

US sanctions rattle the oil market

The latest US sanctions targeting the Russian oil industry mark an important shift in the Trump administration's approach to Russia, while potentially having significant ramifications for the oil market. How impactful this will be on oil prices depends on how effective these sanctions are in deterring refiners from buying Russian oil



The US sanctions two key Russian oil producers

Oil prices received a jolt higher this week after the Trump administration announced sanctions on Russian oil producers, Rosneft and Lukoil. These are the first direct sanctions that the administration has placed on Russia during President Trump's second term. The announcement comes after plans for a summit between President Trump and President Putin in Budapest fell through, leaving Trump increasingly frustrated at the lack of progress in Russia and Ukraine moving towards a peace deal.

Rosneft and Lukoil produce more than a combined 5m b/d of crude oil, which is in the region of 50% of total Russian oil production and so these sanctions have the potential to be very disruptive to the oil market.

These are not the first Russian oil producers to be sanctioned by the US. In January, ahead of President Biden leaving the White House, sanctions were placed on Gazprom Neft and Surgutneftegas, along with a large portion of Russia's shadow tanker fleet. These sanctions also led to initial concerns over supply disruptions; however, they ultimately had little impact on Russian oil flows.

These latest sanctions are set to come into full effect on 21 November 2025, allowing a wind-down of transactions with both Rosneft and Lukoil, as well as with any subsidiaries in which they hold 50% or more ownership.

The risk of buyers being penalised for transacting with Rosneft and Lukoil is a concern for the market and threatens a large portion of Russian oil supply

Why has the Trump administration taken this action now?

Apart from President Trump growing increasingly frustrated with Putin and the lack of progress toward a peace deal, the state of the oil market also provides the US with the opportunity to take a more aggressive stance against Russia. Prior to the announcement of sanctions, the market was set for a significant surplus through the remainder of this year and 2026, which has weighed heavily on oil prices, with Brent trading down towards US\$60/bbl. Lower oil prices create the opportunity to impose sanctions, whilst expectations of abundant supply also provide comfort that the market can manage potential losses in Russian oil supply.

What does this mean for Russian oil flows?

For the oil market, the most important point is how impactful these sanctions will be on Russian oil flows. This includes both crude oil and refined products. Russia exports a little more than 4.5m b/d of crude oil and in the region of 2.5m b/d of refined products, of which around 1m b/d is diesel. This helps explain the strength seen in the ICE gasoil crack over the week, amid concerns of further tightness in the middle distillate market.

Looking at the crude oil market, there are clear signs that buyers are looking for alternative grades, particularly from the Middle East. This is evident when looking at the Brent-Dubai spread, which has collapsed since the sanctions' announcement (driven by strength in the Dubai benchmark).

China is the largest buyer of Russian crude oil, taking 2m b/d so far this year. This will include both volumes via pipeline as well as by vessel. Meanwhile, flows to India have averaged a little more than 1.5m b/d so far this year. Other buyers include Turkey, which has taken roughly 290k b/d so far this year, while Hungary and Slovakia, which received an exemption from the EU ban on Russian oil, source almost all their needs from Russia via the Druzhba pipeline.

For the oil market, most focus will be on the sizeable volumes going into China and India. For India, there are already reports that Indian refiners are looking for alternative grades from the Middle East. Prior to these sanctions, India was facing secondary tariffs due to its purchases of Russian oil. Therefore, there had been talk already that Russian flows to India would fall dramatically.

For China, there have also been reports that state refiners there have backed out of some oil purchases following the sanction announcement. However, we believe that Russian oil flows to the country will likely remain more resilient. In fact, there is potential for volumes to pick up, particularly if India stops buying, which could see China picking up Urals at an even larger discount.

We could also see smaller buyers, such as Hungary, Slovakia and Turkey, seek alternative supply. However, it would not be surprising if Hungary and Slovakia seek an exemption from the US, citing difficulties in obtaining alternative supplies, as both countries are landlocked.

There will be an element of scepticism over how effective these sanctions will be. Russia has demonstrated its ability to keep oil flows going despite sanctions and embargoes since 2022. The

price action that we have seen since the announcement appears to reflect these doubts, with Brent up a little more than 5% on the day sanctions were issued. Clearly, one would expect much more of a move if the belief was that a meaningful amount of Russian supply would be lost.

Does this dramatically shift the outlook for the oil market?

There is still plenty of uncertainty over how much Russian oil supply will be disrupted by these latest sanctions, and as a result, there is significant uncertainty about what this means for the oil balance and prices.

Prior to these sanctions, we held a bearish view on the market, expecting Brent to average \$57/bbl over 2026, with prices weighed down by the scale of the surplus set to hit the market. We are holding back from making any revisions to our forecasts until there is more clarity on exactly what the impact of these sanctions will be on oil flows.

However, the shift seen from the Trump administration and the risk of further sanctions suggest that the floor for the market could end up being somewhat higher.

In addition, if we start seeing Russian flows becoming increasingly disrupted, we could see a scenario where Brent trades up to the \$70-75/bbl range, assuming we lose in the region of 1.5m b/d of Russian supply (essentially all supply to India).

Much will also depend on how other OPEC+ members respond. The group has brought a significant amount of supply back onto the market since April this year, and any supply losses from Russia leave room for the group to tap further into its spare production capacity, helping to cap the upside in prices.

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