“OPEC’s Action Is Testimony To A Staggering US Geopolitical And Geoeconomic Error”

Description

RUSSIA: Yesterday was all about oil, geopolitics, and geostrategic errors; and, in the background, domestic politics, accepting past errors, and trying to make amends for them. Ironically, it all happened on Yom Kippur, the Jewish Day of Atonement, which back in 1973 jump-started a Middle East war, and then the energy crisis that led to the collapse of the post-WW2 Western political-economy model, and ushered in global neoliberalism.

OPEC+ lined up with Russia to slash output by 2m barrels a day from November and through 2023, pushing energy prices up, and seeing a slew of calls for oil to again top $100 in the near future. That was as US gasoline inventory data dropped 4.7m barrels to the lowest level since November 2014 *despite* apparent demand destruction.

The White House response was *furious*. The official statement said President Biden was *“disappointed by the short-sighted decision”* to cut production. The White House Press Secretary accused OPEC+ of “*aligning with Russia*” Off the record the response was probably blunter given such a cut had been flagged as a “*hostile act*”. Yet Saudi Arabia’s message to the White House also couldn’t have been blunter.

The Saudis have moved from swing producers who help the US at times of trouble to ones who cut to keep prices high; under a leader building Western-style tourist resorts and holding raves(!) That’s testimony to a staggering US geopolitical and geoeconomic error, compounded by its multi-layered domestic energy policy failures. The longer-term question is if it will prove to be the same kind of massive error for OPEC+ to have made itself a geostrategic problem for the US.

The near-term US policy responses underway are to double down on what is not working:

- Another 10m barrels will be released from the Strategic Petroleum Reserve, which is not bottomless, and may be needed in a geopolitical emergency at some point.
- To “*explore any additional responsible actions to continue increasing domestic production in the immediate term*.” But there is no immediate private-sector response possible if the longer-term

outlook is still to shut fossil fuels down.
- Calling on US energy companies to bring pump prices down by closing the historically large gap between wholesale and retail gas prices – which is already slim for most retailers.
- To consult with Congress on additional tools and authorities to reduce OPEC's control over energy prices. This is even whispered to include the so-called NOPEC bill floated in 2007 but never enacted, which is designed to remove the state immunity shield and allow the international oil cartel, OPEC, and its national oil companies, to be sued under US antitrust law for anti-competitive attempts to limit the world's supply of petroleum.
- To accelerate the clean energy transition, without the minerals or supply chains to do so, by increasing "reliance on American-made and American-produced clean energy and energy technologies".
- Despite the White House's Kirby talking about 'reducing dependence on foreign oil production', the Wall Street Journal reports the 'US Looks to Ease Venezuela Sanctions, Enabling Chevron to Pump Oil': so a tiny gain in oil and a massive loss of deterrent power and loss of face.

Do you see the geopolitical and geoeconomic tectonic plates shifting? Do you see how this influences markets? If not, you are in the wrong game.

No Fed pivot is possible against a backdrop where oil prices march higher on supply destruction in response to demand destruction as monetary policy is tightened. The Fed's Daly and Bostic both made that clear yesterday –"no cuts in 2023"– but the geopolitics does the work for them if you choose to see it. Indeed, that backdrop, together with decent ADP employment and the ISM non-manufacturing report, saw bond yields up as a result: US 2s were up from 4.08% to 4.19% before closing at 4.14%; 10s were up from 3.62% to 3.78% before closing at 3.74%.

> Fed hiking rates to crush oil demand and send US economy into recession fast.
>
> OPEC+ cutting supply to offset reduced US oil demand and send US economy into recession even faster so Fed is forced to cut rates.
>
> — zerohedge (@zerohedge) October 5, 2022

So to further atonement.

Some draw comparisons between Biden, who has apparently decided to run again in 2024, and Carter. Both preside(d) over soaring inflation led by energy prices. So did Nixon, whose problems started with the 1973 Yom Kippur War and the massive, deliberate, geopolitical supply-destruction-led surge in oil prices that followed it.

Carter tried to get US hostages out of Iran by force, and failed, while the Arab press reports Biden is about to send $7bn to a cash-strapped Tehran regime failing to keep its own people under control as a quid pro quo for the release of two US hostages.

But more importantly, Carter, a progressive, started the US neoliberal journey, while Biden, far less of a progressive, has appointed figures determined to take policy in a less Borkian ("bigger is always better") direction. And while Nixon 'went to China', Biden is going back home.

As journalist @lhfang argues of the US, *"There's a consensus around a desire for an economy that is less dominated by the rich and special interests, less monopoly power, less greed and mindless consumerism.*

You see this sentiment on the left and right, but there's no clear language to describe this sentiment." To which area expert Matt Stoller replies, *"The anti-monopoly movement spans both parties, and is changing policy on trade and antitrust. There isn't yet a shared political language."*

Recall what I have been arguing about our need for an ideological "-ism" that explains what to do in a chaotic world where nothing works the way it used to? And how until you settle on one, you have difficulty moving ahead with the policy you need to see? In the interim we will continue to get starkly different responses that won't work… as we see on the combination of US energy and foreign policy.

In the long run, the "-ism" that will work best for the US is going to be a dressed up, watered down version of mercantilism. Even the green energy policies it is promoting are that.

In the UK, we see the opposite reaction to the failure of the consensus: fundamentalism – of the neoliberal variety. (Such an impulse is often the case with religions like neoliberalism.)

PM GaLizriel gave a Party Conference speech in which she said ~~"I have a Tempest in me!"~~ she would get the UK "through the Tempest". Well, someone is using magic to conjure a storm and torment the survivors of a shipwreck, as happens in the Shakespeare play of the same name. Her key policy pitch was: *"I'm not going to tell you what to do, or what to think or how to live your life. I'm not interested in how many two-for-one offers you buy at the supermarket."* So, we will fight a geopolitical and geoeconomic war individually, fuelled by biscuits: how empoweringly British!

In Europe, there is still not enough atonement. Germany's Economic Minister came close to accusing the US and other allies of "war-profiteering" over the prices at which it is selling them LNG to keep them warm this winter. As Bloomberg's Javier Blas points out, Europe is outbidding poorer, Asian buyers for LNG to compensate for its own enormous geostrategic and energy policy errors, so far less well-off people are suffering for it: and yet it still has the temerity to suggest it should be given 'mates' rates' to ease its own pain.

Things also do not sit well within the EU either over Germany's EUR200bn energy subsidy, on top of their previous EUR65bn subsidy. Rather than planning one EU 'war economy' with rationing, we instead face 27 rival European war economies all fighting each other for market share. Germany is saying its deeper pockets, the product of having benefitted most from the euro, mean it can out-subsidise its energy-uncompetitive industry while everyone else in Europe loses theirs. Is it any surprise that following the lead of Italy, Spain and Belgium are both warning of risks to the Single Market from such German actions?

The same is true if the ECB steps in to help along some of the lines being muttered about: if it is going to keep its balance sheet constant by selling some assets (i.e., German debt?) to buy others (i.e., Italian debt? Which it is already the main buyer of) then it is an extension of the differentiated credit regime I have been arguing will become inevitable in my "MMT *and* higher rates" view. Yet the ECB would differentiate between *countries*, not sectors *within* a country. That will be desperately political and desperately unpopular with some.

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But there is still time to atone.

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Category

1. ECO-Climate-Environment
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