

# In rebuttal to Trump, bin Salman says Saudi won't pay US for kingdom's security



Saudi Crown Prince Mohammed bin Salman says Riyadh “will pay nothing” to the United States for the kingdom’s “security,” in rebuttal to US President Donald Trump who recently said King Salman would not last in power “for two weeks” without US military support.

“Actually we will pay nothing for our security. We believe that all the armaments we have from the United States of America are paid for, it’s not free armament,” the Saudi crown prince said in a Bloomberg interview conducted on Wednesday and published on Friday.

He made the comments in response to a question whether Riyadh needed to pay Washington more for its security.

“Ever since the relationship started between Saudi Arabia and the United States of America, we’ve bought everything with money,” he further said, adding that since Trump came to

power, the kingdom decided to purchase over 60 percent of its needed armament from the US "for the next 10 years."

The 33-year-old crown prince went on to say that Saudi Arabia had agreed to buy \$110 billion worth of US weapons and signed investment deals worth billions more, some "\$400 billion" in total, since Trump took office in early 2017, and described the deals as "a good achievement" for Trump.

"Also included in these agreements are that part of these armaments will be manufactured in Saudi Arabia, so it will create jobs in America and Saudi Arabia, good trade, good benefits for both countries and also good economic growth. Plus, it will help our security," Bin Salman further noted.

His interview came a day after Trump told a cheering crowd of supporters at a rally in Southaven, Mississippi, that Saudi King Salman would not last in power unless the US provided military support for the Arab kingdom.

"We protect Saudi Arabia. Would you say they're rich? And I love the King, King Salman. But I said 'King – we're protecting you – you might not be there for two weeks without us – you have to pay for your military,'" Trump said.

On Saturday, Trump said at a rally in West Virginia that although the Saudis "have got trillions of dollars", "we don't get what we should be getting" from them. He also stressed that with the support of Washington Saudi Arabia is "totally safe", but "without us, who knows what's going to happen."

Pressed on how he would regard Trump's humiliating and harsh rhetoric against Saudi Arabia, bin Salman said, "I love working with him," referring to the controversial remarks as a "bad issue" offset by "99 percent of good things." His response, however, prompted the interviewer to say that "it seems to be a little bit more than one percent."

Last year, Trump signed the largest arms deal in history with

the Arab country despite warnings that he could be accused of being complicit in the regime's war crimes in Yemen.

On Wednesday, Saudi Arabian Military Industries' (SAMI) Chief Executive Andreas Schwer said he expected to finalize the first partnership deals with South African arms companies by the end of the year, without mentioning the initial partners by name.

Last December, Russia said it was working with Saudi Arabia to finalize the agreement to sell the S-400 Triumf, the latest Russian long-range anti-aircraft missile system.

Saudi King Salman made a four-day trip to Moscow in March 2017. During the visit, Russia also agreed to sell Riyadh a Kornet-M anti-armor system, Tos-A1 rocket launcher, AGS-30 grenade launcher, and Kalashnikov AK-103, according to the information office of Russia's Federal Service for Military-Technical Cooperation.

However, Saudi Arabia relies heavily on the US in its brutal war on Yemen. Washington has deployed a commando force on the Arab kingdom's border with Yemen to help destroy arms belonging to Yemen's popular Houthi Ansarullah movement. Washington has also provided logistical support and aerial refueling.

Saudi Arabia and allies invaded Yemen in March 2015 to reinstate Riyadh-allied former officials. The coalition has failed to achieve the goal despite superior military power. Instead, some 15,000 Yemenis have been killed in the war.

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# Isolato, sotto pressione e sorvegliato. Ma il Qatar trasforma l'embargo in risorsa



È un conflitto a bassa tensione, di cui in Occidente si parla poco, quello che continua a svolgersi nel Golfo Persico.

Da una parte Arabia Saudita, Bahrein, Emirati Arabi ed Egitto, dall'altra la penisola del Qatar, uno stato piccolo, ma detentore di uno dei fondi sovrani più ricchi del mondo, con un patrimonio di oltre 300 miliardi di dollari, partecipazioni azionarie nelle più importanti aziende del pianeta (dalla Volkswagen a Tiffany, da Credit Suisse a Barclays). Da oltre un anno il Qatar si trova, di fatto, isolato dai Paesi che gli sono vicini (perfino i cammelli qatarioti sono stati rimpatriati). La contrapposizione, formalmente, è stata motivata dal fatto che il Qatar avrebbe sostenuto organizzazioni legate al terrorismo. Rimprovero poco credibile, considerato che l'Arabia Saudita non è immacolata a riguardo.

In pratica, piuttosto, i vicini non gradiscono il fatto che il piccolo e ricchissimo emirato, retto da Tamim bin Hamad al-Thani, si muova in autonomia politica. I contatti con Iran, Russia, Cina, Turchia, risultano molto indigesti. Come risulta indigesta ai vicini la presenza proprio in Qatar di Al Jazeera, network informativo che ha monopolizzato lo scenario

giornalistico mediatico, ed è diventato il riferimento informativo mediorientale. E ancora meno gradito ai vicini il fatto che il Qatar rappresenti oggi uno degli stati economicamente in ascesa, con investimenti in tutto il mondo – come si accennava – e una proiezione internazionale crescente: dai mondiali di calcio 2022 – in stadi da 150 mila persone tutti con aria condizionata – alle gare automobilistiche e motociclistiche, a una ricca serie di istituzioni ed eventi legati all'arte, alla cultura, al turismo.

Le ultime notizie riportano una perdita di 69 milioni di euro da parte di Qatar Airways a causa del blocco delle rotte aeree. Altra notizia recente, gli Emirati avrebbero acquistato mezzi di intercettazione dai servizi segreti Israeliani per tenere sotto controllo le comunicazioni tra gli alti papaveri qatarioti. Addirittura, nelle scorse settimane, vari giornali hanno parlato di un piano saudita per isolare fisicamente la penisola qatariota, scavando un canale. In breve, la pressione dei paesi limitrofi sul Qatar non si riduce, nonostante vari organismi internazionali abbiano consigliato di mollare la presa. Anche perché gli squilibri nella regione rischiano di avere un impatto negativo sul controllo del terrorismo in un'area del pianeta nient'affatto tranquilla.

Nonostante questo l'emirato di Tamim bin Hamad al-Thani non si dà per vinto. Anzi, l'isolamento ha innescato, oltre al moto di orgoglio nazionale, un processo di ripensamento culturale e civile, del paese. Per esempio, il Qatar che si trova, giocoforza, sempre più in contatto con l'Occidente, sta implementando una serie di iniziative volte a potenziare l'istruzione femminile, come la Qatar Foundation, che crea legami con svariate università partner, in particolare negli Usa. O come la biblioteca nazionale del Qatar, disegnata dall'architetto olandese Rem Koolhaas. Una gigantesca costruzione e un capolavoro di design. Nei primi mesi di apertura si parla di oltre cinquantamila iscritti ai servizi, e 150 mila libri in prestito. O come il grande museo di arte

islamica, una delle più grandi raccolte di arte del mondo.

Ma la reazione all'embargo continua anche dal punto di vista economico: al forum economico di Berlino, qualche giorno fa il Qatar ha dichiarato che investirà nell'economia tedesca 10 miliardi di euro, mossa diplomatica (oltre che economica) di ulteriore avvicinamento all'Europa. Per quanto riguarda la questione dei (numerosi) investimenti italiani, le autorità qatariote hanno confermato gli investimenti in Sardegna su Air Italy, e stanno discutendo su come evitare il trasferimento di 51 lavoratori a Milano. Insomma, il dinamismo qatariota sembra trarre nuovi motivi di azione dall'embargo. A questo punto si aspetta che i principali attori internazionali (vedi alla voce Usa e Donald Trump, che pure aveva fornito qualche rassicurazione a riguardo) si rendano conto che è il caso di muoversi per una risoluzione rapida, e razionale, della questione.

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**Germany set to form a panel of experts to facilitate Qatar's €10bn investments**



A few days ago, Qatar's relationship with Germany reached a new high when HH The Emir Sheikh Tamim bin Hamad Al Thani announced his nation's willingness to invest €10bn in Germany over the next five years.

Germany's Ambassador to Qatar Hans-Udo Muzel said plans were being formulated to move on to the next step regarding Qatar's investments in his country, reported ***Gulf Times***.

HH The Emir had made the announcement at the opening session of the ninth 'Qatar-Germany Business and Investment Forum' held at the Maritim Hotel in Berlin recently.

Qatar's plans will revolve around 'vital projects' in the automobile, Information Technology and banking industries and add to their investment portfolio in Germany, which currently stands at more than €25bn.

Muzel said the yet-to-be formed committee would identify and recommend projects in Germany where Qatar can make investments.

"It's no secret that a major part of the investments announced will go into Germany's small and medium enterprises (SMEs), which are also called the hidden champions of German economy. SMEs in Germany aren't small entities. They're quite big

companies,” the German envoy was quoted as saying by ***Qatar Tribune***.

“We need to instal several institutions and mechanisms to make it easier for Qatar to go ahead with its investment plans. We like to have a proper kind of plan. This will be put into action soon,” he added.

Muzel said the Joint Task Force on Trade and Investment, which was formalised in the presence of HH The Emir and German Chancellor Angela Merkel, will be part of a team that would draft a proposal (for both the German and Qatari side) that would present the next steps needed to steer the direction of additional Qatari investments.

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## **What oil at \$100 would mean for world economy**



Bloomberg Hong Kong/Singapore



Rising oil prices are prompting forecasts of a return to \$100 a barrel for the first time since 2014, creating both winners and losers in the world economy.

Exporters of the fuel would enjoy bumper returns, giving a fillip to companies and government coffers. By contrast, consuming nations would bear the cost at the pump, potentially fanning inflation and hurting demand.

The good news is that Bloomberg Economics found that oil at \$100 would mean less for global growth in 2018 than it did after the 2011 spike. That's partly because economies are less reliant on energy and because the shale revolution cushioning the US.

Ultimately, much depends on why prices are pushing higher. A shock amid constrained supply is a negative, but one due to robust demand just reflects solid growth. Both forces are now in play, driving Brent crude up about 22% this year.

## **1. What does it mean for global growth?**

Higher oil prices would hurt household incomes and consumer spending, but the impact would vary. Europe is vulnerable given that many of the region's countries are oil importers. China is the world's biggest importer of oil and could expect an uptick in inflation.

There are also seasonal effects to consider, with winter looming in the Northern hemisphere. Consumers can switch energy sources to keep costs down, such as biofuels or natural gas, although not quickly. Indonesia already has instituted measures to push more use of biofuels and limit the economy's reliance on imported fuel.

For a sustained hit to global growth, economists say oil would need to hold above \$100. The dollar's gain of this year doesn't help though given crude is priced in greenbacks.

## **2. How can the world economy absorb oil at \$100?**

Bloomberg Economics found that \$100 oil will do more harm than

good to global growth. Yet there are important differences in the condition of the world economy today compared with 2011. "The shale revolution, lower energy intensity, and higher general price levels mean the impact will be smaller than it once was," economists led by Jamie Murray wrote in a recent report. "The price of a barrel will have to go much higher before global growth slips on an oil slick."

### **3. How will Iran and Trump impact the market?**

Geopolitics remains a wild card. Renewed US sanctions on Iran are already crimping the Middle East nation's oil exports. While President Donald Trump is pressuring the Organisation of Petroleum Exporting Countries to pump more, there is limited spare production capacity. In addition, supply from nations including Venezuela, Libya and Nigeria is being buffeted by economic collapse or civil unrest. Still, Goldman Sachs analysts predict \$100 will not be passed.

### **4. Who wins from higher oil prices?**

Most of the biggest oil-producing nations are emerging economies. Saudi Arabia leads the way with a net oil production that's almost 21% of gross domestic product as of 2016 – more than twice that of Russia, which is the next among 15 major emerging markets ranked by Bloomberg Economics. Other winners could include Nigeria and Colombia. The increase in revenues will help to repair budgets and current account deficits, allowing governments to increase spending that will spur investment.

### **4. Who loses?**

India, China, Taiwan, Chile, Turkey, Egypt and Ukraine are among the nations who would take a hit. Paying more for oil will pressure current accounts and make economies more vulnerable to rising US interest rates. Bloomberg Economics has ranked major emerging markets based on vulnerability to shifts in oil prices, US rates and protectionism. One of the biggest winners might also find itself on the losing end:

Oystein Olsen, Norway's central bank governor, warned that western Europe's biggest petroleum producer risks problems if the industry takes its eyes off controlling costs.

### **5. What does it mean for the world's biggest economy?**

A run-up in oil prices poses a lot less of a risk to the US than it used to, thanks to the boom in shale oil production. The old rule of thumb among economists was that a sustained \$10 per barrel increase would shave about 0.3% off of US output the following year. But tallies now, including that of Moody's Analytics chief economist Mark Zandi, pencil in a hit of around 0.1%.

While the diminishing American reliance on imported oil has positive economic consequences at the industry level, poorer households would feel the weight of higher prices at the pump. They spend about 8% of their pre-tax income on gasoline, compared to about one% for the top fifth of earners.

### **6. Will it lead to higher inflation around the world?**

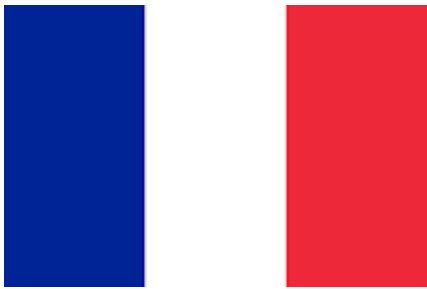
Energy prices often carry a heavy weight in consumer price gauges, prompting policy makers including those at the Federal Reserve to focus simultaneously on core indexes that remove volatile energy costs. But a substantial run-up in oil prices could provide a more durable uptick for overall inflation if the costs filter through to transportation and utilities.

### **7. What does it mean for central banks?**

If stronger oil prices boost inflation, central bankers on balance will have one less reason to keep monetary policy loose. Among the most-exposed economies, central bankers in India already are warning about the impact as the nation's biggest import item gets more expensive. Greater overall price pressures also could prompt faster monetary policy tightening in economies such as Thailand, Indonesia, the Philippines and South Africa.

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# Nations face tough choices on climate



By Marlowe Hood/ AFP Paris

The world's nations will gather at a UN conference in South Korea today to review and approve a 20-page bombshell – distilled from more than 6,000 scientific studies – laying out narrowing options for staving off climate catastrophe.

When the 195 countries who signed off on the Paris Agreement in 2015 requested a report from UN-led scientists on the feasibility of capping global warming at 1.5 degrees Celsius, the gesture seemed to many unnecessary.

The treaty, after all, enjoined the world to block the rise in Earth's surface temperature at “well below” 2C (3.6 degrees Fahrenheit) compared to preindustrial levels, adding a safety buffer to the two degree threshold long seen as the guardrail for a climate-safe world.

Since then, however, a crescendo of deadly heatwaves, floods, wildfires and superstorms engorged by rising seas – with less than 1C warming so far – has convinced scientists that the danger cursor needed to be reset.

“There is increasing and very robust evidence of truly severe and catastrophic risks even at the lower bounds of these temperature targets,” said Peter Frumhoff, director of science and policy at the Union of Concerned Scientists, a Washington-based research and advocacy group.

The promise of “pursuing efforts” to limit warming to 1.5C – added to the Paris treaty at the last minute, in part to assuage poor nations who felt short-changed on other fronts – caught scientists off-guard.

“There wasn’t very much literature on 1.5C warming three years ago,” said Jim Skea, a professor of at Imperial College London’s Centre for Environmental Policy, and a co-chair of the Intergovernmental Panel for Climate Change (IPCC), the UN science body charged with writing the “Special Report” on 1.5C.

Of hundreds of climate models in 2015 projecting a low-carbon future, only two or three aimed for a 1.5C global warming cap. The 20-page Summary Policy Makers – which will be collectively scrutinised, line-by-line, by hundreds of diplomats through Friday – contains several benchmark findings, according to a draft obtained by AFP.

At current levels of greenhouse gas emissions, for example, the Earth’s surface will heat up beyond the 1.5C threshold by 2040, the report concludes with “high confidence”.

To have a fighting chance of staying under the 1.5C cap, the global economy must, by 2050, become “carbon neutral”, meaning no additional CO<sub>2</sub> can be allowed to leach into the atmosphere. In addition, the report suggests that carbon dioxide emissions from human activity will need to peak in 2020 and curve sharply downward from there.

So far, we are still moving in the wrong direction: after remaining stable for three years – raising hopes the peak had come – emissions rose in 2017 to historic levels.

For many scientists, these targets are technically feasible but politically or socially unrealistic, along with the broader 1.5C goal.

“The feasibility is probably going to remain an open question, even after the report comes out,” said Michael Oppenheimer, a professor of geosciences and international affairs at Princeton University.

A main focus of the underlying, 400-page report – written by a team of 86 authors, supported by another 150 scientists – is

the difference a half-degree Celsius can make in terms of impacts.

“When we’re talking about 1.5C it’s not just to protect a few dozen small island nations,” said Henri Waisman, a senior researcher at the Institute for Sustainable Development and International Relations, and a co-ordinating author of the report.

“It’s to avoid dramatic impacts that become exponentially more dramatic when we go from 1.5C to 2C.”

What used to be once-a-century heatwaves in southern and central Europe, for example, are projected to occur four out of 10 summers in a 1.5C world, and six out of ten in a 2C world.

Many tropical fisheries are likely to collapse somewhere between the 1.5C and 2C benchmark, as fish seek cooler waters; staple food crops will decline in yield and nutrition an extra 10 to 15%; coral reefs that may have a chance of surviving if air temperatures remain below 1.5C will very likely perish with an additional half-degree of warming.

Most worrying of all, perhaps, are temperature “tipping points” that could push methane-laden permafrost and the icesheets of Greenland and West Antarctica – which hold enough frozen water to lift global oceans by a dozen metres (nearly 40ft) – beyond the point of no return.

Some experts, however, worry that focusing on the contrast between a 1.5C and 2C world obscures the fact we are currently on a trajectory that will crash through both these thresholds.

“I don’t think 2C is safe, and I would never want to argue it,” said Frumhoff. “By many measures, 1.5C is not enough.”

“But while we might call 2C an upper bound, let’s not pretend that we’re on a 2C path – we are way above that,” he told AFP. Even taking into account voluntary national pledges to cut greenhouse gas emissions, submitted in annex to the Paris treaty, the Earth is on track to heat up by an unliveable 3.5C or more by century’s end.

“If we want to save ourselves from the disasters that are looming, we only have unrealistic options left,” said Kaisa

Kosonen, Greenpeace IPPC campaign lead.

“We have to try to make the impossible possible.”

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## **QP wins exploration rights for offshore block in Brazil with ExxonMobil**



Qatar Petroleum (QP), the country's hydrocarbon bellwether, has won exploration rights for an offshore block in Brazil, in partnership with ExxonMobil.

The Qatari entity won the exploration rights for the Tita block as part of a consortium with its long-term partner ExxonMobil, who will be the operator with a 64% participating interest, while QP will hold the remaining 36% interest.

The winning bid was announced by Brazil's National Agency of Petroleum, Natural Gas, and Biofuels (ANP) at a public bidding session held yesterday in Rio de Janeiro. Competing bids were

submitted to the ANP and the winners were announced at the public session.

The exploration blocks were offered as part of the Brazil Exploration PSC5 Bid Round, which covered four blocks in the prolific Santos/Campos basins.

The relevant legal agreements, including the concession agreements, are expected to be signed between the Brazilian authorities and the consortium members by the end of this year.

“This is QP’s third success in Brazil in less than a year, which expands our footprint in one of the most prospective basins in the world. This winning bid constitutes another milestone on the road of achieving our strategy of creating a large scale, value-adding international portfolio, while pursuing Latin America as an important core area for QP,” its president and chief executive Saad Sheirda al-Kaabi said.

This is the third winning bid by QP in Brazil. In October 2017, and as part of Brazil’s PSC3round, QP was part of a winning consortium with Shell and China National Offshore Oil Corporation for exploration in the Alto de Cabo Frio-Oeste block in the Santos basin.

Again in March this year, QP was part of two consortia winning four blocks in the 15th concession bidding round in Brazil; two blocks with Petrobras and ExxonMobil in the Campos Basin and two blocks with ExxonMobil in the Santos basin.

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## **Led by Texas, North Dakota, US crude output hits record**



# 10.96mn bpd in July



Reuters/New York

US crude oil production rose 269,000 bpd to a record 10.964mn bpd in July, led by record output from Texas and North Dakota, the US Energy Information Administration said in a monthly report on Friday.

The agency revised its June production figure slightly higher to 10.695mn bpd in June.

US crude production has surged thanks to a shale boom and now rivals top producers Russia and Saudi Arabia.

Oil production in Russia averaged 11.347mn bpd between September 1 and September 27 and was on track to reach another post-Soviet high, an energy sector source told Reuters on Friday. Saudi Arabia meanwhile, produced about 10.4mn bpd in August.

Saudi Arabia is concerned that rising US shale production over the next year could create another glut, especially if a stronger dollar and weaker emerging market economies reduce global demand for oil.

Production in Texas inched higher to a record 4.47mn bpd and output from North Dakota also hit a peak, rising by 41,000 bpd

to 1.26mn bp, EIA data showed.

Still, the rate of production growth in the Permian basin, the biggest US oilpatch which spans Texas and New Mexico, is slowing amid transportation bottlenecks as pipelines have filled.

Drilling companies cut oil rigs for a second consecutive week as new drilling stalled in the third quarter with the fewest additions in a quarter since 2017, data showed on Friday.

Total US oil demand was up 3% in July compared with last year, driven by strong demand for distillates, EIA data shows.

Distillate demand jumped 6.8%, or 251,000 bpd, in July year-on-year, while gasoline demand was up 0.7%, or 67,000 bpd, in July compared with last year, EIA data showed.

Meanwhile, natural gas production in the lower 48 US states rose to an all-time high of 92.7bn cubic feet per day (bcfd) in July, up from the prior record of 90.9 bcfd in June, according to the EIA's 914 production report.

Output in Texas, the nation's largest gas producer, increased to 24.6 bcfd in July, up 1.5% from June. That was the most since April 2016.

In Pennsylvania, the second biggest gas producing state, production rose to a record high 17.0 bcfd in July, up 3.0% from June.

That compares with output of 14.7 bcfd in July 2017.

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**America's off shore gulf wells pumping the most crude in decades**



Shale oil can't take all the credit for America's rise to energy superpower, according to Bloomberg. Rigs in the green-blue waters of the US Gulf of Mexico pumped over 1.85mn bpd of crude in July, the largest volume in nearly 4 decades, according to government data. That helped push the nationwide oil supply to a record-high of 11mn barrels a day during the month

The startup of new wells and the return of some platforms from maintenance contributed to the output rise in the Gulf of Mexico, according to Danya Murali, a mathematical statistician for the EIA's Office of Petroleum, Natural Gas, and Biofuels Analysis. "It was one platform down after another in the Gulf for the last several months," she said in an e-mail, adding that these have all since resumed service. Offshore gulf production rose 11% in July. By contrast, output from Texas, the largest driver of shale production, rose 1% to reach a fresh record of 4.469mn bpd.

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# Oil on biggest tear in decade as global supply cushion vanishes



Oil posted the longest string of quarterly gains in more than a decade as impending supply disruptions threaten to fracture a global market with little margin for error.

Futures rose 1.6 percent in New York on Friday while London-traded crude racked up its fifth quarterly advance, a streak not seen since the first half of 2008. This historical echo comes as consumers once again eye supply disruptions and worry about the availability of backup supplies, just as they were a decade ago when the benchmark hit an all-time high above \$147.

“The market is getting more nervous about Iranian sanctions especially on reports that Sinopec is cutting back” on purchases from the Persian Gulf nation, said Phil Flynn, senior market analyst at Price Futures Group.

Oil has risen to the highest in almost four years in London after OPEC showed little enthusiasm for raising output despite

President Donald Trump's demand for lower prices. The world will need additional supplies as U.S. sanctions dissuade major importers including India and South Korea from purchasing Iranian oil. Chinese refiner Sinopec is slashing crude loadings from the nation this month, Reuters reported.

"There is concern in the market that the loss of barrels from Iran and Venezuela is not going to be made up for through extra supplies from particularly Saudi Arabia and Russia," said Gene McGillian, manager of market research at Tradition Energy. "Worries about trade relations affecting economic growth have fallen away."

Trading houses such as Trafigura Group Pte Ltd and Mercuria Energy Group Ltd have predicted prices will exceed \$100 a barrel. Banks including Bank of America Corp. and JPMorgan Chase & Co. aren't quite that bullish, but are lifting their forecasts. Meanwhile, BP Plc and Total SA cautioned that such a rally would hurt demand, especially as U.S.-China trade tensions escalate.

See Also: After Three Years of Talking, Mexico May Finally Buy U.S. Crude

Brent for November delivery advanced \$1 to settle at \$82.72 a barrel on the ICE Futures Europe exchange in London. The November contract expires on Friday.

West Texas Intermediate for November delivery rose \$1.13 to close at \$73.25 on the New York Mercantile Exchange. It's trading at an \$9.47 discount to Brent. Total volume traded was about 15 percent below the 100-day average.

Investors are now watching to see what Trump will do next after U.S. Energy Secretary Rick Perry ruled out the release of oil from the Strategic Petroleum Reserve, saying the move would have "a fairly minor and short-term impact." Earlier this week, the president accused the Organization of Petroleum Exporting Countries of "ripping off the rest of the world."

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# Oil leap towards \$100 softens blow of Russia sanctions



Bloomberg/London

When former US President Barack Obama first imposed sanctions on Russia in 2014, a plunge in global crude prices turned the penalties into a crushing blow. This time round, oil markets are doing the opposite.

As US lawmakers mull a new round of “crippling” sanctions, some traders are predicting the price of Russia’s main export will hit \$100 a barrel for the first time since 2014. The windfall from higher oil revenue could end up mitigating the effect of even the harshest measures under discussion in Washington and investors are picking up Russian government bonds on the back of crude’s gains.

“The surge in oil prices should outweigh the sanction fear,” said Viktor Szabo, a portfolio manager at Aberdeen Standard Investments in London. “Russia is one of the strongest among

emerging markets in terms of fundamentals.”

The renewed threat of US penalties lumped Russian assets in with the worst performers amid the summer’s broader emerging-markets slump, but the subsequent crude-oil rally and central bank rouble support have sparked a rebound.

In Washington meanwhile, US lawmakers continue to brandish sanctions that could see a ban on new sovereign debt sales and even shut Russian banks out of the international financial system.

Paul McNamara, a London-based fund manager at GAM UK Ltd with an overweight position in Russian rouble bonds, says he added to his holdings after the Russian central bank paused its policy of topping up reserves with hard-currency purchases to avoid exacerbating rouble weakness.

While he concedes that the tougher version of the penalties would mean “more downside” for Russian markets, “major macro issues” can be avoided with oil trading where it is. And if sanctions don’t materialize in their harshest form, current oil prices “put Russia in a very strong position,” he said.

The rouble trimmed its third weekly advance on Friday, the longest winning run since January. Yields on 10-year local debt have fallen 14 basis points this week to 8.55%, the lowest level since August 16.

Daleep Singh, a former Treasury official who helped pen the sanctions against Russia in 2014, admitted in a recent testimony that most of the economic contraction in the country was caused by the decline in oil, not by limiting some Russian companies’ access to capital markets. “Most credible estimates” are that 10% to 40% was caused by US sanctions, Daleep said.

After skipping four local bond sales in a row, the longest stretch since the 2014 crisis, Russian officials say they have no need to rush back into the market and meet investors’ demand for a yield premium.

The recent rouble weakness and elevated oil prices mean that the value of a barrel of Brent in rouble terms is close to a record, bolstering the budget and helping the government meet

its local-currency spending goals.

“The higher price of oil helps because it insulates the economy from needing access to the debt markets, if that were touched in a worse-case scenario,” said James Barrineau at Schroders, who has also been picking up local OFZ debt. “It will help sovereign savings to grow and thus make market access less important in the short term,” as well as giving the government funds to support banks should the US curtail their market access, he said.