

Look beyond Brent to see the true scale of the energy squeeze

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Key Points:

- Sub-USD 100 Brent masks deeper energy stress, with diesel, jet fuel and European gas trading at substantial premiums.
- Refining capacity is the critical weak link, as Gulf and Russian disruptions combine with restrained Chinese fuel exports.
- Gas is amplifying the inflation shock, with disrupted Qatari LNG supply tightening markets just as Europe and Asia head towards winter.
- A renewed crude rally is the key escalation risk, potentially adding another inflationary layer to already elevated transport, industrial and household energy costs.

Crude oil continuing to trade below USD 100 per barrel might suggest that the global energy market has absorbed the latest Middle East shock reasonably well. That conclusion, however, risks missing where the real pressure is building.

The crude market has so far been cushioned by a combination of strategic reserve releases, weaker Chinese imports, demand destruction and continued flows of oil out of the Middle East, either through pipelines or, more quietly, through the Strait of Hormuz. Brent therefore remains well below the levels that would normally be associated with a full-blown supply crisis.

Further down the barrel, however, the picture is considerably more troubling. Middle distillates such as diesel and jet fuel have become the main pressure point, with European diesel trading close to USD 200 per barrel and jet fuel not far behind. These products matter far beyond financial markets. Trucking, shipping, aviation, construction, agriculture, manufacturing and heating all rely heavily on distillate fuels, meaning shortages quickly translate into higher operating costs across the economy. This is increasingly turning the current energy shock into a refined-product crisis rather than simply a crude-oil crisis.

Refining becomes the weak link

Several factors have combined to tighten product availability. Persian Gulf refiners, normally major suppliers of diesel, jet fuel and other products to international markets, have seen operations and exports disrupted by the conflict. At the same time, repeated Ukrainian attacks have reduced Russian refinery utilisation and exports, further removing supply from a market already short of middle distillates.

China, which over the past decade has built refining capacity well beyond domestic requirements and has periodically acted as a swing supplier of products to the global market, has also become less willing to play that role. Weak crude imports and a desire to preserve inventories have limited refinery runs and, at times, fuel exports, reducing another potential source of relief.

The result is a widening divergence between crude and products. Refinery margins have surged,

inventories remain tight and refined fuels are increasingly trading at premiums that reflect physical scarcity rather than the underlying cost of crude.

That stress is also visible in equity markets. Refiners and energy companies with exposure to scarce refining capacity or non-US gas markets have dominated sector performance, with Marathon Petroleum and Valero among the strongest performers, while companies such as Equinor and Cheniere have benefited from elevated gas and LNG prices.

Gas adds another inflationary layer

The pressure is not confined to oil products. The disruption to Qatari LNG exports through the Strait of Hormuz has removed a major source of flexible gas supply from the international market, just ahead of winter and at a time when inventories would normally be building to meet elevated, weather-dependent demand. The Oxford Institute for Energy Studies estimates that storage withdrawals typically provide only 20–33% of EU net winter gas supply, highlighting the importance of continued imports.

Qatar normally accounts for close to one-fifth of global LNG exports, and Reuters recently reported that only 18 Qatari LNG cargoes had been exported since the war began, compared with more than 500 during the same period last year. The disruption has forced buyers in Europe and Asia to compete more aggressively for alternative cargoes and has helped push European natural gas above USD 140 per barrel equivalent.

This matters because gas feeds directly into electricity prices, industrial costs, fertiliser production and heating. It therefore creates an inflation channel separate from oil, while reinforcing the same broader problem: energy-intensive parts of the economy are being forced to absorb materially higher input costs.

The combination of expensive diesel, jet fuel, bunker fuel and natural gas is particularly uncomfortable for central banks already struggling with sticky inflation. Energy shocks often begin with headline inflation, but the longer they persist, the greater the risk that higher transport, production and utility costs become embedded in core prices.

Diesel illustrates the transmission mechanism

The US trucking industry provides a straightforward example. Nationwide on-highway diesel averaged around USD 5.60 per gallon at the end of August, according to the US Energy Information Administration, compared with levels closer to USD 3.70 before the current energy shock. Since then, the price has continued to rise, reaching a record just below USD 6 per gallon.

A Class 8 long-haul truck typically manages only around 6–7 miles per gallon. For a vehicle covering around 90,000 miles per year, a USD 2-plus increase in the price of diesel can add roughly USD 30,000 to the annual fuel bill.

Those costs rarely remain with the trucking company. They are passed along through freight rates and ultimately into the price of food, manufactured goods, construction materials and consumer products. Similar mechanisms operate across aviation, shipping and agriculture.

The next potential squeeze: bunker fuel

Another pressure point is emerging in fuel oil, widely used in shipping and power generation. Reuters reported that refiners facing disrupted crude supplies and exceptionally strong margins for diesel and gasoline are increasingly prioritising those higher-value products, reducing fuel-oil output in the process. The global fuel-oil deficit is expected to widen sharply in the third quarter, while stocks across key hubs

including Singapore, Amsterdam-Rotterdam-Antwerp and Fujairah are around 30% below seasonal norms.

Asia is particularly exposed because of its dependence on Gulf supplies. Singapore, the world's largest bunker-fuel hub, imports more than half of its roughly one million barrels per day of demand. A further rise in bunker prices would increase shipping costs at a time when vessels are already travelling longer routes to avoid the Red Sea and Bab el-Mandeb because of security risks. That creates yet another route through which the energy shock can feed into global inflation.

Crude remains the key upside risk

For now, the crude market remains relatively well supplied compared with refined products. But that relative stability should not be mistaken for comfort. Traffic through the Strait of Hormuz has again fallen sharply following renewed US-Iran attacks, while the risk of further restrictions on commercial shipping remains elevated. Some reports indicate that observed commodity-vessel traffic has recently fallen to its lowest level since May.

A prolonged disruption therefore poses a two-sided threat. First, it risks pushing Brent decisively above USD 100 as crude inventories and emergency buffers are gradually depleted. Second, and potentially more damaging for the real economy, it would place even greater strain on refining systems already struggling to supply enough diesel, jet fuel and fuel oil.

The key risk is therefore no longer simply another spike in crude. It is that crude rises while refined products and gas remain structurally tight. That combination would intensify the pressure on transport, industry, utilities and households, raising the likelihood that the current energy shock translates into persistently higher consumer prices and a more difficult inflation outlook for central banks.

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