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Macro outlook for G7 economies and their pull on the oil markets?

What's been underestimated around the oil price weakness is how a period of high prices destroys demand. Still, probably more important is the supply side, where a few months ago, we had very little inventory and spare capacity, but now after the US resumed filling its SPR and the OPEC+ cut announcements, we have much bigger safety margins. That explains the absence of any price spikes. Supply can also be adjusted much faster than demand which moves very slowly. However, I do think that the economy is in better shape than indicated and that the interest rate cycle is approaching its peak. Even with one or two more rate hikes this year, the economy has an underlying strength, which has been persisting for a while. Broadly speaking, I see the market as probably flat but as the Saudi cuts kick in and US inventories continue to decline during the driving season, we could see an upward drift over the summer. It won't be very dramatic, but for now it seems these constant price declines may have reached the bottom. In the autumn, we will then have to reassess.

Won't the US Fed keep tightening, with core inflation still very sticky?

They may have to, but they probably will not. Inflation is not going to go down to 2%. Given the extraordinary debt levels and amounts of government spending, and given the limited options to tax, we will have higher monetized deficits and that means that we will learn to live with slightly higher inflation. I don't think they will let rates go to 7% or 8% as that would push the economy into recession. ■

**Paraphrased Comments*