International Energy Agency

IEA/IEEJ Forum on Global Oil Market Challenges
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Key Challenges for the Short & Medium Term

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Workshop on oil price volatility

Tokyo, 25 February 2010

- Joint IEA/IEEJ workshop, supported by METI, on oil price volatility in Tokyo on 25 February 2010.
- The third in a series organized by IEA, after previous events in New York (2004) & Paris (2008).
- Over 80 participants from the oil industry, research bodies, financial institutions and regulators, exchanges and international organizations and strong participation from emerging Asian economies.

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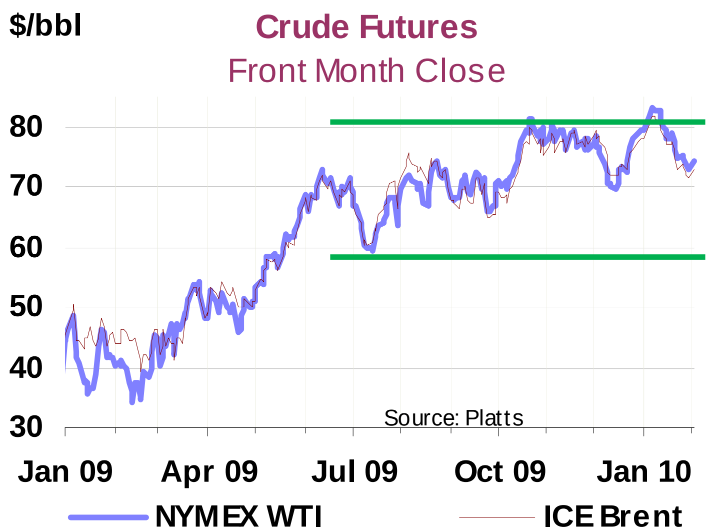
A range of views, none unanimous, but some recurrent themes:

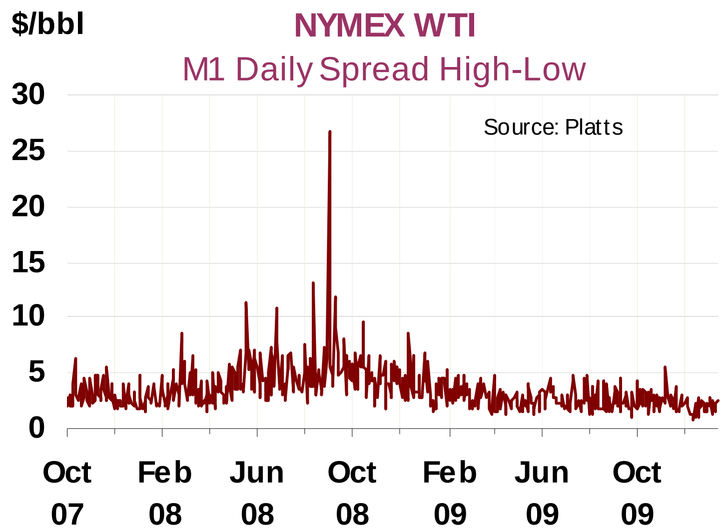
1. **Volatility** inherent/inescapable, can be moderated by improved visibility of current market & clearer expectations for the future;
2. **Data transparency** is key to better understanding market dynamics. Improved fundamentals data needed for emerging market (and OECD).
3. In contrast, **price data** maybe the most accurate & real-time we have
4. **Financial flows as key price driver or not?** Views still polarised.
5. **More visibility needed here too**. Recent reporting enhancements could be extended, potentially to OTC derivatives.
6. Enhanced, collaborative work is required on the **inter-relationships between physical and financial markets.**
7. Many highlighted that efforts to further **regulate** commodity futures markets must take into account liquidity and ability to manage risk. Overly-stringent regulation might adversely affect both.
8. Proactive, physical **price management unlikely to succeed**

A non-exhaustive list of market challenges

- Enhancing market stability
- Increasing transparency
- Encouraging demand side efficiency gains
- Sustaining capacity investment
- Guaranteeing security of supply
- Providing clarity on possible future trends
- Agreeing clear, cohesive energy policies

Oil markets more stable, for now…

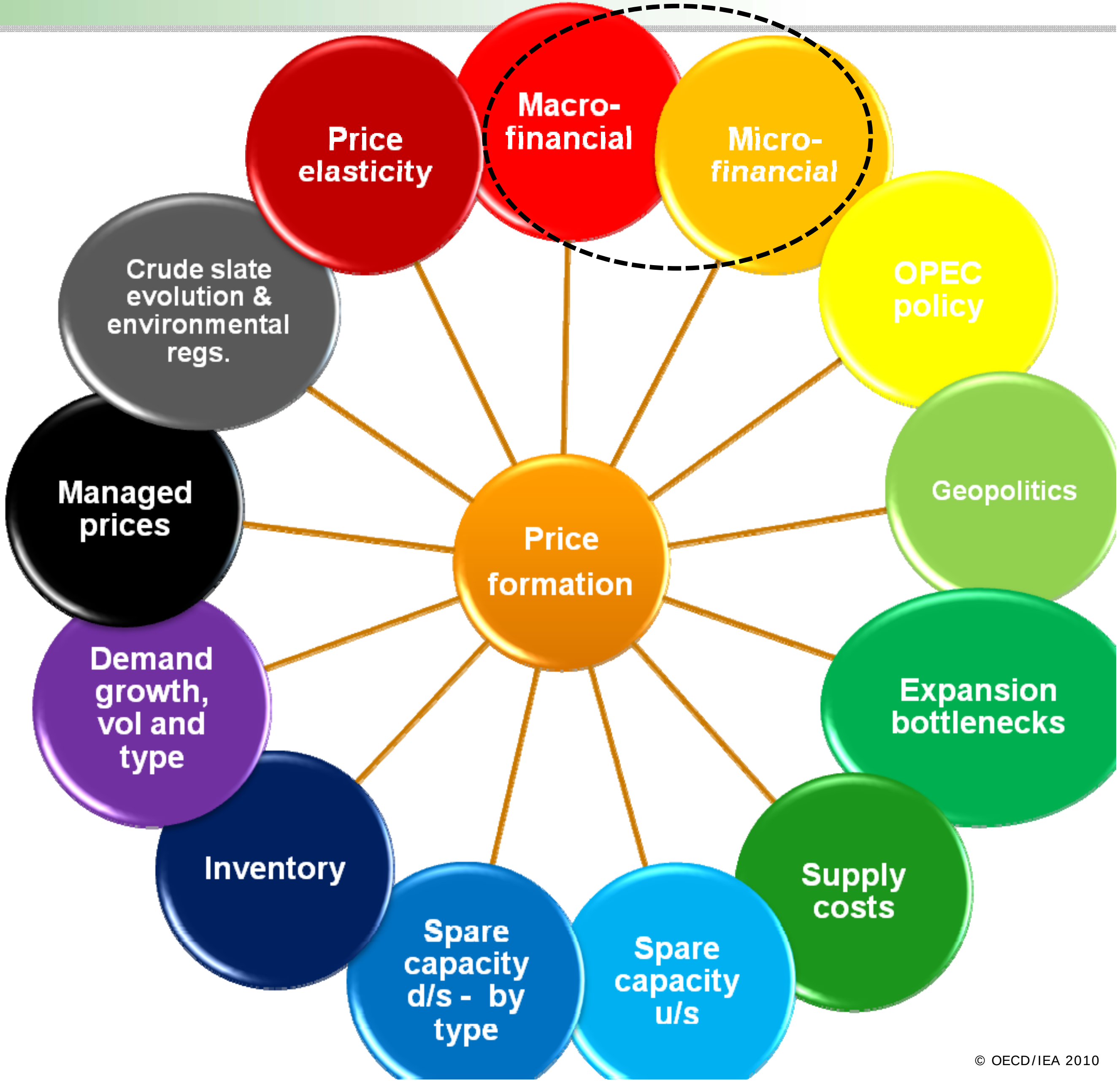




- 2009 price increases reflected OPEC curbs, but also stronger equities, a weak dollar and expected economic/demand recovery
- Intra-day volatility rose to autumn 2008 peak, but receded since
- Intra-year volatility has also *generally* declined, prices range-bound at $60-80/bbl since summer 2009 (but $10/bbl swing since January)
- No guarantee price stability will last
- Could economic/financial recovery drive a break-out on the upside in 2010, or will more comfortable fundamentals prevail?

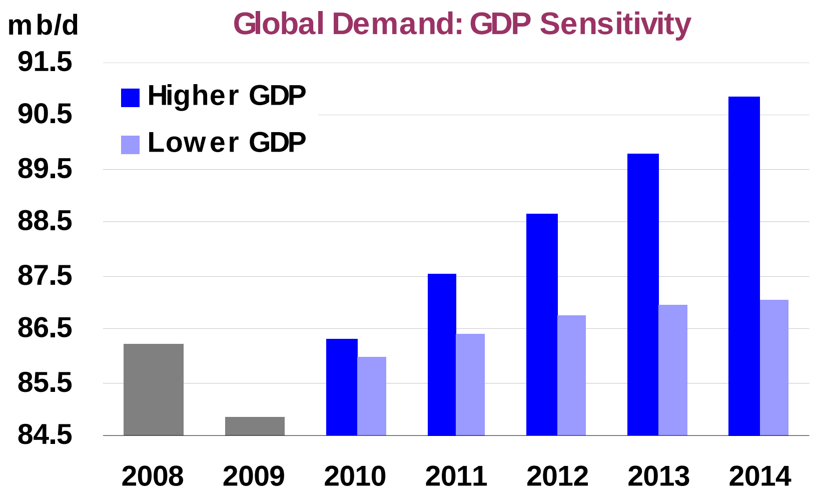
Financial markets in the spotlight
but price formation remains multi-faceted

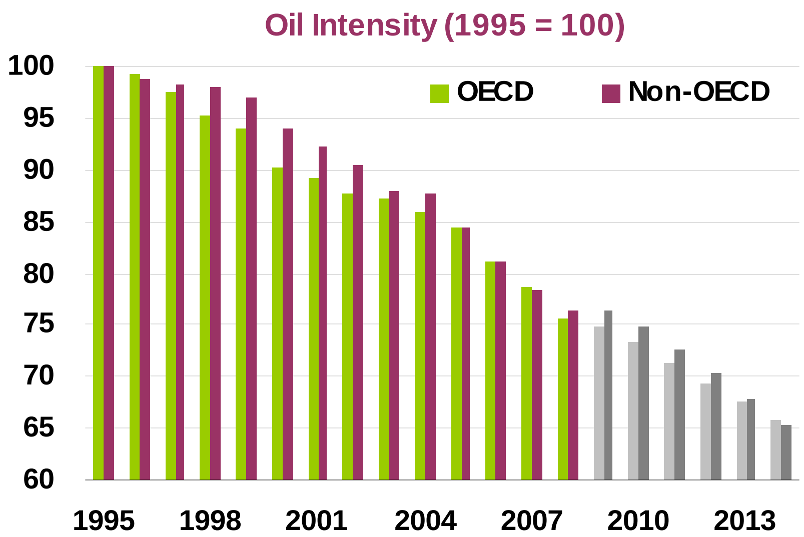
- IEA will continue to enhance its analysis of macro- and micro-financial interactions with prices
- while retaining focus on core work - providing detailed, independent, fundamentals-driven market analysis, with better data



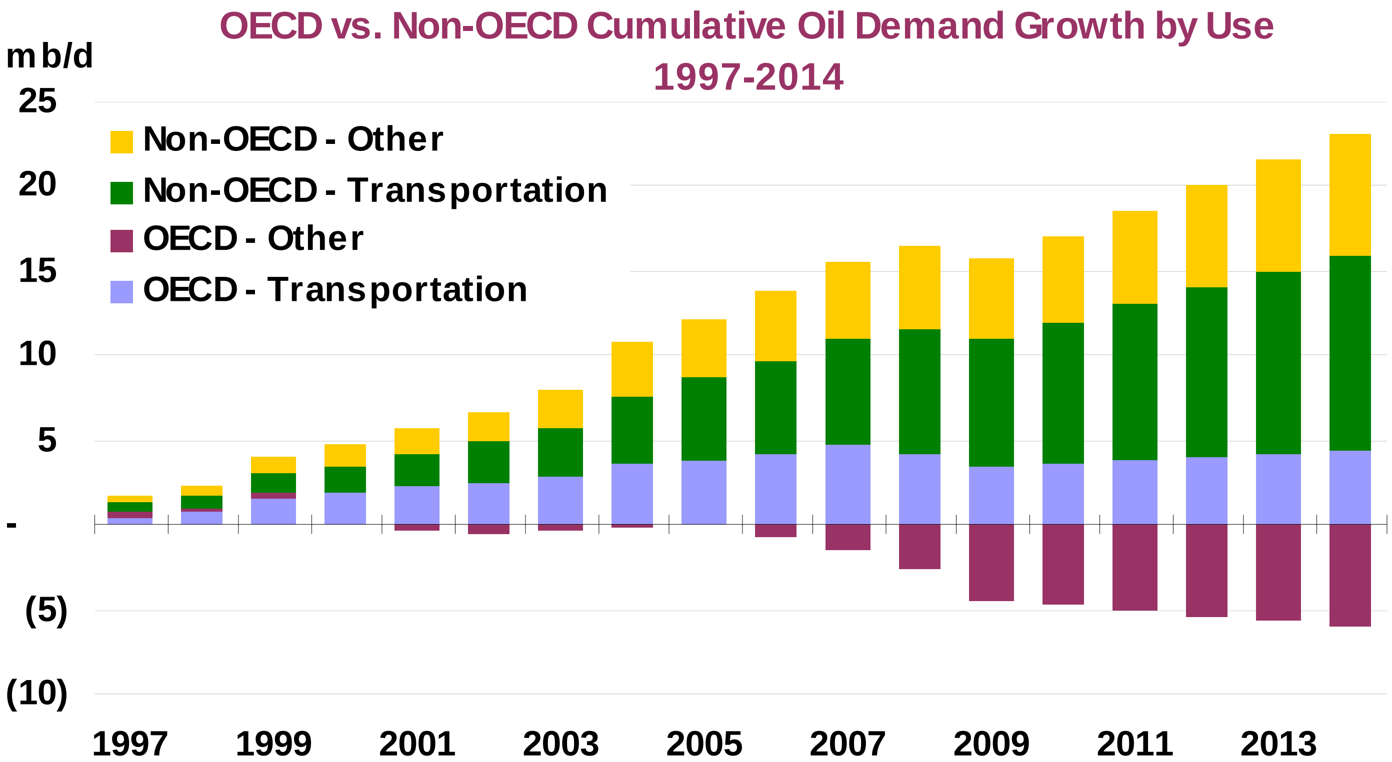
Uncertainty abounds for the oil demand outlook

- **Higher GDP scenario sees yearly oil demand growth of 1.2 mb/d** between 2009 and 2014, taking demand to 90.9 mb/d
- **Non-OECD demand at >50%** of global total for the first time, and prospect of "oil-less" OECD recovery
- **Under a lower GDP scenario, demand grows by less than 500 kb/d per year** to 2014, giving a total 3.8 mb/d below the higher case
- **After a 2009/2010 hiatus, fall in oil intensity resumes and accelerates relative to historical pattern by 2011**, assuming macroeconomic stimuli withdrawn
- **Accelerated efficiency gains** could curb demand growth further





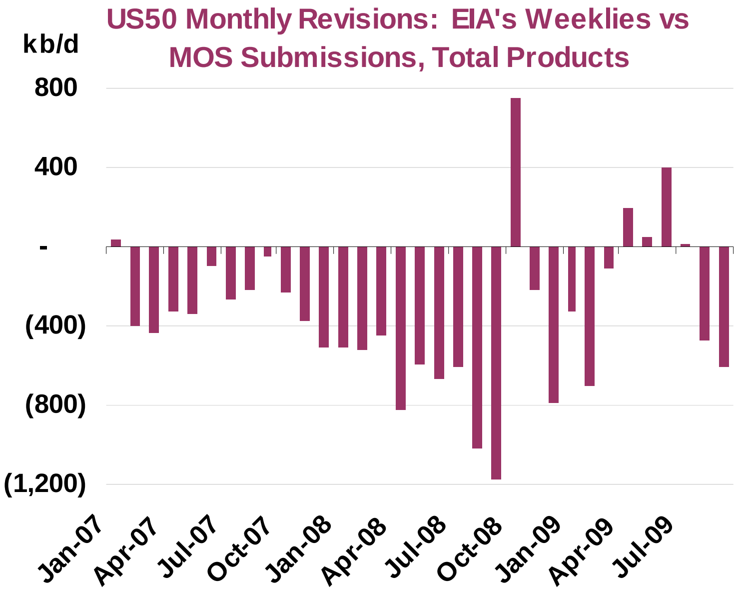
...even though sources of growth are more easily identified

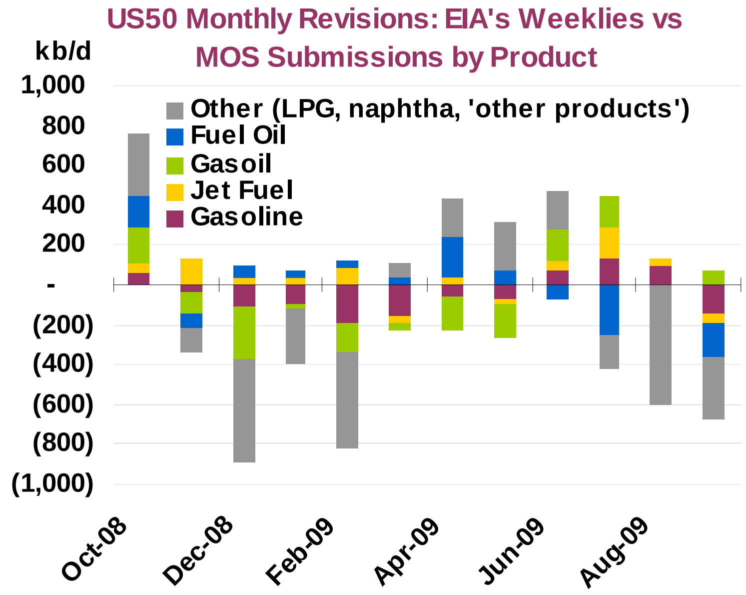


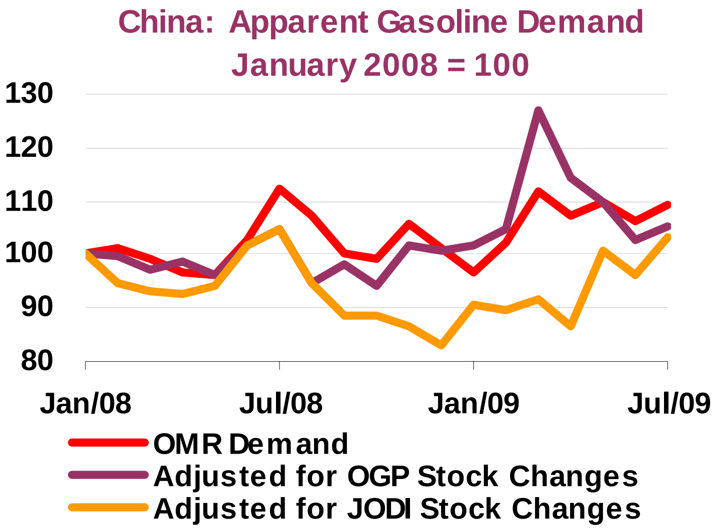
- **Non-OECD** accounts for all of anticipated demand growth, and takes over >50% market share by mid-decade...
- ...**transportation** expected to account for 80% of the total increase
- In the OECD, modest transportation demand growth and the concept of 'oil-less' recovery

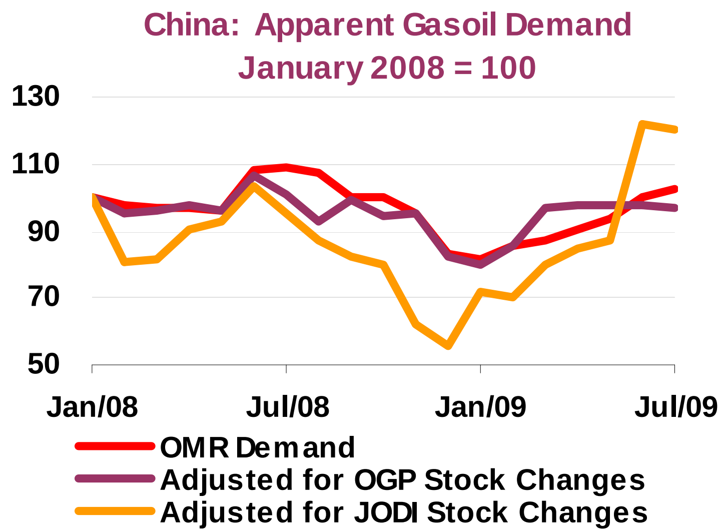
But demand (& stocks) data are imperfect:

non-OECD opaque, despite JODI, and no reason for complacency in OECD either

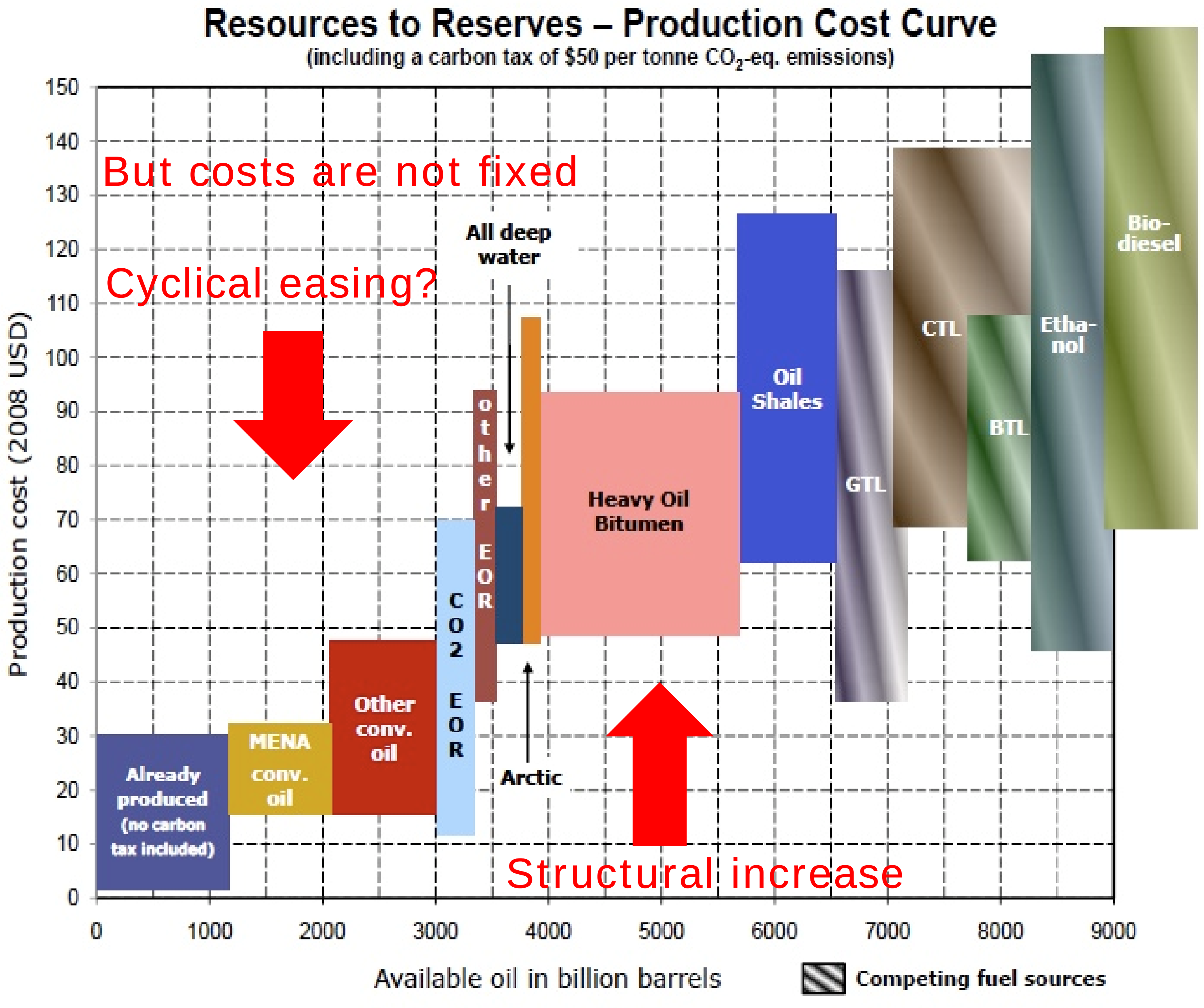






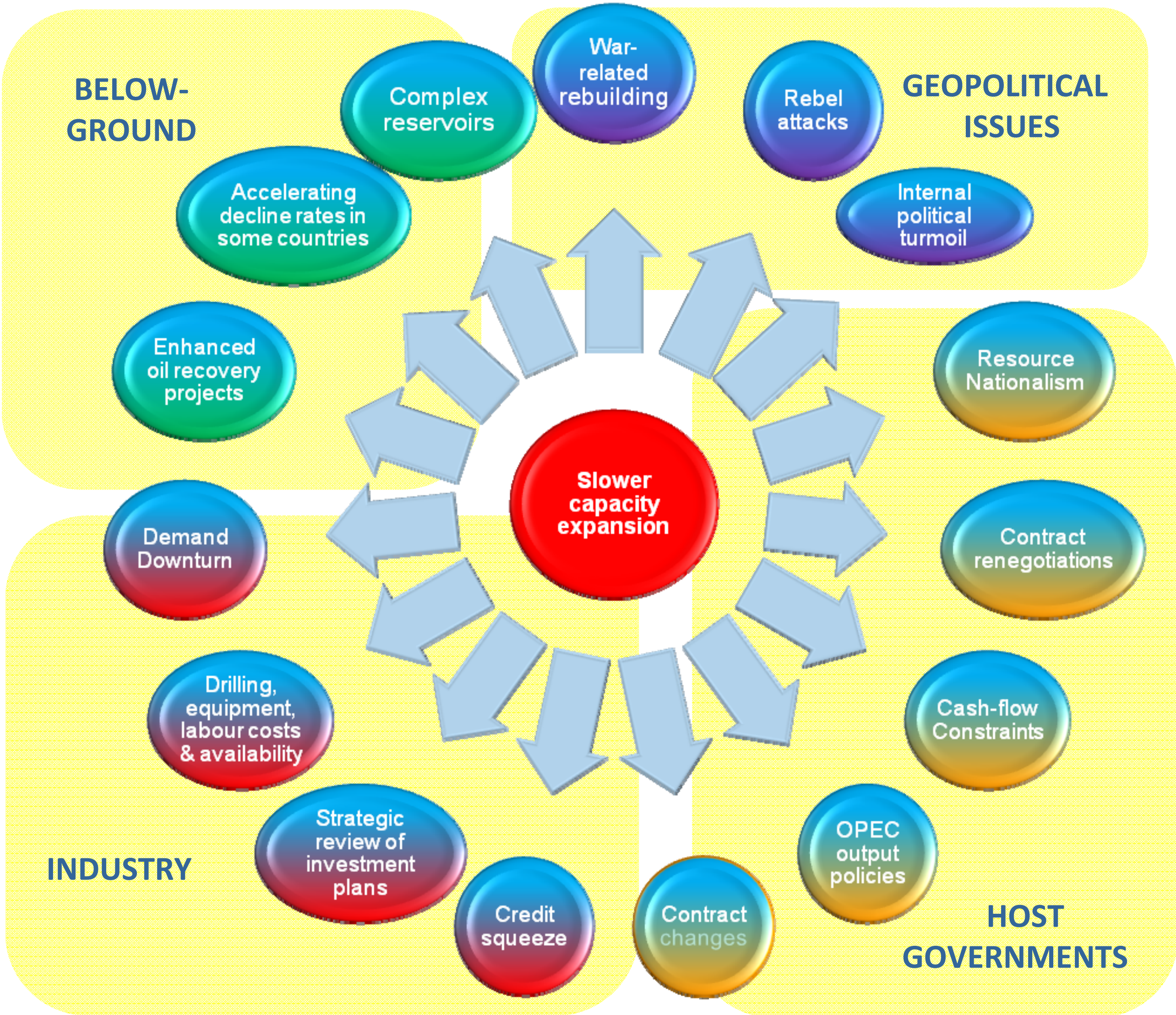


The world is not running out of oil.
May cost more to bring new supplies to market

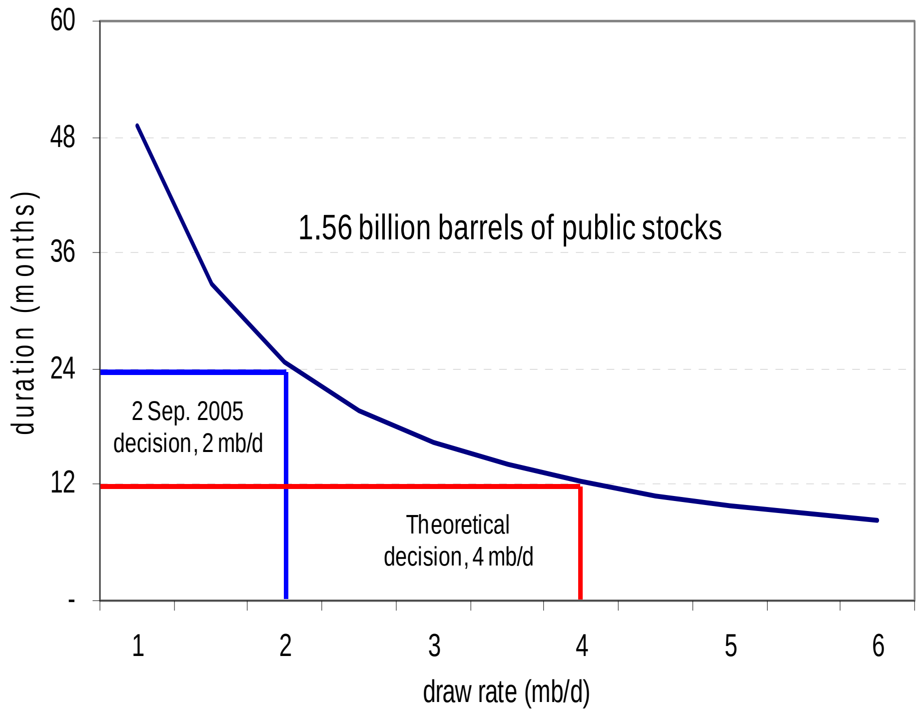


Resource & cost not the only supply drivers:

Investment takes time to have an impact

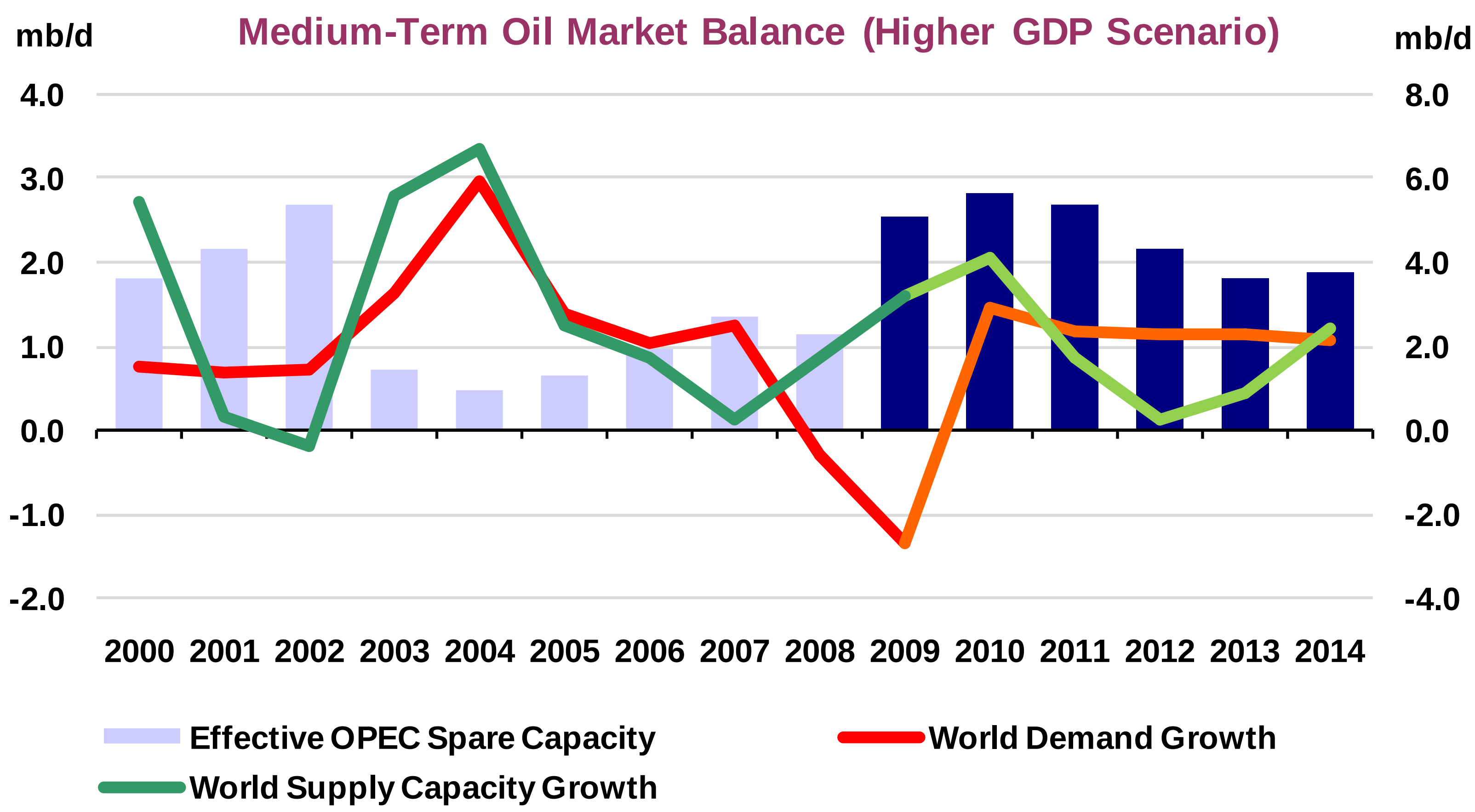


Strategic stocks and supply security: another buffer against volatility

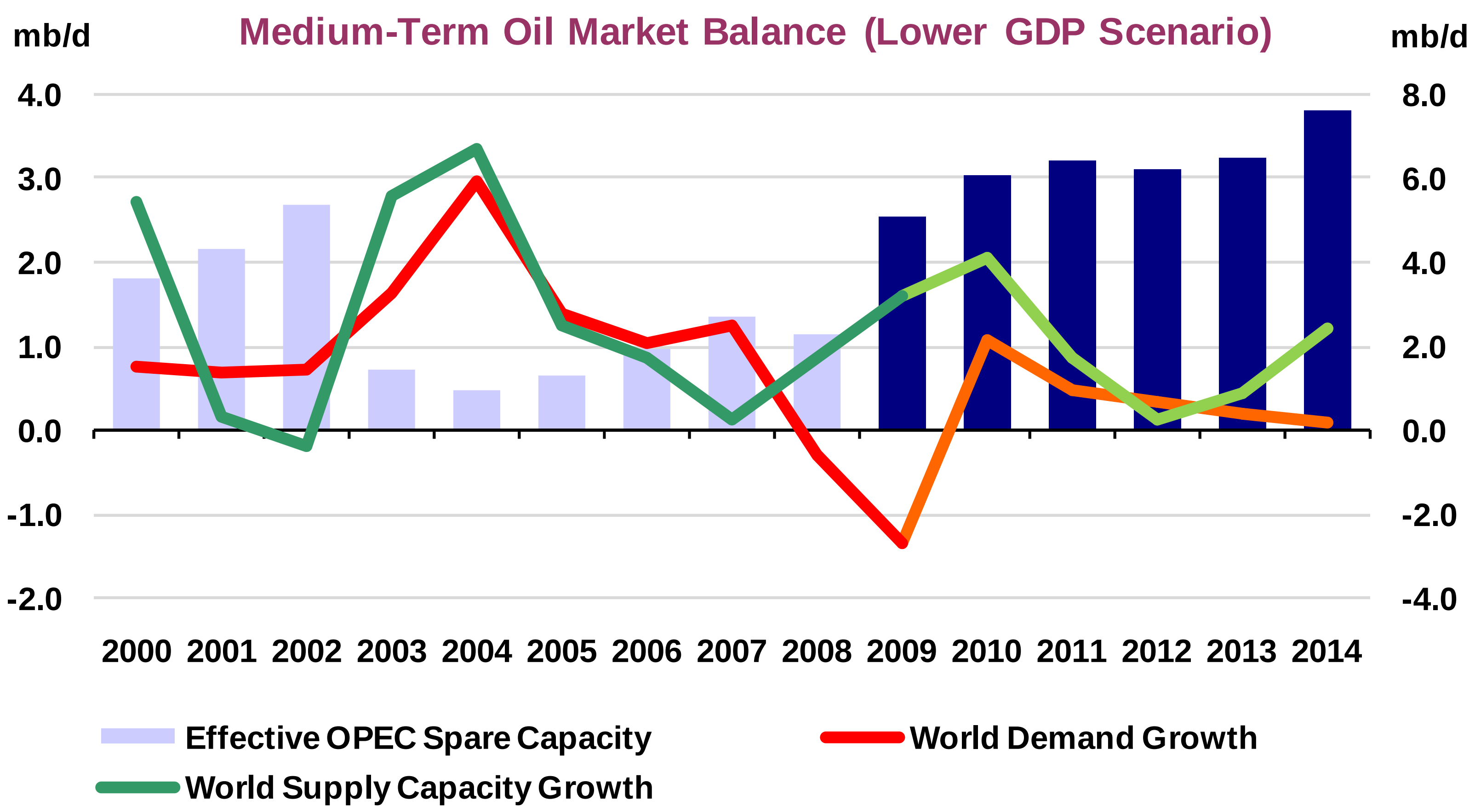


- Geopolitical, technical and weather risks are ever-present
- So how to be best prepared?
- Not widely perceived in the market, but…
- …IEA public stocks could cover a 4 mb/d outage for a year

Several potential routes for the mid-term oil balance…



…some have more benign implications than others for price volatility



Slower economic growth, or a combination of sustained capacity investment and accelerated efficiency gains could keep markets more comfortable for longer

Helping oil markets work better

- Requires more & better data on financial and physical markets…
- …and deeper understanding of both
- IEA and others dedicating resources to better understand economic & financial feedbacks with the physical market
- Increased oversight and preventing manipulation in financial markets is important
- But also need to narrow uncertainties about today's, and potential longer term, fundamentals
- Clear international policy framework required to boost investment, adopt market pricing & provide consistent, attainable environmental & efficiency goals

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