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Executive Summary:

- The US is now likely to implement **further sanctions on Russia** through tariffs on its oil customers.
- **OPEC+ has unwound its most recent voluntary cuts** but may take a pause on further output hikes.
- **US trade policy** is now routinely used as a tactic to shore up the country's energy industry**.**

Deadline Looms for New Russia Sanctions

This week will see the arrival of the Aug. 8 deadline set by President Trump for Russia to agree a peace deal in Ukraine or face further sanctions. Measures will likely be in the form of 100% tariff penalties on countries continuing to buy Russian exports, namely oil.

- Trump himself said that he expected to impose the sanctions, meaning that new measures are now likely. His decision to move two nuclear submarines to respond to "highly provocative statements" from former Russian President Dmitry Medvedev emphasises the changing attitude from the White House.
- Nonetheless, Trump's special envoy Steve Witkoff is headed to Moscow after a trip to Israel. This leaves the smaller possibility of a delay to the deadline if POTUS can see tangible progress.
- The main target for the sanctions appears to be India. Trump and his officials have already said that India is facing 25% tariffs – in part because of Russia oil buying.
- There has been no move by the Indian government to prohibit the country's refiners from buying Russian oil, and Indian officials told the NYT that there had been no change to government policy, with lots of Russian crude arrivals coming via long-term contracts.
- However, Bloomberg reported that they were instructed to scenario plan for Russian crudes no longer being available.
- Indian Oil has bought at least 5m bbl of Urals crude for immediate delivery, according to Bloomberg. Meanwhile, Bloomberg separately reported that at least four tankers discharged 2.9m bbl of Russian crude to Indian refiners over the weekend.
- However, Indian Oil has also upped its buying from the US, Canada, and Middle East, which may signal a gradual shift away from Russian barrels.
- While the discourse remains focused towards Russian oil, any wider sanction that includes Russian gas would hit European buyers. However, this is unlikely given the continent's already tough stance towards Russia and clear plan to eradicate any reliance on Russian gas.

OUTLOOK: Some form of secondary sanctions on at least Russian oil are likely to come into place, with India set to be most impacted. Trump's flexibility in how sanctions are imposed may mean they are targeted to certain buyers. While India currently remains defiant, there is likely to be at least some shift towards alternate grades. This is likely to boost Middle East crudes, bolster the overall oil complex and widen discounts for Russian Urals cargoes.

OPEC+ Fully Unwinds First Set of Voluntary Cuts

OPEC+ agreed over the weekend to a widely expected 547k b/d hike in September output, completing the unwinding of the most recent 2.2m b/d of voluntary cuts.

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- The decision was framed as a way to enforce discipline among overproducers such as Kazakhstan but is also likely an attempt to recapture market share and put pressure on US shale producers requiring far higher breakeven prices than Riyadh.
- There remains another layer of supply cuts totalling 1.65m b/d that are due to be offline until 2026. Market analysts lean towards a pause in further unwinding from OPEC+ with the bloc taking a “wait and see” approach.
- This hypothesis is based on expectations of up to a 1m b/d surplus in oil supply later this year.
- The key unknown may be any further sanctions on Russia, which if enforced and successful, could displace up to 2m b/d of Urals crude arriving in India with Middle East grades.
- Yet, de facto OPEC leader Saudi Arabia may be reticent to exploit sanctions on a fellow bloc member to boost production. The visit by Russian PM Novak to Saudi Arabia for talks with the Saudi Energy Minister last week highlights the deep ties and cooperation between them.

OUTLOOK: There is little certainty on OPEC+’s output for October, which will depend on indications for US output, coupled with the possible implementation of sanctions against Russia. While sanctions against Russia could open the door for higher output, Saudi Arabia may choose to delay this – at least temporarily - as it prioritises the longer-term benefits of OPEC+ unity rather than a short-term boost to oil incomes.

US Energy Ties the Price for Lower Tariffs

US Trade Representative Greer said that tariffs Trump imposed last week on scores of countries are likely to stay in place rather than be cut as part of continuing negotiations. Greer also said recent trade talks with Beijing had been "very positive" and were focused on the supply of rare earth magnets and minerals.

- Furthermore, Trump and Canadian PM Carney will likely talk "over the next number of days" after the US imposed a 35% tariff on goods not covered by the U.S.-Mexico-Canada trade agreement, a Canadian official said on Sunday. Almost all the oil and gas arriving from Canada to the US is covered by the USMCA.
- As US trade partners adjust to the new environment, it is becoming clear that deals on buying US energy – particularly LNG - are a key pillar in securing lower tariff rates.
- The EU struck a trade deal with the USA taking tariff levels to around 15% for most goods, half of what was threatened previously by Trump. The deal was helped along by the EU’s agreement to buy $750 billion of US energy by 2028, although the specifics of the mechanism for how that could be achieved are unclear.
- Japan and South Korea have also negotiated rates down to 15% by agreeing to boost their buying of US LNG and to invest in the proposed. Alaska LNG facility. There was also a letter of intent from Taiwan to invest in Alaska LNG as part of its 20% tariff rate.

OUTLOOK: While the outcome of trade talks appears have created a boon for US LNG in particular, most deals lack specifics on how the promised purchases or investments will be achieved. The deals also highlight how new tariff rates are here to stay, which could impact long-term gas demand if global economic growth is on a permanently lower trajectory. What is becoming clear is that the US is now using trade policy as a means to support its oil and gas industry, which is likely to be a tactic pursued throughout Trump’s second term.

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