GoldSquawk

OIL REPORT · OCTOBER 2026

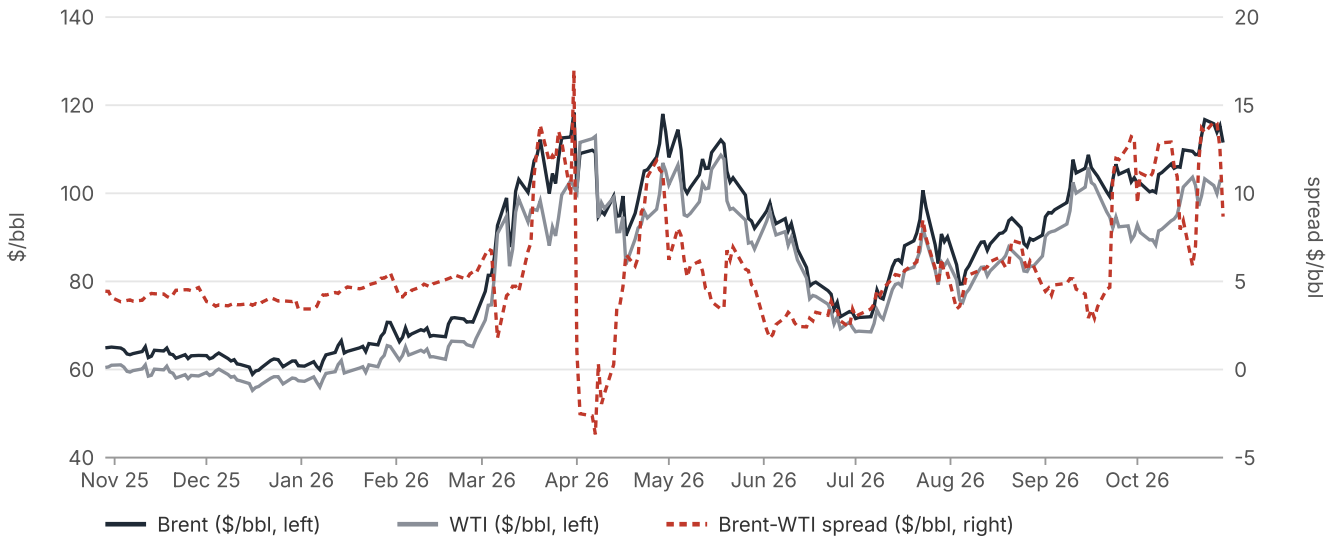
Asian refiners are paying for optionality beyond Gulf crude

GoldSquawk Research

Key takeaways

- The main driver is delivered margin, not headline crude price: the IEA said freight costs became a major component of delivered oil costs in 2026, with the strongest impact in Asia, and by mid-October shipping crude from the Middle East Gulf to Asia cost over $37/bbl, pushing Asian refiners processing Middle East crude into negative margins in September[1].
- China's 2Q26 import slump showed the vulnerability of a Gulf-centric, seaborne system: crude imports fell to 8.1 mb/d, down 32% q/q, with the largest waterborne declines from Iraq (-910 kb/d), Russia (-640 kb/d) and the UAE (-600 kb/d)[2].
- West Africa and Brazil are logical beneficiaries when Gulf route risk rises or freight eases: China's 2024 crude slate already included Brazil at 6% and Africa at 9%[3], while Bloomberg reported West Africa traded at record discounts as freight costs surged and Brazil cargo mark-ups reached as much as $13/bbl during the scramble for alternatives[4,5].
- The shift is best seen as tactical diversification rather than permanent replacement: Gulf exports recovered to 13.9 mb/d in September, more than 75% of pre-war levels[6], while Saudi Aramco cut Arab Light to Asia to a $5/bbl discount for November from a $2/bbl discount previously to defend market share[7].

Figure 1: Brent retains a premium to WTI as physical dislocation persists



Source: ICE Brent and NYMEX WTI front-month futures via Yahoo Finance; GoldSquawk calculations, as of 29 October 2026.

Freight and security costs have changed Asia's crude buying calculus

- The IEA said freight costs became a major component of delivered oil costs in 2026, with the biggest refining impact in Asia because refiners there remain heavily dependent on Middle Eastern crude[1]. By

mid-October, the VLCC Middle East Gulf-to-Asia charter rate had risen to over $1.3 million/day and shipping cost on that route was over $37/bbl[1].

- The distortion was broader than Gulf routes alone: the IEA said shipping crude from the US Gulf Coast to Singapore climbed to around $33/bbl and to Europe to $24/bbl[1]. The EIA likewise said high tanker rates in September reflected rising insurance costs and longer routes, adding to delivered crude prices and limiting vessel availability[8].
- Physical Gulf availability improved, but confidence did not fully recover. The IEA said Gulf crude exports rose by 4.4 mb/d m/m to 13.9 mb/d in September and flows through Hormuz increased by 3.7 mb/d to 10.9 mb/d, yet renewed October attacks still threatened that recovery[6].
- Market structure still reflects disruption in the crude complex. On 29 October, Brent closed at $111.50/bbl and WTI at $102.82/bbl, leaving a Brent-WTI spread of $8.68/bbl; over the past 12 months the spread ranged from -$3.68 to +$16.97 [chart: brent_wti_spread].

China and India are buying optionality, not exiting Gulf barrels

- China is highly exposed to seaborne disruption: 92% of its crude imports arrive by sea[9]. Its 2024 import mix remained Gulf-heavy, with the Middle East at 54%, FSU at 21%, Western Hemisphere at 14% and Africa at 9%; country shares included Brazil at 6% and Angola at 5%[3].
- The 2Q26 dislocation was severe. China's crude imports fell to 8.1 mb/d, down 32% q/q, while refinery processing fell by 2.2 mb/d q/q, less than the 3.9 mb/d drop in imports, implying stock draws[2]. The largest waterborne declines from 1Q26 to 2Q26 came from Iraq, Russia and the UAE[2].
- Subsequent buying points to tactical substitution across basins. Bloomberg reported Chinese independents bought Iraqi Basrah Heavy and Basrah Medium for November loading at premiums as high as $18/bbl to ICE Brent as US pressure choked Iranian supply and competition for Russian barrels intensified[10]. Bloomberg also reported stronger ESPO premiums on short voyage economics into China[11].
- India has a smaller strategic cushion than China, with strategic oil inventories estimated at 21 million barrels in 2Q26 versus China's 1,492 million barrels[12]. S&P Global said buyers in Asia were discussing alternatives from North America, Latin America and Africa despite longer voyages and higher freight because Gulf-linked supply chains were under stress[13]. This supports the view that India's shift is selective resilience buying rather than wholesale replacement[13,12].

Figure 2: WTI has rallied sharply, keeping absolute crude costs elevated



Source: NYMEX WTI crude futures daily closes via Yahoo Finance; GoldSquawk calculations, as of 29 October 2026.

Africa and Brazil gain when Atlantic discounts offset distance

- West Africa is a natural substitute for Asian refiners seeking non-Gulf crude. The EIA said that in 1H25, most eastbound crude moving around the Cape of Good Hope to Asia originated from the United States (23%), West Africa (28%) and South America/Mexico (29%), and more than 40% of Cape-traversing crude imports went to China[14]. Total oil flows around the Cape reached 9.1 mb/d in 1H25 versus 6.2 mb/d in 2023[14].
- Bloomberg listed a 5 October story saying West Africa oil traded at record discounts as freight costs surged[4]. That matters because Atlantic barrels can win Asian demand either when Gulf delivered costs spike or when outright discounts deepen enough to absorb the extra voyage cost[1,4].
- Brazil is already embedded in China's crude slate, accounting for 6% of imports in 2024[3]. EIA destination data show Brazil's crude exports to China were 112 kb/d in April 2026, 76 kb/d in June and 23 kb/d in July, illustrating volatile monthly flows rather than a fixed trade pattern[15]. Bloomberg also reported mark-ups on available Brazilian crude reached as much as $13/bbl during the March scramble for alternative barrels[5].
- Absolute crude prices remain high even as buyers optimise their slate. WTI closed at $102.82/bbl on 29 October, above its 50-day moving average of $94.32 and 200-day moving average of $86.14; the 52-week range is $55.27 to $112.95 [chart: oil_technical]. High outright prices raise the importance of preserving refinery margins through crude selection[1,6].

Scenarios

- **Atlantic Basin support case:** West African and Brazilian barrels continue to attract Asian demand if freight on Gulf routes stays punitive, insurance and congestion remain elevated, and refiners prioritise security of arrival and feedstock optionality over habitual Gulf sourcing[1,8].
- **Gulf share recovery case:** Gulf suppliers regain share if route reliability improves, freight normalises, and Saudi or Iraqi pricing remains aggressive. Saudi Arabia has already cut Arab Light to Asia to a $5/bbl discount for November and expanded route flexibility through resumed pipeline-linked supply[16,7].
- **Tactical churn case:** Asian buying remains highly opportunistic across Iraq, Russia, West Africa, Brazil and other alternatives as sanctions pressure, freight swings and refinery margin preservation continue to drive short-cycle substitution rather than a stable reordering of trade flows[1,10,11].

Levels to watch

- WTI last close: $102.82/bbl [chart: oil_technical]
- Brent last close: $111.50/bbl [chart: brent_wti_spread]
- Brent-WTI spread: +$8.68/bbl [chart: brent_wti_spread]
- WTI 50-day moving average: $94.32/bbl [chart: oil_technical]
- WTI 52-week high/low: $112.95 / $55.27 per barrel [chart: oil_technical]

References

1. The soaring cost of shipping is lifting the price of oil for consumers - IEA. https://www.iea.org/commentaries/the-soaring-cost-of-shipping-is-lifting-the-price-of-oil-for-consumers
2. China's crude oil imports fell in the second quarter - U.S. Energy Information Administration (EIA). https://www.eia.gov/todayinenergy/detail.php?id=67905&utm_source=openai
3. China Country Analysis Brief. https://www.eia.gov/international/content/analysis/countries_long/China/pdf/China-2025.pdf
4. Bill Lehane - Journalist | Bloomberg. https://bloomberg.com/authors/ASOgpbQia44/bill-lehane

5. Refiners Hold Off Buying Oil as Prices Surge After Supply Hit - Bloomberg. https://www.bloomberg.com/news/articles/2026-03-11/refiners-hold-off-buying-oil-as-prices-surge-after-supply-hit
6. Oil Market Report - October 2026 - IEA. https://www.iea.org/reports/oil-market-report-october-2026
7. Saudis Slash Oil Prices to Asia in Battle for Market Share - Bloomberg. https://bloomberg.com/news/articles/2026-10-05/saudis-cut-flagship-oil-price-to-asia-to-lowest-in-six-years
8. October 2026. https://www.eia.gov/outlooks/steo/pdf/steo_full.pdf?ftag=MSFd61514f&utm_source=openai
9. International - U.S. Energy Information Administration (EIA). https://www.eia.gov/international/analysis/countrv/CHN
10. China Refiners Flock to Iraqi Crude as US Chokes Iran Supply - Bloomberg. https://bloomberg.com/news/articles/2026-10-06/china-refiners-flock-to-iraqi-crude-as-us-chokes-iran-supply
11. Chinese Refiners Pay Double Premiums for a Key Russian Oil Grade - Bloomberg. https://bloomberg.com/news/articles/2026-09-03/chinese-refiners-pay-double-premiums-for-a-key-russian-oil-grade
12. Short-Term Energy Outlook - U.S. Energy Information Administration (EIA). https://www.eia.gov/outlooks/steo/report/energysecurity/article.php
13. APPEC: Asia faces high energy costs on tight tanker flow, refining capacity | S&P Global. https://www.spglobal.com/energy/en/news-research/latest-news/crude-oil/090926-appec-asia-faces-high-energy-costs-on-tight-tanker-flow-refining-capacity
14. International - U.S. Energy Information Administration (EIA). https://www.eia.gov/international/analysis/special-topics/World_Oil_Transit_Chokepoints
15. Brazil Exports of Crude Oil and Petroleum Products by Destination. https://www.eia.gov/dnav/pet/pet_move_expc_dc_nus-nbr_mbblpd_m.htm
16. Aramco to Restore Full Oil Supplies to Europe After Pipeline Resumes - Bloomberg. https://bloomberg.com/news/articles/2026-10-09/aramco-to-supply-full-oil-volumes-to-europe-customers-next-month?srnd=homepage-uk&utm_source=openai

Glossary

OSP: Official selling price, the price formula or differential set by a producer for term crude sales to a region.

VLCC: Very Large Crude Carrier, a large tanker class commonly used on Middle East-to-Asia crude routes.

ESPO: East Siberia-Pacific Ocean crude, a Russian export grade valued in Asia partly for its shorter voyage to China.

STS operations: Ship-to-ship transfers, where cargo is moved between vessels, often adding time, cost and operational complexity.

Teapot refiners: China's independent refiners, which are often more opportunistic in crude sourcing than state-owned majors.

This report is for information only and is not investment advice or a recommendation to buy or sell any asset. It was researched and written with the help of AI from the sources cited and reviewed before publication. Prices and data can change quickly; past performance is not a guide to future results.