Daily Energy Markets
VIEWS YOU CAN USE

Consultancy Intelligence Publishing

Christof Rühl
Senior Research Scholar - Center on Global Energy Policy
Columbia University

I expect oil prices to remain somewhere around $100 in the third quarter.

An expected recession and slowdown in economic growth, plus the lockdown in China, have played a role in bringing oil prices down and there have also been safety valves such as the SPR release and the possibility of Iran and Nigeria producing more. So, I am quite bearish and expect excess supply to dominate over demand. The biggest unknown for 2H 2022 is the impact of continued sanctions on Russian oil production capacity. The intention that Russian crude would suffer has not materialized yet, even though production has declined a little bit. On the other end of the equation, we have much higher product prices than crude oil prices because of refining margins, but based on historical experience, the global refining system is quite flexible and can adjust its configuration over the next 6 to 12 months.

Could the G7 proposed price cap on Russian oil work?

It's a difficult plan because it relies on there being a sizable part of total demand taking part, and if we only have the G7, including the European Union, implementing a price cap, then not much will change. It will just push deliveries into Asia, and if it really were to be executed as planned, the price would be below the current discount, and that's unlikely to be sustainable when demand in Asia goes up. Politically, I also do not see any will from India and China to blatantly participate against the interests of Russia. By contrast, the voluntary sanctions on Russian gas by countries like Denmark and Romania have worked better in Europe than the mandatory centralized oil sanctions. The amount of Russian pipeline gas delivered into the EU has fallen by half of the share compared to before the war.

What does the future agenda look like for OPEC+?

The group has gone quiet because they seem to be caught between their inability to increase output anywhere close to quotas and being the central bank of oil. The key question for them is how to keep Russia in the fold because a group like OPEC+ is the more effective the more members it has. I think that both Russia and the core OPEC members have a huge incentive to stick together and to devise a new scheme for navigating these choppy waters. They may step back a little bit from making big announcements on managing the market for now, but they will become significant again the next time oil prices are significantly down. ■

**Paraphrased Comments*