10th September 2022

Global Market – Price cap on Russian Crude Oil & OPEC+ cut Oil output from October 2022

Last week we have discussed ECB and energy crisis in Europe which have kept market on edge in last few weeks. Russia had stopped gap supply through Nord stream pipeline this week which was already operating at 20% triggered electricity futures prices soaring.

This week we will discuss the OPEC+ countries declaring output from October 2022 and US & Europe planning to put cap of Russian oil. US & Europe have put sanctions on Russia and limited their purchase from Russia have triggered Crude oil prices soaring from 24-Feb-22 onwards.

Crude oil is currently trading around prices seen before 24-Feb-22, Russia-Ukraine crisis begins. WTI Crude oil near $85 and Brent Crude oil near $90. Average crude oil prices during 2015 – 2019 were trading in range of $55 to $70.

OPEC+ Agrees To cut 100,000 bpd from October 2022

The group will reduce production by 100,000 barrels a day next month, taking output back to August levels. Its next scheduled meeting is on 5-Oct-22 to discuss further steps.

The decision exactly reverses the September increase that was made in response to entreaties from US President Joe Biden to help bring down oil prices.

It could come as worrying development for consuming nations as they grapple the inflationary squeeze from crude at $95 a barrel and the prospect of a winter energy crunch. Markets are on track to tighten as the European Union sanctions Russian crude.

Russian Crude oil – Price cap proposed by G7 nations

US & European nations (NATO nations) have put various sanctions on Russia after Russia started its military operation in Ukraine on 24-Feb-22 which is currently going on till date with more than 6 months.

Europe was enjoying cheap crude oil & natural gas supply from Russia. After sanctions, Europe have reduced crude oil purchase from Russia and to counter Russia had stopped gas supply to Europe through Nord Stream. Cheap gas supply from Russia was lifeline for Europe cheap electricity and manufacturing sector.

G7 plans to cap Russian crude oil prices around $60 as Russian crude oil is benchmarked with Brent Crude oil prices which was trading $50 to $70 in 2019.

Russian government documents have identified a marginal crude production cost of $44 per barrel, although some Western officials believe it may be somewhat lower.

A European official said G7 members had not begun formal discussions about the price cap, although officials had "notions" about what was possible.

India & China are key buyer of Russian crude oil since US & Europe had put sanctions on Russia. Russia is offering significant discount to India and China and it is helpful to both these countries as they are major crude oil importing countries.

Equichain Wealth Advisors: View & Opinion

Global expert believes earlier when sanctions were placed on Russia by US & European nations that it would do very little damage to Russia and now six months down the line, their fear and view are coming true.

We believe, this crisis is not financial or systematic crisis such as 2008 & 2013 crisis, this crisis is political in nature which may get resolved the very next day or it could drag for many years, we simply cannot predict it.

2008 Sub-Prime & Lehman crisis: Financial crisis started with Sub-prime in US & peaked up by Lehman brothers 's bankruptcy forcing merging and bailout of banks by their respective government.

2013 Tapper tantrum crisis: It is basically crisis which was triggered by pre-maturely withdrawing stimulus given during 2008, created another round of economic turmoil.

G7 nations planning to cap pricing will not be successful unless India and China join them and current geo-political situation it seems highly impossible. India has maintained its stance neutral since this crisis began in February 2022. Recent tension between US & China over US speaker Nancy Pelosi visit to Taiwan, China will not support price cap on Russian crude oil.