

IS SOMEONE FUNDING SAUDI'S OIL FLOOD?

Iran, Venezuela, Algeria, Nigeria, Russia, Ecuador, Iraq, Angola. Those are the countries the budgets of which will face significant shortfalls if the Saudis succeed in their bid to drive the oil price down below \$90/barrel for the year or more. Kuwait, the Emirates, Qatar – all Saudi partners (albeit reluctantly, in Qatar's case) in whatever the hell it is doing – can afford the cuts, with Libya on the bubble.

New reports make it clear the Saudis intend to keep prices low for some time – and will force customers to lock in for a year.

Some, like Zero Hedge's Tyler Durden, have suggested this ploy is part of the plan the US and Saudis made when the Saudis finally agreed to engage in combat against ISIL.

I'm not sure I buy that though. Cutting prices will make it far harder for Iraq's Shia led government to invest in the fight against ISIL. So long as Western sanctions continue, it will destabilize Iran significantly, not only making it a lot harder for Iran to help Iraq and Syria, but also undermining the government that has chosen to deal with the US. The cuts will also destabilize Iran's allies in Venezuela and Ecuador. Oligarchic forces have been trying to foment a coup in the former country for some time and this may well help to do so.

The cut, made just before winter strengthens Vladimir Putin's hand with Ukraine and the rest of Europe, and made in such a way that may make Europe as dependent on the Saudis as they are on Russia, will make it harder for Putin to play the waiting game that otherwise was bound to achieve his objectives in Ukraine. Without that Ukrainian victory, Putin will be unable to invest resources as heavily in Bashar al-Assad's government. The Saudis have been trying to undercut Russia for some time and – to the

extent the ruble exchange with the dollar doesn't shelter Russia from these changes [Update: though see Mark Adomanis on how this is hurting Russian consumers] – this price cut will hurt Russia too.

Ultimately, though, I suspect the US is just as much the target of this move as Iran and Russia are. Since the US refused to take out Assad last year and inched forward with its Iran deal, the Saudis have been worried about having Shia Iran and Iraq take over its role as the swing producer in the world, mirroring what happened in 1976 when the US replaced Iran's Shah with the Saudis. By destabilizing the government in negotiations with the US, the price cut will make it a lot harder to achieve such a deal.

Just as importantly, the US is now a petro-state. And this price cut will make fracking (and deepwater drilling) unprofitable. We've been fracking largely to give ourselves some breathing room from the Saudis; cutting the price will make it far harder for us to sustain that effort (and will make some renewables uncompetitive).

To me, then, this move looks like part of an effort to force the outcome the Saudis have been chasing for a decade and even more aggressively since the Arab Spring: to paralyze Shia governments just as the chaos of ISIL threatens to remap the Middle East.

The Saudis may well claim to be supporting our fight against ISIL, but the long-term commitment to dropping oil prices, looks more like an effort to undercut it.

All that said, something remains unexplained here. The Saudi break-even point is \$90/barrel. Oil prices are already below that and may drop still further. And the Saudis rely on bribery just as much as some other petro-states to keep their populace from rising up. How will the Saudis sustain this for a year or more, if that's what they're doing (especially since they are at least purportedly contributing to the

ISIL fight)?

Saudis have low debt-to-GDP right now, so it may be they'll just finance this play. But I wonder whether some cash rich Asian country has backed this move? What better way to end US hegemony than to ensure it gets sucked into another unwinnable war in the Middle East, wallowing in really cheap oil for the middle term, with the understanding that it will replace the US after the US exhausts itself with this latest Mideast adventure?

Sure, low oil prices might help Democrats retain the Senate. Low oil prices certainly will avoid any immediate backlash against the ISIL war. So it may well be this is part of a deal with the Obama Administration. But if so, it seems like a counterproductive deal, because it's going to make it even harder to achieve any success against ISIL.