

What game is the House of Saud playing?

By Pepe Escobar

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The House of Saud now finds itself in times of extreme trouble. Their risky oil price war may eventually backfire. The succession of King Abdullah may turn into a bloodbath. And the American protector may be musing a change of heart.

Let's start with oil – and some background. As much as US supply has increased by a couple of million barrels a day, enough oil from Iran, Kirkuk in Iraq, Libya and Syria has gone out of production; and that offsets extra US oil on the market. Essentially, the global economy – at least for the moment – is not searching for more oil because of European stagnation/recession and the relative China slowdown.

Since 2011, Saudi Arabia has been flooding the market to offset the decrease in Iran exports caused by the US economic war, a.k.a. sanctions. Riyadh, moreover, prevented OPEC from reducing country production quotas. The House of Saud believes it can play the waiting game - as fracked oil, mostly American, is inexorably driven out of the market because it is too expensive. After that, the Saudis believe they will regain market share.

In parallel, the House of Saud is obviously enjoying “*punishing*” Iran and Russia for their support of Bashar Assad in Damascus. Moreover, the House of Saud is absolutely terrified of a nuclear deal essentially between the US and Iran (although that's still a major “*if*”) – leading to a long-term détente.

Tehran, though, remains defiant. Russia brushed off the attack because the lower ruble meant state revenues remained unchanged – so there will be no budget deficit. As for oil-thirsty East Asia - including top Saudi customer China – it's enjoying the bonanza while it lasts.

Oil prices will remain very low for the time being. This week Goldman Sachs lowered their 2015 WTI and Brent Crude forecasts; Brent was slashed from \$83.75 a barrel to \$50.40, WTI was cut from \$73.75 to \$47.15 a barrel. Prices per barrel could soon drop as low as \$42 and \$40.50. But then, there will be an inevitable “*U-shaped recovery*.”

[Nomura](#) bets that oil will be back to \$80 a barrel by the end of 2015.

Punish Russia or bust

US President Barack Obama, in this [interview](#), openly admitted that he wanted “*disruptions*” in the “*price of oil*” because he figured Russian President Vladimir Putin would have “*enormous difficulty managing it*.” So that settles the argument about hurting Russia and US-Saudi collusion, after US Secretary of State John Kerry allowed/endorsed King Abdullah in Jeddah to simultaneously raise oil production and embark on a cut price strategy.

Whether Kerry sold out the US shale gas industry out of ignorance or incompetence – probably both - is irrelevant. What matters is if the House of Saud were ordered to back off, they would have to do it in a flash; the *'Empire of Chaos'* dominates the Persian Gulf vassals, who can't even breathe without at least an implicit US green light.

What is way more troubling is that the current bunch in Washington does not seem to be defending US national and industrial interests. If humongous trade deficits based on currency rigging were not enough, now virtually the entire US oil industry runs the risk of being destroyed by an oil price racket. Any sane analyst would interpret it as contrary to US national interests.

Anyway, the Riyadh deal was music for the House of Saud's ears. Their official policy has always been to slash the development of all potential substitutes for oil, including US shale gas. So why not depress oil prices and keep them there long enough to make investments in shale gas a lunatic proposal?

But there's a huge problem. The House of Saud simply won't get enough in oil revenues to support their annual budget with oil at below \$90 a barrel. So as much as hurting Iran and Russia may be appealing, hurting their own golden pocketbooks is not.

The long-term outlook spells out higher oil prices. Oil may be replaced in many instances; but there isn't a replacement - yet - for the internal combustion engine. So whatever OPEC is doing, it is actually preserving demand for oil vs. oil substitutes, and maximizing the return on a limited resource. The bottom-line: yes, this is predatory pricing.

Once again, there's an immense, crucial, complicating vector. We may have the House of Saud and other Persian Gulf producers flooding the market – but its Goldman Sachs, JP Morgan and Citigroup who are doing the shadow, nasty work via leveraged derivative short futures.

Oil prices are such an opaque racket that only major oil trading banks such as Goldman Sachs or Morgan Stanley have some idea who is buying and who is selling oil futures or derivative contracts – what is called “paper oil.” The non-rules of this multi-billion casino spell out *“speculative bubble”* – with a little help from those friends at the Gulf oil pumps. With oil futures trading and the two major London and New York exchanges monopolizing oil futures contracts, **OPEC really does not control oil prices anymore; Wall Street does. This is the big secret.** The House of Saud may entertain the illusion they are in control. They're not.

That dysfunctional marriage

As if this was not messy enough, the crucial succession of the House of Saud is propelled to the forefront. King Abdullah, 91, was diagnosed with pneumonia, hospitalized in Riyadh on New Year's Eve, and was breathing with a tube. He may – or may not, this being the secretive House of Saud – have lung cancer. He won't last long. The fact that he is hailed as a *“progressive reformer”* tells everything one needs to know about Saudi Arabia. *“Freedom of expression”*? You must be [joking](#).

So who'll be next? The first in the line of succession should be Crown Prince Salman, 79, also defense minister. He was governor of Riyadh province for a hefty 48 years. It was this certified falcon who supervised the wealth of private "*donations*" to the Afghan mujahedeen in the 1980s jihad, in tandem with hardcore Wahhabi preachers. Salman's sons include the governor of Medina, Prince Faisal. Needless to add, the Salman family controls virtually all of Saudi media.

To get to the Holy Grail Salman must be proven fit. That's not a given; and on top of it Abdullah, a tough nut to crack, already survived two of his crown princes, Sultan and Nayef. Salman's prospects look bleak; he has had spinal surgery, a stroke and may be suffering from – how appropriate - dementia.

It also does not bode well that when Salman was promoted to Deputy Defense Minister, soon enough he was shown the door – as he got himself mixed up with Bandar Bush's atrocious jihadi game in Syria.

Anyway, Salman already has a successor; second Deputy Prime Minister Prince Muqrin, former governor of Medina province and then head of Saudi intelligence. Muqrin is very, very close to Abdullah. Muqrin seems to be the last "*capable*" son of Ibn Saud; "*capable*" here is a figure of speech. The real problem though starts when Muqrin becomes Crown Prince. Because then the next in line will be picked from the grandsons of Ibn Saud.

Enter the so-called third generation princes – a pretty nasty bunch. Chief among them is none other than Mitab bin Abdullah, 62, the son of the king; cries of nepotism do proceed. Like a warlord, Mitab controls his own posse in the National Guard. Sources told me Riyadh is awash in rumors that Abdullah and Muqrin have made a deal: Abdullah gets Muqrin to become king, and Muqrin makes Mitab crown prince. Once again, this being the "*secretive*" House of Saud, the Hollywood mantra applies: no one knows anything.

Abdullah's sons are all over the place; governor of Mecca, deputy governor of Riyadh, deputy foreign minister, president of the Saudi Red Crescent. Same for Salman's sons. But then there's Muhammad bin Nayif, son of the late Crown Prince Nayif, who became Interior Minister in 2012, in charge of ultra-sensitive internal security, as in cracking down on virtually anything. He is the top competitor against Mitab among the third-generation princes.

So forget about family "*unity*" when such juicy loot as an oil hacienda impersonating a whole country is in play. And yet whoever inherits the loot will have to face the abyss, and the same litany of distress; rising unemployment; abysmal inequality; horrendous sectarian divide; jihadism in all its forms – not least the fake Ibrahim Caliphate in "*Syraq*", already threatening to march towards Mecca and Medina; the unspeakably medieval Council of Ulemas (the lashing/amputating/beheading-loving bunch); total dependency on oil; unbounded paranoia towards Iran; and a wobbly relationship with His Masters Voice, the US.

When will they call the cavalry?

And it so happens **that the real '*Masters of the Universe*' in the Washington-New York axis are debating exactly the erosion of this relationship;** as in the House of Saud having no one to talk to but the "*puppets*", from Bush Two minions to Kerry

at most on occasion. This analysis contends that any promises made by Kerry over the House of Saud “*cooperation*” to damage Russia’s economy really mean nothing. **Rumbles from ‘Masters of the Universe’ territory indicate that the CIA sooner or later might move against the House of Saud. In this case the only way for the House of Saud to secure its survival would be to become friendly with none other than Moscow.** This exposes once more the House of Saud’s suicidal present course of trying to hurt Russia’s economy.

As everyone is inexorably an outsider when faced with the totally opaque House of Saud, there’s an analytical current that swears they know what they’re doing. Not necessarily. **The House of Saud seems to believe that pleasing US neocons will improve their status in Washington. That simply won’t happen.** The neocons remain obsessed about the House of Saud helping Pakistan to develop its nuclear missiles; some of them – once again, that’s open to speculation – might even be deployed inside Saudi Arabia for “*defensive purposes*” against that mythical Iranian “*threat*”.

Messy? That doesn’t even begin to describe it. But one thing is certain; whatever game Riyadh thinks it’s playing, they’d better start seriously talking to Moscow. But please, don’t send Bandar Bush on another Russian mission. – *emphasis, m.z.* --