

Oil price and geopolitical evolutions

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Let's have a contrarian view on oil price, as oil is currently trading around \$ 145/barrel.

There is something strange: the major oil companies' stock quotes have not followed oil prices though they possess a large part of the oil reserves. Compared to its closing quote on 31 December 2007, Exxon has lost 8.8% of its value; Royal Dutch 16.21% and Total 12.32%. In the mean time oil price moved from \$ 96.10 to \$ 145.10 at the time I am writing this paper, or a 51% increase! Even considering the dollar has lost about 7.5% of its value to the euro during the same time, there is something unusual here, as the majors' oil reserves are valued at less than \$100 a barrel.

At current prices the big beneficiaries of the current oil price are the producing countries, especially Saudi Arabia. These piles of money give this country, wisely governed, a formidable geo-political strength, which it seems to use to try to promote peace in the region while containing Iran.

To achieve it, the key player is Syria. This country wants to restore its influence over Lebanon to have access to financial dominance. It can do it only by breaking its regional isolation which implies the agreement of Israel. Israel, even at the cost of territory concessions, is willing to secure peace at its northern border. If you add the growing influence of Turkey, which is heavily investing in Syria and increasing its friendly influence, then you understand all of a sudden why Israel and Syria are talking together, though still indirectly. Saudi Arabia seeing there an opportunity to weaken Shiite Hezbollah, is contributing by injecting a lot of petro dollars, through investments in Syria. The only country having something to lose would be Iran, as a Syria in peace with Israel would not need to support Hezbollah in Lebanon, a major local support for Iran should a conflict with Israel occur.

But, something important also seems to be happening in Iran. The U.S. and Iran are quietly negotiating a modus vivendi: Iraq, where Shiite Iran has a growing influence, should no longer be viewed as a threat by Iran; Iran, as a counterpart, should not be tempted to threaten the Arab oil fields. The consequence has been a quieter Iraq in the last months, and possibly a sort of Iran protectorate over Iraq. As a paradox, this could bring some easing in Iran itself as Iraqis are not really willing to give up some of the freedom they have acquired from the U.S. presence.

Nevertheless this optimistic scenario could be challenged by the ones who have the most to lose, the Hezbollah. This organization could try to de-stabilize the region by starting hostilities on the Israeli northern border.

Though we are in the middle east, let's assume everyone is reasonable: we may be in a situation comparable to the fall of the Berlin wall in Europe and at the beginning of a new era in the region. Consequently both Iran and Iraq oil could be available on the world markets again and oil price would decrease accordingly, especially if combined with a moderate growth/recession in the western world.

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