IEF DIALOGUE INSIGHTS

IEA IEF OPEC TECHNICAL MEETING ON INTERLINKAGES BETWEEN PHYSICAL AND FINANCIAL MARKETS

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1. **Price volatility** is a feature of commodity markets, but excessive volatility delays and constrains investment decisions.

2. **Price formation** derives from physical market fundamentals, yet significant shifts in speculative activity may amplify prevailing price moves.

3. It is near impossible to identify an **optimal level of price volatility** that satisfies all market players at once.

4. Derivative markets, however, allow for the **transfer of risk** between actors with different preferences for volatility, making markets more liquid and efficient.

5. The **marginal barrel** is now produced in North America and paid in emerging markets.

6. **Productivity gains** in both conventional and unconventional oil, together with efficiency and fuel-switching policies in Asia and the Middle East, will play a larger role in global energy markets.

7. The resilience US unconventional oil producers to low oil prices is remarkable, but their ability to maintain production, honour contracts, and service debt depends on **access to financial markets and hedging opportunities**, which is becoming more difficult.

8. **Cash flow constraints and rising levels of debt** in the oil and gas industry reflect lower oil prices and rising input costs. They are indicative of an increase in perceived risk in the oil sector relative to other economic segments, and may be a harbinger of loan defaults when prices drop or remain low longer.

9. Banks have reduced their direct **participation in physical oil markets** in response to regulation limiting their positions and activity. Physical traders and oil companies have partially filled the gap for short-term transactions at the front end of the market, but cannot make up for the reduced liquidity for the longer-term transactions.

10. **Data transparency for derivatives trade** is improving but remains open to misinterpretation. It will be helpful to reduce differences in EU and US reporting systems, including the classification of market participants.

11. The avoidance of **regulatory arbitrage** requires greater coordination between national regulators and international organisations across regions. Both regulators and industry could exchange views more frequently to avoid unintended consequences of regulatory initiatives and industry responses on physical and financial markets.

12. **Market confidence** in the regulation of global physical and financial markets relies on trade data transparency, dialogue, and stakeholder buy-in

13. Ongoing **dialogue on physical-financial market dynamics** and price discovery is essential. It is important to include stakeholders from emerging markets, whose energy and financial policies play a key role in shaping our collective energy future.

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