Only Western Governments Can Sustain Oil Prices Above $100
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NATO has refused to directly embargo Russian oil exports. And for the moment, they don't seem likely to do so in the future. Nor does it seem likely that the Russians would embargo themselves. The market has been talking about the loss of 2-3 MMB/D of Russian exports since the end of February. Yet, the evidence suggests a much smaller loss as of now, perhaps ½ MMB/D. At a $25-35 discount, they are having little difficulty in rerouting the loss in Europe to Asian customers.

If NATO doesn't formally restrict Russian sales, it's hard to see how prices can sustain themselves at well above $100. However, if we were to lose 2-3 MMB/D, we could retest recent highs.

We've learned two important pieces of news over the past two weeks. Global economic activity has appreciably slowed and was slowing even before the invasion. The combination of slower growth and higher prices will result in a sharp decline in the growth in oil demand of perhaps 1.25-1.50 MMB/D This loss in demand will offset any reasonable amount of Russian losses. You would need a further loss of Russian exports of an additional 1.5 MMB/D or more for prices to stay above $100.

We learned this past week that consuming country governments in response to **price** not **supply** have agreed to a third government stock release. The U.S. announced that starting in May and ending in October just before the mid-term elections, they will offer 1 MMB/D over 6 months (180 million barrels total). Actually, the new offering is "only" 160 million, since 20 million is from the previous early March sale. Conversation with those who own the private facilities that will have to move the oil suggest that there is only room for an additional 600,000B/D.

In any case, it still is the largest and longest release in the program's history. The IEA has offered to release 60 million barrels as well. It is not clear that all of this will be bid on, but any diesel that's offered would be.

If we want to discourage countries like India and China from buying cheap Russian oil and at the same time build up a dollar reserve to rebuild Ukraine, we might consider a $25/bbl surcharge on Russian sales. We would have to find the appropriate vehicle to pass the surcharge and collect it, not an easy task. But simply confiscating yachts won't do it…