



Opinion

Understanding the Middle East's energy strategy

Saudi-led global oil production cuts come as the region continues massive investment plans



Joe Hepworth

Thu 8 Jun 2023



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Any resident of Dubai, or visitor during the last 12 months, can't have failed to spot the massive and ongoing out-of-home advertising campaigns being activated by Saudi Arabia on some of the most visible billboards and locations along Sheikh Zayed Road.



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As such, the Saudi-led cuts to global oil production that surprised markets at the beginning of April and propelled prices back above \$80 per barrel for the first time since November 2022 shouldn't be seen as such a shock in the overall scheme of things. Saudi's multi-year seismic societal and economic change programme relies upon high energy prices to fund the transition so further moves to keep oil prices buoyant are likely.

This comes after oil had dropped to a low of \$66 per barrel in March (now around the \$73 mark), down from highs of \$120 in early June 2022. Natural Gas has followed an even more precipitous slide from a peak of just over \$9 per MMBtu in August 2022 to around \$2.30 now. The story of both of these commodities in the last 12 months obviously confounds most predictions made at the start of Russia's war in Ukraine that foresaw crippling high energy costs being sustained as a result of the conflict, and Russia's exclusion from Western markets as a result.

However, a combination of low-demand, warm winter conditions, high inventories and supply from alternative sources has meant that markets, after the initial shock and dislocation in spring 2022, quickly dropped, much to the joy of businesses, motorists and households around the world, but to the chagrin of Middle Eastern governments, precipitating the actions we have just seen to boost oil prices again.

This is also being played out to a shifting, complex and correlated geopolitical situation which sees Saudi-US relations at a low ebb. The Middle East is increasingly engaged with China and remaining studiously unaligned on Russia-Ukraine and, most surprising of all, is a rapprochement between Saudi



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output to maintain prices at levels that will continue to fund these vital projects in the years ahead.

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