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The US Fed is looking at any inflationary bump in Q2 as transitory.

When you dig down into the details of the higher inflation print for March, goods inflation was up very modestly and services inflation a little higher. Since the start of April, the markets are kind of blinking with respect to the Fed. There is a realization that the Fed means what it says – accommodative monetary policy and loose fiscal policy is not changing anytime soon.

How much control will the Fed have if and when inflation does materialise?

It has a lot of tools. Remember, we're at zero in terms of rates so even if you brought rates up to 0.5%, that's not tight monetary policy by any definition, but it would probably go some way to dent any burst in inflation in the near term.

Would a reversal of this historic easing be very damaging to the markets?

The Fed is not setting policy based on daily moves in equity or fixed income markets. It has been very specific about unemployment and wage targets. Not only does it aim to bring headline unemployment down to what it classifies as full employment levels, to sub-4% where the US was before the coronavirus pandemic; it also wants the lower income segments of the economy to benefit more from any recovery.

How is the US-Iran rapprochement impacting oil markets?

We're not calculating any immediate impact during the second quarter. There is the potential that we will have 1.5mn bd of Iranian crude coming back if all the diplomatic ducks get in a row and both Iran and the US return to the JCPOA. However, while the negotiations in Vienna have been positive, they're playing two-step with a ratcheting up of tensions in this region. Also, the sanctions are not only going to be lifted with respect to the nuclear program. There is other activity that the US believes Iran is behind, and we may not see such an amenable negotiating posture from the Iranians on that front, particularly if the hardliners win the upcoming elections. ■

**Paraphrased comments*

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