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BULLETIN

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MBS DOUBLES DOWN

The meltdown in Doha provides ample evidence that Deputy Crown Prince Mohammed bin Salman is calling the shots in Riyadh, boldly intervening at the 11th hour to scuttle talks on a production freeze unless both Iran and Libya signed up for it.

The freeze would not have substantially altered the supply/demand balance. But the notion that the world's major producers were more keen on cooperating than engaging in heated competition with each other helped lift prices by 50% from mid-February lows. Since that time, evidence has mounted that production has been falling in many different countries besides the closely-watched numbers coming from the U.S.

Last week, China reported its fourth consecutive month of declining crude oil production since November. Crude oil production in March, at 4.1 million b/d, was 207,000 b/d (-4.8%) lower than November. Neither the IEA nor the EIA have called attention to the decline, although China is the fifth largest producer in the world. Beijing expects production to fall by 7% this year.

Credibility
Despite these positive trends, the meltdown in Doha may cost producers dearly as they wait for the market to come into balance. The meltdown unfolded after the Doha participants reportedly okayed a draft agreement on the night of April 16. Hours later, Oil Minister Ali Naimi received instructions from Riyadh--no doubt from Deputy Crown Prince Mohammed--that any deal was off without Iran and Libya. The last minute reversal came as a surprise to all and raised questions about Saudi Arabia's credibility as a leader.

Russian Energy Minister Alexander Novak has been quoted as saying both that Saudi Arabia was joined by some other GCC allies when it scuttled the talks and that it acted on its own. Leading up to the meeting in Doha, Putin had personally intervened with the Russian oil barons to get them on board for the freeze proposal. He may take the Saudi action as a personal betrayal. The Russian press has reported the failure of the Doha talks with dismay.

One top business daily, *Kommersant*, quoted a Russian oil expert sayings that the Saudis either did not intend to sign the agreement from the very beginning or the country's oil minister was "not completely independent while making decisions," adding that "the second scenario seems to be more plausible." Iran, predictably, blamed Saudi Arabia for suddenly "sabotaging" the agreement.

Markets Take Meltdown in Stride
The oil market reaction has been relatively muted after an early dive. The Saudi stock market dropped by 2.8% yesterday, but has since retraced half of the loss. The atmospheric damage from Doha has been partially mitigated by the oil workers' strike in Kuwait, which has--at least temporarily--cut production by more than a million b/d.

Doubling Down
MBS, as Prince Mohammed is frequently referred to, is not known to have played any significant role in Saudi Arabia's decision in November 2014 to stop trying to prop up prices by shouldering the major burden of supply management at OPEC.

However, shortly after King Salman's accession to the throne in January 2015, the Kingdom increased it production by about 600,000 b/d. From August 2014 until February 2015, Saudi production had averaged 9.65 million b/d before rising thereafter to an average of 10.28 million b/d. The decision to increase production was seen by some as a bold move to double down on a bet that lower prices would help clear the market faster. But it also contributed to a massive stock-build which will need to be cleared at some point.

"Destroy Many Markets"
In an interview with *Bloomberg* late on April 14, MBS was quoted as saying that the Kingdom could increase output to 11.5 million b/d immediately and go to 12.5 million in six to nine months "if we wanted to." He added that the country could also increase total production capacity to a maximum of 20 million b/d. "I don't suggest that we should produce more, but we can produce more. We can produce 20 million b/d if we invested in production capacity, but we can't produce beyond 20 million." But he also added: "If we produced more oil than there is demand, we would destroy many markets. So we consider supply and demand, and we look at any demand we receive and we deal with it."

Bold and Decisive
MBS has made other bold moves on Saudi policy and his fresh thinking has won him strong support from the Kingdom's youthful population. He was the prime mover in the decision to launch a coalition military campaign in Yemen more than a year ago. It has not fully achieved its objectives. Late last year he launched an ambitious and much-needed effort to reduce energy subsidies in the Kingdom. In addition, he has championed the privatization of a number of routine government services, resulting in better delivery of those services.

Prince Mohammed's most ambitious privatization goal is a proposed IPO for Saudi Aramco, although it appears to be based on inflated expectations of the sort of price-earnings ratio which shares in the company might command. He has not addressed the anti-trust issues which a privatized Saudi Aramco might raise. MBS has also inspired journalists to write about a Saudi sovereign wealth fund which would be large enough, at $1.8 trillion, to own all of Apple, Alphabet, Microsoft and Berkshire Hathaway. However, those four companies today pay dividends of only $21 billion--not a good substitute even for current oil revenues.

GCC Summit

Qatari Energy Minister Mohammed Al-Sada announced after the Doha meeting that participants agreed they needed more time for discussion and pointed to the June 2 OPEC meeting as another opportunity to discuss options. More immediately, GCC leaders are to assemble in Riyadh on April 21 for a summit, to be held in part to consult with President Obama on defense and security issues. If any of these leaders have reservations about how the Doha meeting unfolded, they may be able to share their feelings with King Salman and Crown Prince Mohammed bin Naif.