Insight Paper | September 2026

Running out of options?

Export routes for Mideast oil are getting squeezed



Action and reaction

Six months on, the uncertainty unleashed in oil markets by the war in the Middle East shows no sign of abating. If anything, the pressure on supply from the region is increasing, despite the imaginative efforts of producers to find ways to get oil to their customers.

In the Mideast Gulf, the UAE, and more recently Iraq, Saudi Arabia and Qatar, have been making increasing use of shuttle tankers through the strait of Hormuz and ship-to-ship (STS) transfers in the Gulf of Oman to get oil to market while minimising risks for customers.

But the apparent success of this strategy, which has fed into some wild statements from Washington about exactly how much oil is getting through Hormuz, has also provoked a reaction from Tehran, which has warned shippers against working with blacklisted vessels involved in STS activity, threatening to fine, detain or seize ships involved directly or indirectly in such trade.

Mideast Gulf producers have so far shrugged off this threat, issuing new STS tenders almost immediately, but the coming weeks will provide a litmus test of how serious Iran intends to be about backing up its warning.

Producers' problems are not confined to Hormuz. In the Red Sea, Yemen's Iranian-backed Houthi rebels are blockading Saudi shipping, and have attacked the port of Yanbu and the Jizan refinery. Yanbu has provided an oil export lifeline for Riyadh since passage through Hormuz was compromised, but crude exports from the port fell sharply last month.

This Insight Paper, which draws on the latest analysis from our *Argus Global Markets* and *Argus China Petroleum* business intelligence services, looks at the increasingly tense dynamic that has developed around Mideast Gulf crude supply, especially for customers in Asia, now that China's crude buying is also starting to rebound and problems are emerging with Russian Urals exports out of the Black Sea.

Iran eyes crackdown on Hormuz STS trade

Iran's latest tightening of transit controls in the strait of Hormuz appears aimed directly at tackling recent increased use of shuttle tankers and ship-to-ship (STS) transfers to get oil out of the Mideast Gulf, and raises questions about the resilience of such operations and near-term prospects for Middle East supply.

The Persian Gulf Strait Authority (PGSA), established by Iran in May to oversee navigation through the strait, advised cargo owners on 24 August to review an updated list of non-compliant vessels before chartering ships for voyages to or from the Mideast Gulf.

The authority named 46 vessels as being "non-compliant" and warned that they could face fines, detention, seizure or confiscation in the event of future transits. More significantly for freight markets, it said vessels involved in STS transfers, transshipment or other commercial operations with a listed ship could also be designated non-compliant.

"The blacklist is just the opening move," one Singapore-based shipbroker said. "What Iran is really targeting are the shipping networks that have evolved to work around the closure of Hormuz."

STS arrangements around Hormuz have seen shuttle tankers carry cargoes through the strait before transferring them to onward-bound "daughter vessels" in the Gulf of Oman. This workaround effectively concentrates transit risks among a relatively small group of shuttle tankers and trading firms, allowing buyers and receiving vessels to avoid direct security risks in the strait itself. The trade is also marked by limited transparency, with vessels often operating with AIS transponders switched off.

The PGSA move appears to be a response to the expansion of this STS transfer trade in recent weeks. The strategy, first employed by the UAE's Adnoc, has latterly been adopted by both Iraq and Saudi Arabia as a means of restoring some crude flows through the chokepoint. The apparent success of this approach, even in the face of continued Iranian attacks on shipping passing through the waterway, has

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underpinned recent bullishly high US government estimates of the volume of oil now escaping Hormuz.

Unwelcome listing

The list of 46 "non-compliant" vessels suggests, however, that Iran may be looking to crack down on some crude exporters more than others, and force them to work with the PGSA on permitting, navigation and fees. Included are a number of ships that have been involved in STS transfer activity that has moved UAE, Saudi and Qatari crude out of the strait, as well as four vessels owned by South Korean operator Sinokor — arguably the company that has been most engaged in STS operations around Hormuz. But there are relatively few crude tankers listed with links to either Iraq or Kuwait, suggesting Iran might adopt a lighter touch to STS movements of crude involving these countries.

But perhaps more troubling for many tanker market participants is the longer-term message sent by the PGSA's latest move, which has reinforced fears that sudden political interventions and the resulting deeper operational uncertainty are becoming increasingly embedded features of trading in the Mideast Gulf. "The pool of willing tonnage was already shrinking, and this could thin it further," one shipbroker said.

This uncertainty might ultimately prove more challenging for owners than higher costs or security risks. "Owners can adapt to those," a chartering manager said. "But abrupt rule changes and shifting compliance requirements are harder to manage. Increasingly, that's just part of doing business there."

Mideast STS sales pick up despite Iran's threats

Mideast Gulf oil producers are continuing to offer crude cargoes via ship-to-ship (STS) transfers outside the strait of Hormuz, and Asia-Pacific buyers are continuing to take them, in apparent defiance of Iran's determination to crack down on such trade and assert its control over shipping through the waterway.

Three of the Mideast Gulf's producers — Saudi Arabia, Iraq and Qatar — offered crude last week through STS transfers in the Gulf of Oman, seemingly shrugging off a 24 August warning by Iran's Persian Gulf Strait Authority (PGSA) against such activity. The PGSA published a list of 46 "non-compliant vessels" and emphasised that ships breaching its rules for transiting Hormuz, including those conducting STS transfers outside the strait, could face restrictions on future passage, including fines, seizure and confiscation.

Despite this, state-controlled Saudi Aramco on 26 August offered September-loading Arab Medium and Arab Heavy crude through STS transfers off Sohar in the Gulf of Oman. This was the second such offer in recent weeks from Aramco, which has historically sold its crude almost exclusively through term contracts. Chinese refiners in August collectively bought at least 14mn bl of Saudi crude through these Aramco spot offers.

State-owned QatarEnergy (QE) on the same day tendered October-loading medium sour Al-Shaheen and Qatar Marine crude on an STS basis. This was also QE's second STS offer since the effective closure of the strait of Hormuz in March. A Chinese state-owned refiner was the buyer, market sources say.

Iraq's state-controlled oil marketer, Somo, followed its neighbours on 27 August with a tender to sell September-loading Basrah Medium and Basrah Heavy loading through STS transfer. This tender marks the first time that Somo has directly offered STS cargoes since the Middle East conflict began, although international trading companies had previously offered and sold Iraqi cargoes on an STS and delivered basis.

Indian summer

Even before this slew of STS offers, QE and Somo had issued tenders to sell crude loading from ports within the Mideast Gulf. In a tender that closed on 25 August, QE offered cargoes of all three of its export grades, including light sour Qatar Land, for loading in September and October from their export terminals. Somo's tender, which closed on 26 August, offered September-loading Basrah cargoes from Basrah Oil Terminal. Both tenders were awarded to buyers from India, market sources say.

Buyers' apparent dismissal of the Iranian measures has been further underlined by the results of the latest crude tender issued by Abu Dhabi's state-owned oil company Adnoc, which closed after the PGSA had issued its list and warnings. In the tender — which is the ninth that Adnoc has conducted in recent months — the company sold around 20mn bl of mostly October-loading cargoes on a delivered or STS basis, an increase from around the 14mn bl sold in its eighth tender earlier in August. Chinese refiners — which were notably absent from Adnoc's eighth tender — were the largest buyers in the latest offering, taking around 10mn bl, while Indian refiners collectively bought around 6mn bl.

Adnoc has been one of the pioneers of the STS strategy for working around the effective closure of the strait of Hormuz, employing a fleet of very large crude carriers to shuttle cargoes of Upper Zakum, Das and Umm Lulu crude from within the Mideast Gulf and through the strait of Hormuz to Fujairah to offload to buyers. But the company has also paid a price for this strategy in terms of regular Iranian attacks on its vessels.

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Chinese demand starts slow recovery

Chinese oil demand strengthened in July for the first time since the start of the US-Iran war, as stronger demand for petrochemical feedstocks boosted China's product imports.

Finished product supply — refinery output plus net product imports — rebounded to 14.23mn b/d in July, a rise of almost 1mn b/d from June. But demand remained more than 3mn b/d below its pre-war peak in February.

Refinery runs are yet to recover, despite a late-month rebound as state-controlled refiners increased throughputs to supply export markets. Crude runs edged only slightly higher from June to 12.51mn b/d. Demand was instead supported by a substantial rise in net imports, notably of petrochemical feedstocks. China is taking more ethane from the US in response to the disruption to Mideast Gulf supplies. LPG imports surged to a 12-month high of almost 1.3mn b/d in July, as lower prices, easing Middle East supply constraints and surging wholesale margins in China encouraged importers to build stocks. Operating rates at naphtha-fed steam crackers also edged up in July, sending imports of naphtha to a four-month high.

Refinery runs are on course to rebound in August, as Beijing continues to grant state-controlled refiners access to export markets. Clean product exports rose by 75pc on the month to 600,000 b/d in July, and could exceed 1mn b/d in August and September, according to Argus forecasts. China's export mix continues to be dominated by jet fuel, including supplies in bonded warehouses that are used to fuel international flights. But gasoline and diesel accounted for almost half of China's clean product exports in July, up sharply from recent months.

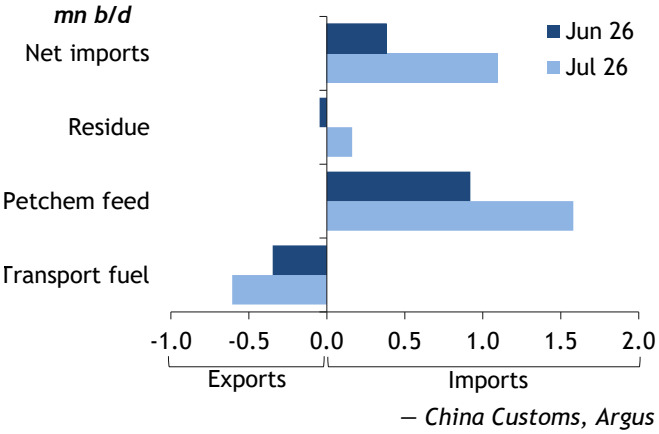
State-controlled refiners are continuing to meet the rise in demand by buying from independents rather than increasing run rates, but rapidly depleting stocks in Shandong and a squeeze on Iranian crude exports are threatening to call time on this strategy. The draw of export markets is finally translating into an increase in run rates — throughputs are likely to have risen by around 560,000 b/d to 13.1mn b/d in August, as state-controlled refiners boost runs and more capacity returns from maintenance.

Export demand for China's products is compensating for sustained weakness in the domestic road fuel market. Gasoline demand dipped slightly from June to fall below 3mn b/d in July for the first time since the height of the zero-Covid lockdowns in late 2022. Diesel demand has held steady throughout the summer but remains pressured by weakness in the construction sector.

Taking stock

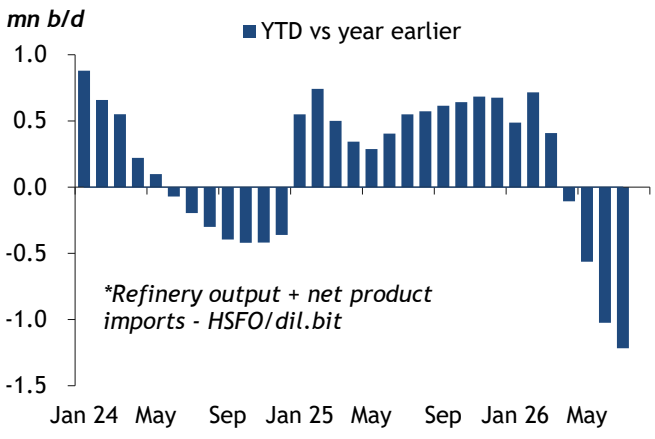
China's crude imports rebounded in July, supported by a rise in deliveries from the Middle East, which hit a four-month high. Saudi and UAE supplies rose strongly, boosted by a brief peace dividend of cargoes that escaped the Mideast Gulf during the short-lived ceasefire agreed between Washington and Tehran in mid-June. This pressured delivered prices of Mideast Gulf grades. Middle East supplies accounted for more than a quarter of China's total imports, the biggest share since March. And around 71pc of China's

China product trade

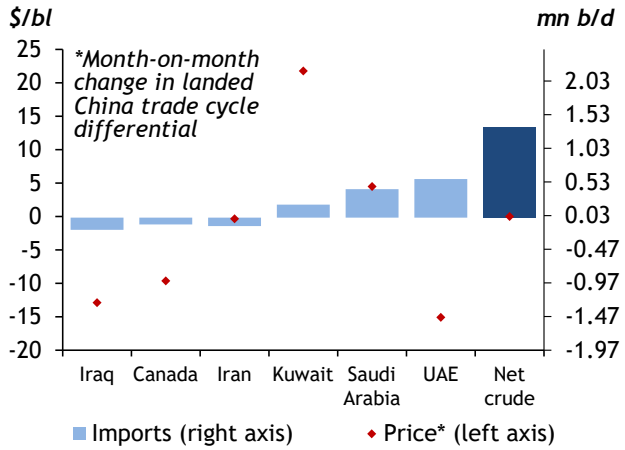


— *China Customs, Argus*

Finished product supply



China crude imports Jul vs Jun



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Middle East crude imports originated from within the Gulf in July, up from 56pc in June, according to trade analytics platform Kpler.

State-controlled refiners are turning to crude stocks to support the rise in run rates need to maximise clean product exports. Commercial crude stocks fell by more than 730,000 b/d in August and the draw could accelerate in September, Argus estimates. But Beijing's insistence that refiners maintain adequate inventory levels means this may not be sustainable, at least without a return to the large-scale crude purchases that are so far showing no signs of materialising.

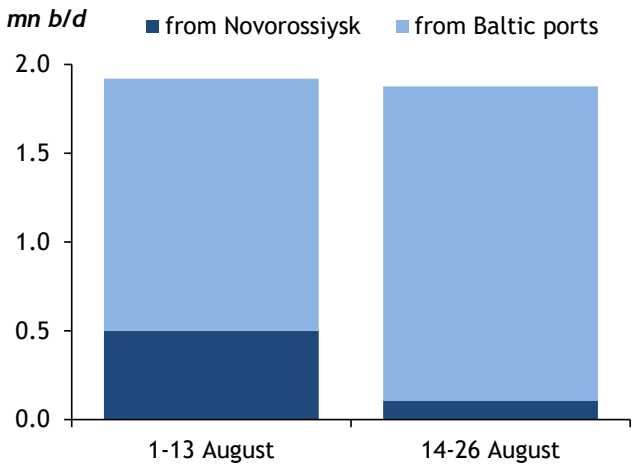
India eyes Mideast Gulf crude as Urals exports fall

Disruption to exports of Russian medium sour Urals crude is prompting Indian buyers to turn to shorter-haul Mideast Gulf supply, attracted by an increase in ship-to-ship (STS) transfer offers of spot cargoes from the region, even as Iran threatens to crack down on such traffic passing through the strait of Hormuz.

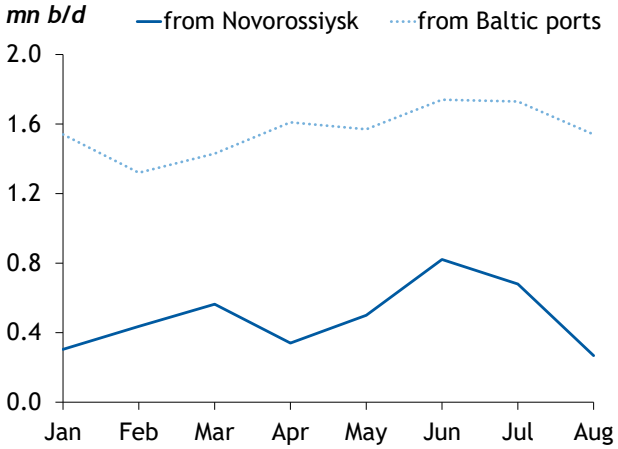
Indian buyers are struggling to secure Urals cargoes because shipowners have been withdrawing their fleets from around Russia's Black Sea port of Novorossiysk, which handles around a fifth of seaborne Urals exports, in the face of ongoing Ukrainian drone attacks, market sources say. No cargoes of Russian Urals have loaded from Transneft's Sheskharis terminal at Novorossiysk since exports resumed on 17 August after a three-day suspension, port reports and data from Vortexa and Kpler show.

Just 206,000 b/d of crude has sailed from Sheskharis since 17 August, made up of two cargoes of Kebco — Urals of Kazakh origin. Around 600,000 b/d of crude departed in the first two weeks of August, before disruptions began, around 80pc of which was Russian-origin Urals, according to Vortexa data.

Urals exports, August



Urals exports, 2026



Any drop in Urals exports from Novorossiysk typically leads to increased loadings from Ust-Luga and Primorsk, but on this occasion the two Baltic ports have not been able to fully offset the loss of loadings at Novorossiysk. Russian Urals exports from Ust-Luga and Primorsk have averaged 1.72mn b/d since 14 August, up from 1.54mn b/d in the first half of the month, but still below the 1.81mn b/d that were shipped in July (*see graph*). Overall seaborne exports of Russian Urals averaged 1.87mn b/d on 1-25 August, down from 2.46mn b/d in July (*see graph*).

Urals losing its lustre

Higher freight and insurance costs are also taking some of the shine off Urals for Indian buyers — rates for taking a 140,000t Suezmax shipment from Novorossiysk to India's west coast have averaged $126/t so far in August, up from $83/t in July. In response, Urals prices on a fob Novorossiysk basis have softened in recent weeks as sellers attempt to attract buyers. Suezmax and Aframax-sized Urals cargoes loading from Novorossiysk lost $1.40-1.70/bl in the two weeks to 27 August, to respective discounts to North Sea Dated of $26.65/bl and $27.35/bl.

But firming competition for dwindling available Urals supply is pushing up prices for the grade on a delivered India basis. Urals for October delivery to India's west coast rose by $2.05/bl over the same period, to a 40¢/bl premium to North Sea Dated on a dap basis. This marks the first time since late May that the grade has been assessed at a premium to the benchmark.

Supply disruption and costlier freight are eroding Urals' main selling point — wide discounts for the grade compared with non-sanctioned crude — just as Mideast Gulf producers are offering more oil on a STS transfer basis, with the seller taking the risk of shipping cargoes through the strait of Hormuz.

These STS offers are already catching the eye of Indian buyers. Refiners from India collectively bought 6mn bl in Abu

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Dhabi's state-owned Adnoc's ninth crude sell tender since June, which closed on 24 August. A private-sector refiner bought 2mn bl each of Das and Upper Zakum, while a state-owned refiner bought 2mn bl of light sour Umm Lulu at a premium to North Sea Dated, most likely on a delivered basis, sources say. An Indian refiner also bought crude from within the strait of Hormuz last week. The firm will take 2mn bl of Qatari crude loading on a fob basis from state-owned QatarEnergy in a tender that closed on 25 August.

Outside of these sell tenders, India's state-owned IOC took 1mn bl of Umm Lulu crude from Adnoc in a buy tender that closed on 26 August, along with 2mn bl of Iraqi Basrah Heavy from an unnamed seller, traders say.

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