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How do you interpret the recent positive sentiment in markets?

It's probably a combination of short-term hope that China demand comes back quite soon and longer term, that central banks will not have to go all the way to 10% or 12% interest rates to bring inflation down. The fact that US unemployment numbers could be at a level of 3-5% after two quarters of recession, isn't bad by any standards. Also, western governments have started into this inflation tightening cycle with enormously high debt levels and what they have discovered is that crisis after crisis, more debt is financed with government guarantees, so at the end of the day, the only way to get rid of that debt is to inflate away parts of it. We may have to settle for inflation rates of around 4% and relatively modest real growth of 2%.

Will demand destruction happen to the scale previously expected?

It could go either way, but what we will see is an increasing fragmentation. The US economy will do rather well, and I would not be surprised if the Chinese eventually give themselves some stimulus power and at least lift growth rate above the average of other Asian countries. Europe may have a recession, but like in the US, it's going to be more shallow than past recessions, so demand may catch up and growth may not be as badly affected.

Impact of the forthcoming Dec 5 oil price cap?

The absolute level of this cap is still not announced and that only increases uncertainty and volatility all around. However, some things are clear. There will be three prices. One which is the existing discount on Russian oil; another which is the global pre-set oil market price and the third which is the cap; and the arbitration between them will be unregulated. It will probably force the G7 into paying the world market price, which is going to be the highest of the three and that puts those countries at a competitive disadvantage to industrial competitors, like India or China, who are paying a cheaper price. Moreover, Putin has already said he will not deliver to countries who abide by the price cap. That gives Russia flexibility to scale production up or down and therefore to influence the global oil price. So, it creates a mess.

Will we see oil prices hit \$100 again?

The buffers on the supply side of oil in the short-term are extremely thin right now so the possibility of a short-term price spike is there. But we also know that in the longer term, we still have a downward trend in oil markets, with demand falling short of supply, and probably the only factor that would be able to reverse this downward tendency and shift the balance into a deficit on the supply side, would be resurgent China demand.

Expectations from the COP 27 meeting?

I think we have to be clear about the fact that the Paris targets cannot be met. It's a very important decision point now because targets could go out of the window if people realize that it's not going to be as easy to achieve. We also now have this energy crisis. Will we see a doubling up of efforts at the meeting? One would hope so but it's certainly more a time for planning to start on the right foot again, rather than a time for implementation. ■

**Paraphrased Comments*

