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Russian Oil Trade Slips Out of Western Sphere

The once transparent trade of Russian crude oil and refined products is going dark. The trade is moving outside the Western systems for finance, insurance and transport to escape the impact of US and EU sanctions and is aligning Russia closer to Asia. It is starting to resemble Iran's oil trade under harsh Western sanctions, although the market impacts will be more far-reaching given that Russia is one of the world's largest producers and exporters. Evidence of opaque dealing is rampant. Prices for Urals are no longer quoted, new trading companies are popping up as middlemen, buyers and destinations of fuels are increasingly concealed, and financing is moving to banks outside the US dollar sphere. Dubai could replace Geneva as the new trading hub for Russian oil. The transition is accelerating now that major trading houses like Vitol and Trafigura, which kept much of the oil flowing, are shunning more Russian trade. They are following the EU guideline that bans trading with a group of Russian state-owned companies from May 15, including Rosneft, Gazprom Neft, pipeline operator Transneft and shipper Sovcomflot. Trades can continue if "absolutely necessary." Other trading houses like Gunvor and Glencore had already scaled back their visible Russian activities. Western majors are winding down their Russian operations. New trading entities have emerged in recent weeks, mostly handling oil from Rosneft. Little is known about them, but their aim is to keep Russian oil flowing. Companies like Bellatrix and Sunrise are newcomers; trading house Coral is stepping up.

The transition remains fluid and details are hard to come by as personnel change. Traders go off line and screens switch off. The support for trading up to 4 million barrels per day of Russian crude and products to the West is being dismantled and built up or integrated elsewhere

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Climate Votes Hit Limit of Investor Appetite

Investors appear to have hit the limit of their appetite for driving more progressive emissions reductions at oil companies through votes on annual shareholder resolutions. Such initiatives backfooted boards last year when a majority of shareholders at Chevron and ConocoPhillips supported them and climate concerns were a factor in a board coup at Exxon Mobil. But it also seems to reflect a shift among investors, who are acknowledging that companies have made strategic progress and are limited in how much further they can go by society's continued robust demand for fossil fuels. With oil and gas prices soaring amid supply shortage concerns, investors also seem to have an improved appreciation of the trade-offs between emissions reductions and energy security. "In the last two years there has been a remarkable change in attitude, worldwide across every energy company around the world, they understand that they have to be moving forward," BlackRock CEO Larry Fink told a recent forum in London, while noting that he has "not seen a real change" in investor support for the transition, which remains strong. Exxon, which faced a proposal to align its strategy with the Paris climate accord's goals for the first time, argued that the implication that it must reduce production "without any commensurate reductions in corresponding demand, would result in customers simply choosing other suppliers."

Proposals driven by activist shareholder group Follow This won approval from anywhere from 4% to as much as 33% of investors in votes at the Western majors and some large independents.

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But the group saw overall levels of support drop from last year as it introduced more aggressive requests. The drop could be attributed in part to a more conservative approach from fund giant BlackRock, whose index funds make it a major investor in most companies. It also could be seen as overreach by activists, who argue for a more stringent definition of what it means for company strategies to be "Paris-aligned." Some 33% of shareholders at Chevron voted in favor of a Follow This proposal to align its strategy with the 1.5°C Paris goal, compared to 61% support last year for a measure asking the company simply to set a target to reduce Scope 3 emissions from use of its products. "One-third is a shareholder rebellion," Follow This founder Mark van Baal argued, but he noted that investors seemed "distracted" by rising cash returns and dwindling energy supplies. At Equinor, where just 4% of shareholders endorsed the call for deeper emissions cuts, board chairman Jon Erik Rienhardsen said it was "important for Equinor to be a reliable supplier of energy, both oil and gas and renewables," given global worries about energy security.

Large investors still focused on the fossil fuel industry, particularly those in Europe, continue to favor more direct engagement with companies to push them toward Paris alignment. Some are shifting their attention to centers of fossil fuel demand such as autos, shipping and heavy industry. They say oil and gas companies already have the framework to build strategies that fit Paris and minimize climate risk, and now need to show their adherence to them. Divestment from the industry continues, with some funds taking activist stances against fossil fuels and a much wider set limiting their exposure to all but the most progressive companies. But the votes would indicate a much broader swath of capital endorsing the idea that companies are on track to transition their operations at a measured pace — an important development considering the current state of red-hot oil and gas markets. This week, the California State Senate passed an activist-pushed bill to require the state's largest pension funds to divest their fossil fuel holdings. Dutch pension giants ABP and PME have already voluntarily ditched their fossil holdings. But more influential investors like BlackRock take a different approach. "It is better to be working with all the companies that are in hydrocarbons, not against them," Fink said, arguing that companies would need to move from "brown to medium brown to light brown" before they could get to green.

China Weighs on Global Oil Demand Concerns

Global oil demand is facing the headwinds of spiking prices, persistent inflation and a higher risk of recession in several countries. The Ukraine war, meanwhile, has come on the heels of the pandemic and created multiple headaches for global energy supply. The combination of strangleholds and slower GDP growth will delay the economic recovery until well into 2023. Demand from India and China, two of the world's largest oil consumers, is taking a beating. India, which imports 70% of its oil, lost 400,000 barrels per day of demand to higher prices in April. In China, the deleterious effects of Beijing's rigid zero-Covid strategy have already resulted in 800,000 b/d of lost demand this quarter. It is still too early to tell if this erosion will be permanent, but the recent demand inflexion reduced global oil consumption to 94.9 million b/d in April, confirming the downtrend that began in March. The International Monetary Fund (IMF) has cut its 2022 global GDP forecast by 0.8 percentage points to 3.6%. Average global demand in 2022 is no longer seen breaking through 100 million b/d. Energy Intelligence estimates it will gain 2.1 million b/d on the year, to 99.6 million b/d. High gasoline prices in the US are slowing the recovery and have helped push inflation to a 40-year high of 8.5%. In Europe, shortages of diesel — 55% of which used to be imported by the EU from Russia — have put a steep premium on prompt prices, but signs of a demand slowdown are less conspicuous, at least for now. The Ukraine war and air travel bans in China have dented jet fuel demand.

The urgency to rein in inflation has tightened financial conditions and reduced countries' ability to keep stimulating demand. China remains a notable exception. It plans to step up infrastructure construction, and President Xi Jinping has pledged support to local governments, hoping to refocus their attention on project execution rather than just pandemic control. But the IMF now sees China's GDP growth at 4.4% this year — far behind Beijing's initial target of

5.5%. Rather than massive stimulus, a relaxation of the zero-Covid strategy could go far in helping demand. Repeated lockdowns across large manufacturing hubs like Shanghai, Shenzhen and even the capital Beijing, have caused partial industrial paralysis. The country's largest city, Shanghai, remains on track to reopen on Jun. 1, but Covid-19 cases are rising in Beijing. Nomura Securities estimates that more than 200 million people are still affected by the various lockdown measures, down from 343.5 million in late April. Exports remain a key driver of economic growth for China, but given current supply chain bottlenecks, they are struggling to do the heavy lifting. In April, China's export growth was down 4.9%. China's Premier Li Keqiang has said the world's second-largest economy could struggle to record positive growth in the current quarter, urging officials to help companies resume production after lockdowns.

China's April apparent oil demand fell by 8.6% from March to 12.74 million b/d, Energy Intelligence estimates. It is the first time since April 2020 — near the height of the pandemic's first wave — that China's demand has fallen below 13 million b/d. More than higher prices, the weak macroeconomic context has subdued China's crude appetite. With the industrial slowdown adding to domestic discontent, Beijing is getting more frantic about stabilizing the economy and returning to higher growth. Some measures target the domestic transport sector and could support oil demand if implemented. The country will issue 300 billion yuan ($45 billion) in railway construction bonds, starting a new round of road construction and renovation in rural areas. Passenger flights from Chinese airports fell by 46% in March and by another 43% in April, according to the International Energy Agency. An orderly increase of domestic and international passenger flights is now a priority. The government also plans a phased reduction of 60 billion yuan in the sales tax of selected passenger cars, reinvesting some of the tax proceeds from 2021. However, two out of 10 cars sold in China last year were electric vehicles — a pace behind only Norway — showing that the energy transition will continue to challenge oil demand.

Russia: Output Won't Rebound Until 2025

Russia is facing up to the longer-term impacts of reduced Western demand for its oil and gas. Moscow foresees a decline in its hydrocarbons production and exports over the next three years, with these volumes not expected to return to 2021 levels until 2025. The scenarios released by Russia's economic development ministry would add tightness to global oil and gas markets and provide support to prices in coming years. Russia, one of the world's largest producers and exporters of oil, gas and refined products, concedes that finding new markets for its hydrocarbons will take time and that some upstream developments could be postponed. The ministry said Russia's combined output of crude oil and condensate is expected to fall by around 1 million barrels per day this year to 9.53 million b/d, with no meaningful recovery in the following three years. Its base case scenario shows a further fall to 9.48 million b/d in 2023 and only a modest recovery to 9.64 million b/d in 2025. The outlook for crude exports is better, with these seen declining by only 1.2% this year to 4.58 million b/d. But exports of oil products — where global markets look particularly vulnerable — could fall by 20% to 115.3 million metric tons, or approximately 2.37 million b/d this year. Gas production could decline by 5.6% to 720.9 billion cubic meters this year and then recover to 730 Bcm in 2024 and 735 Bcm in 2025. Exports of pipeline gas are seen falling 10% this year to 185 Bcm, with a further decline to 155.3 Bcm in 2025. Russian LNG exports could grow 5% this year, but the outlook has also dimmed. LNG exports are seen increasing moderately to 35.7 million tons in 2024 and 37.3 million tons in 2025. That is down significantly from last year's forecast for 2022-24, which envisioned Russian LNG exports growing to 50.7 million tons in 2024 under the base case.

With the EU discussing an embargo on Russian imports, Moscow is eyeing new export routes, which could require building new infrastructure. The government will present a detailed plan next week, but sources say some of the options could take years to launch. Russian crude exports via the 1 million b/d Druzhba pipeline are most vulnerable and might stop already in 2023, some market players believe. Russian pipeline monopoly Transneft has made preliminary plans for the construction of a 1,500 kilometer pipeline from an oil pumping station along the Druzhba line to Murmansk on the Barents Sea for onward shipments to global markets, including via the Northern Sea Route. The initial capacity of the new line might be 400,000 b/d, potentially rising to 1 million b/d. Construction could take three years and state support would be needed, including financing of loans due to costly domestic lending and sanctions blocking access to international institutions. Russian Deputy Prime Minister Alexander Novak discussed other, cheaper options, including swap schemes while in Tehran this week. But former Lukoil CEO Vagit Alekperov insists that it is impossible "to redirect all European volumes to other markets overnight." He told the *Financial Times* that in the meantime, "Russia will have to reduce production, freeze wells, as we did at the beginning of the pandemic in 2020."

The expected declines in production and exports suggest some projects could be delayed due to Western sanctions against Russia, well as the exodus of foreign investors, lenders and technology providers from the country. **Rosneft's Vostok Oil, a massive Arctic onshore venture, and Russia's ambitious LNG plans could be most at risk.** Big things were expected from Vostok Oil over the next three years. The major oil development was targeting output of 600,000 b/d in 2024 after producing more than 300,000 b/d for much of last year, but earlier targets are now in doubt. The economy ministry suggests there might be no new LNG capacity start-ups in Russia in 2023-25, except for a 6.6 million ton per year train at private Novatek's Arctic LNG 2 project — and this addition is no sure thing. Moscow planned to export up to 140 million metric tons/yr of LNG by 2035 and become a top-four player in global markets alongside Australia, the US and Qatar.

Russian Oil Trade Slips Out of Western Sphere

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— about half of these trading volumes have already been rerouted. Sliding underground keeps much of the oil flowing, but it comes at a steep price. "Russia will forever have to sell its crude at a discount," one trading analyst said. Much of the trade is done in private nowadays. Discounts for Urals hover around $30 per barrel versus dated Brent but are opaque — one trade was thought to be done around $84/bbl this week. Buyers, especially China and India, hold "enormous leverage" over Russian sellers, the analyst noted. But the uncertainty of future Russian supply and potential for more sanctions could make Asian buyers more cautious. They are hesitant to cut much of their secure Mideast term contract supplies, which means they won't be able to absorb another 2 million b/d of Russian oil. Moscow would need to find additional markets in Latin America and Africa. So far, the US has banned Russian petroleum imports — estimated at 500,000 b/d in semi-refined products and 200,000 b/d in crude — while the EU has so far shunned an estimated 900,000 b/d as it works to formalize a broader ban. Close to 600,000 b/d of Russian exports from its European ports give no destination and are thought to mostly bypass Europe.

Shipping, insurance and capital are key to keep the oil flowing — but are the most difficult to replace. Shipping giant Sovcomflot has already sold a bundle of vessels to Greek, Mideastern and Asian interests that could keep servicing Russian flows under a different flag. Capital will have to come from Asian banks. An agent said traders dealing with Russian oil are moving to Dubai since European banks won't touch their cargoes anymore. Insurance is a major hurdle since the global industry is tied to major Western firms. Traders expect many tankers with Russian oil to switch off their satellite signals to avoid detection, a move that has helped Iran and Venezuela continue exports under sanctions. This means up to 5 million b/d of the global oil trade will be moved by a growing "pirate" fleet of tankers. Financing this trade will mostly circumvent the US dollar. An army of lawyers can provide anonymous offshore routing to make the trades difficult to detect. The hardest to replace might be the insurance for tankers. If the EU can agree to ban all Russian oil trade from insurance and the UK joins in with the weight of Lloyd's of London behind it, it will be tricky to insure cargoes.

Can North Africa Help Opec Lift Output Capacity?

Few would look to North Africa to significantly help Opec-plus improve its production capacity. But every barrel counts in an oil market facing a supply crunch where prices remain above $100 per barrel. While the Mideast Gulf is where the biggest capacity expansions will take place in coming years, Libya and Algeria could offer higher volumes if things break right for them. For Libya, it is largely about becoming a more reliable, consistent producer, as its output has fluctuated greatly due to bouts of civil unrest. Political instability has also dogged Algeria, and its output potential could come down to how much foreign investment it can attract. Algeria pumped just over 1 million barrels per day in April, an 87% compliance rate with its Opec-plus quota, according to Energy Intelligence calculations, while Libya — exempt from Opec-plus quotas — has seen its output fluctuate once again with the closure since late April of the two key El-Sharara and Elephant (El-Feel) oil fields in the southwest and three oil terminals. Tripoli's March output of some 1.12 million b/d initially fell to 949,000 b/d, although Libya's Oil Minister Mohamed Oun tells Energy Intelligence that current production is estimated at around 665,000-700,000 b/d.

Algeria is steadily increasing its production by 10,000 b/d based on its Opec-plus commitments, "but … we actually have the capacity to produce more," says a senior Algerian energy ministry official. He says the country will produce 1.06 million b/d at end-September, when the current Opec-plus deal will expire, and output could reach 1.145 million b/d in the first quarter of 2023.

State-owned Sonatrach CEO Toufik Hakkar announced a $40 billion 2022-26 investment plan in January, targeting the upstream, midstream and refining sectors that will see $8 billion spent this year with a third of the investments involving international oil companies (IOCs). Algeria has also updated its oil law 19-13 and fiscal terms in a concerted effort to win back the foreign investment it has sorely lacked in recent years. Still, the trajectory of Algerian oil production is still one of decline — falling from the highs of 1.4 million b/d in November 2007 to around 1 million b/d currently. But more investment could maintain Algeria's position as a significant Opec producer. At Algeria's largest oil field Hassi Messaoud, which has produced around 350,000-400,000 b/d, Sonatrach is pursuing a project to boost output by some 120,000 b/d. Occidental Petroleum produced 44,000 barrels of oil equivalent last year from its Blocks 404a and 208 and plans four wells this year as it switches to a production-sharing contract (PSC). Sonatrach and Eni approved a new PSC last December aimed at fast-tracking development in the Berkine North Basin in eastern Algeria, where reserves are estimated at 135 million boe with start-up targeted by year's end. Sonatrach has also highlighted the PTTEP-operated Bir Sebaa Phase 2 project, which is producing 16,800 b/d but could rise to 20,000 b/d.

The latest shutdown in Libya, which began in mid-April, has removed some 500,000-600,000 b/d of output, Oun says. Civil unrest will likely keep Libya a wildcard supplier and a growing source of market volatility if global spare capacity tightens. State-run National Oil Corp. (NOC) is targeting 2.1 million b/d of oil production over the next five years, but this would require political stability to attract the foreign investment needed to achieve this ambitious target. In 2019 NOC Chairman Mustafa Sanalla calculated the plan needed $60 billion with 15 billion Libyan dinars ($11 billion) coming from Tripoli and "the remainder from investors." While Libya's low extraction costs, quality crude and geographic position are attracting IOCs like TotalEnergies and Eni to invest despite the civil war, securing the remaining $50 billion amid the energy transition may prove elusive. Moreover, every shutdown is expensive for Libya. Oun estimates the current closure is costing Tripoli between $40 million-$70 million per day and worries about the integrity of key reservoirs like El-Sharara.

Price Spike Takes Heftier Toll on Some Importers

The rise in oil prices is taking a toll on countries' ability to pay for fuel imports, especially in a context of global inflation. Most commodities are paid for in US dollars, and both the price of oil and the greenback have flared up, making the terms of trade less favorable to non-US countries. Net importers of energy and food are suffering most because they are vulnerable on their overall commodity exposure. Oil exporters, however, receive dollar payments and have more room to defend their currency and protect their income. Turkey imports 93% of its oil and India about 70%, but they must also import other raw materials and food, which compounds their sensitivity to global commodity prices. Turkish inflation hit 70% in April, with most pressure coming from food and surging energy prices. The Turkish lira has been in a tailspin since September 2021, forcing domestic consumers to confront an exponential increase in their oil import costs. Brazil, China, India, Thailand and South Africa are in a similar predicament. The Covid crisis and need for stimulus have reduced their ability to strengthen their currencies. Brazil, however, is a net oil exporter, and South Africa exports precious metals and coal, which partly offsets its oil import costs. Russia's steady oil and gas sales have backed the recent firming of the ruble, especially after the EU allowed the payment of Russian gas in that currency.

The price of oil in some local currencies has increased exponentially, driving energy bills in several emerging markets through the roof. Higher prices are forcing countries to devaluate by selling more of their currency and buying more US dollars to meet their rising import costs. This increases demand for US dollars, strengthens the greenback and depletes the foreign reserves of non-US countries, reducing their leeway for monetary support. Only China is partly immunized by being the world's largest holder of foreign reserves. Income reductions in advanced economies are primarily driven by rising energy prices, whereas food is usually the main driver in emerging markets. Even in the US, where foreign exchange is not a concern, the price of gasoline is creating political tension. It comprises only 3% of US consumer prices but accounts for 50%-75% of consumer price swings. The lowest-income households in emerging markets spend on average 7% on energy, versus 9%-10% in developed economies. In the US, where driving is an inherent part of daily life, this can go above 15% for the lowest-income households. Consumers now spend more money on food and energy, while demand for less essential, higher-value manufactured goods decreases and poses issues to global export workshops like China. For emerging markets, financial conditions have tightened, reflecting higher interest rates to fend off inflation and higher external borrowing costs.

Given the financial constraint on their current accounts — import/export balances — some countries might be tempted to take drastic action to counter the currency/price effect. Energy

subsidies are a short-term answer but come at a cost. With the dollar strengthening, the temptation to imitate Russia and demand payment in local currency will be greater for large commodity exporters. They will also be more careful to recycle their petrodollar surpluses elsewhere, rather than in US treasuries, as they did before. India has restored fuel subsidies to offset rising gasoline and diesel prices, as have some OECD countries. But the current backwardation in refined product markets is meant to push demand further out of the curve by putting a premium on immediate delivery. This dynamic is being countered by the stimulus and subsidies that some governments are offering, preventing the market from finding its natural equilibrium. The fact that the US has weaponized the dollar against Russia may give some producers pause. Given the global supply shortage, large commodity reserves could also be used as a weapon to regain trade leverage: China asking payment for grain in yuan, or Saudi Arabia for oil in riyals. Meanwhile, the need to maintain foreign reserves and avoid the inflationary fate of Turkey may entice commodity producers to keep their US dollars for themselves rather than recycling them into the US economy.

Energy Security Tops Transition in Asian LNG

Energy security is at the forefront of Asian LNG markets in the aftermath of the Ukraine war, which has triggered higher LNG prices and heightened competition with Europe over supplies. But players at this week's World Gas Conference (WGC) in Daegu, South Korea, insisted they have not forgotten their climate commitments, which include midcentury net-zero emissions goals for some. The challenge for gas-short and import-dependent Asian buyers will be securing stable LNG supplies — particularly through long-term contracts — to avoid power outages while ensuring that the energy transition continues apace. Long-term contracts allow buyers to avoid the huge swings in spot prices seen over the past two years and guarantee supplies as Europe vies for more LNG in its quest to wean itself off Russian gas. TotalEnergies announced a deal at this week's WGC with South Korea's Hanwha Energy Corp. for the supply of 600,000 tons per year of LNG over 15 years, starting in 2024. WGC delegates recognize the climate challenge that the current energy crisis presents. Coal-to-gas switching remains critical to Asia's decarbonization efforts, but high LNG prices have forced some price-sensitive markets to turn to coal and oil fuels for power generation. Mark Brownstein of the Environmental Defense Fund noted that global greenhouse gas emissions have risen since 2020. He called on major LNG buyers around the world to demand that suppliers reduce their emissions, in part by "doing a better job of managing methane emissions."

Despite the price spike, suppliers remain convinced of LNG's role in Asia's transition, where displacing coal is a priority. Sellers noted that the LNG market was already structurally tight before the war and that the push for cleaner LNG supplies was already on before this year. Recent events have amplified these trends and made buyers and policymakers more nervous about LNG supply security. "Many buyers got complacent and thought the spot market was much deeper than it actually is," said Woodside Energy CEO Meg O'Neill. "Energy security is really extraordinarily important," O'Neill said. "But we can't be losing sight of the climate challenge. The climate challenge is one that is enduring and we need to make sure we are taking action on climate change while meeting the world's needs for energy supply." Producers said the industry is now facing the consequences of underinvestment in LNG supply and buyers' decisions to rely more on spot LNG when the pandemic cratered demand and caused spot prices to bottom in 2020. Indigenous gas production is declining for many Asian countries, heightening the need to secure more LNG.

Established Northeast Asian LNG buyers maintain they are not slowing their energy transition efforts, although more price-sensitive markets may turn to cheaper and dirtier fuels in the short term. Hee-Bong Chae, CEO of South Korean LNG wholesaler Korea Gas (Kogas), said his company has increased volumes from existing LNG contracts and signed short-term contracts. But it remains committed to the long-term goal of achieving carbon neutrality by 2050. "Kogas' strategy is to focus on liquefied hydrogen," he said. Kogas is looking to blend up to 20% hydrogen in its existing gas pipelines, with the goal of importing 28 million tons of hydrogen by 2050. Unlike Kogas, which is a pure gas company, Japanese power utility Jera said the firm is creating optionality rather than trying to predict the future energy mix, by investing in the LNG value chain, expanding renewables and developing the value chain for hydrogen and ammonia. Jera should be the first power utility to blend ammonia in an existing coal-fired power plant in Japan, a process due to be commercialized in 2027. Yukio Kani, Jera's managing executive officer, said his firm would still be able to commit to long-term LNG deals as long as LNG is decarbonized. Jera is now studying carbon capture in the US to evaluate the feasibility of producing synthetic methane as a tool for decarbonization. Kani added discussions are ongoing with fellow Japanese and other Asian buyers on joint LNG purchases.

What's New Around the World

GENERAL

FINANCE — The heads of one of the largest banks and one of the largest money management firms said capital needs to keep flowing to traditional energy companies if the world is going to have a smooth energy transition. Noel Quinn, CEO of banking behemoth HSBC, and Larry Fink, CEO of investment giant BlackRock, both said that steps taken by their organizations to account for greenhouse gas emissions and limit the financial risk of climate change do not preclude continued financial support for the oil and gas industry. "As the CEO of a PLC [public limited company], where there are lots of commentators saying you have to choose — walk away from brown, walk into green — I'm saying no. I'm not going to do that," Quinn said. "I'm going to actually finance that transition, that journey from where we are to where we want to be," he told an event hosted by the Future Investment Initiative Institute. Earlier this year, HSBC pledged to reduce its oil and gas-financed emissions by one-third by 2030 on the way to net-zero emissions by 2050. Fink said that "climate risk is investment risk" but that he has never told investors to pull their capital from fossil fuel companies, adding that "the energy transition will not be a straight line."

COUNTRIES

GERMANY — German Economy Minister Robert Habeck appeared to express support for the idea of capping the prices that buyers pay for Russian oil. Habeck's comments came as Hungary continues to block a proposed EU ban on oil imports from Russia following that country's invasion of Ukraine. US Treasury Janet Yellen said last month that instead of a ban, it might be "useful to try to devise a way to reduce [Russia's] proceeds" from exports of oil and gas. At a meeting of G7 finance ministers in Germany last week, she floated the idea of tariffs or price caps as a way to limit Russia's revenues from energy exports. Habeck appeared to support that idea at the World Economic Forum in Davos, Switzerland, on Monday. "There are some ideas," he said. "One would be that we agree that we don't pay any price." Habeck said the EU needs to move quickly to keep up the pressure on Moscow and must also show "more creativity, more flexibility." Furthermore, all EU member states — "including Hungary" — need to contribute to finding a solution, he added.

INDIA — Crude oil imports by the world's third largest oil consumer rose 13% in April from the previous month as refiners lapped up heavily discounted Russian barrels while also remaining firm on their commitments under term deals. India imported 5.1 million b/d of crude in April compared with 4.5 million b/d in March, oil ministry data and Energy Intelligence calculations showed. The International Energy Agency, in its latest *Oil Market Report,* noted that Indian buyers lifted about 770,000 b/d of Russian crude in April, compared with an annual average of less than 50,000 b/d in 2021. The jump in imports came despite domestic product consumption contracting by 1.2% in April on month to 5.3 million b/d and product exports falling 18% to 1.3 million b/d, the data showed. India cut taxes on diesel and gasoline Saturday, which should help support refined product demand now.

CHINA — China's imports of Saudi crude spiked by 561,000 b/d from March to 2.18 million b/d in April, the highest level in Energy Intelligence records dating back to January 2007. Volumes surged by an even higher 602,000 b/d from last April. Saudi official formula prices for March loading crude exports to Asia were announced in early February at levels that many in the market saw as reasonable. These levels came on the heels of three months of higher-than-expected formula prices for the medium and heavy crude that Chinese refiners prefer. More attractive prices likely prompted Chinese term buyers to ask for higher Saudi crude volumes for March loading cargoes, most of which would have arrived at Chinese ports in April. Term buyers typically send their requested volumes a day after formula prices are released, which would have been well before the Feb. 24 Russian invasion of Ukraine.

China's Major Crude Suppliers April 2021

('000 b/d)	Apr '22	Mar '22	Vol. Chg.	Apr '21	Vol. Chg.	Jan-Apr '22
Saudi Arabia	2,182	1,622	561	1,581	602	1,857
Russia	1,601	1,510	90	1,539	61	1,564
Iraq	999	1,119	-120	1,086	-87	1,151
Kuwait	887	581	306	656	231	758
UAE	756	761	-5	455	302	746
Oman	727	727	0	862	-136	915
Angola	679	669	11	763	-84	714
Brazil	595	484	111	684	-89	403
Kazakhstan	234	137	97	74	160	138
United States	183	155	28	227	-44	200
Others	1,670	2,334	-664	1,934	-263	1,990
Total	**10,514**	**10,099**	**415**	**9,861**	**653**	**10,438**

Energy Intelligence calculations of data from China's General Administration of Customs. Figures have been rounded.

RUSSIA — Russian oil giant Rosneft has been hit by an exodus of foreign directors and senior managers that will add to its problems as the US, the EU and other countries sanction Russia over President Vladimir Putin's war in Ukraine. The highest profile resignation is that of former German Chancellor Gerhard Schroder, who has stepped down as chairman of Rosneft's board of directors after long resisting public and political pressure in Germany to do so. Perhaps more disruptive, however, is the departure of several foreign managers at the vice presidential level. The vice presidents who have resigned are Didier Casimiro (Belgium), Zeljko Runje (Croatia), Eric Liron (France), Avril Conroy (Ireland) and Otabek Karimov (Uzbekistan). They had a wide range of responsibilities, including sales and finance (Casimiro), offshore business development (Runje), in-house oil-field services (Liron), retail and domestic market development (Conroy) and logistics (Karimov). State-controlled Rosneft — Russia's biggest oil producer — had actively recruited foreign executives and board members in recent years in support of its ambition to become one of the world's top oil companies.

RUSSIA — Equinor said it has exited all five of its upstream joint ventures in Russia in accordance with Norwegian and EU sanctions. The Norwegian company said on Wednesday that it had transferred its interest in four joint ventures to Russia's top oil producer Rosneft and has been "released from all future commitments and obligations." It said it has also signed an agreement to exit the Kharyaga production sharing agreement, which is operated by Zarubezhneft. In line with similar decisions by other Western majors, Equinor announced in February that it would withdraw from Russia after that country's invasion of Ukraine. In addition to exiting the joint ventures, Equinor said it had halted all new investment in Russia and stopped trading Russian oil and gas. The company also announced an impairment of $1.08 billion in connection with its exit from Russia. Equinor's net production in Russia amounted to just over 20,000 boe/d, or about 1% of the company's worldwide output.

UNITED STATES — Financial firms are on the defensive as Texas lawmakers assess whether or not to withhold state business from institutions "boycotting" oil and natural gas in their investment decisions. A majority of the 22 respondents who responded to a Texas Comptroller's inquiry into investment practices answered "no" to questions as to whether they boycott investing in oil and gas companies. The inquiry follows a state law passed last year that would prevent Texas pension funds from investing with firms that boycott the sector. The law is one of a growing number of legislative moves by oil-producing states to slow the retreat of fossil fuel financing and investing amid rising climate concerns. Major institutional investors and banks are under increasing pressure to align their portfolios with the goals of the Paris climate agreement. But many responders to the Comptroller's inquiry hope their actions won't tip the scales for Texas lawmakers. JPMorgan Chase Executive Vice President Stacey Friedman, for example, noted that the firm's credit exposure to oil and gas was $42.6 billion as of Dec. 31, despite restrictions around coal mining and new Arctic oil and gas development. Investment giant BlackRock detailed its participation in the Net-Zero Asset Managers Initiative, Climate Action 100+ and the Task Force for Climate-related Financial Disclosures, but stressed that it does not retain sector-specific investment policies.

Marketview

Refiners on the Storm

The global market for refined fuels is already on wobbly legs, and the approach of the Atlantic hurricane season could deal it another body blow.

In an environment of thin inventories, strained refinery capacity and the outage of millions of barrels per day of Russian products, there is little to no slack in the system to offset storm-related downstream disruptions.

Last year, Hurricane Ida hit the Louisiana area in the US Gulf Coast and shuttered at its peak 2.1 million b/d of refining capacity, robbing the market of an estimated 30 million barrels of fuels. And this year looks like a seventh-straight period of higher-than-usual storm activity. Analysts with the US National Oceanic and Atmospheric Administration forecast 14-21 named storms, of which as many as 10 may be hurricanes, in the Atlantic over the next several months with a high degree of confidence.

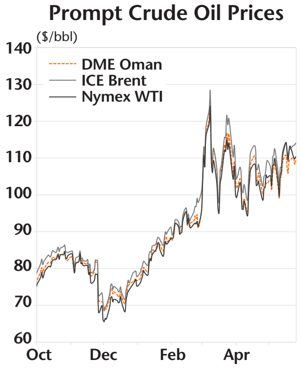
But the market this year cannot absorb or afford a loss of 30 million bbl, nor the outage of a US refinery.

The US downstream has become the marginal supplier of fuels in the aftermath of Russia's invasion of Ukraine. It has exported some of 9.4 million b/d of crude and refined products since the Feb. 24 invasion, an all-time high comprised of roughly two-thirds products and one-third crude. That is up some 2.1 million b/d from prewar levels.

The bulk of these exports consist of fuels loaded and often produced on the US Gulf Coast. Hurricanes can disrupt those shipments in two ways — closing ports and waterways and/or closing and possibly damaging refineries. The result will be a further tightening of fuel supply. Areas short products and refining capacity will engage in even fiercer competition for available fuels, resulting in even higher prices for consumers.

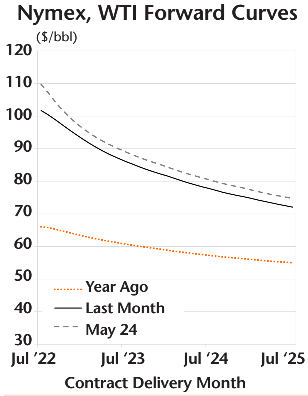
In the event of a storm-related downstream outage, refiners elsewhere cannot do much to offset lost supplies. Refining capacity in North America is over 1 million b/d lower than it was prior to the Covid-19 pandemic. Energy transition pressures and pandemic demand effects prompted older, less economical facilities to shut down or be converted to renewable fuels sites. Ida so damaged Phillips 66's Alliance refinery that it is being turned into a terminal.

Prompt Crude Oil Prices



Source: Nymex, ICE, DME

Nymex, WTI Forward Curves



The US downstream is already operating at high utilization, spurred by huge margins. Nationwide throughputs are 93.2% of capacity per government data, the highest reading since late December 2019.

Meanwhile, the refined products market is already painfully tight. US stocks of gasoline and diesel are roughly 5.5% and 17.2% below 2021 levels, per government data, while Energy Intelligence estimates global inventories of refined fuels are down some 200 million bbl from the same time in 2021.

The low readings reflect several confluent factors: the pandemic put downstream utilization under significant pressure in 2020 and for parts of 2021, keeping stocks from building; stimulus payments and lifting of lockdown protocols helped boost demand last year; and sanctions placed on Russia after its invasion of Ukraine have rendered millions of barrels per day of crude and products unavailable to a significant swath of the globe.

Former Hovensa Refinery Eyes 2023 Restart

The former Hovensa refinery in the US Virgin Islands is preparing to restart operations in early 2023 under new management after the bankrupt facility was acquired at a steep discount.

Several equity owners of West Indies Petroleum and Excel USA bought the refinery for $62 million in January. They plan to restart it in a simple configuration with production capacity of 180,000 b/d. The Port Hamilton refinery's profits are expected to remain elevated after some 4 million b/d of global refinery capacity was shut in during the pandemic, which caught the product market short as demand recovered from the initial impact of the Covid-19 pandemic. Sanctions on Russian petroleum exports after its February invasion of Ukraine have since pushed product prices to record highs.

PIW Market Indicators

($/barrel)	May 23- May 25	May 16- May 20	Apr 25- Apr 29
Spot Crude			
Opec Basket	$115.46	$114.41	$104.70
UK Brent (Dtd.)	115.88	113.03	104.07
US WTI (Cushing)	111.78	112.17	102.85
Nigeria Bonny Lt.	121.89	114.95	104.58
Dubai Fateh	108.83	108.53	102.09
US Mars	106.08	108.54	102.56
Russia Urals (NWE)	80.79	77.93	67.98
Crude Futures			
Brent 1st (ICE)	113.67	111.97	105.91
Brent 2nd (ICE)	110.86	109.74	105.22
B-wave (ICE)	113.63	111.69	105.15
WTI 1st (Nymex)	110.13	112.33	102.46
WTI 2nd (Nymex)	107.50	109.73	101.03
Oman 1st (DME)	109.01	108.71	102.12
Oman 2nd (DME)	106.83	106.32	101.96
Murban 1st (ICE)	111.04	110.48	105.23
Murban 2nd (ICE)	109.47	108.50	104.44
Forward Spreads			
Brent (1st-Dtd.)	-$2.21	-$1.05	+$1.84
Brent (2nd-1st)	-2.81	-2.23	-0.69
WTI (2nd-1st)	-2.63	-2.59	-1.43
WTI (3rd-2nd)	-2.80	-2.99	-1.62
Oman (2nd-1st)	-2.18	-2.40	-0.16
Oman (3rd-2nd)	-2.96	-2.77	-1.54
Murban (2nd-1st)	-1.57	-1.98	-0.80
Murban (3rd-2nd)	-2.79	-2.81	-1.88
Grade Differentials			
WTI-Brent (1st)	-$3.54	-$2.24	-$3.45
WTI-LLS	-0.33	-1.82	-1.89
WTI-Mars	+5.70	+3.63	+0.29
Brent(Dtd)-Dubai	+7.05	+4.50	+1.98
Brent(Dtd.)-Urals	+35.09	+35.10	+36.09
Brent(Dtd.)-Bonny Lt.	-6.01	-1.92	-0.51
Term Crude Formulas			
Arab Lt.-US (c.i.f.)	$113.21	$115.67	$107.49
Arab Lt.-Europe (Med)	118.53	116.59	107.05
Arab Lt.-Far East (f.o.b.)	118.85	118.22	107.10
Nigeria Bonny Lt.	117.82	114.97	106.09
Arab Light Gross Product Worth			
Rotterdam	$125.47	$124.24	$127.60
US Gulf Coast	135.88	134.67	138.42
Singapore	120.80	120.28	118.39
Gross Product Worth & Margins			
Rotterdam			
UK Brent GPW	$133.76	$132.24	$124.07
UK Brent Margin	+16.29	+18.27	+18.96
US Gulf Coast			
Mars GPW	131.33	130.19	130.41
Mars Margin	+25.14	+21.56	+27.75
Singapore			
Oman GPW	121.22	120.38	120.27
Oman Margin	+10.54	+10.61	+17.27
US Nymex			
WTI 3-2-1 Crack	+$49.93	+$48.99	+$57.62
Refined Products			
Rotterdam ($/ton)			
Eurobob Gasoline	$1254.37	$1242.36	$1069.56
Gasoil (0.1%)	1114.25	1081.10	1188.10
Fuel Oil (0.5%)*	779.67	790.75	768.40
US Gulf Coast (¢/gal)			
RBOB Gasoline	372.97¢	374.92¢	333.27¢
ULS Diesel	371.63	363.99	474.01
Fuel Oil (0.5%, $/ton)	$880.33	$871.40	$822.80
Singapore ($/bbl)			
Naphtha	$96.82	$98.81	$95.83
Gasoil (0.05%)	139.78	138.17	142.91
Fuel Oil (0.5%, $/ton)	974.00	922.80	831.60

*ARA fuel oil prices for 1% sulfur fuel oil (LSFO) have been discontinued as the market becomes increasingly illiquid. The new 0.5% sulfur fuel oil (VLSFO) specs reflect the transition to new emissions standards set by the International Maritime Organization effective Jan. 1 2020. Latest week's data are preliminary. For GPW and margin calculations, see Refining Profitability Methodologies on the Energy Intelligence website in Reference Tools Publication Methodologies. Spot prices from Thomson Reuters. Opec basket source, Opecna. 3-2-1 crack spread for 3 parts crude, 2 parts gasoline, and 1 part heating oil. PIW Numerical Datasource subscribers can download all indicators in Excel worksheets.