COMMODITY STRATEGY RESEARCH

RBC Capital Markets

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# Qatar & GCC: Things Fall Apart

## Commodity Strategy


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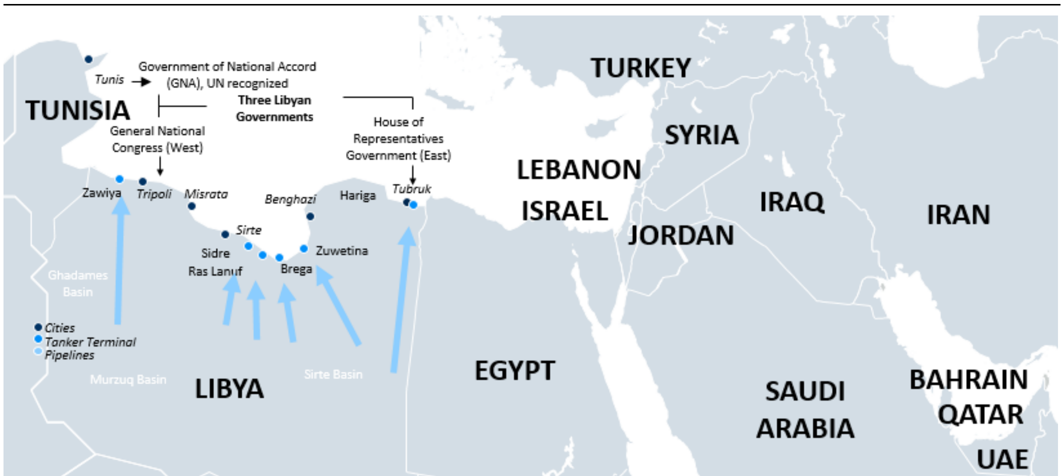
- **The breakdown in relations between Qatar and the GCC has critical implications for the US and Libya. While the Qatar-GCC relationship was certainly fraught prior to the latest moves, the latest catalyst was likely Qatar's softer stance on Iran crossing regional redlines.**
- **We must highlight that we do not think this has immediate implications for Qatar's OPEC deal participation; however, it does pose strategic challenges elsewhere.**
- **In our view, there are no immediate risks for regional energy security, but the breakdown does pose the risk of an intensified proxy battle in Libya and possibly may even have implications for the US's forward airbase in Qatar.**

The dramatic breakdown in Qatar's relations with Saudi Arabia, UAE, Egypt, and Bahrain does not pose any immediate risk for gulf energy supplies but does have critical strategic implications for the US and potentially Libya. The relationship between Qatar and its neighbors had certainly been fraught prior to today's severing of diplomatic ties, due mainly to Doha's support for Muslim Brotherhood movements. Relations were especially rocky during the Arab Spring, when Qatar and Turkey were viewed as backing the anti-government demonstrators in Egypt and Tunisia, and the elected Islamists that replaced the toppled autocrats. Qatar's media outlet Al Jazeera had run frequent stories detailing corruption and poor governance in the region and helped create a narrative of a coherent movement for change sweeping across the Middle East in 2011. In the wake of the Arab Spring turning into the 'Arab Winter,' the Emir of Qatar was a vocal critic of Egyptian President Sisi and has called for the release of former President Mohammad Morsi and the other Muslim Brotherhood leaders languishing in Egyptian jails. Qatar and Turkey are also currently squaring off against UAE and Egypt in Libya. Qatar and Turkey are backing the largely Islamist movements in the West, associated with the General National Congress, while UAE, Egypt, and Russia are backing the virulently anti-Islamist General Haftar and his eastern Libyan National Army. However, the catalyst for the recent rupture was Qatar's softer stance on Iran and decision to reach out to Iranian President Rouhani in the wake of his electoral success. With this action, Qatar had in essence, crossed Saudi Arabia and UAE's two most important regional red lines.

Figure 1: Regional Map with Libya details




Source: Wikimedia, AEI, Financial Times, RBC Capital Markets

All values in USD unless otherwise noted.

Priced as of prior trading day's market close, ET (unless otherwise stated).

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Again, we do not believe that the rift will immediately imperil regional energy security. Egypt is unlikely to close the Suez Canal to Qatari tankers, and at this point, efforts to disrupt Qatari shipments will likely have a marginal effect, absent further deterioration. In addition, Qatar remains firmly part of the coalition of the willing supporting the OPEC production cuts. At the Istanbul summit in April, Qatar's energy minister Al Sada doubled down on the decision saying that there were "no winners" from the market share strategy that saw oil drop below $30/bbl. However, this dispute does pose real strategic challenges for Washington, as the US uses Al Udeid Air Base to the southwest of Doha as the forward HQ of United States Central Command, the staging ground for a variety of critical air operations in Iraq and Afghanistan, and in regional counter terrorism operations. In addition, the rift has the potential to worsen the proxy war in Libya, with clear implications for the security of energy supplies in that stressed state.

Figure 2: OPEC Watch List

| | Oil production (mb/d) | | Geopolitical risk | | |
|---|---|---|---|---|---|
| **Country** | **2016 avg** | **Last month** | **Past year** | **This year** | **Comment** |
| Saudi Arabia | 10.42 | 9.93 | 6 | 6 | MBS unveils ambitious reforms, but implementation is in question |
| Iraq | 4.44 | 4.45 | 9 | 8 | Still at risk but inroads have been made in the fight against ISIS |
| Iran | 3.47 | 3.76 | 6 | 6 | Trump presents the ongoing risk of a sanctions snapback |
| UAE | 2.96 | 2.86 | 2 | 2 | Flush with cash and few citizens, UAE sits in the sweet spot |
| Kuwait | 2.88 | 2.71 | 3 | 3 | Financially flush but the population does not want austerity |
| Venezuela | 2.22 | 1.98 | 10 | 10 | With few economic options left, oil production is at risk and falling |
| Angola | 1.73 | 1.67 | 6 | 6 | Angola is facing strong economic headwinds amid a transition |
| Nigeria | 1.62 | 1.70 | 10 | 10 | There is the potential for a turbulent political transition |
| Algeria | 1.10 | 1.04 | 8 | 7 | While Algeria's risk rating is lower y/y, it remains elevated |
| Qatar | 0.65 | 0.62 | 2 | 2 | Qatar's LNG challenge will emerge later this decade |
| Libya | 0.38 | 0.76 | 9 | 9 | Being the IS fallback option could push it back up on our watch list |
| Ecuador | 0.55 | 0.53 | 5 | 5 | Amid a political transition but middle of our risk spectrum |
| Gabon | 0.21 | 0.20 | 6 | 6 | Low production but rising political risk over the course of the year |
| *Scale:* | | | *High -> Low* | *High -> Low* | |

Source: Bloomberg (production data), RBC Capital Markets

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