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How should we read the Fed's signals as to likely next steps?

With inflation averaging 5 or 6% and a balance sheet close to $9 trillion, the Fed is doing what it needs to, but it's in a Catch-22. They know that the economic crisis is worse, but they cannot cut rates as much as the market expects them to, or inflation will go to 20%. They also know that if they print more again, it's game over, so they have to get asset prices down. The Fed has always played a reactionary function. Their dot plot has been following what the bond market has already priced in. Equity investors are still expecting the Fed to save the day, but this time is very, very different. Rates will be higher for longer because they got inflation wrong.

Should the oil market be prepared for this ongoing tussle in monetary policy?

Commodity markets are demand and supply led. The bulls' thesis expects China to rebound with the magical 2 million barrels per day. So far, it has been a million barrels per day. China restocked everything they needed to for their reopening. China demand might return but the US and EU will also go into recession in 2H 2023 and the oil market is very well supplied for the time being. China's economic policies have also changed. It's expansion since 2000 was on infrastructure and urban growth and development, but the focus now is on getting the birth rate higher, and for the average family to be able to afford education. We're not going to see the economic growth of before. There will be demand in selective areas - such as for base metals, lead, iron, or copper, but overall, it will be much more consumer focused. ■

**Paraphrased Comments*

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