

## Putins great week

*While everybody is looking the other way, Putin reasserts Russia's influence*

*Last week was great one for Russian president Vladimir Putin. He torpedoed the co-operation with Saudi Arabia, an axis which since 2018 had constituted the effective leadership of OPEC – of which Russia is not even a member. This sent oil prices into a tailspin. In turn, this spooked the global stock markets who see the falling oil prices as an indication that the economic fall-out from the Covid-19 could be worse than assumed.*

*Putin then humiliated Turkey's president Erdogan, who had to accept Russian conditions for a ceasefire in the region of Idlib, Syria. Nobody outside Syria appear to have reacted to this, being busy with the surge in the corona outbreak. However, Russia's position as the powerbroker in the Middle East is now cast in concrete.*

*We expect the ruckus in the oil markets to further rattle the stock markets, who are only now waking up to the uncomfortable reality that if the current attempts at containing the spread of the Covid-19 virus fail, the economic effects may be far more severe than currently expected. This is particularly pronounced in the US, which is behind the curve in every respect.*

*We do not believe that a further round of interest rate cuts will make any positive difference. The only useful intervention on behalf of the central banks is to secure that banks have enough liquidity for when their corporate clients begin to suffer. Finance ministries around the world should issue temporary guarantees for the banks in order to keep liquidity flowing.*

## Putin and oil prices

The ongoing dispute between Russia and Saudi Arabia is about the oil prices. The two countries alone command sufficient excess capacity to influence oil prices directly. The Covid-19 has led to falling oil prices as fears mount that the world is headed for a sharp recession and that there is no end in sight to the Covid-19 outbreak.

The Saudis suggested to cut production in order to prevent prices from falling further. Putin, who has a bone to pick with US shale gas produces was having none of that. A meeting between Putin and the infamous Saudi Crown Prince Mohammad bin Salman allegedly broke down, and this in turn led to the OPEC meeting on Friday in Vienna to end without a firm commitment of the OPEC members to cut oil output.

The biggest loser from the plummeting oil prices are the US shale produces, needing oil

prices to remain higher than 50 USD/barrel to produce at a profit.

Shale oil production has allowed the USA to claim self-sufficiency in crude oil, and as a consequence, to downplay the US interest in the Middle East. Russia and Saudi Arabia have an interest in undermining this particular segment of the oil market. It is a nice position to have the US being dependent on oil imports. Just ask the Chinese, who know a thing or two about being dependent on critical imports.

However, we find targeting shale oil to be a fight against windmills. The current US producers of shale oil may be bankrupted, but in a capitalistic system, other companies will take over and resume production once the oil prices begin to increase.

In the short term, the situation in the oil market will continue to have the stock markets

on tenterhooks. Do not expect any short-term action to be forthcoming in order to stabilise oil prices.

## Putin and Erdogan

Over the past two years, Turkey's president Erdogan has exasperated many of his erstwhile allies, including the NATO alliance. Turkey has bought Russian surface to air missiles incompatible with NATO standards. Turkey's army attacked US Kurdish allies in the north of Syria and carved out a "safe zone" of Syria in order to push Syrian refugees back on to Syrian territory. Erdogan has made an agreement with the government of Libya, effectively blocking the plans between EU, Egypt and Israel to build a pipeline for gas found in the eastern part of the Mediterranean.

Turkey has started drilling for gas in an area of the Mediterranean considered by the international community to not belong to Turkey. Erdogan pulled out of the agreement with EU to handle refugee flows through Turkey in order to blackmail EU into supporting him.

He even began to public mentioning the possibility to activate the musketeer oath, requesting other NATO members to intervene – even if the oath is strictly defensive whereas he wanted help in his adventures in a neighbouring country.

In order to prevent a further wave of Syrian refugees, Erdogan sent troops into Syria, trying to dictate the terms on which the Syrian

government could attack Idlib, the last major town in Syria not under government control.

Russia, backing Syrian president Al-Assad was having none of it. Using the Russian control of the Syrian airspace, Russia bombed Turkish troops, re-bombed as rescue efforts were in full swing and even denied Turkish helicopters access in order to evacuate the casualties.

Russia then invited the Turkish government to Moscow to sign a face-saving truce. Reading the fine print makes it clear, however, that Turkey has accepted everything Russia put on the table.

Why is Russia in Syria at all? Have a look at the map. Russia has no warm water harbours from where they control the access (Sebastopol and Sankt Petersburg are both behind narrow straits controlled by NATO), so the base outside the Syrian town of Tartus is useful. It is also close to the huge gas fields found in the eastern Mediterranean. And it is close enough to Israel, Egypt and Saudi Arabia that it is easy to follow what happens there.

The only open question is why Putin helped NATO with a difficult member country. Maybe he is already playing on a future split in NATO. Putin is not known for being particularly generous with help and assistance unless it will benefit Russians Interest. Time will show.

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