

MNI: Political Drivers for Energy Markets Dec. 1-7

By Lawrence Toye (01/12/2025)

Executive Summary:

- US Special envoy Steve Witkoff heads to Moscow for **talks with Putin on ending the war in Ukraine**.
- **OPEC** have reconfirmed that it will **pause production hikes in Q1 2026**.
- **US-Venezuela tensions** remain near boiling point, but **Trump continues to hold off on land strikes**.

Russia-Ukraine Talks Ongoing

Trump said on Sunday (Nov. 30) that there was a “good chance” of a deal to end the war in Ukraine after the latest US negotiations with Kyiv. His special envoy Steve Witkoff is preparing to head to Moscow for follow up talks with Putin on Dec. 2.

- Zelenskyy is to meet the French president, Emmanuel Macron, in Paris today (Dec. 1), seeking to shore up European support.
- US secretary of state Marco Rubio said “more work” was required following the latest talks, contending that a deal is not just about ending the fighting, but setting up Ukraine for long-term prosperity.
- On the Russian side, the revamped proposal remains a hard sell. Senior officials have insisted that Russia will not make concessions, while Putin called the Ukrainian leadership “illegitimate,” noting the ongoing corruption scandal and failure to hold elections when Zelenskiy’s term expired. Elections are paused while Ukraine is under martial law.
- As talks develop, the fighting rages on, with Kyiv’s targeting of Russian energy infrastructure continuing. Ukraine struck the Afipsky refinery, CPC mooring 2, and two sanctioned tankers in recent days, while reports also suggest a drone attack on the Slavyansk refinery.

OUTLOOK: The results of the Putin-Witkoff meeting could be key, given that the original Russia-US 28-point plan appears to have been slimmed down following Ukrainian input.

- The Moscow Times noted that it remains unclear whether Putin will back the changes which sources say are “significantly better” for Ukraine than the original list of provisions, widely seen as closer to Russia’s position.
- Analysts at the Institute for the Study of War noted in analysis on Sunday that Russian military bloggers appear sceptical that Putin will compromise when it comes to his territorial demands on Ukraine.
- Putin has also been defiant in warning that Russian forces would continue their advance in Donbass if Kyiv refused to accept its ceasefire conditions.
- Consequently, the amendments may give Putin an off ramp to walk away from the talks. Given US sanctions on Russian oil add further challenges for Moscow, Putin is unlikely to walk away entirely but rather draw out the negotiations and encourage Witkoff to lobby Trump for further changes to the plan.

OPEC Favour Stability for Q1 2026

OPEC confirmed Nov. 30 that it would pause its production increases in Q1 2026 as previously stated at the meeting last month. The bloc reiterated its commitment to market stability and flexibility to continue pausing or reversing production adjustments.

- Bloomberg and Rystad noted that the pause through Q1 2026 highlights the need for stability when there is a risk of a persistent surplus next year and the market outlook is worsening.

- OPEC also agreed on a more transparent system for governing capacity. However, no formal decision was taken on quotas, suggesting fragile internal cohesion, Rystad noted.
- Aligning quotas more closely with actual capabilities could make any future cutbacks more credible.
- Maximum sustainable capacity will be defined at output that can be achieved within 90 days and maintained for a year, a Bloomberg source said.
- OPEC+ has revived about 70% of its quotas for two layers of production halted in 2023, leaving about 1.1m b/d still to return. Further cuts from the wider 22-member group of about 2m b/d remain in place until the end of 2026.

OUTLOOK: OPEC must balance regaining market share against stabilising prices, all the dealing with a backdrop of political fragmentation, such as the impact of sanctions on the output of certain members. Typically, the group does not favour raising production to offset sanctioned barrels from any of its members.

- Early discussions of quotas point to a widening split inside OPEC+, with the UAE and KSA holding significant spare capacity, while other members battle structural declines. This could set the stage for a reset to 2027 quotas, Bloomberg suggested.

Venezuela's Maduro Asks OPEC for Assistance Against US Threats

Venezuela's President Nicolas Maduro has called for OPEC to help his country counter "growing and illegal threats" from the U.S. and President Trump.

- Maduro has accused the U.S of trying to "seize" Venezuela's oil reserves, which are the largest in the world.
- The call for OPEC assistance came after Trump wrote on social media that Venezuela's airspace should be considered closed, despite having no legal basis to close another country's skies. He later played this down.
- Trump also held a phone call with Maduro last week, where a possible meeting was discussed, according to the NYT.
- Trump has refused to say how the call went. However, sources told the Miami Herald that a direct message was sent to Maduro: a safe passage out for his and his family would be guaranteed if left office immediately. It is important to note that the publication has been overly hawkish in past reporting on US-Venezuela tensions, with questions around the reliability of its sources.
- The US continues to deploy a considerable military presence in the Caribbean, well beyond that expected to conduct counter-narcotics operations. Targets to date have been small drug boats. Land strikes are repeatedly threatened but have yet to materialise.
- Looking at oil, crude flows from Venezuela remain unaffected by the rising tensions, although discounts for Venezuela's Merey crude have widened due to weaker Chinese demand. Chevron is also continuing its operations.

OUTLOOK: It appears that the Trump administration's preference is to force Maduro out via psychological warfare rather than direct military action.

- The buildup remains in the Caribbean, but Trump has yet to make good on his threats for land attacks. This suggests a preference against a potentially complicated military campaign that could disrupt the Venezuela's already faltering oil output.
- Earlier reports that Washington rejected Maduro's offer to open up Venezuela's oil industry to the US also suggest the tensions are focused entirely on ousting Maduro's regime, leaving little room to negotiate.
- Polymarket views a US military engagement in Venezuela by March 31 at 62%, although a full-scale U.S invasion of the South American nation is a more remote possibility, at just 18%.