Capital Markets Strategy
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Chart of the Day

In an historic intervention in global energy markets, **Europe has announced a series of progressive energy sector sanctions over the course of 2022 that have included coal, natural gas, oil and petroleum products** over a series of successive implementation dates. **As of yesterday (Dec 5), Europe's ban on Russian seaborne oil imports is now in effect.**

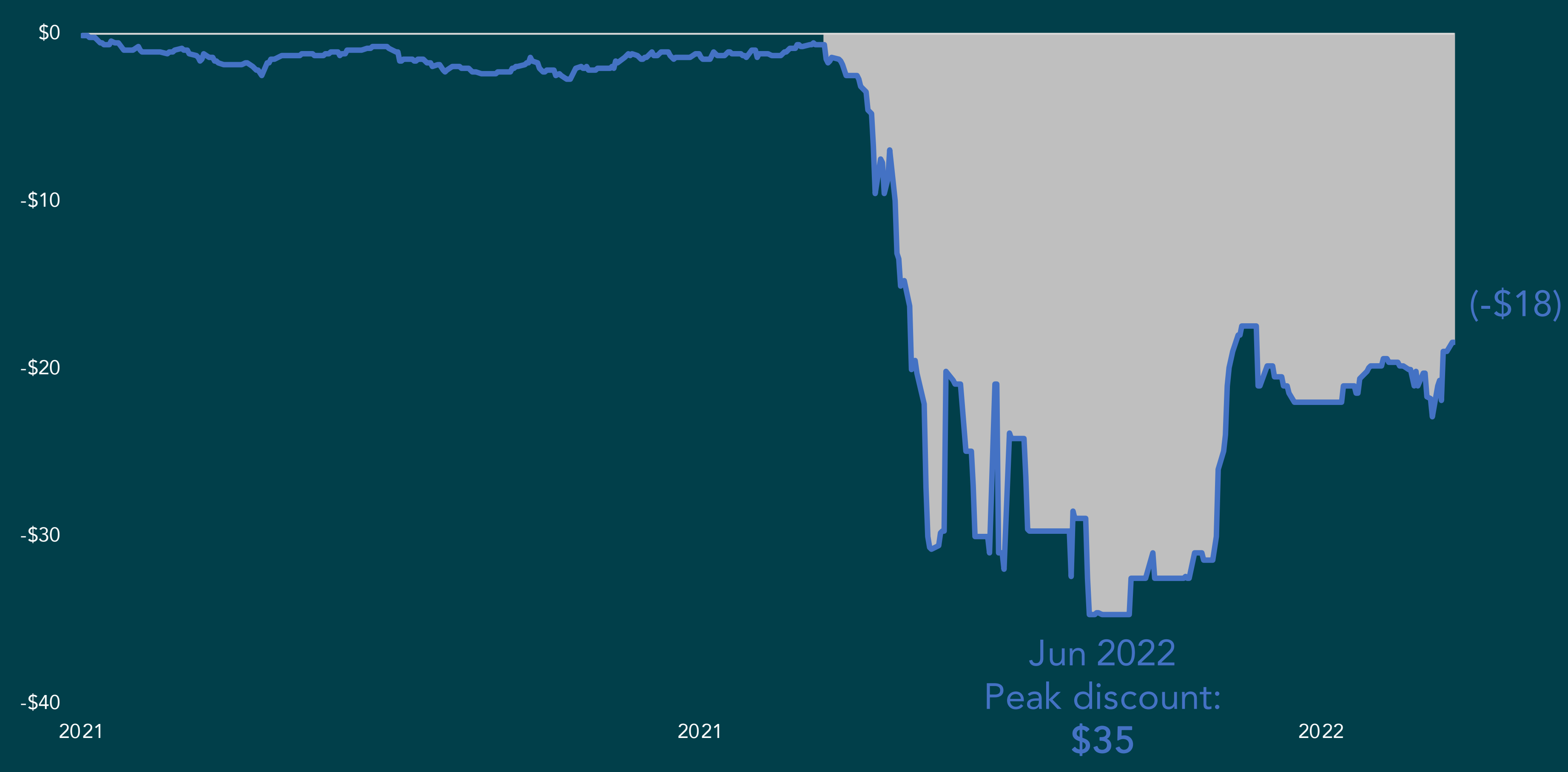
According to Bloomberg, Russian oil flows to Europe averaged 1.5 million barrels per day prior to the Ukraine invasion, declined to less than 20% of those volumes in November, and will soon fall close to zero. The higher shipping and insurance costs of oil diverted away from Europe have also contributed to **a discount on Russian oil that has ranged from approximately $20-30 per barrel in recent months**. China, India and Turkey have emerged as the largest buyers of displaced Russian crude.

Following months of negotiations, the G7 has also agreed to a $60 price cap for seaborne Russian oil deliveries to third party countries (with certain selected exemptions). Enforcement will preclude use of G7 shipping and insurance services for Russian oil that is not purchased under the $60 cap. **The agreement also includes an adjustment mechanism to keep the cap at 5% below the market price.**

As such, the cap was clearly designed to keep Russian crude flowing to other countries (i.e., China, India, Turkey) while simultaneously limiting Russia's revenue and war funding efforts. As noted by MUFG's Head of Commodity Research, Ehsan Khoman, the ultimate impact of the cap will depend on a range of variables including: (i) Russia's policy response; (ii) the depth of non-European insurance markets; (iii) business appetite of shipping companies; and (iv) the general effectiveness of enforcement.

Western sanctions, and the higher shipping and insurance costs of oil diverted away from Europe, have contributed to a discount on Russian oil that has ranged from approximately $20-30 per barrel in recent months.

Urals crude vs. Brent price differential



Based on self imposed Russian oil import bans, the G7 $60 price cap was clearly designed to keep Russian oil flowing to other countries (i.e., China, India, Turkey) while simultaneously limiting Russia's revenue and war funding effort.

Brent future prices

Source: (1-2) Bloomberg. Data as of December 5, 2022.

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"Macro stability isn't everything, but without it, you have nothing."