

MARKET RISK LEVEL

9.8

OUT OF 10

Executive Summary

Week 43 is defined by a divergence between availability and security. Middle East crude exports have risen above pre-war levels, yet Brent exceeded \$112/bbl as markets reassessed the sustainability and cost of moving those barrels through a more dangerous maritime system.

Kpler estimates Middle East exports at about 17.3M bpd so far in October, above the 16.9M bpd pre-war average. Hormuz flows recovered to roughly 11.7M bpd, versus 9.75M bpd in September and less than 1M bpd at the April low. Saudi Red Sea exports from Yanbu also recovered near 3M bpd. These are genuine physical improvements.

They have not restored normal trade. The current system depends on protected convoys, routes near Oman, Iranian-approved passages, opaque tracking, ship-to-ship transfers, exceptional insurance and an increasing preference for delivered rather than FOB cargoes. UKMTO recorded 12 incidents in and around Hormuz last week, the highest weekly total of the conflict, and warned that actual incidents may be higher.

Security deteriorated again this week. Iran's IRGC said seven vessels were involved in separate incidents, including fires in the northern Gulf and mine strikes west of Hormuz. Houthi strikes killed people at a Saudi oil field and at a civilian airport in Dammam. The United States responded by reducing diplomatic exposure in Saudi Arabia and considering similar regional measures.

Diesel remains the structural constraint. Russia has formally restarted exports and one 300,000-barrel cargo from Primorsk is signalling Manaus, Brazil. That is a valuable new source of Brazilian optionality. But Russian diesel exports have averaged only about 345,000 bpd this year, 41% below last year, and the initial 300,000-tonne commitment equates to about 73,000 bpd over a month. Analysts estimate the global market needs another 400,000-850,000 bpd to soften prices materially.

U.S. data offer only modest relief. Distillate stocks rose 1.7M barrels to 104.3M barrels, but East Coast stocks fell to 21.0M barrels and refiners were running at 93.4%, below the 97-98% summer range due to maintenance. Entering winter, low product inventories, reduced refinery flexibility, high freight and escalation risk create an unusually difficult setup.

For Brazil, the key message is constructive but disciplined: Russian diesel should return to the active origin screen, while U.S., India, UAE/Gulf and Atlantic alternatives remain essential. The right comparison is full landed, compliant and financeable cost - not headline FOB price.

VISUAL DASHBOARD: MARKET SIGNALS

▲ Brent Crude - Conflict premium returns

\$112.17/bbl. Brent rose above \$112 as Houthi attacks, IRGC maritime escalation and U.S. diplomatic evacuations raised the probability of wider conflict.

▲ WTI - Near triple digits

\$99.83/bbl. Geopolitical risk is overwhelming otherwise softer fundamental signals.

▲ Middle East Oil Exports - Above pre-war

17.3M bpd in October, above the 16.9M bpd pre-war average.

▲ Hormuz Oil Flows - High throughput, high risk

11.7M bpd, up from 9.75M bpd in September and about 82% of normal pre-war flow.

▲ Saudi Red Sea Exports - Recovery

3M bpd. Yanbu exports recovered sharply after earlier pipeline disruption.

▲ Hormuz Attacks - Record frequency

UKMTO recorded 12 incidents last week; the true number may be higher.

VISUAL DASHBOARD: MARKET SIGNALS

▲ IRGC Maritime Escalation - Seven vessels affected

Fires and mine incidents demonstrate an expanding security threat even as volume recovers.

▲ Tanker Freight - Historic

Middle East-China rates near \$1.4M/day, more than 12 times pre-war levels.

▲ Cargo Insurance - Material cost

High-risk cover can approach 10% of cargo value, versus about 3% before the war.

▲ U.S. Distillates - Modest build, still low

104.3M barrels, up 1.7M week on week but thin for winter.

▼ East Coast Distillates - Vulnerable

21.0M barrels. PADD 1 fell further and remains heating-oil sensitive.

→ U.S. Refinery Utilization - Maintenance cap

93.4%, materially below summer operating rates.

▲ Russian Diesel - Returning to Brazil

A 300,000-barrel Primorsk cargo is signalling Manaus, while another cargo heads to Turkey.

▼ Global Diesel - Structural gap remains

Analysts estimate 400-850 kbpd of additional supply is needed to soften prices materially.

Global Oil Market Signals

1. Week 43 establishes the new abnormal: more physical crude, more tanker attacks, higher freight, lower inventory buffers and persistently expensive diesel. The world has shown it can move large volumes through a war zone; it has not shown that it can do so safely, cheaply or sustainably.
2. Crude availability is no longer the main binding constraint. Middle East exports near 17.3M bpd, Hormuz flows near 11.7M bpd and Saudi Red Sea exports near 3M bpd are large volumes. Brent above \$110 is therefore pricing the probability that these current flows cannot be sustained, not merely an absolute shortage today.
3. The producer's commercial role is changing. High freight, war-risk insurance and buyer resistance are leading Saudi Aramco and ADNOC to offer some Asian customers crude on a delivered basis. The product is increasingly a barrel plus vessel, insurance and route execution.
4. Freight now determines which crudes can trade. About 80 VLCCs are tied up in Hormuz shuttle operations, reducing normal long-haul fleet availability. U.S.-Asia shipping can cost near \$40/bbl, while West African differentials have fallen toward minus \$20/bbl to compensate. Asian refiners are shifting toward smaller vessels, long-term charters and delivered Middle Eastern crude.
5. Brazil is exposed on both sides. High freight raises Brazil's imported-diesel cost and can weaken Brazilian crude netbacks into Asia by widening the FOB discount needed to compete with Middle East, U.S. and West African alternatives.
6. IEA emergency releases buy time, not refinery capacity. Members have released roughly 330M barrels, with about 100M still to come including more than 20M barrels of diesel. These barrels can ease spot pressure but cannot permanently replace lost Russian and Middle Eastern refinery output.

Geopolitical Risk Monitor

Hormuz - Critical

Flows at 11.7M bpd and record attack frequency create a high-throughput, **high-risk corridor**. The relevant question for a charterer is no longer whether any tanker can pass. It is whether this owner, flag, cargo, insurer, route and counterparty can pass safely and economically.

Iran - Escalation risk rising

The IRGC reports seven vessels affected in the latest incidents and links tanker enforcement with potential retaliation against U.S. regional bases. The U.S.-protected convoy system cannot be assumed permanently stable.

Saudi Arabia - Infrastructure risk rising

Houthi attacks again reached an oil field and civilian airport. The key risk is escalation toward Abqaiq, Ras Tanura, the East-West Pipeline, Yanbu, offshore production or processing facilities. A successful attack on those assets would trigger an immediate repricing.

Yemen and Bab el-Mandeb - Secondary corridor risk

A Houthis ballistic-missile strike on a training camp in Shabwa demonstrated persistent missile capability. Bab el-Mandeb remains a major secondary shipping risk alongside Hormuz.

Black Sea and Baltic - Russian execution risk

Russia-to-Brazil cargoes create optionality, but Baltic logistics, sanctions complexity, vessel acceptance and banking remain execution variables. Policy permission does not by itself create reliable physical supply.

Refined Products Market

Diesel - Highest priority

Positive factors are returning Russian cargoes, a modest U.S. inventory build, IEA emergency diesel releases and alternative Chinese supply. Negative factors are impaired Russian refining, low global buffers, weak East Coast stocks, winter demand, extreme freight, constrained Middle Eastern refinery exports and worsening maritime security. The balance remains extremely tight.

Jet fuel - Second priority

Jet and diesel compete for the same middle-distillate yield. Refiners can optimize between them but cannot maximize both indefinitely. Strong aviation demand therefore remains a direct diesel-balance risk.

Gasoline - Less acute but drawing

U.S. gasoline stocks fell from 208.3M to 205.3M barrels. Gasoline is less structurally constrained than diesel, but the latest draw deserves attention and confirms limited product buffers across the system.

U.S. refining - Maintenance season matters

National utilization at 93.4% and crude inputs near 16.65M bpd are well below 17.5M+ bpd summer processing rates. Stocks were not adequately rebuilt during summer; maintenance now reduces output before winter demand fully arrives.

Impact for Brazil

The most important Week 43 development for Brazil is physical Russian supply. The Leruo departed Primorsk October 16 with about 300,000 barrels and is signalling Manaus. This is more meaningful than a policy headline: it is a real vessel, a real cargo and a declared Brazilian destination.

Brazil accounted for around 24% of Russian diesel loadings this year, according to Kpler. Russia can therefore return to Brazil's active supplier screen, adding to U.S., India, UAE/Gulf and Atlantic Basin supply options.

Russia is not yet a dependable base-case source. Exports remain 41% below last year; Russia produces around 1.4M bpd of diesel and consumes about 1.2M bpd domestically, leaving limited natural surplus. Some estimates place as much as 45% of Russian refining capacity offline.

For every Russian offer, importers must evaluate freight, war-risk cover, banking and compliance cost, counterparty acceptance, future sanctions exposure, financing, voyage execution and subsidy timing. A cheaper nominal FOB cargo is not necessarily the cheapest landed cargo.

Brazil's national supply picture remains more comfortable than global headlines imply. Domestic refining is high, Petrobras has secured imports, government support encourages private cargoes and Russian supply is beginning to return. The central risk is cost and regional logistics during agricultural peaks, not a nationwide physical shortage.

Opportunities and Risks

Opportunities

- 1. Russian diesel returns to the active comparison set. Confirmed executable cargoes can be evaluated against U.S., Indian, UAE and Atlantic alternatives.
- 2. The United States remains the most dependable large-scale **Atlantic Basin diesel** supplier.

- 3. UAE/Gulf traders are developing structures that can bypass some logistical restrictions and create product opportunities beyond traditional direct export routes.
- 4. Freight-driven discounts in West African and other long-haul crude grades can create exceptional arbitrage for buyers with advantaged tonnage.
- 5. A genuine geopolitical stabilization could lower landed diesel cost faster than FOB diesel because tanker rates are exceptionally elevated.

Risks

- 1. Hormuz attack frequency has never been higher despite recovered volume.
- 2. Saudi infrastructure attacks could expand to processing, export or pipeline assets.
- 3. Russian promised volumes may be impossible to deliver if refinery availability remains impaired.
- 4. Winter demand meets U.S. distillate stocks near 104M barrels and PADD 1 at 21M.
- 5. Freight can keep delivered diesel expensive even if crude and cracks weaken.
- 6. U.S. sanctions relief does not eliminate UK, European or corporate compliance restrictions on Russian cargoes.
- 7. Global inventory buffers remain abnormally low, leaving the system vulnerable to any fresh disruption.

Most Practical Action Points for Brazil

1. Immediately add Russian diesel to the active cargo comparison sheet using executable offers only.
2. Compare Russia, U.S. Gulf, India and UAE on full landed economics: product premium, freight, war-risk cover, compliance, banking, financing, demurrage, subsidy, reimbursement timing and probability of execution.
3. Do not select Russian diesel solely because headline FOB is lower; risk-adjust every offer.
4. Track live freight daily. It is now one of the three most important commercial variables.
5. Maintain U.S. Gulf relationships. Russian supply adds optionality; it does not replace diversification.
6. Monitor the Leruo voyage, arrival and discharge in Manaus as evidence of whether the Russia-Brazil lane is functioning again.
7. Track U.S. distillates around 100M barrels and PADD 1 independently around 21M barrels.
8. Treat Middle East export volumes as resilient but not secure. High throughput does not equal normalized navigation.
9. Model Brazilian support as gross landed cost minus eligible subsidy plus financing until reimbursement.
10. Maintain at least four executable supplier channels through Q4.

What to Watch Next Week

- Russian diesel to Brazil - Does Leruo continue to Manaus and discharge successfully? Do additional Baltic cargoes nominate Brazil?
- Russian volumes - Can Moscow demonstrate enough refinery surplus to meet the announced supply agreement?
- U.S. inventories - Monitor national distillates, PADD 1, gasoline, refinery utilization and product exports.
- Hormuz - Does IRGC escalation reduce flows from about 11.7M bpd or worsen insurer acceptance?
- Saudi Arabia - Watch oil fields, Ras Tanura, Abqaiq, pipelines, Yanbu, airports and logistics.
- U.S. midterm election - The November 3 vote is an explicit geopolitical marker; the market sees escalation risk as potentially higher afterward.
- Freight - Does Middle East-Asia VLCC pricing remain near \$1.4M/day? A sharp decline would reduce delivered cost even if Brent remains above \$100.
- Brazil - Track Russian cargo arrivals, import parity, private importer activity, subsidy reimbursement, Petrobras utilization and regional agricultural demand.

Week 43 Decision Lens

1. Recovering crude flow is not normalization. The sustainability, cost and security of the delivery system matter more than headline export volume.
2. Treat freight and insurance as price-setting fundamentals, not add-ons. They now change trade routes, refinery economics and Brazilian export netbacks.
3. Russian diesel is a tangible new option for Brazil, but remains an opportunity origin rather than a dependable base source.
4. Prefer diversified, executable optionality over volume accumulation. The market remains vulnerable to a single infrastructure or maritime shock.
5. Assess each Brazilian cargo on true landed, compliant and financeable cost after support and reimbursement timing.
6. Keep diesel ahead of Brent in Brazil's operational dashboard: the cost of physically delivering compliant diesel is the commercial indicator that matters.

Bottom line: Week 43 proves that volume recovery is not normalization. Middle East exports near 17.3M bpd, Hormuz flows near 11.7M bpd and Saudi Red Sea exports near 3M bpd reflect an extraordinary physical adaptation. But Brent near \$112, record attacks, freight near historic highs and insurance near 10% of cargo value show that the system is functioning under exceptional stress.

Diesel remains the core structural problem. U.S. distillates rose to 104.3M barrels but East Coast stocks are only 21M, utilization is 93.4% during maintenance, and the market still needs an estimated 400-850 kbpd of additional supply to materially soften price. Russian exports help at the margin but are far too small and operationally uncertain to close that gap.

For Brazil, the arrival of a Russian cargo heading toward Manaus is a strategically meaningful improvement in sourcing optionality. Bring Russia back into the comparison, while preserving U.S., India, UAE/Gulf and Atlantic channels. Price every origin on live freight, insurance, compliance, financing, subsidy and execution risk. The market is operating - but through military protection, exceptional freight, high insurance, government intervention and depleted inventories. That is the new abnormal.

Sources and attribution

[1] Reuters and Kpler - Middle East exports, Hormuz flows and incidents, Russian diesel loadings, U.S. inventories, Houthi attacks and regional escalation. Research dated October 22, 2026.

[2] EIA - U.S. commercial crude, gasoline and distillate stocks, refinery utilization, crude inputs and regional PADD 1 conditions.

[3] IEA - emergency oil and diesel releases, global inventory buffers, refinery constraints and middle-distillate market structure.

[4] Vitol, Baringa and market reporting - tanker availability, freight economics, incremental diesel requirement and Brazilian procurement implications.

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