

Argus *Refined Products Outlook*

Refined Products Outlook

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Executive Summary: Refined Products Outlook

Supply disruptions continue to support refined product markets, even as seasonal demand eases and cracks retreat from recent highs

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

Near term price drivers

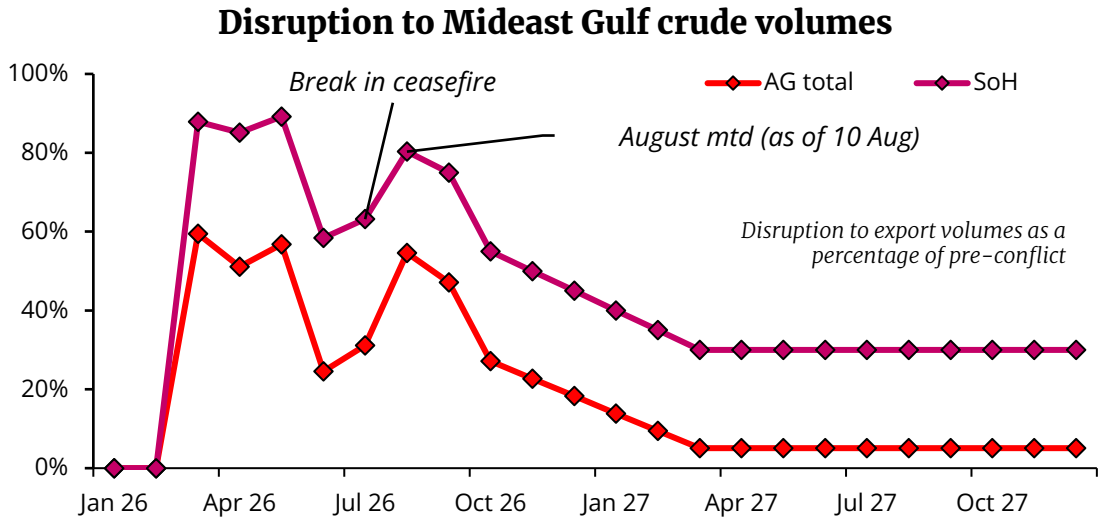
	Bullish	Bearish
Gasoline	↑ Demand in Asia is recovering ↑ Supply remains tight despite a shift in product yields ↑ Inventories in key regions stand below seasonal norms	↓ China is increasing its August loadings ↓ Shift to winter-spec gasoline is approaching ↓ Seasonal decline in Atlantic Basin gasoline consumption
Naphtha	↑ Disruption to Saudi Red Sea loadings ↑ Russian output constrained by drone attacks ↑ Hormuz traffic recovery remains limited	↓ Low Rhine water levels leave more naphtha stranded in the ARA market ↓ Cracking demand under pressure ↓ Blending economics are starting to soften
Middle Distillates	↑ Russian output constrained by drone attacks ↑ Hormuz traffic recovery remains limited ↑ Refining operations face renewed geopolitical risks ↑ Strong gasoline cracks pressure jet fuel yields ↑ Saudi-Houthi hostilities escalate	↓ Refiners maximise diesel output ↓ Rising prices increases the risk of middle distillates demand destruction ↓ US-Iran pause hostilities (for now), reduces geopolitical risk premiums ↓ Easing supply disruptions would loosen middle distillates balances
Fuel oil	↑ Russian output constrained by drone attacks ↑ Fuel oil exports from the Mideast Gulf remains constrained ↑ Middle East power demand limits export growth ↑ Red Sea disruptions to support bunker demand	↓ Iraqi exports through Syria increases ↓ Hormuz traffic recovery remains limited ↓ Venezuelan crude exports on the rise

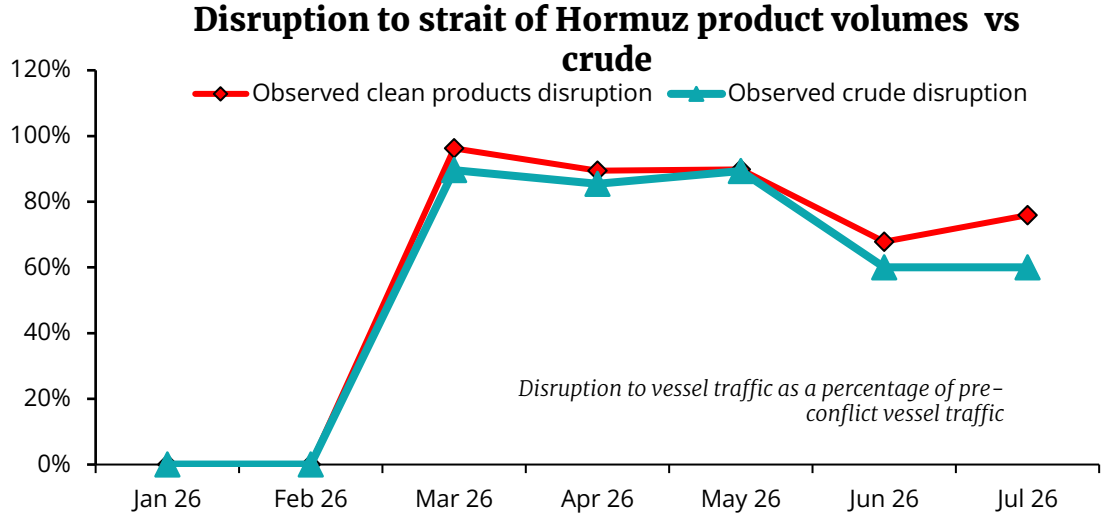
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Special Topic I: New working assumptions underpinning the outlook

Crude exports recover first, product exports to lag



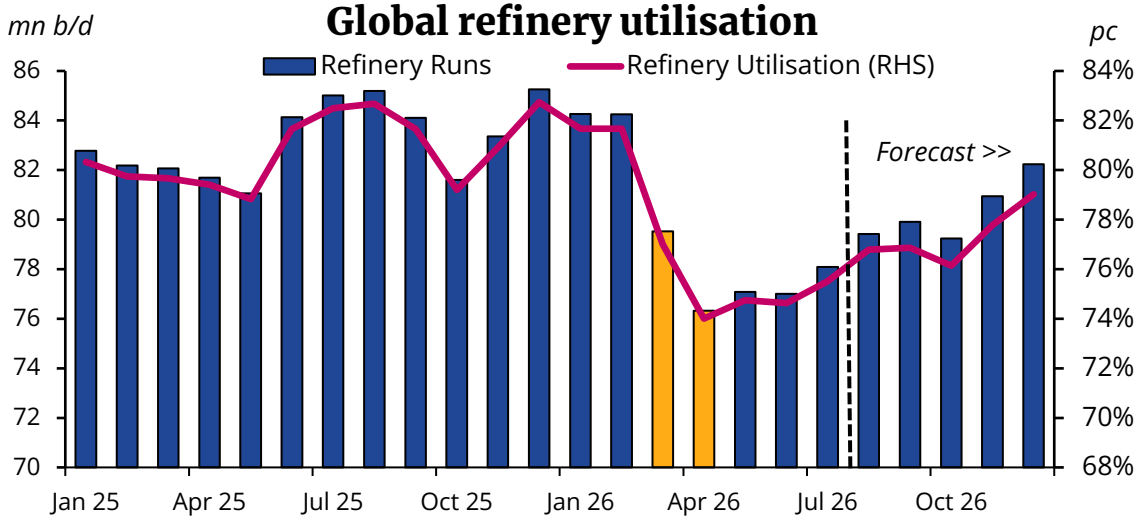


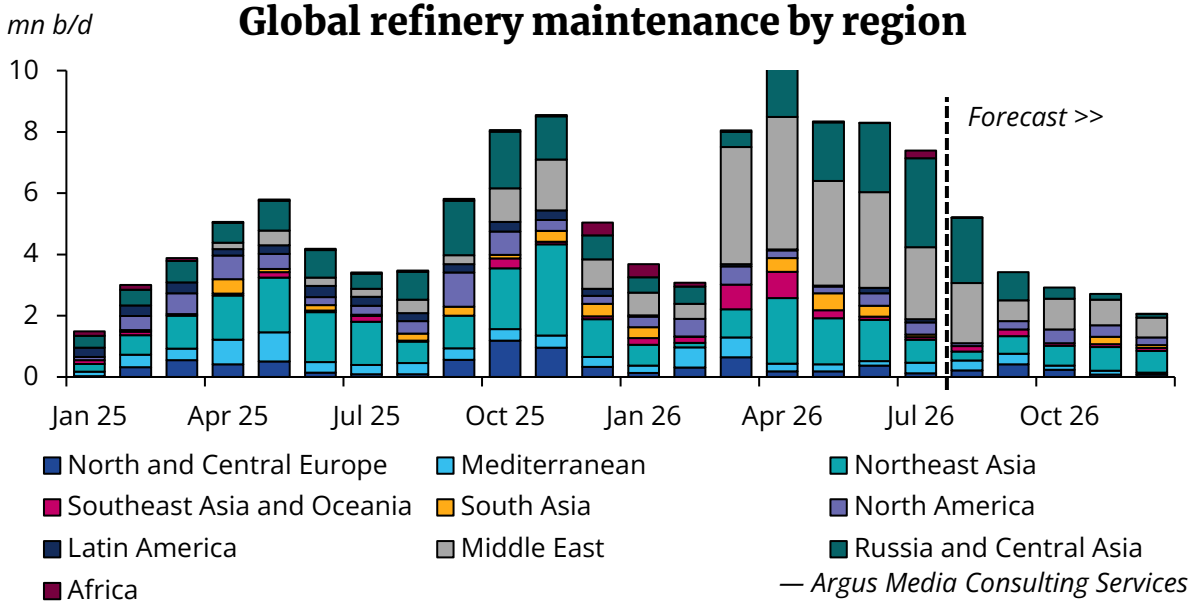
- The June US-Iran agreement provided a framework for de-escalation, but renewed hostilities in July underscored the fragility of the ceasefire. Our base case assumes strait of Hormuz flows remain broadly constrained in August before gradually recovering through the remainder of the year. However, vessel movements continue to face significant restrictions, and Iran is likely to retain the ability to disrupt shipping despite US military pressure. We expect crude tanker transits to recover to only around 70pc of pre-war levels by the end of 1Q next year, even as total Middle East crude exports return to roughly 97pc of pre-war levels through alternative export routes.
- Crude exports have proved more resilient than refined products. A temporary improvement in vessel traffic during June, supported by expanded ship-to-ship transfer operations, allowed producers to clear accumulated crude cargoes and partially restore export programmes. Refined products, by contrast, remain heavily dependent on the strait of Hormuz and require both refinery operations and trade flows to normalise before exports can fully recover.
- As a result, refined product markets are likely to lag crude in the recovery process, keeping product balances tighter and refining margins elevated through the second half of 2026 and into 2027. Additional support comes from ongoing Ukrainian drone attacks on Russian refineries and rising disruption risks in the Red Sea after the Houthis announced a blockade on Saudi shipping. Attacks on Saudi-linked infrastructure, export facilities and tankers have increased concerns around Red Sea supply reliability, particularly as Saudi Arabia has shifted a greater share of exports towards its Red Sea terminals.
- The result is a two-speed recovery: crude export flows continue to adapt and recover, while refined product exports remain far more vulnerable to disruptions in Hormuz, Russia and the Red Sea.

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Special Topic II: Global refinery operations under renewed threat

Refinery run recovery remains fragile as Middle East and Russian disruptions continue to constrain product supply





- While refinery capacity in the Middle East is gradually returning, restoring stable operating rates and export flows will take time. The breakdown of the Iran-US ceasefire and renewed Houthi threats have reinforced operational uncertainty across the region. Iranian attacks on Kuwaiti and Bahraini energy infrastructure in July, including oil and power facilities, are likely to have disrupted refinery operations, while repeated strikes on Saudi Arabia's 400,000 b/d Jizan refinery have highlighted the vulnerability of regional refining assets.
- Refinery runs remain constrained not only by physical disruptions, but also by continued restrictions on refined product exports through the strait of Hormuz. Under our base case, Middle Eastern refinery throughput recovers only gradually through the remainder of the year, with a more meaningful rebound dependent on sustained improvements in regional security and shipping conditions.
- Beyond the Middle East, product markets continue to face additional supply-side pressures. Russian refinery runs remain near multi-year lows following sustained Ukrainian drone attacks, while refinery maintenance activity in the Atlantic basin and Asia could increase later this year after earlier deferrals linked to the disruption of Middle Eastern supplies. Ongoing geopolitical uncertainty is also expected to keep refinery throughput sensitive to crude availability and logistics constraints. Together, these factors should slow product supply growth and leave refined product markets tighter than crude markets through 2026 and into 2027.

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More details available in Argus Crude Outlook

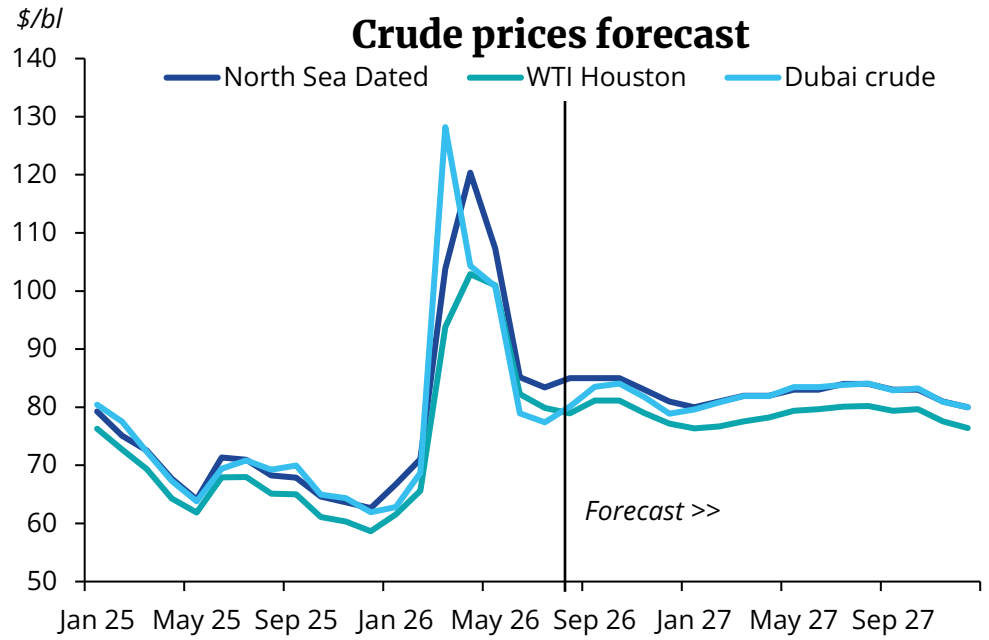
Overview of the crude market

Crude oil volatility remains elevated amid uncertainty over the strait of Hormuz

- Price volatility is hitting new heights as the market reacts to each new development on the long road to a deal that will allow the strait of Hormuz to reopen. August began with renewed downward pressure on prices, with North Sea Dated slipping back to $85/bl amid fresh optimism that a deal may be within reach.
- The proposed agreement, reportedly involving Iran and Oman, would establish a shipping corridor through Iranian and Omani waters and could provide a pathway for Washington and Tehran to revive the memorandum of understanding reached in June.
- While the proposal offers a potential route to achieving Washington's key objective of reopening the strait, significant obstacles remain. Iran is reportedly seeking relief from oil export sanctions and has made clear it does not intend to relinquish control over the waterway, leaving ample scope for negotiations to falter. Nonetheless, the market has felt able to price in expectation of an improvement in the status of the strait.
- Beyond the Middle East, supply disruptions are also mounting as Ukraine's continued drone attacks on the CPC terminal on Russia's Black Sea coast tighten the market for light crude, keeping physical prices at a significant premium to futures.
- High prices could persist through the rest of the year, driven by the severe disruption to Russian diesel exports, which has pushed diesel cracks to record levels.
- Looking further ahead, non-OPEC+ supply growth is expected to outpace demand growth in 2027. While effective OPEC+ market management should continue to underpin prices, maintaining discipline may become increasingly challenging amid potential tensions with non-OPEC+ producers, particularly the UAE.

Crude prices forecast, *$/bl*

	Jul 26	Aug 26	Sep 26	Oct 26	Nov 26	Dec 26	Jan 27
North Sea Dated	83.39	85.00	85.00	85.00	83.00	81.00	80.00
WTI Houston	79.91	78.95	81.12	81.15	79.02	77.16	76.36
Dubai	77.39	80.13	83.51	84.07	81.77	78.92	79.59



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Regional gasoline pre-trade balance, Aug vs Jul

Global gasoline balances remain tight as recovering Asian demand offsets the end of the summer driving season

Regional demand remains high through the final month of the peak summer driving season, but supply remains constrained and

There is no change in the gasoline balance in Russian and central Asia, with a minor rise in demand equal to a minor rise in gasoline supply. But with Russian refineries continuing to be attacked by Ukrainian drones supply remains severely curtailed in the country.



Structurally long

Structurally short

Balanced

Tightening pre-trade balances (monthly change)

Lengthening pre-trade balances (monthly change)

While refinery runs are rising in Asia, demand is also recovering particularly as exports from China are firm, keeping balances tight.

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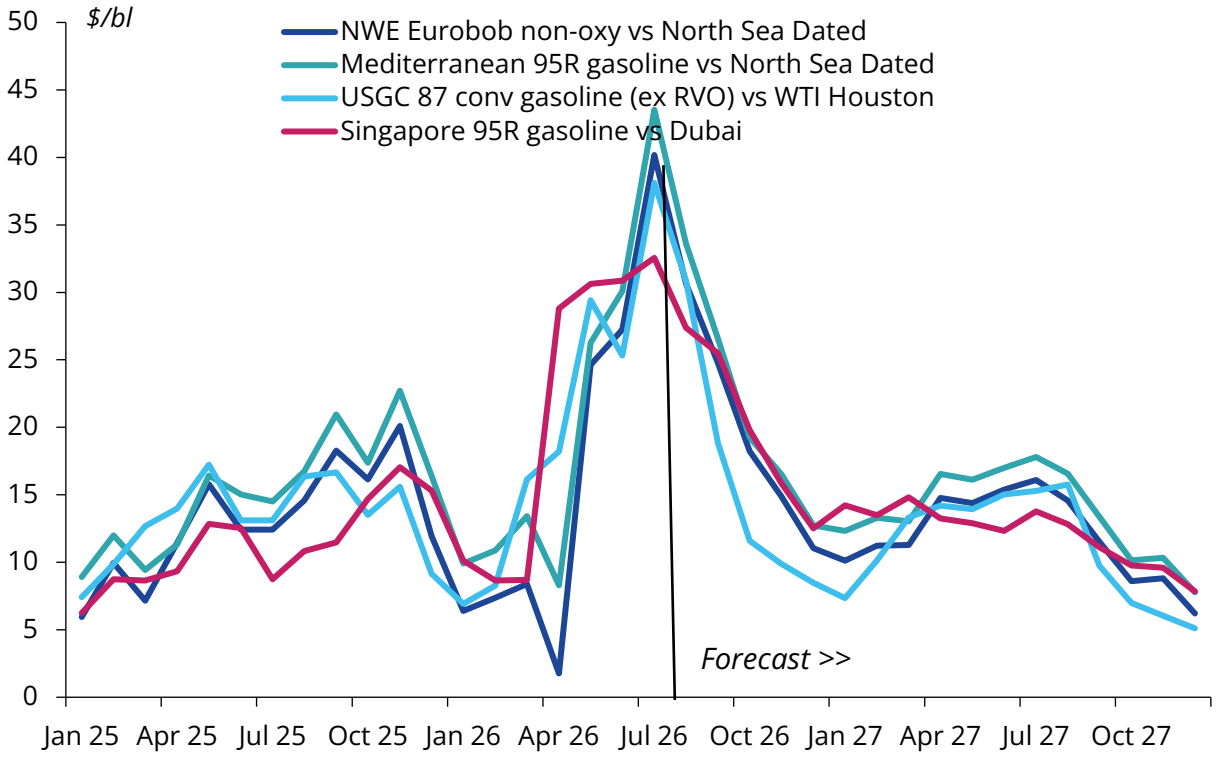
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Click here to access the price dataset: Light Distillates Outlook Workspace

Gasoline Outlook

Global gasoline cracks to remain elevated as low inventories and supply disruptions outweigh seasonal weakness

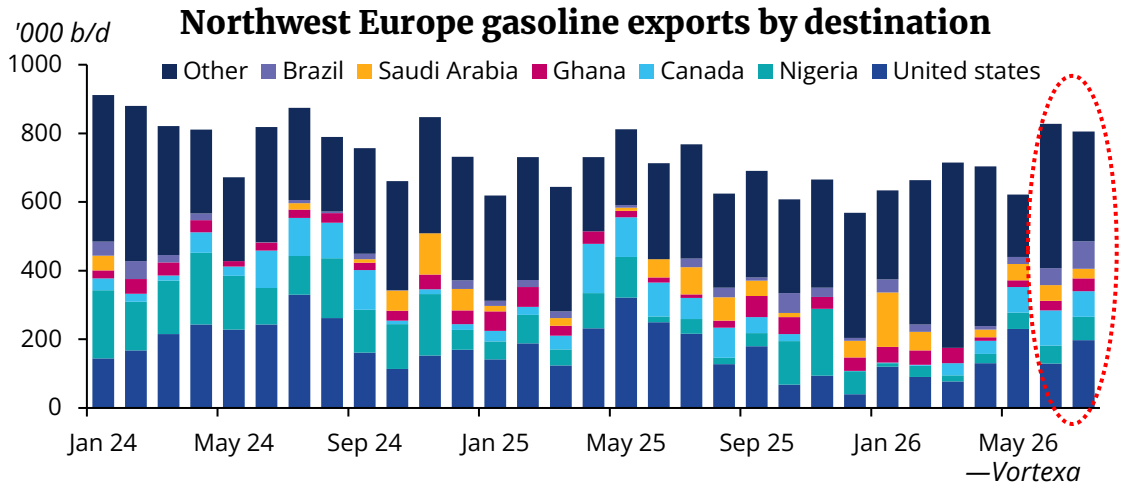
Gasoline crack spreads vs regional crude benchmarks

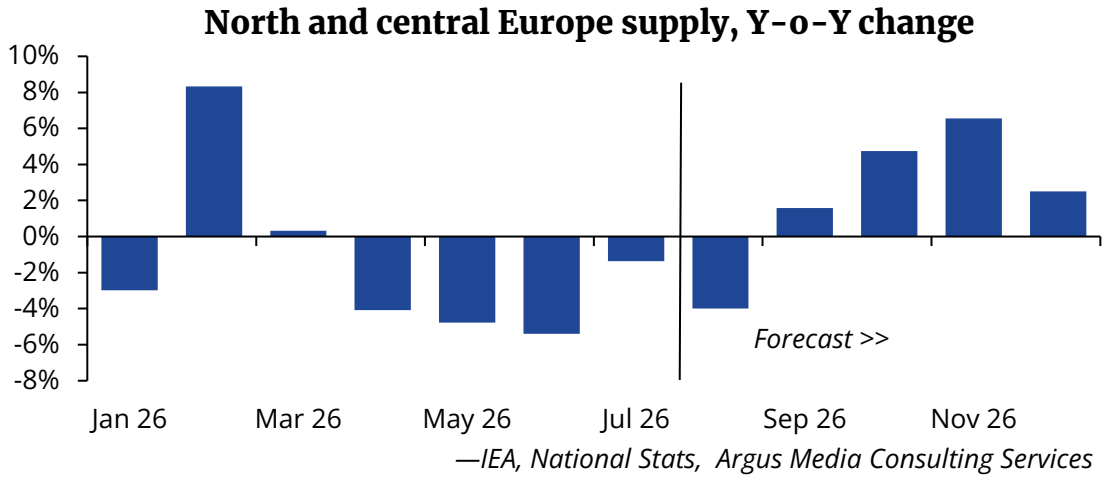


- Gasoline cracks strengthened across all four key refining hubs in July, with the sharpest gains in the Atlantic basin. Cracks rose to record highs at $47.35/bl in **northwest Europe** and $50.74/bl in **the Mediterranean**, supported by robust demand, strong export flows, and constrained supply.
- Atlantic basin fundamentals are expected to remain supportive. Firm exports, particularly to the US, rose sharply in July and should stay elevated as Atlantic coast gasoline inventories remain low, while ongoing supply constraints limit the scope for a meaningful market loosening.
- In **Asia**, gasoline crack strength was more subdued after China unexpectedly increased gasoline exports to pre-conflict levels. But the impact on regional balances is likely to be limited, as lower exports from South Korea and Japan are expected to offset much of the additional Chinese supply.
- Adding to global supply tightness, Ukrainian drone attacks have severely disrupted Russian refinery operations, reducing gasoline output and turning Russia into a net importer. With refinery runs expected to remain subdued through 2026, this shift in trade flows is likely to persist.
- While cracks are likely to ease seasonally after the summer driving season in the northern hemisphere, they should remain above historical norms. Recovering demand in Asia-Pacific, low inventories across key consuming regions, and ongoing supply constraints are expected to prevent a sustained decline in crack spreads.
- Geopolitical developments will remain a key source of volatility. Houthi attacks on shipping and refining infrastructure continue to pose risks to product supply, while ongoing negotiations involving Iran and Oman could eventually support increased crude and product flows through the strait of Hormuz. The balance of risks remains tilted toward a tighter market, particularly if supply disruptions persist.

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Northwest European gasoline cracks to remain above seasonal norms on strong export demand and tight supply

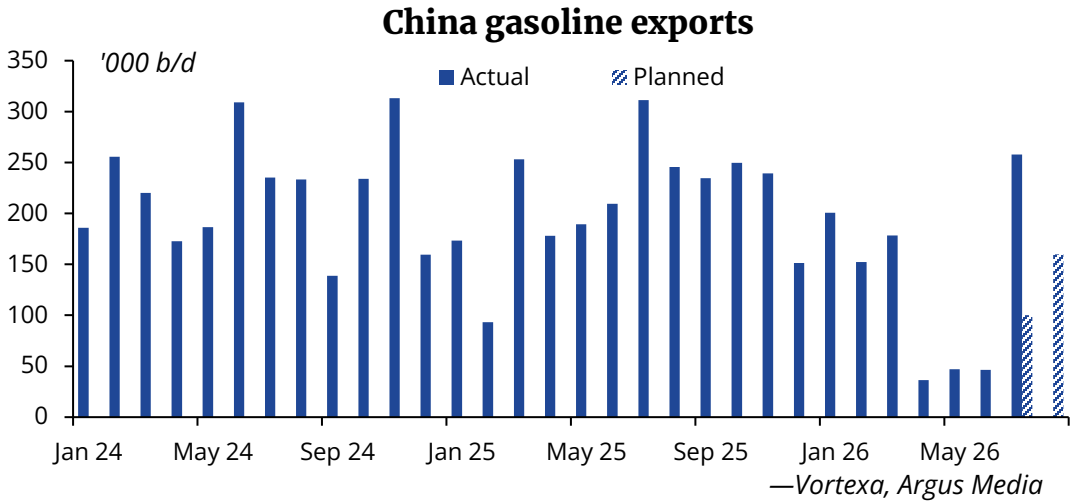


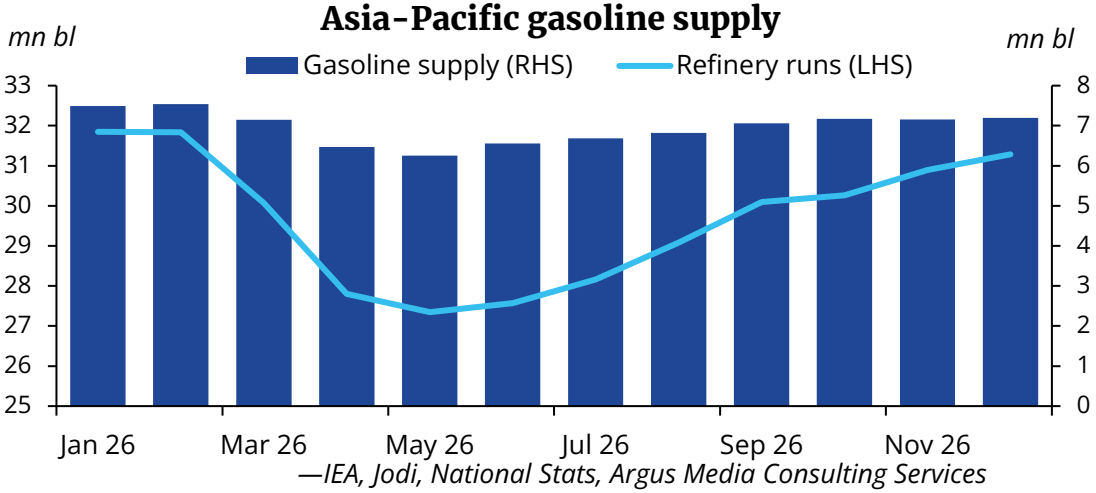


- Gasoline cracks are expected to remain above seasonal norms through August, supported by strong Atlantic basin demand, low inventories and ongoing supply constraints. But while cracks have eased from their July highs; market fundamentals remain supportive.
- Regional supply has remained constrained, with North and central European gasoline supply expected to be around 4pc lower year-on-year during the May-August driving season. Strong middle distillates crack spreads have encouraged refiners to prioritise middle distillate production, limiting gasoline output and supporting cracks. While rising gasoline cracks are beginning to incentivise refiners to shift yields back towards gasoline, any supply response is likely to be gradual, presenting a modest downside risk to our bullish outlook.
- Strong export demand from the US is adding additional support to the market. Northwest Europe gasoline exports to the US rose close to 60pc on the on the month in July and transatlantic flows are expected to remain elevated following strong arbitrage economics. US Atlantic coast (Padd 1) inventories ended July below the five-year range after consecutive monthly draws, sustaining demand for European barrels.
- Similar to European refiners, US refineries have prioritised middle distillates over gasoline production. Despite stronger gasoline cracks, US refiners are likely to continue to maintain high jet yields relative to gasoline, due to very strong RVO costs. Unlike gasoline and diesel, jet fuel is exempt from biofuel blending obligations, making it relatively attractive to produce.
- Gasoline blending demand is expected to soften as the summer driving season draws to a close. But logistical disruptions along the Rhine continue to support gasoline cracks. Water levels at the key Kaub bottleneck fell to a record low of 17cm on 10 August, restricting barge loadings and sharply increasing freight costs. The resulting reduction in inland flows has caused congestion at the ARA hub, tightening regional gasoline balances and providing additional support to cracks.
- With drought conditions expected to persist, Rhine disruptions are likely to remain a source of market strength through the remainder of the summer. But in the near-term weaker flows of finished gasoline inland could weigh on cracks. Any downside is likely to be limited, as blending components entering ARA typically originate from the lower Rhine and are less affected by navigation constraints.

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Singapore gasoline cracks to remain capped by Chinese exports despite tight regional balances



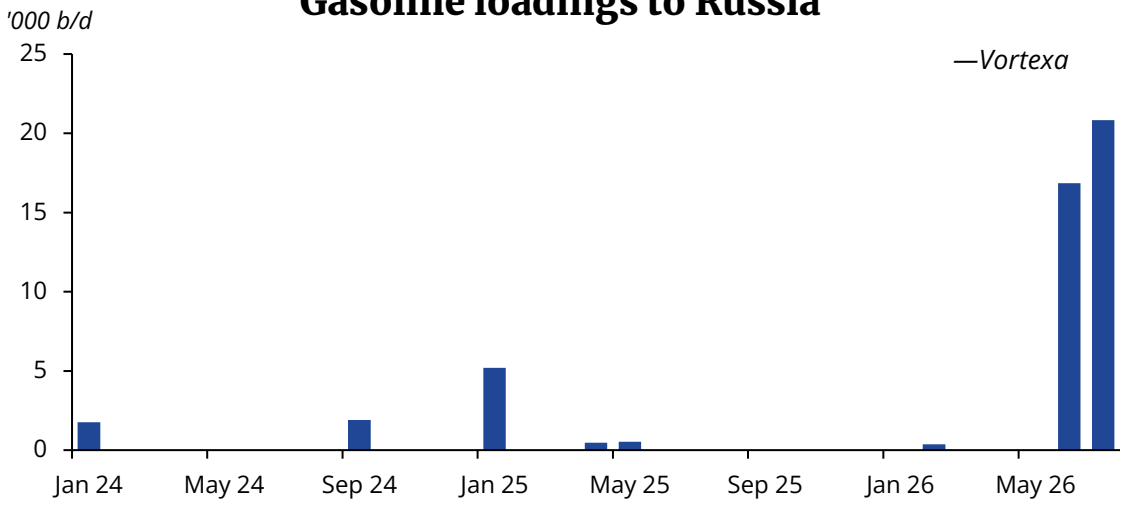


- Singapore gasoline cracks are expected to remain weaker than those west of Suez as higher Chinese exports increase regional gasoline availability. While July's policy shift surprised the market, its impact on balances is likely to persist into August.
- A change in Chinese export policy in early July lifted gasoline exports back to a one-year high at around 258,000 b/d in July, according to Vortexa data, well above the 100,000 b/d that was planned. This has introduced significantly more supply than the market had anticipated and limiting the upside in Singapore gasoline cracks.
- Chinese exports are now expected to remain elevated in August at around 160,000 b/d, provided refiners maintain domestic inventories near January-February levels. This should continue to weigh on regional gasoline margins relative to those in Europe and the US.
- But the bearish impact of stronger Chinese exports is likely to be partially offset by lower exports from South Korea and Japan. Continued geopolitical uncertainty and concerns over crude supply security are encouraging refiners in both countries to prioritise domestic availability, limiting export volumes.
- Regional supply remains relatively constrained despite improving refinery activity. Asia-Pacific refinery runs are continuing to recover, but gasoline supply is still expected to remain around 8pc below pre-war levels in August.
- As a result, additional Chinese exports should prevent a sharp rally in Singapore gasoline cracks but are unlikely to create a significant regional surplus. Market balances are expected to remain tighter than historical norms, leaving cracks supported even as they underperform the Atlantic basin.

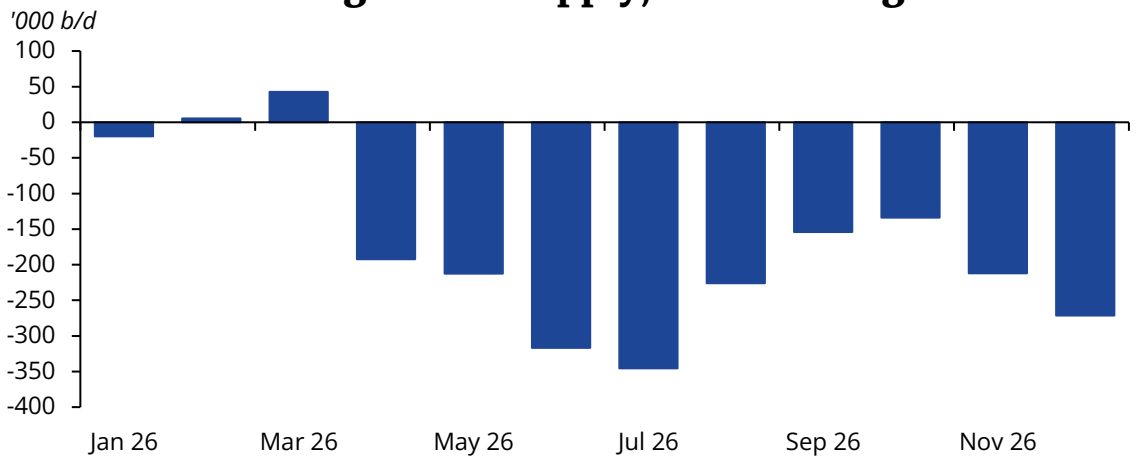
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Russian refinery damage to continue to disrupt gasoline trade flows through the rest of 2026

Gasoline loadings to Russia



Russia gasoline supply, Y-o-Y change

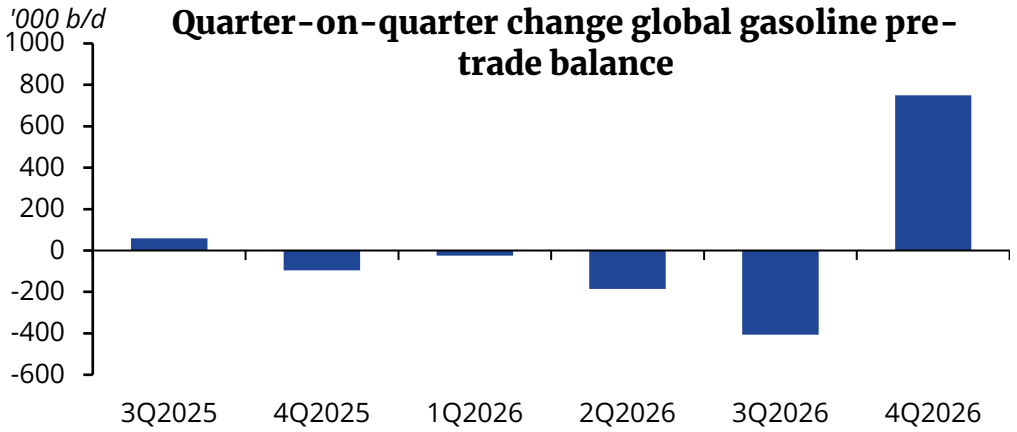


—IEA, Jodi, National Stats, Argus Media Consulting Services

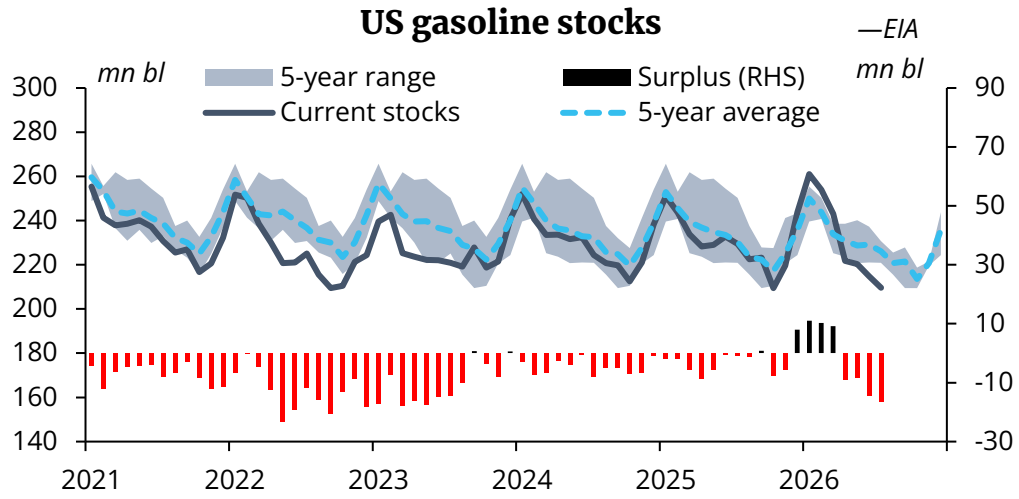
- Russian refinery damage is reshaping global gasoline trade flows by reducing export availability and turning Russia from a net exporter into a net importer over the last couple of months. With refinery operations severely disrupted, Russian supply is expected to remain constrained through the rest of 2026.
- Russia has extended its gasoline export ban through year-end and has begun importing gasoline, with July arrivals exceeding 20,000 b/d, primarily from India, according to Vortexa data. While import volumes remain relatively small, the use of the dark fleet suggests actual inflows could be higher than tracking data indicates. Combined with the loss of Russian exports, this represents a fundamental shift in gasoline trade flows that is likely to persist in the medium term as the country continues to grapple with extensive refinery damage.
- This shift in trade flows is expected to support gasoline cracks across all major refining hubs. Latin American buyers, particularly Brazil, which previously relied on Russian gasoline, are increasingly sourcing barrels from Europe and the US, providing additional support to Atlantic basin cracks.
- At the same time, Russia is drawing gasoline from India via Turkey, a market that has traditionally acted as a swing supplier to south Asia and east Africa. This is tightening an already constrained Middle East and east Africa gasoline market, where Saudi Red Sea exports are increasingly being redirected through the Suez Canal to the Mediterranean as Houthi attacks continue to disrupt Red Sea trade flows. Additional pressure has come from repeated attacks on Saudi Arabia's Jizan refinery, which are expected to limit gasoline exports from Red Sea-based refining capacity and further tighten the east African market.

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Low gasoline stocks across the global market will provide a floor to falling cracks as demand seasonally falls



—IEA, Jodi, National Stats, Argus Media Consulting Services



- Global gasoline balances will remain very tight in the third quarter of the year but start to lengthen in the final quarter, as demand in the Atlantic basin seasonally drops with the end of the summer driving season and global refinery runs continue to rise – primarily as crude supply from the Middle East recovers.

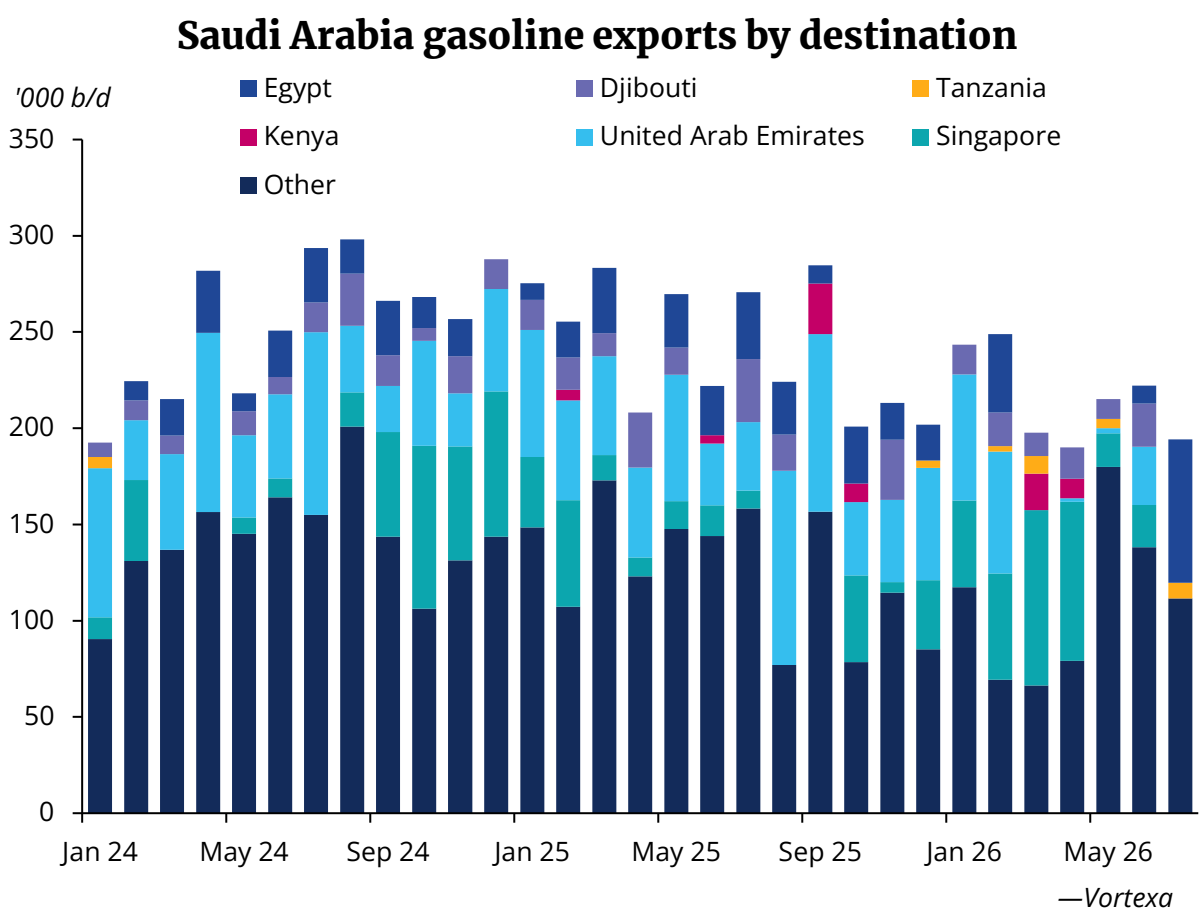
- Demand recovery in Asia-Pacific will continue to keep the global balance tight. Demand destruction has been underpinned by high retail prices, government policies and outright shortages, as regional supply rises these factors are waning and demand is recovering. Demand is recovering quarter on quarter, in the second quarter demand was down 7pc on the year, in the third 3pc and in the fourth we estimate it will be down just 1pc on the year.

- Transition to winter specification gasoline, which has lower octane requirements, in both Europe and the US will also place further downwards pressure on gasoline cracks. This will also see the premium of high-octane blending components soften.

- But even with lengthening balances we expect gasoline cracks to stay elevated above typical seasonal levels, due to low gasoline stocks across the global refining system. Restocking once gasoline cracks are lower will effectively increase demand. Stocks held in the US have fallen to 209.7mn bl at the end of July, more than 7pc the five-year average, and stocks are expected to fall further. Stocks held in the ARA hub are also low, ending July at 8.2mn bl, 16pc below the five-year average, data from Insights Global shows.

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A volatile geopolitical environment will be a key price driver through the rest of 2026



- Gasoline cracks have been highly volatile since the start of the US-Iran conflict. In both Northwest Europe and Singapore, cracks have traded across a range of more than $60/bl, at times falling to discounts of over $19/bl to regional benchmark crudes before recovering sharply.
- Unlike diesel and jet fuel, gasoline has been less directly affected by disruptions to strait of Hormuz flows. Instead, market tightness has largely been driven by lower refinery runs, particularly in Asia, and refiners favouring higher-margin middle distillates over gasoline production.
- The Houthi blockade on Saudi-linked shipping is having a more direct impact on gasoline trade flows. Saudi Arabia is a key supplier to east Africa, but increasing volumes are being redirected through the Suez Canal to the Mediterranean, reducing availability in traditional east African markets. While some cargoes could be rerouted around the Cape of Good Hope, higher freight costs and longer transit times limit this option. At the same time, Indian exports are increasingly being drawn towards Russia, forcing east African buyers to seek alternative supplies from East Asia and providing additional support to Singapore gasoline cracks.
- Even if Houthi attacks were to cease, disruptions could persist. Several shuttle tankers used to move gasoline and blending components between Red Sea refineries and storage hubs have been damaged, which may continue to constrain regional supply chains and limit the normalisation of trade flows.
- For now, geopolitical developments remain skewed to the upside for gasoline cracks. Negotiations between Iran and Oman on shipping arrangements through the strait of Hormuz appear to be progressing, but broader US-Iran talks remain stalled. A more bearish outcome would require a sustained ceasefire, an end to Houthi attacks and a rapid normalisation of shipping through Hormuz. While this remains a low-probability scenario in our base case, it would result in weaker gasoline cracks than currently forecast.

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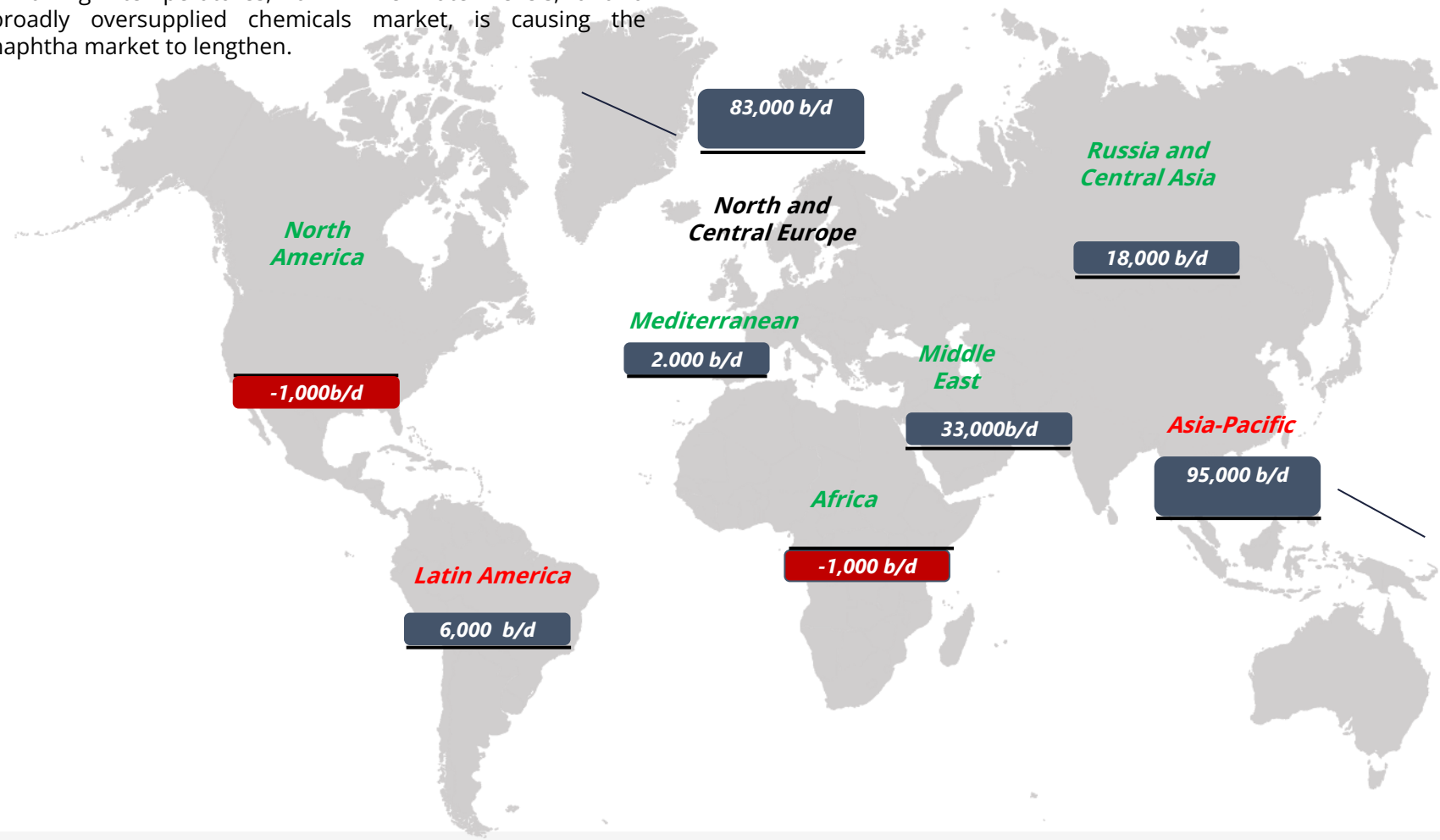
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Regional naphtha pre-trade balance, Aug vs Jul

Global balances lengthen as demand falls across the Atlantic basin and refinery utilisation increases in Asia

Weak petrochemical demand, driven by reduced run rates amid high temperatures, low Rhine water levels, and a broadly oversupplied chemicals market, is causing the naphtha market to lengthen.



Structurally long

Structurally short

Balanced

Tightening pre-trade balances (monthly change)

Lengthening pre-trade balances (monthly change)

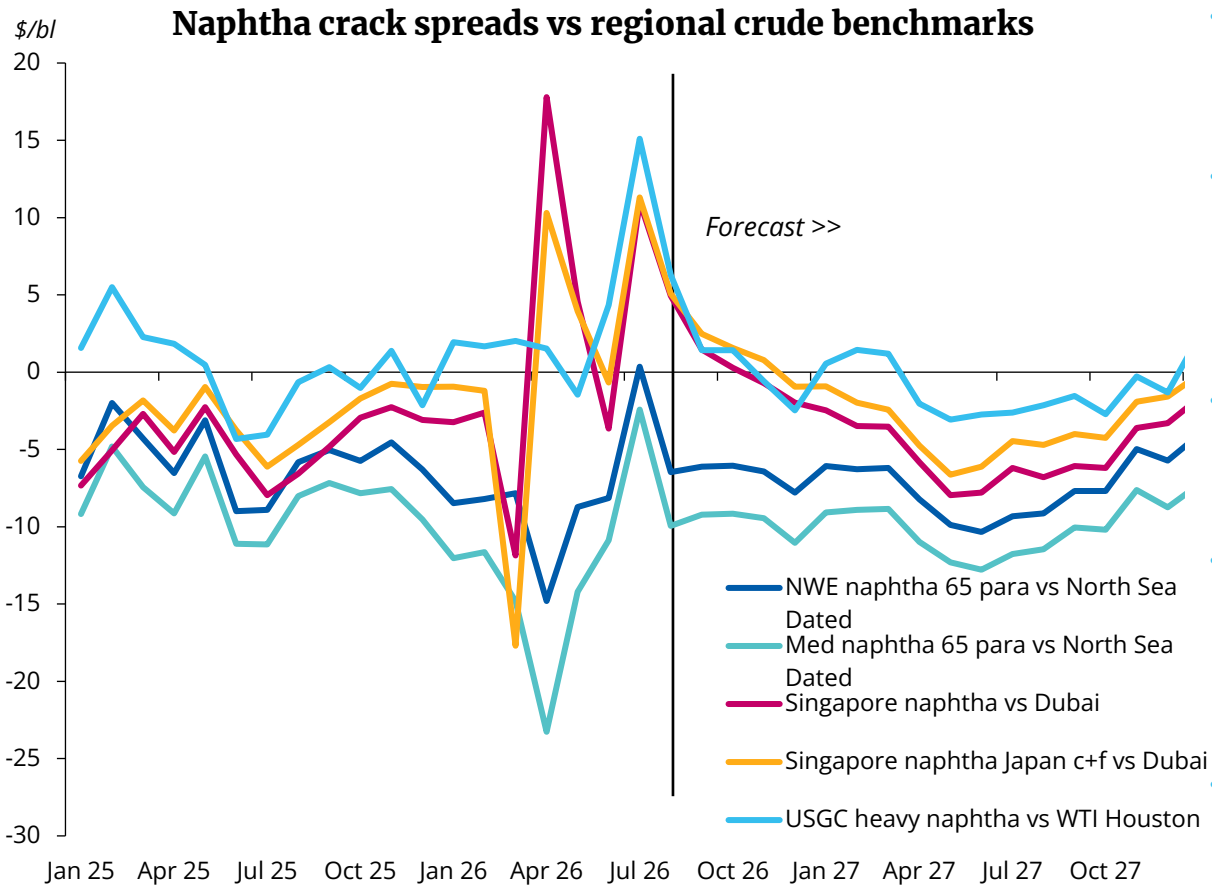
The increase in refinery utilisation, particularly in China and Japan is helping offset the decline in flows from the Red Sea.

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Naphtha markets face growing uncertainty as logistics disruptions persist and gasoline support fades

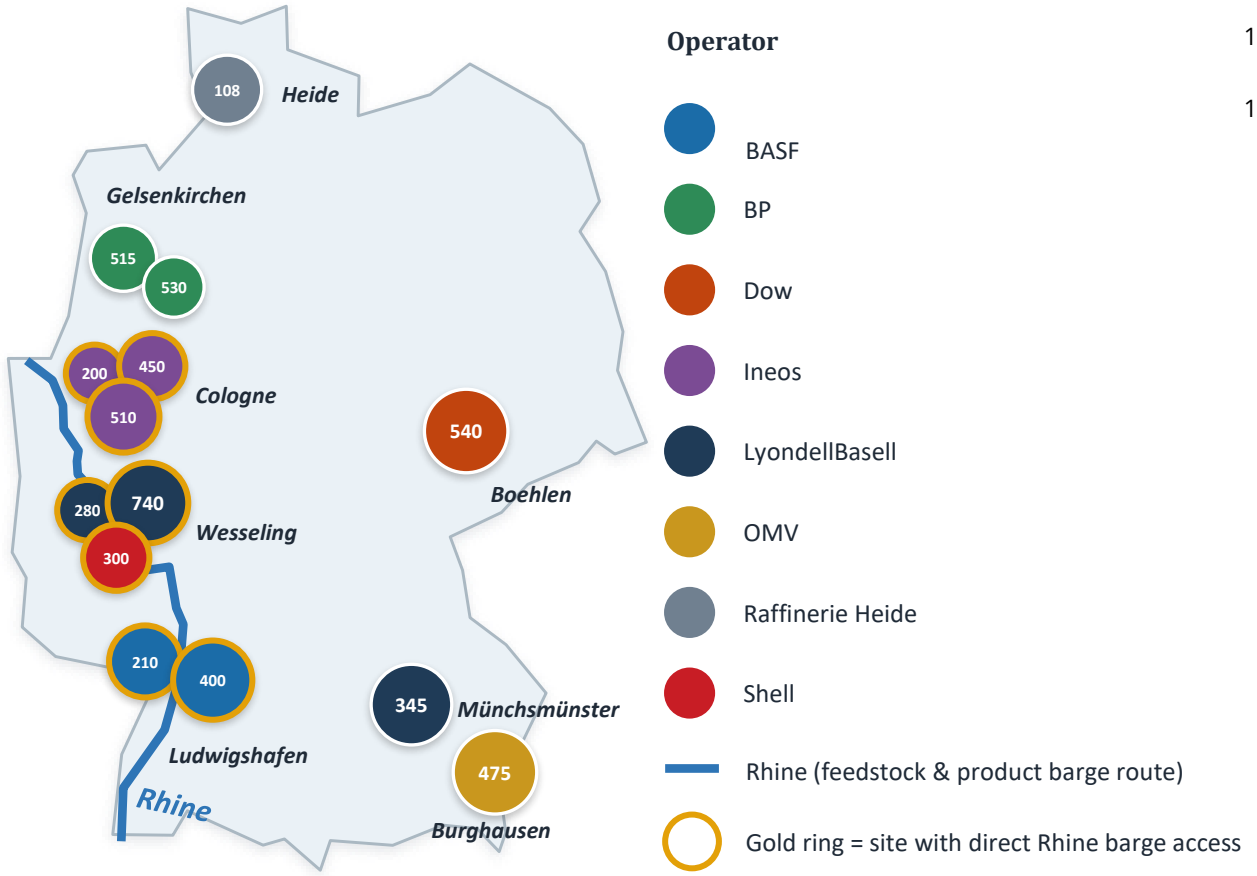


- Global naphtha cracks weakened in July as petrochemical demand remained subdued and gasoline blending economics softened from June's highs. While Atlantic basin naphtha values continued to draw support from the gasoline pool, overall market sentiment remained constrained by weak petrochemical fundamentals.
- **European** petrochemical demand remains weak amid a seasonal slowdown, heat-related cracker run cuts and logistical constraints along the Rhine. Ethylene and propylene premiums to naphtha have fallen sharply, while an oversupplied polyethylene market is expected to keep naphtha demand from steam crackers subdued into 2026. Although propane's deep discount to naphtha continues to favour propane cracking, the resulting loss of naphtha demand has so far been largely offset by reduced cracker operating rates.
- In the Atlantic basin, naphtha pricing continues to take its cue from gasoline economics rather than petrochemical demand. However, cracks have softened as gasoline prices have eased, while high-octane blendstocks have remained relatively firm, reducing blenders' willingness to bid aggressively for naphtha.
- Looking ahead, supply-side risks remain skewed to the upside. Traffic through the Bab el-Mandeb, Asia's most important alternative naphtha route after Hormuz, remains heavily disrupted by Houthi threats, while any slowdown in ship-to-ship transfers around the strait of Hormuz would remove another key supply buffer. At the same time, Chinese naphtha demand could strengthen further if Beijing continues to ease gasoline export restrictions, increasing domestic feedstock requirements.
- Russian exports are expected to remain a source of support for the market. Ongoing Ukrainian drone attacks continue to disrupt refinery operations, with July naphtha exports falling to 853,000t, nearly half June's level. With Russia facing persistent gasoline shortages and diverting more naphtha into the gasoline blending pool, export availability is expected to remain constrained, helping tighten global balances through the remainder of the year.

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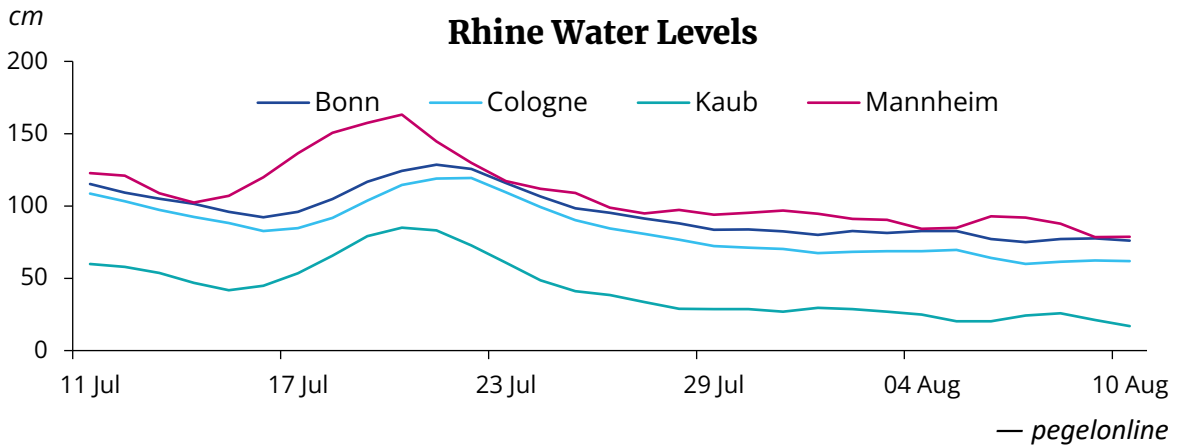
Low Rhine water levels disrupt naphtha barge flows to Germany, lengthening the European naphtha market

Ethylene nameplate capacity by site ('000 t/year)



Circle size is illustrative and not scaled to capacity. Rhine-connected sites can barge in feedstock (e.g. naphtha) and barge out ethylene/derivatives.

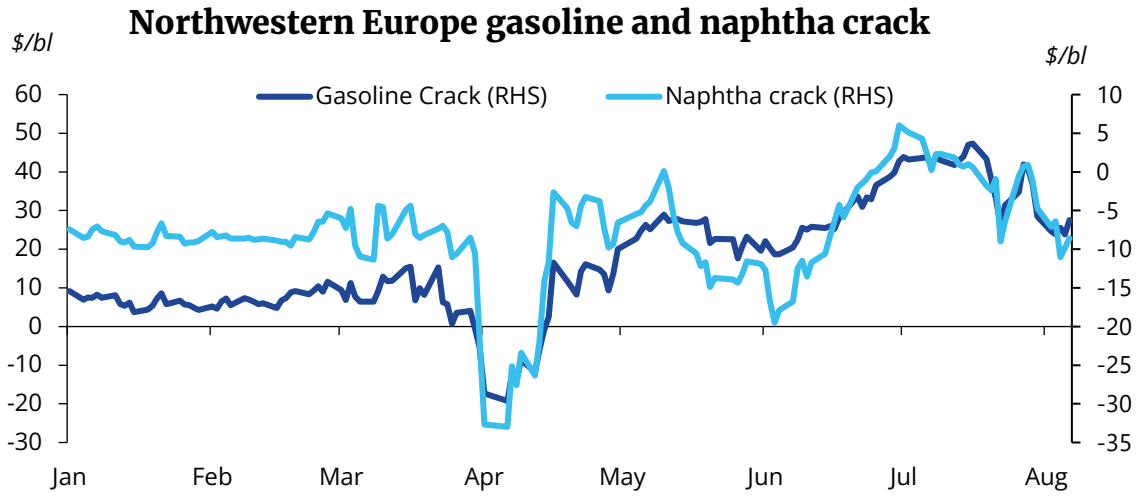
Rhine Water Levels

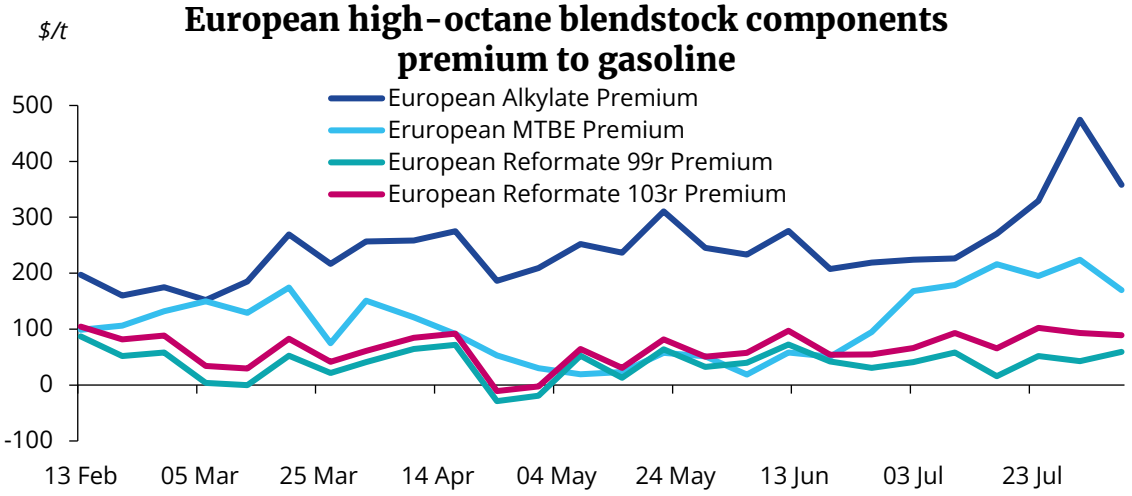


- The Rhine is a key supply route for Germany's petrochemical sector, moving naphtha from the ARA hub to inland crackers. Water levels at Kaub have fallen below critical operating thresholds, restricting barge loadings and disrupting feedstock deliveries.
- Lower barge utilisation has increased freight costs and reduced naphtha availability inland, forcing buyers to rely on higher-cost rail and truck alternatives.
- Rhine-linked petrochemical sites, including Ludwigshafen, Cologne and Wesseling, are facing tighter feedstock availability, increasing the risk of lower cracker operating rates if disruptions persist.
- The disruption is fragmenting the market, with tighter inland supplies contrasting with weaker demand at the ARA hub, widening regional price differentials across northwest Europe.
- With drought conditions expected to persist, Rhine logistics are likely to remain a constraint through the summer. While weak petrochemical demand limits the immediate impact on naphtha cracks, prolonged disruptions could support regional premiums and further pressure European olefins production.

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Naphtha comes under pressure as summer driving demand eases and gasoline cracks weaken

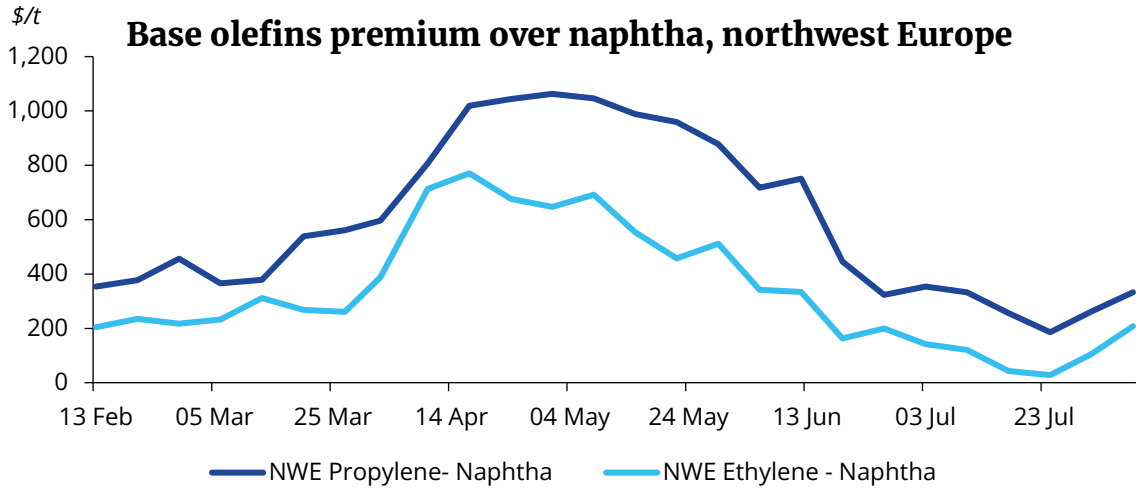


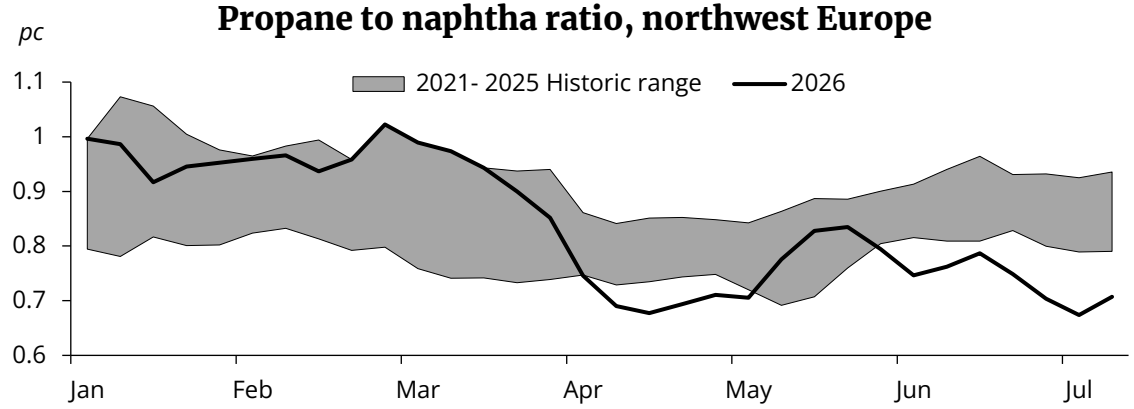


- Summer typically marks a seasonal slowdown in European petrochemical activity, leaving naphtha increasingly reliant on gasoline markets for pricing support. Strong gasoline cracks helped underpin naphtha values in July despite weak petrochemical demand, with gasoline cracks averaging above $40/bl and peaking at $47.02/bl on 17 July. However, cracks have already eased in August and are expected to soften further as the summer driving season winds down and Rhine disruptions weigh on blending demand, reducing support for naphtha.
- At the same time, high-octane blending components have remained exceptionally firm. Premiums for alkylate and MTBE have widened against gasoline, reducing blenders' willingness to pay up for additional naphtha. The alkylate premium reached $474/t at the end of July, its highest level since July 2022, when the Russia-Ukraine conflict tightened supplies of high-octane blendstocks. Global gasoline balances are expected to remain tight through this quarter before easing in the fourth quarter as Atlantic basin demand seasonally weakens and refinery runs increase on higher Middle East crude availability. This should continue to pressure gasoline cracks lower from recent highs.
- The switch to winter-grade gasoline in Europe and the US is also expected to reduce demand for high-octane blending components as butane blending increases. This should narrow blendstock premiums and ease some of the pressure currently weighing on naphtha demand.
- Even so, gasoline cracks are likely to remain above historical seasonal norms. Low inventories across key consuming regions should encourage restocking once prices soften, providing a floor to gasoline cracks and helping preserve naphtha's main source of pricing support in the Atlantic basin.

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European crackers continue to favour propane, limiting naphtha demand despite supply disruptions

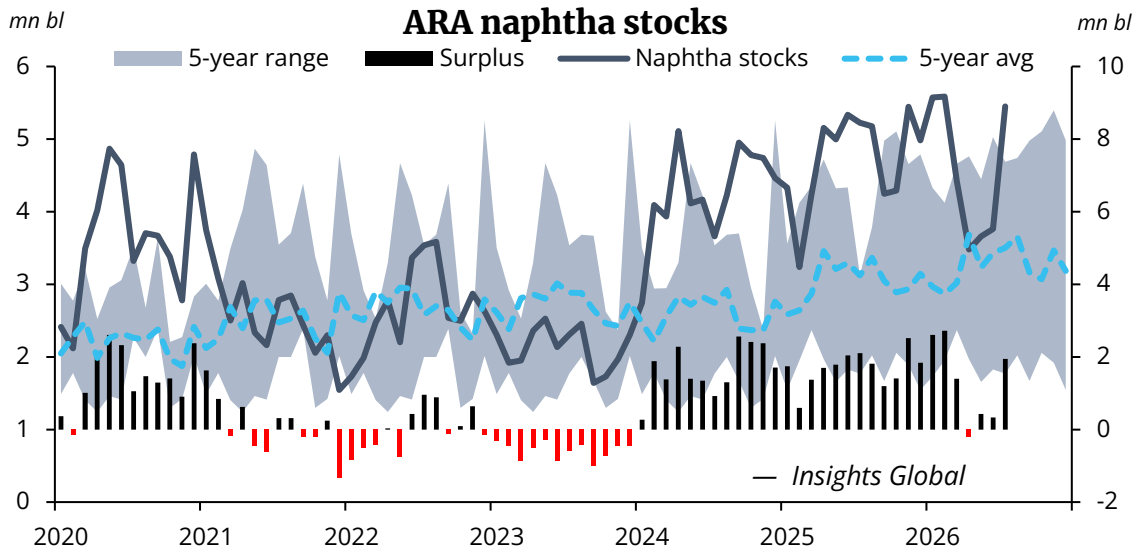


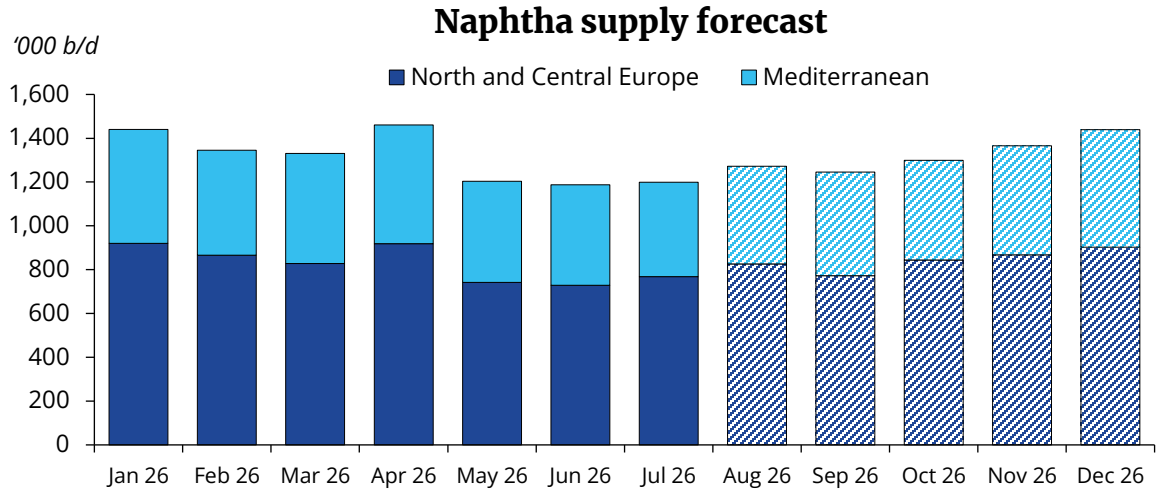


- Weak olefins economics have further reduced naphtha demand. Ethylene and propylene premiums to naphtha averaged just $278/t and $88/t in July, down by 46pc and 62pc month-on-month, respectively. The propylene premium fell to just $28/t on 24 July, its lowest level since August 2023, reflecting poor downstream demand and ample supply.
- Propane continues to hold a significant advantage over naphtha as a steam cracker feedstock. The propane-to-naphtha ratio fell to 63pc at the end of July, its lowest since September 2019, keeping flexible crackers firmly biased towards propane. Strong US LPG exports into Europe, supported by favourable freight economics and Panama Canal disruptions, have reinforced propane's competitiveness. Although winter stockbuilding should lift propane values later in the year, propane is expected to remain the preferred feedstock for most flexible crackers outside the peak heating months.
- Polyethylene market conditions remain a major drag on cracker demand. Ample supply, rising import availability and weak end-user consumption continue to pressure margins. Demand remains constrained by seasonal shutdowns, cautious purchasing behaviour and ongoing weakness in the construction sector, limiting incentives for producers to raise operating rates.
- Looking ahead, naphtha demand from the petrochemical sector is expected to remain subdued through the second half of 2026. Oversupplied polymer markets, weak downstream demand and continued feedstock substitution towards propane are likely to keep cracker utilisation under pressure, limiting support for naphtha even if broader supply disruptions persist.

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European naphtha market poised to lengthen as weak petrochemical demand, rising refinery output and poor export economics weigh on balances

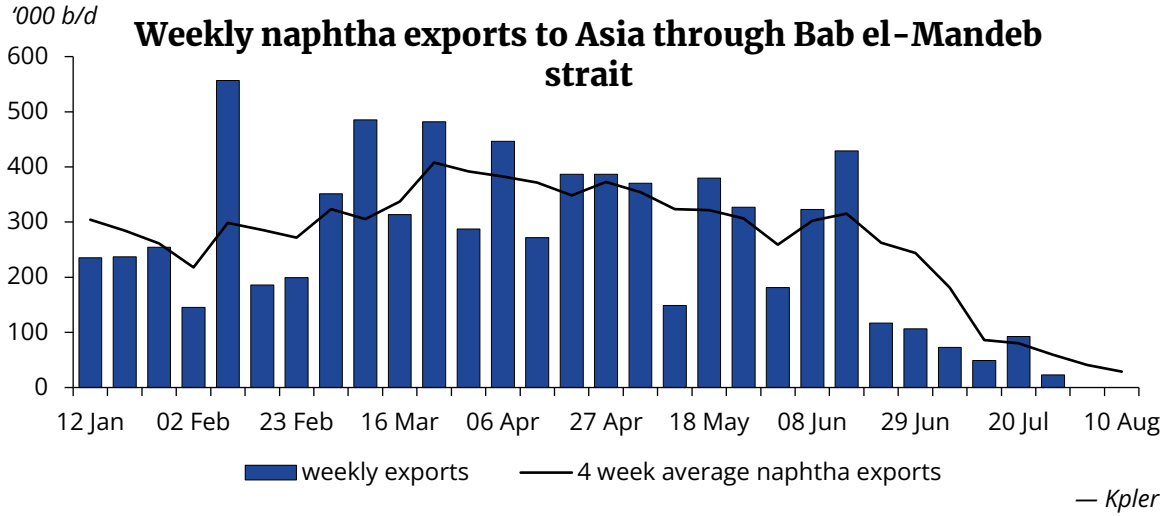


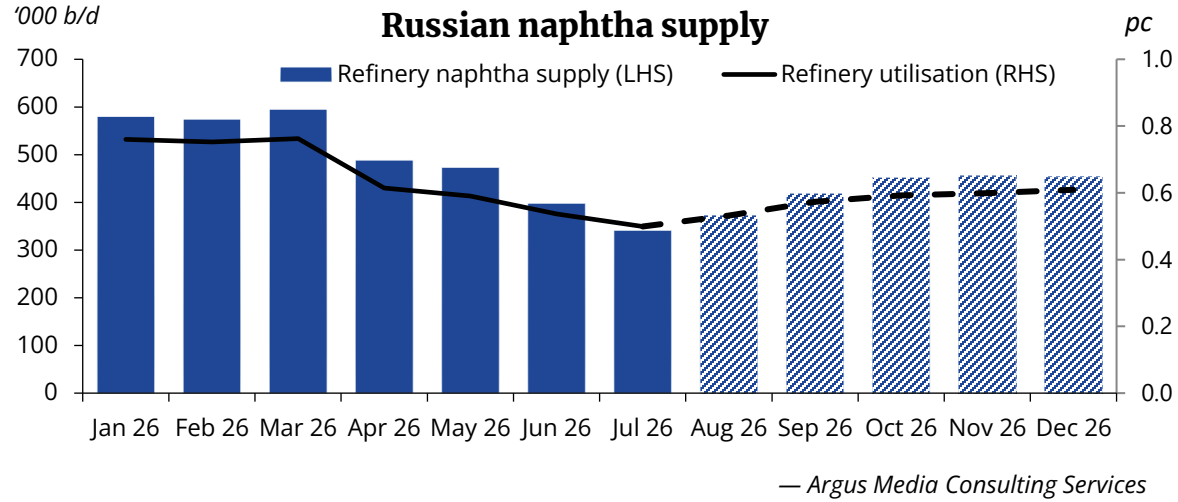


- Houthi threats against vessels in the Red Sea have sharply reduced traffic through the Bab el-Mandeb strait, with July transit volumes falling to a near three-year low. Naphtha movements have been hit particularly hard, with almost no naphtha-carrying vessels transiting the strait during the first week of August. As the Red Sea is a key outlet for European and Mediterranean naphtha exports to Asia, the disruption is reducing the market's ability to clear surplus barrels and increasing pressure on regional balances.
- With the Bab el-Mandeb effectively closed to most naphtha flows, exports to Asia are increasingly reliant on the much longer Cape of Good Hope route. Higher freight costs and longer voyage times are eroding export economics, encouraging producers to keep more barrels within Europe. Additional pressure is coming from Saudi cargoes that would normally move east of Suez but are instead being redirected into the Mediterranean market.
- At the same time, European supply remains comfortable. Refinery runs are expected to increase through August and the rest of the year, while July naphtha imports reached 1.1mn t and exports fell to 471,000t, the lowest level since March 2020. The weaker export outlet has left more material in the regional market, contributing to a 45pc month-on-month increase in independently held ARA naphtha stocks to 5.4mn bl, the highest level in five months.
- Low Rhine water levels are creating a more mixed regional picture. Restricted barge movements are limiting naphtha flows from the ARA hub into Germany, tightening prompt inland availability while leaving more barrels trapped in the coastal market. With Rhine disruptions expected to persist through August, inland premiums may remain supported, but the broader European market is likely to stay oversupplied, weighing on naphtha cracks.

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Constrained flows through Bab el-Mandeb and the strait of Hormuz, coupled with lower Russian output, are expected to keep Asian naphtha markets tight through 3Q





- The Asian naphtha market faces growing supply risks as disruptions affect both of its key import routes. The Bab el-Mandeb is Asia's second most important naphtha supply route after the strait of Hormuz, carrying an average of 287,000 b/d in 2025, with flows rising to 430,000 b/d between April and June as market participants sought alternatives to Hormuz.
- However, Houthi threats against shipping have sharply reduced traffic through the Red Sea. Naphtha transits through the Bab el-Mandeb fell to a near three-year low in July, with almost no naphtha-carrying vessels passing through the strait during the first week of August. This has reduced Asia's access to European and Mediterranean naphtha barrels and increased reliance on Middle East supply.
- At the same time, concerns are emerging around the sustainability of ship-to-ship transfer operations near the strait of Hormuz. These transfers have helped maintain product flows despite the conflict, but any slowdown would remove an important supply buffer and further tighten regional availability.
- Russian exports are providing little relief. Ongoing Ukrainian drone attacks continue to disrupt refinery operations, with July naphtha exports falling to 853,000t, almost half June's level. Exports are expected to remain weak as gasoline shortages encourage refiners to divert more naphtha into the domestic blending pool.
- Demand-side risks are also skewed to the upside. China's relaxation of transportation fuel export quotas lifted naphtha imports to 952,000t in July, the highest since March, as refiners increased blending activity. If Beijing continues to support gasoline exports and domestic blending demand remains strong, Chinese naphtha imports could rise further, tightening the Asian market and providing additional support to naphtha cracks.

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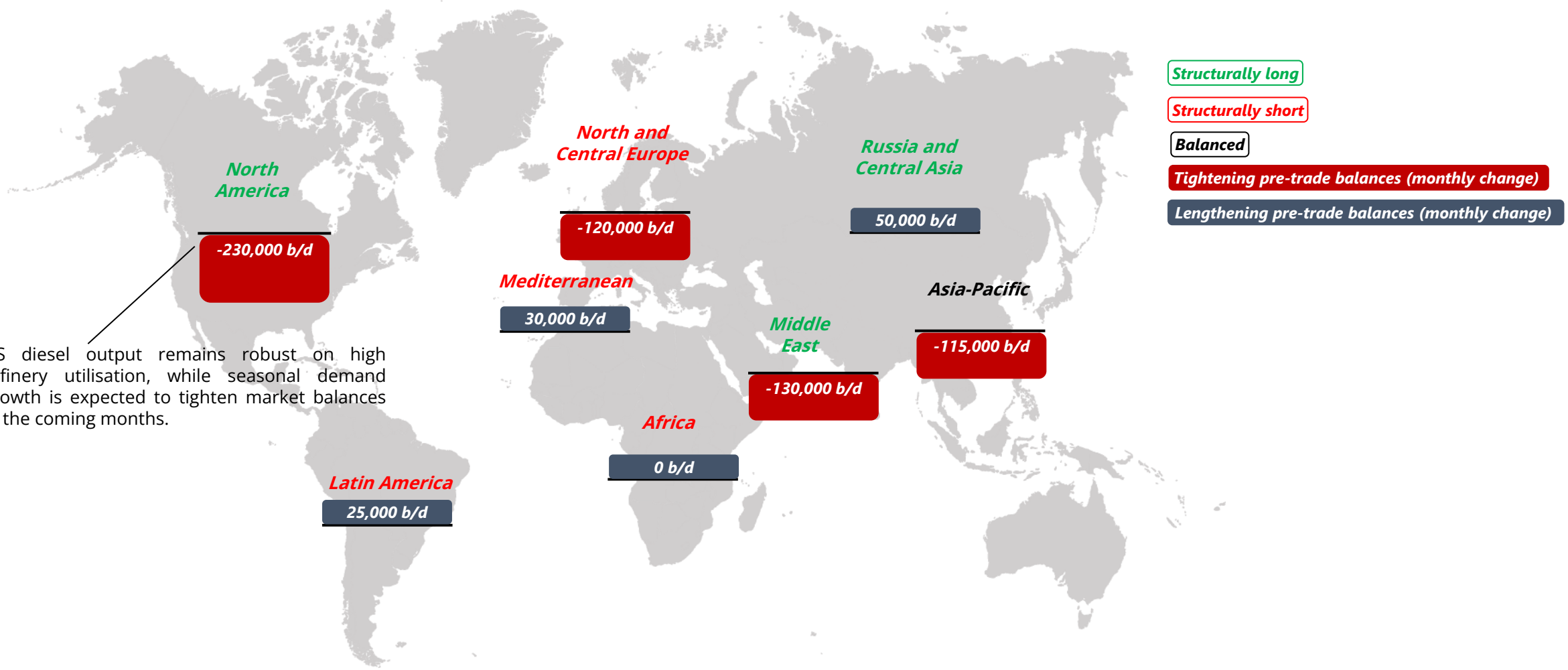
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Regional gasoil/diesel pre-trade balance, Aug vs Jul

Global diesel balances are expected to tighten further in August as supply disruptions persist and seasonal demand strengthens



US diesel output remains robust on high refinery utilisation, while seasonal demand growth is expected to tighten market balances in the coming months.

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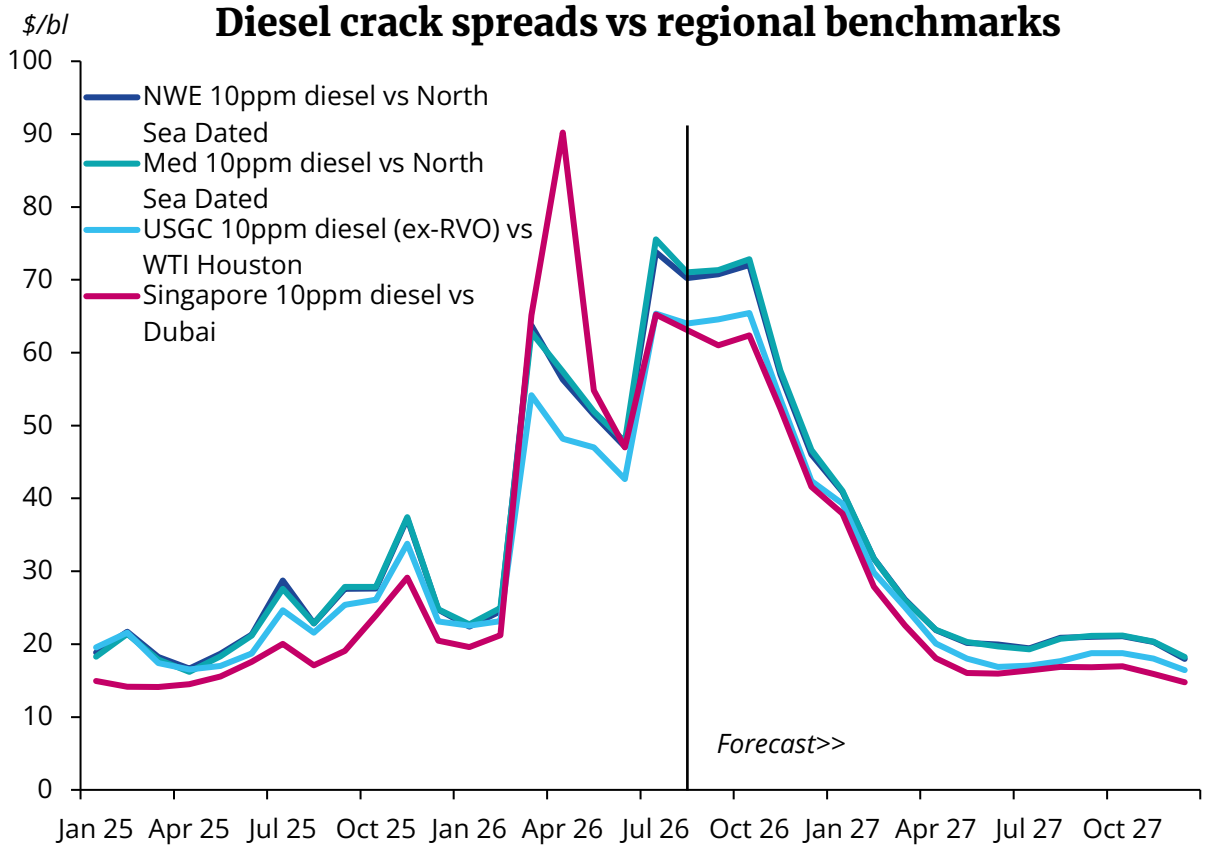
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Gasoil/Diesel Outlook

Supply disruptions are expected to keep diesel cracks elevated despite signs of demand destruction

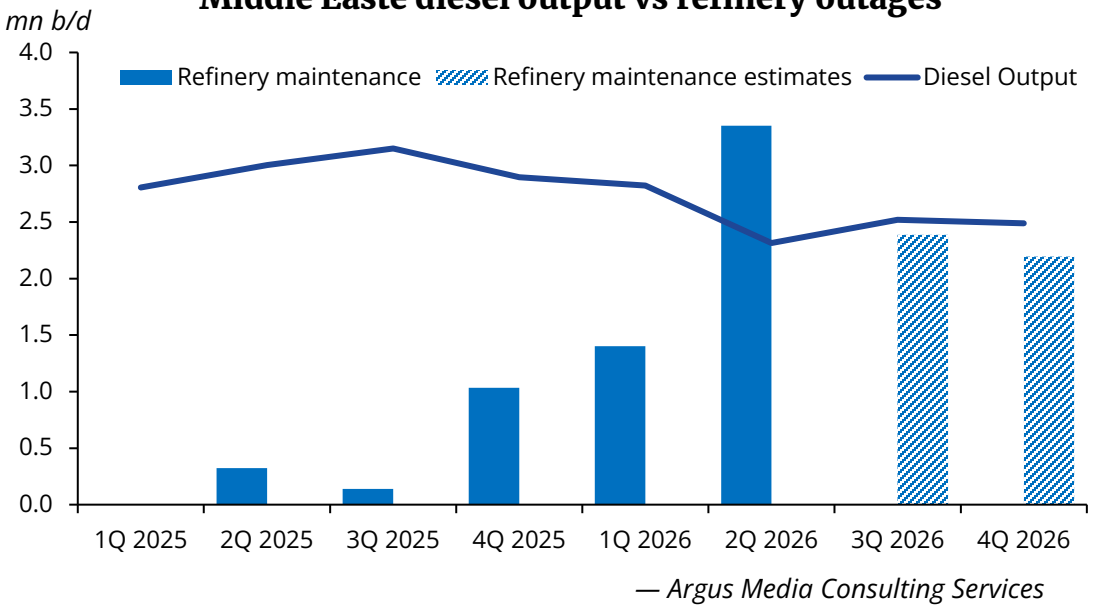


- Diesel crack spreads strengthened across all major refining hubs in July as renewed Middle East hostilities and Russia's diesel export ban intensified concerns over global supply availability. The loss of Russian exports and heightened disruption risks across key trade routes particularly tightened Atlantic basin balances, pushing northwest European and Mediterranean diesel prices and cracks sharply higher. With supply risks persisting and seasonal demand set to strengthen, diesel cracks are expected to remain well supported in the coming months.
- Prospects for a sustained reopening of the strait of Hormuz has been interrupted by the renewed hostilities in the region in early July, while escalating tensions between the Houthis and Saudi Arabia have disrupted Red Sea shipping and interrupted refining operations at the Jizan refinery. Refinery operations and diesel exports in the **Middle East** are therefore expected to remain under pressure. Although some diesel volumes are being redirected west of Suez, this is providing only partial relief while tightening balances in East Africa.
- **Northwest Europe** and the **Mediterranean** are expected to become increasingly reliant on long-haul arbitrage flows to meet diesel demand, as Turkey competes for regional supplies following Russia's diesel export ban. The US and India have stepped up exports to Europe, supported by high refinery runs, inventory draws and relatively weak domestic demand. However, this support may prove temporary, as seasonal demand recovery and tighter regional balances reduce export availability later in the year.
- Seasonal demand recovery in India is expected to reduce export availability and tighten Asian diesel balances, which remain constrained by limited crude supply from the Middle East. Record-high prices in Europe are expected to hit demand in the near term, limiting the upward potential, but Europe will likely need to maintain relatively high prices to ensure workable arbitrage economics, while tapping into stocks. In addition, ongoing conflict in the Middle East threatens supplies of winter-grade diesel typically destined for Europe, creating a further upside risk to regional balances, despite on going negotiations between Iran and Oman to reopen the strait.
- Russian refinery runs likely fell below 3.5mn b/d in July, the lowest level in decades, as sustained Ukrainian drone attacks continued to disrupt refinery operations. As a result, Russian diesel supply is expected to remain constrained in the near term, reinforcing global market tightness.

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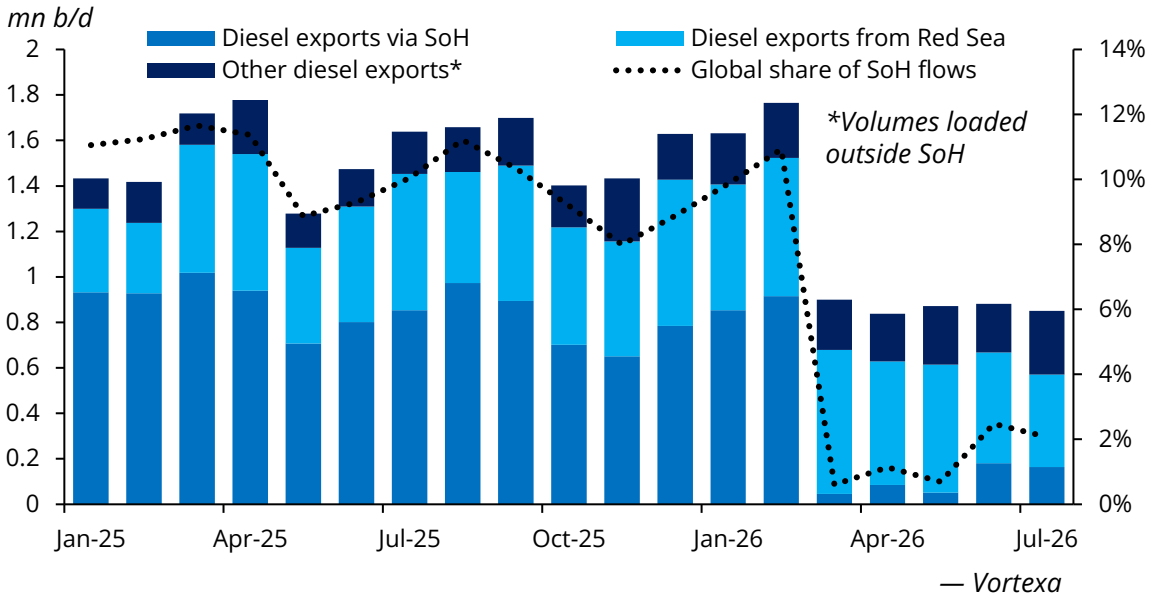
US-Iran tensions continue to constrain strait of Hormuz flows, while escalating Houthi attacks threaten Red Sea diesel exports

Middle Easte diesel output vs refinery outages



— *Argus Media Consulting Services*

Middle East diesel exports by key routes

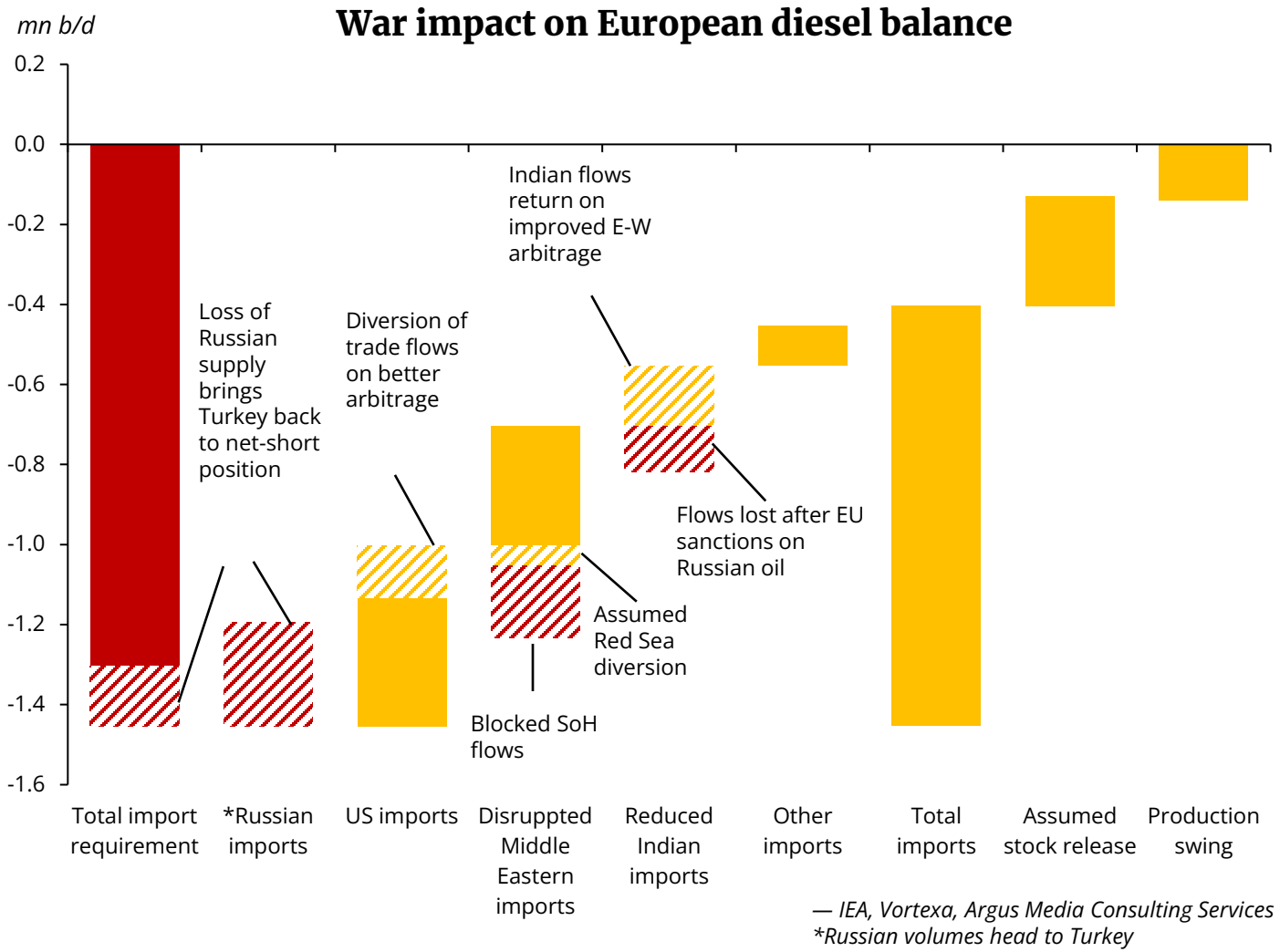


— *Vortexa*

- The short-lived US-Iran ceasefire that followed the June Memorandum of Understanding led to a modest recovery in traffic through the Strait of Hormuz. The initial release of previously stranded tankers lifted diesel exports through the strait to 180,000 b/d in June, before flows fell sharply in the second half of July, Vortexa data show. Renewed US-Iran flare-ups have reignited Iranian hostilities along the key waterway, while Iran-backed Houthi forces have escalated attacks against Saudi Arabia after announcing a maritime blockade on Saudi shipping in the Red Sea and Bab el-Mandeb strait on 20 July.
- Although the US has signaled it will avoid further escalation for now after recent negotiations with Iran, the outlook for a sustained reopening of the strait of Hormuz remains uncertain, with talks appearing to have stalled. Without reliable access through Hormuz, Middle Eastern refiners will struggle to significantly raise run rates, as refined products lack the alternative export routes available to crude oil. Diesel production is still expected to recover to more than 2.5mn b/d in the third quarter as seasonal refinery maintenance eases, but the pace of recovery remains uncertain given the risk of further conflict-related disruptions and delays to refinery restarts.
- Saudi energy infrastructure and export routes have also come under increasing pressure. Jizan refinery, Yanbu export facilities, Abqaiq processing infrastructure and several Saudi-linked tankers have all been attacked or targeted in recent weeks. This likely contributed to slower Saudi diesel loadings from the Red Sea in late July, pushing exports from the region to just over 400,000 b/d, the lowest since the war began, according to Vortexa data. The disruption has also diverted some flows that would normally move to east and south Africa towards west of Suez, providing limited relief to a European market already squeezed by Russia's diesel export ban.

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Europe faces a new diesel trade flow reshuffle as Russia's export ban tightens regional supply



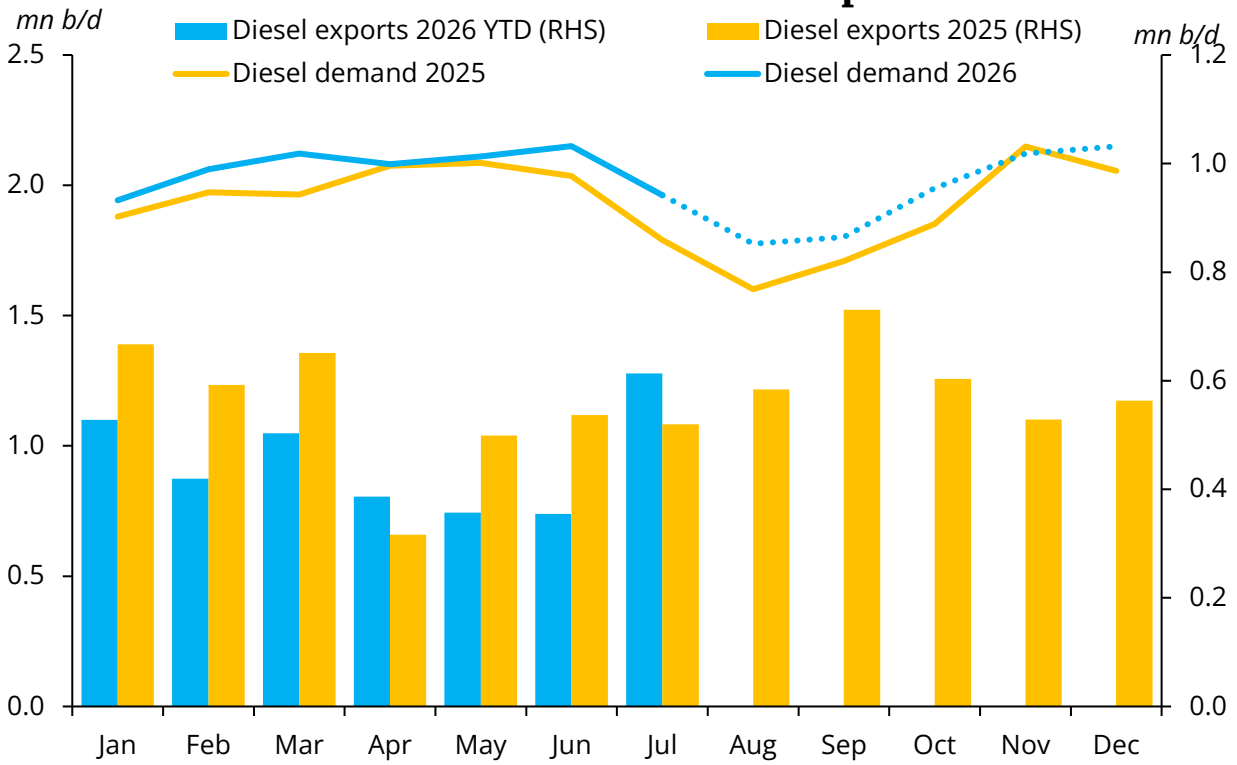
— IEA, Vortexa, Argus Media Consulting Services
**Russian volumes head to Turkey*

- Europe has had to reshuffle diesel trade flows following Russia's diesel export ban. The loss of Russian barrels has intensified competition for supply in the Mediterranean. Turkey, which previously imported Russian diesel and exported domestic output to Europe, is now competing more aggressively with other buyers for replacement barrels, increasing Europe's dependence on long-haul imports.
- Even with some diesel flows diverted from the Red Sea, Europe still needs more long-haul barrels, increasing its dependence on arbitrage economics and vessel availability. Strong US exports have been supported by high refinery runs and stockdraws, while improved arbitrage has pulled more Indian cargoes west. But seasonal demand growth in both countries in the coming months could limit their export capacity.
- The stock release assumptions may prove optimistic, as governments could be reluctant to draw down strategic or commercial inventories if they expect supply disruptions to persist. Instead, policymakers may allow higher prices to curb demand before tapping stocks, as seen during the second quarter.
- While agricultural demand tends to be less price-sensitive, elevated prices have already weighed on broader diesel consumption. The latest IEA data show diesel inventories were stable in April and rose by more than 1pc in May, as elevated prices weighed on demand. Meanwhile demand in key European markets such as France and Germany fell by 100,000-200,000 b/d year-on-year during April-May.
- Winter-grade diesel availability is also likely to become a key constraint in the coming months. Europe's switch to winter specification in October-November will narrow the pool of eligible import barrels and could intensify competition for compliant supply, particularly if Middle East flows remain disrupted by a closed Hormuz.

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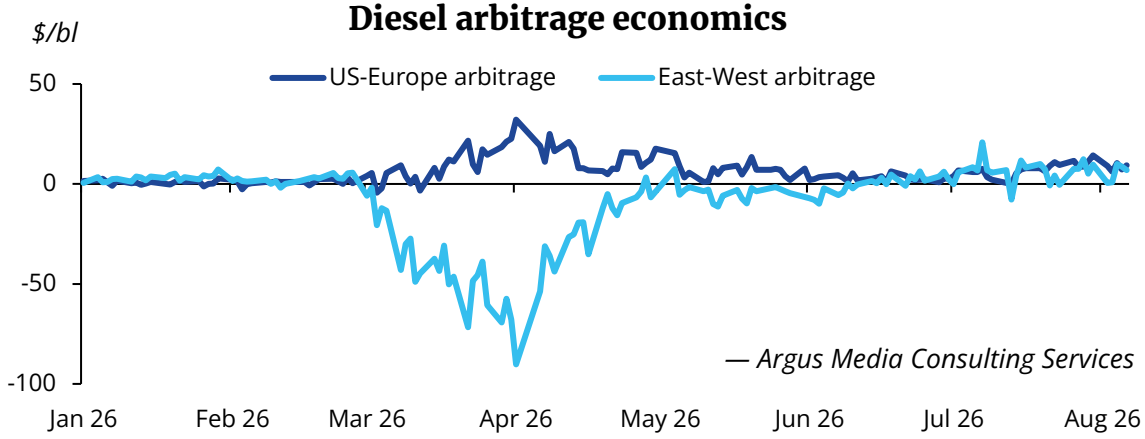
Rising Indian and Chinese exports provide some relief, but restricted Hormuz flows keep regional diesel balances tight

Indian diesel demand and exports



— *Vortexa, PPAC, Argus Media Consulting Services*

Diesel arbitrage economics



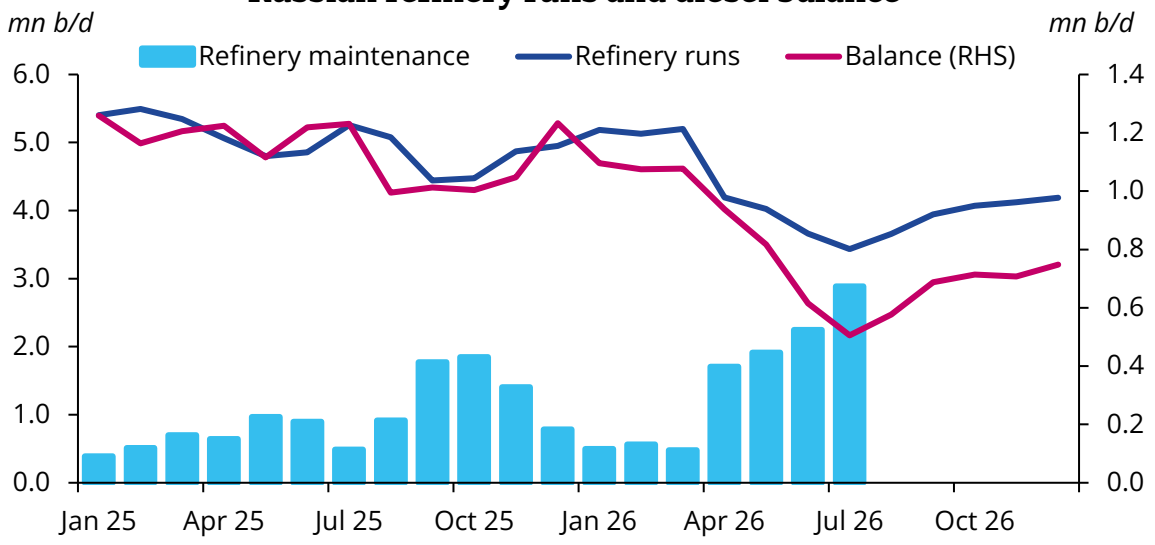
— *Argus Media Consulting Services*

- India can offer some near-term relief to the diesel market while domestic demand remains seasonally soft during the monsoon period. The country typically raises diesel exports during this period, as domestic balance lengthens on lower demand and currently high refining margins continue to incentivise refiners to max their runs when possible. Latest data from Vortexa suggest over 150,000 b/d of diesel were loaded for Europe in July, driven by an improvement in the east-west arbitrage economics. But this support is likely temporary as Indian diesel demand normally starts to recover from October, when construction and transport demand pick up post-monsoon.
- Asian diesel balances are still expected to remain relatively tight, as refinery runs recover only gradually through the rest of 2026 amid ongoing feedstock constraints. China could ease export restrictions as product export margins improve, particularly while domestic demand remains weak. However, any meaningful increase in exports remains dependent on government policy and would likely require refiners to rebuild product inventories to pre-war levels first. Higher clean product exports would also imply either faster crude inventory draws or stronger crude import demand.
- Europe's ability to attract Indian and other east of Suez diesel barrels will depend on maintaining sufficiently high prices to support arbitrage economics. If Singapore cracks remain firm due to tight regional supply, or if freight costs increase further, east-west diesel flows could slow, leaving Europe more reliant on inventory draws, demand destruction, or greater competition for US and Red Sea cargoes.

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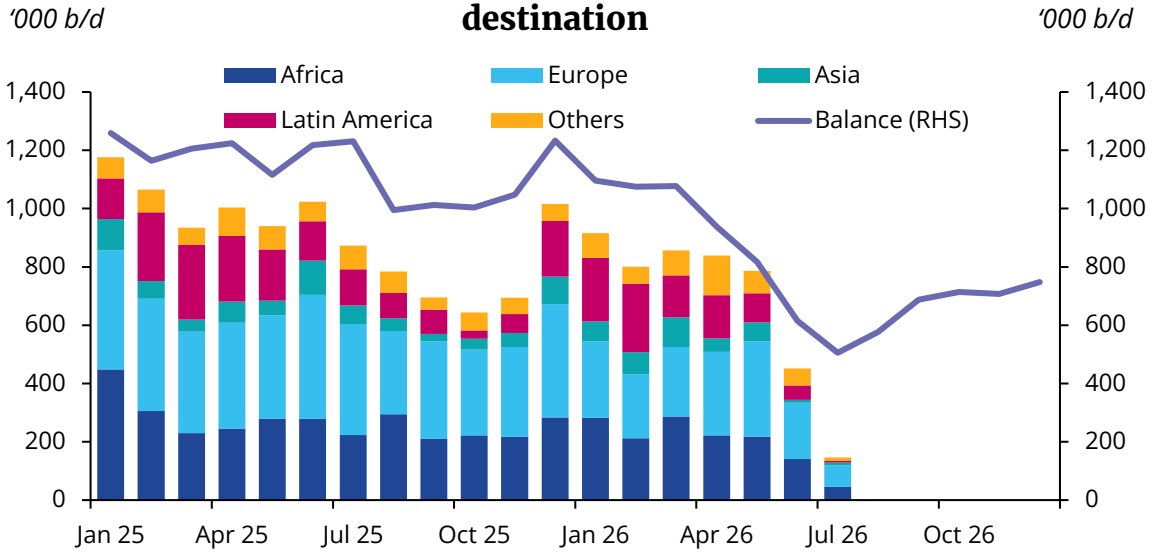
Drone attacks continue to constrain Russian output, though diesel supply may not be as tight as the export ban suggests

Russian refinery runs and diesel balance



— Vortexa, Argus Media Consulting Services

Russian diesel pre-trade balance and exports by destination



— Vortexa, Argus Media Consulting Services

- Tighter domestic supply, caused by sharply lower refinery runs, has led the Russian government to ban diesel exports until January 2027. Moscow has also indicated the ban could be lifted earlier if domestic market conditions improve. Even before the restriction, Russian diesel exports had already fallen below 500,000 b/d in June, roughly half their usual level, before dropping to 150,000 b/d in July, Vortexa data show.
- Domestic demand is expected to stay firm as the harvest season approaches, while continued drone attacks keep disrupting refinery operations. We estimate that CDU capacity affected by drone strikes rose to nearly 3mn b/d in July, pushing Russian refinery runs below 3.5mn b/d, the lowest level in decades. Maintenance and repairs should restore some of this capacity in the coming months, but repair work has become more challenging, and the pace of recovery will depend partly on whether Ukraine can sustain the disruption.
- Russian diesel output has likely fallen to around 1.3mn b/d, well below the normal level of about 2mn b/d. But even with the sharp production decline, the country does not appear to face an outright diesel deficit comparable to gasoline. The export ban is likely a precautionary measure to secure domestic supply ahead of the seasonal agricultural demand increase. Export restrictions could be eased towards October on paper, but any slow recovery in Russian flows would likely sustain bullish sentiment, particularly in the Atlantic basin.

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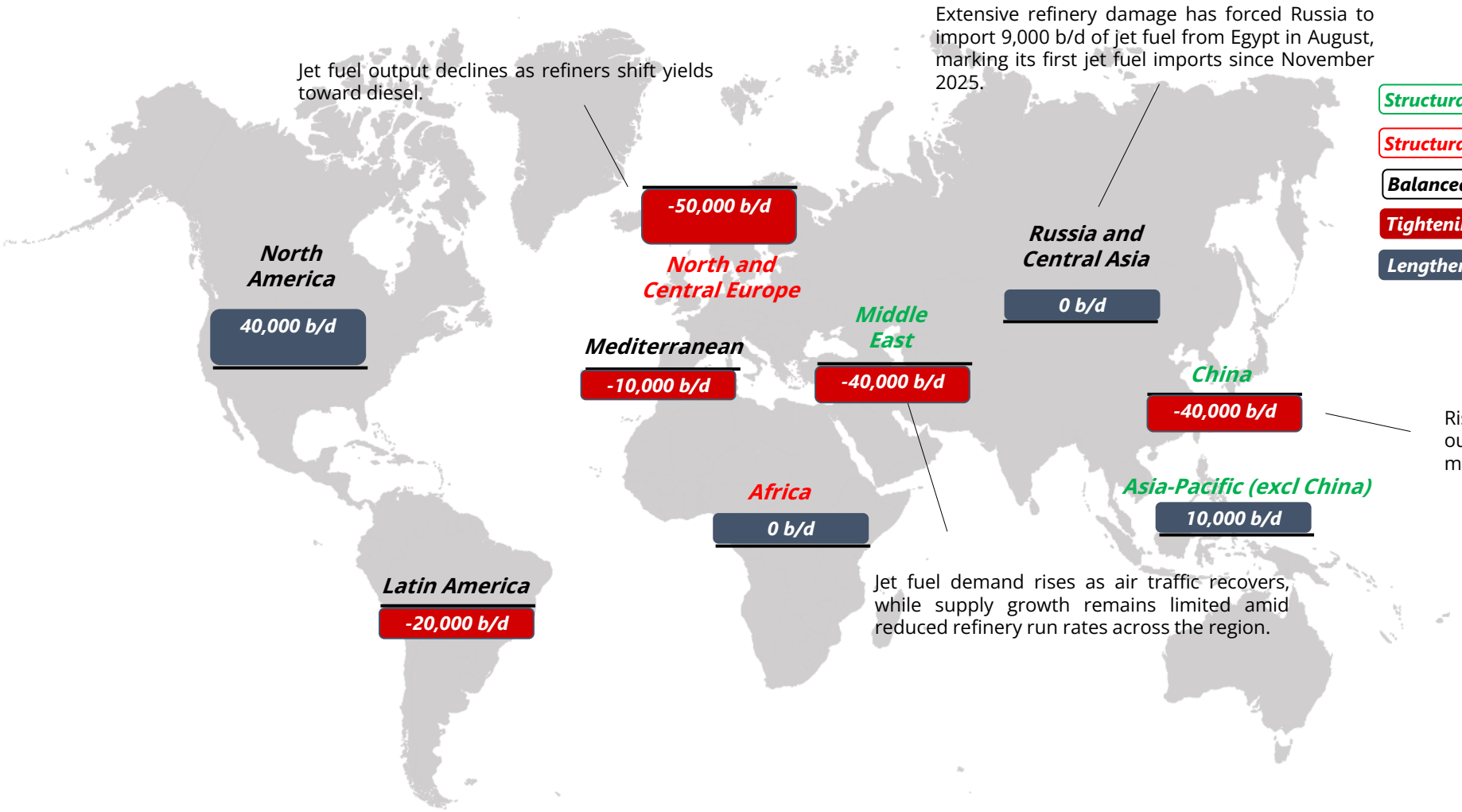
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Regional jet/kerosine pre-trade balance, Aug vs Jul

The global jet fuel balance is set to tighten as seasonal demand peaks and refiners reduce jet yields

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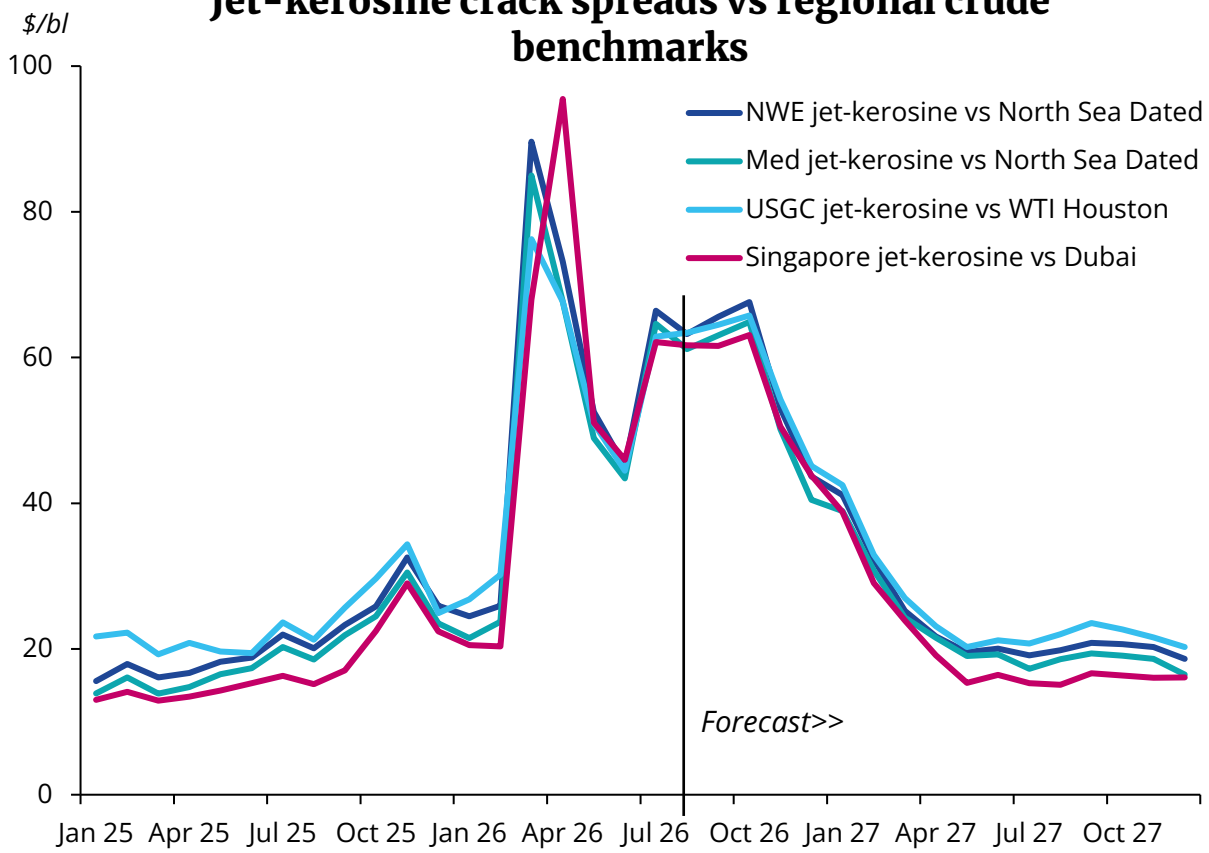
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Jet Fuel Outlook

The global jet fuel market is poised to remain tight through year-end amid renewed geopolitical disruptions

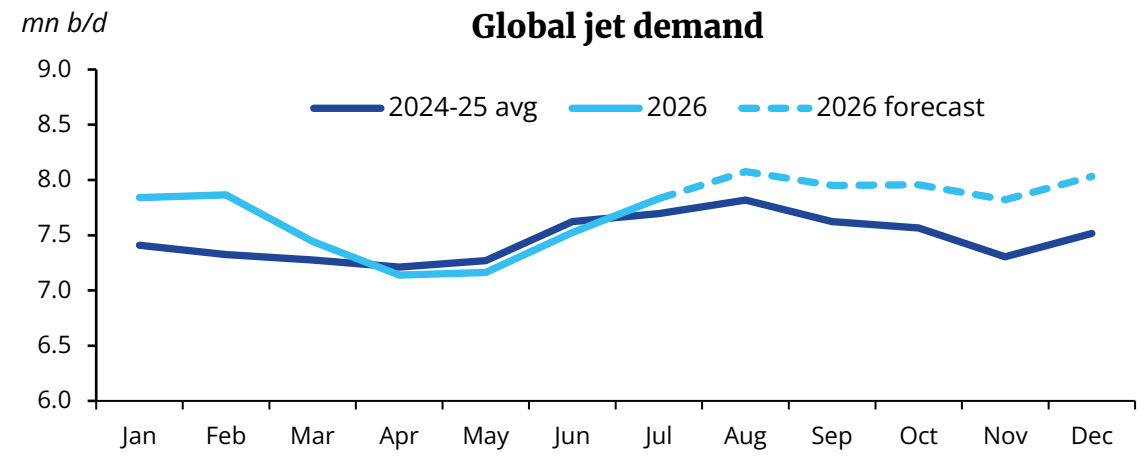
Jet-kerosine crack spreads vs regional crude benchmarks

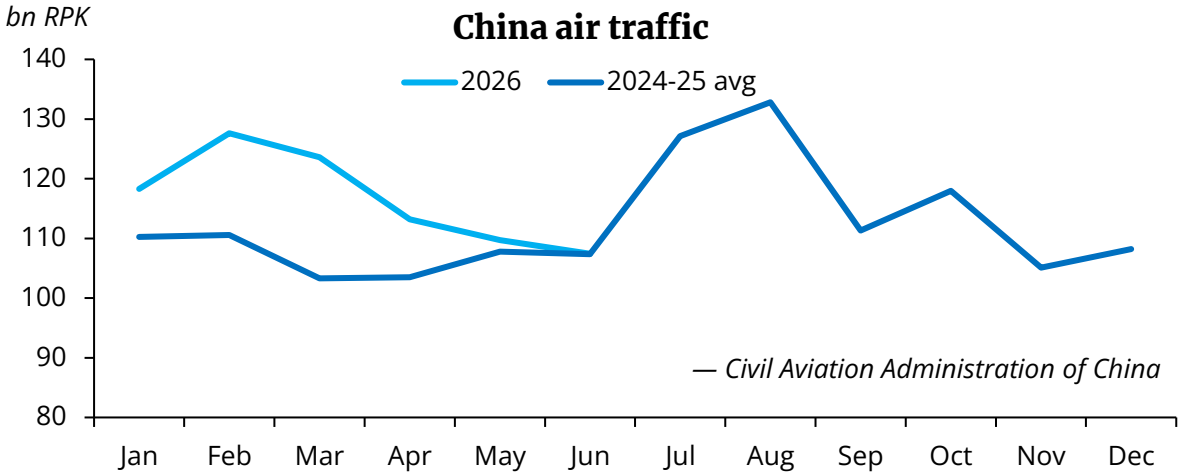


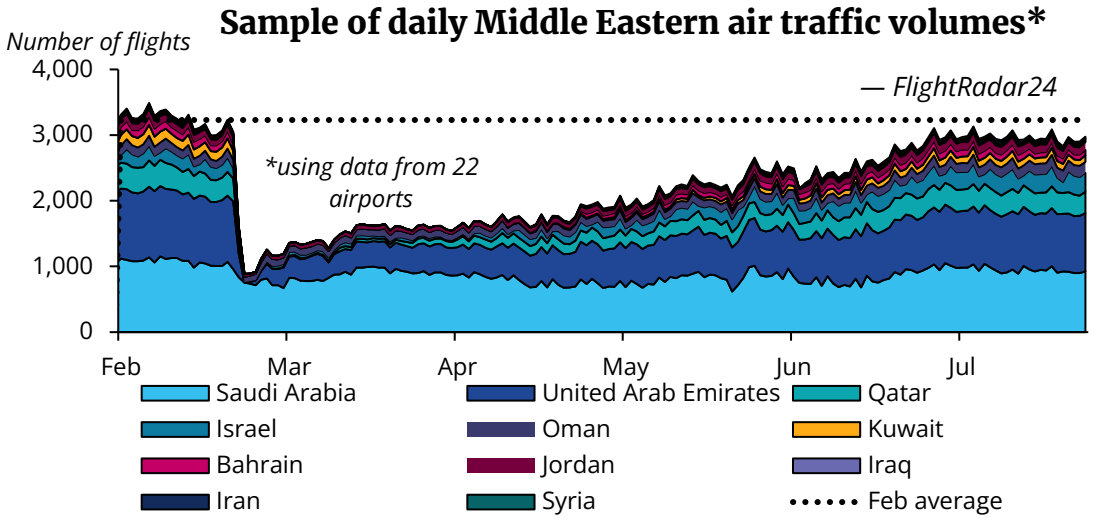
- Global jet fuel cracks rebounded sharply in July after easing in June, when the ceasefire agreement between the US and Iran briefly raised hopes of a de-escalation in Middle East supply risks.
- Those expectations quickly faded as the conflict reignited in late June and Houthi threats to shipping in the Red Sea intensified. As a result, middle distillate markets tightened sharply, pushing jet fuel premiums to crude to around or above $60/bl across all major regions in July.
- But underlying fundamentals show that the jet fuel market softened. The global jet fuel deficit narrowed to just 90,000 b/d in July compared to the five-year average balance, from a 330,000 b/d deficit in May, the widest of the year, as:
  - Demand fell below the 2024-25 average between April and June.
  - Refiners increased jet yields to around 11pc, compared with a more typical 9-10pc.
  - Higher yields offset the impact of lower refinery runs caused by reduced Middle East crude exports.
- Looking ahead, we expect jet cracks to remain elevated as the market tightens once again. Our balances indicate the deficit is expected to widen back to around 280,000 b/d in August, supported by:
  - Jet demand strengthening above 2024-25 levels from July and remaining robust through year-end.
  - Renewed pressure on refinery runs amid shipping disruptions in both the strait of Hormuz and the Bab el-Mandeb strait.
  - Lower jet yields as refiners shift toward maximising gasoline production in response to surging gasoline cracks.
- The result is a market that appears fundamentally tighter over the coming months, providing continued support for jet fuel cracks despite recent volatility driven by geopolitical developments.

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Global jet demand has rebounded above typical levels, but renewed conflict and higher airfares threaten the recovery



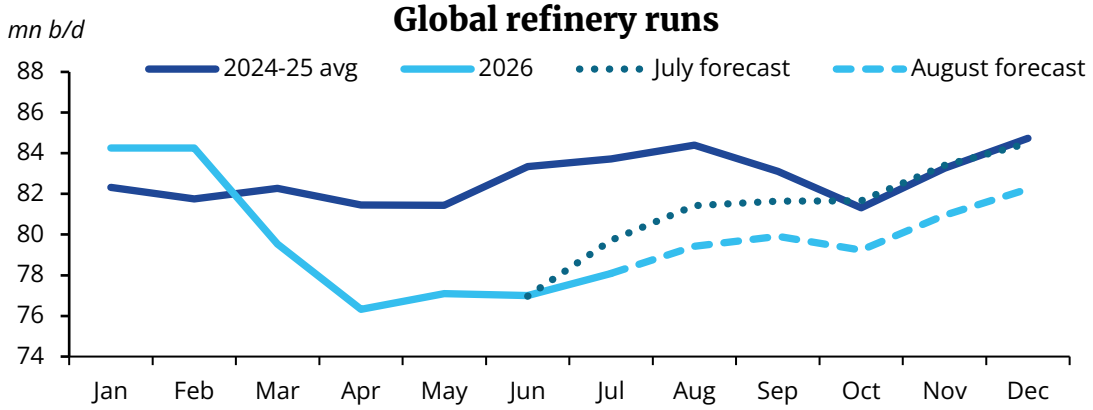


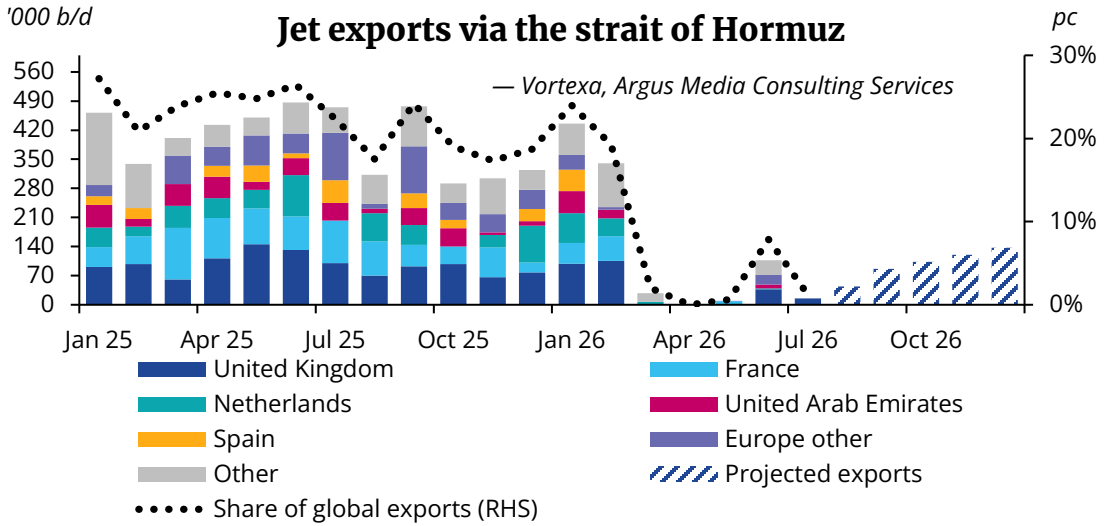


- Global jet fuel demand is expected to return close to full recovery this month, led by improving air traffic activity in the Middle East and peak summer travel demand in the northern hemisphere, increasing pressure on a tightening market.
- Global demand weakened in April and May, falling below the 2024-2025 average despite the aviation sector's underlying growth trend. The decline was largely driven by the US-Iran war, which disrupted airport operations, and destroyed around 340,000 b/d of Middle Eastern jet fuel demand in March. Since then, flight activity has steadily recovered as hostilities in the Middle East have eased.
- There is still some downside risk to the pace of global air traffic recovery. China, the world's second-largest demand hub after the US, has seen weak air traffic since the conflict began. Higher airfares have likely encouraged travelers to switch to rail for domestic journeys. Data from the Civil Aviation Administration of China show domestic revenue passenger kilometres (RPKs) fell from 98bn in February, 11pc above the 2024-2025 average, to 80bn in June, which is 3pc below the 2024-2025 average. Domestic routes make up around 75pc of flight volumes.
- But Chinese air traffic is expected to increase through July and August as aviation demand approaches its seasonal peak, reinforcing growth in global jet fuel demand.
- As a result, we expect the global jet fuel balance to tighten through the remainder of the year. While higher prices have so far caused only limited demand destruction, stronger aviation demand, combined with supply-side constraints, should keep jet cracks well supported and prevent a significant easing in market tightness.

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Renewed disruptions to Middle East crude and product flows are expected to keep global jet markets tight through year-end

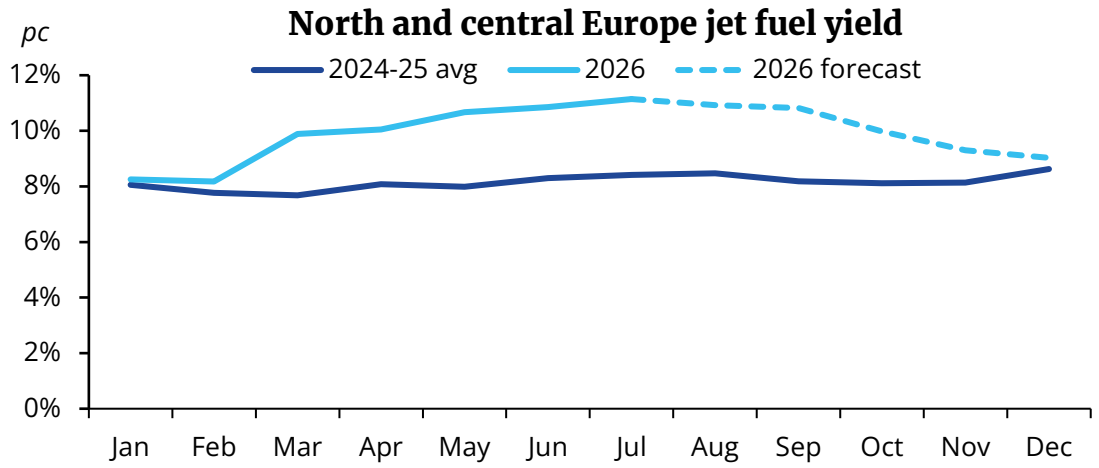


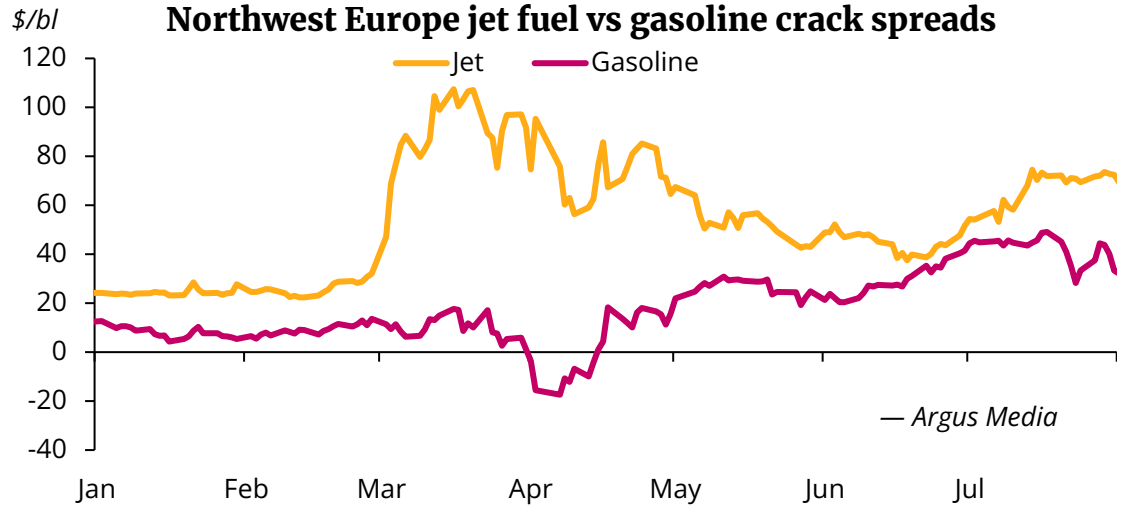


- Jet markets are facing renewed supply pressure as Middle East crude flows come under fresh disruption, driven not only by restricted traffic through the Strait of Hormuz but also by lower exports from Saudi Arabia's Red Sea terminal at Yanbu. The resulting reduction in crude availability is expected to weigh on refinery runs and limit the recovery in refined product supply.
- Despite continued disruption to visible tanker movements through Hormuz, crude exports had been recovering during the June ceasefire period through alternative routes, including Saudi Arabia's east-west pipeline to Yanbu, the UAE's ADCOP pipeline to Fujairah, and expanded ship-to-ship transfer operations that helped move cargoes out of the Gulf.
- However, renewed hostilities have disrupted both Yanbu loadings and ship-to-ship transfer activity, prompting a downward revision to our global refinery run forecasts through year-end.Jet fuel exports have been particularly affected. Vortexa data show just 17,000 b/d of jet fuel exited through the strait of Hormuz during July, and exports are expected to remain heavily constrained through the remainder of the year. As a result, Europe is likely to remain reliant on imports from Nigeria and the US to meet demand.
- Lower refinery runs and restricted Middle Eastern exports are expected to keep global jet balances tight and cracks elevated. At the same time, exceptionally strong jet margins continue to incentivise refiners to maximise jet yields, partially offsetting the loss of supply from the region.

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Higher jet yields have provided supply relief, but stronger gasoline cracks are likely to divert refinery yields away from jet fuel





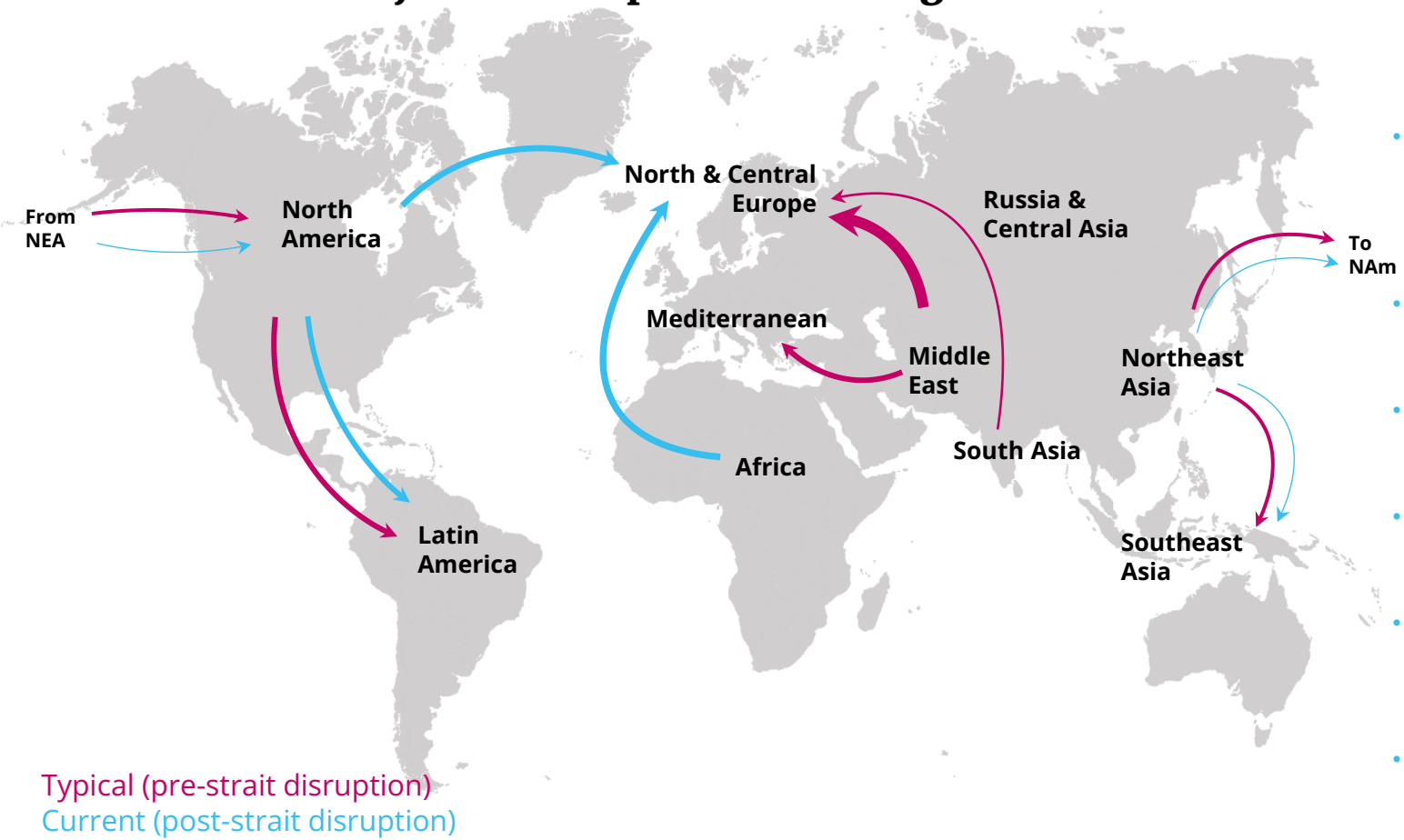
- Record middle distillate margins in March prompted refiners to maximise jet fuel production, particularly in Europe, where the closure of the strait of Hormuz left the region highly exposed given its reliance on Mideast Gulf imports.
- Global jet yields rose above 11pc in June and likely increased further in July, well above the typical 9.5-10pc range.
- The increase in yields provided significant supply relief. A one percentage point increase in global jet yield adds roughly 780,000 b/d of jet fuel production, helping to offset supply disruptions and limit inventory draws through April and May.
- Looking ahead, support from higher jet yields is expected to fade. As the conflict persists through the peak summer driving season, gasoline cracks have strengthened sharply, increasing refiners' incentives to shift yields away from jet fuel.
- We therefore expect global jet yields to gradually decline through the remainder of the summer before returning closer to historical norms in the fourth quarter.
- While modest increases in refinery runs should lift jet fuel production by around 120,000 b/d in August, demand is expected to grow faster as air traffic recovers and seasonal consumption peaks. As a result, the global jet fuel balance is likely to tighten, prompting some stock draw, namely in Europe, and keeping cracks well supported through the remainder of the year.

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With Middle Eastern flows still constrained, Europe is likely to keep sourcing jet from Nigeria and the US Gulf coast

Global jet trade response following SoH closure



Typical (pre-strait disruption)
Current (post-strait disruption)

- Following the strait of Hormuz closure, Europe lost prompt Kuwaiti jet supplies, driving buyers to source barrels from the US Gulf coast and Nigeria while drawing on storage. ARA stocks fell from 6.5mn bl in February to 4.3mn bl in April before stabilising as alternative supplies arrived.
- In the near term, we may see US flows to Europe slow as the transatlantic arbitrage is currently closed with the US Gulf coast jet crack sticking at a premium to Northwest Europe over the last two weeks. This is partly driven by the increased USWC import requirements from South Korea to meet its upcoming peak travel demand.
- Lower US exports to Europe will be offset by higher Nigerian flows, supported by the Dangote refinery finishing maintenance that affected a large portion of its operations throughout July.
- Red Sea jet flows to Europe increased, reaching 80,000 b/d in July. With strait of Hormuz disruptions persisting, Saudi exports to Europe are likely to remain elevated in the near term.
- Asian jet flows to Europe are seasonally rising and should remain strong through August, though volumes are down year-on-year as suppliers prioritise domestic demand.
- China curtailed jet exports after losing crude supply from the strait closure but improving margins and higher jet yields have since supported a gradual recovery. Exports are likely to continue rising, with most volumes remaining in Asia.
- Crack spreads across all regions are expected to remain at about $60/bl over the next three months as the middle distillate complex faces constrained supply. Singapore is likely to be the weakest to enable arbitrage to Europe and the US West coast.

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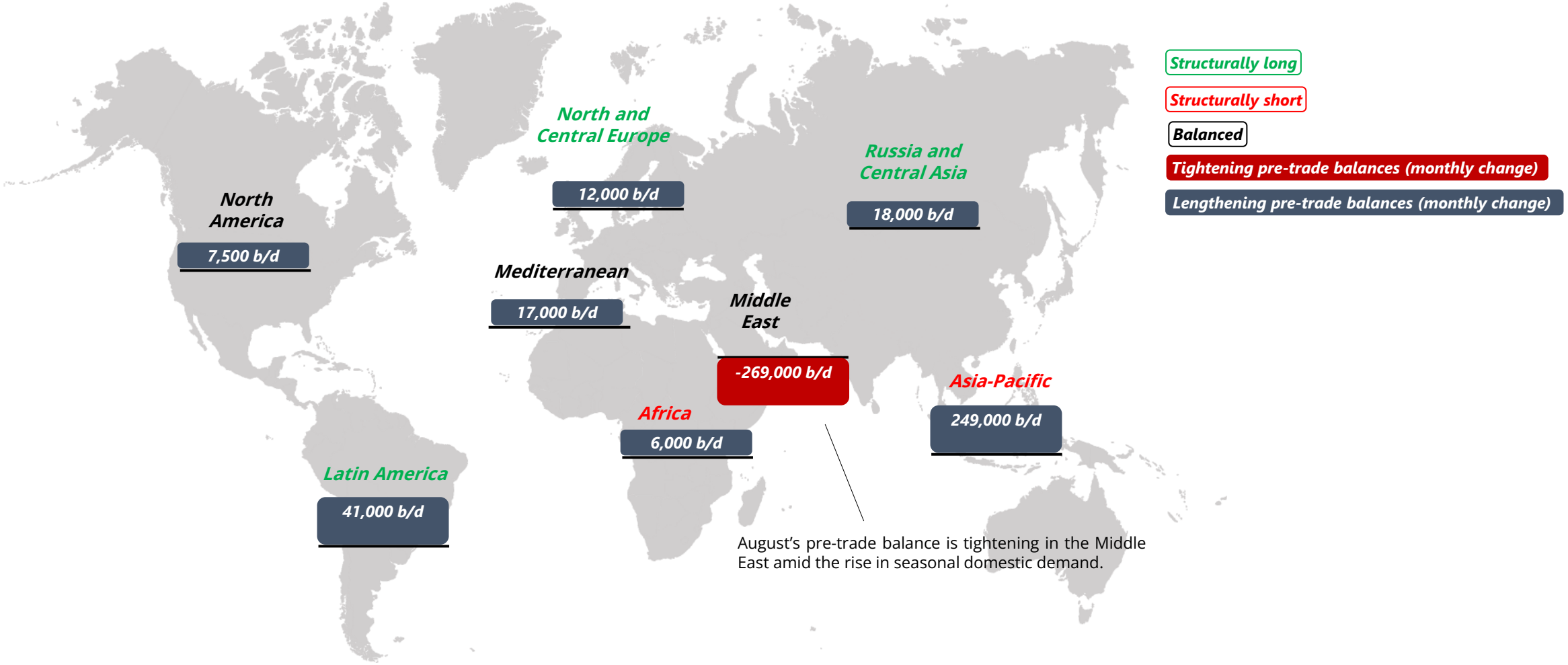
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Click here to download the fundamentals dataset in Excel

Regional fuel oil pre-trade balance, Aug vs Jul

Middle East fuel oil balances are expected to tighten further as peak summer power demand boosts consumption



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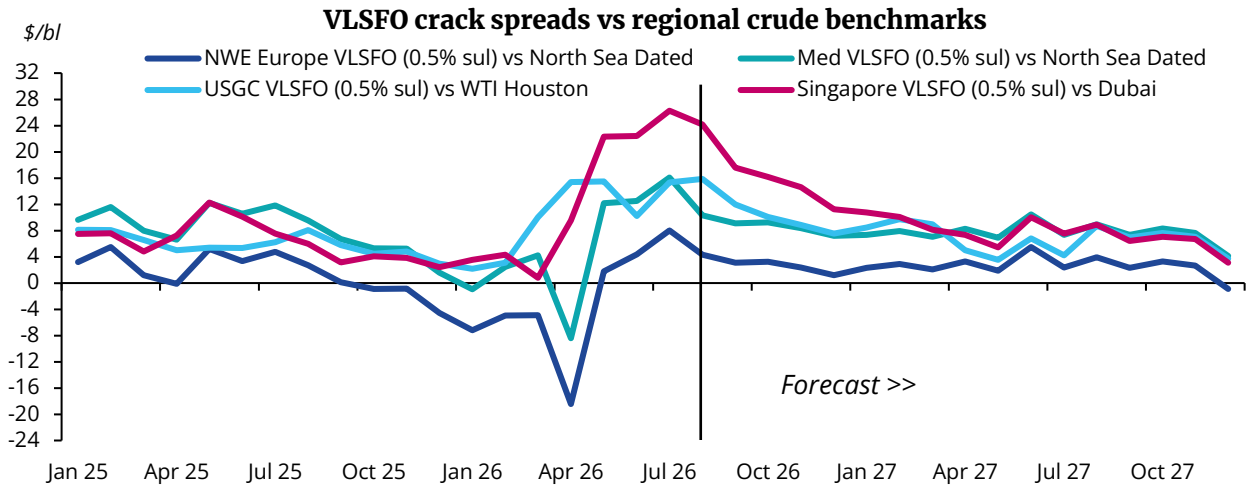
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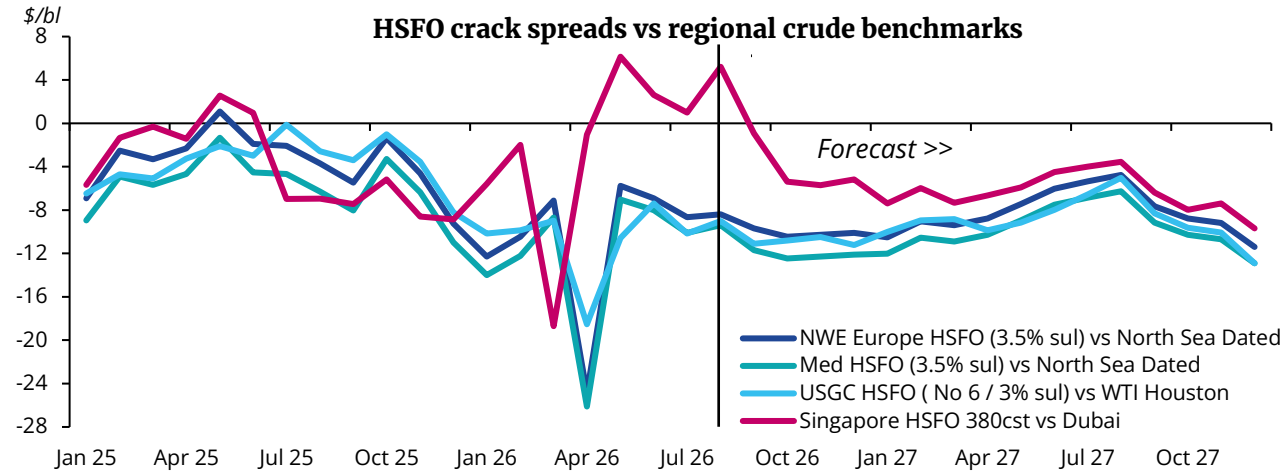
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Click here to access the price dataset: Fuel Oil Outlook Workspace

Fuel oil

Disruptions to strait of Hormuz flows and limited blending component availability are expected to keep fuel oil crack spreads elevated in the coming months



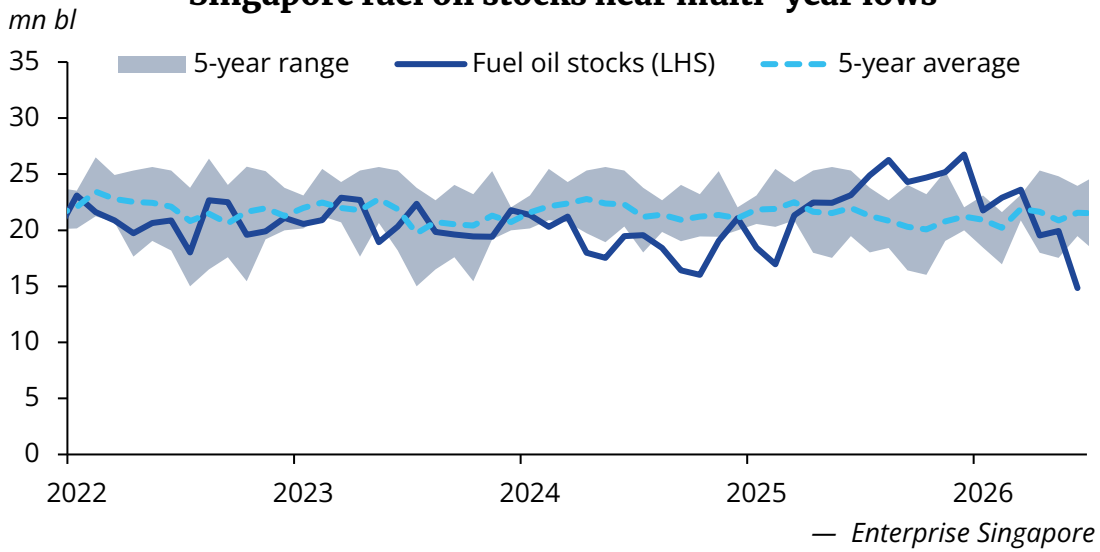


- High-sulphur fuel oil (HSFO) cracks fell in July across major refining regions as higher product arrivals from the Middle East improved supply availability. The US-Iran memorandum of understanding at the end of June supported a partial recovery in strait of Hormuz flows, although renewed tensions in mid-July once again disrupted regional trade. By contrast, very low sulphur fuel oil (VLSFO) cracks remain strong, supported by tight blending component availability and resilient bunker demand.
- In **Asia-Pacific**, HSFO cracks are expected to remain supported by ongoing strait of Hormuz disruptions, low regional fuel oil inventories, reduced Russian exports following refinery outages, strong summer power demand in the Middle East, and elevated LNG prices that could encourage fuel oil burn in south Asia and north Africa.
- Houthi-related disruption in the Bab el-Mandeb strait may provide additional support by extending vessel rerouting around the Cape of Good Hope, increasing voyage distances and bunker fuel demand. However, any demand uplift is expected to be moderate, as much of the disruption risk has already been reflected in shipping patterns.
- Singapore bunker demand could receive additional support if tighter VLSFO availability in China reduces local supply and improves Singapore's competitiveness as a bunkering hub.
- In **Europe**, Hi-5 spread reached its highest level since 2022 in early August, driven by strong VLSFO cracks, while HSFO cracks lagged amid improved supply from Venezuela. Refinery feedstock demand is expected to support both grades, while strong Asian demand could attract European VLSFO cargoes. However, high freight costs may limit arbitrage flows and cap further upside in European VLSFO cracks.
- On the **US Gulf coast,** HSFO cracks are expected to remain supported by strong demand for secondary units, while VLSFO cracks continue to be underpinned by low inventories and limited blendstock availability. Refining margins reached record highs in July amid tight global diesel and gasoline supplies, reinforcing demand for fuel oil feedstocks.

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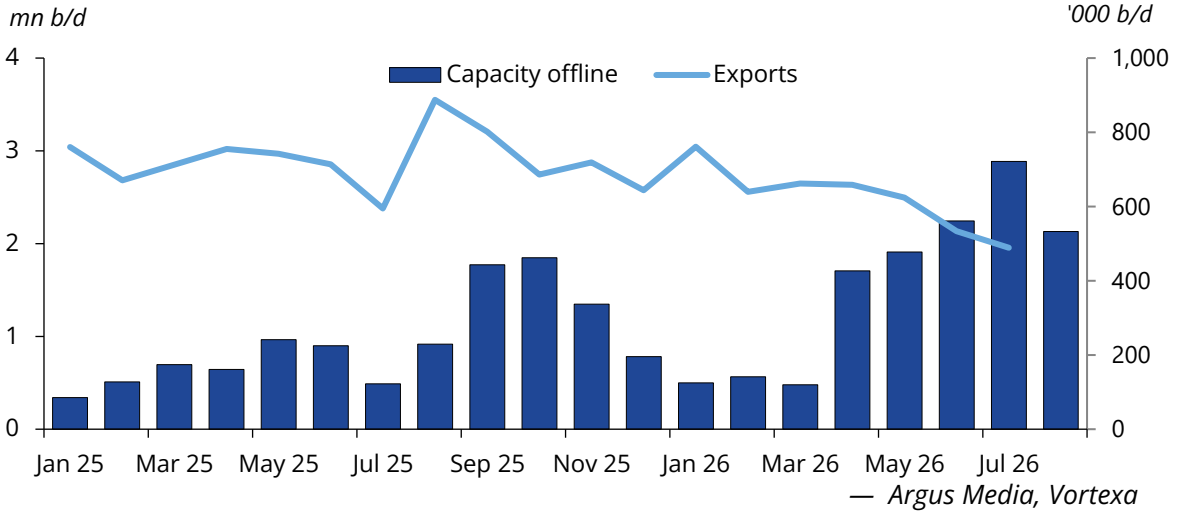
Supply disruptions in the Mideast Gulf and Russia are expected to support Asian fuel oil cracks

Singapore fuel oil stocks near multi-year lows



— *Enterprise Singapore*

Russian refinery capacity offline vs fuel oil exports

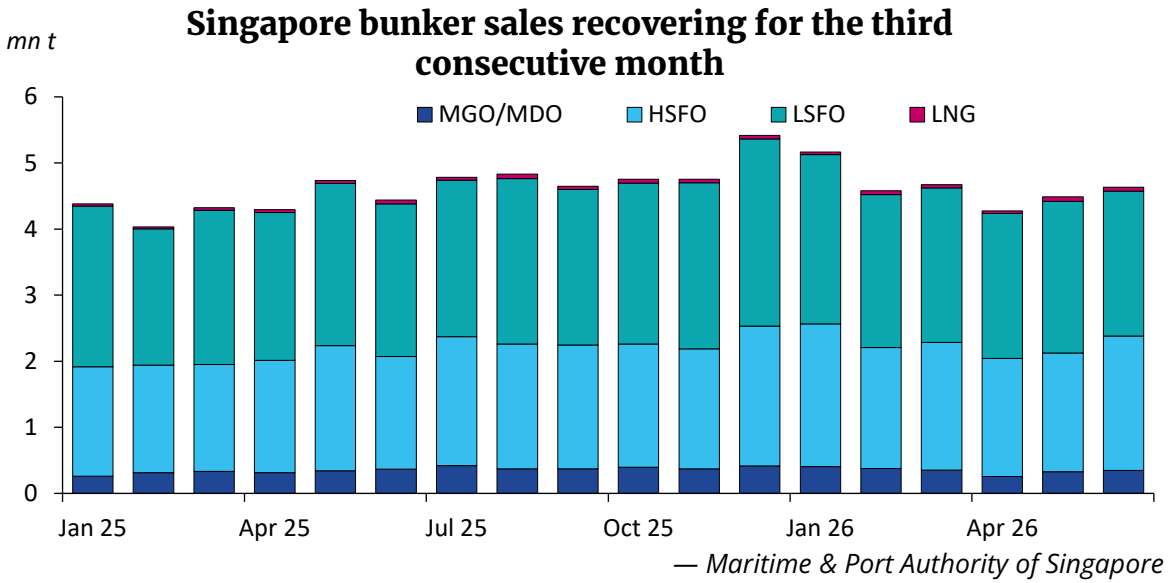


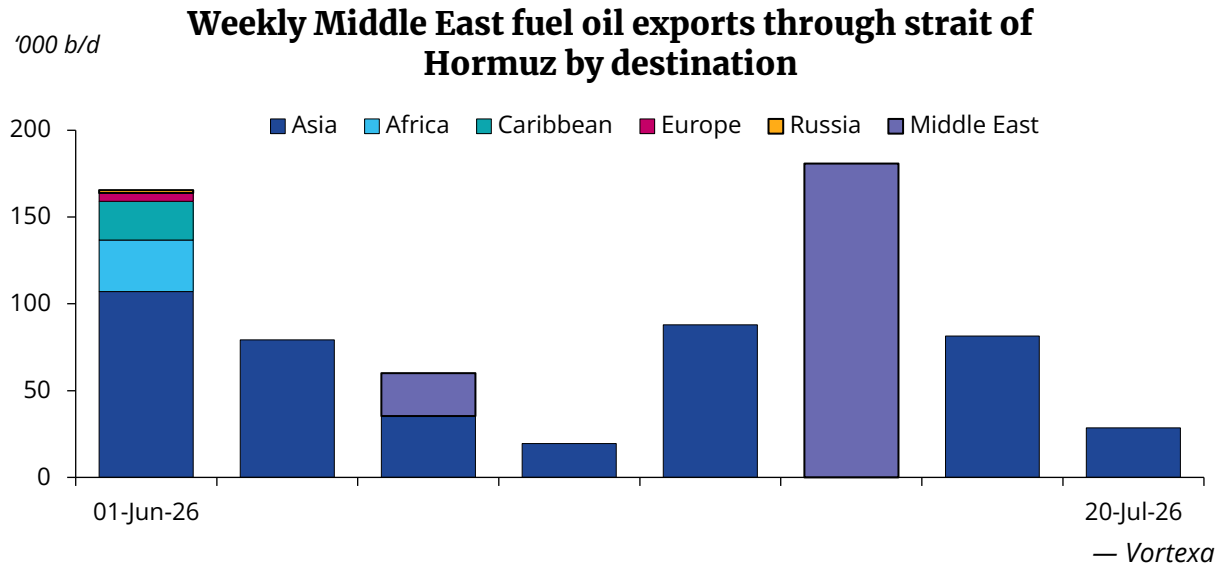
— *Argus Media, Vortexa*

- Asian HSFO cracks are expected to remain well supported as disruptions around the strait of Hormuz continue to constrain exports from the UAE, Saudi Arabia, Iraq and Kuwait, while regional fuel oil inventories remain below pre-conflict levels. Fuel oil exports through the strait of Hormuz averaged 72,000 b/d in July, down from 95,000 b/d in June, reflecting reduced vessel traffic following the re-escalation of the US-Iran conflict and tightening regional supply.
- Reduced Russian fuel oil exports following refinery outages continue to support the Singapore market. Russian fuel oil exports fell to around 490,000 b/d in July, the lowest level since at least 2016, as ongoing attacks on Russian refinery infrastructure continued to disrupt production and exports. Higher exports from the UAE and India have provided some relief to the Singapore market but are unlikely to fully offset the loss of Russian volumes. Russian refinery run rates are expected to remain below previous-year levels through the end of the year, limiting fuel oil exports from the country and tightening global fuel oil balances. As a result, reduced Russian supply should continue to support HSFO market fundamentals in the coming months.
- Strong summer power generation demand in Saudi Arabia and Kuwait continues to tighten fuel oil availability across the region, while elevated LNG prices could encourage additional fuel oil burn in Pakistan, further restricting regional supply if such switching occurs. The drone attack on Egypt's Damietta port in late July may also provide temporary support to fuel oil demand in the country. However, Egypt's three remaining LNG import terminals should be sufficient to meet import requirements from September onwards as cooling demand eases, limiting the need for sustained fuel oil substitution in the power sector.

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Tight blendstock supply and recovering bunker demand will support Asian fuel oil cracks

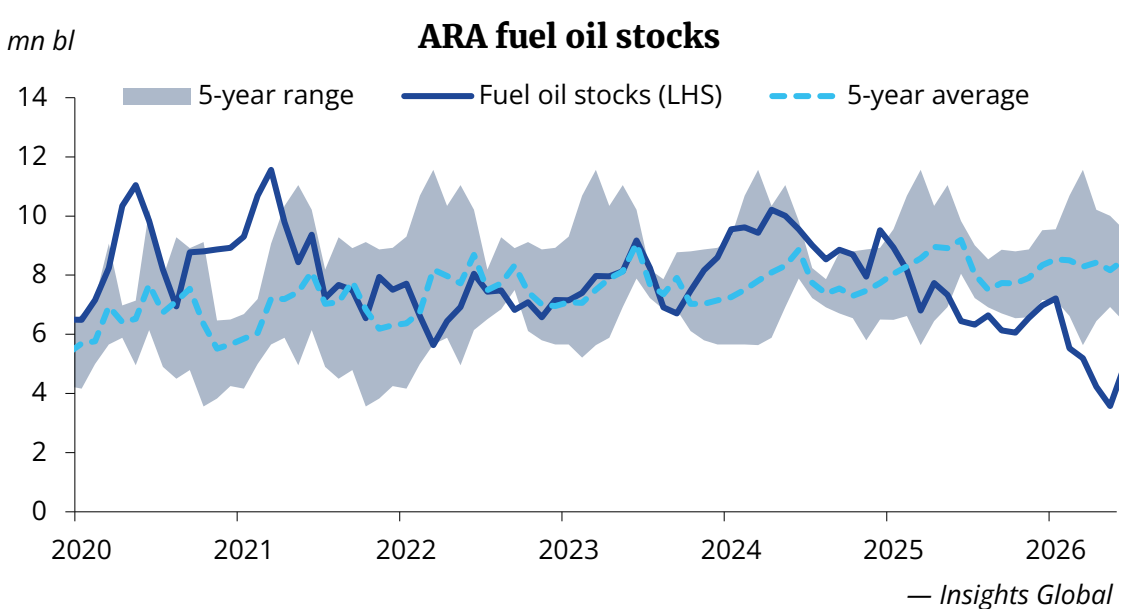


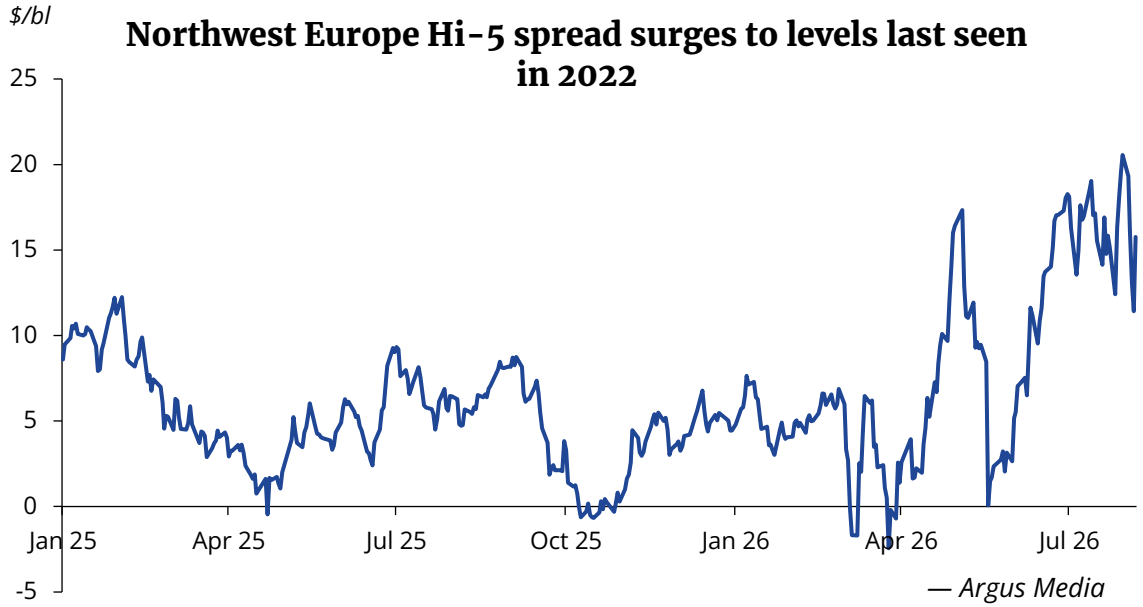


- Fuel oil cracks could also draw support from stronger bunker demand. Singapore's bunker sales have increased for a third consecutive month, pointing to continued resilience in marine fuel consumption. Houthi-related risks in the Bab el-Mandeb strait may provide additional support by encouraging some shipowners and charterers to reroute vessels around the Cape of Good Hope, increasing voyage distances and fuel consumption across Singapore and other Asian bunkering hubs. However, any uplift in demand is expected to be moderate, as much of the disruption risk associated with the Bab el-Manded strait has already been reflected in global shipping patterns since late 2023.
- Bunker demand in Singapore could receive additional support if VLSFO availability in China tightens in August. Increased product export quotas are expected to encourage Chinese refiners to prioritise gasoline and middle distillate production, potentially reducing VLSFO supply. While stronger Chinese product exports have recently improved the competitiveness of Zhoushan bunkering and limited upside for Singapore VLSFO cracks, tighter Chinese export policies later in the year could redirect bunker demand back to Singapore.
- VLSFO cracks in Singapore are expected to remain supported through August and September, driven by lower imports and limited availability of blending components as refiners maximise middle distillate production. Kuwaiti exports remain at risk following disruptions at the al-Zour refinery and strong domestic fuel oil demand for power generation is expected to further constrain export volumes.
- Some relief could come from additional supply from Indonesia's Balikpapan refinery after they offered some LSSR for August loading, and the return of Dar Blend crude supply to the bunkering pool. In addition, another outage at Malaysia's Pengerang RFCC unit is expected to increase the availability of blendstocks, providing further support to VLSFO supply.

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European fuel oil cracks are expected to remain supported by strong feedstock demand and restricted regional trade

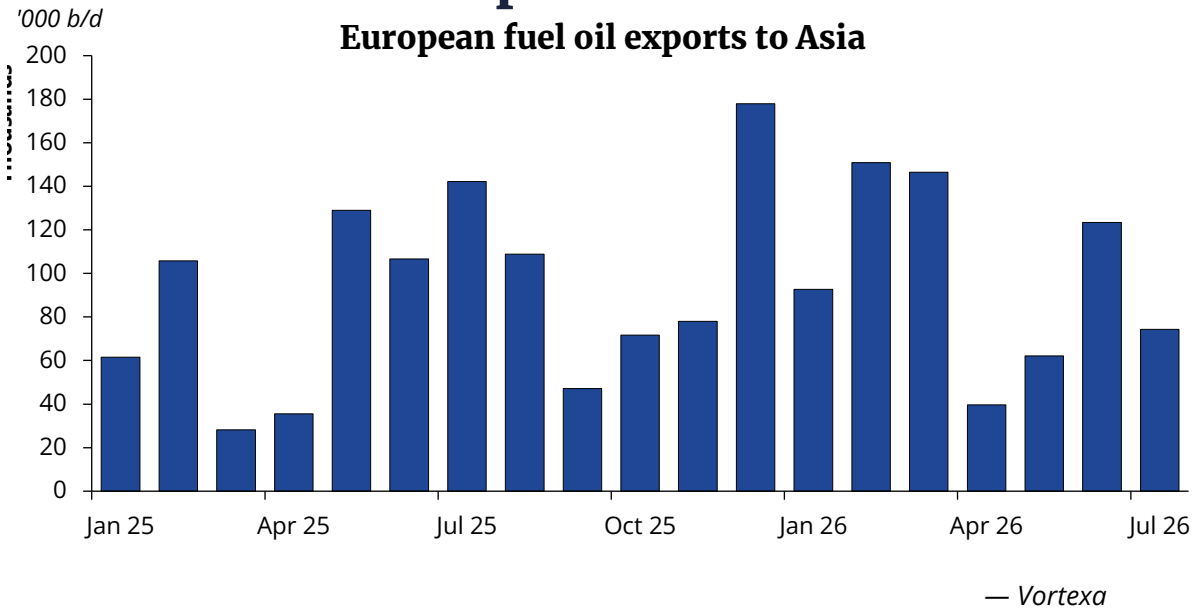


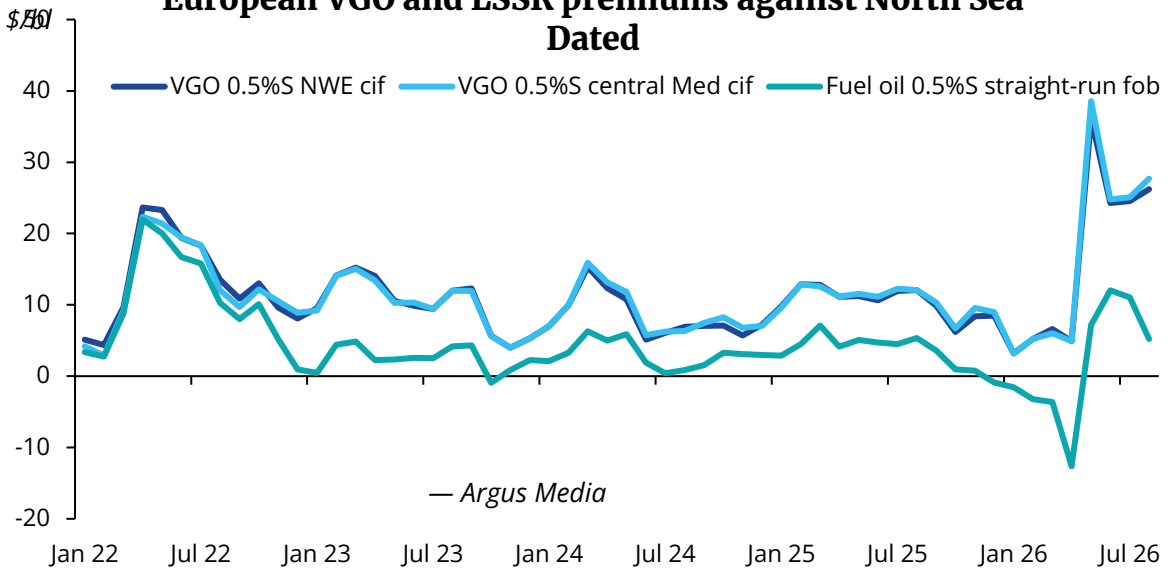


- European HSFO cracks continued to trend lower as product availability remained less constrained than in Asian markets. The northwest Europe Hi-5 spread reached its highest level since 2022 in early August, driven primarily by strong VLSFO cracks, while HSFO cracks remained comparatively weaker but continued to find support. While Venezuelan fuel oil arrivals helped limit gains in European HSFO cracks, imports fell sharply to 28,000 b/d in July from 88,000 b/d in June, according to Vortexa. Reduced Venezuelan supply and persistent Middle East disruption risks are expected to keep regional HSFO balances tight and provide support to cracks.
- Iraqi HSFO exports via Syria remain an important source of supply for Europe. Around 90,000 b/d of Iraqi fuel oil arrived in Europe in July, unchanged from June, with cargoes primarily delivered to the Netherlands, Spain and France, according to Vortexa. Total export volumes increased, with around 62,000 b/d also directed to the Asian market. However, supply growth remains constrained by limited trucking capacity between Iraq and Syria, while the effective closure of the strait of Hormuz continues to restrict Iraqi export flows.
- Persistently low inventories are also expected to support fuel oil cracks. ARA fuel oil stocks fell to 3.8mn bl after June's temporary build, while exceptionally low Rhine water levels continue to disrupt flows between the ARA hub and inland consumers. These logistical constraints are limiting the redistribution of supply, tightening blendstock availability and increasing the likelihood of further stock draws in the months ahead.

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Constrained blendstock availability and export demand to Asia further support fuel oil cracks in Europe

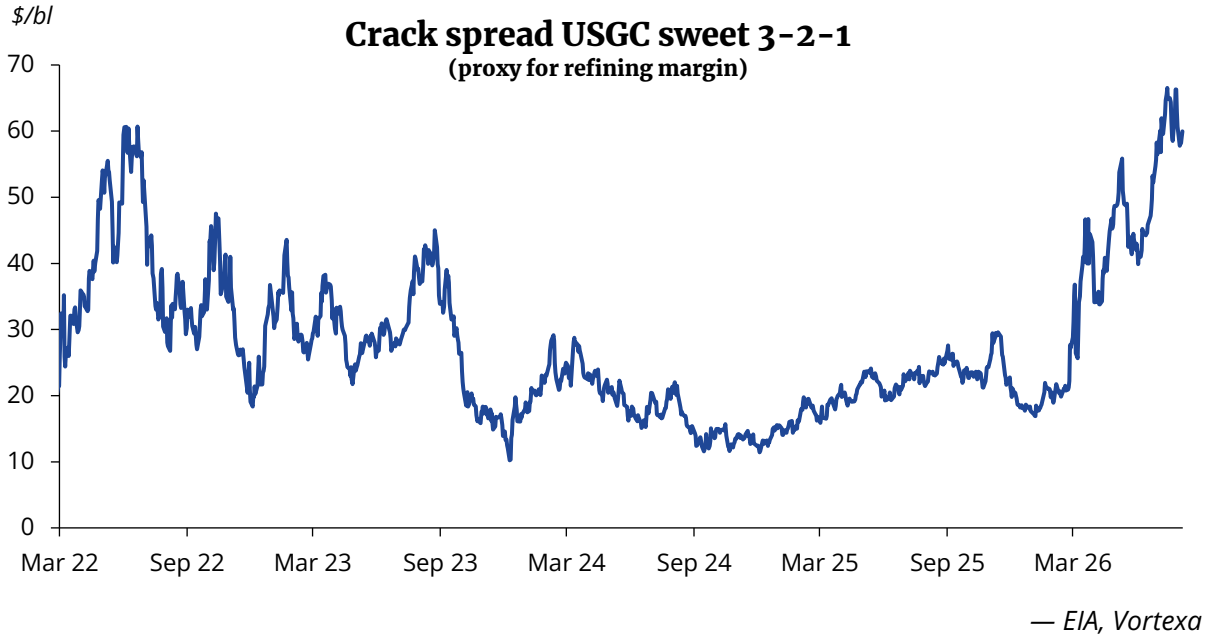


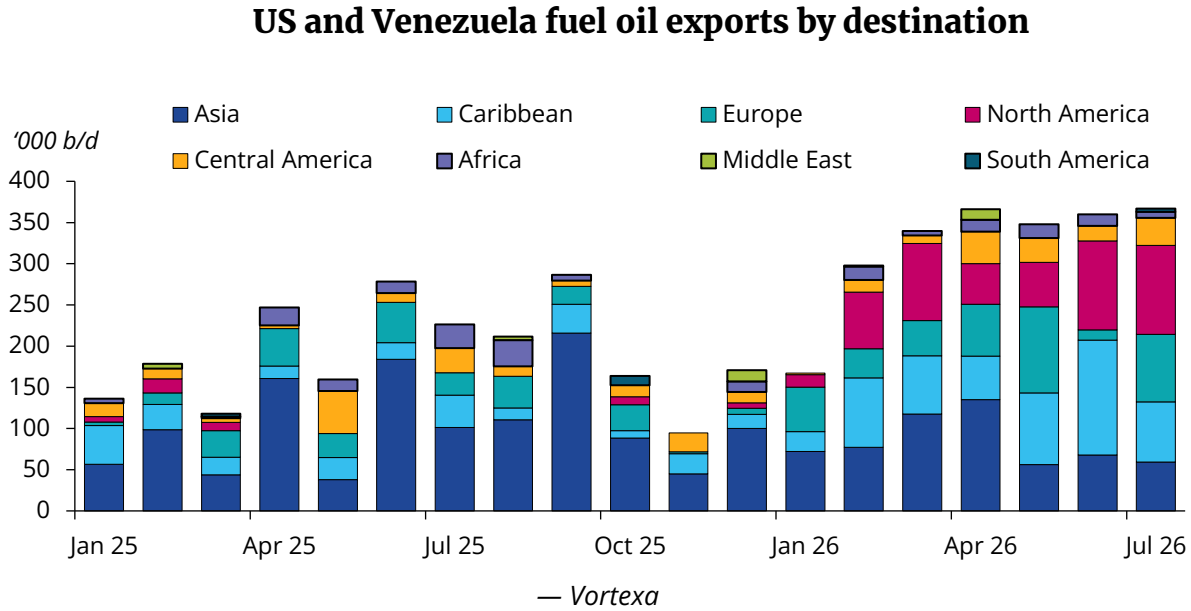


- European VLSFO cracks strengthened in July and are expected to remain firm in the coming months. Strong diesel and gasoline margins in Europe are likely to continue supporting demand for fuel oil feedstock, as reduced crude and product flows following heightened Middle East tensions, together with restrictions on Russian diesel exports, encourage refiners to maximise transport fuel production. Tighter feedstock availability is reflected in rising premiums, with NWE VGO and LSSR premium against North Sea Dated has reached $28/bl and $5.2/bl in August, compared with 2025 averages of $10.5/bl and $3.6/bl respectively, providing further support to VLSFO cracks.
- Blendstock imports from Algeria and Libya, which averaged 39,000 b/d in July according to Vortexa data, have helped ease some of the tightness in the European VLSFO market, particularly in Italy, the UK, Belgium and the Netherlands. However, availability remains constrained. The restart of Dangote's RFCC unit is expected to sharply reduce LSSR exports, tightening global blendstock balances and supporting VLSFO cracks across both Europe and Asia.
- Strong VLSFO demand in Asia could attract cargoes from Europe, with the east-west spread reaching $76/bl, compared with an average of $33.7/bl in 2025. However, freight rates have been rising since June, with dirty tanker rates from the Mediterranean to east Asia reaching $78/t, up from around $62/t in June when European fuel oil exports to Asia reached the highest to 123,000 b/d since March, according to Vortexa data. Elevated freight costs may limit arbitrage opportunities, keeping more barrels within the European market and capping further upside in VLSFO cracks.

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Strong refining margins, firm export and bunker demand are expected to support US fuel oil cracks





- US Gulf Coast HSFO cracks are expected to remain supported by strong secondary refining demand, while VLSFO cracks continue to be underpinned by low inventories and limited availability of blending components.
- Fuel oil cracks continue to be supported by strong feedstock demand. US refining margins reached record highs in July amid tight global diesel and gasoline supplies, with the USGC 3-2-1 crack spread, a proxy for refining margins, reaching a record high in late July. This encouraged refiners to maximise utilisation rates, with national refinery utilisation averaging 96.4pc in July, according to EIA data. Elevated refinery runs continue to support HSFO consumption as a secondary feedstock. Nonetheless, upcoming refinery maintenance in Q3 could reduce both feedstock demand and fuel oil production. For reference, around 1.1mn b/d of refining capacity was offline in September 2025, according to the Argus database, although refiners may seek to delay maintenance to sustain higher output. The impact on fuel oil cracks will depend on the units affected, as lower feedstock demand could weigh on cracks, while lower fuel oil production could provide support.
- Strong US fuel oil export demand is expected to keep domestic balances relatively tight, supporting cracks. The US exported 149,000 b/d of fuel oil in July, with close to half of volumes heading to Asia and Europe, supporting fuel oil cracks. Marine fuel demand is expected to remain resilient as US crude and refined product exports stay elevated, although Panama bunker sales reported by the Panama Maritime Authority softened in June because of maintenance-related backlogs.

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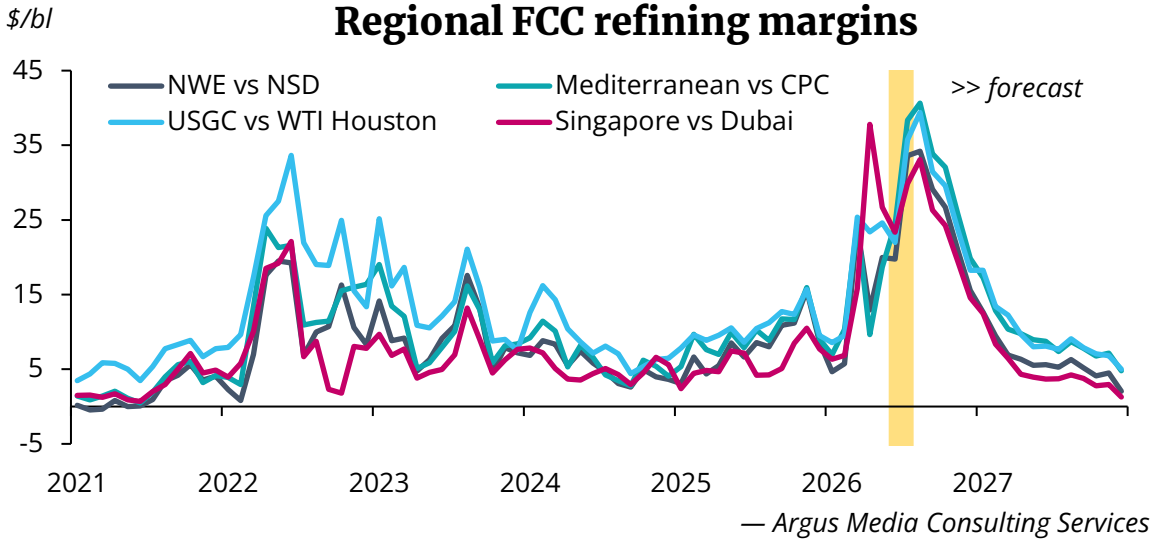
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More details available in Argus Crude Outlook

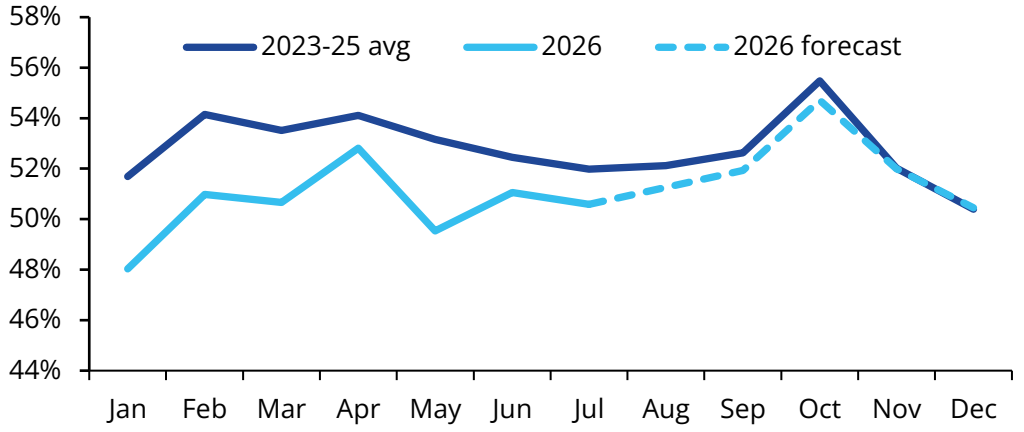
Refining margins reach record highs in three of the four key refining regions, as gasoline and middle distillate competition ramps up

Regional FCC refining margins



— Argus Media Consulting Services

North America gasoline yield



— EIA, Argus Media Consulting Services

- As the conflict in the Middle East reignited in July, refining margins in northwest Europe, the Mediterranean and the US Gulf coast rose to record highs. West of Suez markets faced additional strain from Ukrainian drone strikes on Russian refineries and critically low water levels in the Rhine river.
- Across all regions, rising diesel and gasoline cracks drove the majority of the strength in margins in July, followed by jet fuel.
- Tightness in product markets has centred on middle distillates leading to refiners to maximising middle distillate output at the expense of gasoline and fuel oil output. In the US for example, gasoline yields have averaged 50.6pc between March and July, 1.0 percentage points lower than the same period last year.
- However, the conflict has now spilled over into the northern hemisphere peak summer driving season and having trimmed gasoline yields, gasoline markets have tightened dramatically. That in turn will force refiners to reverse the optimisation that had seen middle distillate yields maximised at the expense of gasoline yields, which in turn will further tighten middle distillate markets.
- As such, we think refining margins will remain elevated in August, remaining close or slightly higher than July levels, before an assumed easing of the conflict over the remainder of the year leads to refining margins coming down from the record highs seen in July and expected to be seen in August, but nevertheless remaining significantly higher than typical for the remainder of the year.

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