

Flash Note 08/05/2018

Alex Fusté
[@AlexfusteAlex](#)
alex.fuste@andbank.com

Oil - Who is who in this geopolitical mess? Bullet points.

1. **Oil price extends gains:** WTI (June) is up 1.0% to \$70.44, extending Friday's gains, when WTI close at its highest level since late 2014.
2. **Markets are focused on geopolitics**, as this is the final week before Trump's Saturday 12-May deadline to decide on the Iran nuclear deal. A number of interested parties are making final pitches to Trump on the fate of the Iran nuclear deal.
 - a. Israeli Prime Minister Benjamin Netanyahu said that the accord is fatally flawed and must be "fully fixed or nixed." Netanyahu said this weekend that the agreement does not address the weaponization of Iran's nuclear knowledge, and will lead to Iran having a nuclear arsenal in a very short time.
 - b. Britain's Foreign Secretary Boris Johnson is meeting this week with Vice President Pence and National Security Adviser John Bolton to try to salvage the pact. Johnson said this weekend that "every available alternative is worse," and that it would be best for the US to "improve the handcuffs rather than break them."
 - c. GOP members of congress have also weighed in, including Rep. Mac Thornberry (R-TX), who said he "would counsel against Trump leaving the deal", as it would cause the US to lose visibility into what Iran is doing. Thornberry suggested that the president could delay the deadline to allow the UK and France to pursue the idea of new negotiations and to strengthen the agreement. However, House Majority Leader Kevin McCarthy (R-CA) said this weekend that it was a bad deal, and that he's thankful the president is looking at all options. What a mess!
3. **Markets may be expecting now a worst-case scenario for Iran deal:** CNBC reported that energy markets are signaling that the US will pull out of the accord and re-impose sanctions on Iran. **Sanctions could slash global supplies by 800K bpd**, while many see elevated risks about how Iran would respond to the potential decision to exit the agreement. Admittedly, political risks could grow given Iran's involvement in other parts of the Middle East, including Lebanon and Syria.

4. **Other political factors also contribute to keep oil prices high:**
 - a. Venezuela is increasingly in focus as output continues to decline, with fears of a further drop after ConocoPhillips moved to take assets from Venezuela's state-run oil company, as part of a \$2B arbitration award for nationalization of its Venezuelan projects. The legal maneuvers could put even more pressure on PDVSA's declining revenue, and cause further disruption in a country where output has declined by a third since its peak.
 - b. Iraq is also holding elections over the weekend.
5. **Saudi Arabia continues to strangle the global oil market:** Saudi Arabia wants at least \$80 a barrel oil (WSJ reported that Saudi Arabia's Crown Prince Mohammed bin Salman is has been behind a move to push crude prices to at least \$80 this year in an effort to boost government revenue). The WSJ suggests that the Saudis have no intention of stopping the recent push for higher oil prices, and said that officials are prepared to extend the recent production-cut agreement with Russia to continue strangling the global energy market.
6. **In the other hand, Iran wants to fix global oil prices in the \$60 area:** Iran has signaled a split with Saudi Arabia's willingness to continue tightening global markets. Amir Hossein Zamaninia, deputy oil minister for international and commercial affairs, said a "suitable price" for crude is in the \$60 area. Iranian Oil Minister Bijan Namdar Zanganeh previously said that Iran supports "reasonable" oil prices and is not an advocate of costlier crude, and that oil price volatility is destabilizing for future investment and security of supply.
7. **Winners and losers:**
 - a. Who are the most benefited countries from a rise in the price of oil? **Russia, Saudi Arabia and the USA** (after surpassing the Saudis in production, the US has reached the capacity to self-supply. Therefore, high international prices of crude give the US a huge competitive advantage).
 - b. Which countries are the most negatively affected? Of course, **Europe**. Totally exposed to international energy prices (as usual). This is what happens when you are a pygmy in this game of control of international influence. Do you now understand the positions of each player in the Iran affair?
8. **Of course, the final question is, Can the price of crude oil go above \$ 80?** The answer is yes. Nevertheless, this dynamic will have nothing to do with the natural evolution of the industry, which after multiplying reserves and supply, points clearly towards a natural and constant drop in the price of crude oil. It has to do with that sort of politics that, despite the progress resulting from collective effort, does not allow capitalizing the possible savings for society as a whole, and allows perpetuating the accumulation of wealth in a few. The key is in the role of Europe, but I would be surprised to see the European leaders being able to change the course of things. Why? Look at their little success so far.