



Oil market stability and the producer-consumer dialogue: Trends and questions

Aldo Flores-Quiroga

6th International OPEC Seminar

Flow

1. Trends

2. Questions

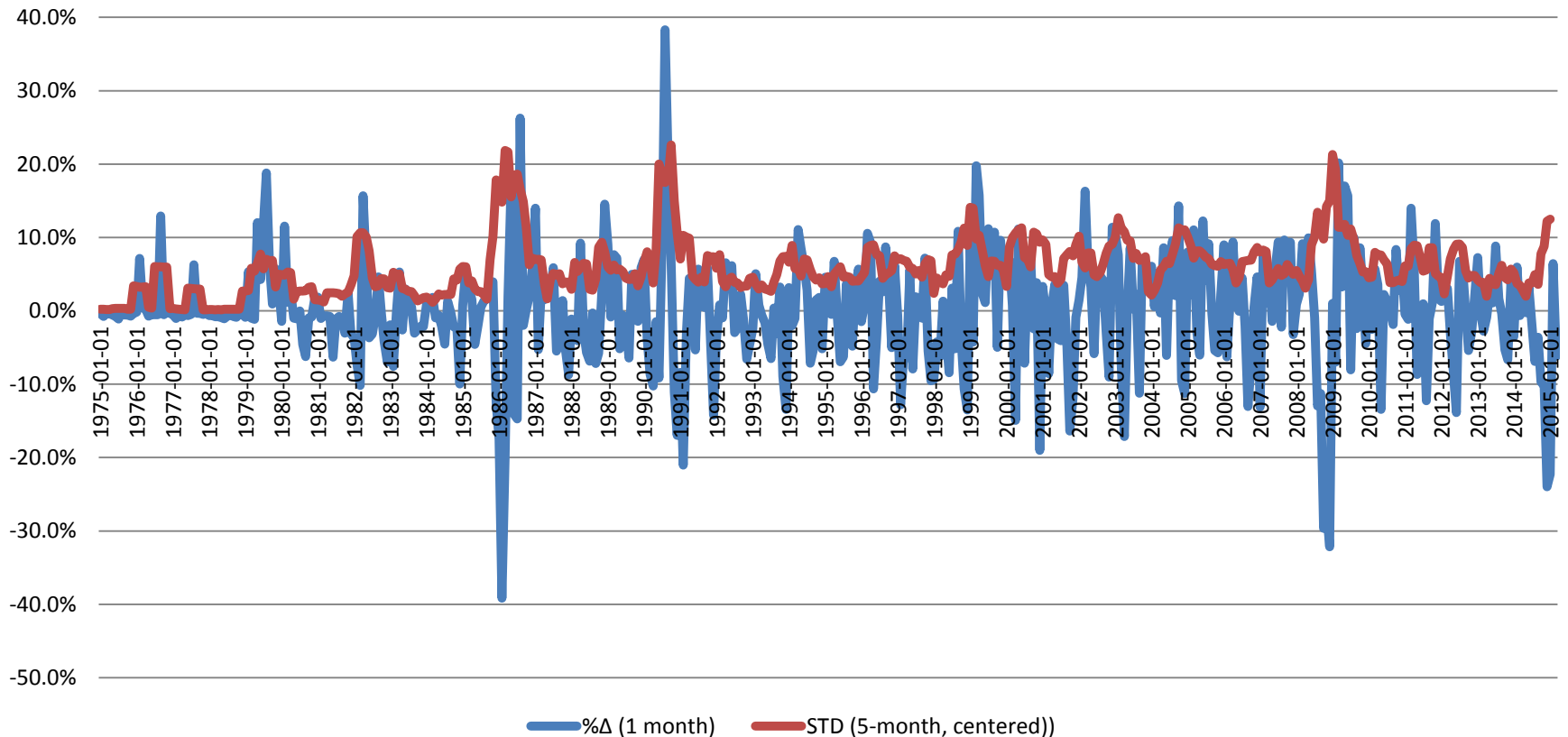
Flow

1. Trends

2. Questions

Three episodes of high volatility in 35 years: 1986, 1990, 2008.....and maybe a fourth one: 2014-2015

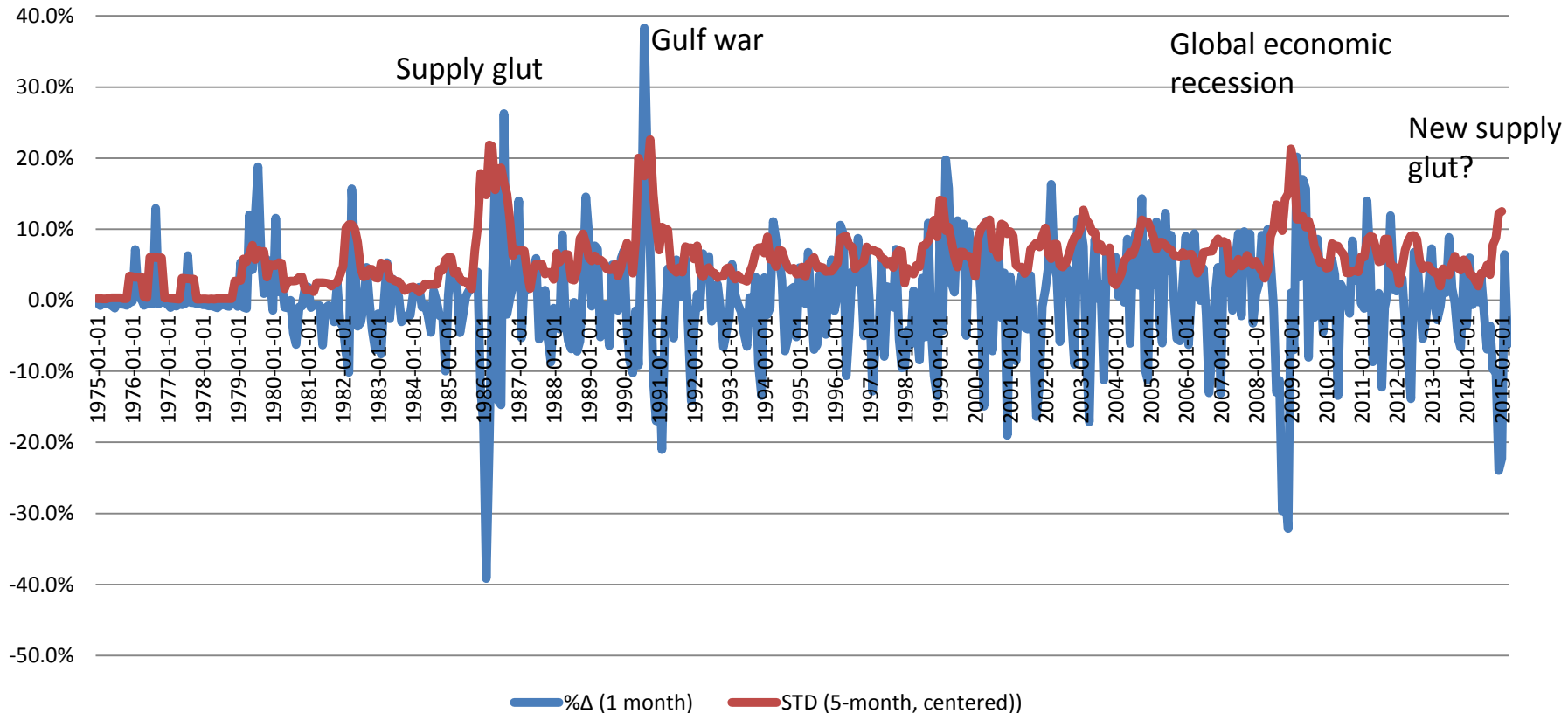
Monthly oil price change and volatility, 1975-2015



Source: US prices are WTI from EIA (1986-2014) and WSJ (1975-1985); own calculation.

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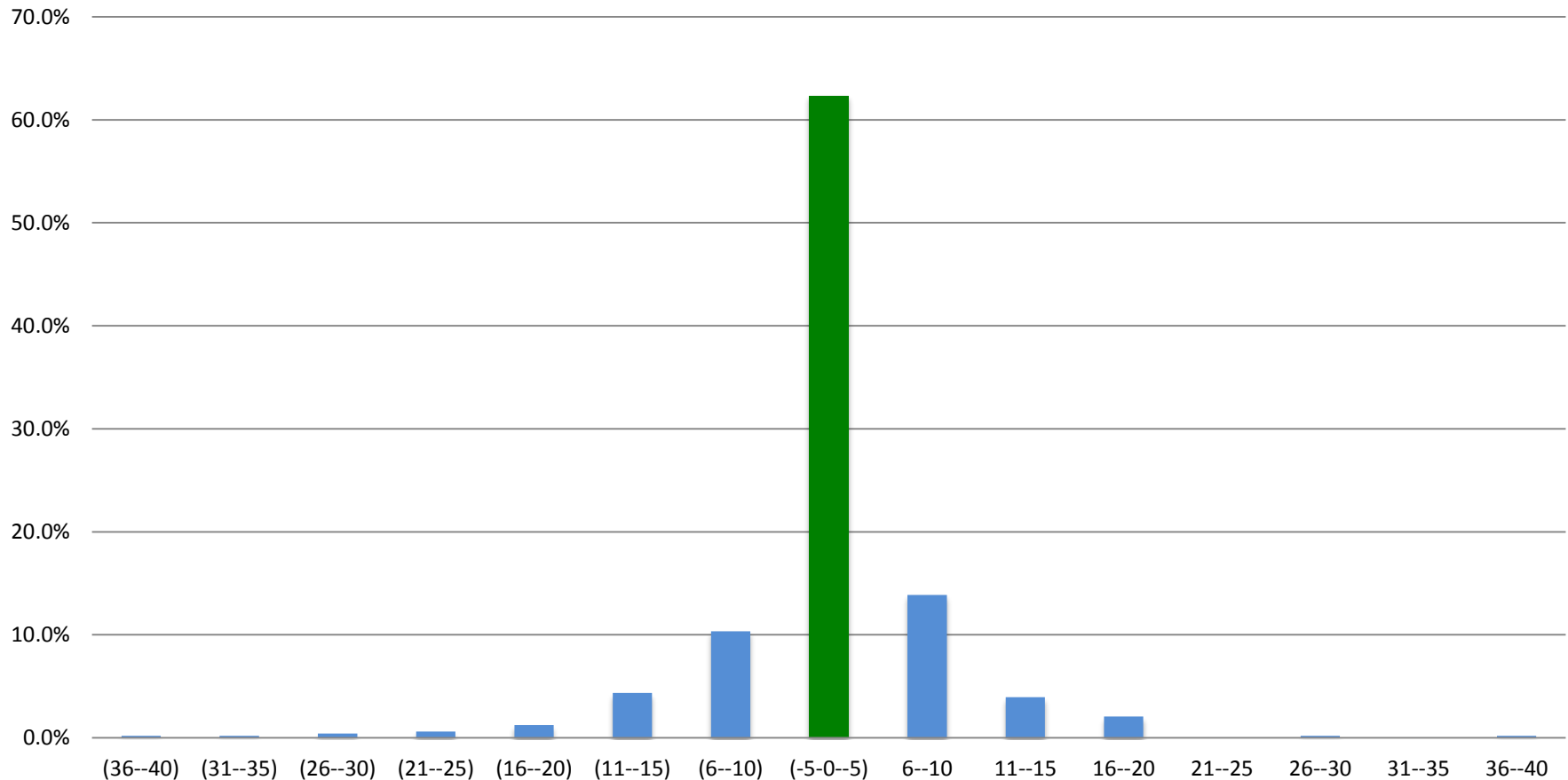
2. Questions

Question 1

Volatility: how much is too much?

Over 60% of monthly price variations since 1975 have taken place within a small range: **-5% to 5%**

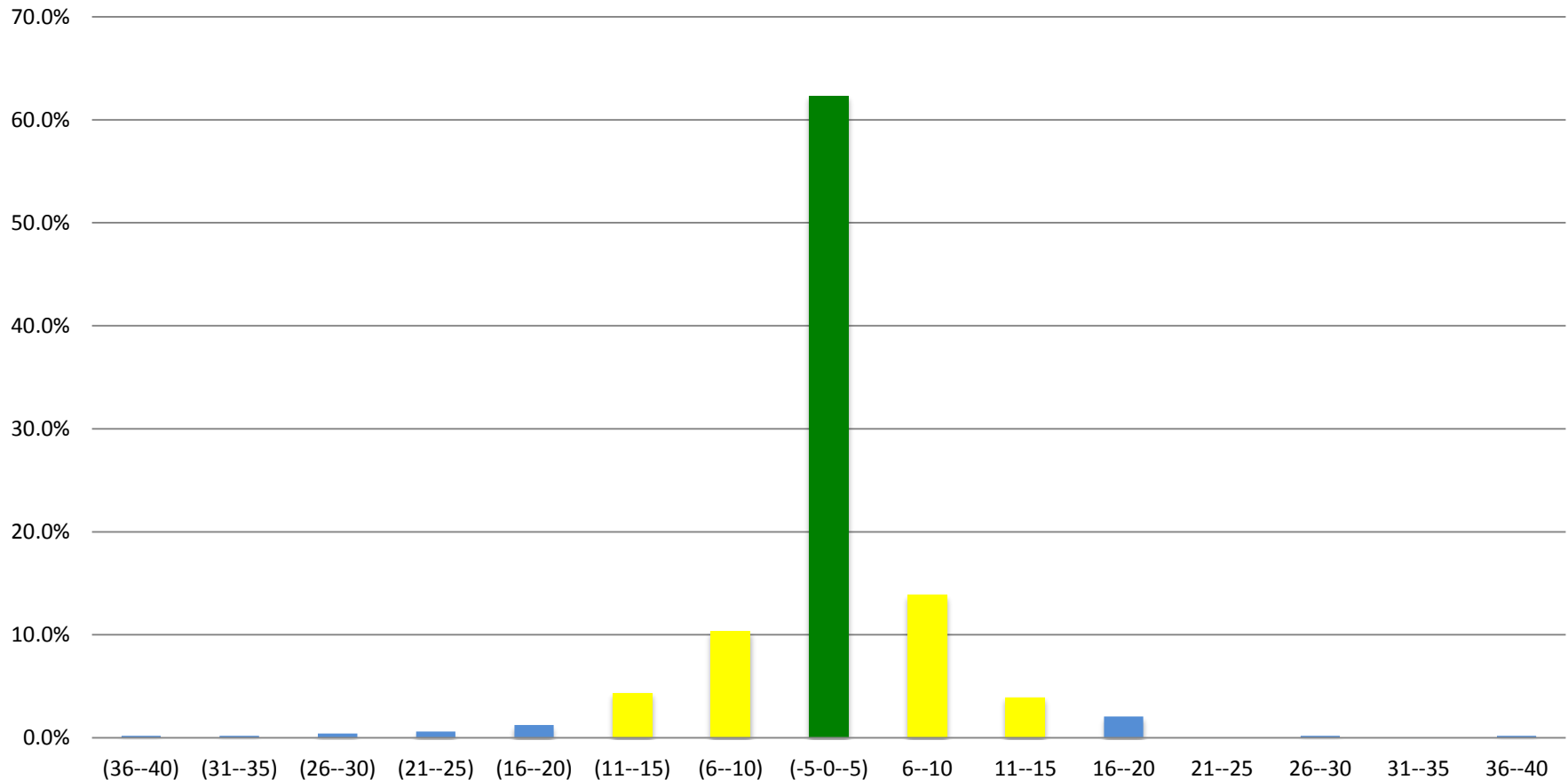
Oil price. Relative distribution of monthly variations, 1975-2015



Source: US prices are WTI from EIA (1986-2014) and WSJ (1975-1985); own calculation.

A wider range of variation has appeared tolerable -to a point: -15% to 15%

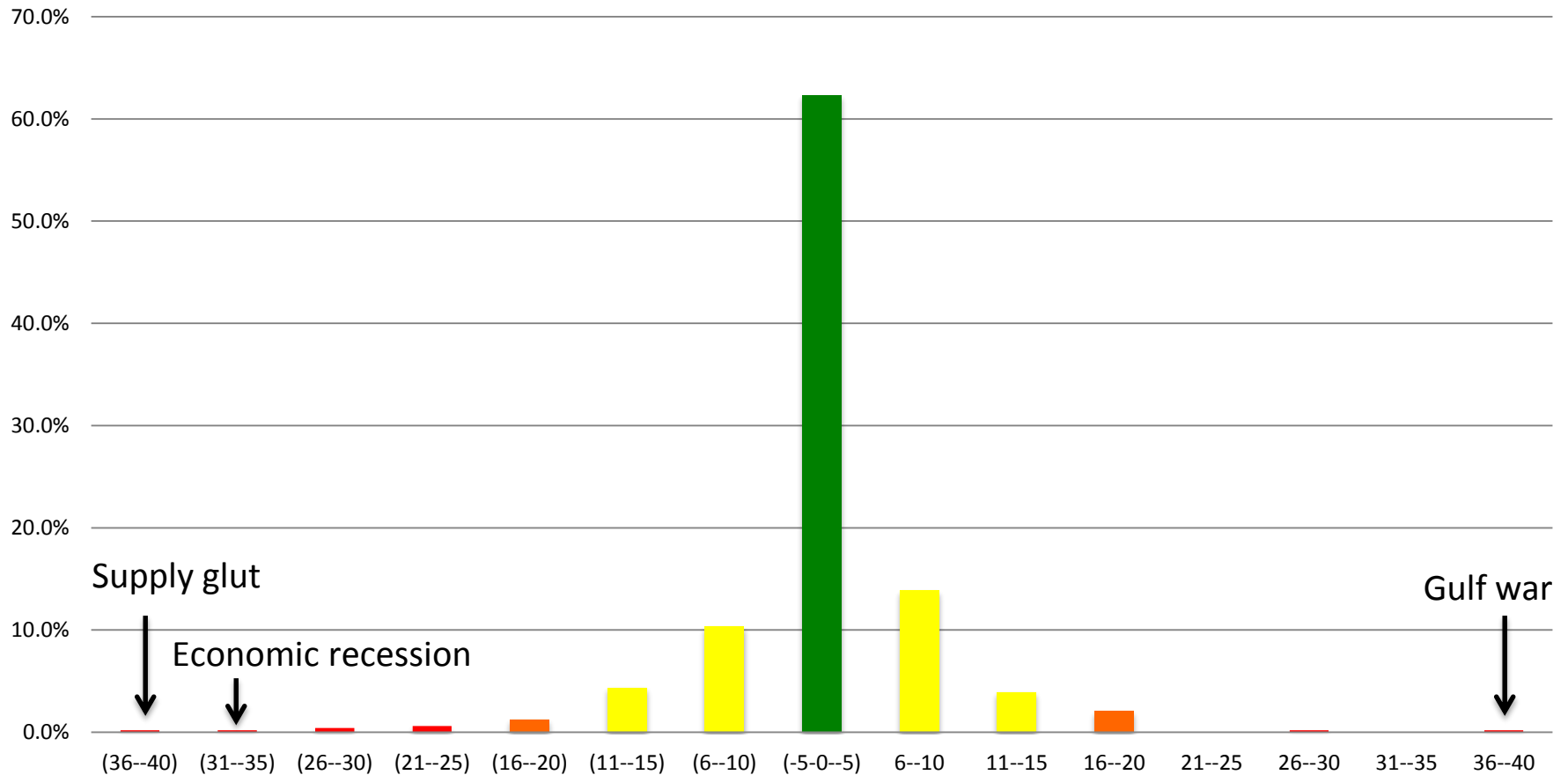
Oil price. Relative distribution of monthly variations, 1975-2015



Source: US prices are WTI from EIA (1986-2014) and WSJ (1975-1985); own calculation.

But higher ones have generated much discomfort:

Oil price. Relative distribution of monthly variations, 1975-2015



Source: US prices are WTI from EIA (1986-2014) and WSJ (1975-1985); own calculation.

It is difficult to reach a common **view of an acceptable level of volatility** due to the broad range of stakeholder interests in the oil market

Different stakeholders have different perspectives on volatility

Governments

- Distributive effects
- Macroeconomic effects

Companies operating in physical markets

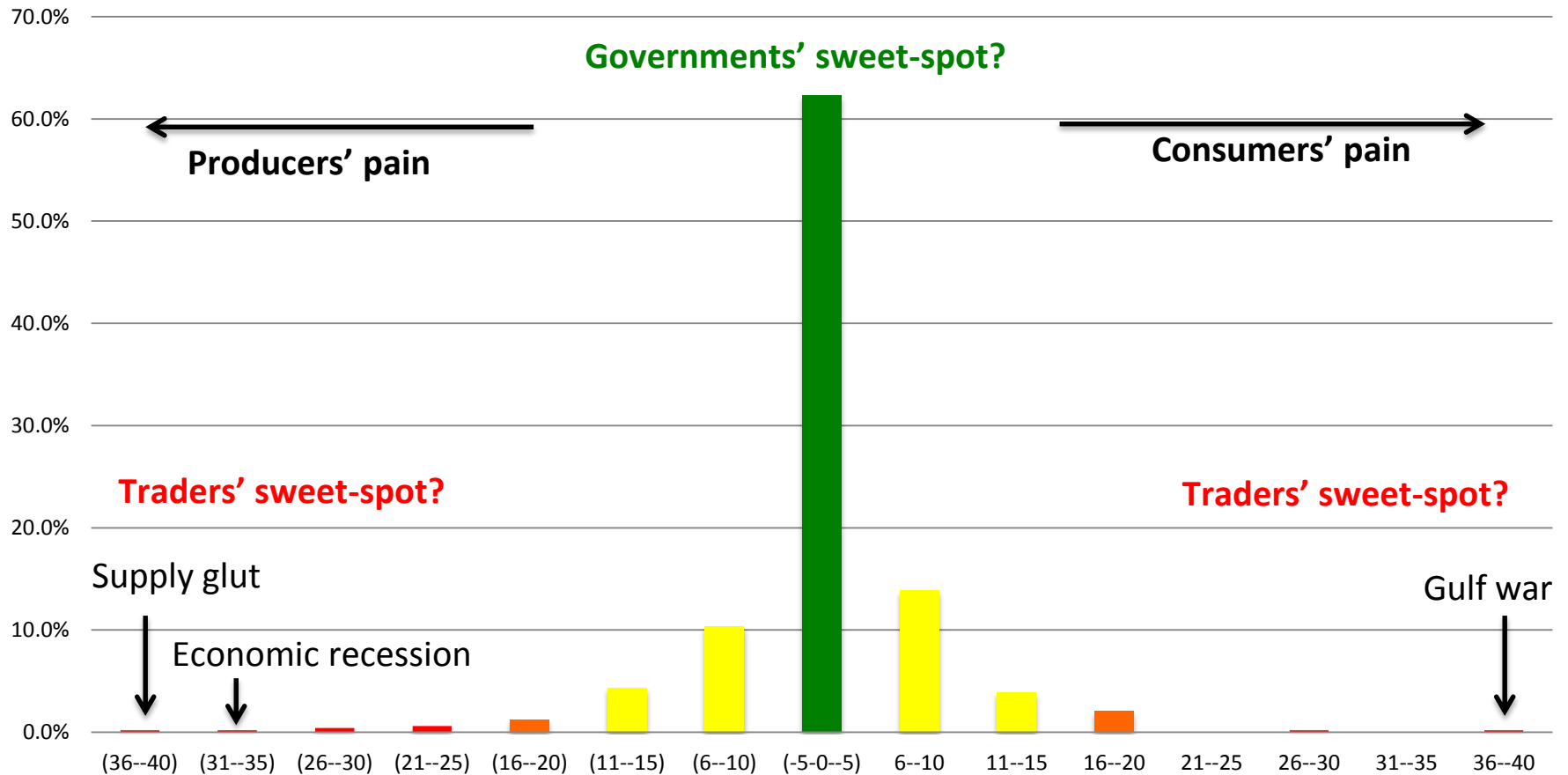
- Long-term investment
- Affordable supplies

Investors, creditors, and debtors in financial markets

- Hedging and risk allocation
- Credit and risk valuation

Stakeholders have different tolerance thresholds for volatility

Oil price. Relative distribution of monthly variations, 1975-2015



Source: US prices are WTI from EIA (1986-2014) and WSJ (1975-1985); own calculation.

Question 2

International energy cooperation: when and how?

It depends on:

- **Objectives**
- **Instruments**
- **Information**

What is the target?

- An oil price **level**?
- A range for the **percentage change** in the oil price?
- A **range of variation** around an average percentage change?
- A revenue **stream**?
- Supply/demand **certainty**?

What are the instruments?

| | | | |
|------------------|-----------------------|---|-------------------|
| Physical market | Supply | Production quotas Strategic reserves | Dialogue and Data |
| | Demand | Policy transparency? | |
| Financial market | Policy and regulation | Price reporting Position limits | |

The IEF works to improve the quality of information available to decision-makers

Dialogue

- IEF Ministerial meetings
- Analysis of the interaction between **physical and financial energy markets** and its implications for policy (with IEA and OPEC)
- Comparative analysis of **energy outlooks** (with IEA and OPEC)

Data

- Promotion of market **transparency** through JODI (with APEC, Eurostat, IEA, GECF, OLADE, OPEC, and UNSD)

Focus of the conversation on the interaction between physical and financial markets (IEA-IEF-OPEC Symposia)

Fundamentals and expectations about fundamentals

- Supply
- Demand

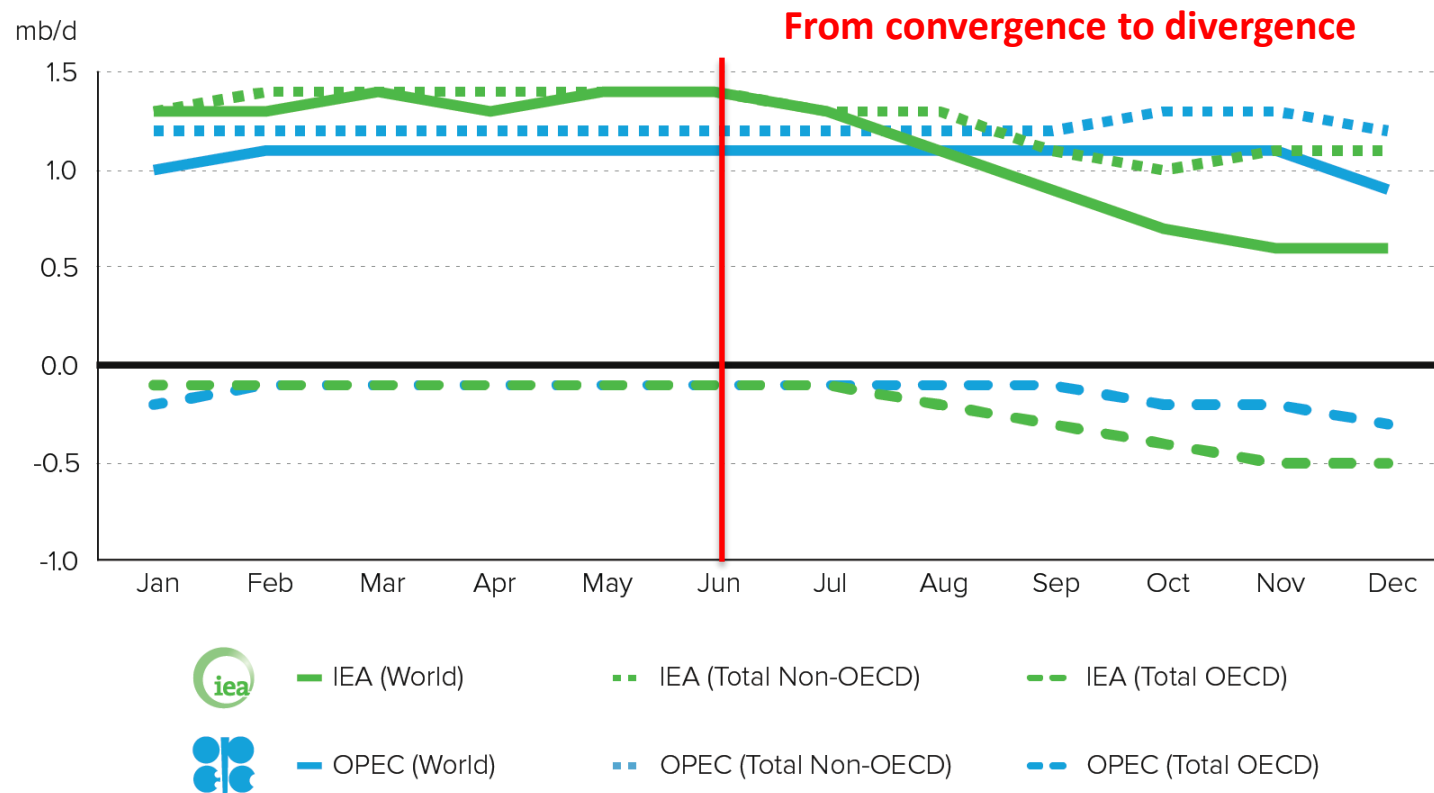
Role of regulation in promoting transparency and efficient price formation

- Price reporting
- Hedging
- Harmonization of standards
- Regulatory arbitrage

Food for thought...

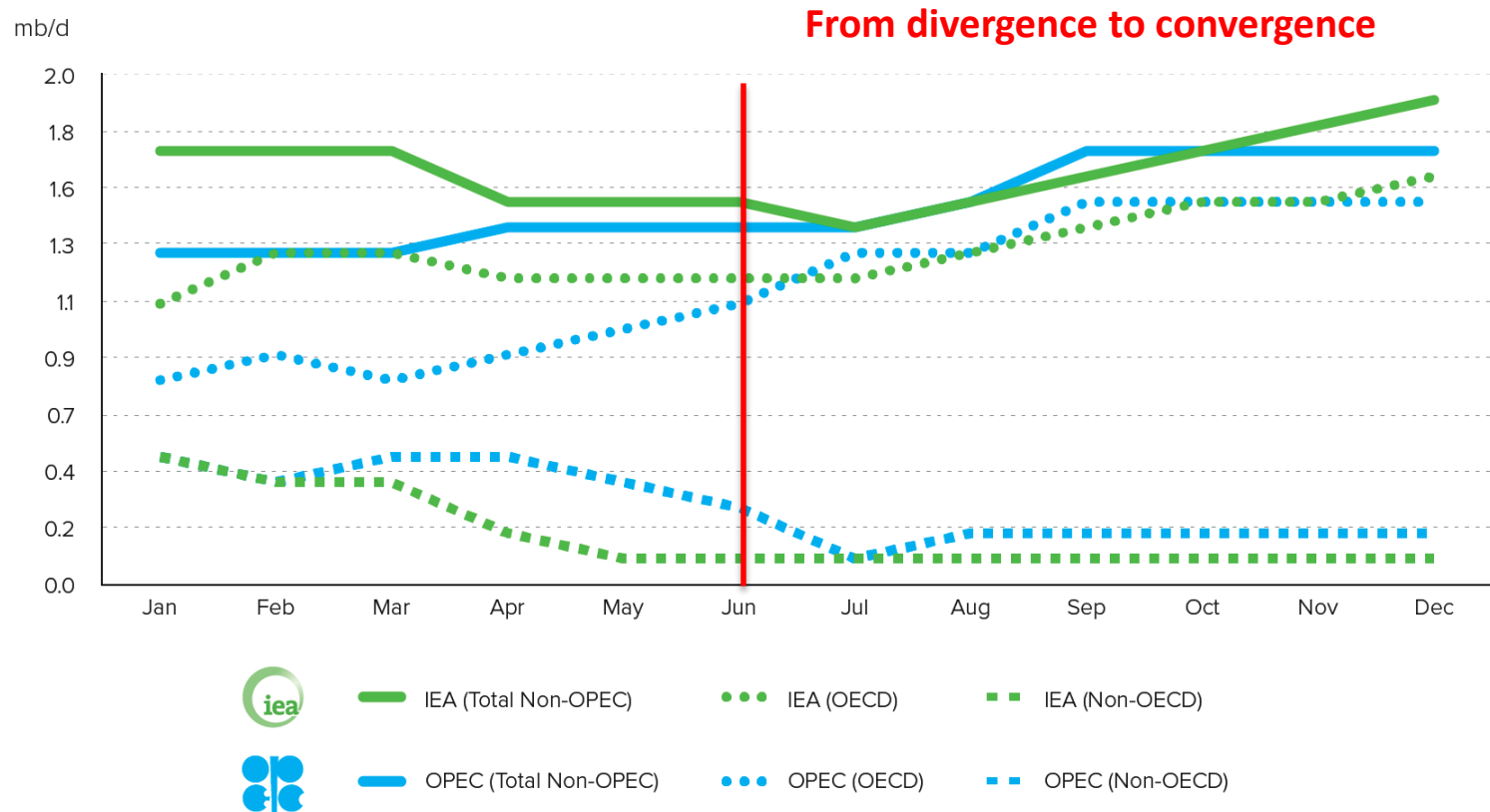
Demand estimates for both the IEA and OPEC were stable until June 2014, when expectations began to change

Figure 1. Revisions of 2014 World Liquids Demand Growth Estimates



Supply growth estimates converged by the second half of the year

Figure 4. Forecast Revisions of 2014 Non-OPEC Liquids Supply Growth





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