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### Two things continue in oil markets – volatility and the downward trend.

The consensus is that there will be excess oil supply in 2H 2022. At the same time, you don't want to put all your money on lower oil prices because of low inventory and capacity levels – the layers of protection against disruptions are still very thin and any political event could lead to price spikes. Furthermore, the EU is boycotting Russian crude oil imports on December 5th and refined products on February 5th, and there is the US proposal, signed off by the G7, to put a price cap on Russian oil. The cuts in volumes will decrease revenues for Russia. The more immediate target of the price cut will be a very difficult thing to do because we already have a price discount for Russian oil, and dual pricing systems in economics always spell trouble. But the outcome of all of this will be a continuation of a downward price trend and a Russian reaction in the form of cutting exports, which will likely lead to a price spike.

### Trajectory for Russian gas flows into Europe in Q4?

Russian pipelined gas exports to Europe are already down to at least one quarter of what they used to be. The EU used to consume 40% of its gas from Russia and now it is down to 9%. That market is probably lost for good, and it will take years for Russia to redirect this gas somewhere else because they will need to build pipelines first.

### Could we see another 0.75 rate cut from the ECB this year?

It's likely we will see another big cut by the US Fed, but much less activity going forward for the ECB because they have to deal with this very heterogeneous group of countries in different stages of crisis. The key to what happens for Europe is on the economic front. If they can sustain their energy and other sanctions throughout the winter without generating big protests, and control headline inflation or at least appear to be decisive and confident on that front, the European economy, especially the central states, could hold up well. The EU is a much stronger economy than Russia and it can probably manage to have a shallow recession of about 5%. The ECB can then declare victory and that confidence boost sort of reinforces itself. ■

*\*Paraphrased Comments*

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