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The market was already extremely tight on oil before the Russian invasion.

In places like Germany, where some refineries run on 100% Russian Urals and others have it as the largest grade in their diet, it's awfully hard to come by any other crude when we have delays in other streams, and there are many disruptions. Some places are still buying Russian oil, such as China, and it might now have to be the backstop home for a lot of Baltic Urals and even Black Sea Urals that's loading, which will have to find its way East if the West rejects it wholesale.

Have we seen these disruptions fully priced in yet?

Oil has not yet made its all-time highs of 2008 when it was \$147, so we have another \$20 or so to go. We have plenty of twists and turns yet to come and I'm not sure the fundamentals have borne out in terms of tightness and pockets of scarcity expressing themselves in yet steeper backwardation potentially. But if look at other energy markets like coal and natural gas, which are of more importance to Europe, these are at all-time highs. Natural gas has triple peaked above euros 200 per megawatt hour. You could say that the oil supply chain is more resilient and has more depth to it and hasn't yet panicked in the way that those utility markets already have.

Will sanctions on Russian oil make a difference to the market?

They will. It looks like much of the western hemisphere Russian export program, other than that down the pipelines, is still up in the air. The world doesn't have enough spare capacity nor enough crude. The supply demand balances with full Russian production in the picture were not enough. Now, with millions of barrels a day of Russian oil probably likely to be packed in, some of it perhaps making the long way around to east Asia markets, the impact is going to be very profound. And even if it all gets to Asia, there's still going to be a shortage of sweet barrels for the western hemisphere refining system. And the market is telling us that because it's showing a \$5-\$6 backwardation not seen since 1991 before Desert Storm. This is unprecedented stuff, and the law of higher prices is going to have to weed out the weaker demand and destroy it.

How long can OPEC hold out on adding extra supply?

There have been stronger nominations for Saudi and OPEC oil than the group has had in mind to put to the market. They're going to have this challenge every month. At some point, they're going to have to consider focusing back on the fundamentals of today's market rather than managing inventories from the point of view of 2020 when the pandemic hit. ■

**Paraphrased comments*