EU To Impose Full Embargo On Russian Oil Next Week, Will Send Price Above $185 According To JPMorgan

Description

Update (13:15 ET): What was largely a theoretical modeling exercise until moments ago, is set to go live because Reuters reports that **the EU is set to declare a full embargo on Russian oil after this weekend's French election:**

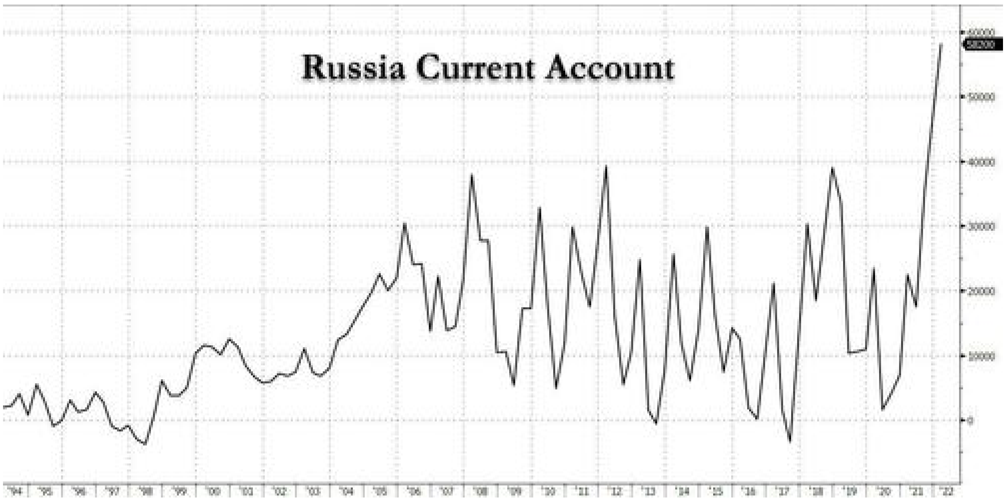
- **EU GAS PRICE TO SHOOT UP AS EU TO DECLARE EMBARGO ON RUSSIAN OIL AFTER FRENCH ELECTION NEXT WEEK – SOURCE**

Why wait until after the election to launch the embargo? Simple: Europe's bureaucrats are correctly terrified that the coming oil price spike to push the vote in Le Pen's favor, which is why Europe will wait until ***after*** the election (when Macron will supposedly be the next president of France, as Belgium hopes) to announce it publicly.

More below *(and in the full JPM report available to pro subs).*

* * *

Despite the clear intentions of western government to cripple Russian energy production, loadings of Russian oil have so far been surprisingly resilient, so much so that Russia's current account balance is at all time highs.



According to JPMorgan, shipments in the seven days to April 16 hit 7.3 mbd, **only 330 kbd below the 7.58 mbd averaged in**
February before the start of the war. Remarkably, JPM calculates that Russian crude exports are averaging 360 kbd ***above*** pre-invasion volumes, while exports of oil products like fuel oil, naphtha, and VGO have ***declined*** by 700 kbd *(full report available to pro subscribers in the usual place)*.

As previously observed, the decline in product exports combined with a 200 kbd drop in Russian domestic oil demand has resulted in Russian refineries cutting runs. The volume of refining cuts in April has risen to 1.3 mbd, almost 0.6 mbd above usual April maintenance. By late March, a sharp reduction in domestic refining throughput triggered production shut-ins.

With that in mind, JPM now estimates that **Russian production shut-ins will amount to 1.5 mbd in April, vs its initial forecast of 2 mbd** (the forecast of a 1 mbd loss of Russian exports for the rest of the year remains unchanged for now).

Underlying JPM's projection is the assumption that European buyers **will cut their purchases of Russian oil by about 2.0-2.5 mbd by the end of the year and that Russia will be able to re-route only about 1 mbd out of that.**

The three ways JPM gets to its 2.0-2.5 mbd estimate are:

1. Russian crude spot contracts account for about 1.8 mbd of total exports, while about 0.3 mbd of products are sold on spot terms, giving us a likely disruption of 2.1 mbd,
2. As of today, nine European countries plus the US, Canada and the UK have committed to cut their imports of Russian oil by ~2.1 mbd,
3. 26 major European refiners and trading companies have suspended spot purchases or intend to phase out 2.1 mbd of Russian imports.

Exhibit 6: Commitments from European companies to diversify away from Russian oil

Country	Company	CDU Capacity (kbd)	Comment	Russian Import as a % of total country by the country	Volume at Risk (kbd)
Sweden	AB Nynas Petroleum	43	Swedish naphthenic base oil producer Nynas AB said it will stop purchasing feedstock from Russia	18%	8
Germany		58		33%	19
United Kingdom		11		7%	1
Germany	BP	361	Announced it would stop buying Russian oil	33%	118
Netherlands		377		25%	95
Spain		110		2%	2
Spain	CEPSA	485	Stopped buying Russian crude, natural gas and oil products and doesn't expect its position to change in the foreseeable future	2%	10
Germany	Eni	63	Eni suspends the purchase of oil from Russia	33%	21
Italy		555		13%	71
Denmark	Equinor	102	Norway's Equinor confirms trading halt in Russian oil	9%	9
Norway		226		6%	13
United Kingdom	Essar Energy	205	No announcement by Essar however UK has announced to phase out Russian imports by 2022 end	7%	14
Belgium	ExxonMobil	323	Will exit Russia oil and gas operations and halt new investment, nothing on purchase of Russian oil. However, UK and Germany have announced to end imports by 2022	31%	-
France		392		11%	-
Germany		81		33%	26
Italy		99		13%	-
Netherlands		201		25%	-
United Kingdom		276		7%	19
Portugal	Galp Energia	215	Suspended all new purchases of petroleum products from Russia	5%	12
Poland	Grupa LOTOS	210	Polish refiner Grupa Lotos is ready to stop buying Russian oil on the spot market, declined to comment on structure of Lotos term contracts to buy oil, which dominate the refiner's supply portfolio. However, Poland has announced to end imports by 2022 end	70%	147
Greece	Hellenic Petroleum	357	Says Russian crude accounted for 14%-15% of its feed in 2021 but can be replaced	14%	49
Ireland	Irving Oil	71	Irving Oil is not an importer of crude oil originating from Russia. As we monitor events in eastern Europe, our operations are normal and we remain focused on maintaining a secure energy supply to the areas we serve.	0%	-
Bulgaria	LUKOIL	183	Russian Company	31%	-
Italy		320		13%	-
Netherlands		75		25%	-
Romania		51		36%	-
Finland	Neste	216	Has Russian oil contracts until the end of 2022 but is not signing new agreements. Russian oil accounted for 77% of the refiner's crude and feedstock in 2021.	88%	167
Austria	OMV	204	OMV not refining any Russian crude grades in its European refineries, and has no intention to do so in the "near future"	6%	25
Germany		79		33%	26
Romania		44		36%	16
France	PetroChina	105	China's state refiners are honoring existing Russian oil contracts but avoiding new ones despite steep discounts	11%	-
United Kingdom		103		7%	7
United Kingdom	Phillips 66	233	No announcement by Phillips 66 but UK has announced to phase out Russian imports by 2022 end	7%	16
Lithuania	PKN Orlen	205	Has stopped buying Russian crude on the spot market, but is still buying Urals under previously signed contracts which expire by the end of this year or later. However Poland has announced to end imports by 2022 end and Lithuania imports already cut to zero.	76%	155
Poland		333		70%	233
Poland	Polish State	0	Poland has announced to end oil imports by the end of 2022	70%	0
Sweden	Preem	362	"Paused" new orders of Russian crude, accounting for 7% of its purchases, replacing them with North Sea barrels	18%	25
Spain	Repsol	922	Stopped buying Russian crude oil in the spot market	2%	-
Germany	Rosneft	269	Russian Company. However, Germany has announced to cut Russian imports by 2022 end	33%	88
Italy	Saras	316	Suspended all new purchases of oil and oil products from Russia	13%	40
Denmark	Shell	72	Stopped buying Russian crude and would phase out its involvement in all Russian hydrocarbons from oil to natural gas. However, the company is buying blended oil with up to 49.99% oil of Russian origin	9%	6
Germany		538		33%	176
Netherlands		425		25%	107
United Kingdom		11		7%	1
Belgium	Total	350	Decided to no longer enter into or renew contracts in order to halt all its purchases of Russian oil and petroleum products by the end of 2022	31%	109
France		602		11%	65
Germany		235		33%	77
Netherlands		91		25%	23
United Kingdom		113		7%	8
Czech Republic	Unipetrol	176	Not made any spot purchase since start of war	49%	-
United Kingdom	Valero Energy Corporation	220	Cutoff from Russian crude	7%	15
Germany	Varo Holding	112	Has not entered into new Russian crude deals since the conflict. Germany announced to cut imports to zero by 2022 end	33%	37
Switzerland	Vitol	34	Vitol Will Stop Trading Russian Crude, says volumes will drop this quarter, cease by year-end	-	-
Netherlands		80		25%	20
Total Europe		**14,469**			**2,076**

Source: Statements by various Head of States, European Commission, News Reports

Of course, it will come as no surprise to anyone that aggressive purchases of Russian oil by China and India – who have both ramped up purchases of Russian oil in the past two months, and Turkey has also increased volumes to pre-COVID levels – have offset some of the loss. Given time, JPM estimates that together these three countries can likely import an additional 1 mbd beyond what they are importing today.

Which brings us to the big question: if Europe follows through on its warning to expand sanctions to all Russian oil, what happens to the price? Well, according to JPMorgan, nothing good.

As JPM's commodity strategist Natasha Kaneva writes, she has reviewed various scenarios should Europe expand its sanctions to include Russian oil, and warns that "any immediate embargo measure taken by the European Commission will have a severe impact on the global oil market with risks to price entirely to the upside in the short-term."

The bank has examined three potential tools the EU could use to sanction Russian oil, from the most aggressive, a full embargo on imports from Russia, to the more conservative, taxes or price caps on Russia oil imports. In any scenario, to avoid the extreme price spikes, the market needs time to adjust.

A look at the various scenarios, starting with the most draconian:

- **A full and immediate embargo is likely to hurt European consumers more than Russian producers in the near term.** More importantly**, a full, immediate ban would likely drive Brent crude oil prices to $185/bbl** as more than 4 mbd of Russian oil supplies would be displaced with neither room nor time to re-route them to China, India, or other potential substitute buyers.

Some more details on the "full embargo" scenario:

Though India has already increased its imports of Russian oil to three times 2021 levels, its ability to continue to act as a sink for displaced Russian oil supply remains in question as the US warns India not to increase imports further.

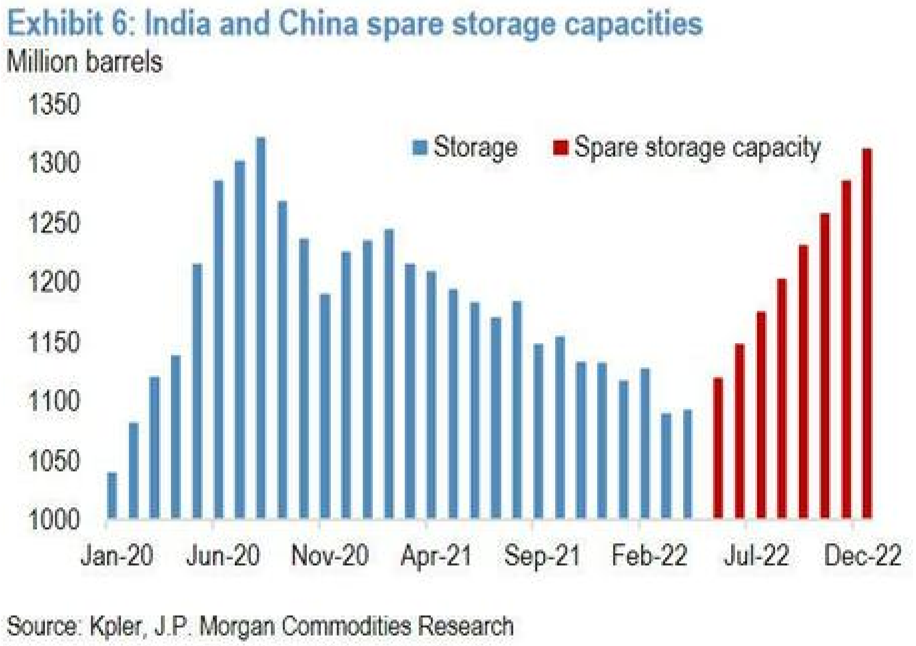
- However, if Europe implements an embargo more slowly, e.g. over a period of months, similar to the European ban on Russian coal imports where a wind-down period of four months is in place, prices are unlikely to rise much higher than current levels.
- In a slower phase out, Russia would have more time to adjust its oil flows toward friendlier buyers and global ex-OPEC+ supply growth would have time to grow sufficiently to fill at least some of the Russia-sized hole in global oil supply.

The EU is also entertaining less drastic alternatives to a full embargo which would allow Europe to continue to receive Russian oil supply while still applying financial pressure on Moscow. These alternatives include introducing i) special taxes and ii) price caps on European imports of Russian oil.

- Because the **operational breakevens for Russian oil are less than $10/bbl** and Russia's Energy Minister has said the country will sell to "friendly countries" at "any price range," Russian producers could likely still afford to continue to deliver oil to European consumers, even under tariffs of 90% or a price cap of $20/bbl. Either of these options may provide a politically-acceptable middle ground, **allowing the EU to make a show of force while maintaining its Russian energy lifeline**
- Additionally, **under a price cap**, the EU is considering establishing an escrow account into which oil buyers would deposit the difference between the market price of oil and the level of the price cap. These funds would either be entirely dedicated to rebuilding Ukraine after hostilities cease or be provided to Russian producers at a later date net of costs to rebuild Ukraine. Sending additional funds to Russian operators, even at a later date, likely carries with it political risk, but the promise of more revenue in the future would go further to guarantee continued supply from Russia.

In any of these scenarios, it is obvious that **Russia will turn to friendlier buyers for its exports of crude oil and oil products.** China and India have both already ramped up purchases of Russian oil in the past two months and Turkey has also continued to ramp up purchases of Russian oil toward pre-COVID levels in spite of the conflict in Ukraine.

Together, **these three countries can likely import an additional 1 mbd beyond what they are importing today,** with China replacing other East Asia buyers of oil from Eastern Russia like Japan and Korea and Turkey and India picking up cargoes of Russian oil from the Black Sea and Baltic ports opportunistically.



Category

1. Economy-Business-Fin/Invest
2. Main
3. Politics-Geopolitics-Gov.-Events

Date Created
04/21/2022