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MONDAY MORNING QUARTERBACK
ENERGY MARKETS CEO BRIEFING NOTE

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Sanctions to Move Freight and Differentials in 2026 — Not Prices!

For much of the past year, the oil market has been repeatedly warned that sanctions on Russia, Iran, and Venezuela would eventually bite — that enforcement would tighten, barrels would disappear, and prices would respond. Yet as 2026 unfolds, the evidence points decisively in another direction. Sanctions are not lifting benchmark prices. They are lifting freight rates, distorting differentials, and reshaping trade routes — while leaving global supply broadly intact.

By Sean Evers, Managing Partner, Gulf Intelligence

This is no longer a market waiting for sanctions to "work." It is a market that has already adapted to them. The result is a structural shift in how geopolitical risk is expressed. Instead of driving Brent sharply higher, sanctions now manifest in tanker utilization, blending hubs, floating storage, time spreads, and regional price dislocations. Flat prices remain stubbornly range-bound, while the plumbing of the oil system does the heavy lifting.

That evolution — not the sanctions themselves — is what is new.

From Headline Risk to Microstructure Reality

Across repeated discussions among traders, analysts, and policymakers, one theme has become unavoidable: sanctions have matured into a logistical constraint, not a supply shock. Russian, Iranian, and Venezuelan crude continues to flow — but through longer routes, less transparent fleets, and more complex transactional chains.

Cargoes are increasingly handled by non-sanctioned tonnage willing to accept higher insurance, compliance, and reputational risk. Blending hubs in the Caribbean, Middle East, and Asia play a growing role in re-characterising crude grades. Offshore storage has become a strategic tool, allowing barrels to wait for favourable pricing windows or regulatory clarity. Each step adds friction, but not scarcity.

This explains why the sharpest market reactions are now seen in freight and differentials rather than outright prices. Tanker rates spike as voyages lengthen. Regional spreads widen as crude is rerouted away from traditional buyers. Time spreads oscillate as storage economics shift. Yet Brent itself remains remarkably stable.

The market's message is clear: sanctions do not matter unless they remove barrels. And in today's oil system, removing barrels has proven far harder than anticipated.

A Well-Supplied Market That Has Learned to Ignore the Noise

If sanctions explain where volatility shows up, supply explains why it does not reach prices. Despite an extraordinary geopolitical backdrop — from war in Eastern Europe to instability in the Middle East and Latin America — the oil market remains structurally well supplied.

OPEC+ retains spare capacity. U.S. production continues to surprise on the upside. Sanctioned producers have not been forced offline. Inventories, both onshore and floating, provide additional buffers. This abundance has fundamentally altered market psychology.

Repeatedly across recent discussions, analysts stressed that geopolitical headlines now generate skepticism rather than fear. Markets demand proof of physical disruption before repricing risk. Threats, rhetoric, and even limited kinetic events no longer guarantee sustained price reactions.

This desensitization is not complacency; it is adaptation. After years of predicted supply collapses that never materialised, the market has recalibrated. Price action now responds to barrels lost, not intentions declared.

OPEC+ will stick to its existing volumes through 1H 2026?

Canada's Prime Minister told Davos last week that the rules-based international order is undergoing a "rupture, not a transition" - how will RUPTURE impact oil prices?

The Oil market will switch its focus fully back to fundamentals and away from tariffs and geopolitical noise in 2026?

The International Energy Agency (IEA) revised up its 2026 Global Oil Demand growth forecast in its January report by 8% over what it had forecast only a month ago - do you expect more revisions upwards in coming months?

The consequence is a market that appears counterintuitive to outsiders. Escalation dominates headlines, yet prices remain anchored. The explanation lies not in indifference, but in balance. As long as supply remains ample, the ceiling on prices holds.

China, Demand, and the Quiet Absorbers of Sanctioned Oil

While supply sets the ceiling, demand — particularly in Asia — continues to set the floor. Global oil demand is still growing, but modestly and unevenly. Growth is concentrated in India and Southeast Asia, with product-specific gains in jet fuel, LPG, and petrochemical feedstocks. China remains central, though no longer as a singular demand engine.

Instead, China's most important role today is as an absorber of sanctioned and discounted crude. By purchasing Russian, Iranian, and Venezuelan barrels when economics allow, China smooths global imbalances. Strategic stockpiling, flexible refining capacity, and opportunistic buying enable these barrels to clear the market rather than accumulate unsold.

This quiet stabilisation is critical. Without it, oversupply would translate into sharper price weakness. With it, the system remains balanced — even as trade routes lengthen and logistics costs rise.

At the same time, demand growth is not strong enough to overwhelm supply. Efficiency gains, macro uncertainty, and structural shifts in developed economies cap consumption growth. Demand supports the market, but it does not propel it.

Together, these forces reinforce the same conclusion: the oil market is not tight enough to reward geopolitical risk with sustained price premiums.

What This Means for 2026 and Beyond

The oil market of 2026 is not the oil market many policymakers still imagine. Sanctions no longer operate primarily through price. Geopolitics no longer guarantees volatility. Demand growth no longer assures upside.

Instead, risk has migrated. It lives in freight markets, in arbitrage windows, in time spreads, and in the operational complexity of moving oil from producer to consumer. Traders who focus solely on flat price miss where the action truly is.

For policymakers, this raises uncomfortable questions. If sanctions raise costs without reducing supply, their effectiveness must be measured differently. They may redistribute rents, complicate logistics, and strain infrastructure — but they do not necessarily tighten markets.

For producers and consumers, flexibility has become the defining advantage. Those able to navigate multiple routes, blend grades, and manage logistics risk are best positioned. For investors, value increasingly lies not in directional bets on Brent, but in understanding the mechanics beneath it.

Above all, the market has delivered a verdict that is difficult to ignore. Sanctions still matter — but not in the way they once did. They move freight. They move differentials. They move complexity.

They no longer move prices. ■

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