

## Oil In, Not Over, Troubled Waters

"Well, everyone can master a grief but he that has it" - **Shakespeare**, *"Much Ado About Nothing"*

- **Ukraine's attack on Russian Oil facilities** have understandably *induced bullish crude oil triggers*, and is likely to tip tendencies to the upside.
- In the grander scheme of things though, the **absolute impact appears currently subdued**.
- Imaginably as **markets de-sensitized to conflict headlines look for more proximate, quantifiable and enduring drivers** for crude oil and wider energy market.
- But predictability and clarity remain in woefully short supply as received wisdom on relative Russia-Ukraine capabilities and terms/territories of engagement are challenged.
- The **take-away** may be that for now, and *at the expense of evolving demand conditions*, **oil markets are defined by hard-to-predict and even harder-to-price conflict premium**.
- Whereas, **demand-supply drivers, which otherwise justifiably suggest that oil's pricing is a tad too rich**, take the **backseat for now**. Mainly as **sudden and sharp (conflict) premium** imposed by *conflict-driven supply risks subordinate opposing demand cues*.
- *Trouble though is*, this **ability of conflict risks to overwhelm demand is on borrowed time**. What's more, it could, and is very **likely to, dissipate with very little warning**.
- *Inevitably*, this means **oil markets up for elevated latent volatility like a wound up spring** if, and when, **(downside) demand risks suddenly overtake down the road**.
- And the resultant pullback in oil at which point may be especially sharp as **supply risks are dominated by conflict, not dictated by OPEC**.
- **Especially as record US crude production, diminishing OPEC's (currently overstated) stand-alone ability to support oil cuts**.
- And even more so as demand outlook is more consistent with a moderation in growth.
- But for now simply festering while oil remains in an elevated range (\$75-\$95); albeit poised for sudden disruptions.
- Despite demand-dampening risks from a less dovish Fed, **markets may be upside risks to oil may be more sensitized to upside risks given "conflict premium" in coming weeks**.
- Meanwhile, **scope for upside in Oil will be gauged** from identifiable *impact on production, storage and passage of Russian Oil*.
- Initially, **stepped up Russian vigilance could check the tail risks of spikes above \$100** on extreme disruptions.
- *But regardless*, the **compromised reliability of Russian supply** could compel **more buyers looking for hedges**.
- Consequently, this *raises the floor on prices* for the time being, which *squares with increased sensitivity to interim upside risks*.

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