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Sliding Oil Prices Are Determined By Domestic Policy In The USA

The situation at the global oil market remains highly unstable and controversial. Major oil traders (for instance, Trafigura) and banks (Citigroup and JPMorgan) assume that oil prices could go down as low as $60 per barrel of Brent oil. Discussing the reasons for this, Western analysts primarily highlight the economic slowdown of China, excessive crude oil supply at the global market and consequently, constantly sliding demand.

According to Bloomberg, the OPEC+ deal participants cannot possibly keep the prices at the level, required for them. The market conditions prevail, though the alliance is acting rather smart, gradually reducing production quotas and trying to stick to internal arrangements. However, the oil price dynamics are influenced by a complex set of various circumstances – both fundamental and speculative. And one sometimes could get an impression that it is speculative, artificially created factors that play the leading role here.

For example, in September the Financial Times published an article which caused a major impact on the markets, and it was not brought about by facts or numbers in the article, but by their interpretations. The article said that Saudi Arabia (a major OPEC+ oil producer) is determined to increase its production starting from December 1. At the same time Riyadh is ready to ditch the unofficial oil price target of $100 per barrel, which allows the country to balance its budget. The country’s leaders are no longer willing to give their market share to other producers. According to FT sources, the kingdom believes it could

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recover shortfalls in revenues by issuing government bonds or using FX reserves.

According to the plan, starting from December Saudi Arabia will increase its average daily production by 83 thousand barrels every month, and consequently, by December 2025 the production will grow by 1 million barrels. Today the country produces 8,9 million barrels per day. Reacting to the publication, global Brent oil prices with delivery in November went down at the ICE exchange by 3,5%, trading at the minimum value of $70,82 per barrel. We discussed the subject with Igor Yushkov, leading expert of the National Energy Security Fund. According to him, the main message and the key point of the article in the Financial Times are not consistent with the reality.

- I think this is a pure attempt at manipulating the global oil market**.** There is nothing new in the article in terms of facts, but the takeaways are trumpet-tongued. The article says that Saudi Arabia has changed its market approach philosophy, which really is not true. When in September the Brent oil price started moving away from its August values of $85 per barrel and slid towards $70-75, OPEC+ participants, including Saudi Arabia, said: we are not happy with this outlook, this is why we will start increasing production in December, and not in October, as planned earlier. The decision to delay this move for two months had been made by the alliance because it is the price which is the main priority for it. And the British newspaper highlights the situation with its own spin: you see, extra volumes are more important for OPEC+, they are going to increase production for greater volumes. But if it were so, producers would not delay it till December. Correspondingly, there has been no review of philosophy by Saudi Arabia.

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What does “unofficial price target of $100 per barrel” mean, which, according to FT, the kingdom decided to abandon?

In reality, Saudi Arabia has never set this goal for itself. Otherwise it would not insist on further output volume reductions. Why, when crude oil for a long time had traded in the range of $75–85 per barrel, did the country think it was absolutely normal, nobody had any issues with it? Indeed, Riyadh would want the price to be relatively high, but again, they have a clear understanding that over-expensive oil slows down demand growth**.** The article also says that the kingdom already has experience in changing its market philosophy: in 2014 it crashed the prices by ramping up its domestic output. But this is not true: in 2014–2015 crude oil got cheaper due to the explosive production growth in the USA on the back of the shale oil revolution. Overall, Saudi Arabia still keeps balancing its output policy with interests of other OPEC+ players, including Russia. No one would be happy with the prospects of the price crashing down to $50-60 per barrel. Saudi Arabia does not need it as well: why would it produce extra volumes, if the country with a budget deficit would have to eat through its currency reserves?

If this is so, what is the hidden motive for publishing the article in the Financial Times?

I think the underlying reasons are determined by the domestic policy in the United States. The British newspaper obviously does the bidding of the Democrats. With the elections coming up in November, it is of utmost importance for the Democratic party to improve its positions with the population by ensuring lower gas and fuel prices in the country, in line with the external conditions. There is a distinct correlation between global and domestic prices in America: when oil prices go up (down) everywhere, fuel in the USA gets more expensive (cheaper). Plus, one of the elements of the long-standing political culture is the notion that it is exclusively the incumbent administration which is responsible for fuel price dynamics. If the gas price goes up, this is the fault of the administration and these people must be replaced. If the price goes down, then I will support them, voters say.

When Russia was hit by the first wave of sanctions in 2022 and our country started pivoting to Asian markets, building logistics, making new contracts, at some point it had to reduce production volumes. In June commodity exchange prices at one point soared to $120 per barrel, and correspondingly, fuel prices in the USA went up as well. This was used by the Republicans, who printed tons of stickers with Joe Biden’s image and posted them at all gas stations. The stickers featured the

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head of the White House pointing his finger at the price tag and saying “I did this”. This is to say that the subject of fuel is undoubtedly a risk zone for the Democrats during the election campaign. That’s why they are doing anything possible to bring down crude oil prices in order to avoid repetition of the 2022 price story. For instance, they are announcing an upcoming end to the conflict between Israel and HAMAS, and mentioning their successful mediation efforts at the talks.

So it turns out that the downward oil price trend is largely backed by virtual drivers, rather than fundamental ones?

There are things actively hyped up by those media in the West who are ideologically close to the American Democrats, banks and investment companies. Particularly, they highlight the argument that the “geopolitical markup” to the oil price due to the unstable situation in the Middle East, is no longer relevant, since the day, when Israel and HAMAS allegedly settle on a ceasefire, is very close and this means the Yemeni Houthis will no longer have any reason to shoot at oil tankers in the Red Sea. Nothing can be further from the truth: we see, that just like a month or two ago, there are ongoing clashes in the Gaza Sector, that there is a full-scale war going on between Israel and Lebanon’s Hezbollah, that just recently the Israeli air force has hit the main headquarters of the group, killing its leader. And what’s critically important – the Yemeni Houthis are still attacking merchant vessels, including oil tankers, both in the Red Sea and in the Gulf of Aden. Consequently, everyone is scared of going there and the logistics routes avoid the Suez Channel and mainly go around Africa. And this means extra transit costs.

Do tankers with Russian oil also take this route?

As for the Russian oil specifically, it seems that it is going East through the Suez Canal, and oil products, made from it, go West. But overall, the global market is by all means concerned with the situation when the Suez Canal is virtually closed by the Yemeni rebels. That’s why the “geopolitical markup” is still in place, though Bloomberg, Reuters and the like speak of the opposite situation, one way or another putting psychological pressure on trader expectations and commodity exchange prices, which are ultimately going down. Exchange trades always run on expectations.

There is yet another factor, this is statistics on the current and forecasted consumption volumes. And again we hear the same

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old song that things are very poor in China: its economy is slowing down, there are giant bubbles at the real estate market, and correspondingly, the country is forced to reduce its oil consumption, which will ultimately lead to overproduction and plunging demand across the world. This is followed by a conclusion: futures need to be sold while they are still worth anything. And this exactly what is happening, the price of futures is sliding. In the meantime, the Chinese authorities have recently announced the largest stimulus measures over several decades, which are expected to have positive effects on demand prospects in the country.

The September messages in the Western media on OPEC+ starting the process of output increases in October were released as news, as insider information.

Essentially, the alliance made this decision back at its early June meeting. And though now they speak of December, I think that ultimately this step will be moved to 2025. Nothing conceptually new should be expected for now: producers will assume a wait-and-see attitude. They believe that they have already made a significant input into market stabilization by their actions. This story is rather painful for the Russian economy: we have, along with the OPEC+ quotas, committed to additional production cuts. Moreover, since in the spring of 2024 we produced more than our quotas, in the end of this year we will have to cut our production proportionately to make up for the “excesses”. Correspondingly, we will export less.

What will happen to demand and prices in the near-term?

There are good outlooks for demand, and it will definitely digest those excesses which are pointed out by analysts. Particularly, according to Bank of America’s estimates, in 2025 the market may get an excess of 730 thousand barrels per day. Let me remind you of yet another circumstance: when the price quotes had plunged to $80 per barrel, consumer countries started eating through their reserves, previously accumulated in storage due to lower prices. The situation affected the demand, which contracted naturally. Even China had reduced its import volumes over the period from January to August 2024, but let me emphasize this, not its consumption. Further on, as stocks go down, the demand will climb. And prices, probably, will fluctuate in the range of $70-80 per barrel, though they may at one point dive down to $65, because they are under a lot of pressure, primarily from the United States.

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