The Political and Geopolitical Underpinnings to Saudi Arabia's Oil Policy

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Extending the OPEC non OPEC Vienna Agreement

- OPEC Monitoring Committee meeting today

- OPEC and the participating non OPEC oil producers likely to extend the Vienna agreement beyond March 2018

- There will increasingly be a greater emphasis on export compliance in addition to the output compliance.

- Deeper cuts by Saudi Arabia, and from Kuwait and the UAE are possible, even likely

- The ambition remains a “rebalanced” oil market in a price equilibrium around $50 to $55, with a wider band of $45 to $60.
Two Key Reasons the Saudi-led OPEC Efforts May Succeed

- Saudi Arabia will do “whatever it takes” to achieve oil price stability because oil policy now deeply entwined with the rise of Crown Prince Mohammed bin Salman

- Unlike previous OPEC efforts, this one is underpinned by powerful geopolitical drivers, in the Saudi-Russian alliance, and in the under-appreciated support of China
Under MbS, “whatever it takes” on Oil Strategy

- MbS is the driver and face of Saudi Arabia’s massive and very ambitious economic reforms

- Oil policy is critical to success of the Kingdom’s ambitious economic reforms, in funding transition period

- Stable oil prices are needed to provide the backdrop to planned large-scale borrowings in capital markets

- Stable oil prices are essential for the partial IPO of Saudi Aramco, centerpiece of the NTP
MbS is “all in” on Current Oil Strategy, Until at Least 2019

- At the same time, MbS is seeking to rapidly consolidate his power among the Al Saud, to become King

- MbS entering tougher period of questioning, with serious setbacks in Yemen, Syria, Qatar confrontation backfire

- Economic plans being scaled back, costs rising, renewed draws on foreign reserves, domestic arrests

- Weakening oil prices would leave MbS politically vulnerable and raise questions over MbS leadership and succession
Geopolitical Underpinnings to Saudi Oil Strategy
The Saudi-Russian Energy Alliance

- Russia seen as primary culprit to previous OPEC stabilization efforts

- Outreach led by MbS, starting w/ oil output freeze and culminating with Vienna agreement

- Russia now integrated into OPEC policy-making
Mutual Benefits

- Putin seeks oil revenue stability in run up to March 2018 elections; Saudi investments offset to Western sanctions

- For Saudis, Russia participation boosts agreement credibility and removes primary source of leakage

- In geopolitical terms, Russia becoming key global power in Mideast and an alternative to excessive reliance on US
The China Factor

- China quietly supporting Saudi-Russian alliance as counterweight to US

- In May, promised no increase in output until crude above $60 and would be “buyer of last resort” below $40

- China has increased its crude imports from Russia and is committing to major investments in Russia

- President Xi told visiting King Salman China would be willing to take strategic stake in Saudi Aramco IPO

- Beijing played crucial intermediary role with Riyadh and Tehran and increased imports from the Kingdom and Iran

- Saudi Arabia to borrow in yuan and will invoice crude exports to China in yuan