Argus *Refined Products* *Outlook*

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Executive Summary: Refined Products Outlook

The outlook for transportation fuels is increasingly aligned with market fundamentals, as rising global supplies coincide with a seasonal slowdown in demand, even amid renewed geopolitical tensions and impending EU sanctions

Monthly Regional Product Trends: January

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

Near term price drivers

	Bullish	Bearish
Gasoline	↑ Nigeria's Dangote RFCC and CDU undergoing maintenance this quarter ↑ Lunar new year-related demand in China could curb exports in February ↑ US to ramp up maintenance activity in second half of January ↑ Indonesia's Balikpapan refinery has not started operation yet at new RFCC unit, stable operations may prove to be challenging	↓ Demand in key consuming countries, US and China, in structural decline ↓ Chinese gasoline exports scheduled for January doubles on the month ↓ US gasoline stocks at record high at the start of 2026
Naphtha	↑ US naphtha flows to Venezuela via trade resumes ↑ China's new consumption tax on domestic naphtha buoys import requirements ↑ New steam crackers in China to come online this year	↓ Petrochemical demand remains weak across key refining hubs ↓ Blending gasoline demand west of Suez softens ↓ South Korea announces plans to cut steam cracker run rates ↓ Russian output recovers
Middle Distillates	↑ Russia remains key uncertainty this year, despite the slowdown in drone attacks ↑ Gasoil/diesel inventories in the Atlantic Basin remains low ↑ Heating kerosine demand approaching its peak in northeast Asia ↑ Middle East jet exports to be limited by the slow ramp up of Kuwait's al-Zour refinery	↓ European and Chinese diesel demand in structural decline ↓ Fresh supplies emerge from new upgrading capacity ↓ Refinery run rates on the rise following heavy refinery maintenance in 4Q
Fuel oil	↑ USGC refinery to undergo maintenance in January-April, which may lift HSFO feedstock demand ↑ Lower crude and fuel oil supplies from Venezuela to Asia ↑ CDU maintenance at Dangote refinery in February could limit LSSR supply	↓ Expectation of higher crude and fuel oil flows from Venezuela to the US market ↓ Fuel oil stocks in Singapore remain high, signalling oversupply ↓ Kuwait's al-Zour refinery ramping up operations following unplanned maintenance in December

Source: Argus Media - Consulting Services

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More details available in Argus Crude and Refined Products Outlook

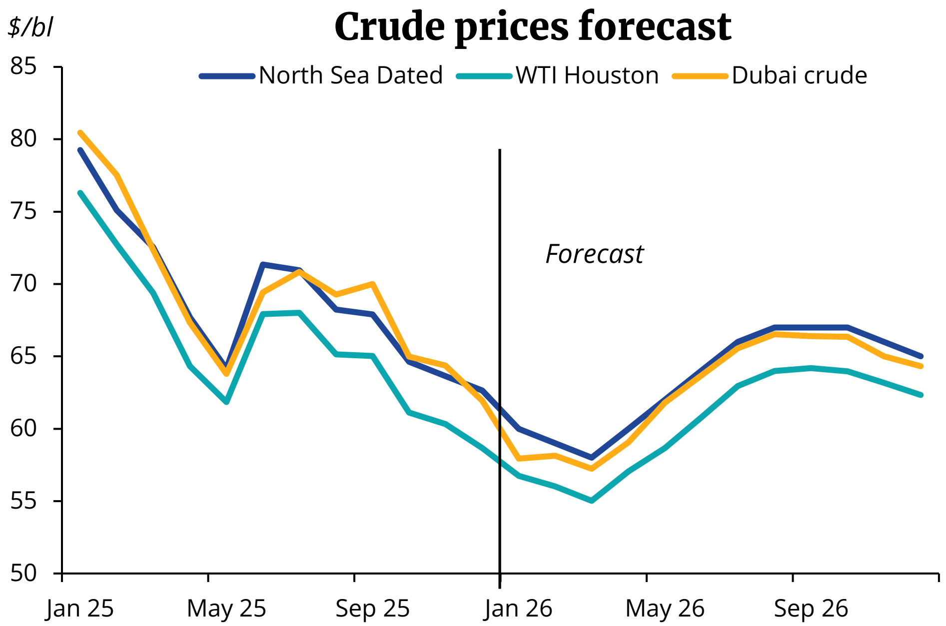
Overview of the crude market

Venezuela supply risks fade as policy shifts point to continued flows, bearish sentiment persists

- Expectations of a calmer market in early 2026 were quickly overturned as US political and military actions against Venezuela reintroduced geopolitical risk into oil markets. While such developments often trigger immediate price premiums, the initial market response has been more restrained, reflecting uncertainty over whether the situation will materially disrupt Venezuelan supply flows.
- Early indications suggest a bearish outcome remains possible as Venezuelan crude exports may continue to flow. At the end of last year, the US intensified efforts to halt Venezuelan exports carried by sanctioned vessels, and in the early days of 2026 crude exports had fallen to only around 500,000 b/d, compared with 800,000 b/d in the previous quarter and down from a September peak of more than 1mn b/d.
- With Venezuelan storage nearing capacity, PdV has asked operators to curb production, raising the risk of even lower exports; however, Trump's transactional approach suggests he may seek to boost Venezuelan crude flows through proposals such as granting the US up to 50mn bl to market with shared revenues, requiring Caracas to work exclusively with US firms, and prioritizing US refiners for heavy crude sales.
- Venezuelan exports are likely to return to typical 2025 levels, but significant growth is unlikely given the investment required from US operators. This offers some relief to Opec+, which faces a bearish backdrop as the market flirts with oversupply. So far, only a sustained build in Chinese crude stocks—estimated at nearly 965mn bl by end-November—has prevented sharper price declines, though actual builds may be slightly lower due to incomplete refinery data.

Crude prices forecast, $/bl

	Dec 25	Jan 26	Feb 26	Mar 26	Apr 26	May 26	Jun 26
North Sea Dated	62.60	60.00	59.00	58.00	60.00	62.00	64.00
WTI Houston	58.70	56.70	56.00	55.00	57.010	58.70	60.80
Dubai	61.90	57.90	58.10	57.20	59.10	61.80	63.70



Source: Argus Media - Consulting Services

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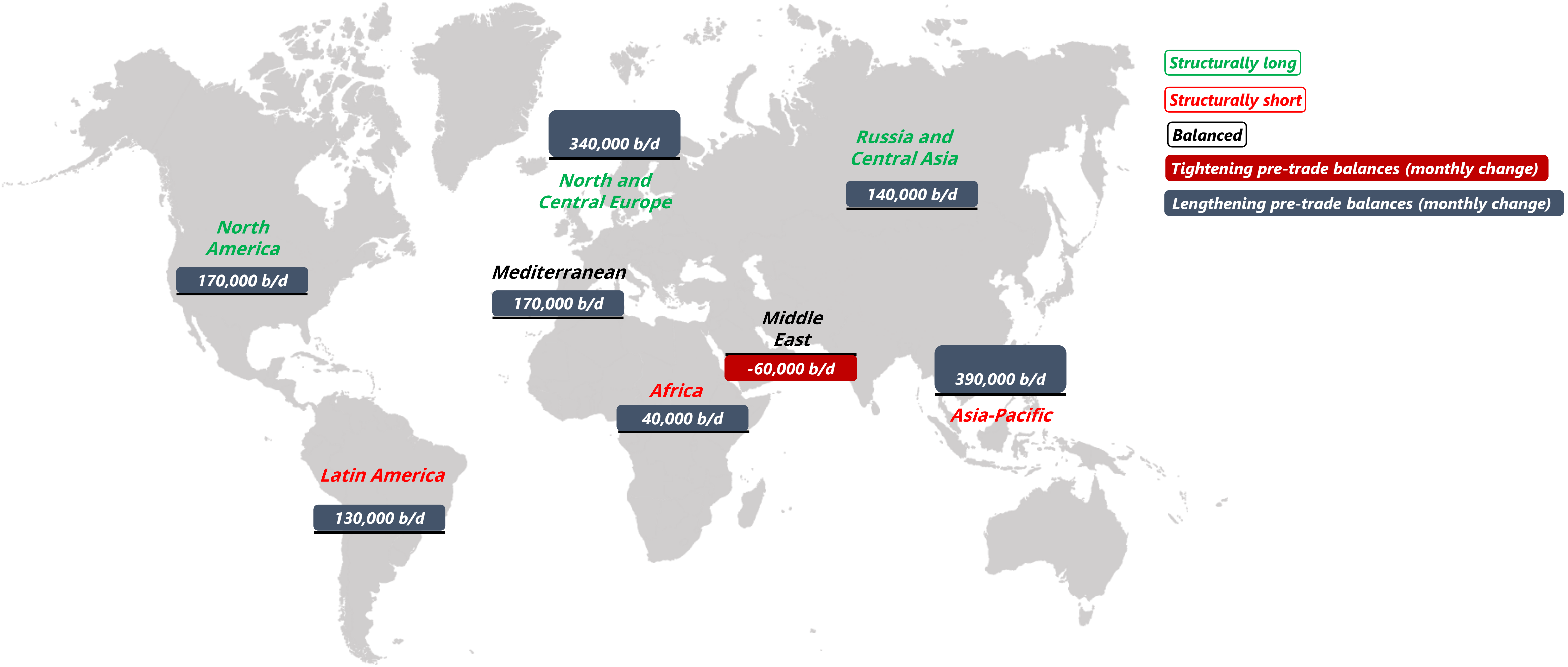
Regional gasoline pre-trade balance, Jan vs Dec

A lengthening market to continue to pressure gasoline cracks down, Asia-Pacific to see largest length following the restart of the two RFCCs at Malaysia's Pengerang refinery

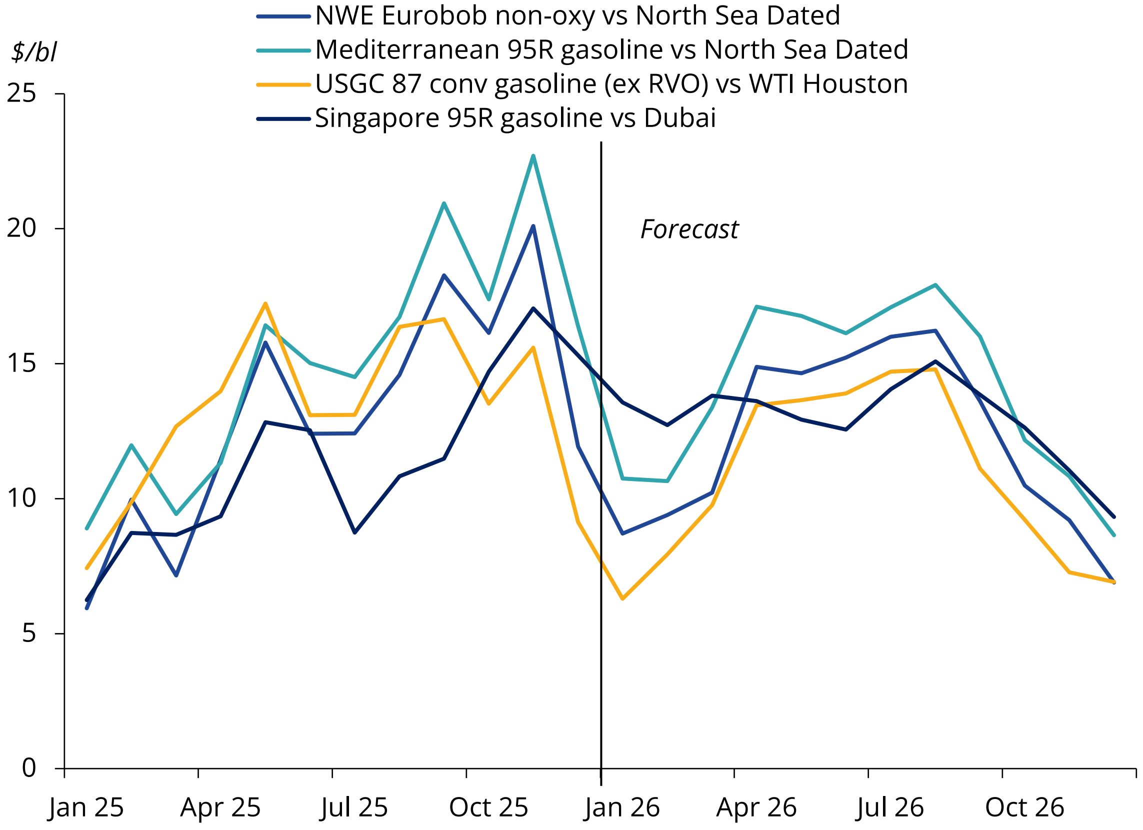


Source: Argus Media - Consulting Services

Gasoline Outlook

Global gasoline market is returning to normal seasonal patterns as rising gasoline supply signals the end of a heavy autumn maintenance programme

Gasoline crack spreads vs regional benchmarks



- Gasoline cracks spreads fell across the major refining hubs in December, following unseasonal highs in November. December marked the end of a heavy autumn refinery maintenance season, with more than 3.5mn b/d of CDU capacity returning to the global refining system in December alone. With little maintenance planned for early 2026 so far, gasoline supply is expected to remain ample, keeping gasoline cracks muted through 1Q across key regions.

- **Northwest Europe** will likely struggle to place its surplus volumes as exports to key regions, US and west Africa, are in a structural decline. Gasoline exports from the US were significantly weak in December. Meanwhile west African import demand may see a temporary boost given scheduled maintenance at Dangote's refinery.

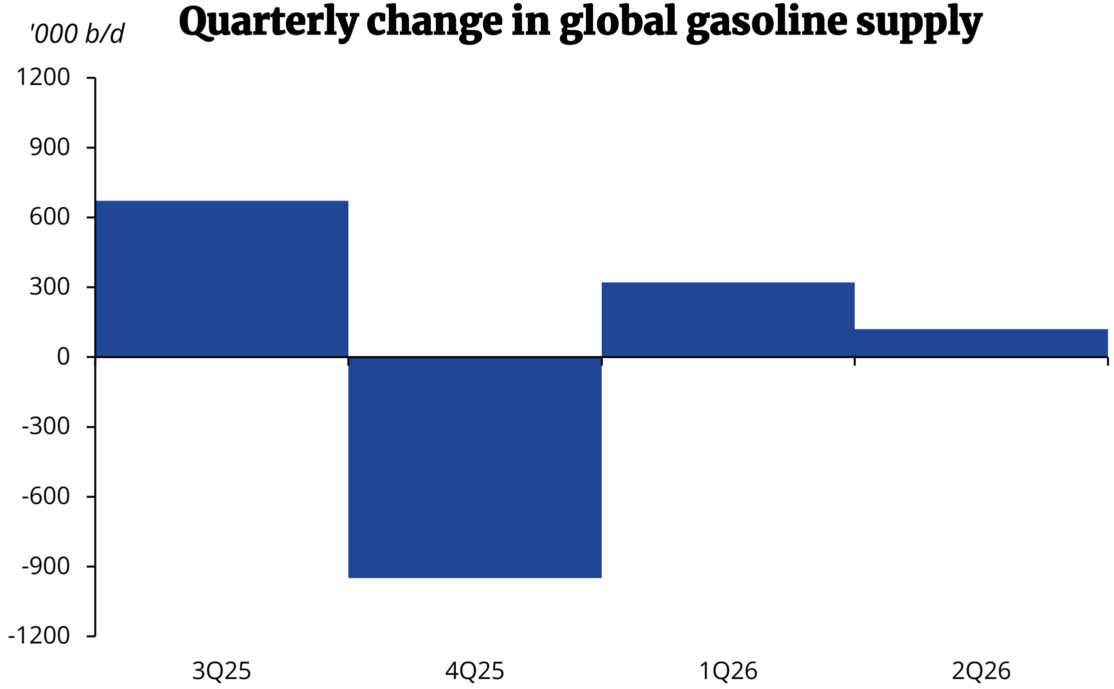
- **Asia-Pacific** gasoline cracks are expected to hold to a premium over west of Suez markets this quarter. But the net length, will see cracks softening . While firm import demand from Indonesia supported cracks last quarter, a slowdown in buying activity will pressure cracks, particularly as the new RFCC unit at Balikpapan refinery starts operations. Meanwhile Chinese loading scheduled for January indicates that gasoline exports will double on the month, adding downwards pressure to cracks.

- EV penetration and improving gasoline efficiency are driving structural declines in gasoline demand, with demand in the world's biggest gasoline consumers, China and the US, continuing to decline year-on-year in 2026. But anti-green policy sentiment from the US administration is driving deviation in EV trends in the US compared to other regions, adding upward risks to our forecast.

Source: Argus Media - Consulting Services

Global gasoline supply is expected to remain ample through Q1, exerting downward pressure on cracks and driving seasonal normalisation

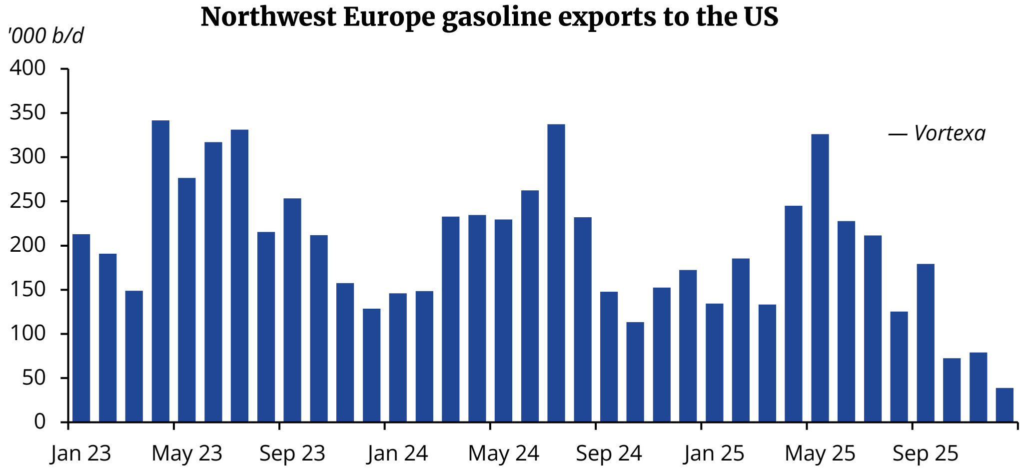
Quarterly change in global gasoline supply

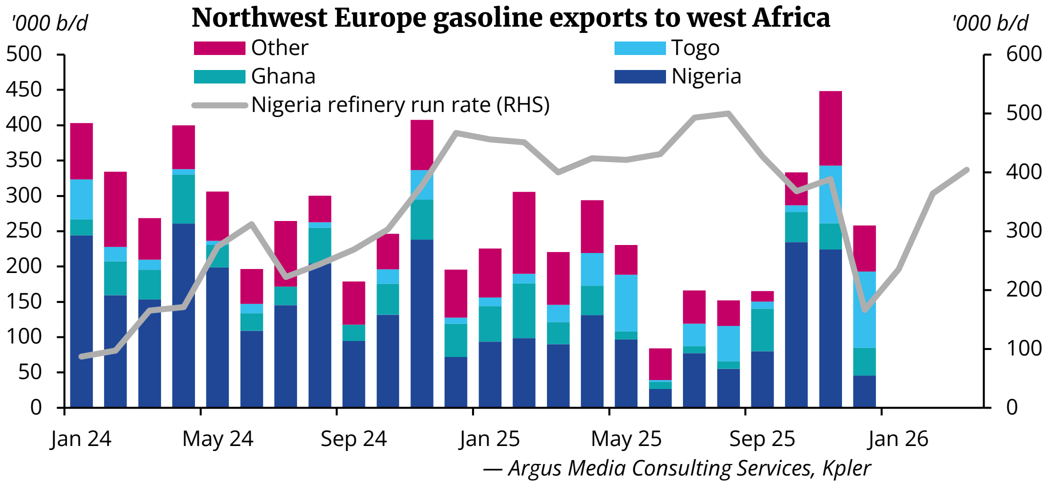


- Gasoline cracks surged to a year high in November, driven by heavy autumn refinery maintenance, with over 7mn b/d of global refining capacity offline in October and November, according to *Argus* Media Consulting Services.
- The return of over 3.5 mn b/d of CDU capacity in January across major refining hubs has pulled gasoline cracks back toward seasonal norms. With minimal planned maintenance scheduled this quarter, global supply is expected to remain abundant, supported by an additional 300,000 b/d of gasoline output compared with the previous quarter.
- In addition to unwinding maintenance, we assume gasoline supply to be far more consistent out of Nigeria's Dangote as the refinery enters its second full year of operations. Combined with the continued ramp up of Pemex's Olmeca refinery in Mexico, Atlantic Basin supply should be ample for what is now a declining market.
- As such, longer balances and seasonally weak demand will keep cracks subdued early in the year in west of Suez markets. However, rising consumption ahead of the northern hemisphere summer driving season should lift crack spreads through the second quarter. A more typical seasonal pattern is expected in 2026 across the Atlantic Basin, with summer peaks well below the extreme highs seen in 2022-2023.

Source: Argus Media - Consulting Services

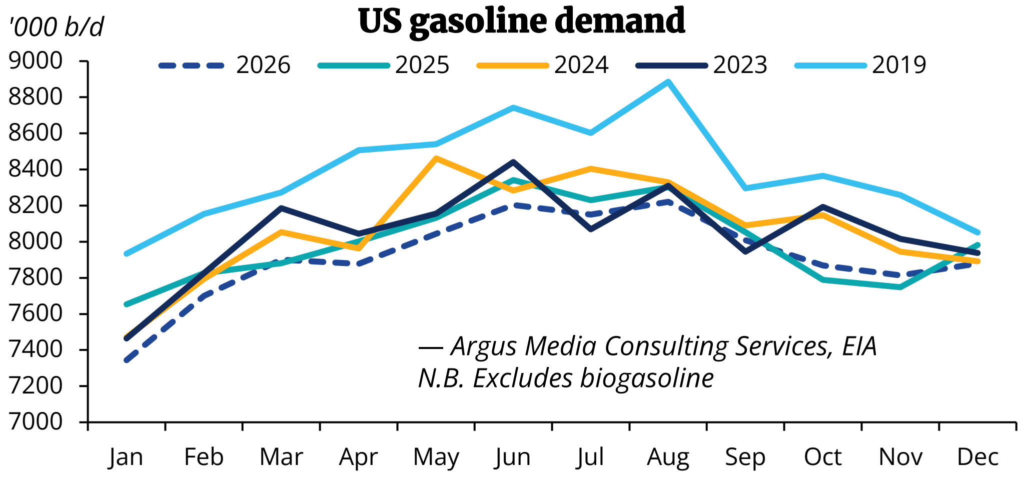
Outlook for European gasoline exports is bleak as US and west Africa become more self-sufficient

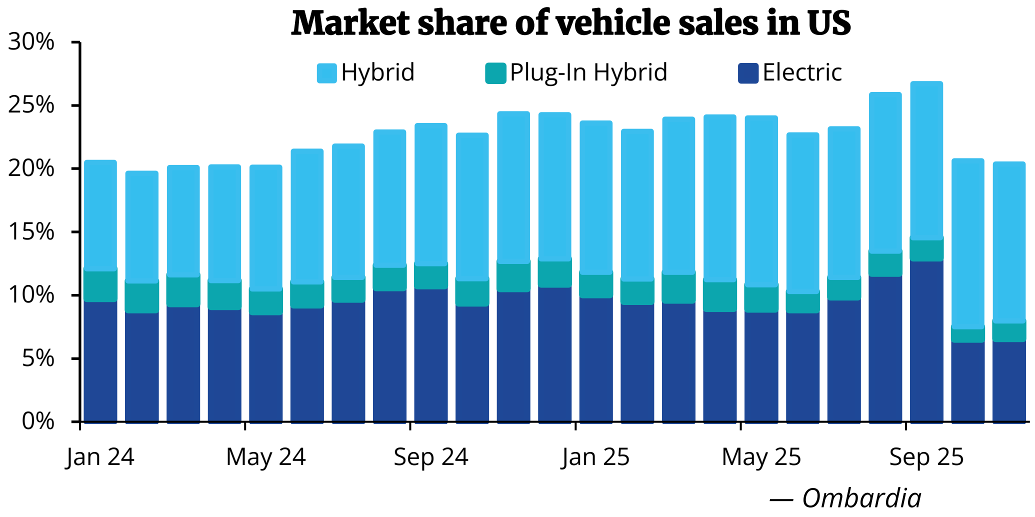




- Gasoline exports from northwest Europe to the US were particularly weak in December, reaching a record low of less than 50,000 b/d, according to Vortexa data, and pressuring gasoline cracks down.
- While US import demand may recover slightly, a return to historical pull is unlikely. Northwest Europe exports to the US have dropped over 10pc year-on-year in both 2024 and 2025, signalling a structurally weaker outlet.
- Flows to west Africa are also declining as Nigeria's Dangote Refinery increasingly displaces supply from northwest Europe. Planned RFCC and CDU maintenance at the refinery this month is expected offer short-term support, but exports are expected to fall back to summer 2025 levels or lower once maintenance ends in early February and Dangote achieves more stable operations.
- Structural shifts in Europe's vehicle fleet, coupled with ongoing improvements in gasoline fuel efficiency, are set to weigh on demand despite modest growth recorded in 2025. We project gasoline consumption in north and central Europe to decline by 30,000 b/d in 2026. Pre-trade balances are expected to rise by 38,000 b/d year-on-year, reversing the 61,000 b/d contraction seen in 2025, which lent support to annual crack spreads in northwest Europe last year.
- However, surplus volumes this year are unlikely to be absorbed regionally, leaving Europe with a persistent supply overhang that will continue to pressure the gasoline complex throughout 2026.

US gasoline demand is in a structural decline, but there is some upside risk

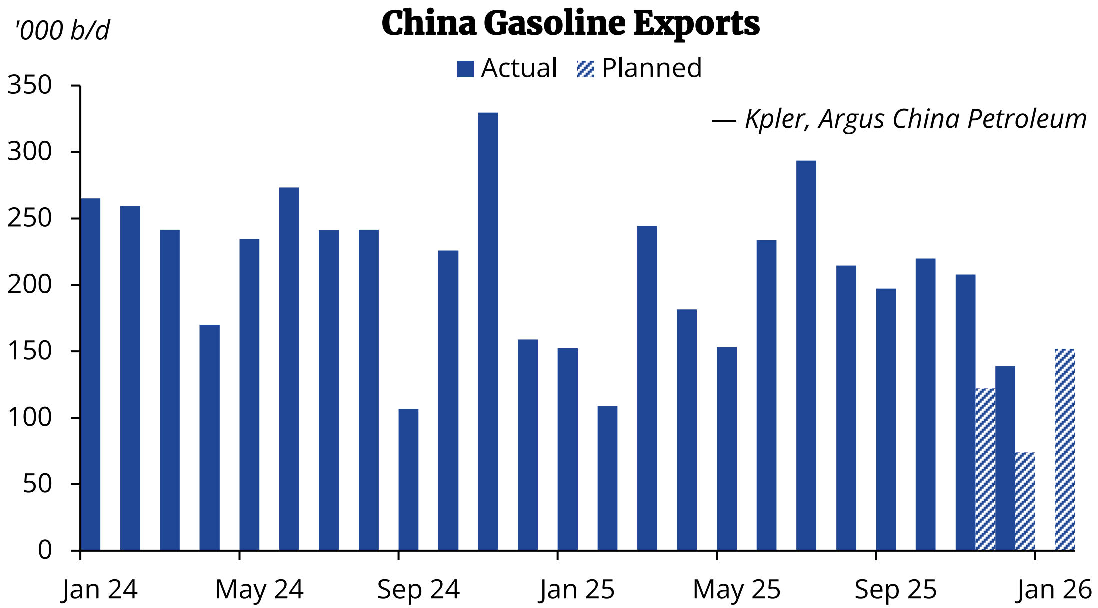


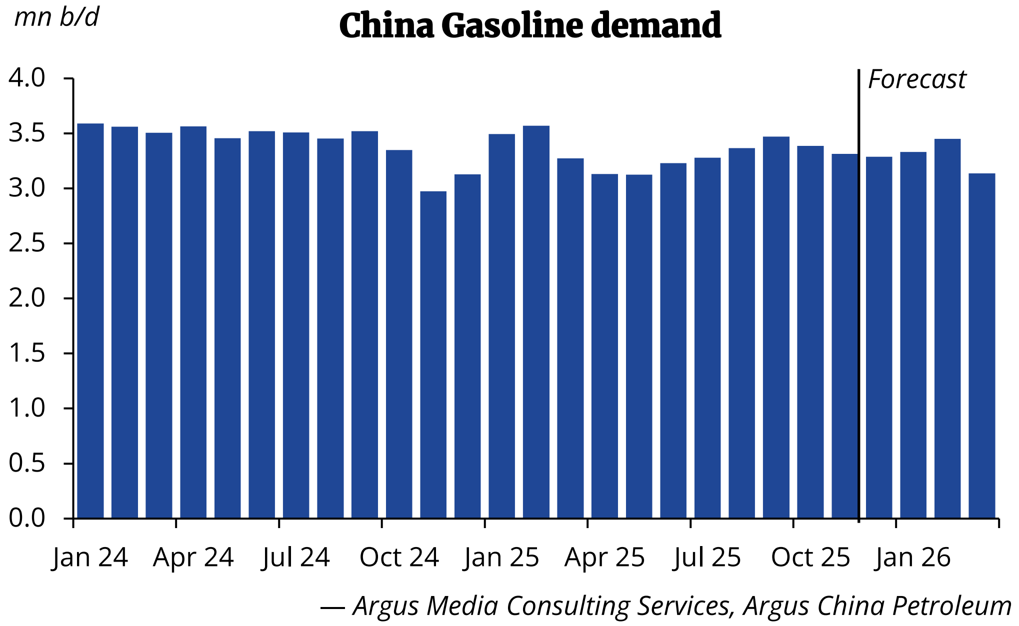


- US gasoline demand is set to weaken seasonally this quarter, underpinning downwards pressure on cracks and shaping a softer outlook for 2026.
- Year-on-year demand is expected to fall by 80,000 b/d, following a 74,000 b/d decline in 2025, according to the latest EIA weekly data, as structural factors weigh on consumption. Meanwhile, vehicle miles travelled (VMTs) has been relatively flat in January-October 2025 compared to 2024, rising by just 0.8pc.
- Improving vehicle efficiency and rising EV adoption remain the primary drivers, though EV penetration in the US lags other regions—averaging 9pc of new sales in 2025 versus 19pc in Europe and 32pc in China. As such, EV penetration is a key factor in the long-term trend of structural gasoline decline and is having a more moderate impact on near-term gasoline trends.
- Our working assumption for VMTs is that they will be flat this year compared to the year prior. Meanwhile, we assume a 0.5pc increase in fuel efficiency, which is based on a long-term trend of the average fuel efficiency of the passenger car fleet in the US. Despite a more moderate growth in EV sales, we expect the steady rise in EVs on the road to result in a 1.2pc decline in gasoline vehicles on the road.
- There is upside risk to our forecast in the US, with US policy shifts to favour fossil fuels and remove climate focused legislation and policy. This includes removal of a $7,500 federal tax credit for EVs and plans to roll back stricter fuel efficiency implemented by the Biden administration.

Lunar new year demand to temporarily curb rises in China gasoline exports, following a rise in shipments this month

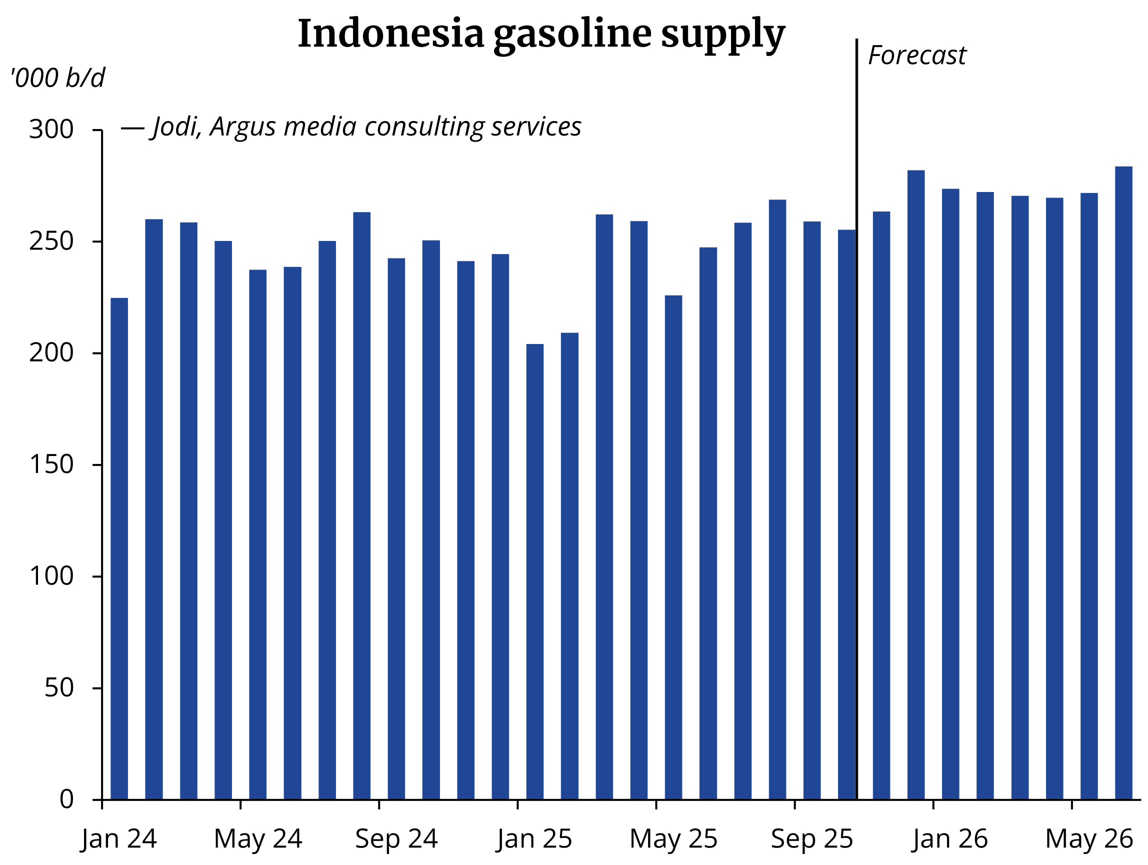
More details available in Argus China Petroleum





- China's first clean products export quota for 2026, issued in late December as expected, has supported a sharp increase in planned gasoline exports for January, around 150,000 b/d, nearly double December levels, adding length to the Asia-Pacific market and keeping a lid to cracks. Exports had been constrained late last year by limited 2025 quotas.
- Looking ahead, February exports are expected to tighten as lunar new year demand typically lifts domestic consumption. Export margins to Singapore have also shifted, with gasoline now the weakest versus diesel and jet fuel, likely diverting quotas toward those products. This should offer short-term support to Singapore gasoline cracks, keeping them at a premium to west of Suez markets.
- However, structural headwinds persist. Firm EV penetration continues to erode Chinese gasoline demand, which we expect to fall by 60,000 b/d on the year in 2026. Yet, because export volumes remain quota-controlled, surplus barrels will not necessarily flow into the wider region. Beijing's unchanged quota volumes this quarter compared to last year signals limited willingness to rely on exports to clear domestic oversupply. As a result, Chinese barrels cap extreme upside but no longer guarantee rapid downside correction, leaving Asian gasoline markets structurally tighter and more volatile than in previous years.

Indonesian import requirements will be coming under pressure following the adoption of E10 blending mandate and the start-up of a new RFCC unit



- The start-up of the RFCC unit, will curb import demand from Indonesia this year, the biggest importer of gasoline in the Asia-Pacific region. But stable operations may be slow to achieve, while operations are not expected until the end of this quarter.
- Residue upgrading units are technically challenging to commission—similar issues were seen at Malaysia's Pengerang and Nigeria's Dangote refineries this year— so we don't expect gasoline imports to be significantly impacted this quarter. We expect steady supplies from the new RFCC towards the second-half of the year
- However, a change in buying behavior this quarter will add bearish sentiment to Singapore gasoline cracks. In the second-half of last year, Indonesia was very active in the spot market, pushing up prompt gasoline prices. But bigger term volumes have been secured for this quarter, approximately 8mn t/month compared to around 6mn t/month in the second half of last year, which will subsequently result in a calmer spot market.
- Additionally, the adoption of E10 blending mandate this year is expected to cut Indonesia's gasoline import requirements further, although the market remains uncertain whether the mandate can be achieved, since Indonesia missed its E5–E10 target in 2020 and ethanol consumption has been minimal so far.

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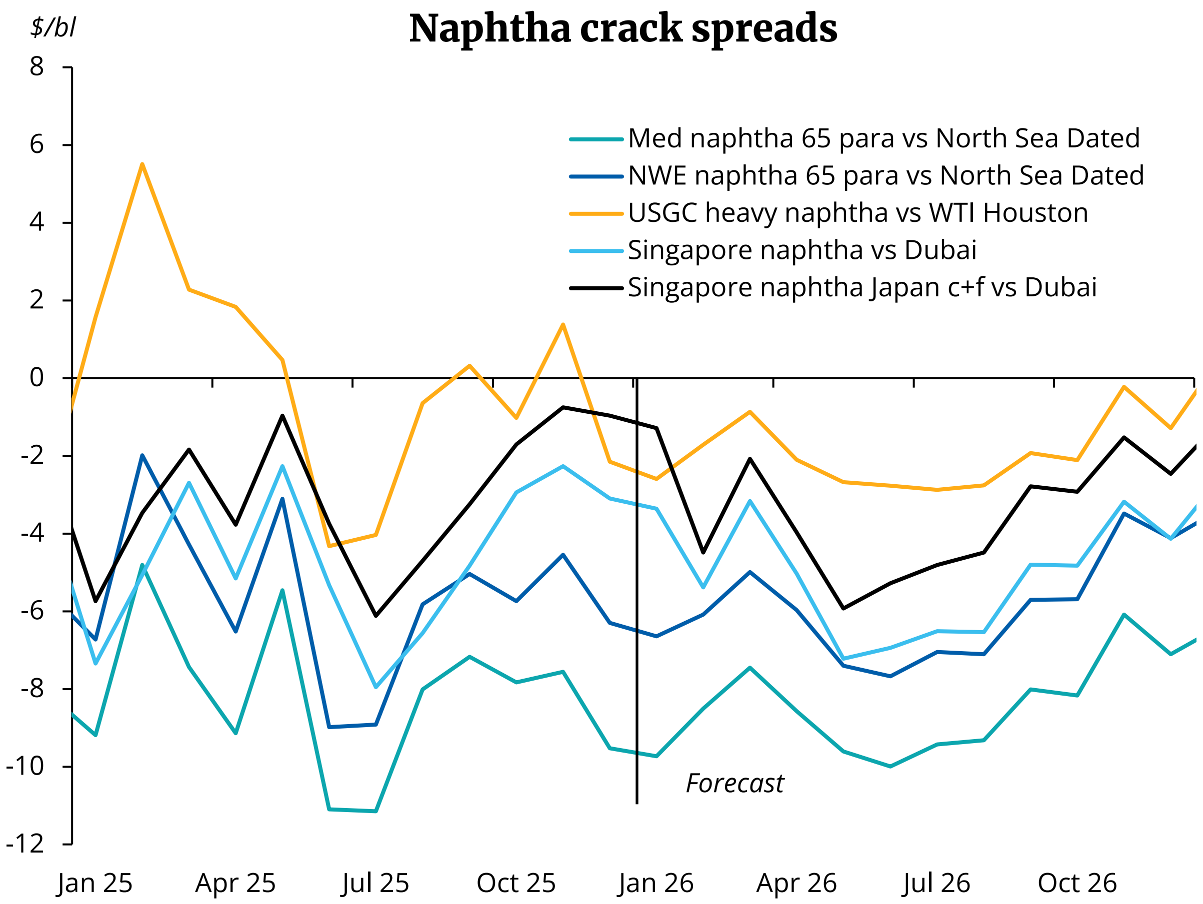
Naphtha

Naphtha cracks remain strongly dependent on blending demand in west of Suez as petrochemical sector shows no sign of recovery in 1Q



- The return of major refining capacity in December, after heavy maintenance, significantly boosted naphtha supply across Europe. At the same time, gasoline cracks eased from their November highs, freeing up additional barrels for naphtha. Exports to Asia continued, but at lower volumes than November, according to Vortexa—not enough to support December cracks and are not expected to see significant growth amid the return in Russian supplies.

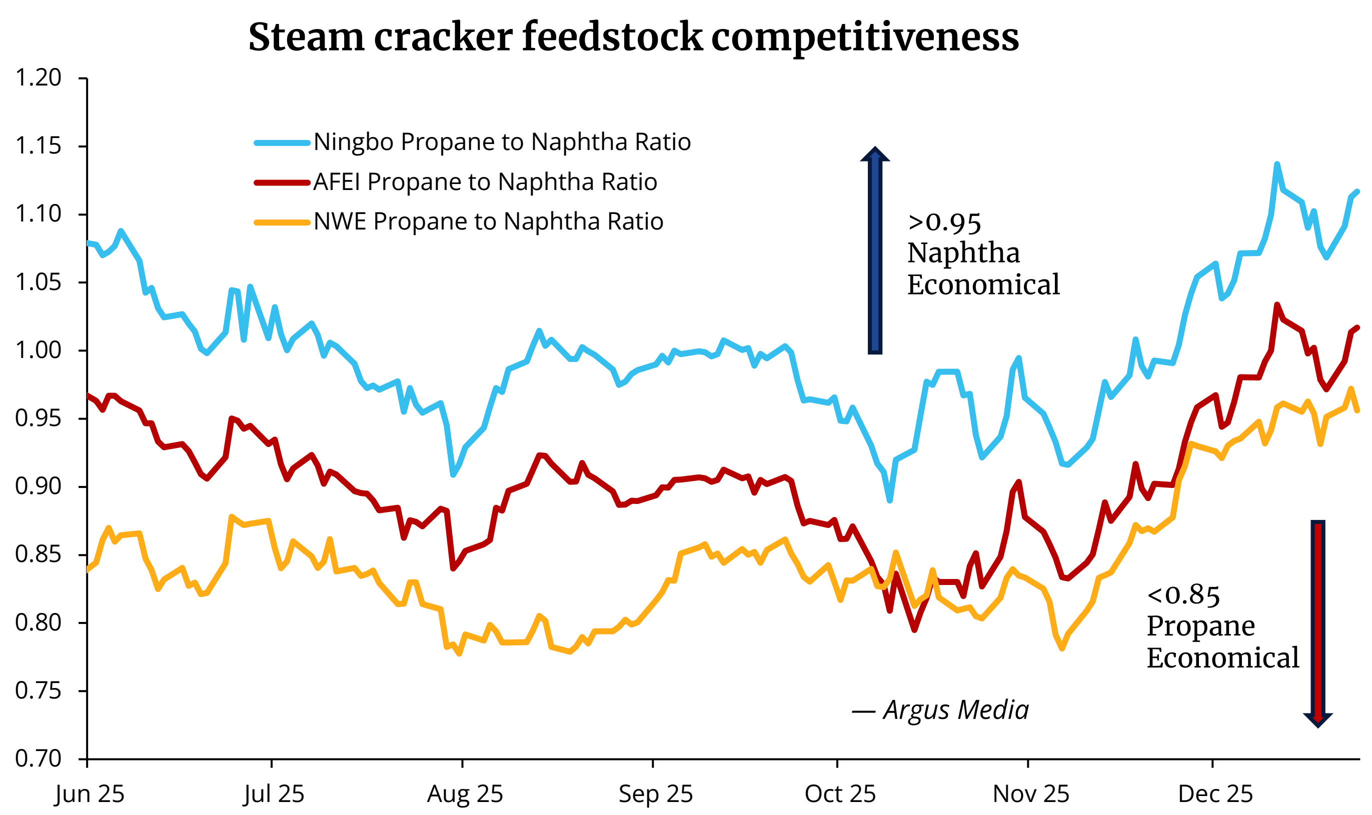
- Looking ahead, softer gasoline cracks are likely to exert further downward pressure on **northwest Europe** naphtha cracks amid weakening blending demand. Despite propane's narrowing discount to naphtha, approaching levels where naphtha typically gains an edge, steam crackers have yet to switch feedstock in any meaningful way. As such, waning blending demand activity is expected to continue to drive the market downwards.

- In **Asia-Pacific**, naphtha cracks weakened in December amid muted steam cracker demand and South Korea announced plans to cut 2.7–3.7mn t/y of capacity to stabilise the struggling petrochemical sector. But a sudden change in Chinese tax is expected to lift cracks in the near-term. Meanwhile, sustained demand for non-Russian origin naphtha provided some support, while the Japan–Singapore price differential widened to its highest since July 2024 as discounted sanctioned Lukoil and Rosneft barrels were rerouted mainly to Singapore and Malaysia.

- On the **US Gulf coast**, heavy naphtha cracks softened in December as blending demand eased, and refinery run rates increased following the end of seasonal maintenance. The US capture of former Venezuelan President Nicolás Maduro sparked speculation of renewed Gulf coast naphtha export opportunities to Venezuela, lifting market sentiments higher.

Source: Argus Media - Consulting Services

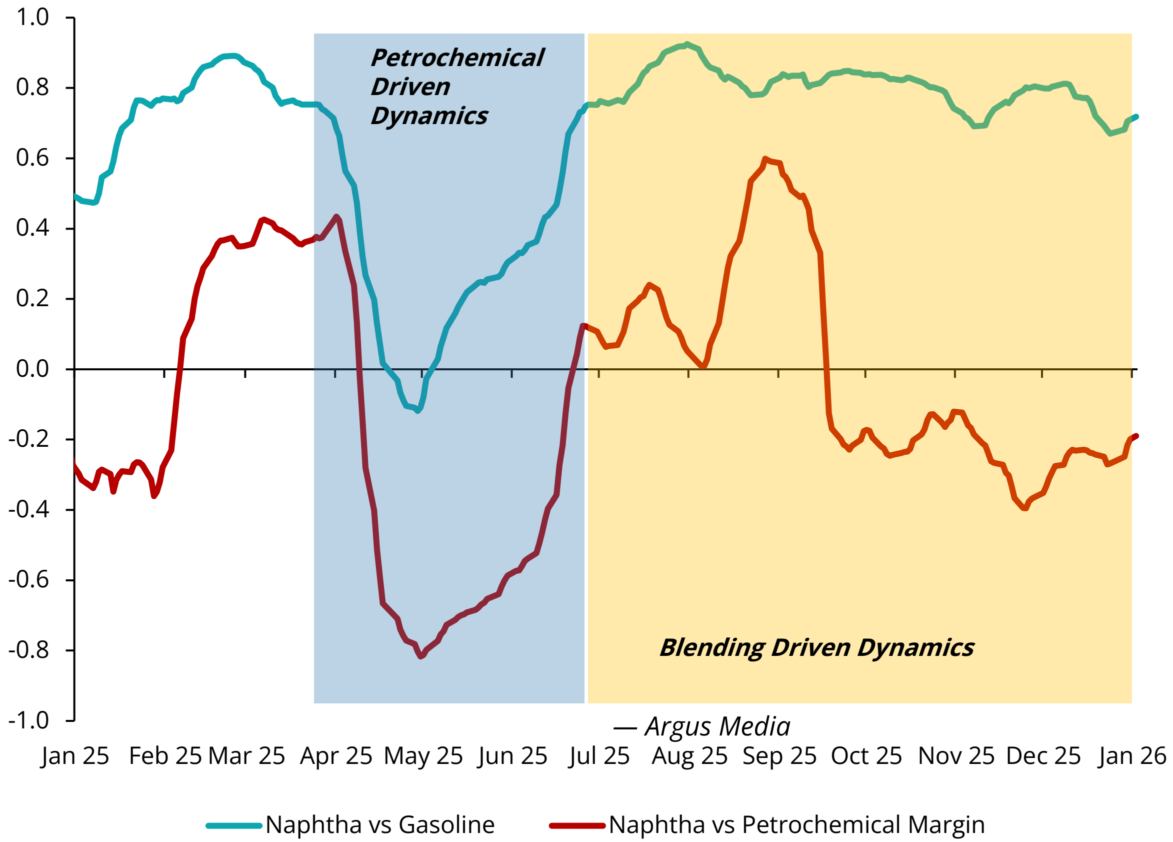
Naphtha became the more competitive steam cracking feedstock in Europe however a reluctancy for uptake has kept cracks largely muted amid a rise in supplies



- European propane prices climbed on the back of tighter global balances, as competition with Asia for cargoes intensified. This shift has positioned naphtha as the more competitive feedstock option for flexi-crackers in Europe following the rise in the naphtha-propane ratio.
- Despite favorable economics, we do not expect any significant uptake in January as the propane market is in a wide backwardation and many petchem producers are waiting for the expiry of their term contracts at the end of their calendar year before securing new supplies.
- If the naphtha-to-propane ratio in northwest Europe holds above 0.95, more substantial feedstock switching could materialize in the latter half of 1Q. However, this trend may be capped as propane prices are expected to soften with the seasonal transition out of winter.
- Naphtha cracks face additional downward pressure as naphtha supplies are on the rise. Around 900,000 b/d of refining capacity returned from maintenance in north and central Europe in December, with another 200,000 b/d expected to come online in January.
- At the same time, weaker gasoline import demand from west Africa cut northwest Europe exports to the region by 200,000 b/d month-on-month in December, according to Kpler, leaving significant volumes in Europe and further weighing on cracks as blending demand activity fell in line with weaker gasoline imports. Despite scheduled maintenance at Dangote's RFCC and CDU this month, blending demand activity is not expected to provide support to naphtha cracks as activity remains meagre.

European naphtha driven solely by gasoline as petrochemical sector remains stagnant, some petrochemical support may appear in 1Q

Correlation price trends in northwest Europe



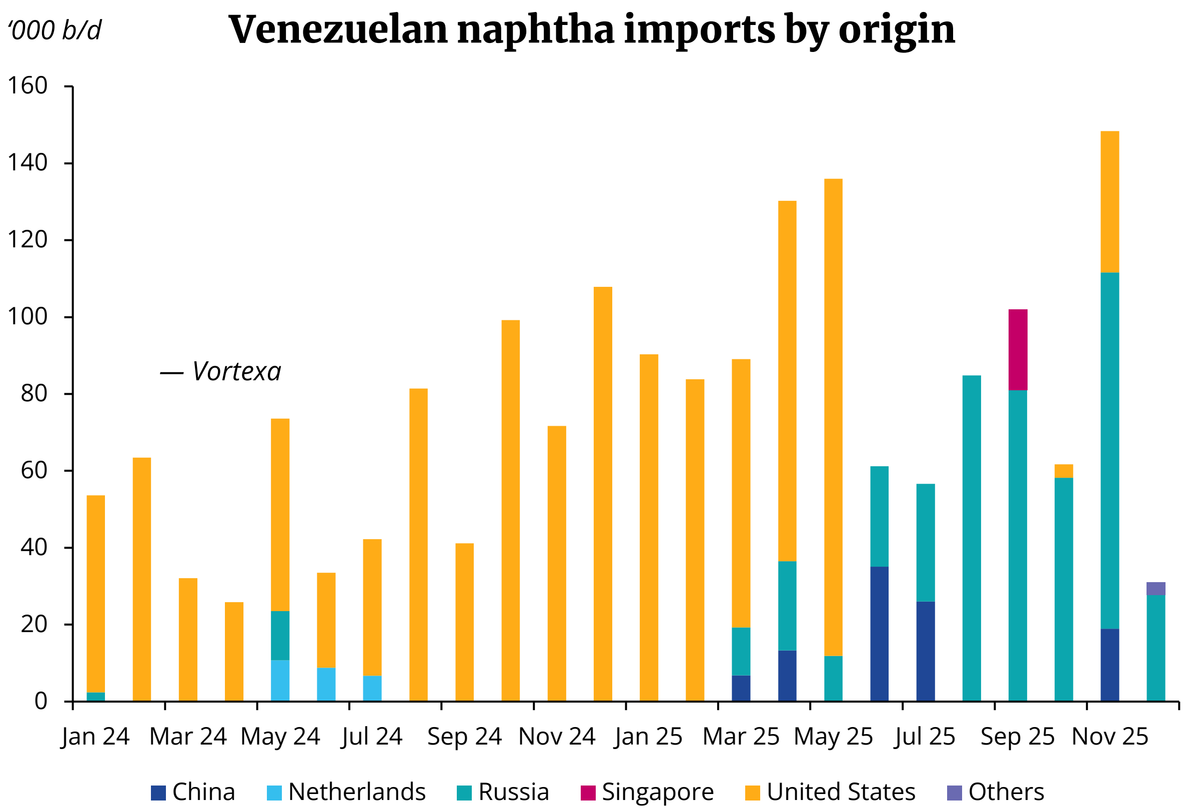
N.B. 60 day rolling correlation between the naphtha crack vs gasoline crack and vs petrochemical margin; northwest Europe price assessments

- In the second half of 2025, European naphtha demand has been driven almost entirely by the gasoline pool. With petrochemical consumption weak and major cracker closures throughout the year, naphtha's role as a steam cracker feedstock has become far less significant in shaping regional price dynamics.
- While petrochemical producers are expected to restock this quarter, propane is likely to remain the preferred feedstock for the few operational European crackers as winter ends and propane economics are expected to recover.
- For naphtha cracks, this points to continued weakness until blending demand picks up, which is likely by the end of the quarter as refiners start to stock up ahead of the peak summer driving season.

N.B. The graph to the left shows the rolling correlation of the northwest Europe naphtha crack with the gasoline crack and petrochemical margin (naphtha-ethylene), respectively.

A high positive values indicates that naphtha and the respective driver move together; a negative value means they move in opposite directions, close to zero means no correlation.

The US intervention in Venezuela is set to provide export opportunities for diluent naphtha on the US Gulf coast, lifting market sentiments higher



- Before Chevron's license expired in May 2025, the US supplied nearly all of Venezuela's diluent needs, primarily naphtha used to blend its ultra-heavy crude. Following the license expiry, Russia emerged as Venezuela's primary supplier of naphtha, while US supplies came to a near halt starting June last year.

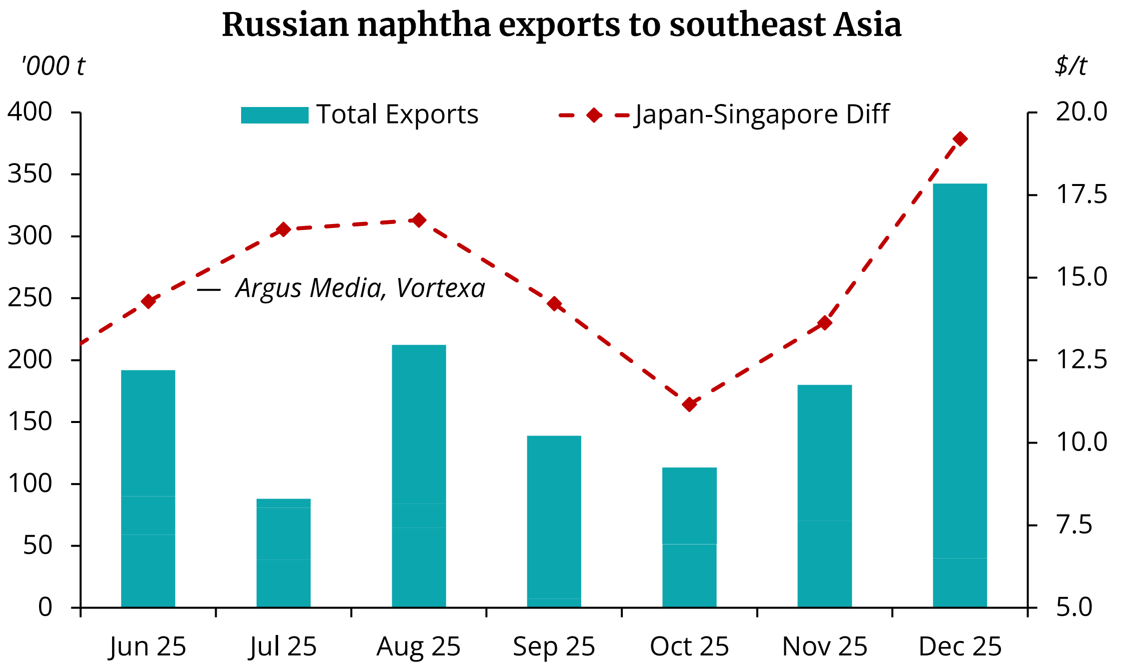
- Following President Trump's meetings with US oil industry executives on 9 January, bullish sentiment was spread around potential investment to rebuild Venezuelan production capacity and increase US presence in the country's upstream activities. This lifted US Gulf coast heavy naphtha crack spread to a near nine-month high at a $4.12/bl premium to WTI Houston on 12 January.

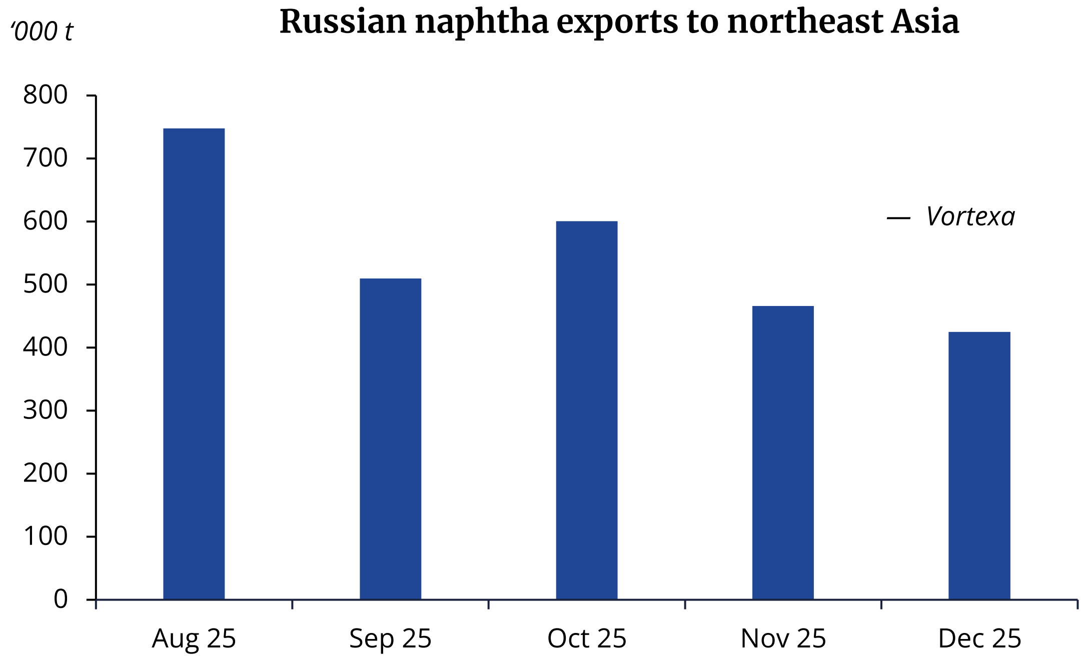
- If these plans continue to materialise, the heavy naphtha crack on the US Gulf coast, could see a year-round support as exports to Venezuela would be expected to rise to levels prior to the license expiry or higher, which in turn will support the heavy naphtha crack spread.

- Heavy virgin naphtha is the preferred diluent for Venezuelan crude ahead of full range and light specifications as it blends more effectively with the asphaltenes and resins in Orinoco crude, lowering its pour point and ensuring flowability.

- For Russian barrels, this scenario would mean losing market share in Venezuela's diluent trade and a need to redirect naphtha with the most likely destination being the Asian market, while US volumes will be redirected from Asia to Venezuela, potentially balancing the market.

Discounted Russian naphtha to Southeast Asia pressures prices and widens regional spread

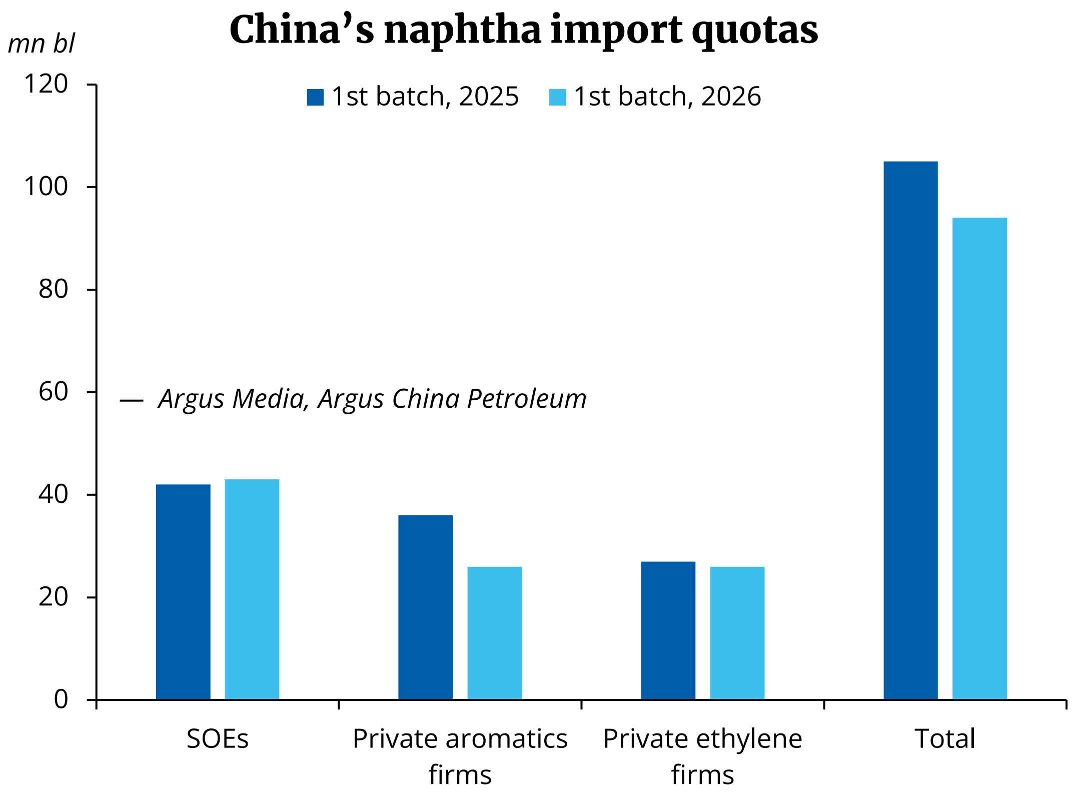




- Since October 2025, Russian-origin naphtha exports to southeast Asia have surged, more than doubling compared to earlier months, while exports to northeast Asia have steadily declined since August 2025, following the US sanctions on Russia's Rosneft and Lukoil. This shift in trade flows has increased supply pressure in southeast Asia, contributing to a widening Japan-Singapore price differential as discounted Russian barrels weigh more heavily on Singapore benchmarks.

- Looking ahead, if Russian-origin barrels are displaced from Venezuela, these freed volumes could be redirected to Asia, adding further supply pressure and weighing on naphtha cracks. However, uncertainty remains over whether these flows will target northeast Asia or southeast Asia, leaving regional price dynamics difficult to predict, given the current uncertainty of the US sanctions on Rosneft and Lukoil and the US-led peace talks to end the war between Russia and Ukraine.

China's removal of domestic naphtha levy exemption to trigger pre-rollout buying and drive long-term import dependence, supporting cracks in the near-term



- China announced plans to impose a levy of consumption tax on purchases of domestic naphtha used for ethylene and aromatics production. The consumption tax is set to affect stand alone chemical plants the most as they purchase naphtha from their own refineries or fellow domestic refineries.
- Planned changes to the tax rules would enable Beijing to collect consumption taxes and social taxes from the roughly 19pc of the country's naphtha supply that has, to date, benefited from special exemptions, equivalent to 850,000 b/d of China's naphtha usage.
- As such, Chinese firms are stepping up imports ahead of the rollout, but the change in legislation could incentivise stronger import dependence in the long-term, which will support naphtha cracks spreads
- The levy of consumption tax for import naphtha is already in place but the rebate is paid to firms much quicker than that for domestic purchases and additionally import naphtha does require social security tax payment, which makes imports become more price competitive.
- But increasing naphtha imports will hasten the rate at which Chinese firms use up their naphtha import quotas. China's Ministry of Commerce (MOC) awarded private sector firms lower import quotas at the start of this year than those awarded in 2025 as firms did not expend last years batch. Should Chinese firms maximise their import limits, this could prompt MOC to increase their second batch of quotas this year.
- For the broader northeast Asian region, this could mean more competition for cargoes alongside pre-existing high demand for non-Russian origin naphtha, and a strengthening of naphtha crack in 1Q.

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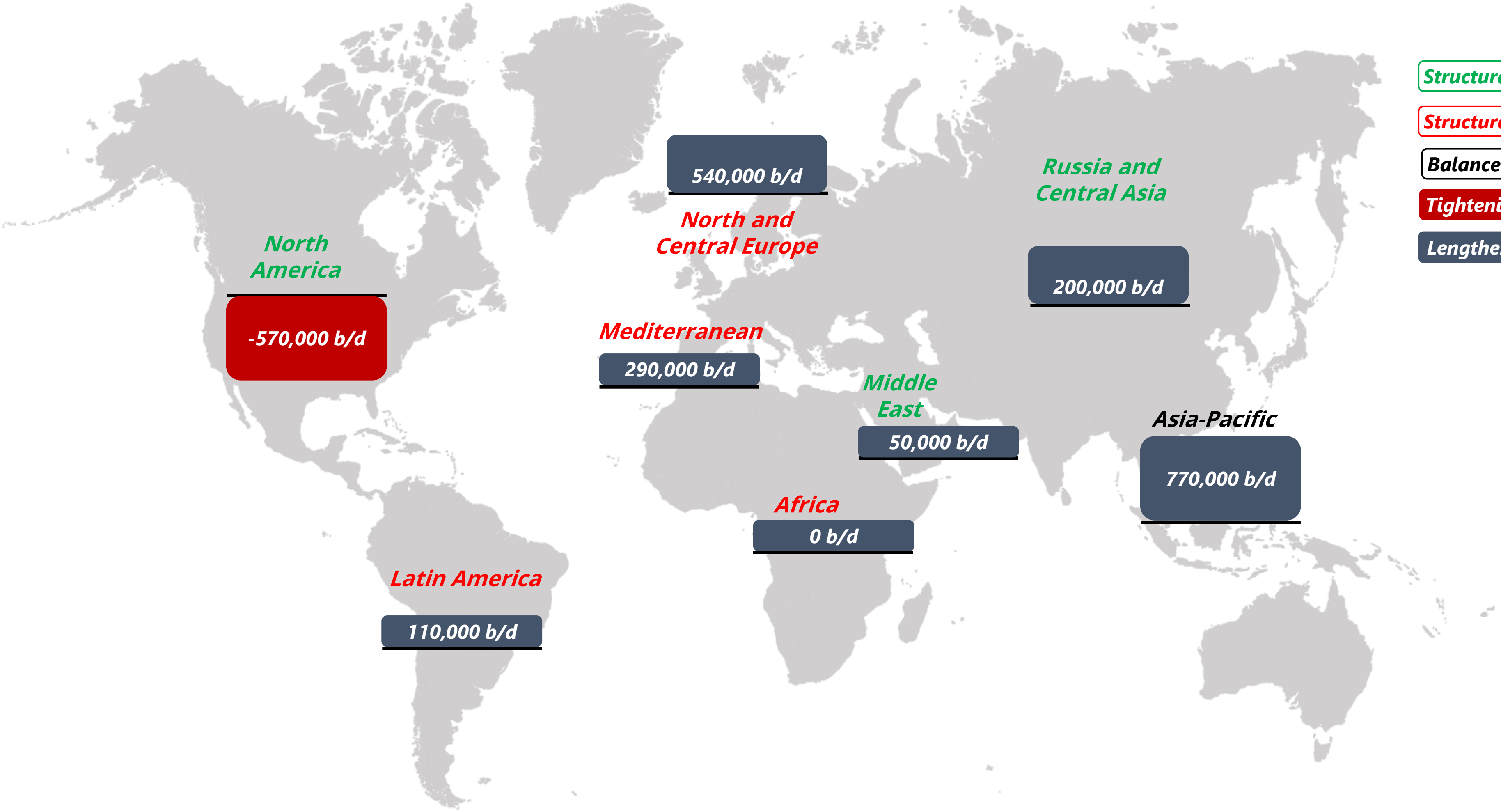
Regional gasoil/diesel pre-trade balance, Jan vs Dec

The global diesel market is lengthening overall, with Asia-Pacific showing the largest monthly increase in length following the tightness seen during November and December



Structurally long

Structurally short

Balanced

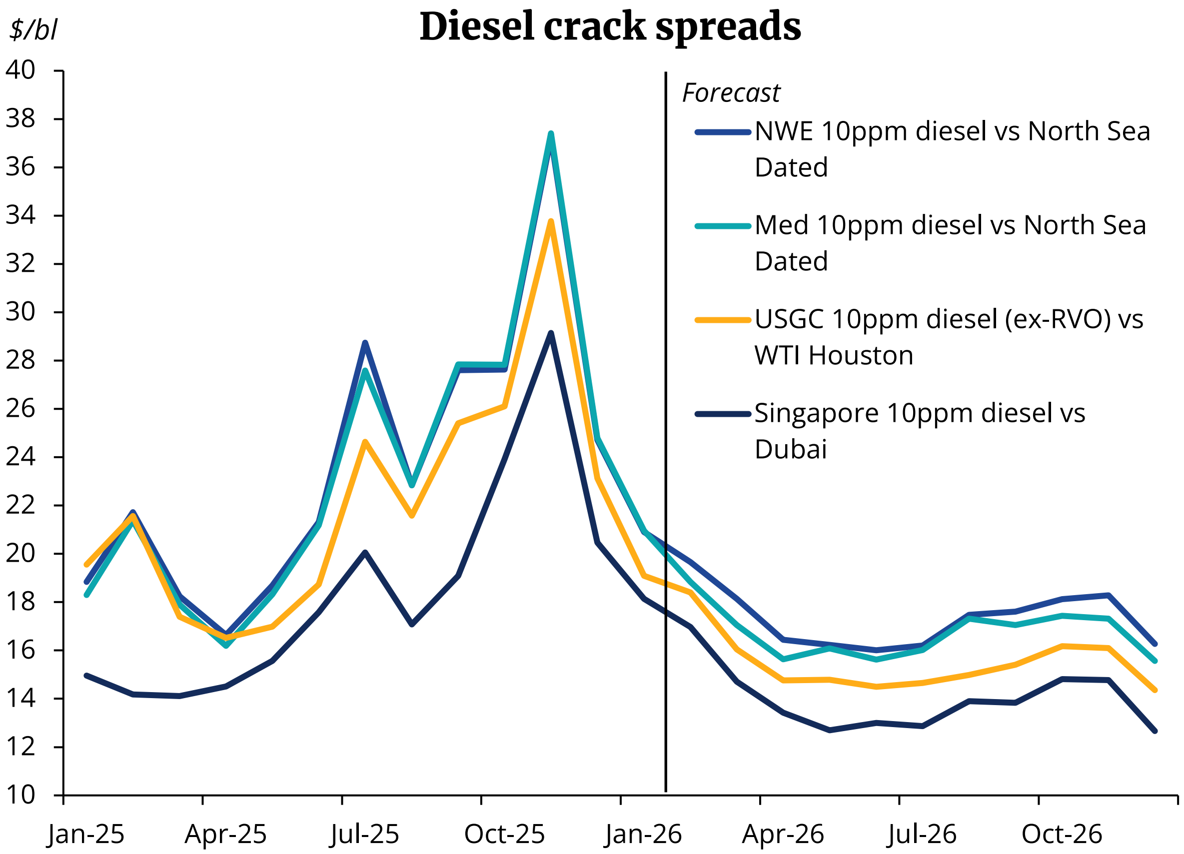
Tightening pre-trade balances (monthly change)

Lengthening pre-trade balances (monthly change)

Source: Argus Media - Consulting Services

Gasoil/Diesel

A lengthening global diesel market shrugs off sanctions risk as a weak demand profile and new supplies adds downward pressure across the complex



- Global diesel crack spreads have weakened since November on improving supply, but 2025 has seen diesel market strengthening across all major refining hubs, as the market faced challenge of persistently low inventories, heavy refinery maintenance, and geopolitical events. But a lengthening diesel balance points to a weaker diesel profile in 2026, though, Russia remains the key uncertainty this year despite early signs of supply improvement.

- Looming EU sanctions on products refined using Russian crude risks to disrupt Turkish flows to the wider European market. However, we expect the impact of the new sanctions to be limited, as alternative supplies are relatively ample.

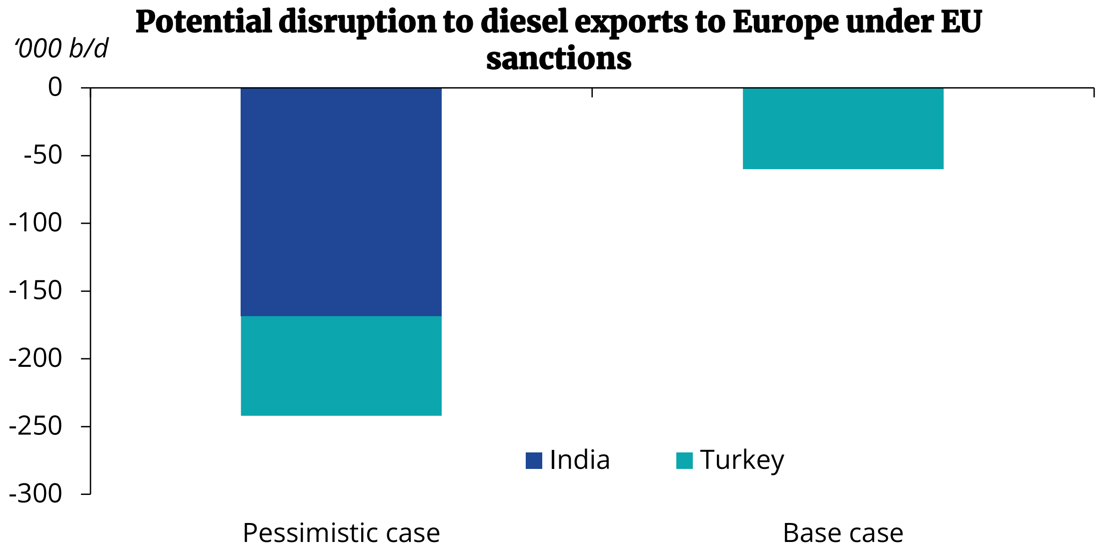
- Supplies have improved amid the end of a heavy autumn maintenance season. Elevated cracks have prompted refiners to prioritize the output of middle distillates and will continue to support diesel output given still low inventories in Europe and the US.

- Meanwhile, demand has entered a seasonal lull. Reduced industrial and freight activities during winter typically weigh on diesel demand. At the same time, structural decline of diesel demand in Europe and China will continue to contribute to the lengthening of global diesel balance in 2026.

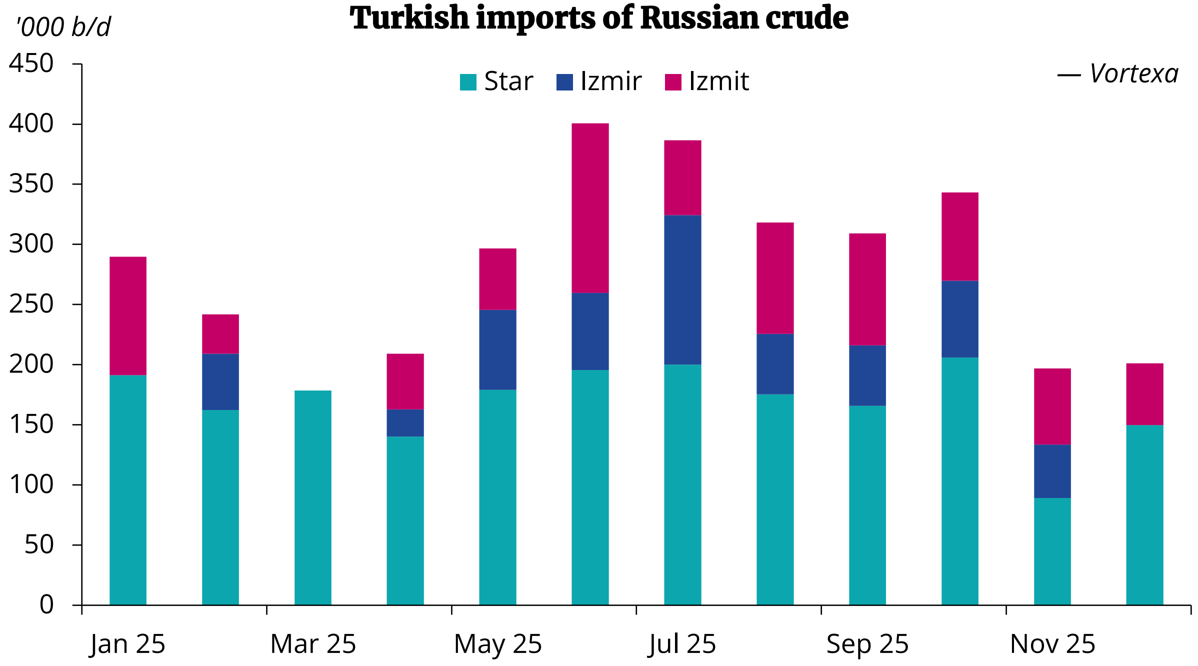
- On the supply-side, we expect around 900,000 b/d of net CDU additions in 2026, with an accompanying 200,000 b/d of net hydrocracking capacity additions and 180,000 b/d of coking capacity additions, which will add incremental diesel supply.

Source: Argus Media - Consulting Services

EU sanctions: Turkish exports subject to potential disruptions, as sanctions to take effect on 21 January

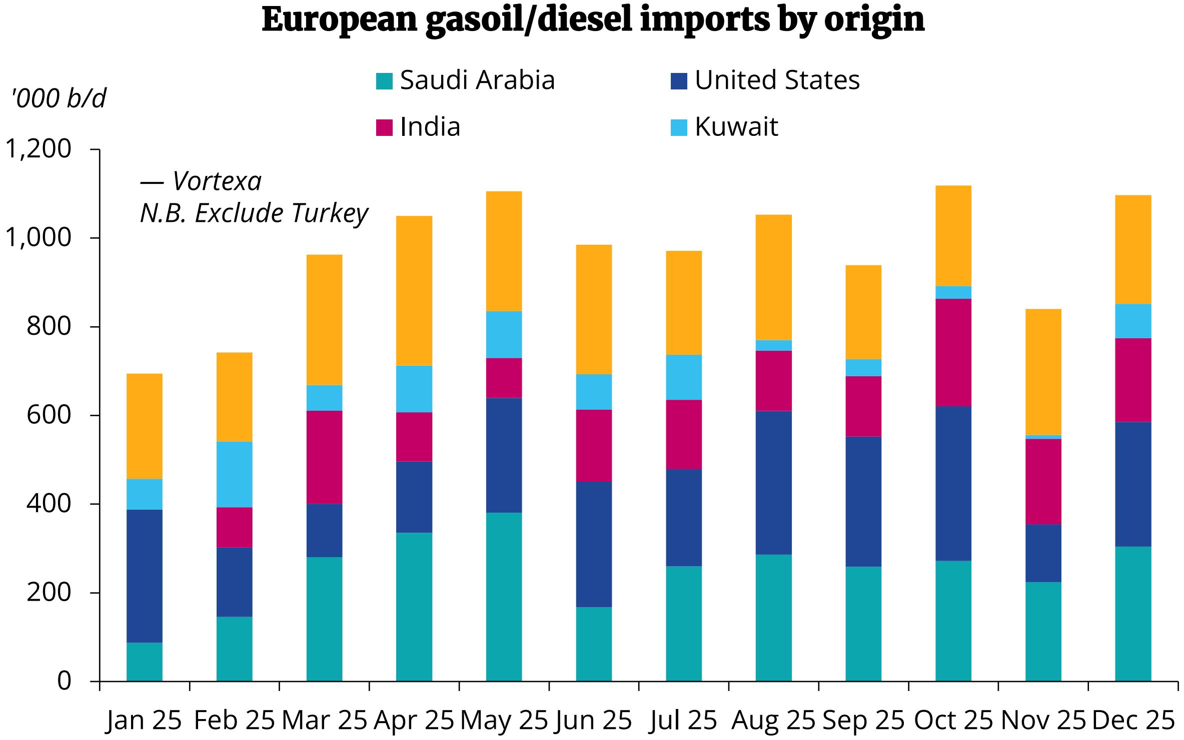


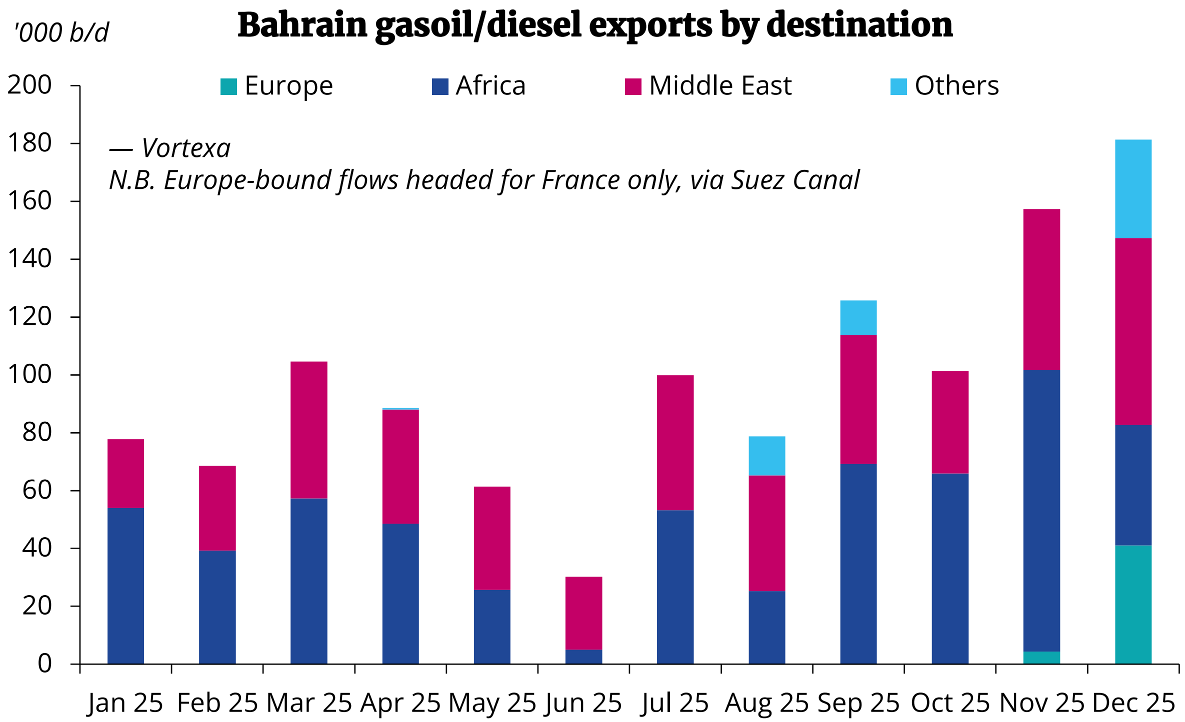
—Argus Media Consulting Services
**Pessimistic case: stringent sanctions enforcement on the origin of feedstock;*
**Base case: refiners are able to switch feedstock and provide adequate certificate of origins;*



- European imports of diesel from India and Turkey, produced using Russian crude, averaged around 300,000 b/d in 2025, according to Vortexa. However, not all volumes face disruption risk under our base case scenario. Reliance's Jamnagar refinery in India, the country's only export-oriented refinery processing Russian crude, plans to limit Russian crude in its domestic-focused output, while Tupras' Izmir refinery in Turkey halted Russian crude imports in December, signalling continued flows to Europe.
- Conversely, Socar's Star refinery and Tupras' Izmit refinery in Turkey are still processing Russian crude and may struggle to comply with new EU rules. This could remove at least 60,000 b/d of diesel from European supply, potentially more in the short term, as Turkish exports typically peak in the first half of the year when domestic demand is low. Star and Izmit may redirect more diesel to the domestic market, while Izmir maintains international exports.

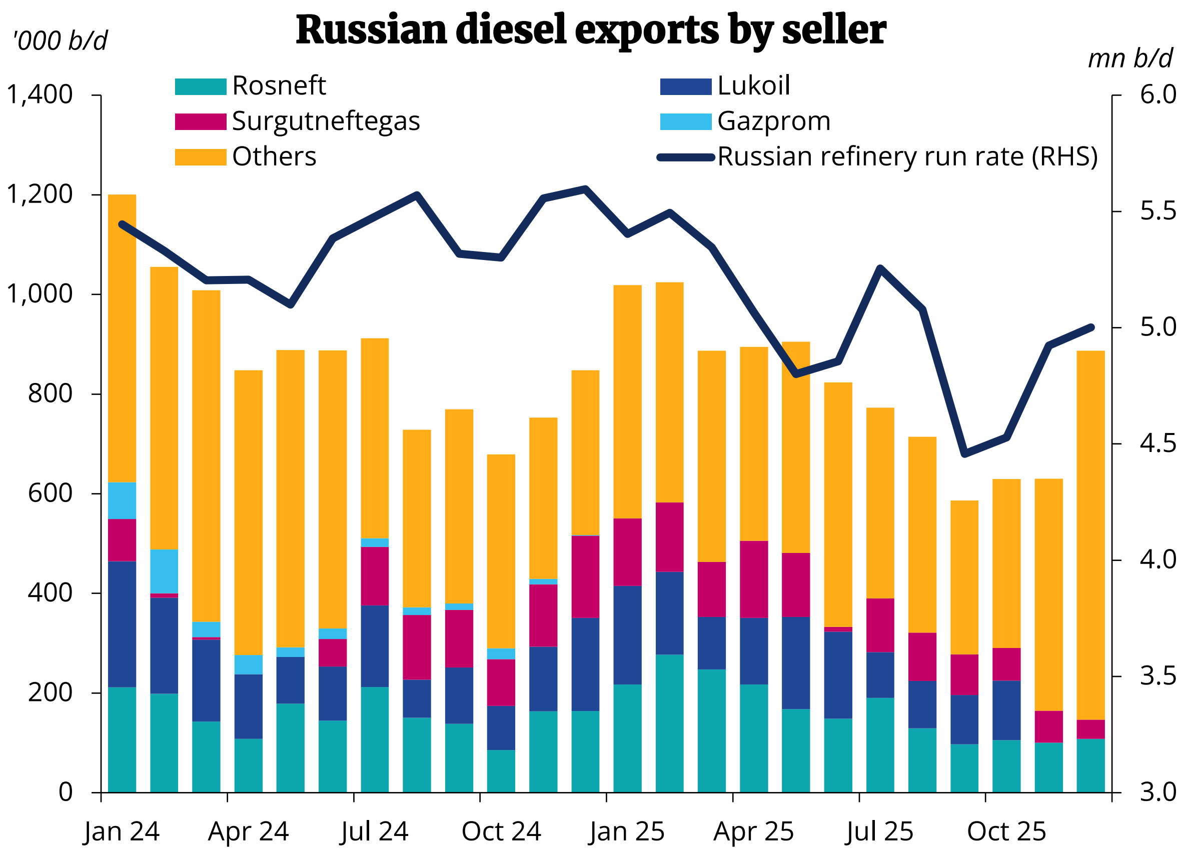
EU sanctions: overall impact to remain low, as alternative supplies are ample





- Despite the potential loss of some Turkish flows, the overall impact of the sanctions will be limited due to ample supply availability elsewhere amid seasonally weak demand. The flows at risk could be potentially replaced by volumes from the US and Middle East.
- Inventories in the US grew to the highest level since early January 2025 at nearly 128mn bl by the end of December, on higher output and muted demand, according to the EIA. Higher stocks have supported the arbitrage economics for transatlantic diesel flows, which is expected to see a rise in imports to Europe from the US.
- Output in Saudi Arabia is poised to rise further in January, as the 460,000 b/d Satorp refinery has completed its planned maintenance. The refinery typically accounts for around 30pc of the country's diesel exports and regularly supplies the European market. The upgrade of Bahrain's Sitra refinery — which has lifted its production capacity from 267,000 b/d to 405,000 b/d — have brought the country's diesel exports to a new record of 180,000 b/d in December. Newly emerged flows to France indicate that the refinery is now able to produce diesel of French specification, allowing the refinery to tap into the European market.

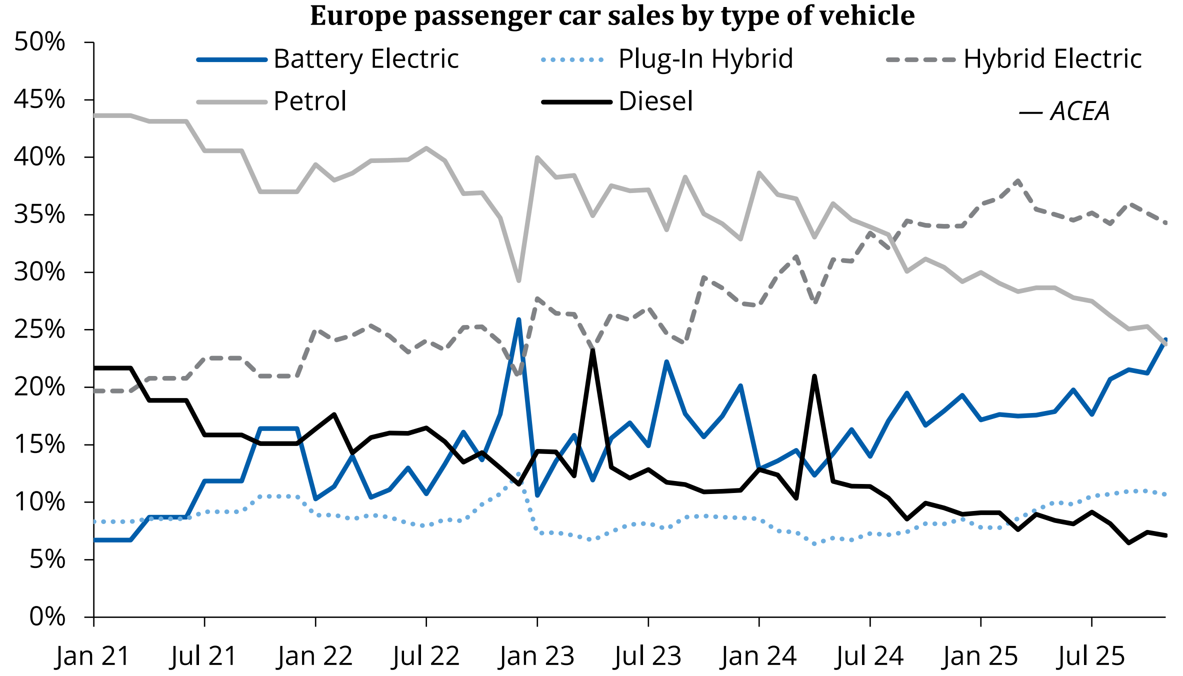
Russian supply shows sign of improvement, but uncertainties remain

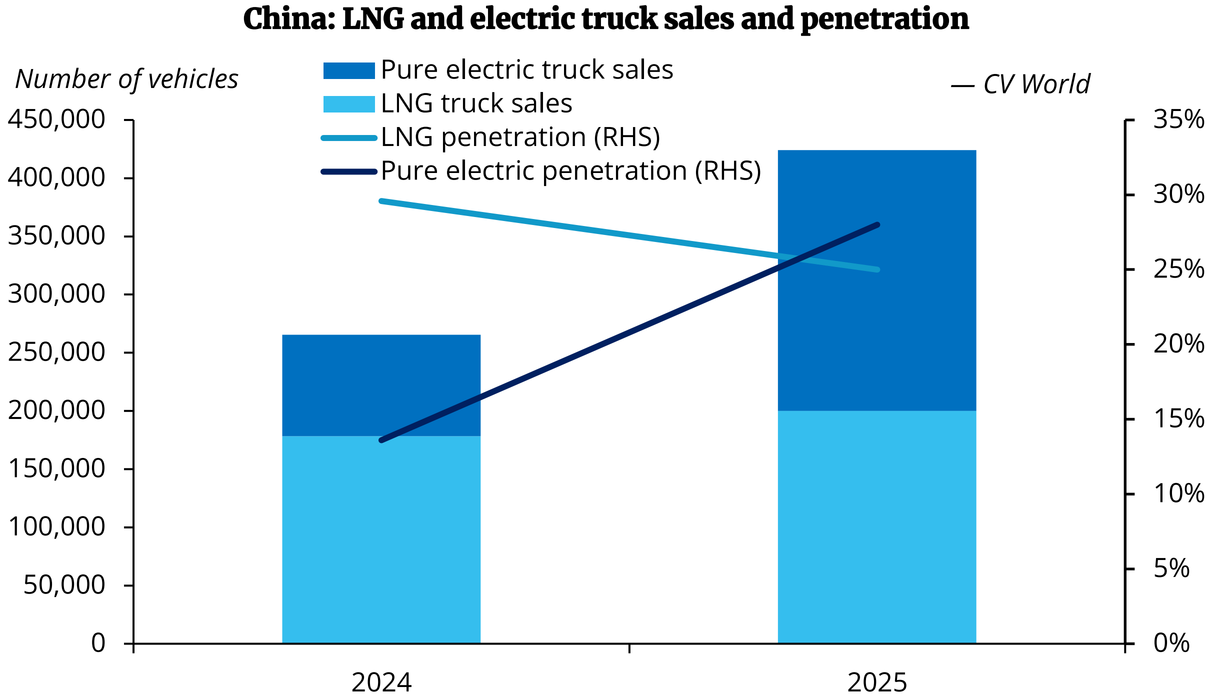


— *Argus Media Consulting Services, Kpler*

- The latest US sanctions on Rosneft and Lukoil have had only a limited and short-lived impact on diesel flows, as sellers quickly found workarounds. Sanctioned companies appear to be "re-branding" products, with November exports from these firms falling, while shipments from unsanctioned players rose, resulting in only a minor overall decline. The recent dip in Russian diesel loadings was mainly due to lower refinery runs following drone attacks rather than sanctions.
- As refineries completed repairs and turnarounds, December exports rebounded sharply to 900,000 b/d, the highest since May, despite sanctions. Russian diesel continues to flow to Turkey, Brazil, and Africa, helping redirect US and Middle Eastern barrels toward Europe.
- Looking ahead, Russian runs are expected to remain above 5mn b/d in 1Q, but geopolitical risks persist. Drone attacks have slowed but not stopped, and the most recent strikes have expanded to upstream assets.
- Rosneft and Lukoil, which together hold 1.1mn b/d of refining capacity in Europe, have received temporary waivers allowing their subsidiaries to continue operating in the near term. Bulgaria and Hungary secured exemptions due to heavy reliance on these refiners, while the UK obtained a temporary license to complete existing Lukoil contracts until 26 February 2026. Additionally, the US Office of Foreign Assets Control (OFAC) extended the deadline for Lukoil International's asset sales to 17 January 2026.
- Despite these measures, the risk of supply disruption to diesel markets remains as waivers expire and uncertainty persists over the sale of Rosneft's and Lukoil's foreign assets.

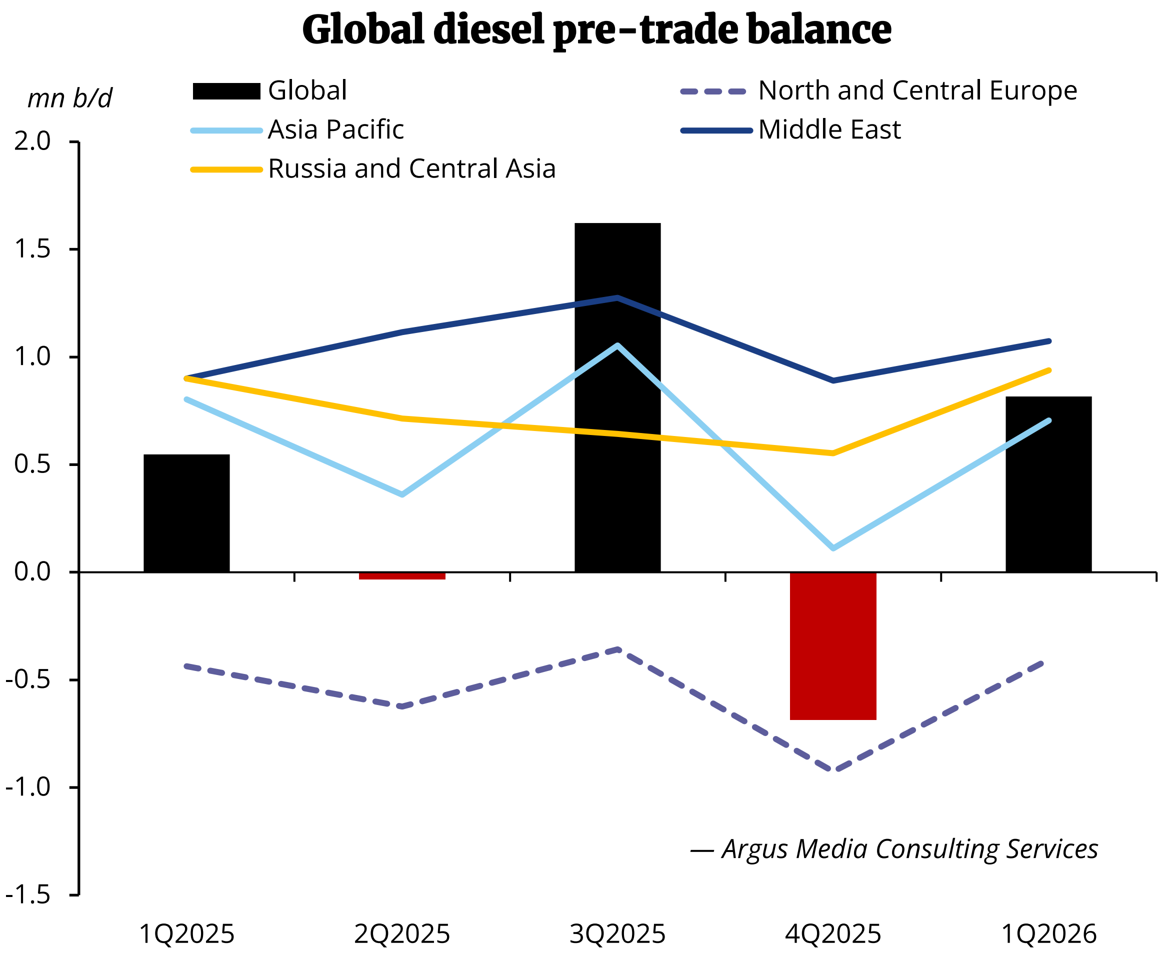
Demand to remain under pressure, especially in Europe and China





- Diesel demand in Europe and China is not only seasonally soft but structurally weak. In Europe, subdued industrial activity—reflected in the Hamburg Commercial Bank Eurozone manufacturing PMI staying below 50 since September. European transport sector continues to see a structural decline as electric vehicles further displace gasoline and diesel cars — sales penetration for diesel cars dropped to historic low of 6.5pc in September and has since remained at around 7pc, according to ACEA. As a result, gasoil/diesel demand in north and central Europe is projected at just over 3.6mn b/d this quarter, down 115,000 b/d year-on-year.
- China shows a similar trend, driven by LNG and electric trucks displacing diesel vehicles alongside weaker manufacturing and construction. Data from CV World indicates LNG and electric truck penetration surpassed 50pc in 2025, accelerating the decline in diesel trucks. Chinese gasoil/diesel demand is expected at 3.6mn b/d this quarter, down from 3.8mn b/d a year earlier.

Supply outlook improves on new capacity additions, the end of a heavy refinery maintenance in 4Q

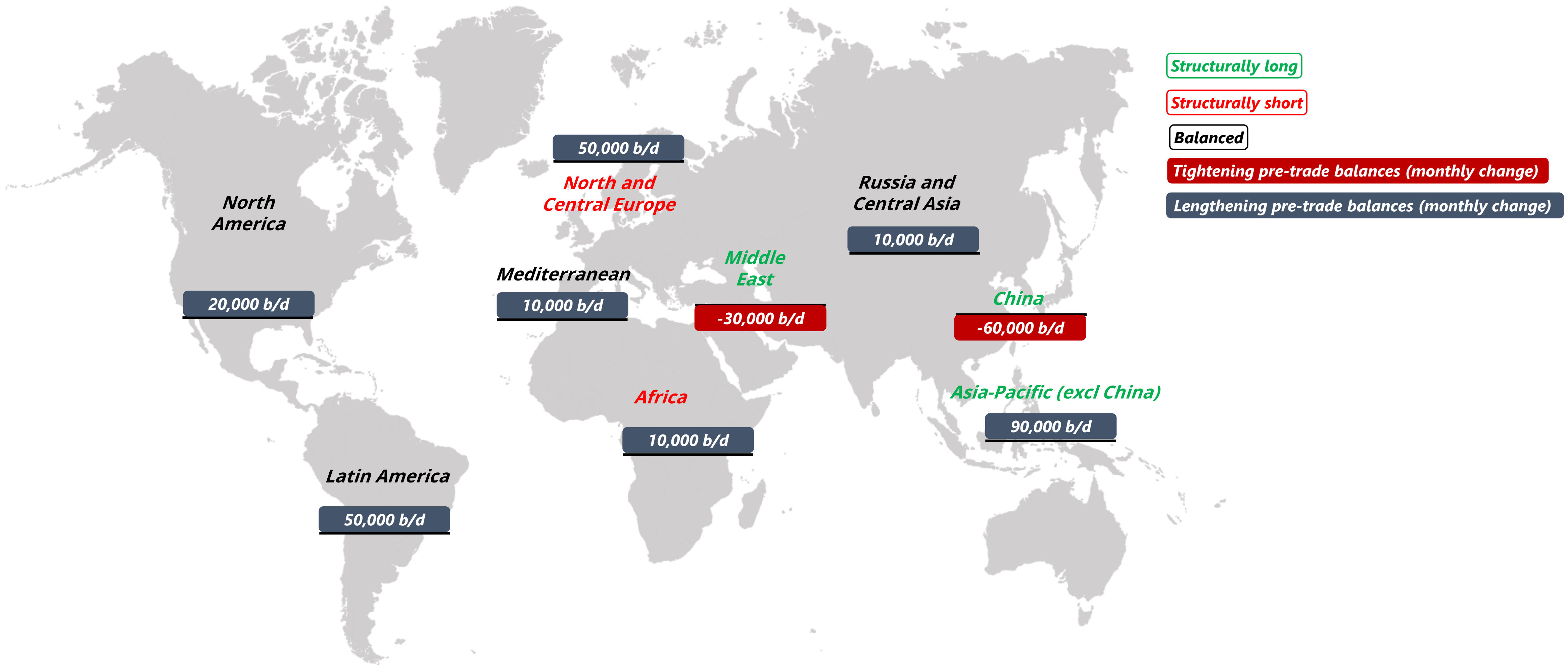


- Looking into the first quarter of 2026, we expect an improvement in supply outlook for the near term. Diesel balance is expected to lengthen on more supply amid seasonally weak demand in the first quarter to a surplus of 900,000 b/d.
- Refineries are returning to normal operations following the heavy maintenance season in 4Q, and planned turnarounds in the coming months are poised to be at a much smaller scale — so far around 1-1.5mn b/d of CDU capacity will be affected by maintenance during the first quarter, compared to over 3.5mn b/d in December.
- With still low inventories and elevated crack spreads for middle distillates, especially in Europe, refineries will continue to focus on the production of diesel and jet fuel to capitalise on the relatively high margins.
- On top of this, 2026 in general should expect more supply because of refinery expansions that amount to around 900,000 b/d of CDU capacity and 600,000 b/d of hydrocracking and coking capacity. As operators at the Sitra refinery in Bahrain ramp up operations of the newly commissioned units, diesel supply in the region is expected to rise further.
- Similarly, Pemex's 315,000 b/d Tula refinery has managed to raise diesel yield to nearly 20pc in September, the highest level since July 2024, on a lighter crude slate and increased investment in maintenance. At the same time, operations at the Dos Bocas refinery appear to remain robust as crude runs stayed at over 190,000 b/d during September-October, with diesel output reaching 80,000 b/d. If this momentum continues, Mexican import requirement could decrease further in 2026.

Contents

Regional jet/kerosine pre-trade balance, Jan vs Dec

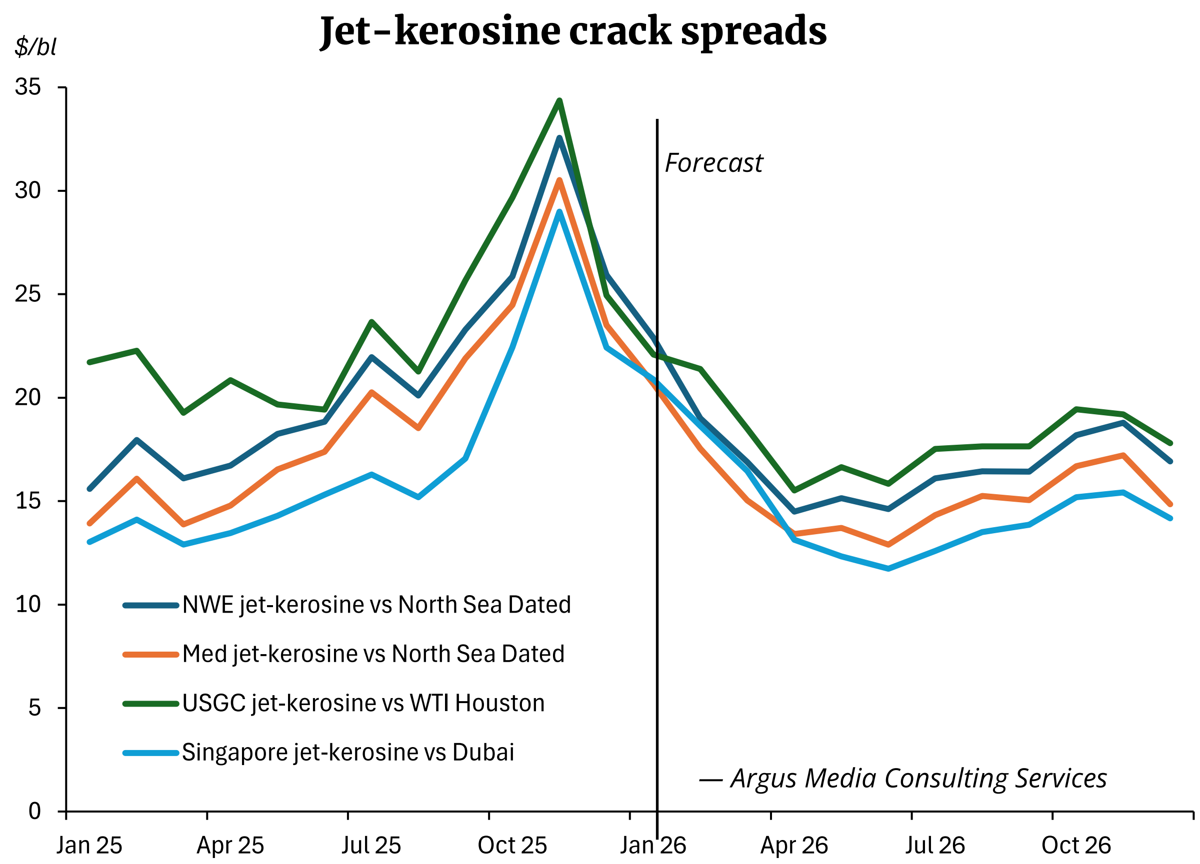
Most markets are expected to lengthen, driven by softer post-holiday jet demand and improving supply as refineries return from 4Q maintenance



Source: Argus Media - Consulting Services

Jet Fuel

Global jet fuel cracks fell on the month in December as lengthening diesel balances weighed on the complex, a trend expected to continue in the near-term



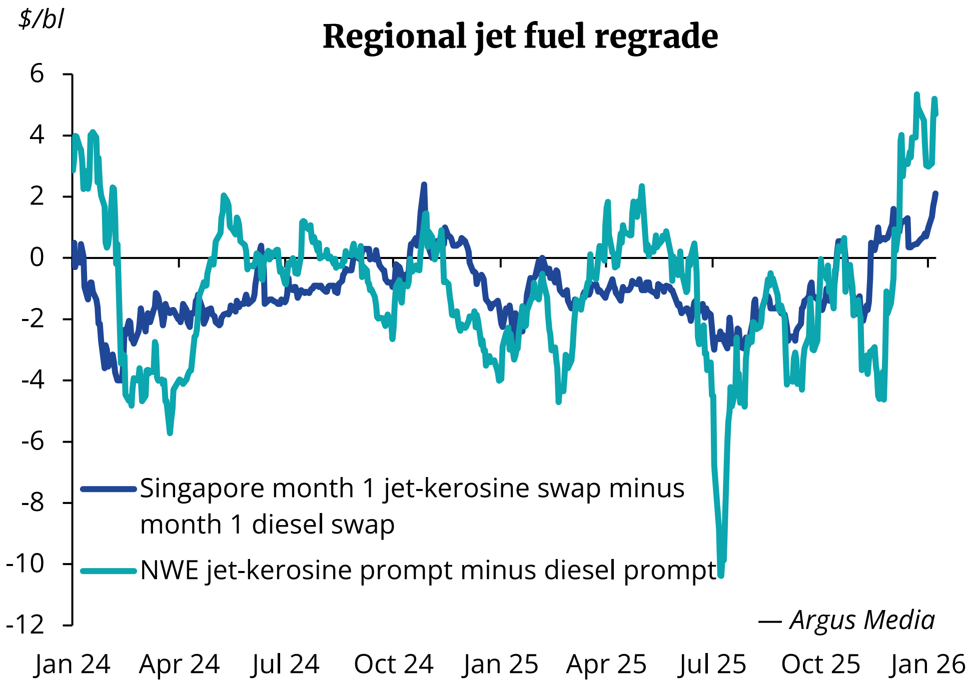
- Despite the monthly decline in jet fuel cracks, the northwest Europe jet-kerosine price flipped from a $3.3/bl discount to diesel to about a $2/bl premium – the highest in nearly two years. This reflects the tight jet fuel market sentiment in **northwest Europe**, driven by limited east-west flows, exacerbated by extended maintenance at Kuwait's 615,000 b/d al-Zour refinery.

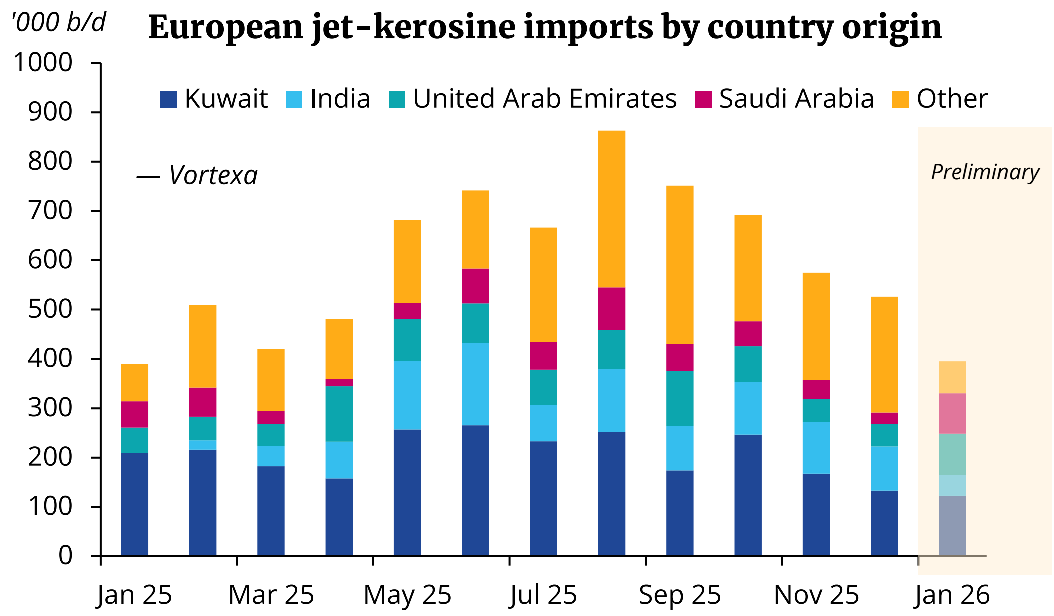
- European jet imports from China and India could become untenable if refiners there continue to process Russian crude, because of new EU sanctions that will ban import of refined products made from Russian grades starting 21 January. However, we anticipate the impact of these EU sanctions to be limited, as global balances are lengthening and the Middle East is seeing a rise in supplies . With supplies anticipated to rise in Europe, post-maintenance, we anticipate the current premium to diesel to soften over the next quarter, eventually falling into its typical discount territory.

- Despite the monthly length in the jet fuel pre-trade balance in January, **Asia-Pacific** remains in a relatively tight position, reflected by the widening Asian regrade. We anticipate the regrade to hold firm over the next quarter, though softer diesel cracks will weigh on jet fuel cracks over the next few months.

- On the **US West coast,** maintenance and structural refining capacity declines are increasing import dependence on South Korea, which would otherwise go to Europe.

Market sentiment shifts as European jet fuel tightness linked to import constraints

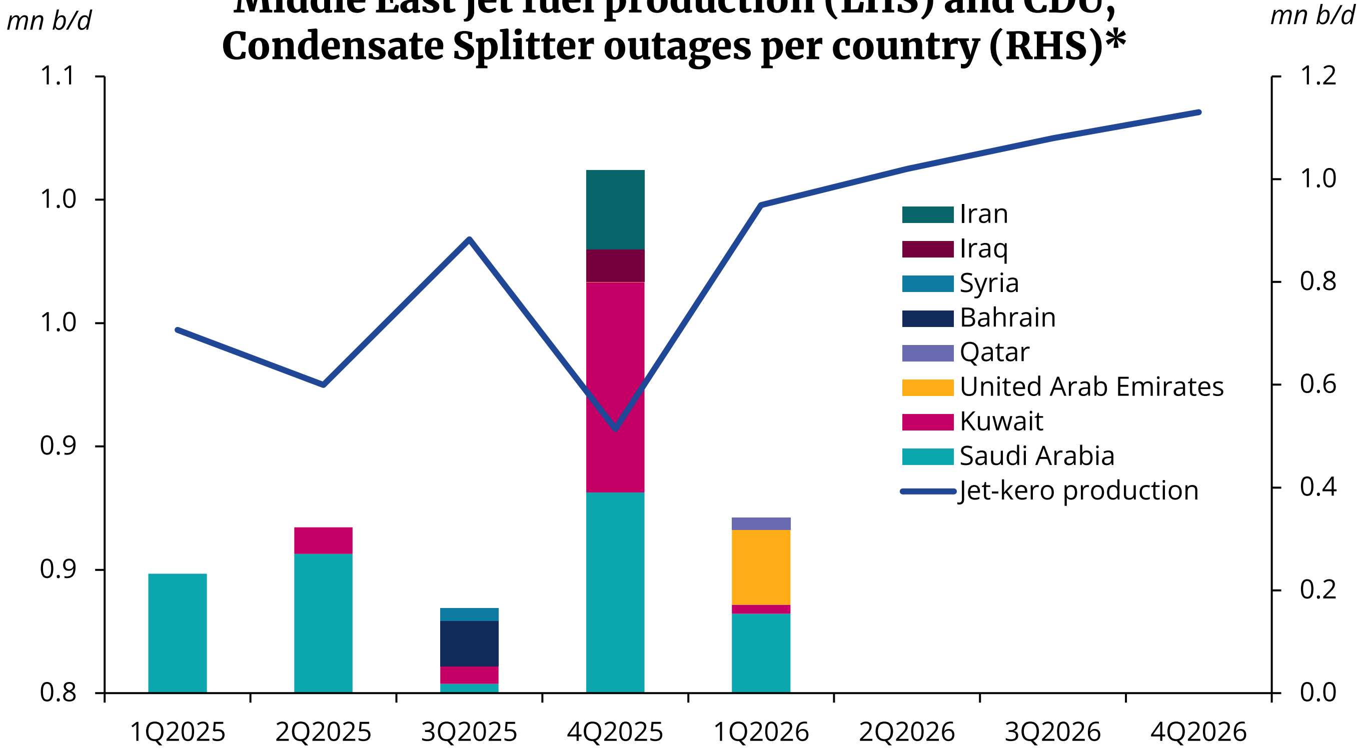




- Imports to Europe have continued to fall over 4Q, resulting in the price of European jet flipping to a premium to diesel. This is mainly due to two factors: a reduction in Indian and South Korean arbitrage cargoes, and the prolonged turnaround of Kuwait's 615,000 b/d al-Zour refinery, the main supplying country to Europe.
- In the second half of November, the Singapore jet fuel regrade turned positive for the first time since the tight squeeze in October 2024 and has remained in positive territory since. This is due to robust heating kerosine demand in northeast Asia coupled with a particularly strong autumn refinery maintenance season, which have kept Asian volumes within the region. But weakening diesel is expected to keep the jet fuel to a premium over the near-term, capping volumes to Europe through this quarter. But since exports from Kuwait's al-Zour are expected to resume, as the refinery recently came back online, that could potentially add additional volumes to Europe.

However, the European market should be better supplied by Middle Eastern volumes over the next quarter

Middle East jet fuel production (LHS) and CDU, Condensate Splitter outages per country (RHS)*

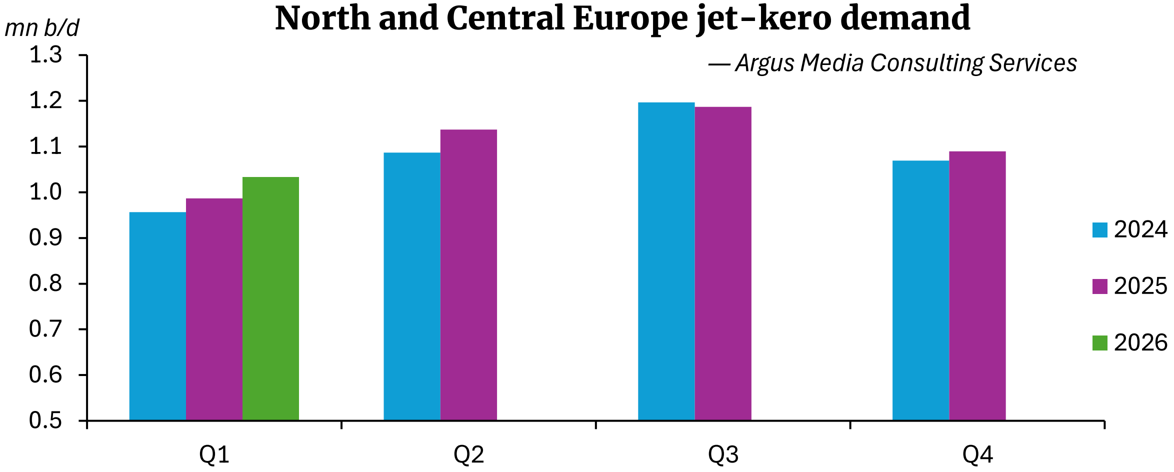


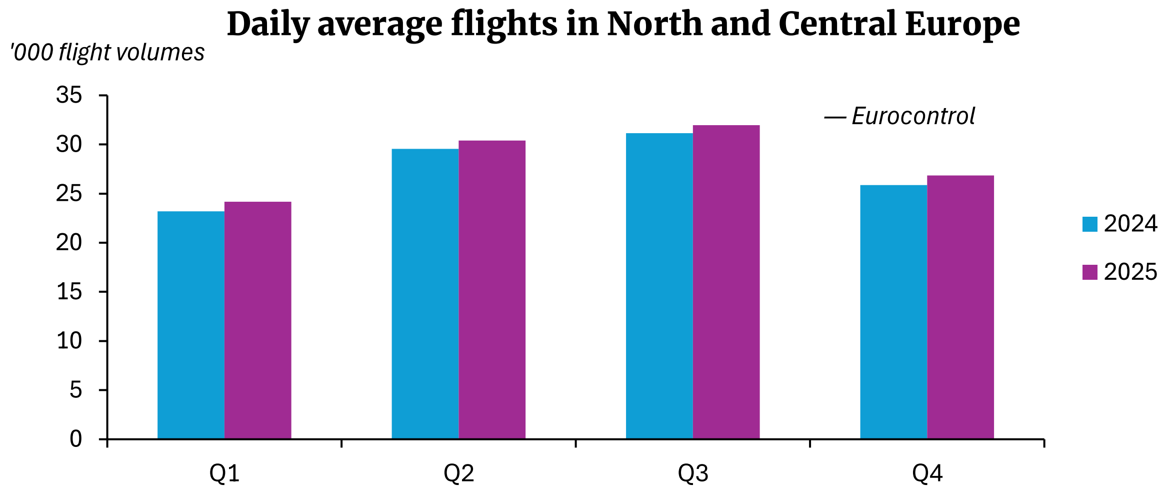
*reported maintenance beyond 1Q is limited, remains excluded from chart

— *Argus Media Consulting Services*

- Middle Eastern jet fuel exports to Europe are expected to improve over the next quarter, supported by rising regional production and refinery expansions, reversing the fall in exports in 2025 compared to 2024.
- While the initial ramp-up may be gradual in January as refineries complete maintenance cycles, the region is positioned to deliver higher export volumes through 1Q.
- We forecast Middle Eastern jet fuel supplies to increase on the month and on the year. Year-on-year growth may be attributed to increasing refining capacity expansions in the region. We expect the pre-trade balance this year to rise by 34,000 b/d compared to 2025.
- Of note is Bahrain's Sitra refinery expansion, who has already started exporting more jet fuel. Vortexa data indicates that the refinery exported around 70,000 b/d of jet fuel in 4Q, up from the 40,000-50,000 b/d it typically sends, 16pc of which made its way to Europe compared to 5pc last year, signalling that Bahrain may opt to capture more market share in Europe.
- Improved Middle Eastern availability should somewhat offset concerns over the upcoming EU sanctions and mitigate upward price pressure in European jet markets in the near-term.

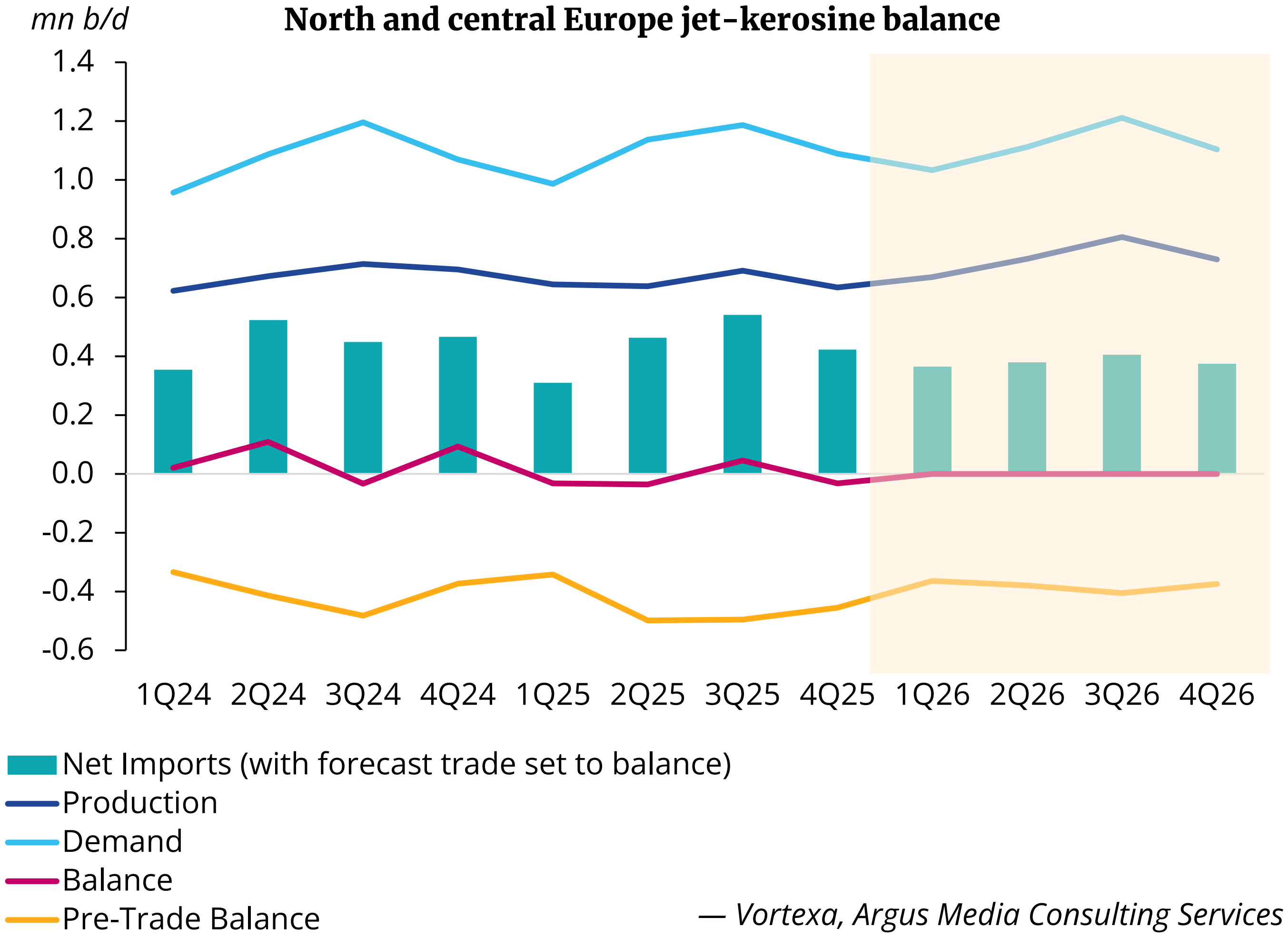
Meanwhile, demand is expected to remain in a seasonal lull over the quarter, although the underlying annual trend continues to point to modest growth



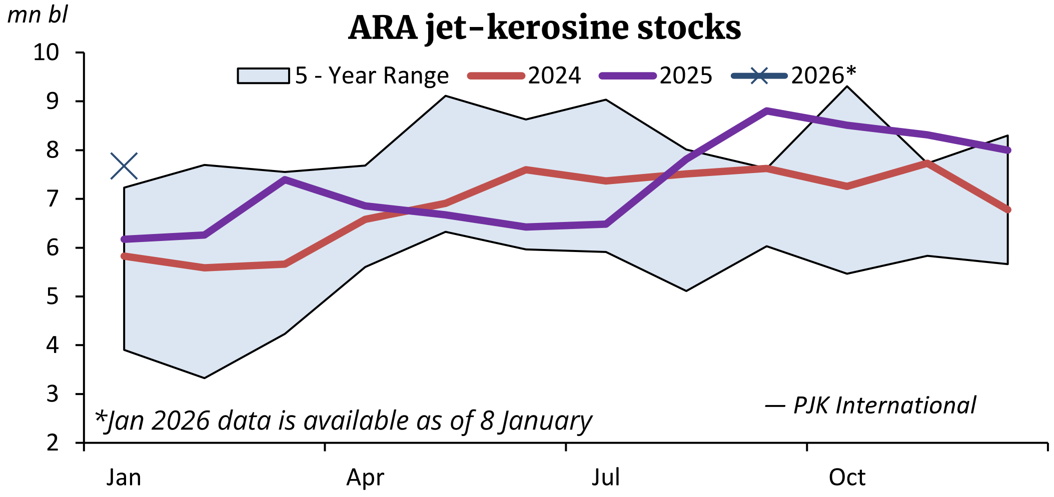


- Jet fuel demand in north and central Europe is anticipated to remain in its seasonal lull as air traffic remains quiet following holiday travels in December. But demand is anticipated to grow on the year in line with continued capacity additions and the rise in air travel activity, albeit modestly.
- North and central European flight volumes continue to improve on the year, recovering to pre-pandemic levels in some markets, though remain largely supressed by countries like Germany as high operating costs prompt airlines to reallocate capacity to more cost-effective hubs. As such, flight volumes are expected to show modest growth compared to 2025.
- Jet demand growth is slowing modestly, weighed on by SAF mandates and gradual improvements in aircraft fuel efficiency. However, SAF blending requirements remain limited—holding at 2pc in the EU and rising only to around 4pc in the UK in 2026—meaning SAF uptake is not yet large enough to materially offset overall jet fuel demand growth.
- Meanwhile, we expect efficiency gains to improve, however, they remain constrained by aircraft production bottlenecks. Iata expects the global fleet to become just 1pc more fuel-efficient in 2025, around half of recent average annual improvements. We expect the gains to see some moderate increase. As a result, jet fuel demand in north and central Europe and the Mediterranean is forecast to average 863,000 b/d in 2026, up 1.2pc on the year, after rising by 2.6pc on the year in 2025.

European market should not look tight even if imports remain weak through 1Q, limiting any upside in cracks



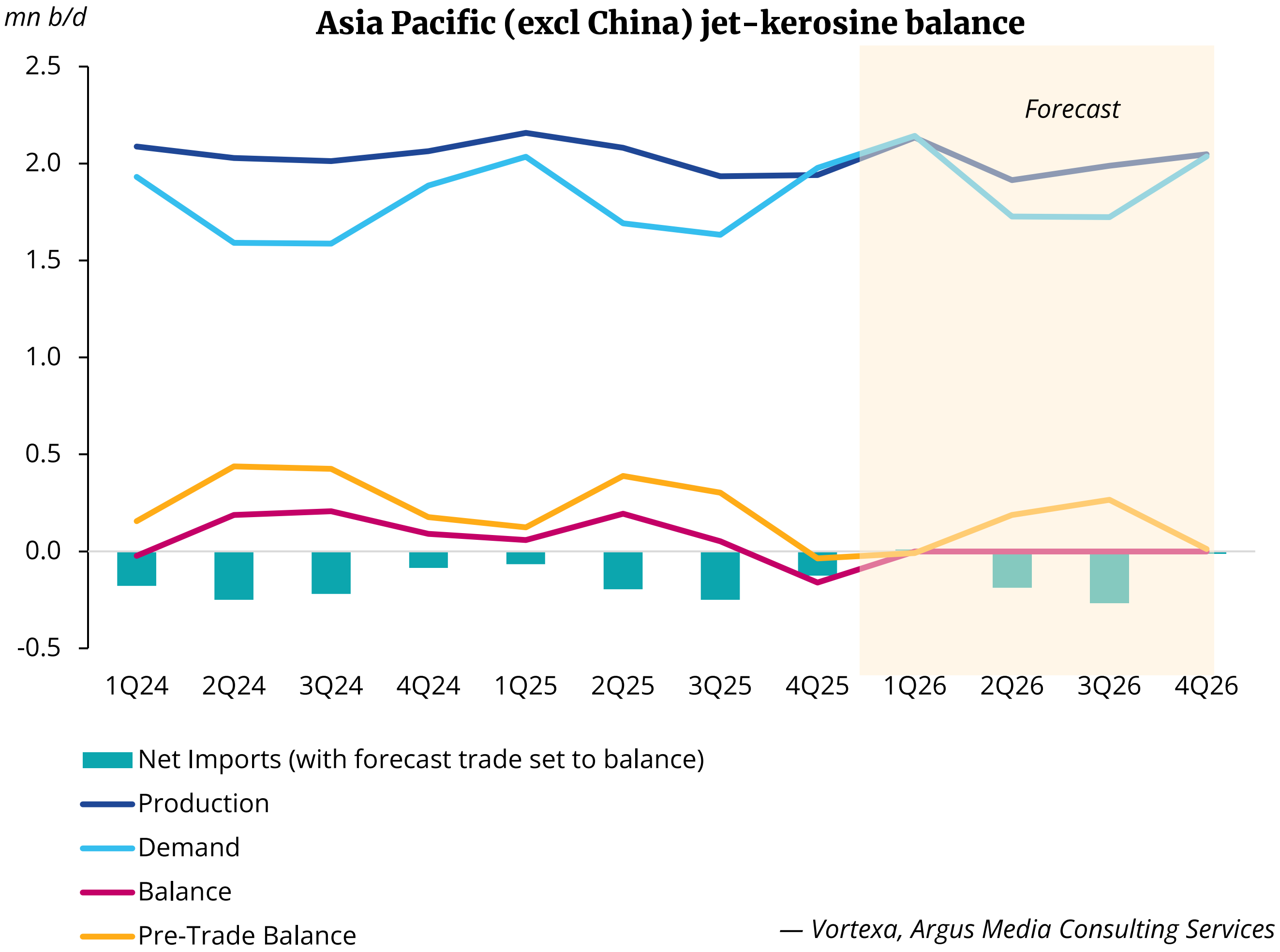
— *Vortexa, Argus Media Consulting Services*

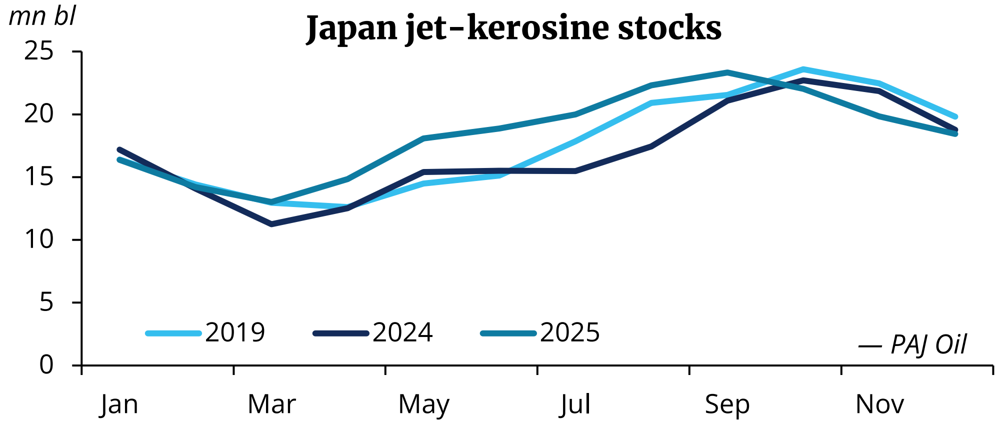


— *PJK International*

- Improving supplies across Europe and the Middle East are expected to keep regional production and imports relatively firm through 1Q.
- Combined with the seasonal lull in demand, this should allow the European balance to ease from recent tightness, with the current jet fuel premium to diesel likely to soften towards the end of this month.
- Although stock levels have drawn down in recent months, a more balanced market environment suggests inventory changes should remain limited over the coming quarter.
- That said, Asia-Pacific flows into Europe are expected to stay constrained, as markets in that region remain relatively tight, limiting incremental supply availability to Europe in addition to the looming sanctions that may further risk incremental volumes from China and India.

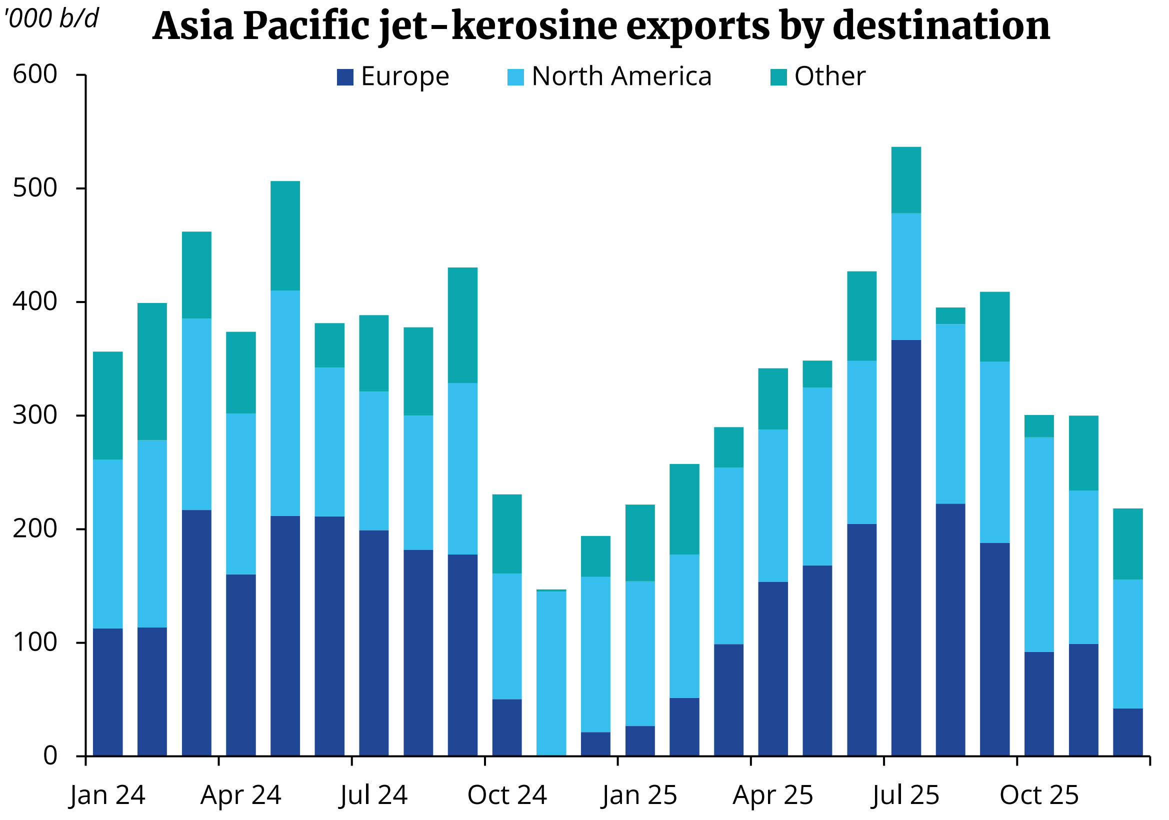
Asia Pacific poised to remain tight over the next quarter as heating kerosine demand remains supportive



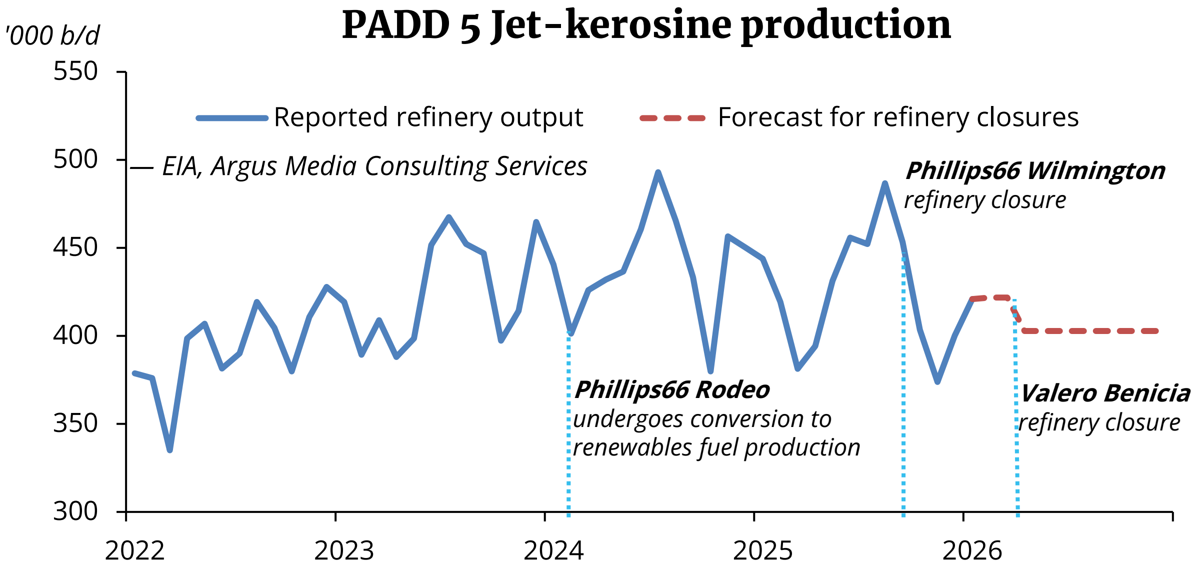


- Asia-Pacific demand is currently at its seasonal peak, driven by rising heating kerosene consumption as winter temperatures bottom out.
- This is particularly evident in Japan, where inventories are typically built ahead of the winter demand pull in 4Q.
- While additional refinery capacity is returning, keeping regional supply broadly aligned with demand this quarter, maintaining balance would require a pullback in jet-kerosine exports.
- This appears unlikely, however, as the US west coast remains heavily reliant on South Korean flows, and increased PADD 5 maintenance is expected to sustain export demand into the US west coast.
- As a result, the Asian jet fuel market is expected to remain tight over the quarter, supporting the continuation of elevated jet fuel regrade levels over the next couple of months.

Lower USWC jet fuel production to result in more transpacific flows diverting volumes from Europe



— *Vortexa*

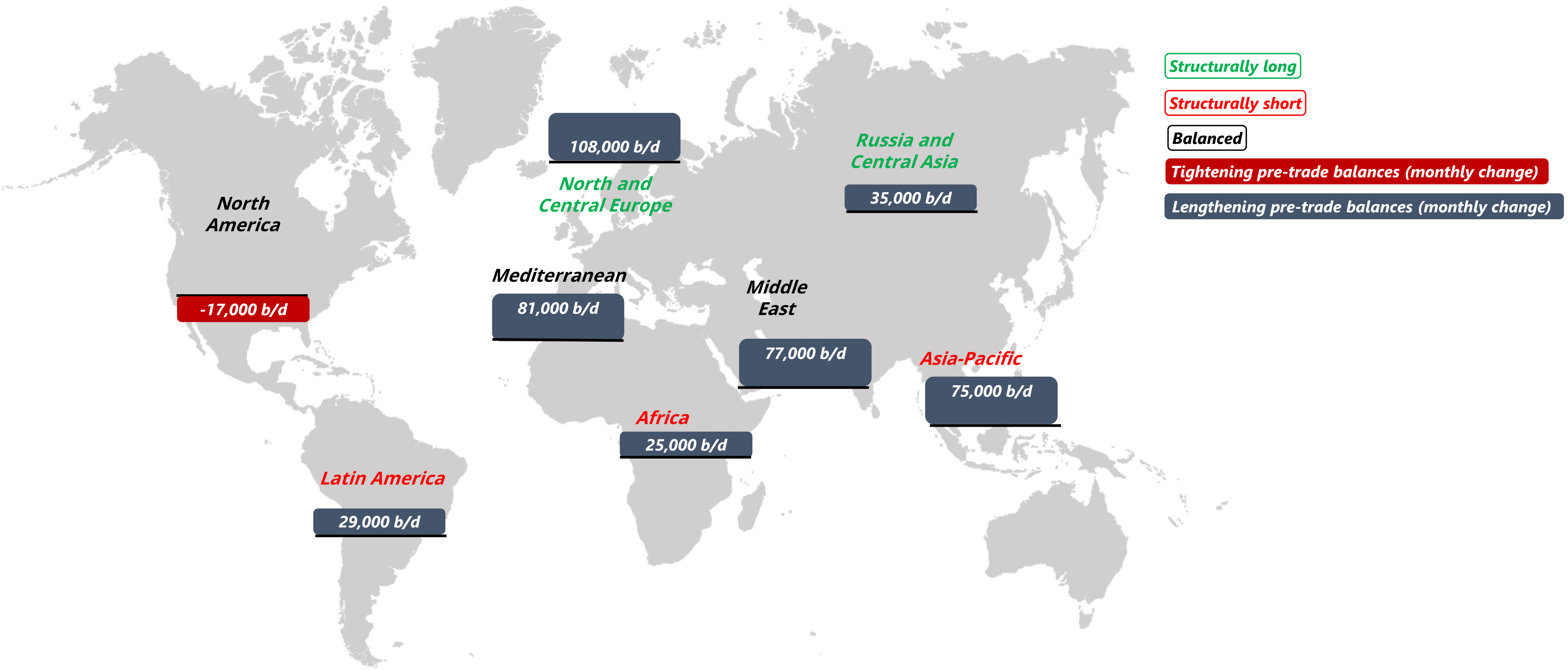


- Jet fuel imports into the US West coast are expected to remain elevated through 1Q as California continues to grapple with reduced local production capacity following Phillips 66 Los Angeles refinery closure in October.
- Supply concerns have been reflected in the LA to USGC jet price differential. Before the closures, it rarely exceeded $20/bl – since then it is nearly at a $40/bl premium .
- Arrivals have been trending upwards since August, led by Asia-Pacific flows, with November imports hitting a four-year high of 124,000 b/d, according to Vortexa.
- Looking ahead, imports will remain a critical supply source as California supply rebalances as the market continues to adjust to refinery closures and the upcoming Benicia refinery closure in March.

Contents

Regional fuel oil pre-trade balance, Jan vs Dec

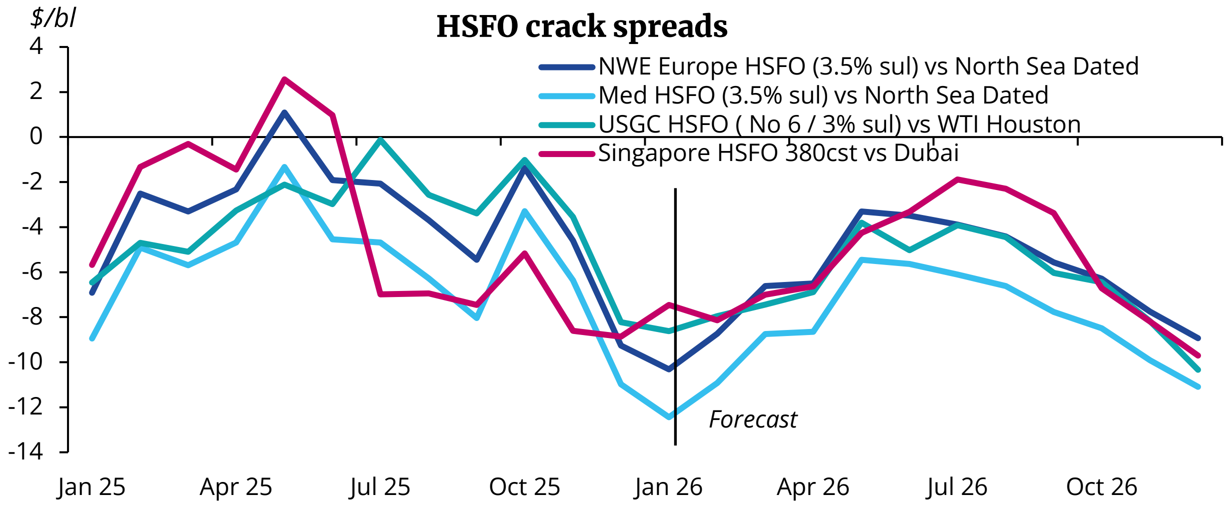
The fuel oil market is expected to lengthen with the rise in high-sulphur fuel oil and very low-sulphur fuel oil from the Middle East post-maintenance

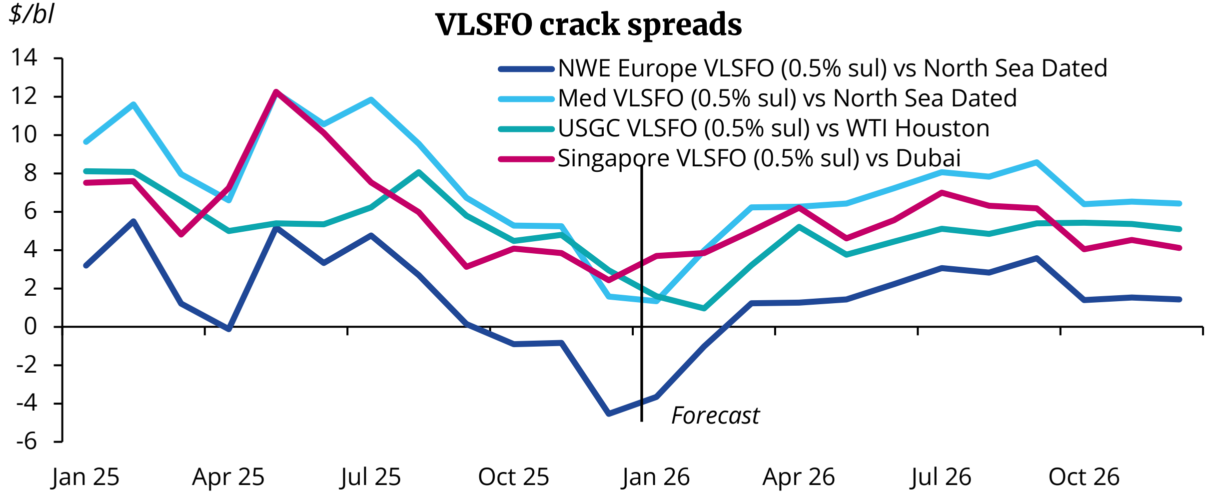


Source: Argus Media - Consulting Services

Fuel oil

HSFO cracks weakened in December, though the downside appears limited as feedstock demand may increase due to refinery winter maintenance. VLSFO cracks also continued to weaken, but there is potential for an upside around mid-first quarter





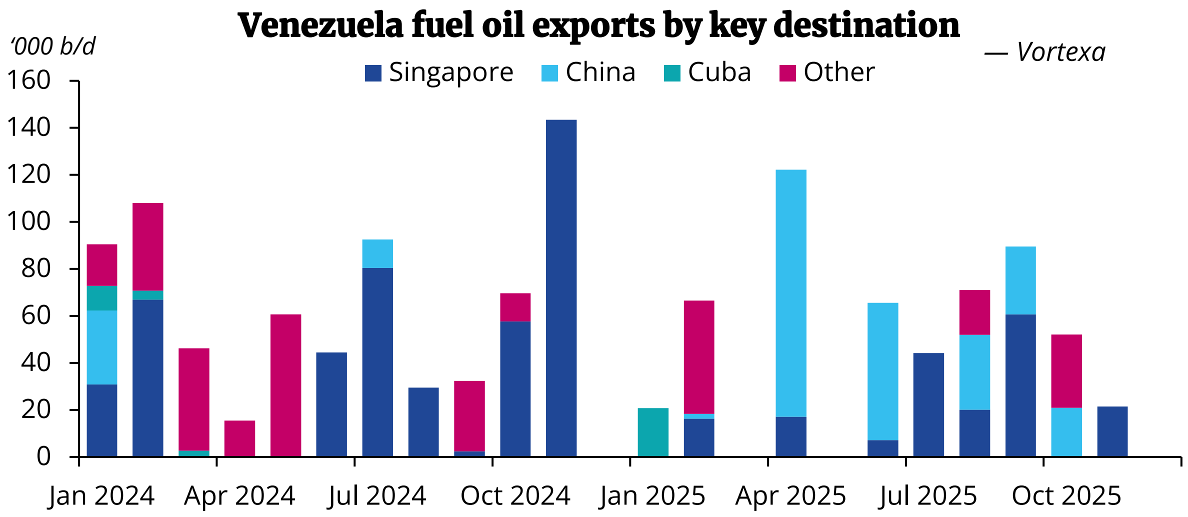
- High-sulphur fuel oil (HSFO) ended the year strong across major refining hubs, supported by tight supply and steady bunker demand. However, crack spreads began to weaken towards the end of the fourth quarter amid increased product availability and the partial unwinding of Opec+ crude production cuts, among other factors.

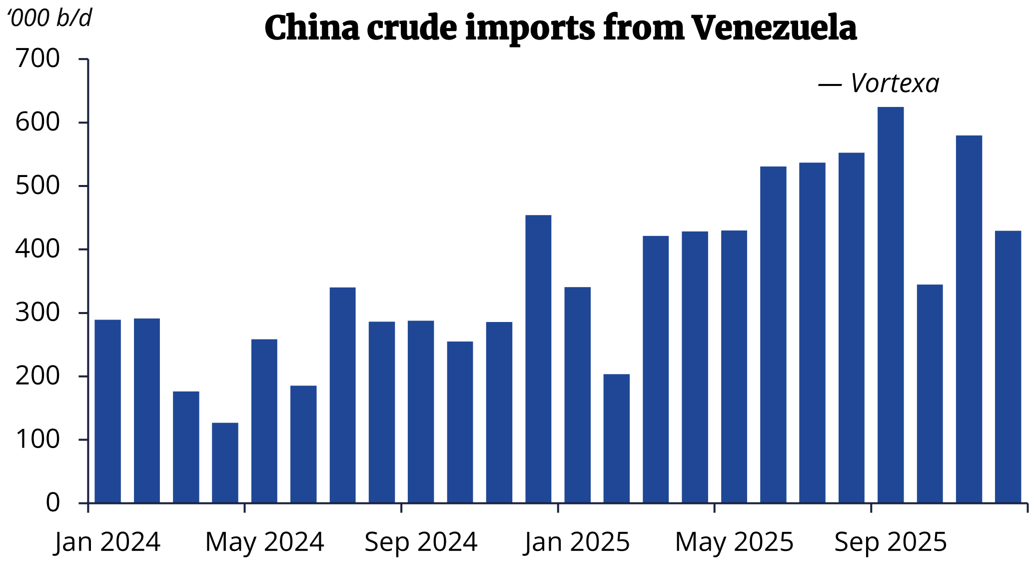
- In **Asia-Pacific**, Singapore HSFO crack spreads averaged an $8/t discount to Dubai crude in December, remaining almost unchanged from November. Cracks began trending upward beginning of January on expectations of tighter supply following the US capture of former Venezuelan President Nicolás Maduro. A potential redirection of Venezuelan crude and fuel oil to the US could lend near-term support to HSFO cracks in Asia, but for now impact is likely limited.

- HSFO demand in the **US Gulf coast** could rise in the first quarter as seasonal maintenance on CDUs ramp up, supporting cracks. Although additional flows from Venezuela may help meet these needs capping any upside and limit gains in HSFO cracks.

- Very-low sulphur fuel oil (VLSFO) cracks fell across all major refining regions due to high product supply, driven by continued outages at key non-European refineries late last year. Potentially lower low-sulphur straight run (LSSR) fuel oil supply could provide support to cracks in the Asian market in the coming months and open arbitrage opportunities for flows from Europe.

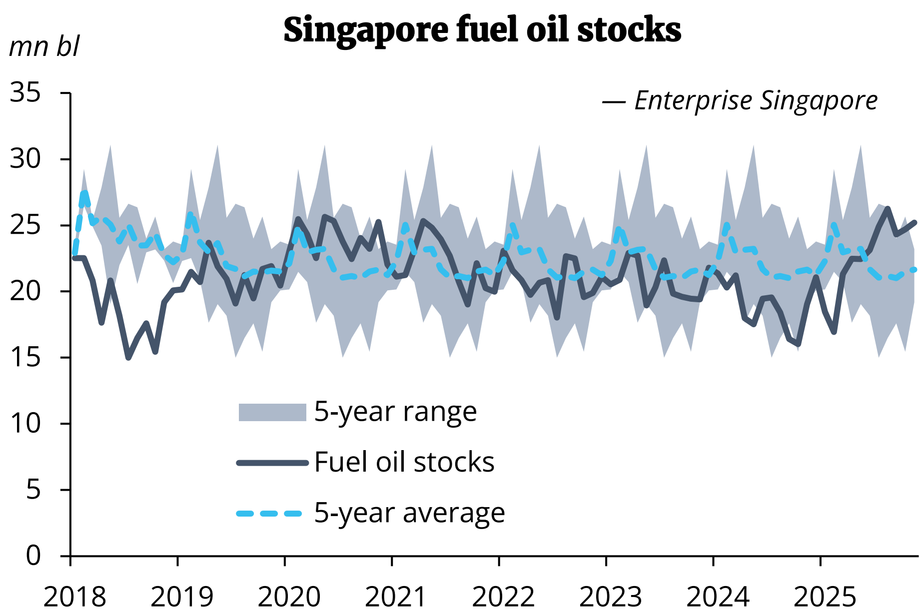
A potential redirection of Venezuelan crude and fuel oil from east of Suez to the US could lend near-term support to HSFO cracks in Asia, but overall effect is limited

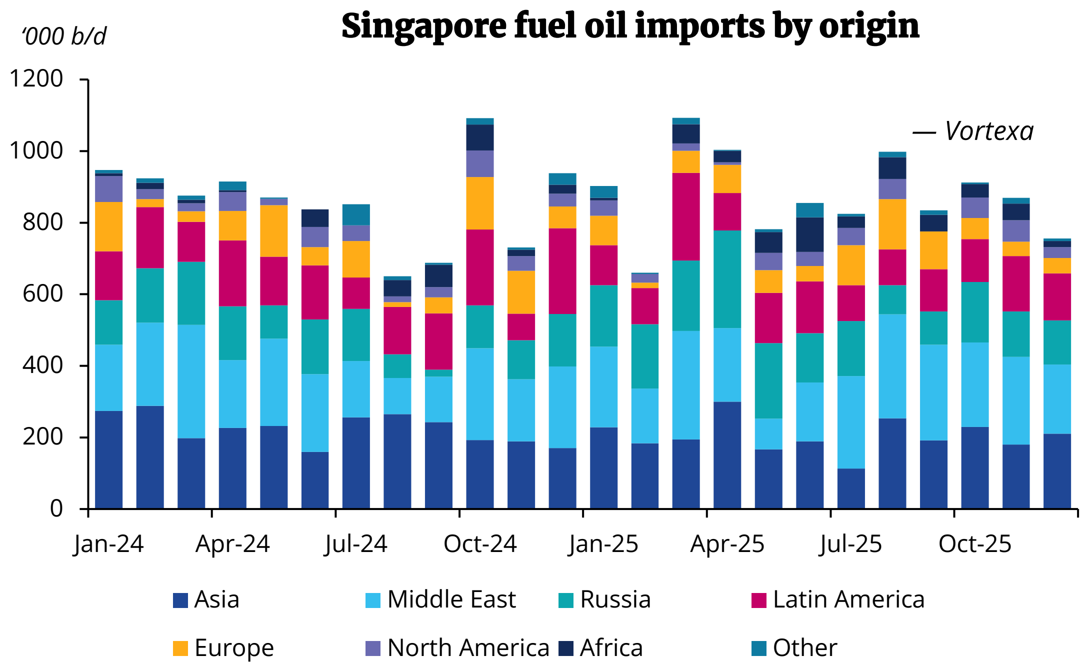




- In 2025, most Venezuelan HSFO exports were directed to China and around 30pc was shipped to Singapore, according to Vortexa. Overall exports had already declined in November and were completely halted in December due to escalating tensions against Venezuela, including a blockade of its fuel shipments.
- As such, the potential redirection of Venezuelan crude and fuel oil from east of Suez to the US is rather sentiment driven lending near-term support to HSFO cracks in Asia. Additional upside for HSFO demand may emerge if Chinese refiners—key buyers of Venezuelan crude—turn to straight-run fuel oil from Russia or Iran. Approximately 10 regular Chinese buyers of Venezuelan crude, mainly asphalt producers, could face shortages of cheap sanctioned heavy crude by the end of the first quarter.
- For now, the upside impact of reduced Venezuelan supply to Asia is likely limited. Singapore could offset the loss with higher imports from Russia, as Venezuelan fuel oil accounted for only 2.3pc of Singapore's total seaborne imports in 2025.

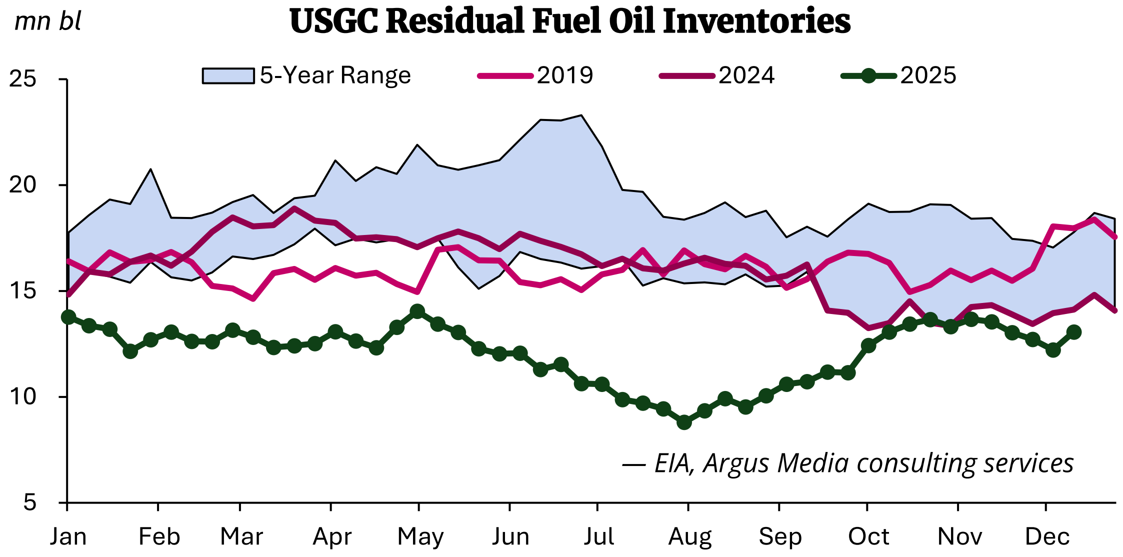
Meanwhile, high Singapore stocks persist, and higher expected imports from Russia to offset any loss in Venezuelan flows

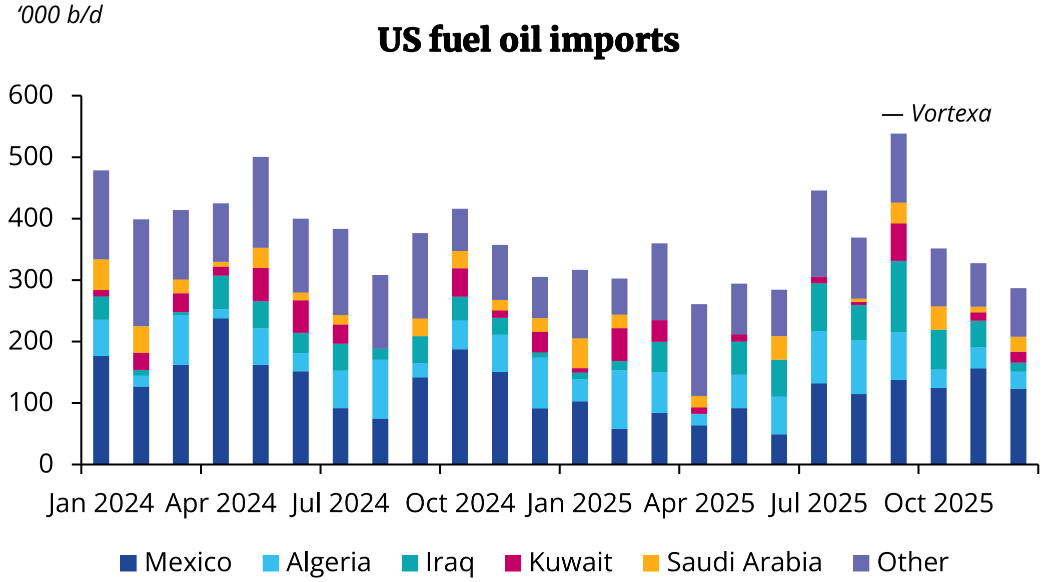




- Despite falling imports, fuel oil stocks in Singapore climbed to a 17-week high of 26.8 million barrels in the week ending 31 December 2025, according to Enterprise Singapore. The persistence of high inventories continue to signal oversupply, limiting the upside in cracks in the near-term.
- While Venezuelan fuel oil exports have come under pressure from escalating tensions, upside tightening risks are likely to be mitigated by higher Russian supply. Russian fuel oil exports have rebounded since October following earlier drone-related disruptions. Fuel oil imports from Russia have held steady at 123,000 b/d over the past two months rising from around 90,000 b/d during the peak drone attacks on Russian facilities in August-September, Russian fuel oil shipment to ports signal a rise in seaborne export volumes from Russia most of which should head to Singapore.
- Although drone attacks pose a potential risk to supply, fuel oil production has remained stable, unlike higher-value products which have seen greater disruption. Overall fuel oil availability into Singapore is expected to remain ample, offering only modest support to HSFO cracks in the near-term.

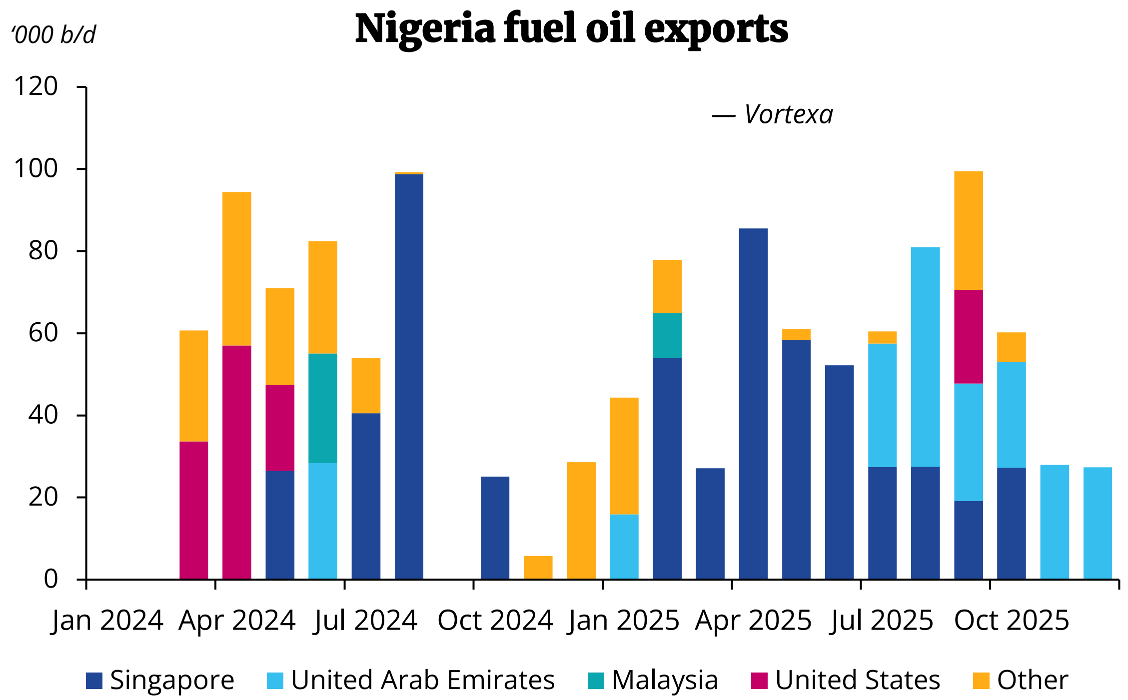
HSFO cracks on the US Gulf coast may find support from higher feedstock demand and reduced Mexican arrivals, though potential increases in Venezuelan crude could limit upside





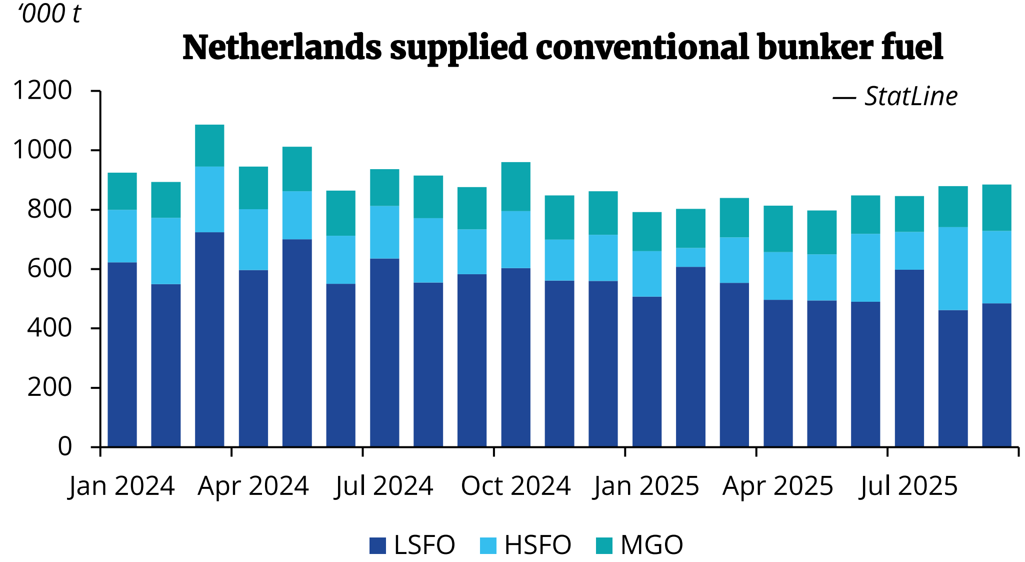
- HSFO cracks on US Gulf coast weakened on the month in December driven by high product availability and an oversupply of heavy sour crude that reduced refiner demand for HSFO as a feedstock. Weaker downstream demand has been reflected in falling fuel oil imports, which have declined steadily since October and dropped to 340,600 b/d in December, the lowest level since June, according to Vortexa.
- However, feedstock demand for HSFO could rise this quarter due to improved refinery economics and seasonal maintenance, limiting the fall in cracks. A significant share of CDU work is expected from January to April, which may lift HSFO demand as refineries rely more on secondary units that use HSFO as feedstock.
- Moreover, HSFO shipments from Mexico to the US Gulf coast may start declining as the Dos Bocas refinery ramps up production and consumes more HSFO, leaving less for export, which could tighten supplies in the US. Additionally, if two new coker units at the 315,000 b/d Tula and 330,000 b/d Salinas Cruz refineries come online as scheduled in 2026 and 2027, HSFO availability for export will fall further, tightening HSFO balances.
- But any increase in Venezuelan crude and fuel oil flows to the US could meet some of the demand gains from maintenance and weigh on HSFO cracks.

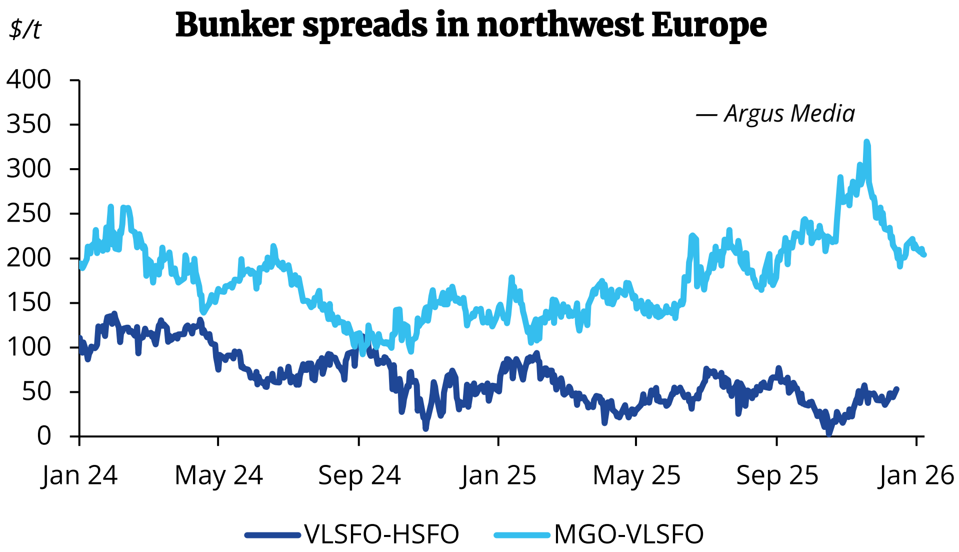
VLSFO cracks finished the year on a weak note amid persistent flows of LSSR but oversupply is expected to ease in the middle of 1Q, which could give support to cracks in Asia and open arbitrage opportunities for flows from Europe



- Singapore VLSFO cracks weakened further in December amid persistent LSSR supply. However, cracks showed early signs of recovery after Malaysian refiner PRefChem began offering slurry from its Pengerang refinery for January loading.
- Recent slurry offers indicate PRefChem's RFCCs are back online after months of disruption. The company had been offering LSSR in September–October due to maintenance, and since then, monthly LSSR cargoes averaged four–five as RFCC issues persisted.
- Upside remains capped as Kuwait's state-owned KPC has restarted its al-Zour refinery following an unplanned outage in late October. The outage affected two of al-Zour's crude units and two ARDS units. The restart was widely anticipated, and additional cargoes from al-Zour may head to Fujairah, especially as South Sudan's Dar Blend crude remains blocked from discharging there under the UAE's Sudan trade ban since August.
- Meanwhile, Nigeria's Dangote refinery continues to offer LSSR, although at a reduced rate, as its RFCC has likely been offline since early December for maintenance. The unit could restart by late January or early February, but planned CDU maintenance in February may curb LSSR supply, limiting the downside to VLSFO cracks.

VLSFO crack spreads in northwest Europe seeing sustained pressure driven by the uncertainty over the implementation of the EU's recast Renewable Energy Directive (RED III) in the Netherlands

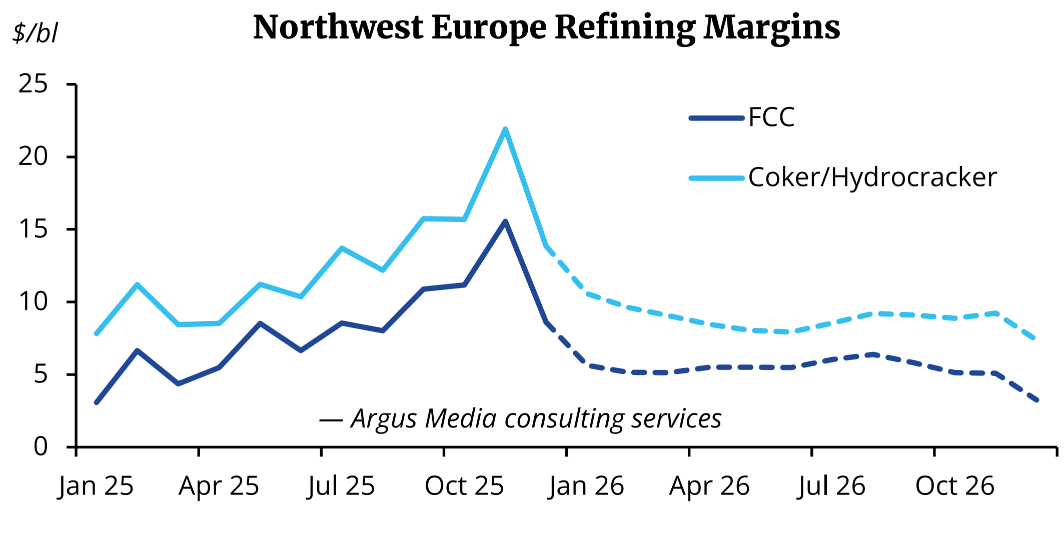


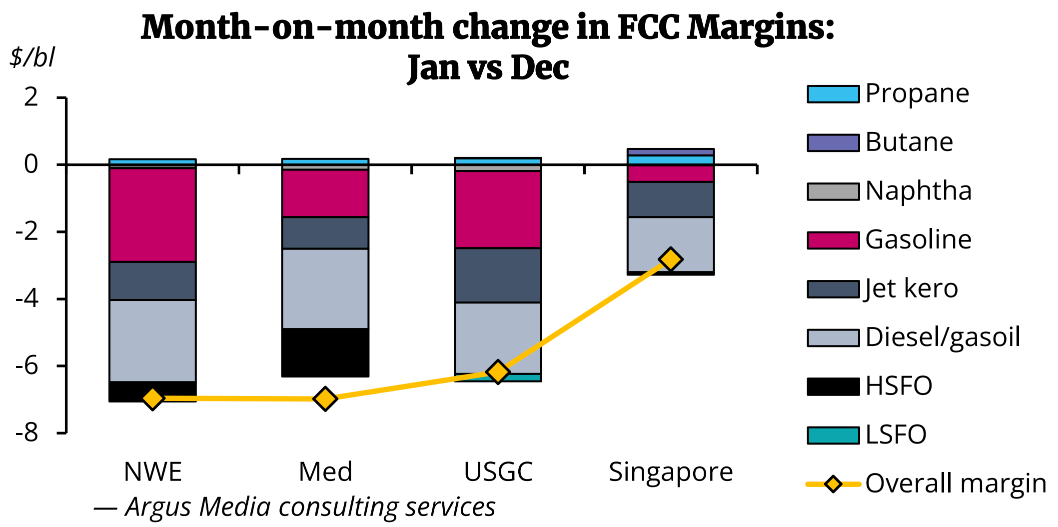


- Producers in northwest Europe saw reduced buying interest as LSSR availability remained high, with some volumes likely diverted into storage. Although LSSR supply could decrease in the coming months, which may help ease pressure on VLSFO cracks.
- VLSFO demand was further impacted by uncertainty over how EU states are transposing RED III rules into national law. The Dutch government slashed its RED III greenhouse gas reduction mandate for shipping in mid-December. RED III took effect in the Netherlands in January 2026, ahead of neighboring countries such as Belgium.
- Maritime mandates in the Netherlands could lead to higher conventional marine fuel prices at Dutch ports and potentially drive shipowners to source fuel from countries that have yet to enforce RED III, where pricing remains more competitive than in the Netherlands. This shift could also potentially drive additional demand in Singapore, a major global bunkering hub.

Contents

Refining margins retreat from late-2025 highs as maintenance winds down and supply concerns ease. Looking ahead, a more settled 2026 is expected, though geopolitical risks add substantial risk for renewed volatility.





- Refining margins came off in December from the highs reached in the previous month as a heavy spell of refinery maintenance wound down and as market concerns about new sanctions on Russia's refining sector subsided. Looking ahead, we forecast a more settled outlook for refining margins globally in 2026, but with the heavy caveat that rising geopolitical tensions is adding considerable risk to bouts of volatility.
- Refining margins are forecast to remain relatively healthy as they recede close the level seen in 2024, and considerably higher than the 2020-21 Covid period as well as the pre-Covid 2015-19 period. Both of these periods were characterised by refinery closures, which accelerated during the Covid period, although were largely confined to Europe and North America.
- The capacity closures at that time, combined with more recent closures, are helping to keep margins supported and should stave off any further need for wide-spread refinery rationalisation in the near-term. Nevertheless, we expect a gradual eroding of refining margins through to 2028 as transport fuel demand is steadily displaced either because of fuel efficiency improvements or rising EVs and other alternative vehicle adoption. By the end of the decade, that may result in the need for a renewed round of refinery rationalisation, which will once again likely be concentrated in Europe and North America.

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ISSN: 2755-8436

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