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Market concerns about Covid in Europe, China economic uncertainty?

The latest outbreak of Covid in Europe is adding another layer of uncertainty but as we have learnt in the last 18 months, we will deal with it better, again. The biggest threat in Europe today is probably social unrest but the mood within the political community is also not to impose severe lockdowns. Meanwhile, the US economy is looking pretty good. The uncertainties around China are not going away in a hurry. The country is going through a transition period, but the rest of Asia is bouncing back from that third quarter Covid shock. As an example, South Korean exports of petroleum products are in very strong demand and that also reemphasizes the point that we don't have a crude deficit problem, but rather a refining product capacity problem and supply bottlenecks, everywhere.

How serious is the inflation threat to global GDP growth?

There is concern on the rise of non-discretionary costs such as energy, food and household related expenses and we're not seeing a level of pay rises to match that. The other issue with this economic recovery is the realization that we haven't invested in infrastructure capacity enough, to handle it. That creates a backlog of orders which will feed the economy for quite some time. The only danger is if central banks suddenly throw in the towel and say they have to do something about inflation. But that would be futile as it won't create jobs, won't control energy prices nor resolve labour and supply chain issues.

Could the US Fed be forced to move on rates earlier?

Anything that they do to fight inflation will be ineffective. Where the danger lies is if markets suddenly feel that central banks are being backed into a corner and that they have lost control of the whole narrative. So far, markets have not questioned this but we may be getting close to that inflection point where they do. The other risk for equity markets is if we see bond yields rise in response to inflation and we're starting to see credit spreads widen quite sharply. ■

**Paraphrased comments*

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