

Something geopolitically dangerous brewing in Saudi Arabia? - Last Wednesday OPEC, in an effort to keep oil prices from falling out of bed, responded to the coronavirus situation (somewhat reluctantly?) by agreeing to cut production by 1.5MM bbl/d. But when Russia didn't agree to do its bit, Saudi Arabia threatened to open its oil production sluice gates (& *start liquidating inventories to have an immediate impact?*) by bumping up its daily oil production by 20+% to 12MM bbl/d, to which Russia responded, in a mutual 'cutting off their noses to spite their faces' move, by announcing that in that case it would increase its output by 500,000 bbl/d ¹. This will have a significant & immediate impact on the US economy since its shale oil producers have breakeven prices in the US\$48-54 range & the US oil sector accounts for 10.8MM jobs & 7+% of its GDP. Then on Friday MBS (Saudi Arabia's Crown Prince Mohammed bin Salman) had four prominent members of the Royal Family arrested & charged with treason (an offense punishable with death) & had that followed up the next day with a sweep of Interior Ministry officials & senior military personnel.

The four arrested were :

- **Muhammed bin Nayef**, age 60, (named in April 2016 by Time magazine as one of "the 100 Most Influential People), he was a long time Interior Ministry official & briefly its Minister and is the country's foremost anti-terrorist expert, who survived four assassination attempts. After the death of King Abdullah on January 23rd, 2015 he was first named by King Salman that same day to be the Deputy to the former Deputy-, & now -, Crown Prince, 69 year-old Muqrin bin Abdulaziz & then, three months later, on April 29th, named Crown Prince in his own right, replacing Prince Muqrin, until he himself was fired on June 21st, 2017 & replaced, after having been physically "confined to quarters", albeit in his own palace, by the King's youngest & favourite son Mohammed bin Salman (aka MBS);
- **Ahmed bin Abdulaziz**, age 78, King Salman's sole surviving brother, who, UK & US educated, had served as Deputy Interior Minister from 1975-2012 (and who while living in London in 2018, when confronted by protesters outside his house had told them not to blame him but King Salman & MBS, shortly after which he returned home, according to some in an effort to shore up support for the monarchy after the Khashoggi murder;
- **Nayef bin Ahmed bin Abdulaziz**, Ahmed's son who has a Ph.D. from Cambridge and was a colonel in the Saudi Land forces responsible for its Intelligence and Security Authority; and
- **Nawaf bin Nayef**, Prince Muhammed's younger brother.

The latter two were released late Sunday March 8th.

Initial rumours that the King's health had suddenly deteriorated prompted the release of a series of photographs showing him performing public duties, incl. receiving foreign diplomats. But that doesn't alter the fact that he is 84 years of age & believed to be suffering from more than the usual age-related health problems, incl. mild dementia, nor the fact that MBS' comet-like rise & current 'star status' in the Saudi political firmament, is heavily dependent on his father's ability to keep breathing & not 'lose his marbles'. So while this move has generally been portrayed as one by MBS to "consolidate his power", its more likely that this was what the military calls a "preemptive strike", a move to repel an imminent attack, i.e. a sign of weakness, not strength.

¹ For it doesn't take a financial Einstein to figure out that a 20% hike in volume (and/or 5% for Russia), nowhere near offsets the 25+% decline in the Brent oil price this week.

For MBS is young (34), 'full of himself' & 'power-drunk', and totally unequipped for his present exalted role (just three years ago he was just a 'princeling' holding down a minor, sinecure junior public servant position, whose prime asset was, & remains, that he is the apple of his aging father's eye); i.e. the source of his power is an octogenarian with one foot in the grave & the other on a banana peel.

Right off the bat, his elevation to the position of Crown Prince created resentment within the 6,000+ member Royal Family. And ever since everything he has touched has turned to s***. As Minister of Defense he has been responsible for the conduct of the disastrous, now 7 year-old, war in Yemen, that is now a blemish on the Royal Family's, & the country's, escutcheon, as did his alleged role in the Jamal Khashoggi murder. And back home, the cost of his McKinsey-inspired economic diversification-targeting Vision 2030 dream (that so far is a flop) has prompted :

- the 2017 roundup of dozens of princes & rich entrepreneurs, and their forcible confinement in a luxury hotel until they surrendered some of their wealth;
- pay cuts for public sector employees;
- the introduction of a 5% VAT that has caused considerable pain for the more than one-fifths-, & growing number-, of Saudi citizens that are "poor" & , more importantly, for the far more numerous, 'nouveau riche' middle class, whose status has been a function of government jobs and government largesse & handouts that have begun to dry up; and
- more *well-educated*, young Saudis to start thinking about leaving the country.

And, after an economic growth fillip in 2018 that followed a poor 2017, in 2019 the economy headed South again and the impact on the oil price of MBS' silly oil production 'war' with Russia is driving the price of oil further below the US\$75 'fiscal 'break-even' oil price ² that Saudi Arabia needs to 'balance its books', while the now coronavirus-driven limitation of access to the Holy Cities of Mecca & Medina & the suspension of the Umrah year-around pilgrimage are depriving the government of an important source of non-oil revenue, while the quarantining of the Qatif governorate in the oil-, & oil infrastructure-, rich Eastern part of the country may add to domestic unrest; for that region has long been a source of political unrest since one in ten of the Saudis who live there are of the Shiite-, rather than Sunni-, persuasion.

All the above, are possible vanguards of political upheaval in Saudi Arabia that could have major global geopolitical consequences.

Wednesday morning March 11th "weather vane" news bytes :

- Aramco received a directive from the Ministry of Energy to raise its "output capacity" to 13MM bbl/d from the 12.3MM bbl/d it had announced the day before (presumably in a desperate move to try & make up in volume for the last few days' unexpectedly high drops in the price of oil (*with China being quick to take advantage thereof?*));
- Occidental Petroleum slashed its quarterly dividend from 79 to 11 cents US and its planned 2020 Capex outlays by one-third to US\$3.5-3.7BN, as well as its operating costs "to lower our cash flow breakeven level to the low 30s WTI ...to succeed in a low commodities price environment";

² With the price of Brent crude not having been anywhere near that level since 2014, Saudi Arabia's debt-to-GDP ratio has gone from 1.56% in 2014 to a current 28.37% & is expected to hit 41.49% in 2024.

- rumours that the Trump Administration will extend the April 15th tax filing deadline to help individuals & businesses cope with their coronavirus-driven cash flow interruptions (which will significantly boost the Treasury's April borrowing requirements);
- the CEOs of half a dozen major banks, incl. BoA, Citi & Wells Fargo, were summoned to a 3:00 p.m March 11th White House meeting with the President to discuss the waiving of their fees & other measures within their capabilities (*including delays in payments with adverse consequences for the borrowers?* to help individuals & small businesses cope with the coronavirus-driven drop in their cash flows; and
- Goldman Sachs, that last Monday warned (as it turned out correctly) that oil prices were in for a catastrophic drop, prophesied the end of the now 11 year-old bull market due to "shrinking profit growth".

Trump's nitwit payroll tax holiday proposal - While Larry Kudlow, the *economic lightweight* White House Economic Adviser, told reporters that "the payroll tax holiday proposal is probably the most powerful piece' of this ..." (*Trump stimulus* package, it's nothing of the sort; for this 14% tax is paid **in its entirety** by the employers who can only recover only a mere 4% thereof from workers' paycheques). So very little of this initiative would benefit workers who as consumers are the major drivers of an economy whose growth is nearly 70% consumption -driven.