

Oil Market Report – November 2012

When it comes to news, no other story dominated the headlines in November more than the depressing (re)conflagration between Palestine and Israel. The increasingly incendiary nature of the conflict slowly pushed oil prices back up throughout the month, as the Middle East headed towards what it often seems to do best – bloodshed, falsely clothed in the doctrines of scripture. The fact that oil prices did rise, had some cynics questioning why border skirmishes between 2 countries with minimal energy resources, continue to play such a significant role in the energy dynamic. This view seems to ignore what it is that Israel and Palestine represent. On the one hand we have the consumer, the buyer, the user and that is the West. On the other hand, we have the provider, the seller and the supplier and that is the Islamic Middle-Eastern states.

In a previous life, Portland once found himself in Bradford with a man of considerable faith, and this man opined with a mixture of humour and sadness, that divine humour was indeed peculiar. He went on to question why in His wisdom, the Man upstairs had positioned the source of all the world's needs (ie, energy) in the very place that the world's biggest argument would endlessly rage. Faced with such wisdom, a slightly tongue-tied Portland launched into discussing at length the first part (energy), knowing full-well that the opiner really wanted to discuss the juicier part (politics). Move forward 6 years and we still have lots of graphs to illustrate just how right the wise man was vis-à-vis energy in the Middle-East (see attached), but Portland still does not have the clarity, courage or appetite to cover the latter.

The energy facts on the graph deliver a fairly stark message, ie, that 32% of the world's oil comes from the Middle-East and the picture gets worse when we analyse production in the Americas. Here, the majority of oil is produced in the USA, where not one barrel is exported to the rest of the world (that's right – 100% of USA oil is used in the USA). So when we take this into account, we actually see that 37% of the world's available oil comes from the Middle East and even this assumes that the Russian Bear happily plays ball and always makes available its 17% share...

That the Middle Eastern states are in the “pound seats” is beyond doubt as is the fact that almost all of them – if a decision had to be made – would support Palestine, before Israel. And however much the UK, the USA and Europe condemn the actions of Israel (whether heartfelt or not), the land of David will always be viewed as a western flag-bearer to those in the Middle East. Every time the West Bank or Gaza comes under Israeli fire, the Middle-Eastern world sees a western attack on their Palestinian brethren and by indirect definition, an attack on them – the suppliers of the world's oil. As the world teeters and tough men talk of lines in the sand that cannot be crossed, an energy abyss slowly opens up and oil prices will always consequently rise. The mere concept of a line in the sand, takes us one notch closer to the possibility of Middle Eastern countries cutting supplies to the West (until for example, Israel is forced to back down – ha, ha!).

So when people scratch their heads or curse the fact that the West Bank has such a profound impact on petrol prices, they should stop and ask a deeper question. What if the situation becomes so polemic, that the Middle Eastern powers introduce another oil embargo? A world without middle-eastern oil is unthinkable, impossible and catastrophic; lights would go out, ambulances would stop moving, shop shelves would empty and families would go cold – all in fairly short order. Naysayers may accuse Portland of melodrama as such outcomes seem outlandish in modern, comfortable Britain. But what nobody should deny is that the odds on all of the above are heavily slashed every time Israel and Palestine go to war.