Crude Compass: Risk Premium Keeps Prices Elevated

Weekly Oil Market Dossier Feb 12, 2026

Choice
Institutional Equities

Developments over the past week:

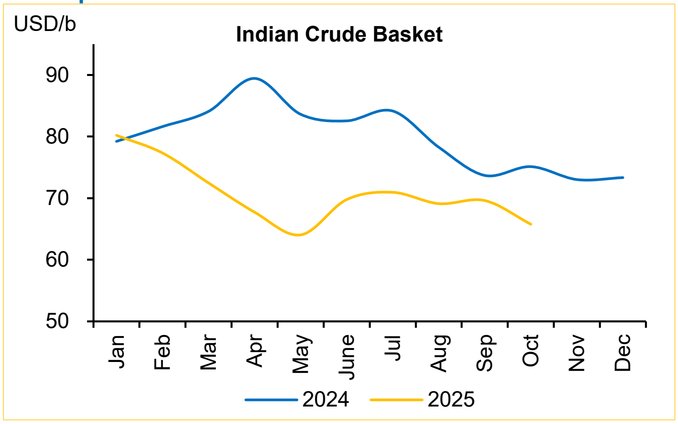
- Brent prices climbed closer to USD 70/b as US – Iran tensions rose and a major naval buildup unfolded in the Gulf. However, the Iranian president said his country was open to admitting international inspectors to demonstrate that its nuclear programme was peaceful.
- According to market reports, Lukoil's Volgograd refinery, a major facility with a 300kbd capacity, caught fire following overnight drone strikes on February 10-11. The refinery supplies Russia's southern regions and export markets.
- In January 2026, OPEC+ members participating in the production-cut agreement collectively produced about 37.2 million bpd, roughly 643 kbd below the target they had set – reflecting slower implementation.

In our opinion:

- Oil markets continue to bake in about USD6-8/b of geopolitical risk premium in the current prices. If tensions de-escalate or diplomatic progress occurs, the risk premium could unwind, pulling prices down. However, an escalation may lead to further spikes in oil prices.
- Disruptions at Russian refinery facilities have tightened the supply of middle-distillate fuels, lifting Asian crack spreads higher and strengthening refining margins. This has bolstered profitability for India's pure-play refiners amid ongoing supply-side stress.
- OPEC+ should hike the output during the meeting scheduled on March 1 in order to continue to its effort to regain the market share. However, the real impact on oil markets will depend on the extent of the production increase and not merely the announcement.

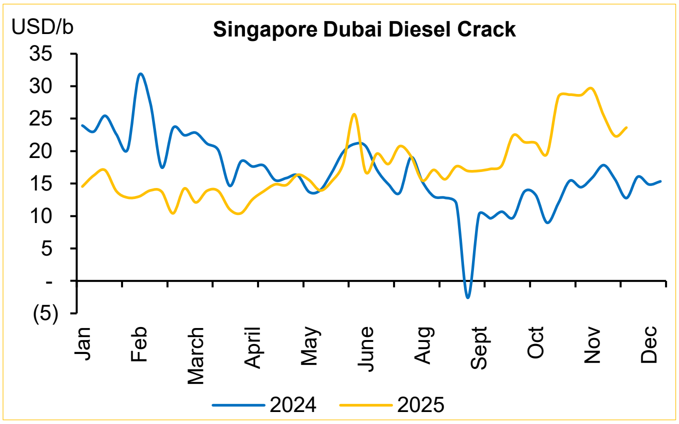
Overall, we continue to expect Brent to average at USD 61.5/b in 2026 in the backdrop of increased competition as a result of (a) relentless supply of oil from the US, (b) gradual unwinding of cuts by OPEC+ and (c) possible removal of sanctions.

Lower prices continue to benefit refiners in India



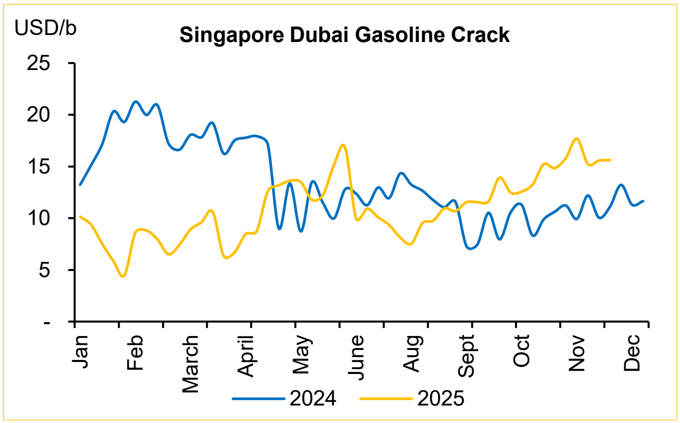
Source: Bloomberg, Choice Institutional Equities

Tight market conditions led to strong uptick in Q3 FY26



Source: Bloomberg, Choice Institutional Equities

Higher Sequentially and on Year-on-Year basis



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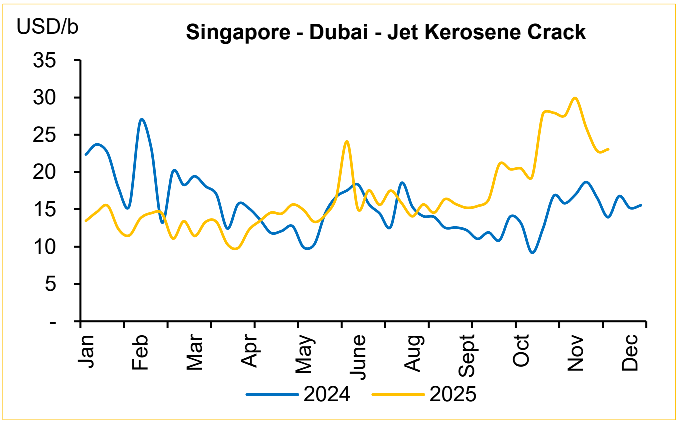
2025 cracks trending much in line with Diesel



Source: Bloomberg, Choice Institutional Equities

Oil Weekly

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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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