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Oil Price Cap is not Going to Work

My view is that the price cap pushed by the Biden administration aims to water down the European sanctions that will kick in on December 5th. The sanctions on Russian exports in terms of not giving them the ability to use Western insurance services would hurt Putin very badly. I think the Biden administration is worried about it. They don't want a strict policy that would reduce the flow of Russian oil. They want low oil prices. If you put a ceiling on a price, you will have a lot less supply and a lot more demand. Russian crude becomes legitimate at prices that are 30% below the market. Of course, everyone will want it. How on earth do you allocate it? Who allocates it, and who gets it? China and India are currently getting the 30% discount anyway. Why would they agree to get a slightly bigger discount on very limited supplies?

Oil Fundamentals not Looking Great at all

Overall, things do not look particularly good other than the geopolitical situation. To underline, I was following the front end of the market and in July, physical front Brent was trading \$10 above forward Brent. Currently, it is trading a dollar below. We have a lot of Nigerian cargoes that are trading \$12 or more premium. Now they are trading about \$7 or \$8 below that. There's still a looming recession in the Western world, including China. There are a lot of other economic problems in China other than lockdowns. There is also the subprime situation. In terms of US financials, a poll has shown that majority of top economists in the US believe that for interest rates to tame inflation, it will have to go up well above 4%, while most of them said 5%. That's double where we are right now. So, the economy will slow down. The reason we are seeing the oil market where it is, despite of the geopolitical issues, the cold winter coming, and everything else, is the fear of demand destruction and a recession especially in the Western world. ■

**Paraphrased Comments*

