

MNI Oil Weekly: Sanctioned Stocks Could Squeeze Surplus

By Lawrence Toye & David Lee (18/02/2026)

Executive Summary:

- Consensus points to a 2026 surplus, putting **sanctioned barrels in the spotlight**.
- **Oil Markets:** Brent crude front month futures have been bouncing between about \$66.5/bbl and \$70.7/bbl since Jan. 4 as the market weighs uncertain geopolitical risks in Iran and Russia. Diesel and gasoline cracks have rebounded in recent days and remain elevated by historical standards despite drifting lower in the week to Feb. 16.
- **Analyst Views:** See oil market views and outlooks from key analyst names

Sanctioned Stocks Could Squeeze Surplus

A key question in the oil market for 2026 is no longer whether there will be a supply surplus, but how large it will be — with attention turning to sanctioned barrels and their potential impact on bearish fundamentals.

- On a simple total supply versus total demand calculation, estimates for the 2026 surplus stretch from Kpler's 1.5m b/d crude supply surplus to as high as the IEA's 3.7m b/d. The febrile geopolitical environment has provided some boost to crude, with sanctions enforcement another key factor that could leave the topline surplus figure misleading as to the scale of spare volumes in the market.
- S&P Global Energy noted at their London Energy Forum that there is a 2m b/d upside risk to oil supply, spanning from Libya and more robust U.S. supply. However, geopolitical risks from Iran and Russia create a 5m b/d downside risk to their base case.
- While the worst-case scenario likely comes from war risks, further sanctions enforcement also creates downside risks that are already manifesting themselves in available barrels to the global market.
- Sanctioned exporters account for around 20% of global seaborne crude, according to Vortexa. Meanwhile, Kpler estimates that around 75% of global floating storage now comes from currently sanctioned barrels.
- Vortexa data estimates around 292m bbl of Russian and Iranian crude on tankers, up 50% on the year. Russian volumes have roughly doubled year-on-year.

Oil on Water from Russia & Iran – Source: Bloomberg Finance L.P.



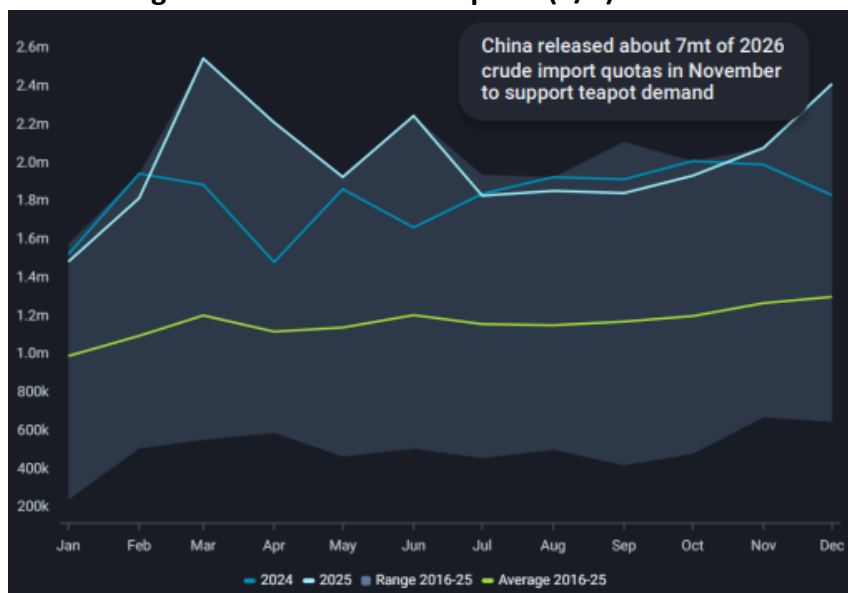
- One of the issues is the closing net on demand centres for black-market barrels. Outlets for Russian crude are largely limited to China and India, while Iranian flows are narrowed further to just Chinese buyers. This means that while the physical oil on the water grows, significant volumes are effectively off limits.
- This vast hoard of sanctioned oil that’s stranded at sea is driving up global prices as buyers compete for other barrels, Vitol’s CEO Russell Hardy told London Energy Week. Hardy noted that sanctions enforcement, with a spotlight on India in particular, is forcing refineries that would typically buy Russian and Iranian crude to increasingly turn elsewhere, driving up prices in the process.
- India’s buying of Russian oil has dropped from 1.7m b/d to 1.1m b/d, according to Kpler, as pressure from the U.S. encourages it to lower its imports from Moscow. This reduction could mark a pivotal shift after years of largely unrestricted sanctioned oil flows. It is helping prop up prices, despite warnings from analysts about a growing supply glut. As India scales back, the onus shifts to China to absorb the sanctioned stocks, increasing pressure on tradable flows.

China’s Role in Market Balances

Absent a significant geopolitical supply shock, crude outlooks for 2026 are likely to hinge on whether China keeps scooping up surplus barrels, Pacific Investment Management and Gunvor said.

- S&P Global Energy sees China’s stockpiling rate at around 530k b/d, with levels expected to accelerate from Q2. Stockpiling is critical for overall market balances, but where China picks up those volumes also matters. Although this scenario is seen as remote, if China were to eschew Iranian and Russian crudes completely and shift towards non-sanctioned barrels, crude benchmarks would find additional support.
- “China remains a focal point for the battle of sanctioned barrels,” Kpler said in its IE Week outlook. “As Urals discounts fall, it could take the strain as [Venezuelan] Meresy crude becomes pricier and Iranian crude gets too risky.”
- The other Chinese outlet for sanctioned barrels is independent refineries in the country’s Shandong province. This contrasts with state-owned refiners who largely avoid sanctioned barrels due to their reliance on the international financial system. The independent “Teapot” refineries depend on importing sanctioned crude at heavy discounts to avoid falling into the red, given their limited refining margins. However, the scale of their imports is limited by state-set crude quotas.

Shandong’s Sanctioned Crude Imports (b/d) – Source: Vortexa



Sanctions Enforcement Not Inevitable

While the market may be fearing sanctions enforcement as a potential tightener of market balances, it may in fact be the talk of looser balances driving the sanctions ramp-up.

- Market analyst John Kemp told an audience at Kpler’s International Energy Week panel that a more emboldened U.S. sanctions enforcement over the last few months has been due to very low prices. Kemp’s view is that oil sanctions are essentially endogenous - a function of price.
- With U.S. mid-terms set for November and gasoline pump prices always a key driver of sentiment for voters, the Trump administration may reassess their sanctions policy if unsanctioned balances tighten while sanctioned barrels remain off limits on the water.
- A loosening of the official sanctions on Iran and Russia appears unlikely without movement in the geopolitics, such as progress on a nuclear deal, regime change, or an end to the war in Ukraine. However, the level of enforcement could shift some buyers back to Russian and Iranian crudes if the price and risk of secondary sanctions were low enough.
- John Kemp expects to see a delicate balance between price and enforcement risk, with U.S. policy continuing to impact the oil market this year. “With prices falling, we’d expect to see a toughening [of sanctions]; if it goes over \$80/b, a backing off would be more likely.”

Oil Markets:

Brent crude front month futures have been bouncing between about \$66.5/bbl and \$70.7/bbl since Jan. 4 as the market weighs uncertain geopolitical risks in Iran and Russia. Markets remain volatile and reacting to headlines while seeking clarification of the outcomes from US talks in Geneva this week.

Markets:

- The near-term crude call-put skews softened as the market priced in a lower risk sentiment ahead of Iranian and Russian talks but rallied again on Feb. 18 amid the lack of clear progress and continued risk of US military action.
- Crude prompt time spreads have pulled back with Brent 1-2 near the lowest since Jan. 27 as near-term supply has been boosted by the return of Tengiz and higher Russian and Venezuelan exports.
- India’s diversification of crude supplies had been driving a tightening balance for mainstream barrels despite the rise in sanctioned barrels on water. IEA maintains a view for a strong market surplus this year.
- Money managers increased net long Brent and WTI crude positions again in the week to Feb. 10. Brent net longs are the most bullish since early April while WTI net longs rose to the highest since July to extend a rise seen since mid-December.

Brent Second Month 25 Delta Call-Put Spread – Source: Bloomberg Finance L.P.



Iran:

- There was cautious optimism from both the US and Iran after talks in Geneva, but there are still significant red lines that could ultimately sink a deal.
- The Iran Foreign Minister Araghchi said that the two countries reached a "general agreement" on the basis of a potential nuclear deal that would lift sanctions on Tehran and ease the risk of war in the Middle East.
- Iran is scheduled to return with a new proposal for the US in two weeks, a US official said yesterday, according to Bloomberg, which will address the remaining gaps between the two sides.
- Iranian military drills in the Strait of Hormuz led to a partial closure on Feb. 17, though the disruption to shipping was limited. An Axios article suggested that a US-Iran war is closer than most realise, adding renewed support to oil prices.
- Following meetings with Israel's President Netanyahu earlier this month, US President Trump suggested that negotiations with Tehran could last as long as a month but cautioned that failure to reach an agreement could be 'very traumatic' for Iran.
- Iranian oil deliveries into China fell to 1.03mb/d this month from 1.25mb/d in Jan, Vortexa shows amid uncertainty over supplies due to tension with the US.

OPEC / Saudi:

- The OPEC group is leaning towards resuming oil output hikes in April after the Q1 pause, Reuters said citing three OPEC+ sources.
- The next meeting of OPEC+8 is due on March 1.
- Saudi crude exports to China are set to rise to about 56-57m bbl for contracted oil supplies loading in March, Bloomberg sources said, up from 48m bbl for Feb. Lower official selling prices to Asia attracted more demand, Reuters sources said.
- PetroChina and Rongsheng Petrochemical plan to increase liftings next month although Hengli Petrochemical will lift no volume for a third consecutive month.
- Earlier this month, Saudi Aramco cut the March Arab Light OSP to Asia by \$0.30/bbl to the lowest since 2020 at \$0.30/bbl above the Oman/Dubai average. The cut was less than expected suggesting a more positive signal for oil demand.

Russia:

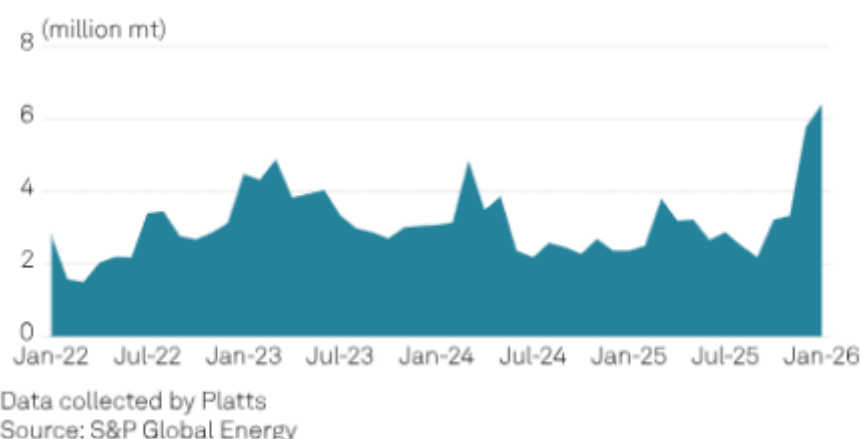
- Russia's state-run TASS reports that the latest round of tripartite talks involving Russia, Ukraine, and the US in Geneva have concluded. Russia's lead negotiator at the talks, Vladimir Medinsky, said the negotiations were "difficult but businesslike", and that a new meeting will "take place soon", but without giving a date.
- Ukrainian President Volodymyr Zelenskyy previously said that a 'deal on territory is the focus of next talks with the U.S.'.
- The Slovak government has declared an oil emergency after an interruption of supplies through the Druzhba pipeline, according to Reuters citing Slovak media. The government will release 250k tons of oil from reserves for the Slovnaft refinery. The pipeline was struck by an air attack on Jan 27.
- The Druzhba restart is being delayed by Ukraine according to Slovakian and Hungarian officials over the weekend. Mol said its main refineries continue to operate following a halt of crude deliveries via the Druzhba pipeline from Russia, Bloomberg reported.
- A fire broke out at Russia's Black Sea port of Taman on Sunday Feb. 15 after a Ukrainian drone strike, according to regional officials. The strike on the port damaged an oil storage tank, a warehouse and terminals, regional governor Veniamin Kondratyev said. Strikes also targeted Russia's Krasnodar Krai region including an oil depot overnight on Feb. 14-15

- An oil tanker collided with a berth at Russia’s Ust-Luga port as icy conditions in the Baltic Sea have worsened over recent weeks, according to regional law-enforcement authorities cited by Bloomberg. The tougher ice restrictions at ports of Primorsk, Ust-Luga, Vysotsk and St. Petersburg could limit the tankers available for fuel loadings, Reuters sources said.
- Crude loadings from Russia’s three main western ports fell in January to the lowest in eight months, with a big drop from the Black Sea partly due to weather, according to Bloomberg. Ust-Luga loaded 573kb/d, versus 625kb/d in December.
- Russia’s four-week average crude shipments edging higher to 3.39mb/d through Feb. 15, compared to 3.33mb/d in the week to Feb. 8. A step-up in Ukrainian drone strikes on refineries and a halt to piped deliveries to Hungary and Slovakia likely boosting volumes for export by sea, Bloomberg said.

China:

- China's Russian oil imports are set to climb for a third straight month to a new record high of to 2.07mb/d in February, according to Vortexa data cited by Bloomberg. Imports were estimated at 1.7mb/d in Jan.
- China’s independent refiners have purchased discounted cargoes after India has reduced buying. Shandong refiners imported 1.51mb/d of Russian crude in January, up 11.7% m/m, according to Platts.
- Far East-loading barrels were offered at a discount of around \$8.5/bbl to Brent on a DES Shandong basis on Feb. 13 and offers for Urals were a discount of \$12/bbl, Platts said.
- Urals and other grades such as Sokol and Varandey have added to ESPO blend exports creating strong competition to supplies from Iran amid uncertainty over tension with the US.
- Meanwhile, China’s nine-day Lunar New Year holiday has dampened buying interest. Although January imports hit record levels, growing volumes of oil in floating storage and reduced Indian demand mean more Russian barrels are competing for Chinese buyers.

China Independent Refiner Russia Crude Imports – Source: Platts



Venezuela:

- The US Treasury will issue more allowances easing sanctions on Venezuelan energy, a White House energy official said. Venezuela's PDVSA is in talks with many of its joint-venture partners to offer expansions to oilfields and could help raise oil and gas output.
- China has bought some Venezuelan oil that was purchased earlier by the US, according to Energy Secretary Chris Wright. The US can help Venezuela drive a “dramatic increase” in oil output this year adding several hundred thousand barrels per day of additional Venezuelan oil production by year-end, he added.

- Valero Energy is set to buy up to 6.5m bbl of Venezuelan crude in March for its Gulf Coast refineries, Reuters reported. If Valero succeeds in securing 10 cargoes or more next month, equivalent to around 210kb/d, it could surpass Chevron as the top US refiner of Venezuelan crude.
- Meanwhile, Chevron is expected to boost exports of Venezuelan crude to around 300kb/d in March, from 220kb/d in January, Reuters reported in January.
- PDVSA is so far refusing to sell to companies without individual US licenses as questions remain on what is permitted and what is off-limits, according to Reuters.
- The US has issued a general license to India's Reliance Industries that will allow the refiner to buy Venezuelan oil directly without violating sanctions, Reuters reported.
- French oil company Maurel and Pom said they are hopeful of being able to resume Venezuelan oil exports, though it was not included in a list of companies covered by the licenses.
- Vitol, Trafigura and Chevron continue lifting most Venezuelan exports as January shipments rose to about 800kb/d but remain below last year's average.

Qatar:

- QatarEnergy has raised the term price for April loading al-Shaheen crude to the highest since November amid higher demand from India, Reuters sources said.
- The al-Shaheen crude price for loading in April at +\$0.87/bbl to Dubai compared to -\$0.33/bbl in March. Spot premiums for Middle Eastern crude have rallied as India diversifies crude supplies away from Russian barrels.

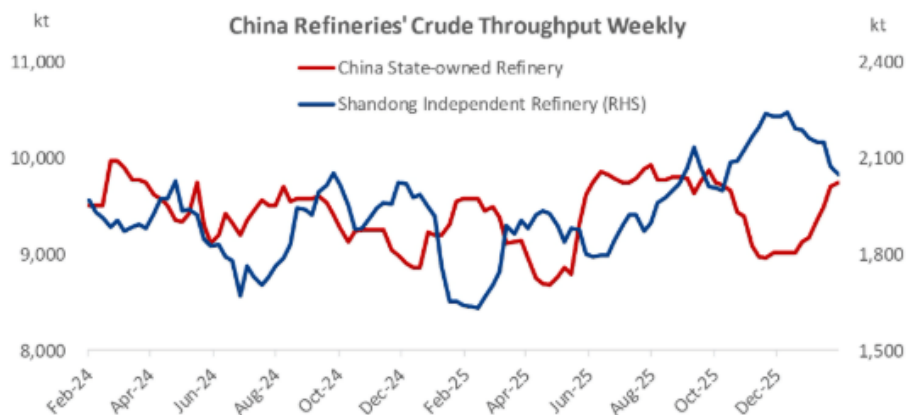
Oil Products:

Diesel and gasoline cracks have rebounded in recent days and remain elevated by historical standards despite drifting lower in the week to Feb. 16. Tightness in the global diesel market has eased amid near normal stocks and following the cold weather in late Jan but remains supported until the end of Spring refinery maintenance.

- The US diesel crack reached a low just below \$36/b on Feb 10 and gasoline crack fell below \$17/b before rising so far this week.
- The prompt ICE Gasoil spread has steadied after softening from over \$20/mt on Jan. 30 to \$8/mt although still above the low of the year of near parity in early Jan. The Jun26-Dec26 spread remains strong at over \$22/mt.
- ICE Gasoil and Nymex diesel net longs edged lower in the week to Feb. 10 after rising to the highest since November the prior week. Nymex gasoline net long positions rose to the most bullish since mid-December.
- European ARA Gasoil stocks have trended higher so far this year to just 3.8% below the five-year average. US distillate stocks were 3.4% below normal last week as US middle distillate stocks draw into US Gulf Coast maintenance season. Singapore Middle Distillates inventories were just 0.6% below normal this week.
- Strong Russia diesel exports had added bearish pressure to global markets although loadings could fall in Feb due to peak refinery maintenance in Jan, weather risks and resumption on Ukrainian drone strikes this week.
- US Gulf Coast MR ULSD arbs, and EC Canada arb, close into Europe while Arabian Gulf / West Coast India ULSD points increasingly East, Sparta Commodities said.
- Ukraine has ramped-up strikes on Russian refineries in Feb, hitting the Volgograd, Ukhta, and Ilsky refineries in the Black Sea this week. They have a combined capacity of around 500kb/d.

- Russia’s average oil processing rate declined to 5.28mb/d for Feb. 5-11, Bloomberg sourced reported. The rate represents the lowest seven-day average for Russia since the second half of November.
- The fall came as Lukoil’s 300kb/d Volgograd refinery halted operations after a drone attack on Feb. 11, a Bloomberg source said. The refinery is expected to remain halted until at least end-Feb. Refinery runs at Volgograd averaged nearly 233kb/d in the Feb. 5-11 period, down 14% on the previous seven days.
- The Tuapse and Novoshakhtinsk refineries remain halted after drone attacks in late 2025.
- Russian wholesale gasoline prices posted their sharpest weekly increase since July last year, as fresh drone attacks on refineries raised supply concerns, according to The Moscow Times.
- Nigeria’s 650kb/d Dangote refinery restarted a 204kb/d residue fluidized catalytic cracking unit on Feb. 16, according to IIR Energy cited by Bloomberg. Last month Kpler expected average runs of ~350kb/d in Q1 and 400kb/d in H1 2026. The refiner had shifted to lighter crudes in recent months to minimise the impact of the RFCC problems and preserve feed availability for other units, Kpler said.
- CDU capacity utilisation rates at China’s state-owned refineries are expected to hold steady in the week to Feb. 19, according to OilChem, with no new overhauls or resummptions heard. Among independent refineries in China’s Shandong province, CDU capacity utilisation rates are estimated to further slow to avoid inventory buildup in the holiday period.
- CDU capacity utilisation rates at China’s state-owned refineries rose by 0.36%pts in the week to Feb. 13 to average at 82.17%, OilChem said. CDU capacity utilisation rates at independent refineries in China rose by 0.35%pts on the week to 60.35%.
- China’s gasoline demand is projected to remain robust due to rising travel needs when the holiday kicked off, OilChem said. Gasoil demand is poor still with outdoor projects suspending for holiday, and logistics services stalling for the same cause. Fuel oil supply will likely contract amidst scheduled outage post the holiday, and demand is expected to remain stable.

China Refinery Crude Throughput – Source: Mysteel OilChem



- Vietnam's Nghi Son Refinery and Petrochemical will operate at 120%-125% of its designed capacity in Q1 2026 to meet domestic demand for fuels, state media reported.
- Iraq plans to stop gasoline imports that currently measure around 2k cbm per day, Bloomberg reports citing Oil Minister Hayyan Abdul Ghani. The country hopes to stop gasoline imports in Q1, maybe by the end of February, he said. Iraq’s refining capacity now exceeds 1.6m b/d while it was half this amount when the current government assumed power, Abdul Ghani said.

- India's diesel and gasoline sales fell on the year in the first half of February, although were higher compared to the previous month, state-run company data showed cited by Bloomberg. Diesel sales in February 1-15 rose 4.3% on the month to 3.129m tons but 4.4% lower on the year. Gasoline sales rose by 5.9% on the month to 1.342m tons but 1.7% lower year on year.
- Germany is in close and constructive talks with US authorities on an extension of a OFAC license for Rosneft's German subsidiary which controls the PCK refinery, German economy ministry official Frank Wetzel said cited by Reuters. A last-minute exemption from US sanctions agreed in October allowed the refinery to operate until the end of April under the current license.

Analyst Views:

Citi:

Near term oil prices could remain supported partly reflecting tighter enforcement of US sanctions on Russian and Iranian oil, alongside other supply disruptions, Citi said cited by Reuters.

- If disruptions to Russian supply keep Brent in a \$65-\$70/bbl range in coming months, OPEC+ is likely to respond by increasing output.
- The US pushes for peace deals involving Russia and Iran and a resolution later this year may ultimately push crude lower.
- "It is our base case that both Iran and Russia-Ukraine deals happen by or during the summer of this year, contributing to a decline in prices to \$60-62/bbl Brent and lowering diesel and gasoline cracks by \$5-10 dollars."
- China purchases of discounted Russian and Iranian oil is expected to continue while sanctions are in place.

Commerzbank:

OPEC+ producers might have room to raise output in Q2, Commerzbank's Carsten Fritsch said in a note.

- "Oil demand is set to strengthen, and the market appears to be less oversupplied than previously anticipated, partly due to unplanned outages and sanctions-related disruptions," he said.
- Despite the recent pullback, crude prices remain roughly 10% higher than at the beginning of the year, supporting the case for a gradual resumption of production increases.
- "However, even if production targets are raised from April onward, actual output is likely to fall short of the agreed increases, limiting the pace of supply growth," Commerzbank warned.

IEA:

The IEA revised forecasts for both supply and demand lower for 2026 in the February Oil Market Report. Global oil demand growth forecast for 2026 revised down from 930 kb/d to 850 kb/d but above last year estimated to average 770 kb/d. The revision follows the January price rally weighing on the outlook.

- Growth will all be in non-OECD, led by 200 kb/d in China. "Minimal gains in the Americas (+30kb/d y/y) and Europe (+20kb/d) counterbalanced by a contraction in Asia Oceania"
- The forecast reflects the completion of IEA's demand model changes. "Compared to last month's Report, this change has a moderately bearish impact on oil consumption for most countries"
- Global consumption of 104.87mb/d in 2026 from the IEA compares to an OPEC forecast yesterday of 106.52 mb/d.
- World oil supply growth is estimated at 3.1 mb/d to 106.2 mb/d in 2025. The 2026 growth forecast was revised lower from 2.5 mb/d to 2.4 mb/d at 108.6 mb/d.
- Global oil supply fell 1.2mb/d in Jan amid weather, Kazakhstan, Russia and Venezuela issues.

Kpler:

OPEC+ is forecast to resume oil output increases with the remaining portion of its 1.66mb/d in voluntary cuts unwound over six months, according to Kpler cited by Dow Jones.

- Not all members can fully meet their quotas with countries such as Russia having limited capacity to increase output.
- Therefore, a major downside impact on crude prices is expected to the limited with Brent averaging \$65/bbl this year, Kpler added.

OIES:

China's crude buying will likely remain a source of support for oil markets in 2026, OIES said. The government's storage mandate, the complex geopolitical situation and its impact on price volatility suggest that stock builds will continue in 2026.

- Overall, China's stocks levels are estimated around 1.1-1.3 billion barrels, equivalent to 110-140 days of import cover, and tank utilisation rates around 60-70%.
- There is currently an estimated 60-80m bbl of operational stocks that refiners will look to draw down on to manage their costs.
- A reduced availability of discounted, sanctioned crudes and higher oil prices would likely slow the stockpiling momentum, especially with state-owned refiners footing the bill.
- Uncertainty surrounds future stock build and whether they hold around 2025 levels estimated around 0.75m b/d or closer to historical levels of 0.40m b/d. There seems to be no upper limit from the government's perspective and tank space is not a constraint.