

# **IEA/IEEJ Forum on Global Oil Market Challenges**

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**Chairman**

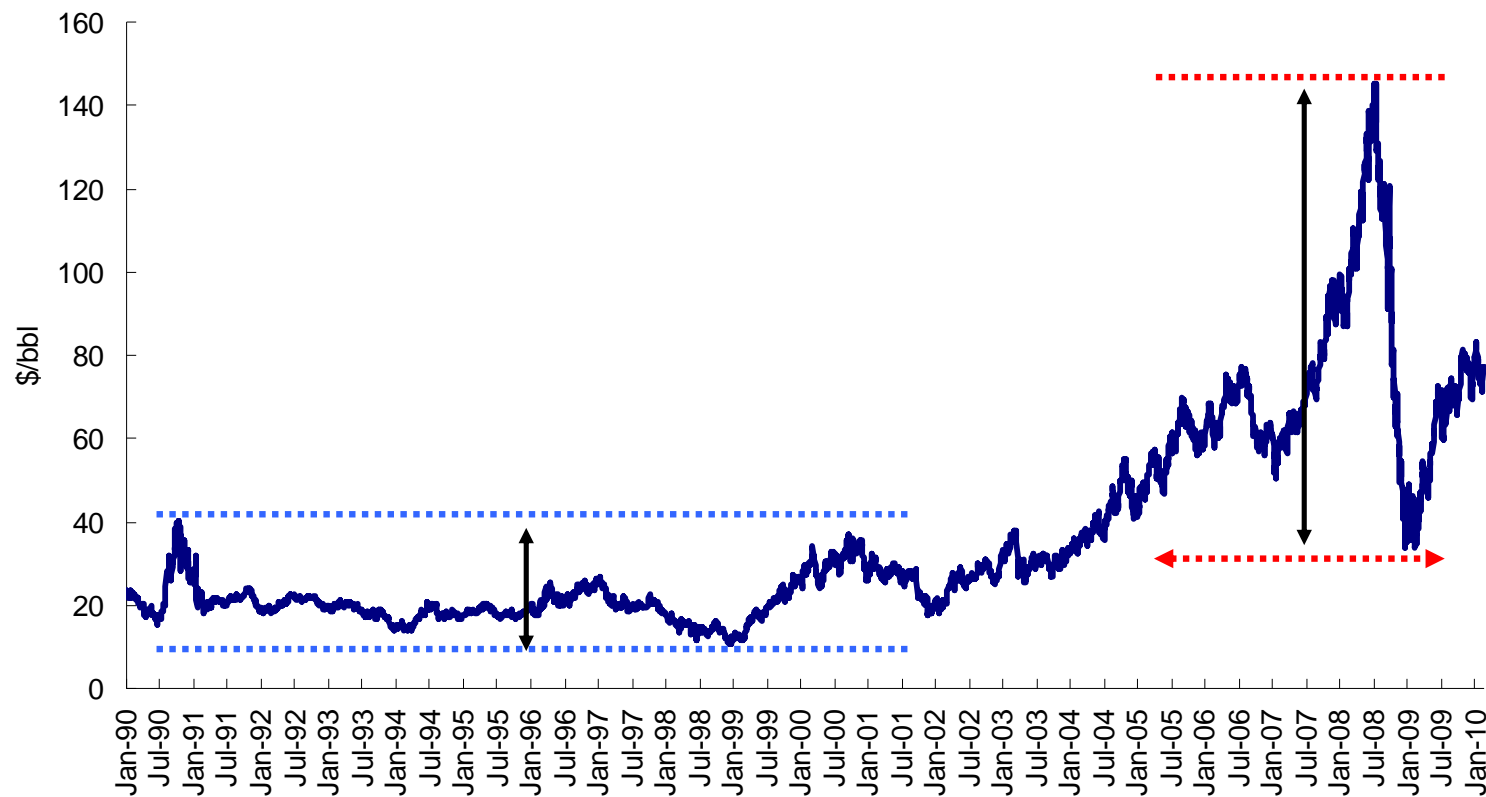
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# Market Stabilization as a Common Interest

- Both oil consuming and producing countries have increasingly called for the stabilization of crude oil prices, which have posted unprecedented volatility.
- We should identify impediments to the stabilization of the market and anticipate their future trends.

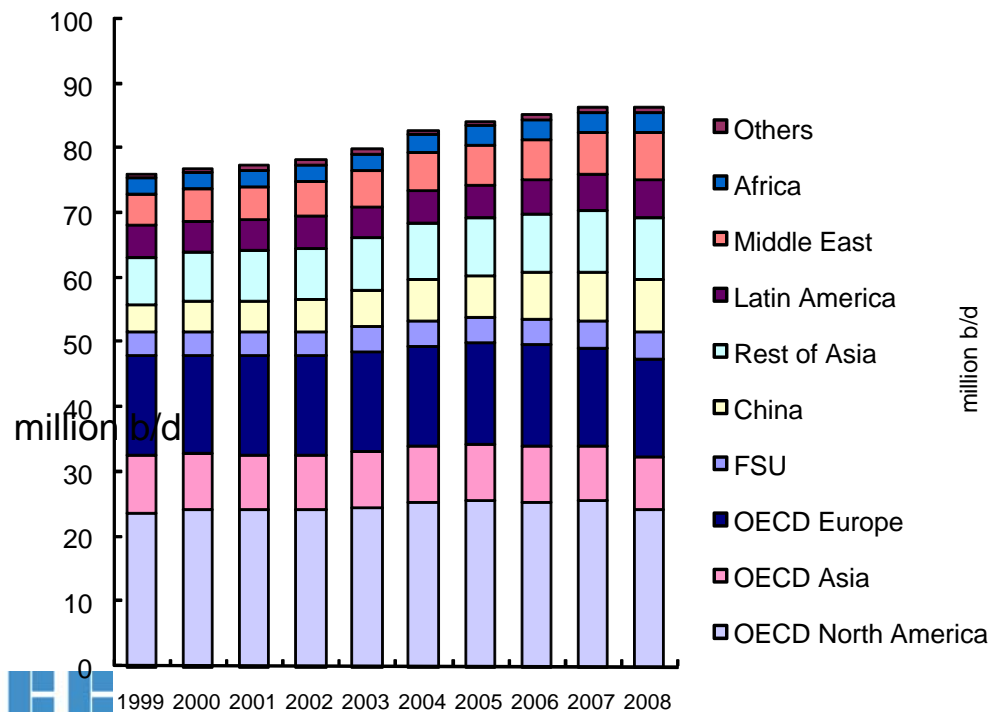
Trend of WTI Futures Price in New York



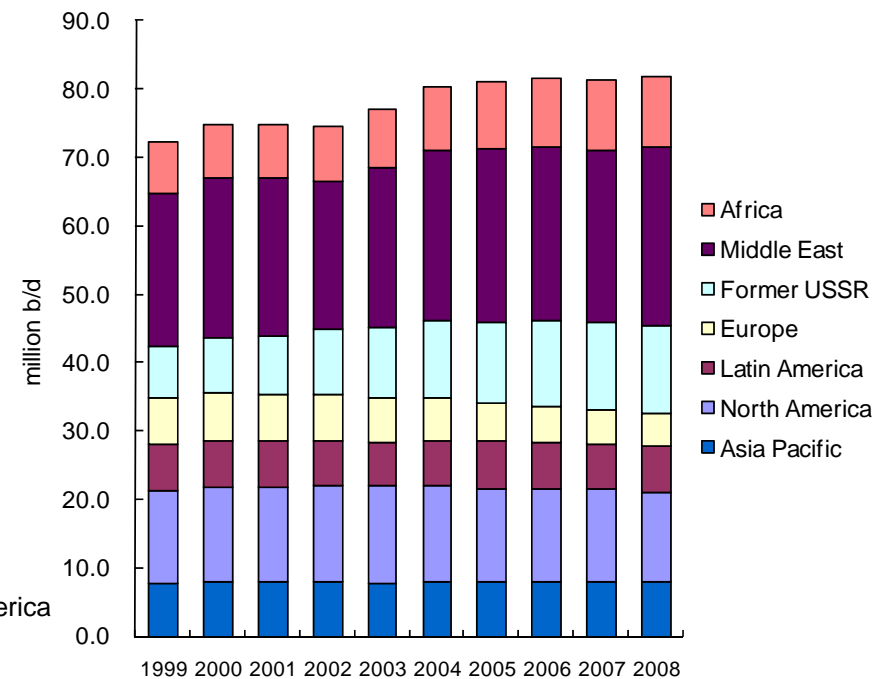
# Importance of Oil Supply/Demand Fundamentals and Information

- Oil supply/demand fundamentals are the most important and basic factor
- Market participants' predictions and expectations, which greatly affect oil prices are also important
- The importance of information that moves market participants' sentiment

### Trend of World Oil Demand



### Trend of World Oil Supply



# Fairly Uncertain Future Course of Oil Prices

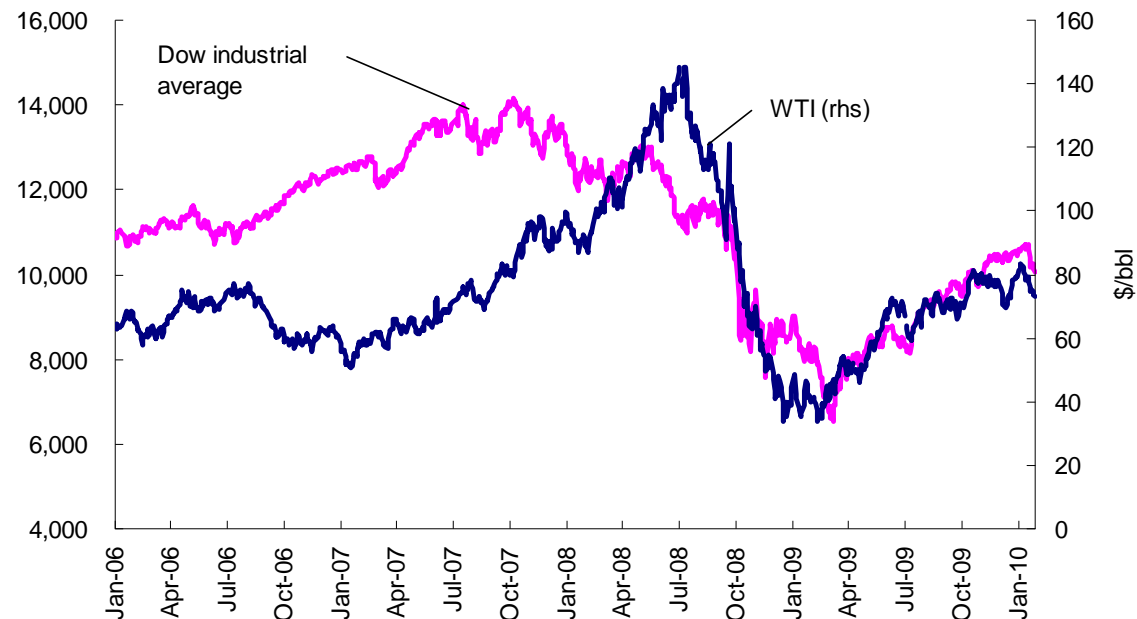
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- Long-term factors to tighten supply/demand balance
  - ◆ Short-term factors include the current oversupply that has been triggered by the global economic crisis and is difficult to resolve.
  - ◆ Long-term factors include oil demand that will increase globally on the back of growing demand in developing countries.
  - ◆ Stagnation of capacity-expanding investment accompanying the postponement of investment amid the financial crisis.
  
- But the world oil supply/demand outlook includes many uncertainties.
  - ◆ Restrictions on oil demand will accompany energy security and global warming measures that are promoted globally.
  - ◆ The future development of policies in developing Asian countries that consume much oil and the diffusion of next-generation vehicles are uncertain.
  - ◆ Supply-side uncertainties include possible increases in oil supply from new sources, such as those in Iraq.
  
- Appropriate, unbiased information should be provided to the market in a timely manner
  - ◆ The IEA as an international organization is expected to play a great role.

# Financial Factors in Crude Oil Price Formation

- Financial factors intertwine closely with supply/demand factors to affect crude oil price formation.
- The crude oil market has increasingly been linked to financial factors.
  - ◆ Oil prices' growing link with stock prices and exchange rates, and the macroeconomic and financial market developments behind crude oil price formation
  - ◆ Attention should be paid to financial systemic risks as well.
- Information and expectations about economic and financial situations and their impact on the crude oil market
  - ◆ China's monetary tightening and Greece's budget crisis exert, through market sentiment, some impact on the crude oil market.

**Trends of WTI  
Crude Futures  
Price in New  
York and Dow  
Jones Industrial  
Average**



# Crude Oil Market Players

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- Commercial players and financial players
- Even among financial players, investment purposes and trading patterns are different.
  - ◆ Pursuing direct profit on futures trading
  - ◆ Hedging against price fluctuations
  - ◆ Diversifying and rebalancing investment portfolios
- Diversified financial players' investment trends and strategies have not been figured out sufficiently.
  - ◆ Information and data development needed to figure out these trends are also among the future challenges.
  - ◆ The CFTC's finer classification of data and other efforts to improve the transparency of crude oil market data, and the trading position regulations and other efforts to improve trading rules to form a sound market are very important.

# Toward Stabilization of the Crude Oil Market

- Diverse measures are required for the common challenge of stabilizing the crude oil market.
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- Medium to long-term supply/demand adjustment measures include:
    - ◆ Restrictions on oil demand growth
    - ◆ Timely investment implementation
    - ◆ Efforts to secure sufficient supply
  - Short-term market stabilization measures include:
    - ◆ Oil producing countries' appropriate production expansion during price hikes
    - ◆ Development of oil stockpiling arrangements in Asian developing countries
    - ◆ Enhancement of international cooperation and joint efforts involving the IEA and other organizations
  - Financial measures include:
    - ◆ Designing markets to improve the transparency of trading and demonstrate sound market functions
    - ◆ Adopting benefits and limits of the price mechanism as the most important viewpoint

# Global Warming Problem and Crude Oil Market

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- Global warming has become the biggest issue regarding energy problems today
  - ◆ Discussions will continue on medium-term emission reduction targets and a framework for the reduction.
  
- The future course of global warming measures is one of the greatest uncertainties exerting great impacts on the world energy supply/demand structure.
  - ◆ Searching for solutions that are integrated and consistent with energy security.
  - ◆ Analyses should be deepened on the impacts of global warming measures on international energy prices and the relationship between carbon and crude oil prices.

***Thank you for your kind attention.***