The Oil Coup

US-Saudi Subterfuge Send Stocks and Credit Reeling

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"John Kerry, the US Secretary of State, allegedly struck a deal with King Abdullah in September under which the Saudis would sell crude at below the prevailing market price. That would help explain why the price has been falling at a time when, given the turmoil in Iraq and Syria caused by Islamic State, it would normally have been rising." (Stakes are high as US plays the oil card against Iran and Russia, Larry Eliot, Guardian)

U.S. powerbrokers have put the country at risk of another financial crisis to intensify their economic war on Moscow and to move ahead with their plan to "pivot to Asia".

Here's what's happening: Washington has persuaded the Saudis to flood the market with oil to push down prices, decimate Russia's economy, and reduce Moscow's resistance to further NATO encirclement and the spreading of US military bases across Central Asia. The US-Saudi scheme has slashed oil prices by nearly a half since they hit their peak in June. The sharp decline in prices has burst the bubble in high-yield debt which has increased the turbulence in the credit markets while pushing global equities into a tailspin. Even so, the roiled markets and spreading contagion have not deterred Washington from pursuing its reckless plan, a plan which uses Riyadh's stooge-regime to prosecute Washington's global resource war. Here's a brief summary from an article by F. William Engdahl titled "The Secret Stupid Saudi-US Deal on Syria":

> "The details are emerging of a new secret and quite stupid Saudi-US deal on Syria and the so-called IS. It involves oil and gas control of the entire region and the weakening of Russia and Iran by Saudi Arabian flooding the world market with cheap oil. Details were concluded in the September meeting by US Secretary of State John Kerry and the Saudi King…
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> ..the kingdom of Saudi Arabia, has been flooding the market with deep discounted oil, triggering a price war within OPEC… The Saudis are targeting sales to Asia for the discounts and in particular, its major Asian customer, China where it is reportedly offering its crude for a mere $50 to $60 a barrel rather than the earlier price of around $100. That Saudi financial discounting operation in turn is by all appearance being coordinated with a US Treasury financial warfare operation, via its Office of Terrorism and Financial Intelligence, in cooperation with a handful of inside players on Wall Street who control oil derivatives trading. The result is a market panic that is gaining momentum daily. China is quite happy to buy the cheap oil, but her close allies, Russia and Iran, are being hit severely…
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> According to Rashid Abanmy, President of the Riyadh-based Saudi Arabia Oil

> Policies and Strategic Expectations Center, the dramatic price collapse is being deliberately caused by the Saudis, OPEC's largest producer. The public reason claimed is to gain new markets in a global market of weakening oil demand. The real reason, according to Abanmy, is to put pressure on Iran on her nuclear program, and on Russia to end her support for Bashar al-Assad in Syria….More than 50% of Russian state revenue comes from its export sales of oil and gas. The US-Saudi oil price manipulation is aimed at destabilizing several strong opponents of US globalist policies. Targets include Iran and Syria, both allies of Russia in opposing a US sole Superpower. The principal target, however, is Putin's Russia, the single greatest threat today to that Superpower hegemony. (The Secret Stupid Saudi-US Deal on Syria, F. William Engdahl, BFP)

The US must achieve its objectives in Central Asia or forfeit its top-spot as the world's only superpower. This is why US policymakers have embarked on such a risky venture. There's simply no other way to sustain the status quo which allows the US to impose its own coercive dollar system on the world, a system in which the US exchanges paper currency produced-at-will by the Central Bank for valuable raw materials, manufactured products and hard labor. Washington is prepared to defend this extortionist petrodollar recycling system to the end, even if it means nuclear war.

How Flooding the Market Adds to Instability

The destructive and destabilizing knock-on effects of this lunatic plan are visible everywhere. Plummeting oil prices are making it harder for energy companies to get the funding they need to roll over their debt or maintain current operations. Companies borrow based on the size of their reserves, but when prices tumble by nearly 50 percent–as they have in the last six months– the value of those reserves falls sharply which cuts off access to the market leaving CEO's with the dismal prospect of either selling assets at firesale prices or facing default. If the problem could be contained within the sector, there'd be no reason for concern. But what worries Wall Street is that a surge in energy company failures could ripple through the financial system and wallop the banks. Despite six years of zero rates and monetary easing, the nation's biggest banks are still perilously undercapitalized, which means that a wave of unexpected bankruptcies could be all it takes to collapse the weaker institutions and tip the system back into crisis. Here's an excerpt from a post at Automatic Earth titled "Will Oil Kill the Zombies?":

> "If prices fall any further, it would seem that most of the entire shale edifice must of necessity crumble to the ground. And that will cause an absolute earthquake in the financial world, because someone supplied the loans the whole thing leans on. An enormous amount of investors have been chasing high yield, including many institutional investors, and they're about to get burned something bad….. if oil keeps going the way it has lately, the Fed may instead have to think about bailing out the big Wall Street banks once again." (Will Oil Kill the Zombies?, Raúl Ilargi Meijer, Automatic Earth)

The problem with falling oil prices is not just mounting deflation or droopy profits; it's the fact that every part of the industry–exploration, development and production — is propped atop a mountain of red ink (junk bonds). When that debt can no longer be serviced or increased, then the primary lenders (counterparties and financial institutions) sustain heavy losses which domino through the entire system. Take a look at this from Marketwatch:

> "There's 'no question' that for energy companies with a riskier debt profile the high-yield debt market "is essentially shut down at this stage," and there are signs that further pain could hit the sector, " senior fixed-income strategist at U.S. Bank Wealth Management, Dan Heckman told Marketwatch. "We are getting to the point that it is becoming very concerning." (Marketwatch)

When energy companies lose access to the market and are unable to borrow at low rates, it's only a matter of time before they trundle off to extinction.

On Friday, the International Energy Agency (IEA) renewed pressure on prices by lowering its estimate for global demand for oil in 2015. The announcement immediately sent stocks into a nosedive. The Dow Jones Industrial Average (DJIA) lost 315 points by the end of the day, while, according to Bloomberg, more than "$1 trillion was erased from the value of global equities in the week".

The world is awash in cheap petroleum which is wreaking havoc on domestic shale producers that need prices of roughly $70 per barrel to break-even. With West Texas Intermediate (WTI) presently headed south of 60 bucks–and no bottom in sight–these smaller producers are sure to get clobbered. Pension funds, private equity, banks, and other investors who gambled on these dodgy energy-related junk bonds are going to get their heads handed to them in the months ahead.

The troubles in the oil patch are mainly attributable to the Fed's easy money policies. By dropping rates to zero and flooding the markets with liquidity, the Fed made it possible for every Tom, Dick and Harry to borrow in the bond market regardless of the quality of the debt. No one figured that the bottom would drop out leaving an entire sector high and dry. Everyone thought the all-powerful Fed could print its way out of any mess. After last week's bloodbath, however, they're not nearly as confident. Here's how Bloomberg sums it up:

> "The danger of stimulus-induced bubbles is starting to play out in the market for energy-company debt….Since early 2010, energy producers have raised $550 billion of new bonds and loans as the Federal Reserve held borrowing costs near zero, according to Deutsche Bank AG. With oil prices plunging, investors are questioning the ability of some issuers to meet their debt obligations…
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> The Fed's decision to keep benchmark interest rates at record lows for six years has encouraged investors to funnel cash into speculative-grade securities to generate returns, raising concern that risks were being overlooked. A report from Moody's Investors Service this week found that investor protections in corporate debt are at an all-time low, while average yields on junk bonds were recently lower than what investment-grade companies were paying before the credit crisis." (Fed Bubble Bursts in $550 Billion of Energy Debt: Credit Markets, Bloomberg)

The Fed's role in this debacle couldn't be clearer. Investors piled into these dodgy debt-instruments because they thought Bernanke had their back and would intervene at the first sign of trouble. Now that the bubble has burst and the losses are piling up, the Fed is nowhere to be seen.

In the last week, falling oil prices have started to impact the credit markets where investors are ditching debt on anything that looks at all shaky. The signs of contagion are already apparent and likely to get worse. Investors fear that if they don't hit the "sell" button now, they won't be able to find a buyer later. In other words, liquidity is drying up fast which is accelerating the rate of decline. Naturally, this has affected US Treasuries which are still seen as "risk free". As investors increasingly load up on USTs, long-term yields have been pounded into the ground like a tentpeg. As of Friday, the benchmark 10-year Treasury checked in at a miniscule 2.08 percent, the kind of reading one would expect in the middle of a Depression.

The Saudi-led insurgency has reversed the direction of the market, put global stocks into a nosedive and triggered a panic in the credit markets. And while the financial system edges closer to a full-blown crisis every day, policymakers in Washington have remained resolutely silent on the issue, never uttering as much as a peep of protest for a Saudi policy that can only be described as a deliberate act of financial terrorism.

Why is that? Why have Obama and Co. kept their mouths shut while oil prices have plunged, domestic industries have been demolished, and stocks have gone off a cliff? Could it be that they're actually in cahoots with the Saudis and that it's all a big game designed to annihilate enemies of the glorious New World Order?

It certainly looks that way.

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