



Joint IEA-IEF-OPEC Report

On the

**Fifth Workshop on Interactions between Physical
and Financial Energy Markets**

15th March 2016

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1. Introduction

The joint IEA-IEF-OPEC Workshops on the “Interactions between Physical and Financial Energy Markets” were first established at the 12th IEF Meeting in 2010 as a product of the Cancun Ministerial Declaration. Their purpose is to bring together a diverse range of market experts and participants to facilitate an exchange of views on the interactions between physical and financial energy markets.

The first workshop was held in London in 2010, with subsequent workshops held in Vienna in 2011, 2013 and 2014. In 2015, the First Joint Technical Working was held at the OPEC Secretariat in Vienna, Austria. This on-going dialogue has helped provide a more nuanced and balanced understanding of the interactions between physical and financial energy markets.

The Fifth Joint IEA-IEF-OPEC Workshop on the Interactions between Physical and Financial Energy Markets was held at the OPEC Secretariat on 15 March 2016.

The event built upon the insights gained in the previous four joint workshops, as well as the technical working meeting held the year before. Discussions were structured to foster a more open and interactive dialogue among market participants, including regulators, oil companies, trading houses, and end-users, in order to provide a diversity of views on the evolving interactions between financial and physical energy markets. To this end, the meeting was held under the Chatham House rule.

2. Key Findings from the Fifth Joint IEA-IEF-OPEC Workshop on Interactions between Physical and Financial Energy Markets

Discussions focused on four main areas: Recent oil market volatility, the role of financing and hedging in oil market developments, financial oil market regulation: Avoiding market fragmentation and unintended consequences, and finally, a review of current and potential Asian oil benchmarks. A summary of the key findings from these discussions is provided below.

2.1 Recent oil market volatility, the role of financing and hedging in oil market developments

Discussions noted that crude oil price volatility was near 6-year highs, driven by a multitude of factors, including fundamentals, financial linkages, and uncertainty regarding future market conditions. Higher volatility has increased uncertainties about future demand and supply, and have made forecasts less reliable. Some expressed concerns about diminished liquidity farther out in the forward curve where investment decisions were made, and about whether the current bear market was sowing the seeds for a potential sharp rebound in prices in the future.

2.2 The role of financing and hedging in oil market developments

Discussions on the role of financing and hedging in oil market developments sought to enhance understanding of the role that hedging and finance plays in influencing oil supply developments. The results were a very rich discussion highlighting the complexity of these interactions and the fact that much remains to be seen about how they will impact the market's return to balance. Producers were seen to be adjusting to the current price environment by focusing less on expanding and more on producing oil more cost-efficiently.

2.3 Financial oil market regulation: Avoiding market fragmentation and unintended consequences

An update was provided on ongoing efforts to enhance regulation and oversight in the financial oil markets. Regulators are in the process of establishing a comprehensive framework covering financial and physical market realities and linkages, accelerating the shift toward exchange traded activity, increasing trading venue options, improving transparency, and implementing a stronger market regime to protect from abuse. Given the cross-market interactions, the need for industry engagement was highlighted in order to help provide solutions that are both appropriate and proportional.

2.4 Review of current and potential Asian oil benchmarks

The final session addressed the longstanding effort to develop and strengthen benchmarks for crude flows to Asia. An assessment of current and potential Asian benchmarks was provided, which highlighted potential shortcomings in all available options. Among the views highlighted were that market acceptance generally requires a combination of sufficient liquidity and adequate transparency around the benchmark formation process. Moreover, the development of benchmarks is an organic process but not necessarily a predictable one.

3. Conclusion

At the conclusion of discussions, it was noted that the 5th Joint Workshop provided the opportunity for an open and active engagement among diverse market participants and views on the evolving interactions between physical and financial energy markets.

It was further noted that, given the complex and evolving issues under discussion, the intention of the meeting was not to arrive at fixed conclusions, but rather to share views and identify shifts and emerging issues with regard to the interactions between physical and financial energy markets.

At the meeting's conclusion, participants noted that discussions had provided important insight into a large and complex set of ongoing and emerging issues concerning the interactions between physical and financial energy markets.

The benefits of continuing to pursue a high-level technical dialogue on this complex issue were also reiterated.