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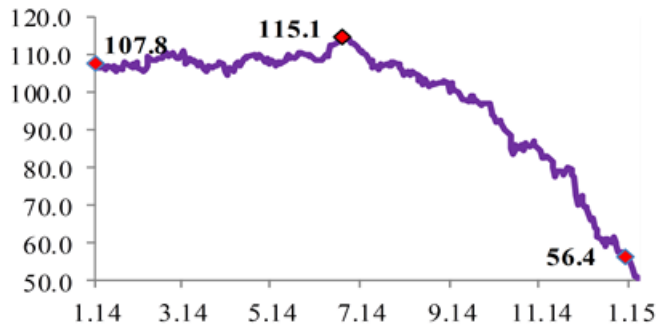
International oil market and the impact on the domestic markets given the evolution of the national currency exchange rate

Technical box extracted from:

ation Report no.1, February 2015 [1]

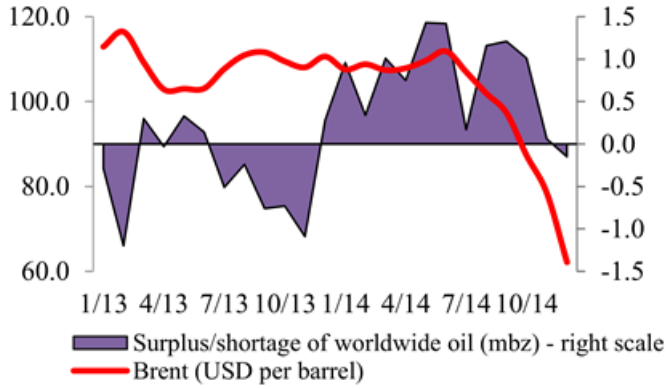
In 2014, the oil prices evolution was one of the factors that have turned upside down the world economy. At the beginning of 2014, oil price trend promised to be upwardly and upper the limit of USD 100 per barrel. Although the factors of negative trend and the slowdown of emerging economies prevailed, the market participants focused on the factors that lead to the increase in oil prices: reducing the oil reserves in the United States of America and worsening the Ukrainian conflict. In 2014, the Brent oil brand price reached the maximum level of USD 115. 1 per barrel in mid-June, after which the oil prices started to decline, decreasing by USD 56.4 per barrel, or about by 50.9 percent towards the end of the year. Brent oil brand price decreased by about 47.6 percent compared to the beginning of the year (Chart no.1).

Chart no. 1. The daily evolution of Brent crude oil prices in 2014



Source: Bloomberg

Chart no. 2. Evolution on the international oil market

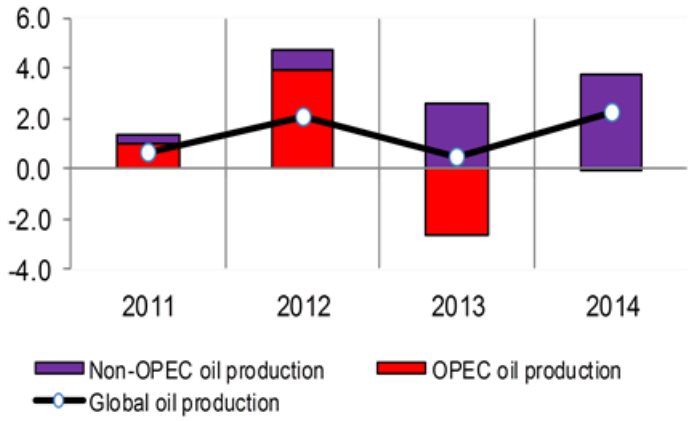


Source: IMF, U.S. Administration on Energy Information

The global oil surplus is the main factor that caused the decline in oil prices.

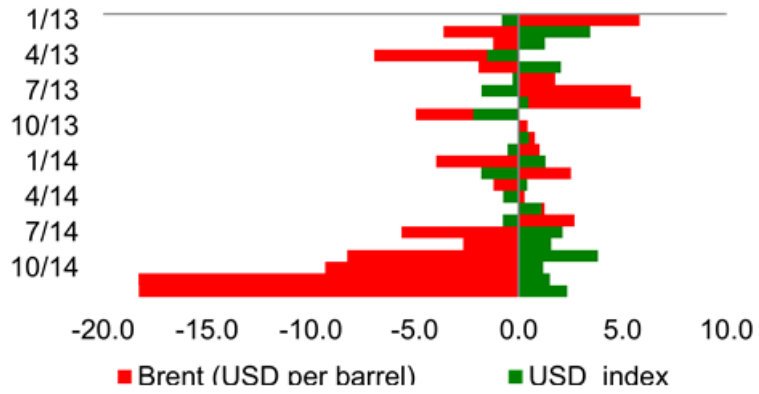
Since December 2013, the global oil supply exceeded the global oil consumption and only in May 2014, it became a major concern for market participants. The resumption of oil production by Libya and the increase of exports by Iran led to the increase in OPEC production, while other OPEC member countries maintained their production quotas. However, the increased exploitation of oil shale in the United States of America determined the decrease in oil exports from other countries and the decrease in external demand, respectively. At the same time, the more than expected slowdown of the economic growth in 2014 had a special role, especially in the emerging economies. Thus, in 2014, the oil supply exceeded the demand by 0.5 million barrels per day (Chart no.2).

Chart no. 3. The annual growth rate oil production



Source: U.S. Administration on Energy Information, NBM calculus

Chart no. 4. The comparison of monthly growth rates of Brent crude oil price and USD parity (%)



Source: Bloomberg, IMF, NBM calculus

Although, the oil production growth in non-OPEC countries was more significant compared to that of the OPEC countries (Chart no.3), at the occurrence of risk factor, the market participants tried to some extent to invoke the OPEC' s role in the world economy and namely that of regulating the oil demand and supply. However, contrary to the behavior in recent years, when OPEC countries have regulated the production in correlation with the world prices evolution, in 2014, OPEC leader countries opted to maintain the quotas on international markets, although some of them record losses due to the decrease in oil prices. In December 2014, oil prices fell further, after that, during the OPEC summit in late November, the participating members have not reached a consensus on reducing the oil surplus on the market, mentioning once again the availability of allowance price formation exclusively due to the counterbalance of supply and demand.

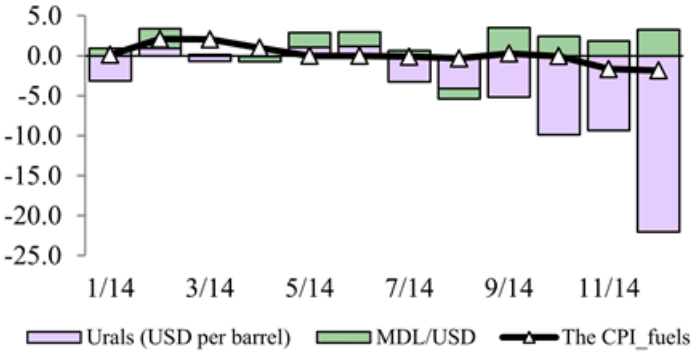
The U.S. dollar appreciation was another factor that contributed to the decrease in oil prices in 2014. The closure of the asset purchase program by the Federal Reserve System and the positive development of the American economy, perceived due to the decrease in unemployment rate up to the level of 5.6 percent in December, were the pillars of the U.S. dollar appreciation in 2014. The relation between the oil prices and U.S. dollar is completed by the fact that oil is traded in USD and as both variables are positions traded on stock exchanges, their independence is more obvious. The correlation between (Brent) oil price and USD index is a medium one (minus 0.5) and there are times when the causality between two variables is significant, which positions the U.S. dollar as an important factor in the analysis of international oil prices evolution (Chart no.4).

The Republic of Moldova is dependent on external energy resources that expose the domestic oil market on a double risk, both from international oil prices, as petroleum deviations and from the exchange rate of the national currency. The pump oil price is often linked to the dynamics of national currency against the major reference currencies (U.S. dollar and EUR) and the largest amount of fuel is imported from the Romania's refineries (petrol - 83.4 percent, diesel fuel - 84.6 percent). Whatever the reporting forms of the national currency, the depreciation of the real effective exchange rate is an occasion to increase the import price of fuel and by inference, the price of pump fuel.

In 2014, the external pressures on domestic oil market were antagonistic: on the one hand, the decrease of international oil prices, which implies the decrease in pump oil prices and on the other hand, the depreciation of the national currency in the context of developments of the international foreign exchange market and domestic economy, which favours the increase in pump oil prices. Chart no.5 shows that, especially in the last months of 2014, fuel prices have decreased from month to month. Although the formation of pump fuel prices is influenced by many other factors (exercise duty, cumulative stocks, operational costs etc.) it should be mentioned that the pump fuel price trajectory represents the overlap

between the development of international oil prices and the development of the national currency parity.

Chart no. 5. The comparison of monthly growth rates of Urals crude oil prices, MDL/USD parity and domestic prices for fuel (%)



Source: Bloomberg, NBS, NBM calculus

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