

**Answer to Question**

## **The Sharp Fall in Oil Prices!**

**Question:**

The oil prices have continued to drop to the point where the price of a barrel has fallen below \$40. Saudi has not reduced production in order for the prices to stabilize in the case since it is the biggest producer amongst the OPEC states. That was apparent in the OPEC meeting held on 04/12/2015. Similarly, America has increased its production instead of reducing it in order to confront the decreasing prices... So what are the reasons for the fall in the prices of oil?

**Answer:**

In order to make the picture clear it is necessary to review the oil prices throughout the last year in line with the timing of political events and a number of influencing and changing realities, so that we are capable of examining the causes of the increase of oil and its decrease within close periods of time:

1 – During the rule of Abdullah Bin Abdul Aziz and a short time before his death the prices of oil fell sharply and this was understood to represent a British attempt through its agent Abdullah Bin Abdul Aziz to strike at the American interests in relation to the America production of Shale (As was mentioned in the Answer to Question issued on 07/01/2015). The price of petrol remained low until the death of Abdullah Bin Abdul Aziz and accession of the American agent Salman Bin Abdul Aziz to the rule on 23/01/2015. In spite of the announcement made by the Saudi Minister of Oil in respect to Saudi not changing its oil policy, the reality is that the price of oil began to gradually rise with the accession of Salman to the rule until it had surpassed the margins of \$60 by the month of May. This is what had been expected in line with what had been mentioned in the answer to question of 25/01/2015 in which it was mentioned: *“As a consequence of that, there will be a reduction of tension between the United States and Saudi Arabia, and this affects the reduction of the continuing decline in oil prices. This is because the former king, backed by the British wanted to reduce oil prices to derail America from benefiting from the oil shale”*.

2 – At the end of June the price of oil began to gradually drop until it reached by mid-August around the margins of \$40. This period in which the fall took place was in line with the timing of the conclusion of the Iranian nuclear deal and it appears that America made effort to decrease the oil price during the negotiations period to aid its agents in Iran to be able to make the required concessions needed to conclude the deal. That is because the reduced oil price puts pressure upon the Iranian economy which then provides the popular justification to make concessions under the shadow of economic constraints that the people were originally suffering from. Then following that the prices of oil began to rise again slightly until the end of September at the time of which it hit \$50.

3 – At the beginning of October 2015, the prices of oil began to fall again rapidly until they hit \$34 on 18/12/2015... This sharp fall in oil prices pose different reasons to those that existed previously and the elaboration of that is as follows:

At the time of the occurrence of the American financial crisis in 2008, America adopted a policy of quantitative easing from that time in order to escape from the financial crisis that had struck it severely. So it began to pump huge quantities of Dollars in order to save the financial

system and it weakened the dollar whilst it still remains committed to that. However, since the beginning of last year America noticed the presence of a matter that had an impact upon its quantitative easing (policy) and this matter is:

- The world nations were harmed by this policy and China in particular as the decreased (value) of the Dollar had impacted its huge Dollar reserves... As a result of that, calls began to appear to abandon the Dollar and to reframe a new monetary system. This call appeared strongly within Europe touted by the French Foreign Minister Michel Sapin in accordance to what was quoted in the *Financial Times* on 07/07/2015 under the heading: 'France hits out at the dollar's dominance'.

It was mentioned that Sapin said: "We the Europeans are making exchange amongst ourselves with Dollars like for example when we sell aircraft. Is this necessary? I don't believe so. I believe restoring balance is possible and necessary. Not just in respect to what relates to the Euro but also in respect to the other currencies of the rising states and which represent more and more of global trade...." And he said to the newspaper that he will instigate the need for an alternative for the Dollar with his colleagues, the Ministers of Finance of the Euro Zone, when they meet in Brussels on Monday. This is despite his refusal to delve into details about these currency steps that could appear). And China followed France so during an interview with Xinhua news agency, Kostin, the President of VTB Bank, the second biggest Russian bank for loans, said: "The global financial system is still subservient to the dominance of the American dollar and it requires a mechanism that is more varied in order to reduce the dependence upon one single currency." And Kostin said that it is possible for China, in its consideration as the second largest economy in the world, to cooperate with a number of other states in order to build a new system and he added that Russia will support China's undertaking a leadership role in the global financial arena. (*The People's Online Daily Newspaper*, 01/11/2015).

Even though this is a sufficient enough reason for America to abandon the policy of devaluing the dollar it nevertheless remained arrogantly upon the same policy i.e. devaluing the dollar. Therefore, it was diligent in respect to raising the price of petrol because its rise will lead to the devaluing of the dollar as is well known. From there it continues to deal with the effects of the financial crisis that have not been erased until now. This is whilst at the same time it works to increase the price of petrol so as to make the production of shale oil worthwhile due to the rise of the price of petrol. It was for this reason that Kerry visited Saudi on 11/09/2014 and for his meeting with Abdullah whilst focusing upon decreasing production in order to increase the price of petrol as we have previously explained in our answer dated 07/01/2015.

- Despite that America has noticed in the latter months of this current year that this direction towards distancing from the dollar has begun to become a practical course. This has been by keeping away from the dollar as reserves and purchasing gold with it. China has undertaken the exchange of what it had in dollars with gold in the case where it had possessed an abundance in Dollars that amounted to close to 4 trillion. "The Chinese Central Bank is adding to its reserves on a monthly basis between 14 and 19 tonnes of Gold" (Reuters, 1/12/2015). This is also in the case where unofficial information as reported by some Russian newspapers have indicated that China is seeking to increase its reserves of Gold in the Central Bank to reach in the coming period 10 thousand tonnes in order to supersede the US which is currently in first place possessing 8 thousand tonnes. China currently has come to possess approximately 1700 tonnes of gold reserves. Similarly, Russia has been buying gold and currently Russia owns 1275 tonnes, in the case where it bought 67 tonnes in the second half of 2015... This matter represents the sounding of alarm bells in respect to the dollar and represents a great danger to America. That is because the dollar represents one of the most important pillars and supports for its dominance over the world. It is therefore important to America for the dollar to remain the

currency by which petrol is priced and the currency of financial settlements. That is because whoever owns the dollar has influence over the prices of petrol and global trade.

#### **4 – Like this, America has adopted a policy that leads to the raising of the price of the dollar or reducing the price of oil by a number of processes:**

a – Adopting the policy of increasing oil production by all means possible which include:

\* America and Canada increased their production of oil from around 10.3 million barrels per day in 2005 to around 18 million barrels per day in the current year.

\* The agents of America in OPEC and particularly Saudi, Iran and Iraq and have increased their oil production from:

- As for Saudi, Al-Jazeera.net published on 10/10/2015: “The Kingdom of Saudi Arabia has informed the organisation petrol exporting states, OPEC, that it has increased its oil production last September by 100 thousand barrels per day”. (Al-Arabi Al-Jadeed, 14/12/2015). Its production this year has reached 10.1 million barrels daily.

- As for Iran, then Reuters reported from a source in the oil field on Monday who had knowledge of the delivery timetable loads within the country that is a member of the countries exporting oil (OPEC) that: “Iran is on its way towards exporting 1.26 million barrels daily of crude oil daily this month. This principle figure is higher than its level merely two months previously by roughly a quarter” (Al-Arabi Al-Jadeed, 14/12/2015). And some specialists anticipate that it will export more than that:

“The lifting of economic sanctions and allowing Iran to export its oil (Iran currently produces 3.7 million barrels a day in the case where its exports have reached approximately 1.7 million barrels per day) will add to the global production, as it is within the capability of Iran to increase its production in the region of 600 thousand barrels per day by the end of 2015. This is whilst noting that the supply estimates range between 1.5 to 2 million barrels per day” (Sabaah Al-Jadeed News site, 09/12/2015).

- As for Iraq, the Fayad Hasan Ni'mah, the delegate of the Oil Ministry for Affairs of Extraction said: “The production of the Ramilah (oil) field has reached around 1 million and 350 thousand barrels per day.” Adding that: “The ministry seeks to raise the level of production of the (oil) field by two million and 100 thousand barrels per day”. And he added further: “That the oil production in the field currently represents 40% of the Iraqi oil production” ... Reuters news agency reported that Iraq has specified 3.017 million barrels daily from the crude of Basra to export in September representing an increase from the 2.52 million barrels per day of the previous month (Sabaah Al-Jadeed, 15/08/2015).

\* Annulling the ban on exporting American oil abroad in the case where: ‘The US House of Representatives approved a new process to lift the ban imposed upon crude oil exports which had been in place for forty years... and the American president, Barack Obama, signed the motion of Friday so that it became law’ (BBC, 19/12/2015)... America dealt with the issue of shale oil, so that it did not stand in the way of its new policy in regards to raising the value of the dollar and decrease the price of oil. And so a number of companies that had invested in this field left and a number of big wells in which the cost of extraction exceeded the price of petrol halted work. This is whilst the companies which were capable of bearing the decrease in prices and which were technologically capable of utilising scientific styles to reduce the costs of production remained. They then multiplied their production capabilities until the American production of shale oil remained within acceptable levels. This had a big impact in respect to exporting after the annulment of the ban... It was mentioned in the American energy agency report according to what was stated in the site ‘Market Realist’: “That the US production of crude oil for the week ending on the 11<sup>th</sup> of December is roughly steady (constant)...” In the

current month it reached around 9.17 million barrels per day and this goes back to the fact that the cost of US shale oil extraction had decreased whilst the well production had increased that remained producing in spite of the closing of the non-worthwhile wells... Eric Lee, a commodities strategist of Citigroup said: "In North Dakota's Bakken formation, the break-even cost has fallen into the \$20s in some counties, the state's Department of Mineral Resources reported last month. Producing a barrel of oil would still be profitable at \$24 in Dunn County, down from \$29 last October." (Tom DiChristopher, [CNBC 20/08/2015](#))".

Consequently, America and its agents have contributed to increasing the production in a manner that has brought about saturation within it. This in the case where some of the reports have indicated that: 'There is currently in the markets an oil surplus that is equal to approximately 4-5 million barrels per day' (cited from Alpha Beta Site, 15/12/2015). This is in addition to the global oil consumption that is regarded to represent the made motivator of demand has witnessed a noticeable reduction. This is as the expectations of the IMF indicate a reduction in growth in the world's total GDP from 3.4% to 3.3% in the context of a slowdown in the manufacturing economies in Europe and Japan and a receding growth in the developing economies and particularly in China which is the second biggest consumer of oil in the world. This is in the context of what the financial markets have witnessed in terms of uneasiness as a result of the devaluation of its currency; the Yen. Market forecasts as a result of that have mentioned that there is a receding demand for oil within this pivotal state. As such the large oil surplus has been accompanied by a powerful shrinkage in demand and all of that has led to a sharp decrease in the oil prices which has led to the rising price of the Dollar...

b – There is also another issue and that is the raising of the interest rate. In spite of the American economic indicators not indicating a real recovery for the American economy, the US Federal Reserve Council announced on 16/12/2015 the rise of the interest rate by half a point. The chair of the US Federal Reserve Janet Yellen announced on 03/12/2015 according to the *Financial Times*: The drag of the high dollar on US exports is one reason for the Federal Reserve to take a gradual approach to tightening monetary policy. It is worth noting that the interest rate in the US had reduced to nearly zero and to 0.25% to be exact. That was due to the global financial crisis that exploded in the US in 2008. And according to the capitalist economy, if the interest rate remains low, then that indicates that the crisis is still continuing and that the economy has not recovered; that there is a depression, market movement has subsided and slowed in terms of buying and selling, investment and activating work. That is because the capitalists depend upon the interest rate to reap profits. Raising the interest rate increases the profits of the banks and companies in addition to providing an incentive for people to deposit their money into the banks to invest and reap its profits. This then (in such a case) would provide the indication that the US has overcome, to a great extent, the fallout and consequences of the global financial crisis.

And as soon as the interest rate rise was announced, the oil prices decreased by 3%. Rising interest rates strengthens the confidence in the US economy and gives the impression that it has overcome the fallout of the financial crisis in order to increase its global political influence. US share prices jumped in the Wall Street Stock Exchange by 1.28% immediately following the announcement of the interest rate rise by the Central Bank. The S&P (Standard and Poor's) index also jumped by 1.45% and the Nasdaq by 1.52%...

5 – From that America achieved the suitable conditions for the increase of the price (or value) of the Dollar and raising the interest rate... This is whilst noting that raising the interest rates raises the cost of retaining gold due to the rise in the value of the dollar. Therefore, it leads to a decrease in the price of gold and brings harm to nations that seek to depend upon gold reserves instead of the Dollar. As such, America wants to preserve the Dollar as the global

currency that it dealt with and as the money reserve for states instead of gold and to make dealing with gold unprofitable and keeping it as reserves not being worthwhile. It doesn't want a return to gold and it does not want the world to return to this system that causes major harms to it. That is because, with its paper currency that is not equal to the ink that is printed upon buys the resources (treasures) of the world and funds its war machine and armies externally. It purchases guarantees and states by its extension through what it calls aid whilst it strikes the economies of other states and makes its economy dominate through the controlling dominance of the Dollar over all states, international financial institutions and financial markets.

6 – In this way we are able to say that the most likely or preponderant reason for the fall in oil prices is related to the internal and external policy of the US that aims to:

a – Raise the interest rate value internally. This issue has become an issue resembling a vital issue for it. And this is to provide the indication that the US has rid itself from the consequences and fallout of the financial crisis and that its economy is strong. That is so that confidence grows and increases in it and its political influence increases over the (other world) states.

b – Strengthening the confidence in the dollar to stand in the face of competition to it, to preserve dealing with the dollar, to make it the (source of) money reserves of the world's states, to make them continuously tie their currencies to it, to strike at dependence upon gold and making it the basis of reserves instead of the dollar. This is particular in regards to China and Russia as they are moving towards getting rid of the dominant control of the dollar and making their currency reserves reliant upon gold to a greater degree.

7 – Therefore, by this America controls the international economic situation and particularly the influential commodities like oil. All of that is because its currency, the dollar, is the measure in buying and selling this commodity... Leaving the dealings to proceed by the dollar and leaving it to specify the prices of petrol and other minerals and all important commodities is an evidence of direct or indirect international subservience to America. That is because their prices fall or rise in accordance to its Dollar and the interest rate that its Central Bank sets. As a result, if the American economy slumps then it afflicts all of the economies in the world as a result. What is necessary (in this situation) is to cease tying local (national) currencies to the dollar and for the states to abandon using it for their monetary reserves. And from there their dependence should be upon gold, with silver alongside it, and making them the currencies of exchange, buying and selling, of products, evaluating wages and basing monetary reserves upon. This major step cannot be traversed in the absence of the Islamic Khilafah State in which Allah (swt) has legislated gold and silver as the monetary unit alone. At that time the dollar will return to being just a piece of paper which is all that it is in origin.

﴿إِنَّهُمْ يَرَوْنَهُ بَعِيدًا \* وَنَرَاهُ قَرِيبًا﴾

**“Verily they see it as far off. And we see it as near” [Al-Ma'aarij: 6-7].**

12<sup>th</sup> Rabi' al-Awwal 1437 AH

Corresponding to 23/12/2015 CE