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Analysis of today
Assessment of tomorrow

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The market expects important OPEC+ decisions due to China and the European embargo

Ahead of the start of the ban on the import of Russian oil into the EU on December 5, the OPEC+ countries have to make important decisions for the oil market when they meet the previous day. They will take account of the European embargo, but also the drop in demand in China, the largest importer, which is a consequence of protests due to restrictions in the fight against COVID-19.

Oil prices slumped on Monday as street protests against strict COVID-19 curbs in China, the world's biggest crude importer, stoked concern about the outlook for fuel demand. Brent crude dropped $2.43, or 2.9%, to trade at $81.20 a barrel at 0731 GMT, after diving more than 3% to $80.61 earlier in the session; its lowest since 4 January.

The European Union is expected to ban most crude imports from Russia on December 5.In tandem, the US, the EU and some of their allies are due to ban shipping, trading, insuring and funding Russian crude anywhere in the world unless the price is at or below a cap. From 5 February, the same sanctions will hit Russian refined products: a move that traders say poses a bigger threat to Moscow’s oil industry and a greater challenge for Europe.

Russia will struggle to divert all the oil the EU bans

Michael Haigh, head of commodities research at Société Générale, expects that Russia will struggle to divert all the oil the EU bans, leading to a drop in daily production of 1.5 million barrels in 2023. That will contribute to a jump in global oil prices next year if Chinese demand bounces back, he added for The Wall Street Journal (WSJ).

Russia has said it would refuse to abide by the cap, and its response is another wild card.

“We are proceeding for the time being from the position of President Putin that we will not supply oil and gas to those states that introduce and join the cap”, Kremlin spokesman Dmitry Peskov said Thursday. But he left some room for manoeuvre, adding that Moscow would formulate a position after analysing the situation.

Group of Seven (G7) and European Union diplomats have been discussing a price cap on Russian oil of between $65 and $70 a barrel, with the aim of limiting revenue to fund Moscow's military offensive in Ukraine without disrupting global oil markets..

If the cap is set at a low level, the chances of Russia retaliating in the form of output cuts increase. That could even boost Russian revenue by raising prices. But if the cap is high, it could fail to curb Moscow’s oil revenue.

According to the WSJ, analysts have said the $65-to-$70-a-barrel range under discussion at the EU risked being toothless, because it is above what Russia’s mainstay Urals grade of crude is trading.

“If the price cap is $65, it will have no effect at all on the Russian budget,” said Mikhail Krutikhin, partner at consulting firm RusEnergy.

US officials are happy for Moscow to sell to non-sanctioning nations above the cap

The US Treasury Department, which led efforts to create the cap, has said the West might lower the level over time. US officials say they are happy for Moscow to sell to non-sanctioning nations above the cap, arguing that refiners in those countries will gain bargaining power over Russia because of Western sanctions.

Even so, uncertainty over the level of the cap and how Russia will respond has rattled traders and contributed to the recent volatility. It has also started to hinder Russia’s ability to find buyers.

Analysts at the data company said weakening demand for oil in general, combined with shipping and insurance complications ahead of the sanctions, pushed Russia to lower prices to attract Asian buyers. Moscow is also competing with rising shipments of sanctioned Iranian oil for business with independent Chinese refiners, said Kpler analyst Homayoun Falakshahi.