

## MNI Commodity Analysis: Russian Crude Flows Defy Sanctions but Products Unwinding

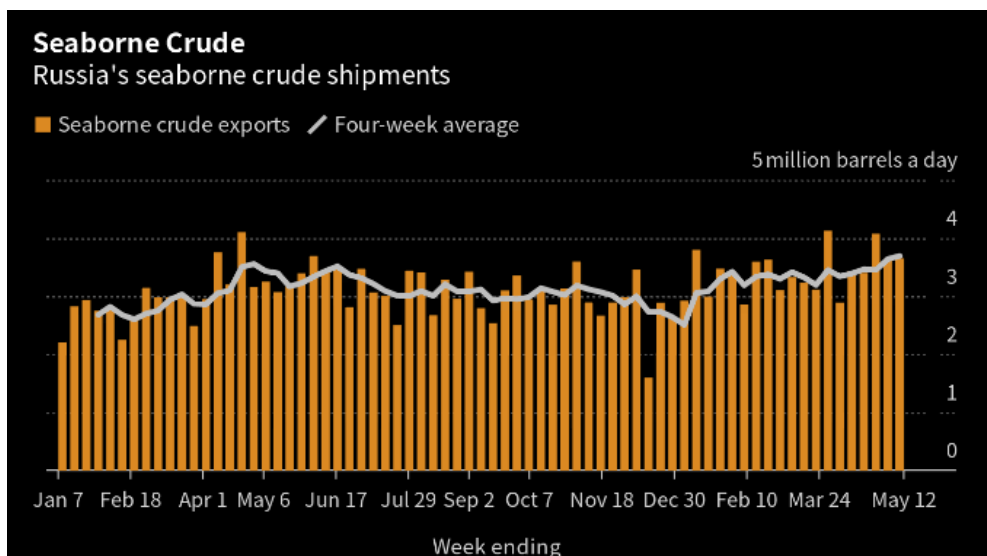
### Executive Summary:

- **Russian crude exports** are leaving at a record pace in May countering Kremlin claims of 500,000 bpd crude cuts – with almost all volumes heading to India and China.
- **Russian oil product flows** are struggling to maintain pace this month, though diesel exports have found strength heading towards Brazil and Africa with discounted barrels displacing regular suppliers.
- **Higher domestic refinery maintenance** in Russia is pushing greater crude volumes onto the market, while it should also shore up oil product exports further in May.
- **G7 and EU leaders** have been in discussions to tighten restrictions on Russian oil flows by targeting third countries re-exporting them but their outreach and motivation looks limited.

### Russian Crude Exports Sustain Record Pace

Russian crude oil exports are sustaining a strong pace in May despite Russia’s claims that it has slashed its production levels.

- In the latest four-week period, Russian crude exports edged higher to 3.61mn bpd - a record pace on a four-week average basis according to Bloomberg vessel tracking. It is above the previous high of 3.55 million bpd in the four weeks to May 5.
- Crude flows are now up by 10% since the first week of April.
- At the start of April, Russian Deputy Prime Minister Alexander Novak said that Russia would extend its 500,000 bpd oil production cut until the end of the year. Russia warned in February that it would cut its crude oil production due to EU import bans and price caps on its crude oil and oil products.
- Russian oil has flooded towards India and China. Russian oil into India has surpassed that of the Middle East in April – previously its largest crude supplying region.



Source: Bloomberg

## IEA See's Russian Crude Production Above Claimed Levels

The IEA placed Russian crude output broadly steady in April at 9.6mn bpd as exports held up in its latest monthly report out Tuesday 16<sup>th</sup> of May. It said Russia needs to cut a further 300,000 bpd in May to bring itself into line with the announced 500,000 bpd production cut.

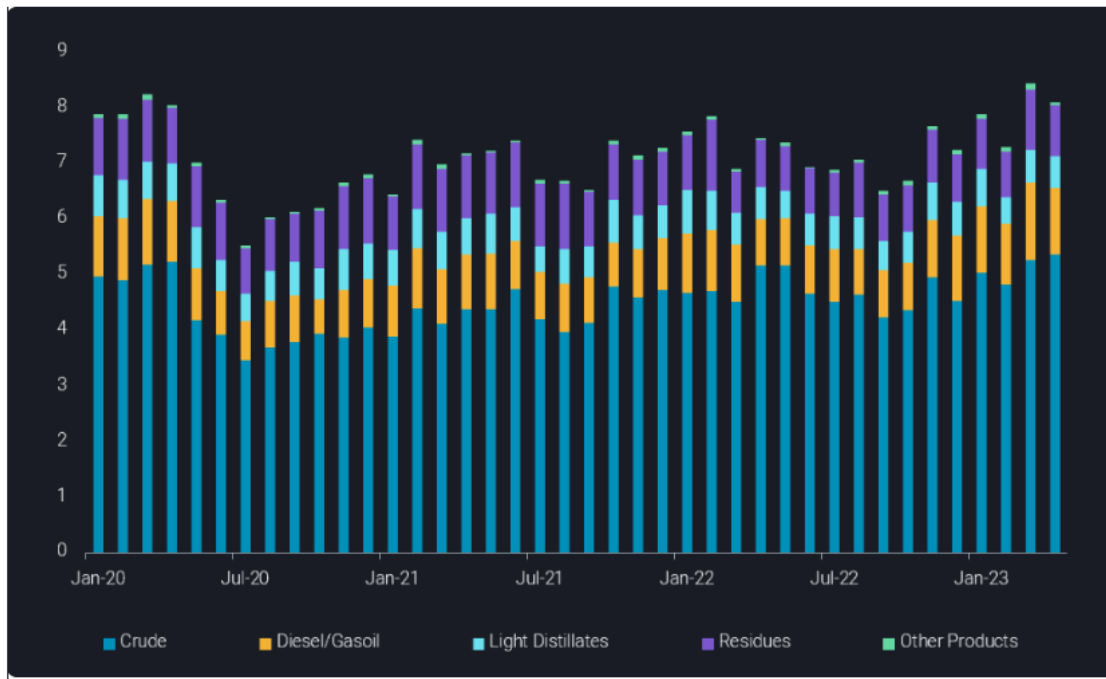
- The IEA said Russian exports of crude and refined oil products edged up in April to a post-invasion high of 8.3mn bpd. Shipments of crude oil increased by 250,000 bpd m/m, offsetting a decline in product exports of 200,000 bpd m/m.
- Russia's crude production in April was about 9.6 mn bpd, the IEA said. That's only 200,000 barrels below the February baseline for the cuts, according to the agency.
- "By our estimates, Moscow did not deliver its announced 500,000 barrel-a-day supply cut in full," the Paris-based IEA said. "Indeed, Russia may be boosting volumes to make up for lost revenue."
- Russia has made attempts to rebuff reports about its record high exports. Novak released a statement at the start of the month in which he said - "Taking into account the unfounded speculation in the press regarding oil production levels, Russia reaffirms its full commitment to and implementation of voluntary oil production cut levels."
- The crude price premium generated in early April by the surprise OPEC+ voluntary production cuts along with Russia's claim of cuts till the year end has now eroded, falling on global demand concerns as well as the mounting data showing Russia is keeping the market well supplied.

## Vortexa Vessel Tracking Shows Higher Crude Oil Exports but Oil Products Slipping

Vortexa placed Russian crude exports at 5.3mn bpd in April - a 100,000 bpd m/m increase versus March levels but overall petroleum exports from the country slipped on weaker oil product exports (see chart below).

- Russian oil products are proving far harder to place than Russian oil – a situation widely expected by the market. Diesel/gasoil flows have stood up surprisingly well however, finding new markets in Africa and Latin America.
- Higher expected refinery maintenance in Russia and greater levels of domestic demand are expected to result in reduced diesel exports from May.
- Reuters calculated that Russia's seaborne oil product exports fell in April by 5% m/m on a daily basis. Volumes decreased to 11.383 million tonnes in April – from 12.374 million tonnes in March.
- Repsol's CEO Josu Jon Imaz said Russian fuel is still being imported by Spain and elsewhere in Europe via North Africa and Turkey. The Spanish government is investigating the reports, but they claim initial findings show all fuel import documentation is in order.
- The levels of Russian product maintaining their way into Europe post Feb-5 ban is a key factor weighing on refined product margins in Europe Imaz added.
- Russian fuel oil is headed to China at a record pace in May - it is set to sell over 350,000 barrels as Chinese refiners stock up on discounted barrels of the low value feedstock to fuel its economic rebound. The flows have boosted significantly since the European Feb 5 import ban stopped them heading to Europe.

**Russian Oil Exports by Product (mbd) (Crude & Oil Products)**

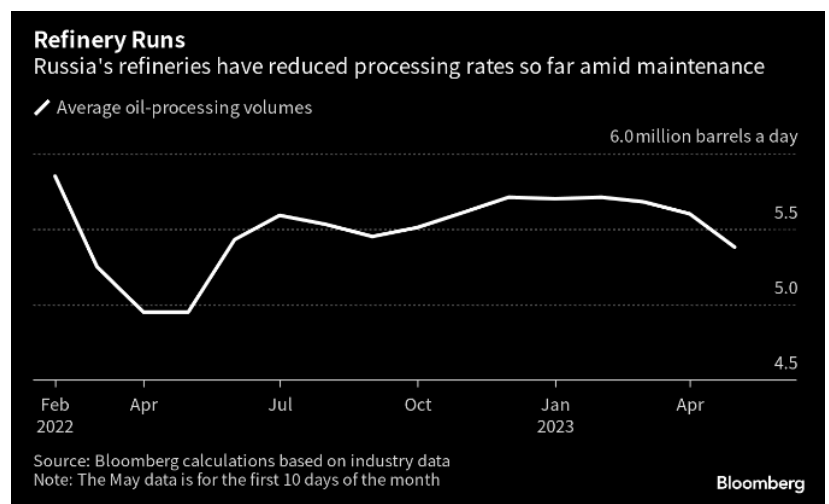


Source: Vortexa

**Russian Refinery Runs**

Russian refineries cut processing rates further in May because of seasonal maintenance – reducing domestic demand for crude and pushing higher crude flows onto global markets.

- Primary oil-processing rates averaged 5.38 million barrels a day from May 1-10 according to Bloomberg sources – 220,000 bpd lower than April and almost 300,000 bpd below March’s level.
- Lower domestic Russian refining is also expected to result in a further reduction in refined product exports in May – particularly for diesel.



Source: Bloomberg

## Further Sanctions

G7 and EU officials have stated their intent this week and last to try and close loopholes allowing Russia to ship oil and oil products whilst evading sanctions.

- It is not yet clear how any measures would work or if they will materialize but they look aimed at third party countries re-exporting Russian oil and products or targeting the ships/shipping companies responsible for moving it.
- The EU's chief diplomat Josep Borrell said in an interview with the FT this week that Europe was aware Russian oil was being refined by India and then sent to Europe as refined fuels, saying he would bring it up with India's foreign minister, S Jaishankar but little in the way of concrete action.
- In response to the interview, Spain's Energy Minister Ribera has said there is little Europe can do to police Indian oil product exports and their origin.
- Much like sanctions on Iranian or Venezuelan barrels, it becomes very difficult to sanction the refined products from Russian oil with little outcome from that avenue expected.
- EU and G7 officials are trying to tread a careful line of aiming to appear strict towards Russian sanctions while also ensuring global oil and oil product markets are well supplied to battle ongoing inflationary pressures in their domestic markets. There has been no mention for example of changing the price caps on Russian oil and oil products despite numerous calls to make them harsher.
- G7 are set to meet May 19-21 and closing Russian energy sanction loopholes will form part of the discussions.