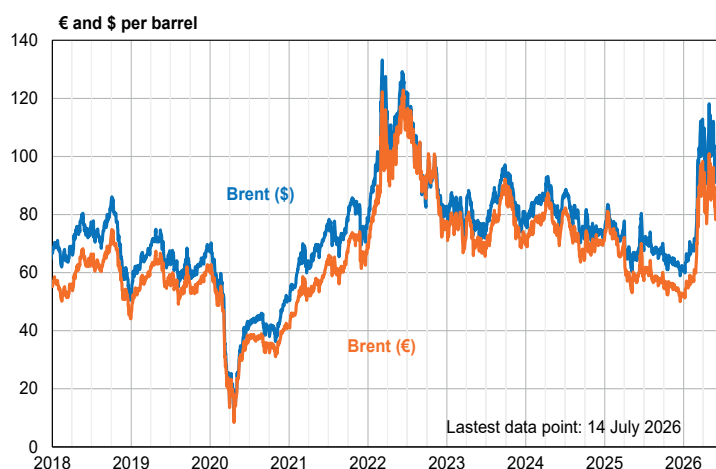


Oil, a Key Economic Variable That Remains Difficult to Forecast

*Lina Bourassi, Eléa Giraud, Paul Mainguet**

- Despite its relative decline in the global energy mix, oil is still a critical resource for the global economy, especially in transportation and industry. The oil trade depends on globalised supply chains and a number of strategic sea routes connecting the main oil-producing regions to the major consumer markets.
- Oil prices are driven by the balance between global supply and demand, as well as by market expectations of future developments. The decisions of oil-producing countries, notably the United States, the world's largest producer, and the members of OPEC+ (Organization of the Petroleum Exporting Countries and its partners) have a strong influence on prices, while growing demand in emerging economies is one of the main drivers of consumption.
- Oil prices are also highly sensitive to geopolitical shocks. Recent tensions in the Middle East have confirmed the world economy's continuing dependence on the Strait of Hormuz, a key chokepoint for oil transportation.
- The macroeconomic impact of an oil shock varies according to a country's energy mix, degree of energy dependency and geographical exposure. Oil shocks affect economies through three main channels: (i) inflation, which affects purchasing power and consumption, (ii) global demand, through the slowdown in activity in partner countries, and (iii) capital expenditure, as rising production costs erode corporate margins.
- Oil prices are a key variable for the global macroeconomic outlook. However, forecasting is highly complicated due to the uncertainty surrounding price developments, high volatility and sensitivity to geopolitical events. In this context, the French Treasury (DG Trésor) generally uses the random walk forecasting method, which combines simplicity with forecasting performance. It may, however, deviate from this method, as in the spring of 2026, when exceptionally high prices are unlikely to persist.

Brent oil price per barrel



Source: Commodity Research Bureau (closing price).

* With the participation of Cyprien Ronze-Spilliaert and Juliette Flament.

1. Oil remains a critical commodity for the global economy

1.1 Different types of oil serve different purposes

Since its origins in the United States in 1859, the global oil market has undergone considerable growth and transformation. Nowadays, the oil trade revolves around several benchmark crude grades, distinguished by density and sulphur content,¹ which serve as international standards. The main benchmarks are Brent, extracted from the North Sea, which accounts for nearly two-thirds of global contracts and is the benchmark for the European market, WTI (West Texas Intermediate) for North America, and Dubai Light for the Asian and Middle Eastern market.

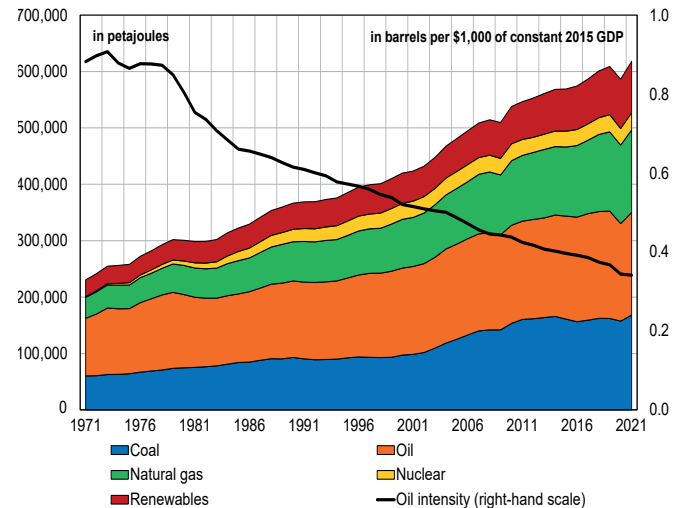
Once extracted, crude oil must be refined, i.e. processed via high-temperature distillation to obtain different petroleum products. Diesel and petrol account for about half of refined products (54% of global oil demand in 2025). Refined oil is mainly used in transportation,² as well as industry and construction. China, the United States and Europe account for half of the world's refining capacity.³

1.2 Oil is still a dominant energy source despite its relative decline in the global energy mix

The rise of oil accelerated after World War II until it overtook coal as the world's main energy source in the early 1960s. According to the International Energy Agency (IEA), in 1973, the year of the first oil shock, the share of oil in the global energy supply⁴ peaked at 46%. This coincided with a peak in oil intensity (oil consumption per unit of GDP). The global economy used 0.9 barrels of oil to produce \$1,000 of GDP (at constant 2015 prices)⁵ compared to 0.3 barrels in 2025. The share of oil in the global energy mix has gradually shrunk in favour of natural gas, nuclear power, renewable energy and coal (see Chart 1). Even so, consumption continues to rise – more slowly than total

energy demand – and oil remains the main source of energy consumed, accounting for as much as 30% of global energy supply in 2025.

Chart 1: Global energy supply and oil intensity



Sources: International Energy Agency, World Bank.

Note: A petajoule equals 10^{15} joules of energy.

1.3 Oil accounts for a substantial share of global trade flows

Oil accounts for a significant share of global maritime trade. Despite a slight decline since the beginning of the 21st century, oil tankers still accounted for 27% of merchant sea vessels in 2025 according to the United Nations (UNCTAD).

Crude oil and refined petroleum products are transported along specific shipping routes (see Map) that connect the main oil-producing regions (Middle East, North America and North-West Africa) to the major consumer markets. As a result, the Strait of Hormuz remains one of the world's most strategically

(1) Light (i.e. less dense) hydrocarbons with low sulphur concentrations are easier to refine and are therefore more expensive.

(2) Transportation (passenger transport and road, sea and air freight) accounts for over half of global oil demand.

(3) According to the IEA, in 2024 the Asia-Pacific region accounted for 37% of the world's refining capacity (with China alone accounting for 18%), followed by North America (21%) and Europe (15%). Refining capacity is generally concentrated near major centres of demand in order to ensure rapid supply of petroleum products. However, there are a few exceptions, such as Singapore, which has gradually established itself as a global refining hub.

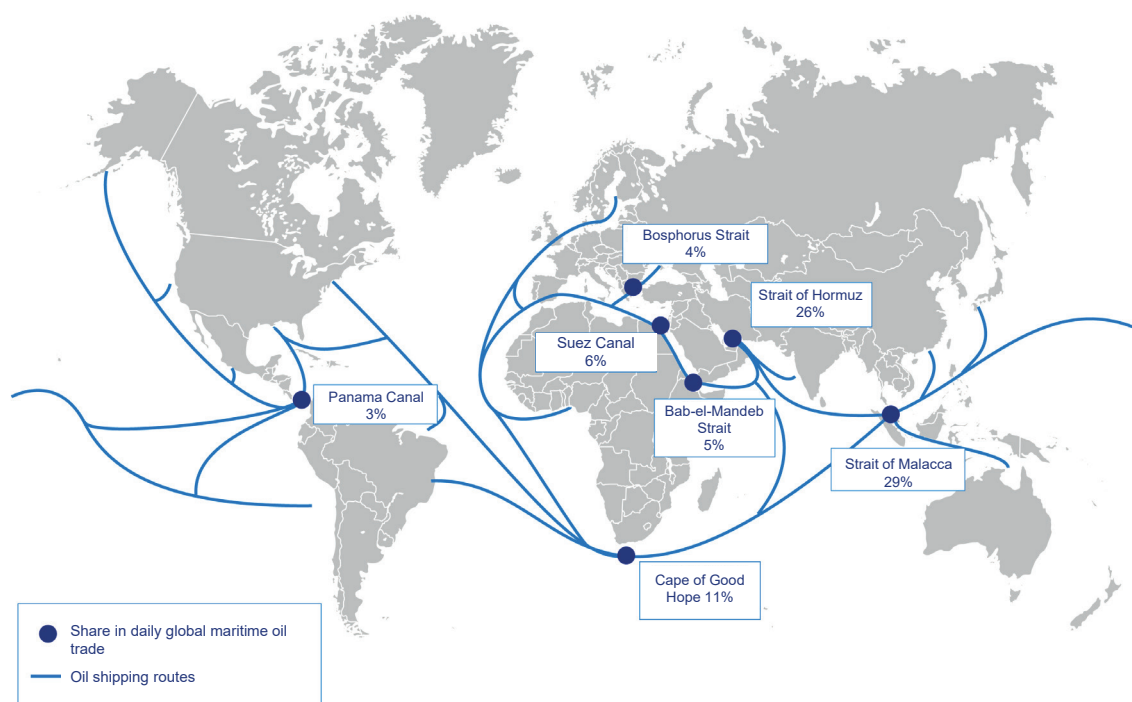
(4) "Total energy supply" corresponds to all the energy required to supply end users.

(5) See C. Rühl & T. Erker (2021), "Oil Intensity: The Curiously Steady Decline of Oil in GDP", Center on Global Energy Policy, Columbia University.

important routes for oil shipments and is particularly vulnerable to geopolitical tensions (see Section 2.4). In 2025, on average, 26% of the world's maritime oil trade transited the strait every day. A large volume of traffic also passes through other strategic waterways, including the Strait of Malacca (29%), the Cape of

Good Hope (11%), the Suez Canal (6%), the Bab-el-Mandeb Strait (5%) and the Bosphorus and Dardanelles straits (4%). Due to growing demand from Asian countries including China, the Panama Canal (3%) is also seeing an increasing volume of oil freight.

Map: Key maritime chokepoints for global oil trade in 2025



Source: US Energy Information Administration.

2. How are prices set on oil markets?

2.1 Oil has become a financial asset in a global market

Ease of transportation and the growing role of financial markets in oil trading have contributed to the emergence of a global market. Meanwhile, natural gas markets for example have remained at regional level due to high liquefaction costs.

Financial markets now play a central role in setting oil prices: most transactions are carried out via futures

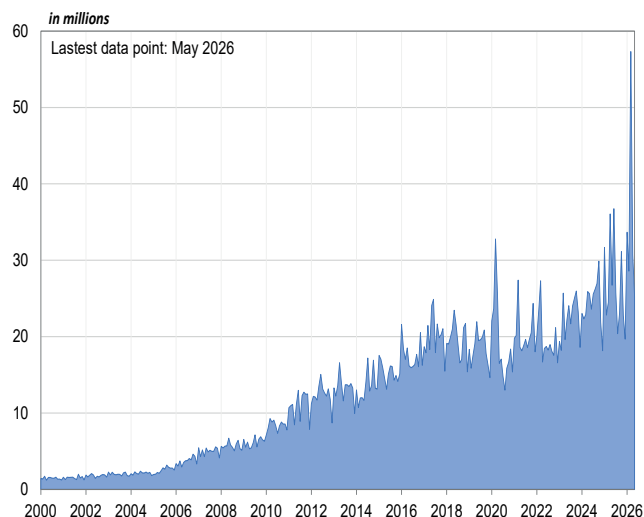
contracts, which are generally closed out before physical delivery for hedging or speculation purposes. As such, futures prices reflect market expectations about the future: geopolitical tensions in oil-producing regions can fuel expectations of a medium- and long-term decline in supply, leading to an increase in futures prices. Through arbitrage,⁶ these expectations are immediately reflected in spot prices.⁷

(6) If futures prices rise, an investor with oil storage capacity has an incentive to buy oil in the short run and resell it at a later date, thereby exerting upward pressure on spot prices.

(7) In the case of oil, the spot price is the price of a contract providing for delivery within one month.

Futures trading volumes have surged since the beginning of the 2000s⁸ (see Chart 2). The literature highlights the fact that the increased involvement of financial markets in oil markets fuels liquidity in these markets and meets the need to hedge risks, thereby contributing to a more gradual adjustment of market prices in the event of a shock.⁹

Chart 2: Monthly Brent futures trading volumes



Source: ICE Futures Europe.

2.2 Oil price dynamics are determined by the balance between supply...

Oil price dynamics are still fundamentally determined by changes in supply and demand, which can lead to high price volatility. Historically, the Organization of the Petroleum Exporting Countries (OPEC) has played a major role in price developments through its ability to control global supply, although this role seems to have declined in recent years (see Box 1). Saudi Arabia, the largest OPEC producer, plays a particularly influential role as a swing producer seeking to regulate the market by adjusting its oil supply in order to drive prices up or down.

Besides OPEC, US production now plays a central role in setting oil prices due to its extensive and growing production capacity (20% of global production in 2025). Despite the decline in conventional oil extraction¹⁰ since the early 2000s, the gradual development of unconventional production, which now accounts for nearly half of US production, has helped stabilise and then increase supply.

In recent years, the increase in global supply has been driven by the United States, Canada and Brazil. Production cuts made between 2022 and 2024 by OPEC+ members in order to sustain prices¹¹ led to a decline in supply from OPEC+ countries during this period, further curtailing the organisation's influence. In 2025, OPEC+ gradually lifted these cuts between April and November in order to regain market share.¹² Moreover, within 10-15 years the events of January 2026 in Venezuela could alter the structure of global oil supply, as the country has significant oil reserves that are currently under-exploited.

More recently, the conflict in the Middle East, which began on 28 February 2026, has caused a major shock in the oil markets (see Section 3.1). According to the IEA's July 2026 Oil Market Report, which mentions the 14 June announcement of the memorandum of understanding signed by the United States and Iran, global oil supply is expected to average 102.6 million barrels per day (mb/d) in 2026, down 3.7 mb/d from 106.3 mb/d in 2025. This would be the first annual contraction in global supply since the 2020 pandemic. The supply figure was revised 6.0 mb/d downwards versus the last pre-crisis IEA publication (February 2026), reflecting the impact of the Middle East conflict. As such, the permanent lifting of US sanctions on Iranian oil could, as in the case of Venezuela, increase global oil supply and reshape existing trade patterns.

(8) For example, futures trading on the Brent market (ICE Futures Europe) rose 1,760% between 2000 and 2025, when the highest ever annual trading volumes were recorded. This increase is disproportionate to the increase in physical demand for oil (up 36% between 2000 and 2025 according to the IEA). In March 2026, amid the conflict in the Middle East, an all-time record 57 million transactions were recorded.

(9) J. Fleming and B. Ost diek (1999), "The Impact of Energy Derivatives on the Crude Oil Market", *Energy Economics*.

(10) Conventional oil is found in "reservoirs" made up of porous and permeable rock suitable for classic drilling, either onshore or offshore. Shale oil is contained in impermeable clay parent rock, hence the need to use additional, more complex and more expensive extraction techniques such as hydraulic fracturing.

(11) These cuts were made in three stages. The first stage involved a universal 2 mb/d production cut until Q4 2026. The second stage, adopted by nine members, involved voluntary unilateral cuts of 1.66 mb/d until Q4 2026. Further third-stage cuts of 2.2 mb/d were adopted by eight member nations (the same countries participating in the second-stage cuts excluding Gabon).

(12) From April 2025, OPEC+ agreed to a relative reduction in prices, which allowed the group to regain market share by undercutting oil producers subject to higher breakeven prices (e.g. shale oil production in the United States).

Box 1: The rise and fall of OPEC's influence on oil prices

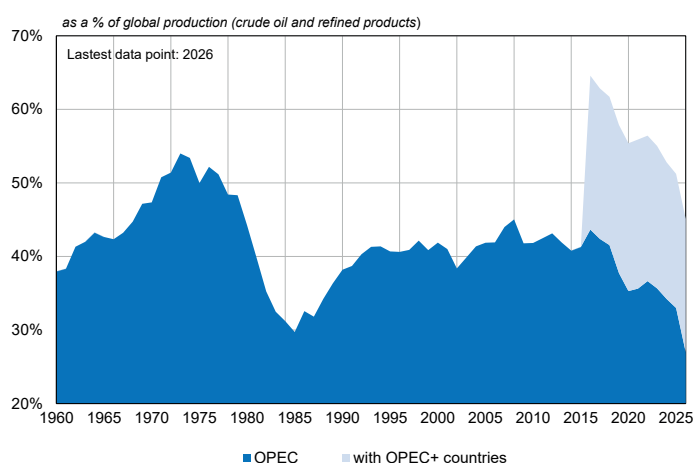
OPEC was founded in 1960 by five countries (Saudi Arabia, Iraq, Iran, Kuwait and Venezuela) in response to the domination of the global oil industry by the Western majors.^a At its inception, OPEC held 80% of the world's crude oil reserves and accounted for 38% of global production. The organisation sought to regain control of production and set up a system of administered prices (negotiated between member states and oil companies) that were a key source of government revenue for its members. Although limited at the outset, OPEC's influence increased in the 1970s, driven by two factors: (i) the arrival of new members (Qatar, Indonesia, Libya, United Arab Emirates – UAE, Algeria, Nigeria, Ecuador and Gabon); and (ii) the nationalisation of oil infrastructures, which allowed oil producers to gain direct control over their production and exert more influence on markets. The oil shocks of 1973 and 1979 (see Section 2.4) further strengthened their power, giving them near-total control over prices.

Nevertheless, demand for oil declined in the early 1980s, mainly due to the fallout from the second oil shock and the global recession of 1981-82, combined with increased production in non-OPEC countries. These driving factors contributed to the gradual erosion of OPEC's influence. Its market share of global production fell from a peak of 54% in 1973 to 30% in 1985 (see Chart 3). In response, the organisation changed its approach, gradually replacing the administered price system with a production quota system (initially fixed at OPEC level and subsequently established for each member) thereby allowing supply to be better aligned with market conditions.^b

OPEC's influence suffered a further decline in the 2000s due to coordination issues between members linked to geopolitical conflicts and differing objectives (maximising price levels or market share). The decline was also driven by the development of unconventional shale oil production in North America. To counter this decline, in 2016 OPEC joined forces with 10 other oil-producing countries^c including Russia (the world's second largest producer of crude oil), thereby forming OPEC+. Equatorial Guinea and the Democratic Republic of Congo joined OPEC in 2017 and 2018. This move was aimed at coordinating production quota in order to exert greater influence on oil prices. The main difference between OPEC and OPEC+ lies in their institutional nature. OPEC is an international organisation with its own governing body which aims to coordinate oil policy among member states by means of production targets set by the OPEC Conference. On the other hand, OPEC+ provides a more flexible framework for cooperation based on commitments negotiated between participants rather than institutional membership. Production targets are defined at OPEC+ meetings, mainly on the basis of policy agreements between partners.

Following the effective withdrawal of the UAE on 1 May 2026, OPEC now has 11 members^d and its share of global production has fallen to 27% in 2026, while the OPEC+ share amounts to just 45%. The organisation's credibility has been shaken by repeated non-compliance with production quotas or cuts, as members often prioritise their own national economic interests.^e

Chart 3: Changes in OPEC(+) market share of global production



Sources: Energy Institute, DG Trésor.

- At that time, the Western majors, also known as the "Seven Sisters", comprised Standard Oil of New Jersey (Esso, which became Exxon in 1972), Socony-Vacuum Oil Company (Mobil), Standard Oil of California (SoCal, which became Chevron in 1984), Texaco (The Texas Company), Gulf Oil, Royal Dutch Shell and Anglo-Iranian Oil Company, renamed British Petroleum (BP) in 1954. Exxon and Mobil merged in 1999 to form ExxonMobil, while Chevron acquired Gulf Oil in 1984 and Texaco in 2001 to form the current Chevron Group.
- See B. Fattouh (2011), "An Anatomy of the Crude Oil Pricing System", Oxford Institute for Energy Studies, Working Paper WPM 40.
- Azerbaijan, Bahrain, Brunei, Kazakhstan, Malaysia, Mexico, Oman, Russia, Sudan and South Sudan. Brazil joined OPEC+ Charter of Cooperation in early 2024 but stated that it would not participate in the production quota system. The country is therefore not regarded as a fully-fledged member of the organisation.
- Indonesia (2016), Qatar (2019) and Ecuador (2020) left OPEC prior to the withdrawal of the UAE. Angola joined the organisation in 2007 before withdrawing in 2023.
- For example, some countries decide to produce more than their allocated quota in order to take advantage of high prices.

2.3 ...and demand

On the demand side, recent years have seen a fundamental shift: while oil demand among OECD countries is now falling (down 17% in 2022 versus the 2005 peak), demand in non-OECD countries continues to grow strongly, particularly in China (up 113% since 2005) and Africa (up 62% since 2005). The rapid growth of the Chinese economy over the last few decades has boosted global oil demand. However, in recent years, oil demand growth has slowed due to the rapid shift towards electric vehicles in China.

In the shorter term, changes in demand are closely linked to economic fluctuations, particularly in the United States and China, the world's two largest oil consumers (20% and 15% of global consumption in 2022, respectively). In China, prices are particularly sensitive to industrial activity indicators, while in the United States, Federal Reserve monetary policy and inflation indicators have a greater influence on prices, largely due to the impact of the dollar exchange rate on global oil prices, which are denominated in dollars.

After a marked recovery in 2023 (up 2.5 mb/d versus 2022), global demand growth slowed considerably to 0.9 mb/d in 2024 and 0.8 mb/d in 2025. The slowdown is expected to continue in 2026 and could even worsen due to the consequences of the Middle East crisis and the slump in oil demand driven by soaring prices. In its July 2026 report, the IEA forecast a 1.0 mb/d decline in global oil demand in 2026 to reach an average of 103.5 mb/d (down from 104.5 mb/d in 2025).

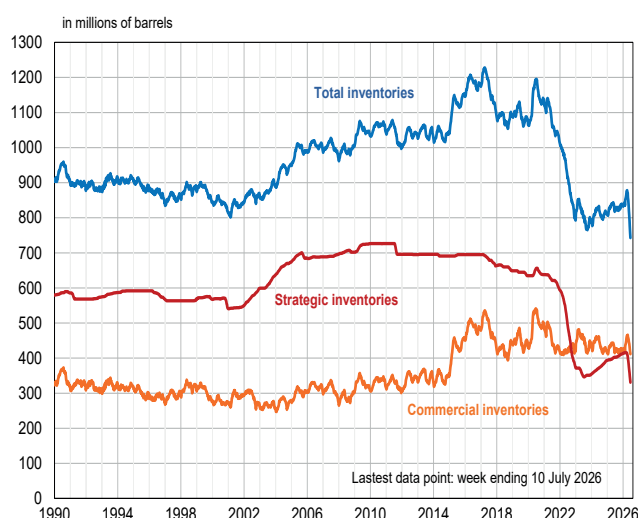
In line with supply and demand dynamics, changes in oil inventories also play a key role in the setting of prices.

In particular, commercial inventories, which are mainly held by private operators, play a central role in determining short-term supply-demand balance.¹³ The stockpiling of commercial inventories reflects an

oversupplied market that exerts downward pressure on prices; conversely, declining inventories reflect a tight market and help keep prices up.

Strategic inventories, which are held by governments to counter supply issues that could lead to a shortage, follow a different pattern, and only vary in response to a government decision. Drawing on these inventories increases available supply, thereby keeping prices down and mitigating the risk of shortages. This happened in 2022, for example, when the US government released massive volumes to counteract soaring oil prices, while in March 2026 the IEA members released 400 million barrels from their strategic inventories at the initiative of the G7¹⁴ (see Chart 4). However, these measures only have a temporary impact. Over the medium term, the need to replenish these inventories fuels additional demand. As such, both commercial and strategic inventories act as an instrument for smoothing supply and demand imbalances over time.

Chart 4: Commercial and strategic inventories in the United States



Source: US Energy Information Administration.

(13) In the United States, commercial inventory volumes are published weekly and scrutinised closely due to the country's weight in the oil market.

(14) On Tuesday 10 March, faced with rising oil prices and risks of shortages caused by the blockade of the Strait of Hormuz, the IEA announced the release of 400 mb of its member states' strategic inventories under the impetus of the French Presidency of the G7. This volume represents around 20% of total IEA inventories. The decision was welcomed by the G7 leaders in their 11 March [statement](#).

2.4 Besides the fundamentals, oil prices are heavily influenced by geopolitical factors

Since the oil shocks of the 1970s, oil prices have continued to be heavily influenced by geopolitical tensions. In 1973, during the Yom Kippur war, the OPEC members' decision to impose a total embargo on oil exports to countries supporting Israel led to a sharp contraction in global supply. Within a few months, the price per barrel quadrupled from \$4.0 in mid-1973 to \$15.5 in early 1974, mainly as a result of pricing decisions taken by oil producers exacerbated by the effects of supply cuts. This shock revealed for the first time the ability of oil-producing countries to directly influence the global economy and turn oil into a political weapon.

The second oil shock (1979) was a different story: the Islamic Revolution in Iran led to a sharp collapse in the country's oil production, at a time when Iran was the second-largest OPEC producer accounting for 10% of global production. Then, from 1980, the Iran-Iraq war had a lasting impact on the supply outlook, affecting

both production capacities and export infrastructure. Markets reacted not only to the actual decline in available supply, but also to increasing uncertainty about future supply. Under these circumstances, oil producers revised their official prices upwards to match market levels. Unlike the first shock, the second shock created lasting volatility, with a "risk premium"¹⁵ becoming embedded in oil prices. Since then, prices have often reacted ahead of actual disruptions, driven by adjustments in supply and storage strategies.

In February 2022, the Russian offensive in Ukraine caused a further spike in oil prices due to Russia's status as the world's second-largest exporter of crude oil, sparking fears of lasting disruption to global supply. This tension has been amplified by declining trade flows to Europe due to the phased introduction of Western sanctions targeting revenues from Russian energy exports,¹⁶ as well as by the rapid reallocation of trade flows to Asia.

Finally, the conflict in the Middle East had a strong impact on oil prices in early 2026 (see Section 3.1).

3. The impact of rising oil prices on the world economy: case study – the Middle East conflict starting in February 2026

3.1 A major oil shock

On 28 February 2026, the United States and Israel conducted a military operation against the Iranian regime, followed by retaliation and a regional escalation of the conflict. The closure of the Strait of Hormuz triggered a sharp rise in oil prices and daily volatility. As a result, annualised volatility¹⁷ calculated between 1 January and 25 June 2026 comes to +62%, higher than the +48% volatility observed in 2022 during the Russian offensive in Ukraine.

In early 2026, oil prices were already on an upward trend. For example, the Brent price rose 20% to \$73/b between 1 January and 27 February. The outbreak of the conflict triggered a dramatic upswing in this trend: prices leapt 43% in March, reaching a relatively high average of \$102 between March and May and peaking at \$118 on 29 April.

Despite the IEA's release of strategic inventories on 10 March and the announcement of a ceasefire on 8 April, the uncertainties surrounding the conflict and the date

(15) The risk premium is the price supplement built into oil prices in order to offset uncertainty about future geopolitical events that could disrupt supply or distribution.

(16) Western countries imposed sanctions on Russian oil from December 2022. The sanctions provide for a ban on importing Russian crude oil and petroleum products into the jurisdictions concerned (mainly the EU, the UK and the US). However, in order to avoid the sudden loss of Russian crude from the world market, which would have negatively impacted many third countries, while reducing Russia's oil revenues, the sanctions provided for a price cap mechanism aimed at maintaining export flows.

(17) Annualised volatility measures how far daily oil prices deviate from their yearly average. Higher volatility indicates higher price risk and instability.

of the reopening of the Strait of Hormuz continued to exert upward pressure on prices. However, the 14 June announcement of a memorandum of understanding between Washington and Tehran paving the way for the reopening of the Strait of Hormuz and further weeks of negotiations brought prices tumbling down to below \$70/b. Markets nevertheless remain cautious amid lingering geopolitical uncertainty, with the resumption of strikes on 7 July underscoring the fragility of the ceasefire. In any event, the IEA estimates that trade flows through the strait will take months to return to pre-conflict levels.¹⁸

3.2 The macroeconomic impact of rising oil prices varies by country and is transmitted primarily through the inflation channel

The impact of rising oil prices varies depending on the importance of oil in the economy and affects households, businesses and the government deficit in different ways.

In oil-importing economies, the shock primarily results in a deterioration in the terms of trade¹⁹ (see Diagram). The ensuing increase in consumer prices reduces household purchasing power, and therefore consumption, while higher input costs erode corporate margins, forcing them to curtail their capital expenditure budgets. Faced with these inflationary pressures, central banks are likely to tighten their monetary policy by increasing key rates, thereby curbing investment, consumption and, ultimately, economic growth. The shock also affects global demand, as slower growth abroad may curb foreign demand for a country's exports. It can also undermine competitiveness if higher

energy costs are passed on to producer prices. France is somewhat shielded from these effects because its trading partners are exposed to the same shock and its economy has already undergone significant decarbonisation.

Oil-exporting economies are not immune to rising global oil prices, which can also curb household purchasing power and business production costs.²⁰ However, higher oil prices generate additional export revenues and can stimulate investment in the oil sector. They also boost government revenue, which may prompt the governments concerned to increase their expenditure, even in the short run. Nevertheless, these benefits depend on the structure of the country's economy and the manner in which the gains from this oil revenue are distributed.

The extent of these effects on economies (importing or exporting) also depends on structural considerations such as the degree of dependence on hydrocarbon imports, the energy intensity of the economy or the exchange rate regime. The varying impact of the Middle East conflict²¹ illustrates the importance of these factors. The effects may also vary depending on the energy situation of a country's main trading partners: if strongly affected, economic activity slows and imports decrease, thereby reducing demand for the country's exports.

Changes in oil prices affect the economy faster than changes in other energy prices. Most petroleum products are purchased at prices that react quickly to market developments (i.e. pump prices in the case of fuel purchases). Conversely, gas and electricity prices

(18) The memorandum of understanding led to the resumption of shipping traffic through the Strait of Hormuz, although volumes remained well below pre-conflict levels. According to the Hormuz Ship Monitor, fewer than 60 oil tankers transited the Strait of Hormuz during the three weeks following the signing of the memorandum, compared to a pre-conflict average of 150.

(19) Terms of trade correspond to the ratio between the price of a country's exports and the price of its imports. The indicator is used to measure the amount of imports a country can obtain through its exports.

(20) The United States is a good case in point: while households can temporarily smooth the impact of higher oil prices by reducing their savings, over the medium term this adjustment mainly leads to a slowdown in consumption. The effects of rising business production costs are only partly offset by increased sales and investment in the oil sector made possible by higher prices (see E. Hooper and C. Ponton (2020), "The Impact of Oil Prices on the US Economy", *Trésor-Economics* 257).

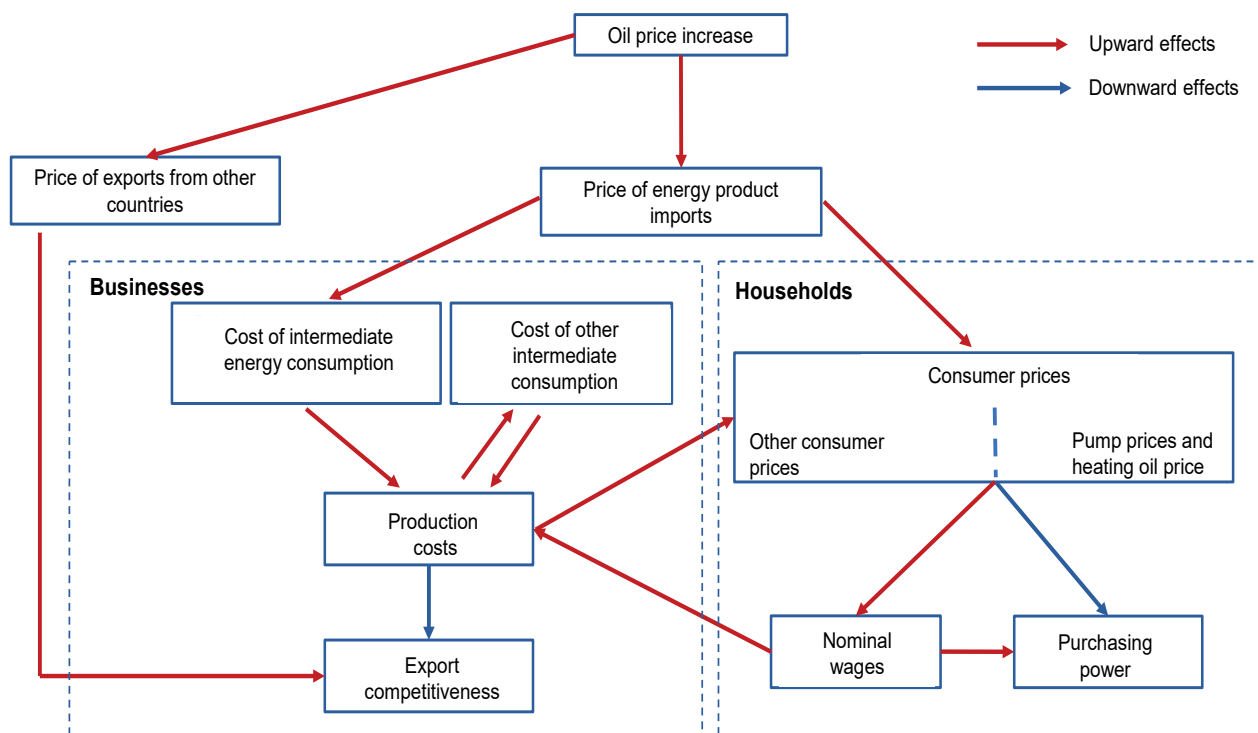
(21) See K. Georgieva (15 June 2026). [Global Economy Endures War Shock—So Far](#). IMF Blog., which shows that the impacts of the shock are asymmetric and depend on three main criteria: dependence on energy imports, geographical proximity to the Middle East and available policy space. Middle Eastern and North African countries, as well as emerging energy-importing economies, are hardest hit by the conflict.

are often determined by fixed-term contracts, which can smooth price changes over time.

According to DG Trésor estimates²² based on the Mésange model, a stylised shock involving a

permanent \$10 rise in oil prices would result in a 0.1% decrease in French GDP and raise inflation by 0.3 percentage points in the year following the shock, compared to a no-shock scenario.

Diagram: The effects of oil price increases in an importing country



(22) See A. S. Dufernez et al. (2017), “Le Modèle Macroéconométrique Mésange: Réestimation et Nouveautés”, DG Trésor Working Paper 2017/04 (in French only).

Box 2: Forecasting oil prices

Several features make forecasting oil prices particularly complex. Prices are highly volatile and react quickly to changes in the economic and geopolitical environment. Furthermore, global production remains relatively concentrated among a limited number of oil-producing countries, some of which can influence prices through coordinated production decisions.

For its biannual forecasts, DG Trésor generally uses a version of the random walk method in which prices are fixed at their average between the last observed data point and the previous 20 calendar days, then kept constant over the entire forecast period. Given market volatility, the use of an average value avoids generating a price over-dependent on its level at the cut-off date. The random walk method is also used by INSEE and the OECD (except during periods of high price volatility).

The European Central Bank (ECB), European Commission and the IMF use futures prices as the baseline for their oil price forecasts. This approach is based on the market expectations embedded in futures contracts, thereby reflecting observed market conditions at the date of the forecast. In practice, futures curves typically have a rather flat profile reflecting expectations that prices will stabilise in the long run.^a Accordingly, except at times of high tension in the oil markets, this method generally yields trajectories close to those obtained via the random walk assumption adopted by DG Trésor.

On the other hand, at times of exceptional tension coupled with extreme volatility, futures prices can provide additional information on how economic operators foresee the gradual dissipation of these tensions. Therefore, DG Trésor may occasionally use this approach when oil prices reach exceptionally elevated levels and the market is in strong backwardation (i.e. when futures prices are significantly lower than spot prices). In such situations, spot prices often reflect a temporary scarcity or high risk premium, while futures prices reflect an expected gradual easing of market conditions. This was the case in 2022 for example, when the Russian offensive in Ukraine fuelled uncertainty regarding Russian supplies, which, coupled with the strong post-pandemic economic recovery, resulted in record-high oil prices in the summer of 2022. This method was also used to build the international scenario underlying the April 2026 Annual Progress Report (see Trésor-Economics 385 “World Economic Outlook in Spring 2026: Global Economy Confronted with a New Energy Shock”) in order to better capture market expectations of price developments amid the conflict in the Middle East.

a. See ECB (2015), “[Forecasting the Price of Oil](#)”, *Economic Bulletin*.

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