

September 17, 2019

Attack on Saudi Arabia: What We Know So Far

On Saturday September 14, a coordinated aerial assault took place against Saudi Aramco's Abqaiq oil processing facility and the nearby Khurais oilfield. The attack, one of the largest on direct oil supply ever, took an estimated 5.7 mmb/d of Saudi Arabian production capacity offline. Saudi Aramco representatives have not yet confirmed the extent of the damage or presented a recovery timeline, leaving markets to speculate on the length of the outage.

Oil prices have jumped on news of the outage, and will continue to react to updates in the weeks ahead. The attack has serious implications for both the fundamental balance picture as well as the geopolitical risk outlook in the region. Inside we outline the current major questions and potential outcomes.

What has been the price impact?

On Monday, Brent crude closed 15% above Friday's level. The changes were relatively even between the major marker grades. Brent, WTI, and Dubai all increased approximately 15%. However, given that these same crudes had lost nearly 20% between their 2019 peaks and September 13, prices have yet to even revisit their 2019 highs. The Brent-WTI differential also saw a significant change, widening by 12% versus Friday close. The gap could have been wider, except that there is a belief emerging that the outage could open a window for increased US exports of crude or refined product to fill the gap. This is possible to a certain extent, but production limitations and export infrastructure limitations will place a cap on possible volumes.

Given ample global supplies and an expected swift timeline of repairs, the bulk of price support will come from geopolitical concerns, not physical. After the initial uptick, prices are swiftly falling and are likely to retain a \$5/bbl geopolitical risk premium. However, if another attack were to occur prices could spike by as much as \$20/bbl before sliding down to a risk premium in the range of \$10-\$15/bbl. This would in part depend on the size of a follow-up attack and the reason – whether it was again unprovoked or a direct response to military or political retaliation for the first attack.

The rest of this report is available to subscribers of our [Short-Term Outlook Service](#). Not a subscriber? [Create an account](#).