

Flash

Diesel Markets

The Good, the Bad and the Ugly: is the Cavalry coming?

Key Messages

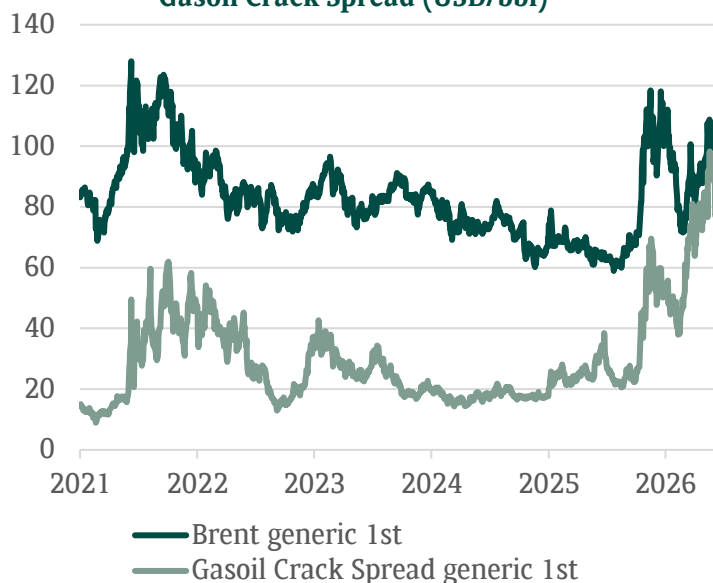
1. The US-Iran war-induced energy shock has turned into a refined products shock. The premium for a refined product, such as diesel, is now nearly as high as the price of crude oil itself.
2. **The Good.** Europe still has close to 390 million barrels of diesel inventories, more than 60 days of final demand. This volume far exceeds that of the US or Asia.
3. **The Bad.** Net exports of refined products from the Middle East remain well below 50% of pre-war levels. Moreover, net gasoil exports from the Middle East and Russia have dropped by 1.3 million barrels per day from a year ago.
4. **The Ugly.** The cost to ship crude from the Middle East to Asia has increased tenfold since the start of the US-Iran war, squeezing refinery margins outside the Gulf and threatening global diesel supply.
5. **The Cavalry?** The International Energy Agency pledged on 15 October to exceed the volume of oil stock releases agreed in March. They confirmed that over 20 million barrels of diesel would be released as soon as possible.

2026: a refined products shock

Since the start of Operation Epic Fury on 28 February, the market has faced the second major energy shock in five years. Unlike the shock in 2022, when natural gas prices were making most of the headlines, the 2026 shock is proving to be a refined products shock. The gasoil crack spread (the difference between the price of gasoil and crude oil) has widened significantly since the start of the conflict. Today it is trading well above the 2022 peak (see Chart 1).

In this paper, we will focus on the three main drivers of the diesel market: inventories, Middle East flows and refining capacity. We will assess whether the statement from the IEA (International Energy Agency) of 15 October on extra inventory releases will provide the necessary relief. Finally, we will look beyond the crisis at the structural demand trends that will shape diesel prices when supply normalises.

Chart 1: Brent crude (USD/bbl) and the Gasoil Crack Spread (USD/bbl)



Source: FactSet

The Good: diesel inventories

On 11 March, the 32 members of the IEA agreed to release 412 million barrels of oil from their reserves. So far, just over 300 million barrels have been released. Only around 10% of this volume is diesel, with the bulk being crude oil. While this unequal distribution has helped to keep crude oil prices in check, it has made diesel markets vulnerable.

Mattias Demets

Commodity Strategist
BNP Paribas Wealth Management



BNP PARIBAS
WEALTH MANAGEMENT

The bank
for a changing
world

Table 1: Diesel/gasoil inventories, Europe vs. US (million barrels)

Month	Europe	US
Jan 26	401.5	127.2
Feb 26	406.8	121.4
Mar 26	401.8	118.7
Apr 26	399.0	106.0
May 26	405.6	106.3
Jun 26	397.8	109.4
Jul 26*	387.6	108.7
Aug 26*	393.0	107.9
Sep 26*	387.0	111.2

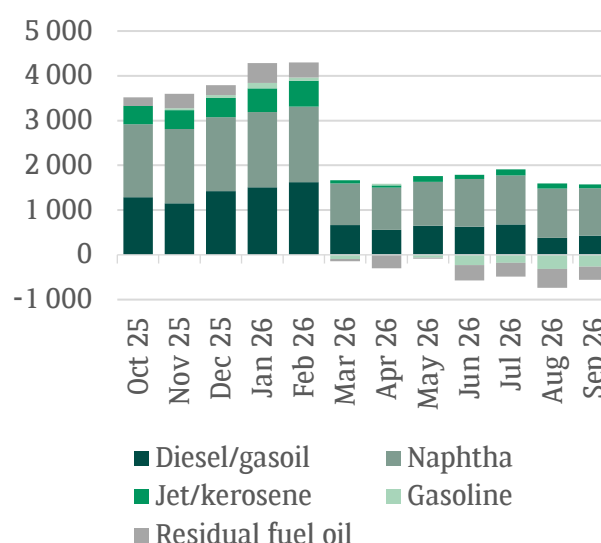
Source: S&P Global Energy. Europe: closing stocks, total Europe. US: ending stocks, sum of PADDs 1-5. *S&P estimates

Since the start of the US-Iran war, Europe has been reluctant to release its diesel reserves. According to S&P Global Energy's estimates, European diesel inventories (commercial and strategic) decreased by only 20 million barrels between February and September. This left Europe with 387 million barrels of diesel reserves in September, far more than the 111 million barrels held in the US. Nearly all US stocks are commercial and are therefore harder to unleash in a coordinated way, whereas Europe's inventories are partly strategic. We therefore argue that Europe, which holds diesel reserves totalling more than 60 days of demand, still has the capacity to stabilise the market, if needed.

The Bad: flows of refined products from the Middle East

Crude oil prices have so far been kept under control, largely by surprisingly resilient flows from the Middle East. According to Kpler data, crude oil flows in the last two weeks of September and early October were extremely close to pre-war levels. They included both flows through the Strait of Hormuz and through pipelines. Refined product flows, however, paint a bleaker picture. S&P's supply-demand balance data indicate net exports of refined products from the Middle East at below 50% of pre-war levels (see Chart 2).

According to the IEA, combined net gasoil exports from the Middle East and Russia dropped by 1.3 million to 820k barrels per day in September (YoY). By way of reference, Europe imported between 1.1 and 1.6 million b/d of diesel in 2025, so the combined export losses from the Middle East and Russia equal, or even exceed, the total volume of diesel that Europe used to import. Much of the lost volume has been replaced by a higher volume of imports, mainly from the United States and, to a lesser extent, India.

Chart 2: Middle East refined product balance – net exports (thousand b/d)

Source: S&P Global Energy.
Net exports = estimated supply minus demand

The Ugly: tanker rates and the impact on refining activity

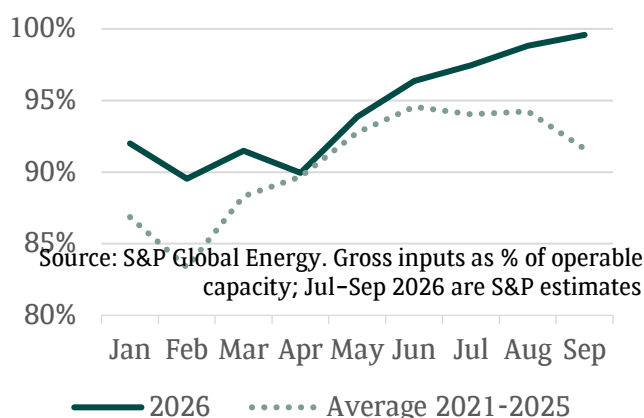
Ironically, the flaw of the global diesel market may not be the flows or the inventories, but rather the cost of moving crude oil across the globe. Iran owns over 10% of global stocks in very large crude carriers (VLCC), a fleet which is now mostly stranded. This diminished availability of VLCCs contrasts with the increased demand for tanker capacity, for two reasons.

First, tanker voyages have become longer as ships avoid the riskiest routes. Second, tankers are wasting time due to ship-to-ship transfers in the Gulf of Oman. The cost of shipping crude from the Middle East to China (the tanker rate) now exceeds USD 30 per barrel, or more than ten times the pre-war level.



The increased cost of transporting crude oil is having major consequences for refineries across the globe. This is particularly the case in Asia, where refineries' margins are being squeezed by higher crude transportation costs, which may, in turn, disincentivise refinery runs. This leaves three possible outcomes: i) Asian refiners cut crude imports because freight is simply too expensive, which would eventually bring tanker rates down; ii) gasoil cracks widen further, keeping it profitable for them to import crude; iii) the US could ease sanctions on shadow fleet vessels. Easing sanctions on Russian, Iranian and Venezuelan vessels would significantly ease tanker shortages, improve the economics of refineries and ultimately boost refinery runs. This would be helpful, as US refineries are running close to 100% of capacity (see Chart 3) and cannot compensate for lost production elsewhere in the world.

Chart 3: US refinery utilisation rate, 2026 vs. 2021-2025 average (%)



What to expect for diesel markets

In the short term, diesel markets will remain tight. Middle East exports are slow to recover, Russian refining capacity is impaired as Ukrainian drone strikes have damaged Russian refineries, and record tanker rates are straining refinery economics worldwide. Inventories, however, are the silver lining. Europe has the reserves to make a meaningful contribution. Furthermore releasing reserves over and beyond the level agreed during IEA meetings is not unusual. Such a release would help to stabilise markets and therefore buy time to find a solution in the Middle East, or to allow refined product flows to normalise.

Beyond the supply crisis, however, demand tells its own story. The IEA has reported a 750,000 b/d contraction (YoY) in gasoil demand in the third quarter of 2026. Europe and China accounted for the largest share of the decline, on the back of lower transportation demand and diminished demand for non-transport gasoil. The decline is partly price-driven demand destruction, but also structural. Today, more than 50% of new cars sold in China are electric compared with around 30% in Europe. The fleet of combustion-engine vehicles in these regions will therefore shrink steadily. Once supply normalises, we would expect diesel prices to fall back towards historical levels. The precise timing of that is ultimately a political question.

The Cavalry? The IEA statement

On 15 October, the IEA's Governing Board statement confirmed the IEA Members' intention to release more than the 400 million barrels, that was agreed in March. With respect to diesel, the statement confirms that over 20 million barrels of diesel would be released as soon as possible. While falling short of mentioning specific and convincing numbers, the intention of the Members to stabilise the market is clear. It is not unusual that specific details and numbers follow later. The extent to which the initial 400 million barrels will be exceeded will mostly determine whether this episode will stabilise the market or prove to be a drop in the ocean. European diesel inventories, however, are sufficient to exceed the expectations outlined in this statement.



CONNECT WITH US



wealthmanagement.bnpparibas

DISCLAIMER

This marketing document is communicated by the Wealth Management Métier of BNP Paribas, a French Société Anonyme, Head Office 16 boulevard des Italiens, 75009 Paris, France, registered under number 662 042 449 RCS Paris, registered in France as a bank with the French Autorité de Contrôle Prudentiel et de résolution (ACPR) and regulated by the French Autorité des Marchés Financiers (AMF). As marketing material, it has not been prepared in accordance with legal and regulatory requirements aimed at ensuring the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination. It has not been submitted to the AMF or any other market authority.

This document is confidential and intended solely for the use of BNP Paribas SA, BNP Paribas Wealth Management SA or their affiliates ("BNP Paribas") and the persons to whom this document has been delivered. It may not be distributed, published, reproduced or disclosed by any recipient to any other person, nor may it be quoted or referred to in any document, without the prior consent of BNP Paribas.

This document is provided solely for information and shall not constitute an offer or solicitation in any state or jurisdiction in which such an offer or solicitation is not authorized, or to any person to whom it is unlawful to make such offer, solicitation or sale. It is not, and under no circumstances is it to be construed as, a prospectus.

Although the information provided herein may have been obtained from published or unpublished sources considered to be reliable and while all reasonable care has been taken in the preparation of this document, BNP Paribas does not make any representation or warranty, express or implied, as to its accuracy or completeness and does not accept responsibility for any inaccuracy, error or omission. BNP Paribas gives no warranty, guarantee or representation as to the expected or projected success, profitability, return, performance, result, effect, consequence or benefit (either legal, regulatory, tax, financial, accounting or otherwise) of any product or transaction. Investors should not place undue reliance on any theoretical historical information regarding such theoretical historical performance. This document may contain or refer to past performance; past performance is no guarantee for future performance.

The information contained in this document has been drafted without prior knowledge of your personal circumstances, including your financial position, risk profile and investment objectives.

Prior to entering into a transaction each investor should fully understand the financial risks, including any market risk associated with the issuer, the merits and the suitability of investing in any product and consult with his or her own legal, tax, financial and accounting advisors before making his or her investment. Investors should be in a position to fully understand the features of the transaction and, in the absence of any provision to the contrary, be financially able to bear a loss of their investment and willing to accept such risk. Investors should always keep in mind that the value of investments and any income from them may go down as well as up and that past performance should not be seen as an indication of future performance. Any investment in a product described herein is subject to the prior reading and understanding of the legal documentation concerning the product, and in particular the one which describes in details the rights and obligations of investors as well as the risks inherent to an investment in the product. Save as otherwise expressly agreed in writing, BNP Paribas is not acting as financial adviser or fiduciary of the investor in any transaction. The information, opinions and projections expressed herein reflect the opinion of their author at the time of writing; they are not to be relied upon as authoritative or taken in substitution for the exercise of judgment by anyone, and are subject to change without notice. Neither BNP Paribas nor any BNP Paribas Group entity accepts any liability whatsoever for any consequences that may arise from the use of information, opinions or projections contained herein.

As distributor of the products described herein, BNP Paribas may receive distribution fees on which you can obtain more information upon specific request. BNP Paribas, their employees or administrators may hold positions in these products or have dealings with their issuers.

By accepting this document, you agree to be bound by the foregoing limitations.

© BNP Paribas (2026). All rights reserved.

Pictures from Getty Images.



BNP PARIBAS
WEALTH MANAGEMENT

The bank
for a changing
world