Weekly Market Summary

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What To Expect When You're Least Expecting - Doha April 17th Talks!

Fadi Nasser (SVP – Head of Treasury Sales)

Back in late 2014, I wrote about "spheres of influence" and wondered whether additional US/EU sanctions imposed on Russia would persuade Russian President Vladimir Putin to stop "interfering" in Ukraine, or if otherwise the nationalist sentiment that has stoked the Putin's popularity in past months would prevail and harden the Russian president's stance?!

The answer - to my mind – was obvious and very much in line with A.G. Noorani's remarkable essay (also entitled "Spheres of Influence") and analysis, released in June 2014: *"The Ukraine crisis and Russia's justified resentment at the North Atlantic Treaty Organization's (NATO) expansion eastwards raise serious questions about the extent to which any country would permit another to establish a potentially hostile presence in its immediate neighborhood. The concept of "spheres of influence", so dear to imperialist powers, is discredited because of its connotation of dominance over a country by agreement between two imperial overlords. It is akin to a protectorate which, unlike a colony, is not directly governed by the protecting power. While internally self-governing, it is robbed of an independent international personality. In contrast, the country that is the subject of a "sphere of influence" accord between two powers might well have an international personality, but its freedom of action in foreign affairs is circumscribed. There are many shades of spheres of influence.* ***However, it is not only legitimate but statesmanlike not to intrude wantonly in a region's affairs and upset good relations between the region's powers****. The regional power is not permitted to dominate the region. The country's independence is not curtailed one bit. But there is a wise restraint by the outside power. Such a restraint, by agreement or otherwise, is a rarity. The United States bristles when it is accused of exercising regional hegemony, which has been its policy for nearly two centuries. But it has no qualms about riding roughshod over the rights, interests and sensitivities of not only its perceived rivals but also its allies as Britain discovered more than once. That would explain why hell broke loose when Russia claimed its own sphere of influence in Ukraine, a country adjoining its own territory".*

In September 2015, Marvin Kalb (senior adviser at the Pulitzer Center and a fellow at the Brookings Institution) asserted - in a controversial opinion released in the Washington Post - that President Putin had won his war in Ukraine. Marvin's viewpoint then was that the war in Ukraine had slipped off the front pages, Ukraine as a European crisis had lost its urgency, Putin's forces had successfully crossed the Ukraine borders and turned back the Ukrainian military advance whilst his Western critics just watched from the sidelines, sputtering with helpless rage!

Fast forward to April 2016…

With a surge in fighting across Syria in the past 48 hours threatening to end a landmark cease-fire (a partial truce that took effect in late February and represented a rare moment of agreement over the Syrian conflict between its most powerful outside players, Russia and the US) that has been under mounting stress in recent days because of intensifying assaults by government forces and rebels, a fragile truce in Yemen - since early this week – that is constantly being violated by sporadic clashes between the two opposing factions, and rising fighting / tensions between Azerbaijani and Armenian troops on the border of the unrecognized Republic of Nagorno-Karabakh potentially evolving into a full-scale war between the two countries (or proxy war between their strong allies, Turkey and Russia) ….

So with all this mess around - at first ignited by European colonialism, Russian militarism and American imperialism, but now powered by regional actors pursuing their own goals and driving new ideological tensions and civil conflicts - the world's top oil exporters, representing almost 60% of the world's oil production, are set to gather in Doha on Sunday 17th April to discuss an oil production freeze at their January levels and that in an effort to stabilize prices around current levels (June WTI and Brent future contracts last at $ 42.25 and $ 43.50 respectively). Russia, Saudi Arabia, Qatar and Venezuela made a preliminary deal in February and are seeking to add more producers and extend the recent price recovery.

Who Is / Isn't Going to Doha?

In addition to the four signatories to the preliminary deal, Algeria, Angola, Azerbaijan, Colombia, Ecuador, Indonesia, Iran, Iraq, Kazakhstan, Kuwait, Mexico, Nigeria, Oman and the United Arab Emirates will attend. However, some of the world's biggest producers including the U.S., Canada, China, Brazil and Norway will not be showing up. Among the 13 nations in the Organization of Petroleum Exporting Countries (OPEC), only Libya -- whose output is crippled by conflict -- has ruled out going to Doha. Additionally, the key OPEC member resisting a production freeze is Iran. While it will send a representative to observe the discussions in Doha, Iran has insisted it will not constrain production before restoring output to pre-sanctions levels (Wouldn't that be a clear deal breaker based on recent comments made by the Saudi deputy crown prince ?!).

How Likely is an Agreement?

Forty (40) traders and analysts surveyed by Bloomberg this week were evenly split on whether there will be a deal. While Russia's Energy Ministry is "optimistic" and Qatar's has a "positive feeling," Saudi Arabia has said it will only cap its output if Iran follows suit -- a notion Tehran has dismissed as "*ridiculous*."

What Impact Would a Freeze Have on Oil Prices?

Crude has rallied more than 30% to above $ 40 a barrel since the preliminary freeze accord in mid-February prompted a shift in market sentiment. A final accord could lock that gain in place, or even extend it to $ 50, said Bank of America Corp. Yet a freeze will do little to markedly reduce the current oil glut in markets, because Saudi Arabia and Russia -- the world's biggest crude producers -- are already pumping near record levels. Other producers that have confirmed they will consider joining the freeze produce about 47 million barrels a day of crude, but many of those nations were already pumping flat out in January, with little scope for increasing output. Morgan Stanley still anticipates that "our downbeat oil view is unchanged" by the prospects of a freeze.

Would the Freeze Make a Difference?

With most Doha participants already expected to keep output steady, **much more important for the oil market will be what happens in the U.S. and Iran in coming months**. Declining shale oil production is expected to make up the lion's share of the 710,000 barrel-a-day reduction in output from non-OPEC countries this year, according to the IEA. Iran plans to increase production by about 700,000 barrels a day this year from the 3.3 million pumped in March. Any deal that pushes prices up would be "self-defeating" because it would allow a revival of drilling by U.S. shale producers, who can return to work at $55 a barrel, according to Goldman Sachs Group Inc. That would only postpone the supply curbs analysts say are needed to re-balance overloaded global markets.

Can an Agreed Freeze be Properly Monitored and Enforced?

During previous supply cuts, OPEC monitored members' compliance using data on their production provided by external sources such as news agencies and tanker-trackers. It had no mechanism to punish countries that broke their limits and members habitually exceeded the group's quotas, before production targets were effectively abandoned in December. In fact, OPEC has grounds to doubt the sincerity of its partners. The last time it struck a deal with rival suppliers was in late 2001, when Russia, Mexico, Oman, Angola and Norway promised to cut supply by a combined 500,000 barrels a day. Yet by the middle of the following year, Russia had actually increased output and the only production declines were in Mexico and Norway.

What if There is No Deal?

With positive expectations growing over the past week, oil traders embarked on a buying spree that has pushed crude to a four-month high. If meeting ministers fail to reach an accord, prices will see a "severe negative impact," Citigroup Inc. predicts. OPEC's refusal to cut output in 2014 prompted calls to write the group's obituary, and an inability to finalize the freeze might see such scenario being finally carved. The ensuing disappointment could drag prices back down to high $20 / low $30 a barrel!!

With OPEC members burning through their petrodollar assets/reserves at an accelerating pace over the past year, regional budget deficits fast expanding and rating agencies not missing an opportunity to cut GCC sovereign credit, one can only hope that pressure will be high on all participants to reach a solid deal to freeze production that would in turn bolster oil prices and stabilize markets "in the interest of a healthier economy" (same words used in the invitation letter sent by the Qatari authorities). Many observers say there seems to be an atmosphere of willingness to compromise this time around. "Inshalla" this won't merely be political positioning to shift the blame should talks collapse over the weekend!!

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