Implications of the proposed EU ban of Russian oil for global oil markets

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Russian oil supply in context

(Complete data as of March 2022)
The most recent complete data of Russian oil as of March 2022 show a very small m/m disruption of less than 1% in Russian oil production but preliminary estimates for April suggest a decrease by 0.5-0.9 mb/d.

Russian oil liquids production

Source: IEA

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Preliminary data of Russian seaborne crude exports in April show a 0.5 mb/d increase at a new prewar high, with intake from Europe rising by 0.23 mb/d and Asian intake up by nearly 0.8 mb/d since February.

**Russian seaborne crude oil exports by destination**

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<tr>
<th>MB/D</th>
<th>Europe</th>
<th>Asia</th>
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Notes: As of end of April 2022.
Source: Kpler
2020 was a particularly tough year for US shale producers.

Russian seaborne product exports appear to hold up in April showing a potential marginal m/m increase of 0.16 mb/d, but with some 0.28 mb/d still designated to Unknown destinations.

**Russian seaborne oil product exports by destination**

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<th>MB/D</th>
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Notes: As of end of April 2022.
Source: Kpler
Redirection from West to East

Intake from Asia eased the fallout of Russian crude oil exports in March 2022, but product exports have been more difficult to clear.

![Russia crude oil exports, m/m chg.](image1)

![Russian oil product exports, m/m chg.](image2)

Source: Argus, Kpler, OIES

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In March 2022, refinery runs fell m/m by 11% or 0.6 mb/d as a result of Western sanctions hitting exports demand but also weighing heavily on domestic demand.

**Russian refinery runs and output**

Source: Argus, OIES

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Russian refinery output

Russian refiners cut output of all products with VGO being the most severely affected and down by 30% m/m, followed by jet (-18% m/m), naphtha (-15% m/m), Fuel oil (-13% m/m) and gasoil/diesel (-9% m/m).
We estimate that Russia’s products demand declined sharply by 11% m/m in March 2022 to 2.8 mb/d, falling at its lowest level since the aftermath of the COVID crisis in H1 2020.
End of April 2022, Russian crude-on-water has nearly doubled since the start of the year (+45%) reaching to high-levels comparable to May 2020 and we expect a rise in floating storage to follow suit.

Notes: Includes the Urals, CPC, ESPO, Sokol, Varandey, Novy Port, ARCO, Sak Bl., SBL, Yuri Korchagin and Kaliningrad crude grades.
Source: Kpler, OIES
Key assumptions
On May 4, 2022, EU-27 announced a proposal to face out Russian seaborne and pipeline crude imports within 6 months, which as of March 2022 amounted to 1.9 mb/d and 0.8 mb/d, respectively.

**EU-27 imports of Russian crude oil**

**Notes:** Russian seaborne crude exports to EU-27 includes exports from CPC Terminal of which 0.56 mb/d are from Kazakhstan because the point of load is Novorossiysk, Russia. If this is deducted, Russian seaborne crude exports to EU-27 in March amounted to 1.3 mb/d. Bloomberg reports that the proposed EU ban prohibits the ‘purchase, import or transfer, directly or indirectly, of crude oil and petroleum products if they originate in Russia or are exported from Russia. As of end March 2022.

**Source:** Argus, Kpler, OIES
An EU-27 ban of Russian refined products that averaged 1.4 mb/d in March 2022 will be more gradual towards year-end, bringing the total (crude and products) EU-27 ban of Russian oil close to 4.1 mb/d.
Russia output disruption scenarios

- **Reference case** sees Russia’s crude disruptions rising m/m to 0.5 mb/d in April and reaching 1.3 mb/d in May, before gradually reaching a peak of 1.9 mb/d ending-2022 at which level they are maintained in 2023.

- **Escalation case** sees the losses in Russia oil under the EU-27 ban rising m/m to 2.1 mb/d in May 2022 and exceeding 4 mb/d by August to average at 3.5 mb/d in 2022.

Notes: Crude oil includes condensates.

Source: OIES
Dimmed prospects of nuclear deal

As the Iran nuclear talks appear to have reached an impasse, we exclude a fast ramp up in Iranian output with Iran production growing y/y by 0.25 mb/d and 0.15 mb/d in 2022 and 2023, respectively.

Iran oil exports and production

Source: Kpler, TankerTrackers, OIES

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Our forecasts incorporate the decision from the US / IEA members to release 240 mbbls from SPR between May and October 2022, corresponding to 1.3 mb/d of additional supplies each month.
2020 was a particularly tough year for US shale producers, with OPEC+ sticking to its current deal with producers expected to gradually increase output of 1.3 mb/d between April and September 2022, which is 2.2 mb/d below the pledged target.

Target vs projected OPEC+ production increases by country

Notes: Projected OPEC+ production levels consider implied production capacity and maximum historical production levels sustained over a period of 3 to 6 months.

Source: OIES
The global GDP growth forecast for 2022 has seen its largest monthly downward revision since 2020 cut by 0.4ppt m/m to 3.36% and falling by 1ppt since the start of the year.

Global GDP growth forecasts for 2022 and 2023
Russia escalation case with EU-27 ban of Russian oil in full effect
Under our *Escalation case* Brent averages at $128.2/b in 2022 and $125.4/b in 2023, $22.8/b and $26.3/b higher than our *Reference*, climbing at $150/b by July 2022 before easing in the $110s in H2 2023.

**Brent price outlook in Russia escalation case**

Notes: Baseline is based on October 2018 except for Saudi Arabia, Russia, Kuwait, Iraq and the UAE which was revised in July 2021.

Source: OPEC, IEA, OIES
Impact on global oil demand

2020 was a particular tough year for US shale producers. Global oil demand response takes a large hit with growth falling to 1.8 mb/d from 2.3 mb/d in 2022 and 0.5 mb/d from 1.5 mb/d in 2023, 0.5 mb/d and 1 mb/d below our Reference case.

Global oil demand in Russia escalation case

Notes: Baseline is based on October 2018 except for Saudi Arabia, Russia, Kuwait, Iraq and the UAE which was revised in July 2021.

Source: OPEC, IEA, OIES
Impact on oil demand by region

Global demand growth at risk reaches 2.7 mb/d by 2023 versus 1.2 mb/d in Reference, with OECD accounting for 67% (-1 mb/d) and non-OECD for 33% (-0.5 mb/d) of the projected total losses.

Global oil demand response by region

**Reference**

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**Russia escalation case**

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Notes: Baseline reflects the latest forecast prior Russia’s invasion of Ukraine.

Source: OIES

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Impact on oil demand by sector

2020 was a particularly tough year for US shale producers. Fuel demand for industry use appears the worst hit accounting for nearly half the total losses (-40%), followed by demand for transport fuels especially road fuels (-25%) and jet (-21%).

Global oil demand response by sector

Notes: Baseline reflects the latest forecast prior Russia's invasion of Ukraine.
Source: OIES
Impact on OECD products demand

Within OECD, massive downgrades are seen in gasoline and diesel demand with declines reaching 37% and 25% of the total, respectively, and a combined 1 mb/d of gasoline/diesel demand at risk by 2023.

OECD oil demand impact by product

Notes: Baseline reflects the latest forecast prior Russia’s invasion of Ukraine.
Source: OIES

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Global oil supply growth is downgraded by 1.1 mb/d to 3.2 mb/d in 2022 and by 0.5 mb/d to 1 mb/d in 2023 relative to our Reference, with the disruptions largely offsetting the 0.8 mb/d gains outside OPEC+.

**Global oil supply in Russia escalation case**

Source: OIES

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Supply response cover

2020 was a particularly tough year for US shale producers. Severe Russian disruptions around 4 mb/d would see the SPR releases easing the near-term pressures, but beyond the near-term it remains difficult to fill the supply gap as some 1.1 mb/d remain uncovered.

Replacement barrels versus Russian crude supplies at risk in escalation case

Notes: Other supply includes crude oil from rest producers, and global NGLs, biofuels and other liquids.
Source: OIES
The supply/demand gap combined with the SPR releases see the market deficits re-emerging from H2 2022 onwards and averaging -0.1 mb/d in 2022 and -0.4 mb/d in 2023.

Global balance in Russia escalation case

Source: OIES
Impact on OECD stocks

With the market failing to build a material surplus after Q2 2022, severe pressure is maintained to the exceptionally tight OECD stocks and in response to market prices.

**OECD commercial stocks vs 2010-2014 average**

Source: OIES
Balance of risks
Balance of risks

Oil price volatility remains extremely high in both years as the outlook is more than ever sensitive to policy decisions, with Brent ranging between $101.4/b and $130.8/b in 2022 and $85/b and $131.9/b in 2023.

Balance of risks

USD/B

Supply
Demand
Geopolitics
Reference

Notes: Brent price. Source: OIES
2020 was a particularly tough year for US shale producers. This is also reflected in the global balance risks, with the supply/demand gap ranging between -0.7 mb/d and 0.8 mb/d in 2022 and -1.8 mb/d and 0.7 mb/d in 2023 favouring more tight conditions in both years.

Source: OIES