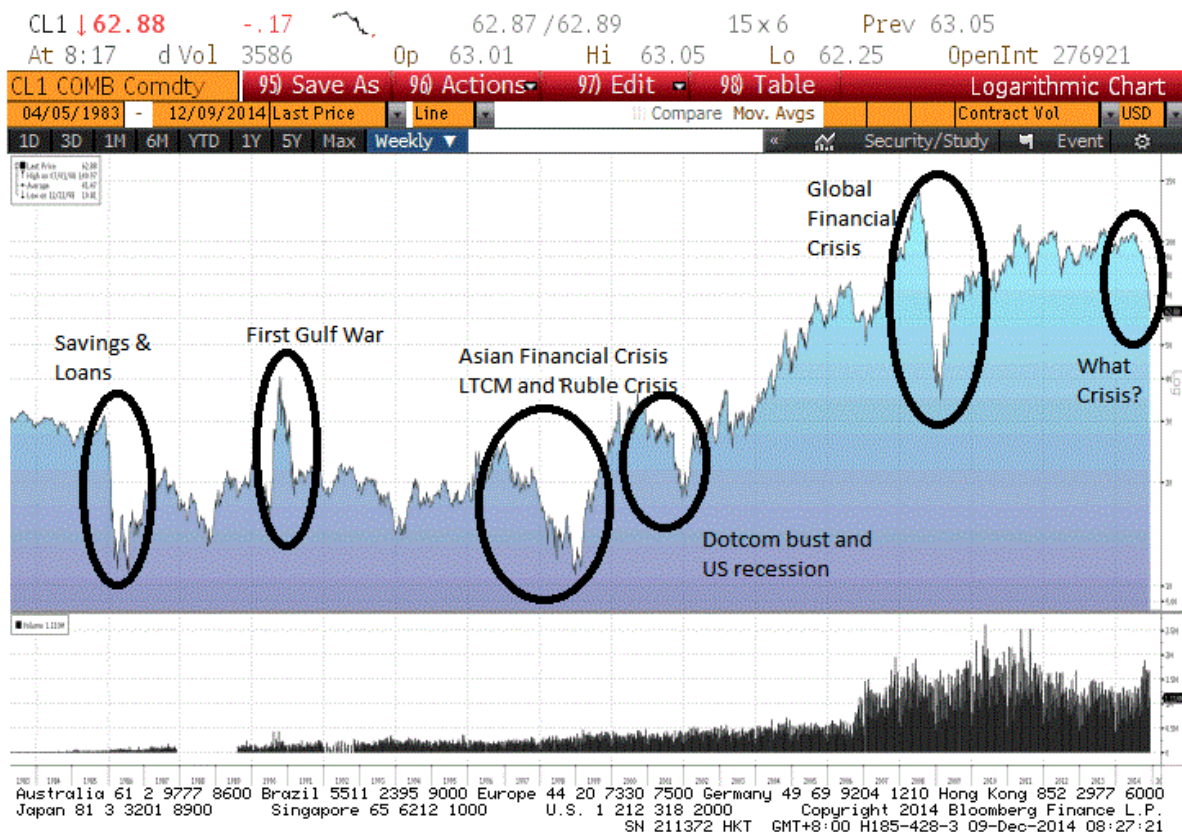


Oil Price Collapse But Where is the Crisis?

The collapse in oil price has taken most people by surprise. Although some attribute it to Saudi Arabia's openly declared war on shale oil, the truth is crude oil price began falling in June and OPEC's announcements only began to plague the market several months later.

What I find interesting is every big gyration in oil price that we have seen in the past 30 years has been accompanied by a crisis, usually of a financial or economic nature. See chart below.



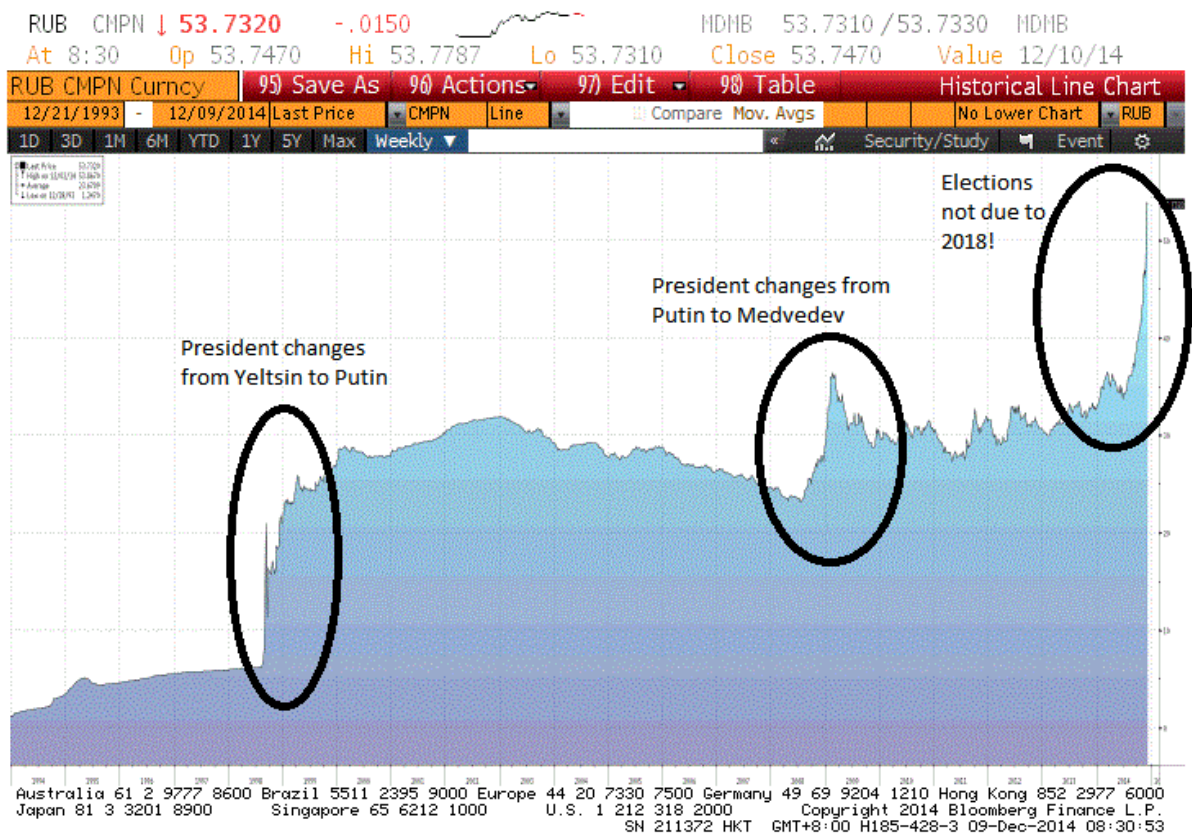
The puzzling thing is this most recent gyration hasn't been accompanied by any big financial or economic crisis that is big enough to significantly affect the world.

At least not yet. I have a feeling that this coming crisis will happen in Russia.

As everyone knows, Russia is a huge player in oil and gas and the country's economy and fiscal health is almost entirely dependent on that one single sector.

No wonder that the fall in oil price has also hit the Russian Ruble very hard.

From the next chart, you can see that big falls in the Ruble accompanied the regime change from Yeltsin to Putin as well as the change from Putin to Medvedev, even though the latter was a sham as Putin became (in name) the Prime Minister while still basically calling the shots.



The transition from Yeltsin to Putin was not smooth but it was not chaotic. The political institutions were intact for the transition.

Putin has now held power over Russia since the late 1990s. His term is not due until 2018. But his policies have increasingly made Russia a pariah on the international scene and with Ukraine-related sanctions as well as the oil price driven collapse in state revenue and the economy, it is not unthinkable that the transition to the next President could become chaotic.

If so, chaos in Russia (a \$2 trillion economy), will definitely precipitate a crisis large enough to affect the world to make all these historical markers synchronous.

Russia produces 10 million barrels of oil per day, on par with Saudi Arabia. If chaos in Russia disrupts this supply, oil price would go back up and checkmate the gambit that Saudi Arabia is playing against the shale oil producers.

Bottom line, if crude oil price vexes you, pay attention to Russia.