The Middle East Conflict…Still Not Over

FPMA Sunshine Expo

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Denton Cinquegrana, Chief Oil Analyst

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The Big Picture…Could Probably Spend Most of Our Time Today Here

At the end of the day, this is a global market.

The energy price rise means a negative terms-of-trade shock for many economies

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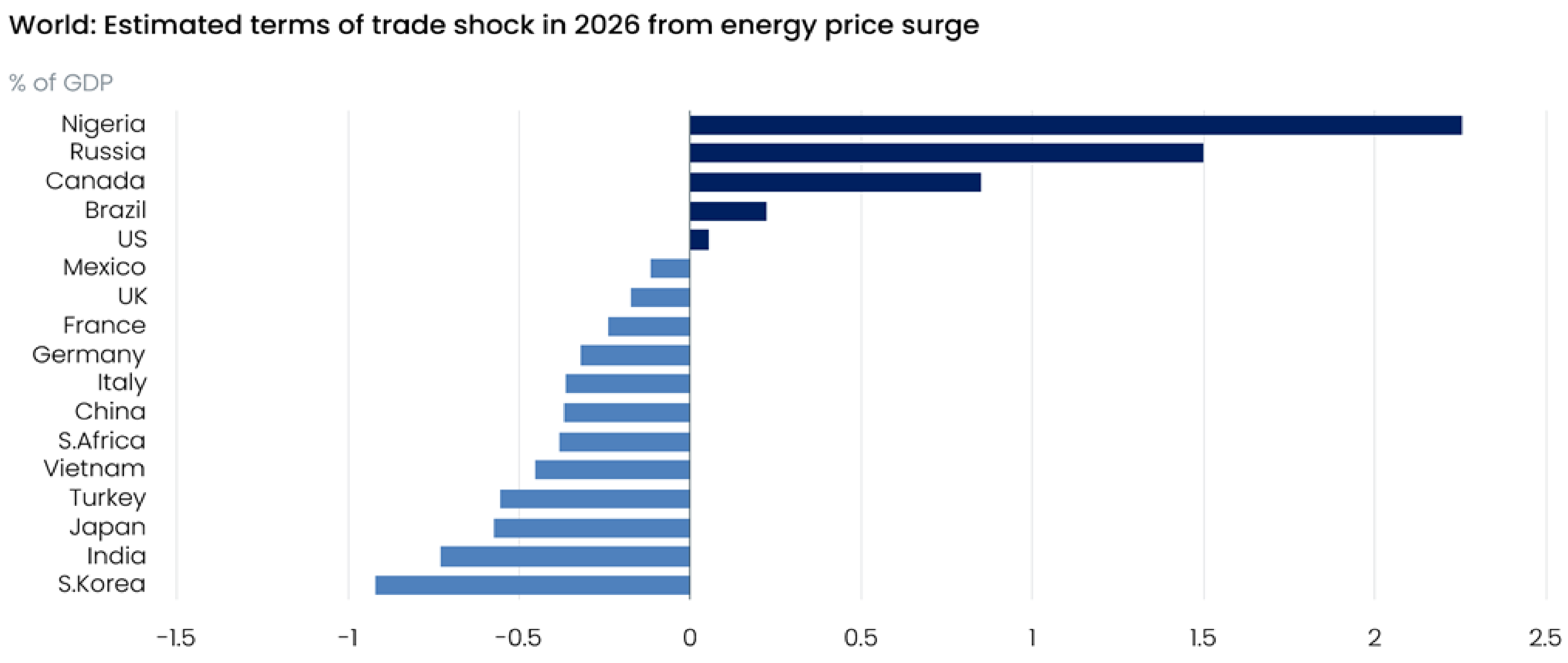
CHEMICAL MARKET ANALYTICS



Source: Oxford Economics, Haver Analytics. From: Global: Lower oil prices aren't a gamechanger for the growth outlook.

Real economic concerns are developing

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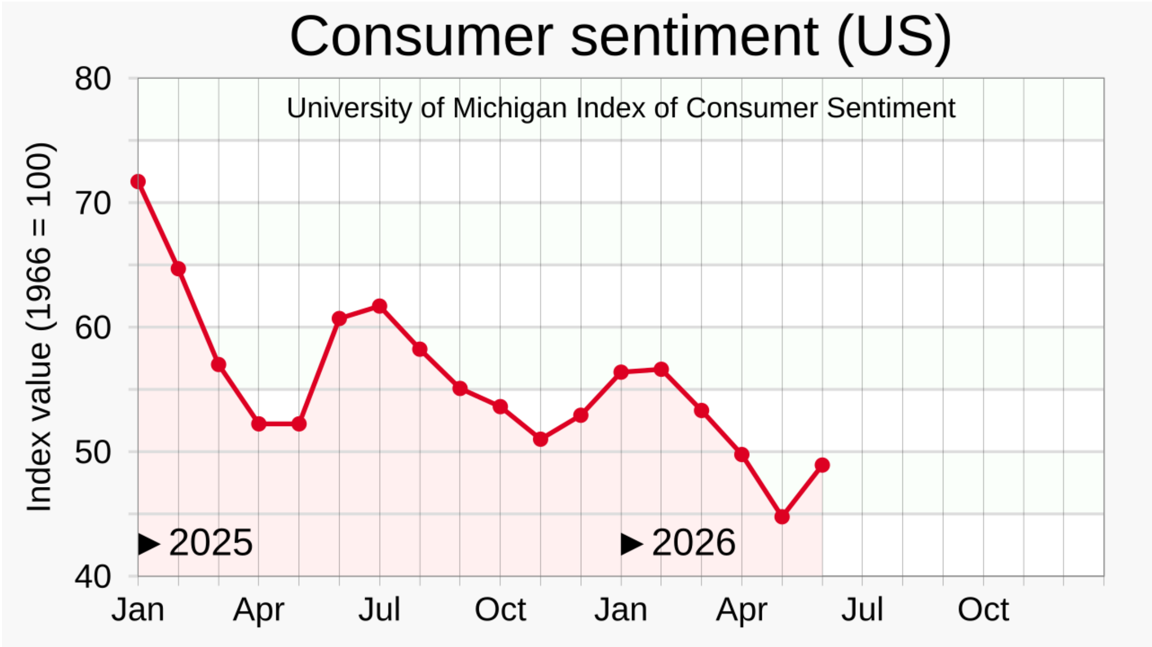
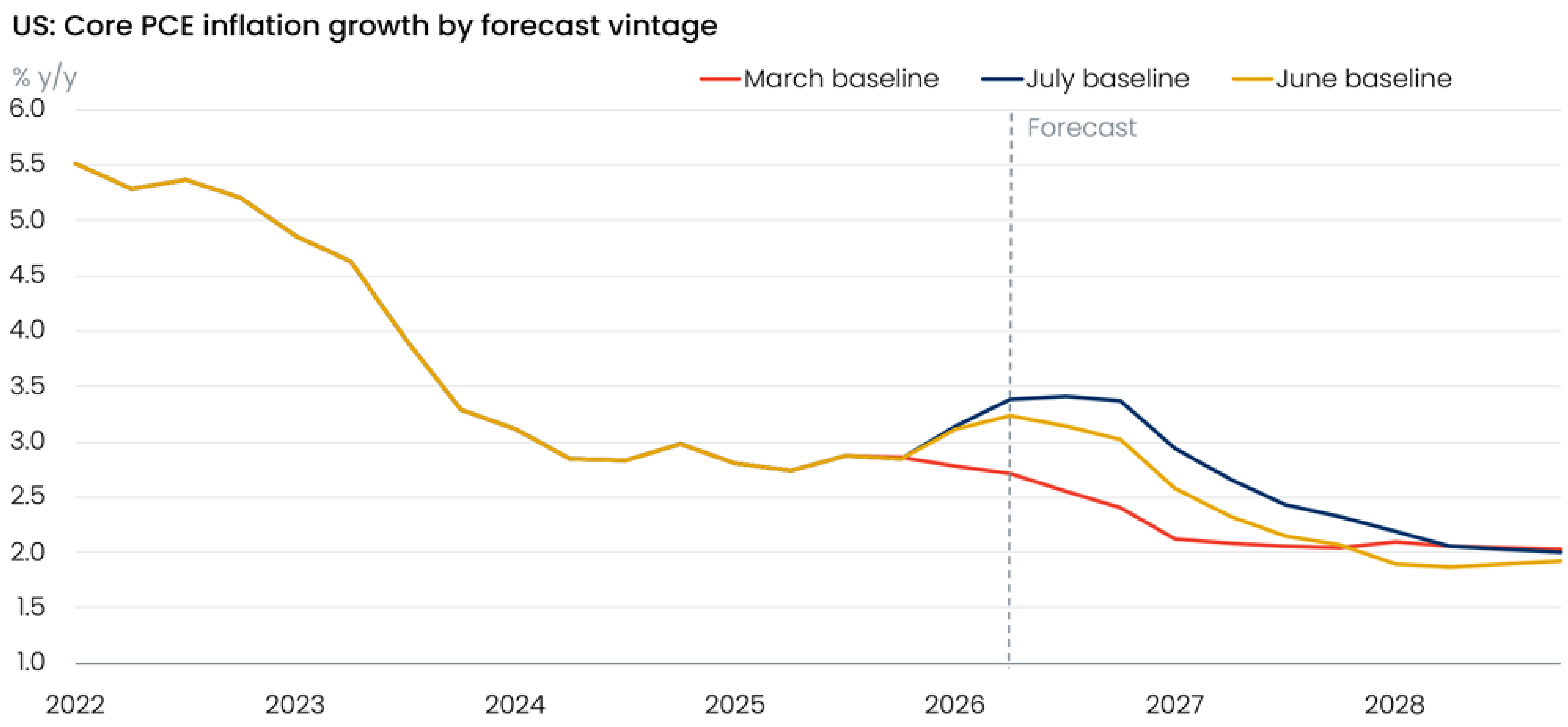


Source: Univ of Mich.

- This is where the K-shaped economy is really showing up. Slight June improvement from May
- The fall in gasoline prices helps with consumer sentiment
- May was a new all-time low a 44.8 reading
- The mood of the country is getting bad
- High gasoline prices and the cost of living are a key catalyst for the bad mood.
- The bad mood is spread across both political parties
- Lower income and people without college degrees were the most unhappy

AI passthrough and second-round energy price effects will keep core inflation higher for longer



Source: Oxford Economics, Haver Analytics. From: Global: Lower oil prices aren't a gamechanger for the growth outlook.

Global events have shifted liquid flows

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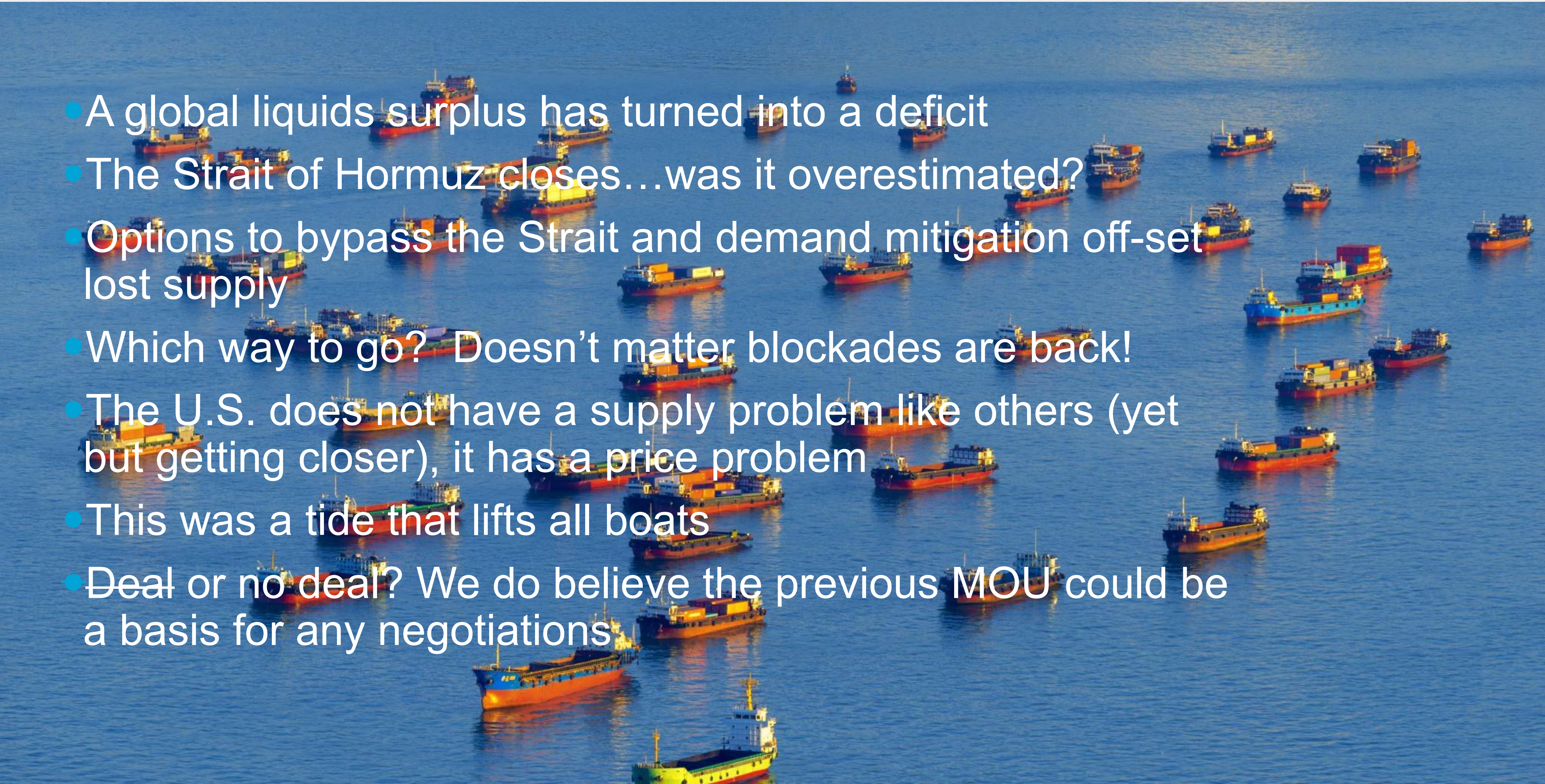
- A global liquids surplus has turned into a deficit
- The Strait of Hormuz closes…was it overestimated?
- Options to bypass the Strait and demand mitigation off-set lost supply
- Which way to go? Doesn’t matter blockades are back!
- The U.S. does not have a supply problem like others (yet but getting closer), it has a price problem
- This was a tide that lifts all boats
- ~~Deal~~ or no deal? We do believe the previous MOU could be a basis for any negotiations



What does the end look like?

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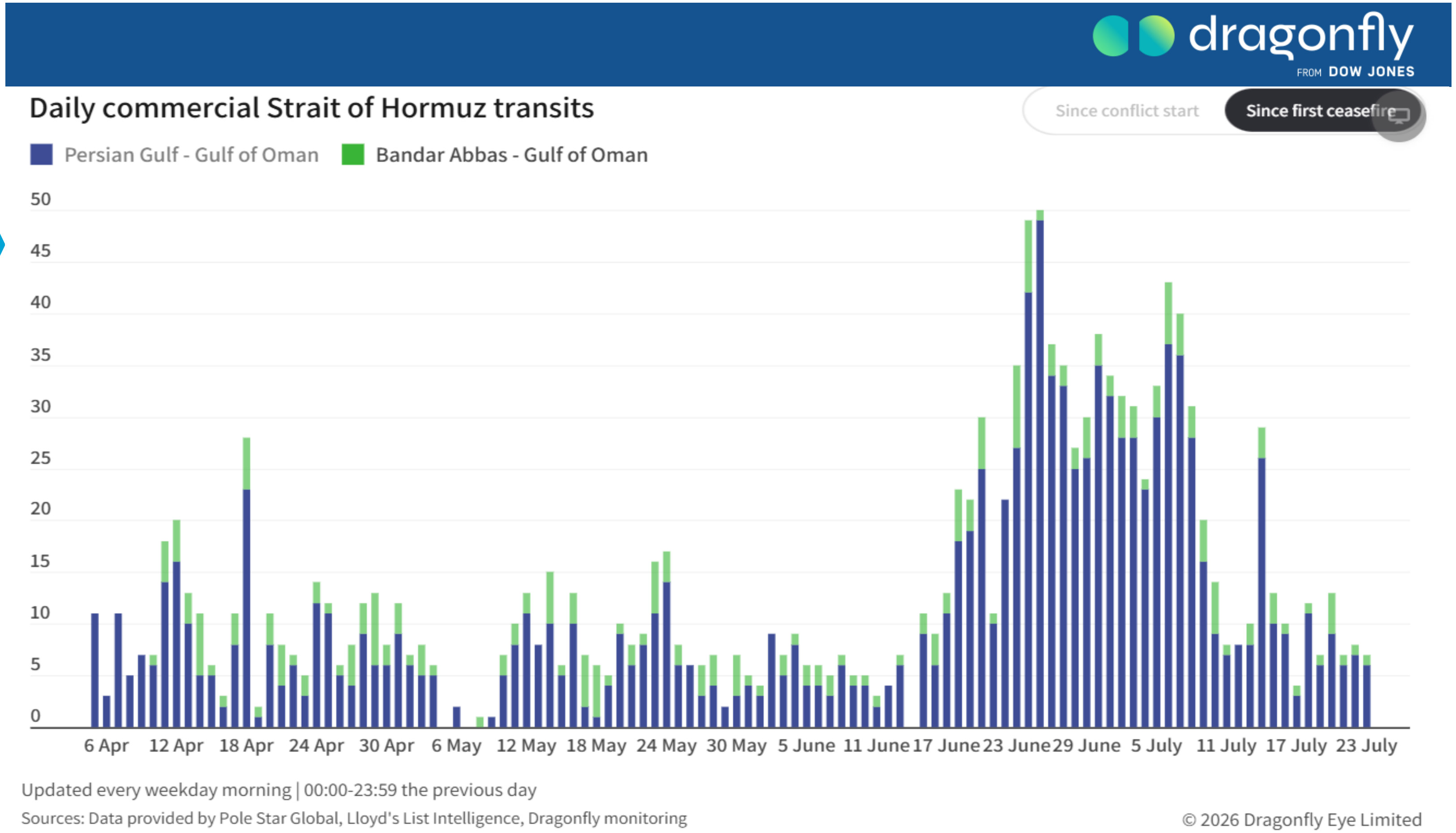
- Military engagement has restarted. Longer conflict, more potential damage to energy assets, increased time for normalization
  - Strait of Hormuz still less than pre-war but impacts may have been overestimated
  - Higher energy trickle-down effect will adversely impact global economy
- Even then, there will be some portion of energy flows that will remain unavailable
- Routes is one of the larger issues.
- Iran looking to establish a toll
- Would this impact other choke points around the globe?



And now the Houthis are involved

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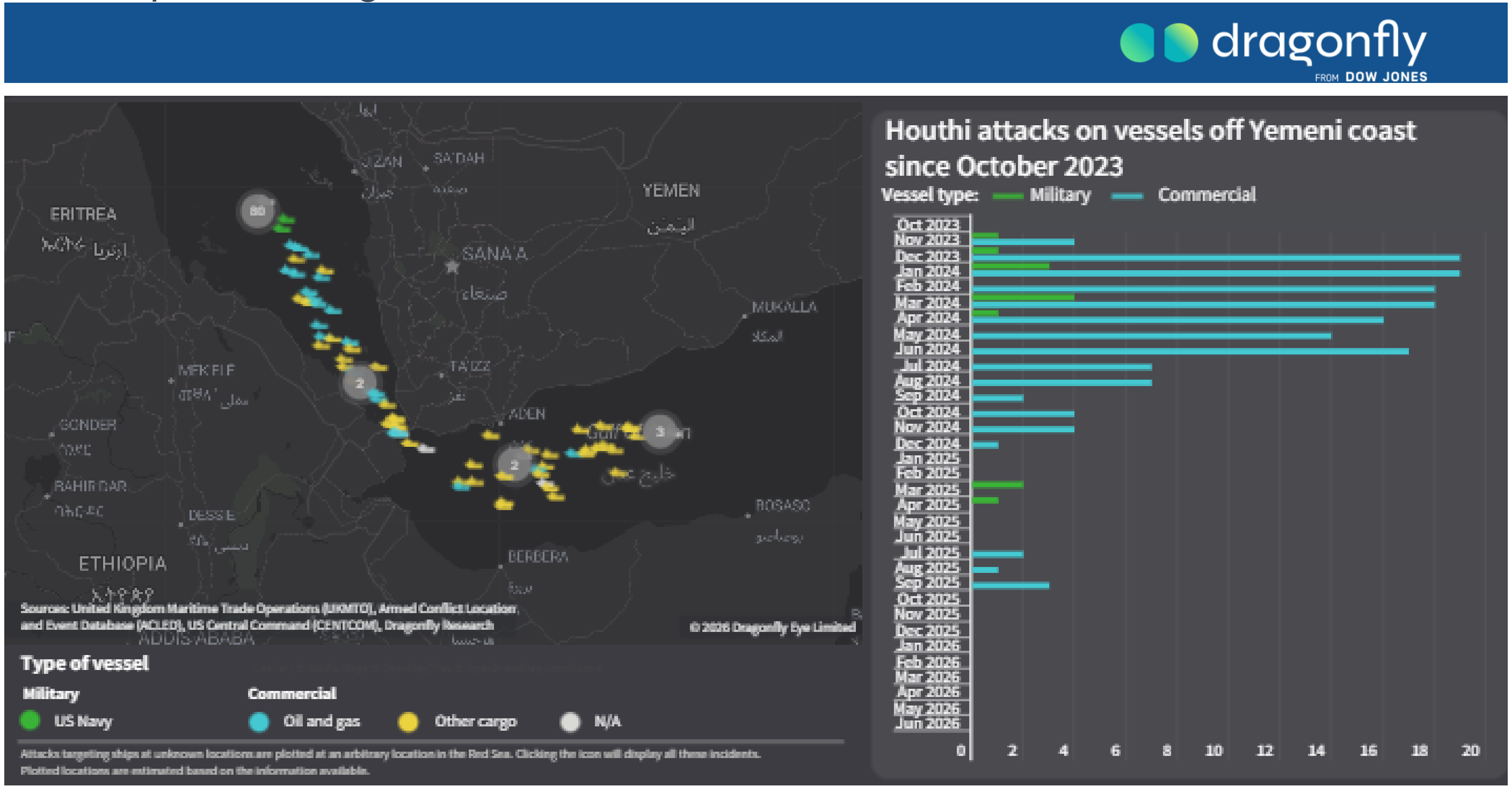
Houthi attacks on ships is nothing new



Workarounds add time and money…and burn more fuel

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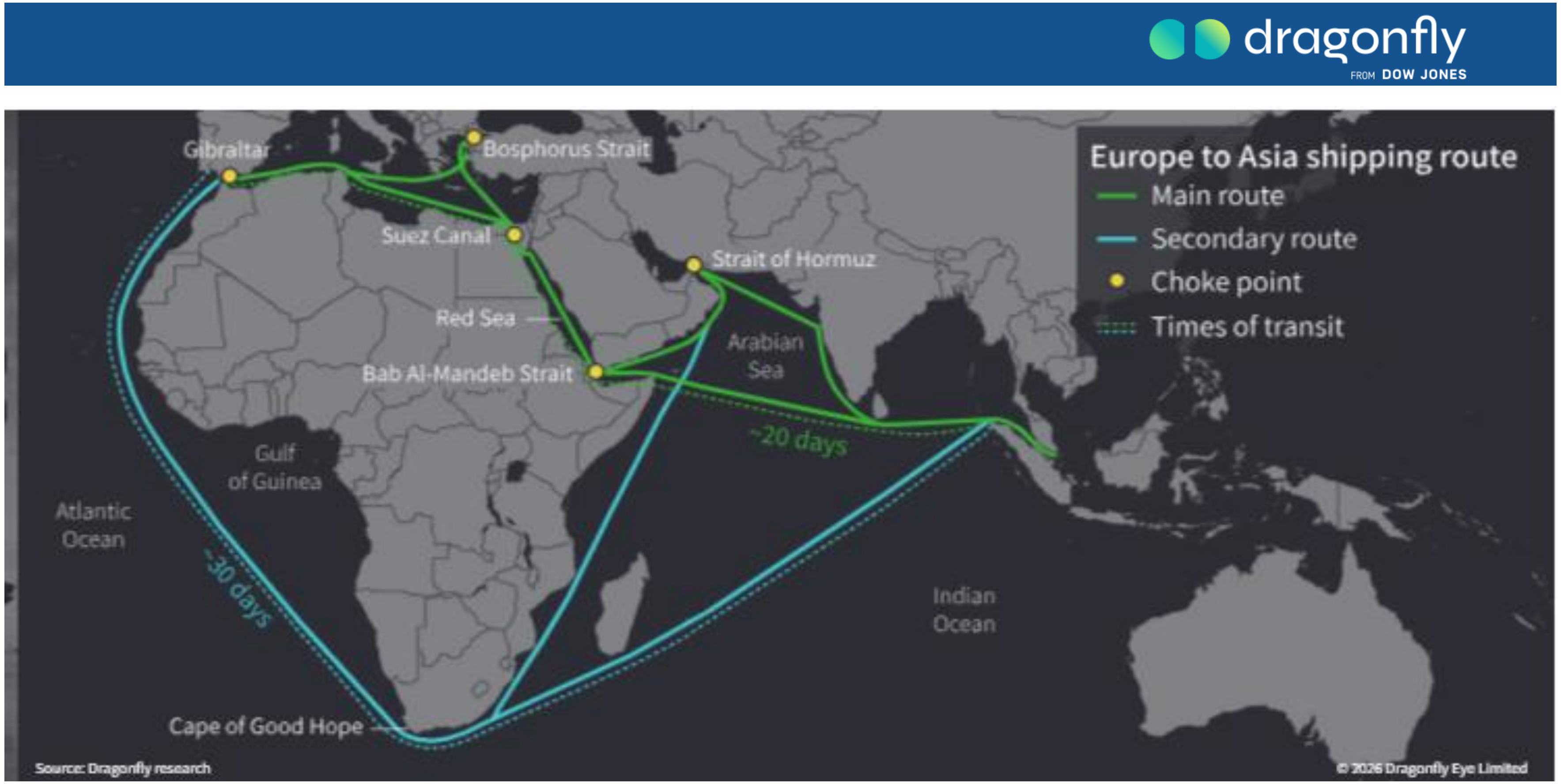
Exports through the Mediterranean Sea take longer



Middle East Conflict timeline: Week 21

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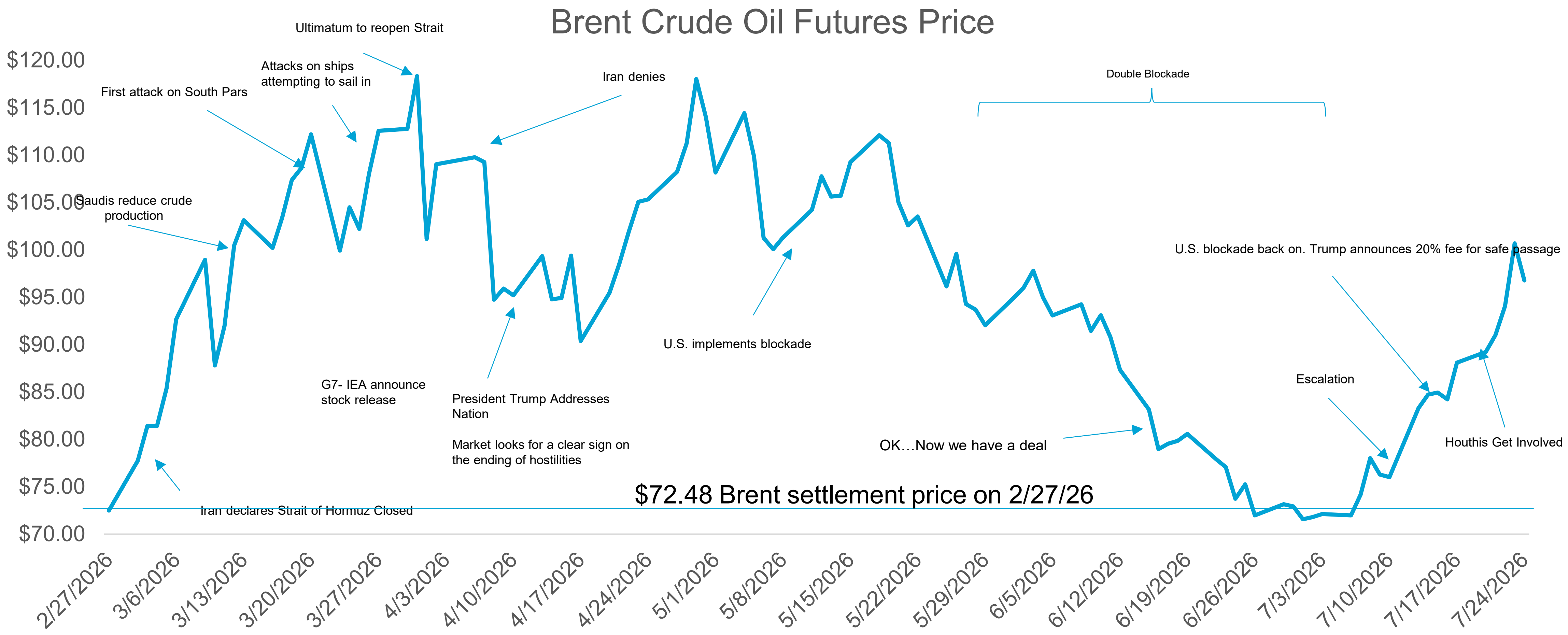
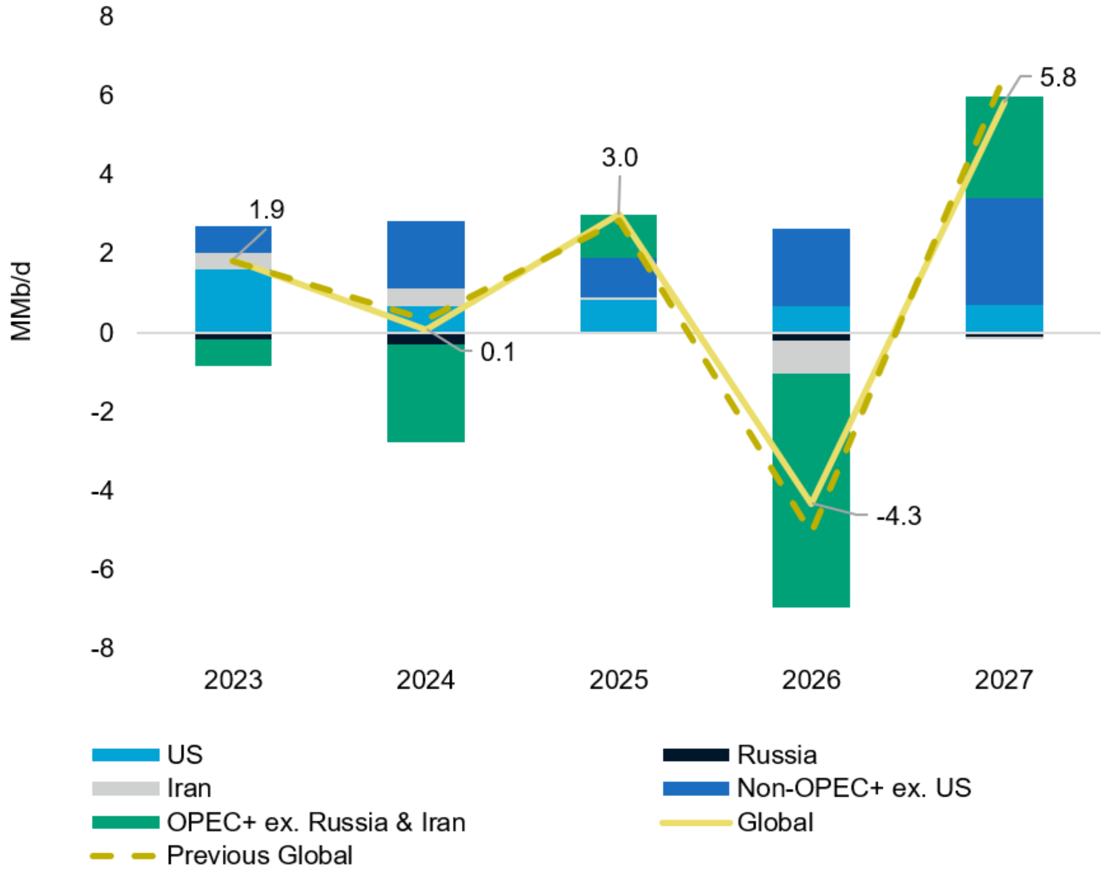
Prices have cooled, but there is potential for a return to stronger prices



Surplus to deficit: conflict has dramatically shifted oil market expectations

- Pre-conflict expectations for 2026
  - YoY supply growth of 2.8 million barrel per day (MMB/d) vs 0.9 MMB/d demand growth
  - Average Brent price forecast of **$64 per bbl**
- Revised expectations
  - YoY market deficit of 2.4 MMB/d with aggressive inventory withdrawals to balance
  - Average Brent price forecast of **$82.10 per bbl**
- Key narrative points
  - 21st week without a full resolution, any ceasefire is fragile
  - 18 weeks of normalization with increased demand through '27 to rebuild depleted inventories
  - Demand not adversely impacted over the longer term
- *Critical risk: as the conflict drags on, the longer it will take for normalization and the more difficult it will be for production to recover*

Global Liquids Production Growth by Key Group/Country



Source: Rystad Energy, OPIS

What we think demand looks like in 2026

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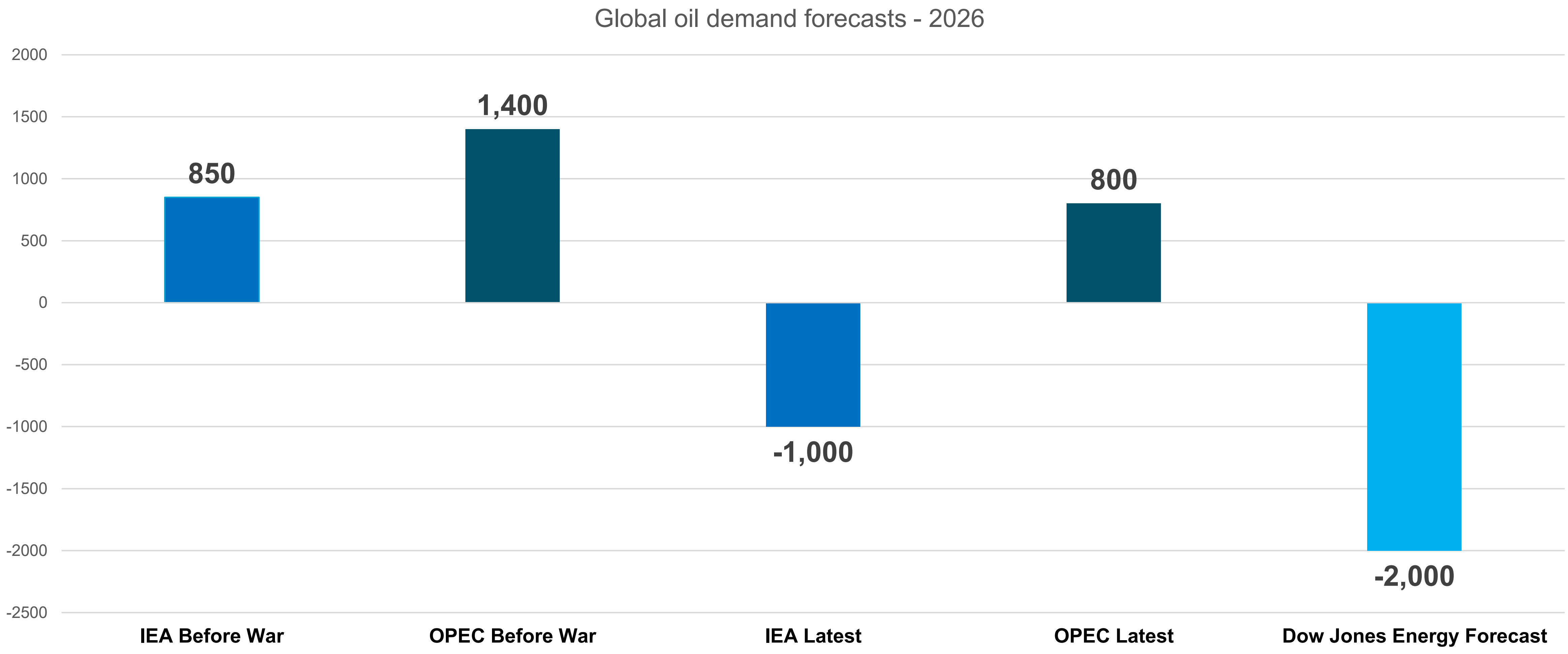

This is how the U.S. has been able to insulate itself from Middle Eastern disruptions

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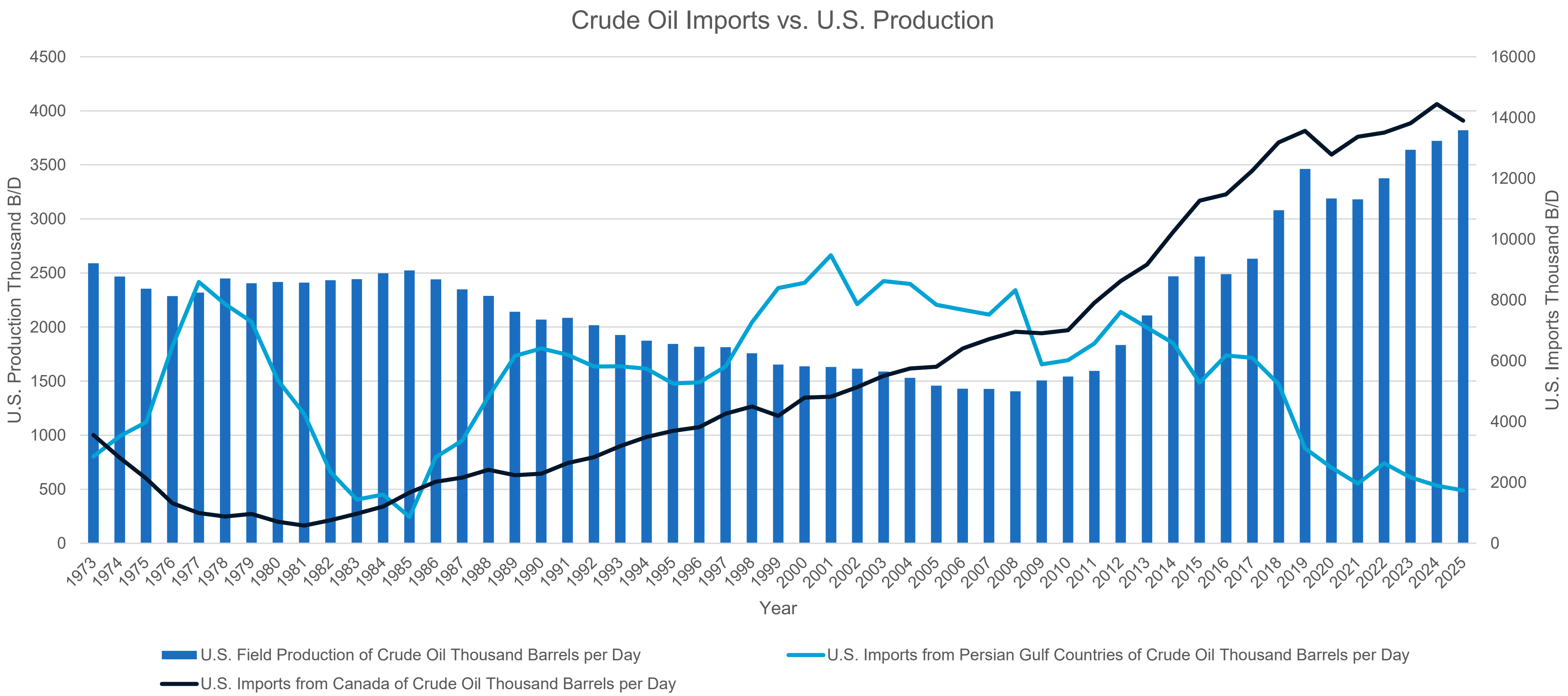
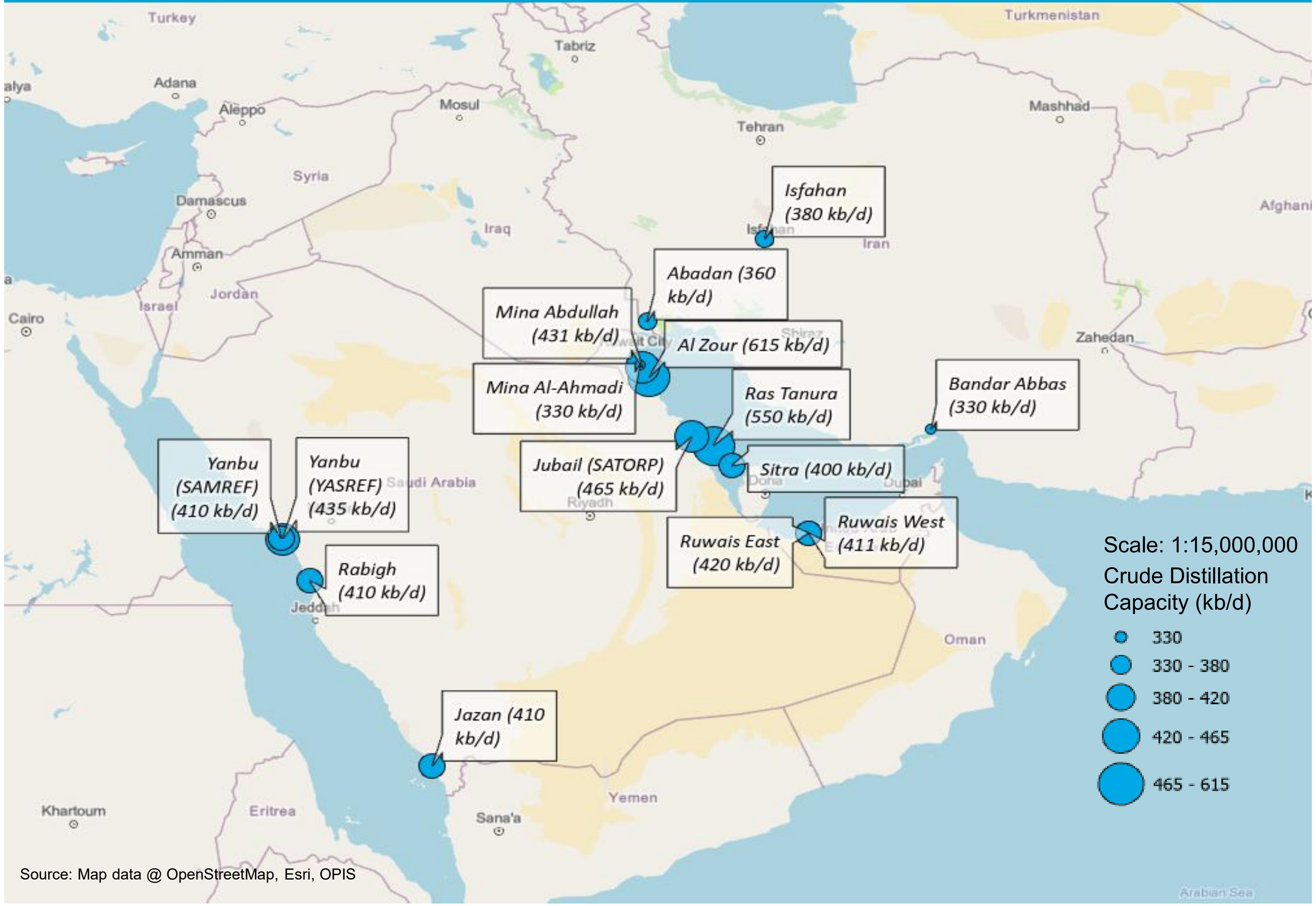
Keeping it in North America



Refining and downstream

It’s a good time to be a refiner…distribution is having a nice run too

Top 15 Oil Refineries in the Gulf States



Source: Map data @ OpenStreetMap, Esri, OPIS

Refining margins in 2026 are comparable to 2022 and likely to end up stronger

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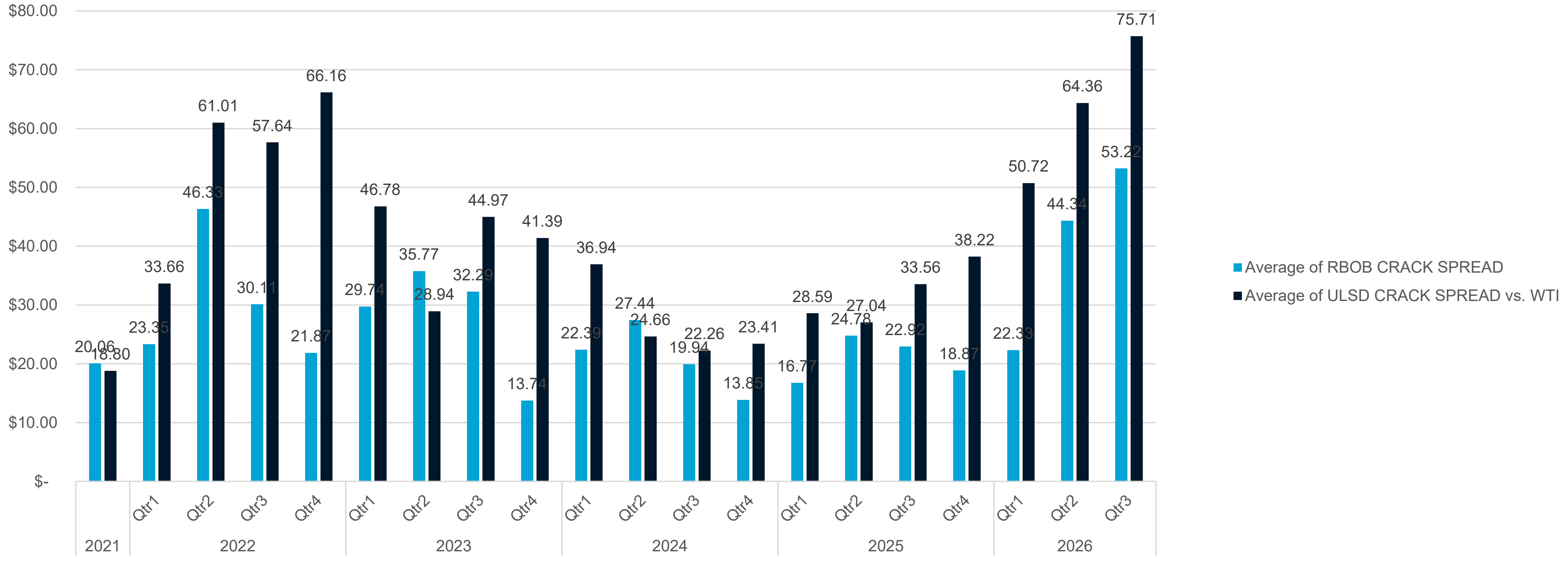
The 3rd quarter has only just begun and a lot can change, but…



Refiners do have some headwinds

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Potential downside factors for crack spreads

- High refined product prices impact demand
  - Some evidence of gasoline demand destruction
  - Airlines reducing routes hits jet fuel demand
  - Slowing economy hits diesel demand
- RINs and the renewable volume obligation though may be the biggest headwind
- There appears to be enough crude oil available, particularly in the Western Hemisphere
  - This should continue to support refining margins in the short term likely well into the 4th quarter
  - However, desperation from refiners in Asia or China returns to aggressive buying could change that.

Renewable volume obligation costs increasing for obligated parties

Coastal diesel markets have jumped sharply as export demand rises

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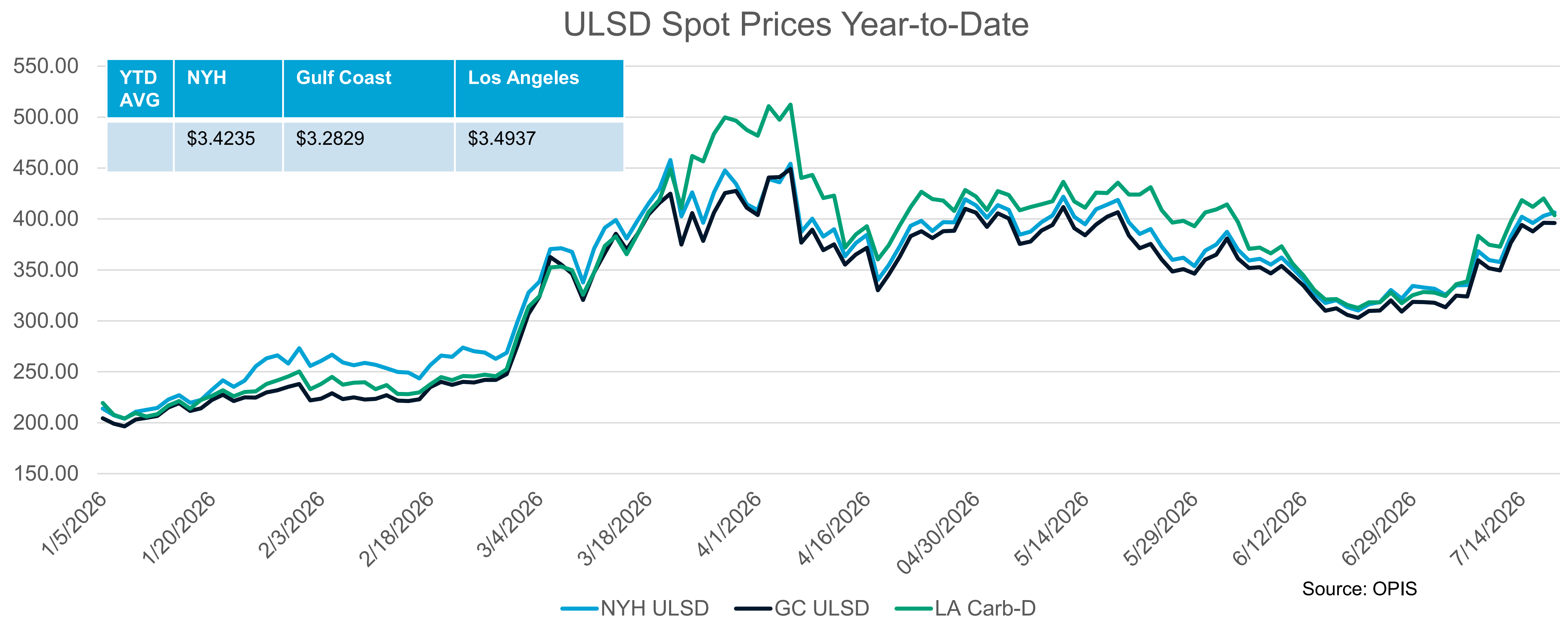
From a global perspective, this is more of a diesel and jet fuel event



YTD AVG	NYH	Gulf Coast	Los Angeles
	$3.4235	$3.2829	$3.4937

Source: OPIS

This is getting concerning…

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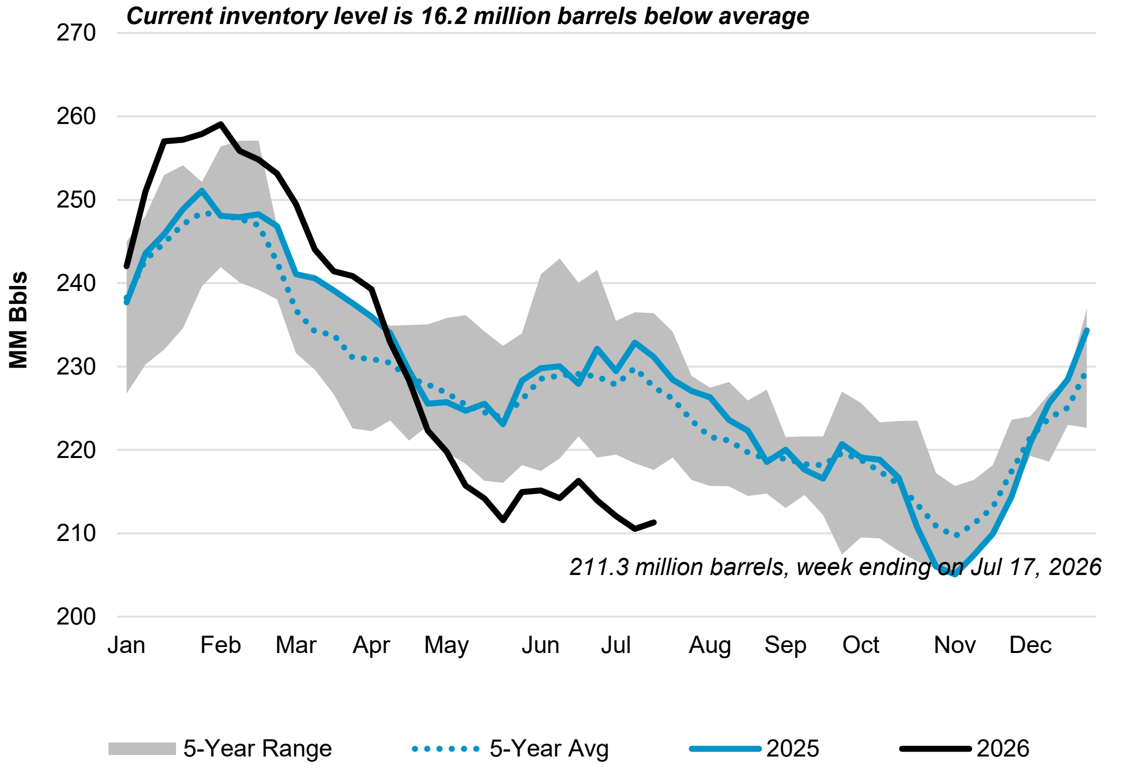
While it is a global jet/diesel event U.S. gasoline inventories are tighter than previous summers

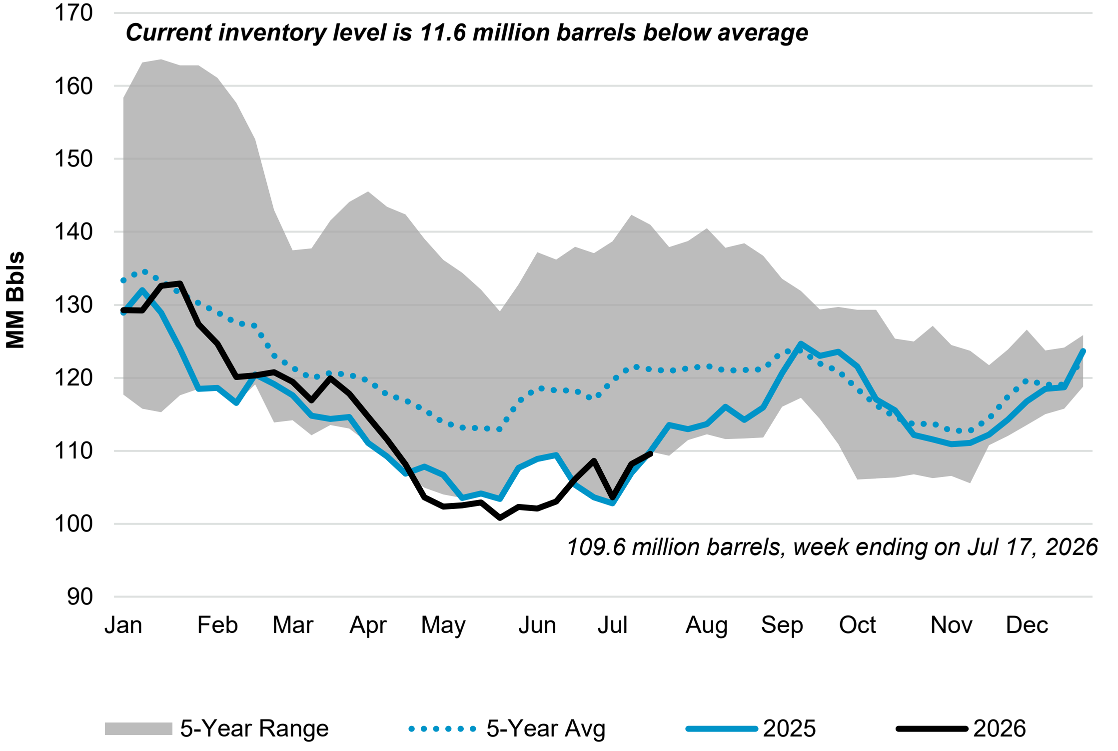
U.S. Total Gasoline Inventories



Source: U.S. Energy Information Administration

U.S. distillate inventories have been operating hand to mouth much of the past five years

U.S. Distillate Inventories



Source: U.S. Energy Information Administration

The U.S. is a refined products world supplier

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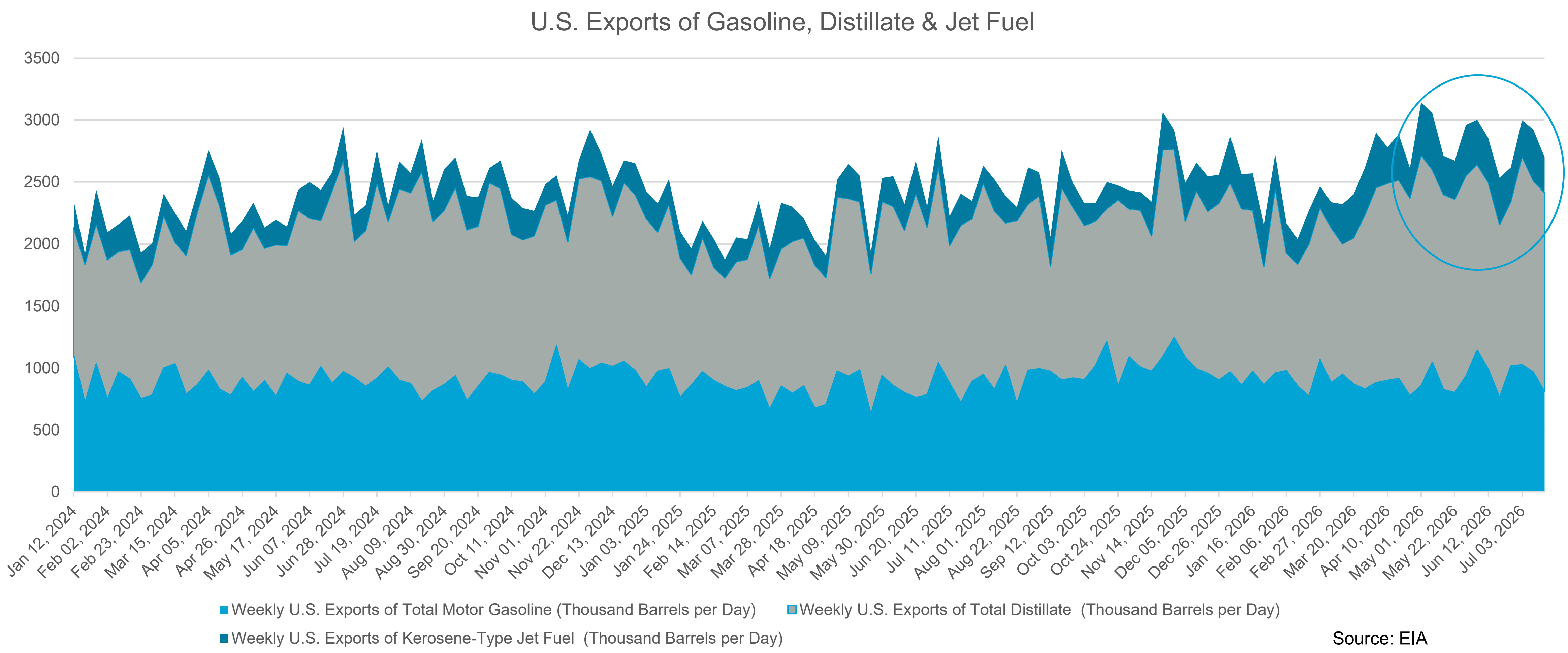

Source: EIA

This is why U.S. exports are and will likely remain elevated

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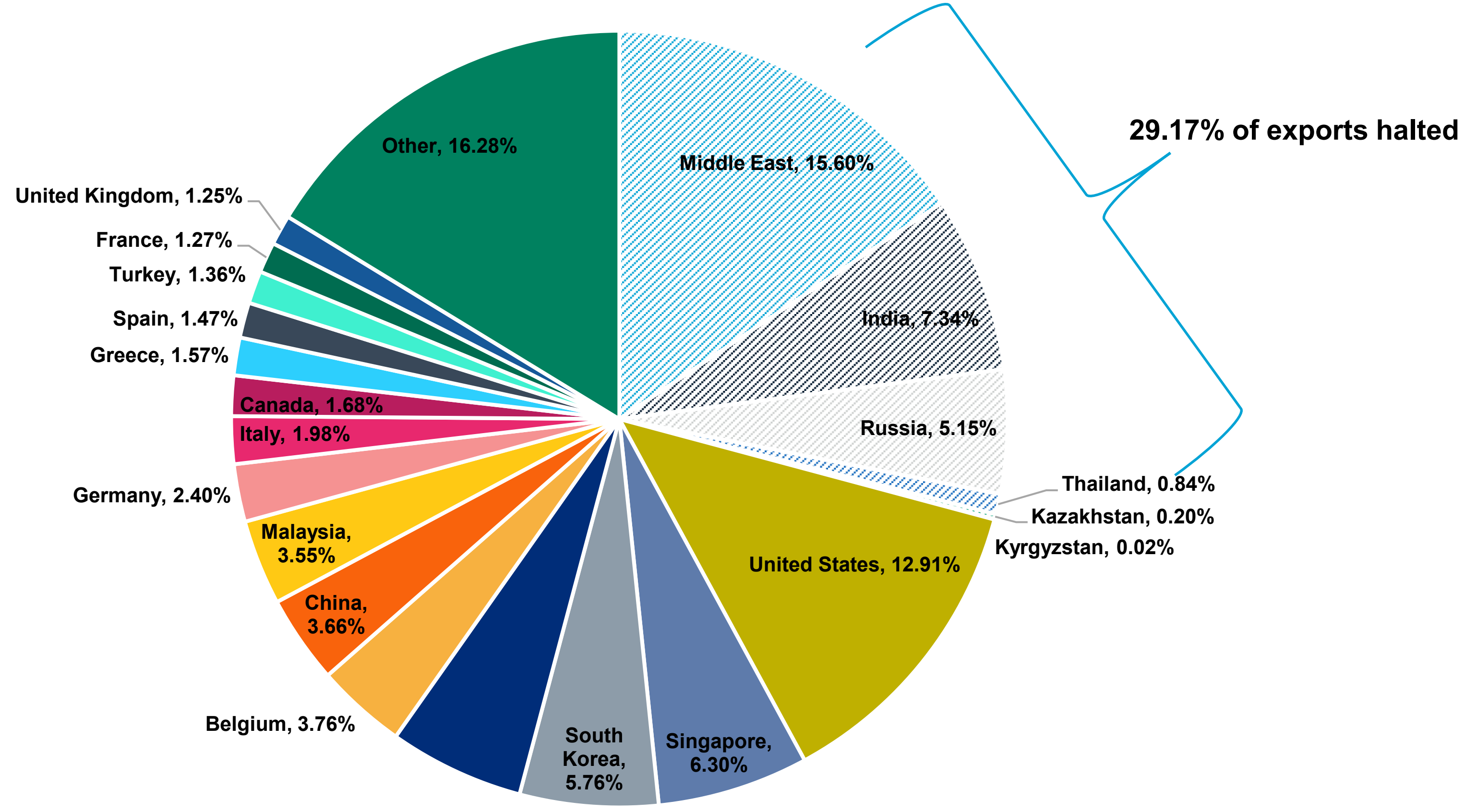
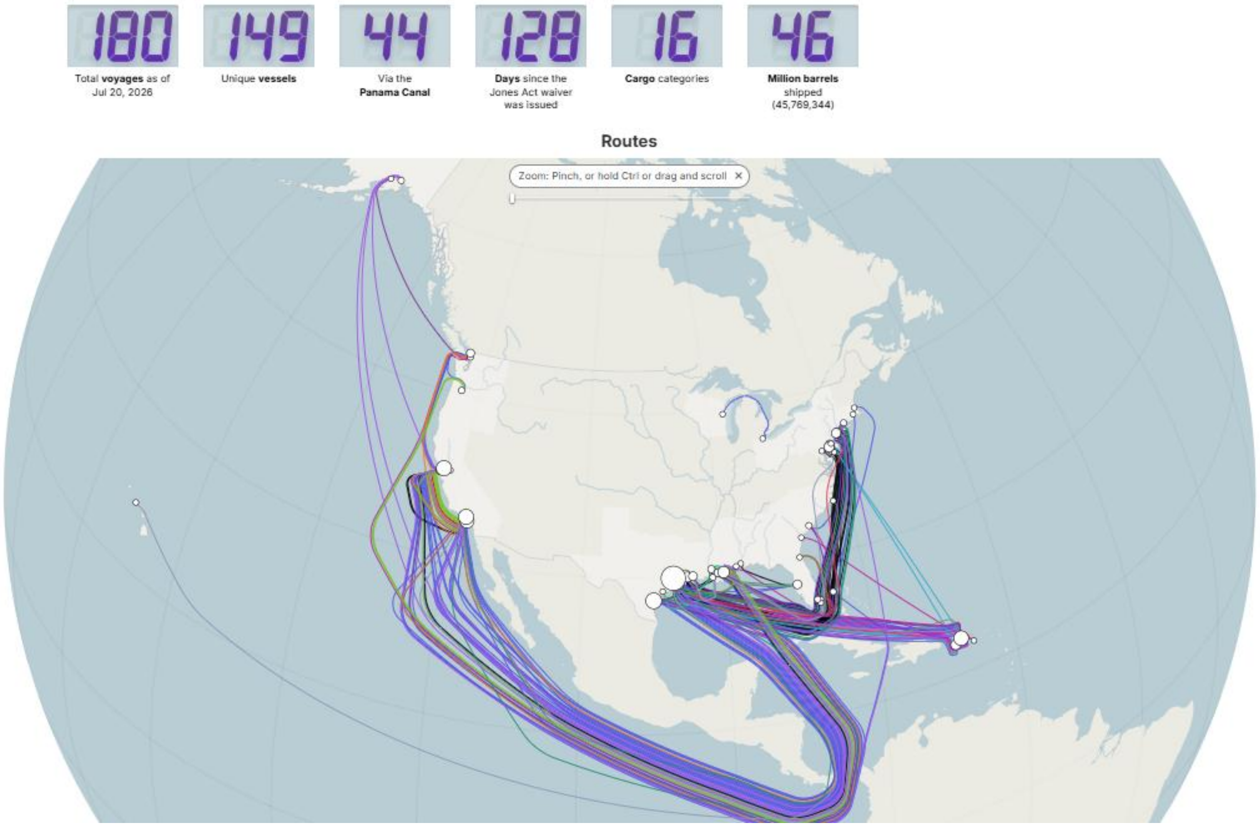
Refined Oil Products Exports Market Share, 2024



Source: McCloskey by OPIS, Obnservatory for Economic Complexity, Wall Street Journal

Has the Jones Act waiver helped?



- This is all foreign flagged movements since the waiver was first announced on March 17th.
- Jones Act vessels are still fully booked
- I would suspect most of the Jones Act vessels are the ones making the journeys from the Gulf Coast to the East Coast
- California has been a beneficiary
- This gives Jones Act opponents a bit of "I told you so" ammunition
- The CATO Institute made this interactive (you can see the journeys by hovering over the lines.
- Link: https://www.cato.org/jones-act-waiver-tracker

We haven't spent too much time on gasoline..

- Gasoline supplies most of the time in most of the country should be fine.
- Like diesel and jet fuel there is clear demand for U.S. gasoline exports this should keep prices elevated
- Imports of gasoline into the East Coast posted some of the lowest numbers on record in early spring…recovering closer to normal levels as arb from Europe has reopened
- What can the administration do to arrest the upside in retail gasoline prices
  - Waive the Jones Act
  - Gas tax holiday
  - E-15 year around
  - Export ban
- Gasoline prices are still below spring highs. Prices are starting to creep back up national average back to $4.10. Trend is flat to higher through August.

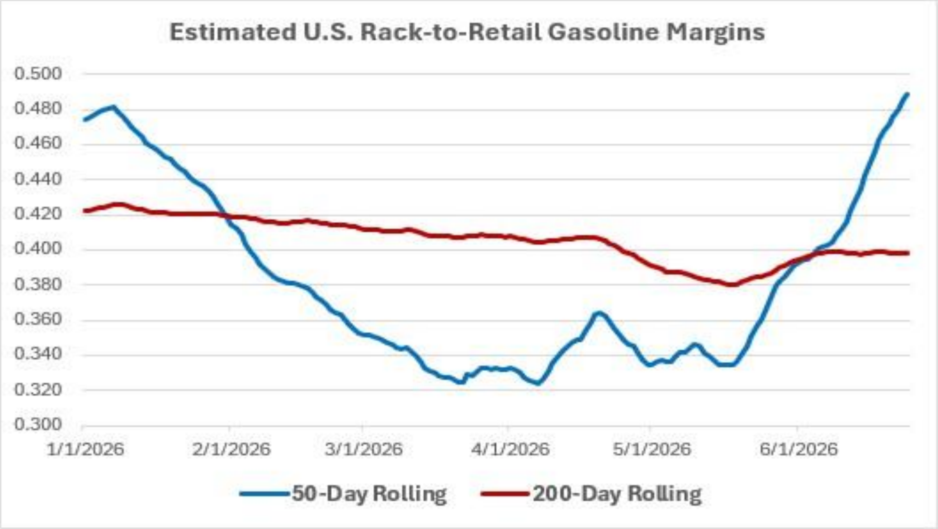
Some final thoughts on the global refined products markets

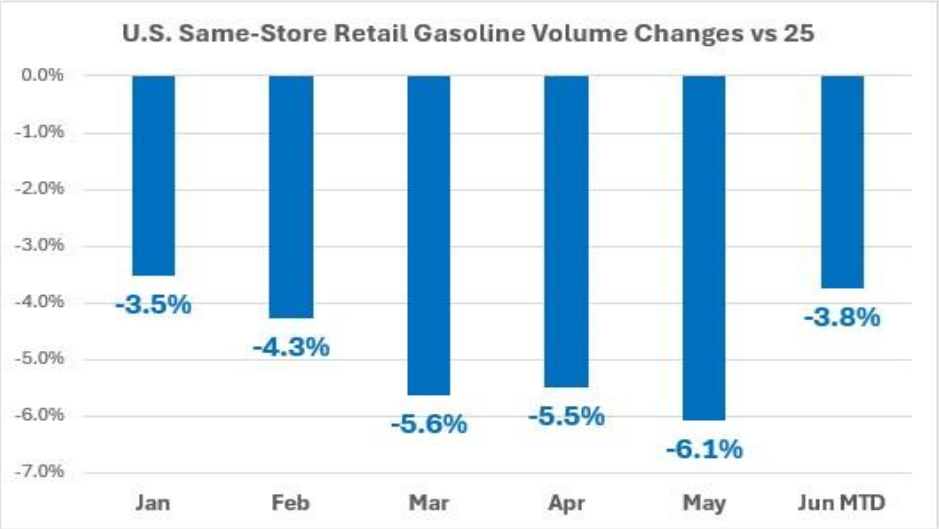
- After several years of drone attacks by Ukraine the impacts in Russia are starting to be felt.
  - Estimates are that Russian refineries are running at about 3.4 million b/d. Slight improvement from early July.
  - Russia has banned diesel exports through the end of the month. Russian diesel exports are usually in the 0.8 million b/d neighborhood
  - Russia has had to import gasoline, they are normally an exporter
- Refinery rationalization over the past few years may have caught up to demand
- This means more U.S. exports and support for refining margins, particularly in markets with access to tidal waters
- A combination of demand mitigation by airlines and refiners ramping up jet fuel production supplies are fine, particularly in the U.S. Domestic inventories are now well above normal. Jet fuel yields are pulling back
- Demand mitigation in other parts of the world have helped keep prices from staying higher for longer, mostly Asian nations were doing this
- Based on the past few weeks, this does not look like its over by any stretch. My biggest concern from a supply standpoint and thus economic is diesel.

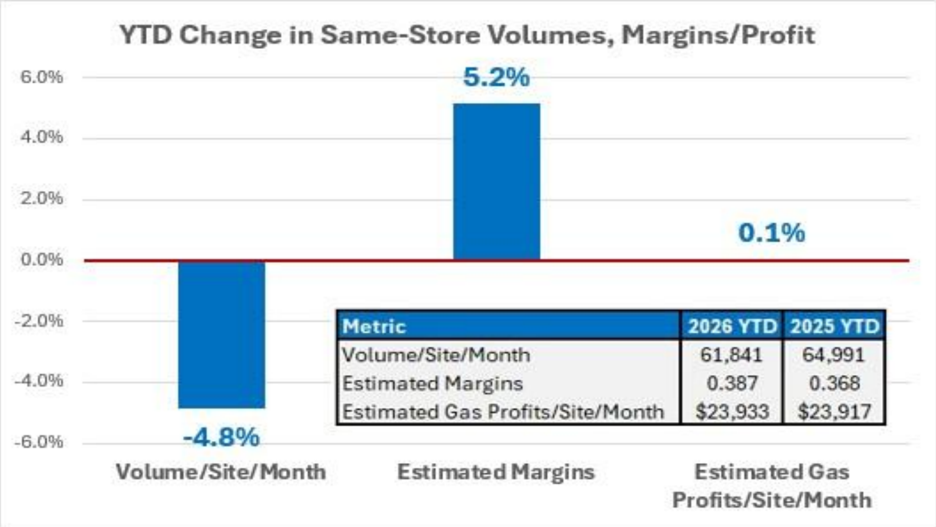
Margins and Demand

Demand continues to see year on year declines…Margins have been volatile

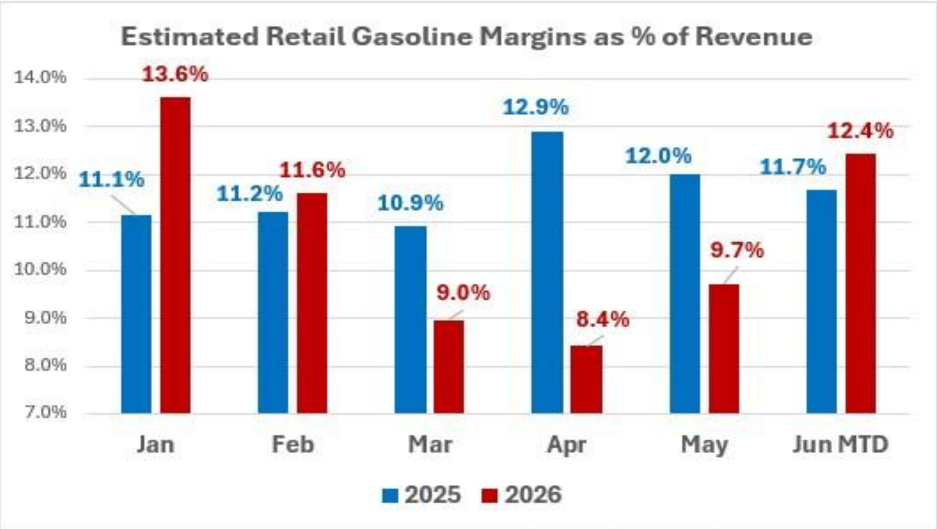
2026 U.S. First Half Year Gasoline Metrics







Metric	2026 YTD	2025 YTD
Volume/Site/Month	61,841	64,991
Estimated Margins	0.387	0.368
Estimated Gas Profits/Site/Month	$23,933	$23,917



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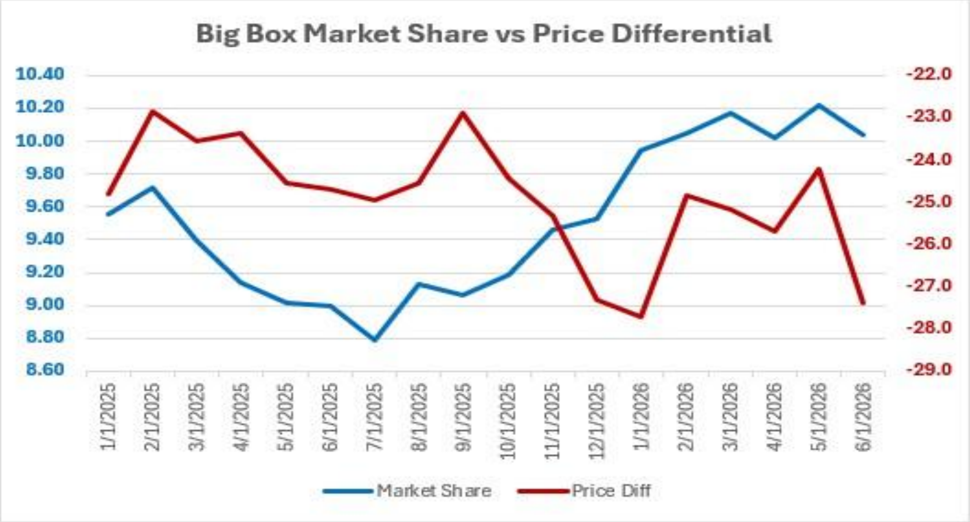
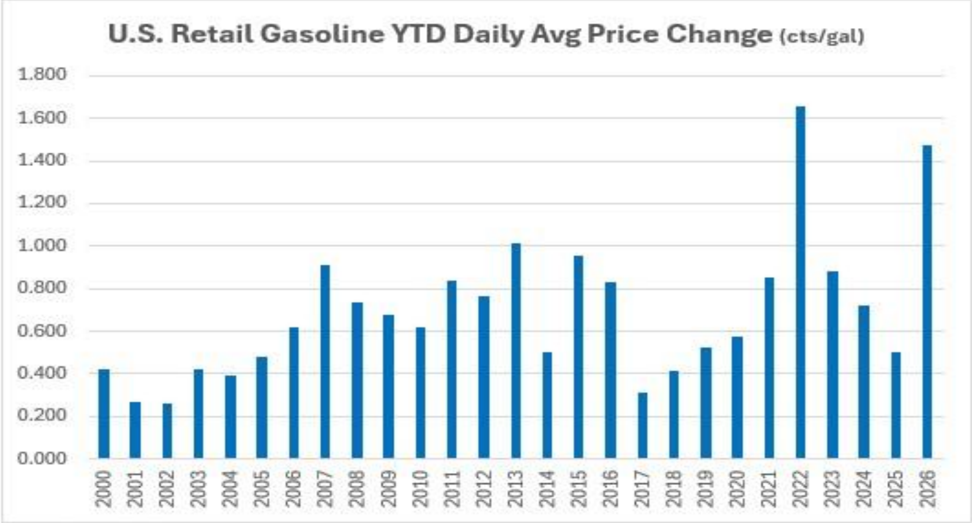
2026 gasoline highlights continued





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A look at the current state of retail diesel

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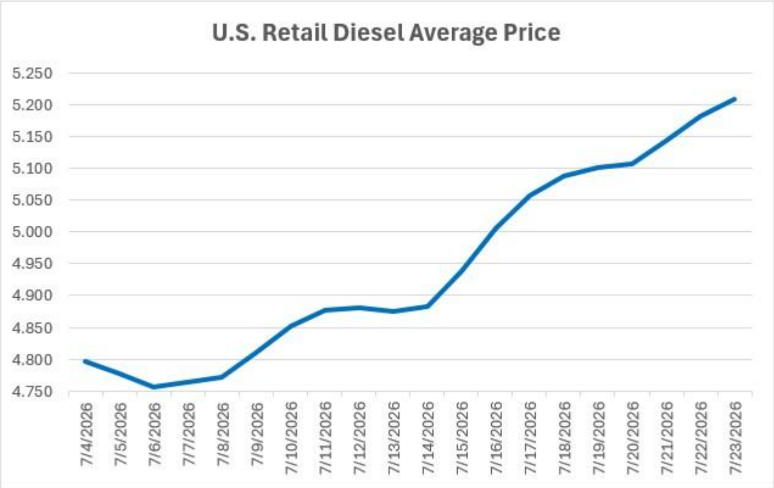
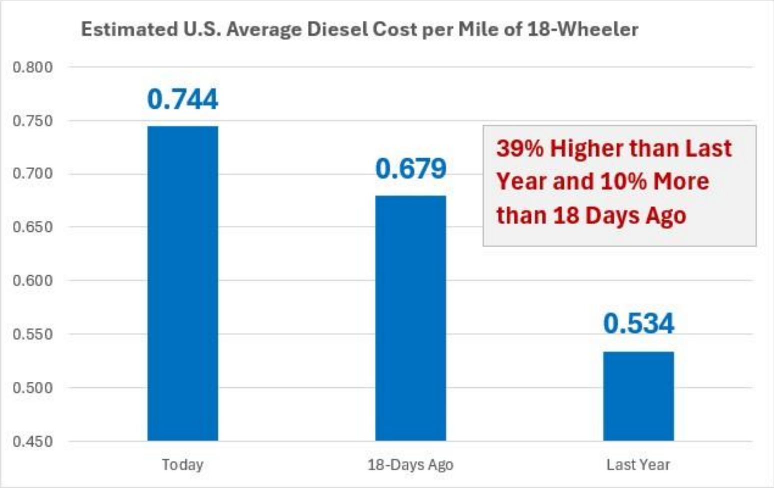
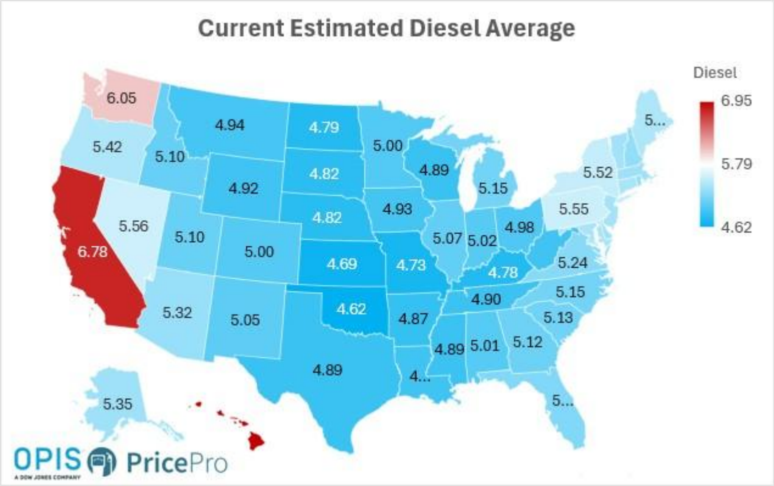
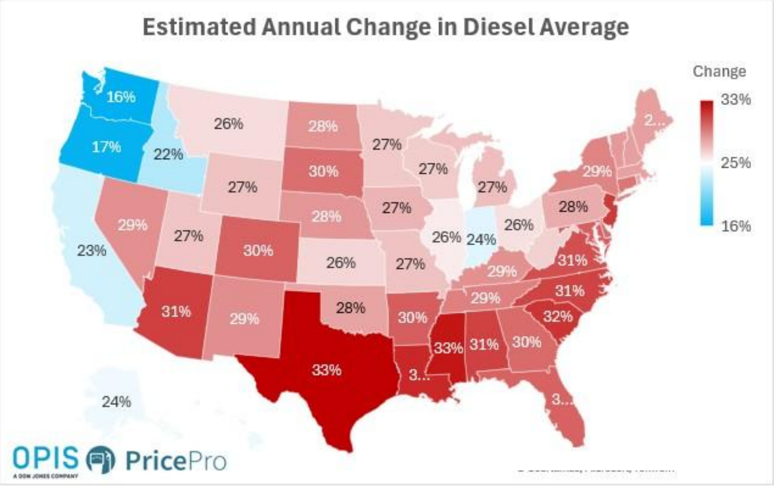
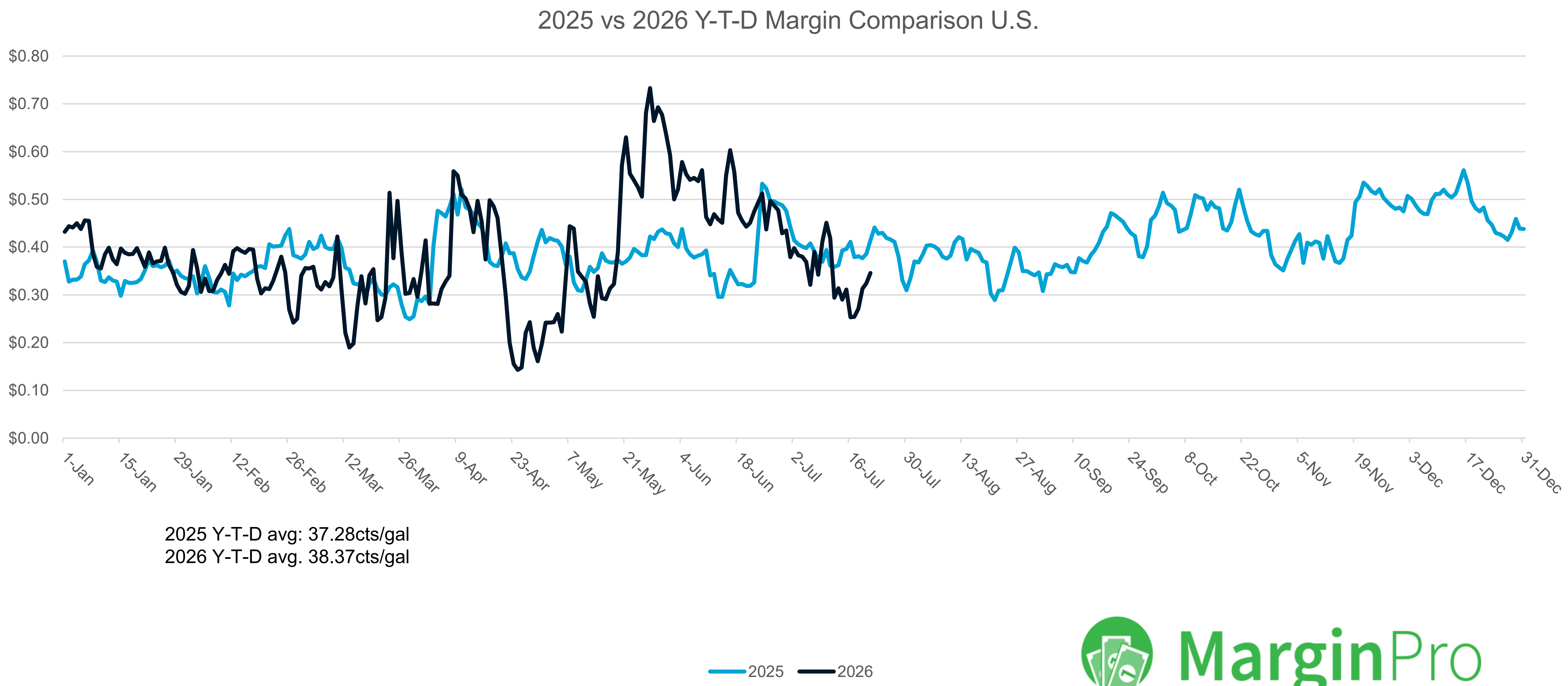








2026 year to date margins track now exceed last year



2025 Y-T-D avg: 37.28cts/gal
2026 Y-T-D avg. 38.37cts/gal

MarginPro

Gross gasoline margins in the U.S., Southeast and Florida have largely flattened out

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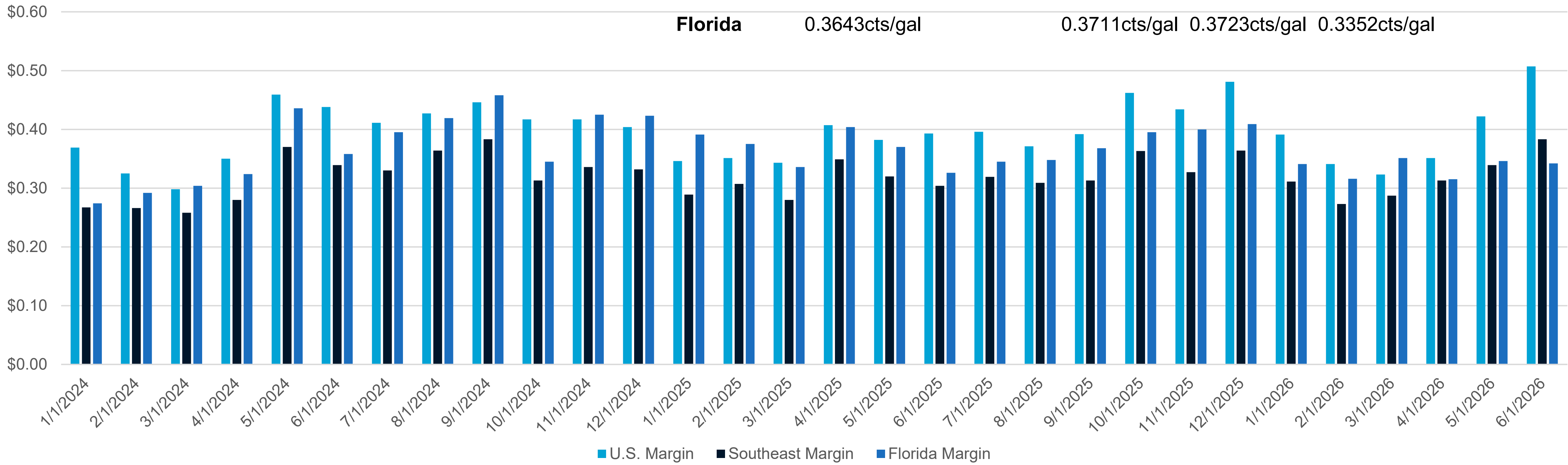
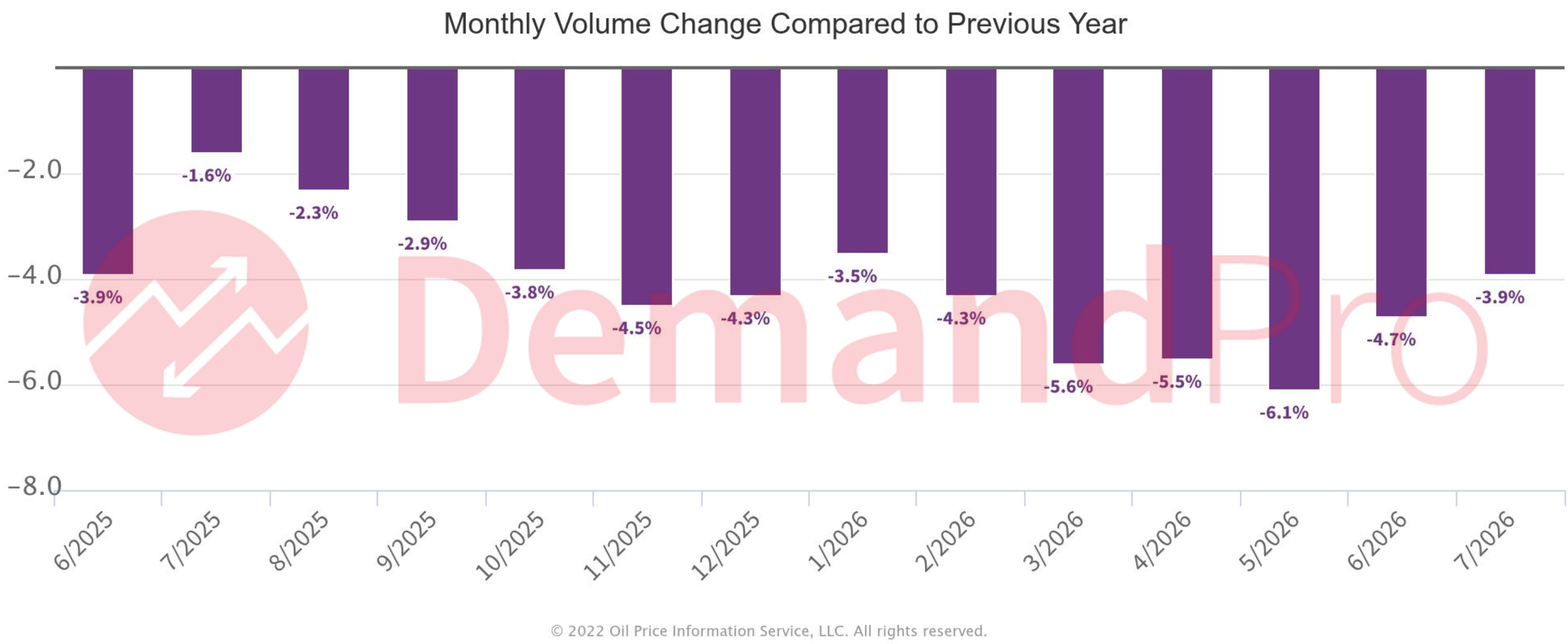
Monthly average gross rack-to-retail gasoline margins in U.S. Southeast and Florida

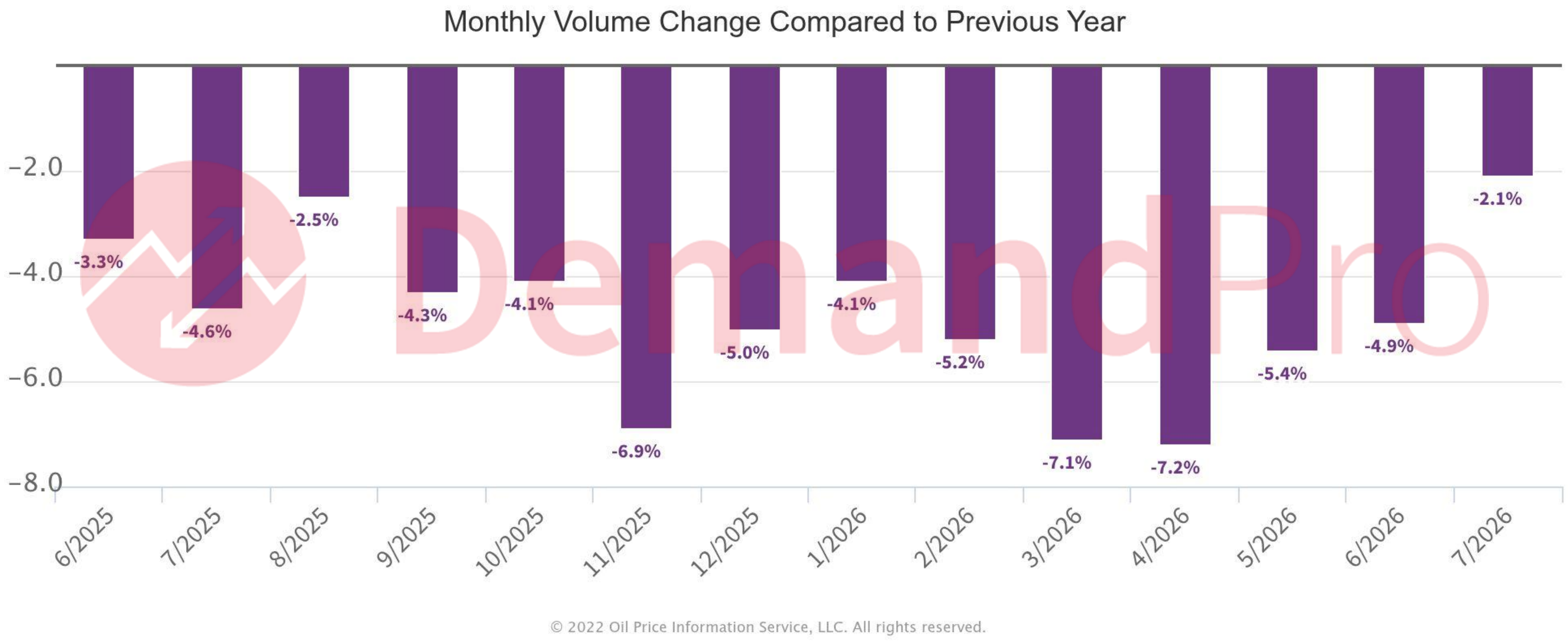
	2.5 year average	2024	2025	2026 (first half)
U.S.	0.395cts/gal	0.3968cts/gal	0.3965cts/gal	0.3892cts/gal
Southeast	0.3196cts/gal	0.3198cts/gal	0.3203cts/gal	0.3172cts/gal
Florida	0.3643cts/gal	0.3711cts/gal	0.3723cts/gal	0.3352cts/gal



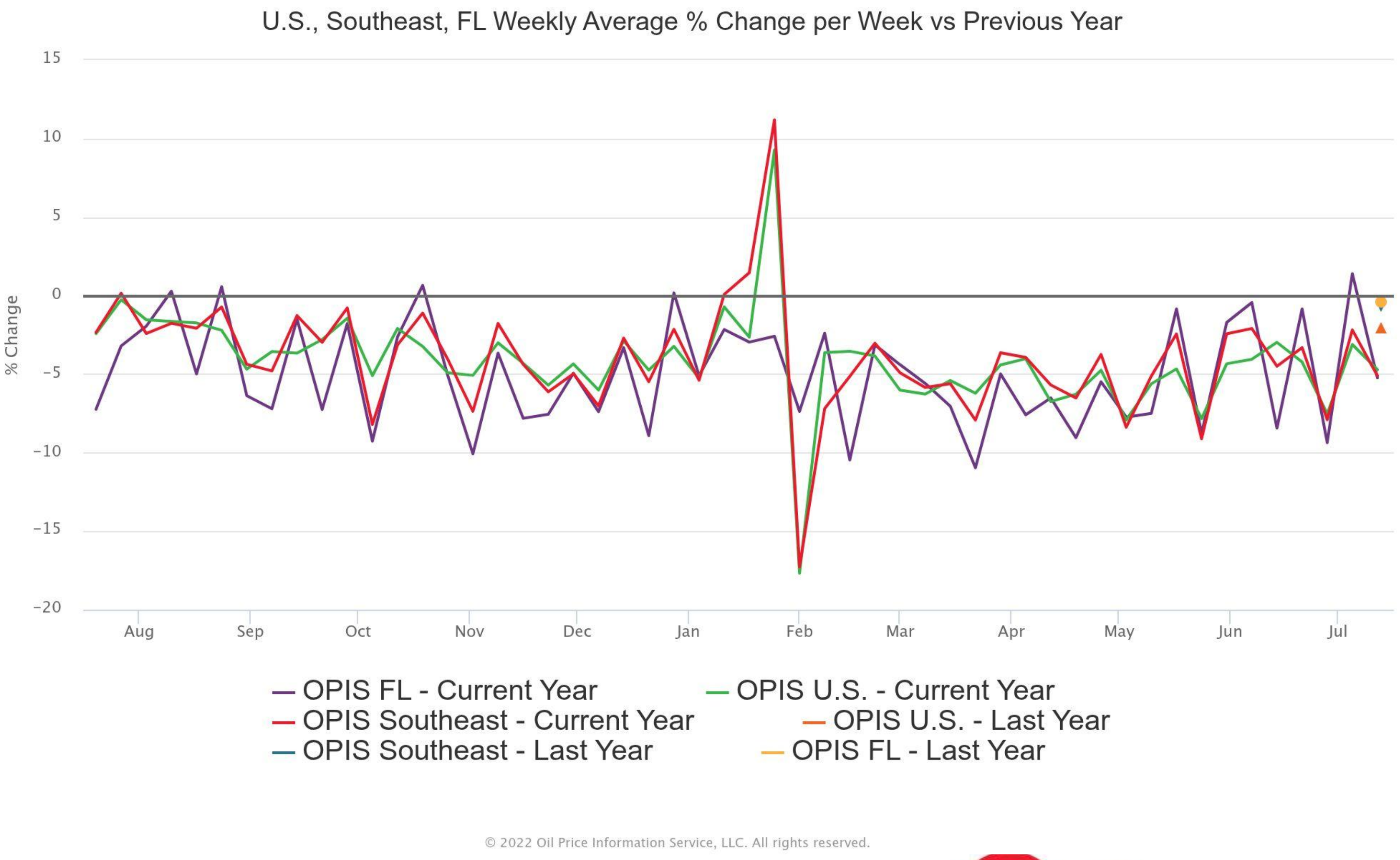
U.S. demand is declining slowly…Evidence of demand destruction March-May



How about Florida?

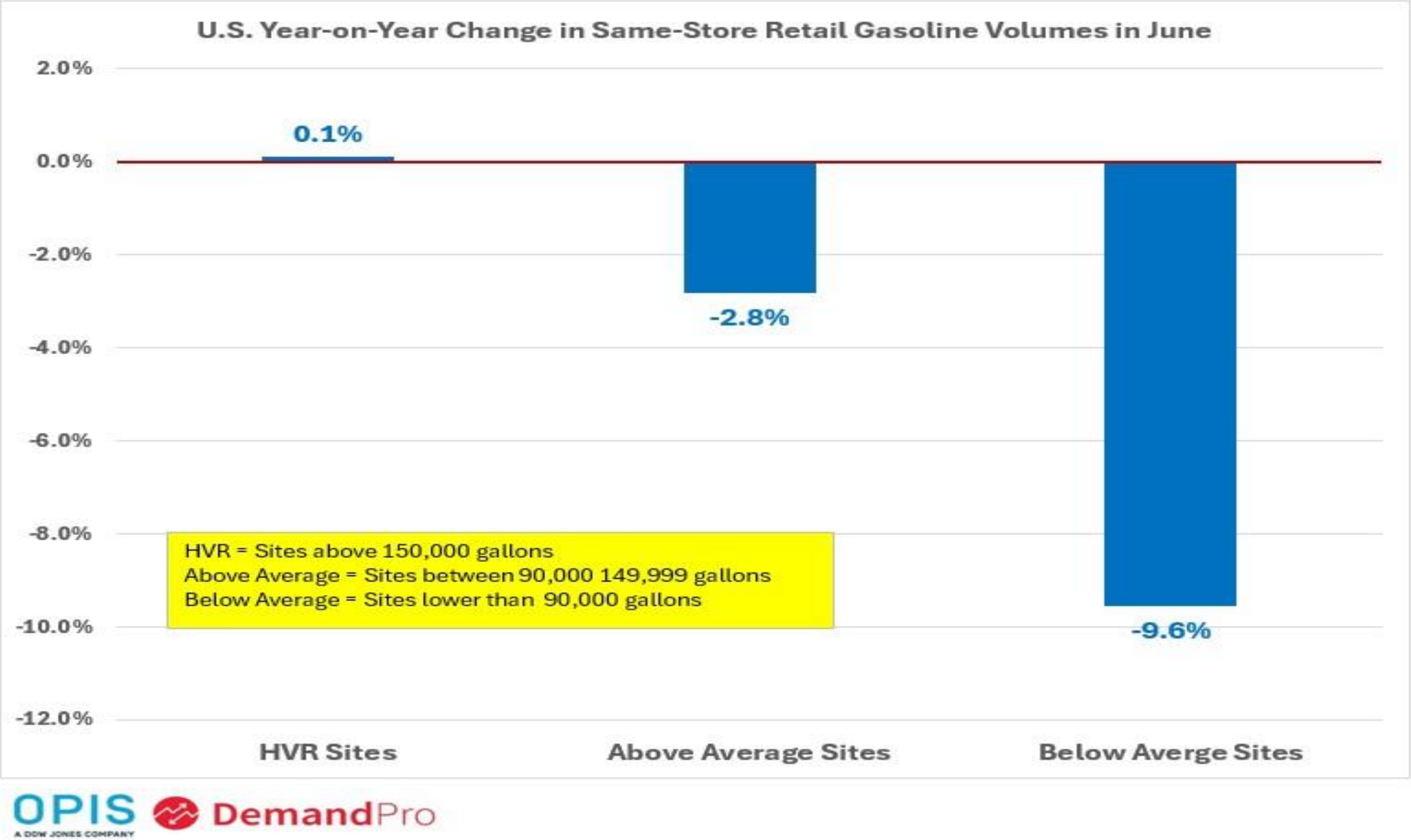


Falling demand in a softer margin environment is not a good thing



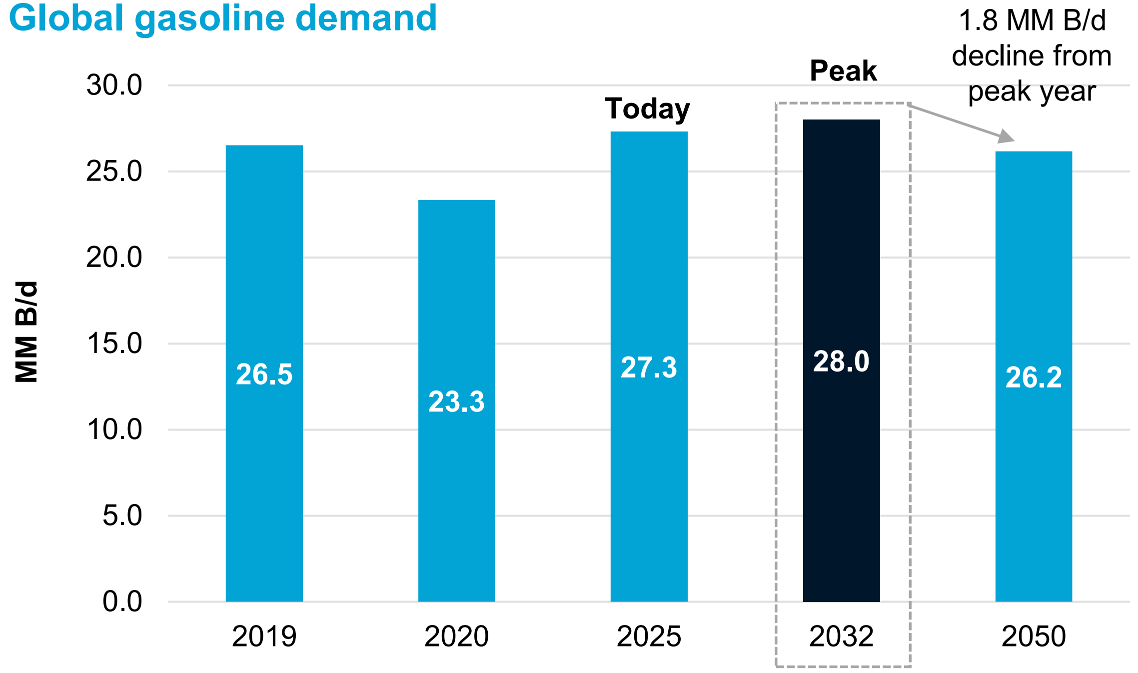
DemandPro

The more gasoline you sell, the better off you are



Transport fuel demand: modest declines from peak years

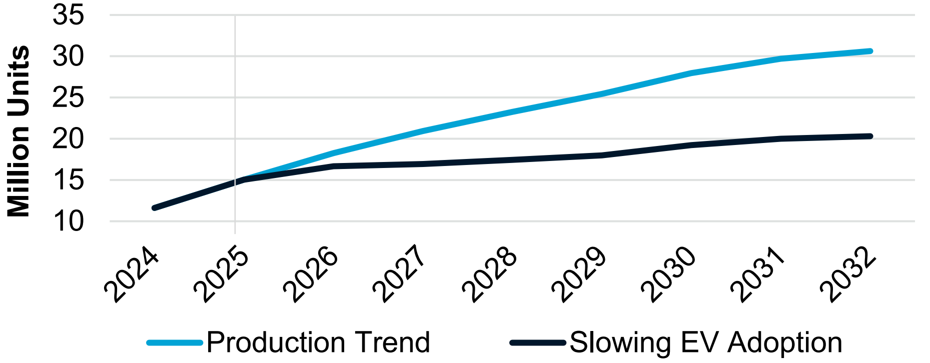
Global gasoline demand



Source: OPIS

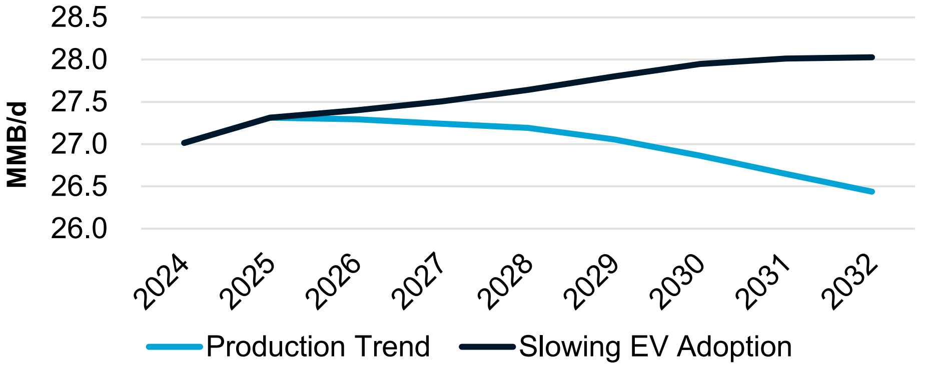
- The rapid adoption of EVs in Europe and China is setting the stage for a structural shift in gasoline consumption, but such penetration will be challenging for growing markets such as Africa, South Asia and Latin America.
- Infrastructure gaps, affordability, and policy inertia could delay widespread adoption, preserving gasoline's role in the fuel mix for longer.

Global BEV Production



Source: OPIS, AFS

Global Gasoline Demand



Source: OPIS

- Gasoline sensitivity with BEV production results in ~2.5 MM B/d loss of demand by 2032 with additional 50 MM BEV penetration within the vehicle fleet

Estimated Number of Gas Stations Likely to Open Over Next 12 Months

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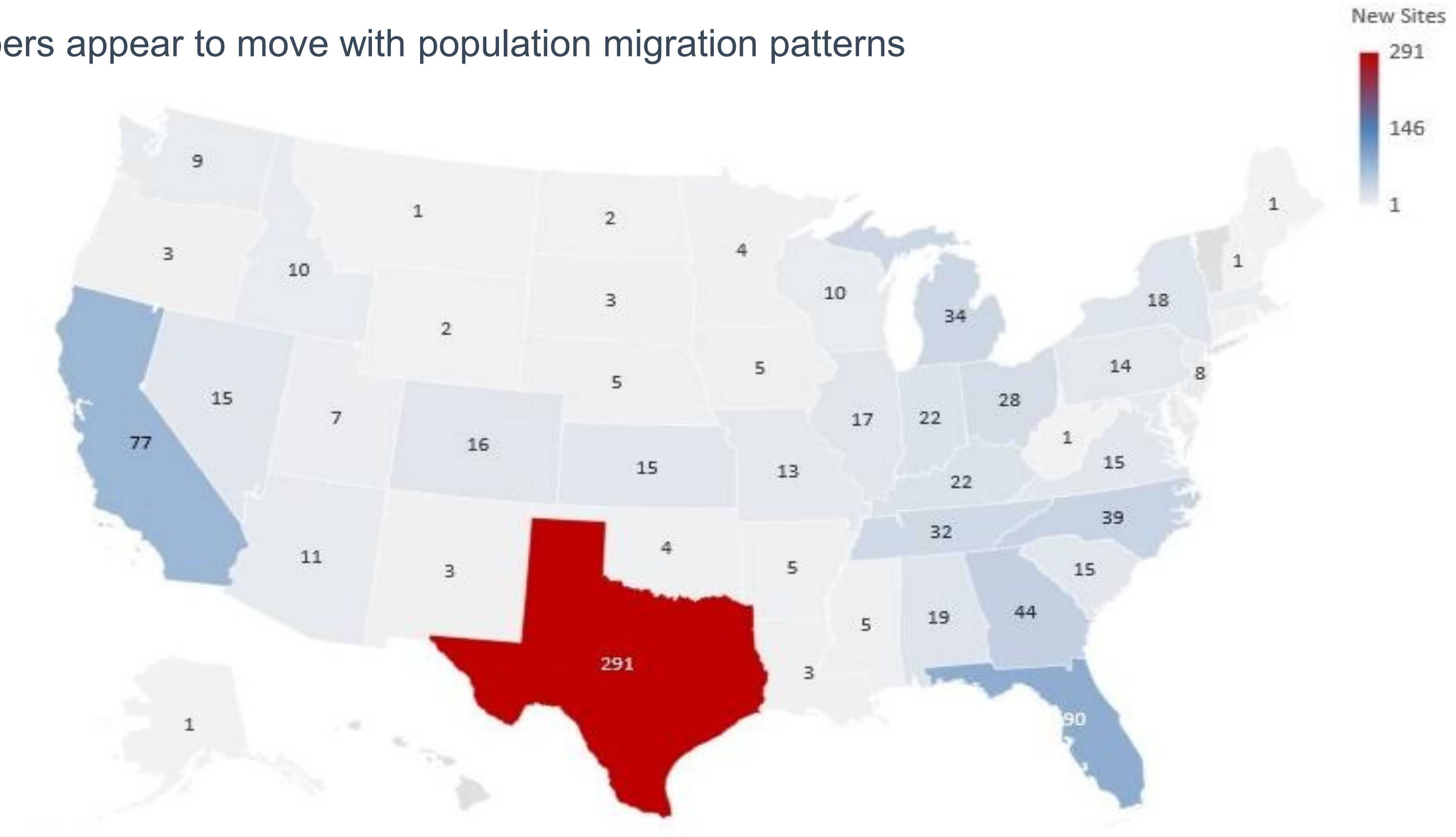
The numbers appear to move with population migration patterns



OPIS Location Pro

Some final thoughts…

- ~~What happens after the 60-day window and Iran wants a toll for the Strait of Hormuz or $$$ for reconstruction?~~ Work arounds, demand mitigation and some “leakage” have helped balance supply and demand
- Do we go from a risk premium to a risk discount?
- Initially unbranded gasoline had lost some advantage due to increase in price and supply concerns. That may come back with prices rising and supply tightening
- Expect the price of oil, even when this is over, to stay elevated. Rest of 2026 Brent should stay near $80 per barrel. Brent currently sub $80…overreacting on the way down
- Russia-Ukraine…really starting to have an impact.
- Margins roared higher with the fall in prices, but are now being pressured lower
- Hot weather and hurricanes and El Nino
- You can “jawbone” the market lower, but you can’t jawbone supply back

Denton Cinqugrana
Chief Oil Analyst
OPIS a Dow Jones Company

Thank you….Any questions, comments?

Questions can be addressed to:
dcinquegrana@opisnet.com

Follow me on X @Cinco70Denton

More information is available at:
www.opisnet.com

Customer Service
energycs@opisnet.com
North America: +1 888.301.2645 (toll-free within the U.S.)
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