Daily Energy Markets
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Consultancy Intelligence Publishing

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Demand destruction is going to be massive.
I wouldn't be surprised if by Q4 we have a dramatically lower crude oil price akin to what happened in 2018. We are seeing unrest in a lot of developing nations because the price of energy, the price of commodities and soon the price of food, putting a lot of people into a distress situation. I don't see how we get out of this inflated asset bubble until we get a retracement down, recession hits, we revalue and then move forward. The EU will probably slowdown in Q3 and Q4 and then the US in Q4 and Q1 2023. It will be a domino effect and it's all predicated on the fact that we've had inflationary pressure since the beginning of 2021.

Is there a clear floor or ceiling to oil prices today?
The market is still in this tug of war and I don't think either side has won yet. But I see the recessionary and inflationary pressures and therefore demand destruction dominating over supply constraints. And it's not just in emerging markets. We have real concerns in the US on the current higher priced gasoline. Diesel demand destruction is also already hitting there and that's part of the reason why we haven't seen production increases in the shale patch. The diesel price is up 40% since December and that impacts drillers' profit margins, truckers, and the suppliers of goods into that industry.

What's pushing the high premium on products?
China made a conscious decision back in Q3 of 2021 to curtail crude imports and curtail refinery runs. China's exports, which were primarily distillates, are down 48% year on year. That's a huge amount of diesel that's not making it back into the market in Asia and that then ripples through to Europe. Couple that with Russian supply self-sanctioning, we now have a very tight product market. Diesel at $1200 per ton is going to hurt global industrial economic activity.

Russian oil supply still flowing overall?
Oil is going to move out of Russia and get exported into the market. I think we'll end up seeing a similar situation to what happens with Iranian crude. It gets washed through and becomes a different crude and makes its way into the commercial marketplace. Europe also has another problem – it has Russian oil companies that own significant refining capacity within the EU and the supply of crude into those refineries. You can't ringfence those and shut them down because you just further starve the finished products that those refineries supply to major industrial areas and end up with an even a worse recessionary impact than your oil embargo is going to have in the first place.

Can EU sanctions realistically be implemented?
EU sanctions are in a bit of a pickle. They've already started to water them down – one example is on shipping regulations for Russian cargoes - they need to have that market moving. The embargo is going to be harder to put together than people are anticipating -you have four countries that rely fully on Russian imports to maintain their energy balance. ■

**Paraphrased Comments*