



Are The Ideologues in D.C. Paying Attention to Risks? 7/4/22

The Administration seems to be coming up with a new proposal each week to drive down prices and get at Russia. In numerous notes I've written and can be found in Larry's corner, we've discussed almost every one. Most recently, we've talked about Janet Yellen's idea being promoted by the G7 of **capping Russian oil prices** and an oil product export ban. We've concluded that either of these programs would explode global prices and have devastating impacts on economic activity. These impacts would **not be transitional**.

The media is reporting that in a note to their clients, JPM analysis have concluded the same and have put numbers to their analysis. This should have closed the door to these options. But is the W.H listening.? JPM concludes that there is a high probability that the Russians would react by cutting exports if we implemented a cap on their sales using a number which is primarily an educated guess. Their calculations are sobering and should get everyone's attention.

In our writings we concluded that there was a real risk of instigation a global shortfall and that prices would rise substantially to bring demand down. JPM puts a number to the oil price rise. They suggest that a 3MMB/D cut in Russian exports would force prices to rise by \$79 from \$ 111/B Brent to \$190. They have another scenario at a 5 MMB/D loss, but let's concentrate on the 3MMB/D impact. If JPM is close in their analysis, the Russians would reap more revenue with the 3 MMB/D.



We don't believe prices would get that high. Someone or something would intervene. However, \$150/B is not out of the question. If a 3MMB/D cut by Russia would lead to this kind of price spikes, **just think what a ban on U.S. oil products would do.**

The analysts at JPM conclude that: "The most obvious and likely risk with a price cap is that Russia might choose not to participate and instead retaliate by reducing exports...It is likely that the government could retaliate by cutting output as a way to inflict pain on the west. The tightness of the global oil market is on Russia's side."