NATIXIS BEYOND BANKING

Flash Economics

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We should not forget that in the past, surges in the oil price at the end of expansion periods triggered crises

We want to emphasise the importance of the fact that the increase in shale oil production in the United States is now preventing the oil price from surging.

In 2007-2008, the oil price exceeded 140 dollars per barrel.

The result was a sharp rise in inflation and interest rates, which triggered the downturn in real estate prices and, in the United States the rise in household defaults and the subprime crisis.

So we should not forget that if the oil price had remained much lower in 2007-2008, there would perhaps not have been any subprime crisis, and therefore that the current functioning of the oil market is preventing this type of crisis.

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ECONOMIC RESEARCH

Shale oil in the United States is preventing oil from becoming very expensive

The increase in shale oil production in the United States, which accelerates as soon as the oil price rises **(Charts 1A** and **B),** leads to additional oil supply, which increases in line with the oil price, **which limits any possible rise in this price.**

Chart 1A
United States: Number of oil rigs and oil prices

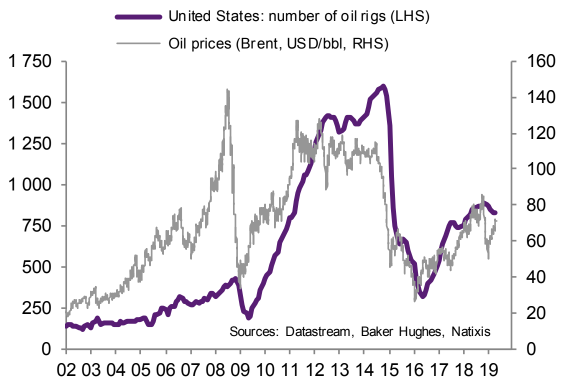
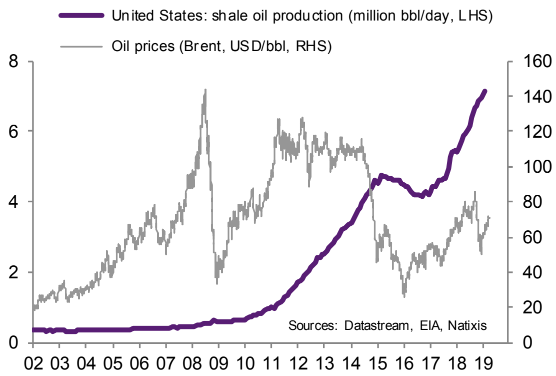


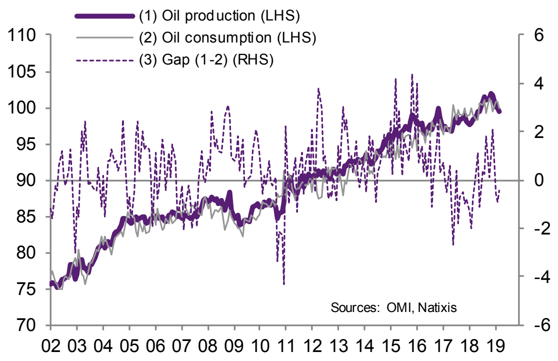
Chart 1B
Shale oil production and oil prices



The current situation is therefore very different from the situation in 2007-2008

In 2007-2008, prior to the crisis, the oil price exceeded 140 dollars per barrel, as the expansion had led to excess demand for oil **(Chart 2).**

Chart 2
World: Oil production and consumption
(million bbl/day)



But **currently,** as a result of shale oil production in the United States, **the oil price at the end of the expansion period remains much lower.**

We should not forget the responsibility of the rise in the oil price in the outbreak of the subprime crisis

When the oil price became very high in 2007-2008, this led to:

- **A sharp rise in inflation (Charts 3A** and **B);**

Chart 3A
United States: CPI and energy CPI (Y/Y as %)

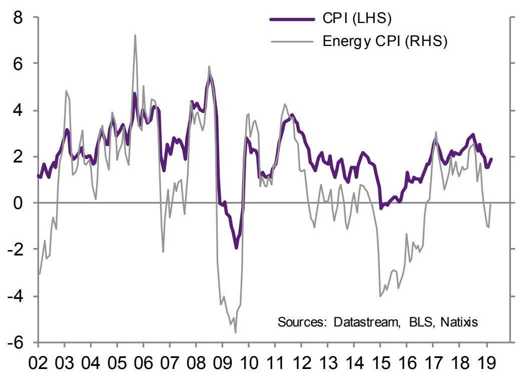
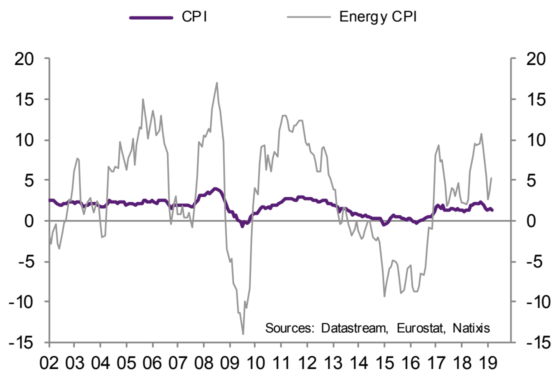


Chart 3B
Euro zone: CPI and energy CPI (Y/Y as %)



- **The resulting rise in interest rates (Charts 4A** and **B);**

Chart 4A
Fed Funds rate and euro repo rate (as %)

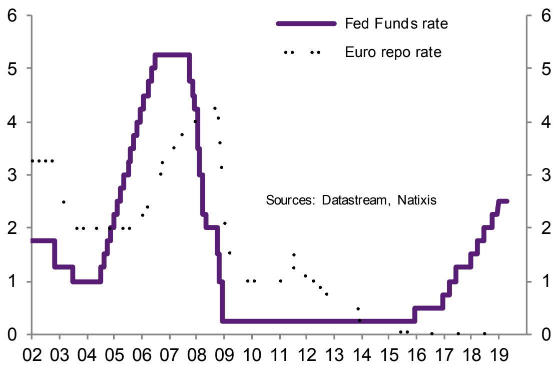
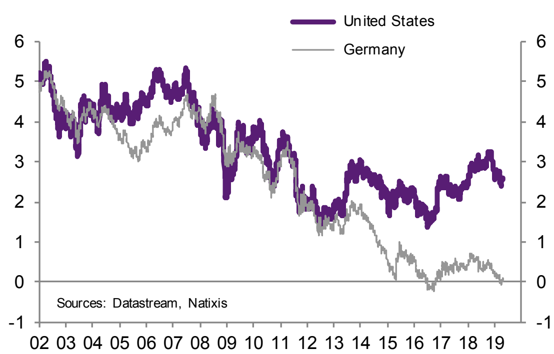


Chart 4B
Interest rate on 10-year government bonds (as %)



- **The decline in real estate prices,** due to the rise in long-term interest rates **(Charts 5A** and **B);**

Chart 5A
United States: House prices

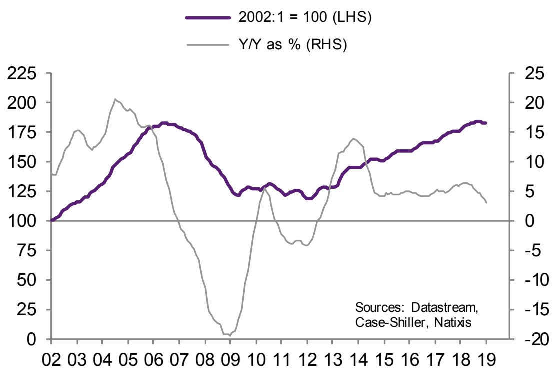
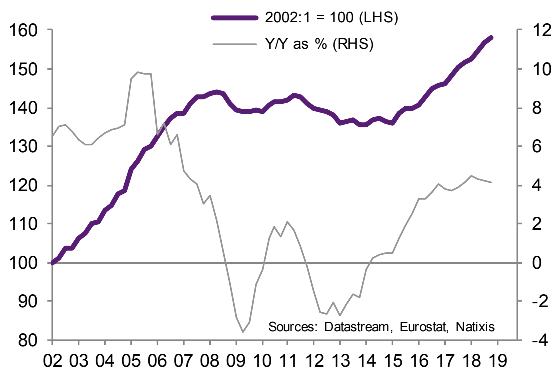


Chart 5B
Euro zone: House prices



- And, **in the United States,** due to the fall in house prices, **the rise in the household default rate (Chart 6), and the triggering of the subprime crisis** caused by the fall in the prices of financial assets built on mortgage loans **(Chart 7).**

Chart 6
Household default rate on mortgage loans (as %)

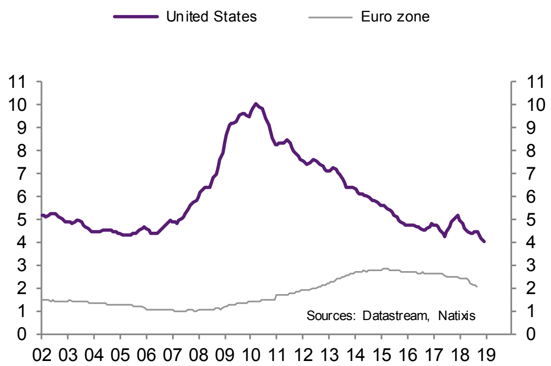
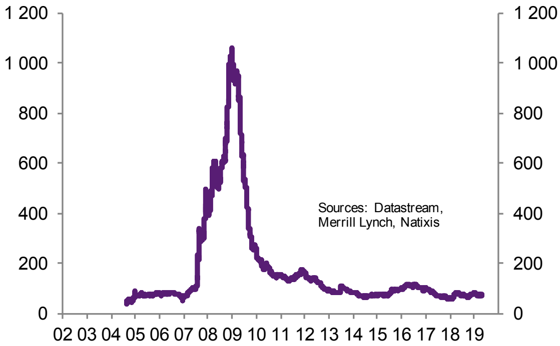


Chart 7
United States: RMBS spread against swaps (AAA, in bp)



Conclusion: We should not forget the role of the oil price

The surge in the oil price prior to the 2008 crisis played a **key role in the triggering of the crisis,** by leading to a rise in inflation and interest rates.

Currently, **the increase in shale oil production in the United States is curbing the rise in the oil price.**

So the oil price no longer, as in 2007-2008, leads to a rise in inflation and interest rates, and **this new oil market equilibrium therefore protects us against crises.**

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