



TWO BITES AT THE POISONED APPLE (12/10)

Between January and the end of August, the best one could have said about the relationship between the Saudis and the U.S. is that there wasn't one. The U.S. believed that there was a good shot at opening a dialogue with Iran and was distancing itself from the Saudis. The Saudis didn't seem to mind since one of the conditions was a more transparent ownership of the Khashoggi affair. However, over the past several months things have turned for the better.

The U.S. has come to believe that the Iranians are not yet serious about negotiating a new deal. This shifts the U.S. back towards the other M.E. players. The U.S. would also like help from them regarding the politically sensitive price of gasoline. The Saudis on the other hand need U.S. military support (which had been withdrawn) and need to resupply their stock of missiles to defend against the steady attacks emanating from Yemen.

With the U.S./ Iranian talks at a standstill, it will be a while before Iranian oil freely flows. The U.S. has sanctions on Iranian oil sales. If talks continue to stall, the U.S. should impose THE OIL SANCTIONS THAT ARE ALREADY IN PLACE. It's time we move from words to action.

The U.S. has been looking the other way and has permitted Iran to sell roughly a million barrels per day. The enforcement of sanctions would remove most of the highly discounted Iranian oil sales going to China. By hitting Iranian oil sales, we also send a strong message to China.

The U.S. has come under some criticism for taking halfway measures by removing only our diplomats from the upcoming Chinese Olympics. A ban on Iranian exports would send a strong message to China as well.

On November 23rd, the U.S. announced its intent to offer the market 50 million barrels of oil from the SPR. 2 million barrels from a time exchange and 18 million from previous sales have moved forward. We suggested in previous notes that the sharp decline in price and the weakening in the backwardation since the announcement would lead to a disappointing response.

Thus, the dramatic stock build that everyone was talking about starting 2022 may be much more modest than the market initially expected. Larry G.