



EU - OPEC Energy Dialogue 5th Ministerial Meeting



Progress Report on **Impact of Financial Markets on the Price of Oil**

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Outcome of the First OPEC-EU Workshop on Impact of Financial Market, December 2006



● Recent events highlight the foresight and importance of the outcome of the joint OPEC-EU workshop:

- ➔ Emphasized the need to enhance data collection and reporting in organized futures exchanges and OTC market.
- ➔ Supported efforts to extend CFTC monitoring and disclosure rules used on Nymex to other exchanges.
- ➔ OPEC and the EU agreed to further expand the analysis to enhance understanding of the growing influence of the financial market on the physical crude oil market.



Growing awareness and calls for action



- **Developments since the workshop have shown growing sympathy toward our joint efforts.**
- **Hearings and testimonies in US Congress have provided increasing momentum behind better regulation and oversight in the energy futures markets.**
- **The CFTC announced that it had reached an agreement with its counterpart in the UK and ICE for expanded information-sharing on the WTI futures contract. The introduction of voluntary speculative limits has also been discussed.**
- **EU is in a good position to support policy efforts in this direction.**



Joint OPEC-EU study for 2008



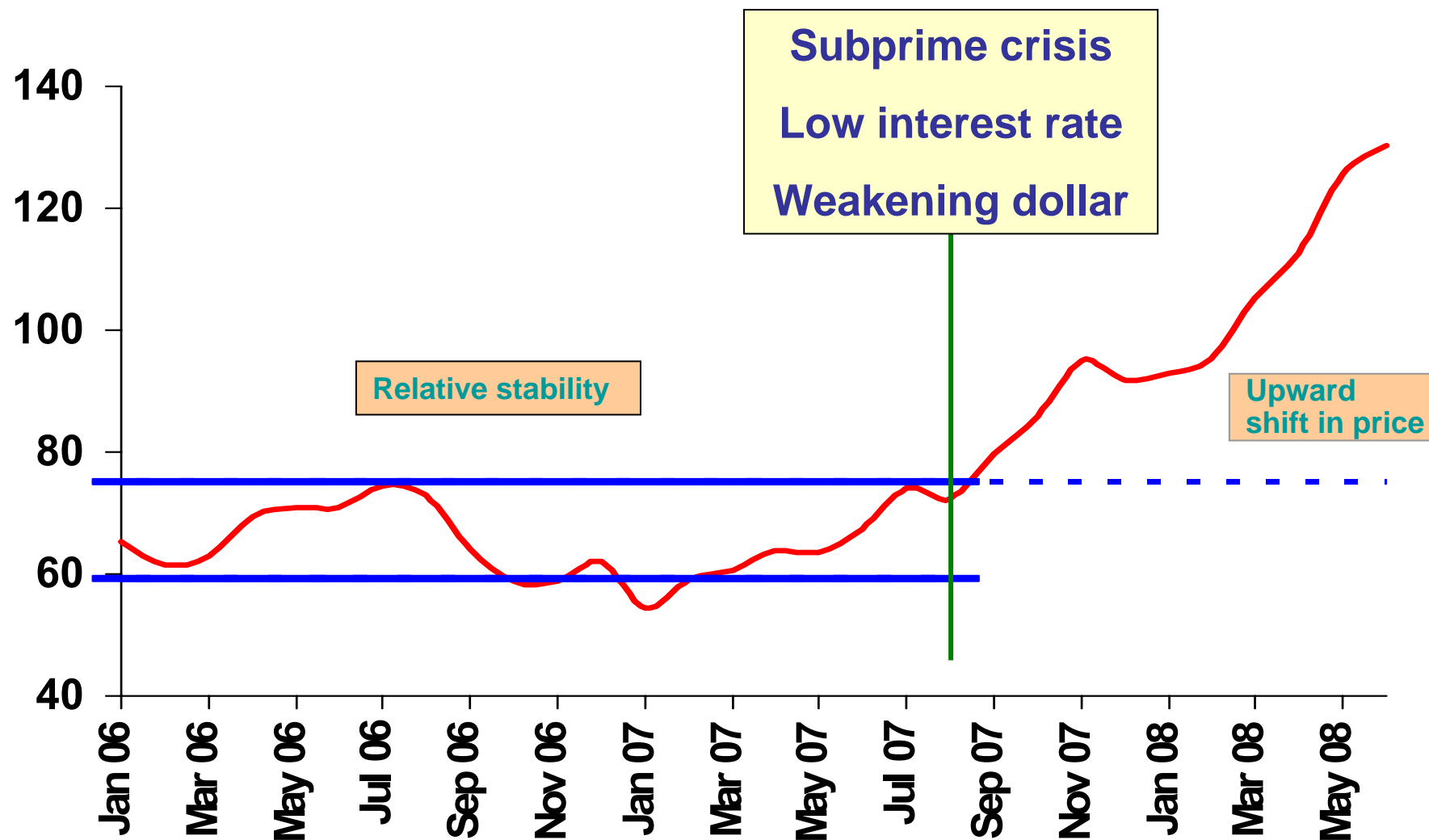
- **Specific issues addressed:**

- ➡ Transformation of the financial market into both a hedge and investment market
- ➡ Liquidity and price volatility: Which group dominates in the oil futures markets — speculators or hedgers?
- ➡ Oil as an asset class and linkages with broader financial markets
 - Strategic asset allocations and the effects of portfolio shifts
 - The impact of interest rates and US dollar depreciation
- ➡ Are we experiencing a bubble in oil prices?
- ➡ A restrictive approach regarding the statistical tests has been taken, which has strengthened the analysis and avoided overgeneralisations.



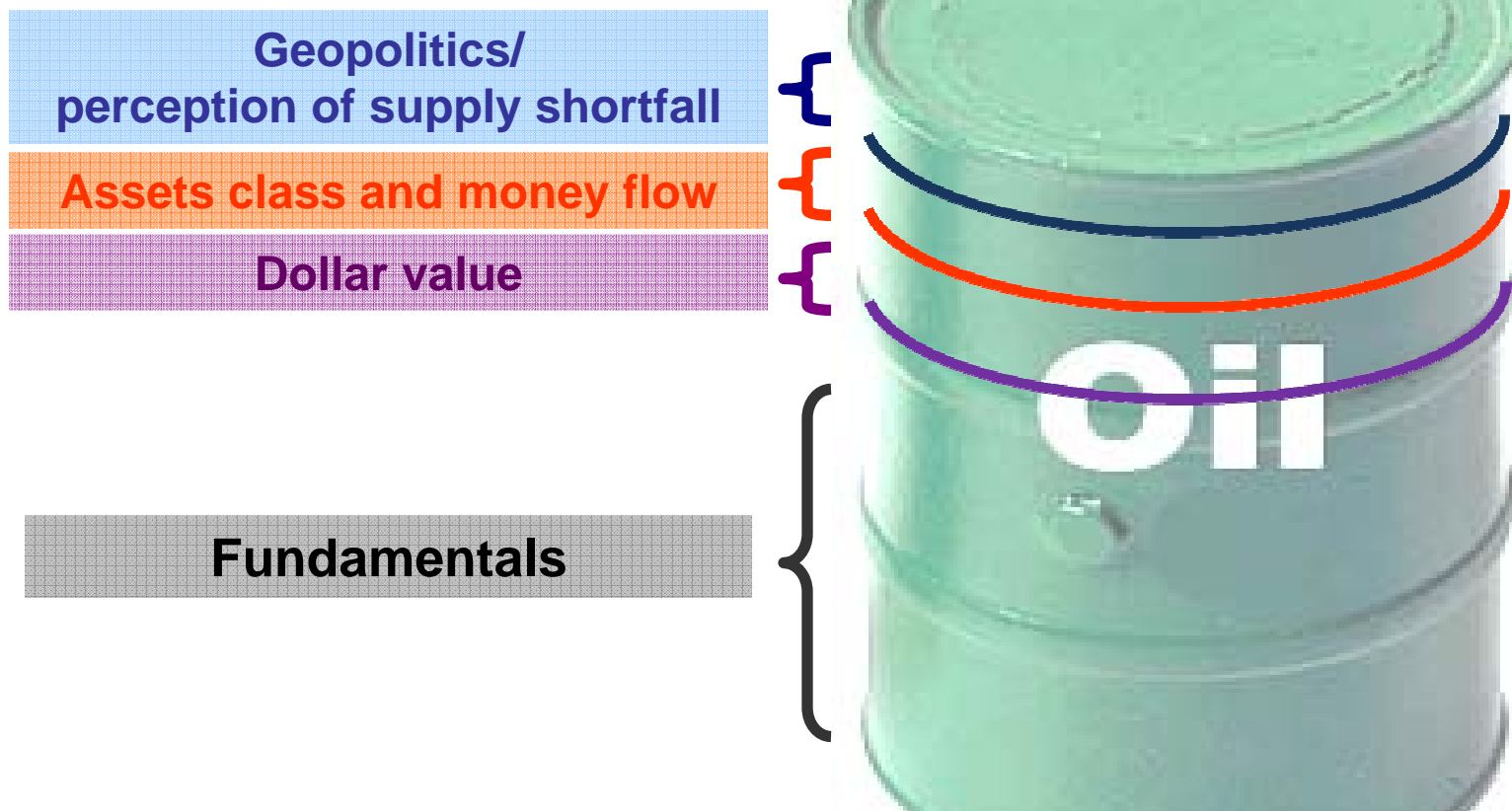
Price breakout after August 2007

nominal WTI price, \$US/b





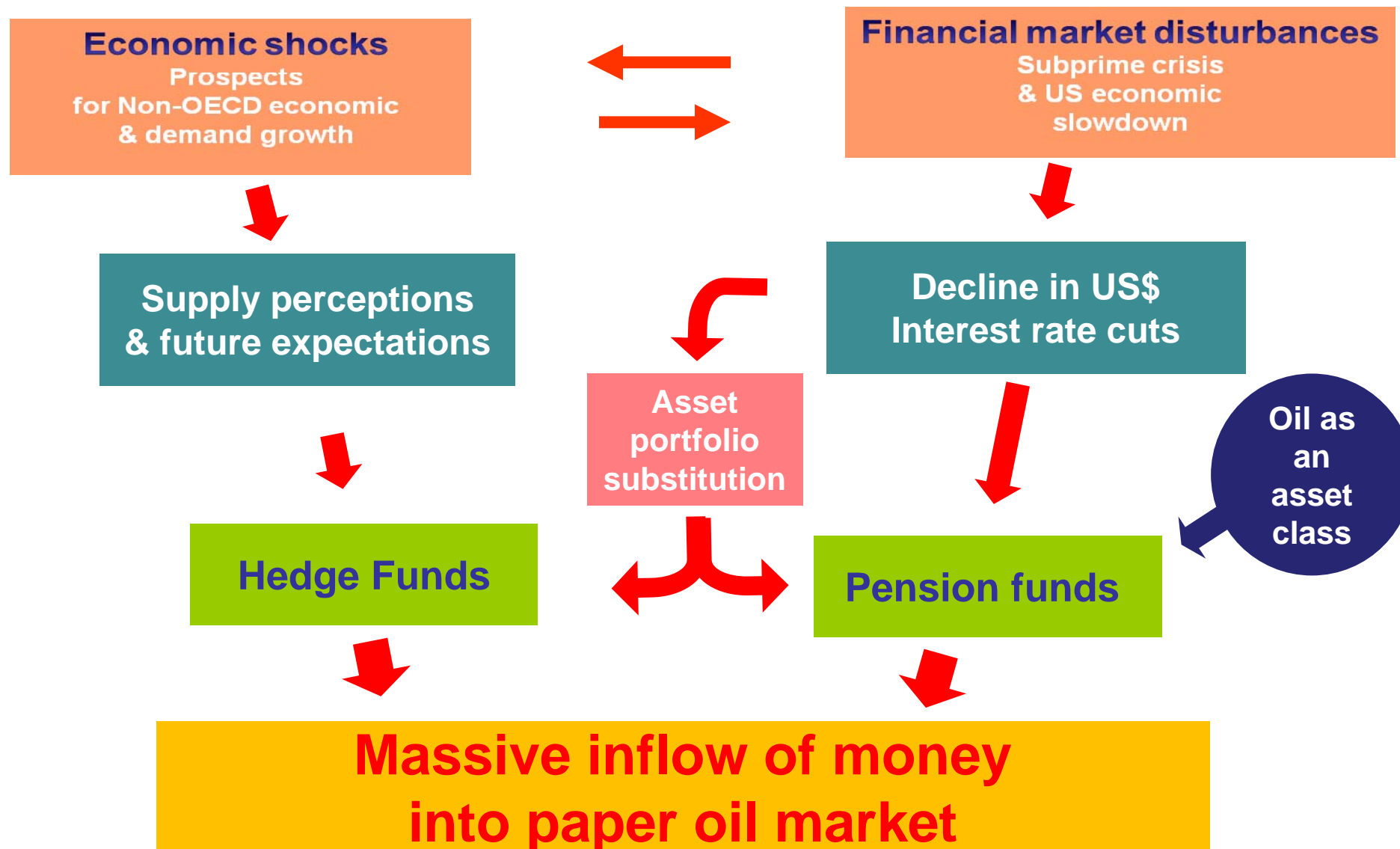
Factors influencing the price of oil



**Weakening fundamentals since August 2007
cannot explain the price breakout**



Money flows into paper oil since 2007





Schedule for remainder of 2008



- **OPEC welcomes an exchange of views on these issues at a technical level**
- **As scheduled, the final draft will be ready in early December and to be sent to the EU for comments and suggestions before being finalizing by the end of the year.**
- **The joint study will be followed up with a workshop in early 2009 with reports on both the study and outcome of the workshop to be provided to the next Ministerial Meeting.**



OPEC

Thank you



Stability in the oil market