Crude Compass: Geopolitical Risk Returns as Chinese Refinery Runs Rise

Weekly Oil Market Dossier: Sept 03, 2026

Developments over the past week:

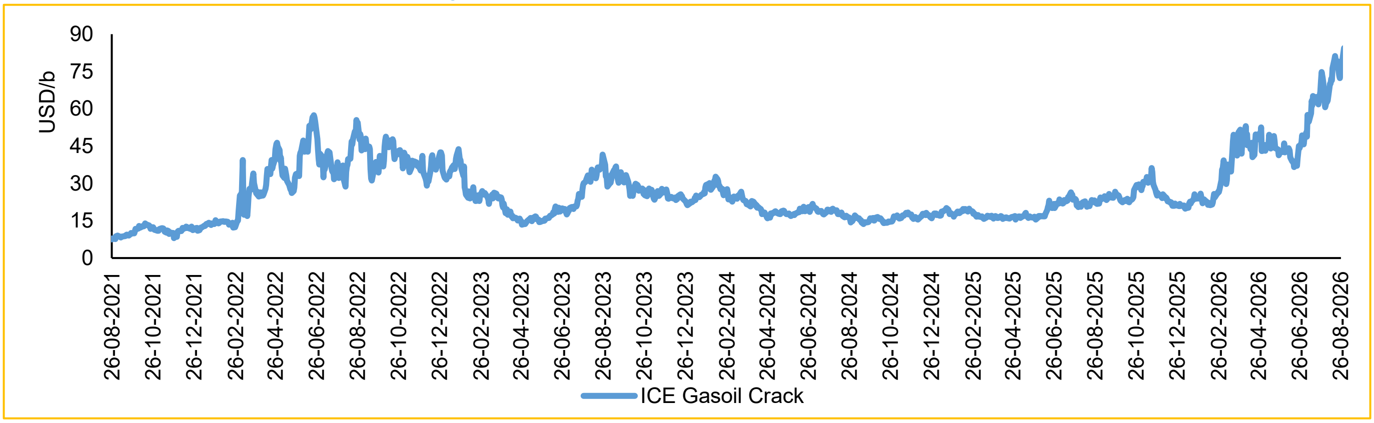
- US-Iran tensions escalated again after a month of relatively limited fighting, with both sides carrying out fresh attacks across the region. The renewed conflict could disrupt the recovery in oil shipments through the Strait of Hormuz. Supply concerns pushed Brent above USD 95/b, while natural gas and diesel prices also increased.
- China's oil-product exports are expected to recover further as higher crude flows through the Strait of Hormuz support refinery operations and ease earlier restrictions. Planned clean-product exports exceed 4 Mt in September versus ~3.5 Mt in August. Actual gasoline, jet fuel and gasoil shipments reached a one-year high of ~2.9 Mt in August, up from below 0.8 Mt in April and versus average monthly exports of ~2 Mt during January–July.
- Diesel margins surged to record highs as renewed US-Iran tensions raised concerns over middle-distillate supply disruptions. The ICE gasoil crack increased by USD 6.6/b to a record USD 84.4/b, the highest since data began in 2011.

In our opinion:

- If the current situation persists, renewed US-Iran escalation, coupled with rising Chinese refinery throughput and stronger crude demand, could exert further upward pressure on oil prices. Any renewed disruption to Strait of Hormuz flows could further tighten physical crude availability and **sustain the geopolitical risk premium**.
- Record ICE gasoil cracks of USD 84.4/b indicate that **middle-distillate supply remains particularly constrained**. Despite recovering Chinese exports, renewed geopolitical risks **could keep diesel cracks elevated, supporting refining margins for refiners** with high diesel exposure.
- While higher crude prices remain a headwind for OMCs, CPCL and MRPL continue to benefit from strengthening diesel cracks, with diesel prices rising faster than crude, as detailed in our Refinery Thematic report. The **upcoming September–November refinery maintenance cycle should further tighten product availability and provide additional support to refining margins**. We have TP of INR 215/sh and INR 1,540/sh for MRPL and CPCL respectively, implying current upside of 22.7% and 9.9% respectively.

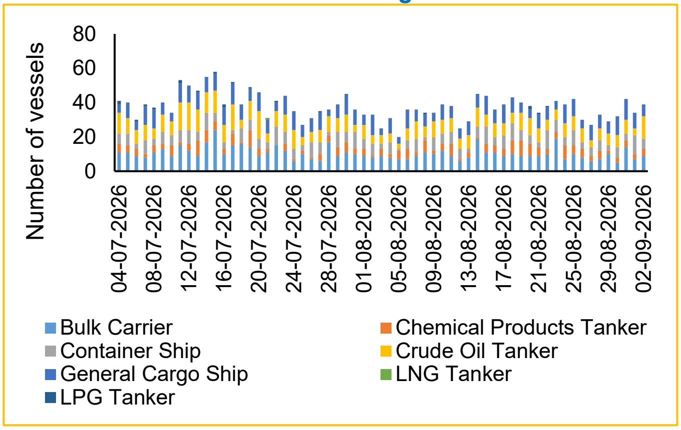
We expect Brent price to average at USD84/b for FY27 and USD86/b for the current quarter (July-Sept 2026).

Ex:1 ICE Gasoil Crack Continues to Stay Elevated



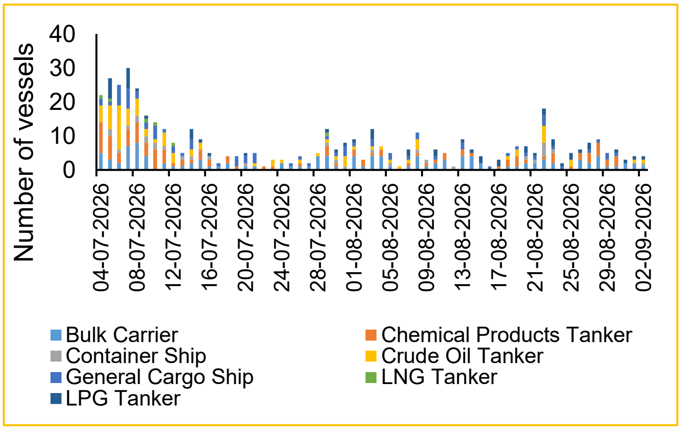
Source: Bloomberg, Choice Institutional Equities

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