Commodities

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Oil: Prices surged following sanctions on Russia

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- With the US Presidential Inauguration less than two weeks away, the Biden administration has introduced some of the harshest sanctions against Russia's oil sector.
- In response, crude oil prices surged, reaching a high not seen in over four months. Meanwhile, near-term time spreads also strengthened significantly, signalling strength in the physical market.
- The recent surge has led to the breakout in oil prices, which had traded within a relatively tight range during the final two months of 2024. In the near-term, we believe the current corridor of USD78-83/bbl for Brent is a relatively comfortable range. Nevertheless, a further two-tail risks of breakouts in the near-term remains tangible, due to implications of President-elect Donald Trump's policies regarding trade, energy and foreign affairs.

With the US Presidential Inauguration less than two weeks away, the Biden administration has introduced some of the harshest sanctions against Russia's oil sector. According to a press release from the US Department of the Treasury (USDT), the latest sanctions were imposed on major oil producers and exporters Gazprom Neft and Surgutneftegas. Sanctions were also imposed on oil traders, oil field service providers, Russian energy officials, as well as one hundred eighty-three vessels[1]. Essentially, these sanctions aim to target revenue generated from Russia's oil export that could potentially be used to support Russia's war effort against Ukraine. Nevertheless, the USDT stops short at imposing these sanctions on leading Russian oil producer and exporter Rosneft. The USDT also stated that the United Kingdom is participating in these sanctions by joining the USDT in targeting the two major Russian oil producers. Combined, Gazprom Neft and Surgutneftegas export approximately 0.8mbpd of oil[2].

Russia's Crude Oil and Condensate Production by Company, 2023

Company	Total Production (th bpd)	% Share of Total Production
Rosneft	3490	33
Gazprom Neft	**1751**	**16**
Lukoil	1563	15
Surgutneftegas	**1171**	**11**
Tatneft	577	5
Others	2076	20

Source: EIA, Rystad Energy Cube Browser, OCBC.

Russia's Crude Oil Refining Capacity by Company, 2022

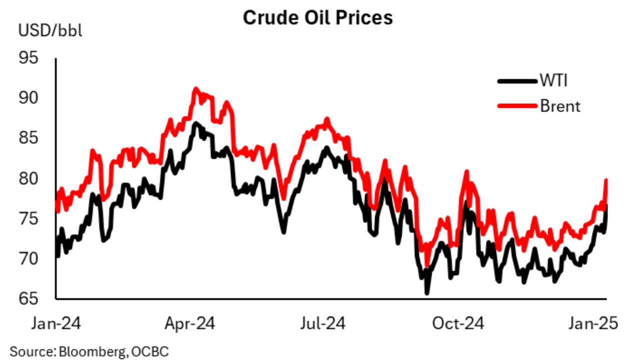
Company	Total Refining Capacity (th bpd)	% Share of Total Capacity
Rosneft	2189	40
Lukoil	985	18
Gazprom Neft	**831**	**15**
Surgutneftegas	**404**	**7**
Tatneft	210	4
Others	792	15

Source: EIA, Oil & Gas Journal, OCBC.

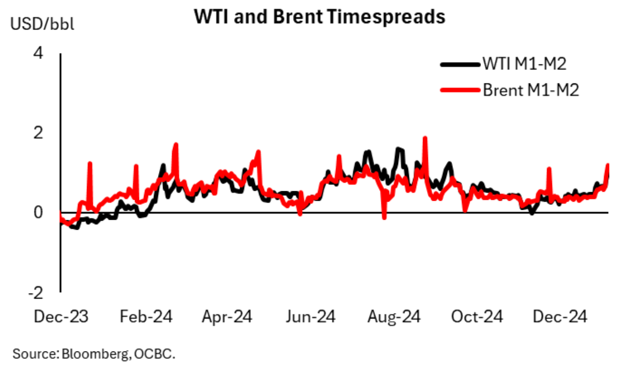
The market's response to this policy announcement has been strong, as evidenced by the sustained rally in crude oil prices. As of 13 January, crude oil benchmarks appear set to extend their gains for the third consecutive trading session, reaching a high not seen in over four months. WTI and Brent have increased by an additional 2.4% and 2.2%, reaching intraday highs of USD78.4/bbl and USD81.5/bbl, respectively. Meanwhile,

[1] According to USDT, these vessels are "largely oil tankers that are part of the shadow fleet as well as oil tankers owned by Russia-based fleet operators."
[2] Verma, N., and Zhdannikov, D., (2025, January 10). US to impose sanctions on Russian oil fleet and traders, document shows. Retrieved from Reuters.

near-term time spreads have also strengthened significantly, more than doubling since the start of the year, signalling strength in the physical market.

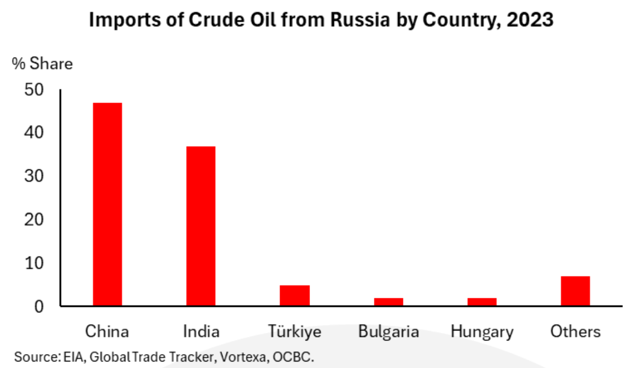


Source: Bloomberg, OCBC

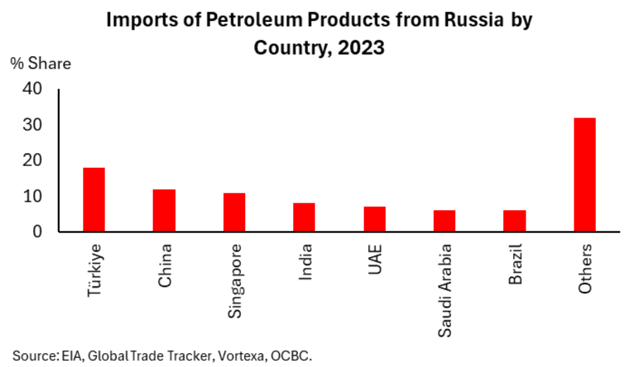


Source: Bloomberg, OCBC.

China and India are the second and third largest consumers of oil in the world, behind the US. Together, these countries received 84% of reported Russian crude oil exports in 2023. Additionally, Russia is the largest crude supplier to both countries in 2023, driven by attractive pricing due to sanctions and price caps on Russian crude oil following the outbreak of the Russia-Ukraine war in 2022[3] [4]. Under sanction regulations, the imposition of the latest sanctions is expected to affect both countries, possibly curbing some Russian oil inflows into these countries, as institutions and individuals contributing to or provisioning funds, goods and services to sanctioned parties may themselves be at risk of being sanctioned by the USDT's Office of Foreign Assets Control. The disruption in Russian oil supply will exert upward pressure on oil prices amidst the readjustment of trade flows, including supplies and logistics.



Source: EIA, Global Trade Tracker, Vortexa, OCBC.



Source: EIA, Global Trade Tracker, Vortexa, OCBC.

The recent surge has led to a breakout in oil prices, which had traded within a relatively tight range during the final two months of 2024. In the near-term, we believe the current corridor of USD78-83/bbl for Brent is a relatively comfortable range. President-elect Donald Trump will be sworn in on 20 January, with his policies taking centre stage. We would like to highlight that a further two-tail risks of breakouts in the near-term remains tangible, due to implications of his policies regarding trade, energy and foreign affairs. Additionally, we would like to emphasize the presence of significant spare crude oil capacity form OPEC, which could be deployed to mitigate price volatility.

[3] Troderman, J. (2024, April 16). China imported record amounts of crude oil in 2023. Retrieved from US Energy Information Administration.
[4] Baruah, R. (2024, March 18). Russia remains India's top crude supplier, imports rise 14% in January. Retrieved from Mint.

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