

MNI Oil Weekly: U.S./India Trade Deal Sparks Russia Scepticism

By Andrew Couper & David Lee (04/02/2026)

Executive Summary:

- **U.S./India Trade Deal Sparks Russia Scepticism:** As part of this week's U.S./India trade deal, a supposed halt in Russian oil buying draws questions around commitment.
- **Oil Markets:** Iran remains a key oil driver as risks remain around escalations this week. Hopes remain pinned on diplomacy prevailing. Meanwhile, the Trump administration focusses on opening licenses in Venezuela to serve the industry a boost.
- **Analyst Views:** See oil market views and outlooks from key analyst names

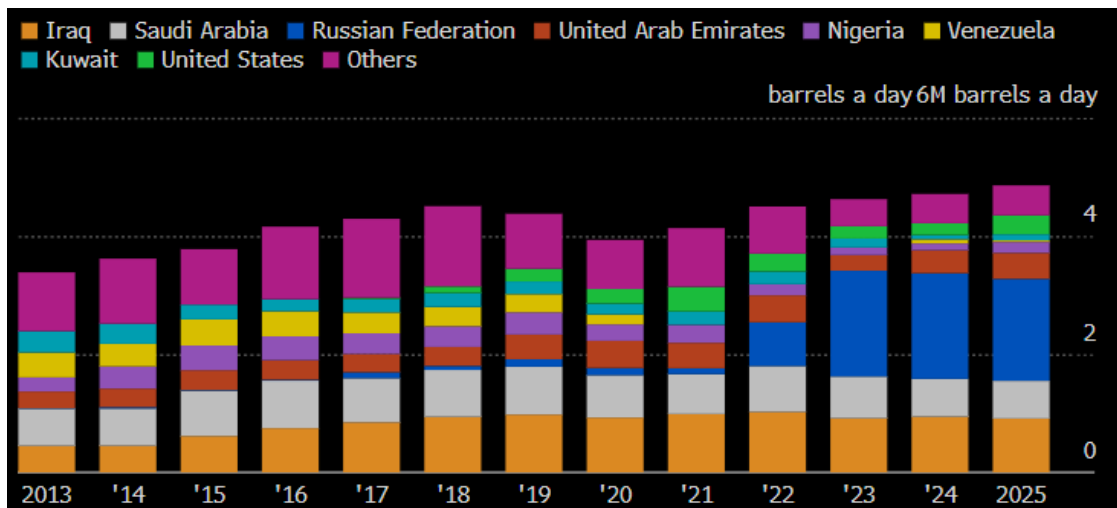
U.S./India Trade Deal Sparks Russia Scepticism:

In a move that could reshape global oil trade dynamics, U.S. President Donald Trump announced on February 2, 2026, a bilateral agreement with Indian Prime Minister Narendra Modi aimed at easing trade tensions. The deal centers on reducing U.S. tariffs on Indian goods in exchange for India's commitment to halt purchases of Russian oil, according to Trump.

- However, details on the oil component remain murky, with New Delhi offering no explicit confirmation and Moscow denying any awareness of such a shift. For oil traders, this pact signals potential disruptions in supply chains, though India's deep-rooted reliance on discounted Russian crude suggests a complete cutoff is unlikely.
- The agreement follows months of strained relations, exacerbated by U.S. sanctions on Russia following its 2022 invasion of Ukraine. India, the world's third-largest oil importer, emerged as a key buyer of Russian seaborne oil sold at steep discounts after Western nations curtailed their imports. Indian refiners ramped up purchases to offset lost supplies from Iran—halted in 2019 due to U.S. sanctions—and initially from the U.S. itself.
- By late 2025, these flows had slowed under U.S. pressure, including a 25% penalty tariff imposed last summer specifically targeting India's Russian oil buys. Yet, shipments persisted, underscoring New Delhi's balancing act between affordable energy needs and geopolitical alliances.
- Trump's announcement came via a Truth Social post after a phone call with Modi. He stated that India would "stop buying Russian Oil, and to buy much more from the United States and, potentially, Venezuela." In return, the U.S. would lower its main tariff on Indian products from 25% to 18% and eliminate the additional 25% punitive duty. Trump also claimed India would purchase over \$500 billion in U.S. energy, technology, agriculture, coal, and other goods, while reducing its own tariffs and non-tariff barriers on U.S. imports to zero.
- This echoes an earlier October 2025 statement from Trump, where he said Modi had agreed to cease Russian oil purchases, though no firm deal materialized at the time, and Indian refiners continued buying from Moscow.
- Modi responded on social media this week following Trump's post, expressing delight over the tariff reduction: "Delighted that Made in India products will now have a reduced tariff of 18%. Big thanks to President Trump on behalf of the 1.4 billion people of India for this wonderful announcement."
- Notably absent from Modi's post were any references to oil commitments, agricultural imports, or Venezuelan crude—key elements highlighted by Trump.

- This omission has fuelled scepticism among analysts about the deal's oil-related enforceability. Just days earlier, on January 31, Trump had referenced a conceptual deal during a flight to Florida, suggesting India would buy Venezuelan oil to replace Russian supplies. Reuters reported that the U.S. had informed Delhi it could resume Venezuelan purchases, which India had stopped last year after a U.S. 25% tariff on such imports. Indian Oil Corp., the country's largest refiner, indicated it could incorporate Venezuelan crude, but this would likely remain peripheral compared to Russia's volumes, which became a mainstay post-2022.
- Russia's response has been unsurprisingly swift and dismissive. On February 4, Kremlin spokesman Dmitry Peskov told reporters that Moscow had "heard nothing from Delhi" about halting oil flows. He emphasized respect for U.S.-India relations but reiterated Russia's intent to develop its "advanced strategic partnership" with India.
- Deputy Prime Minister Alexander Novak, a former oil minister, downplayed the impact, stating that Russian energy resources are "in demand" and that "supply will always find demand" as balances adjust.
- The deal's tariff relief provides immediate economic wins for India, which exports nearly a fifth of its goods to the U.S. The previous 50% effective rate—combining the base 25% with the penalty—was the highest on any major trading partner, hammering labor-intensive sectors like textiles, leather, footwear, and jewelry. October 2025 trade data showed Indian exports down nearly 12% year-over-year, with a record trade deficit.

Russia Overtook Rivals to Become India’s Top Supplier – Source: Kpler data/Bloomberg L.P. graphics



- The cut to 18% aligns India with peers like Vietnam (20%) and Southeast Asia (19%), potentially boosting its appeal as a manufacturing alternative to China.
- While India has taken conciliatory steps, a complete cessation of Russian crude seems improbable given the need for cheap oil to fuel economic growth. Geopolitically, a durable pact could pull India closer to the U.S. bloc, straining what appeared growing ties with China and Russia in 2025. However, without firm details on the scale of Russian oil reduction, the deal's longevity remains uncertain. The lack of details from Trump also do not give insight into when he wants the flows to stop with a number of Russia cargoes currently set for March delivery.

- Trump's push for Venezuelan alternatives aims to fill the gap, though India halted those imports in 2025 under tariffs. If resumed, Venezuelan crude could provide a hedge, but Russia's discounted barrels have proven resilient. For global oil markets, this could mean rerouted Russian supplies, stabilizing prices if demand shifts seamlessly, though China remains the only real other alternative, pushing Russian discounts even further.
- Markets will monitor Indian refiner announcements and shipment data for signs of compliance. While the tariff thaw revives Indian export competitiveness, the oil pivot, if it materializes, could mark a pivotal realignment in energy geopolitics.
- India is now in a tricky position to decide if it plays into Trump's requests or aims to keep developing relations with Russia and China in a similar fashion to last year.

Oil Markets:

Oil prices have fallen back from last week after a drop in an Iranian risk premium following US President Donald Trump saying Iran was "seriously talking" with Washington while the underlying market narrative remains bearish due to a projected surplus. A U.S. strike on an Iranian drone on Tuesday did however add some of the risk premium back in but talk hopes remain regardless. Recent supply disruptions in the US and Kazakhstan have eased but focus remains on the Middle East. A global risk off sentiment also followed through into oil which began with the FED Chair announcement and weighing on key markets like precious metals.

Market:

The near-term crude call-put option skews are holding a strong bias to the calls with only a relatively small correction in the call volatilities despite the recent pullback in the front month futures. The Brent second month call-put 25 delta spread has pulled back from a high of +14.7% last week to around +12.4% but still well above early Jan levels suggesting concern remains for geopolitical risks to supply.

- Brent crude prompt time spreads continue to suggest a tight picture with the near-term curve in strong backwardation despite a pullback in recent days. The Brent 1-2 month spread reached the highest since early July around +\$1.1/bbl while the Jun26-Dec26 backwardation rallied to the strongest since 2023, having switched from contango late last month.
- Money managers increased net long Brent and WTI crude positions to the most bullish since early August in the week to Jan. 27. Brent net longs are the highest since early September but with long only positions at the highest since April. WTI net longs rose to the highest since early August.

Iran:

Iran's president said on Feb. 3 that he had instructed his foreign minister to "pursue fair and equitable negotiations" with the US.

- White House envoy Steve Witkoff and Iranian Foreign Minister Abbas Araghchi are expected to meet on Feb. 6 in Istanbul together with representatives of several Arab and Muslim countries to discuss a possible nuclear deal.
- An Iranian Shahed-139 drone flew towards the Abraham Lincoln aircraft carrier, stationed in the Arabian Sea, "with unclear intent" on Tuesday and was shot down by an F-35 US fighter jet, the US military said.

- The resulting news, first published by Reuters, saw oil prices move higher as it risked derailing the talks process. White House press secretary Karoline Leavitt has said that talks with Iran later this week are still scheduled to take place.
- The EU designated Iran's Islamic Revolutionary Guard Corps (IRGC) as a "terrorist organization" after a meeting of European foreign ministers, with Iran's foreign minister saying that the Iranian armed forces are ready to "immediately and powerfully" respond to any possible attack by the US.
- Chinese teapots are buying discounted Iranian heavy crude for Feb and Mar delivery to replace stalled Venezuelan shipments, Reuters sources said. Discounts of Iranian Heavy were about \$12/bbl to ICE Brent, making it the cheapest available substitute.
- Iranian oil stored on tankers in Asia dipped to 41.72m bbl, from 46.26m bbl since the start of the year, according to Kpler.

Russia:

US envoy Steve Witkoff said he held constructive talks with a Russian envoy in Florida as efforts continue to try and work towards a peace deal - though progress remains limited.

- The second round of US-backed trilateral peace talks involving Ukraine and Russia will take place on Feb 4-5 in Abu Dhabi, Ukrainian President Volodymyr Zelenskyy announced.
- Axios reported after the talks on Wednesday: "The talks were productive", a Ukrainian official says" after noting that "the 1st day of U.S. mediated peace talks between Russia and Ukraine in Abu Dhabi has ended. Talks to resume on Thursday in the late morning (local time), according to a source familiar". A reminder that prior talks have been deemed productive but failed to yield meaningful progress.
- Zelenskyy posted on X that Russia continues to strike its energy infrastructure through the cold winter period, again setting back any minor optimism on a proposed strike halt negotiated by Trump. On Jan. 29, Trump said that Putin has agreed to halt strikes on Ukraine's energy infrastructure for one week after he issued a personal appeal to the Russian leader due to the extreme cold in Ukraine.
- The EU is considering a proposal to replace the Russian oil price cap with a ban on maritime services, Bloomberg reports. The move could see European companies prohibited from providing services such as insurance and transportation needed to move Russia's oil regardless of the price of the commodity. The price cap for Russian crude oil is currently set to fall to \$44.10 per barrel from Feb. 1.
- Crude loadings from Russia's three main western ports fell in January to the lowest in eight months to 8.22m tons, with a big drop from the Black Sea partly due to weather, according to Bloomberg.
- Russia's four-week average crude shipments edged higher to 3.27m b/d through Feb. 1, up from a revised 3.22m b/d for the period to Jan. 25, Bloomberg reports. China is the most popular destination as Indian flows have plunged to 3-year lows. The amount of Russian crude held on tankers continues to climb, exceeding 140m bbl for a third week.
- Two unusual Russian crude deliveries to Indonesia in December and January are a possible signal of Russian sellers seeking new markets for the barrels amid pressure from western sanctions, Reuters said.
- Russian Urals oil is increasingly being stored on tankers against a weak demand backdrop according to LSEG. Around 19 million barrels of Urals loaded before December 15 are awaiting discharge or remain in transit.
- Discounts for Russian ESPO Blend crude oil have narrowed for March-loading cargoes to about \$7-\$8/bbl below Brent on brisk demand from China as buyers move to quickly secure barrels, Reuters reports citing traders. Urals traded at a discount of \$11-\$12/bbl delivered to China.
- Russia's Lukoil has agreed to sell most of its international assets to US private equity firm Carlyle Group, according to a Lukoil statement. The deal is conditional, not exclusive, and subject to regulatory approvals as talks continue with other potential buyers. The deal does not include assets in Kazakhstan. Kazakhstan

exercised a clause to buy out these assets from Lukoil and had filed its request to the US Treasury, Energy Minister Yerlan Akkenzhenov said on Jan. 28.

India: *See main for further details

India's refiners seek government guidance on future Russian oil purchases after Trump said on Feb. 2 he had agreed to cut tariffs on India in return for them stopping Russian oil purchases. Trump has claimed that India has committed to more US and potentially Venezuelan oil as replacements. Modi hailed the "wonderful" news in a post on X but did not explicitly mention his country's oil purchases. US tariffs on Indian exports are set to fall from 25% to 18% and an additional 25% leveled by Trump last summer is also expected to be shelved.

- Indian refiners would need a wind down period to halt Russian oil purchase, sources said to Reuters.
- India's Reliance Industries will buy up to 150kb/d of Russian oil from February for its domestic-market refinery, a company executive said. The move follows a one-month pause in Russian crude imports, Reuters reported, with Reliance set to receive sanctions-compliant supplies in February and March. Reuters reported that Reliance is seeking US approval to resume Venezuelan crude purchases, as it diversifies away from major Russian oil suppliers.

Venezuela:

US Treasury has issued a general license on Venezuela exports, allowing multiple companies to produce and trade the oil, with notable exceptions China, Russia and Iran. Venezuela has also passed the hydrocarbon law reforms.

- Venezuela's oil exports reached 800,000 bpd in January under US control – compared to 498,000 bpd the month prior LSEG reports. The US was the main import destination at 284,000 bpd – 220,000 bpd of which came via Chevron. It had only exported 99,000 bpd the month prior. Vitol and Trafigura exported around 392,000 bpd under the post Maduro deal they signed to help move Venezuelan barrels.
- Trump said that India will buy Venezuelan oil to help replace Russian barrels while China could also make a deal with the U.S. to buy Venezuelan oil.
- The Venezuela story so far for oil has been more about the redirection of oil towards the Gulf rather than any production differences.
- US refiner Citgo has bought a Venezuelan crude cargo for the first time since 2019 Reuters reports. The refiner bought a cargo of about 500,000 barrels of Venezuelan heavy crude for February delivery from Trafigura. Valero is in talks with sellers to purchase more Venezuelan crude as sanctioned oil flows out of the country.
- Heavy Canadian crude's widening discount on the US Gulf Coast after the US pledged to release 50m bbl of Venezuelan crude "seemed to be a little bit of overreaction," John Whelan, Imperial Oil CEO said.
- Heavy Canadian Cold Lake's discount to the monthly average of WTI has narrowed to \$7.25/b from a wide \$8.50/b reached after the US captured President Nicolás Maduro earlier this month and took control of the country's oil assets.
- Floating storage of Venezuelan-origin crude in Asia slumped to 8.26m bbl on Jan. 28, half of the 16m bbl at the start of 2026, according to Kpler.

OPEC:

OPEC+ agreed to keep its oil output levels unchanged for March at its Feb. 1 meeting. The group raised production quotas by about 2.9 million barrels per day from April through December 2025. In November, OPEC+ froze further

planned increases for January through March 2026 because of seasonally weaker consumption. Messaging from the meeting lacked any further guidance on post March production outlook.

- Saudi Arabia is expected to set the March price for its Arab light crude for Asia at a discount for the first time since Dec 2020 trade sources said to Reuters. The March official selling price for flagship Arab Light crude may decline by 50-85 cents a barrel to a discount of 20-55 cents below the average of Oman/Dubai quotes – six sources said via a Reuters survey.

Kazakhstan:

Chevron said on Jan. 30, the majority of Tengiz capacity is expected online within a week, and unconstrained/full production levels within February 2026.

- Oil output at Tengiz rose to 23k tons (183k bbl) on Feb. 1 from 14.9k tons (118k bbl) on Jan. 31 after a mid-Jan. outage the sources said. Production is expected to continue increasing and reach 54k tons (430k bbl) by Feb. 4, the sources said.
- Kazakhstan's total oil and condensate production fell to 1.27m b/d in January, from 1.86m b/d in December, a source said. Tengiz output fell to 234k b/d, compared to 692k b/d in December.
- The decline in Kazakhstan's overall January output was driven by CPC restrictions as well as the Tengiz outage.
- Kazakhstan said it has been assured by Chevron it will take measures to ensure reliable and safe operations at the Tengiz field following the recent power outage.

China:

China continues to pursue strategic energy security as new capacities could keep China's crude stock builds elevated, particularly in Q2 when storage available and seasonal demand align, Vortexa said.

- About 80m bbl of new state-run storage and 24 mb of other capacity and incremental refining throughput, suggests renewed ability for China to absorb crude inventories.

Nigeria:

Shell Nigeria Exploration and Production Company has begun planned maintenance on its Bonga Floating Production Storage, according to a statement on Feb. 1. The floating vessel has oil capacity of 225kb/d and gas capacity of 150mcm/d per day. Operations are expected to resume in March following the completion of the turnaround.

Oil Products:

ICE Gasoil net longs rose again to extend a recovery from a low in Dec to the highest since Nov. in the week to Jan. 27. **Nymex diesel** switched back to a net long position having held a narrow net short over the previous couple of weeks. Nymex gasoline positions edged slightly higher to hold a net long position.

- **ICE gasoil backwardation** has deepened, but Westbound arbs are capping gains at the front of the curve, according to Sparta Commodities. ICE gasoil has moved into backwardation all the way out to June 2027, yet Feb.-Mar. ICE gasoil spreads appear to have topped out since the end of last week, falling from around \$12.50/mt to around \$8.75/mt at present.

- Brazil is importing large volumes of **heavily discounted Russian diesel again**, Bloomberg said. Shipments averaged around 151,000 b/d in January, nearly three times December's 58,000 b/d, while US imports to Brazil fell by roughly 20,000 b/d month on month. The rebound in Russian refinery production follows recovery from Ukrainian attacks.
- **Asian gasoline margins** have fallen to the lowest since Jan. 2025, with Singapore 92-octane gasoline against Brent down to \$3.73/bbl, amid prompt oversupply and rising inventories, according to Reuters. "Market is getting oversupplied with China, India, South Korea and Japan all adding exports to the market," said Pankaj Srivastava at Rystad Energy.
- **Singapore light distillates stocks** rose in the week to Jan. 28 to the highest since March 2023 and over 18% above the seasonal five-year average.
- **Kuwait's Al-Zour refinery** ramped up fuel oil exports in January to all-time highs after recovering from an outage, with most cargoes bound for Southeast Asia, according to Reuters. The refinery is now running at nearly full capacity, a source familiar with the matter told Reuters.
- **Ukrainian drone strikes on Russian refineries** eased back in January, allowing the Kremlin to increase fuel supplies to the domestic market and resume gasoline exports, according to Bloomberg. Ukraine hit just three Russian refineries during the month, according to Bloomberg estimates, down from 11 in December.
- **Russia's weekly refinery runs** held steady at just over 5.4m b/d during the week of Jan. 22-28 with Rosneft's Tuapse facility on the Black Sea coast remaining offline, Bloomberg reports citing a person with knowledge of the matter.
- **Peak maintenance for Russian primary oil refining** is expected in January and September this year, according to Reuters calculations. About 5m metric tons, or 1.1mb/d, of Russia's primary oil refining capacity is expected to be offline this month. About 4m tons is anticipated to be offline in September.
- **Russia's seaborne diesel and gasoil exports** rose 19% m/m in January to around 4.0m tons as a seasonal drop in domestic demand prompted traders to ship more overseas, Reuters reports. Exports however were 4.6% lower y/y as maintenance, drone attacks and other factors affected output.
- The restart of the 204k b/d residue FCC at the 650k b/d **Dangote refinery** in Nigeria has been delayed again, according to a report by IIR. The unit has been under maintenance shutdown since Dec. 8.
- **Nigeria's 650k b/d Dangote refinery** reduced crude imports by 18% on the month in January amid planned maintenance works, according to Bloomberg. However, more supertankers have been booked to haul WTI to Dangote for February and March. Nigeria accounted for 93% of the 9.96m bbl of crude delivered to the refinery in January, with the remainder from the US.
- **US refiners** are expected to have about 1.30mb/d of capacity offline in the week to Jan. 30, according to IIR Energy cited by Reuters. The refining capacity offline is expected to increase by 188kb/d from the previous week and compared to just 0.86mb/d offline in the week to Jan. 16.
- **Valero plans to import gasoline to California** as it idles its Benicia refinery this quarter and will assess whether it will keep its sole remaining West Coast plant open toward the end of the decade.
- **Chevron plans to run more Venezuelan crude** in its US refineries, the company said in its earnings call. Chevron can take an further 100,000 b/d of Venezuelan crude into its system between Pascagoula and its 285,000 b/d El Segundo refinery in California, where it has coking capacity.
- **China's CNPC plans** to restart a unit at its refinery in Dalian, months after closing it as it plans to capitalize on high margins running Russian oil, Reuters sources report. The company is preparing to resume operations at the 200,000 barrels per day crude distillation unit, which could restart around mid-year. ESPO is currently trading about \$12/bbl below Murban in China.
- CDU capacity utilisation rates at **China's state-owned refineries** are expected to rise on the week, according to OilChem, as SinoChem Quanzhou is scheduled to raise production after completing overhauls. Among independent refineries in China's Shandong province, CDU capacity utilisation rates are

estimated to remain reduced ahead of the Chinese New Year holiday. CDU rates at China's state-owned refineries averaged 80.02%, while rates at independent refineries were 60.91%. Among Shandong's teapots, CDU utilisation rates averaged 53.60%.

- **China's gasoline demand** is projected to tick up ahead of the holiday travel season, with end-market players potentially ramping up the procurement, OilChem said. Gasoil demand is expected to further reduce, as outdoor projects gradually come to a stop. Furthermore, logistics services demand will likely weaken further.
- **China's oil products demand** is expected to fall 3.9% y/y to 363m tons in 2026 with contracted road fuel falling from a peak since 2023, according to CNPC's Economics & Technology Research Institute cited by Bloomberg. Gasoline demand is forecast to fall 3.5% y/y to 149m tons, diesel demand is forecast down 5.8% y/y to 173m tons, but kerosene demand is expected to rise 3.2% y/y to 41.6m tons.
- **India's demand for refined oil products** is forecast to rise 2.8% in the fiscal year from April to a record of about 251m tons, according to oil ministry estimates cited by Bloomberg. The 2026-27 growth is expected to be supported by transport fuels.

Analyst Views:

Citigroup:

The Iran geopolitical risk premium is around \$7-10/bbl for Brent but will likely decline with an expected US – Iran deal this year, Citigroup said.

- The US and Israel are expected to take limited actions against Iran in the near term that avoid an escalatory response.
- Smaller steps to push the country into a deal over its nuclear programme include limited US military actions and oil tanker seizures.
- A base case gives a 70% probability for limited actions "reflects U.S. sensitivity to higher energy prices" amid domestic political considerations.
- Citi shows a 30% chance of heightened but limited conflict and internal political instability in Iran causing intermittent oil production and export disruptions.
- Risk of substantial regional supply losses is seen at 10%.
- Easing balances at pricing hubs due to higher Iranian crude prices leading to reduced levels of Chinese stockpiling will contribute to softer prices.

Citi:

Oil prices may stay elevated due to rising geopolitical risks, US restrictions on Russian oil purchases and continued Chinese buying, despite the previous market oversupply expectations, according to Citi cited by Reuters.

- Kazakhstan outages, severe cold in the US, Middle East geopolitical tensions and tightening US restrictions on Russian oil purchases have supported prices above \$60/bbl.
- Risk of an attack on Iran has raised the geopolitical premium by potentially \$3 to \$4/bbl and with risk of a further increase.
- "Our bullish price case of \$72/bbl and our 0-3m price target of \$70/bbl both reflect such a scenario, if realized," Citi said.
- Citi noted continued China inventory-driven imports, as apparent crude stock builds averaged around 0.7mb/d in 2025.

- Even if OPEC+ resumes production increases from April, tighter restrictions on purchases of Russian oil could reduce oil supply that would offset any returns.

Macquarie:

Geopolitical risk premium and physical supply losses have created a strong floor for crude prices, Macquarie said in a note on Tuesday cited by MT Newswires.

- Macquarie said it expected Brent below \$60/bbl by now and trending toward the low \$50/bbl range.
- Global onshore crude stocks have increased at a rate of 1.75m b/d to date, Macquarie noted.
- The large CPC outage has tightened the global crude markets and left EU refiners looking for alternatives.
- Weather related disruptions to Russian and Libyan loadings have also contributed to the tightness.
- Supply risks have also emerged with Russian sanctions, Ukraine targeting CPC and Black Sea vessels and tensions in Venezuela and Iran.
- Looking ahead, Macquarie expects flat price and structure performance to remain somewhat disconnected from fundamentals until oversupply visibility improves at pricing hubs.

Sparta Commodities:

The Brent-Dubai EFS looks overvalued given Mideast crude purchases and the return of CPC Blend supplies, according to Sparta Commodities.

- Brent is “looking lofty,” with the expensive Forties arbitrage into northwest Europe and inverted West-East light sweet arb. Murban shows an arb into northwest Europe via Suez.
- Atlantic Basin refinery turnarounds in March “should push out light sweet arbs to the East.”
- Brent could rally more than Dubai on escalating Iran geopolitical tensions despite the potential impact on sour crude supply.
- Persistent widening in WTI/Brent paper is likely in response to a spiking EFS, higher relative freight and weakening Murban premiums, to try to keep WTI competitive in Asia and the prospect of more Venezuelan crude into the US Gulf.
- WTI's extreme discounts landing into NWE are set to remain while geopolitical gains in Brent persist, Physical North Sea premiums have already peaked.
- The front month WTI-Brent spread has widened from around -\$4/bbl at the start of Jan to around -\$5.2/bbl today, the widest since April 2024. The Brent-Dubai EFS is the highest since June at +\$2.84/bbl compared to near parity in early Dec, Bloomberg shows.

OIES:

As pressure mounts on suppliers of sanctioned crudes, China's independent refiners are drawing down on their inventories and increasing runs, OIES said. Crude demand and refinery runs will remain supported in Q1 2026.

- The US intervention in Venezuela impacts oil flows, as well as creates uncertainty for debt repayment and the China's investments in Venezuela.
- Refiners are also bracing for tighter margins in the second half of 2026, when large refiners return from maintenance and new integrated refining-chemical complexes ramp up.
- Despite government efforts to tackle overcapacity in chemicals, around 10 Mt of new steam-cracker capacity is expected to come online in 2026. The 0.30 mb/d Hapco integrated refinery, in Liaoning province, is scheduled to start up this year.

- All refiners are also assessing the impact of a new consumption tax of \$34 per barrel on naphtha used for ethylene and aromatics production, although the start date is unclear. Rebates are available but take three to six months to process. Naphtha imports are likely to rise with the benefit from faster rebate processing and no local surcharge.

Kpler:

The East-West naphtha spread is expected to “more meaningfully widen” from the second half of February, according to Kpler cited by Bloomberg.

- European blending demand for gasoline exports will be curbed as US and Nigerian refinery maintenance winds down.
- Flexi-crackers in Asia are expected to continue favouring naphtha over LPG until the second half of March.
- “A lighter Spring cracker maintenance schedule, improved aromatics margins and rising Chinese imports amid changing tax structures and fresh cracking capacity add a floor of support.”
- China’s naphtha imports are likely to rise with the benefit from faster tax rebate processing and no local surcharge, OIES said.
- Despite government efforts to tackle overcapacity in chemicals, around 10 Mt of new steam-cracker capacity is expected to come online in 2026, OIES added.