
'THE NEW OPEC BROMANCE': HOW SAUDI ARABIA AND RUSSIA ARE BONDING OVER OIL

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The world's biggest oil producers, Russia and Saudi Arabia, have announced a \$1 billion fund to invest in energy projects – marking another chapter in the blossoming economic and political partnership between the two countries.

The latest deal will see Russia and Saudi Arabia strengthen their cooperation in oil, gas, electricity and renewable energy, Russian Energy Minister Alexander Novak told Al Arabiya television Monday, Reuters reported.

It signifies an increasingly close strategic partnership between the two oil-rich states.

RBC Capital Markets' Global Head of Commodity Strategy Helima Croft told CNBC on Tuesday that the \$1 billion deal was "just the tip of the iceberg" and that she expected a lot more cooperation and joint ventures on oil, energy, infrastructure and public investment projects.

"It's remarkable what's going on with Russia and Saudi Arabia now. Back in 2015, Russia said it had no intention of cooperating with Saudi Arabia but look at it now * You just have to look at the last OPEC meeting in May and look at Saudi Arabia Energy Minister Khalid al-Falih and Russian Energy Minister Alexander Novak's comments – it is like watching an OPEC 'bromance,'" Croft told CNBC, referring to the increasingly close economic and political relationship between the two nations, particularly in terms of oil.

Leaders of the oil industry and energy ministers are heading to Russia this week for a meeting between OPEC and non-OPEC members, with all eyes on whether an extension to a deal restricting oil exports will be extended.

'No courtesy call'

In a sign of the meeting's significance, King Salman is also attending — marking the first ever state visit to Russia by a Saudi monarch.

Croft said that King Salman's visit to Russia was "a total continuation of the trend that we discussed in this report. Russia has gone from saying in 2015 that it had absolutely no intention of cooperating with OPEC in 2015, to essentially playing the role of OPEC co-president."

"For King Salman to make this visit to Russia now, with all the reports of his failing health and plans to hand over the reins to MBS (Crown Prince Mohammad bin Salman bin Abdulaziz Al Saud), to me signifies how important this strategic partnership has become to both sides," she said.

The meeting in Moscow comes hot on the heels of a plan by Russia and Saudi Arabia, the de facto leader of OPEC, to set up a \$1 billion fund to invest in energy projects, announced by Novak on Monday. The fund is expected to be finalized this week in Moscow and is designed to "extend cooperation" between the world's largest oil producers.

Chris Weafer, senior partner at Macro Advisory Partners, told CNBC on Tuesday that King Salman's attendance at the meeting was "very significant."

"King Salman doesn't do courtesy calls. The fact that he's visiting Moscow — marking the first ever visit of a ruling sovereign of Saudi Arabia to Russia — just underlines how much the relationship between Russia and Saudi Arabia has changed over the last few years and more so in the as 12 months," he told CNBC.

Making waves

Saudi Arabia and Russia made waves last year when they agreed (along with the rest of OPEC, albeit with some members more reluctant than others) to cut oil output by 1.8 million barrels a day in a bid to support and stabilize oil prices, which have declined since mid-2014 on the back of a glut in supply. In June 2017, the oil producers agreed to extend those cuts until March 2018.

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Oil prices have failed to see the gains hoped from those cuts, however, with U.S. shale oil producers coming back online and demand still failing to keep up with supply. As of Tuesday midday, benchmark Brent crude was trading at \$56.04 a barrel and West Texas Intermediate (WTI) at \$50.51 with concerns of an over-supply still at the forefront of investors' minds.

Russia's Novak said Tuesday that oil exports would also be the focus of the Russia Energy Week 2017, which begins in Moscow on Wednesday. It is expected to be attended by more than half of OPEC's 15 members, Reuters reported, with ministers due to focus on recommendations for the next meeting between global oil producers, scheduled for November.

There are also expectations that producers could discuss an extension to the deal to cut output beyond March 2018. RBC Capital Market's Helima Croft believed the deal could be extended to June; meanwhile, Macro-Advisory's Chris Weafer said the deal could be extended to run until fall 2018, saying that oil markets were not yet stable.

"We are not at the point where the oil price is safe," he warned. "The original optimism that the oil market might reach some kind of equilibrium in late 2017 has largely disappeared * so I expect we'll see an extension to the deal to cut output, although I expect we'll hear that at OPEC's next meeting in November."

Miswin Mahesh, oil analyst at Energy Aspects, agreed that the oil giants could be more cautious in terms of announcing a further extension to the reduction in oil output.

"(Saudi Arabia and Russia) were both instrumental in brokering the global oil output deal, and now it opens a new area of cooperation in the energy sector between the two countries, in the wider energy spectrum (oil field services, cooperation in gas production and renewable projects among others)," he told CNBC via email Tuesday.

"(But) they are likely to continue monitoring the state of market fundamentals before announcing further extensions" and were likely to "play their cards close this time round, and not signal their decision to the market too early, so as to avoid being held hostage to the market's pricing it too early and demanding more (as what happened last time)."

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