EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

Mario DRAGHI
President

Mr Bernard Monot
Member of the European Parliament
European Parliament
60, rue Wiertz
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Frankfurt, 4 April 2016

L/MD/16/162

Re: Your letter (QZ-021)

Honourable Member of the European Parliament, dear Mr Monot,

Thank you for your letter, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 2 March 2016.

Regarding the driving forces behind the oil price decline since mid-2014 and looking through very short-term price movements, the European Central Bank's analysis suggests that fundamentals have been the principal drivers, due to an oversupplied market. Previous large-scale investments and technological innovations have caused oil production to increase while demand weakened. On the one hand, oil supply has increased strongly both in certain OPEC countries (mainly Iraq and Saudi Arabia) and non-OPEC countries (mainly the United States (a producer of shale oil) and Russia). On the other hand, oil demand growth slowed, driven by, inter alia, slowing growth in emerging and developing economies. Empirical evidence concerning the impact of speculation on oil prices is mixed, and most studies point toward negligible, or no, impact.[1]

The European Central Bank's analysis also indicates that the direct transmission channels through which lower oil prices can affect euro area banks generate only limited risks to euro area financial

[1] See also the box entitled "Explaining the drivers of the recent increase in oil price volatility" in the November 2015 issue of the Economic Bulletin available on the ECB's website at https://www.ecb.europa.eu/pub/pdf/other/eb201507_focus02.en.pdf

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stability. Nevertheless, country and sector-specific exposure concentrations – as well as banks' funding profiles – should be monitored carefully, particularly as any related vulnerabilities can be amplified by indirect effects stemming from a fragile global growth environment, policy asymmetries in advanced economies and geopolitical tensions.

As regards your remark about the lack of regulatory tools available to limit the effects of financial speculation in commodities markets, please note that a number of relevant reforms initiated by the G20 are well under way. These reforms relate, inter alia, to higher capital requirements for bank exposures to non-centrally cleared derivatives (including commodity derivatives), as well as to margin requirements for non-centrally cleared derivatives. The Basel Committee on Banking Supervision and the International Organization of Securities Commissions have revised the framework for margin requirements for non-centrally cleared derivatives and the new rules will ensure that in the future such derivatives are backed by sufficient collateral. These reforms represent an important step forward in enhancing the stability of derivatives markets (including derivatives related to commodities) and the stability of the financial sector in general.

More broadly, the reforms of the Basel Committee to strengthen the regulatory framework for capital adequacy, together with the newly introduced liquidity standards, have contributed significantly to making the banking sector more resilient to possible risks building up in financial markets.

Yours sincerely,

[signed]

Mario Draghi