



What Do the Saudis See? (4/5/23)

Which oil producer is most likely to correctly judge where demand is? It is likely to be the Saudis. Yes, they are losing market share in Asia to the Russians, but they have a good handle on current demand there. That's particularly true for China, where everyone expects strong demand over the second half of the year, but it hasn't materialized as of yet.

There are indications that Saudi production for the first three months might be lower than generally reported. I believe the Saudi-led move to lower supply was both **defensive** as well as **offensive**. The defensive move was to protect price. They must also be nervous about the ultimate outcome in the banking system as well as the possibility of a U.S. recession towards the end of the year. They don't want to see a Brent price of \$70 or lower, although the Saudis deny that they ever have a price in mind. Price jumped for only one day, suggesting the market is comfortable as of now with supply.

The offensive move that they achieved at the same time was to send a message to the Biden Administration. What is it that you want in this relationship? We are not waiting and moving on. With the efforts of the Chinese, we have diplomatic relations with Iran. We have greatly increased our trading relations with China and it might not be long before we see Saudi oil **traded in China for yuan**.