

The US tightens oil sanctions against Russia

Oil prices have rallied following the announcement of stricter US sanctions against Russian oil, targeting both production and export flows. These latest sanctions have the potential to erase the surplus we expect for the oil market this year



What sanctions has the US announced?

On Friday, the US announced wide-sweeping sanctions against the Russian energy sector, which saw ICE Brent break well above US\$80/bbl. These latest sanctions include:

- Sanctions against Russian oil majors, Gazprom Neft and Surgutneftegas.
- 183 vessels sanctioned, which are mostly oil tankers and part of the Russian shadow fleet.
- Several traders facilitating the trade of Russian oil have been sanctioned.
- Two Russian-based insurance providers, Ingosstrakh and Alfastrakhovanie Group, have also been sanctioned.
- The sanctioning of oilfield service providers and Russian energy officials.
- The US Treasury also prohibited US petroleum service companies from operating in Russia.

This prohibition takes effect from 27 February 2025.

What impact could this have on supply?

On the surface, these sanctions have the potential to have a significant impact on Russian oil flows. Prior to these sanctions, we were already seeing disruptions to Russian (and Iranian) export volumes. The Middle East physical market has been stronger as buyers look for alternative grades. In China, ahead of these recently announced sanctions, Shandong Port Group banned US-sanctioned tankers from calling at its ports.

There are estimates that the Russian shadow fleet ships a little more than 80% of Russian seaborne crude oil exports. And while the true size of the shadow fleet is unknown, there are estimates that it could be as many as 600 tankers. S&P Global estimates the size of the tanker fleet at 586 vessels, which suggests that around 25% of the shadow fleet has been sanctioned. This could put around 700k b/d of Russian crude oil at risk. Losing this volume would wipe out the surplus that we expect for the global oil market this year.

However, actual volumes lost will likely be smaller. Some buyers may choose to ignore these sanctions, and Russia may also rely more heavily on those tankers in the shadow fleet that are not sanctioned to continue the trade. This would put more strain on the shadow fleet. Over time, Russia will likely have to increase its fleet size in order for flows to continue uninterrupted.

Also, if sanctions see key buyers stepping away, it would likely see the differential for Russian crude fall. If there are logistical bottlenecks shipping Russian crude, we would likely have to see more Western shipping and insurance services used for Russian oil, which would mean that this oil would have to trade below the G-7 price cap of US\$60/bbl.

What would it mean for oil prices?

The uncertainty over how impactful these sanctions will be is proving bullish for the oil market. Clearly, if the volume lost is in the region of 700k b/d, we would need to make meaningful revisions to our current 2025 ICE Brent forecast of US\$71/bbl. However, as we saw following the EU ban on Russian oil and products imports, Russia managed to redirect trade flows, which meant little impact on Russian export volumes. Potentially, Russia will once again be able to take action to minimise the impact of these latest sanctions.

Furthermore, it is not clear whether the incoming Trump administration in the US will keep these sanctions in place, or if they will be strictly enforced.

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

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