



Zanetti Monday Missive 2022.10.24 Oil's Well That Ends Well

"By the fall of 1918, it was clear that a nation's prosperity, even its very survival, depended on securing a safe, abundant supply of cheap oil."

~ Albert Marrin, *Black Gold: The Story of Oil in Our Lives*

**"And then one day he was shootin at some food,
And up through the ground come a bubblin crude.
Oil that is, black gold, Texas tea."**

~ Theme song from the Beverly Hillbillies

Hello Everyone,

You all probably heard on the news a few weeks ago that OPEC+ announced they are decreasing oil production by 2 million barrels a day.

Before we go into what that means, let's peel back the layers a bit.

First, let's look at OPEC+.

“OPEC” refers to the “Organization of the Petroleum Exporting Countries” which started in 1965 by the first five members: Iran, Iraq, Saudi Arabia, Kuwait, and Venezuela.

Saudi Arabia remains one of the natural leaders of OPEC since it controls one of the largest oil reserves in the world.

The “+” of OPEC+ refers to the additional nations that have align with the group even though they are not technically a part of the group. Russia is one of the “+” nations.

So, as oil prices started to come down from the summer highs, OPEC+ announced they would decrease supply – which thereby keeps oil prices high by limiting supply.

Remember Econ 101: it's all about supply and demand.

Russia is rich in oil as well, but since they invaded Ukraine, the West has been waging an economic war against them with the goal to break them financially.

Russia needs money to fight this war, so they proposed cutting oil production by 1 million barrels a day, to keep prices high. Even Russia was surprised when Saudi Arabia doubled their requested cut.



(UAE's President Mohamed bin Zayed Al Nahyan with Russian president Vladimir Putin, days after OPEC+ cut oil production, 11 October 2022)

To read between the lines, I think it's safe to say the OPEC+ nations are supporting Russia in the Ukrain War – or at least they do not oppose them the way we do.

The really concerning detail here is that Saudi Arabia has an agreement with the United States that they will only sell oil in US Dollars in exchange for military protection. That goes back to the Petrodollar deal Henry Kissinger penned with King Faisal of Saudi Arabia back in 1973.



(Henry Kissinger & King Faisal)

Since the chaotic US withdrawal from Afghanistan last summer, we have speculated that Saudi Arabia might be a bit nervous about their reliance on US military protection.



Well, now we are a bit more nervous.

Last week it was announced by the South African President, Cyril Ramaphosa, that Saudi Arabia has expressed interest

to join BRICS.

Wait a minute! "BRICS"???

You thought I was done throwing acronyms at you, didn't you? Well, not so fast! Let's review BRICS.

BRICS stands for the emerging economy nations that first joined together: Brazil, Russia, India, China, and South Africa.



(The current set of BRICS leaders, from left to right: Xi Jinping, Vladimir Putin, Jair Bolsonaro, Narendra Modi and Cyril Ramaphosa)

Their goal has been to provide mutual support in becoming major economic powers. They first started meeting in 2009 and over the years, have made progress in their goals. This year, they announced their goal of creating a BRICS payment system (to replace SWIFT – the payment system that was used to cut Russia off economically) and a BRICS basket reserve currency (a currency system to be backed by a

basket of commodities those countries are rich in).

So when Saudi Arabia announces they are interested in joining BRICS, it sure does get our attention!

What would this mean? Well, for one, it would potentially mean oil not necessarily be purchased with US dollars.

What would that mean for the dollar?

Not sure exactly, but since the US left the gold system in 1971, oil is the main commodity that the dollar represents.

The other concerning thing here is that I don't expect the US to lay down and let itself be replaced as the world reserve currency backed by oil. We have a very large military and we've been known to use it to secure our global interests.

One thing we can say for sure is that oil will remain an essential energy commodity for some time to come, regardless of how unpopular the black gold may be in some political circles.

Your Don't-Tell-Secrets-In-A-Corn-Maze-Because-There-Are-Ears-Everywhere Financial Advisor,

Walt

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