

# Oil tanks while US midterm theatre reaches financial markets



By Ole Hansen

Global stock markets bounced and the dollar weakened following comments from President Trump that trade discussions with China were “moving along nicely” and after he supposedly, and later denied, ordered a draft of a US-China deal.

Commodities struggled despite the weaker dollar with crude oil heading for its worst week since February in response to rising production and a potential lower-than-expected Iran sanctions impact.

The dollar reached a fresh 16-month high against a basket of currencies before running into long liquidation in response to Brexit optimism, China announcing additional measures to stimulate its economy and not least the above-mentioned trade comment from President Trump.

Trump and China’s Xi Jinping will meet at the G20 meeting in Argentina between November 30 and December 1.

Earlier this week, the US president threatened to apply

tariffs on all remaining Chinese imports but then a phone call, the first in six months, between the two leaders suddenly lifted expectations that a solution could be found. We would strongly suggest that this is nothing more than theatre designed to boost the market ahead of next Tuesday's midterm elections.

The increased risk appetite failed to extend to commodities with the Bloomberg Commodity Index trading lower for a fourth consecutive week. The index, which tracks 24 major raw materials across energy, metals and agriculture, was hurt by a continued selloff in energy and post-Brazilian election profit taking in sugar and coffee.

The weaker dollar especially against the Chinese renminbi helped give the metals a boost. John Hardy, Saxo Bank's Forex Strategist noted that: "We have speculated over the last couple of days that the CNY boost could be a move by China to pull the currency well away from its assumed floor (7in USDCNY terms) ahead of the G20 meeting".

These developments, nevertheless, helped lift industrial metals, and with that demand for semi-precious investment metals such as silver and platinum.

Both of these have struggled to keep up with gold during the past few weeks. Silver showing signs of life with a break above \$14.85/oz signalling a possible extension, initially to \$15.23/oz.

The biggest mover was crude oil which was hit by a triple dose of price negative news which further help support the negative momentum that had built up following the sharp rejection above \$80/barrel just a few weeks ago.

Instead Brent crude has returned to its \$70/b to \$80/b range that prevailed between April and August.

While we still maintain the view that Brent crude oil could reach \$80/b before year-end, the risk of an extension above has been sharply reduced this week with the change in sentiment being caused by these three major drivers:

n The EIA reported last week that US oil production jumped 3.8% in August to reach a fresh record of 11.346mn

barrels/day, a staggering year-on-year jump of 2.1mn barrels/day. Russia meanwhile said its October production reached 11.412mn barrels/day, a post-Soviet record.

n Reuters and Bloomberg Opec production surveys for October both showed that production, despite the drop from Iran, had reached the highest level since 2016.

The most noticeable increases came from Libya (+170k b/d), Saudi Arabia (+150k b/d) and UAE (+80k b/d). Iran's production only slipped by 10k b/d and is down 400k b/d since May when sanctions began to bite.

n The US is expected to give eight countries, including China and India, waivers from the Iran sanctions. This move should ensure that Iranian exports will be impacted by less than originally feared, thereby helping prevent the sanctions from lifting the price of oil.

While US oil production is rising at a record pace, Opec has now abandoned the collective agreement to keep production capped.

This comes in response to threats during the past few months that US sanctions against Iran could trigger a price spike which relatively quickly would lead to demand destruction and much lower prices.

After breaking the uptrend from early 2017 and the 200-day moving average Brent crude looks set to test support at \$70/b, the lower end of the range that prevailed between April and August. We believe crude oil will find support before long and begin a climb back towards the higher end of the mentioned range.

The reasons being a sharp reduction in hedge fund longs, reduced spare capacity leaving the market exposed to a future disruption and not least the yet unknown impact of US sanctions against Iran.

Gold had a roller-coaster week which left it close to unchanged for the period. This followed a mid-week sell-off when rising stocks, dollar and bond yields sent it looking for support.

On Monday, we raised some concerns about gold's short-term

ability to move higher after finding that hedge funds had cut what was a record bullish bets by 74% in just two weeks.

With the tailwind from short-covering beginning to fade, we concluded that gold was increasingly in need of supporting fundamentals to carry it higher.

The above-mentioned reversal in the dollar, not least against the Chinese renminbi, combined with a steady increase in holdings across exchange-traded funds backed by gold, helped support a strong bounce which from a technical perspective has left the yellow metal with two key levels to focus on in the short term.

After finding resistance at \$1,240/oz, the 38.2% retracement of the April to August sell-off, gold then challenged and found support at \$1,211.6, the first line in the sand as per the below chart. We maintain a bullish outlook for gold and would only begin to worry about a deeper correction should the price drop below \$1,192/oz.

A weaker dollar would not only support gold given its inverse correlation, it would also support a pick-up in demand from emerging market consumers and central banks who have suffered from greenback strength.

However, next week's US midterm elections will help determine the direction of the dollar and potentially also gold.

Should Trump, against current expectations, lose both the Senate and Congress, his domestic agenda would be left crippled.

Instead he would likely divert his focus towards his international agenda. Given his comment that a trade war is easy and winnable this could lead to a reduced appetite for seeking a compromise with China.

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# Shell accelerates share buybacks as profits soar



Royal Dutch Shell's profits soared to a four-year high in the third quarter, boosted by rising oil and gas prices as the company accelerated its giant \$25bn share buyback programme. Although the \$5.6bn quarterly profit slightly missed forecasts for a fourth quarter, investors took heart from a nearly 60% rise in Shell's cash generation to \$12.1bn, as deep cost savings in recent years filtered through.

Excluding one-off charges, cashflow was the highest in 10 years at \$14.7bn, the company said yesterday.

"Good operational delivery across all Shell businesses produced one of our strongest-ever quarters," chief executive Ben van Beurden said in a statement.

The Anglo-Dutch company launched a three-year \$25bn share buyback programme in July, making good on a promise to boost shareholder returns following the 2016 acquisition of BG Group, in a show of confidence in its cash generation and profit growth outlook.

Shell said it completed the first tranche of buybacks in October for \$2bn and was launching a second tranche yesterday

of up to \$2.5bn by January 28.

This year's sharp rise in oil prices to a four-year high of around \$85 a barrel has boosted revenues for oil and gas companies.

Shell's net income attributable to shareholders in the quarter, based on a current cost of supplies (CCS) and excluding identified items, rose 39% to \$5.624bn from a year ago.

That compared with \$4.691bn in the second quarter, and a company-provided analysts' consensus of \$5.766bn.

Profits benefited from stronger oil and gas prices as well as bigger contributions from trading operations, though that was offset by weaker refining margins, tax and currency exchange effects.

Chief financial officer Jessica Uhl said Shell will stick to its \$25 to \$30bn capital expenditure plans in the coming years despite rising waging and services costs.

Debt levels remained stubbornly high.

Shell's debt ratio versus company capitalisation, known as gearing, declined to 23.1% in the quarter from 23.6% at the end of June.

Oil and gas production in the quarter fell 2% from a year earlier to 3.596mn barrels of oil equivalent.

Output was expected to rise in the fourth quarter due to lower maintenance, Shell said.

### Credit Suisse

Credit Suisse defended its global markets trading arm yesterday, even as losses at the division took the shine off a jump in quarterly profit as the bank wraps up a three-year revamp under chief executive Tidjane Thiam.

The unit, the focus of Thiam's cuts and a source of billions of dollars of losses over years, still has an important role to play after the restructuring to focus on managing billionaire's wealth and scale back investment banking, Thiam said.

Third-quarter group net income jumped 74% to 424mn Swiss

francs (\$422mn), helped by the ongoing wind-down of its so-called Strategic Resolution Unit – a home for assets that have been a drag on the bank's past performance.

But that missed analysts' average estimate of 449mn francs in a Reuters poll.

Credit Suisse said a \$250mn cut to funding costs coupled with investments into its equities business should help the division raise returns next year.

ROTE was 6.3% in the first nine months of 2018.

## Spotify

Spotify sent its shares tumbling as much as 10% yesterday after the world's most popular paid music streaming service said it would continue to sacrifice profit margins to generate future growth.

The Swedish company came close to making its first-ever operating profit in the third quarter, years ahead of schedule, which the company said was because it had not been spending heavily enough to hire more engineers.

Spotify reported an operating loss of €6mn after previously guiding investors to expect losses between €10-90mn.

The company tightened its expectations for full-year 2018 monthly active listeners to between 199mn to 206mn users.

Analysts, on average, had been predicting 208mn users by the end of the year.

Monthly subscribers, which deliver 90% of revenue, rose to 87mn, up from 83mn in the second quarter ending June, it said.

The latest results matched the average forecast in a Thomson Reuters analyst poll.

Total users rose to 191mn, including free, advertising-supported listeners.

## The New York Times

The New York Times said yesterday that digital subscriptions topped three million in the past quarter, keeping the prestigious daily profitable in a difficult environment for the news media.

With a gain of 203,000 online-only subscribers in the third quarter, the newspaper is now getting nearly two-thirds of its revenue from subscriptions, helping offset weakness in advertising and print circulation.

The Times posted a net profit of \$24.9mn in the quarter, down from \$36mn in the same period a year ago, as total revenues rose eight% to \$417mn.

While its profits are modest, the Times has been among the most successful legacy news organizations navigating the transition to digital news amid sharp declines in print readership.

The quarterly update showed a 7% year-on-year increase in advertising, led by digital.

But ad revenues for the first nine months of the year are down 2.5% and the company said it expects flat advertising revenues in the fourth quarter.

According to the Times, revenue improved in part due to an agreement with Long Island daily Newsday to print and transport its publications, and the renting of four additional floors in the New York headquarters.

## Teva Pharmaceutical

Teva Pharmaceutical Industries raised its 2018 earnings outlook, said it was seeing "a very strong launch" for its long-awaited migraine treatment Ajovy and expects to launch generic EpiPen in the fourth quarter.

Teva raised its full-year forecast for adjusted EPS to \$2.80-\$2.95, from a previous estimate of \$2.55-\$2.80 and its shares were 8.5% higher in early US trading.

The company also said it was on track with plans to reduce its workforce by 14,000, having let over 9,000 employees go so far.

Net debt decreased by \$800mn to \$27.6bn.

Teva said it earned 68 cents per share excluding one-time items in the July-September period, down from \$1a year earlier.

Analysts had forecast Teva would earn 54 cents a share ex-



items on revenue of \$4.53bn, according to I/B/E/S data from Refinitiv.

Teva confirmed its revenue fell 19% to \$4.53bn due to generic competition to its multiple sclerosis drug Copaxone, price erosion in its US generics business and a loss of revenue from the divestment of some of its products and the discontinuation of some activities.

#### Indivior

Embattled drug maker Indivior said yesterday the hit to revenue this year from a cheap copy of its top-selling opioid addiction drug would be less than feared, as cost cutting helped it to deliver a 22% rise in quarterly profit.

Indivior has been battling the introduction of a cheaper generic version of its film-based opioid addiction treatment Suboxone, and has also faced distribution challenges with its new injectable opioid addiction drug, Sublocade.

Third-quarter adjusted net income rose to \$58mn, ahead of analysts' average forecast of \$49mn, according to Jefferies.

Revenue came in at \$245mn, down 11% from a year earlier, but ahead of the average forecast by 3%.

#### Banco Bradesco

Bradesco chief executive Octavio de Lazari said yesterday that the bank, Brazil's second-largest lender, sees the possibility of lower default ratios and higher profitability in the coming quarters.

Recurring net income rose to 5.47bn reais (\$1.47bn) in the quarter, from 4.81bn reais a year ago, the bank said in a securities filing.

Bradesco said that loan-loss provisions were 3.512bn reais in the third quarter, 23.3% lower year on year, amid a gradual recovery in Brazil's economy.

In July, Bradesco lowered its year-end target for loan-loss provisions from 16bn to 19bn reais to 13bn to 16bn reais.

Bradesco's loan book reached 523.5bn reais, up 1.5% in the quarter, helped mostly by retail banking.

In the last 12 months, loan book growth reached 7.5%, above

the top of its 2018 target range of 3% to 7%. Lazari also said that the pace of loan book growth is expected to rise next year but avoided specifics.

## ING

Top Dutch bank ING posted yesterday a 43.6% year-on-year drop in net profit for the third quarter, blamed on a multimillion-euro settlement with Dutch authorities in a money laundering probe.

Net earnings fell to €776mn (\$883mn), in large part to the €775mn the Amsterdam-based lender said in September it paid to settle a criminal investigation into money laundering which found that ING had failed to ensure its accounts were not misused.

The amount included a €675mn fine and a reimbursement of €100mn which ING underspent on staffing to prevent money laundering.

“The third quarter of 2018 for ING was deeply marked by the settlement agreement with the Dutch public prosecution service,” chief executive Ralph Hamers said.

The scandal saw ING axe its chief financial officer Koos Timmermans after a two-year probe by Dutch authorities that found many white-collar crime suspects held accounts at the bank.

The case threatened to seriously damage ING’s reputation and triggered calls for the resignation of its directors.

But the dispute has not deterred customers, with ING saying it expanded its client base by 200,000 in the third quarter.

The bank now has 38mn retail customers world-wide.

Revenue was up by 6.5% to 2.12bn euros year-on-year “driven by continued growth in loans with strong margins”, tight cost control and continued low-risk costs, although these were higher than in 2017, ING said.

ING employs more than 52,000 people in 40 countries around the world.

## ArcelorMittal

ArcelorMittal, the world's largest steelmaker, expects its financial results to improve in the coming months as global economic growth drives demand and US tariffs lead to higher prices for the metal.

Arcelor reported a 42% year-on-year increase in third-quarter core profit (EBITDA) to \$2.73bn, roughly in-line with analyst expectations, while sales rose 5% to \$18.5bn.

Steel tariffs worked to Arcelor's advantage in the third quarter, as 5% higher prices offset an equally large decline in steel shipments in the North American region, as the US market weakened.

Total shipments of steel also fell 5% in the July-September period, due to supply problems stemming from a disruptive power outage in France and a furnace blast in Poland.

The company plans to invest €2.4bn (\$2.7bn) in its newest asset, to increase Ilva's production and to make the plant more sustainable.

Meanwhile, asset sales demanded by the European Commission as a precondition for approving the takeover led to a \$500mn impairment in the third quarter, Arcelor said.

This drove down the group's net result by 25% to \$0.9bn.

The company's net debt remained stable at \$10.5bn in the third quarter, as \$1.7bn was invested in working capital.

#### Novo Nordisk

Novo Nordisk, the world's top maker of diabetes drugs, reported encouraging sales of its main growth drivers yesterday as it announced more job cuts amid a restructuring to cope with intensifying pricing pressure in the US.

Novo said it had expanded its share buyback programme by 1bn crowns to 15bn crowns and free cash flow this year is now seen at 29-33bn crowns from a previous guidance of 27-32bn crowns.

Third-quarter operating profit totalled 11.81bn crowns, below an average forecast of 11.93bn crowns in a Reuters poll of analysts.

#### Danske Bank

Danske Bank pretax profit dropped 42% year on year in the third quarter to 3.59bn Danish crowns (\$547mn), missing the 3.72bn that was expected by analysts in a Reuters poll.

The result was dented by a 1.5bn crown donation, which the bank decided in July to give to initiatives to combat financial crime after a money laundering scandal at its Estonian branch.

If any income from the non-resident portfolio becomes subject to confiscation by relevant authorities, any such confiscation would be deducted from the amount to be donated, the bank said yesterday.

The scandal involves €200bn (\$230bn) in payments through Danske's Estonian branch between 2007 and 2015, many of which Denmark's largest bank said in a report in September it regards as suspicious.

When it published the report in September Danske Bank cut its forecast for 2018 net profit to 16bn to 17bn Danish crowns, from a previous forecast of 18bn to 20bn crowns due to the donation.

The bank kept that forecast yesterday.

The scandal has led the bank's former chief executive Thomas Borgen to resign and almost halved Danske Bank share price since February.

## Sberbank

Russia's largest lender Sberbank has posted a record-high quarterly profit yesterday for the turbulent third quarter, beating market expectations although the pace of profit growth declined.

Sberbank said it made 228.1bn roubles in net profit in the period July-September, posting a 1.8% rise year-on-year after a 16% jump in its profit the previous quarter.

Analysts polled by Reuters had on average expected Sberbank to post 204.3bn roubles in the third-quarter net profit.

Sberbank has outperformed rivals during Russia's economic crisis and has been reporting record quarterly profit for several quarters in a row.

In the first nine months of 2018, Sberbank said its net profit totalled 665.5bn roubles under the International Financial Reporting Standards.

BT

British broadband company BT reported a better-than-expected 2% rise in first-half earnings and nudged its guidance for the full year higher, as outgoing chief executive Gavin Patterson said the group's recovery plan was delivering.

BT, the market leader in both broadband and mobile, said the rise in profit was mainly driven by more sales of high-end smartphones and cost savings across the business.

The group posted adjusted core earnings of £3.68bn (\$4.74bn) and said it expected earnings for the year to be at the upper end of its £7.3-7.4bn range.

Adjusted revenue slipped 1% to £11.62bn as regulated price reductions in its broadband network, which serves other operators as well as BT, and declines in its enterprise businesses offset growth in consumer.

National Australia Bank

National Australia Bank reported yesterday a 14.2% drop in cash earnings to A\$5.7bn (US\$4.0bn) due to restructuring charges and the costs of repaying customers impacted by bank misconduct.

NAB's profit in the year to September 30 was still up five% to AU\$5.55bn despite what chief executive Andrew Thorburn called a "challenging year".

"Our transformation is on track and benefits are emerging as we become simpler and faster," he said, pointing to growth in both housing and business lending.

Sibanye-Stillwater

South African miner Sibanye-Stillwater's core profit plunged 40% in the third quarter, it said yesterday, after production at its domestic gold mining operations was hit by incidents that have caused 24 deaths this year.

Sibanye, which also produces platinum, said adjusted earnings

before interest, tax, depreciation and amortisation (EBITDA) totalled 1.6bn rand (\$109mn) in the three months ended September, down from 2.7bn rand a year earlier.

As well as production cuts, the miner also had to defer some US sales in September until October at the request of a client, a precious metals refiner, it said.

The miner said comparable gold production from its South Africa operations fell 24% to 284,600 ounces for the quarter after rehabilitation of seismically affected production areas and the suspension of underground mining at its Cooke operations.

The firm revised its 2018 guidance for its local gold operations down to between 1.13mn ounces and 1.16mn ounces, from its previous guidance of between 1.17mn ounces and 1.21mn ounces.

Platinum group metals (PGM) production from the group's South African operations fell to 305,227 ounces in the third quarter, from 306,184 ounces a year earlier, while output at its U.S operations rose 3% to 139,178 ounces compared with the year ago period.

## Orsted

Danish energy group Orsted posted third-quarter profit well above analyst expectations yesterday and lifted its outlook for the year, in part thanks to the contribution from new offshore wind projects.

Orsted now expects EBITDA for the year excluding new partnership deals at 13bn to 14bn Danish crowns, up from 12.5bn to 13.5bn previously guided.

Orsted is rebranding itself as a renewable energy firm after it sold its oil and gas unit to Ineos last year, courting investors interested in green investments which have seen a boost amid policies to protect the climate.

The firm, formerly known as DONG Energy, reported earnings before interest, taxation, depreciation and amortisation (EBITDA) of 2.23bn Danish crowns (\$340mn), compared with 1.85bn crowns forecast in a Reuters analyst survey.

Including profits from the Hornsea 1 partnership in the UK, Orsted said it still expects EBITDA for the year to be “significantly higher” than the 22.5bn achieved in 2017.

Analysts on average expect EBITDA of 27.3bn for 2018.

The company’s power generation increased 12% between July and September compared to a year earlier.

The company also said it submitted a bid in a clean energy auction in Connecticut in September and expects to receive the outcome of the auction before the end of the year.

The bid comes after it said in August it would acquire US wind farm developer Lincoln Clean Energy.

“During the third quarter we have secured a very strong and long-term growth platform in the American market,” Poulsen said in a statement.

## General Motors

General Motors profits eclipsed expectations in the latest quarter, despite the impact of tariffs and slipping sales volume, as the company unveiled a plan on Wednesday to cut jobs and reduce costs.

The company reported better-than-expected third-quarter earnings even as it sold fewer vehicles in both North America and China.

Strong pricing in those markets allowed the company to offset the hit from trade tariffs and the burden of the strong dollar in South American markets and report profits that topped Wall Street forecasts by a wide margin.

Earnings for the quarter ending September 30 were \$2.5bn – up from a loss of \$3bn in the year-ago period when results were hit by a one-time accounting charge.

That translated into \$1.87 per share, compared with Wall Street expectations for \$1.25 per share.

Revenues rose 6.4% to \$35.8bn.

GM said it experienced \$400mn in higher costs due to US tariffs on steel and aluminium but that strong pricing and cost cuts had offset the hit.

GM sold fewer cars in North America than in the comparable

period in the prior year, falling nearly 10% to 833,712 units, but benefited from a higher pricing following a number of truck and sport utility vehicle launches.

The Silverado pickup truck is currently selling more than 30% above forecast, Barra said, adding that the company will have several new truck trims in dealerships within two weeks.

Sales volumes also declined in China, falling by 14.9% to 835,934 vehicles compared with the prior year.

But again, strong pricing boosted results, permitting GM to score record equity profits from China during the quarter.

GM has enjoyed especially strong sales of its Cadillac brand, which is up 20% amid robust demand in luxury and premium segments.

Executives said recent economic weakness has dented sales in smaller "Tier 3-5" Chinese markets.

These smaller cities "tend to be our less profitable part of the market," chief financial officer Dhivya Surgadevara said.

In contrast, larger markets saw less of a drop and the luxury market "is actually up year over year."

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## **Oil prices decline as wave of supply meets global economic gloom**





NEW YORK (Reuters) – Oil fell nearly 3 percent on Thursday, with U.S. crude futures hitting lows not seen since April, due to growing concerns that global demand is weakening at a time when output from the world’s major oil producers is surging.

Record production from the United States and post-Soviet Russia, along with a big move upward in output from the Organization of the Petroleum Exporting Countries, has culminated in a move to the exits by speculators.

Oil has also been under pressure on growing concern over a possible slowdown in global growth as the U.S-China trade dispute remains unresolved, and is starting to hit emerging market economies in particular.

U.S. crude prices are 17 percent below highs reached in early October. Analysts said they anticipate more selling in coming days, noting that oil was unable to capitalize on weakness in the dollar on Thursday, nor did it benefit from a rebound in equity markets. [USD/] [.N]

“The sellers seem to be in charge,” said Gene McGillian, vice

president of market research at Tradition Energy in Stamford, Connecticut.

Brent crude futures LC0c1 settled down \$2.15, or 2.9 percent, at \$72.89 a barrel, while U.S. crude CLc1 lost \$1.62, or 2.5 percent, at \$63.69, its lowest close since April 9.

The declines accelerated on Thursday after U.S. futures broke through \$65, which had served as a buying level throughout the spring and summer. More than 750 million contracts changed hands, exceeding the 200-day moving average of 576 million contracts a day.

“As we drop down we see additional liquidation from speculators, and that keeps things heading south,” said Jim Ritterbusch, president of Ritterbusch & Associates.

Both benchmarks posted their biggest monthly percentage decline since July 2016 in October, with Brent down 8.8 percent for the month and U.S. crude losing nearly 11 percent.

On Wednesday, the U.S. Energy Department said overall U.S. crude output hit a record 11.35 million barrels per day in August, and it is expected to keep growing. Russia is producing 11.41 million bpd, and a Reuters survey of OPEC production showed that group pumping out more oil daily since 2016. [EIA/PSM]

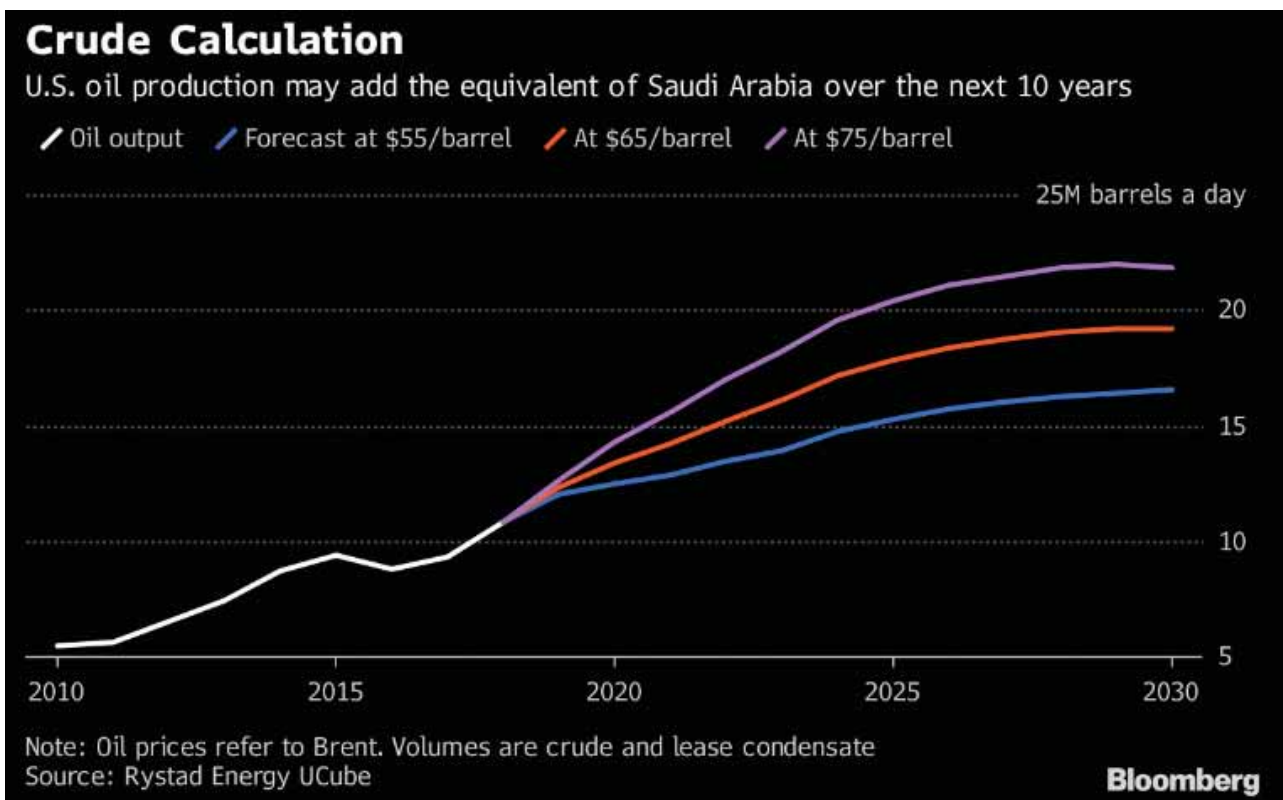
The flood of oil is overwhelming any lingering worries that the market would be unable to offset further expected declines in exports out of Iran when renewed U.S. sanctions take effect next week. [OPEC/O]

The increase in OPEC production “has really started to tamp down concerns surrounding the loss of Iranian barrels,” Tradition’s McGillian said.

China’s manufacturing sector in October expanded at its weakest pace in over two years, hurt by slowing domestic and external demand, in a sign of deepening cracks in the economy from the trade war with the United States.

“Oil investors are now betting on the potential of a global slowdown,” said Bruce Xue, an analyst with Huatai Great Wall Capital Management.

## ‘US oil could add one Saudi in next 10 years’



US oil could add the equivalent of Saudi Arabia’s total production over the next 10 years if a favourable price environment persists, according to a report by Rystad Energy quoted by Bloomberg. Even in a price scenario of \$55 a barrel the consultant sees America’s oil output growing by about 5.7mn bpd to 16.5mn bpd by 2030, and unlocking a further 5.3mn bpd at \$75 barrels. This would also result in “faster acceleration of base decline and earlier plateau in production,” it said in the report.

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# Angela Merkel's tragedy



By Ashoka Mody/Berlin

What we care about most is often our undoing. So it was for Angela Merkel, who recently announced her intention to step down as leader of the Christian Democratic Union (CDU) in December and as Germany's chancellor in 2021.

History placed Merkel amid raging storms: a series of eurozone crises that drove wedges between Europeans; economic tensions at home that fuelled social fragmentation; and the largest migration wave since World War II, which intensified European and domestic anxieties. But, rather than rocking the boat, risking her survival, she chose temporary fixes that let the vulnerabilities fester.

Perhaps her nail-biting ascent to the chancellorship conditioned her. In the September 2005 election, she enjoyed a large early lead in opinion polls. Then-Chancellor Gerhard Schroder had failed to bring down the unemployment rate, which

stood at almost 12%, and his Social Democratic Party had lost a string of state elections. Yet Merkel's poor communication of her policy priorities, together with a lackluster debate performance, nearly cost her the election.

In subsequent elections, Merkel refused to campaign on substantive policy matters. In 2009, her campaign was deliberately boring and banal, embracing – however reluctantly – her opponents' characterisation of her as a "Mutti," an unflattering stereotype of a mother managing the family home. In 2013, she bolstered the Mutti image with the slogan "You know me."

Having established no clear policy platform, Merkel has governed largely without a mandate. After each election, various interest groups have hoped that she would adopt a position favourably aligned with their particular preferences. But she knew that refusing to do so was precisely what had enabled her to survive.

Merkel's preference for muddling through has been apparent in her approach to eurozone reform. She has long known that fixing the monetary union would require her to issue a politically risky call for financial sacrifice by Germans. The call was risky, because the former Chancellor Helmut Kohl, the man who single-handedly carried the euro across the finish line, had promised that no sacrifice would be required.

Hence, for fear of alienating Germans, Merkel has consistently done the minimum to hold the eurozone together. She agreed – after an agonising delay – to a joint European Union-International Monetary Fund lending package to Greece in May 2010. That led to the creation of a more permanent bailout facility, the European Stability Mechanism.

Moreover, during the euro's existential crisis in July 2012, Merkel supported European Central Bank President Mario Draghi's initiative to create an "outright monetary transactions" mechanism, whereby the ECB could purchase the bonds of struggling eurozone countries. Although these fixes helped to prevent the eurozone from collapsing, they were not enough to ensure the monetary union's long-term resilience – a

failing that has left the eurozone vulnerable to Italy's brewing crisis.

Merkel was felled by the one principled stand she took. In 2015, with Europe being inundated by asylum seekers and economic migrants, Merkel announced an open-door policy for Syrian refugees. When Hungary's nationalist prime minister, Viktor Orban, suggested that Germany should build a fence to keep migrants out, she flashed rare (and raw) emotion. Recalling her East German upbringing, she said, "I lived a long time behind a fence. It is not something I wish to do again."

Merkel's humanity won her praise from the international community. But, at home, opposition to her refugee policy gathered momentum. The Alternative für Deutschland (AfD), created in February 2013 to oppose the euro, gained a new lease on life as a strident nationalist anti-migration party, siphoning supporters from Merkel's CDU and its Bavarian sister party, the Christian Social Union (CSU).

In 2016, Merkel successfully eased migration pressure on Europe by securing a deal to keep migrants in Turkey. But the deal remains highly controversial, not least because of humanitarian concerns. With the same model being applied elsewhere, migrants are at increasing risk.

Although Merkel's characteristically dull campaign approach won her a fourth term as chancellor last year, her electoral base has weakened considerably – a trend that has been reinforced by domestic economic failures. Merkel has to cope with the legacy of Schroder's controversial labour-market and welfare reforms, which, among other things, made it easier to fire workers and, by reducing unemployment benefits, forced many unemployed people to take insecure jobs with few benefits. The reforms helped to reduce the jobless rate, but at the cost of stagnant inflation-adjusted wages and widespread personal financial stress.

To be sure, rising inequality, wage stagnation, and working-class frustration are evident across the developed world. Merkel, like her counterparts elsewhere, did little to address

the problems. This is not because Merkel lacked vision: in April 2010, she described a Germany powered by improved education and innovation. Only a society that advanced technologically, she concluded, could provide decent opportunities for all.

But, unwilling to challenge the domestic political consensus on fiscal austerity, Merkel refused to invest in Germany's future, say, by repairing decaying infrastructure and upgrading educational opportunities. Instead, she made flailing efforts to protect the increasingly obsolete diesel technology base of Germany's car producers. Such delays in reinvigorating the country's auto industry could drag down the entire economy.

Merkel's failure to reverse social fragmentation led to rising support for the AfD. In the 2017 election, AfD voters tended to be men between the ages of 30 and 59 with only secondary education or vocational training, working blue-collar jobs – often with little job security – in small cities and rural areas. Many such voters once supported the CDU and CSU, but were attracted by the AfD's nationalist, xenophobic platform. The CDU has been weakened, and Merkel's hold over her own party has eroded. It is time for her to step down.

Merkel held the ship steady, but the storms continued to rage. Amid continuing widespread popular frustration and political turmoil, future chancellors could easily be swept away. – Project Syndicate

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# US oil titans flood Permian zone with armada of rigs



An oil drilling rig stands in Reeves County, Texas. Once an afterthought, the Permian Basin is now first and foremost for the biggest American oil producers, according to Bloomberg. The arid backwater of West Texas and New Mexico was a prime driver in the outsized profit reports on Friday from Exxon Mobil Corp and Chevron Corp that investors cheered. Decades after Big Oil gave up on the Permian to drill new frontiers like the North Sea and West Africa, the titans of American energy have returned in force. Exxon has already surpassed its plan to mobilise about 30 rigs in the region by year's end: The company has 38 drilling Permian wells now, a 40% increase in just six months. For Chevron, which only recently began drilling assets it controlled for more than a century, the jump in rig count was even more dramatic at 59%. In fact, Chevron is so busy in the Permian that the region now accounts for about one in every 10 barrels the company pumps worldwide. Permian gushers have been so prolific that Chevron is a year ahead of its production target in the



area, chief financial officer Pat Yarrington said during a conference call on Friday.

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## Democrats regaining House seen raising odds of anti-Opec bill in US



Bloomberg/Washington

If the Democrats take over the US House of Representatives in this week's midterm elections, it could renew momentum in favour of legislation targeting Opec.

"The odds of passage are a little bit higher" in the event that the Democrats take over the House in the November 6 vote, according to Glenn Schwartz, director of energy policy at the Rapidan Energy Group in Washington.

They may be more inclined to use anti-Opec legislation to pressure the Trump administration over its response to the

death of Jamal Khashoggi, he said, referring to the journalist killed at the Saudi consulate in Istanbul earlier this month. While the House introduced a version of the “No Oil Producing and Exporting Cartels Act” bill in May, the Senate has also revived legislation against the oil alliance. Although past presidents have threatened to use their veto power to prevent previous bills from becoming law, what’s different this time around is that President Donald Trump has repeatedly attacked the Organisation of the Petroleum Exporting Countries both before after being elected.

“Our impression is that the Democrats see Saudi Arabia as a winning game for them and they would like to keep it in the news as much as possible, with the understanding that even if they think it’s not the best policy, it would box in President Trump and be watered down or killed in the Senate,” Schwartz said.

Trump’s antitrust chief has said that the administration is “still studying that legislation,” in reference to NOpec. “We don’t have an administration position on that,” US Assistant Attorney General Makan Delrahim said after a Senate Judiciary subcommittee hearing on October 3.

Still, a renewed surge in oil prices could spur momentum for the NOpec bill in the post-election “lame-duck” session, ClearView Energy Partners, a Washington-based consultancy, said earlier this month. It sees high energy prices rather than the Khashoggi affair as a more likely catalyst.

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**Iran sanctions move hits  
European firms**



AFP/Paris

US President Donald Trump's decision to pull the US out of the 2015 nuclear accord with Iran and reimpose a raft of sanctions puts European businesses on the spot.

While the European Union insists it will stick by the nuclear accord to allow trade to continue with Iran, European companies are wary of being caught out by the US sanctions regime and many have already cut back their presence.

The sanctions introduced in August spooked the major automakers who were already cautious about their future in Iran and mindful of their much bigger business interests in the US.

Germany's Daimler, which was teaming up with two Iranian firms to assemble Mercedes-Benz trucks, said it had decided against going ahead.

Volkswagen had said last year it planned to resume business after a 17-year break but was very guarded in response to the latest US decision.

VW "conforms with all the applicable national and international laws and regulations concerning exports," a spokesman said.

French automakers Renault and PSA, who make nearly half the

cars sold in Iran, were cautious.

PSA, behind the Peugeot, Citroen and Opel brands, said in June it was preparing to suspend activities in Iran.

Renault says it intends to keep its activities in Iran but stands ready "to reduce the scale very sharply" if need be.

Aviation saw large contracts reached following the 2015 nuclear accord as Iran set about modernising an ageing fleet.

Airbus booked deals for 100 jets and was looking forward to many more.

However, the potential loss of business in Iran would not weigh overly heavily on Airbus given its total outstanding order book of some 7,168 planes at end-June.

Oil is the key issue with global implications for all concerned as Washington aims to cut off Iran's key source of foreign income.

French energy giant Total announced in August it was pulling out of a massive natural gas project.

Italian energy giant ENI meanwhile has a contract to take 2mn barrels of oil per month which it will not renew after it finishes this year.

German engineering giant Siemens signed a contract in 2016 to supply gas turbines to Iranian company Mapna.

A spokesman told AFP the company "will take the appropriate measures to bring its affairs into conformity with the multilateral framework concerning Iran."

Italy stands to lose most in these sectors, national railway operator Ferrovie dello Stato Italiano having signed a deal in 2017 to build a high-speed line linking Qom to Arak in northern Iran.

Shipmaker Fincantieri, engineering firm Maire Tecnimont and gas boiler maker Immergeas all signed a string of deals with Iran which are also threatened.

Italy was Iran's largest European trade partner in 2017, with its exports rising 12.5% to €1.7bn.

Iran is potentially a major tourist destination but European companies were quick to pull back after the August US announcement.

British Airways and Air France halted services in September, saying the flights were not commercially viable.

German carrier Lufthansa, Austrian Airlines and Alitalia for the moment continue flights to Tehran.

French hotel chain AccorHotels, which opened an establishment in Iran in 2015, declined to comment on its plans for the future.

Spain's Melia Hotels International chain, which signed a 2016 deal to run a five star hotel in Iran, the Gran Melia Ghoo, said in November it was still going ahead.

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## **Ten EU countries call for clear debt-restructuring option in EU rules**



BRUSSELS (Reuters) – Ten European Union finance ministers want any unsustainable public debt in the euro zone to undergo

restructuring, with losses imposed on the private sector, before a public bailout is organized, a joint position paper by the 10 ministers said.

It comes amid growing concern that spending by Italy, the euro zone's third-largest economy, could trigger another debt crisis. Italy's proposed budget includes greater borrowing and spending despite its public debt, which amounts to 133 percent of gross domestic product.

The paper was drafted for a meeting on Monday of all EU finance ministers except Britain's, which will be devoted to changes to the euro zone bailout fund. It was signed by the Czech Republic, Denmark, Estonia, Finland, Ireland, Latvia, Lithuania, the Netherlands, Sweden and Slovakia.

Although it did not sign, Germany, the euro zone's biggest economy, is of the same opinion and Austria is also sympathetic.

The 19 countries that share the euro have a bailout fund, the European Stability Mechanism (ESM), which is a lender of last resort to governments that have lost market access.

Talks are under way among the 27 countries that will remain in the EU after Britain leaves next year to give the ESM more powers to monitor economies so it can provide a bailout at short notice when a crisis hits.

But the 10 ministers also called for the ESM's role in debt restructuring to be spelled out more clearly. The topic has been shunned by Italy in discussions at deputy minister level. "The current ESM treaty already recognizes the possibility of private sector involvement in exceptional circumstances and an amendment of the treaty should be used to reaffirm this principle," the paper of the ministers said.

The ESM should verify the repayment capacity of the country before lending and restructure the debt if needed, it said.

“In the unlikely situation where strict conditionality alone could not reasonably be expected to restore adequate repayment capacity, financial assistance would only be granted after measures to improve debt sustainability, taken in cooperation with existing creditors,” it said.

The euro zone has so far helped organize only one debt restructuring, in Greece in 2012, to accompany a second bailout loan package for Athens.

But concern is growing over the planned debt increase in Italy, which already has 2.3 trillion-euro of public debt. Many euro zone officials say there is no political will to bail out such a huge economy should Rome lose market confidence.

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**Exxon Mobil third-quarter profits jump on higher oil prices**





Exxon Mobil reported a big jump in third-quarter profits yesterday on higher oil prices and refining margins, and said the production ramp-up at key new US oilfields was on track. Net income surged 57.1% increase in profits to \$6.2bn. Revenues advanced 25.4% to \$76.6bn.

The results topped analyst expectations and follow a number of earnings disappointments in recent quarters, pushing the company's shares higher in pre-market trading. US oil prices were in the \$60 to \$70 a barrel range in the third quarter, well above the year-ago period, which was in the \$40 to \$50 range.

The US oil giant has struggled to maintain and grow production as old oil and natural gas projects suffer field decline and new investments take time to come online.

Oil and gas production was down 2.3% from the comparable quarter of the previous year, but rose 3.8% from the second quarter, which executives had described as a bottom due in part to outages at key projects.

The company is bullish on new projects in the Permian Basin, a key US shale territory in Texas that helped the company notch higher output in its home market. "We're pleased with the increase in production from the second quarter of 2018 recognising it reflects contributions from just one of our key



growth areas, the Permian,” said chief executive Darren Woods. “We expect to continue to increase volumes over time as we ramp up activity in the Permian and new projects start up.” Shares rose 1.8% to \$82.15 in pre-market trading.

## Chevron

US oil and natural gas producer Chevron Corp said yesterday its quarterly profit doubled as record oil and gas production helped overcome a series of one-time items.

With the price of crude in the third quarter up 44% from the same period a year ago, major oil companies’ earnings have returned to levels not seen in as much as four years. Chevron topped analysts’ estimates with third-quarter net income of \$4.05bn, or \$2.11 a share, compared with \$1.95bn, or \$1.03 per share, in the same quarter a year earlier.

“Our strong financial results reflect higher production and crude oil prices coupled with a continued focus on efficiency and productivity,” said chief executive Michael Wirth in a statement.

Analysts were looking for the company to report \$2.06 per share profit, according to I/B/E/S data on Refinitiv.

Shares rose 2% in pre-market trading to \$113.53.

The stock declined 9% in October and was off 11% year to date through Thursday’s close.

Chevron’s production rose to 2.96mn barrels of oil equivalent per day (boed) from 2.72mn boed a year ago.

Quarterly results included \$930mn in one-time expenses for an asset impairment, a write-off and contract settlement offset by a \$350mn gain from the sale of its South African refining and marketing operations, the company said.

Profit in the company’s downstream business, which refines crude oil into gasoline and other products, fell 24% reflecting lower margins and year-earlier gains on asset sales.