MNI Commodity Weekly: U.S. Refiners Prepare for Mexico-Canada Tariff Impact

By Andrew Couper and David Lee

- **U.S. Refiners Prepare for Mexico-Canada Tariff Impact:** U.S. refiners speculated last month over the impact of Mexico/Canada tariffs and its potential cost burden. Now they look set to test those hypotheses as Trump turns threats to reality in early March after a one-month reprieve.
- **Oil Markets:** Crude extends its losses under further pressure from oversupply concerns amid rising OPEC+ output and expected weaker global demand due to increased protectionism and trade wars. US oil product cracks are trading without clear direction this week after recent losses, weighing the impact from US tariffs on Canada and Mexico.
- **Analyst Views:** See latest oil market views by biggest names in industry.

U.S. Refiners Prepare for Mexico-Canada Tariff Impact

Every week brings a host of new factors for commodity markets to consider under Trumps recent second term. Oil markets are trying to size up the impact of the latest tariff measures. Trump on Monday evening announced new 25 percent tariffs on all Mexican and Canadian goods beginning Tuesday and 10 percent tariffs on energy imports from Canada, moving a step closer to triggering a full-scale trade war with America's biggest trading partners. Trump also doubled tariffs against China to 20 percent.

- Canada and Mexico are the top two main exporters of oil to the US, with 167.6 million barrels of Mexican crude and 120.8 million barrels of Canadian crude having entered the US in the last 12 months according to Platts tracking.
- More than 70% of U.S. processing capacity is configured to run heavier grades, which are cheaper to import from Canada and Mexico the EIA reports. Canada, the biggest oil supplier to the U.S., exports some 4 million bpd of crude into the U.S., 70% of which is processed by Mid-Continent refiners.
- U.S. refiners may be forced to run sweeter crudes because tariffs are likely to impact WCS and Mexican barrel imports. This is combined with Chevrons special license for Venezuela being revoked, another key source of heavy barrels for the U.S. Gulf.
- Mexico has more ability to shift its oil flows while Canadian options are more limited. Other key trade flows to watch are Canadian clean product flows into the U.S. East Coast which is structurally short of gasoline, while U.S. Gulf refiners send significant gasoline volumes into Mexico, further enhancing its need to try and ramp up the Dos Bocas refinery which is designed to reduce reliance on the U.S. The refinery has faced numerous setbacks and serious question marks remain over its ability to reach capacity and reliably remain there.
- **Marathon Petroleum**, the top U.S. refiner by volume, said its refineries in the Mid-Continent region could switch from processing heavy sour crude to other lighter domestic grades in a February results call. Domestic crude from the Bakken shale formation in North Dakota and the Rocky Mountains could be among their options.
- The refiner warned that costs could rise if Trump's tariff plans go through, but the burden would primarily be borne by Canadian oil producers and, to a lesser extent, U.S. consumers.
- **Valero Energy**, the second largest U.S. refiner, anticipates a reduction in refining throughput if heavy crude feedstocks become limited it said on an earnings call last month.
- According to **GasBuddy** analyst Patrick De Haan, consumers in the Midwest could end up paying ~10% extra for their gas if Trump goes ahead with his tariffs.

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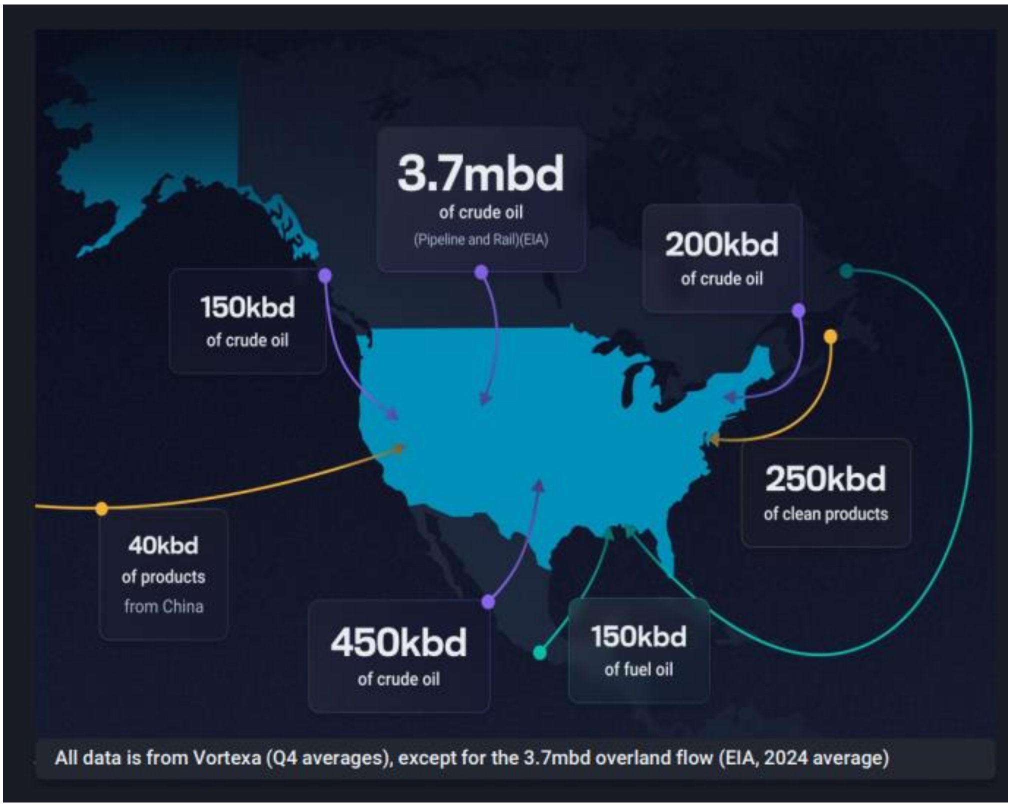
- **Tom Kloza at OPIS** has predicted that the tariffs could raise gasoline prices by $0.35/gal in parts of the country if the tariffs were passed completely along to consumers
- Texas-based **HF Sinclair** , which operates seven complex refineries, said it could process more light sweet crude. Independent refiner **Delek** also said it could lighten its crude slate.
- **Phillips 66, HF Sinclair and Par Pacific Holdings** have elevated exposure to Canadian crude according to a report by TD Cowen.
- **Goldman Sachs** head of oil research Daan Struyven said this week in an interview "We think the burden of a 10% tariff on Canadian oil will bear a burden on both Canadian producers and on the U.S. consumers in higher refined product prices."
- Struyven weighed about three quarters of the cost impact to hit Canadian producers because they have limited export options but notes that Midwest refiners have limited heavy crude supply options and will bear the rest.
- The tariffs could spur a partial re-routing of energy supply chains that may result in longer travel times and increased transport costs.

Tariff looms over ~5mbd of crude and refined products coming into the US – Source: Vortexa using q4 average of its data



- Canadian producers will be forced to "lower Western Canadian Select prices to offset the 10% tariff," **JPMorgan** analysts said.

- US refiners, reliant on Canadian oil (mainly Midwest), will face higher feedstock costs due to the tariffs. The costs of the levies will translate to an extra $3 to $4/bbl borne by Canadian producers and $2 to $3 by Midwestern consumers, **Goldman Sachs** analysts said.
- **Goldman Sachs** believes that the new tariffs imposed by U.S. President Donald Trump on Canada, Mexico, and China are likely to have a limited short-term impact on global oil and gas prices.
- Referring to Canada - "At 10%, pricing offsets are more manageable, and likely will not require a significant overhaul to physical flows," **RBC.**
- **StanChart** has predicts that Mexico's exports to the U.S. are likely to all but cease, with oil being rerouted into Asia and Europe.

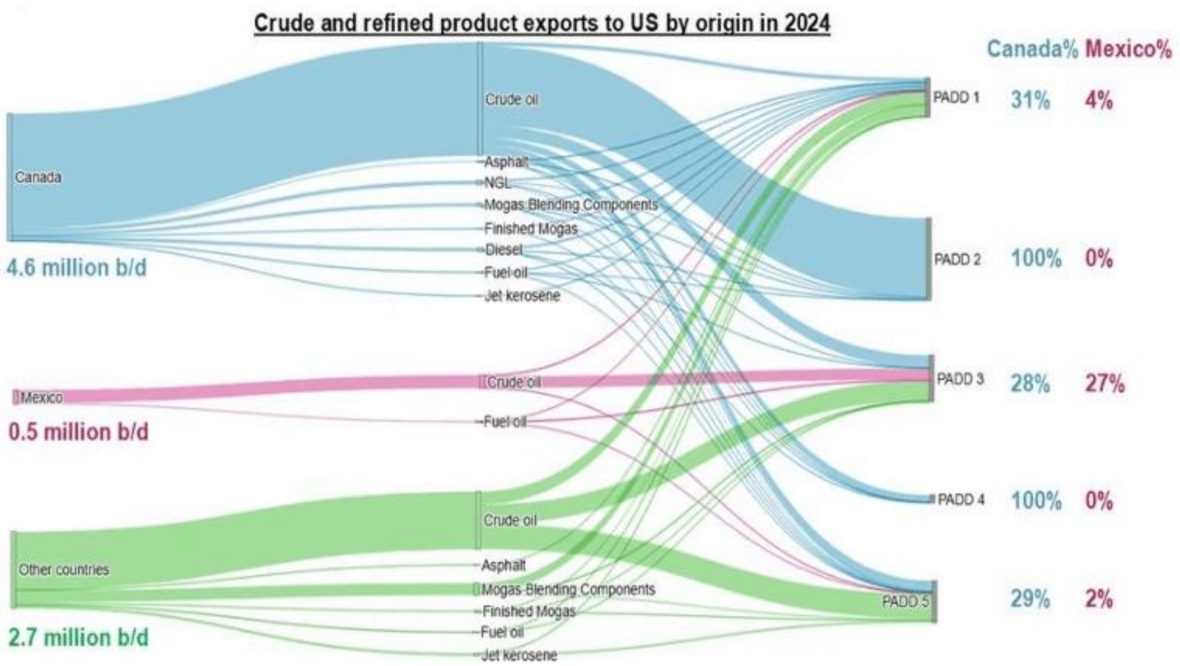
Mexico: President Claudia Sheinbaum made plenty of concessions to try and avoid Trump sanctions including extraditing cartel heads to the U.S. and sending thousands more troops to the U.S. border but it failed to avert this weeks swift action.

- Sheinbaum is set to see what happens with the situation between now and Sunday before resorting to retaliatory measures she said earlier this week.
- Mexico may seek out other trade partners if the tariffs remain in place, she said on Wednesday.
- Mexico will also reach out to Canada and other countries if the current situation continues she added.

Candada: Trump and Trudeau set to speak on Wednesday amid trade row, Reuters sources said.

- US President Trump and Canadian Prime Minister Trudeau are scheduled to a speak on Wednesday, a day after Trump's new 25% tariffs on imports from Mexico and Canada took effect, according to a source with knowledge of the matter.
- The planned call was first reported by CNN.

PADD 2 and PADD 4 highly rely on Canadian oil supply while PADD 3 partially relies on Canadian and Mexican oil supply – Source: Platts



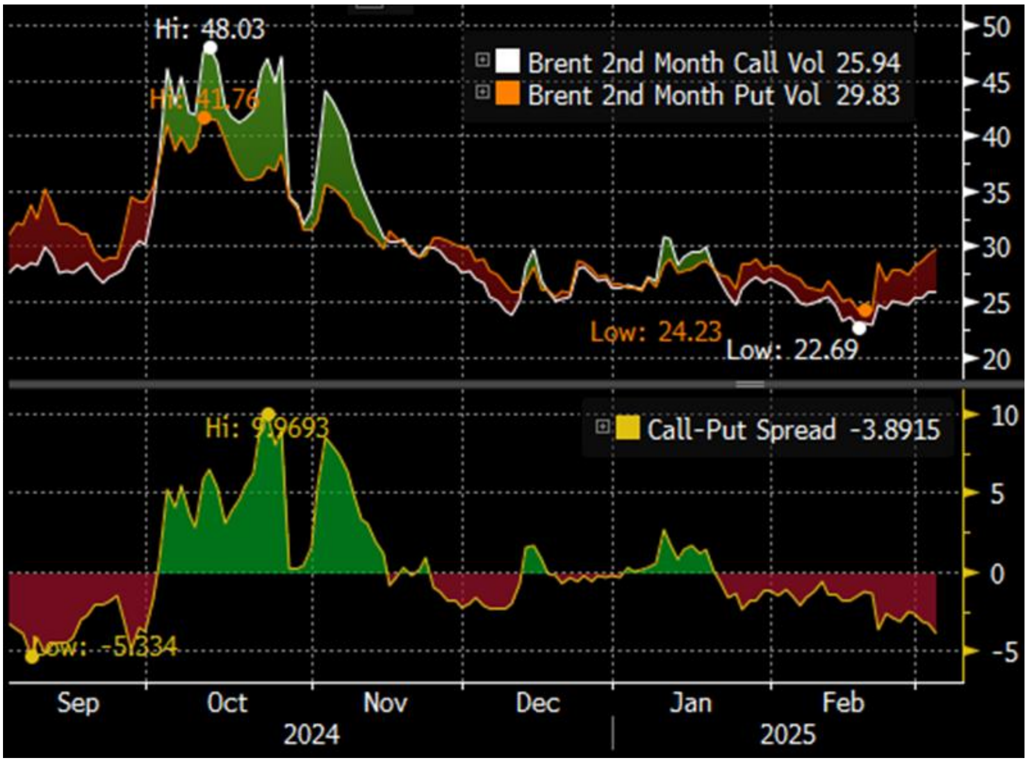
Oil Markets:

Crude extends with recent decline from a Brent front month high of $77.15/bbl on Feb. 20 under pressure from oversupply concerns amid OPEC+ plans to increase output from April and expected weaker global demand due to increased protectionism and softer growth metrics in the US manufacturing data. China manufacturing data and a weaker US dollar provided some support but with ongoing risk from potential US tariffs this week and hopes for progress on a Ukraine peace deal.

- On the supply side, President Trump said on Wednesday that he planned to revoke a license allowing Chevron to produce oil in Venezuela while a potential restart of Iraqi Kurdistan oil exports would add bearish pressure.
- The near-term crude options skew in favour of the puts is at the widest since the start of October with put volumes trading in higher volumes than calls. Crude time spreads have followed the decline in futures with Jun25-Dec25 the softest since early January. Funds have again cut net long crude oil positioning with WTI falling to the lowest since 2010, according to the Commitments of Traders data released on Friday.
- U.S. President Donald Trump is pausing all military aid for Ukraine following the heated exchange in the Oval office last week with his Ukrainian counterpart Volodymyr Zelenskyy. The U.S. is drawing up a plan, potentially offering Russia some sanctions relief as Trump looks to restore ties with Moscow in a bid to stop the Ukraine war Reuters sources report.
- China set an ambitious 5% economic growth goal for 2025 on Mar. 5 which could result in more policy stimulus especially in the face of US tariffs. China's President Xi Jinping had already been battling persistently low consumption, a property crisis and unemployment before the Trump tariffs. Official China data showed manufacturing activity in February expanded at the fastest pace in three months.
- OPEC+ decided on Mar. 3 to increase output for the first time since 2022 as previously planned, amid healthy market fundamentals and a positive market outlook. The group will make a small increase of 138kb/d from April, the first step in planned monthly increases to unwind its nearly 6 mb/d of cuts, equal to nearly 6% of global demand. "This gradual increase may be paused or reversed subject to market conditions," OPEC said as the group continues to support oil market stability. Record output from Kazakhstan helped sway the decision, sources told Reuters.
- Inside OPEC+, the UAE was keen to make use of its rising output capacity and favoured the increase along with Russia, but other members including Saudi Arabia favoured a delay, Reuters sources said prior to the decision.
- OPEC's crude production rose by 240kb/d m/m to the highest since Dec. 2023 in January at 27.35mb/d, a Bloomberg survey showed. Iraqi supply recovered after a fire at its biggest oil field, while Venezuela bolstered exports ahead of tighter US restrictions.
- Kazakhstan is set to boost oil shipments via Russia by 12% in March to what will almost certainly be a record. Kazakhstan plans to increase oil exports via the CPC pipeline to 6.7m metric tons in March from 5.4m tons in February the Energy Ministry said. Kazakhstan raised crude and condensate output by 13% m/m in February to a record high of 2.12mb/d, Reuters reports. Record output comes following the ramp-up of the Tengiz oilfield. Output has also increased despite a drone attack at a pumping station on the CPC.
- Flows have still not returned on the Iraq-Turkey oil pipeline after claims of an imminent return of 185kb/d early last week by the Iraq Oil Ministry. Turkish Energy Minister Alparslan Bayraktar commented on his hopes for flows to return to maximum capacity on the pipeline to Anadolu news agency on Sunday without offering any commitment to any further details. Talks to accelerate a resumption of oil exports from Iraq's Kurdistan region to Turkey's Ceyhan port have been delayed until March 6 amid disagreements over terms between oil companies and the oil ministry, Reuters said.

- Asia's crude oil imports are off to a weak start in 2025, down 3% y/y at 26.17mb/d for Jan. and Feb., as China continues to buy less and sanctions slow cargoes from Russia, Reuters reports. China arrivals were down 7% y/y but India imports rose 6% from the first two months of 2024. India imports slipped from 5.08mb/d in Jan. to 4.87mb/d in Feb., which may reflect India's struggle to secure as much discounted Russian oil this year.
- Bloomberg reports that US crude exports via Gulf Coast terminals rose 6.3% to a three-month high of 3.967mb/d in February supported by volumes to India as refiners sought to replace Russian supplies. Volumes remained below 4mb/d as European fuel makers took 32% less oil m/m (1.310mb/d) due to seasonal refinery maintenance.
- Bloomberg reports Mexican oil exports soared in February from a 35-year low to 830kb/d, up 46% or 260kb/d from 570kb/d the previous month, but still 23% lower compared with a year earlier. Refiners in the US and Europe continue to complain about quality issues with flagship Maya oil, which has more water and salt than refineries can typically handle.

Brent Second Month 25 Delta Call-Put Implied Volatility Spread – Source: Bloomberg



- Russia's four-week average seaborne crude shipments rose last week by 120kbp/d to the highest since Dec. 1 to 3.09mb/d driven by a rebound in Novorossiysk shipments but volumes at sea are rising after US sanctions, Bloomberg said. Crude loadings from Russia's western ports were largely stable in February at 7.08m tons, as a rebound in exports from Ust-Luga offset a decline in Primorsk flows. Russia has diverted sanctioned oil tankers away from its Baltic ports to the Arctic. Some sanctions tankers have arrived in the Arabian Sea, where cargoes have been moved via covert ship-to-ship transfers to other vessels before transit on to China.

- Russian oil flows into India have shown further signs of slipping in February to their lowest pace since January 2023 at 1.4mb/d. However, Russian ESPO flows to China are set to rebound in March as new non-sanctioned vessels join the trade, drawn by higher rates vessel tracking firms report. A three-fold jump in freight rates for tankers to load ESPO crude from Russia's Far East port of Kozmino to China drew at least 17 non-sanctioned tankers on the route between January 11 and February 20 Vortexa said.
- Oil prices for Urals FOB cargoes were down in the $59.88-$60.76/bbl range in Feb, according to Interfax, citing Argus data. This put Urals cargoes at discounts of around $14.34-$15.23/bbl against Dated Brent.
- Venezuela has no plan to address the expected production decline after Chevron's waiver to export crude expires under US President Donald Trump's order, Argus said. Chevron has one month to stop producing oil and to wind down operations by April 3. Venezuelan President Nicolas Maduro downplayed the change, asserting it won't affect Venezuela's independence and freedom.
- There has been no major change in Red Sea transit volumes since the Gaza ceasefire was announced according to Clarkson's Research vessel tracking. Further Gaza ceasefire talks have been reported on Friday with the first phase set to end on Saturday. The security threat for shippers transiting the Red Sea areas is increasing because of a delay in the progression of a ceasefire between Israel and Hamas, BIMCO's chief safety and security officer Jakob Larsen said.

Oil Products:

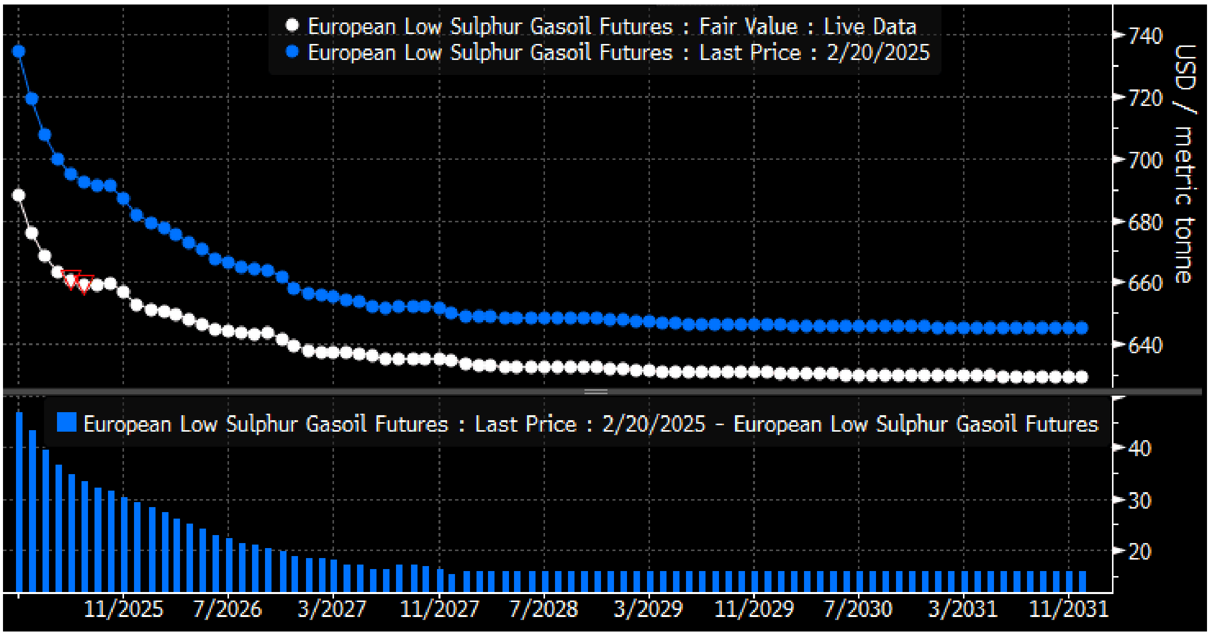
US oil product cracks are trading without clear direction so far this week after the losses seen in recent weeks as the market weighs the impact from US tariffs on Canada and Mexico and global oil demand risks.

- Diesel markets are showing signs of normalizing with some refineries emerging from maintenance after supplies tightened amid sanctions on Russia and low arrivals into NWE. The prompt ICE Gasoil time spread has drifted back down from a high of $15.25/mt on Feb. 20 to $12/mt while the Jun25-Dec25 spread is down from $18.5/mt to $8/mt in the same period.
- Funds last week raised net longs in both ICE Gasoil and Nymex diesel, taking the Nymex diesel position to the most bullish since Feb. 24. The Nymex gasoline net long positions were cut to the lowest since early October.
- European ARA Gasoil stocks were last week holding 15.8% above the five year average, US distillate stocks rose to 8% below normal and Singapore Middle Distillates inventories fell to 5.7% below normal.
- Diesel market tightened earlier in Feb. as offline capacity in the West of Suez increased 3% y/y to 4.79mb/d and weekly cargo arrivals showed a steady decline since November to just 18% below the 2024 average at 1.74mb/d, Kpler said. Resupply into NW Europe will accelerate on increasing normalization along USGC-NWE and East-West shipping routes, Kpler added.
- European primary distillation offline capacity is set to peak at over 1.8mb/d in April, taking a further 100kb/d of capacity offline compared to current levels and hitting export demand, Kpler said.
- US diesel demand is higher than in 2024 and 2023 and inventories are lower however retail pump prices are cheaper suggesting a more balanced market, Bloomberg said.
- US independent refiners face headwinds from tariffs, which are expected to see feedstock costs rise, potentially resulting in reduced runs, Argus reports. FPF Energy says tariffs on Canadian crude would cause US midcontinent refiners to cut throughputs, even if they can find alternative crudes. Marathon Petroleum says it could pivot some midcontinent refineries to run domestic crude slates. CEO expects tariff price increases would ultimately be borne by the producers. TD Cowen expects US refiners that run Canadian

crude on the margin to switch to light sweet crude, increasing WTI and Brent prices. US Gulf refiners will be likely to replace Mexican and Canadian heavy crude with other heavy sour producers such as Iraq.

- Russia's crude-oil processing in the week through Feb. 26 fell nearly 225kb/d to a four month low at 5.14mb/d, according to Bloomberg. Runs have fallen amid numerous Ukrainian drone strikes on Russian facilities in recent weeks. The data doesn't take account of the most recent strikes on the Tuapse, Ilskaya and Syzran refineries, Bloomberg said. Ukraine launched a drone attack on Russia's southern Krasnodar region targeting the port of Tuapse reported on Feb. 26 while the Ilsky oil refinery was targeted on Feb. 28.
- Russian oil product exports from the Black Sea port of Tuapse are set to fell to 798k metric tons in March – down 9.8% on a daily basis from the 799k tons scheduled for February, according to Reuters sources.
- Russia's ultra low-sulphur diesel from Primorsk are set to reach 1.8m metric tons in March traders told Reuters. 1.73m tons was scheduled for the shorter month of February.
- China wants its refiners to produce less fuel and more petrochemical products as EV uptake alters consumption of diesel and gasoline the National Development and Reform Commission said in its annual report to the National People's Congress. Beijing has a mandate to cap total refining capacity under 1bn tons a year by this year, from current levels of about 960m tons. China's oil demand as not yet peaked, with strong petrochemicals consumption outweighing declines in gasoline and diesel, according to Sinopec's chairman. Diesel demand probably peaked in 2019, while gasoline consumption will likely never top 2023 levels, Ma Yongsheng, chairman of state-owned Sinopec Group said, cited by Bloomberg. China's National Bureau of Statistics said last week that oil consumption in China fell by 1.2% last year.

Softening ICE Gasoil Backwardation - Source: Bloomberg



- CDU capacity utilisation rates at China's state-owned refineries and independent Shandong refineries are expected to hold steady in the week to March 6, according to OilChem, with no new overhauls or resumptions. CDU capacity utilisation rates at domestic refineries in China averaged 71.10% last week, up 0.28 percentage points on the previous seven-day period.
- China's gasoline demand is projected to remain soft with rising temperatures more conducive to EV use. Gasoil demand is expected to rise further with outdoor projects picking up as temperatures climb.

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- Feedstock imports by independent refineries into Shandong Province and adjacent regions are expected to have seen a monthly increase of over 20% and exceeded 8.50m mt in February due to relative higher cost of alternatives, according to OilChem.
- China's new 400kb/d Yulong refinery is snapping up cargoes from Africa to support its ramp up Bloomberg sources report. Yulong bought almost 4mbbl of Angolan crude for February loading. Weak Brent and Dubai swaps spreads support more west to east crude flows. The second 200kb/d unit is set for March/April start FGE reports.
- The Singapore gasoline crack is likely to remain constructive through March, Kpler forecasts. China-Singapore arbitrage incentives have seen a swift deterioration and Chinese gasoline exports are now sitting at a five-month low, Kpler added. This is tapering light distillates inventories in the wider APAC region. There is set to be a noticeable increase in planned refinery maintenance from March onwards, reaching its zenith in May adding bullish pressure.
- In January, Pemex's seven refineries operated at less than half installed capacity for a fifth month at 887kb/d, or 45.1% of capacity, as Dos Bocas processed no crude, according to company data cited by Bloomberg. The lack of refinery-ready oil caused Pemex's largest refinery of Dos Bocas to shut in mid-December. Restart of the refinery, initially announced for the third week of February, is now seen in the coming days, according to a company official.

Analyst Views:

Initial market views following OPEC+ April output hike decision.

Citi:
OPEC+'s April output hike is "directionally in line" with a call for Brent to drop between $60-65/bbl over 6-12 months, Citi said in a note cited by Bloomberg. The decision was more bearish than Citi's base case, which had assumed a rollover in quotas.

- There remains scope for OPEC+ to manage the pace of month-to-month increments in supply, Citi analysts say.
- Higher OPEC+ output may allow US more room for sanctions against Iran and Venezuela.

MUFG: Decision in line with bank's 2025 outlook. OPEC+ pivoting away from defending pricing to defending market share by restraining non-OPEC+ supply as well as focusing on fortifying internal unity and compliance.

- Decision has not affected MUFG's Brent price forecast of $69/bbl in Q2 2025 and $73/bbl for 2025 as a whole. Expects +0.9mb/d surplus in 2025.

Goldman: Output increase comes one quarter earlier than previous assumption, which also expected four months of increases. OPEC+ shifting towards supporting strategically disciplining non-OPEC supply and supporting cohesion. Decision adds $1/bbl of downside to bank's oil price forecast of $78/73/bbl for Brent for 2025/26.

More general analyst views on oil markets:

Goldman Sachs:
OPEC+ decided to raise output this week in line with schedule but "against consensus expectations" Goldman Sachs head of oil research Daan Struyven said in a Bloomberg tv interview on Tuesday.

- Struyven said it was because of two key reasons - falling global crude inventories and increased compliance within the group.

- "We think current price levels work reasonably well, both for the US consumer/U.S. producers and for Saudi Arabia and Russia," Struyven said.
- "We think the burden of a 10% tariff on Canadian oil will bear a burden on both Canadian producers and on the U.S. consumers in higher refined product prices," Struyven said.
- Struyven weighed about three quarters of the cost impact to hit Canadian producers because they have limited export options but notes that Midwest refiners have limited heavy crude supply options and will bear the rest.

Morgan Stanley:
Morgan Stanley has lowered the Brent forecast as tariffs and counter-tariffs are a likely headwind for oil demand while OPEC+ will unwind voluntary cuts from April, according to Bloomberg.

- The Q2 Brent forecast was cut $5/bbl to $70/bbl and H2 lower $5/bbl to $67.5/bbl.

Citigroup:
Citi Sees Brent Towards $60/bbl Over Next 3-Months. Says it is fundamentally bearish on oil because non-OPEC+ supply growth looks set to offset global demand growth this year.

- Says Monday's OPEC+ decision to start increasing production again is a materially bearish development for oil.
- Targeting a move in Brent towards $60/bbl over next 3-months.
- Increasing output due to pressure from the US administration, rather than due to shortage of oil, could be more destabilizing for oil prices after OPEC+ announcement.
- The probability of an Iran escalation may now also be lower and Ukraine cease fire, as well as plans for tax cuts of us energy companies to boost output, would also add to downside.
- "The risk of a US/Iran escalation was keeping US out of this trade. A tail scenario could see a loss of up to 1mb/d before a deal is ultimately made."

RBC:
The OPEC+ response to start bringing oil back to the market in April is likely in response to either softening demand signals or a desire to maintain market share according to RBC's global head of commodity strategy Helima Croft.

- "The U.S. shale patch is always the wildcard. An OPEC increase could pressure prices downward, and while American producers have gotten leaner and more disciplined since the last downturn, they're still sensitive to that $60-$70 per barrel range." Croft said.
- Some smaller U.S. shale producers may start scaling back under that price Croft said. "Other non-OPEC producers like Canada or Norway could feel the squeeze too."
- "The bigger geopolitical angle, though, is whether this move by OPEC+ signals a shift in how they're countering U.S. influence in energy markets. Russia gains a strategic edge if they can keep their exports humming while others scramble."

Macquarie Group:
OPEC+ has not shown any indication that it's seeking a price war with producers outside the bloc after the group agreed to revive some idled production, Macquarie Group said, cited by Bloomberg.

- A renewed price war is unlikely given the potential effects on Saudi spending, it said.
- The bank added that WTI would need to fall into the $50-$55/b range to shift US onshore supply toward declines

- "While we think the prospect of sanction-led supply disruptions (Russia, Iran, Venezuela) could reasonably be seen as playing a role in the decision, the proactive nature of the return of supply (with prices still at the lower end of the recent range) is likely to be viewed bearishly," the bank wrote, cited by Bloomberg.
- Crude could overshoot to the downside if resistance to future production cuts or pauses emerge, Macquarie said.

Kpler:
WTI is expected to weaken relative to other benchmarks, which should widen the Brent-WTI spread and offer more favourable arbitrages to regions such as Asia, Kpler said.

- Factors such as refinery maintenance, recovering shale supply, the closure of Lyondell's 264 kb/d Houston refinery, and Chinese tariffs on US oil imports are calming the outlook.
- Around 1.2mb/d of US primary distillation capacity is set to be offline in March, Kpler said citing IIR.
- WTI Houston M1/M2 spread is still slightly backwardated, but the expected weakness could push it near parity over the coming weeks., Kpler added.
- WTI had been receiving prior support from US shale field outages, stable product cracks, and an anticipated rise in crude demand during Spring.
- Lower exports of CPC due to a Ukrainian drone attack on a Russian pumping station had also boosted WTI in the Med, where it competes with the Kazakh grade.

OPIS:
10% tariffs on US imports of Canadian crude are more likely to have a "notable" rather than significant impact on US gasoline prices, GasBuddy's Patrick De Haan told OPIS.

- Canadian crude has limited exports options due to finite infrastructure to move barrels to alternate locations, meaning producers will likely bear the brunt of the price rise.
- De Haan said that it is difficult to quantify the effect of tariffs, with questions over any Canadian response.
- However, he estimated that in regions such as the Great Lakes, upper Midwest and Rockies gasoline prices will rise by around 10-25 cents/gal.
- The impact of tariffs could be partially offset by a slowdown in the US economy, De Haan added.

CNPC:
China's oil product demand is estimated to fall 2% in 2025 to 382m tons, according to CNPC's Economics & Technology Research Institute.

- Gasoline consumption is predicted to decline by 3.4% y/y to 153m tons following a 0.3% drop in 2024. New energy vehicles will account for 10% of car ownership replacing 35m tons of gasoline demand.
- Diesel demand is expected to fall 3% y/y to 186m tons with LNG trucking displacing 28m-30m tons of diesel demand in 2025. Diesel consumption could be boosted by 5m tons from more fiscal spending supporting infrastructure and manufacturing.
- Rising household income due to more stimulus to boost kerosene demand by 8.9% y/y to 43m tons.
- Refinery run rates are expected to recover as new refineries produce more petrochemicals while oil product yields fall 2 ppts in 2025.