Hedge fund manager Tor Svelland on the Russia sanctions: - The price of oil will rise again

Even if the Western sanctions against Russia do not affect the energy sector directly, they will make it very difficult for the Russians to sell their oil, believes the experienced commodity trader.

Oil prices will rise, and gas prices will remain at a very high level for a long, long time, warns hedge fund manager Tor Svelland.

On Thursday, the world woke up to Russia's warfare in neighbouring Ukraine. The attacks created major waves in world markets, not least in energy and raw materials. The price of oil rose to over 100 dollars for the first time in years, and European gas prices were at one point up as much as 60 percent. Russia is the world's third largest oil producer and Europe's largest supplier of gas - and a third of those exports go through the now war-torn Ukraine.

On Friday, the picture is a little different, with a recoil in most markets after it became clear that American and European sanctions will not affect Russia's oil and gas exports directly.

But the financial restrictions that will now be directed at Russia will still have consequences within the energy sector. Oil prices will rise, and gas prices will remain at a very high level for a long, long time, warns hedge fund manager Tor Svelland.

- The oil market is so tight. The West does not sanction oil, but the Russian banks are choked, so they are not allowed to sell the oil. Therein lies the problem, he says.

- Terribly difficult

Svelland, who last year stepped down as head of billionaire John Fredriksen's management company Seatankers, has returned to the hedge fund he himself started in 2016, and has warned several times in recent months about the very tense situation in the world's energy markets. He has extensive experience from commodity and energy trading, and his fund invests in shares and financial contracts linked to the energy sector, among other things.

He explains that it is going to be very difficult for Russian oil companies to sell their oil in many of their most important markets now. The reason is that the sellers cannot use Russian banks such as Sberbank and VTB, and that the buyer cannot secure a financing guarantee, a so-called letter of credit, which is issued by banks and is an important element in this type of trade.

- It is terribly difficult to get trade done. You need the banking system. Much of the settlement is in dollars, and if it shuts down, you will practically not be sold oil, says Svelland.

- The only people they will be able to sell to are India and China.

And even there, there may prove to be limitations. On Friday, Bloomberg writes that several state-controlled Chinese banks have stopped issuing these dollar-denominated guarantee documents for the purchase of Russian raw materials, even though there are no sanctions against Russia from China.

The consequence of all this is that the availability of physical oil in the world becomes less.

- That market is only getting tighter. This means that the probability of oil persisting and moving further upwards is high. So I think the oil price will rise again, says Svelland.

Breathing break Friday

By the time he made these observations mid-day on Friday, the spot price for North Sea oil Brent had fallen back to $98 per barrel after hitting $105 the previous day. The contract for delivery in May, which will be the "second contract" in the market as soon as we enter the month of March next week, and which Svelland's fund has taken positions in, has fallen back from 102 to below 95 dollars.

- Now everyone sits and waits and wonders what Putin is going to do, what will happen next. The market was given a breather when it became clear that there were no direct sanctions against oil and energy, says Svelland, who nevertheless believes that it is only a matter of time before oil prices rise again.

Gas prices will also remain very high for a long time to come, he maintains. Germany has halted the approval process for the new Russian export pipeline Nord Stream 2, which could have brought much-needed volumes to Europe a little later this year, after several months of historically high prices. And there is still some fear in the market that gas exports from Russia to Europe could be restricted, whether it were a deliberate act by one of the parties, or due to acts of war.

Was surprised

Svelland does not believe that Vladimir Putin's goal in Ukraine is a long-term occupation.

- This is a raid, and not an occupation. That is why one should be careful not to become too negative.

On Friday, Russia says it is willing to negotiate with Ukraine, and the mood in most markets improves further in the afternoon.

If, however, it turns out that Russia is betting on a long-term occupation, or that the hostilities should somehow spread further than Ukraine, things could become even more tense in the oil market.

- Then the oil goes very high. If it's 125 or 150 dollars - that figure doesn't really mean much, then there just isn't enough oil, says Svelland, but emphasizes that he doesn't think this is likely.

Svelland says he is surprised by the escalation this week.

- I did not think that Putin would do this. Rattling sabers and showing muscles, yes. But to go to that level of starting a war, in 2022, I didn't think so. We realized in the last few days that it would happen anyway. But if ordinary Russian investors had been prepared for this to happen, the Moscow stock market would not have fallen 40 percent. We were in contact with lots of people, and no one indicated that there would be an invasion.

The strategy of the Svelland Global Trading Fund is to buy shares and commodity, energy and shipping derivatives and profit from the scarcity situation the managers see in these sectors. The fund rose 0.35 per cent in January, and has continued to rise approximately two per cent so far this month, says Svelland. Since the new year, the very broad index MSCI World has fallen by approximately ten percent.

- In general, being "long" and positive about energy, that is the strategy. It will pay off for several years to come. It has been taken for granted that energy is cheap, and it has been for 30 years. Then you've messed with supply and demand, and now we're sitting with the bill, says Svelland.