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Crash in Oil Prices Deals Blow to Sanctions-Hit Russian Economy

By The Moscow Times

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Global oil prices have been falling despite the conflict in Ukraine and violence in Iraq.

Russian Urals crude weakened for an eight straight trading day on Monday due to weak European refining demand, falling well below $100 a barrel for the first time in a year in a move to increase the pain for Russian state finances amid Western sanctions.

Russia has balanced its budget at $114 a barrel this year as President Vladimir Putin is ramping up social military spending amid a conflict in Ukraine, which sent relations between Moscow and the West to their worst since the end of the Cold War.

Sanctions are expected to slow new Russian oil projects, compounding a decline in output in the last months from the world's largest producer.

Global oil prices have been falling despite the conflict in Ukraine and violence in Iraq due to poor demand from the weak global economy and booming U.S. oil supplies.

"The geopolitical premium has fallen close to zero," said analysts from Nordea bank.

Analysts said declining oil prices would heavily weigh on the Russian stock market and the ruble, which is already trading near its all-time lows. Russia's $2 trillion economy depends on energy-related taxes for half its budget revenues.

On Monday, Urals crude in the Baltic traded at below $98 a barrel, its lowest since May 2013, the last time Urals traded under $100 per barrel for a prolonged period of time.

In the Mediterranean crude market, where oil supplies are slightly than in the Baltic, Urals was trading at below $99 a barrel.

The pressure on Urals will likely increase as preliminary September loading dates showed healthy supply levels.

In more bearish news, oil firm Surgut tendered to sell four early September cargoes in the Baltic and Rosneft also tendered to sell 0.3 million tons from the Baltic and 0.22 million tons from the Mediterranean.

Results are due later this week.

In the Platts window, Total bought a 80,000-ton Urals cargo from Vitol in the Mediterranean at dated Brent minus 70 cents a barrel, some 35 cents weaker than previous price estimates, traders said.

BP offered a larger Suezmax at dated Brent minus $1.00 per barrel, some 45 cents weaker than previous price estimates but found no buyers.

LUKoil sold a cargo of CPC Blend to Eni at dated Brent minus 75 cents, some 20 cents weaker than previous price estimates, traders said.

In the paper market, Urals was expected to weaken in September to dated Brent minus $1.15 a barrel while in the Baltic it was expected to stay at the current levels of dated Brent minus $2.

See also:

[Oil Giant Rosneft Requests Massive State Support to Withstand Sanctions]