

Crude Compass: Tighter Balances, Higher Risks

Weekly Oil Market Dossier: July 16, 2026

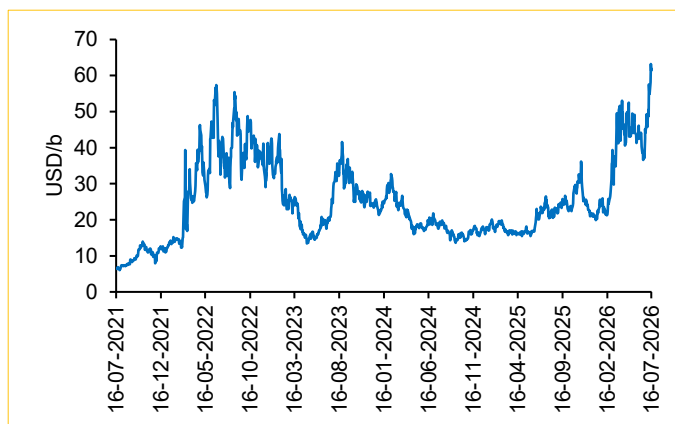
Developments over the past week:

- **Hormuz Tensions Escalate:** Geopolitical tensions intensified this week as the US resumed military strikes on Iran and reinstated its blockade of Iranian shipping, following the collapse of the interim peace agreement. Iran reiterated that the Strait of Hormuz would remain closed until its demands are met, while the International Maritime Organization warned that the waterway remains unsafe for commercial navigation. The renewed uncertainty pushed Brent crude above USD85/b, reflecting a higher geopolitical risk premium
- **IEA Warns of Rising Global Energy Risks:** The International Energy Agency (IEA) cautioned that prolonged disruptions in the Strait of Hormuz could pose a significant risk to the global economy if normal shipping is not restored within weeks. The agency highlighted that while developed Asian economies would face supply challenges, import-dependent nations such as India, Pakistan and Bangladesh remain particularly vulnerable to sustained disruptions in oil and gas flows
- **Russian Refining Disruptions Tighten Diesel Markets:** Ukraine's continued attacks on Russian refineries have reduced Russia's crude processing to its lowest level since 2005, prompting Moscow to ban exports of gasoline, jet fuel and diesel. The resulting decline in Russian product exports has tightened global diesel balances, driving refining margins and gasoil cracks sharply higher as importers increasingly compete for replacement supplies from the US, India and the Middle East.

In our opinion:

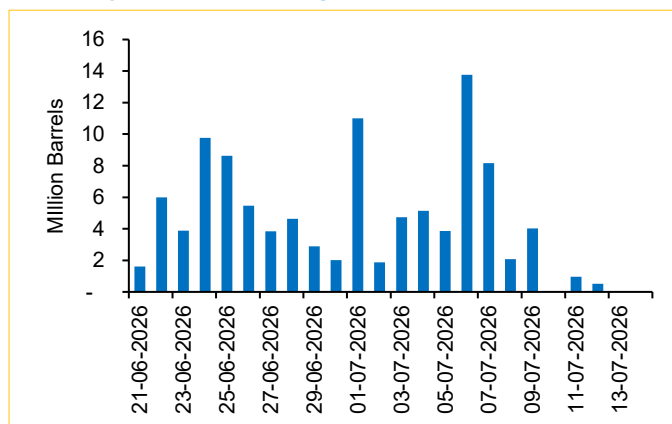
- The renewed disruption in the Strait of Hormuz has emerged at a time when global inventories have already been significantly depleted following several weeks of supply deficits. With inventory buffers considerably lower than during the first disruption, any prolonged restrictions on crude and product flows could trigger a sharper price response than previously witnessed as consumers increasingly compete for a shrinking pool of available barrels. **We estimate there is an apparent demand of 900 million barrels for calendar year 2026 which bakes in disruptions in Strait of Hormuz and interim ceasefire**
- Diesel balances continue to tighten as Russian refining disruptions coincide with Middle East supply risks. We expect elevated **diesel cracks to persist, providing a meaningful earnings tailwind for MRPL and CPCL given their diesel-heavy product slate**
- **Provided the flows through Strait of Hormuz were materially higher during second half of June as compared to our previous assumption wherein we estimated that flows would take at least 3 month to normalize, we now believe that replenishment of flows could be much faster. Therefore, we estimate Brent price to average at USD82/b for FY27. However, we note upside risk to our estimate if the current blockade extends beyond 3-4 weeks**

Ex:1 Spread of Gasoil and Brent September Futures



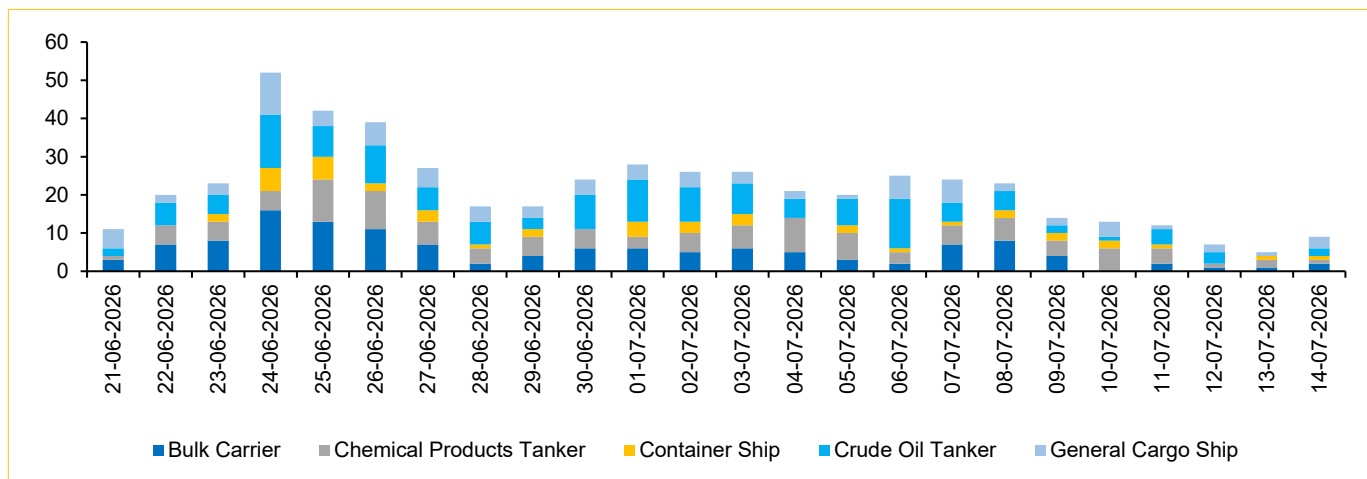
Source: Bloomberg, Choice Institutional Equities

Ex:2 Daily Movement through Strait of Hormuz of Crude Oil



Source: Bloomberg, Choice Institutional Equities

Ex:3 Total Tanker Movement through Strait of Hormuz



Source: Bloomberg, Choice Institutional Equities

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Large Cap*

BUY	The security is expected to generate upside of 15% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 15% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -5% over the next 12 months
SELL	The security is expected to show downside of 5% or more over the next 12 months

Mid & Small Cap*

BUY	The security is expected to generate upside of 20% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 20% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -10% over the next 12 months
SELL	The security is expected to show downside of 10% or more over the next 12 months

Other Ratings

NOT RATED (NR)	The stock has no recommendation from the Analyst
UNDER REVIEW (UR)	The stock is under review by the Analyst and rating may change

Sector View

POSITIVE (P)	Fundamentals of the sector look attractive over the next 12 months
NEUTRAL (N)	Fundamentals of the sector are expected to be in stasis over the next 12 months
CAUTIOUS (C)	Fundamentals of the sector are expected to be challenging over the next 12 months

*Large Cap: More Than INR 20,000 Cr Market Cap

*Mid & Small Cap: Less Than INR 20,000 Cr Market Cap

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