

G-20 Communiqué and International Energy Market

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At a time when fears about the future course of the global economy were deepening, finance ministers and central bank governors from the Group of 20 major countries met in Paris on October 14 and 15, adopting their communiqué that called for addressing the European debt crisis as their greatest matter of concern and for stabilizing banking systems.

In a manner to express a strong sense of crisis, the communiqué cited “heightened tensions and significant downside risks for the global economy,” indicating that the global economy could go in the direction of the second dip since the Lehman Shock. The communiqué also made clear the G-20 countries’ commitment to “take all necessary actions” to avoid the second dip through the stabilization of banking systems. The commitment itself can also be taken as suggesting a sense of crisis.

A key point at the G-20 meeting was how the G-20 would offer a comprehensive package of measures, including sufficient recapitalization of European banks for the stabilization of banking systems, to address the European debt crisis as the most significant issue. In this respect, the communiqué urged the European Union to compile the comprehensive package by the October 23 EU summit. By setting this deadline, the G-20 statement exerted pressure on European countries to implement solutions to the crisis.

The focus of attention now shifts to the October 23 EU summit. How will financial markets interpret the results of the G-20 meeting? In this respect, market developments after the G-20 meeting may attract attention. The Dow Jones industrial average on the New York Stock Exchange declined by some 1,000 points from around 11,600 in late August to around 10,600 in early October. But stock prices soared later as euro area countries’ parliaments approved the measures to increase the capacity and flexibility of the European Financial Stability Facility. As the Slovak parliament approved the EFSF enhancement measures on October 13, the 17 euro area countries completed the parliamentary actions to implement the measures. On October 14 just before the G-20 meeting, the Dow Jones average stood at 11,644 restoring its late August level.

In line with stock price moves, crude oil prices fluctuated wildly. The benchmark West Texas Intermediate crude oil futures price slipped below \$90/barrel in August and fell to around \$75/barrel in early October. In tandem with the later stock market rally, the crude oil futures rose back above \$86/barrel on October 14. In a manner to be linked to stock prices, the WTI futures price posted roller-coaster fluctuations. So did the Brent futures price as the European benchmark. The Brent futures fell from around \$114/barrel in late August to less than \$100/barrel in early October and soared back to around \$114 on October 14. The crude oil market seesawed in step with stock and other financial markets.

In this sense, we must keep close watch on international financial market developments after the G-20 meeting. This is because various interpretations of the past financial and crude oil market developments can exist and bring about a variety of future scenarios.

One interpretation or scenario is that markets have given fairly high ratings to major countries' decisions and efforts to prevent a deeper financial crisis and may be supported by expectations that the global economy will recover with any additional dip being avoided. Although some fluctuations on occasional market expectations or fears may be inevitable, markets may generally level off before turning up. Under this scenario, the WTI crude oil futures price may gradually rise from the recent \$85-89/barrel range to around \$90/barrel toward the turn of the year.

Another interpretation may be that the recent stock market recovery has come as markets have factored in expectations that comprehensive, fundamental and specific market stabilization measures would be presented soon at G-20 and other key meetings. Under this interpretation, market developments after the just-ended G-20 meeting may indicate whether the results of the gathering have met market expectations. Anyway, the G-20 communiqué has exerted a pressure on the European Union to compile a comprehensive package of solutions at its summit on October 23. But no optimism can be warranted on the results of the EU summit. Apparently, Japan, the United States and emerging countries have been concerned about Europe's slow, insufficient response to its own crisis and incorporated the deadline for the EU's adoption of the package into the G-20 communiqué in a manner to exert pressure. In fact, Europe is reportedly still divided over the strict assessment of loss risks at banks and their large-scale recapitalization, which is seen as one of the key solutions to the crisis. Fears about the futures still linger on markets as Europe has difficulties in uniting to take decisive actions even amid the deepening crisis. In this sense, markets may strictly test the results of the coming EU summit. If the results disappoint markets, crude oil and other market prices may come under heavy downward pressures.

The present financial and economic crisis centering on Europe is deep rooted. Europe might have plunged into a vicious circle as a budget crisis has been linked to a financial crisis. Major countries' substantial fiscal expansion and monetary easing, and an economic expansion in China and other emerging countries allowed the world to overcome the recession triggered by the Lehman

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Shock. But they cannot be expected at present. Therefore, major countries including the G-20 members may have no choice but to be united to make serious efforts to avoid another recession. In this respect, each country must take care to refrain from rushing to take isolationist or protectionist policies in pursuit of its own interests alone. All countries will be required to gather their wisdom based on their past experiences and cooperate in preventing the “fallacy of composition.”

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