

Oil market sceptical over how impactful additional tariffs on India would really be

Oil prices have not reacted to President Trump slapping an additional 25% tariff on India over its purchases of Russian oil, possibly believing there's still room for negotiation



The potential impact from these tariffs

Oil prices pushed lower yesterday despite President Trump slapping an additional 25% tariff on India for purchasing Russian oil. The reaction could suggest a few things. Firstly, the market is still hopeful that tariffs, effective 27 August, ultimately won't be implemented. Secondly, the additional tariff won't push India to stop buying Russian oil. Finally, even if India moves to alternative supplies, we may not see a reduction in global supply, with Russia finding other buyers for its oil.

The implementation date is still some time away, which provides room for negotiation. In addition, Trump said that he may soon meet with Presidents Putin and Zelensky in an attempt to end the war. If this goes ahead, and depending on how things play out, concerns over secondary tariffs may fade. Also, a 25% tariff is not as severe as the 100% initially threatened.

Whether India continues to purchase Russian oil is also key. While comments from India suggest that the country will do what's best for its citizens, reducing or stopping Russian oil purchases makes more sense. As we have said multiple times, countries facing this potential secondary tariff must weigh the benefits of buying discounted Russian crude against the potential cost to trade with the US. Indian exports to the US total around \$87bn. The savings India amasses from

purchasing discounted Russian crude oil will be a fraction of this, something in the region of \$6bn. Therefore, we feel it's pretty clear: Would India put at risk \$87bn worth of exports to save around \$6bn on oil imports?

India moving away from Russian oil would have its challenges. Refiners would need to find adequate supply elsewhere. With OPEC+ ramping up supply and the global market set to be in sizeable surplus from the fourth quarter, this shift should be manageable. In addition, it also leaves OPEC+ with room to start unwinding its next tranche of supply cuts. The other issue is whether refiners can get their hands on a similar quality crude relative to what they currently receive from Russia. But again, the ramp-up of supply from OPEC+ should improve medium sour crude availability.

It will be worth keeping an eye on the Middle East oil market to see if there's increased buying interest from Indian refiners. This would confirm whether they are starting to diversify away from Russian supply. Already, the threat of secondary tariffs has the Brent-Dubai spread moving into deeper negative territory, a trend which should continue if Indian buyers turn increasingly to the Middle East.

The key question, at the end of the day, is what this means for oil prices. If India stops buying Russian oil and Russia is unable to divert supply to other buyers, it puts as much as 1.7m b/d of supply at risk. This would wipe out the surplus that we expect over the next three quarters. And leave the market largely balanced, assuming OPEC+ doesn't bring the next tranche of supply cuts back onto the market. If these tariffs stick, it could see Brent averaging around \$75/bbl over 2026, compared to our base case forecast of \$57/bbl. Yet it's likely that Russia would be able to reroute a portion of this oil trade to some smaller buyers. This would leave the potential net loss in supply somewhat smaller, reducing the broader impact on oil prices.

The bigger concern for the market is if these secondary tariffs are put in place against other key buyers of Russian oil, including China. The White House has said that it "will determine whether other countries directly or indirectly import Russian Federation oil and recommend further actions to the President as needed." Such actions against other countries would likely require OPEC+ to bring back the next tranche of 1.66m b/d of supply in order to keep the market in balance.

Friday is the deadline that Trump set for Russia to come to a peace deal with Ukraine. Failing to do so means the US could announce further sanctions against Russia.

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