Crude Compass: Hormuz Risk Deepens the Product Squeeze

Weekly Oil Market Dossier: Aug 21, 2026

Choice Institutional Equities

Developments over the past week:

- The oil market is increasingly pricing in a **prolonged disruption to Middle East supply flows**, as uncertainty around US–Iran negotiations persists and tanker movements through the Strait of Hormuz remain constrained. Brent rose **2.4% on August 20 to USD93.78/bbl, its highest level since July 24**. The focus has consequently shifted from the immediate supply impact to how long the disruption could last. A sustained reduction in Gulf exports could tighten global balances, particularly if inventories continue to fall, keeping **a sizeable geopolitical premium embedded in crude prices.**
- The supply disruption is increasingly being felt in **refined products rather than crude**, with diesel emerging as the most constrained segment. US distillate inventories fell **1.5 million barrels to 105.6 million barrels**, around **13% below the five-year seasonal average**, despite refinery utilisation reaching 97.2%. US diesel exports also reached around **1.9mb/d in early August**, as international buyers competed for limited supplies. This combination of strong refinery runs and declining inventories highlights the severity of the product squeeze, supporting **gasoil cracks and refining margins**.
- China is redirecting more of its crude purchases towards **Russian barrels**, increasing competition with Indian refiners for discounted supplies. Chinese seaborne imports of Russian crude are estimated at around 1.25mb/d in August, while India's Russian crude intake has dropped to 1.87mb/d, from more than 2.7mb/d during June – July.

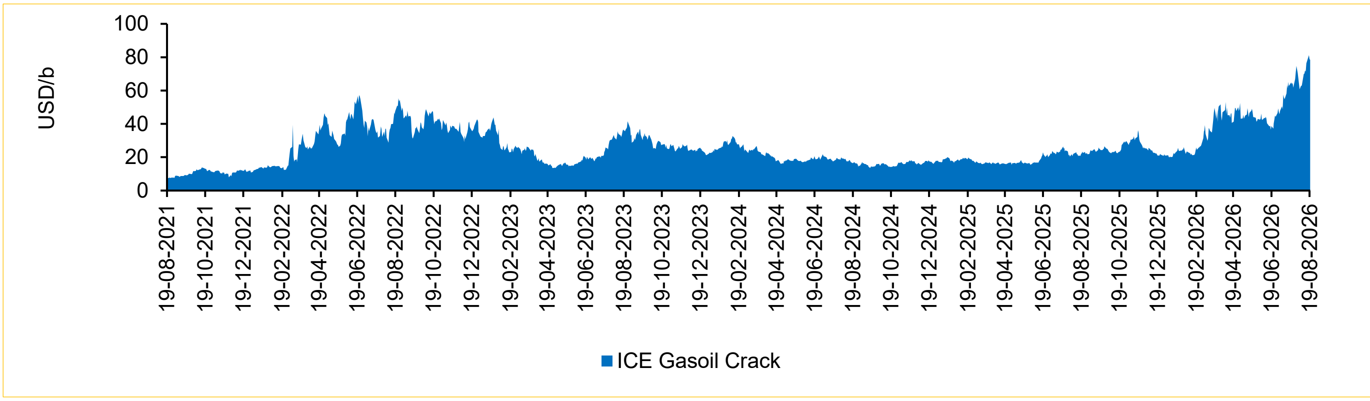
In **our opinion**:

- Oil markets are transitioning from a crude-supply shock to a broader product tightness cycle. We expect elevated gasoil cracks and refining margins to persist as constrained Gulf exports, refinery outages and low inventories limit product availability. This should provide **a strong earnings tailwind for CPCL and MRPL. We have BUY rating on both with target prices of INR 1,540/share and INR 215/share, respectively.**
- China's rising Russian crude intake is not merely a substitution trade; it could reshape Asia's marginal crude economics. If this persists, **India may increasingly compete for Atlantic Basin barrels, which ultimately put upward pressure on oil prices**. However, this increase in oil prices **would push distillate price further up**, provided the Strait remains blocked and **as explained in our Refinery Thematic report**.
- **We now expect Brent prices to average at USD86/b during the quarter from our previous estimate of USD85/b. Meanwhile, we raise our Q3FY27 estimate from USD72/b to USD75/b.** The increase is attributed continued disruption to production in Middle, aggressive return of Chinese demand in oil markets, broader absorption of 400 million barrels of IEA release and US inventory at bare operational levels.

As a results of the above, we increase our FY27 Brent estimate from USD82/b to USD84/b.

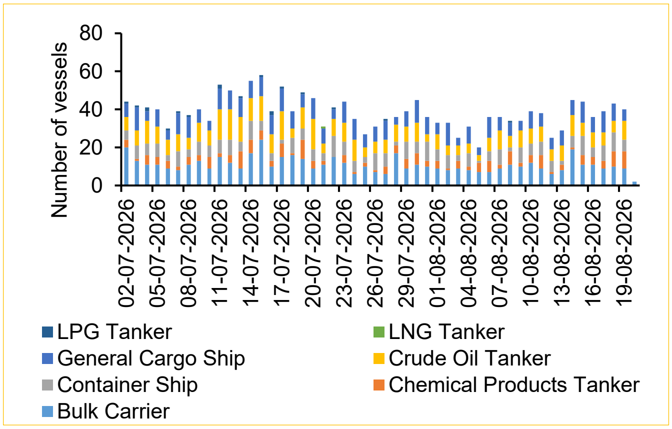
Oil Weekly

Ex:1 ICE Gasoil Crack Continues to Reach Record Highs



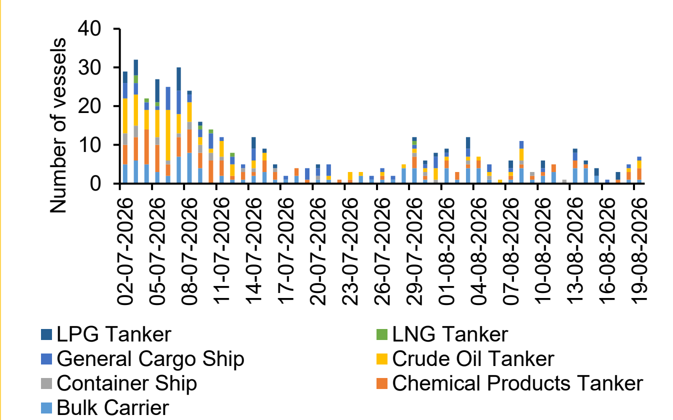
Source: Bloomberg, Choice Institutional Equities

Ex:2 Total Tanker Movement through Bab el-Mandeb



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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