

# The Advisor

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## Oil Prices see Spike after Attack on Saudi Facilities

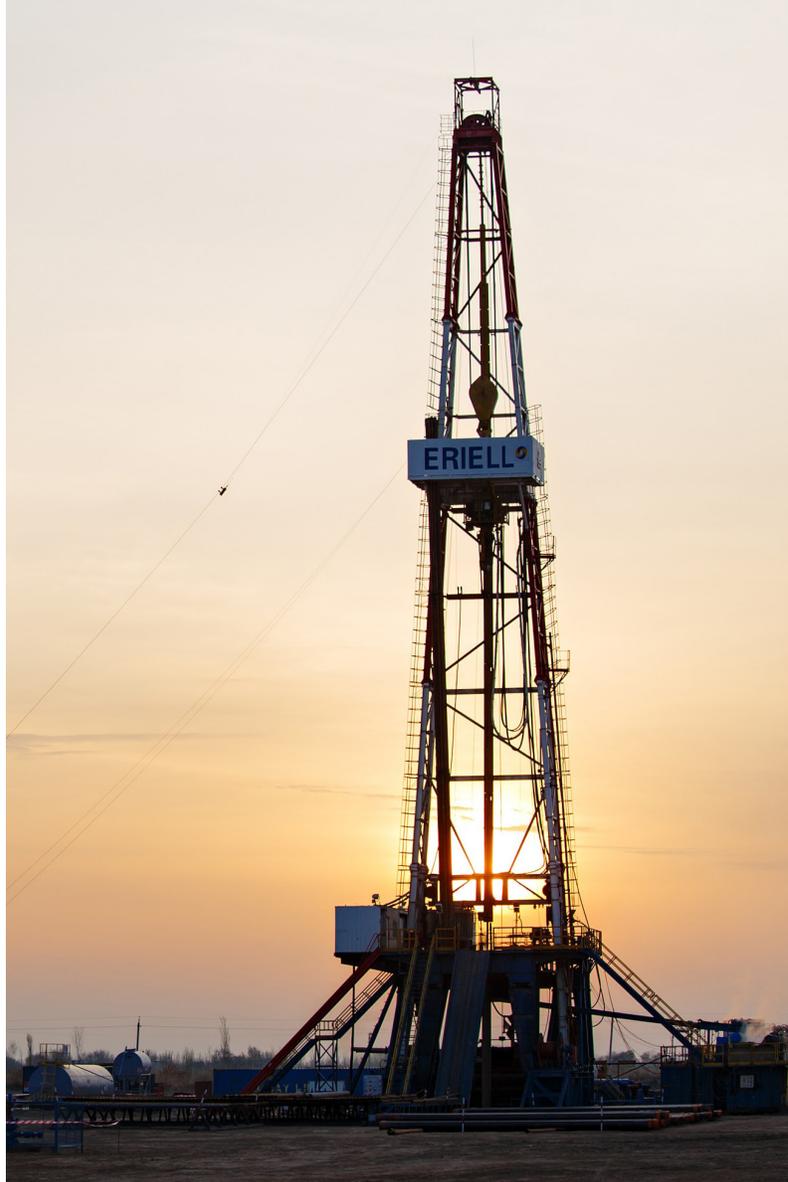
The Middle East has always had some portion of its territory in turmoil or conflict. During the late 1970s and early 1980s, the U.S. was involved in the hostage crisis in Iran. The Iran-Iraq War was waged during the 1980s and the Gulf War began in 1990. There was a civil war in Yemen in the mid-1990s, a civil war in Lebanon and the Syrian Civil War began in 2011. These are only modern conflicts though. Regional conflicts in the Middle East can be traced back to 1902 and there are dozens that have disrupted the region ever since.

At one time, many of the conflicts had to do with the spread of Communism, while many others were rooted in the conflict between the two major sects of Islam which are practiced across the region. Oil and the control of oil-rich areas have been another source of conflict that has sparked many conflicts in the region.

That was the case recently in Saudi Arabia as the Abqaiq and Khurais oil facilities were the targets of a coordinated drone strike. On September 14, in a pre-dawn attack, 25 drones and missiles were used to badly damage the two facilities.

Although the Saudis were able to put the fires out within three to four hours of the attacks, the resulting damage required Saudi Arabia to shut down half of the country's oil production. The Abqaiq facility is the largest oil processing facility in the world. The facility has the capability of processing 7 million barrels a day. The Khurais facility has the ability to pump about 1.5 million barrels a day.

The attack took 5.7 million barrels per day of oil production offline.



### Iran Appears to be the Instigator

Blame for the attack has focused on Iran or Yemen Houthi rebels. The rebels are thought to be a proxy for Iran, so it would appear that Iran is the source of the attack. Also, after the Saudi's collected debris from the attack and viewed video, it appears that the drones used were Iranian delta-wing unmanned aerial vehicles.

Iran and Saudi Arabia have been adversaries because Iran is dominated by Shiite-Muslims and the Saudis are Sunnis.

Immediately after the attacks, crude oil prices spiked by 15 percent. The Kingdom of Saudi Arabia assured all concerned that they already had a third of the facilities back online by the Monday after the weekend attacks and they anticipated that they would be back to full production by the end of September. Many experts are skeptical that full production can return so quickly.

The U.S. imports about 10 percent of its petroleum from Saudi Arabia. With the decrease in production capacity, the price will go up until the Saudis can restore

production. Some experts believe that the price at the pump could increase by as much as 20 cents a gallon. The U.S. may release oil from the Strategic Petroleum Reserve to ease the impact of the lost production on global energy markets.

For speculators in oil, the attacks will have them reassessing risk and rethinking their strategies.

*"How much petroleum does the United States import and export?," U.S. Energy Information Administration, Frequently Asked Questions*  
*Natasha Turak, "Drone and missile debris proves Iranian role in Aramco attack, Saudi defense ministry claims," (2019, September 18), CNBC, World Politics*  
*David Reid, "Saudi Aramco reveals attack damage at oil production plants," (2019, September 20), CNBC, World Politics*  
*Megan Cerullo, "U.S. gas prices already spiking after Saudi Arabia oil attack, (2019, September 17), CBS News, Moneywatch*

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## Fed Makes Quarter Point Cut; Second this Year

Sometimes it appears as if the Federal Reserve and the equity markets are in a game of tennis. Decisions by the Fed can boost or depress the markets. The direction of the markets seems to factor into the Fed's decisions. Both sides seem to want to keep the volley going.

Recent actions by the central bank are helping keep the equity markets buoyant. The federal funds rate was cut by a quarter-point. This was the second rate cut for the year and what the markets were anticipating.

That is generally a good thing for the markets, where predictability is rewarded. This wasn't only the second cut of the year, but the second rate cut since July.

Of the 17 members of the FOMC, 10 are voting members. The voting members are considered to be slightly more hawkish as a group. There is not a clear consensus from all the members on what they should do next. Because of this, the Fed has not been clear about what they anticipate as their next move.



## Fed Could Make Additional Cuts

Economists are divided on what the Federal Reserve should be doing right now. The U.S. is still growing at a good pace. That can't be said of Europe or even China.

One to two more cuts this year and one to two more next year is the opinion of some experts. These additional rate cuts are completely dependent on what the economic data tells the Fed in the months ahead. While the Fed does watch the markets, it is independent of politics.

At the Fed's recent September meeting, five FOMC members stated that they wanted to keep the federal funds rate at its current 1.75 to 2 percent through the end of 2019. Seven members of the committee have said they want an additional rate cut before year-end. These seven members are among those with a vote.

The message coming from the Fed is that they will only cut rates more if they feel a need to. It is no inevitable and the Fed is telling the markets that they should not price more cuts in at this moment in time.

Fed Chair Jerome Powell commented after the FOMC meeting and said that the "U.S. economy has continued to perform well." He said that "the economy grew at a 2.5 percent pace the first half of the year." He said that many of the consumer numbers looked very strong and some manufacturing numbers had fallen because of slower exports. That fact he attributed to weaker economies abroad.

Powell stated that with "household spending remaining on a solid footing, and with supportive financial conditions, we expect the economy to expand

at a moderate rate.” Powell said that FOMC members look for annual GDP growth to be around 2 percent this year and next.

There are two more Fed meetings before the end of the year. With inflation rising closer to the Fed’s target, they feel the economy is healthy. Expectations are also that the unemployment rate will remain at around 3.7 percent.

Stay tuned, because there are many variables that can influence the Fed’s future decisions and many may not be on the horizon just yet.

*Keris Lahiff, “The Fed just cut rates for the second time this year – five experts react,” (2019, September 18), CNBC, trading nation*

*Donna Borak, “The Fed cut rates for the second time this year,” (2019, September 18), CNN, business*

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## About the Author

K Richard Douglas has worked in the financial services industry for 26 years, with an additional 10 writing about financial and economic topics. He's a former series 9, 10, and 26 registered principal and series 6, 7, and 63 registered representative. Richard has held many financial service industry designations, especially in the retirement planning and compliance mechanism areas.

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