



From the Desk  
of the  
**Chief Economist**

**BANK ISLAM**

# **UKRAINE CONFLICT: WHAT IT MEANS TO CRUDE OIL PRICES?**

**24 FEBRUARY 2022**

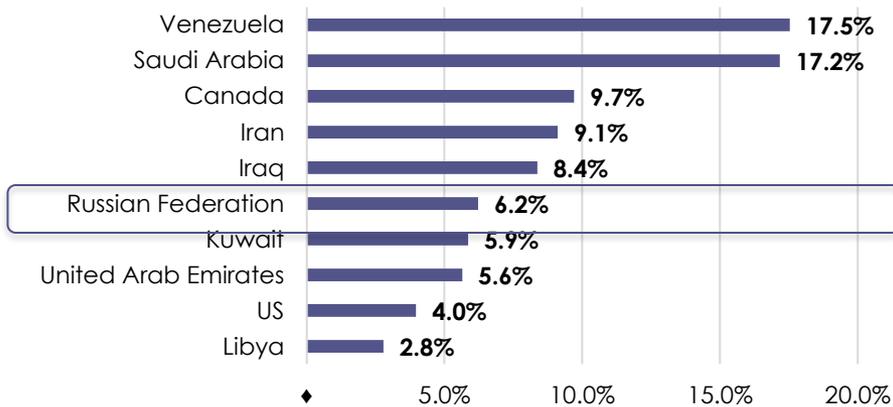
**ECONOMIC RESEARCH**

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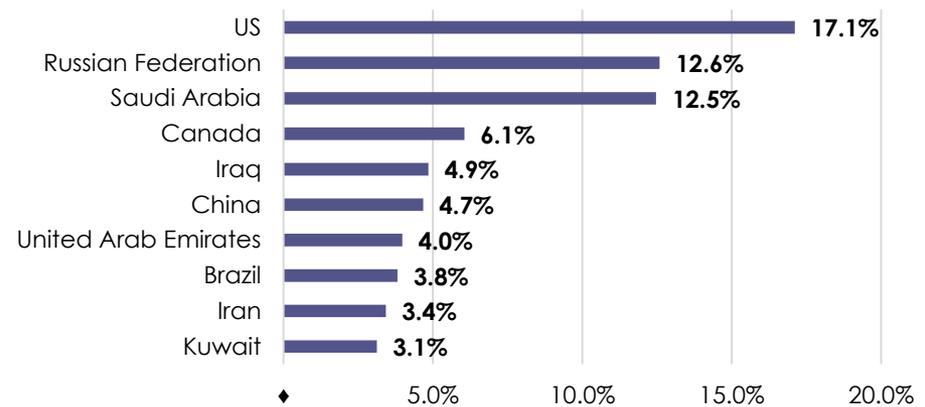
- ✓ The conflict in Ukraine has escalated into military aggression following the Russian leaders' decision to recognize the independence of two Ukraine regions that are Donetsk and Luhansk on 21 February 2022.
- ✓ Such decision has received massive criticism from the Western leaders which led to the imposition of economic sanction. Following this, Germany's Chancellor, Olaf Scholz had ceased the certification of Nord Stream 2 pipeline which will limit Russia's influence over gas supplies in the European Union.
- ✓ The U.S. government has sanctioned two of Russia's state owned-bank – VEB and Promsvyazbank – and blocked them from trading its debt on U.S. and European markets. Other Western allies have also announced similar move such as not allowing the sale of Russian sovereign debt.
- ✓ It remains to be seen whether these sanctions would be able to deter the Russian moves towards Ukraine.
- ✓ It seems that Russian is self-sufficient with respect to energy resources based on their oil and gas (O&G) reserves. In that sense, they may have prepared for the eventualities.
- ✓ While we are unclear on how the situation would pan out, the uncertainties have certainly heightened. Therefore, we have a reason to believe that crude oil prices would stay elevated for quite some time.

# RUSSIA HAS A SUBSTANTIAL RESERVE IN O&G. IT COULD ALSO MEAN THAT THE COUNTRY IS SELF-SUFFICIENT WITH RESPECT TO ENERGY RESOURCES

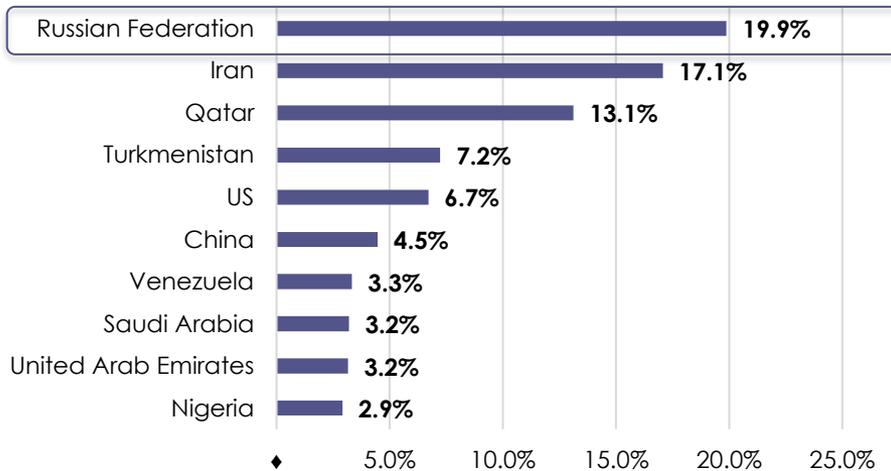
### Oil proved reserve % of total in 2020



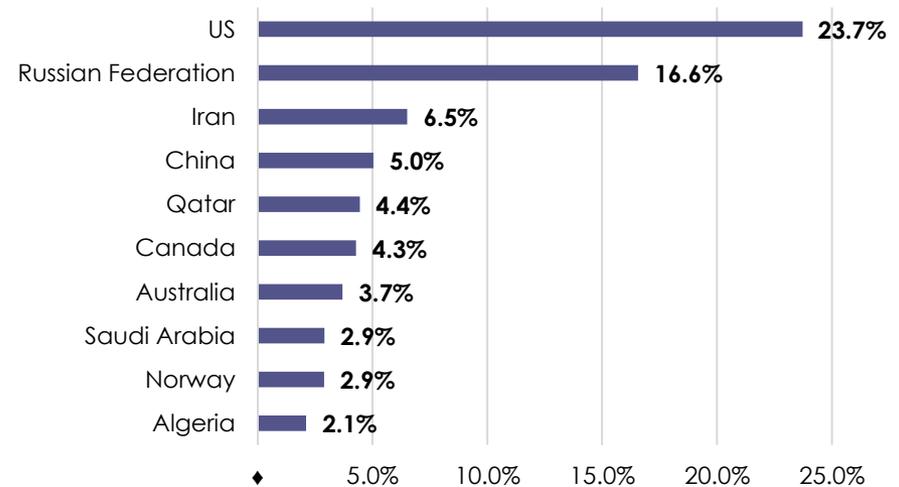
### Oil production % of total in 2020



### Gas proved reserve % of total in 2020

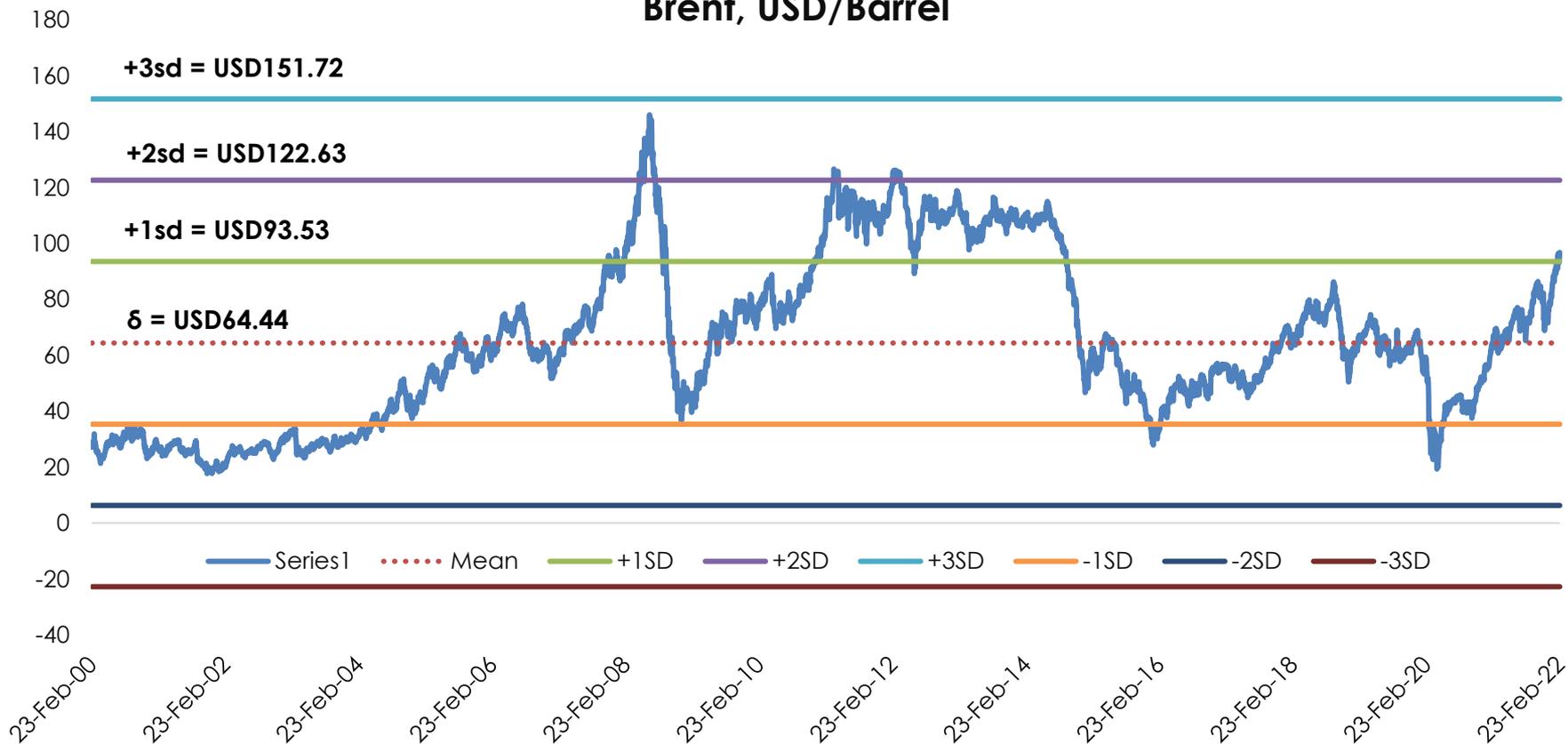


### Gas production % of total in 2020



**HISTORICAL TREND FOR BRENT CRUDE SHOWED USD152.00 PER BARREL WAS THE HIGHEST LEVEL RECORDED IN JUNE 2008. TODAY, IT IS ALREADY AT USD102.70 PER BARREL (4.11P.M.)** 

**Brent, USD/Barrel**



Source: Bloomberg

At the moment, the Brent crude has surpassed the +1 standard deviation (SD) of USD93.53 per barrel. The upside risk for Brent is clearly visible. **The mid point between +1SD and +2SD is USD108.08 per barrel.** That could be the next target.

- ✓ **Financial markets is going to be extremely volatile** – We are unsure to what degree Russia is willing to go. But it seems that they have been quite prepared and therefore, the military aggression would continue.
- ✓ **Crude oil prices could stay above USD100 per barrel** - Russia has sizeable O&G proved reserve. Therefore, disruption in the Oil and Gas could result in crude oil prices to stay elevated.
- ✓ **Could central bank become dovish?** – It is quite possible considering the full-scale war could disrupt the supply chain. At the very least, we could see a change in their tact as inflationary pressures have already been building up. Therefore, the upcoming FOMC and MPC meeting in March could be an interesting event to observe.

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An aerial photograph of a city skyline at sunset, with a prominent pink bar at the bottom. The sky is filled with soft, golden light and scattered clouds. The city features numerous high-rise buildings, with a particularly tall, slender skyscraper on the left. A highway with traffic is visible in the foreground, winding through the city. The overall mood is warm and serene.

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