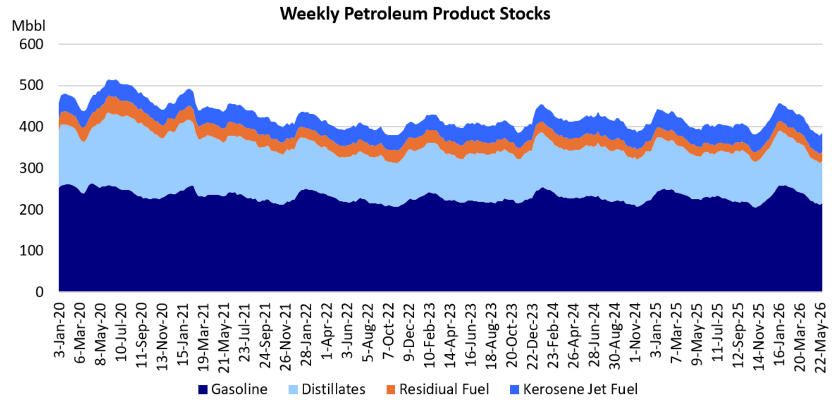
POTEN & PARTNERS

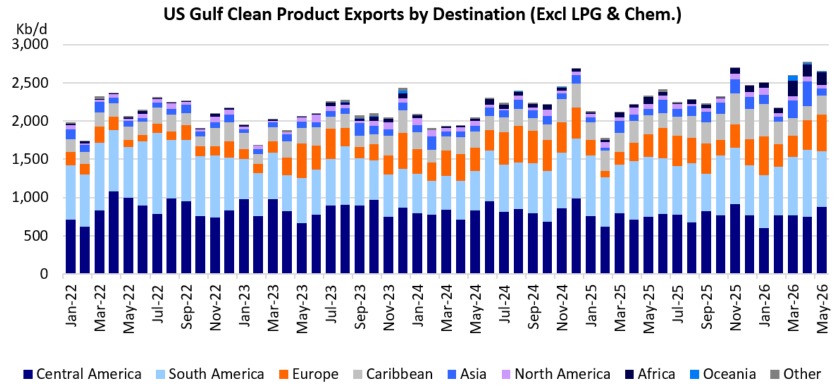
June 5
2026

HOUSTON / NEW YORK / LONDON / ATHENS / SINGAPORE / GUANGZHOU / PERTH

POTEN TANKER OPINION

A Strait-Up Fuel Shock





Sources: EIA; Vortexa

How the Iran War rewired the refined product trade

After the U.S. – Iran war caused a near complete closure of the Strait of Hormuz, it wasn't only crude that affected the oil markets. Refined products were significantly impacted as well. Some 5.0 Million barrels per day (Mb/d) of product exports out of the Persian Gulf were cut and about 3.0 Mb/d of refining capacity was forced offline. Countries around the world responded by cutting refining runs and limiting exports of products. Except the United States. Refiners in the U.S. increased their runs and boosted their exports to take advantage of booming refining margins and record product prices. However, exports increased faster than domestic runs, leading to a rundown of product inventories as well. As the conflict with Iran drags on, the question is how long the U.S. can act as the "shock absorber" for the lost Middle East product supply and how it will impact the tanker market. We'll discuss that in more detail in this week's Tanker Opinion.

Given the unprecedented disruptions in Middle East supply, it is no surprise that the world is drawing down oil inventories at a record pace. Reliable and up to date information is not readily available for all countries, but data from JODI shows significant draws in countries like Saudi Arabia, Japan, India, South Korea, Australia and several European countries. However, by far the largest stock draw during the Iran war has been in the United States. Total product stocks (excluding LPG) dropped from 732 Million barrels (Mb) at the end of February to 674 Mb by May 29, a decline of 58.3 Mb. The key products (gasoline, distillates, residual fuel and kerosine/jet fuel) are shown in Chart 1. One thing to note is that the U.S. data shows a clear seasonality pattern, where stocks increase in the winter, as demand for transportation fuels slow. Another factor, in particular in 2025, was a strong recovery of refining output after fall maintenance. So, while the stock drawdown in the U.S. has been significant, the fact that inventories had built prior to the conflict has dampened the impact. The U.S. still has ample stocks.

The key difference between the U.S. stock draws and those of most other countries, is that the U.S. drawdowns coincided with a significant pickup in refined product exports (see Chart 2). Having access to large domestic crude oil suppliers and with a large installed base of refining capacity, the U.S. became the world's marginal supplier of refined products. The U.S. maintained its exports to its traditional customers in Central and South America (Mexico, Brazil, Chile, Colombia, Peru, etc.) and increased supplies to Europe and Asia, areas that have been hit hard by the closure of the Strait of Hormuz. In recent months, U.S. refined products have been delivered to far flung destinations in Australia, Turkey and Namibia, countries that are usually sourcing their products from the Middle East or Asia and are typically not big customers of American refiners. The U.S. Jones Act waiver, allowing foreign flag vessels to (temporarily) move crude oil and refined products between U.S. ports, has further increased seaborne demand for U.S. refined products. California, for example, which became increasingly dependent on refined product imports from Asia after several refineries in the state closed, is now able to "import" product from the U.S. Gulf on foreign flag vessels.

The changing trade patterns for refined products have also impacted the product tanker market. Many of the new export destinations for U.S. refiners are on long-haul routes and the boost in volumes has led to a significant increase in ton-mile demand. Initially these increases, in combination with vessel dislocations and a certain level of panic buying, led to record product tanker rates, although freight rates did not rise uniformly on every route. Middle East Gulf loadings fell, which removed cargo demand from some routes, while replacement flows from the U.S. Gulf, Europe, West Africa, and other Atlantic Basin origins added ton-miles and tightened available tonnage. Once new trade patterns normalized, the initial freight spike faded because the product-tanker market still has underlying oversupply.

What happens next will largely depend on the timing of the opening of the Strait of Hormuz. A delayed opening will eventually strain global refined product stocks (including those in the U.S.), limit availability of products and spike prices to force demand destruction. This is bearish for product tanker rates. Conversely, a speedy reopening will bring the market back on the path of normalcy and support the freight market. The clock is ticking.