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THE WORLD ECONOMY AND THE MIDDLE EAST UNDER THE SHADOW OF THE OIL-MARKET WAR

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ANALYSIS

THE WORLD ECONOMY AND THE MIDDLE EAST UNDER THE SHADOW OF THE OIL-MARKET WAR

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March 2020

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Introduction

The new coronavirus came to the agenda with 4 infected people who worked in a market selling seafood and live animals and also with others who visited this market on the same days for the first time on December 29, 2019, in Wuhan, China. It is now present in many parts of the world, especially China.[1] This virus has rapidly spread all over the world and threatens the world economy. It can be observed that the virus negatively affects the world economy in this environment where the number of confirmed cases exceeds 600 thousand. As the number of the cases and deaths have increased, the course of the disease has begun to show perceptible effects on the global economy. In particular, it has led to fluctuations in stock prices and suppressed earnings projections and even delayed movie releases and major sports events.

While the whole world is busy with the epidemic, the decrease in oil prices, among the reasons for which we may find the effects of the epidemic, has turned the world's attention to Russia and Saudi Arabia, which were the main actors in this decline. After these two countries failed to agree on the decision to make additional cuts in crude oil production, oil prices have fallen to the lowest level in the last four years due to the decision of Saudi Arabia to increase production, as well as the decrease in China's imports. On a percentage basis, it has fallen more than 30 percent, suffering the most severe daily loss since the Gulf War in January 1991. This decline is important as it will hurt the economies of the two countries and damage US oil production. While discussing how long the US shale oil producers, who experienced a similar shock in 2014-2016, can hold on to the market at this price level, the situation also raises concern over to what extent Russia's motivation targets these companies.

The US has reinforced its position in the energy sector since 2018, after being the world's largest producer country. With the advantage of the position it obtains, the US applied sanctions to OPEC countries such as Venezuela and Iran, and other oil producers like Russia which started trading with the former countries, which caused discomfort worldwide. The increase in the number and scope of these sanctions paved the way for an increase in the number of countries that have been affected. The oil price shock resulting from mutual showdowns affects many countries and major and small oil companies, including the leading actors. In other words, as these aggressive and interventionist policies in international relations started to affect the global economic system, the world economy, just like world politics, entered into a chaotic period. The new phase of this chaotic era has emerged as oil price shocks.

1. The Origin of the Crisis and the Effects of the Leading Countries

At the meeting held in Vienna on March 6, 2020, no agreement was reached on an additional cut in the meeting held by the Organization of the Petroleum Exporting Countries (OPEC) led

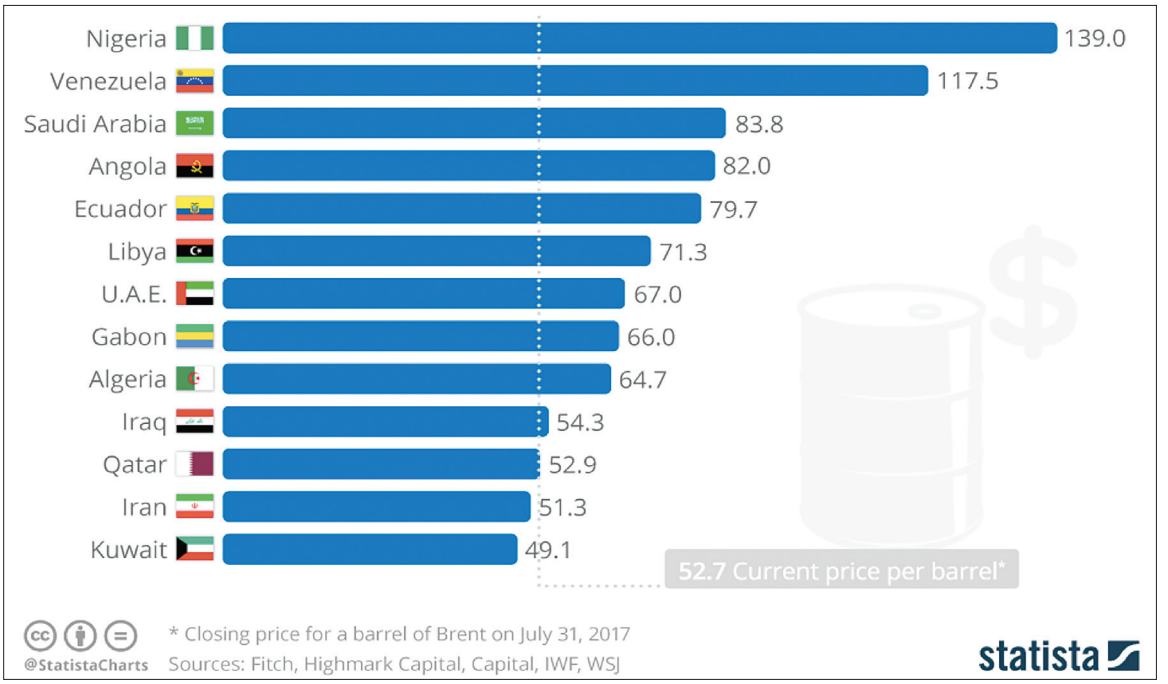
by Saudi Arabia and non-OPEC petroleum exporting countries led by Russia. Saudi Arabia, which could not convince non-OPEC oil producers to agree on 1.5 million of additional production cuts per day in order to balance the effects of the coronavirus epidemic on demand, decided to implement the low oil price policy which it resorted to from 2014-2016. This decision resulted in a sharp fall in oil prices due to the shock effect in the global markets which the virus has already made fragile. At the beginning of the week, the price of a barrel of Brent crude oil fell to $ 31.7 while the price of the USA's West Texas (WTI) crude oil fell to $ 27.34. By the middle of the week, the price of a barrel of Brent crude oil increased above $ 38 whereas the price of a barrel of WTI went up to $ 35.

However, this price level is still considered to be insufficient for producing countries. For Saudi Arabia, the economy of which is predominantly dependent on oil revenues and could not realize its economic diversity, oil barrel prices should be around 80-85 dollars so that it could achieve the budget balance.[2] On the other hand, being one of the few economies in the world with economic diversity, Russia needs oil barrel prices to be around 42-45 dollars to achieve a budget balance.[3] In such an environment, it is essential to analyze the effects of the low price policy in detail.

On the other hand, following Saudi Arabia, the United Arab Emirates (UAE) has announced that it will increase its crude oil production capacity as of April. Accordingly, the UAE national oil company, ADNOC, made a statement that they are ready to increase their daily production from 3 million barrels to 4 million barrels at the first stage and have started to make production plans of 5 million barrels a day. According to OPEC's Oil Market Report, the UAE's daily oil production was 3.03 million barrels in January. This statement, made in parallel with Saudi Arabia's decision to increase production capacity, has been interpreted as OPEC countries having a common view.[4]

Due to oil price shocks, the market value of the 14 largest publicly traded oil companies in the world suffered great losses. The oil prices

Graphic 1. Minimum Price of (Brent) Crude Oil per Barrel Required for Budget Balance



that fell about 30 percent affected first of all the equity prices and market values of the oil-producing world giants. The interesting data is that Saudi Arabia's national oil company Saudi Aramco, one of the leading actors of the oil price war, is the company with the highest loss of market value. Known as the most valuable company in the World, Aramco's shares fell 12.1 percent from March 8-12 on the Tadawul stock exchange and the market value of the company decreased by $ 230 billion.

Likewise, Rosneft and Lukoil, Russia's major oil companies, suffered losses in share and market values. Rosneft, the largest oil company in Russia, lost 32.2 percent per share on the Moscow stock exchange between March 10-13 and its market value decreased by $ 19 billion. The shares of the other Russian oil company, Lukoil, also fell during this period. In the same week, Lukoil's shares lost 21.1 percent and its market value lost $ 11 billion.[5]

1.1. Who Benefits from the Low Oil Price Policy?

What the effects will be of this new low price policy, in which oil production costs play a key role, are discussed. Production costs should be considered as data to understand who will benefit from the low price policy in possible scenarios. In this context, Saudi Arabia is the world's lowest-cost ($ 8.93) oil producer. Technically, it would continue to produce even if the general price level drops to single digits. However, according to the International Monetary Fund (IMF), due to its economic structure based on oil revenues, Saudi Arabia needs the price to be at least $ 80 so that it could balance its budget. In addition to the recent political turmoil, how long the Saudi Arabian economy, hit by the costs of the Gulf Crisis and the expenditures for the maintenance of projects such as Vision 2030, can sustain this low price policy raises question marks.

Saudi Arabia is followed by Iran with a production cost of $ 9.09 and Iraq of $ 10.57. Russia is in fourth place with a production cost of $ 19.21. However, according to the IMF, Russia needs the price to be $ 42 so that it could balance its budget. The USA is the country with the highest cost of production ($ 45). However, the production cost of the USA has been decreasing from year to year with the cheap technology applied to the shale oil it produces. In an environment where the costs and the low price policy are discussed, Russia and Saudi Arabia continue to accuse one another.

Reacting to Russia, which rejected OPEC's production cut offer, Saudi Arabia announced that it had decided to increase its production. Thus, Saudi Aramco committed to supplying 12.3 million barrels (MMBD) of crude oil to its customers by April. Therefore, Saudi Aramco will provide its customers with 12.3 million barrels per day of crude oil in April, an increase of 300 thousand barrels per day over the company's maximum sustained capacity of 12 million barrels. With this move, the company plans to obtain a financial advantage in the long term. Implementing a similar policy between 2014 and 2016, Saudi Arabia wants to take advantage of the fact that it has the lowest production cost. With this policy, Saudi Arabia caused the collapse of more than 300 oil companies in the USA and a $ 250 billion loss in the sector. Later on, thanks to the prices rising over $ 50, other US companies were able to increase their production.

Russia, on the other hand, stated that Saudi Arabia is responsible for the process and that the current price level will not affect its own economy, but it is also asserted that the main reason for the dispute is the Russian desire to push the US companies, the main rivals before the Russians to be the ruler of the market, out of the market. One of the main reasons that feeds this motivation is the Trump administration's sanctions on a subsidiary of the Russian Rosneft company. The U.S imposed sanctions on the grounds that the company broke sanctions imposed on Venezuela last month. In this context, it can be said that the only target of Russia is not the US oil producers but also the US power of enforcing sanctions with the confidence provided by the abundance of energy in the US. The Trump administration made a statement against this move by the two countries and expressed that the price manipulation and shocks that occurred as a result of this intervention in the state oil markets damaged the global economy and this intervention reinforced the importance of the USA as a reliable energy supplier to partners and allies around the world.[6]

US companies with very high production costs are highly likely to be the most affected actors in the short term. This reality brings up the theories that Russia, indeed, would not cut its oil production, embrace the cost for a certain period of time, and take the US shale oil producers out of the market. As can be seen from the graphic, with the use of high technology in shale oil production, the US has become the biggest competitor for Russia in the field by ranking first in global oil production, although its reserves are much less. While the daily oil production of the US was around 5 million barrels in 2008, it increased to 13.1 million barrels as of 2020.[7]

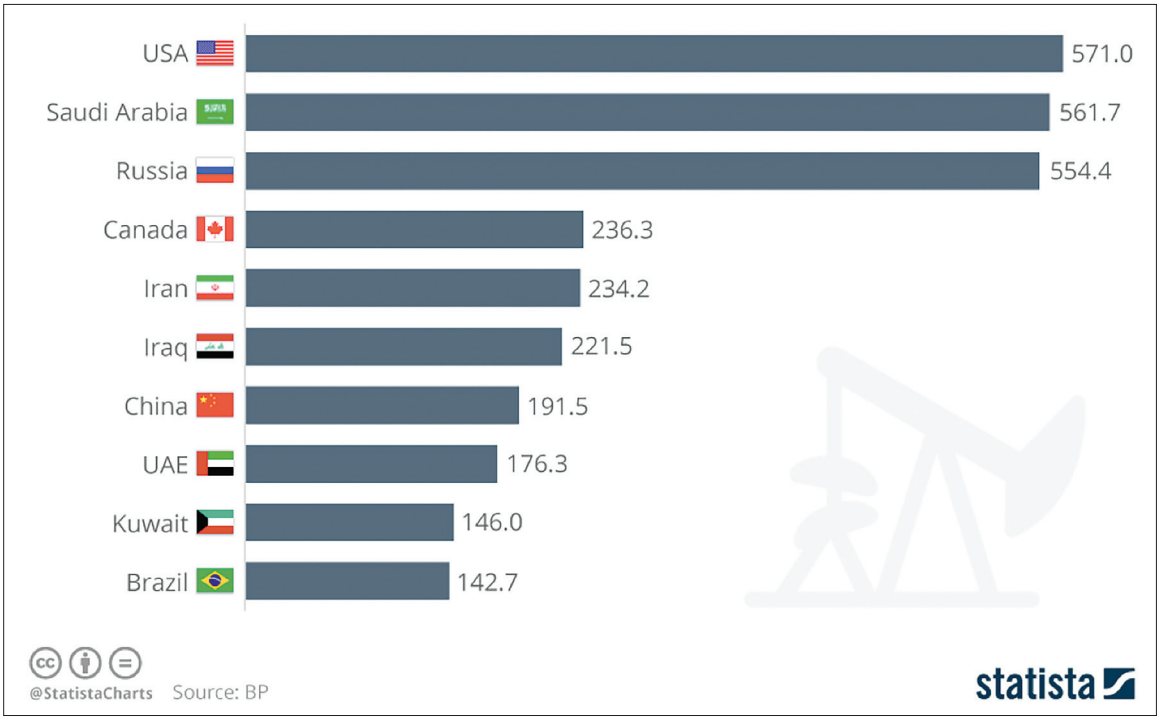
Russia, which approved OPEC's additional oil production cuts because of the low price policy implemented by Saudi Arabia for two years at the end of 2016, decided to decrease the oil production three more times in the last four years. However, after each trial, the market share of OPEC countries, led by Saudi Arabia and Russia passed to US oil producers. With the oil prices exceeding $ 50 after these cuts, the US took the shares of the countries that implemented production cuts in the market and became the

world's largest crude oil producer in 2018. Based on this information, the motivation of Russia to reject OPEC's production cut offer can be understood. It is seen that Russia is determined to increase oil production in order not to leave the market entirely to US companies. On the other hand, the Riyadh-Moscow alliance, which has been going on for more than three years, is likely to come to an end after the last conflict.

To what extent the decision to increase the oil production is sustainable and how it will affect the economies of Russia and Saudi Arabia are the most important questions that will determine the course of the developments. As can be understood from the graph above, when the shares of oil revenues in total export revenues are analyzed, it is seen that Saudi Arabia is largely dependent on oil. Therefore, it is anticipated that the low price policy will have a major impact on its budget. Moreover, unlike the 2014-2016 period, it is worth noting that the Saudi Arabian economy has become more fragile after recent political and economic events, such as the recently experienced Yemen incident. Indeed, it is said that every $ 5 decrease in oil prices causes an additional deficit of 50 billion riyals in the Saudi Arabian budget. With a budget deficit of 131 billion in 2019, the budget deficit of Saudi Arabia is expected to be 187 billion in 2020.

If oil prices remain at these levels, both countries are expected to face additional budget deficits of billions of dollars. There has already been a sharp decline in the share prices and market values of publicly traded oil companies listed on stock exchanges. Accordingly, the shares of Aramco, the national oil company, which has gone public (IPO) within the scope of the Vision 2030 program in the recent period, decreased by 10 percent as of March 9, 2020, while its market value decreased by approximately 176 billion dollars. The shares of Saudi Aramco,

Graphic 2. The Top Ten Oil Producing Countries 2020 (Million Barrel/Day)



which went through the most loss of value in the week of the oil price shock, fell 12.1 percent between 8-12 March on the Saudi stock exchange Tadawul, and the market value of the company decreased by 230 billion dollars in total.

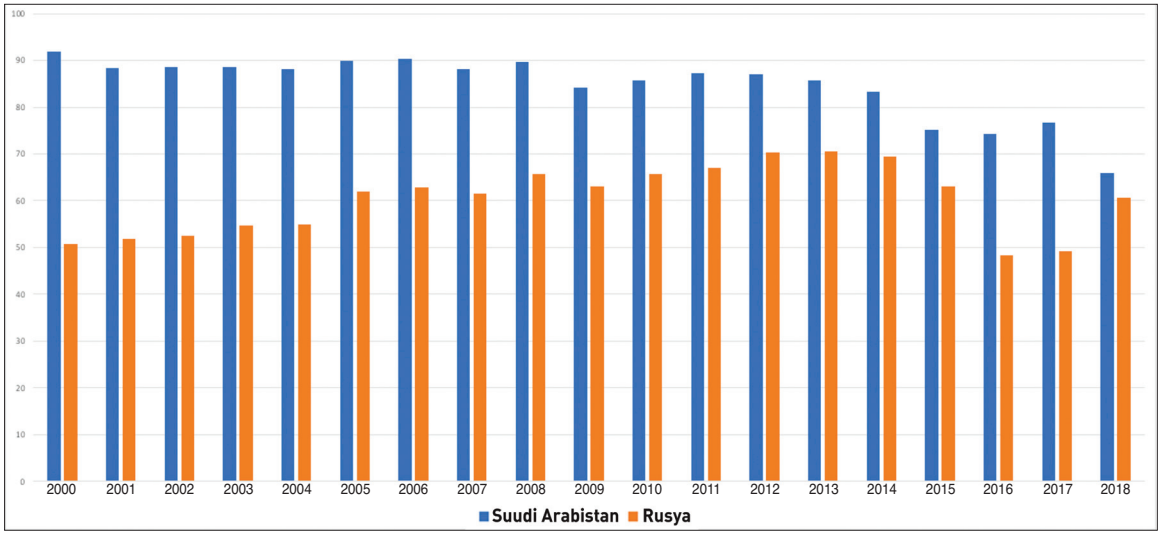
Similarly, Russia's largest oil companies Rosneft and Lukoil lost more than 4 percent of their shares at the beginning of the week. Besides, the market values of the two companies decreased by $ 4.8 billion in total. Looking at the rest of the week, the shares of Rosneft fell 32.2 percent and the market value decreased by $ 19 billion on the 4 trading days between 10 and 13 March.

Although the Russian Finance Ministry explains that the low price policy can be sustained for 10 years, economists reveal that with the price of around 35 dollars, the Russian economy may last for a maximum of 3 years.

As to Lukoil, the shares of the company fell by 21.1 percent, and its market value decreased by 11 billion dollars.

After the oil prices shock, the Russian Ruble became the currency to make the worst beginning for the week. The ruble lost 8.5 percent in the offshore market, suffering its biggest decline since December 2014. The Central Bank of Russia noted that it would start selling foreign currency for the first time in 5 years in order to decrease the volatility in the market. Although the Russian government declared that the low price policy would not affect their economy, these moves reveal the seriousness of the situation. The Finance Minister of Russia announced the day before that, if oil prices dropped below $ 42.40, it would start selling foreign currency.[8] Russia is expected to cut its spending in the long run and go for a tax increase as a precaution to all these losses. Although the Russian Finance Ministry explains that the low price policy can be sustained for 10 years, economists reveal that with the price of around 35 dollars, the Russian economy may last for a maximum of 3 years.

Graphic 3. Share of Oil Revenues in Total Exports



Source: EIA Short Term Energy Outlook, Thomson Reuters

It would be appropriate to say that the losses are greater on the US side. Each of the stocks of major oil companies such as ExxonMobil (XOM) and Chevron (CVX), the business models of which were built on cheap raw materials, fell by 12%. While oil exploration and production companies suffered great losses, Pioneer Natural Resources (PXD) lost 37% of its value and the debt-crippled Occidental Petroleum (OXY) 52%.[9] In the US media, it is held that the Trump administration will take all measures to stop this attack on the US energy sector and may take steps such as direct cash assistance to the US energy companies accordingly. In this regard, the US Secretary of Energy, Dan Brouillette, suspended the sale of 12 million barrels of oil, initially planned to be sold from the Strategic Oil Reserve on Tuesday, March 9.

In this fragile environment, banks, as well as oil companies, have been in a difficult situation as they have close ties with the energy sector and given loans to the investors in this sector. In this context, Dallas-based Comerica (CMA), Cullen / Frost Bankers (CFR) and Texas Capital Bancshares (TCBI) dropped by around 20 percent. If price levels continue in this way, shale oil producer companies with weak balance sheets will have to abandon expensive drilling projects that require high technology and save money by reducing the number of employees. Some will not even be able to hold on to the market and declare bankruptcy.

1.2. Who Controls Oil Prices?

The graph below shows the historical development of the price of the commonly used WTI type crude oil per barrel. Accordingly, it is seen that the breaks seen in the graph are the result of important developments in world politics. For example, the first reason for the breakdown that started as of 1970 is the depletion of the US oil stocks. In 1973, on the other hand, it was observed that oil prices went up remarkably as the OPEC countries imposed oil embargos against the countries that supported Israel, especially the USA, during the Arab-Israeli War.

Likewise, the effect of the Iranian Revolution in 1978 was very decisive on oil prices. It was even observed that the increase in oil prices per barrel in this period was higher than that of the 1973 oil crisis. In 1980, the Iran - Iraq War caused oil price shocks. Similarly, after the Iraq invasion of Kuwait in 1991, significant increases occurred in oil prices. The 1997 Asian Crisis and the OPEC decision to cut production in 1999 led to another important breaking point. The biggest break in this period occurred in the wake of the 9-11 September Attacks that took place in 2001 and affected the whole world. After this date, the stock capacity shortage in 2004 and the 2007-2008 global financial crisis brought about price increases. In 2009, oil prices increased after OPEC decided to cut production again. However, having recently jumped up high with the Saudi-Aramco attack, the oil prices have experienced a sharp decline after the recent dispute.[10]

1.2.1. OPEC vs. the USA and Non-OPEC Oil Producing Countries?

That specific events and organizations are the determinants of these price shocks over the years raises the question of who are the main actors controlling the prices. Thanks to the oil fields it found in the 19th century, the US became the largest oil producer and the prominent actor controlling oil prices until the middle of the 20th century. The US retained its pricing power by dominating the oil market. In the early years, oil prices were quite volatile as extraction and refining technologies were not yet developed. Increasing or decreasing demand as a result of

political and social developments were the factors that directly affected prices. For example, prices increased up to $ 120 during the US Civil War in the 1860s while they dropped by more than 60 percent in the next five years. The discovery of the Spindletop refinery in East Texas in 1901 raised the US oil supply considerably, and 1,500 new oil companies entered the market in a year.

Increasing supply and activation of private pipelines helped further lower the oil price. Oil supply and demand increased with the discovery of oil in Iran and Saudi Arabia, respectively in 1908 and the 1930s, and during the First World War. In addition, Azerbaijan, which had started producing oil with technical methods since the 1870s, has had an important place in oil production until today. In particular, it started to meet 51 percent of world oil production with 10 million tons of oil production in 1901.[11] These discoveries started the process of breaking the US dominance in the oil market.

> The US dependence on oil reached its peak with the Vietnam War and the economic expansion in the 1950s and 1960s, causing OPEC to dominate the market.

In the following years, OPEC started to control oil markets and prices, especially in the second part of the 20th century. By the middle of the 20th century, the heavy use of oil in production, including the defense industry, and the European coal shortage led to a significant increase in oil demand, and oil prices fell to $40. The US dependence on oil reached its peak with the Vietnam War and the economic expansion in the 1950s and 1960s, causing OPEC to dominate the market. This position is also called an increasing leverage effect. Especially the 1973 oil shock turned the situation completely in favor of OPEC. OPEC countries stopped supplying oil to the US due to the support it gave to Israel during the Arab-Israel War, which caused a strong shock effect on oil prices.

However, there are also theories in the literature that deal with the 1973 Oil Crisis in the opposite direction. These theories mainly argue that, despite King Faysal's autonomous foreign policy objective and his sensitivity to the Palestinian issue, he cannot shape an energy policy independent of the US. They also agree that the price increase through the reduction of oil supply in 1973 served the purpose of protecting the reserve currency feature of the dollar. In this regard, academics and experts, who accept the theory, advocate the existence of a US-Saudi agreement to trade oil only in US dollars in exchange for an increase in oil prices.

Table 1. OPEC Countries

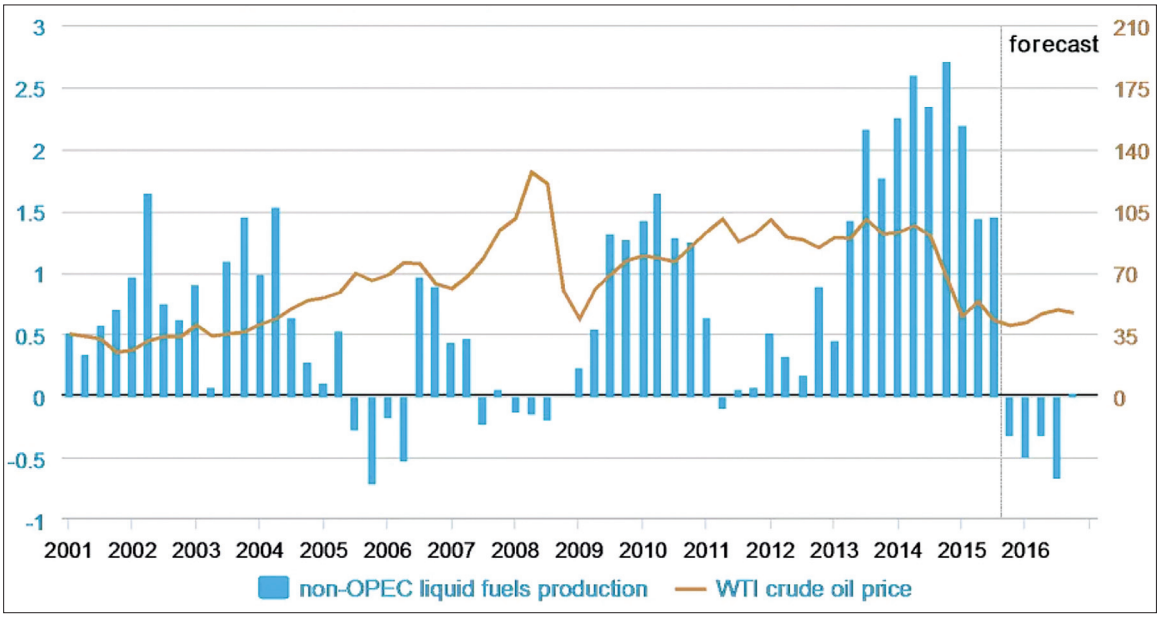
Saudi Arabia	Libya	Nigeria
United Arab Emirates	Ecuador (withdraw its membership, 2020)	Congo
Qatar (terminated its membership, 2020)	Equatorial Guinea	Algeria
İran	Kuwait	Angola
Iraq	Gabon	Venezuela
Indonesia (suspended its membership, 2016)		

The secret of OPEC is that it controls oil prices through its pricing-over-volume strategy. The 1973 oil embargo shifted the structure of the oil market from a buyer's to a seller's market. This year is referred to as the period when OPEC fully consolidated its market power. OPEC holds three-quarters of the world's conventional oil reserves and has the world's lowest barrel production costs, and due to these advantages, OPEC has had a wide influence over oil prices. OPEC derives its pricing power from two trends: the absence of energy sources and a lack of viable economic alternatives in the energy industry. Thus, when there is a glut of oil in the world, OPEC cuts back on its production quotas; and when there is less oil, it increases oil prices to maintain stable levels of production.

Some other events have occurred and reinforced OPEC's influence in the market. The collapse of the Soviet Union in 1991 and the resulting economic turmoil disrupted Russia's oil production for several years, and the vacuum created by the loss of Russia's impact in the oil market was filled by OPEC. In addition, the Asian financial crisis had the opposite effect and reduced oil demand. In both cases, OPEC maintained a constant rate of oil production and was the winner of these crises. As of 2019, OPEC controlled 74.9 percent of the world's total crude oil reserves and produced 42 percent of the world's total crude oil output.

Five of the top ten countries that produce the most oil in the world include non-OPEC countries such as Russia, the USA, China, Canada, and Mexico. However, those except Russia, Canada, and the USA have low (if any) export capacities as their consumption levels are high. Therefore, despite their high production, most of these countries are oil importers. This reality also renders these countries ineffective in determining oil prices for the reasons described above. On the other hand, non-OPEC producers, which rose to the higher ranks in oil production with the discovery of shale gas and oil, increased their production rates and thus market shares. However, shale oil technology needs upfront in-

Graph 4. The Effect of Non-OPEC Oil Production on Prices



Source: EIA Short Term Energy Outlook, Thomson Reuters

vestments that challenge its manufacturers. This situation is the soft belly of shale gas and oil producers despite their growing market shares.

However, with the discovery of shale gas and oil, and the advances in drilling techniques, the US has re-emerged as the largest oil producing country in the world since 2018.

The graph above shows the high production levels recently achieved by non-OPEC countries and the increase in shale oil production. As can be seen, it can be said that production increases or decreases do not affect prices. In particular, it is observed that the high production levels experienced between 2002-2004 and 2010 did not cause price decreases, and instead, high price levels were experienced. On the other hand, although the price decreases following the high production in the 2014-2015 period seemed to be the opposite of this thesis, that it overlapped with the increasing supply of OPEC in the same period hinders an inference that non-OPEC countries have price-setting capabilities.[12]

However, with the discovery of shale gas and oil, and the advances in drilling techniques, the US has re-emerged as the largest oil producing country in the world since 2018. Although the US is not at the top of the list with its reserve size, it reached over 12 million barrels per day in 2019 with a hundred percent efficiency thanks to its capacity to use high technology in drilling. Even though OPEC still can increase prices, when it cuts the supply, the US starts limiting the pricing power of the cartel by either supplying oil to the market from its reserves or increasing production.[13] In addition, when the political instabilities in several OPEC countries such as Iran, Iraq, Libya, and Venezuela are taken into account, it can be deduced that the US's foreign policy towards these countries is effective in consolidating its existing power in the market.

2. Would the Low Oil Price Policy Serve as a Remedy for the Chinese Economy under the COVID-19 Effect?

China imported 72% of the oil it consumed in 2019. Most of its imports are from Saudi Arabia and Russia, which play the leading role in the oil price crisis. In addition, countries such as Angola, Iraq, and Oman also cover 55 percent of China's total raw imports. Importing an average of 10 million barrels per day from these countries, China has experienced a sharp decrease in the costs of its companies, which have had difficulties with the effects of the coronavirus, after the price shock and has gained an advantage in covering the effects of the virus. China's oil imports in 2019 increased by 9.5 percent compared to the previous year; however, due to the effect of the virus epidemic, the country resorted to a significant amount of import cuts in the first quarter of 2020.

According to Chinese experts, Chinese industrial firms can achieve a 2 percent profit increase this year due to the low oil prices. However, in order for low oil prices to provide relief in the economy; oil production should be increased by at least 0.3 percent compared to the period when the prices were higher. This will provide some relief, but it is just a small act of balance against many other elements that affect the economy. The global economic constriction, which is also the trigger of the oil price shock, is just one of them. For instance, a 2 percent drop in export

growth is expected to wipe out all gains foreseen as a result of low oil prices. In this context, with the impact of both the global recession and the coronavirus epidemic, China's exports are expected to slow down at least three times this year.[14]

On the other hand, a steady downward trend in international oil prices may lead to small companies' failure to hold onto the market and to a potentially monopolized supply structure. This would be an obstacle to Beijing's strategy to secure multiple supply sources. Besides, this trend may also negatively affect China's domestic oil producers and overseas oil investments. Therefore, low oil prices will not only positively contribute to the Chinese economy. As is known, China is a major oil producer with a crude oil output of 190 million tons (1.4 billion barrels) per year. However, since the cost per barrel is more than $ 40, it can be said that the decrease in oil prices is not at all advantageous for domestic production. Although the fact that the whole production is used within the country keeps this loss at a lower level, it is obvious that the attractiveness of domestic production would decrease if crude oil is purchased from abroad. Therefore, China will suffer a major wound in its effort to get rid of its dependence on overseas supply.

In this regard, the shares of China National Offshore Oil Corporation (CNOOC), one of the three state-owned oil companies, fell more than 20 percent this week. In addition, CNOOC closed the day with a 6 percent drop only on Wednesday, March 11. What is more, the collapse in oil prices may lead to the questioning of the financial viability of many overseas oil projects China invested in. Indeed, if the low oil price trend continues, the expectation that these overseas oil projects will not bring any profit may bring about the noncompletion of these investments and turn these projects into a big burden for Chinese investors.

3. Its Impacts on Other Oil Producing Countries and the Future Provision

Apart from the main actors of the price wars, the coronavirus case and the fragile world economies are also heavily affected by the price drops. The fall in oil prices adversely affects the economies of medium and small-scale producing countries within OPEC as well. For example, Venezuela, which has the world's largest oil reserves, still has economic troubles due to low oil prices, and the country's oil industry has come to a halt. In addition, suffering from US embargoes, Iran's crude oil exports have been badly damaged. The oil production of other major OPEC producers such as Iraq, Kuwait, and the United Arab Emirates is expected to be negatively affected due to low prices; what is more, medium-sized producing countries such as Angola, Algeria, Nigeria, and small-sized producing countries such as Ecuador, Equatorial Guinea, Congo, and Gabon are anticipated to be more damaged.

The current price level will adversely affect budget balances as other oil-exporting countries regulate their budgets based on oil prices around $ 50. If these countries decide to meet their budget deficits with high-interest loans, they might find themselves in a complex economic crisis. For example, Iraq prepared its budget based on $ 56 per barrel. Simple mathematics would reveal that Iraq, which exports 4 million barrels per day, will lose over $ 100 million a day if it starts selling oil around $ 30 per barrel. When the monthly and annual losses are calculated, the fate of the Iraqi economy, which is in trouble in the current conjuncture, will not be good. Even if Iraq, which has already run a $ 20

billion deficit in the first quarter of 2020, decides to borrow from the World Bank or IMF, the political and security conditions in Iraq will affect the lending decision of these organizations. Therefore, it would not be wrong to say that if the oil prices continue at this level, the Iraqi economy will be on the brink of disaster. Potential large deficits in the Iraqi budget, 80 percent of which are allocated to the salaries of the public sector, may result in the government's failure to pay employee wages. Experiencing political and economic crises, Iraq may try to borrow from the Central Bank of Iraq or use some of its gold reserves to avoid any social explosion. It may be said that, if enough sources cannot be created during a possible crisis in Iraq, which has been shaken due to the corruption allegations with regards to the Central Bank and gold reserves, the masses of people who have already taken to the streets may cause new crises.

Similar scenarios will apply to other oil-exporting countries in the region. In particular, other Gulf countries, the economies of which are mainly based on oil revenues, may have difficulty in maintaining their budget balances. On the other hand, shale oil has started to gain popularity beyond the American shores. For example, China and Argentina have drilled more than 475 shale wells in the last few years. Other countries such as Poland, Algeria, Australia, and Colombia are also exploring shale formations. If the high technology costs used in the drilling of shale oil are reduced, the balances in the world oil market will be reshaped. This will push all countries to search for similar sources, and perhaps oil will remain as a source of energy at the current price levels.

Other factors that impact the price of oil include the budgets of Arab nations, which need high oil prices to fund government spending programs. Besides, demand continues to increase from developing economies, such as China and India, putting additional influence on prices in the face of constant production. Theoretically, oil prices should be a function of supply and demand. When supply increases, prices should fall or vice versa. However, in practice, the status of oil as the preferred (with low substitutability) energy source has made its pricing difficult. Unfortunately, oil supply and demand in the world

are part of the complex equation in which geopolitical and environmental concerns are the main drivers. Therefore, regions that hold pricing power over oil can control the vital levers of the world economy.

On the other hand, besides the main actors of the oil price shock, other major oil companies in the world suffered serious losses during the week of the price shock. These losses totaled $ 495 billion in a week. This figure has inflicted a deep wound in the world economy, especially considering the impact of the coronavirus. In this regard, if the losses of large companies are to be examined, it must be said that the second-largest oil company (following Saudi Aramco) that experienced the highest depreciation was Royal Dutch Shell. The company's value per share decreased by 30.8 percent between March 9-13, and its market value decreased by $ 48.3 billion. French Total experienced the third-highest market value loss. While the company's loss per share was 29.9 percent, it saw a loss of 33.7 billion dollars in the market value. Within the same week, the shares of the British BP company fell by 30.1 percent and its market value by 29.5 billion dollars. Similarly, while the shares of the Italian company Eni fell by 32.4 percent, its market value saw a loss of $ 13.5 billion. On the other hand, the shares of the Norwegian Equinor oil company fell by 27.2 percent this week, while its market value by $ 12.7 billion.

The shares of many oil companies have suffered great losses in the New York stock exchange, which has experienced the biggest weekly loss since 2008 due to the effect of the COVID-19 epidemic and oil price shock. Both the virus decreasing the demand for oil and the supply surplus following the OPEC decision caused the depreciation of the shares of US oil companies. Between March 9-13, the market value of the 6 largest oil companies in the US decreased by a total of 97 billion dollars. In this regard, while the shares of ExxonMobil, the largest oil company in the US, fell by 20.1 percent, its market value saw a loss of $ 40.5 billion. This was followed by Chevron, with a loss of $ 22.4 billion in market value. The company's share value decreased by 12.5 percent in this period. As to ConocoPhillips, the shares of the company fell by 30.8 percent and its market value saw a loss of $ 15.1 billion. Between the aforementioned dates, Halliburton shares fell by 45.3 percent and market value by $ 5.2 billion. Likewise, Schlumberger shares declined by 32.2 percent and market value by $ 10.7 billion. Finally, the shares of US Baker Hughes company lost 20.8 percent value per share and its loss of market value was $ 3.4 billion in the same period.

As discussed in detail in the final analysis, it would be appropriate to say that Russia's and Saudi Arabia's moves were based on both testing each other and limiting the share of the US in the market. Therefore, it can be argued that both countries are in an effort to develop strategies against US shale oil producers.[15] However, Saudi Arabia's dependence on the US causes disruption to act jointly with Russia to this end. Besides this dependence, the problems they face in their foreign policies restrict their attempts to dominate and direct the oil market. Saudi Arabia's struggle with Iran, inability to manage the Gulf Crisis, partnership process with the UAE and the Yemeni problem and the turmoil in its domestic politics are seen as the biggest obstacles before the country to focus on the oil market. As for Russia, along with the problems it has in many areas from Syria to Libya, from the USA to Africa, the oil price shock has laid another burden on Russia's shoulders. At this point, the future of the oil market and the position of OPEC, which is at the edge of losing its determining position in the market, should be analyzed in detail.

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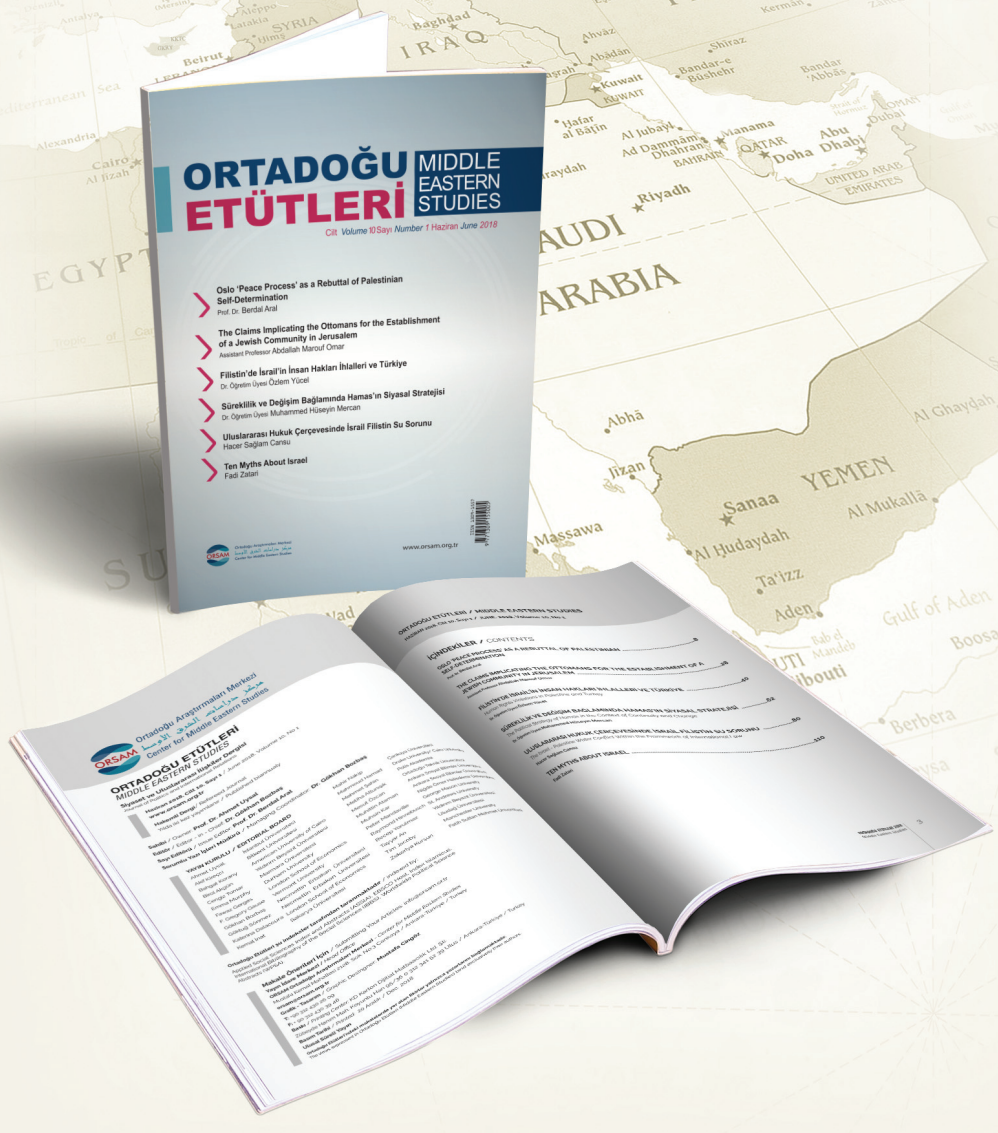

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