

How Black Swans Are Shaping Planet Panic

A case can be made that the current financial panic will only subside when the ultimate black swan – Covid-19 – is contained.

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Theme: [Global Economy](#), [Science and Medicine](#)

Is the planet under the spell of a pair of black swans – a Wall Street meltdown, caused by an alleged oil war between Russia and the House of Saud, plus the uncontrolled spread of Covid-19 – leading to an all-out “cross-asset pandemonium” as billed by Nomura?

Or, as German analyst Peter Spengler suggests, whatever the averted climax in the Strait of Hormuz has not brought about so far “might now come through market forces”?

Let’s start with what really happened after five hours of relatively polite discussions last Friday in Vienna. What turned into a de facto OPEC+ meltdown was quite the game-changing plot twist.

OPEC+ includes Russia, Kazakhstan and Azerbaijan. Essentially, after enduring years of OPEC price-fixing – the result of relentless US pressure over Saudi Arabia – while patiently rebuilding its foreign exchange reserves, Moscow saw the perfect window of opportunity to strike, targeting the US shale industry.

Shares of some of these US producers plunged as much as 50% on “Black Monday.” They simply cannot survive with a barrel of oil in the \$30s – and that’s where this is going. After all these companies are drowning in debt.

A \$30 barrel of oil has to be seen as a precious gift/stimulus package for a global economy in turmoil – especially from the point of view of oil importers and consumers. This is what Russia made possible.

And the stimulus may last for a while. Russia’s National Wealth Fund has made it clear it has enough reserves (over \$150 billion) to cover a budget deficit from six to ten years – even with oil at \$25 a barrel. Goldman Sachs has already gamed a possible Brent crude at \$20 a barrel.

As Persian Gulf traders stress, the key to what is perceived in the US as an “oil war” between Moscow and Riyadh is mostly about derivatives. Essentially, banks won’t be able to pay those speculators who hold derivative insurance against a steep decline in the price of oil. Added stress comes from traders panicking with Covid-19 spreading across nations that are visibly unprepared to deal with it.

Watch the Russian game

Moscow must have gamed beforehand that Russian stocks traded in London – such as

Gazprom, Rosneft, Novatek and Gazprom Neft - would collapse. According to Lukoil's co-owner Leonid Fedun, Russia may lose up to \$150 million a day from now on. The question is for how long this will be acceptable.

Still, from the beginning Rosneft's position was that for Russia, the deal with OPEC+ was "meaningless" and only "cleared the way" for American shale oil.

The consensus among Russian energy giants was that the current market setup - massive "negative oil demand," positive "supply shock" and no swing producer - inevitably had to crash the price of oil. They were watching, helplessly, as the US was already selling oil for a lower price than OPEC.

Moscow's move against the US fracking industry was payback for the Trump administration messing with Nord Stream 2. The inevitable, steep [devaluation of the ruble](#) was gamed.

Still, what happened post-Vienna essentially has little to do with a Russia-Saudi trade war. The Russian Energy Ministry is [phlegmatic](#): Move on, nothing to see here. Riyadh, significantly, has been emitting signs the OPEC+ deal may be back in the cards in the near future. A feasible scenario is that this sort of shock therapy will go on until 2022, and then Russia and OPEC will be back to the table to work out a new deal.

There are no definitive numbers, but the oil market accounts for less than 10% of Russia's GDP (it used to be 16% in 2012). Iran's oil exports in 2019 plunged by a whopping 70 %, and still Tehran was able to adapt. Yet oil accounts for over 50% of Saudi GDP. Riyadh needs oil at no less than \$85 a barrel to pay its bills. The 2020 budget, with crude priced at \$62-63 a barrel, still has a \$ 50 billion deficit.

Aramco says it will be offering no fewer than 300,000 barrels of oil a day beyond its "maximum sustained capacity" starting April 1. It says it will be able to produce a whopping 12.3 million barrels a day.

Persian Gulf traders say openly that this is unsustainable. It is. But the House of Saud, in desperation, will be digging into its strategic reserves to dump as much crude as possible as soon as possible - and keep the price war full tilt. The (oily) irony is that the top price war victims are an industry belonging to the American protector.

Saudi-occupied Arabia is a mess. King Salman is in a coma. Every grain of sand in the Nefud desert knows Jared of Arabia Kushner's whatsapp pal MBS has been de facto ruler for the past five years, but the timing of his new purge in Riyadh speaks volumes. Princes Mohammed bin Nayef, the king's nephew, and Ahmed bin Abdulaziz, his younger brother, are now really in detention.

The CIA is fuming: Nayef was and remains Langley's top asset. When Saudi regime spin denounced "Americans" as partners in a possible coup against MBS, that word needed to be read as "CIA." It's just a matter of time before the US Deep State, in conjunction with disgruntled National Guard elements, comes for MBS's head - even as he articulates [taking over total power](#) before the G-20 in Riyadh next November.

Black Hawk down?

So what happens next? Amid a tsunami of scenarios, from New York to all points Asia, the

most optimistic say that China is about to win the “people’s war” against Covid-19 – and the latest figures confirm it. In this case, global oil demand may increase by at least 480,000 barrels a day.

Well, that’s way more complicated.

The game now points to a confluence of Wall Street in panic; Covid-19 mass hysteria; lingering, myriad aftershocks of Trump’s global trade mess; the US election circus; total political instability in Europe. These interlocked crises do spell Perfect Storm. Yet the market angle is easily explained: that may be the beginning of the end of Wall Street artificially inflated by tens of trillions of US dollars pumped by the Fed through quantitative easings and repos since 2008. Call it the calling of the central bankers’ bluff.

A case can be made that the current financial panic will only subside when the ultimate black swan – Covid-19 – is contained. Borrowing from the famous Hollywood adage, “No one knows anything,” all bets are off. Amid thick fog, and discounting the usual amount of disinformation, a Rabobank analyst, among others, came up with four plausible Covid-19 scenarios. He now reckons it’s getting “ugly” and the fourth scenario – the “unthinkable” – is not far-fetched anymore.

This implies a global economic crisis of, yes, unthinkable magnitude.

To a great extent it will all depend on how fast China – the inescapable crucial link in the global just-in-time supply chain – gets back to a new normal, offsetting interminable weeks of serial lockdowns.

Despised, discriminated against, demonized 24/7 by the “system leader,” China has gone full Nietzsche – about to prove that whatever does not kill you makes you stronger when it comes to a “people’s war” against Covid-19. On the US front, there’s scant hope that the gleaming Black “helicopter money” Hawk will crash down for good. The ultimate Black Swan will have the last word.

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