OIL ANALYST

Risks From New Russia Sanctions: Escalate to De-Escalate?

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- Brent/WTI oil prices rallied 5% on Thursday (October 23) to $66/62 after the US Administration announced sanctions on Russia's two largest oil producers; Rosneft and Lukoil. We estimate that the two producers have together exported 3.0mb/d of oil year-to-date (YTD) or 45% of Russia's exports, with the majority being crude oil (2.2mb/d).
- As we wait for more details/data on sanctions policy (e.g. exemptions, timelines), next week's US-China meeting, and actual changes in purchases of Russian oil, we note that the announcement implies additional upside risk to our unchanged base case oil price forecast that Brent/WTI prices decline to 2026 averages of $56/52, with even lower Russia supply the main upside risk.
- That said, we have kept our supply-demand balance and oil price forecast for three reasons:
  - Our base case already assumes that Russia liquids production falls by 0.6mb/d in 2026 relative to its 2024 average.
  - The potential hit to global oil imports from new sanctions is likely to be smaller than the 3.0mb/d of YTD Rosneft-Lukoil YTD exports because of potential 1) exemptions for importers via licenses, 2) ongoing purchases of (discounted) Russian barrels, 3) reorganization of trade networks, and 4) higher core OPEC production.
  - The potential reduction in purchases of Russian oil may be temporary if progress towards a peace process to end the war in Ukraine were to be made and/or if energy affordability were to rank higher on Western policymakers' priority list.
- In a scenario where Russia supply falls by 1.5mb/d for two quarters before partially recovering, we estimate that Brent could rise to:
  - a peak of nearly $85 before moderating to a 2026 average of $73 ($17 above our baseline) in a scenario where core OPEC production is in line with our base case;
  - a peak just above $70 before moderating to a 2026 average of $63 ($7 above our baseline) in a scenario where core OPEC gradually offsets the loss in Russia supply.
- Crude markets have sharply repriced the risk of Russia disruptions, with the

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crude move consistent with an estimated nearly 60pp increase in the chance of a large 1.5mb/d net disruption.

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Risks From New Russia Sanctions: Escalate to De-Escalate?

Brent/WTI oil prices rallied 5% on Thursday (October 23) to $66/62 after the US Administration announced sanctions on Russia's two largest oil producers.[1] We analyze the downside risk to Russia supply, the additional upside risk from new sanctions to our unchanged $56/52 Brent/WTI 2026 average price forecast, and market pricing.

Sizing Sanctioned Supply

Q1. What do new US sanctions on Russian oil producers entail? And how much oil do the sanctioned Russian producers export and produce?

On Wednesday October 22, the US imposed further sanctions on Russia's two largest oil companies; Rosneft and Lukoil.[2] The potential implications of sanctions include the blocking of assets of both Russian oil companies, the prohibition of transactions between US companies and Rosneft/Lukoil, penalties, and secondary sanctions on financial institutions transacting with Rosneft/Lukoil.

Exports

We estimate combined Rosneft and Lukoil year-to-date (YTD) exports of:

- 3.0mb/d for oil (i.e. crude oil and refined products combined), or 45% of Russia total crude and products exports, including 1.7mb/d from Rosneft seaborne exports, 0.8mb/d from Lukoil seaborne exports, and 0.5mb/d for oil via pipelines.
- 2.2mb/d for crude oil and 0.8mb/d of refined products with the largest contributions from diesel.

As a result of the new sanctions, the 2025 YTD volume of total liquids exports that are now subject to sanctions has increased from 0.6mb/d (YTD) to 3.6mb/d (YTD).

By destination, combined Rosneft and Lukoil year-to-date (YTD) estimated exports stand at 0.7mb/d for China, 1.2mb/d for India, 0.4mb/d for Turkey, and 0.8mb/d for other importers.

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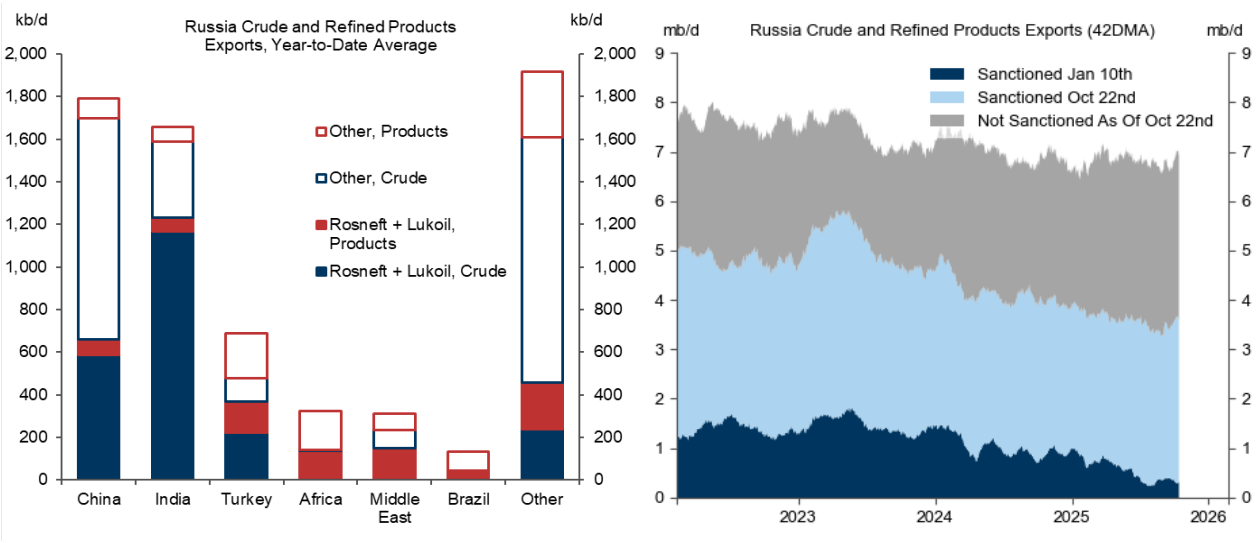
[1] European diesel prices rose just over 7%.

[2] Russia-based subsidiaries owned 50% or more by Rosneft and Lukoil are also in scope.

Exhibit 1: Rosneft and Lukoil Combined Oil Exports of 3.0mb/d YTD Account for Nearly 45% of Total Russia Crude and Products Exports Jointly and for 70% of Russia Oil Exports to India



Source: Kpler, PetroLogistics, Goldman Sachs Global Investment Research

Production

While highly uncertain, we estimate that Rosneft and Lukoil have produced total liquids (i.e. crude+condensate) of roughly 4.6mb/d YTD.[3]

Maintaining Our Base Case

As we wait for more details/data on sanctions policy (e.g. exemptions, timelines), next week's US-China meeting, and actual changes in purchases of Russian oil, we note that the announcement implies additional upside risk to our unchanged base case oil price forecast.

Q2. Why have you maintained your supply-demand balance (with a 2025Q4-2026 2.0mb/d average global surplus) and your base case forecast that Brent/WTI prices decline to averages of $56/52 in 2026?

We have maintained our supply-demand balance and oil price forecast for three reasons:

#1: Russia Supply Already Declines In Our Base Case

First, our base case already assumes that Russia liquids production falls to 10.0mb/d in 2026, or 0.6mb/d lower on an annual average basis than in 2024 (Exhibit 2, dotted blue line).

[3] We use 2022 estimates of by-company Russia production from Oxford Energy Institute and use our Russia production nowcast to rescale these 2022 estimates to 2025 YTD, assuming the same growth rate in Rosneft and Lukoil production as in total Russia production.

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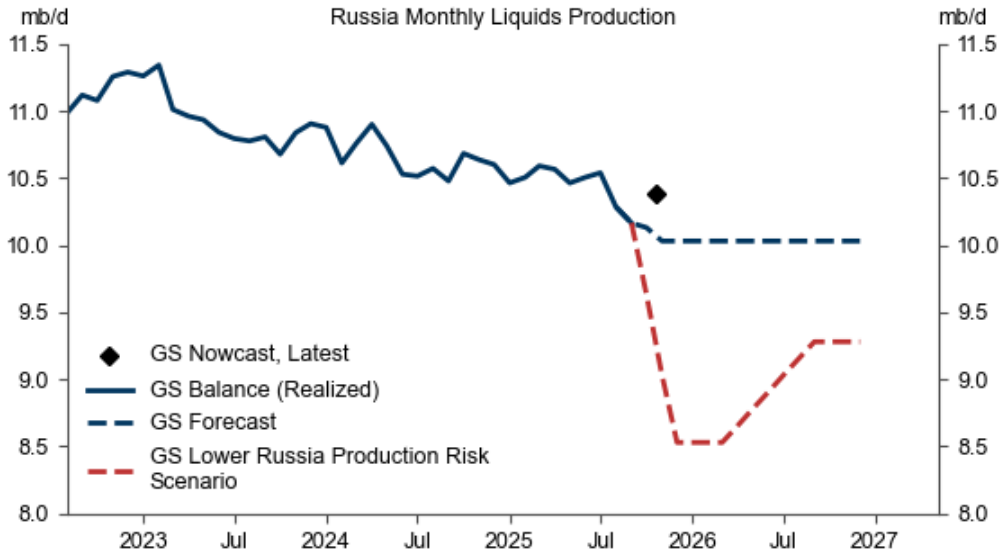
Exhibit 2: Our Base Case Already Assumes That Russia Liquids Production Falls to 10.0mb/d in 2026, or 0.6mbd Lower Than in 2024 on an Annual Average Basis



Source: Goldman Sachs Global Investment Research

#2: Factors That May Limit the Hit to Global Oil Imports

Second, the potential hit to global oil imports from new sanctions is likely to be smaller than the 3.0mb/d of YTD Rosneft-Lukoil exports because of potential:

- **Exemptions for importers via licenses.** Certain importers of Russian oil (e.g. large Asian refineries who also buy oil from the US) may be assigned licenses allowing to (temporarily) maintain purchases of targeted Russian oil. The impact on related entities outside Russia such as Litasco (Lukoil's trading company) also remains unclear.
- **Ongoing purchases of (discounted) Russian barrels.** Certain importers of Russian oil not being issued a license may still continue to buy Rosneft-Lukoil oil perhaps if the discounts were to exceed the perceived expected cost from sanctions. The perceived cost of sanctions tends to rise with the degree of enforcement of potential secondary sanctions, and it is not yet clear how strictly the US will enforce these actions via secondary sanctions. Moreover, as has been the case with Russian exports to Europe, Russian exports via pipelines may also be more resilient than seaborne Russia exports because pipeline imports may be harder to replace, and because sanctions may be harder to enforce. That said, press reports and some oil market price fingerprints (e.g. the strengthening in the price of Dubai vs. Brent oil) suggest some Asian buyers (e.g. India refiners) are shifting/planning to (partly) shift their purchases away from Russia (at least in the short term).
- **Reorganization of trade networks.** After the Biden Administration sanctioned Russia's 3rd and 4th largest oil producers—Gazprom Neft and Surgutneftegaz—in January, crude exports of both firms declined substantially, consistent with a reorganization of trade networks (Exhibit 3, left panel). The producers may have switched part of their supply to domestic refineries or relied on different

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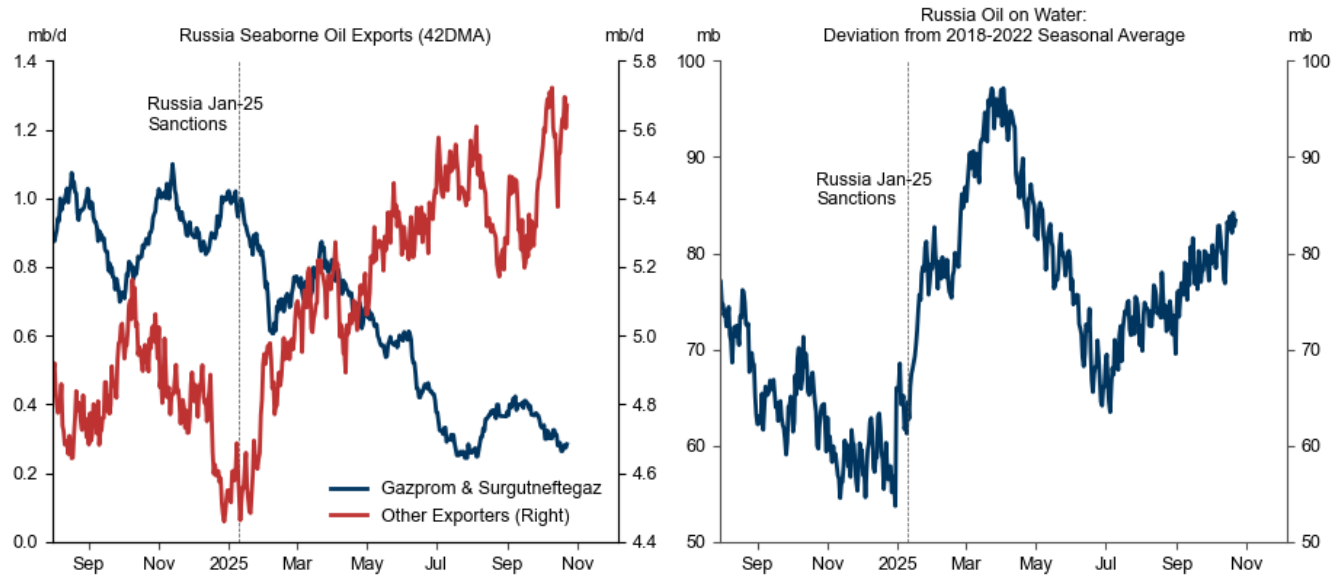
trading/shipping firms. Using GS Top Projects' Rosneft and Lukoil field-level production estimates and a stylized classification of the six producing regions, we estimate that about 70% of combined Rosneft and Lukoil crude volumes are produced in regions with some domestic and export outlets (Exhibit 6).

- **Higher core OPEC production.** Both OPEC's track record to stabilize markets and Kuwait's Oil Minister reportedly saying that OPEC is ready to increase production if necessary suggest that OPEC would likely raise production more than in the absence of Russia supply disruptions. While the uncertainty around global spare capacity estimates is high, we assume that OPEC accounts for nearly all the effective near-term global spare crude production capacity of approximately 3.0mb/d.[4]

Exhibit 3: A Decrease in Oil Exports From Gazprom and Surgutneftegaz Was Offset by An Increase in Other Russia Producers' Exports Following the January 10th Sanctions



Source: Kpler, Goldman Sachs Global Investment Research

In turn, the drop in Russian crude production may be smaller than the drop in global imports of Russian oil if Russia were to be able to store oil domestically (where storage capacity is likely limited) or more realistically on water. The nearly 50mb increase in Russian oil on water in January-March 2025 (Exhibit 3, right panel) after the Biden Administration imposed sanctions on Russian oil and the limited marginal costs of storage suggest that Russian oil on water may rise very significantly, perhaps until Asian demand (including for strategic stockpiling) recovers.

#3: Russian Oil Purchases May Eventually Recover

Third, the potential reduction in purchases of Russian oil may be temporary if progress towards a peace process to end the war in Ukraine were to be made and/or if energy affordability were to rank higher on Western policymakers' priority list.

In that context, we previously estimated President Trump's inferred preference for WTI oil around $40-50/bbl by analyzing his social media posts and also note that

[4] Our estimates of effective spare capacity take into account reported estimates from National Oil Companies, IEA estimates of full production capacity, and historical peak production.

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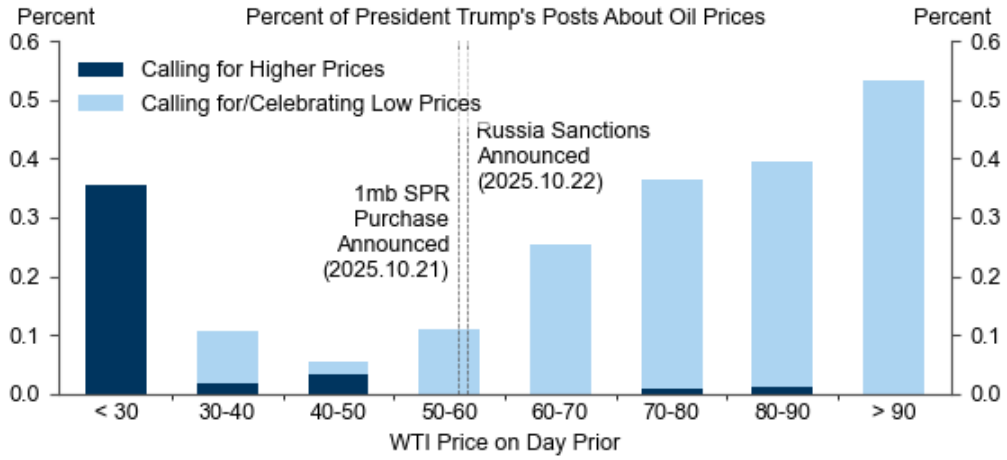
affordability issues are likely to be relevant in the US 2026 midterms.[5]

Exhibit 4: President Trump's Inferred Preference for WTI Oil Prices Appears to Be Around $40-50/bbl, Where His Propensity to Post About Oil Prices Bottoms



The sample includes President Trump's 240 posts from X and Truth Social about oil prices from May 2009 to January 8th 2021 on X and from Truth Social from January 1st 2021 to the present. Overall, Trump posted 883 times about energy on the two platforms which is just over 1% of all his posts.

Source: Goldman Sachs Global Investment Research

Sizing the Upside Risk to Our Price Forecast

Q3. What are the risks to your price forecast?

The announcement strengthens our view that the risks to our oil price forecast are two-sided but skewed to the upside on net, with even lower Russia supply the main upside risk.

We next consider two scenarios where:

- Russia supply falls by 1.5mb/d for two quarters before gradually recovering by 0.75mb/d
- A rise in Russian oil on water reduces the OECD commercial share in global inventory builds to 1/6 for three months (vs. 1/3 in our base case).

In the first scenario where core OPEC production is in line with our base case, we estimate that Brent could rise to a peak of $85 before moderating to 2026 averages of $73 for Brent and of $69 for WTI ($17 above our baseline).[6]

In the second scenario where core OPEC gradually offsets the loss in Russia supply by raising production by 1.5mb/d more than in our base case, we estimate that Brent could rise to a peak just above $70 before moderating to 2026 averages for Brent of $63 and for WTI of $59 ($7 above our baseline).

[5] We think that the risks to our social media posts-based $40-50 estimate of the Administration's "preferred oil price" are skewed modestly higher based on our $51/bbl estimate of the WTI average US shale producer breakeven price, and the Administration's goal to expand US energy dominance.

[6] Our base case assumes that OPEC8+ will leverage its flexibility to pause production increases from January 2026 after a final 0.14mb/d quota increase in December 2025 under our assumption that OECD commercial stocks build significantly in October-November.

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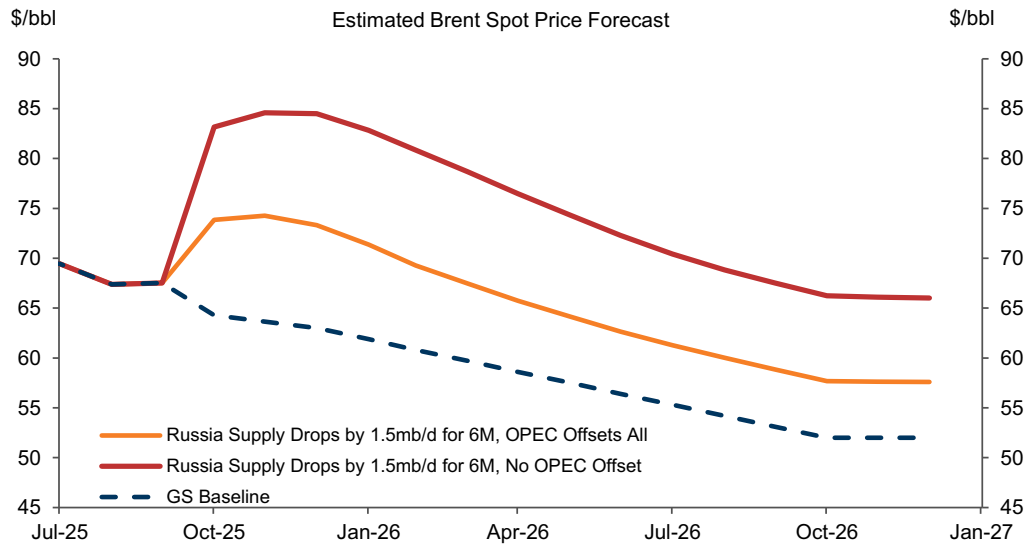
Exhibit 5: We See Brent Prices Averaging at $73/bbl Next Year — $17/bbl Above Our Baseline — If Russia Supply Drops by 1.5mb/d for 6 Months and OPEC Does Not Offset the Decline



We assume Russia production declines by 1.5mb/d for 6 months and then recovers 1/2 of the drop. We assume a temporary increase in oil on water flows that would bring the OECD commercial share in global stock builds down to 1/6 for 3 months. We assume that risk premium increases by $5/bbl if OPEC offsets the decline in Russia production and by $12/bbl if OPEC does not offset.

Source: Goldman Sachs Global Investment Research

Market Pricing

Q4. What risk is the market pricing?

Crude markets have sharply repriced the risk of Russia disruptions, with Thursday's crude move consistent with an estimated nearly 60pp increase in the chance of a large 1.5mb/d net disruption over the next 6 months.[7]

[7] We use our rule of thumb that a 1mb/d tigthening shock over 1 year raises oil prices by $8/bbl and the $3½ rise in Brent on Thursday.

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Appendix Chart

Exhibit 6: We Estimate That About 70% of Combined Rosneft and Lukoil Crude Volumes Are Produced in Regions With Some Domestic and Export Outlets

Region	Estimated 2022 Crude Production By Rosneft & Lukoil (kb/d)	Stylized Classification of Primary Destination Market
Western Sibera	1,719	Domestic & Export
Eastern Siberia	1,647	Domestic & Export
Southern Federal District	275	Export
Northwestern Federal District	253	Domestic & Export
Far East	120	Export
Other / International	906	Export
Total	4,920	

Source: Global Energy Monitor, Goldman Sachs Global Investment Research

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