MNI Oil Weekly: Diesel Markets Remain Heated

By Andrew Couper And David Lee (05/11/2015)

- **Diesel Markets Remain Heated:** A slew of factors keeps diesel markets heated against a backdrop of crude weakness heading into a northern hemisphere winter.
- **Oil Markets:** Brent crude is holding within the $63.8/bbl to $65.4/bbl range, weighing OPEC+ policy, elevated levels of oil at sea, Russia sanctions and China stockpiling. Oil product crack spreads have risen over the last week with strikes on Russian energy infrastructure and sanctions impacts adding to seasonal maintenance.
- **Analyst Views:** See oil market views and outlooks from key market names.

Diesel Markets Remain Heated:

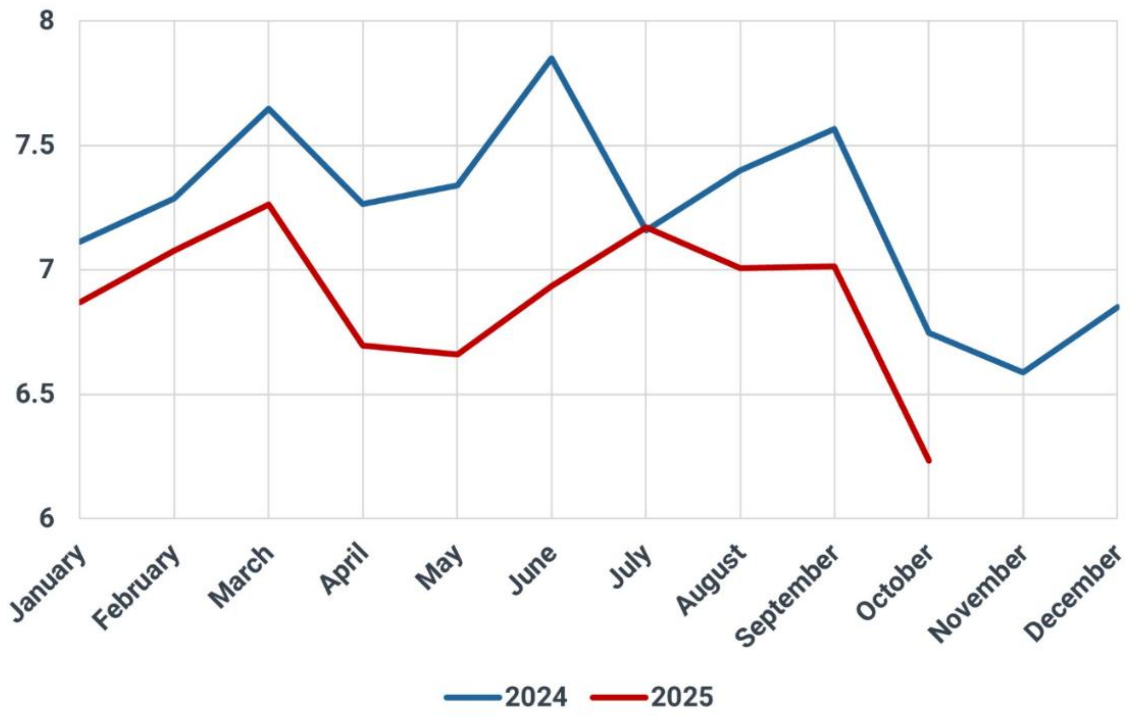
Crude faces weakness again as the market begins brushing off some of the premium priced in on Lukoil/Rosneft sanctions – meanwhile, diesel cracks are surging on a slew of bullish factors.

- On the supply side, a number of refineries have either recently shut down or are in the process of doing so (Grangemouth, Prax Lindsey, Wilmington, partial Gelsenkirchen) along with Russian refineries taking a hammering from Ukraine strikes since August.
- An outage at Kuwait's 615,000 bpd Al Zour refinery added support – especially with the return remaining unclear and the latest reporting showing delays at the very least. The refinery is one of the few "EU-Winter-Spec-Diesel" origin suppliers – the other being Jamnagar by Reliance but that is being phased out in Jan 2026 due to its Russian affiliation, adding further diesel support.
- The latest sanctions from Washington — as well as from the UK and European Union — are piling yet more pressure on diesel supply chains that are already burdened by refinery maintenance and attacks on Russian infrastructure.

Tuapse refinery/port closure headlines saw the latest diesel move higher on November 5, though failed to hold up. Chart: Gasoil Dec 25 – source: Bloomberg Financial L.P.

- Sanctions pressure on Russia and Ukrainian strikes show no signs of letting up, with the port of Tuapse also reported to have halted fuel exports this week following weekend strikes. The headlines on this on Wednesday saw further support for diesel cracks. (See above)
- "Generally the distillate market is very tight and we see it is going to stay like that," Gunvor Group Chief Executive Officer Torbjörn Törnqvist said in an interview this week, adding "We already see impact on the distillate market and this is indirectly related to Russia."
- On the demand side, the Northern Hemisphere is entering into the high-heating oil season. Most of the inventory surplus has been exhausted starting from October, and add to this, the cold weather in the winter season is a forecast to see higher sales of heating fuel going forward.
- In the U.S. East Coast and Europe, the average temperature in October was lower than the last five-year average, and this is also expected to have a positive impact on demand for heating oil.
- A consistent theme for 2025 has been lower waterborne diesel exports according to Kpler figures – they show them averaging 445 kbd lower y/y through Oct (see below). Total of 135 milion fewer barrels exported ytd.
- Record Saudi and Kuwaiti diesel exports in July helped make it the only month this year where exports have been close to year-ago levels.

Global diesel waterbourne exports 2025 vs 2024 – Source: Kpler



Oil Market:

Crude prices are holding within the $63.8/bbl to $65.4/bbl range seen since Oct. 29. Sanctions and Ukrainian strikes are supportive while elevated levels of oil at sea are fuelling excess supply concerns as the market weighs the latest OPEC+ output decision.

Market:

Near term crude time spreads have softened slightly this week but holding onto backwardation after gains seen in H2 Oct while the market weighs OPEC+ decisions, Chinese stockpiling and the impact of sanctions.

- The Brent second month 25 delta call-put spread has turned slightly more bullish with a narrow bias to the calls with put volatilities falling faster than calls.
- Money managers raised net long Brent crude oil positions in the week to Oct. 28 to the most bullish in four weeks. The long only position was the highest since Sep. 30 while the short only was the lowest since Sep. 30 to reverse much of the surge higher seen earlier in October.

OPEC:

OPEC+ agreed on Nov. 2 to boost production next month by 137,000 bpd, in line with rises for Oct. and Nov, but signalled they would pause production increases in Q1 2026, citing lower seasonal demand. The decision comes after signs of a growing oil glut in Q4 of 2025 which is pressuring prices.

- The OPEC+ countries have steadily increased their production quotas this year, by 2.91mb/d including next month's rise, equivalent to about 2.7% of global oil demand.
- The small increase in December suggests the group is not anticipating that large volumes of Russian oil will be removed from the market in the near term by the latest round of US sanctions.
- OPEC Secretary-General said the group have the flexibility to alter, pause or reverse decisions and are making sure to maintain the supply demand balance. OPEC see good signs for demand with growth at 1.3mb/d this year.
- Saudi Arabia may cut its December Arab Light OSP to Asia by $1.25/bbl, a Bloomberg survey shows, while a Reuters survey expects a reduction between $1.2-$1.5/bbl. The cut would take the OSP to near the lowest seen this year due to ample supplies although concern for Russian exports and increased demand for spot barrels from China and India could limit the cuts, Reuters sources said.
- OPEC 12 added 30kb/d of output in October to 28.43mb/d versus 330kb/d in September as agreed OPEC+ increases were offset by declines in Nigeria, Libya and Venezuela, Reuters said. Saudi Arabia and Iraq showed the largest increases while some members were limited by compensation cuts for earlier overproduction.

OPEC members:

Iraq's total oil exports including condensate averaged 3.57mb/d in October, according to an Iraqi official cited by Bloomberg. The total, which includes Iraq's Kurdistan region, is expected to average 3.6mb/d in November. A fire that broke out on Oct. 26 at the southern Zubair oil depot affected the export rate by 40k-50kb/d.

- Oil exports from Iraq's Kurdistan region were 195kb/d last week, Iraq's oil minister Hayan Abdel-Ghani said cited by Reuters.

- Iraq has cancelled the loading of three crude oil cargoes from Lukoil in November, sources told Reuters, citing concerns over US and UK sanctions on the oil major.
- Kuwait's observed crude exports climbed 7% to a four-month high of 1.66m b/d in October. Shipments to biggest-buyer China surged to the largest in almost two years at 565k b/d.
- KPC has sold some crude to Asia following an unplanned outage at its Al-Zour refinery due to a fire on Oct. 21, Reuters reports citing sources. The total volume of heavy crude offered so far is 2.9mbbl after a tender last week adding to the sale of two previous cargoes.
- Kazakhstan is in talks with Exxon Mobil about tapping the undeveloped part of the giant Kashagan oil field, sources told Bloomberg. The field's operating company expects to boost oil production to about 0.5m b/d by 2026 and 0.7m b/d by 2031. The Kashagan venture in Kazakhstan is forecast to produce 18.25m mt of oil this year, state-run KazMunayGas said, cited by Bloomberg.
- Libya plans to boost oil production to 1.6m b/d in 2026 and 1.8m b/d by 2027, with a long-term goal of reaching 2m b/d within five years, according to Oil Minister Khalifa Abdulsadek, cited by Reuters.

Russia:

Russia's four-week average seaborne crude shipments fell 190kb/d in the week to Nov. 2 to 3.58mb/d, according to Bloomberg with a decline from all regions. Cargo discharges have been hit even more than loadings with oil volumes at sea rising as purchases in China, India and Turkey are impacted by the latest US sanctions. Russian oil at sea has risen by 27mbbl, or 8%, since the start of September to more than 380mbbl, Bloomberg tanker tracking shows.

- Crude loadings from the three western Russian ports dipped slightly last month to 10.02m mt, or 2.37m b/d from September's two-year high but stayed well above this year's average, according to Bloomberg.
- Sanctioned Russian oil producer Lukoil said it accepted an offer from energy trader Gunvor Group for its international assets. Gunvor CEO Torbjörn Törnqvist said the agreement represents a "clean break" for the assets. The deal is subject to clearance from the US Treasury's Office of Foreign Assets Control.

Russian Oil at Sea: Source: Bloomberg Financial L.P.

China:

President Trump heralded the meeting with President Xi on Oct. 30 as 12 out of 10 with China agreeing to pause its rare earth licensing regime for at least a year and the US halving fentanyl tariffs immediately.

- The leaders agreed to remove shipping tariffs and fees on trade and work together on Ukraine. The deal is likely to be viewed as not a comprehensive trade deal but potentially sets the scene for further discussions. China buying Russian oil did not appear to have been raised.
- The suspension of measures is bearish for freight, particularly VLCC rates, Platts said. Potential delays to port fees on US-linked ships would free up more fleet capacity with ships will no longer needing to divert away from Chinese ports.
- China's Official manufacturing PMIs slipped further into contraction in October to +49, below expectations of +49.6 and the worst result since April. Data showed a decline in output, new orders and employment - hit by weak US demand and tariffs.
- The latest US/EU sanctions targeting Russia appear to be having an impact with reports that refiners in China are looking to alternatives. Around 400kb/d are impacted or around 45% of China's Russian oil imports, which is pressuring prices for Russian grades, Rystad said cited by Bloomberg.
- China's crude oil stockpiles recorded a 12m bbl increase last week, reversing six consecutive weeks of draws, according to Kpler. The build follows a sharp rebound in October imports, which rose by ~600k b/d to nearly 10.5m b/d. With crude runs projected to soften into December, further inventory accumulation could follow.

India:

- Indian refiners accounting for 920k b/d of Russian crude imports in the first half of the year have now announced that they will suspend Russian crude purchases for now, Bloomberg reports. Reliance Industries will no longer take Russian cargoes, while MRPL and HPCL-Mittal Energy have both suspended further deals.
- Refiners are moving to fill the gap with Middle Eastern and US cargoes, though some have expressed interest in buying some Russian crude in the current trading cycle.
- IOC has bought five cargoes of Russian oil for December arrival from non-sanctioned entities, Reuters sources said, resuming purchases after the latest US sanctions targeting Russia earlier this month. IOC seeks as much as 24mbbl of crude from the Americas in Q1 2026 amid concern for Russian supply after the recent US sanctions on producers Rosneft and Lukoil, Bloomberg said.

Tankers:

- Record volumes of sanctioned Russian, Iranian and Venezuelan oil on the water shows the barrels are still moving although taking longer to clear, Vortexa said. Oil on the water is becoming "a key indicator of supply chain bottlenecks" as new US and EU sanctions targeting Russia will result in slower flows.
- A switch to non-Russian crude by India's state-owned refineries would boost both VLCC and Suezmax demand by 3 tankers a month. Most Russian cargoes are carried on smaller Aframaxes.
- P66 sees a very large build of crude on the water, Brian M Mandell, Executive Vice President of Marketing and Commercial said. "It's a function of what those barrels are, and it's not clear if those are Russian barrels, and they don't get to end users. They may sit there for a while," he said.

- Asian VLCC freight rates have surged to their highest levels since the post-COVID rebound, driven by strong loading demand and growing congestion at Chinese ports, Platts said. The slowdown in fleet turnaround has tightened vessel availability.

Oil Products:

Oil product crack spreads have risen over the last week with US gasoline crack at the highest since September and diesel the highest since Feb. 2024 amid strikes on Russian energy infrastructure and sanctions impacts adding to seasonal maintenance.

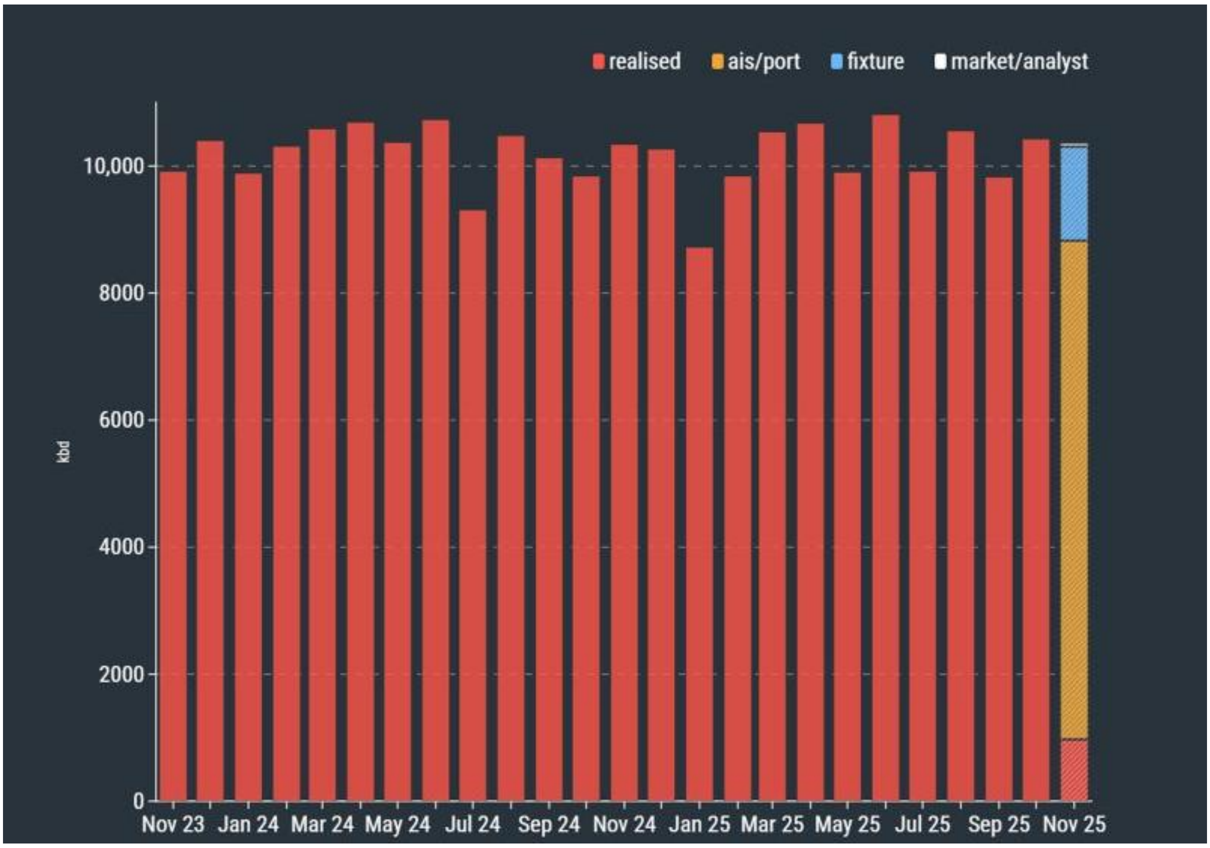
- **Russian oil product exports** are in focus due to the increased number of Ukrainian attacks on Russian refining since early August and tightening western sanctions targeting Rosneft and Lukoil.
- **Money managers raised net long ICE Gasoil positions** in the week to Oct. 28 but remain below levels seen during most of Jul-Sep following the drop in early October.
- **KPC has delayed the restart** of a crude unit at its 615kb/d Al Zour oil refinery, according to Reuters cited IIR. The unit was expected to restart by November 11, IIR said. On Oct. 21, Kuwait shut down parts of its 615k b/d Al-Zour refinery due to a fire at one of refinery's atmospheric residue desulfurization units.
- Benchmark northwest **European non-oxy gasoline barge cracks** in October were the second highest on record for the month, underpinned by refinery maintenance, Argus reports. The crack averaged $17.05/bbl last month, more than double the $8.37/bbl of a year earlier and surpassed in October only by 2022, when the roll-back of Covid restrictions supported demand.
- **European gasoline barge loadings** slowed considerably over October with traders noting barge availability was curtailed by port delays amid strikes at Belgian ports.
- **A Ukrainian drone attack struck** the key Black Sea port of Tuapse on Nov. 2 causing a fire and damaging at least one ship. Tuapse port has suspended fuel exports following the strike, according to Reuters sources. Rosneft's Tuapse refinery also halted oil intake and is expected to last several days, according to a Bloomberg source.
- On Nov. 4, Ukraine claimed a strike on **Russia's Norsi refinery,** hitting a primary processing unit that was under repair from a previous attack. **The Saratov refinery** was also targeted in the last week, igniting a fire in the area of the ELOU AVT-6 oil refining units, according to Ukraine's General Staff. The Sterlitamak petrochemical plant in the Bashkortostan region was also targeted – significant due to its distance from Ukraine's border.
- On Nov. 1, Ukraine military intelligence claimed a strike on the **Koltsevoy pipeline** near Moscow that supplies fuel to the Russian army from refineries in Ryazan, Nizhny Novgorod and Moscow.
- **Russia's Tuapse port** on the Black Sea has suspended fuel exports following a Ukraine strike over the weekend according to Reuters sources. Before the attack, Tuapse had been expected to boost oil products exports in November.
- **Total Russian refined product exports** averaged about 1.89mb/d in the first 26 days of October, the lowest since the start of 2022, according to Vortexa data cited by Bloomberg. Diesel exports edged higher but weak naphtha and fuel loadings, especially from Baltic ports, weighs on totals.
- **Near term Russian diesel exports** remain relatively stable with deliveries to nearby markets Turkey and Africa before the end of the winding down period for the new sanctions – barring Tuapse disruption. Diesel

and gasoil exports in Oct. 1-26 rose 2% on the month to 740kb/d with higher Black Sea exports set against weak Primorsk flows.

- **Russia's crude processing rates** rose 90k b/d week on week to 5.15m b/d over Oct. 23-29, as some refineries ramped up operations after seasonal maintenance and drone-related disruptions, Bloomberg said.
- **Europe's distillate market** is very tight and is expected to stay that way amid sanctions, according to Gunvor CEO Tobjorn Tornqvist, cited by Bloomberg. "We already see impact on the distillate market and this is indirectly related to Russia." Ukrainian drone attacks on Russian refining infrastructure are also keeping markets tight, he said.
- **CDU capacity utilisation rates** at China's state-owned refineries are expected to fall in the week to Nov. 6, according to OilChem, as some state-owned refineries expected to reduce crude throughput in November. CDU capacity utilisation rates at state-owned in China averaged 80.50% last week, down 0.39%pts on the previous seven-day period. At independent refineries, CDU rates were up 1.03%pts to 62.38% last week.
- **China's weekly gasoline production** fell by 31k mt to 2.944m mt for the seven days to Oct. 30, OilChem said while weekly gasoil production was up 43k mt to 4.124m mt in the week to Oct. 30.
- **China's gasoline demand** is projected to remain soft this week in the traditional seasonal low. Gasoil demand lacks strong support in the near term, with downstream players mostly on the sidelines, OilChem added.
- **India's Nayara Energy** has ramped up crude processing at its 400kb/d Vadinar refinery to 90% to 93% of capacity, according to Reuters sources. The rise in runs has been boosted by domestic fuel sales. Oil processing fell to between 70% to 80% after EU sanctions earlier this year limited its exports. The private refiner is operating its plant using purchases of Russian oil through non-sanctioned entities. It is unclear how Nayara is making payments for its crude oil purchases with possible settling against product exports.
- **India's oil product consumption** increased on the month in October, according to data from state-run companies cited by Bloomberg. Diesel sales rose 13% on the month to 6.629m tons although were 1.2% lower on the year. Gasoline sales rose by 7.6% on the month and by 6.3% on the year to 3.286m tons.
- **Nigeria's Dangote refinery** now produces more gasoline and diesel than consumed locally and backs a new government approved import tariff on fuel aimed at protecting domestic production. "Our refinery is currently loading over 45 million litres of petrol and 25 million litres of diesel daily which exceeds Nigeria's demand," said spokesperson Anthony Chiejina. The 15% import duty seeks to safeguard investments in domestic refining, the government said, as the country seeks to end reliance on imported fuel.
- **Motiva, TotalEnergies and Valero's Port Arthur** refineries are operating normally after suffering malfunctions on October 26 due to nitrogen shortages Reuters sources said on Nov. 1.
- **South Korea's S-Oil** expects regional refining margins to be robust in Q4 amid limited supply due to global refinery outages and shutdowns of aging facilities, according to Reuters. CDU operating rates at its 669kb/d oil refinery in the southeastern city of Ulsan were 97% capacity in July -Sep. compared to 95% during H1 2025.
- **Oil refining margins could weaken beyond Q4**, according to OMV CEO Alfred Stern cited by Bloomberg. However, market volatility seen since the start of the war in Ukraine is expected to persist. Strong margins are currently being driven by sanctions and operational issues in the industry, including at Dangote. Margins had a strong start to Q4 at above $12/bbl in the first days of the month.
- **Repsol expects high utilization rates** in Q4 with no plans for major refinery turnarounds, according to CEO Josu Jon Imaz cited by Bloomberg. The coming 15 months will be "soft" in terms of maintenance. Amore

favourable environment is expected in Q4 compared to Q3 because of the return of Maya crude in the market. “Probably we are going to see higher discounts on heavy crude oil,” he said.

China monthly Crude/Co Imports (Nov 2023 – Nov 2025) – Source: Kpler



Analyst Views:

Analysts React to OPEC Decision to Pause Hikes in Q1

- Morgan Stanley has lifted its Brent forecast by $2.50/bbl to $60/bbl for Q1, after OPEC decided to leave production targets unchanged over Jan-Mar, according to Bloomberg.
- “Even if the OPEC announcement does not change the mechanics of our production outlook, it does send an important signal,” an analyst note said. “With OPEC involvement, volatility is reduced.”
- There is a “substantial gap opening up” between OPEC quotas and production.
- Output is estimated to show a 500kb/d increase in the March to October period compared to the announced 2.6mb/d of quota hikes.
- The OPEC halt appears to preserve “policy optionality for any eventuality” amid uncertain supply and anticipated demand softness, according to RBC cited by Bloomberg.

- The pause "represents something of a surprise," but consistent with guidance from the group that "all options remain on the table, and that production policy is not one directional.
- Russia remains "a key supply wild card" given US sanctions and ongoing energy infrastructure strikes.
- ING said OPEC+'s decision to pause the hikes is an acknowledgment of the large surplus that the market faces, according to Reuters. "Obviously, still plenty of uncertainty over the scale of the surplus, which will be dependent on how disruptive U.S. sanctions will be to Russian oil flows."

Goldman Sachs:

Goldman Sach sees Brent averaging $56/b in 2025, Goldman Sachs Head of Oil Research Daan Struyven said in an interview with Bloomberg TV.

- Struyven said that the bank estimate oil production to be up 4% on the year in Q4," he said
- "That in combination with the global stocks data that are rising supports the view that there is another $10/b of downside over the next year for Brent," Struyven said.
- He added that 2025 and 2026 are pretty exceptional in how much supply is likely to come back to the market, from both core OPEC producers such as Saudi Arabia, and also production in the Americas, particularly Brazil and Guyana.
- "We see a sharp slowdown from 2027 onwards in supply growth and we see this as the last jump in global supply," Struyven said. "Prices will probably fall next year before rebounding as demand continues to grow and supply flatlines."

Goldman Sachs

Goldman Sachs assumes the OPEC8+ Q1 pause in crude output increases is maintained throughout 2026.

- The bank expects a 0.2m b/d increase in OPEC8+ output in Q4 vs a quota increase of 0.4m b/d.
- Meanwhile, investors are eyeing potential disruption in Russia and Venezuela, the bank says.
- US-Venezuela tensions area rising, "although a potential regime change may be a long-term positive for Venezuela liquids supply, which is -1.7m b/d lower than its 2001-2010 average."
- Regarding stock builds: "Temporary supply chain frictions – especially sanctions and port fees – drive the contrast between the 142m bbl builds on water over the last 2 months but nearly flat US commercial stocks."
- Russia, Iran, and Venezuela drove 30% of the increase in oil on water over the past 2 months.
- "Unless secondary sanctions on Russian crude are enforced strictly, we still assume that much of the oil on water will eventually arrive on land."
- Global visible stocks have built by 1.5m b/d over the past 90 days, Goldman Sachs says.

HSBC:

HSBC said OPEC+ is focused on regaining market share, and the bank expects oil output quota increases to accelerate in the second and third quarters of 2026, according to Reuters and Bloomberg.

- The first-quarter pause in OPEC+ output increases “signals caution about seasonally weaker demand, but no change in strategy,” the bank said.
- The pause has a marginally positive impact on HSBC’s balances, though not enough to avoid a large surplus next year.
- The bank remains ‘very skeptical’ about the group reversing the unwinding and cutting again.
- OPEC would only cut if Brent fell below $55/bbl for a prolonged period, the bank said.
- HSBC forecasts a 2.7m b/d oversupply in Q1 2026, vs 3m b/d previously.
- A surplus of 2.1m b/d is seen in 2026 on average, vs 2.4m b/d previously.
- HSBC maintains its Brent forecasts at $65/bbl from Q4 into 2026 and beyond.

Bank of America:

OPEC+’s decision to pause the unwinding of output cuts in Q1 2026 is an added sign the producer group wants to regain market share in a “long and shallow price war” without sinking the market, according to Bank of America’s Francisco Blanch.

- The pause "shows the group does not want to risk creating an oil glut that sends prices crashing below $50/bbl."
- He added that the market share battle will be stretched out as curbing high-cost producers’ output will take time with Brent in the $60s/b range.
- In the longer term, it could make oil more competitive over time with natural gas and other fuels, helping support its share in the energy mix.

Phillips 66:

Phillips 66 expects the light/heavy spread to widen during Q4 and into Q1 2026, the company said in its Q3 earnings call.

- In the US Gulf Coast, through Q3, the Canadian heavy crude became more attractive than HSFO, causing refiners in PADD 3 to run more Canadian crude, supporting differentials, P66 added.
- However, in Q4, additional OPEC+ crude is starting to show an impact, while HSFO is showing a relative weakening, although remains strong.
- Moreover, WCS production increased by 250k b/d in Q3 and another 100k b/d is expected for Q4, P66 said.“And as more Canadian volume comes online, along with the winter diluent blending, we're seeing the WCS diff weaken by about $1/b in Q4 versus Q3, the company forecasts.
- With rising Canadian production, WCS diffs could widen by another dollar in Q6 compared to Q4.
- “So as additional crude hits the market, including Middle Eastern crude, we'd also expect to see Middle Eastern OSPs to fall and put additional pressure on heavy crude,” P66 said.

Gunvor:

Russian oil will continue to find its way to market despite tougher US sanctions according to Gunvor Group Chief Executive Officer Torbjörn Törnqvist speaking to Bloomberg TV.

- "Down the line, you will see that more and more of the disrupted Russian oil, one way or another, finds its way to the market," Törnqvist said, "It always does somehow."
- "China, they will continue to buy, some Indian refiners are already continuing to buy it," Törnqvist said. "No one can say for sure, but I will say that price reactions and supply consequences of this will be relatively mute."

Chevron:

Chevron's CFO Eimear Bonner said there's a risk the oil-price slump persists into 2026 amid robust output from OPEC+ and non-OPEC+ producers.

- "There's been some OPEC+ unwinds and growth also in non-OPEC supplies," Bonner said during an interview, cited by Bloomberg. "We potentially could see some pressure continue this year and into 2026."
- Rising supplies from OPEC and its allies have combined with growth in Guyana, Brazil, Canada, and the US to drive international crude prices down almost 13% on the year.
- Analysts are predicting a slowdown in supply growth as 2026 progresses, setting the stage for a potential price rebound.
- "We are still very constructive when we think about the outlook for oil and gas over the long term," Bonner said. "Eventually supply and demand will come into balance."