

# The Financial Consequences of the Middle East Protest Movement?

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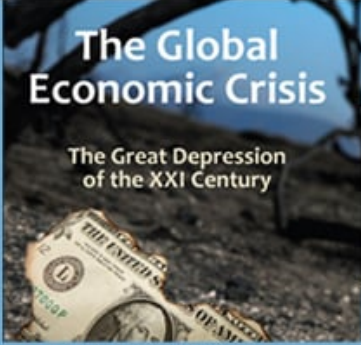
Just as we pointed out after the Tunisian episode, this was the beginning of CIA, MI6 and Mossad planned activities in the Middle East. As usual there were several objectives. The first was a distraction to cover up the financial troubles in the US, UK and Europe. The second was to remove Mubarak from his dictatorial position, because of his refusal to participate and agree to an invasion of Iran and to cause chaos in the region, so that those who were pro-Iran would not give it assistance in the event of war. There was also the matter of controlling Libya's oil and toppling its dictator Gadhafi. The US and the Brits want Libya's oil among other things.

The result of this western intervention has been and will continue to be a collective general collapse of current regimes. The replacement will supposedly be populist governments, when in fact that will not be the case. From behind the scenes will emerge leadership tied to the CIA, MI6 and the Mossad. These new governments will look like they are anti-west and anti-capitalist, but that will not be the case. Their overthrows have been in the works for years and all the new players are in place. Unrest will probably continue over several months perhaps for a year. A solution will be found for Libya and the west hopes their puppet regime in Saudi Arabia stays in place.

Nigeria has its own problems and seems calm except for the ongoing civil war between Christians and Muslims. That has been progress for 50 years between the Ibo and the Hunza tribes. The Christians have learned to live with the majority Muslim government.

Iraq has its own set of problems politically, but the country is still guarded by 50,000 or more US troops, as western oil interests pump their oil as fast as possible.

We believe any major disruption in Saudi Arabia would not only be met by local troops, but by US forces as well. Saudi pumps more than 8 million barrels of oil a day and the west cannot stand such a disruption. The region produces almost 17 million barrels a day, or almost 23% of total world production or 56% of OPEC production. Political upheaval should not last more than 3 to 6 months. The result will be turmoil for some time to come; a social and political situation that neutralizes any opposition to the regional aims of the US and Israel. It won't take long for Mr. Gaddafi to be deposed and sent on his way and it could be with the help of US troops. Western oil interests would like that very much.



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Many experts believe the surviving regimes will be anti-west and anti-capitalist, but we think that will not be necessarily so. These countries will want to pump oil and pump it as fast as possible, because generally speaking they have no other source of income. There will be lost oil production, but if Saudi Arabia is not involved in upheaval they can make up most of the lost production. Presently the only obvious problem is with Libya. The Saudi's have said they will make up the lost Libyan production knowing full well they will have to pump three times Libyan production due to high sulphur content in Saudi production. Overall it can be expected that regional production overall will fall perhaps as much as 30% to 50% under new governments. That is only a guess. We won't know the result for some time to come and such developments will prompt other non-regional producers to increase production and that includes the US as well. One might say the key is Saudi Arabia. If its government were overthrown then the world would be in serious trouble. From a practical viewpoint looking at world production 10% to 12% could be lost, but it could be augmented elsewhere, perhaps over a few years.

During such a period oil demand could slow by partial elimination of growth and less consumption due to higher prices and slowing economies. Overall that could bring about a reduction in consumption of about 5%. That would only make up 50% of the shortfall. Such a calamity could take oil prices to \$200 a barrel or more and gasoline prices could rise 150% that is from \$6.00 to \$9.00 a gallon. Such higher prices would cause major changes in society. In places where petrol products are subsidized there would be great shock. Mind you these assumptions include Saudi Arabia being sacrosanct. If Saudi falls the result would be a nightmare.

All in all the average American would see petroleum based costs increase \$2,500 a year, which would reek havoc on consumption and GDP growth. This kind of factor is what deflationary depressions are made of. \$300 oil would increase the balance of payments deficit by \$800 billion annually and erase 4% of GDP. Inflation would rage, especially when assisted by higher food prices. Wall Street doesn't as yet understand this, but when it does the stock market will certainly fall. If you pencil in the increase in monetary aggregates by the Fed and the rising fiscal deficit you end up with hyperinflation and stagnation simultaneously. We could be looking at budget deficits of \$2.5 trillion annually and a balance of payments deficit of \$800 billion. This means 14% inflation this year and perhaps 30% in 2012. These events would produce a dollar collapse. It would also collapse the economies, China and India, their currencies, and many others as well in non-oil producing countries.

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