Opening Remarks

Mohammad Sanusi Barkindo,
Secretary General, OPEC

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Distinguished colleagues, ladies and gentlemen,

Good morning and welcome to Vienna and the OPEC Secretariat for this Third Joint IEA-IEF-OPEC Technical Meeting on interactions between the physical and financial energy markets.

I want to offer a special welcome to our distinguished moderators and high-level experts who have journeyed from far and wide to be with us here today and share their far-reaching insights and experience. For the first time ever, one of our experts will be joining us via video conference as part of our discussions in the last session. This underpins our evolving efforts at the Secretariat to harness the latest technology to ensure we provide the highest quality content for our various meetings and events.

Allow me to also warmly welcome our dear colleagues and co-hosts.

From the International Energy Forum, I would like to welcome His Excellency, the Secretary General, Dr. Sun Xiansheng, my good friend and colleague whom I like to call my twin brother. Dr. Sun, your steadfast efforts and dedication to the producer-consumer dialogue are deeply appreciated by all. The IEF, in its facilitative and strategic role, continues to be a vital builder of bridges and advocate of dialogue and cooperation. We at OPEC wish you many years of continued success.

I would also like to welcome the delegation from the International Energy Agency, which is headed by Mr. Neil Atkinson, Head of the Oil Industry and Markets Division. Neil is a longtime colleague and friend, having covered OPEC and the oil industry for many years, and more recently, in his role at the IEA, he has been with us for many of these joint meetings.

The three organizations represented here today are prime examples of the powerful benefits that the strengthening consumer-producer dialogue continue to bring to the global energy markets.

Colleagues, ladies and gentlemen,

This meeting is the continuation of a series of annual meetings in which we strive to increase our understanding of the complex developments and interlinkages shaping the dynamics of physical and financial energy markets.

Today's deliberations follow on the heels of another successful joint event held one month ago at the IEF headquarters in Riyadh — the 9th IEA-IEF-OPEC Symposium on Energy Outlooks. We had the opportunity to exchange outlooks on short, medium and long-term developments, while also considering various industry viewpoints and investment developments.

It is also worth mentioning another joint activity we hold each year, which is the Gas and Coal Symposium, the fourth edition of which was held in Paris on 6 November 2018. This event provides a yearly opportunity for us to gather and assess the latest developments in the coal and gas industries, while exchanging outlooks from our respective organizations.

These joint activities, attended by energy ministers, industry leaders, top analysts and experts, are part of the trilateral work programme established by the IEA, IEF and OPEC at the 12th International Energy Forum in Cancún, Mexico, held in March 2010. They have become highly successful pillars of the producer-consumer dialogue.

Ladies and gentlemen, esteemed colleagues,

We gather here today at a time in which dialogue and cooperation among industry stakeholders continues to rise to unprecedented levels.

This is most clearly displayed by the landmark Declaration of Cooperation, which has been in place since the beginning of 2017. This spirit of openness and the sharing of perspectives and knowledge has been a major supporting factor to the market stability we have witnessed of late.

Just last week, we convened in Baku, Azerbaijan, for the 13th Meeting of the Joint Ministerial Monitoring Committee (JMMC), where all participating countries reiterated their support for the highly successful Declaration and assured the Committee that they will exceed their voluntary production adjustments over the coming months. The JMMC acknowledged the critical role the Declaration has played and will continue to play in supporting a sustained stability in the global oil market.

I am pleased to see with us here today delegations from participating countries of the Declaration. We look forward to your valuable viewpoints and expertise during our discussions.

One of the great benefits of this collaboration has been to gather together and discuss complex and evolving issues, such as the one on our agenda here today.

Let us remember that it was just under 15 years ago that oil emerged as an asset class, with considerable implications for the market.

Since that time, we have witnessed the increasing financialization of the oil market with a major jump in the number of oil futures and options being traded on the world's exchanges.

Looking at the evolution of average daily traded volumes of futures and options, the NYMEX WTI increased from around 530,000 contracts in 2008 to 1.2 million in 2018, and ICE Brent increased from around 260,000 contracts in 2008 to more than 900,000 in 2018. Additionally, looking at it from the perspective of volumes, we are currently at a daily global consumption of roughly 100 million barrels of oil per day, however, when we look at the volumes of crude oil futures being traded, we see a very different picture--with the daily aggregate traded volume at 2 million futures contracts or about 2 billion barrels per day of crude oil.

Technology also continues to play an increasingly influential role in the financialization of the oil market in terms of electronic trading through algorithms and digitization. According to a study released this week by the US Commodity Futures Trading Commission, the share of automated trades entered in futures markets across all commodity groups increased from 2013 to 2018. The average percentage increase was 19% for energy, metals, gains, oilseeds, and livestock.

As this study confirms, these developments can expose the physical oil market to increased levels of speculative activity and volatility.

This was perhaps most evident in 2008, when we witnessed crude oil prices jump dramatically from around $90/b in January to over $145/b mid-year, then drop back down to around $30/b in December.

These drastic movements in price can create extreme volatility that is counter-productive in the oil market and certainly not in the interest of oil producers or consumers.

OPEC recognized the importance and magnitude of this issue early on and began to discuss it with industry stakeholders in meetings and within the EU-OPEC Energy Dialogue.

In fact, in December of 2006, I had the honour, in my role as OPEC's Acting Secretary General, of Co-Chairing the two-day joint OPEC-EU Workshop on the Impact on the Financial Markets on the Oil Price. That meeting recognized both the positive and adverse aspects of the increasing integration of the physical and financial oil markets. It also stressed the need for adequate regulation and high levels of transparency in terms of market data.

Since then, OPEC has always managed this issue through a measured and balanced approach, understanding the essential and productive role of the financial sector, while also acknowledging that it is but one of many factors that can impact market stability.

The impacts of financialization on the dynamics and functioning of the oil market continue to evolve on a daily basis, thus requiring continual monitoring and analysis, in addition to close engagement with market players in both the physical and financial markets.

Earlier this month, at CERA Week in Houston, we had an opportunity to meet once again with asset managers, commodity funds, as well as private equity and macro funds. This was a natural follow-up to similar meetings held at CERA Week in 2017 and 2018. This ongoing dialogue in an open and transparent manner is clearly in the interests of all stakeholders as we seek to navigate this complex and multi-faceted topic. Indeed, we will have the opportunity to build upon these rich discussions at our meeting today.

Before we proceed, allow me to provide an overview of today's three sessions.

The first session, moderated by Mr. Harry Tchilinguirian of BNP Paribas, will provide a review of the interaction between financial markets and oil prices. The recent oil market volatility will be highlighted in an effort to understand the underlying market dynamics that have impacted the most recent trends. We will also be looking at algorithmic trading and how this is increasingly affecting financial markets. Finally, we will hear an update on how swaps dealing has evolved given a rapidly changing market environment.

The second session, moderated by Dr. Cornelia Meyer of the MRL Corporation, will cover developments in crude oil futures exchanges with a focus on the emergence of new crude oil benchmarks and their impacts on regional markets. Our friends from both Argus and Platts have just recently announced new assessments for Dated Brent, or North Sea Dated, and will present the changes to us today. We will also hear an update on the new International Energy Exchange in Shanghai and the growing importance of WTI in Houston. It is also worth mentioning here, in the context of this session, the important recent developments going on in the United Arab Emirates and the very important Fujairah bunker fuel hub, which is strategically located at a crossroads between east and west, about 70 nautical miles from the vital Straits of Hormuz shipping corridor. I had the opportunity to visit this extremely impressive hub last September. It was announced this week that Argus has just launched the first price assessments for low-sulphur fuel oil in the Fujairah market. These are the first assessments to be launched for the quality of fuel needed to comply with the International Maritime Organisation's new sulphur limits for marine fuel. This new price assessment, which will come into effect in 2020, presents a strong opportunity for the development of independent pricing in Fujairah, the region's largest trading and bunkering hub.

After our luncheon, the third and final session, moderated by Dr. Steven Knell of IHS Markit, will highlight climate-related financial disclosures and the impact on global investment in the oil industry. This is a very timely subject and likely to impact investment, particularly in long-term cycles of the oil industry, given the slow recovery in investment outside of the US shale industry.

To ensure an open and productive discussion, today's deliberations will be held under the Chatham House rule. Each session will begin with an introduction by the moderator, followed by short presentations on each session topic. This will set the scene for the interactive deliberations, which will also feature remarks by the discussants and other participating experts.

Now, I would like to invite my distinguished friends and fellow organizers from the IEF and the IEA to deliver their remarks, starting with His Excellency, the Secretary General of the IEF, Dr. Sun Xiansheng.

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