US sanctions on Russia cloud the outlook for the oil market

The announcement by the US of sanctions on two Russian oil producers has created more supply uncertainty in the oil market. However, we are holding back from revising our forecasts higher until the impact of these sanctions becomes clearer

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Bearish oil outlook retained – at least for now

US sanctions on Russian oil producers, Rosneft and Lukoil, has led to more uncertainty over the supply outlook for the oil market. The announcement caught the market off guard, with speculators having become increasingly bearish towards the market ahead of the announcement.

Not only are these sanctions a threat to Russian oil supply, but they also mark a shift in the Trump administration's approach to Russia, with the action being the first direct sanctions that President Trump has placed on Russia during this term. Clearly, there is the risk of tougher sanctions if a peace deal between Russia and Ukraine remains elusive.

Rosneft and Lukoil produce around 50% of total Russian oil production, so successfully restricting these flows could dramatically change the outlook for the oil market.

However, clearly the price action that we have seen following the sanction announcement suggests that the market is of the view that we will not see a significant amount of supply lost. Since 2022, Russia has effectively demonstrated its ability to circumvent sanctions and embargoes.

The key question is whether buyers will start to shun Russian oil. The buyers the market will focus on are India and China. China buys around 2m b/d of Russian oil, while India takes 1.5m b/d. From these two key buyers, flows to India are the most likely at risk, with Indian refiners already looking at alternative grades. As for China, it has continued to buy Iranian and Venezuelan oil despite sanctions, and so we suspect it will do the same when it comes to Russian oil. In fact, China could increase the amount of Russian oil it buys. If India and other smaller buyers reduce/stop their purchases of Russian oil, one would expect the discount on Russian crude to widen, making it even more attractive for Chinese refiners.

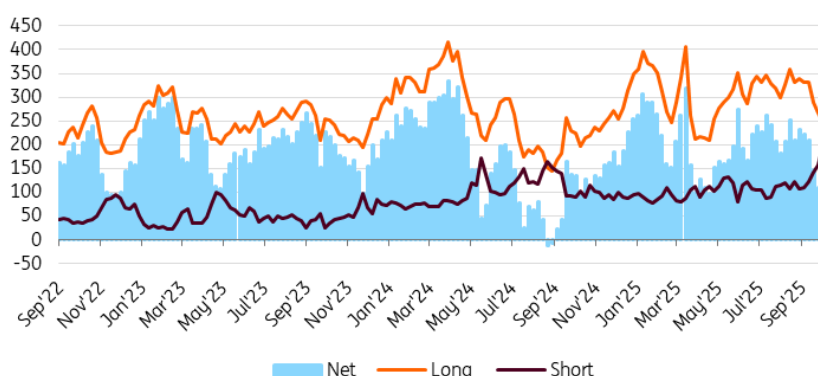
Russian oil was also not a discussion point between President Trump and President Xi during their recent meeting in South Korea, possibly suggesting that there will be little pressure from the US on China to cut back on Russian oil.

Meanwhile, OPEC+ announced a further supply increase of 137k b/d for December. However, probably of more interest was the group deciding to pause any further supply hikes during the first quarter of 2026, a period where we see a significant surplus in the market. Although OPEC+ policy may also be dictated by how impactful sanctions on Russia are.

We are reluctant to revise our oil price forecasts on the back of these sanctions. We are waiting for further clarity on the exact impact on supply before making any changes. For now, our balance sheet continues to show a significant surplus in 2026, which should keep downward pressure on prices. Therefore, we retain our view that Brent will average $57/bbl over 2026. But there are clear upside risks to this view.

Speculators were becoming increasingly bearish towards the oil market ahead of the Russian sanction announcement

ICE Brent managed money position (000 lots)



Source: ICE, ING Research

Rangebound trading for European natural gas

The European natural gas market has spent the last month trading in a fairly rangebound manner despite Europe moving deeper into the 2025/26 heating season. In addition, the EU has entered the new heating season with storage below not only last year's levels, but also below the five-year average. Storage was 83% full at the end of October vs. a five-year average of 92%. Furthermore, the European Commission is moving ahead with its ban on Russian LNG, and in fact will bring the ban forward by one year, ensuring a full ban on Russian LNG from 1 January 2027.

There are several reasons behind the market trading in a fairly narrow range, despite the European balance still being fragile this winter, and the progress made in banning Russian LNG. Firstly, flexibility in EU storage targets this year has taken potential upward pressure off the market, as buyers haven't been forced to rush purchases to ensure storage is 90% full by 1 November. Secondly, Asian LNG demand has been weak this year, which has been driven by China. Chinese LNG imports are down 17% YoY, ensuring adequate LNG supply for Europe. Finally, there is a significant amount of LNG supply in the pipeline from now until the end of this decade, which should ensure that global gas markets are well supplied over the next several years.

While we could see some seasonal strength in gas prices this winter, we continue to believe that the broader trend for the market is lower in 2026.

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