



Whole Lot of Guessing Going On. (3/17)

It must be remembered that there are two sides to an equation: demand and supply. The market has been focused on the supply side. There are numerous reports that while governments have been reluctant to embargo Russian oil and gas, the market is doing it for them. The estimates out there is that 3MMB/D of Russian exports have been lost. The visible evidence, however, is that as of now there is **little visible evidence** that that is true. The best guess is maybe 1MMB/D has been lost. This could grow as vessels that lifted Russian oil just before its invasion return to ports.

Russia exports about 4.5MMB/D of crude and another 2.5MMB/D of products. Virtually all their product exports are under contract. The market has said that they would stop lifting SPOT cargoes. We suggested at the time the U.S. announced that they would ban the imports of Russian oil (mostly feedstocks) that it would have virtually no impact on global supplies but would reduce the supply of gasoline, diesel, and jet fuel to the U.S. consumers. The Russians would take those barrels and blend and resell them. Unilateral sanctions rarely work.

Yes, the high price (not \$150-200 but perhaps \$80-100) over the next several months will trigger some response, primarily from U.S. producers, but it will likely be marginal. However, the high **sudden** increases in price will have a dampening impact on the growth in global demand. Demand was projected to increase by 4-4.2MMB/D before the invasion. By late summer, it wouldn't be surprising to see the growth in global oil demand fall by at least 1-1.5MMB/D, with perhaps 40% coming from the U.S. as the economy slows and the consumers respond to the price signals.

The market is fraught with major uncertainties. As the war unwinds, if Putin keeps an occupying force, will sanctions stay in place or slowly erode? If Putin and Zelenskyy reach a settlement and Putin withdraws his troops, will sanctions erode? In this scenario, oil is likely to continue to widely flow. While the Iranian talks have been put on hold, will an agreement be reached over the next three months? Is the Administration waiting for a resolution of the Russia/Ukraine situation?



There is still so much we don't know, but we must make decisions based on best guesses. It would seem to us that the \$150-200 oil situation is an extreme view of the world. The prompt market is still tight (look at backwardation), but unless we experience real large losses in Russian supply we may have seen the highs in oil prices.

P.S. Will Russia stay or will they go? Does Putin stay or does he go? Only Putin knows the first and no one knows the second. Yet the issue of sanctions is critically dependent on the answers.