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By Larry Elliott

Stakes are high as US plays the oil card against Iran and Russia

Washington is trying to drive down prices by flooding the market with crude but risks collateral damage to its own shale industry

У нафтовій грі США проти Росії та Ірану ставки зростають

Вашингтон намагається знизити ціни шляхом наповнення ринку, але з ризиком паралельного збитку власної промисловості

На початку 2014 року ні в кого не було сумнівів у зростанні світової економіки. Проте влітку ціна на нафту почала падати, також спостерігається затишшя в світовій економіці, економічна стагнація в єврозоні. На цьому фоні США разом зі своїм союзником Саудівською Аравією намагається наповнити ринок нафти, тим самим послаблюючи Іран та Росію, економіка яких дуже сильно залежить від експорту нафти. Ходять чутки, що США заключили угоду з королем Саудівської Араваії, згідно якої ця країна буде продавати нафту за ціною, що є значно нижчою від ринкової. Мотивація до таких дій є як у влади США, так і у влади Саудівської Аравії.

http://www.theguardian.com/business/economics-blog/2014/nov/09/us-iran-russia-oil-prices-shale

Imagine that at the start of 2014 you were an investor who liked to dabble in the commodity markets. You could sniff something going seriously wrong in Ukraine and you were alarmed by early reports of groups of militants marauding across northern and western Iraq.

With hopes that the global economy would continue to strengthen, the smart money would have been on oil prices continuing to climb. That’s what geopolitical tension plus robust demand usually means.

On this occasion, though, the smart money was wrong. After standing at well over $110 a barrel in the summer, the cost of crude has collapsed. Prices are down by a quarter in the past three months. More oil has been pumped at a time when the global recovery has faltered, with traders caught unawares by the slowdown in China and renewed stagnation in the eurozone.

That, though, is not the whole story. The fourfold increase in oil prices triggered by the embargo on exports organised by Saudi Arabia in response to the Yom Kippur war in 1973 showed how crude could be used as a diplomatic and economic weapon. History is repeating itself.

Think about how the Obama administration sees the state of the world. It wants Tehran to come to heel over its nuclear programme. It wants Vladimir Putin to back off in eastern Ukraine. But after recent experiences in Iraq and Afghanistan, the White House has no desire to put American boots on the ground. Instead, with the help of its Saudi ally, Washington is trying to drive down the oil price by flooding an already weak market with crude. As the Russians and the Iranians are heavily dependent on oil exports, the assumption is that they will become easier to deal with.

John Kerry, the US secretary of state, allegedly struck a deal with King Abdullah in September under which the Saudis would sell crude at below the prevailing market price. That would help explain why the price has been falling at a time when, given the turmoil in Iraq and Syria caused by Islamic State, it would normally have been rising.

The Saudis did something similar in the mid-1980s. Then, the geopolitical motivation for a move that sent the oil price to below $10 a barrel was to destabilise Saddam Hussein's regime. This time, according to Middle East specialists, the Saudis want to put pressure on Iran and to force Moscow to weaken its support for the Assad regime in Syria.

Turning on the oil spigots comes at a cost. The Saudis, like all other producers, have become accustomed to oil above $100 a barrel. The Arab spring in Libya and Egypt raised fears that the political unrest would spread. Oil revenues financed higher public spending, so Saudi Arabia needs the price to be above $90 a barrel to balance the books.

But a bit of pain is acceptable. The Saudis are gambling that they can live with a lower oil price for longer than the Russians and the Iranians can, and that therefore the operation will be relatively short-lived.

There is no question that this new manifestation of cold war muscle is hurting Russia. Oil and gas account for 70% of Russia's exports and the budget doesn't add up unless the oil price is above $100 a barrel. Moscow has foreign exchange reserves, but these are not unlimited. The rouble fell by 10% last week. That adds to the debt servicing costs of Russian firms, and the central bank is under pressure to push up interest rates, which should help stabilise the currency, but only at the expense of a deeper recession.

But thus far, Russia's foreign policy does not appear to have been affected. Support for President Bashar al-Assad of Syria remains strong and there were reports at the end of last week of Russian troops entering eastern Ukraine. It remains to be seen how Iran will react. In the meantime, the Middle East looks as unstable as it has ever done.

Provided it is sustained, a falling oil price will boost global growth. Andrew Kenningham at Capital Economics estimates that if the cost of Brent crude settles at $85 a barrel, the upshot will be a transfer of income from producers of oil to consumers of oil amounting to 0.9% of global GDP. As consumers tend to spend a higher proportion of their income than producers, demand will increase. The big winners will be the big oil consumers: China, India and Europe.

Simultaneously, inflation will fall. The drop in the oil price so far is enough to ensure that headline inflation is around half a percentage point lower in advanced countries next year. That would be enough to take inflation below 1% in the UK and below zero in the eurozone. Lower inflation should help to boost consumer and business spending because budgets will stretch further. For the US, the picture is more mixed. Washington's willingness to play the oil card stems from the belief that domestic supplies of energy from fracking make it possible for the US to become the world's biggest oil producer. In a speech last year, Tom Donilon, then Barack Obama's national security adviser, said the US was now less vulnerable to global oil shocks. The cushion provided by shale oil and gas "affords us a stronger hand in pursuing and implementing our national security goals".

Recent US production of crude has certainly been impressive, with a jump of almost 50% from 5.7m barrels a day in 2011 to 8.4m barrels a day in the second quarter of 2014. This increase in supply has meant that any reduction in supplies from Iran or Russia due to sanctions can be absorbed without disrupting the global economy.

But the sharp drop in the oil price will make some shale fields unviable. That is especially true of planned new developments, where a high price is needed to cover start-up costs. But it is also true of some of the more mature fields, where the rapid depletion of reserves has forced companies to go deeper – at greater expense – in search of supplies.

At the weekend, George Osborne announced that he supported the idea of putting revenues from shale production in the north of England into a sovereign wealth fund for the north. The idea would be to prevent the proceeds being squandered on day-to-day spending, which – sadly – is what happened to the revenues from the North Sea.

Friends of the Earth said the chancellor's intervention was a cynical ploy designed to win over strong opposition to fracking. It was certainly ill-timed. One side-effect of the US-Saudi attempt to drive down the oil price will be to prick the shale bubble.