

Argus *Refined Products Outlook*

Refined Products Outlook

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Contents

1. Executive Summary
2. Overview of the crude market
3. Gasoline
4. Naphtha
5. Gasoil/Diesel
6. Jet Fuel
7. Fuel Oil
8. Refining Margins



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Executive Summary: Refined Products Outlook

Cracks move in different directions as gasoline and HSFO gain support while diesel and jet fuel lose momentum following G7 announcement to release diesel stocks

October Monthly Outlook	Gasoline	Naphtha	Diesel	Jet fuel	HSFO	VLSFO
Northwest Europe	↑	↑	↓	↓	↑	↑
Mediterranean	–/↑	↑	↓	↓	↑	↑
US Gulf coast	↑	–/↑	↓	↓	↑	↓
Asia-Pacific	–/↑	↑	↓	↓	↓	↓

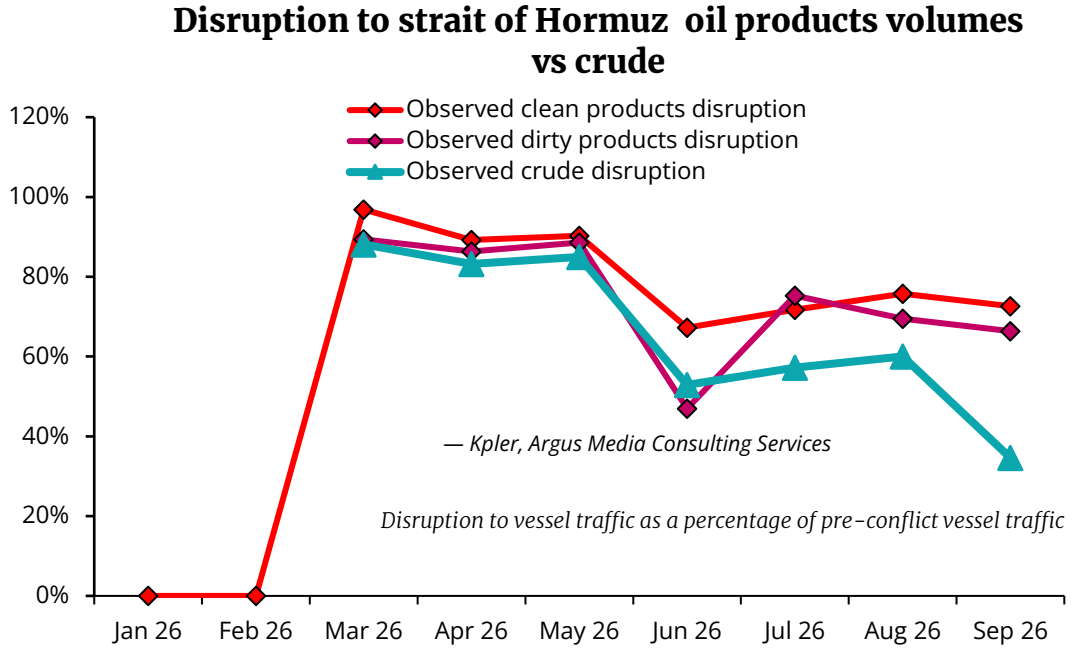
Near term price drivers

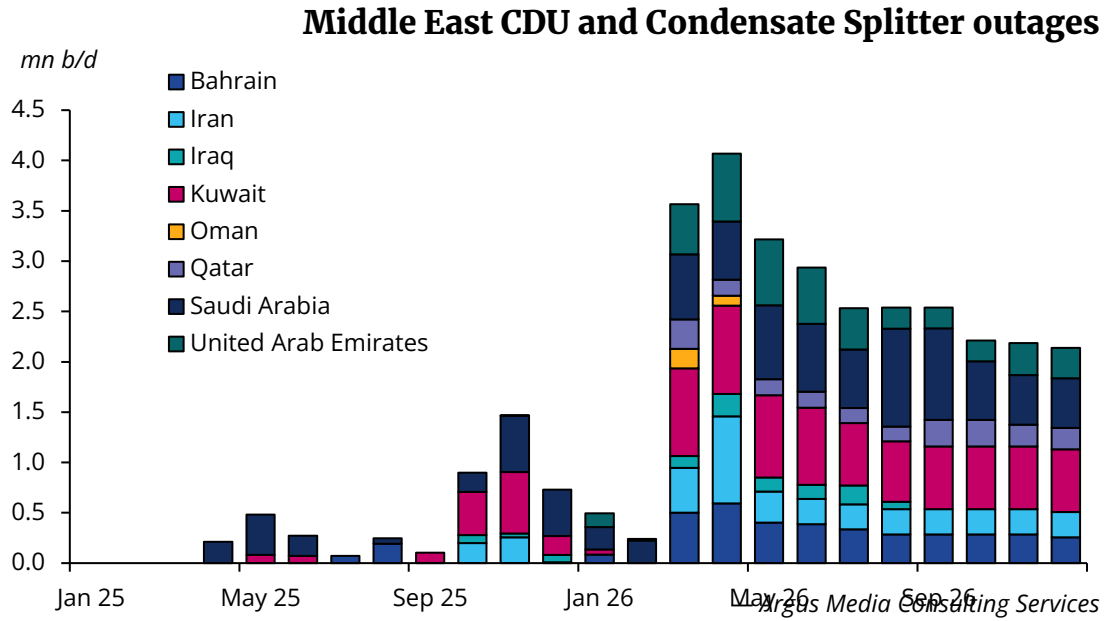
	Bullish	Bearish
Gasoline	↑ Chinese clean-product export licences remain constrained ↑ Indonesia's large spot purchasing programme tightens Asia-Pacific balances ↑ Atlantic Basin gasoline inventories remain below historical norms ↑ Mediterranean structural deficit and Turkish import demand persist ↑ Refiners continue to favour diesel and jet fuel yields	↓ Winter-grade gasoline increases blending flexibility ↓ Seasonal demand declines across the Atlantic basin ↓ Light fourth quarter maintenance supports refinery availability ↓ Additional supply expected as maintenance concludes
Naphtha	↑ Replenishment buying expected after weak September purchasing ↑ Returning steam-cracker capacity supports feedstock demand ↑ Improving petrochemical co-product economics in Asia	↓ Petrochemical margins remain weak by historical standards ↓ Chinese capacity additions continue to weigh on fundamentals ↓ Gasoline blending support expected to soften from September highs
Middle Distillates	↑ Russian diesel exports remain heavily constrained ↑ Middle East product exports remain well below pre-war levels ↑ European inventories remain relatively low ahead of winter ↑ Seasonal heating and agricultural demand support consumption	↓ Emergency stock releases could ease prompt tightness ↓ Light maintenance schedule supports refinery throughput ↓ Improving crude logistics through Hormuz ↓ Demand destruction risk rises if prices remain elevated
Fuel oil	↑ Low inventories continue to support values ↑ Bunker demand remains resilient ↑ Blendstock availability remains relatively constrained ↑ Product export disruptions continue to support HSFO fundamentals	↓ Middle East HSFO exports have increased sharply ↓ Fuel oil availability is improving across major regions ↓ Rising Venezuelan heavy crude availability supports fuel oil production ↓ Greater Atlantic-to-Asia export flows ease regional tightness

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Special Topic I: Refined products face greater logistical constraints than crude

Quality risks and more complex operations limit STS transfers for clean products in the Mideast Gulf





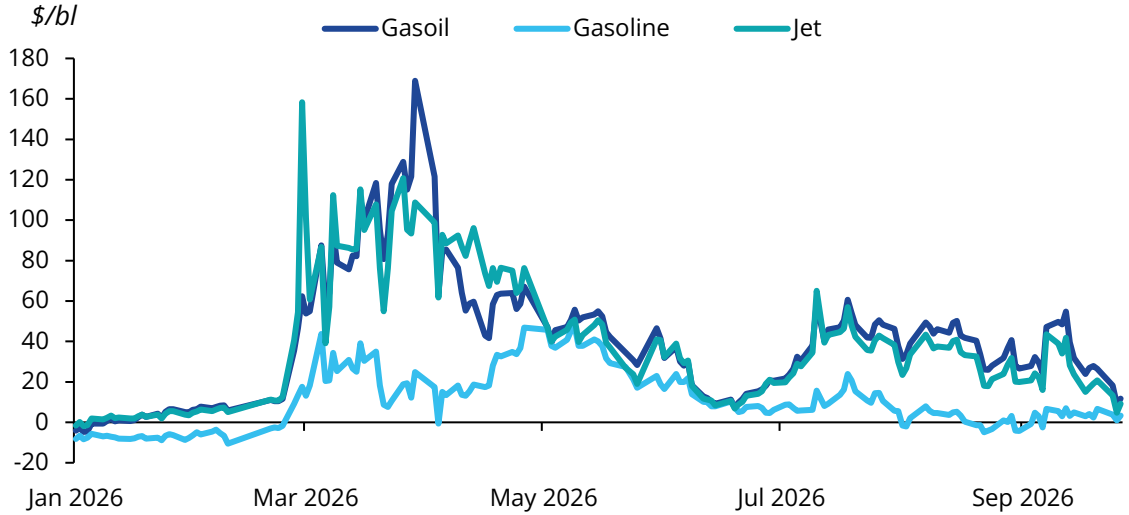
- Crude exports have proven more adaptable to disruption than refined products. Saudi Arabia and other producers have increasingly relied on ship-to-ship (STS) transfers to maintain crude flows through the Strait of Hormuz, helping offset disruptions to traditional export routes and Red Sea trade.
- Refined products are less suited to large-scale STS operations because quality control is more critical. Unlike crude, diesel, gasoline and jet fuel have already been refined and certified to specific product specifications, making contamination and off-specification risks more difficult to manage.
- Each additional transfer increases operational complexity. Tank cleanliness, previous cargoes, transfer equipment and water contamination can all affect product quality. Even small changes in sulfur content, density or flash point can create commercial issues for buyers and sellers.
- The slower recovery in refined product exports reflects more than refinery outages in the Middle East. STS activity for products has increased far less than for crude, partly because of the operational constraints associated with handling clean products, but also because higher freight rates, limited alternative export routes and quality-management requirements increase the cost and complexity of moving products.
- As a result, crude exports through Hormuz are likely to recover faster than diesel, gasoline, jet fuel and naphtha exports. This helps explain why product balances remain tighter than crude balances despite improving crude logistics and a gradual recovery in regional production.

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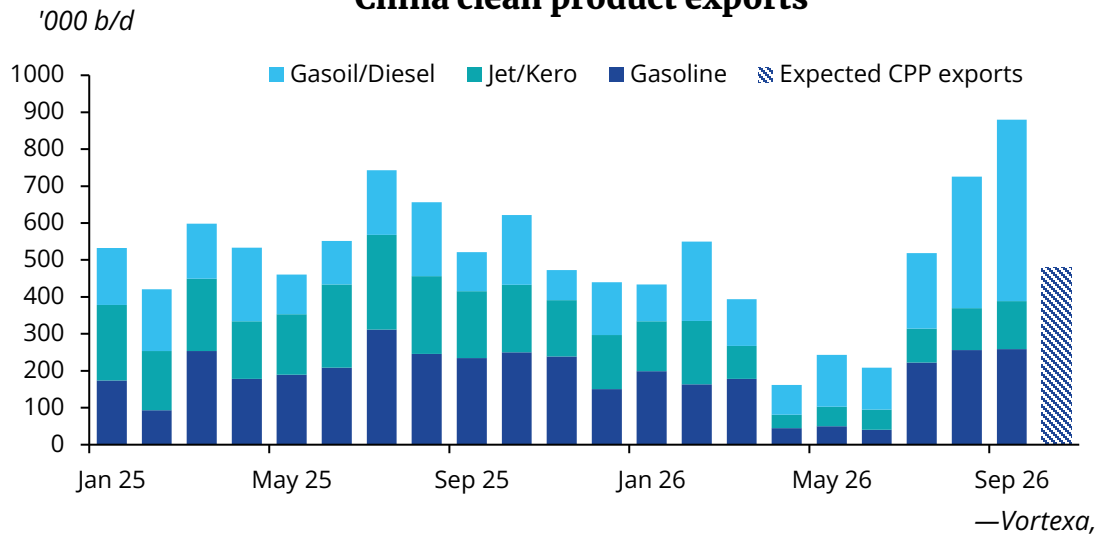
Special Topic II: China remains the wildcard for regional fuel markets

The outlook depends less on refinery runs and more on whether Beijing allows exports to recover

China export arbitrage to Singapore



China clean product exports



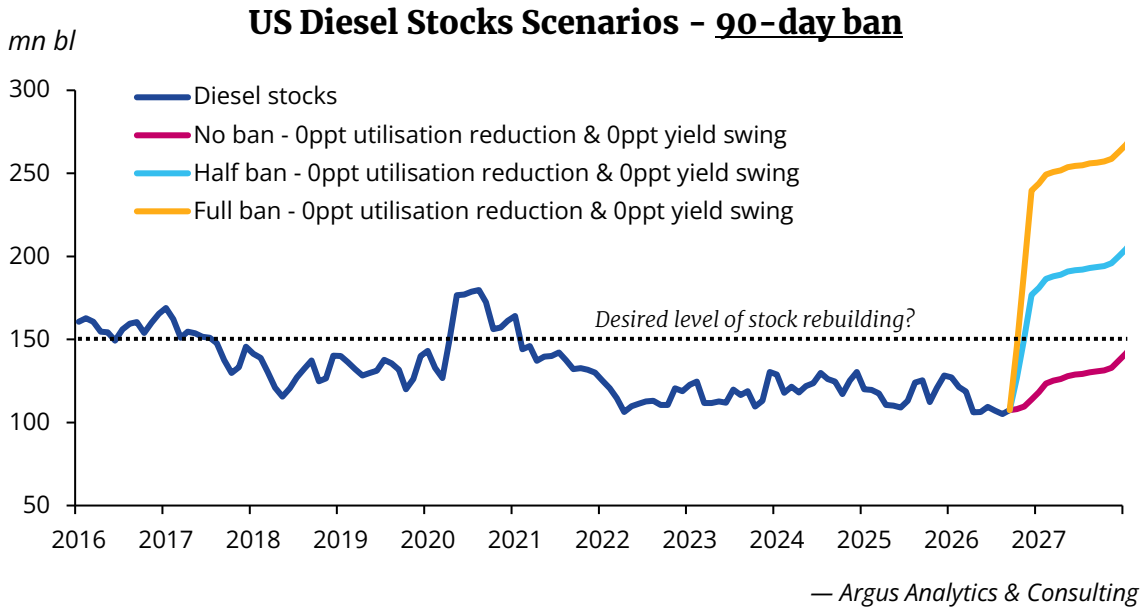
—*Vortexa, ACP*

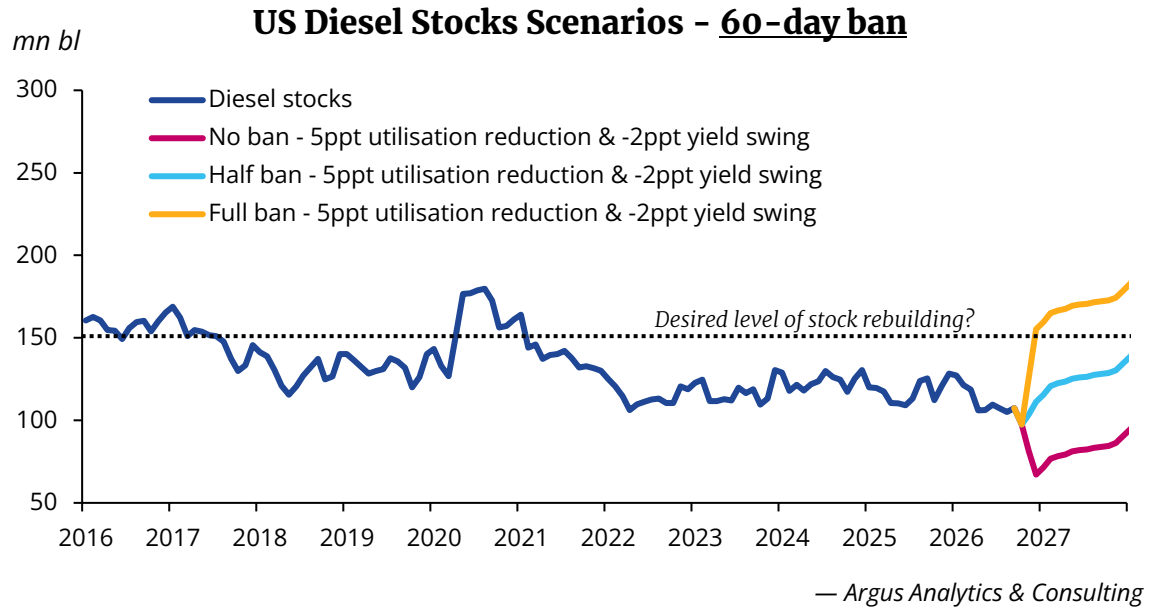
- China remains the key uncertainty for regional product balances because exports are driven as much by policy as market economics. Clean product exports more than tripled from second-quarter levels to average 708,000 b/d in the third quarter after authorities increased export allowances. However, the recovery has relied on inventory drawdowns rather than a significant improvement in domestic supply fundamentals.
- The recent rebound may prove difficult to sustain. China's commerce ministry has reportedly stopped issuing new October clean-product export licences, reducing expected exports to around 480,000 b/d from earlier expectations of 740,000 b/d. This removes an important source of supply from regional gasoline, diesel and jet fuel markets at a time when inventories remain tight.
- Crude availability remains a constraint. Chinese crude imports have recovered from June lows but remain well below pre-war levels. September imports averaged 7.3mn b/d, more than 25pc below the same month last year, while refinery runs averaged 13.8mn b/d. Inventory drawdowns have helped bridge the gap, but stock declines accelerated in September and are unlikely to be sustained indefinitely.
- Independent refiners are under the greatest pressure. Arrivals of discounted Russian and Iranian crude averaged 1.5mn b/d in September, down 47pc from August and 39pc year on year. With crude supply constrained and export access limited, independent refiners face increasing operational pressure, while state-owned refiners are focused on maintaining domestic supply and export commitments.
- Chinese exports are therefore likely to remain below earlier market expectations through the remainder of the year. Any further reduction in export availability would delay the easing of Asia-Pacific gasoline and diesel markets, reinforcing China's role as the key swing supplier for regional product balances.

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Special Topic III: US diesel export ban raises more questions than answers

Any meaningful stock recovery is likely to require lower exports, lower refinery runs, or both





- The global diesel market was rocked in late-September by US President Donald Trump endorsing a Republican-backed proposal to ban diesel exports to bring down the cost of fuel domestically. No firm plan has been provided for what the ban could look like, but the idea was initially opposed by the American Petroleum Institute and Energy Secretary Chris Wright as well as other industry and energy groups. On 30 September, Trump appeared to cool on the idea of the ban, recognising concerns about raising the price of gasoline and jet fuel if refiners ended up having to cut utilisation rates.
- Indeed, our analysis shows that a 90-day, full ban on diesel exports– which are averaging close to 1.5mn b/d in recent months – spanning this quarter would prove very challenging. If refinery utilisation rates remained unchanged at their current high levels, diesel stocks would surge well beyond even the high point seen during the Covid period, whilst even a 50pc reduction in exports would see stock surpassing the Covid-peak.
- A more workable ban would involve a 50pc reduction in exports for 60 days spanning November and December, accompanied by a 5-percentage point reduction in overall crude runs, as well as a two-percentage point swing away from diesel into gasoline, jet and fuel oil. This scenario would see US diesel stocks rise by 14mn bl by the end of the year, and approach 2016 levels by the end of 2027, when we already expect diesel tightness in the US begin to dissipate.

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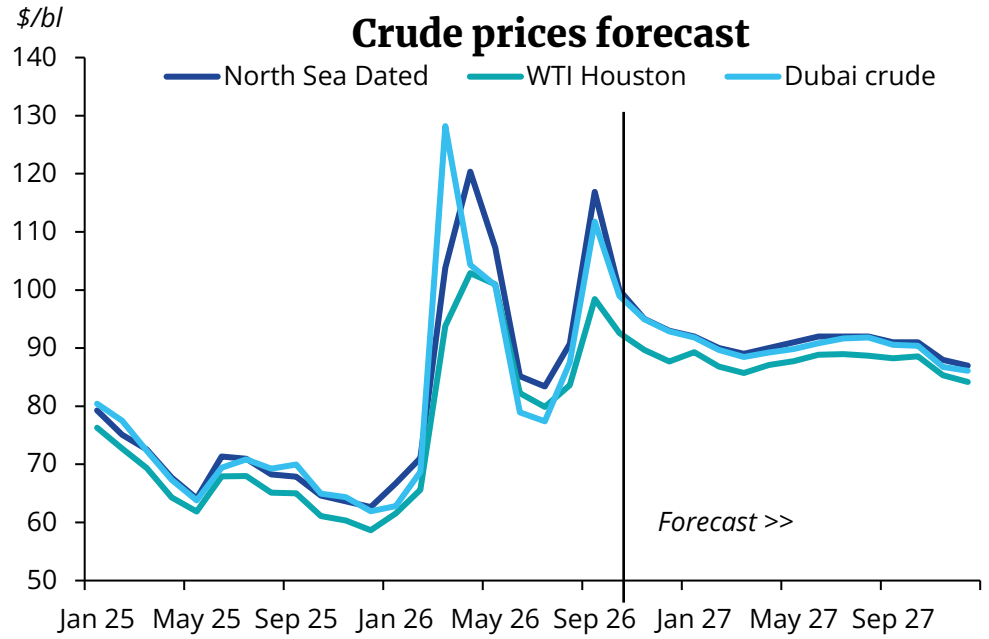
Overview of the crude market

Geopolitical risk persists, but crude markets are adapting to supply disruptions

- Crude prices remain heavily influenced by geopolitical risk, although the immediate threat of a major Saudi supply disruption has eased. Prices rallied sharply in September following the attack on Saudi Arabia's East-West pipeline, as the outage raised concerns over the kingdom's ability to maintain exports outside the strait of Hormuz. The disruption was particularly significant because the pipeline had become a critical route for crude exports through Saudi Arabia's Yanbu and the Red Sea.
- In the end, and despite early fears of a prolonged outage, repairs and work-rounds have allowed flows to resume swiftly. The system is now reportedly operating at more than 75pc of capacity, significantly reducing fears of prolonged crude shortages. Saudi Arabia has also demonstrated an increasing ability to reroute exports. As Red Sea shipments came under pressure from Houthi attacks, Saudi crude exports shifted towards the Gulf and the strait of Hormuz, supported by higher use of ship-to-ship transfers and more flexible marketing arrangements.
- By September, more than 4mn b/d of Saudi crude and condensate was estimated to be moving through Hormuz, roughly double the volume exported via the Red Sea. There seems to be an increasing sense that the situation is continuing to improve, with the prospect of sustained shortages receding. Recent strength in crude prices has very much been focused on the physical North Sea Dated market, reflecting a tight prompt scene, with strong refiner demand spurred on by sky-high margins.
- Geopolitical risk will continue to support sporadic crude price rallies, but the market has adapted better than expected to disruptions in the Middle East. The restoration of Saudi export flows and increasing use of alternative routes suggest the likelihood of sustained shortages is diminishing. While volatility remains elevated, underlying fundamentals point to weaker crude prices over the coming quarters.

Crude prices forecast, *$/bl*

	Sep 26	Oct 26	Nov 26	Dec 26	Jan 27	Feb 27	Mar 27
North Sea Dated	116.89	100.00	95.00	93.00	92.00	90.00	89.00
WTI Houston	98.42	92.59	89.67	87.69	89.29	86.85	85.74
Dubai	111.79	99.00	94.95	92.85	91.82	89.66	88.47



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8. Refining Margins

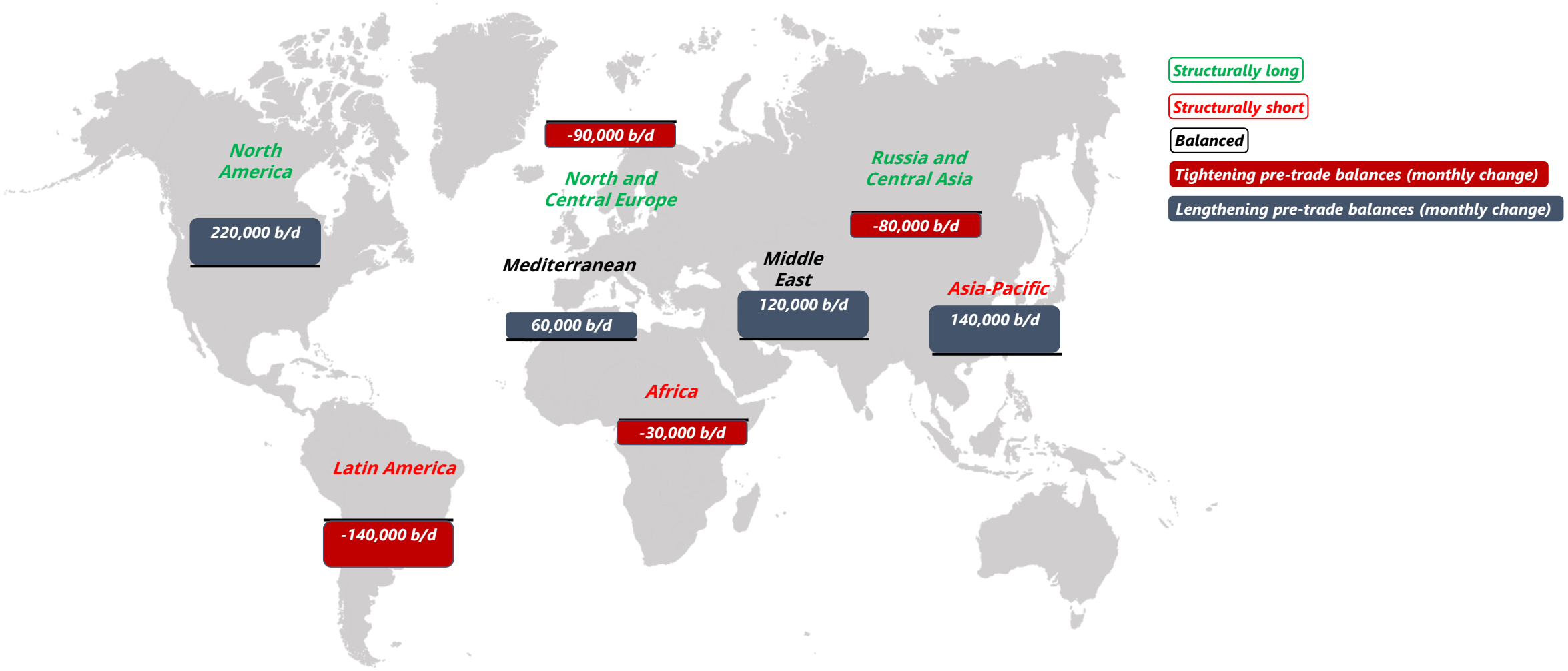


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Regional gasoline pre-trade balance, Oct vs Sep

Gasoline supply recovers from August tightness, although autumn maintenance limits the pace of easing



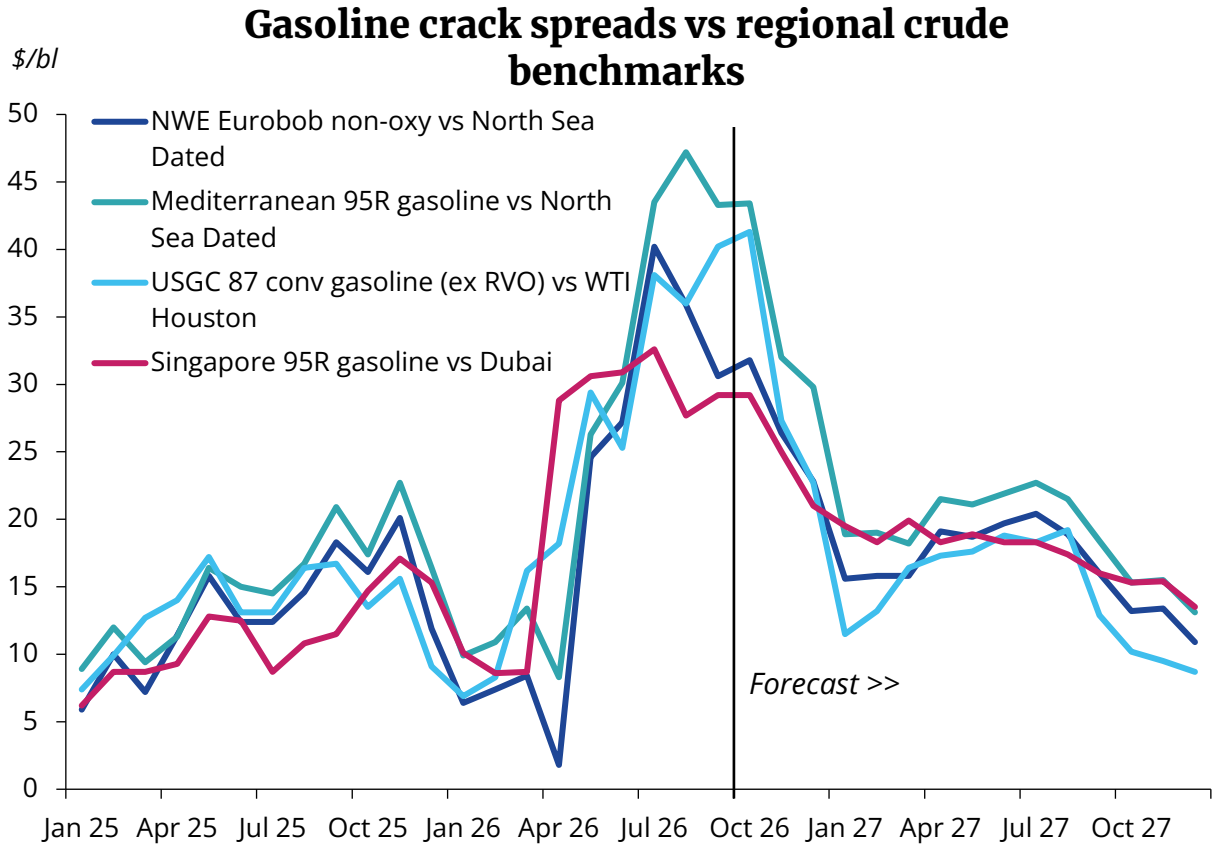
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Click here to access the price dataset: Light Distillates Outlook Workspace

Gasoline Outlook

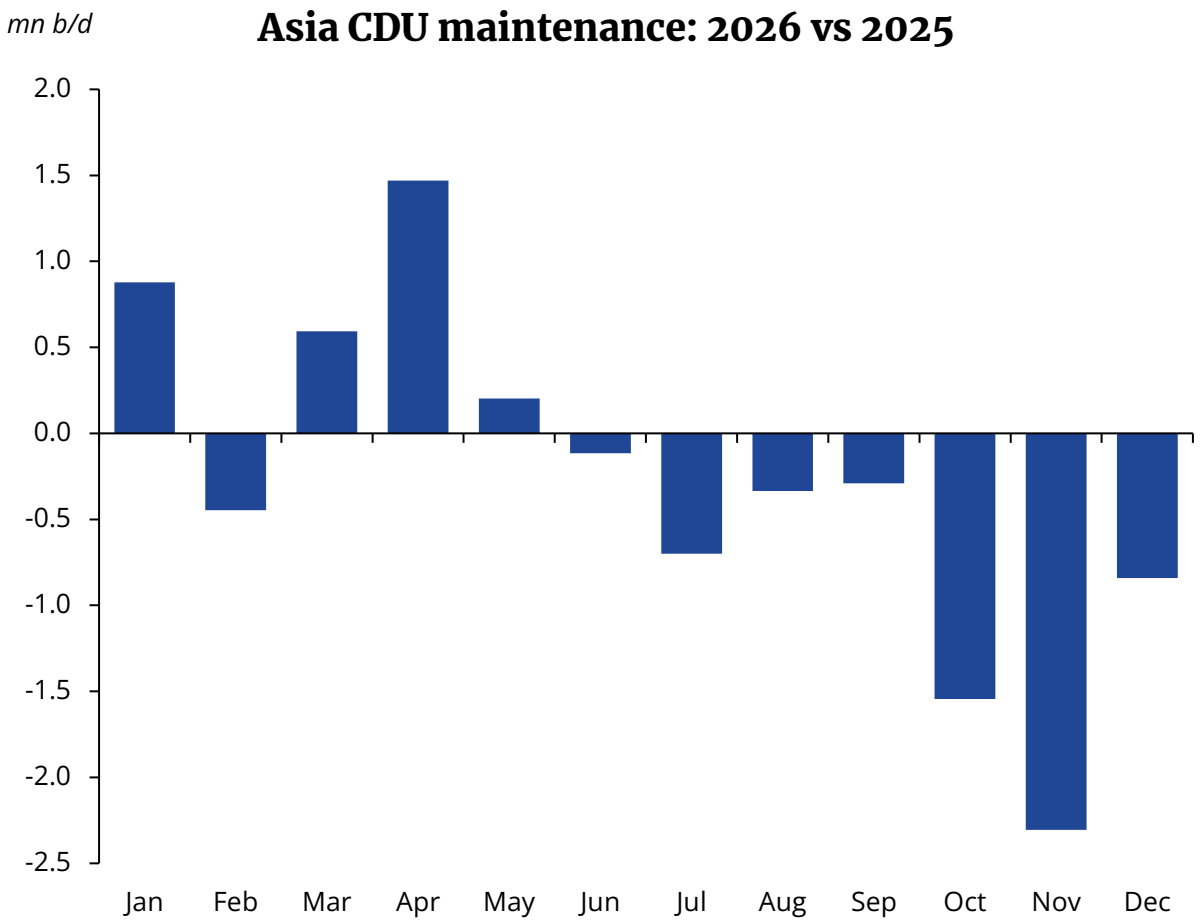
Supply-side risks continue to outweigh seasonal demand weakness, supporting gasoline cracks into the fourth quarter



- Gasoline cracks rose to unseasonal across the major refining regions in September, supported by low inventories, constrained export availability and disruptions to regional supply. Cracks should retreat from these peaks as seasonal demand declines and winter-grade specifications increase blending flexibility, but the correction is expected to be uneven.
- **Asia-Pacific** has the strongest near-term outlook. Indonesia's unexpectedly large spot requirements now coincide with China's suspension of new October export licences, reducing the supply available to an already tight prompt market. A light fourth-quarter maintenance schedule should eventually improve refinery output, but cracks are likely to remain supported until Chinese exports resume and Indonesia secures its outstanding requirements.
- **Northwest European** cracks should initially correct as winter-grade supply increases and seasonal consumption weakens. But low inventories and the possibility that recent German demand was deferred rather than destroyed should limit the downside and leave the market vulnerable to renewed prompt tightness.
- **Mediterranean** cracks should continue to outperform northwest Europe, supported by a deeper regional deficit, lower refinery production and sustained Turkish import demand. The premium should narrow as refinery maintenance ends, but competition with Asia and Africa for Indian supply will prevent a rapid return to a balanced market.
- **US Gulf coast** gasoline should soften seasonally in the base case, but the outlook has become increasingly policy-sensitive. Any US diesel export restriction that leads to lower refinery throughput would reduce gasoline production and exports, while encouraging European refiners to prioritise middle distillates at the expense of gasoline yields.

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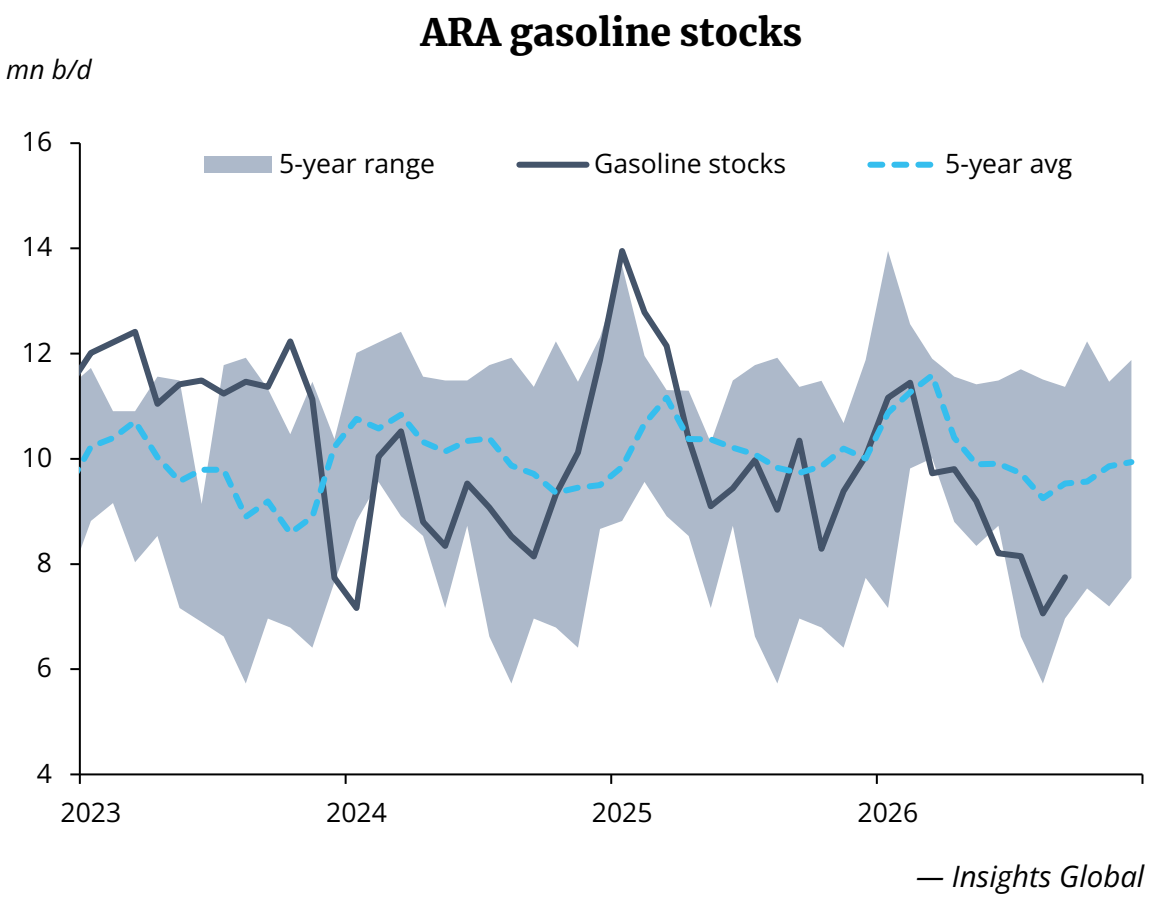
Light maintenance offers delayed relief as as Indonesia demand collides with lower Chinese exports



- Asia-Pacific gasoline cracks are expected to remain supported in the near term as Indonesia's unexpectedly large spot requirements coincide with a sharp reduction in Chinese export availability, reinforcing an already tight prompt market. Pertamina is seeking 1.6mn bl for late October and early November and up to 10.1mn bl of 90R and 92R gasoline for November-December, increasing competition for regional supply.
- The suspension of new Chinese October export licences has removed a key source of expected supply, reducing clean product exports and prompting some refiners to cancel October-loading cargoes. Singapore gasoline spreads have already strengthened following the announcement, while inventories remain near five-year lows and backwardation continues to signal tight prompt availability.
- A lighter fourth quarter maintenance schedule should eventually support higher refinery throughput, creating the principal downside risk to gasoline cracks later in the quarter. However, higher refinery runs will not automatically translate into greater gasoline availability. Chinese refiners may retain barrels to rebuild domestic inventories or prioritise higher margin diesel and jet fuel production, while Indian refiners must balance export opportunities against domestic requirements, following a couple of domestic refinery outages.
- Operational constraints are also delaying the supply response. The start-up of Balikpapan's 90,000 b/d RFCC has been postponed until at least November, extending Indonesia's import dependence, while Saudi Arabia’s Jizan remains offline and limits the availability of replacement supply. Although an easing of South Korean loading disruptions should provide some prompt relief, it is unlikely to rebuild regional inventories on its own
- Asia-Pacific gasoline cracks should therefore remain firmer for longer than previously expected before gradually easing later in the quarter. The pace of the correction will depend less on refinery utilisation and more on the resumption of Chinese export licences, higher Indian export availability and the completion of Pertamina's procurement programme. Until then, Asian balances are likely to remain vulnerable to prompt tightness despite improving refinery availability.

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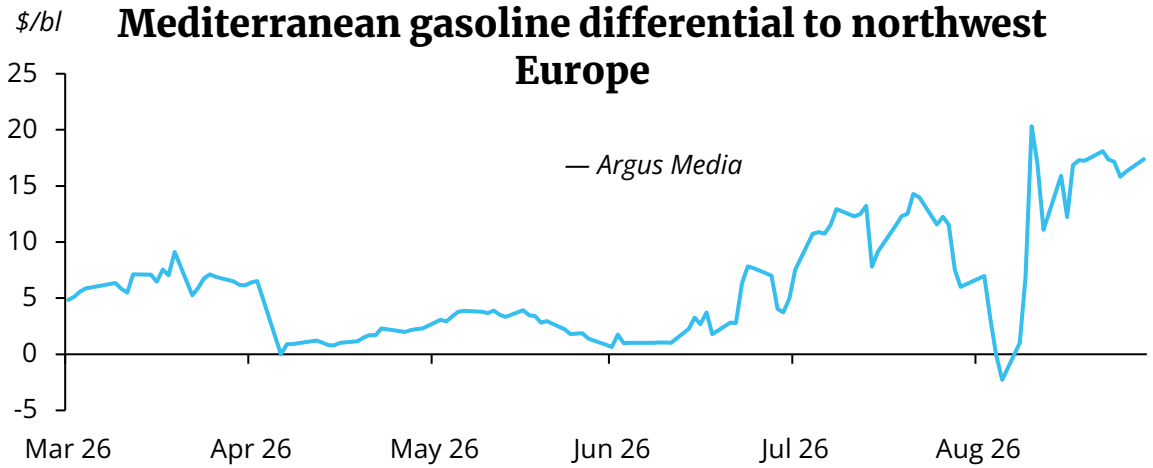
Northwest European cracks should continue to ease, though low inventories limit the scope for a sharp correction

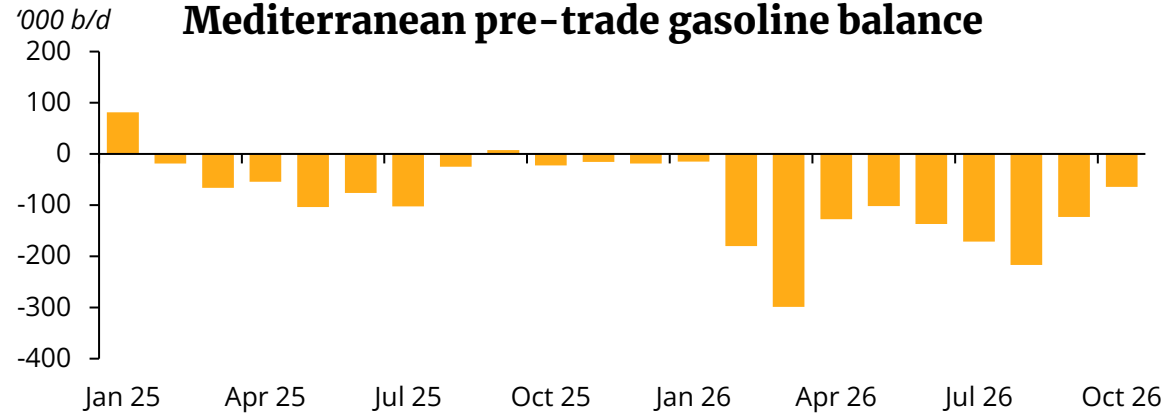


- Northwest European gasoline cracks have corrected from recent highs as softer prompt demand, weaker physical premiums and improved supply expectations reduced concerns over immediate tightness. The key question for October is whether this weakness reflects genuine demand destruction or simply the deferral of purchases.
- High retail prices and the planned German fuel-tax reduction encouraged consumers and distributors to delay purchases ahead of October, weighing on prompt demand and accelerating the decline in cracks during late September. As a result, recent price weakness may overstate the extent of underlying demand deterioration.
- The early October demand response will therefore be a critical signal for the fourth quarter outlook. A rebound in purchasing would suggest demand has been shifted between months rather than permanently lost, limiting the pace at which regional inventories can rebuild.
- At the same time, winter-grade gasoline should increase blending flexibility and improve supply availability, while higher Rhine water levels should ease inland logistics and facilitate the movement of products and blending components. These factors point to a more balanced market than seen during September's period of acute tightness.
- But inventories remain low by historical standards and require a sustained period of softer demand or stronger supply to recover meaningfully, which is reflected in the ARA gasoline chart. If deferred German demand returns quickly, stock rebuilding could remain slower than current crack movements imply.
- Northwest European gasoline cracks are therefore expected to continue easing through the fourth quarter, but the correction is likely to be gradual rather than sharp. The depth of the decline will depend on whether German demand has been deferred or destroyed, with a stronger-than-expected return in buying likely to leave the market tighter and more vulnerable to renewed prompt strength later in the quarter.

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Refinery restarts may ease recent tightness, but import dependence should keep Mediterranean cracks elevated

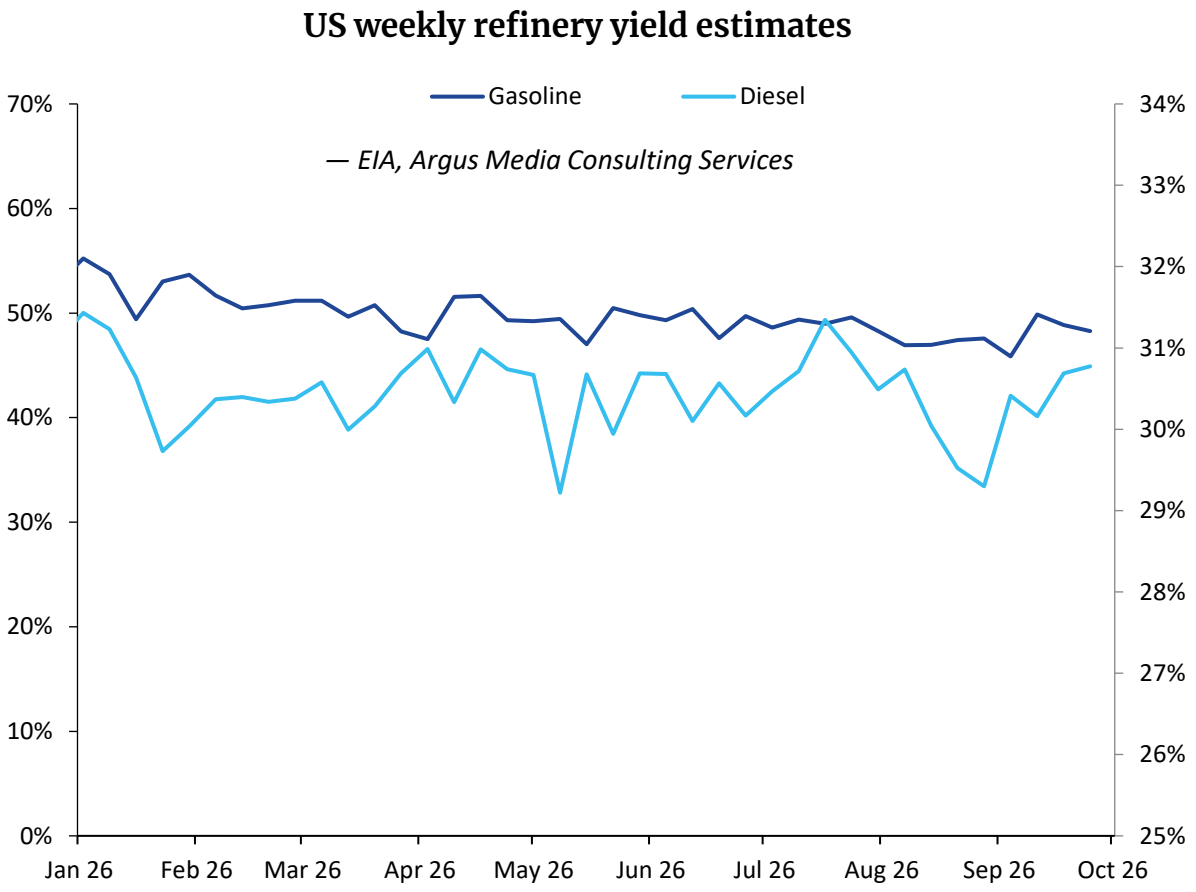




- Mediterranean gasoline cracks are expected to continue outperforming northwest Europe through the fourth quarter, supported by a deeper structural deficit, stronger import dependence and sustained demand from Turkey. While the exceptional tightness seen during August and early September should ease, the underlying market remains more fundamentally constrained than northwest Europe.
- Refinery maintenance reduced regional gasoline production to a five-month low and widened the Mediterranean pre-trade deficit, helping cracks reach a record $53.91/bl on 21 August and driving the regional premium over northwest Europe to unprecedented levels. Although maintenance is ending, regional balances remain comparatively tight.
- Turkey continues to provide an important source of incremental demand. The loss of Russian supply and tighter inland balances have increased Turkish reliance on Mediterranean imports, with regional gasoline loadings to Turkey reaching record highs during the summer. This demand pull is likely to remain a key constraint on inventory rebuilding across the wider Mediterranean.
- The region also faces increasing competition for east-of-Suez supply. Strong demand from Asia, Pakistan and east and southern Africa continues to compete for barrels from India and other exporters. Higher Indonesian import requirements could tighten Mediterranean balances indirectly by retaining Indian and Chinese cargoes within Asia or diverting flows away from westbound markets.
- Mediterranean cracks are expected to ease as refinery maintenance concludes and seasonal demand weakens, but the correction should be more limited than in northwest Europe. Structural import requirements, continued Turkish demand and competition for east-of-Suez supply should keep the Mediterranean market relatively tight and allow the regional premium to persist through much of the quarter.

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US diesel policy creates an asymmetric upside risk to gasoline cracks



- The possibility of US diesel export restrictions introduces a new upside risk to the gasoline outlook by linking middle distillate policy directly to refinery utilisation and gasoline availability. While discussions around a coordinated European diesel stock release could reduce the likelihood of intervention, the key question is how refiners would respond if diesel export flows were restricted.
- In the base case, no restrictions are implemented and refinery runs remain supported by healthy margins. Winter-grade gasoline, seasonal demand weakness and improved supply availability should allow gasoline cracks to continue easing from September's exceptional highs. At the same time, stronger middle distillate margins are expected to keep diesel and jet yields favoured over gasoline, helping to limit the pace of supply growth and prevent a sharper correction.
- If diesel exports are restricted, rising US diesel inventories and weaker domestic diesel economics could eventually pressure refinery utilisation, reducing gasoline output alongside distillate production. At the same time, tighter European diesel balances would strengthen incentives for European refiners to maximise middle distillate yields, potentially limiting gasoline production despite softer seasonal demand.
- The implications would extend beyond the diesel market. The US Gulf coast remains a key supplier to Latin America and the wider Atlantic basin, and any reduction in US exports would force import-dependent markets to seek replacement barrels from Europe, India and Asia. This would increase competition for exportable gasoline at a time when inventories remain relatively low across several regions.
- Northwest European and Atlantic basin gasoline cracks are therefore still expected to ease through the fourth quarter in the central forecast. However, a US diesel export restriction would create a materially different outcome by constraining refinery throughput and encouraging further middle-distillate optimisation, limiting the expected increase in gasoline availability and leaving cracks stronger than currently forecast.

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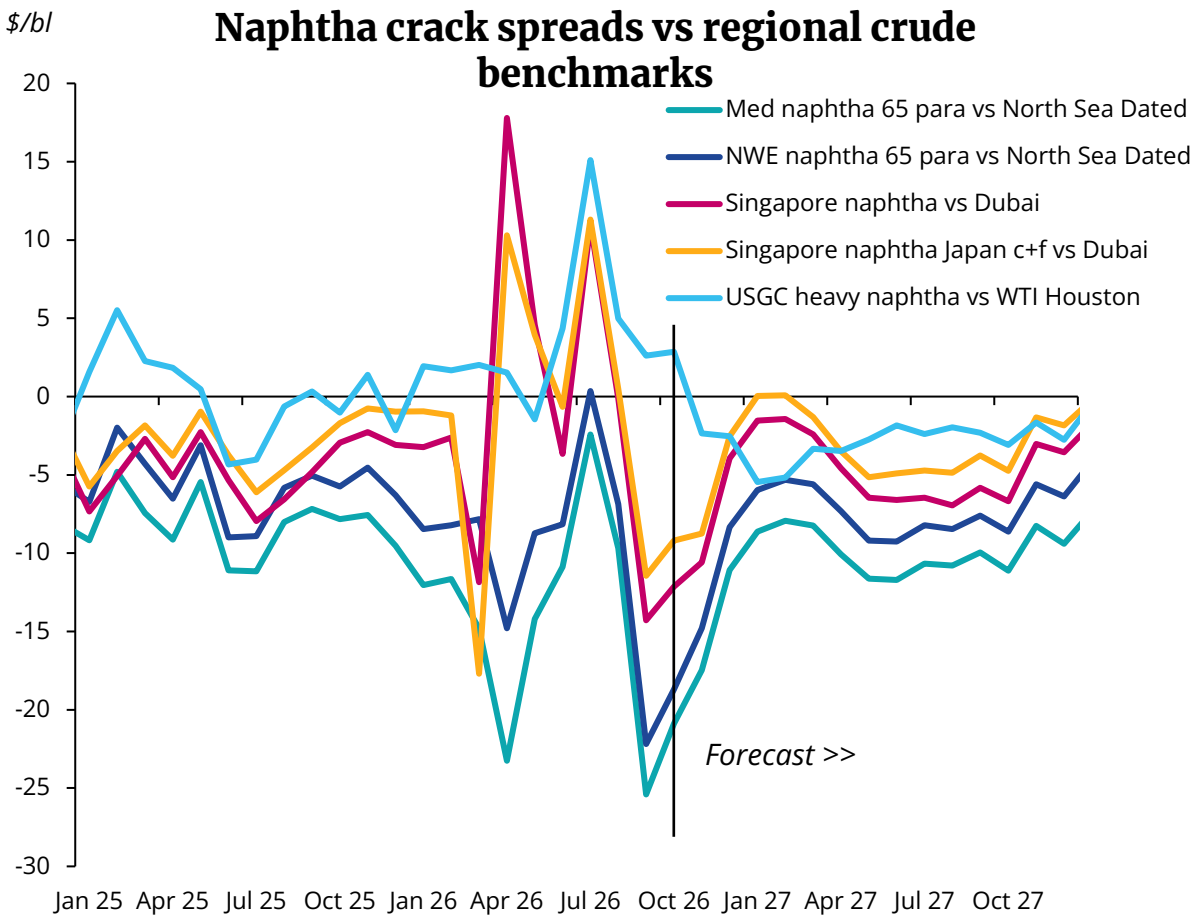
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2. Overview of the crude market
3. Gasoline
4. Naphtha
5. Gasoil/Diesel
6. Jet Fuel
7. Fuel Oil
8. Refining Margins



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Naphtha Outlook

Renewed cracker buying should support naphtha in Europe and Asia, but weak structural petrochemical demand limits the recovery



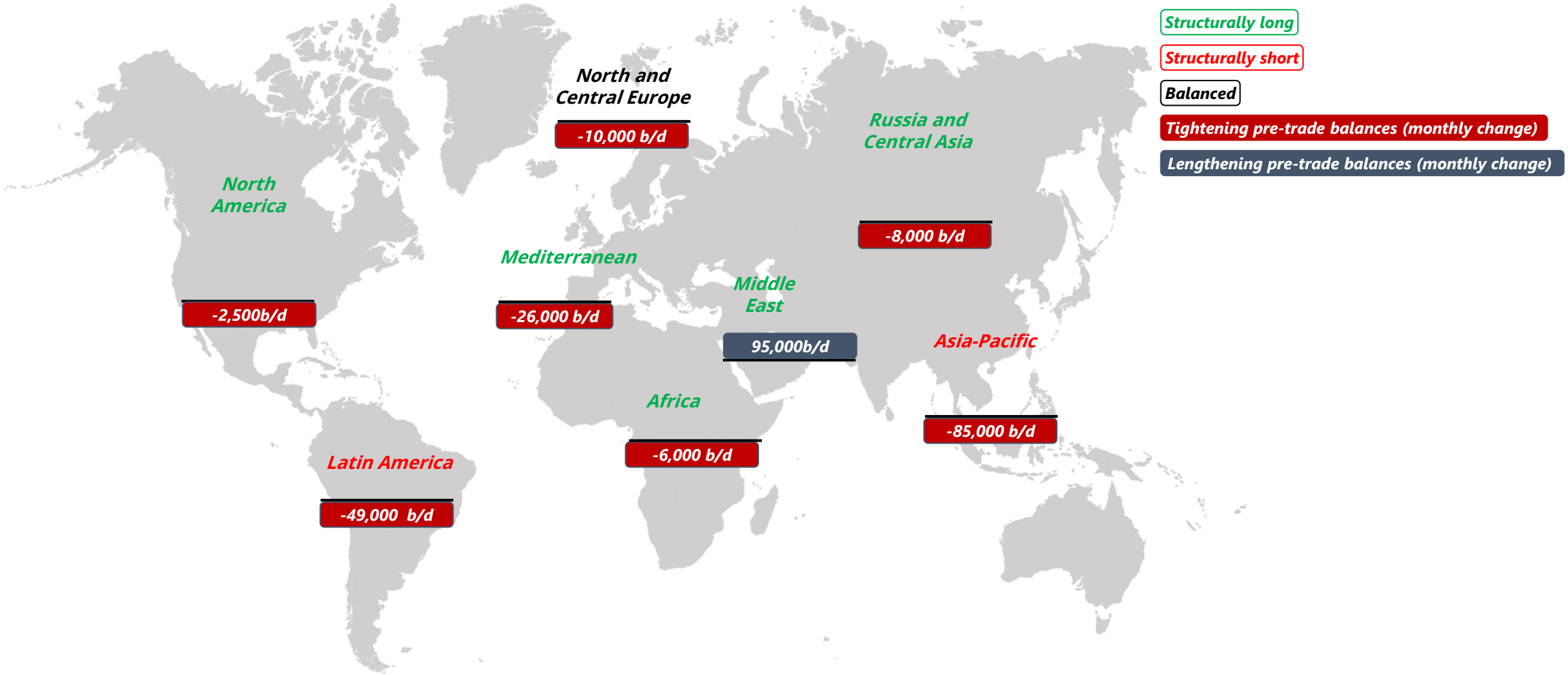
- Naphtha cracks weakened across the major refining regions during September as rising crude prices coincided with subdued petrochemical demand. European buyers had already secured much of their third-quarter feedstock, while Chinese and South Korean import demand remained below historical norms. Conditions strengthened at the end of September and start of October as buyers returned to the market, but the improvement is not yet broad-based.
- **Northwest European** cracks should recover as petrochemical buyers replenish inventories drawn down during September and steam crackers return from maintenance. Gasoline blending should provide additional support, although weaker gasoline cracks and continuing Rhine logistics constraints will limit the upside.
- **Mediterranean** naphtha should remain at a discount to northwest Europe. Eastern Mediterranean demand has strengthened, but regional buyers face expensive supply from northwest Europe and the US, while high freight costs prevent cheaper northeast Asian barrels from moving west.
- **Asia-Pacific** has the strongest near-term momentum following a wave of spot buying across Japan, South Korea and Taiwan. Refinery issues, firm gasoline values and uncertainty over Chinese exports are supporting cracks, although weak Chinese imports and higher Middle Eastern exports should prevent a sustained shortage.
- **US Gulf coast** naphtha should remain the weakest regional market. Reformer outages are reducing refinery feedstock demand, gasoline blending interest is subdued and elevated freight rates have closed arbitrage into several export markets. Latin America remains the principal outlet for surplus USGC barrels.
- Overall, naphtha cracks should recover modestly from September's lows as inventory replenishment and cracker restarts improve prompt demand. But structurally weak petrochemical margins, low cracker utilisation and strengthening Middle Eastern supply suggest the market is moving towards a moderate recovery rather than a sustained rally.

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Regional naphtha pre-trade balance, Oct vs Sep

Tighter Asian balances and constrained Middle Eastern supply should support eastbound trade

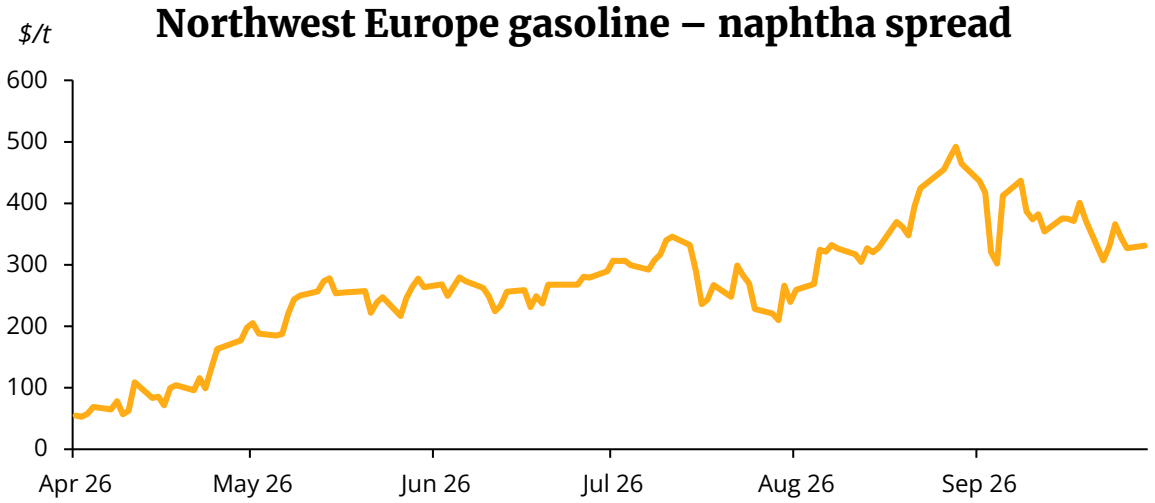
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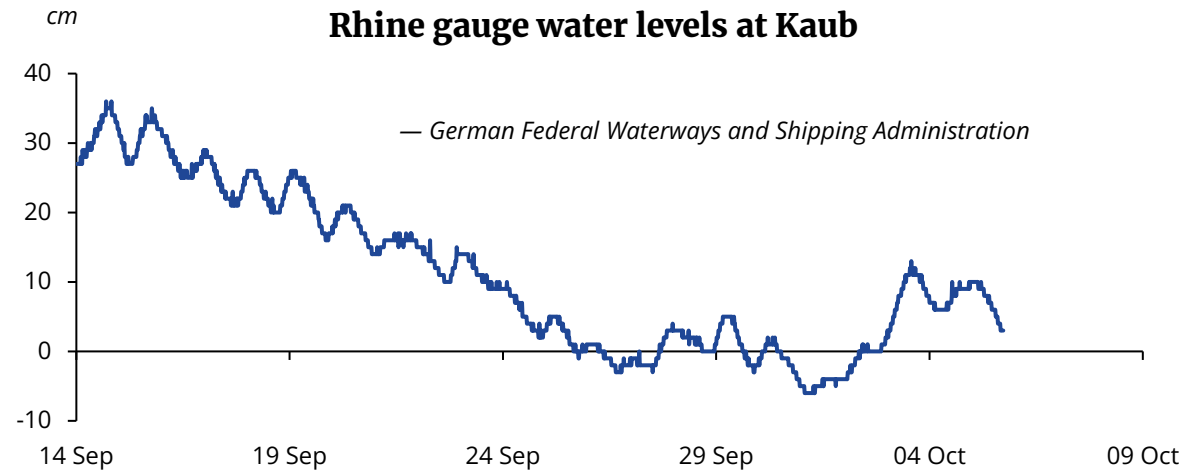


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Naphtha cracks should recover from September lows as buyers return, though upside remains limited

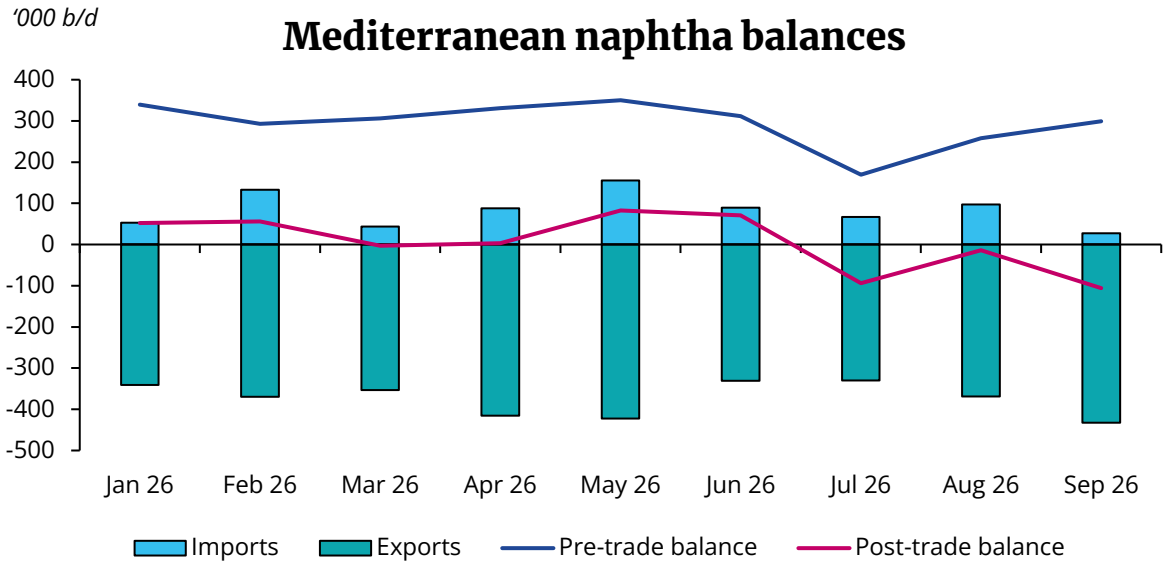


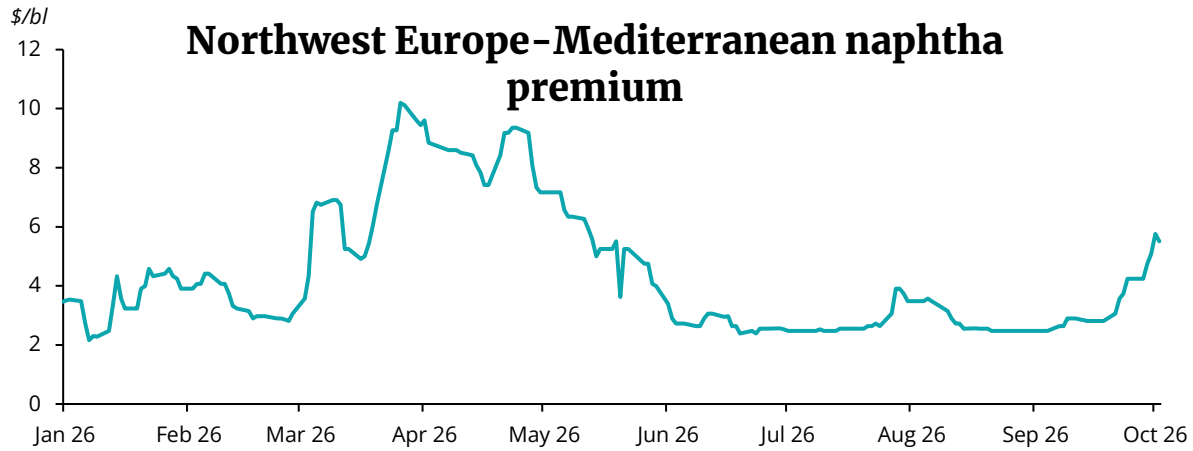


- European petrochemical buyers were largely absent from the prompt market during September after securing substantial feedstock volumes in August. Buyers subsequently consumed this material through the remainder of the third quarter, leaving sellers competing to place cargoes and contributing to weaker prompt naphtha values.
- Purchasing activity should increase during October as buyers replenish inventories drawn down during September. This represents an improvement from the unusually weak buying seen last month, although it is primarily a restocking cycle rather than evidence of a structural recovery in European petrochemical production.
- The return of steam-cracker capacity should reinforce the increase in demand. Shell's 300,000 t/yr Wesseling cracker and Ineos' 740,000 t/yr Grangemouth cracker are expected to return from maintenance, increasing regional feedstock requirements as operations restart.
- Gasoline blending remains a further source of support for northwest European naphtha. But this outlet may weaken as the gasoline-naphtha spread is expected to retreat from September's exceptional highs and winter-grade specifications allow greater use of cheaper, higher-RVP components.
- Ongoing Rhine logistics constraints are expected to limit part of the anticipated demand recovery. Low water levels continue to restrict vessel loading rates, raising freight costs and delaying feedstock deliveries into inland markets. At current and forecast Kaub levels, barges remain heavily loading-constrained, while some cargo movements may become physically unfeasible until water levels recover more meaningfully.
- Northwest European naphtha cracks should therefore recover from September's lows during October, supported by replenishment buying and returning cracker capacity. The recovery is likely to remain moderate unless stronger downstream margins allow crackers to sustain higher operating rates beyond the initial restocking period.

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Costly replacement barrels support Mediterranean values, but stronger northwest European demand should preserve the discount

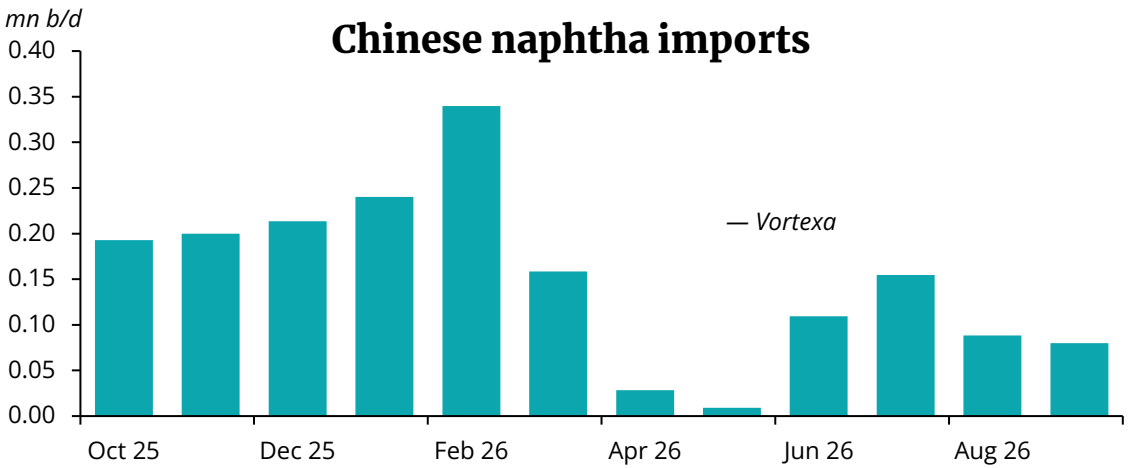


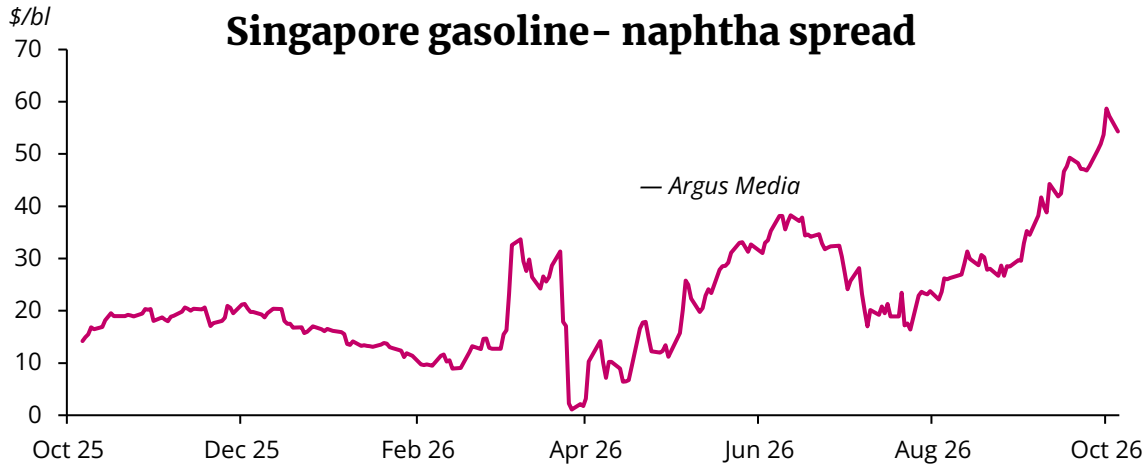


- Mediterranean, particularly east Mediterranean, naphtha demand strengthened at the end of September and start of October relative to the weaker conditions recorded earlier in the month. This provides some support to Mediterranean values, but buyers are finding it difficult to attract additional competitively priced cargoes.
- Northwest European and US export prices are comparatively high, while elevated freight costs further increase the delivered cost of replacement material. Import discussions into the Mediterranean and Black Sea have been reported at $560-610/t cfr, limiting buyers' willingness to secure marginal cargoes.
- Limited import opportunities should provide a floor to local naphtha values, particularly if eastern Mediterranean demand continues to strengthen. However, expensive replacement supply is not by itself evidence of a regional shortage, especially while petrochemical demand remains relatively subdued.
- Mediterranean naphtha should therefore continue to trade at a discount to northwest Europe, where inventory replenishment, cracker restarts and gasoline blending provide stronger immediate demand. The discount could narrow if Mediterranean refinery supply falls or regional cracker demand rises more quickly than expected.
- The forward outlook will depend on whether stronger easter Mediterranean buying is sustained beyond the initial October recovery. Without a broader improvement in cracker utilisation, Mediterranean cracks are expected to strengthen alongside NWE while continuing to underperform on a relative basis.

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Northeast Asian buying supports naphtha cracks, but demand recovery remains uneven

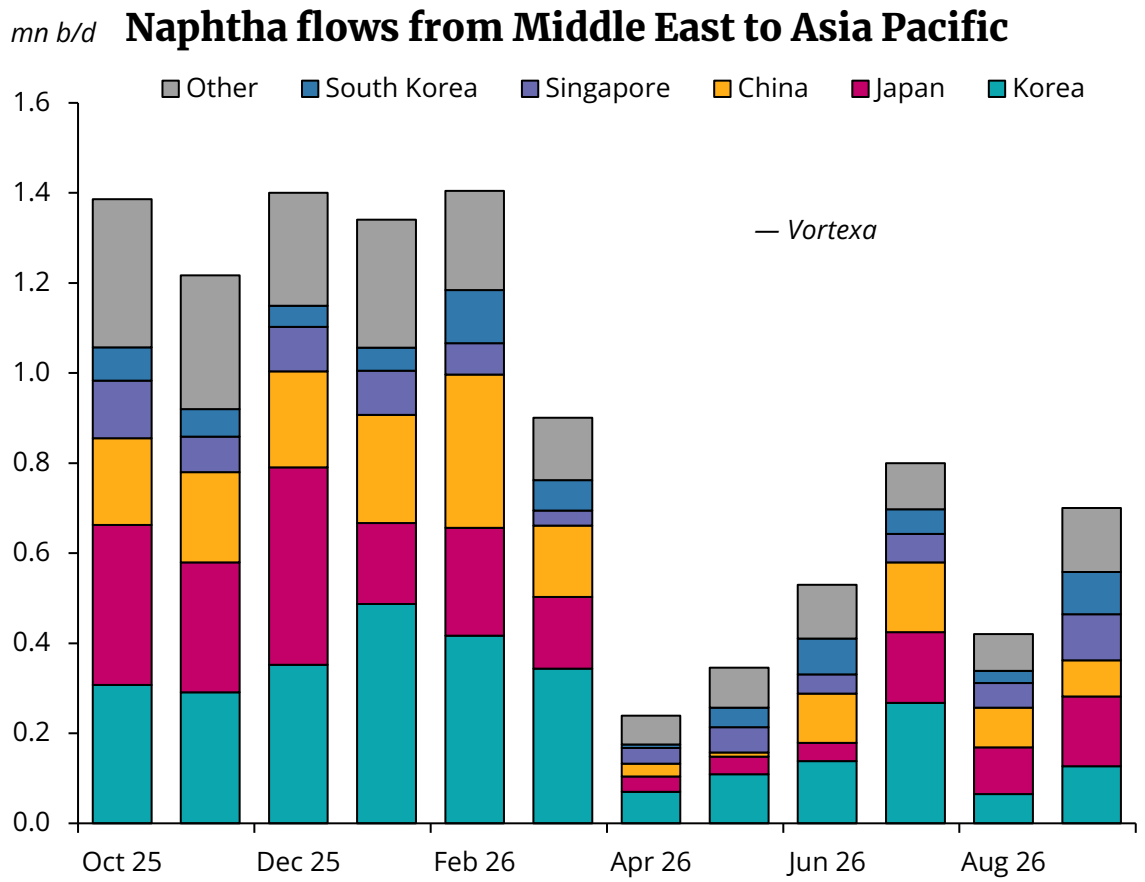




- Northeast Asian naphtha strengthened sharply at the start of October as crackers in Japan, South Korea and Taiwan returned to the spot market simultaneously, lifting the Japan naphtha crack back to a $5.30 discount Dubai crude on October 2.
- The concentration of spot purchases over a short period amplified the market response. Buyers that had previously delayed procurement returned at the same time, creating stronger competition for prompt cargoes and lifting physical premiums and crack spreads.
- Higher regional gasoline values have provided additional support by improving naphtha's value within the refining system, while refinery disruptions in Malaysia have reduced regional supply flexibility.
- Uncertainty surrounding Chinese clean products export policy has added to bullish sentiment and reinforced concerns over regional product availability, helping support refinery economics and naphtha demand in the blending pool.
- Asia-Pacific naphtha cracks should remain supported through the remainder of the year as Northeast Asian crackers continue replenishing inventories and prompt availability remains relatively tight.
- The sustainability of the rally will ultimately depend on whether spot procurement translates into higher and sustained cracker operating rates. Without an improvement in petrochemical margins and utilisation, cracks are likely to stabilise after the current buying cycle rather than extend materially higher.

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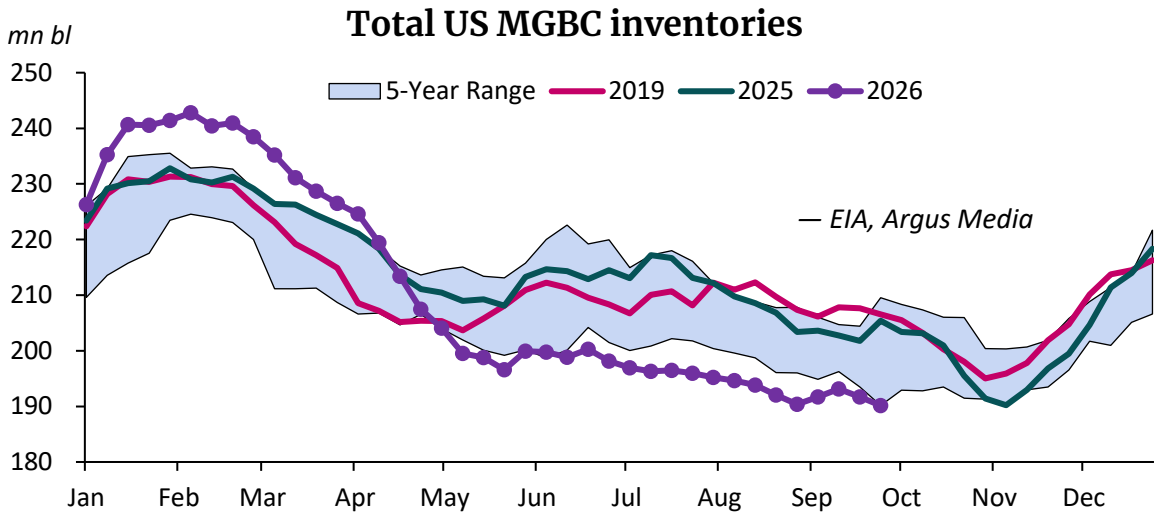
Improving Middle Eastern exports should ease, not reverse, Asia-Pacific tightness

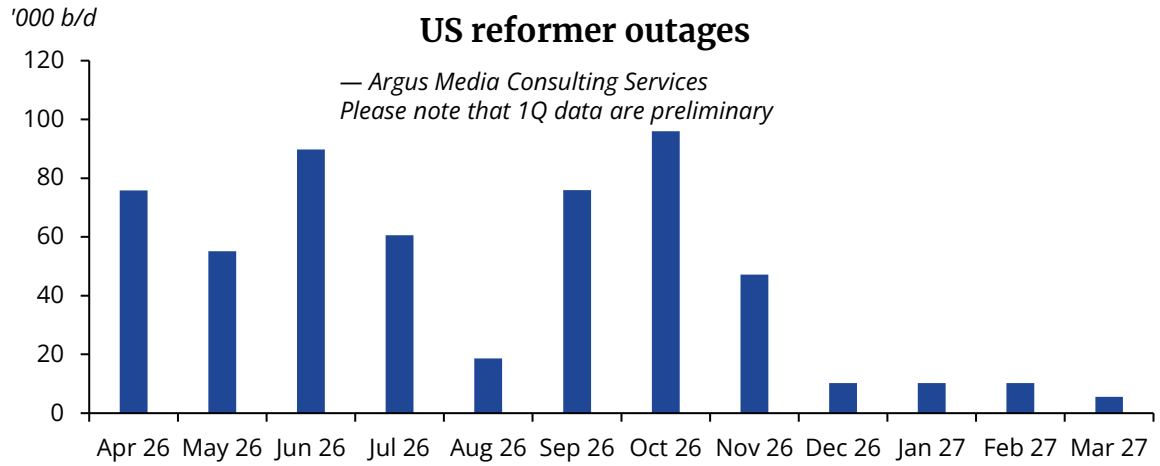


- Middle Eastern naphtha exports increased to around 18mn bl during September, providing additional supply into the structurally import-dependent Asia-Pacific market. The increase should help offset the stronger cracker procurement emerging across northeast Asia.
- Rising supply from the Middle East is well-timed because the current strength in buying demand appears to be concentrated in prompt procurement. If additional Middle Eastern cargoes arrive as scheduled, buyers should be able to rebuild inventories without creating a prolonged regional shortage.
- The supply outlook nevertheless remains vulnerable to freight and logistical disruption. Constraints affecting Middle Eastern product movements, higher shipping costs or delayed arrivals could temporarily tighten the prompt market even when headline export volumes are improving.
- Winter feedstock economics may provide further demand support. Stronger residential LPG consumption typically reduces the availability of propane and butane for petrochemical use. If propane maintains a premium to naphtha, flexible crackers would have a greater incentive to increase naphtha consumption.
- But feedstock switching alone may not generate a sustained rally because cracker decisions also depend on ethylene, propylene and other co-product values. Weak downstream petrochemical demand could continue to restrict utilisation even when naphtha becomes more competitive relative to LPG.
- Asia-Pacific naphtha cracks should remain firm in the near term before easing as Middle Eastern cargoes arrive and the current purchasing cycle slows. A stronger and more persistent rally would require either a broader recovery in cracker operating rates or another disruption to Middle Eastern and regional supply.

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US Gulf coast naphtha remains constrained by reformer outages and weak arbitrage





- US Gulf coast naphtha entered October with limited market participation and subdued spot buying. Weaker gasoline cracks have reduced some blending interest, although gasoline-naphtha spreads remain unusually wide for the season (as US blendstock inventories are at multi-year lows) and continue to provide an economic incentive to blend naphtha into the gasoline pool.
- Reformer outages are expected to continue affecting feedstock demand during October. However, some units may return from maintenance later in October and November, gradually restoring refinery demand for heavy naphtha and reducing the volume available to the merchant market as refiners aim to rebuild stocks.
- Export opportunities remain constrained by elevated freight rates and closed arbitrage into some major end-use markets. But September exports remained substantial at approximately 9mn bl, with Latin America continuing to provide an important outlet for Gulf coast supply.
- The market is therefore better described as balanced rather than fundamentally weak. Low reformer demand and limited export arbitrage should cap the immediate upside, while unusually wide gasoline-naphtha spreads and continued Latin American demand provide support. In addition, strong middle-distillate economics continue to encourage Gulf coast refiners to favour heavy sour crude processing, sustaining the longer-term call on upgrading capacity and naphtha feedstocks.
- The timing of reformer restarts will be important for the near-term balance. A faster return of capacity would increase heavy naphtha consumption and tighten regional availability. Strong diesel margins could reinforce this effect, particularly if refiners continue to favour heavy sour crudes, including Venezuelan grades, which are attractive to coking refineries seeking to maximise middle distillate yields.
- USGC naphtha cracks should remain relatively subdued in the near term, but further downside is likely to be limited. Reformer restarts, unusually wide gasoline-naphtha spreads, continued Latin American exports and strong middle-distillate economics should provide a floor under demand, creating scope for stronger prices than the expected seasonality.

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Contents

1. Executive Summary
2. Overview of the crude market
3. Gasoline
4. Naphtha
5. Gasoil/Diesel
6. Jet Fuel
7. Fuel Oil
8. Refining Margins



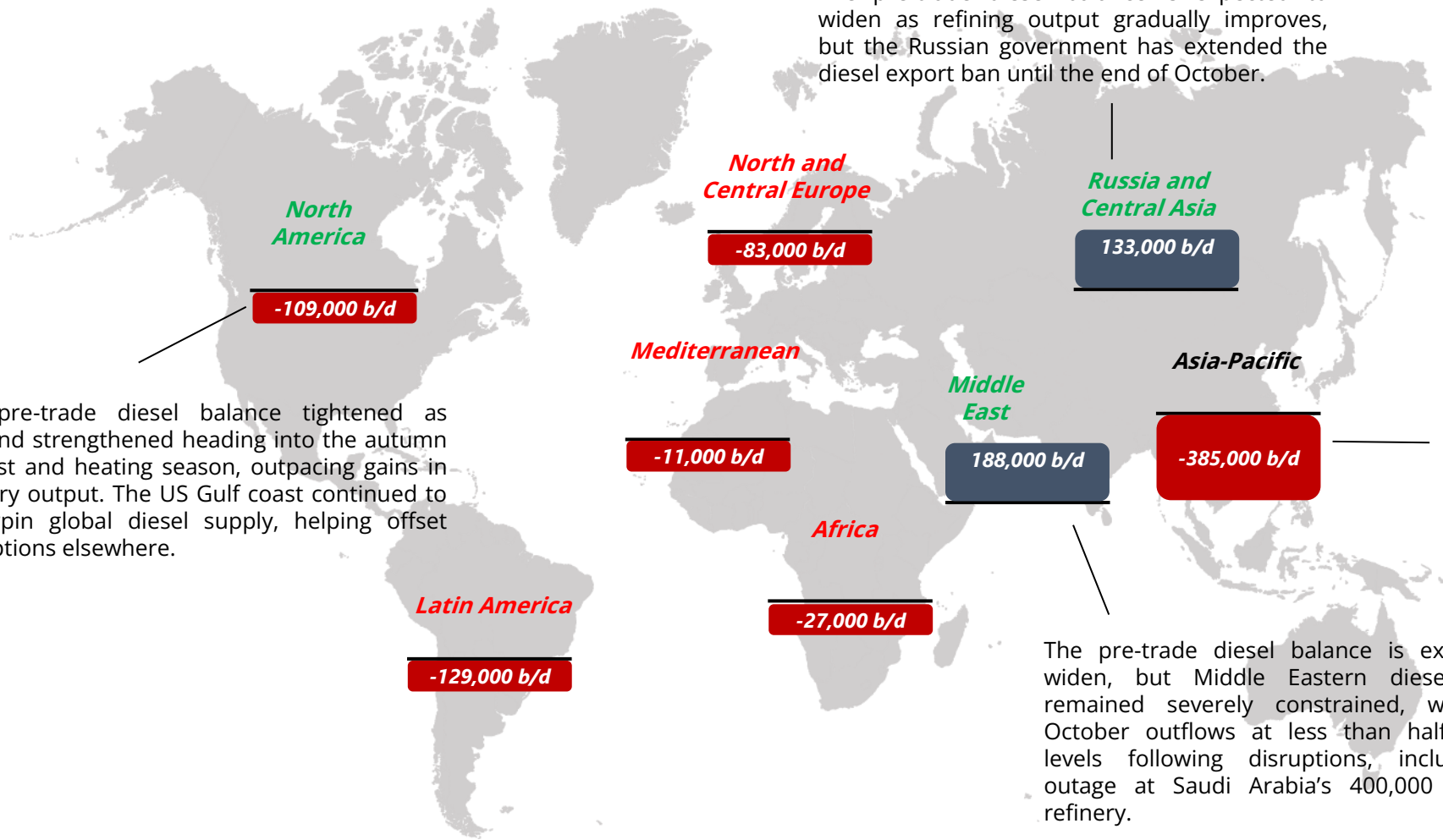
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Regional gasoil/diesel pre-trade balance, Oct vs Sep

Asia-Pacific tightens while Atlantic basin deficits persist, despite improving Middle Eastern and Russian pre-trade balances

The pre-trade diesel balance is expected to widen as refining output gradually improves, but the Russian government has extended the diesel export ban until the end of October.



Structurally long

Structurally short

Balanced

Tightening pre-trade balances (monthly change)

Lengthening pre-trade balances (monthly change)

The pre-trade diesel balance tightened as demand strengthened heading into the autumn harvest and heating season, outpacing gains in refinery output. The US Gulf coast continued to underpin global diesel supply, helping offset disruptions elsewhere.

The pre-trade diesel balance tightened as demand strengthened during China's Golden Week holiday period, outweighing a gradual recovery in refinery output despite unplanned outages in India.

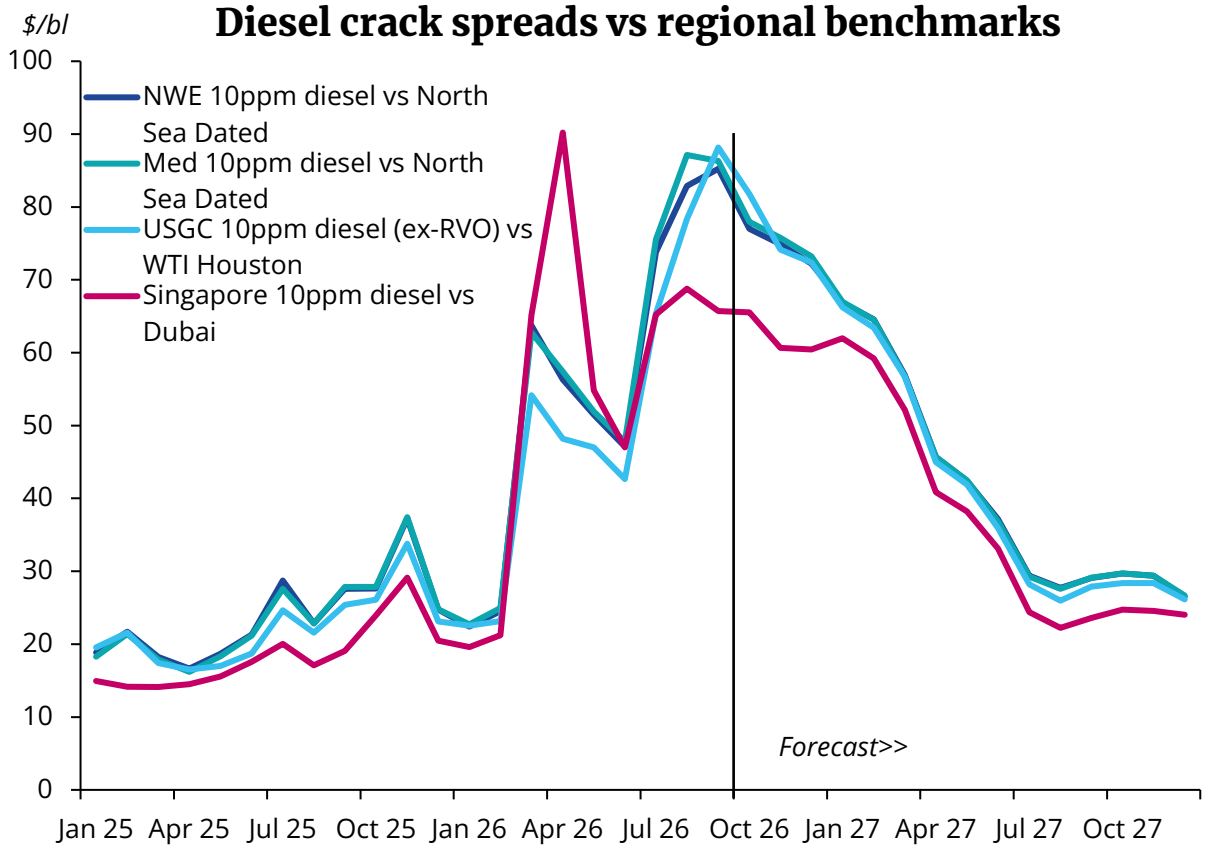
The pre-trade diesel balance is expected to widen, but Middle Eastern diesel exports remained severely constrained, with early-October outflows at less than half year-ago levels following disruptions, including the outage at Saudi Arabia's 400,000 b/d Jizan refinery.

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Gasoil/Diesel Outlook

Global diesel cracks to retreat from record highs, but structural tightness to persist



- Diesel cracks continued to strengthen in northwest Europe and the US Gulf coast in September as ongoing supply disruptions tightened global balances. Outright diesel prices also rose across all major hubs, broadly keeping pace with higher crude prices. Regional dislocations shifted noticeably, with the northwest Europe-Mediterranean discount narrowing after widening sharply in August, while the northwest Europe-Singapore spread widened to nearly $20/bl, reflecting relatively better-supplied Asia-Pacific markets. The last time the differential reached similar levels was in April, when Singapore diesel cracks briefly exceeded northwest Europe cracks at over $30/bl.

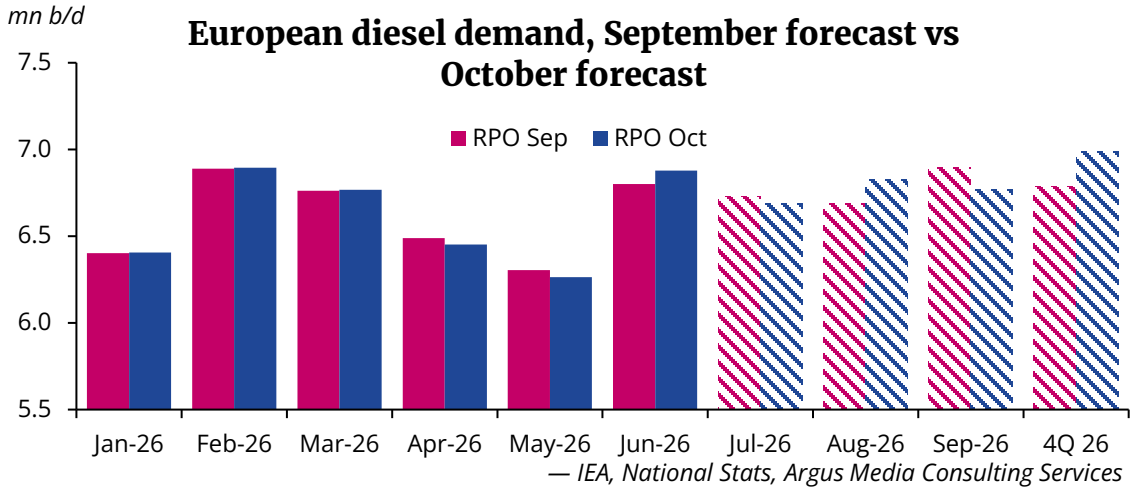
- The announcement of a coordinated G7 release of up to 100mn bl of diesel and crude has eased immediate concerns over diesel availability in **Europe**, triggering a sharp correction in cracks and significantly reducing the risk of a **US** diesel export ban. However, the market's focus will shift from the headline volume to the diesel-crude split and the timing of deliveries. Despite the near-term relief, underlying supply fundamentals remain supportive. OECD European diesel inventories remain below historical norms, Russian diesel exports continue to be constrained by refinery disruptions and export restrictions, and Middle East supply remains affected by disruptions around the strait of Hormuz.

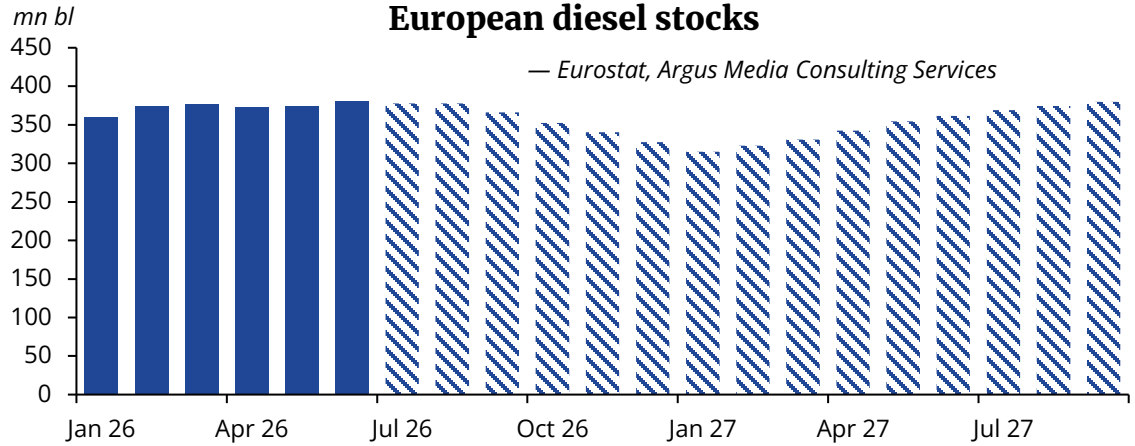
- At the same time, **Asia-Pacific** balances have tightened. China's suspension of new export licences could remove around 260,000 b/d of clean product exports from the market in October compared with initial plans, while disruptions at India's 300,000 b/d MRPL refinery have further reduced prompt supply availability. These developments have strengthened Singapore gasoil cracks and narrowed the east-west arbitrage.

- Diesel cracks are expected to ease from recent highs as strategic stock releases begin, and global supply gradually recovers. But structural tightness remains unresolved, and the market is likely to stay well supported through winter. Key upside risks include lower-than-expected G7 diesel releases, continued Chinese export restrictions and further disruptions to Russian or Middle Eastern supply. While European stock releases should help rebalance regional fundamentals in the near term, a more sustained softening in diesel cracks will require a larger recovery in global export availability.

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European diesel tightness to ease following G7 announcement to release diesel stocks, resetting cracks across Europe

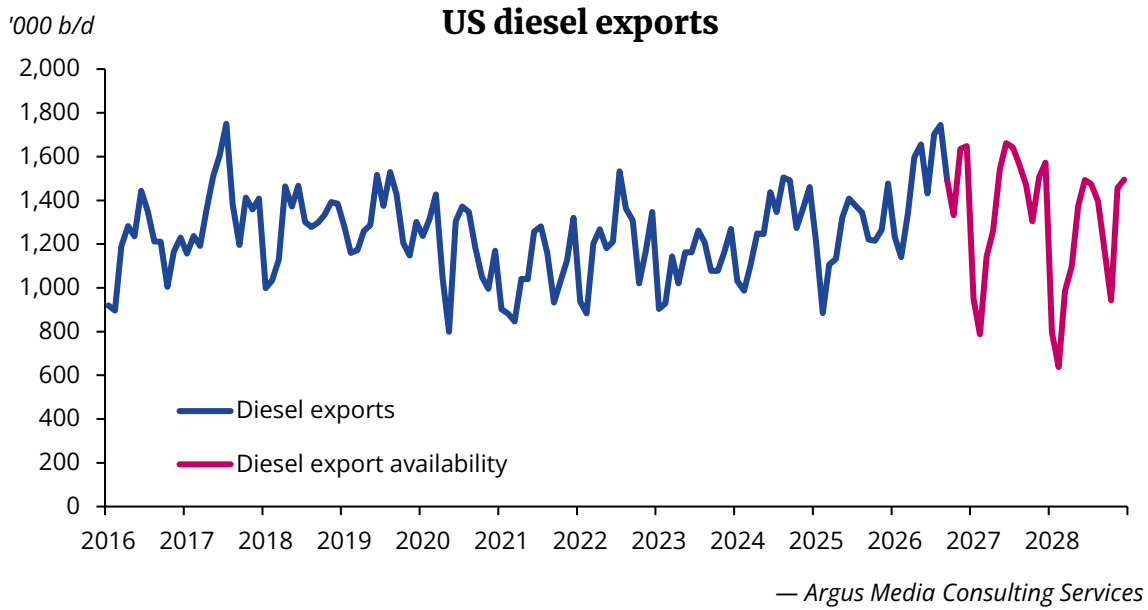


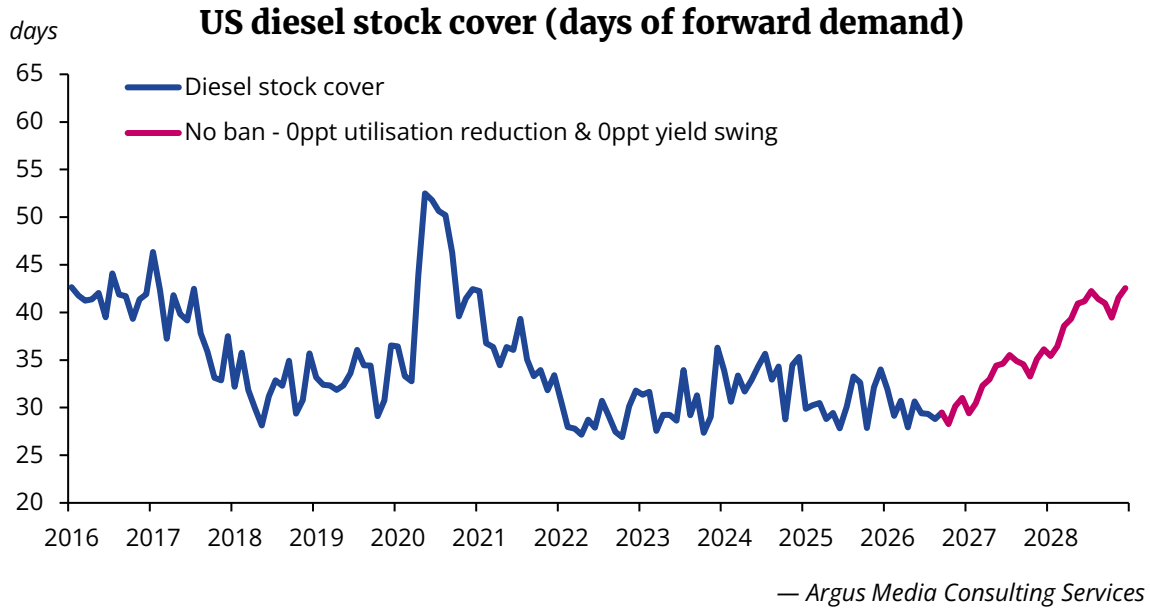


- The G7's 3 October announcement of a coordinated release of up to 100mn bl of diesel and crude over the next four months has, triggering a sharp sell-off in Ice gasoil and heating oil futures following the announcement. Northwest European diesel cracks against North Sea Dated fell to around $61/bl on 3 October from $73.55/bl a day earlier. But the market's focus is likely to shift quickly from the headline volume to the diesel-crude split and the timing of deliveries. While these details remain unclear, the G7 indicated that significant volumes could be released within 20 days, raising the prospect of a near-term easing in European spot tightness and softer physical premiums.
- The potential impact depends on how much diesel will be allocated to the market. France had previously proposed a 50mn bl diesel release over four months, equivalent to around 407,000 b/d, a sizeable volume compared with Europe's 954,000 b/d of diesel imports from international markets in September, according to Vortexa data. But previous strategic stock release commitments made back in March, were not fully delivered, and a similar outcome cannot be ruled out if supply conditions improve. The latest IEA data shows that OECD middle distillate stocks, both commercial and industry stocks, have averaged 473mn bl, 46pc of which are government stocks, which is about 4mn bl below the same period last year. The latest Eurostat data shows that EU stocks have increased to more than a one-year high in June at 381mn bl. The last time stocks were that high was in January 2025 at 382mn bl. Even so, OECD European diesel inventories remain around 10mn bl below the five-year average and 29mn bl below the ten-year average, highlighting that stocks are still low by historical standards despite recent replenishment.
- But the announcement is highly significant as it addressed the immediate concern over diesel availability and significantly reduces the likelihood of a US export ban, which was proposed by the end of September, which posed a far greater risk to global balances than Europe’s diesel tightness itself. Keeping US Gulf coast exports flowing preserves a critical source of supply for Europe and Latin America and helps cap upside risk to diesel cracks.
- While the release should ease near-term tightness and weigh on prices, it does not address the structural supply deficit. Diesel exports from the Middle East remain constrained by disruptions around the strait of Hormuz, Russian exports remain restricted, and refinery maintenance continues to limit supply. As a result, the stock release should be viewed as a bridge through winter rather than a lasting solution. The durability of the recent sell-off will ultimately depend on the volume of diesel released, the pace at which it reaches the market, and any recovery in global export availability.

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US diesel export ban looking less likely, and underlying fundamentals suggest stock cover will rise moving into next year

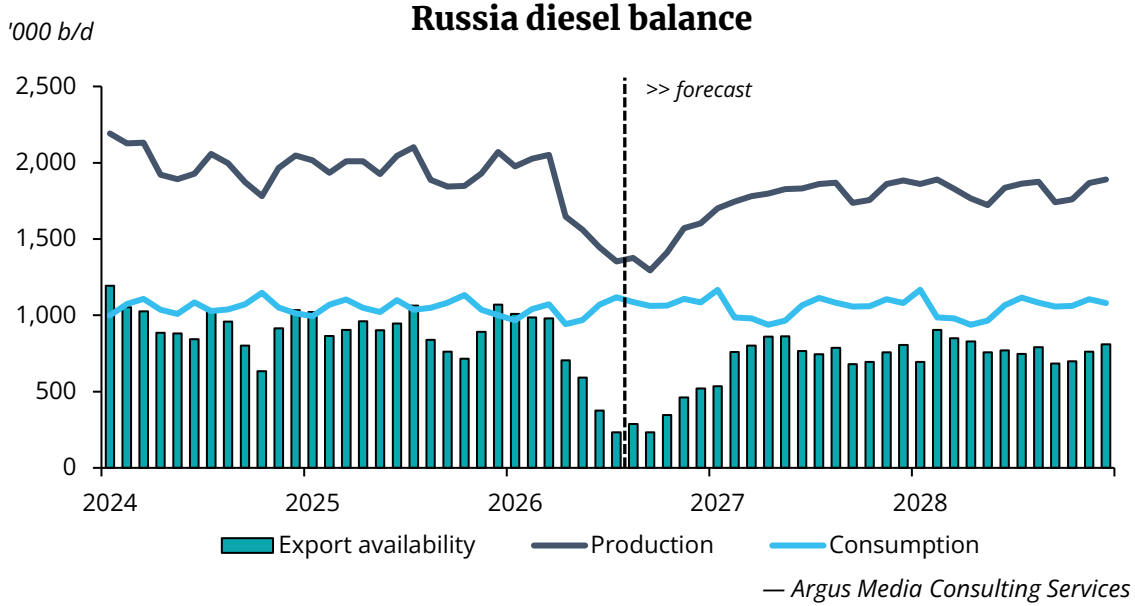


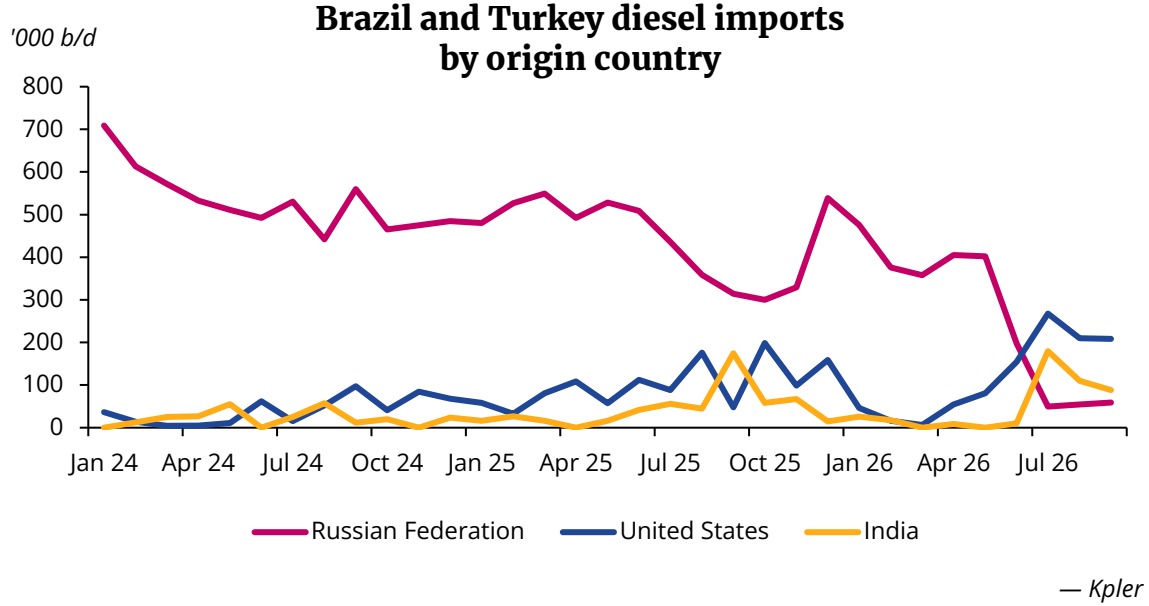


- Diesel cracks remain close to unprecedented levels, and demand for US Gulf coast diesel exports at record high levels amid disruption to both Middle East diesel exports and Russian diesel exports. This has prompted speculation in the US of a diesel export ban ahead of the November midterm elections, although President Trump appears to have cooled on the idea in recent days.
- Our base case forecast assumes no US diesel export ban, as well as a steady recovery in exports from the Middle East and Russia. Whilst this is an optimistic set of assumptions to make, there are sound reasons for applying this set of working assumptions. Firstly, crude exports are increasing from the Middle East region and product exports could follow suit albeit at a slower pace. Secondly, the aftermath of the US midterms could see an acceleration in efforts by the US to reach a resolution to the Iran conflict without the need to placate voters. Thirdly, it is difficult to predict when a new wave of Ukrainian drone strikes may occur or indeed if a new ceasefire agreement is reached.
- Under these assumptions, US diesel exports would ease back over the remainder of the forecast period, with Russian diesel returning to Turkey, Brazil and Africa and Middle East and Turkish diesel returning to Europe, all alleviating demand for USGC diesel.

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Russian refinery outages resulting in a ban on diesel exports, and we expect only a modest rebound in diesel export availability over the forecast period

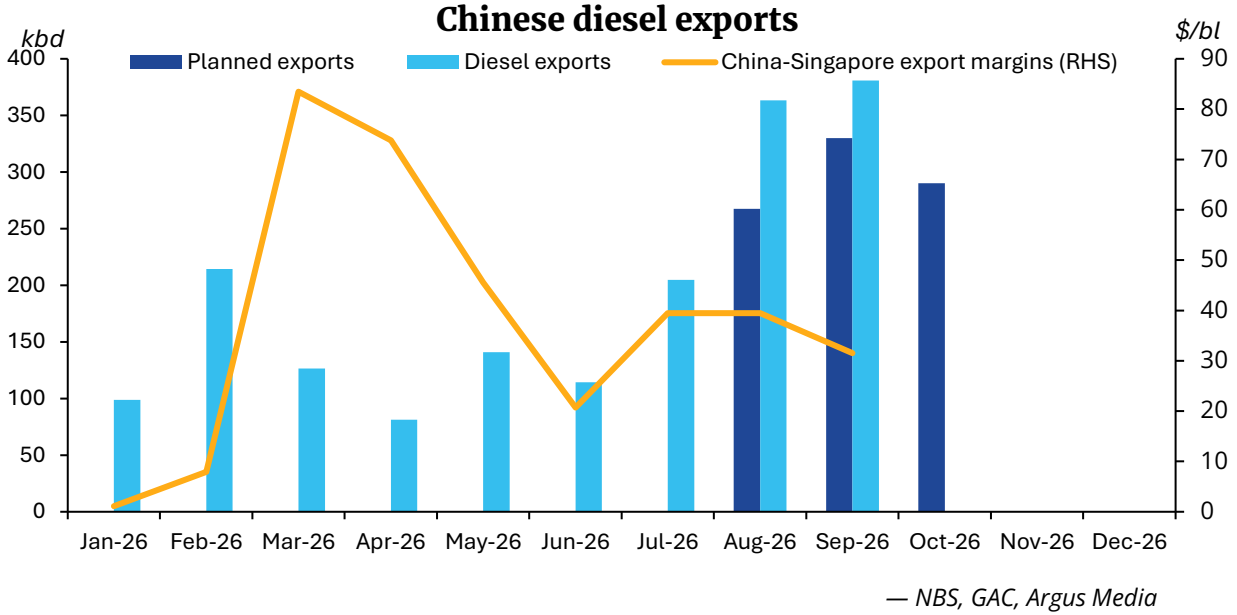




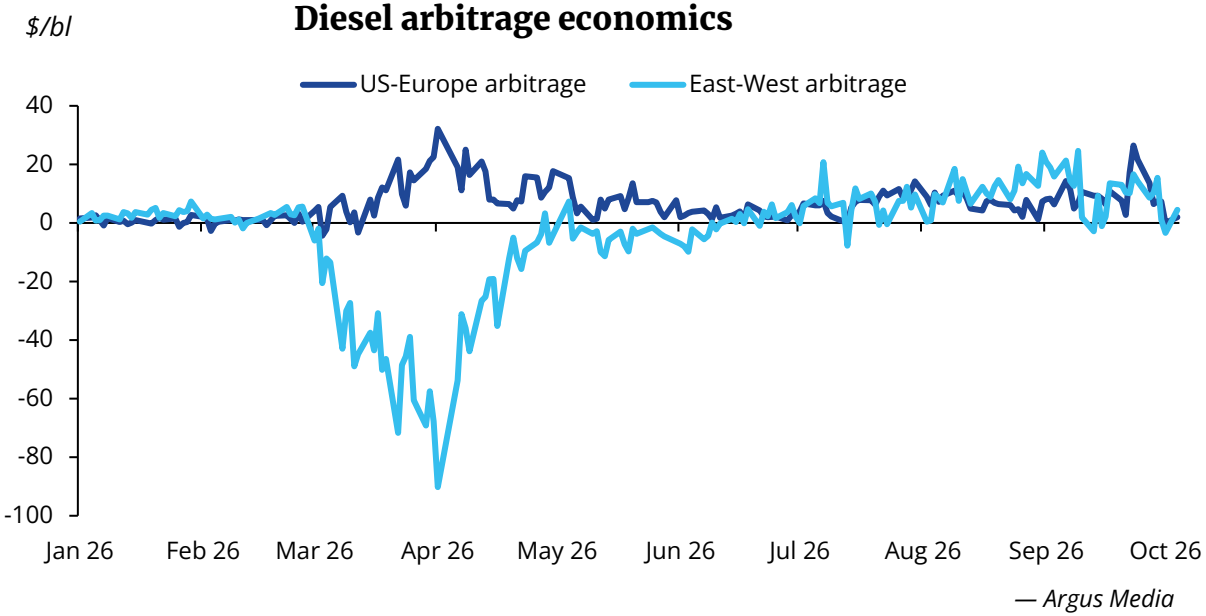
- *Argus* estimates that Russian refinery outages, owing to ongoing Ukrainian drone strikes on Russian refining assets, peaked in July at 2.9mn b/d, but has since eased back to 1.7mn b/d as of September. The July outage represented 42pc of total CDU capacity withing Russian being offline.
- It is very difficult to know how Ukrainian drone strikes will play out moving forwards, but we are assuming a gradual rebound in utilisation rates of 57pc in 4Q26, rising to 66-67pc in 2027 in 2028 – which remains some way below the country's more typical utilisation rate of almost 80pc.
- The outages have massively curtailed Russia's diesel export availability, and Moscow has implemented a diesel ban since 8 July. Under our base case forecast for Russian diesel supply and demand, it is possible Russia will lift this export ban by the end of this year or the start of next year, with export availability rebounding to 500,000 b/d by December, more than double the 3Q26 surplus. Nevertheless, with a lower utilisation rate than typical assumed for 2027 and 2028, export availability is forecast to remain 160,000 b/ lower than in 2024.
- This is tightening Atlantic basin diesel balances. Turkey and Brazil have been the major buyers of Russian diesel in recent years. The ban has forced both countries to seek alternative supply, largely from the US Gulf Coast and India. In late August, US distillate stocks had fallen to their lowest since 2005 – a more-than 20 year low. Russian president Vladimir Putin said Russia has sufficient diesel supplies, but added that even a ceasefire with Ukraine would be unlikely to ease global diesel tightness while sanctions remain in place.

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East-west arbitrage narrows as China's export policy remains in focus, strengthening Asian cracks



— NBS, GAC, Argus Media



— Argus Media

- The arbitrage to move diesel from Asia-Pacific to Europe has narrowed sharply after Singapore gasoil cracks against Dubai crude surged to around $73/bl on 1 October, from $61/bl a day earlier. The move was triggered by China's decision to halt new export licences, cutting expected October exports of gasoline, diesel and jet fuel to around 480,000 b/d from a planned 740,000 b/d, removing roughly 260,000 b/d of supply from international markets. The shift follows a brief period of strong exports after restrictions were eased in July, with transport fuel exports averaging 810,000 b/d in August and an estimated 890,000 b/d in September.
- The policy change immediately tightened regional balances. Singapore gasoil October-November timespreads rose by almost 50pc on 1 October, while a fire at MRPL's 300,000 b/d Mangalore refinery forced the cancellation of diesel, jet fuel and reformate export tenders, further tightening prompt supply.
- Beijing's caution reflects growing energy security concerns. Authorities are reviewing domestic inventories while monitoring supply risks in Shandong, where independent refiners face feedstock shortages following the loss of discounted Iranian crude. Several refiners could exhaust crude inventories by the end of October, increasing the risk of temporary refinery shutdowns and reducing confidence that exports can be sustained at recent levels.
- Looking ahead, the key question for fourth-quarter balances is whether China restores exports towards the 800,000-900,000 b/d levels seen in August-September or prioritises domestic supply security. Until greater clarity emerges, the risks remain skewed towards lower Chinese diesel exports, supporting Asian gasoil cracks and limiting diesel availability to Europe. But Europe's imminent release of strategic diesel stocks should partially offset the loss of Chinese barrels, easing regional tightness and allowing east-west differentials to widen back towards more normal levels as the market rebalances.

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Contents

1. Executive Summary
2. Overview of the crude market
3. Gasoline
4. Naphtha
5. Gasoil/Diesel
6. Jet Fuel
7. Fuel Oil
8. Refining Margins



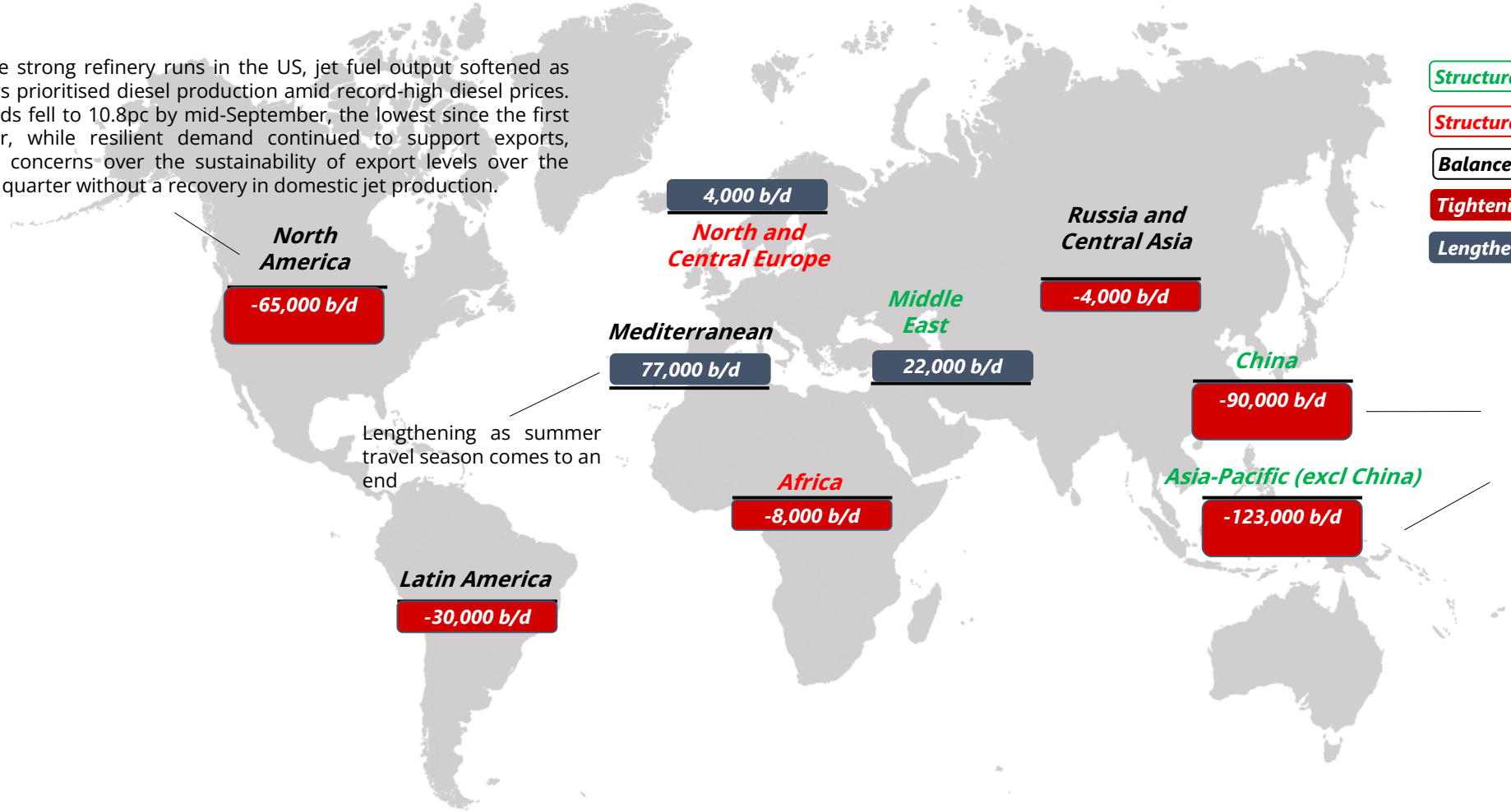
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Regional jet/kerosine pre-trade balance, Oct vs Sep

Global jet balances tighten as Asian demand rises and refinery maintenance limits supply

Despite strong refinery runs in the US, jet fuel output softened as refiners prioritised diesel production amid record-high diesel prices. Jet yields fell to 10.8pc by mid-September, the lowest since the first quarter, while resilient demand continued to support exports, raising concerns over the sustainability of export levels over the fourth quarter without a recovery in domestic jet production.



Structurally long

Structurally short

Balanced

Tightening pre-trade balances (monthly change)

Lengthening pre-trade balances (monthly change)

Lengthening as summer travel season comes to an end

Tightening as aviation demand increases in China and heating-kerosine demand increases in Japan and South Korea, while refinery output comes under pressure following a series of unplanned refinery outages.

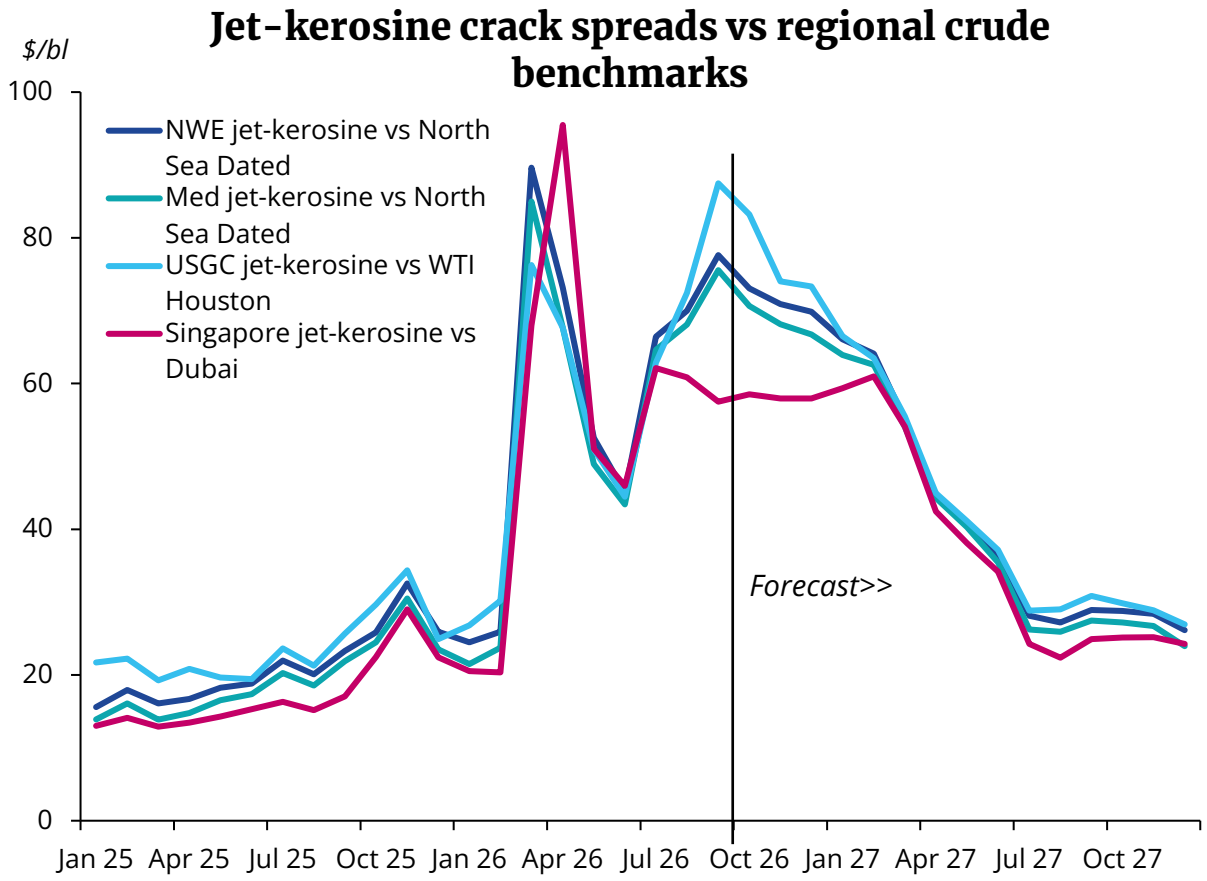
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Jet Fuel Outlook

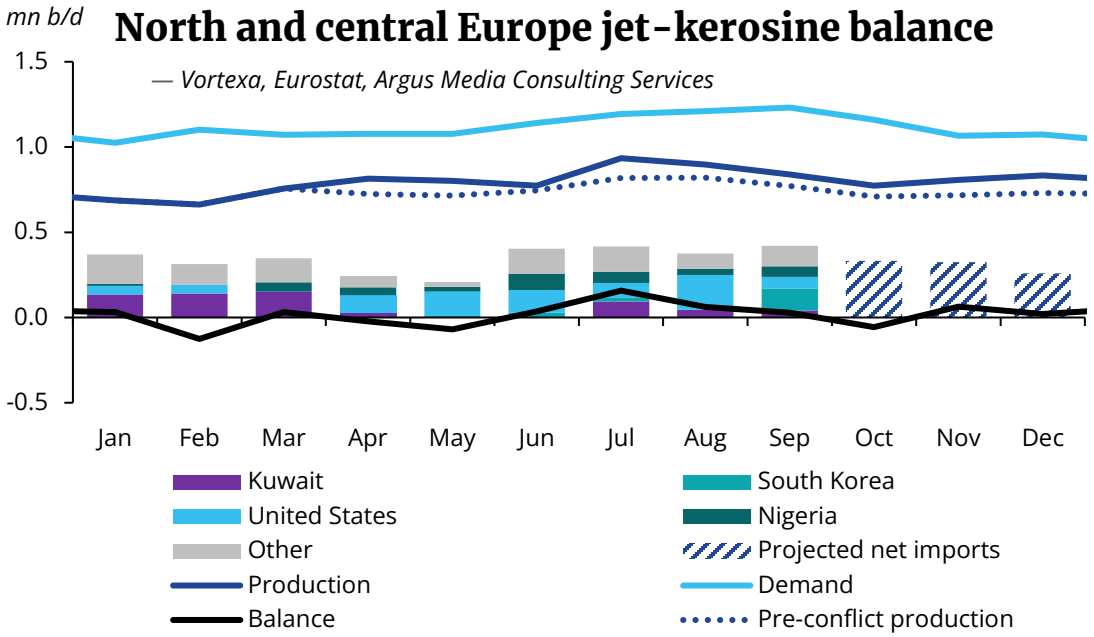
Constrained exports and tightening balances across key regions keep jet cracks elevated through winter

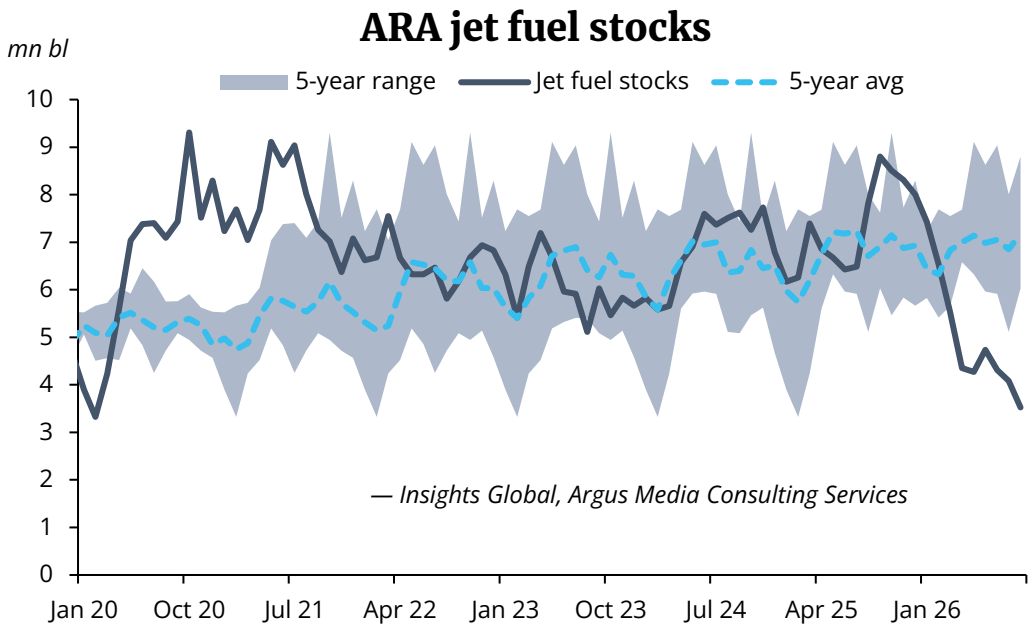


- Jet fuel crack spreads have strengthened across key refining regions in September, except in Asia-Pacific. Singapore jet cracks have been more volatile, falling to a September low of $45/bl on 10 September before recovering to above $50/bl from 11 September onwards. The recovery has narrowed Singapore's discount to Europe and the US, bringing regional differentials closer to expectations at the start of the month.
- **Northwest European** and **Mediterranean** jet fuel cracks are expected to remain elevated through winter as tighter Asia-Pacific supply, lower export availability and low prompt inventories offset seasonal demand weakness. Combined with easing diesel fundamentals following planned G7 stock releases, this should support a stronger jet-diesel spread through the fourth quarter.
- Rising regional demand, refinery disruptions and uncertainty around Chinese exports are expected to tighten **Asia-Pacific** balances, reducing export flexibility and supporting global jet cracks through winter. The tightness has been reflected by stronger jet fuel cracks at the start of this month rising to a three-month high on 1 October at around $76/bl amid Beijing's suspension of export licences.
- **US** jet fuel cracks are forecast to remain elevated through winter as domestic demand absorbs production growth, and inventories remain below earlier expectations. Reduced export availability is likely to support jet values in import-dependent regions, particularly Europe.
- Jet cracks are expected to remain elevated through winter as constrained Middle East exports, tighter US balances and uncertainty surrounding Chinese export policy reduce the market's ability to respond to supply disruptions. The geopolitical situation in the Middle East continues to threaten refining operations following recent claims made by the Houthi military headquarters that it carried out an attack on the King Khalid airport in Riyadh and other civilian airports in Saudi Arabia and that, further, it attacked Saudi Aramco's Rabigh refinery on the Red Sea coast.

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Tight ARA inventories and slowing imports support European jet cracks, strengthening the jet-diesel spread as diesel availability improves

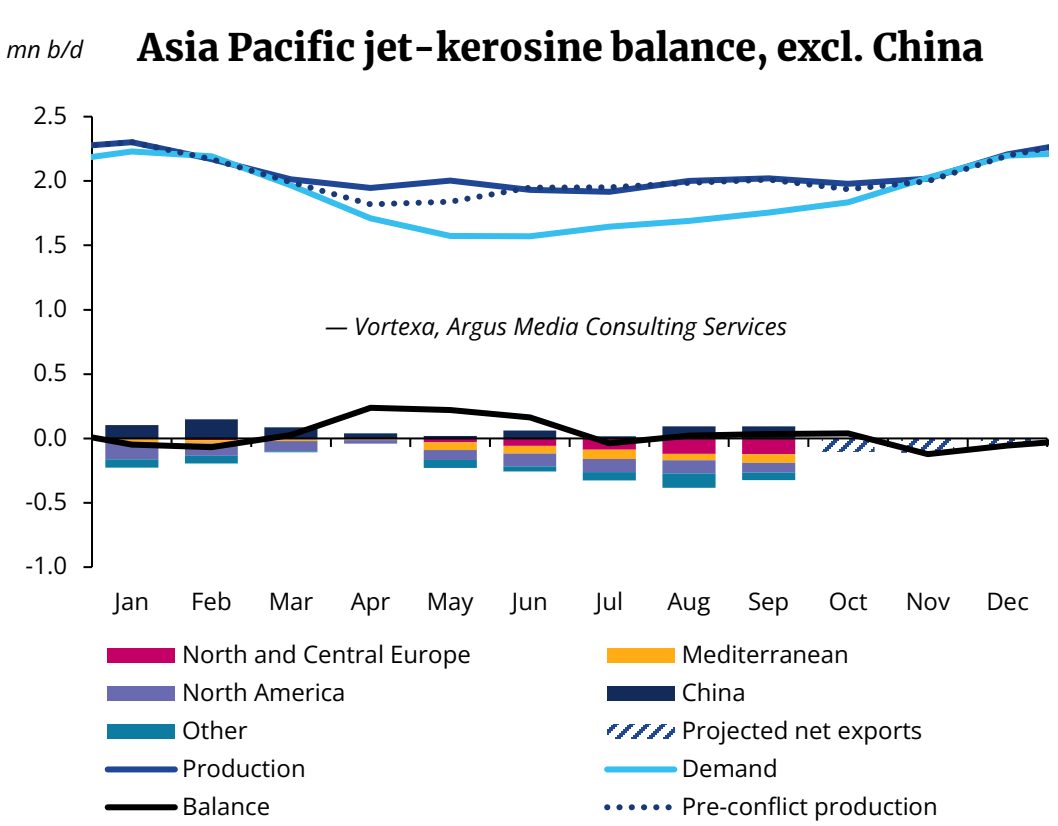


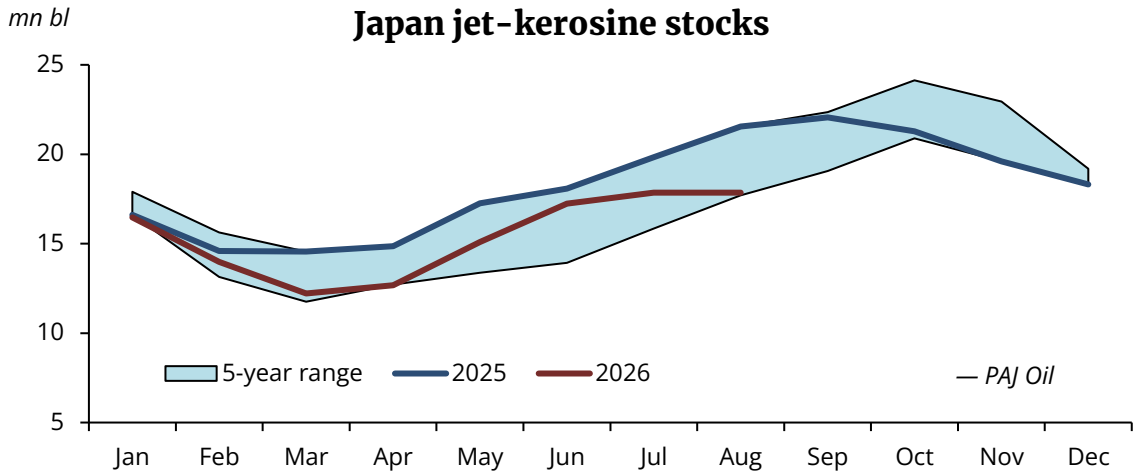


- The jet-diesel spread is expected to strengthen through winter as the G7's imminent release of up to 100mn bl of diesel and crude eases concerns over diesel availability, while jet fuel remains supported by resilient aviation demand and tighter Asia-Pacific supply. The discount between northwest European jet fuel cracks and diesel is forecast to average -$3.43/bl in the fourth quarter, up from -$9.30/bl from the previous quarter.
- European jet balances were relatively comfortable in September, with imports reaching an 11-month high as additional barrels from South Korea and Japan offset lower US arrivals. But arbitrage economics have become less supportive, and the balance is expected to tighten in October by 84,000 b/d on the month. Asian supply risks are mounting as Chinese export restrictions, seasonal kerosine demand in northeast Asia and refinery outages across Asia curb export availability, while freight costs remain elevated and continue to complicate east-west arbitrage.
- Seasonal demand is expected to soften into November, allowing some excess jet production to be blended into the diesel pool. But global supplies are likely to be constrained. Jet volumes on water have declined, US exports have retreated to pre-conflict levels, and ARA jet stocks fell to 3.5mn bl in the week to 30 September, their lowest since February 2020, according to consultancy Insights Global. With prompt markets remaining in backwardation and refinery maintenance limiting output, there is little incentive to rebuild inventories. Regional inventories remain more balanced, however, with north and central European jet stocks averaging 51.4mn bl in August, broadly in line with last year, according to Eurostat and Energy Trends data, and forecast to remain near 52mn bl through year-end. This should limit concerns over a structural supply shortage, although maintenance at the UK's Fawley refinery is expected to tighten regional availability through November. As a result, jet cracks are expected to remain elevated through winter, supported by resilient demand and a less favourable import outlook. At the same time, diesel cracks are forecast to ease as G7 stock releases begin, easing concerns over export restrictions.

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Rising regional demand is set to reduce Asia's export availability, supporting fourth quarter jet fuel cracks



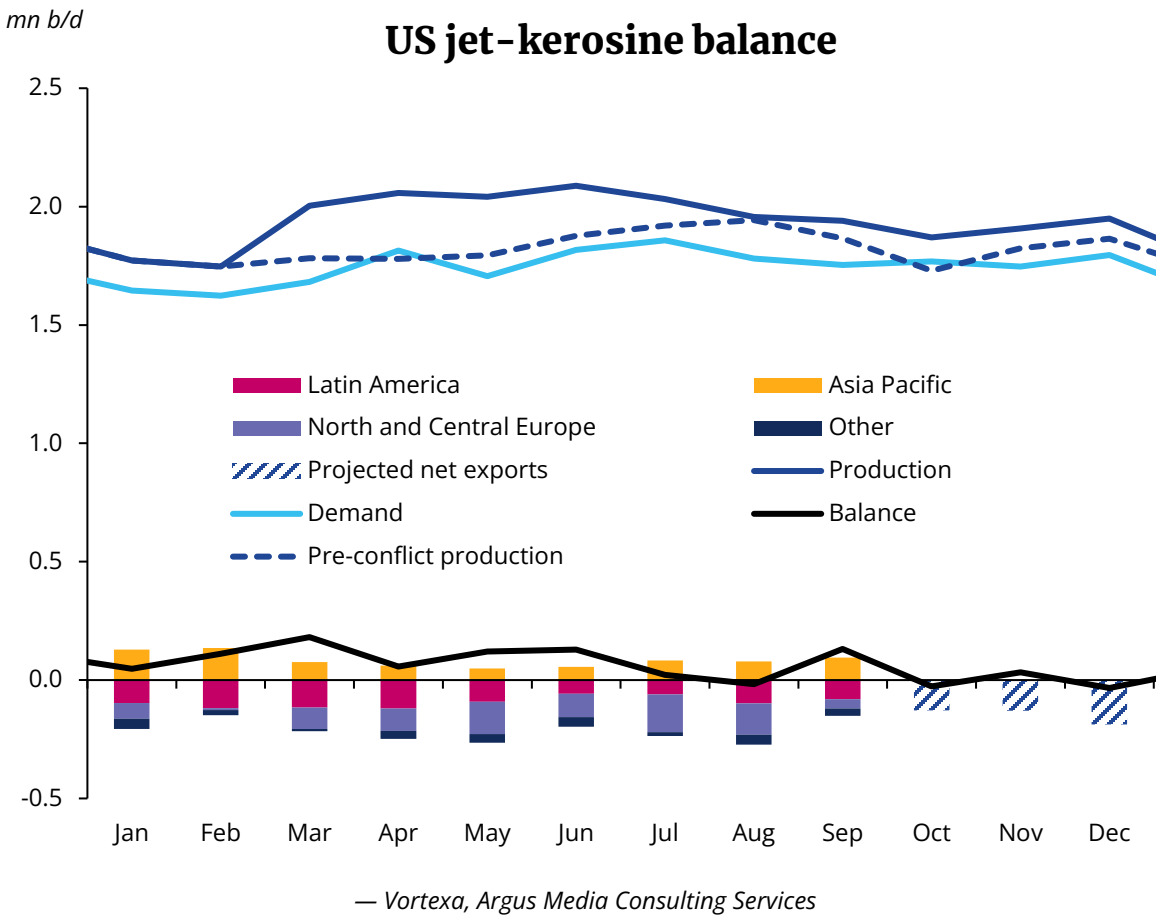


- Asia-Pacific jet balances are expected to tighten through the fourth quarter, slipping into deficit in November as regional kerosine demand rises, and export availability becomes more uncertain. China's export policy remains a key wildcard, while outages at India's 300,000 b/d MRPL refinery and operational issues elsewhere have reduced confidence in prompt supply availability.
- The winter heating season is likely to increase competition for jet-kerosine barrels within the region. Japanese jet-kerosine stocks have fallen near the bottom of the five-year range in August, increasing the incentive to retain supply domestically rather than export ahead of winter. While El Niño conditions are typically associated with warmer winters and weaker heating demand across northeast Asia, temperatures in Sapporo, one of Japan's largest kerosine-consuming regions, have recently tracked near five-year lows, highlighting upside risk to regional kerosine demand.
- Asia supplied more than 30pc of Europe's jet imports in September, supported by exceptionally strong arbitrage economics. While the arbitrage remains open on paper, uncertainty surrounding Chinese exports, higher regional demand and elevated freight costs are likely to reduce the flexibility of east-west flows during the fourth quarter.

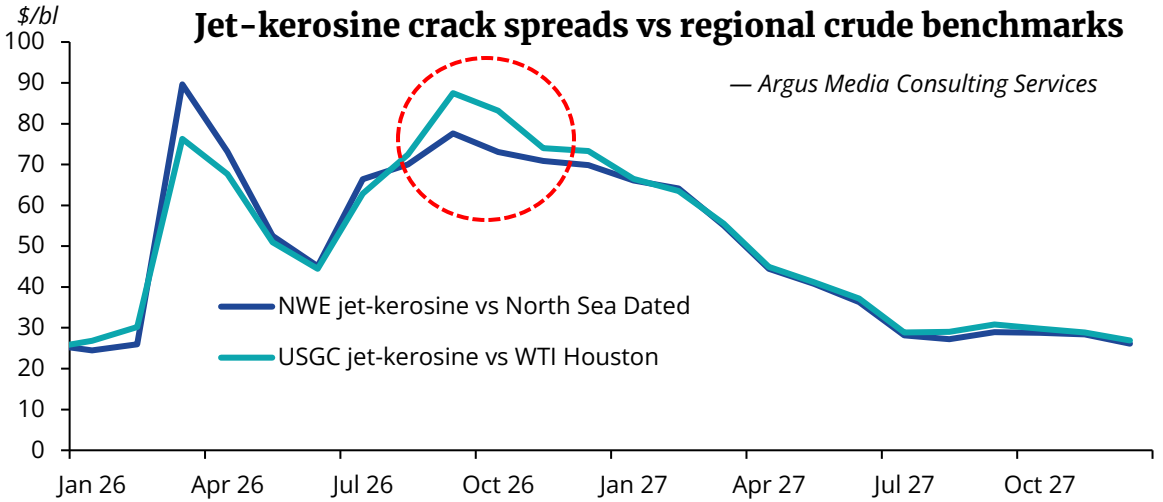
*estimated with South Korea and Japan national statistics

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Falling inventories and stronger domestic demand leave the US market more finely balanced, reducing surplus barrels available to export



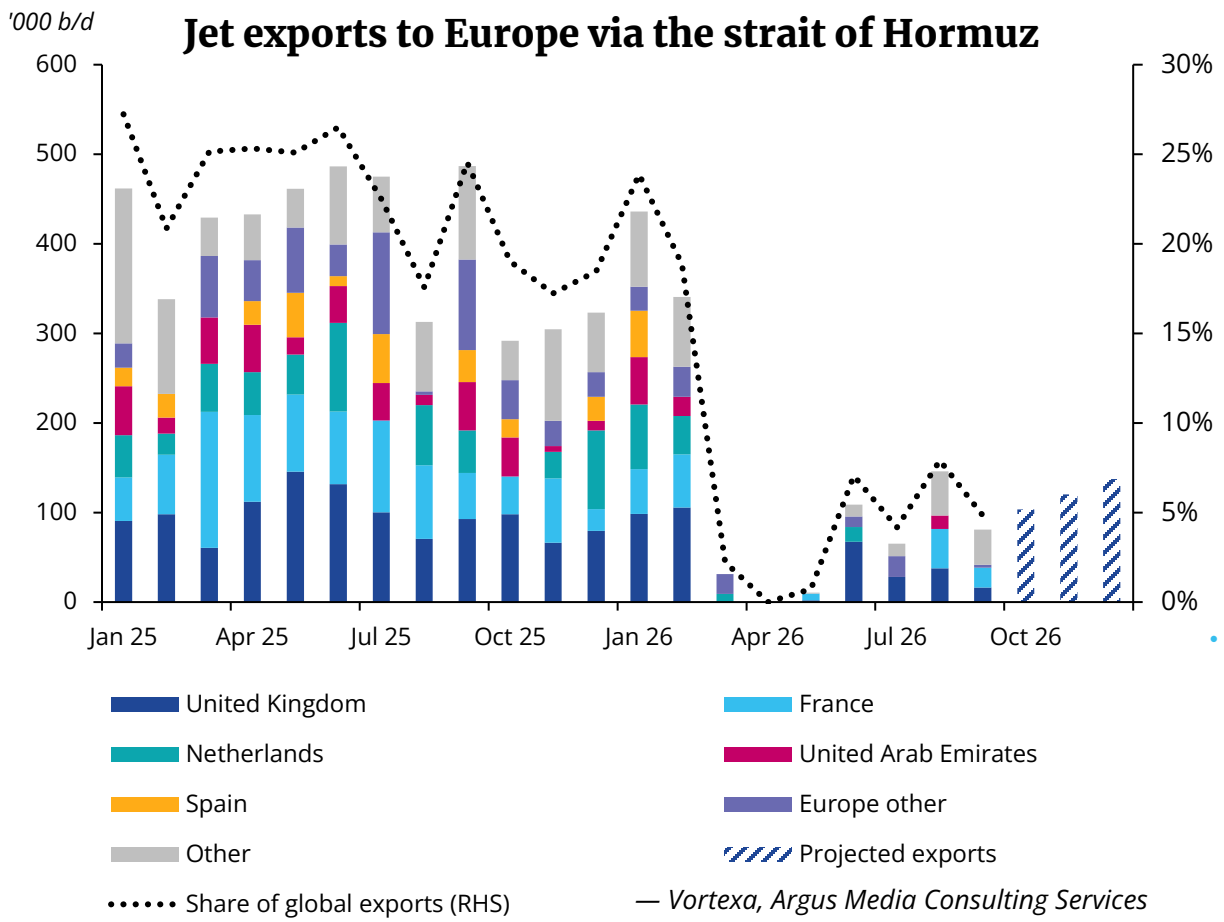
— *Vortexa, Argus Media Consulting Services*



- The US jet market is becoming increasingly balanced as strong domestic demand, lower inventories and elevated jet values absorb available supply. US jet cracks have risen above both diesel and northwest European jet cracks, significantly reducing the incentive to move barrels across the Atlantic.
- Supply growth is unlikely to materially loosen balances. Jet production is forecast to rise to 1.96mn b/d in 2026, but much of the increase is expected to be absorbed by domestic demand of around 1.72mn b/d. Inventories are forecast to end 2026 at 43.8mn bl, down from the EIA's previous forecast of 45mn bl, leaving less surplus available to the export market.
- Europe is therefore likely to receive fewer US barrels despite ongoing import requirements. Maintenance at the UK's Fawley refinery would typically support transatlantic flows, but stronger US pricing and tighter domestic fundamentals have made the arbitrage increasingly challenging.
- Global supply risks continue to underpin US jet values. Ongoing Middle East supply concerns and declining US inventory cover have reinforced the shift away from a comfortably supplied market, with US jet prices increasingly decoupling from European benchmarks in the near term.
- As a result, US jet balances are expected to tighten further through winter, limiting export availability and keeping US jet cracks elevated. Reduced US exports is expected to provide additional support to import-dependent regions, particularly Europe.

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The loss of supply flexibility is expected to keep jet markets sensitive to outages and demand surprises through winter





The loss of US export availability comes as alternative supply sources remain constrained. Jet exports through the strait of Hormuz remain around 25pc of pre-conflict levels, with refinery outages and logistical disruptions continuing to cap Middle East export recovery. China has partly filled the gap, with jet exports recovering to near pre-conflict highs in September. But Beijing's recent suspension of export licences underscores the uncertainty surrounding future export availability, leaving China's role as a balancing supplier heavily dependent on policy decisions. Europe increasingly relied on US and Asian barrels to offset lower Middle East flows in September, but that flexibility is expected to diminish through winter as stronger regional demand in Asia competes for supply and Chinese export policy remains uncertain. As a result, jet fuel cracks are forecast to remain well supported through the fourth quarter. Seasonal demand softening is likely to be outweighed by constrained Middle East exports, tighter US balances and uncertainty surrounding Chinese export availability. A meaningful easing in jet cracks would likely require either a sustained recovery in strait of Hormuz flows or a clearer commitment from Beijing to maintain elevated export volumes.

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Contents

1. Executive Summary
2. Overview of the crude market
3. Gasoline
4. Naphtha
5. Gasoil/Diesel
6. Jet Fuel
7. Fuel Oil
8. Refining Margins



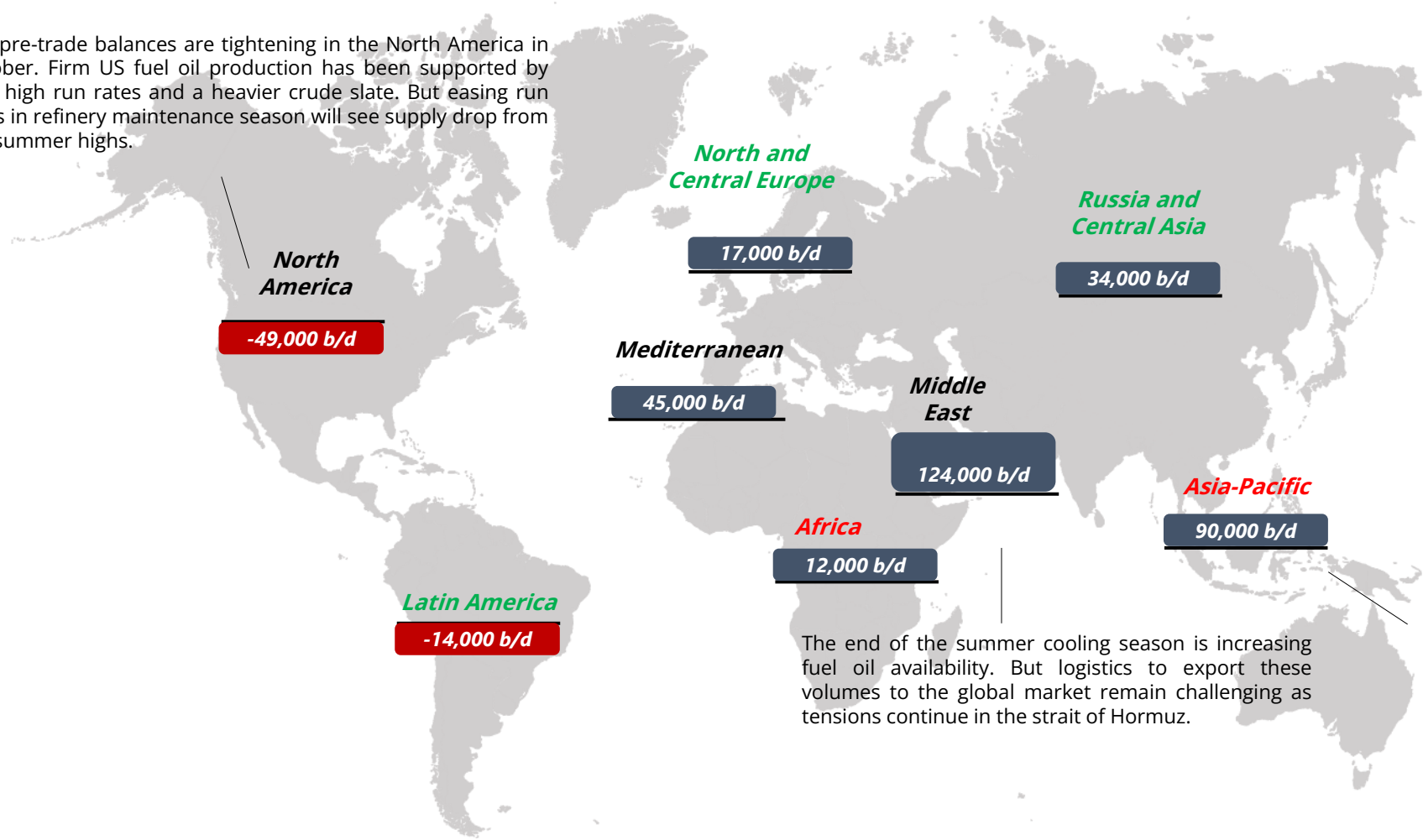
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Regional fuel oil pre-trade balance, Oct vs Sep

Improving supply availability is lengthening most regional balances, but stocks remain low across key regions

The pre-trade balances are tightening in the North America in October. Firm US fuel oil production has been supported by very high run rates and a heavier crude slate. But easing run rates in refinery maintenance season will see supply drop from the summer highs.



Structurally long

Structurally short

Balanced

Tightening pre-trade balances (monthly change)

Lengthening pre-trade balances (monthly change)

The end of the summer cooling season is increasing fuel oil availability. But logistics to export these volumes to the global market remain challenging as tensions continue in the strait of Hormuz.

While pre-trade balances are lengthening in Asia in October, they remain structurally short leaving the region reliant on imports. While the global balance is lengthening, high freight rates will limit arbitrage flows to Asia.

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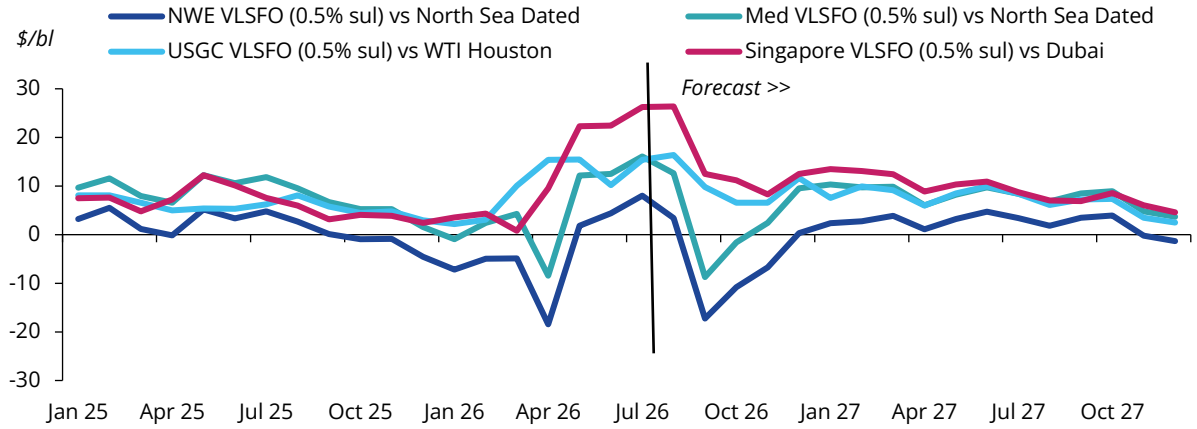
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Click here to access the price dataset: Fuel Oil Outlook Workspace

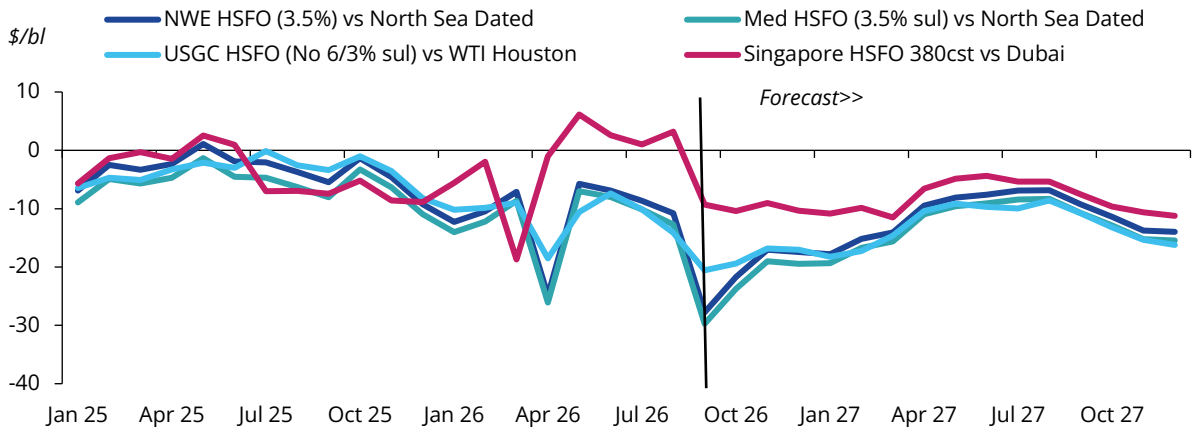
Fuel oil

Fuel oil cracks should recover as crude prices ease, but improving supply will keep them below summer highs

VLSFO crack spreads vs regional crude benchmarks



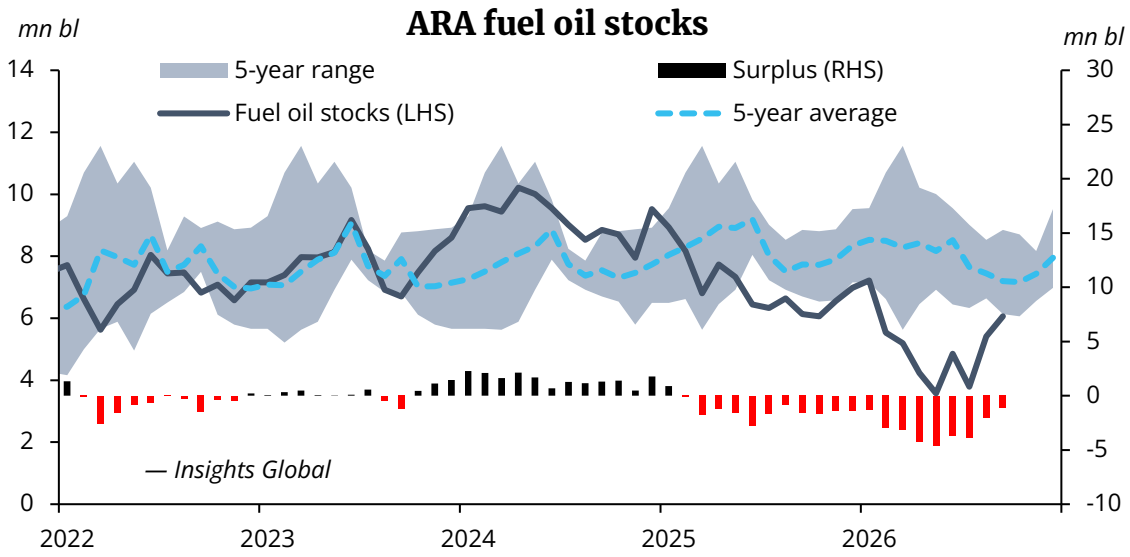
HSFO crack spreads vs regional crude benchmarks

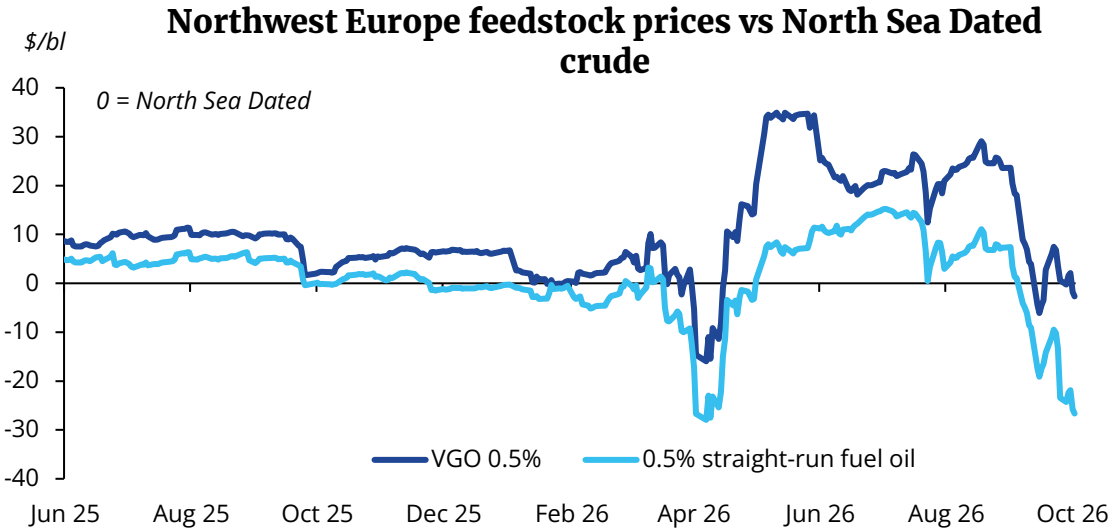


- Fuel oil cracks weakened sharply across all major regions in September, mainly because of higher crude prices rather than weaker fuel oil fundamentals. As crude prices ease, cracks should recover from recent lows, although improving supply is likely to cap gains and prevent a return to the exceptional levels seen over the summer.
- **European** VLSFO is facing a rise in supply availability. ARA fuel oil stocks have risen to an eight-month high as exceptionally low Rhine levels restrict inland movements, while refinery maintenance and secondary unit disruption are returning more VGO and low-sulphur straight run material to the blending pool.
- **Asian** VLSFO fundamentals remain supportive despite the drop in cracks in September. Regional fuel oil supply is forecast to remain below last year's level, bunker demand is resilient and high freight costs continue to restrict arbitrage from Europe, although improving availability should keep cracks below their summer highs.
- **Asian** HSFO remains tight even as acute shortages ease. Middle Eastern and Russian exports increased in September, improving expected October-November availability, but Singapore inventories remain low and uncertainty around Mideast Gulf logistics and Russian refinery operations limits supply flexibility.
- **Atlantic basin** HSFO availability is expected to tighten as Venezuelan and Mexican exports ease from recent highs. Continued Iraqi exports through Syria and firm US production should provide some offset, while low US inventories and resilient bunker demand place a floor under falling cracks.

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Ample VLSFO supplies and increased blendstock availability in Europe to pressure fuel oil crack spreads





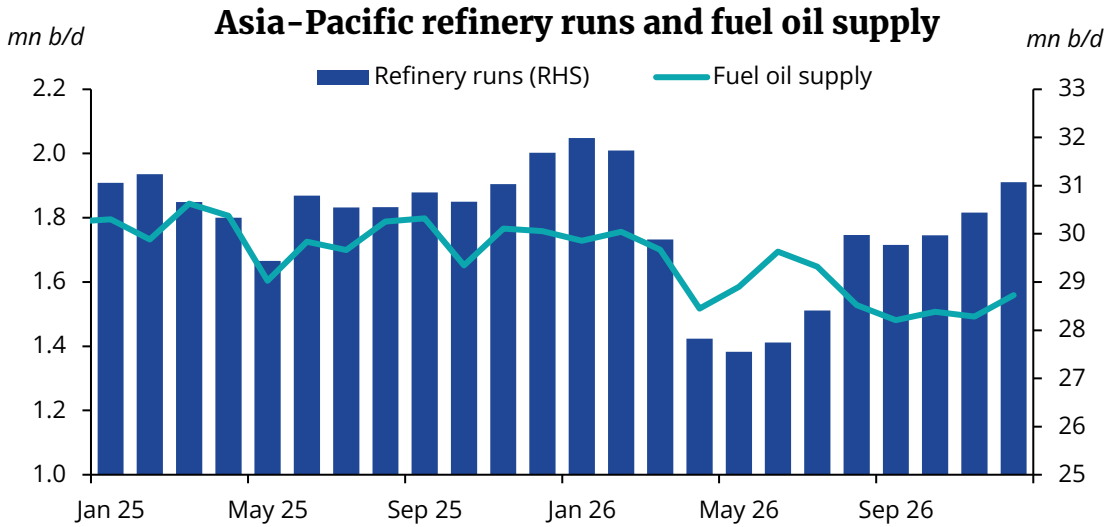
- VLSFO cracks fell sharply across all major refining regions in September as crude prices surged following damage to Saudi Arabia's East-West pipeline in mid-September. Northwest European VLSFO cracks dropped by $20.67/bl on the month to a $17.24/bl discount to North Sea Dated. While repairs and the resumption of Yanbu exports should support a recovery in cracks, they are unlikely to return to the elevated levels seen over the summer.
- VLSFO availability in northwest Europe has improved, with ARA stocks rising for a second consecutive month to 6.1mn bl at the end of September, an eight-month high and back within the bottom of the five-year range. Exceptionally low Rhine water levels have contributed to the build-up. Gauge readings at the Kaub chokepoint fell to a record low of -3cm in late September, effectively splitting the lower and upper Rhine and restricting inland movements. With barges unable to transit even at partial loads, more product has remained in ARA, while some volumes have been redirected to the export market. ARA VLSFO exports rose by 23pc on the month to 176,000 b/d in September, the highest since January, according to Vortexa. With Rhine water levels unlikely to improve materially in the near term, seaborne exports are expected to remain an important outlet for surplus regional supply.
- Feedstock availability has improved as refinery maintenance reduced demand for VGO and low-sulphur straight-run (LSSR) fuel oil, allowing more low-sulphur material to return to the blending pool. Strong feedstock demand had supported VLSFO cracks through much of the summer by diverting blendstocks into refinery units rather than bunker fuel production. But refiners have delayed or postponed maintenance where possible to capture strong refining margins, resulting in a much lighter turnaround season than last year. Announced maintenance suggests CDU outages peaked at around 590,000 b/d in September this year, compared with more than 1.5mn b/d in October 2025. While this has limited the expected increase in blendstock availability, it also raises the risk of unplanned outages in the coming months. Secondary unit disruptions, particularly where crude units continue to operate, could increase blendstock supply and provide further support to VLSFO production.

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Asian VLSFO fundamentals remain supportive but improving supply will keep crack spreads below summer highs



—Maritime & Port Authority of Singapore, Argus Media Consulting Services

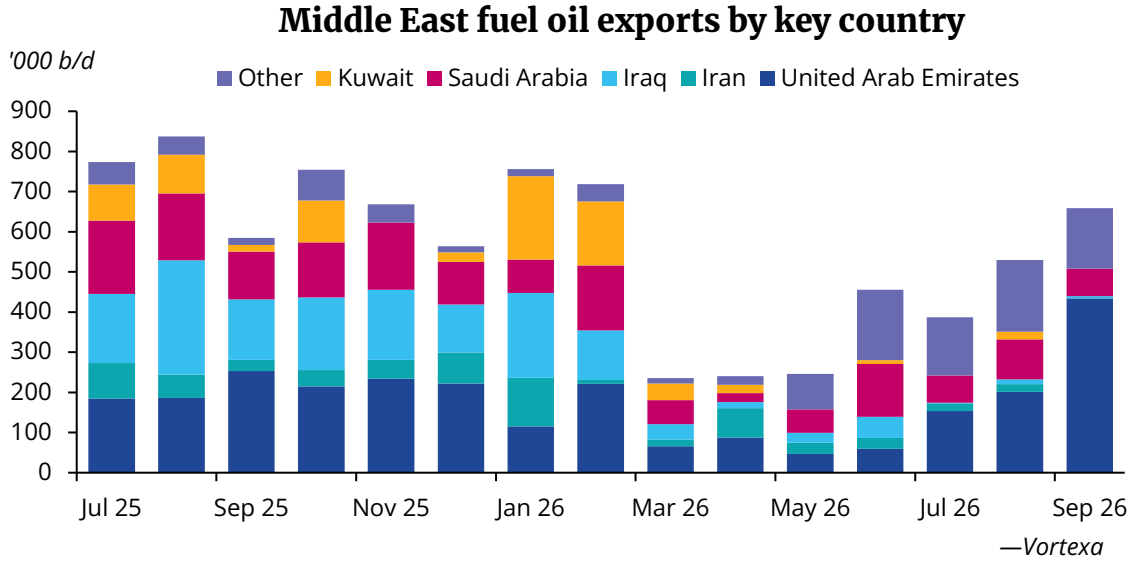


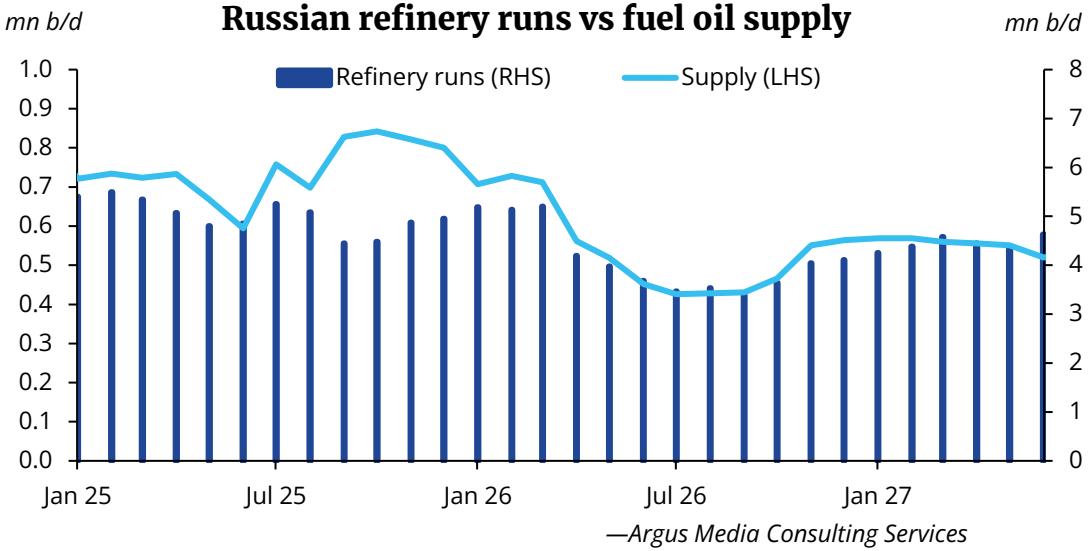
—IEA, Jodi, National Stats, Argus Media consulting sevices

- Singapore VLSFO cracks fell by $13.86/bl on the month to $12.51/bl in September, although the decline was largely driven by a $24.24/bl surge in Dubai crude prices rather than weakening fundamentals. Regional fuel oil supply remains constrained and is forecast to average 1.5mn b/d in this quarter, down 12pc on the year, as lower refinery runs, a lighter regional crude slate and a continued focus on middle distillate production weigh on fuel oil yields. Fuel oil yields are expected to average 0.6 percentage points below last year levels.
- Bunker demand remains resilient despite a 6pc monthly decline in Singapore VLSFO sales to 471,000 b/d in August. High prices encouraged some vessels to bunker at alternative ports, particularly in Malaysia, rather than indicating weaker regional demand. Longer crude and product trade routes, resilient global merchandise trade and a shift in bunkering activity away from the Middle East are expected to continue supporting consumption through year-end.
- Near-term support for cracks is also likely to come from tightening blendstock availability. Three cargoes of LSSR from Nigeria's Dangote refinery arrived in Singapore in September, temporarily easing supply. But no additional cargoes are currently signalling for Singapore, with volumes instead heading to Fujairah. The restart of Pengerang's second 70,000 b/d RFCC unit in mid-September is also expected to reduce LSSR availability in the regional market, supporting a recovery in VLSFO cracks through the end of this quarter.
- While low-sulphur fuel oil remains more readily available in Europe, record freight costs continue to limit east-west arbitrage. The Europe-Asia VLSFO spread widened to a record $160.50/t on 5 October, but Mediterranean-east Asia dirty tanker freight averaged $118.64/t in September, compared with $38.52/t a year earlier. As long as freight rates remain elevated, Asian and European fuel oil markets are likely to remain largely disconnected, requiring stronger Asian premiums to attract European barrels.

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Rising exports from the Middle East and Russia will improve HSFO availability in Asia, capping the strength in cracks

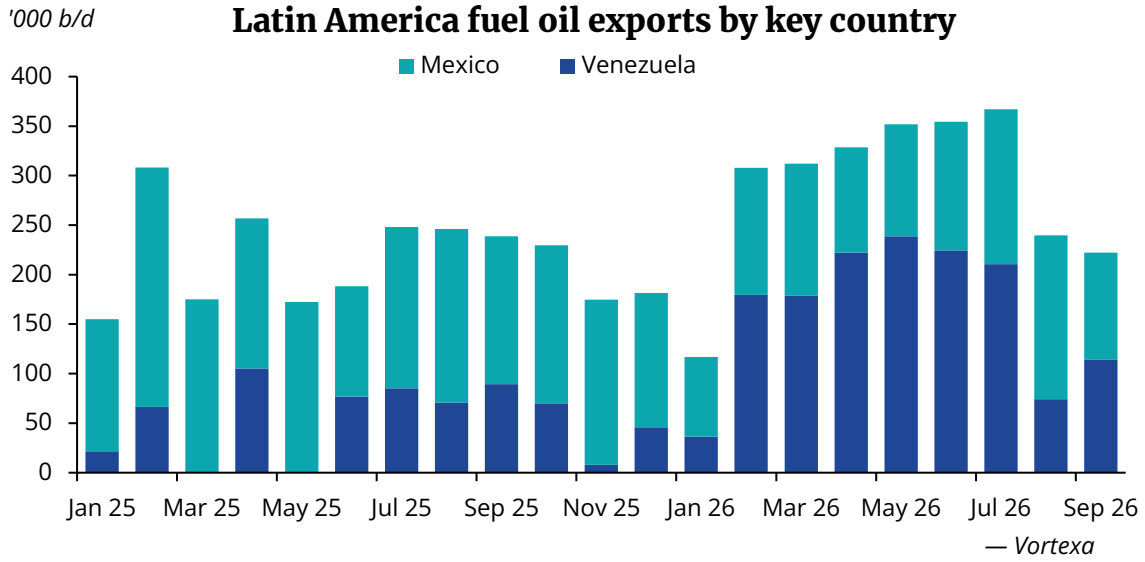


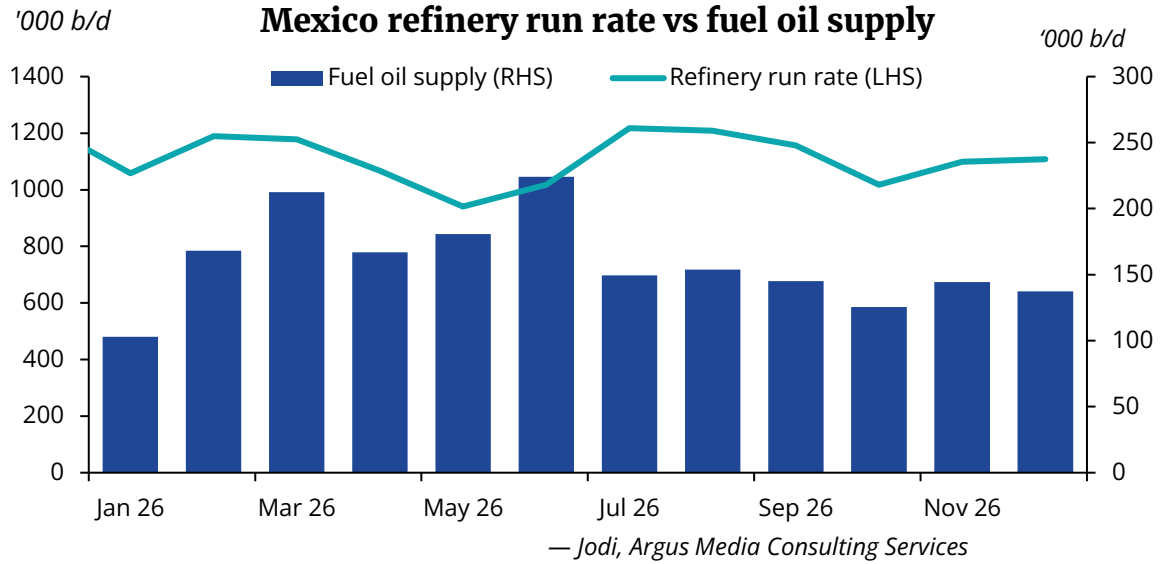


- Middle East fuel oil exports, the majority of which were HSFO, rose by 24pc on the month to 658,000 b/d in September, the highest level since the start of the US-Iran conflict, according to Vortexa. Much of the increase in exports is from the UAE's port of Fujairah, but imports to the blending hub and refining capacity in Fujairah are not enough to account for the uptick, This suggests additional ship-to-ship (STS) activity may be facilitating volumes from inside the Mideast Gulf, although this remains unconfirmed. If sustained, it would pave the way for a more durable recovery in regional fuel oil exports, particularly as the end of the summer cooling season increases fuel oil availability across the Middle East. Alternative routes, including Iraqi fuel oil trucked via Syria to Mediterranean ports, have also supported exports, although their exports remains capped by constrained logistics.
- Additional supply is also emerging from Russia. HSFO departures to Asia exceeded 400,000 b/d in September, up from less than 240,000 b/d during the previous five months. However, a sustained recovery is far from certain as Ukrainian drone attacks continue and refinery repairs progress slowly. Russian refinery runs are forecast to recover to 3.9mn b/d in this quarter but will still remain more than 800,000 b/d below year-ago levels. Further upside to fuel oil exports could emerge if CDU runs recover ahead of downstream conversion capacity, temporarily boosting fuel oil yields, although we are assuming a recovery in secondary units.
- These supply improvements should provide some relief to Asian markets through the end of the year. Singapore HSFO cracks fell by $12.51/bl in September, although the correction was largely driven by stronger crude prices rather than a material easing in fundamentals. Fuel oil inventories started to decline yet again in September, falling by 1.4mn bl over the month to 18.7mn bl by the end of September and remaining well below the five-year average. We expect recovering exports from the Mideast Gulf and Russia to gradually ease tightness through year-end, but geopolitical risks, refinery disruptions and logistical constraints are likely to prevent a full normalisation in supply. As a result, HSFO cracks are expected to remain above historical averages, even if they do not return to the extreme highs seen over the summer.

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A narrowing supply cushion keeps Atlantic basin HSFO fundamentals firm

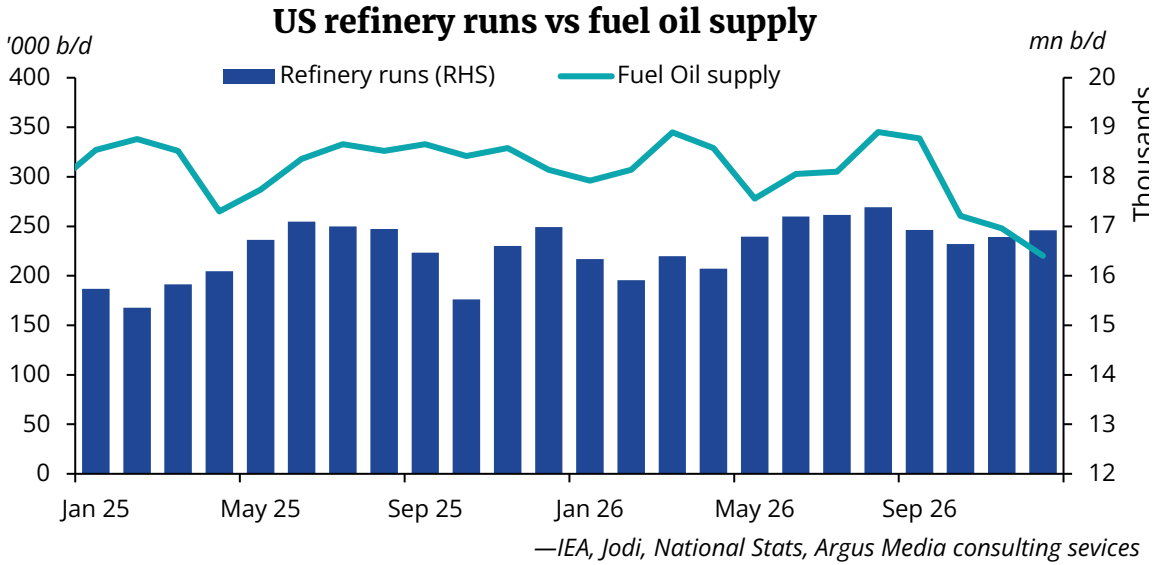


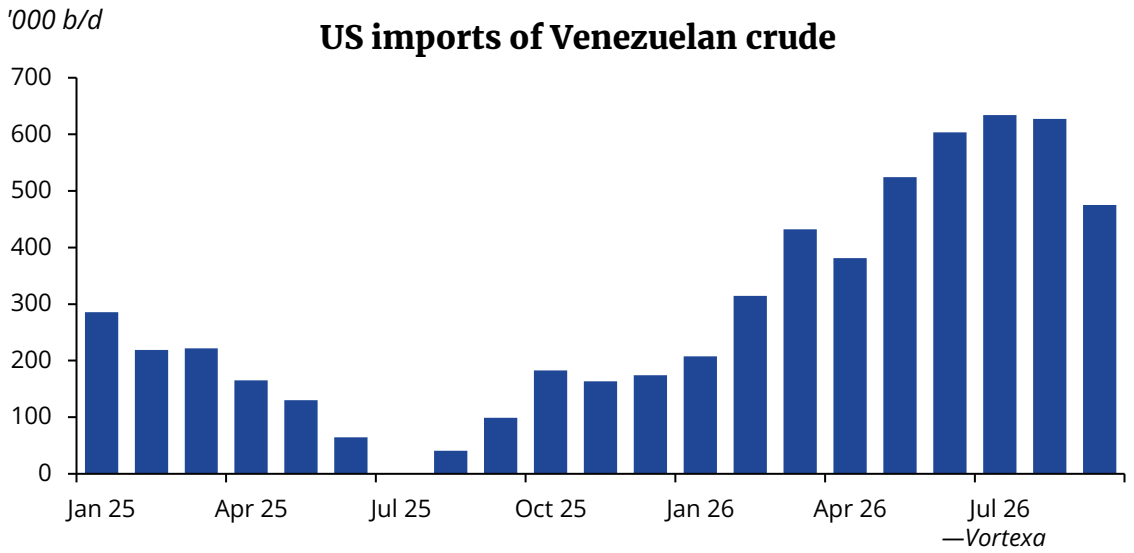


- HSFO supply into the Atlantic basin is expected to tighten after a sustained increase in exports from Venezuela and Mexico helped offset disruptions to Middle Eastern and Russian supply over the summer. Combined exports from the two countries have eased since August, although the impact has yet to be fully reflected in crack spreads because of long transit times and weaker US demand earlier in the quarter. Mexican arrivals into ARA nevertheless exceeded 50,000 b/d in September, the highest on record, contributing to a recovery in regional inventories and weighing on northwest European cracks.
- Mexico is likely to remain an important supplier, but export growth is expected to slow. Strong exports have been supported by higher refinery runs and initially elevated fuel oil yields as secondary units lagged crude runs. Fuel oil yields averaged 19pc in the second quarter before falling to 12-13pc in July-August, according to Pemex data. Runs have remained above 1.2mn b/d as Mexico pursues greater self-sufficiency in transport fuels, but sustaining those rates remains uncertain. Fuel oil yields are expected to remain near 13pc through year-end, limiting further growth in export availability.
- At the same time, Iraqi exports through Syrian Mediterranean ports continue to provide an important source of Atlantic basin supply. Volumes remained above 120,000 b/d in July, August and September and are expected to stay firm in the near term, which is much stronger than the 8,500 b/d exported from Iraq to Europe in 2025. While more fuel oil is leaving the Middle East, possibly moving through the strait of Hormuz via STS activity, those barrels are largely destined for Asia. Overland exports of Iraqi fuel oil via Syria remain less exposed to shipping disruptions and should continue to support Atlantic basin availability while risks in the strait persist. As a result, HSFO supply in the Atlantic basin is likely to remain adequate, but less comfortable than during the summer. Lower exports from Latin America are expected to be partly offset by firm Iraqi flows, though the market will become increasingly dependent on a small number of key supply routes.

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Light maintenance and stronger supply should weigh on cracks, but fundamentals remain firmer than headline production suggests





- Refiners in the US have continued to maximise secondary unit utilisation and prioritise transport fuels to capture strong diesel and jet fuel margins, yet fuel oil supply remained firm through August and September. Weekly EIA data show fuel oil production in August and 1-25 September averaged more than 340,000 b/d, up by 6pc and 3pc respectively from the same periods a year earlier. Strong refinery run rates and a heavier crude slate, supported by sustained Venezuelan heavy crude arrivals, have more than offset lower fuel oil yields. Despite stronger output and stock builds in September, inventories remain 8pc below the five-year average, limiting the scope for a sharp decline in crack spreads.
- Bunker demand has also remained resilient, supported by longer voyage distances, strong crude and refined product exports, and robust merchandise trade. The risk that a potential US diesel-export restriction could weigh on bunker demand now appears to have diminished, reducing downside risks to both HSFO and VLSFO consumption. As a result, bunker demand should remain supportive through the remainder of the year.
- At the same time, fuel oil blendstock availability remains constrained. Strong economics for secondary units have encouraged refiners to process VGO and LSSR as refinery feedstocks rather than divert them into the fuel oil blending pool. Autumn maintenance has softened cracks by reducing feedstock demand, but supply remains far from ample. Planned maintenance is also relatively light, with around 550,000 b/d of CDU capacity scheduled offline compared with an average of 940,000 b/d during September-October last year.
- Fuel oil cracks are therefore expected to continue easing from recent highs, but low inventories, resilient bunker demand and limited blendstock availability should prevent a sharp correction and keep both HSFO and VLSFO markets relatively well supported through the end of the year.

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Contents

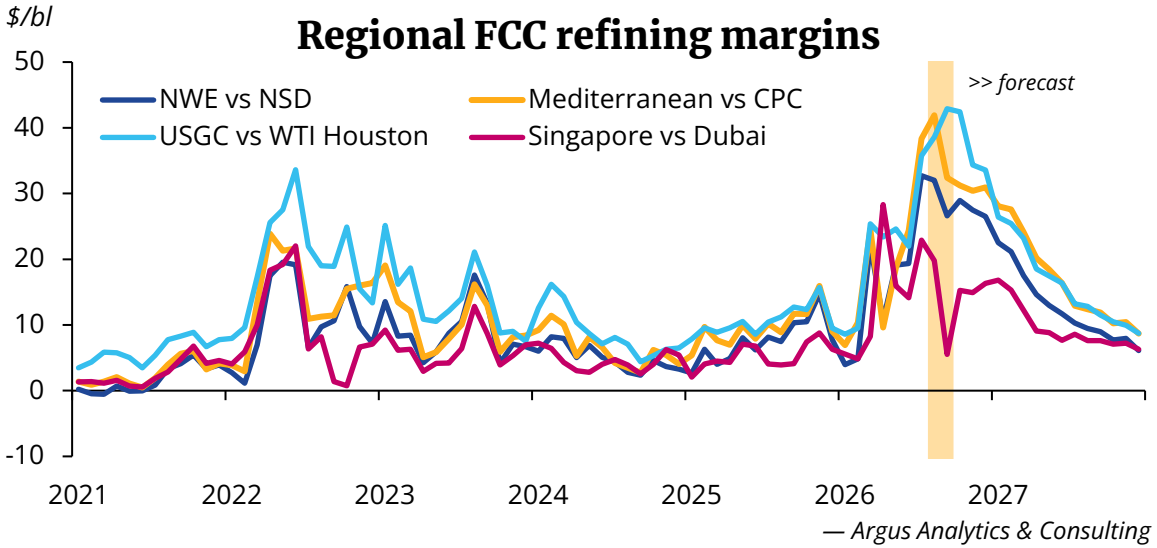
1. Executive Summary
2. Overview of the crude market
3. Gasoline
4. Naphtha
5. Gasoil/Diesel
6. Jet Fuel
7. Fuel Oil
8. Refining Margins

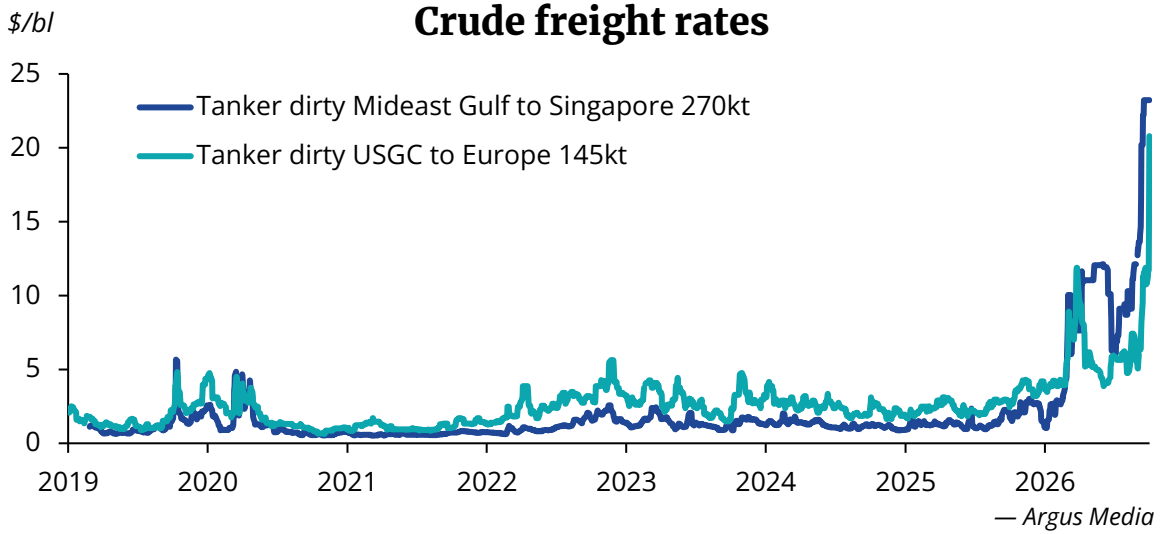


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Surging freight rates leading to severe dislocation in regional refining margins





- Record high freight rates have led to a severe dislocation in refining margins. Freight for a VLCC from the Mideast Gulf to Singapore reached $20/bl in September, almost three times as high as since the start of the US-Iran conflict, and five times higher than in 2025. The Singapore FCC indicator refining margin against Dubai crude slumped to just $5.54/bl in September, while northwest Europe, Mediterranean and US Gulf coast refining margins all remain close to record highs.
- The rise in dirty freight rates between the Middle East and Asia owes to a rise in ship-to-ship (STS) transfers through the strait of Hormuz, which is much more vessel intensive than a simple vessel transit. The geopolitical risk premium of operating in the area continues to be added to the cost of freight as well. Further, many shipowners are avoiding the risk of operating in the region altogether and preferring to charter routes in the Atlantic Basin. All of this is raising the cost for Asian refiners to imports Middle Eastern crude and massively eroding their margins.
- Looking forward, it is highly uncertain as to the direction of freight. On the one hand, freight rates could remain high as STS operations through the strait of Hormuz are expected to continue, and vessels expected to continue diverting to alternative regions. On the other hand, we have seen no reports of a commercial vessel attack for over a week, and Saudi Arabia is reportedly close to repairing the pipeline at Yanbu which could see a rebound in Red Sea loadings and less reliance on strait of Hormuz STS operations. For now, we see freight rates easing back to $12/bl in October, which sees the Singapore refining margin vs Dubai rebound to $13.71/bl.

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