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Expert Commentary

Amrita Sen, Assistant Vice-President, Commodities Research at Barclays Capital, on commodities

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Amrita Sen
Assistant Vice-President, Commodities Research
Barclays Capital
UK

Both Brent and Crude oil prices rebounded significantly last week after struggling to find a floor since July. What do you think was behind the rise in oil prices? Is this just a rotation or is that the expectation that the demand is really going to grow and production has been hurt badly?

Both Brent and WTI crude oil rose quite significantly. They have stabilized at those levels and they have pulled back a little bit as well since then. However, the main driver for this was the supply side and the realization that US production is starting to fall and roll over quite sharply. This production response has been ongoing for a couple of weeks now. However, more data on production that came out confirms that is falling again and US production has been declining in the weekly statistics. It has very much changed expectations with the focus of the market moving towards the realization that supply is starting to fall.

Despite a recent rebound, commodity prices are still set to be seen under pressure in future, weighed down by a strong US Dollar, which will affect the prices even harder especially if the Fed proceeds with raising interest rates in the nearest future. To your mind, how big will be the Fed's rate hike influence on commodity market and on oil in particular in case the increase takes place?

The Fed increase is likely, although not necessarily by the end of this year, but it is probably going to be next year. However, it can be very nominal, because the bank does not want to derail the economic recovery. Moreover, the Fed is concerned about the negative macro implications on emerging markets, particularly in Asia, where crude is already slowing. Hence, we think that it is going to be a very small interest rate increase and, since that is the case, we actually do not believe it is going to be hugely negative for commodity prices. More importantly, everybody is expecting this rate hike and it has already been priced in.

The US inflation has been exceptionally low for the past six years, and the majority of experts do not expect it to rebound anytime soon. What is your opinion, how much of a role lower energy costs play in lowering inflation expectations?

Energy is obviously a huge part of it not just in the US, but even in Europe. Oil prices have fallen by more than 60% as a result, particularly in Europe, along with the gas prices that are linked to oil. In the US gas prices are already very cheap and oil is less than halved. Therefore, the costs of driving have come down, as well as the electricity costs, and copper prices that have fallen because of the weakness in China.

Amrita Sen, Assistant Vice-President, Commodities Research at Barclays Capital, on commodities

> ***We do foresee a supply crunch in 2017 because of the rapid decline in supplies not just in the US, but elsewhere in the world, which is only likely to manifest itself in 2017 or 2017 onwards.***

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Assistant Vice-President, Commodities Research
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Thus, the lower energy costs is definitely a theme that has to be seen over the last 12 months and probably over another 12 months as well and that means inflation is not really likely to increase anytime soon.

What is your forecast for oil by the end of this year and in a longer term?

We think that Brent is going to average about $55 per barrel in Q4 and WTI probably around $52 per barrel. It will probably stay around those levels – 50s and early 60s – throughout most of the next year. Nevertheless, we do foresee a supply crunch in 2017 because of the rapid decline in supplies not just in the US, but elsewhere in the world, which is only likely to manifest itself in 2017 or 2017 onwards. Therefore, the market might start pricing that in a bit earlier. Hence, from Q4 2016 you might start seeing prices move into the 70s.

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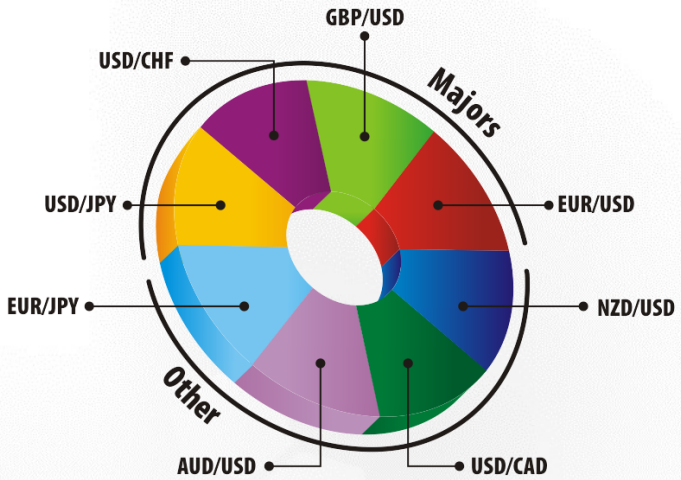

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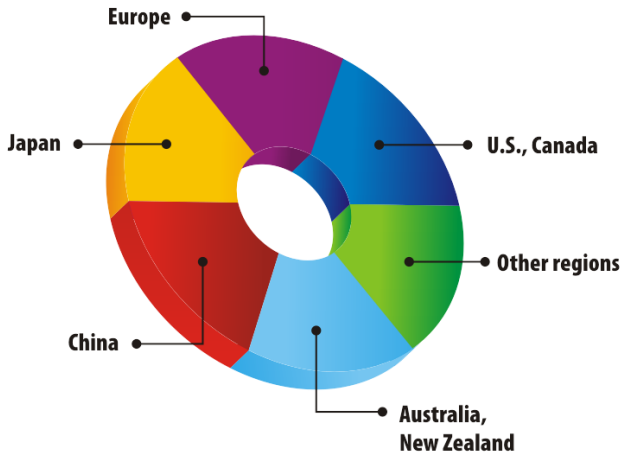

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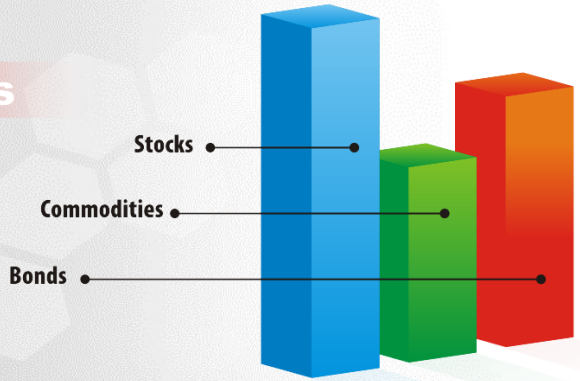

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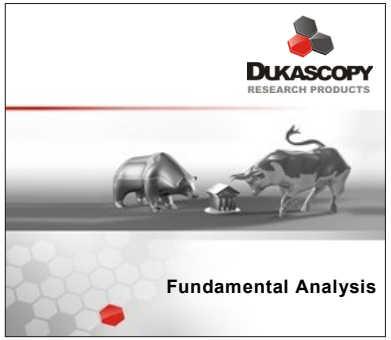

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