

What Really Happened to Global Oil & What's Coming Next

Global Macro Research

DDPM Team, 15 March 2020

When applying to Harvard, American Comedian, Conan O'Brien, wrote on his undergraduate application, "I want to think about everything three different ways."

To truly understand what happened during the recent *March Madness* and what's coming next in global oil involves grasping the three underlying forces at play and what the expected outcomes mean for the conservative Australian domiciled global investor who is attempting to deciphering, whether:

A. The inverse of the [1973 OPEC oil embargo](#), leading to the dismantlement of OPEC itself.

B. This is a redux of the decade-long [1980's Oil Glut](#) price war.

C. A rerun of the [2015-2016 supply glut](#), which saw US Shale and Canadian Athabasca Tar Sands [go into hibernation](#), as production reduced by several million barrels per day, recovering to [full production by 2018](#).

D. The likely scenario, which is this is a short-lived Saudi-Russian tactical and limited price war extending upon a personal fracas continuing between former close friends, Saudi Crown Prince, Mohammad Bin Salman and Russian President ([now until 2036](#)) Vladimir Putin.

E. [Iranian wrangling's](#) – accepting that the hot button Persian-American confrontation is yet to flare and likely will, leading up to Trump's final push towards Tuesday, 3 November 2020 (think 1998's [Operation Desert Fox](#))

To accept that scenario (D) is cogent, it is important to not only grasp but unravel why the three very different but equally impactful underlying forces exist and are influencing the global economy in such a seismic way in late Q1, 2020.

The first underlying force is the energy transition megatrend itself, seeing a [decarbonisation of the global economy](#), which albeit lethargic, is happening and favours [lighter crude oil producers, such as US frackers](#).

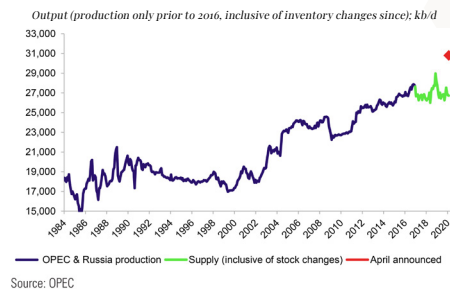
The second is [as Carl von Clausewitz taught us, that war is the continuation of politics by other means](#) and the decision from Russia to unwind the artificial price



support that OPEC+ had created since 2016 is rational when viewing through a Russian lens the following:

- (I.) Counterweighting US political interference in Venezuela,
- (II.) Retaliation for the proxy fighting during the Battle of Aleppo (2012–2016) in Syria,
- (III.) Assassination of affiliate, Iranian General Soleimani and
- (IV.) Putin challenging the OPEC heavyweight Saudi Arabia, which had the clear outcome of a sharp price sell-off witnessed last weekend.

OPEC+ Announcing Supply Increases For The Month Of April



This is not the first time in recent history [Russia has affected Australian domiciled investors](#) (or citizens) – MH17.

The third and most insidious underlying force at play is Russian and potentially Chinese interference in the upcoming US Presidential Elections slated for Tuesday, 3 November.

With speculation that the current Saudi-Russian fracas will vex both counterparties, US\$50-100 billion each annually, the motivating drivers are more likely to be underpinned by [Realpolitik](#) and hegemony than [pecuniary advantage](#).

Putin's best shot at projecting power over the outcome of the upcoming US Presidential elections is to remind Trump and Democratic frontrunner Biden that Russia's "[Crazy Ivan](#)" over global oil price levels will start creating acute financial stress and declining production pressure directly upon US shale as well as other higher cost producers, such as Canada, Australia and China.

[The Cold War American equivalent of a Soviet "Crazy Ivan" was called a "[Yankee Doodle](#)"]

The US energy community sit at the core of Trump's support base and production-led, reliable, lead US indicators suggest [supply costs and inflationary expectations weigh as heavily](#) on the Trump faithful as does [demand-pulling acolytes of the COVID-19 RINO's](#) and undecided.

Putin without the assistance of China's President Xi, hurt US hegemony in 2016 and the likelihood he will again in 2020 presents as an obvious, clear and present danger to us all.

Conflating a [depleted Europe, fallen hegemonic power, belligerent China, an irascible Shia](#) Bad Actor, hubristic Crown Prince, highly-motivated Soviet autocrat and pathological American leader, not only sets the stage for volatility in 2020, it leads us all to the obvious proxy battleground found in the mercantile exchange of crude oil.

Above and beyond the [seismic shifts in economies](#), for those who cannot yet compete in the hegemonic tussle for [quantum supremacy](#) found via the routes of [Artificial Intelligence](#) and [quantum computing](#), energy markets present as the best next path to projecting influence and in 2020, that means a [Battle Royal](#) for Saudi Arabia, Russia and Iran.

March Madness is by no means over... [watch this space](#). ■

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