



**A Joint IEA-IEF-OPEC Event
Workshop**

**"Understanding the New Dynamic: How do the Physical and Financial Markets for Energy Interact?"
& Forum**

"Energy Market Regulation: Clarity and Coordination"

Noé van Hulst, Secretary General, International Energy Forum (IEF)



Joint IEA – IEF – OPEC Workshop

**“Understanding the New Dynamic:
How the Physical Market for Crude Oil and Financial Markets Interact”**

Objectives

- improve the **understanding of the linkages between physical and financial markets;**
- review the **recent evolution of physical markets**, including crude benchmarks; the **evolution of energy-related financial markets;** **over-the-counter trading** and its impact on price discovery and volatility; and the **relationship between oil products and paper markets.**



Summary of discussions (1/2)

- **Increasing interaction** of the physical and financial energy markets, with significant potential for even greater interaction;
- **Gradual shift of the centre of demand growth** from the industrialized countries **to the emerging economies**, particularly China and India,
- Evolving **short-term price inelasticity of supply and demand**;
- **Impact of product specifications** changes and inadequate refinery configuration in the EU and the US
- Emergence of **oil as an asset class** and **the influence of financial markets on prices**;
- **Shift to electronic trading** on the Nymex and ICE exchanges;
- Sharp **growth in the unregulated OTC markets**.



Summary of discussions (2/2)

- Magnitude of the impact of the derivatives markets on petroleum prices and volatility; mixed assessments:
 - Some participants underlined the **role of excessive financial speculation in the surge in prices and volatility**;
 - Others felt that **spot markets set their own prices, independently of any influence from financial markets**;
 - A third group recognized that it is **difficult to isolate the effect of the physical layers from the financial layers** in the current oil pricing system
- Even under the excessive volatility seen in 2008, **the market continued to function, with no disruption in physical supply.**
- Too **little information** is currently available **on OTC derivatives trading.**
- The Workshop commended international efforts to **enhance market data transparency**, through processes such as JODI, and stressed the **need to continue these efforts.**



Joint IEA – IEF – OPEC Forum

“Energy Market Regulation: Clarity and Coordination”

Objectives

- Invite market regulators and participants to **exchange views about recent regulatory developments** and their **impacts on market functioning**;
- Examine the current framework of regulation for commodity futures and derivatives markets and the objectives and extent of the proposed reforms;
- Identify **new challenges** and **discuss** near-term **prospects for regulatory evolution**;
- Explore the need, potential and best means of **coordinating energy market regulation globally**;
- Discuss the potential **impacts of regulation on hedging and risk management**.



Summary of discussions (1/2)

- Regulations have **important effects** on market functioning and participants' behaviour ;
- Need for **appropriate regulation** and oversight in the financial energy markets,
- Need for the **release of more frequent and granular market data**.
- Several **useful actions could be undertaken by the relevant regulation authorities** to improve market transparency, reduce volatility, mitigate risk and improve market functioning.
- **More information and transparency regarding financial market transactions** in both exchange-traded and OTC derivatives markets.

Summary of discussions (2/2)

- Diverse views on:
 - Potential **benefit/impact of tighter regulations** on market transparency, market efficiency, oil price stability and cost: diverse assessment by participants;
 - the desirability of exempting “end users” (i.e. those whose principal activity is trading physical commodities, not derivatives) from new regulations, as provided in the Dodd-Frank Act.
- General agreement on:
 - improving **market transparency, visibility**, reducing risks and keeping adequate liquidity in the market.
- The Forum commended the **international coordination** on financial market regulation



Conclusions

- Diverse views on :
 - The **linkages between physical and financial markets;**
 - The relative **impacts of physical and financial markets on the price of oil and its volatility;**
 - The **complexity of the different market layers** for price discovery and risk transfer, from spot to derivatives;
 - The **benefits, consequences and costs** of various regulation proposals.
- General agreement on:
- Increasing **interaction of the physical and financial energy markets.**
- **Enhanced market data transparency** recommended, through international cooperation and mechanisms such as the Joint Organisations Data Initiative.
- **Continue the ongoing efforts to better understand the functioning of each of these markets,** the linkages between the physical and financial markets, as well as energy market regulation.



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