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OPEC has said it expects oil prices to recover to $70 a barrel by 2020.

Prices have fallen from more than $110 a barrel in the summer of 2014 to less than $37 a barrel now due to oversupply and slowing demand. But OPEC said oil prices would begin to rise next year and, longer term would rise due to higher exploration costs. It expects the market share of OPEC producers to shrink by 2020 as rivals prove more resilient than expected. The group currently accounts for about 30% of the world's oil production, down from 50% in the 1970s. Part of the reason for this decline is the emergence of vast quantities of shale oil produced in the US. This has also been factor in pushing down the price of oil to 11-year lows. OPEC said it expected supply growth from US shale to slow dramatically next year, as producers struggled to cope with such a low prices. The strategy this year has been to allow prices to fall by maintaining production in the hope that, eventually, US shale producers will be forced out of business.

Another factor in low prices, OPEC said, was weaker economic growth, particularly in developing economies. It highlighted China, where the "economy seems to be maturing and growth is decelerating faster than previously expected". The report also highlighted the "huge reductions" in spending on exploration and production by the industry as a whole due to low oil prices. These cutbacks will ultimately see supply fall, it said, putting upward pressure on prices. Another longer-term factor pushing prices up, OPEC said was higher exploration costs, as companies are forced to look harder for oil as traditional supply sources dwindle. Deep water drilling, for example, is considerably more expensive than drilling onshore.

Finally, OPEC said population and economic growth would see demand for energy rise by almost a half by 2040, increasing demand for oil. OPEC was founded in 1960 by Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. These countries have since been joined by Qatar (1961), Indonesia (1962), Libya (1962), the United Arab Emirates (1967), Algeria (1969), Nigeria (1971), Ecuador (1973), Gabon (1975) and Angola (2007).

WTO members secure "historic" Nairobi Package for Africa and the world

WTO members concluded their Tenth Ministerial Conference in Nairobi on 19 December by securing an historic agreement on a series of trade initiatives. The "Nairobi Package" pays fitting tribute to the Conference host, Kenya, by delivering commitments that will benefit in particular the organization's poorest members. The Nairobi Package contains a series of six Ministerial Decisions on agriculture, cotton and issues related to least-developed countries. These include a commitment to abolish export subsidies for farm exports, which Director-General Roberto Azevêdo hailed as the "most significant outcome on agriculture" in the organization's 20-year history.

"Two years ago in Bali we did something that the WTO had never done before — we delivered major, multilaterally-negotiated outcomes," DG Azevêdo declared. "This week, here in Nairobi, we saw those same qualities at work. And today, once again, we delivered."The WTO's Tenth Ministerial Conference was held in Nairobi, Kenya, from 15 to 19 December 2015, the first such meeting hosted by an African nation. The Conference was chaired by Kenya's Cabinet Secretary for Foreign Affairs and International Trade, Amina Mohamed.

Ms Mohamed admitted that ministers "faced challenging moments," in concluding the Nairobi Package, which required an extra day of intensive negotiations to conclude. "Tough calls had to be made but we did bite the bullet.""We have reaffirmed the central role of the WTO in international trade governance," she added. The Conference was opened on 15 December by Kenya's President, Uhuru Kenyatta. During the opening session, the Conference was also addressed by Ms Mohamed, DG Azevêdo and the Chair of the WTO's General Council, Fernando de Mateo. They were joined at the Opening Ceremony by President Ellen Johnson Sirleaf of Liberia, whose country concluded its WTO membership negotiations on 16 December.

WTO Agreements on agriculture

A centrepiece of the Nairobi Package is a Ministerial Decision on Export Competition (WT/MIN (15)/45), including a commitment to eliminate subsidies for farm exports. DG Azevedo described it as the "most significant outcome on agriculture" in the organization's 20-year history.

A number of countries are currently using export subsidies to support agriculture exports. The legally-binding decision would eliminate these subsidies and prevent governments from reverting to trade-distorting export support in the future. Under the decision, developed members have committed to remove export subsidies immediately, except for a handful of agriculture products, and developing countries will do so by 2018. Developing members will keep the flexibility to cover marketing and transport costs for agriculture exports until the end of 2023, and the poorest and food-importing countries would enjoy additional time to cut export subsidies. The decision contains disciplines to ensure that other export policies are not used as a disguised form of subsidies. These disciplines include terms to limit the benefits of financing support to agriculture exporters, rules on state enterprises engaging in agriculture trade, and disciplines to ensure that food aid does not negatively affect domestic production. Developing countries are given longer time to implement these rules.

A Ministerial Decision on a Special Safeguard Mechanism (SSM) for Developing Countries (WT/MIN (15)/43) recognizes that developing members will have the right to temporarily increase tariffs in face of import surges by using an SSM. Members will continue to negotiate the mechanism in dedicated sessions of the Agriculture Committee. In addition, a Ministerial Decision on Cotton (WT/MIN (15)/46) stresses the vital importance of the cotton sector to LDCs. The decision includes three agriculture elements: market access, domestic support and export competition. On market access, the decision calls for cotton from LDCs to be given duty-free and quota-free access to the markets of developed countries — and to those of developing countries declaring that they are able to do so — from 1 January 2016. The domestic support part of the cotton decision acknowledges members' reforms in their domestic cotton policies and stresses that more efforts remain to be made. On export competition for cotton, the decision mandates that developed countries prohibit cotton export subsidies immediately and developing countries do so at a later date.

Ministers reaffirm central role of WTO in global trade talks, acknowledge divide on future of Doha Round

In their Nairobi Declaration, ministers cited the “pre-eminence of the WTO as the global forum for trade rules setting and governance” and recognized the contribution the rules-based multilateral trading system has made to the strength and stability of the global economy. “We reaffirm the need to ensure that Regional Trade Agreements (RTAs) remain complementary to, not a substitute for, the multilateral trading system,” ministers declared, adding that the WTO's Committee on Regional Trade Agreements (CRTA) would discuss the systemic implications of RTAs for the multilateral trading system and their relationship with WTO rules.

Ministers acknowledged that members “have different views” on how to address the future of the Doha Round negotiations but noted the “strong commitment of all Members to advance negotiations on the remaining Doha issues.”“This work shall maintain development at its centre and we reaffirm that provisions for special and differential treatment shall remain integral,” minister's declared. Ministers also stated that, while negotiators should prioritize work where results have not yet been achieved, “some wish to identify and discuss other issues for negotiation; others do not. Any decision to launch negotiations multilaterally on such issues would need to be agreed by all Members."

DG Azevêdo acknowledged “persistent and fundamental divisions on our negotiating agenda” and said WTO members “have to face up to this problem.”“Members must decide — the world must decide — about the future of the Doha Round,” he declared. “This impasse is already harming the prospects of all those who rely on trade today — and it will disadvantage all those who would benefit from a reformed, modernized global trading system in future.” His full speech is available here.

China set to adopt 6.5-7 percent growth target range for 2016

China's leaders are expected to target economic growth in a range of 6.5 percent to 7 percent this year, sources familiar with their thinking said, setting a range for the first time because policymakers are uncertain on the economy's prospects. The proposed range, which would follow a 2015 target of "around 7 percent" growth, was endorsed by top leaders at the closed-door Central Economic Work Conference in mid-December, according to the sources with knowledge of the meeting outcome. The world's second-largest economy grew 6.9 percent in 2015, the weakest in 25 years; although some economists believe real growth is even lower."They are likely to target economic growth of 6.5-7 percent this year, with 6.5 percent as the bottom line," said one of the sources, a policy adviser.

Policymakers, worried by global uncertainties and the impact on growth of their structural economic reforms, struggled to reach a consensus at the December meeting, the sources said. The floor of 6.5 percent reflects the minimum average rate of growth needed over the next five years to meet an existing goal of doubling gross domestic product and per capita income by 2020 from 2010.The 2016 growth target and the country's 13th Five-Year Plan, a blueprint covering 2016-2020, will be announced at the annual meeting of the National People's Congress, the country's parliament, in early March.

Although the target range was endorsed by the leadership in December, it could still be adjusted before parliament convenes.

China's GDP growth slowed to 25-year low in 2015

"The government will not be too nervous about growth this year and will focus more on structural adjustments," said a government economist.

"Growth may still slow in the first and second quarter and people are divided over the third and fourth quarter. The full-year growth could slow to 6.5-6.6 percent."A string of cuts in interest rates and bank reserve requirements since November 2014 have failed to put a floor under the slowing economy. Beijing is expected to put more emphasis on fiscal policy to support growth, including tax cuts and running a bigger budget deficit of about 3 percent of GDP.

China's leaders have flagged a "new normal" of slower growth as they look to shift the economy to a more sustainable, consumption-led model. About half of China's 30 provinces and municipalities have lowered their growth targets for 2016, while nearly a third kept targets unchanged from last year, according to local media. Guangdong and Zhejiang provinces have set a growth target of 7-7.5 percent this year, while Jiangsu and Shandong are aiming for growth of 7.5-8 percent. In 2015, growth in Chongqing municipality was 11 percent, the fastest in the country, while growth in Liaoning province in the rustbelt northeast, was 3 percent, the country's lowest. For this year, Chongqing is eyeing 10 percent growth and Liaoning is aiming for 6 percent. At the enclave in December, leaders pledged to make monetary policy more flexible, expand the budget deficit to support the economy, and push forward "supply-side reform."The central bank may be reluctant to cut interest rates or banks' reserve requirement ratios in the near term because of concerns over the impact on the Yuan, but it remains under pressure to loosen policy further, policy insiders said."We think the central bank should ease policy, because China is a big economy and its monetary policy should focus on its own economic conditions," said the government economist

The Fed is freaking out about financial markets

Early in the New Year, on Jan. 3, Federal Reserve Vice Chair Stanley Fischer delivered a hawkish speech to the American Economic Association. Completely misreading the economy, which is woefully weak while inflation is virtually nil, Fischer strongly, hinted that the Fed would be raising its target rate by a quarter of a percent every quarter for the next three years. The next day the S&P 500 dropped 1.5 percent. In the week that followed, the broad index fell 6 percent. The week after that it fell over 2 percent. During that two-week period, the Dow Jones Industrial Average dropped 1,437 points. The dollar went up. Oil plunged 21 percent. Raw material commodities dropped. And credit risk spreads in the high-yield junk market rose substantially. Actually, it was a global event, as stock markets around the world plunged. Utter chaos. The central bank says its policies are "data driven." But the recent Federal Open Market Committee statement suggests the Fed is looking at everything. It has a hundred indicators — domestic, international, jobs, and inflation. In truth, it doesn't know what its next move is going to be because it can't read the economy. Fed policy is opaque, confusing, and rudderless.

Take a look at the new GDP report for the fourth quarter of last year. A mere 0.7 percent growth across 2015, real GDP grew 1.8 percent. It's not a recession. But any shock could push us into recession. Nominal GDP — real output plus inflation — registered a small 1.5 percent gain. In normal times, money GDP should be between 4 and 5 percent. Perhaps most troublesome to the stock market and the economy is the decline in corporate profits. According to most estimates, profits are set to drop for the third straight quarter while business sales look to be falling for the fourth straight quarter. Add this to less than 1 percent economic growth, and the risk of recession is surely rising. The recession threat is a risk, not a fact. But for Fed policy makers to tell us the economy is healthy is a complete misreading of the situation. And with ultra-weak economic growth and ultra-low inflation, how could the Fed, or any central bank, think about tightening policy?

Future of Emerging Markets

EMERGING markets have given the global economy most of its muscle since the recession ended in 2009. But in 2016 rich countries will account for their largest share of global growth this decade. The BRICs are in a sorry state. Brazil's government has been both incompetent and corrupt. Russia's has been no better, with a dose of military malevolence thrown in. China will perform reasonably well in 2016—if you believe the government's numbers. By that reckoning, its GDP will rise by around 6.5%. The reality almost certainly will be lower. China is mired in debt and has mismanaged its currency and stock markets, sending shocks through the global economy. India looks perkier: it will grow by more than 7%. But that is worse than its average of 8.5% growth between 2005 and 2010. All said, the BRICs will make up only 16% of worldwide growth in 2016.

Against all this, the rich world will look solid, if unspectacular. America's economy will expand by around 2.5%, and the American jobs machine will crank out at least 2m new positions for a sixth straight year—the first time that has happened since the 1990s. Europe will no longer be threatened by recession or deflation, and the euro zone's most obvious time-bomb, Greece, has been defused for now. The world economy as a whole is forecast to grow by 2.7% in 2016, and it hasn't managed an increase of more than 3% since 2011. Save for America, 2016 will be another year of repair, recovery, reform and risk for most countries.

Economists' evolving understanding of the zero-rate liquidity trap

Back in late 2008 and early 2009, when rates around the rich world fell below 1%, the framework most economists reached for was what you might call the traditional Hicks-Krugman story of the liquidity trap. John Hicks's analysis of the work of John Maynard Keynes first set out the concept of a liquidity trap in 1937. Paul Krugman borrowed and updated that framework in 1998 in an analysis of the Japanese economy. This story is one in which a really nasty economic shock knocks an economy into a bad equilibrium; rates fall to zero, at which point monetary policy loses its punch. Real rates can't go low enough to stimulate the economy, which remains stuck with a shortfall in demand. To get out, the government either needs to borrow heavily and spend to boost demand, or the central bank needs to promise to tolerate high inflation once, at some point in the distant future, the economy returns to health: to "credibly promise to be irresponsible", in Mr. Krugman's phrase. Higher expected inflation reduces the real interest rate in the present, providing the needed stimulative jolt. In his paper, Mr. Krugman mused that a target of 4% inflation for fifteen years might be the sort of thing needed to get Japan out of its trap—assuming Japanese households would find such a target credible.

An alternative view emerged over the course of the recession and recovery, which one might call the Friedman-Schwartz-Bernanke story. In the Monetary History of the United States, Milton Friedman and Anna Schwartz argued that monetary policy had not been helpless in the 1930s, and that in fact the blame for the depth and length of the Depression should be set at the feet of the Federal Reserve, which tolerated a dramatic drop in the money supply. Ben Bernanke's Fed adopted a version of this framework, which continues to shape policy today: that liquidity trap is only a trap for an insufficiently aggressive central bank. Use enough unconventional monetary policy, and the trap can be overcome. And so the Fed never attempted to gin up any sort of regime change, or to dramatically increase the market's expectations for future inflation. Instead, it used QE and promises to keep rates low for as long as necessary to support demand. And the Fed now seems confident that, having generated a robust-enough recovery, it is safe to move away from zero, as nonchalantly as if one were raising rates from 4% to 4.25%.

At the same time, the traditional liquidity trap story also looks inadequate. America has enjoyed a relatively robust recovery, at least over the last year or two, despite big government budget cuts and inflation rates, both actual and expected, barely above zero. And meanwhile other economies around the world, which performed reasonably well during the dark period from 2008-2010, are finding themselves drawn toward the zero lower bound.

The savings-investment mismatch has several causes. Dampened expectations for long-run growth, thanks to everything from ageing to reductions in capital spending enabled by new technology, are squeezing investment. At the same time soaring inequality, which concentrates income in the hands of people who tend to save, along with a hunger for safe assets in a world of massive and volatile capital flows, boosts saving. The result is a shortfall in global demand that sucks ever more of the world economy into the zero-rate trap.

The long downward trend in global real interest rates predates the Great Recession. In the early 2000s the Fed was already struggling to manage a low-rate, low-inflation environment. The glut of global savings in search of safe assets with a reasonable rate of return fueled the American housing bubble. The financial crisis ushered rich-world rates to the zero lower bound, but the fall to zero was probably inevitable. What's more, it is only a matter of time until the rest of the world gets stuck as well:

Economies with the biggest piles of savings relative to investment—such as China and the euro area—export their excess capital abroad and as a consequence run large current-account surpluses. Those surpluses drain demand from healthier economies, as consumers' spending is redirected abroad. Low rates reduce central banks' capacity to offset this drag, and the long-run nature of the problem means that promises to let inflation run wild in the future are less credible than ever. This implies that as the Fed attempts to raise rates the dollar will rise in value and inflation will remain low. The American economy will sputter and stall, forcing a quick reversal in rates—though it might keep growing for a time if the government and households tap the money flowing their way and borrow to fuel consumption (or real estate investment).