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# Charts of the Week: Energy, naturally

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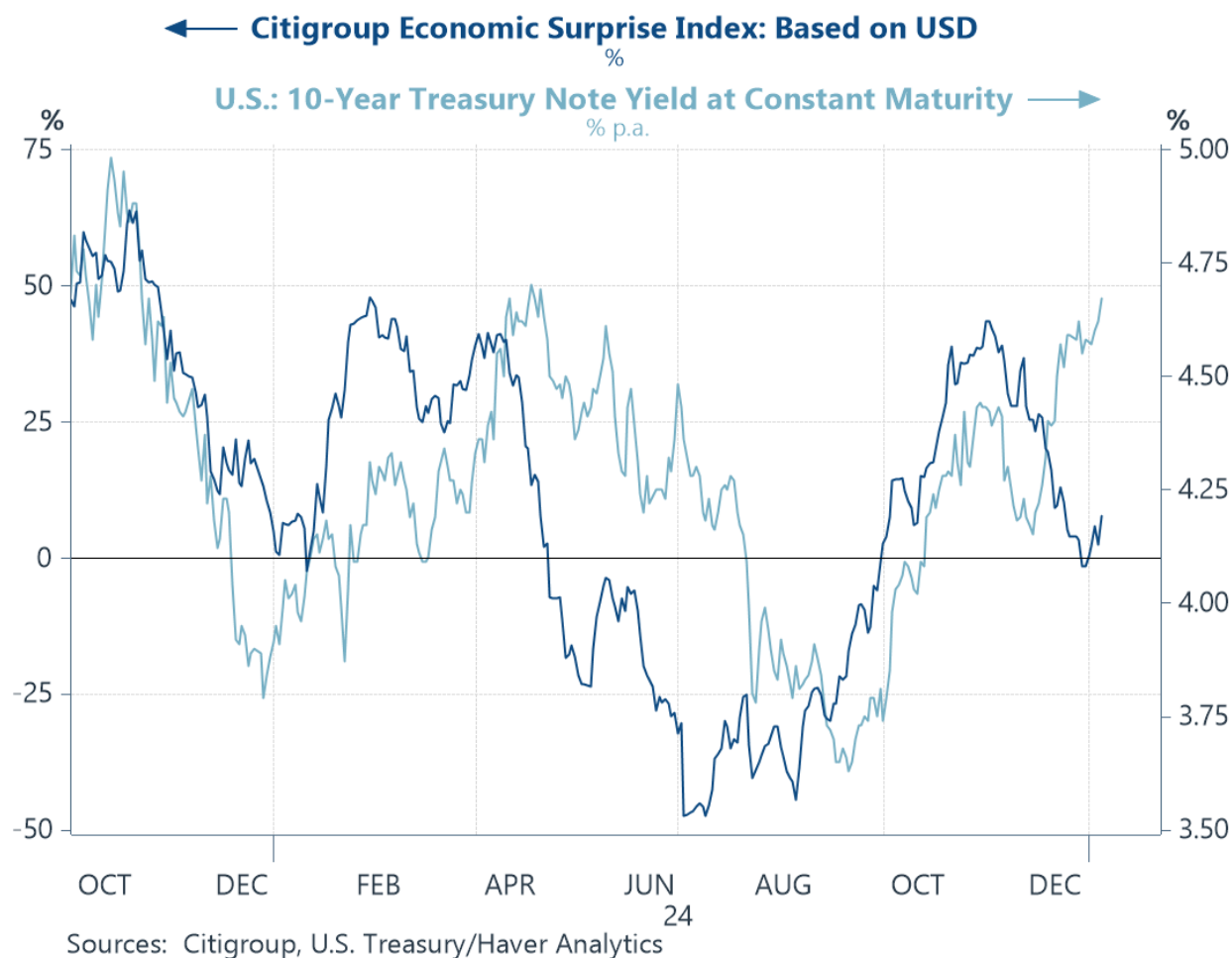
Investors have returned to focusing on several familiar themes so far this year. These include the resilience of the US economy compared with the rest of the world, the macroeconomic implications of a new US administration, simmering geopolitical tensions, and the productivity potential of AI. Inflation concerns have also been amplified in recent weeks, however, partly due to some firmer-than-expected inflation data, most notably in the US (see charts 1 and 2). Against that backdrop and fuelled by greater caution about the scope for easier monetary policy from the US Fed, expectations for the scale of US policy rate cuts in the year ahead have been significantly scaled back (chart 3). This adjustment, however, has not been fully mirrored in forecasts for policy rates in Europe (chart 4), partly due to the region's more subdued growth outlook. In the background to these developments, energy price fluctuations continue to play a major role in shaping both cyclical gyrations and broader structural trends. It has certainly been no coincidence that inflation concerns have intensified at the same time as energy prices have been climbing. The US economy's (and the US dollar's) ongoing resilience relative to the rest of the world can also be attributed, in part, to the former's energy trade surplus, which has been shielding it from instability stemming from global energy price shocks (charts 5 and 6).

## Growth surprises and US Treasury yields

US Treasury yields have, on the whole, been climbing over the past few months reflecting the resilience of the US economy and the implications of this for Fed policy. This linkage is illustrated in chart 1 below

showing a tight correlation between US yields and US growth surprises. But over the past few weeks incoming US growth data have disappointed expectations more frequently. Yet US yields have continued to climb. US bond investors are, in other words, signalling heightened fears about the inflation outlook relative to growth. Investors are equally be heeding the recent messaging from the Fed suggesting that monetary policy could be tighter for longer in the immediate months ahead. Rising real yields additionally suggest that debt sustainability concerns have surfaced as well.

Chart 1: Citigroup's US growth surprise index versus US Treasury yields

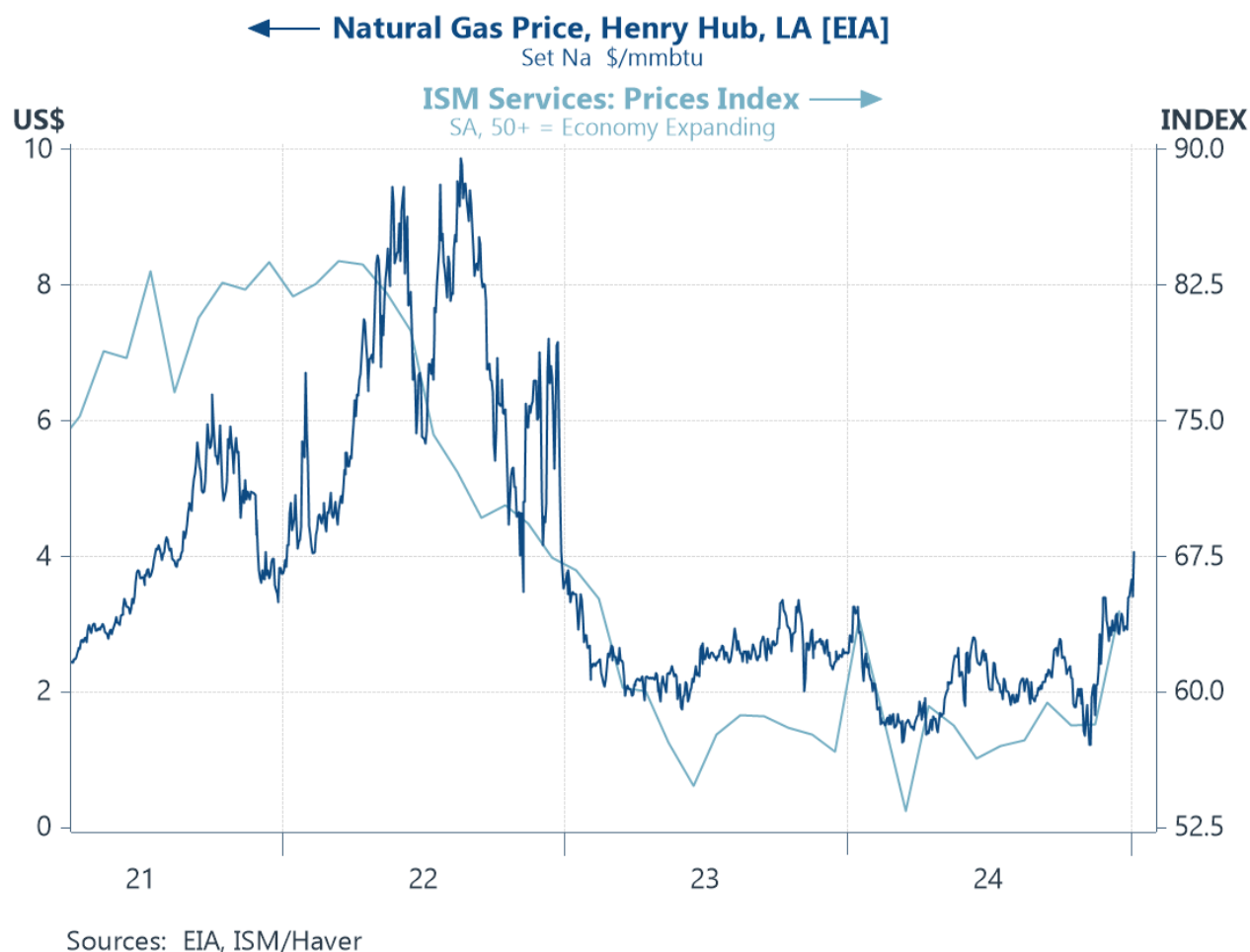


## US service sector inflation and natural gas prices

A key question now is whether US (and broader global) inflationary pressures will begin to build. Latest data certainly point that way. US natural gas prices, for example, have spiked sharply higher over the past few weeks, partly because of an unusually cold snap of weather. More recently, global oil prices have begun to trend higher as well. Inasmuch as this has ramifications for companies' energy costs it should be no surprise that latest business surveys additionally point to some intensification of cost and price pressures.

This week's US ISM survey of the service sector, for instance, revealed a big spike in the prices component in December and specifically to its highest level since February 2023 (see chart 2 below).

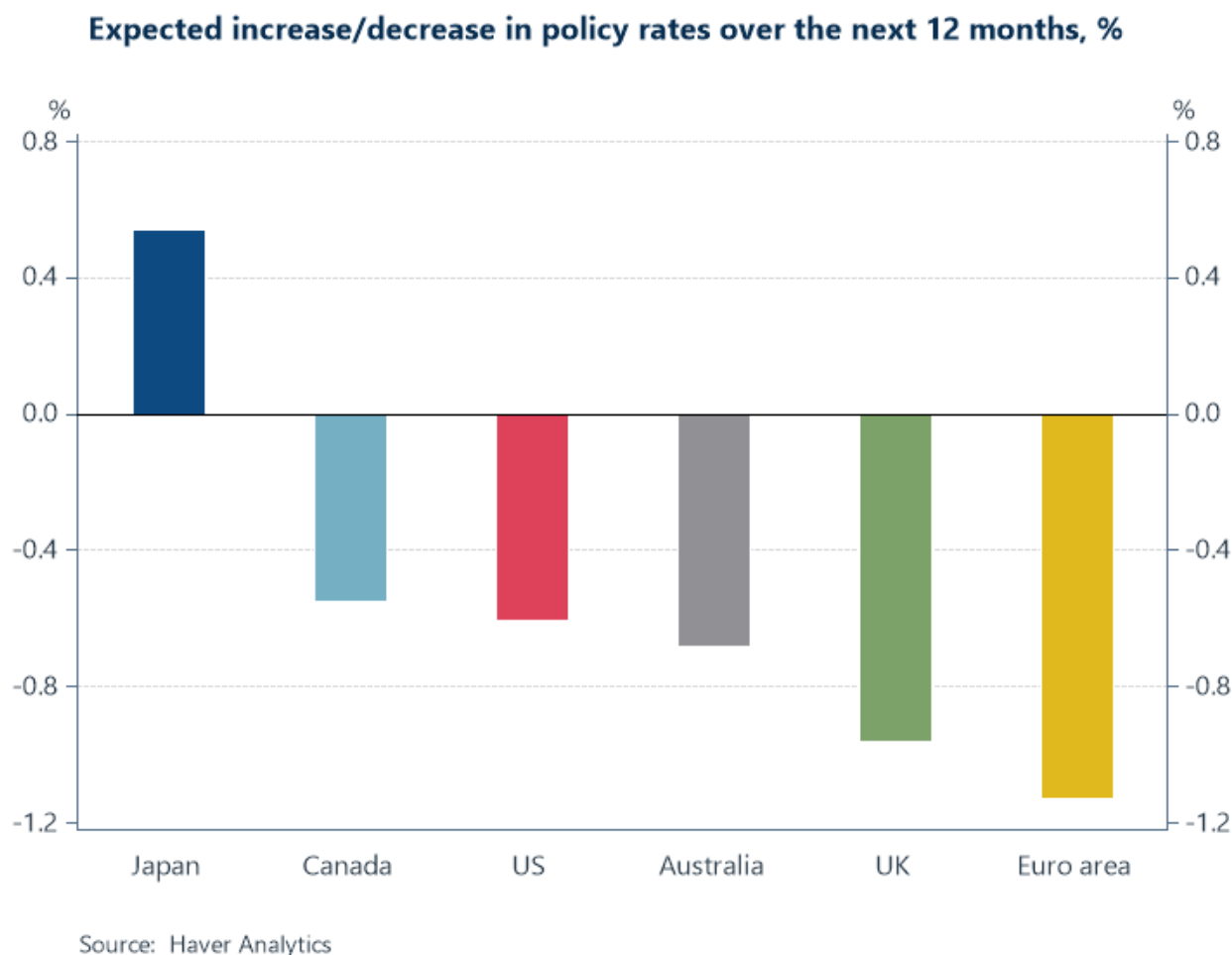
Chart 2: US natural gas prices versus the service sector prices



## Expectations for policy rates in the world's major economies

Although inflation concerns have intensified, most major central banks are still expected to continue reducing their policy rates in the year ahead. That at least is the message from the latest Blue Chip Survey of Financial Forecasts. Still, US policy rates are now projected to decline by 60 bps over the next 12 months. That contrasts with a 12 month ahead projection for policy rates last October for cumulative cuts amounting to 125bps though since that time the US Fed Funds rate has been reduced by 50bps. Elsewhere, Japan stands out with an anticipated increase in policy rates over the next 12 months, amid signs of improving wage growth. In contrast, the UK and the euro area, are expected to continue reducing rates and by a relatively large degree.

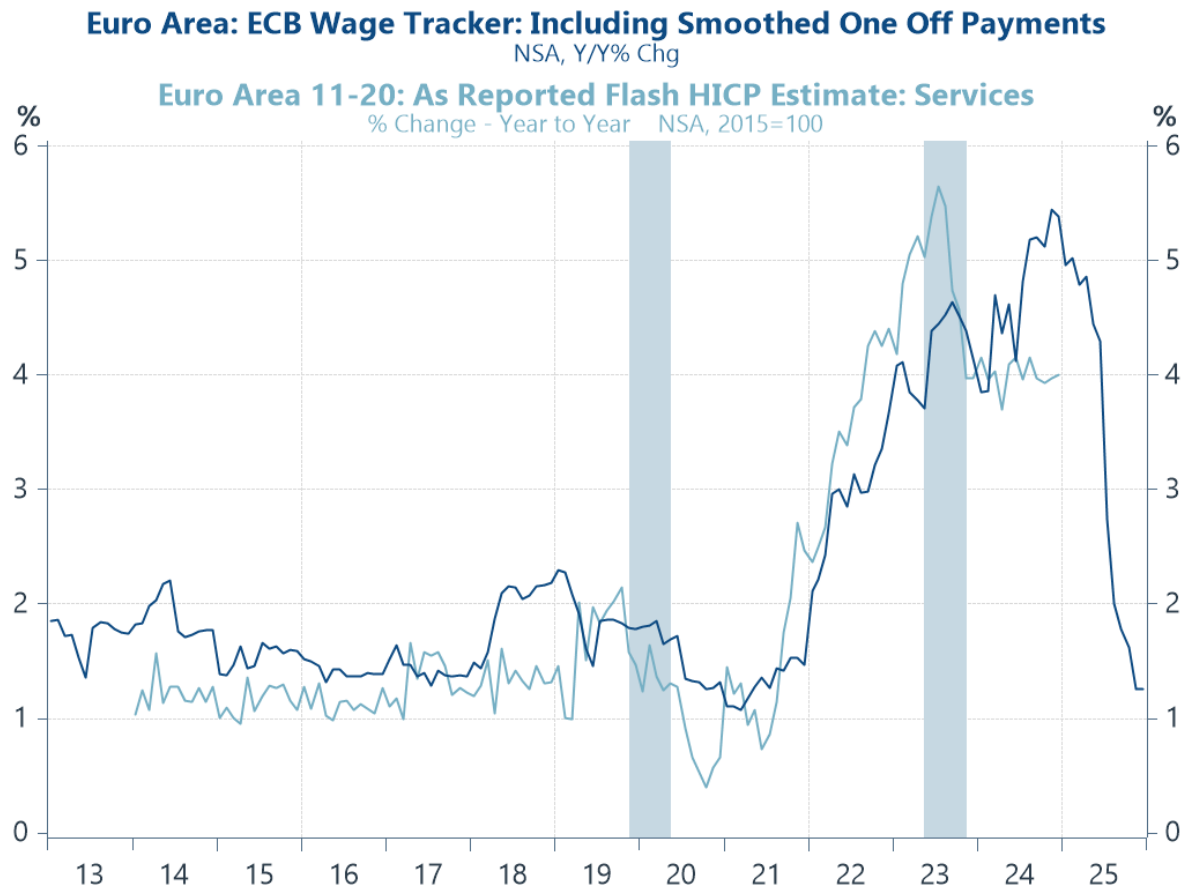
Chart 3: Blue Chip Forecasts: Expectations for policy rate changes over the next 12 months



### Euro area CPI inflation and wage growth

Recent data for the euro area economy have reinforced the view that the ECB will continue cutting rates in the immediate months ahead. That's certainly true of the incoming growth data. But latest data on the inflation front have been reassuring as well. This week's flash CPI data for December, for instance, suggested that service sector CPI inflation has been levelling off. Forward looking indicators, moreover, suggest as the ECB's monthly tracker of negotiated wages, offer compelling evidence to suggest a big slowdown in inflation lies ahead.

Chart 4: The ECB's wage tracker versus euro area flash service sector CPI inflation

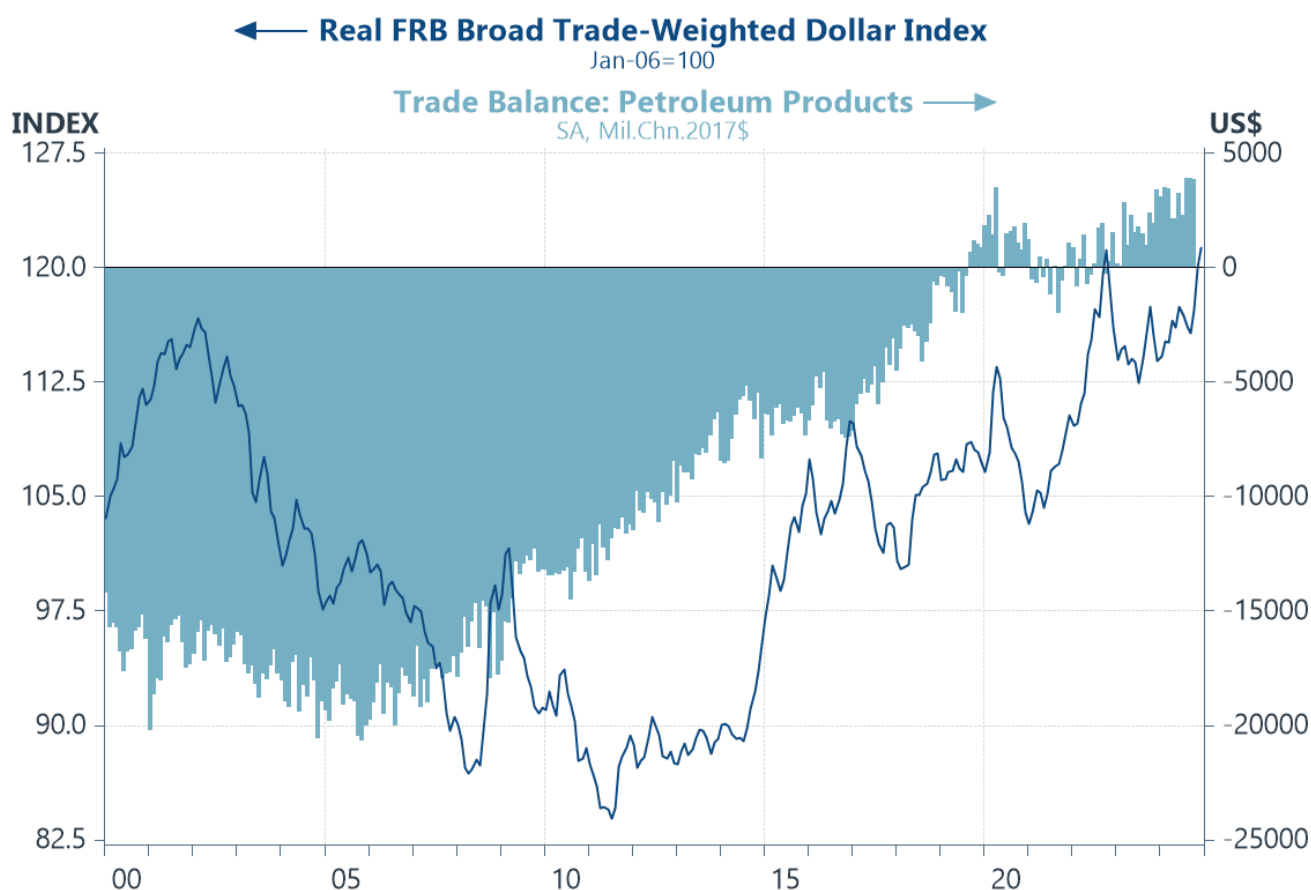


Sources: European Central Bank, Eurostat/Haver Analytics

## US energy trade and the dollar

Against a macroeconomic backdrop where the US economy has remained resilient compared with other major economies, the real trade weighted value of the US dollar has been appreciating in recent weeks. However, as chart 5 illustrates, this appreciation is not merely a short-term fluctuation but part of a longer-term secular trend toward a stronger US currency that has been unfolding for over a decade. Simultaneously, the chart highlights the steady improvement in the US trade balance for petroleum products (in real terms), transitioning from a significant deficit in the early 2000s to a consistent surplus in recent years. This shift can largely be attributed to the US shale revolution, which has significantly increased domestic oil and gas production, reduced reliance on imports, and positioned the US as a net exporter of petroleum products.

Chart 5: The trade weighted US dollar versus the trade balance in petroleum products (volumes)



Sources: Federal Reserve Board, Census Bureau/Haver Analytics

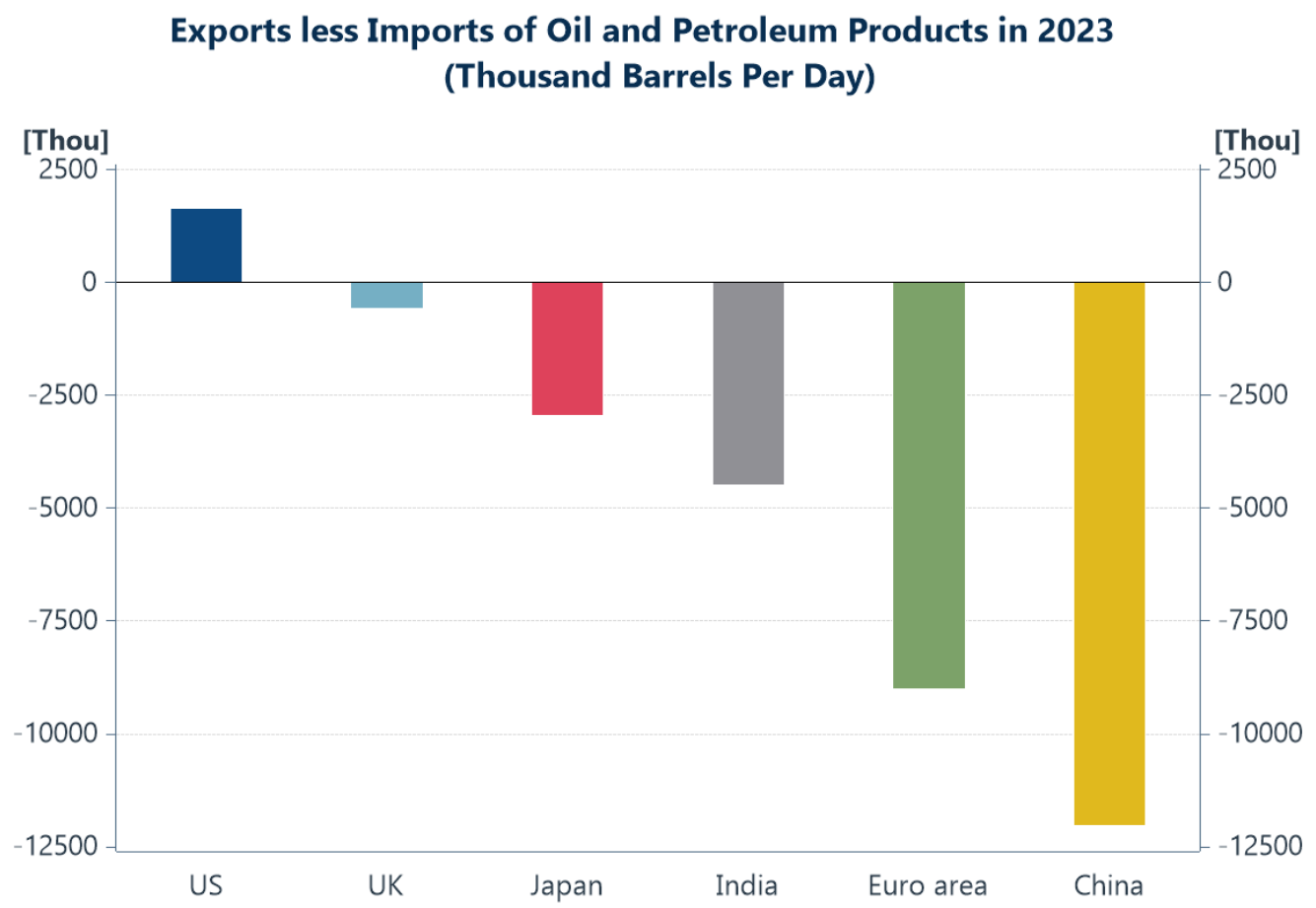
## Global trade in oil (and US resilience)

The contrast with other major economies could not be starker. Chart 6 below highlights the net exports of oil and petroleum products in 2023 (measured in thousand barrels per day) across major economies. As suggested above the US stands out as the only net exporter, with a significant surplus, underscoring its position as a dominant player in the global energy market. However, other major economies, such as the euro area, China, India, Japan, and the UK, exhibit large deficits, reflecting their heavy dependence on oil imports to meet domestic demand. China and the euro area have the largest deficits, indicating their substantial reliance on external energy supplies, which makes them more vulnerable to global energy price fluctuations and supply chain disruptions.

The implications remain significant. The US economy's energy independence provides it with a strategic economic and geopolitical advantage, insulating its economy, via trade channels, from external price shocks. On the other hand, the energy import dependency of other regions highlights their exposure to volatile global

energy markets, making energy security a key policy priority. For countries with large deficits, such as China, transitioning to renewable energy sources may help mitigate these vulnerabilities over the long term.

Chart 6: Exports less imports of oil and petroleum products in selected major economies



Source: Haver Analytics



# About the author



Haver Analytics is pleased to bring [Andy Cates's](#) commentaries on the state of the global economy to its clients. Andy has more than 25 years of experience forecasting the global economic outlook and in assessing the implications for policy settings and financial markets. He has held various senior positions in London in a number of Investment Banks including as Head of Developed Markets Economics at Nomura and as Chief Eurozone Economist at RBS. These followed a spell of 21 years as Senior International Economist at UBS, 5 of which were spent in Singapore. Prior to his time in financial services Andy was a UK economist at HM Treasury in London holding positions in the domestic forecasting and macroeconomic modelling units. He has a BA in Economics from the University of York and an MSc in Economics and Econometrics from the University of Southampton.

## Data featured in this commentary:

Chart 1: Citigroup's US growth surprise index versus US Treasury yields

### Series 1: [V111CSI@INTDAILY](#)

V111CSI@INTDAILY [Citigroup Economic Surprise Index: Based on USD (%)]

### Series 2: [R111GA@INTDAILY](#)

R111GA@INTDAILY [U.S.: 10-Year Treasury Note Yield at Constant Maturity ( % p.a.)]

Chart 2: US natural gas prices versus the service sector prices

### Series 1: [SETNA\(PENGAS@DAILY,20240112:20240112\)](#)

PENGAS@DAILY [Natural Gas Price, Henry Hub, LA [EIA] (\$/mmbtu)]

### Series 2: [NMFPIA@USECON](#)

NMFPIA@USECON [ISM Services: Prices Index (SA, 50+ = Economy Expanding)]

Chart 3: Blue Chip Forecasts: Expectations for policy rate changes over the next 12 months

### Series 1: [\(AAYW@BLUECFIN - N158RTAR@G10\)](#)

AAYW@BLUECFIN [BCFF: Japan: Policy-Rate Balance Rate 12-Mo Forecast: Consensus (%)]

N158RTAR@G10 [Japan: Bank of Japan Policy Rate (EOP, %)]

### Series 2: [\(AAZF@BLUECFIN - N156RTAR@G10\)](#)

AAZF@BLUECFIN [BCFF: Canada: O/N Money Mkt Financing Rate 12-Mo Forecast: Consensus (%)]

N156RTAR@G10 [Canada: Overnight Money Market Financing Rate [Target] (EOP, %)]

### Series 3: [\(AAYQ@BLUECFIN - N111RTAR@G10\)](#)

AAYQ@BLUECFIN [BCFF: US: Fed Funds Target Rate 12-Mo Forecast: Consensus (%)]

N111RTAR@G10 [U.S.: Federal Open Market Committee: Fed Funds Target Rate (EOP, %)]



Series 4: (AAZI@BLUECFIN - N193RTAR@G10)

AAZI@BLUECFIN [BCFF: Australia: Official Cash Rate 12-Mo Forecast: Consensus (%)]

N193RTAR@G10 [Australia: Official Cash Rate (EOP, %)]

Series 5: (AAYZ@BLUECFIN - N112RTAR@G10)

AAYZ@BLUECFIN [BCFF: UK: Official Bank Rate 12-Mo Forecast: Consensus (%)]

N112RTAR@G10 [U.K.: Official Bank Rate (EOP, %)]

Series 6: (AAZL@BLUECFIN - I023MR@EUDATA)

AAZL@BLUECFIN [BCFF: Euro area: Main Refinancing Rate 12-Mo Forecast: Consensus (%)]

I023MR@EUDATA [Euro Area 11-20: Main Refinancing Rate (EOP, %)]

Chart 4: The ECB's wage tracker versus euro area flash service sector CPI inflation

Series 1: N023WTS@EUDATA

N023WTS@EUDATA [Euro Area: ECB Wage Tracker: Including Smoothed One Off Payments (NSA, Y/Y% Chg)]

Series 2:  $\text{yr}\%(\text{F023HS@EUDATA})$

F023HS@EUDATA [Euro Area 11-20: As Reported Flash HICP Estimate: Services (NSA, 2015=100)]

Chart 5: The trade weighted US dollar versus the trade balance in petroleum products (volumes)

Series 1: FXTWBDIC@USECON

FXTWBDIC@USECON [Real FRB Broad Trade-Weighted Dollar Index (Jan-06=100)]

Series 2: TMBEPH@USINT

TMBEPH@USINT [Trade Balance: Petroleum Products (SA, Mil.Chn.2017\$)]

Chart 6: Exports less imports of oil and petroleum products in selected major economies

Series 1: (OADFUSA@ENERGY - OADJUSA@ENERGY)

OADFUSA@ENERGY [United States: Exports of Crude Oil and Petroleum Products (Thous.Barrels/Day)]

OADJUSA@ENERGY [United States: Imports of Crude Oil and Petroleum Products (Thous.Barrels/Day)]

Series 2: (OADFGBA@ENERGY - OADJGBA@ENERGY)

OADFGBA@ENERGY [United Kingdom: Exports of Crude Oil and Petroleum Products (Thous.Barrels/Day)]

OADJGBA@ENERGY [United Kingdom: Imports of Crude Oil and Petroleum Products (Thous.Barrels/Day)]

Series 3: (OADFJPA@ENERGY - OADJJPA@ENERGY)

OADFJPA@ENERGY [Japan: Exports of Crude Oil and Petroleum Products (Thous.Barrels/Day)]

OADJJPA@ENERGY [Japan: Imports of Crude Oil and Petroleum Products (Thous.Barrels/Day)]

Series 4: (OADFINA@ENERGY - OADJINA@ENERGY)

OADFINA@ENERGY [India: Exports of Crude Oil and Petroleum Products (Thous.Barrels/Day)]

OADJINA@ENERGY [India: Imports of Crude Oil and Petroleum Products (Thous.Barrels/Day)]

Series 5: (OADF0IA@ENERGY - OADJ0IA@ENERGY)

OADF0IA@ENERGY [OECD Europe: Exports of Crude Oil and Petroleum Products (Thous.Barrels/Day)]

OADJ0IA@ENERGY [OECD Europe: Imports of Crude Oil and Petroleum Products (Thous.Barrels/Day)]

Series 6: (OADFCNA@ENERGY - OADJCNA@ENERGY)

OADFCNA@ENERGY [China: Exports of Crude Oil and Petroleum Products (Thous.Barrels/Day)]

OADJCNA@ENERGY [China: Imports of Crude Oil and Petroleum Products (Thous.Barrels/Day)]

## Get in touch

Drop us a line on [sales@haver.com](mailto:sales@haver.com) and someone from our team will connect with you to discuss your data needs.

