

## **Weekly Commentary 40 – Oct 2022**

### *The Energy Crisis – and the Emergence of a New World Order*

Just when we all thought that the energy crisis has an end to it – when higher prices due to war will be balanced by falling demand due to economic recession, the OPEC+ producers changed all that in a single day of meetings in Vienna.

The price of crude had fallen from a high of US\$120 per day, to just under \$80 a couple of weeks ago, on expectations that the punishing interest rate hikes by various central banks would have deleterious effects on global economic growth, and would hence reduce energy demand. Prices were soft and in fact have declined by one third, over a short three months.

That was great news for Europe. Already facing rising natural gas prices, which they cannot control, the receding crude prices were a good consolation.

In one spectacular day on Wednesday last week, hopes for avoiding energy shortages through the oncoming winter have been dashed. Completely.

The news coming out of the OPEC+ meeting have raised the ire of the Americans and cloaked the Europeans with a pained silence. The Americans are pissed because the measures the oil producers have agreed on – to cut production by 2m barrels per day – will send energy prices (and retail gasoline prices and electricity costs) soaring. This will add to the inflationary pressures that are already at a level which the proverbial man in the street cannot bear and who will soon start riots in the streets. Or these pressures will translate into a rate hike policy that will kill mortgagees and small business owners, who will also start riots. Clearly, the OPEC+ measures will, intentionally or otherwise, create riots on the streets of America and Europe, once they go into full effect.

To be less flippant about it, the Saudis in particular are telling Biden they are not on America's side in the fight against inflation. Or for that matter, any fight against Russia. They are perfectly justified to do they want. The Saudi oil minister put it bluntly, in a widely televised interlocution with a Reuters reporter who challenged the minister on whether OPEC+ was aligning with Russia, that Saudi Arabia was only interested in the economics of the oil trade and how that benefits his country. *Touche*'.

While that stance cannot be faulted, the important side effect of the OPEC+ decision is that the geopolitics of the world will undergo a serious reorientation. In essence, the Middle East is aligning themselves with the countries – Russia and China - that the collective west, particularly the USA, want to contain. If there is a multipolar world emerging, the oil producers of the Middle East represent one of those poles. And they are falling in line with

their Eurasian neighbours, Russia, China, and India to push on the next most important item on the multipolar agenda – de-dollarization.

Saudi Arabia was once the prime instrument to enable and enforce the use of the US dollar as the reserve currency of the world. No longer. This has emerged because:

1) America having discovered that their continent is floating on shale oil has moved decisively away from being the largest oil importer in the world, and have soured a long-term relationship with the biggest oil exporter in the world by supplanting them in that role.

2) In trying to make himself the leader of a democratic global alliance, behind empty clarion calls for human rights, Biden started his presidency by insulting Mohammad bin Salman (MBS), whom he derisively regarded as just a king-in-waiting, rather than the real McCoy, and starting calling him names, including “pariah” and such other unsavoury tags. That was a blunder of historic proportions and an abject failure of American foreign policy.

On the basis of the two reasons above, MBS and hence Saudi Arabia now have an axe to grind. And when Biden, plagued by mistakes of his own making in screwing up the economy with profligate monetary and fiscal policies, turned to MBS for help, he was given the cold shoulder. From the time MBS did not take Biden’s phone calls last year to the Wednesday OPEC+ decision, the animosity has become clear.

The FT ran an article that has a longer analysis of the US-Saudi situation published the day before the meeting. It’s worth reading:

### *An Opec meeting that will shape more than oil prices*

*Derek Brower and David Sheppard, Financial Times, Oct 4 2022*

*“Tomorrow’s Opec+ meeting in Vienna is shaping up to be a big moment for oil prices, the global economy, and the world’s energy order.*

*Cuts of 1mn to 2mn barrels a day — the biggest cuts since the depths of the pandemic crash — are on the table, said people familiar with the discussions. Given that some members are struggling to fulfil their quotas, traders will have to separate nominal cuts to those quotas — “paper” cuts, that might already be happening in practice — from actual cuts to current supply.*

*But still, any significant cuts above 1mn b/d would be a major blow to the White House just a month ahead of the midterm elections.*

*Here are four reasons why the meeting is suddenly taking on such significance:*

## **1. After months of volatility in oil markets, Riyadh is trying to regain control**

*Oil prices hit a year-to-date high of more than \$130 a barrel after Russia's invasion of Ukraine, but had slumped to just over \$80 a barrel last month. Fears of a global economic recession and the resilience of Russian oil supply in the face of sanctions offer reasons for the price retreat.*

*The US and other western countries releasing huge volumes of stored oil — a key plank in the White House's strategy to drive down energy costs ahead of next month's elections — also helped rein in prices.*

*But Saudi energy minister Abdulaziz bin Salman, half brother of crown prince Mohammed bin Salman, made clear in August that enough was enough. After months of raising supply, the kingdom was prepared to change course. Opec+ announced a symbolic cut last month, but traders kept selling, amid mounting fears — even within the producer group — about global demand.*

*Now Opec+ seems ready to go big again, with cuts designed to reset the market's sentiment.*

*"Opec is set to reinforce its pivot to supply cuts with a bang," said Bill Farren-Price, a veteran Opec analyst at consultancy Enverus. "A big insurance cut to fend off the impacts of collapsing growth looks to be on the cards."*

## **2. The Saudi-US alliance is deteriorating...**

*A geopolitical breach is also under way, as the decades-old alliance between Washington and Riyadh frays in favour of the kingdom's partnership with the Kremlin.*

*"Saudi Arabia won't hesitate to be assertive in this situation as it believes the oil market needs support, regardless of US intervention," said Christyan Malek at JPMorgan.*

*Other analysts have said Saudi Arabia remains frustrated at the US's lack of support for its security in the region and is increasingly asserting its independence from Washington.*

*One person familiar with Saudi strategy says the kingdom believes the US has not been acting in good faith, including manipulating its own data to drive down oil prices.*

*But deep cuts now would mark a humiliation for US president Joe Biden, who only two and a half months ago travelled to Jeddah to patch up relations with Saudi Arabia — the "pariah" state, as the president had referred to it earlier — and said the kingdom had agreed to "further steps" to increase oil supply.*

*Since then, Saudi Arabia has grown more irritated with the Biden administration's continued release of oil from emergency stockpiles and, even more significant, the US Treasury department's effort to impose a price cap on Russian oil exports. As our colleague James Politi reports this morning, the US is trying to win support for the price cap plan by touting how much money emerging economies will save because of the cheaper oil — hardly a message Opec+ countries want to hear.*

*Furthermore, Opec Gulf producers have grown alarmed at the possibility that such a mechanism could one day be applied to them too, according to consultants familiar with discussions.*

*As Kevin Book, managing director of ClearView Energy Partners, told us this week:*

*“This is the part where diplomats talking about regulatory price caps run into producers talking about physical supply cuts.”*

*Above all, no one in Washington will take the timing of the Opec+ cuts, just a month ahead of crucial congressional midterms elections, to be a coincidence. Inflation and soaring energy costs, including the record-high US petrol prices earlier this year, are themes of Republican attack ads. If Opec+ succeeds in raising oil and petrol prices again now in defiance of the White House, it will be a gift to Biden’s opponents.*

### **3... while the Saudi-Russian alliance grows stronger**

*Striking too is that Riyadh should choose this moment to double down on its six-year-old alliance with Moscow — just as Vladimir Putin mobilises hundreds of thousands of new troops to Ukraine and issues vague threats to the west about nuclear escalation.*

*Even if some figures in the US oil industry are sympathetic to part of Saudi Arabia’s argument — that it needs to encourage more investment around the world to avoid a supply crunch in the coming years — the decision to effectively side with Moscow will cause alarm in Washington.*

*Moscow has weaponised gas supplies against Europe. If Saudi Arabia co-operates with Russia to raise oil prices at a time when the US is trying to cut Moscow’s revenues — and the world economy is stuttering — questions about the benefits of Washington’s longstanding support for Riyadh will quickly come back to the fore.*

### **4. Saudi credibility is on the line**

*Riyadh faces a test too. News of the cuts discussion pushed oil prices up 5 per cent yesterday. So a cut of anything less than around 1mn b/d would risk disappointing the market, triggering further sales.*

*Analysts say the oil market faces almost unprecedented two-way risks at present. On one hand, the possibility of deep recession — induced in large part by soaring energy costs around the world in the wake of Putin’s Ukraine invasion — threatens further falls in commodity prices. When the global financial crisis rattled oil markets in 2008, prices plunged more than \$100 a barrel in the course of a few months.*

*But the bullish risks are also severe. Tightening sanctions on Russia may remove some of its oil from the market as soon as this winter. In reaction to the price cap plan, Moscow may even decide unilaterally to withhold supply. Or it may disrupt 1.2mn b/d of exports through a pipeline carrying Kazakh oil that passes through Russia. Demand will surge further if and when China eases its Covid-19 restrictions.*

*In short, Saudi Arabia may be about to cut significant oil supply “amid one of the tightest markets in recorded history, and ahead of a potential decline in Russian exports later this year”, said Goldman Sachs in a note. It’s some gamble on a fragile global economy’s tolerance for more energy inflation.*

### **So how will the US react?**

*In Washington, the administration is “upset” with the possibility of deeper Opec cuts, said a person familiar with the diplomatic efforts. A spokesperson said the administration would not comment “on what [Opec+] may or may not do”, but added that its focus remained “on taking every step to ensure markets are sufficiently supplied to meet demand for a growing global economy”.*

*But a reaction is likely, said analysts. While the White House might ignore any new cuts if prices stabilise at about \$80 to \$90 a barrel, a return to \$100/b would prompt a response, said Bob McNally, head of Rapidan Energy Group and a former adviser to George W Bush's White House.*

*"Then it will become hard to restrain Congress, which will likely clamour for passing Nopec," he added, referring to anti-cartel legislation targeting the producer group. "The Biden administration would likely continue SPR releases and may pull the trigger on threatened product export restrictions."*

*Derek Brower and David Sheppard*

The article above was written before the meeting. Now it's confirmed that the cartel will cut production by 2m bpd. The direct effect of the OPEC+ measures is that oil prices will immediately go up. That rise has started since Wednesday. Most analysts expect an increase to above \$100 again, about 10 percent from the level at the time the announcement was made on the 5 Oct.

The US immediately countered that it will release 10 million barrels of oil from its strategic stockpile, to try to offset the effects of the OPEC+ cuts. This is important for Biden because all this is happening just about a month ahead of the Congressional mid-term elections in which polls suggest that the Democratic Party will lose the House of Representatives. Effectively, Biden will become a lame duck.

He's pissed and trying to turn back the momentum in rising energy prices and fuel price inflation. But let's look at the numbers. Would his attempts at containing the oil price work?

Well, OPEC+ would reduce the amount available in the market by 2m barrels per DAY, and the Americans would counter that by a one-time increase of 10m barrels. In other words, the increase will offset the decrease by, um, five days production?

If my math is right, the Biden measure will be completely useless.

Will there be other countermeasures that he will be able to pull off? Get the shale oil producers to increase production? NOPEC? That's a US bill designed to remove the state immunity shield and to allow OPEC and its national oil companies to be sued under US anti-trust law for anti-competitive attempts to limit the world's supply of petroleum and the consequent impact on oil prices.

It's not that easy. OPEC controls 50% of the world's production and 90% of known reserves. And Biden wants them to be subject to US law? Come on...

Inflation will likely keep rising through to the end of the year, and the Fed will be pressured to keep hiking interest rates. That will hurt a lot of borrowers. If the Fed does not increase rates, then inflation will hurt the savers. Either borrowers or savers will go out into the streets. Probably both.

Do the Saudis want to support the ousting of Biden by disgusted American voters? Regime change in DC? Who the hell knows? All we know is that the Saudis say they are not in league with Russia when the effect is the same, whether they intend it or not.

If what the pundits **say** come to pass, the effect on the US is not going to be too bad. After all, the country is almost self sufficient for its energy needs (only 10 percent of requirements need to be imported). American industry will not shut down and Americans will not be freezing in their homes. They are going to be much better off than the Europeans.

As a European newspaper, the Financial Times is attuned to the energy threat on the European economy. This is a report published on 29 Sep:

### ***Europe's energy plan: is it enough to get through winter?***

By:

*Sam Fleming in Brussels and Leila Abboud in Paris*

*“Emmanuel Macron had a simple message last week for French businesses preparing to sign punishingly costly energy contracts: don't do it.*

*Companies should spurn the “crazy prices” currently on offer, the French president said, insisting that European governments would succeed in making markets work again and bringing costs back down to reasonable levels.*

*Le Jemtel, chief executive of Veta France, a small company that manufactures cladding for buildings at a factory in northern France, finds it hard to share Macron's confidence. The brick suppliers that Veta relies on across Europe have been raising their prices to offset the high cost of the natural gas they use to power their ovens. Some have even been cancelling orders that have become unprofitable.*

*“It is really hard to deal with since we have very little visibility on prices,” says Le Jemtel. “We don't want to shut down this winter, but I'm getting worried.”*

*With temperatures now dropping as the winter months approach — and gas imports from Russia at a fraction of their former levels — European energy ministers are due to convene on Friday to discuss an EU-wide package of national windfall taxes aimed at raising funds to curb prices paid by households and businesses.*

*While EU capitals can point to some successes in efforts to wean the union off Russian gas in recent months — including filling gas storage to levels beyond 85 per cent — a growing number of capitals warn that the latest proposals simply do not go far enough.*

*“There are definitely people around the table who think this is not enough and more needs to be done,” one EU diplomat says of the commission plans being discussed by ministers on Friday. “We have no interest in energy prices causing instability in member states — it would be a recipe for disaster.”*

*Some 15 member states wrote to the EU energy commissioner, Kadri Simson, this week demanding an EU-wide ceiling on wholesale gas prices as businesses buckle under the weight of costs that remain around five times their levels a year ago.*

*Analysts now warn that a deep recession is inevitable, with Deutsche Bank predicting real gross domestic product in the euro area will fall by close to 3 per cent in aggregate between the second quarter of this year and the same period in 2023 — a larger peak-to-trough decline than during the euro crisis. In the wake of the electoral victory of a far-right-led alliance in Italy this month, other EU capitals are watching intently for signs that the soaring cost of living might drive popular unrest and push voters towards more extreme parties.*

*“Europe’s energy crisis is only now really starting to hit home, because increases in wholesale prices are still feeding through into firms’ and households’ bills,” says Simone Tagliapietra, an energy specialist at Bruegel think-tank. “The cost for the economy will get way bigger.”*

### ***Threat from the right***

*France has been one of the most aggressive EU member states in its attempts to protect consumers and businesses from rising energy costs. Yet some in government worry that social unrest will break out this winter. The French government’s efforts have kept the country’s year-on-year inflation rate of 6.5 per cent markedly below those in many other euro area member states — most notably below the Baltic countries, where inflation is between 20 and 25 per cent.*

*France has been better able to insulate its citizens from price rises than elsewhere in Europe to the extent that it relies little on natural gas and gets most of its electricity from nuclear power plants operated by the state-owned EDF. The government moved to protect households and small businesses in February with a “tariff shield” that capped the electricity price rises to 4 per cent and kept natural gas prices flat for 2022.*

*Further aid has since been rolled out, such as €100 cheques for poor households, heating oil subsidies and petrol and diesel discounts applied at the pump. The total tab this year is about €24bn, according to the French finance ministry, with €7.5bn going to drivers alone.*

*The government recently announced that the protections will be extended next year by capping the increases in natural gas and electricity prices to 15 per cent for households and small businesses. The gross cost to the state will run to €45bn, but once money is clawed back from energy producers the net cost will be €16bn.*

*Such an interventionist approach aligns with French political culture, in which the government often sets industrial policy and acts to protect citizens from economic crises. But it also reflects fears in the Élysée Palace that voter discontent could bolster the fortunes of Marine Le Pen's far-right National Rally, which won an unprecedented 89 seats in the National Assembly this summer.*

*Macron's government was also scarred by the gilets jaunes protests that exploded in the winter of 2018 over a proposed fuel tax hike. Some ministers fear a revival of that diffuse, leaderless movement, especially since prices at the pump have been higher in recent months than they were back then.*

*There have been a smattering of gilets jaunes protests on Saturdays this September in Paris, and near Cannes and Toulouse, but they have so far lacked the fervour of the huge crowds of the past. Labour unions have planned a national strike on Thursday to pressure for salary hikes.*

*Because of unexpected outages at EDF's nuclear fleet, the government has warned of the risk of energy rationing on companies. Some public services such as swimming pools and museums have begun to cut back their opening hours. "Combating inflation is an economic and political priority," French finance minister Bruno Le Maire said this week. "Inflation is a poison for democracies, history has shown that."*

*Despite France's energy interventions to date, businesses and households are appalled at the costs they are facing. Stephanie Pauzat, an official at the CPME, says the business group representing small- and medium-sized companies has received a number of calls in recent weeks from chief executives alarmed about the new prices they are being quoted by their energy suppliers.*

*Two-thirds of companies in France buy energy on the open market, since they do not qualify for the regulated rate set by the government and charged by EDF. Only companies with fewer than 10 employees and less than €2mn in sales are protected by the energy price caps that the French government has put in place this year and plans for next.*

*In a poll conducted by CPME in July, Pauzat says, 93 per cent of 2,400 business owners in France said rising energy prices had pushed up their cost of goods by more than 10 per cent. One-third said they could not pass on these costs to their customers.*

*"We are hearing from companies that are facing 10 or 20 times higher costs for electricity or gas starting in January," says Pauzat. "It can call into question a whole business model, and threaten their very survival." She cites the examples of a wholesale supplier for industrial companies that was given a quote from EDF for an annual contract that would cost €40,000 — up from €5,000 last year. Then there was a woodworking company near Saint Etienne employing 35 people that was offered an electricity contract for €200,000 — more than three times last year's contract.*

### **Beyond winter**

*Yet despite such local horror stories, Tagliapietra of Bruegel says the EU in general is in a much better position now than it was two or three months ago.*

*Aggressive efforts since spring have helped to diversify its gas supplies away from Russia and towards alternatives — including liquefied natural gas from the US. Pipeline gas from Russia is now*



*down to 9 per cent of EU gas imports, from 41 per cent last year, according to the European Commission.*

*But the crisis is by no means over, he warns. Building up gas storage levels next year could be even tougher than in 2022, given that this year's stocks were built via Russian imports, which could by next year be entirely cut off.*

*Concerns about a total rupture of Russian gas supplies intensified this week when Gazprom warned it could impose sanctions on Ukraine's state gas company, a step that could lead to flows through the country being stopped. Separately, leaks in two Russian gas pipelines in the Baltic Sea on Tuesday were widely blamed on sabotage, underlining the vulnerability of European energy infrastructure.*

*Meanwhile capitals need to do much more to collectively restrain demand for both gas and electricity this winter and beyond. Insufficient efforts to damp down gas consumption could leave EU storage levels at "dangerously low levels", according to an OECD report this week, putting the economy in a parlous state in coming months. A cold winter could make the supply shortfall much worse, leading to "substantially higher" global prices.*

*EU member states rejected commission plans for mandatory gas consumption reductions this summer, opting instead for a voluntary approach. European governments have spent half a trillion euros cushioning citizens and companies from soaring energy prices, but many of those measures have masked the effect of sky-high prices, undermining incentives to lower consumption.*

*In France, the government has set a goal for companies and public sector entities to cut energy use by 10 per cent this winter versus last year in an effort to avoid outages. Companies from luxury giant LVMH to retailer Carrefour have unveiled energy savings plans, while the city of Paris has said it will turn off the sparkling night time lights of the Eiffel Tower earlier at night.*

*Other solutions are also being rolled out, such as a national alert system called Ecowatt from grid operator RTE. It will classify days as green, orange or red depending on the stress on the electricity system, sending push notifications to consumers and companies at times of peak demand to ask them to curb consumption. France's biggest TV broadcaster has pledged to include the Ecowatt rating in their daily weather reports so as to enlist people's help.*

### ***Uneven impacts***

*Electricity savings targets will form part of the EU-wide package due on Friday, alongside windfall taxes on low-carbon power companies and a levy on fossil fuel producers. The commission has estimated that member states could raise a total of €140bn from energy companies' profits, recycling them into efforts to reduce bills.*

*Yet despite the fanfare, the commission's new measures will amount only to a partial road map, rather than a comprehensive answer to the energy crisis. Industry executives have questioned whether the levies would raise as much as Brussels predicts.*

*Countries including Italy, Greece, Belgium and Malta are seeking the imposition of a ceiling on gas prices in the hopes that this could short-circuit the damaging cycle of rising prices in the union. For*

*some of them, the structure of their energy industries means the existing commission package will be of limited direct help. While others, such as France, have already implemented their own bespoke national schemes.*

*French officials add that windfall taxes alone will not solve the deeper dysfunction in electricity and gas markets, arguing that interventions including so-called circuit breakers are needed to prevent energy markets from going haywire.*

*Miriam Dalli, Maltese minister for environment, energy and enterprise, says while she supports the commission package, it would not be of assistance to Malta given that the EU's smallest state imports a substantial share of its power via an interconnector with Italy, while domestic generation comes primarily from a gas-fired power plant. "We fully understand the collegiality of this — member states need to support one another," she says.*

*Eduard Heger, the Slovak prime minister, warned the energy situation is getting so dire in his country that its heavy industry would be forced to shut down within weeks unless there is a more far-reaching answer from Brussels. His country will spend €24bn, one-fifth of GDP, subsidising energy costs, but the commission proposal would net it only €100mn. "The most wounded country will be the country getting the least," he says.*

*Brussels set out an options paper on Wednesday with ideas on how to achieve a gas price cap, but some commission officials remain wary of the idea. If the level is set too low it risks deterring suppliers from selling to the EU because better rates are available elsewhere. That in turn would undermine efforts to shore up gas supplies.*

*The enormous cost of energy interventions is having an uneven impact on member states, given their differing capacities to weather rising public borrowing. Some diplomats have started quietly talking about additional help to even out the burdens, with Slovakia calling for windfall taxes to be steered into a common fund to be divided evenly among countries according to population.*

*In France, consumers are preparing for the worst. Saliha Sadelli, a nurse who works in the poor northern neighbourhood of Marseille, says she has been hard-hit by the rising cost of petrol because she drives a lot to carry out home visits. Her own bills have also been climbing, despite the government's moves to limit electricity price rises.*

*"They tell us that households have been protected, but of course I'm worried when I see our bills have gone in a short time from €200 a month to €350," she says. "I ask myself what to do. In the summer I can cut off the air conditioning at home — it's a luxury. But heating is not a luxury."*

*Additional reporting by Alice Hancock and Andy Bounds in Brussels, and Domitille Alain and Akila Quinio in Paris*

Note that the article in the FT above was also written before the OPEC+ decision to cut production. Now that oil prices will turn upwards, all the problems outlined in the article will be compounded. Things will get worse.

Across the Atlantic, the Washington Post has this to say:

### ***OPEC Plus cut in oil production fuels fears of recession in Europe***

By Rick Noack and Emily Rauhala

October 6, 2022 at 3:47 p.m. EDT

*PARIS — European economists worried about a heightened risk of recession and a bolstered Russia on Thursday, after OPEC Plus, the coalition of oil-producing nations led by Russia and Saudi Arabia, announced that it will slash oil production by 2 million barrels per day.*

*The coalition's plans prompted a blistering reaction from officials at the White House, which had aggressively lobbied the consortium to continue production at current levels or higher. While initial reactions were more muted in the European Union, the production cut comes as the bloc of 27 nations braces for a sharp slowdown in economic growth linked to higher energy prices. The E.U.'s industrial powerhouse, Germany, reported a worse-than-anticipated decline in manufacturing orders on Thursday, raising recession fears.*

*Simone Tagliapietra, a senior fellow at Brussels-based economic think tank Bruegel, said the production cut "will sustain inflation and make Europe's energy crisis even more complicated."*

*It also makes the Group of Seven (G-7) price cap on Russian oil, which has just been given the green light by E.U. countries, "less impactful," he said.*

*While the production cut is expected to increase prices at European gas stations, the extent of the rise was not immediately clear. Oil prices could still exceed \$100 per barrel, analysts said. Even before the production cut was announced, European business groups worried about companies replacing increasingly expensive natural gas with oil, which could drive gas station prices upward.*

*Over the summer, many European nations tried to shield consumers from rising gas prices through subsidies and tax breaks. But similar intervention to tackle surging electricity and natural gas prices this fall has strained budgets, leaving some countries with diminished leeway to respond to Wednesday's announcement. Germany's increasingly precarious economic situation could also stand in the way of stronger E.U. action.*

*Those factors could weigh heavily this winter, compounding the possibility of shortages of natural gas and electricity, blackouts and the narrowing of European companies' profit margins. The concerns, however, were not immediately reflected on European markets Thursday. Germany's leading index, Dax, and the European Stoxx 600 initially made slight gains. Oil held at near \$88 a barrel on Thursday, according to Bloomberg.*

*In European capitals, the production cut could pose immediate geopolitical challenges, however.*

*Just hours before the OPEC Plus decision, E.U. member states had on Wednesday agreed to its own cap on the price of Russian oil as part of the bloc's eighth round of sanctions over the war in Ukraine.*

*The idea behind the cap is to set the price of Russian oil above the cost of production, but below market price, keeping the oil trade going while limiting Russian revenue.*

*Under the sanctions, E.U. and G-7 officials will meet to set the price, adjusting the level in response to market conditions, according to E.U. officials. Member states will need to unanimously approve the decision.*

*To ensure compliance, the sanctions make companies involved in the transport of Russian oil, including insurers and shipowners, responsible for making sure their cargo is not sold above the cap.*

*The U.S. Treasury, which has pushed for the measure for months, says the price cap will "sharply" reduce Russian revenue.*

*But some energy experts have raised questions about whether it will work as planned. Russia may decide to keep its oil off the market rather than selling at the cap price, further curtailing supply. And even if Russia continues to sell, a cap will only be effective if there is buy-in from every customer, including India and China, experts said.*

*But as "global oil prices will increase with this OPEC Plus decision, some countries might have greater incentive to go for discounted Russian crude," wrote Tagliapietra. It is possible that the OPEC Plus news will make Beijing and Delhi less likely to abide by the price cap.*

*In the medium-term, those setbacks could test Europe's resolve to support Ukraine. The planned cut to oil production "shows that the energy crisis in Europe is threatening to escalate into a global price war," German business paper Handelsblatt warned in an analysis, arguing that the move pits Europe and the United States against OPEC, its partners, and large oil importers like China and India.*

*For President Biden and European leaders who flew to Saudi Arabia this year in extraordinary efforts to press for more oil production, Wednesday's OPEC Plus rebuke has also prompted uncomfortable questions about the diplomatic trade-offs they were willing to make — and the results they have to show for it.*

*Biden visited Saudi leaders on a trip to Jiddah this summer and fist-bumped Crown Prince Mohammed bin Salman, while French President Emmanuel Macron later had a long handshake with Mohammed in Paris. In Greece, a top government member expressed public admiration for the crown prince's "leadership" and "vision." And German Chancellor Olaf Scholz visited the kingdom only days ago.*

*Four years after the killing of journalist Jamal Khashoggi, the Western outreach appears to have largely rehabilitated the crown prince.*

*But for Europe and the United States, the efforts have “remained fruitless,” according to Germany’s Handelsblatt.*

***“As of today, it is clear to insiders: Saudi Arabia is on the side of Kremlin leader Vladimir Putin,” the paper wrote.***

*Rauhala reported from Brussels. Jeff Stein, Rachel Lerman and John Hudson contributed to this report.*

Let’s add to the above analysis in the western media about the impact of the OPEC+ decision on Wednesday. Specifically, how will it impact China?

The Chinese will soon confirm President Xi in his third term, and we should expect that CCP will resume a risk-on management of the domestic economy. This will mean that they will be more aggressive in taking care of the two big problems in the Chinese economy – the zero-covid policy and the real estate market. It would seem to me that Beijing will open up the economy, accepting that covid is not such a big public health risk any more, and they will put in the financial resources to resolve the problems in the property markets once and for all, dealing with issues in ways that may inflict some pain and which may test their popular support ahead of the China’s 20<sup>th</sup> Party Congress.

If the controlled pace of China’s economic re-opening then picks up, it will add further pressure to the global demand for oil. Prices will rise. Global inflation will get worse.

The global energy market is being reorganized since last Wednesday. The two largest economies in the world a few years from now will be China and India. This is because of the sheer size of their populations and the increasing productivity of the people due to an enlargement of education and training opportunities that will equalize per capita productivity with the west. They will have their energy needs supplied by the two largest producers, Russia and the Middle East without having to use ships. This shifting of energy exports to the east will not affect the US much, but energy supply to Europe will be affected by a zero sum game. There just won’t be enough for everyone.

Obviously, in reading the major trends in the global economy and the decline of the American empire, OPEC+ knows how to align themselves for the long term. Right next to the economic giants of the future in Eurasia.

Here are my conclusions after assessing the developments in the last week:

- 1) The impending oil price hike will worsen inflationary trends in the G7 countries and Europe. In America, they won't run out of energy but they will have very little room to curb inflation without also suffering from a recession. Japan will be totally screwed.
- 2) Based on the principle that economics drive politics - remember the Clintonian refrain, "it's the economy, stupid" ? - the Biden administration will be short-lived. The country will remain divided between two political parties which will blame each other for the country's economic woes.
- 3) The Europeans on the other hand will be clobbered by rising energy prices both on natural gas and crude oil. They are in a very bad situation. Even if they get through the upcoming winter, it will be increasingly difficult to run a business model built on cheap Russian gas. American LNG will never be as abundant or as cheap as pipeline gas, and the costs will be at least ten times higher. European industry will lose its competitiveness in global manufacturing.
- 4) Global European MNCs will react to this situation by relocating to the markets that buy their products. Those customers are found in the US, China and India. Over time, Asian buyers of Mercedes Benz, BMW cars and such other stuff, will find that they are made in Shanghai or Sacramento, rather than Stuttgart. These large companies will not go under, they will just relocate and will end up contributing GDP growth to both China and the US, not Europe. Talented young Europeans will not be able to find great jobs at European MNCs because the best parts of these companies will be in America and China, where they have abundant energy supplies to sustain their competitiveness. That may be the new manufacturing model – build things on the doorstep of customers, not build and export. The global supply chain will adjust to the new realities.
- 5) For Europe to depend on America to offset Russian curtailing of energy supplies (it's not going to happen since the Americans don't have an energy surplus) as well to hope for OPEC+ effort to lower prices is like wishing for the sun to rise in the west. It won't happen.
- 6) However, the SMEs of Europe or companies which cater to local demand will not be able to relocate. They will charge very high prices or they will go under. Both inflation and unemployment in Europe will increase. This will be a very bad situation. The overall standard of living in Europe will drop.
- 7) European politicians will be pressured by a rising level of discontent in their electorates to make peace with Russia. If that happens, the economic situation will improve, of course, but this is going to be difficult, because even if the NordStream pipelines are repaired, the Russians would have sent most of their gas and crude to

their new customers in China and India. Strangely, the Eastern European countries with less pride to swallow than the countries nearer the Atlantic, will probably revert to using Russian energy faster. The last will probably be the UK, the most badly managed country in all of Europe outside of Ukraine.

- 8) NATO will become irrelevant. When the European economy is shrinking, there will not be the resources to spend it frivolously on weapons and military manpower.
- 9) Given the lay of the land as outlined above, the ability of the Europeans to support the war in Ukraine will end in the coming weeks and months. The oil price cap on Russia has just been torpedoed. As predicted by Victor Orban, the Prime Minister of Hungary and more recently by our eager beaver, Commander in Chief of the Planet, Elon Musk (told you all so, didn't I?), Russia will win the war in Ukraine, and take over half the country as well. And why not? Russia is a successful economy under Putin, now with the strongest currency in the world, and it was Putin who brought it back from the economic malaise which the country was in when it was led by Yeltsin, who tried to adopt western methods. Ukraine is a basket case under American patronage, essentially just selling manpower as mercenaries to the collective west to contain Russia. Let the smarter people run the country.
- 10) The EU will break up. It is already happening, with those countries who think that the Brussels strategy would hit a brick wall, bailing first to protect their own populations. Bulgaria has already suspended the EU sanctions on Russia. Hungary, Austria, Serbia and soon Italy will not want to adhere to the Brussels dictated policies to take the pain on behalf of some corrupt Eastern European country called Ukraine or some pan-European ideal that is abstract and meaningless to the typical farmer, factory worker or salesman in a high street shop. Indicative of the disunity of the EU, the most frontline country in the confrontation with Russia, Poland, is lambasting Germany, which is the de facto leader of the EU, for "selfish" energy policies that favours itself. I mean, what else is new? When the shit hits the fan, every country will only care for itself. It's human nature. Because the problems facing the EU are so profound, it is inevitable that every country protects its own interests first. That's why the EU internationalist experiment is over.
- 11) If you ask me, Putin was fighting his war, not over Ukrainian territory, or to capture Kyiv or Kharkiv, because those are burdens, not assets. The whole of Ukraine is a goddamned economic burden. Why would he want it? Let the west carry the cost of the carcass of a country for all he cares. At the same time, that very confrontation bolsters his treasury for a prolonged war which the western Europe cannot possibly sustain. All he needed to do was to find allies like China and Saudi Arabia, who have an axe to grind with the Biden Administration, and that was easy to find given the morons who run State in the US. He was instead waging a very strategic war of attrition against the EU to try and break it up once and for all. Putin knew exactly what he is doing and understood his foe so well that he can win a hundred battles, not

blitzkrieg but Sun Tzu style. I believe he is betting that EU democracy will confront the dictatorship of Brussels elitism (with the emergence of peasant revolts), and the union will dismember because of that. If I were a betting man, I would say he would largely succeed by the end of this winter.

12) As 10 above proceeds, the Euro will continue its decline. It will go to new lows, and which will in fact bring in the imported inflation that will quicken the process of economic decline.

13) The UK, already badly mismanaged as it is and for as long as it has been, will probably see a Labour government come in, and change the direction of the country. The Tories have been screwing things up for far too long. But whether Labour can turn things around remains to be seen. The only sure thing is that the Pound will continue to sink. There is little hope for a turnaround.

14) As for Germany, its best days as a manufacturing economy are over. But since the Greens want a return to a more pastoral past, they will get it. The best of the German companies will de facto become Chinese or American.

15) Finally, de-dollarisation will become a reality. This does not mean that the dollar will disappear as a medium of trade or a store of value. As a medium of exchange, it is currently used for 90 percent of world trade. In the next twenty or thirty years, it will be reduced to perhaps sixty to seventy percent, which is more than sufficient to enable the US dollar to retain a global status and a high intrinsic value. In its store of value function, the US dollar is now about 50-60% of countries' reserves (savings), and will never totally recede. So what does de-dollarisation really mean?

It will be the rise of the RMB and the Ruble to be increasingly used in international trade and as national reserves. The tendency of Russia and China plus the oil exporters using RMB and Ruble bilaterally will be strengthened gradually. The effectiveness of the dollar in sanctions will be significantly reduced as we are already seeing in the current sanctions against Russia.

The Wednesday OPEC+ decision is really a "shock and awe" announcement of the alignment of the oil producers with the Eurasian powers. It is not just a 2m barrels a day production cut in the global oil output.

It is going to be a massive reordering of the global economic and geo-political system.



*By:*

*Yeong, Wai-Cheong, CFA*

*Fintech Entrepreneur, Money Manager and Blogger*

*Un-Influencer in a World full of Hubris*