

# DAILY ENERGY MARKETS FORUM

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#### Is the oil price comeback a recovery or rebound?

Everything at the moment is testament to the fact that we still have this \$20 trillion of extra central bank quantitative easing around. We have a lot of the paper money involved in commodity markets being the tail that wags the dog and creating enormous volatility. The fall in the oil price was exaggerated and so was the bounce back. There's not much going on with actual flow of physical trade so it's mostly the speculative element that's moving the market today. We will probably see some sort of stabilization and we will eventually come out the other side of Omicron.

#### How will Fed tightening impact oil market direction?

All the central bank meetings will take place this week, but the Fed is obviously the most important. They're likely to double the pace of the taper and thereafter they can start to think about tightening. For the markets, money is still getting pumped in to a 'buy the dip' mentality and today, you could get some very large dips as the market is thin, which then leads to very violent moves upwards simply because there isn't a lot of liquidity. Central banks' acceptance of inflation is something the markets really haven't taken on board. The real danger is that at some stage, some of them go down the route of what we're seeing in emerging markets – getting 100 or 125 basis point rate hikes. That suddenly starts to offset the risk sentiment and it is this risk appetite which is so crucial.

#### Which of the major central banks will be the first to move?

Probably the Bank of England, in February, but it's going to be a very slow trajectory. The key point in terms of interest rates is the markets are pricing the endpoint for the US at 0.5 %, so safe assets are still going to be unattractive. My concern is that as we roll back the fiscal support, we will suddenly get to a situation where some of the things which we felt weren't a problem, like credit defaults, are going to come and hit us quite hard. We are also going to realize that the world economy isn't in such great shape, particularly as it transitions to a post-Covid state, and that's not going to look like the pre-Covid economy.

#### Big themes to be watching for in 2022?

How do governments normalize economies along with the fiscal withdrawal. This year, that's been mostly in emerging markets. Next year, we are going to see most central banks step back. We also have structural supply chain bottlenecks which will continue - in Europe, South America, Asia. And we will be watching how China manages its property debacle. ■

*\*Paraphrased comments*

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