



Oil Market Volatility

5th Joint IEA-IEF-OPEC Workshop on Physical & Financial Energy Markets
15 March 2016, Vienna

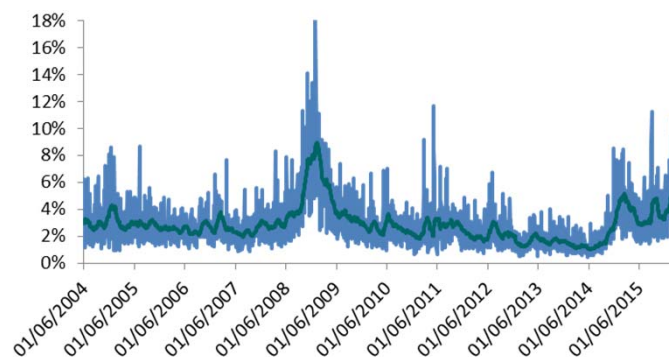
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GLOBAL COMMODITIES TRADING



By most measures, volatility is at post-2009 highs

Daily & 30 day average volatility, ICE Brent



Volatility for ICE Brent (20-day SD)

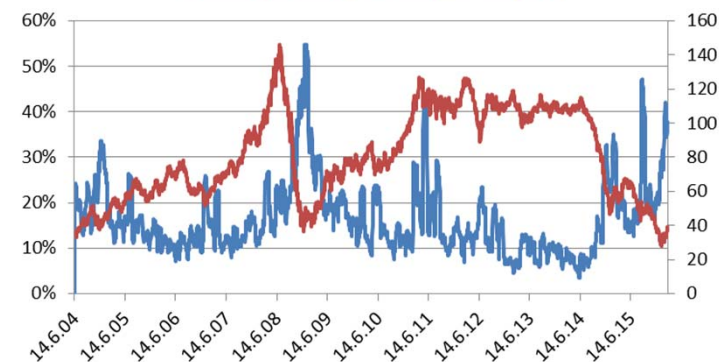
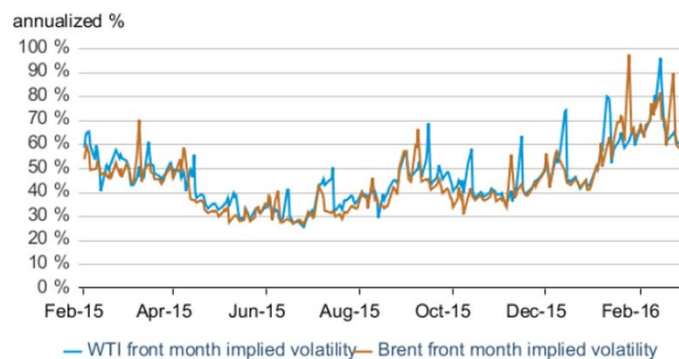


Figure 6. Crude oil implied volatility

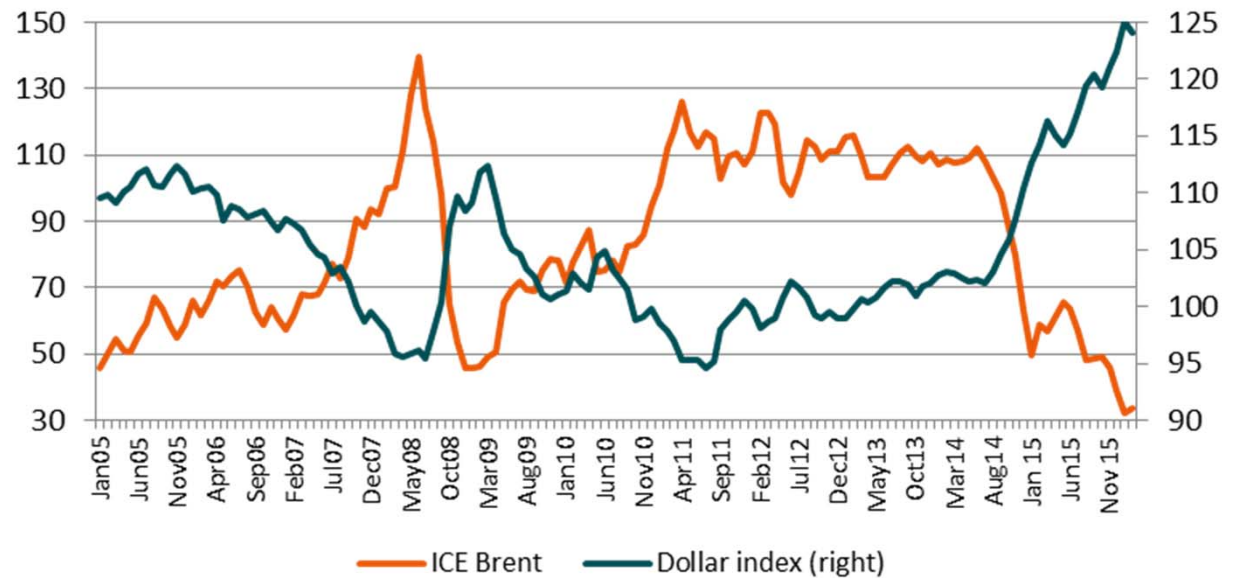




Crude's fall has mirrored a surging USD index



Nominal \$ index v crude futures

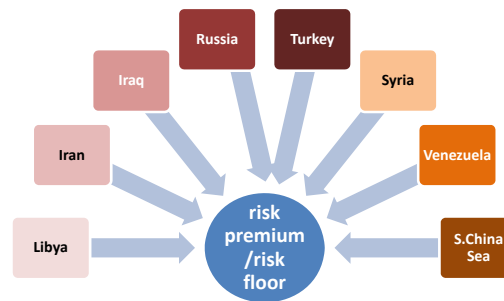




Global Commodities Trading

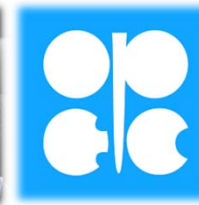
Learn to live with elevated volatility

Geopolitical risk (not new, just elevated)



China hard landing?

Commodity exporter slowdown?



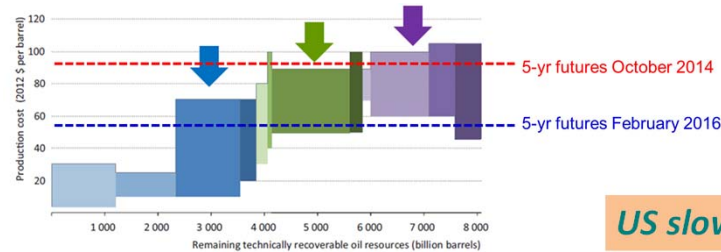
OPEC (Saudi) policy?

Shale's price response?



GREXIT / BREXIT?

Whither LRMC?



US slowdown?



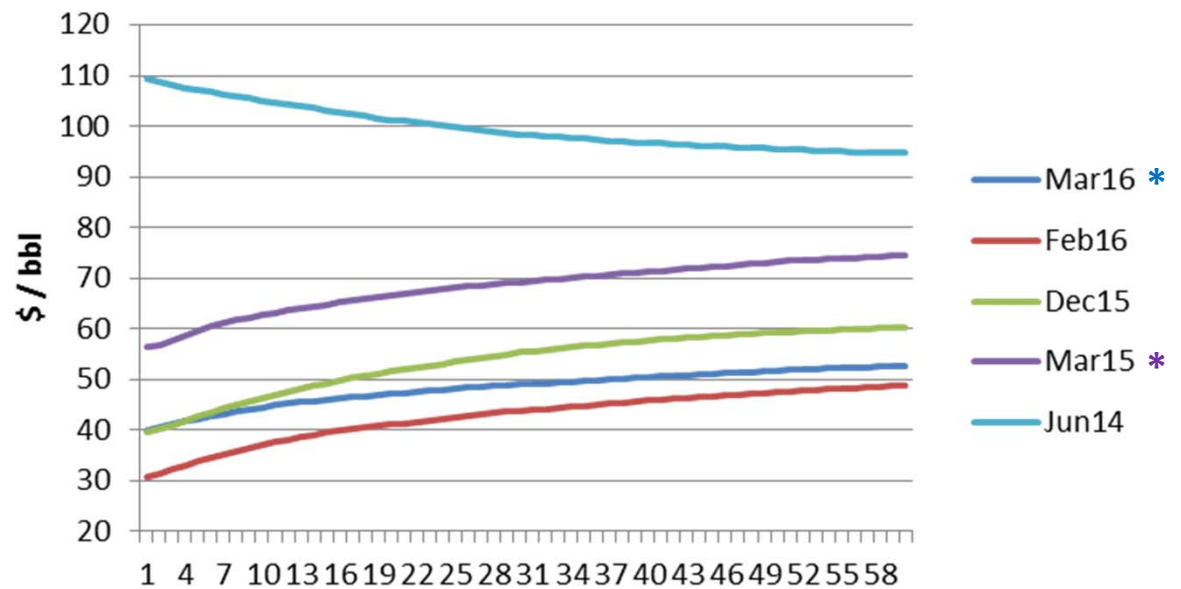
US Fed timing & EM impact?



Which matters more – uncertainty about the front or the back?



ICE Brent 60 month futures





Some observations & questions

- **Oil prices inherently volatile due to inelastic nature of supply & demand**
- Historical & implied volatility is now at post-2009 highs & could persist
- **3 of last 4 episodes of elevated vol. associated with declining prices ('91, '08/9, 'late-14→ 2016)**
- Research suggests increased financial participation in the oil market derives from volatility, not the other way round.
- **How does volatility for exchange-traded commodities compare to that for commodities without broad/deep derivatives markets?**
- US shale was expected to react quicker to prices, acting as volatility buffer, but productivity gains, hedging & (so far) robust financing → less reaction than expected
- **Does volatility really matter?**
 - a) at the front of the curve – arguably, less so
 - b) at the back – more so, as this can influence investment
- Countering volatility: physical mkt. participants need flexibility to fully hedge price risk if financial and physical liquidity not to be undermined (worsening volatility)
- **A question of instruments, costs/margins & counterparties (banks)**



Contributors

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Joined Mercuria Energy Trading in Geneva in 2006, where he is Head of the Global Crude Oil business.
Moved to London from New York in 1990 with Morgan Stanley and spent the past 25 years in Europe with companies including Elf, Koch & Sempra



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