

Energy Market Drivers:

Physical markets tighten across crude, diesel, HSFO and gas as freight rates soar and Trump seeks lower energy prices ahead of the midterms

October 16, 2022

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Crude oil and geopolitics: High physical premiums and tanker rates expose a fragile supply recovery

Brent futures have traded within a relatively narrow USD 103–107/bbl range this week and are around USD 105/bbl on Friday morning. This relative stability masks continued tightness in the physical market. Buyers still pay substantial premiums for crude, transportation costs remain exceptionally high, and attacks on shipping are increasing. However, broader financial concerns are weighing on energy market sentiment, helping to keep prices range-bound.

Dated Brent was assessed at USD 134.1/bbl on Monday before easing to USD 126.4/bbl on Thursday. It therefore remains well above Brent futures. The benchmarks cover different delivery periods, but the gap underlines the cost of securing prompt physical supply.

The premiums paid for individual cargoes reinforce that signal. According to S&P Global/Platts, a Forties cargo traded on Monday at more than USD 19/bbl above Dated Brent for loading in early November. A WTI Midland cargo for delivery into Rotterdam traded at more than USD 22/bbl above Dated Brent. These premiums apply to the relevant pricing periods and should not simply be added to the same day's Dated assessment. Nevertheless, they show how aggressively buyers are competing for available light, sweet crude.

High tanker rates are a significant part of the problem. Shipping crude from the US Gulf Coast to China has recently cost around USD 40/bbl. This increases demand for barrels closer to the buyer and limits the ability to move oil between regions. A lower price at the loading port does not necessarily translate into cheaper delivered crude.

For refiners, the combination of expensive physical crude and high freight costs can squeeze margins even when product cracks against Brent futures appear attractive. We see a risk that this limits the production response to high diesel prices. The market needs more refined products, but some refiners face rising costs and difficulties securing feedstock.

Meanwhile, the recovery in Middle Eastern exports is becoming more fragile. UKMTO has reported 26 incidents so far in October, markedly more than in September.

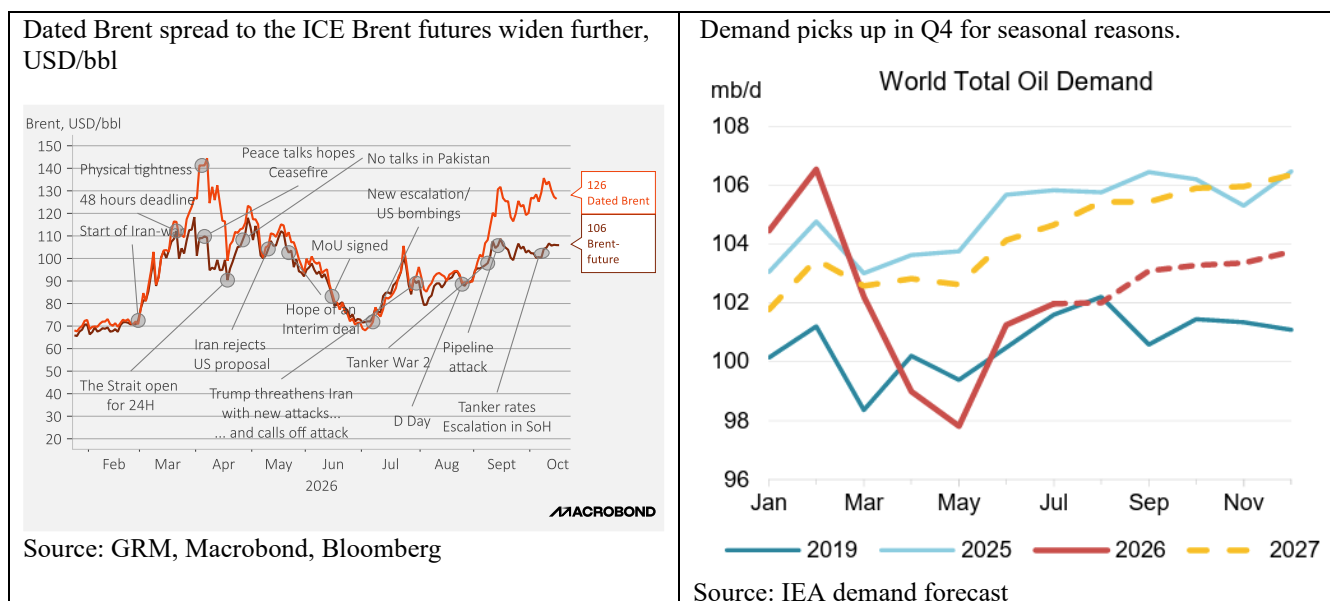
Bloomberg also reported that at least ten empty VLCCs and several Suezmax tankers had stopped or turned away while approaching Fujairah. This matters because ship-to-ship transfers outside Hormuz have helped sustain exports. If larger tankers stay away, that system becomes less effective. Iran does not need to close the strait completely to disrupt supplies.

The IEA's October report illustrates the vulnerability. Global oil demand is forecast to fall by 2.6 mb/d in 2026, but observed inventories were still 509 million barrels below end-February levels at the end of September. Onshore stocks fell by 113 million barrels during September, largely offset by an increase in oil at sea. Oil in transit provides less immediate protection against local shortages. As the chart below illustrates, oil demand also picks up seasonally in Q4.

The latest US figures also showed an 8.6 million barrel draw in crude inventories. Lower imports and hurricane-related production disruptions contributed, so the decline should not be read solely as a sign of stronger demand.

Washington is considering allowing non-sanctioned oil to be carried on some sanctioned tankers to increase shipping capacity. No decision has been made. We doubt this would provide substantial relief: many of these vessels are already operating, while insurance constraints, vessel condition and remaining European restrictions would limit their wider use.

We maintain our view that a lasting US–Iran agreement before the November midterms is unlikely. Our central scenario remains a more durable reopening of Hormuz in Q2 2027. Weaker demand and financial market volatility can push futures lower, but physical premiums, depleted inventories and shipping risks leave the market exposed to renewed price increases.



Diesel, gasoil and MGO: Trump seeks lower prices, but the supply shortage remains

Trump is pursuing several routes to lower diesel prices ahead of the midterms: Russian deliveries, pressure on Ukraine to halt refinery attacks, faster European stock releases and the continued threat of US export restrictions. These measures can move prices short-term. Their ability to restore sustained supply is much more limited as long as the conflict in the Middle East remains unresolved.

The initially announced Russian deliveries total 1.8 million tonnes across October–December, equivalent to around 146,000 b/d averaged over the quarter. As discussed in my LinkedIn post from Saturday, this is approximately 15% of Russia’s diesel/gasoil exports at its H1 2025 pace. These are promised deliveries, not necessarily an equivalent increase in global supply. Novak’s subsequent suggestion of exports reaching 3–3.5 million tonnes per month would matter much more, but depends on refinery recovery.

The deterioration in relations between Trump and Zelenskyy makes that recovery less certain. Ukraine has resumed attacks on Russian refineries after continued Russian strikes on its energy infrastructure. Trump criticised the renewed attacks in an interview aired Thursday. The energy ceasefire has therefore failed to provide a reliable basis for higher Russian output.

Thursday’s IEA announcement offers more immediate relief. Members will accelerate outstanding March commitments, including more than 20 million barrels of diesel. Around 330 million barrels have already been released. Some countries are exceeding their original pledges, but this is primarily faster delivery of previously promised stocks rather than a substantial new release. The threat of US diesel export restrictions remains.

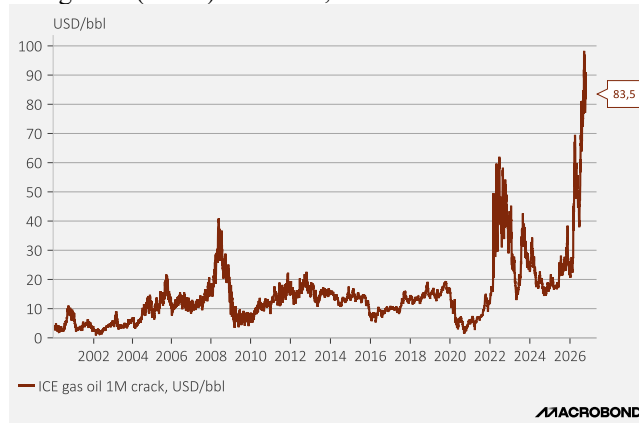
We expect the releases to ease near-term pressure, but they cannot repair refineries or restore regular exports. The IEA estimates that combined diesel exports from Russia and the Middle East were 1.3 mb/d lower year-on-year in September. Other suppliers offset only part of that loss. The agency expects middle-distillate tightness to persist well into 2027.

Inventories give a mixed regional picture. US distillate stocks fell by 2.5 million barrels to 102.6 million barrels last week, while diesel exports also declined. In ARA, independent gasoil stocks have averaged around 6% above September levels so far in October. This provides some European relief, but the numbers may not show the true picture. We have two concerns that the ARA gas oil stocks underestimate the tightness. First, the low level at the river Rhine may have resulted in products being warehoused in ARA. Secondly, we understand from industry sources that many households, notably in Germany, have, due to the higher prices, postponed buying heating oil for the winter. Both factors can result in sudden stock draws. Higher product tanker rates may also push up prices to attract products.

The ICE gasoil November contract is around USD 1,410/MT today. Comparisons with earlier front-month prices require care because the contract rolled this week in a strongly backwardated market.

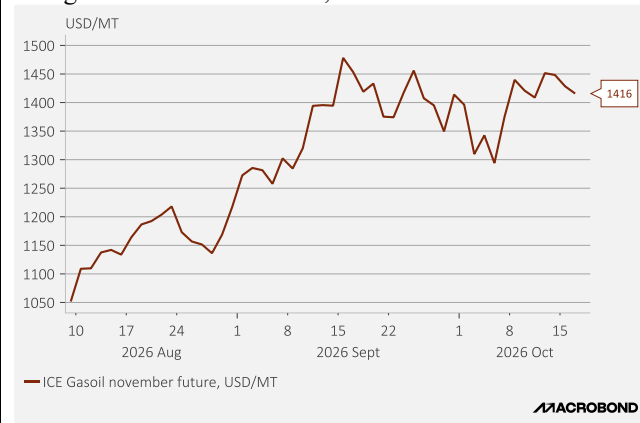
Our view remains that consumers should use price declines to add diesel, gasoil, MGO and jet fuel hedges. These products share exposure to constrained refining capacity, although local premiums can move differently. Backwardation offers lower prices further along the curve, while purchased calls provide protection with participation in further declines.

ICE gas oil (diesel) crack 1M, USD/bbl



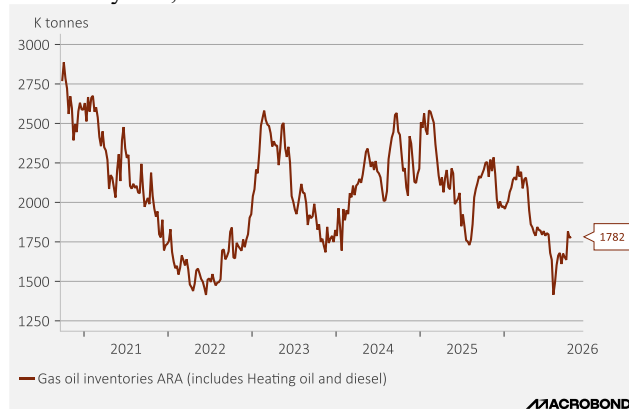
Source: GRM, Macrobond, Bloomberg

ICE gas oil November future, USD/MT



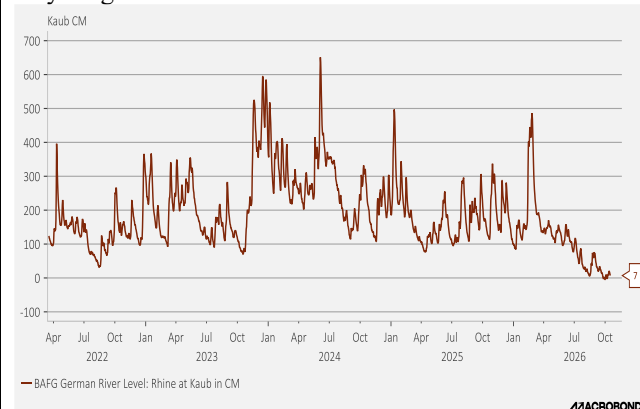
Source: IEA

Low gas oil and diesel inventories in ARA, but still well above July low, k tonnes



Source: GRM, Macrobond, Bloomberg

When the water level in the River Rhine starts to rise, it may drag ARA inventories lower



Source: IEA

Bunker markets: Singapore HSFO tightness drives HI5 sharply lower

The main development in bunker markets this week has been the sharp strengthening of HSFO in Singapore. The physical HI5 spread between VLSFO and HSFO fell to just USD 27/MT during the week, its lowest recorded level. We primarily see this as a sign of HSFO tightness. The narrowing spread significantly reduces the fuel-cost advantage for scrubber-fitted vessels.

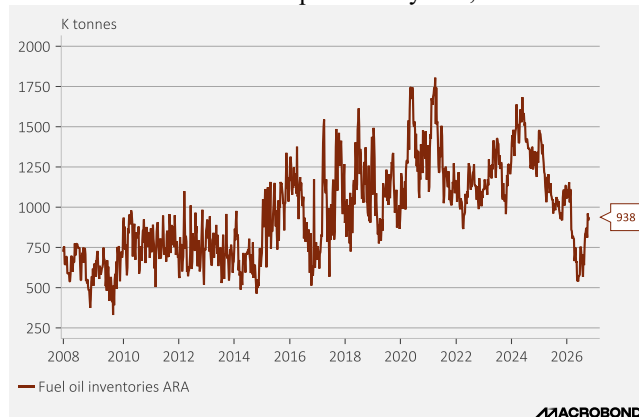
Singapore fuel oil inventories have fallen by close to 2.5 million barrels to below 18 million barrels over the last six weeks, as limited Chinese supplies and disrupted Middle Eastern flows are restricting availability. Prompt HSFO availability in Singapore remains tight, adding upward pressure to bunker premiums.

The stronger Singapore market has widened the HSFO East-West spread against Rotterdam. Normally, this would attract cargoes from Europe and help narrow the price gap. However, exceptionally high tanker rates are limiting that adjustment. Even a substantial price difference does not necessarily cover the cost of moving fuel east.

ARA remains relatively better supplied, with fuel oil stocks averaging around 6% above September levels so far in October. This contrasts with Singapore's tightness and underlines how shipping costs are keeping regional markets apart.

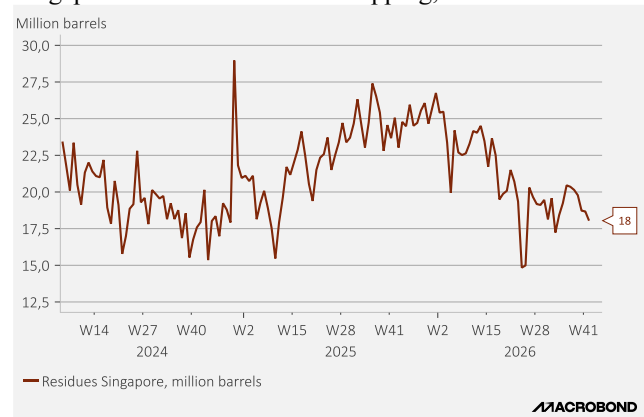
For bunker consumers, the message is that product and location matter. Brent alone gives an incomplete picture of fuel-price exposure. MGO remains exposed to the global distillate shortage, while this week's HSFO rally shows how quickly regional supply constraints can change relative bunker prices. See stock levels, bunker prices and spreads below.

ARA Fuel oil inventories up from July low, k tonnes



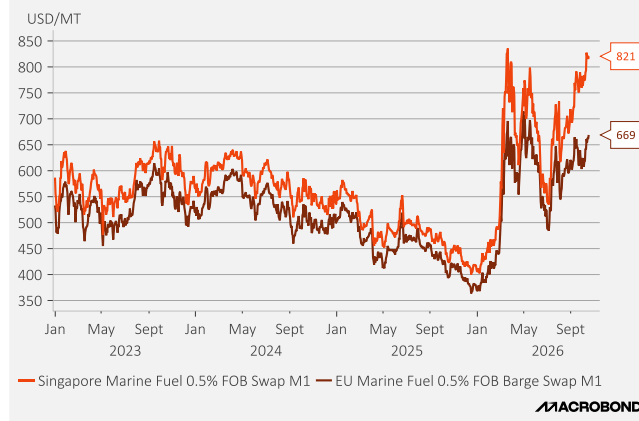
Source: GRM, Macrobond, Bloomberg

Singapore fuel oil inventories dropping, million barrels



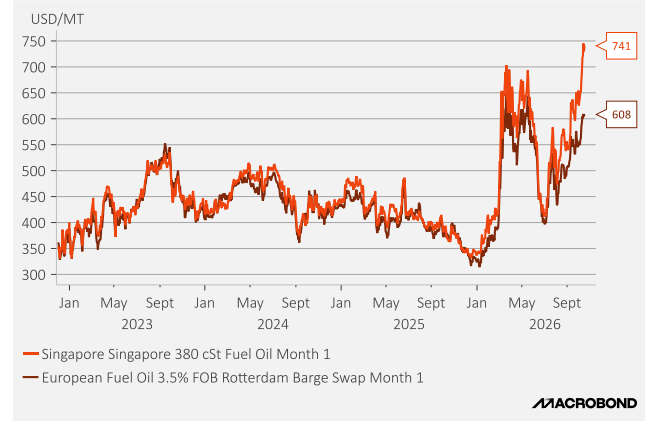
Source: GRM, Macrobond, Bloomberg

VLSFO, 0.5%, fuel oil, USD/MT (1M)



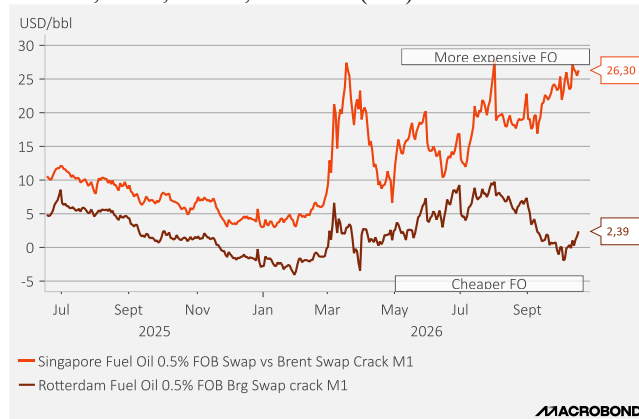
Source: GRM, Macrobond, Bloomberg

HSFO, 3.5%, fuel oil, USD/MT (1M)



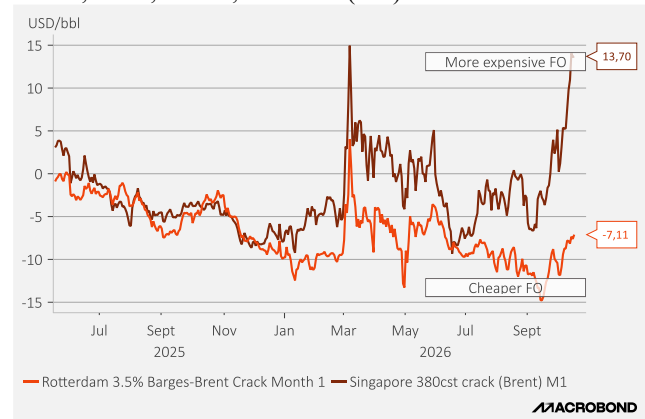
Source: GRM, Macrobond, Bloomberg

VLSFO, 0.5%, cracks, USD/bbl (1M)



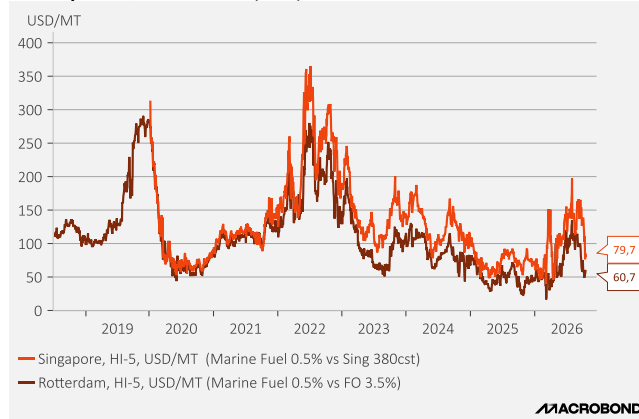
Source: GRM, Macrobond, Bloomberg

HSFO, 3.5%, cracks, USD/bbl (1M)



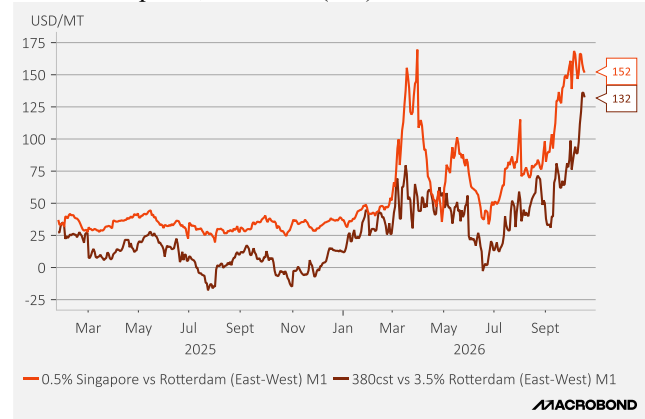
Source: GRM, Macrobond, Bloomberg

HI5-spread, USD/MT (1M)



Source: GRM, Macrobond, Bloomberg

East-West spread, USD/MT (1M)



Source: GRM, Macrobond, Bloomberg

European gas: EUR 100/MWh for TTF/THE remains within reach

TTF approached EUR 88/MWh this week, its highest level since December 2022, before easing to around EUR 86.4/MWh on Friday morning. The market is increasingly pricing in the combination of low inventories, restricted LNG supplies and approaching winter demand.

EU storage is 74.1% full, while German storage stands at just 60.2%. Germany's regulator stressed this week that there is no immediate threat to security of supply. Nevertheless, the low starting point leaves less room for cold weather, weak wind generation or further supply disruptions.

The recovery in Middle Eastern crude exports has not been matched by LNG. Crude exports can partly bypass Hormuz through pipelines, while ship-to-ship transfers help sustain flows through the strait. LNG depends on specialised vessels and has fewer alternative export routes. Europe therefore remains exposed to competition with Asia for the available cargoes.

The phase-out of Russian gas adds to the challenge. The EU's full ban on Russian LNG takes effect on 1 January 2027, followed by remaining pipeline imports in autumn 2027. Europe will therefore need to replace these supplies while rebuilding inventories. Russian gas accounted for 13% of the EU's total gas imports in Q2, of which 57% was LNG and the pipeline gas through TurkStream.

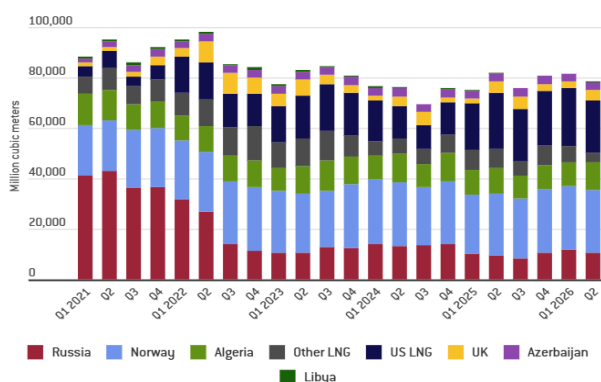
On the other hand, the European Commission this week proposed a one-year delay to certain reporting-related requirements under the methane regulation. The proposal still requires approval. If adopted, it would ease compliance pressure on suppliers and reduce the risk of additional barriers to imports at a time when Europe needs access to as much LNG as possible. It would not, however, create additional global supply.

We continue to see EUR 100/MWh as a realistic upside scenario for the TTF or THE front-month contract if colder weather coincides with weak wind generation or further LNG disruption. It is not an unconditional price forecast. Mild weather and stronger LNG arrivals could still ease prices, but the limited storage buffer increases the risk of sharp moves.

The implications extend into 2027. Low inventories at the end of winter would increase next summer's refill requirement. Germany's planned 24 TWh strategic gas reserve, with physical injections starting in summer 2027 and purchases spread over several years, would add further demand.

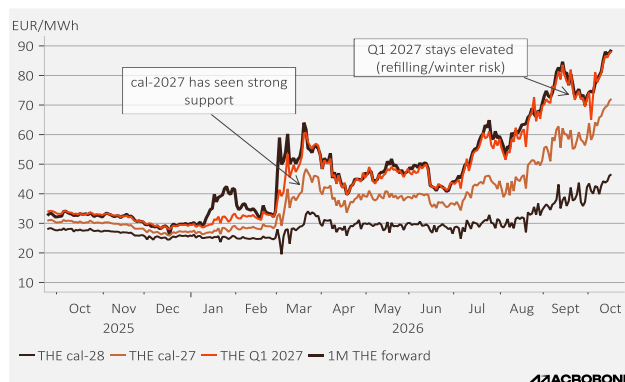
We recommend a high hedge ratio for winter gas consumption. The market has already risen substantially, but waiting for a return to pre-crisis prices leaves consumers exposed to a difficult winter.

Still sizeable LNG imports from Russia



Source: brugel

THE gas prices, EUR/MWh



Source: GRM, Macrobond, Bloomberg

EUAs: Weaker prices despite expensive gas – UK linkage adds a policy focus

The EUA market has recovered most of the decline following the 30 September compliance deadline. The Dec-26 contract rose 3.6% during the week. Noteworthy, earlier in the week, buyers quickly absorbed a sell-off of more than EUR 2/t. This supports our view that the market remains relatively tight.

EUA Dec-26 trades at EUR 85.9/tonne today after trading at a year-high above EUR 88.5/MT earlier in the week. Financial market uncertainty and concerns about European industrial activity have countered support from high gas prices.

Expensive gas improves the competitiveness of coal-fired generation, which requires more allowances per unit of electricity. A cold period with weak wind output could therefore support EUA demand alongside higher gas and power prices. However, weak industry and financial selling continue to pull in the opposite direction.

Meanwhile, Politico reported on 7 October that UK and EU negotiators had reached an agreement to link their emissions trading systems, with an announcement expected at the November summit. This would reconnect the carbon markets separated after Brexit. The reported agreement should not be confused with an operational link: formal approval and implementation would still be required.

Linking would allow allowances to be traded between the systems and is intended to enable mutual exemptions from carbon border charges, subject to the relevant legal requirements. We would expect closer alignment between UK and EU allowance prices. With UK allowances trading at a discount, the clearest implication is support for UK prices. The effect on EUAs is less straightforward, as linkage would combine both allowance supply and emissions demand.

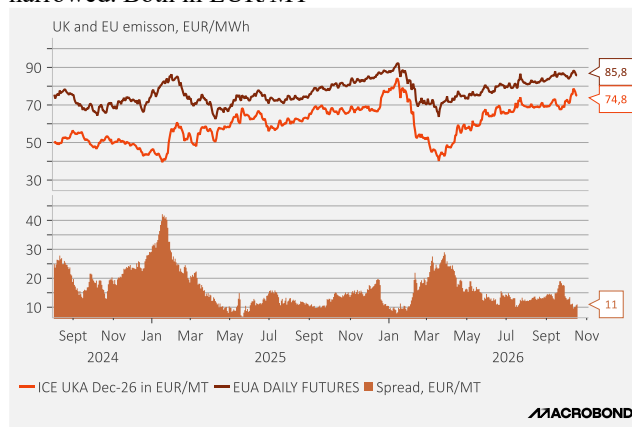
For EUA consumers, we would therefore avoid treating linkage as an immediate bullish trigger. Weather, power generation and the ongoing EU ETS reform remain more important near-term drivers. We retain our view that consumers should add EUA hedges on price declines, supported by the expected tightening of the market in 2027–28.

Positive dark spread (Germany) adds to coal use and EUA demand



Source: GRM, Macrobond, Bloomberg

EU and UK emission allowance price spread has narrowed. Both in EUR/MT



Source: Macrobond, GRM

Hedging views (all products): Hedge ratio above benchmark. Length/duration below benchmark*. Consider options as a hedging instrument

We published our Budget Commodity Outlook 2027 two weeks ago. See the link [here](#).

Oil and oil products

From a risk-and-reward perspective, consumers should consider increasing hedge ratios for oil and oil products over the next three to six months. The geopolitical situation remains challenging.

We expect better opportunities to enter full calendar 2027 and 2028 hedges. Hence, keep the length/duration below benchmark.

In general, we say, “buy on dips”.

EUAs

We see value in adding to consumer hedging positions at current EUA price levels, given the continued tightness of the underlying market balance. Buying related to the 30 September surrender deadline is now gone, while attractive coal-generation margins can add to demand. Political intervention remains a risk as the ETS reform debate develops.

Gas and LNG

We remain concerned about gas consumers ahead of winter. European inventories are low, Hormuz may stay restricted for longer, Europe faces competition for LNG and Russian LNG imports are being phased out. Further precautionary buying could add to price pressure.

The risk-reward balance favours high hedge ratios for gas and LNG exposure over the next six months, particularly winter. Better entry levels for H2 2027 and 2028 may materialise later.

Instruments

We generally recommend linear instruments, such as swaps and futures, for consumer hedging. Where curves remain in backwardation, they offer opportunities to lock in prices below spot, particularly in diesel, gasoil, jet fuel, VLSFO, natural gas and power.

Purchased call options offer an alternative: consumers can cap their purchase price while retaining the benefit of falling prices. The premium adds to the effective price cap, and the maximum mark-to-market loss on the purchased option is limited to the premium.

Contact

For structures tailored to your exposure, needs and risk profile, contact your sales contact at Global Risk Management. Our Budget Commodity Outlook 2027 provides further guidance for the budget process.

**) By benchmark, we refer to the single company and its benchmark for hedge ratio and length/duration of the hedge*

Oil, Gas, EUA, and FX price forecasts from GRM

Oil and Bunker fuel

	Spot	Q4 2026	Q1 2027	Q2 2027	Q3 2027	Q4 2027	avg. 2026	avg. 2027	avg.2028	avg. 2029
Brent GRM Forecast avg., USD/bbl	106	102	92	85	82	82	92	85	88	89
ICE Gasoil 1M., USD/MT (GRM Forecast)	1431	1450	1279	1118	1021	1021	1195	1109	1143	1166
LSMGO (1M 0.1% Gasoil FOB ARA Barge)) , USD/MT (GRM Forecast)	1354	1410	1244	1088	992	993	1159	1079	1111	1134
VLSFO (1M 0.5% Rotterdam Barge), USD/MT (GRM Forecast)	610	595	525	483	476	476	539	490	505	515
HSFO (1M 3.5% Rotterdam Barge), USD/MT (GRM Forecast)	610	595	525	483	476	476	539	490	505	515
SING 10ppm gasoil FOB Cargo, USD/bbl (GRM forecast)	171	192	170	130	130	125	157	150	154	157
Sing Marine Fuel 0.5% FOB Swap, USD/MT (GRM Forecast)	822	795	715	643	599	600	714	639	658	672
FO 380 CST 3.5% FOB Spore Cargo 1M (GRM Forecast)	742	645	575	523	516	516	592	533	548	559

EUA

	Spot	Q4 2026	Q1 2027	Q2 2027	Q3 2027	Q4 2027	2026	2027	2028
Forward	85,5	85,8	86,7	87,5	88,2	89,3	79,9	87,9	91,4
Consensus		85,0	84,0	85,9	86,0	89,3	80,0	88,0	88,0
GRM		92	93	94	95	96	82	95	103

TTF

	Spot	Q4 2026	Q1 2027	Q2 2027	Q3 2027	Q4 2027	avg. 2026	avg. 2027	avg.2028	avg. 2029
TTF natural gas, EUR/Mwh (GRM Forecast)	88	90	75	55	50	45	64	56	56	55
TTF natural gas, EUR/M3 (GRM Forecast)	1,07	1,09	0,91	0,67	0,61	0,55	0,78	0,68	0,68	0,67
TTF natural gas, DKK/3M (GRM Forecast)	7,97	8,18	6,82	5,00	4,54	4,09	5,79	5,11	5,11	5,01

FX

	Spot	Q4 2026	Q1 2027	Q2 2027	Q3 2027	Q4 2027	2026 (avg)	2027 (avg)
EUR/USD	Consensus	1,14	1,14	1,15	1,16	1,17	1,17	1,16
	GRM	1,13	1,10	1,08	1,05	1,07	1,10	1,08
GBP/USD	Consensus	1,33	1,32	1,33	1,34	1,36	1,34	1,34
	GRM	1,33	1,31	1,30	1,27	1,26	1,34	1,28
EUR/GBP	Consensus	0,86	0,86	0,86	1,34	0,87	0,87	0,98
	GRM	0,84	0,84	0,83	0,85	0,86	0,85	0,84
USD/DKK	Consensus	6,54	6,54	6,48	6,42	6,37	6,39	6,45
	GRM	6,64	6,77	6,90	6,96	6,77	6,52	6,93

Source: GRM, Bloomberg (Consensus)

Recent price developments

	Last	1D Δ	1D %	1M Δ	1M %	YTD Δ	YTD %
Brent Crude 1st pos., USD/bbl	106,42	0,50	0,5%	0,6	0,6%	45,6	74,9%
WTI Crude 1st pos., USD/bbl	97,88	(0,09)	(0,1%)	(4,6)	(4,4%)	40,5	70,5%
ICE Gasoil 1st pos., USD/MT	1434,50	6,00	0,4%	(103,5)	(6,7%)	811,8	130,3%
Diesel ULSD 10ppm CIF NWE Cargo 1M, USD/MT	1438,42	14,22	1,0%	(88,3)	(5,8%)	831,3	136,9%
Jet Fuel NWE CIF 1M, USD/MT	1525,47	3,88	0,3%	(90,7)	(5,6%)	880,7	136,6%
0.1% Gas oil Fob Barge Rotterdam 1M, USD/MT	1353,36	13,22	1,0%	(66,9)	(4,7%)	773,3	133,3%
0.5% Fob Barge EU Marine Fuel M1, USD/MT	671,59	7,73	1,2%	25,8	4,0%	288,3	75,2%
3.5% Fob Barge Rotterdam 1M, USD/MT	609,79	4,73	0,8%	62,3	11,4%	286,8	88,8%
TTF gas 1M, EUR/MWh*	86,43	1,66	1,9%	10,1	12,9%	59,9	212,8%
TTF Cal 2027, EUR/MWh*	69,82	0,87	1,2%	12,1	20,6%	45,2	177,0%
TTF Cal 2028, EUR/MWh*	44,08	0,36	0,8%	7,8	21,4%	20,3	84,5%
THE gas 1M, EUR/MWh*	87,53	1,57	1,8%	8,1	10,0%	59,7	203,3%
THE gas cal 2027, EUR/MWh*	70,67	1,36	1,9%	11,9	19,9%	44,8	164,2%
Henry Hub gas 1st pos., USD/MMBtu	3,17	(0,07)	(2,1%)	0,3	9,6%	(0,5)	(14,0%)
JKM LNG Cargo Swap M1, USD/MMBtu	30,12	0,54	1,8%	2,9	10,7%	20,1	201,6%
EUA spot, EUR/MT	85,43	-	-	1,3	1,5%	0,2	0,2%
EUA Dec-26, EUR/MT	85,90	0,06	0,1%	1,2	1,4%	(1,5)	(1,7%)
German day-ahead, EUR/MWh	178,79	(24,71)	(12,1%)	(25,3)	(12,4%)	164,3	1133,1%
German month-ahead, EUR/MWh*	192,26	1,18	0,6%	31,3	19,3%	95,5	97,5%
German Cal 2027, EUR/MWh*	144,61	1,91	1,3%	19,2	15,1%	63,4	76,3%
German Cal 2028, EUR/MWh*	107,31	1,16	1,1%	11,9	12,4%	29,2	36,8%
API 2 coal Cif ARA 1M forward, USD/MT*	147,92	2,01	1,4%	9,6	6,8%	53,5	55,5%
API 2 coal Cif ARA Cal-27, USD/MT*	144,58	0,84	0,6%	9,4	6,9%	47,9	49,1%
EUR/USD	1,126	0,00	0,3%	(0,0)	(1,8%)	(0,0)	(4,2%)

Source: GRM and Bloomberg * Yesterday close (indicative non-tradeable prices)

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