better place than we were when the Fed was denying inflation. The markets know that the Fed has to act. Still, within the US, the flexibility in adjusting to this interest rate shock is extraordinarily high so the risk now is the Fed overshooting on the other side because there will be a softening of the impact on inflation from energy markets, which is a substantial part of these very high aggregate numbers. But the underlying problem is still that core inflation is unchanged or rising, and the real issue is inflationary expectations, so the Fed will have to step on the brakes a little longer. The most likely scenario right now is that we don't get a very deep recession. We may have a slowdown in growth, but it's all on a very comfortable level. ■

**Paraphrased Comments*