



Saudi Oil Hobson's Choice (Is No Choice):
Damned If You Do, Damned If You Don't
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The short-term physical market is tight and will get tighter. In October, global stocks will continue to draw. Inventories at Cushing (where WTI prices are set) are exceptionally low and are likely to stay there. This suggests a continued bias to the upside in pricing.

What do the Saudis do? They have said that they will keep the 1 MMB/D cut through year-end. However, they also said they will look at that issue monthly and the Oil Minister loves to surprise. Many believe that the Saudis will put an additional $\frac{1}{2}$ MMB/D back into the market starting January 1.

The problem they are facing is that if they hold production steady to January 1, I believe they are unlikely to add the $\frac{1}{2}$ MMB/d back. Stocks will draw in the fourth Q, but build aggressively in the first Q. You could be looking at a swing of \$20 dollars between October and Q1.

This is based on our guess of the fundamentals. Politics can play a heavy role here. A lot is riding on talks between the Saudis and Israel and the role the U.S. has played there.

To keep markets from running away, the Saudi Oil Minister should publicly reaffirm his country's commitment to supply the market what it needs. They are in a good position to do so since their direct crude oil burn falls sharply, freeing barrels for export.