

## Diesel Tightness Supports GRM, But Policy Bites

- Diesel cracks should stay elevated through 4Q26, supporting strong GRM.
- Thailand's price intervention may cap refinery earnings upside, especially in 4Q26.
- Prefer BCP>TOP>SPRC, with PTT as our defensive pick.

### Diesel Tightness Is Here to Stay

We believe the recent diesel price spike is unlikely to be short-lived, as the market is facing structural product tightness. Diesel cracks surged above USD87/bbl from around USD22/bbl before the recent supply disruptions, while US diesel cracks reached a record USD118.6/bbl in mid-September. The tightness is driven by four key factors: 1) supply disruptions from Russia and the Middle East, partly offset but not fully replaced by higher Chinese exports; 2) limited spare refining capacity despite record-high margins; 3) historically low US distillate inventories; and 4) seasonal refinery maintenance and winter-related demand. We therefore expect diesel prices to remain high through 4Q26, gradually ease during 1H27, with more visible normalization from mid-2027.

### Diesel Supply Struggles to Catch Up

The key issue is that diesel supply has tightened faster than the market can replace it. Disruptions from Russia and the Middle East have reduced exports, while higher Chinese supply has only partly filled the gap. US and Asian refiners also have limited room to raise output, with utilization already around 97%. US distillate inventories stood at just 107.4m bbl as of 18 Sep-26, 12% below the seasonal five-year average, while EIA expects stocks to fall below 100m bbl and remain below the five-year range through end-2026 and most of 2027. US exports remain high at 1.3–1.6m bpd. With refinery maintenance ahead and winter-related demand rising, we expect the market to remain tight through 4Q26, limiting downside to diesel cracks in the near term.

### Thailand's Diesel Buffer Comes at a Cost

US retail diesel has risen more sharply than in Thailand because prices are more market-driven, with crude costs and refinery margins passing through more directly to consumers. The US is also a gasoline-heavy market, with a gasoline-to-diesel consumption mix of 70:30, vs 32:68 in Thailand. Thailand's greater dependence on diesel, particularly for transport and logistics, leads to stronger government intervention through the Oil Fuel Fund and tax measures. This buffers Thai retail prices but creates downside risk for refiners, as high margins may trigger government intervention that limits earnings upside.

### GRM Support vs Diesel Discount

We expect only a limited impact on 3Q26 earnings, as the diesel discount affects only part of Sep-26, while strong GRM, high diesel cracks and inventory gains should keep refinery earnings solid. The larger impact should come in 4Q26 from the full-month effect of the THB4.0/liter discount, although this should be partly offset by still-strong refining margins. Overall, 4Q26 earnings may soften from 3Q26, with regulatory intervention remaining the key downside risk.

### Prefer BCP>TOP>SPRC, with PTT as our defensive pick.

We remain cautious on refiners as government intervention raises regulatory risk, despite GRM staying elevated through 2027 on tight diesel supply and low inventories. We prefer BCP, followed by TOP and SPRC. PTT remains our defensive pick, supported by diversified earnings, stable gas income, and PTTEP.

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## Tight Diesel, Policy Bites

### Diesel tightness could persist into 2027

We expect diesel cracks to remain elevated through 4Q26 before gradually easing in 1H27, with more visible normalization from mid-2027. Unlike a short-term crude-driven spike, the current cycle reflects structural product tightness, as lost export supply, limited refinery flexibility and depleted inventories continue to restrict available diesel barrels. **Key drivers are:**

#### Exhibit 1: European diesel futures close at all-time high

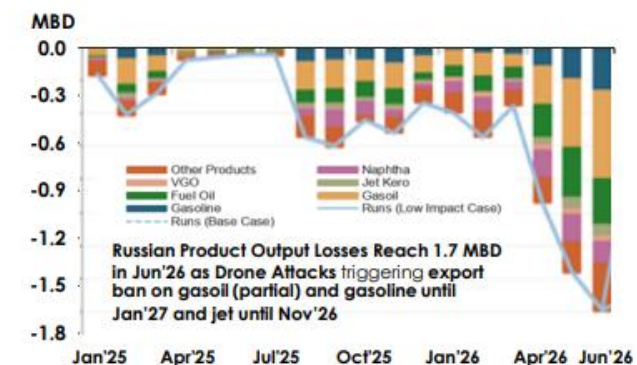


Sources: [Reuters](#)

#### 1) Diesel supply shortage is larger than replacement barrels

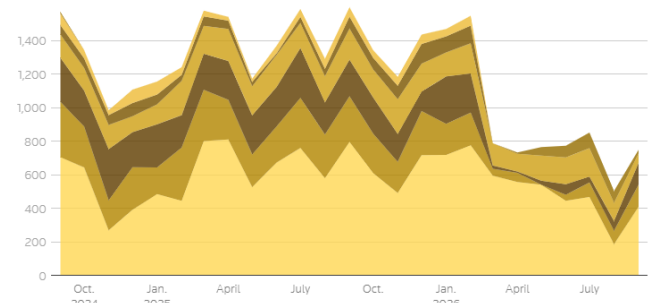
We believe the current diesel tightness is primarily a supply problem, with lost barrels from the Middle East and Russia too large to be quickly replaced. Before the Iran conflict, around 0.9m bpd of diesel moved through the Gulf, equivalent to roughly 10% of global seaborne diesel supply. The disruption therefore removed a meaningful source of internationally traded diesel rather than simply shifting regional trade flows.

#### Exhibit 2: Russia's Products Output



Sources: TOP

#### Exhibit 3: Middle East diesel exports halved (k bpd)

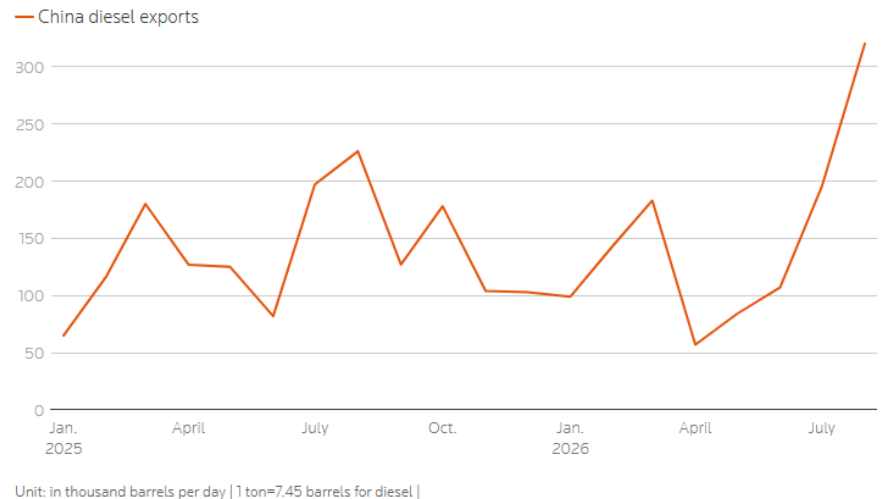


Sources: [Reuters](#)

Russia has added another major supply shock. Six of its largest diesel-producing refineries account for around 50% of Russian diesel production, with Kirishi fully shut and the Volgograd and NORSI refineries operating at only around 25% of nameplate capacity in Sep-26. Russian diesel exports had already fallen to below 0.25m bpd in Jun-26, compared with around 0.62m bpd a year earlier, while combined diesel and gasoil exports dropped to around 0.45m bpd from 0.82-0.84m bpd, implying nearly half of normal export supply has been lost.

China has become the key swing supplier. Diesel exports jumped 42% y-y to 0.32m bpd in Aug-26, the highest monthly level since Mar-24, after Beijing eased export restrictions from mid-July. This has helped offset part of the shortage, particularly in Asia. However, we see limited room for China to continue increasing exports at the same pace.

#### Exhibit 4: China export – diesel (k bpd)



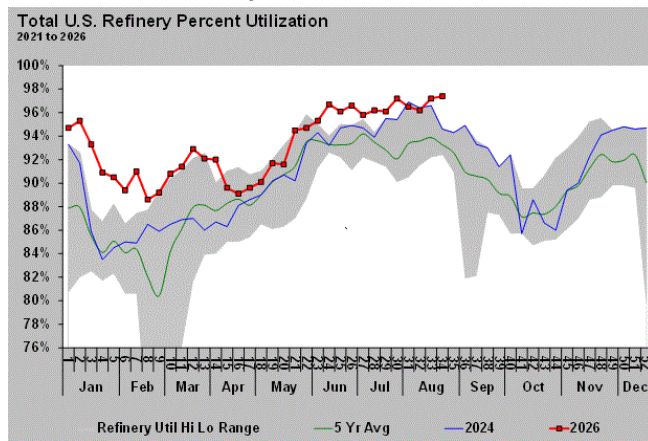
Sources: [Reuters](#)

China's diesel inventories have fallen to their lowest level since 2015, while refinery throughput is already down 7% YTD. Rystad recently cut its 4Q26 China refinery throughput forecast by 0.88m bpd to 13.9m bpd, reflecting higher crude costs and refinery maintenance. This raises the risk that Beijing could again prioritize domestic supply and tighten exports. In our view, China can reduce the deficit, but is unlikely to fully replace lost Russian and Middle Eastern barrels. the refining system has limited ability to materially increase output in the near term.

## 2) Refining capacity leaves little room for a supply response

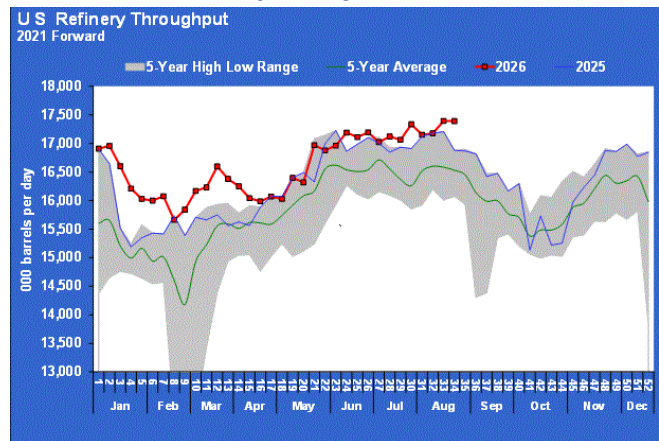
High refining margins normally encourage refiners to raise utilization, but both US and Asian refiners are already operating at high rates. US refinery utilization reached 98.0% in late Aug-26, before seasonal maintenance pushed nationwide utilization down to 94.0% by 18 Sep-26. More importantly, the US Gulf Coast, the country's largest refining and export hub, remained at 97.4% utilization, against operable capacity of 9.9m bpd.

**Exhibit 5: US refinery utilisation (%)**



Sources: [IPgasmagazine](#)

**Exhibit 6: US refinery throughput**



Sources: [IPgasmagazine](#)

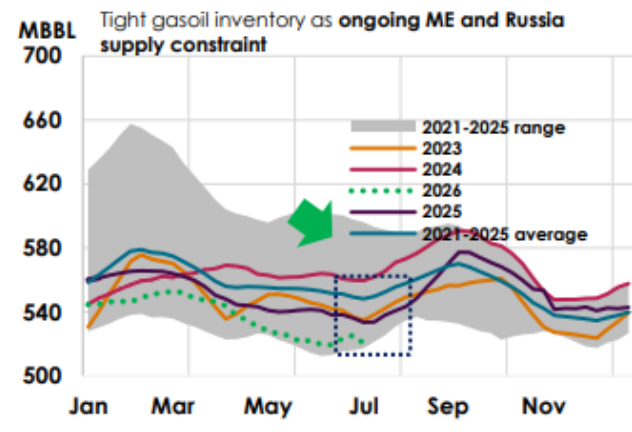
This means higher margins alone may not be enough to solve the shortage. Refiners can optimize product yields toward diesel, but the incremental supply is relatively small compared with the amount of lost global exports. At the same time, scheduled refinery maintenance in 4Q26 will temporarily reduce available capacity, tightening the market further during a period when seasonal diesel demand normally increases.

We therefore see refining capacity, rather than crude availability, as the main constraint on diesel supply in the near term.

### 3) Low inventories and seasonal tightening

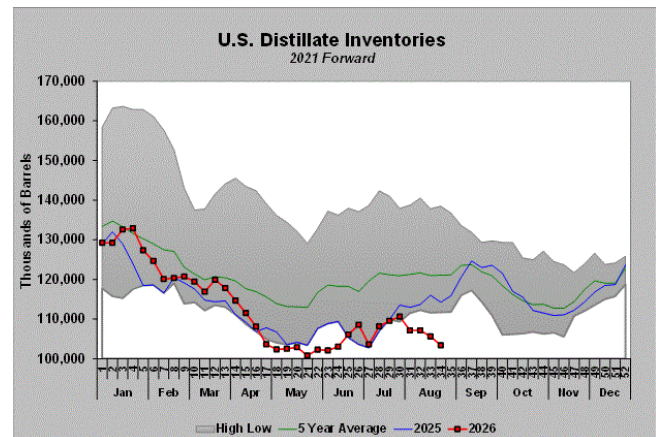
The supply shock is particularly important because it comes when inventories are already historically low. US distillate inventories stood at only 107.4m bbl as of 18 Sep-26, after reaching 107.9m bbl a week earlier, the lowest level for that time of year since EIA records began in 1982. EIA expects inventories to fall below 100m bbl and remain below the five-year low through end-2026 and most of 2027.

**Exhibit 7: Global Gasoil Inventory**



Sources: EIA

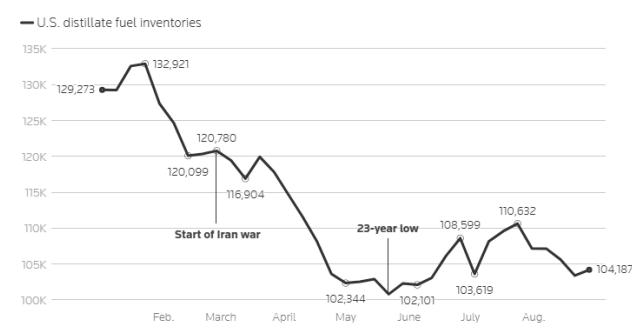
**Exhibit 8: US inventory – distillate**



Sources: [IPgasmagazine](#)

The tightness is also global rather than US-specific. Diesel inventories in the Amsterdam-Rotterdam-Antwerp hub were 16% below the five-year average in July, while Singapore distillate inventories averaged around 8.2m bbl, vs a 2025 average of 9.6m bbl, or 15% lower. This means there is limited inventory buffer across all three major trading regions - US, Europe and Asia.

**Exhibit 9: US inventory – middle distillate**



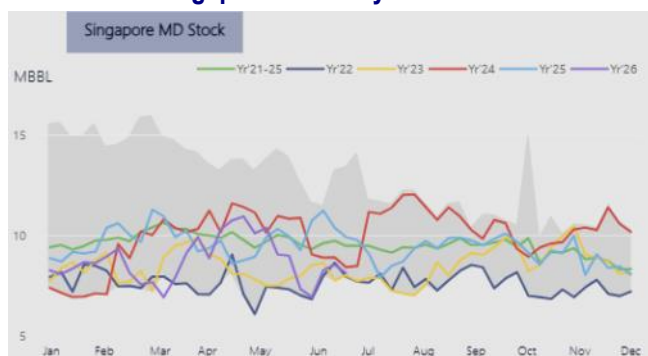
Sources: TOP

**Exhibit 10: Europe inventory – middle distillate**



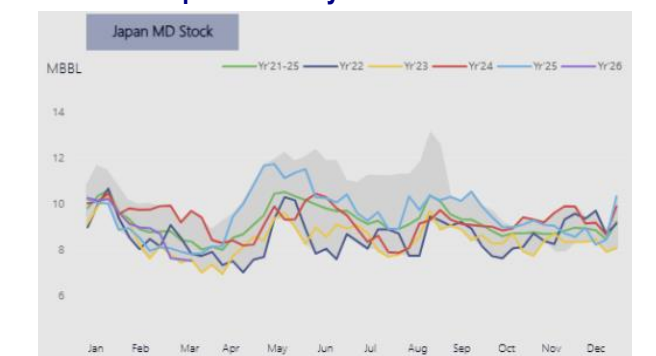
Sources: TOP

**Exhibit 11: Singapore inventory – middle distillate**



Sources: TOP

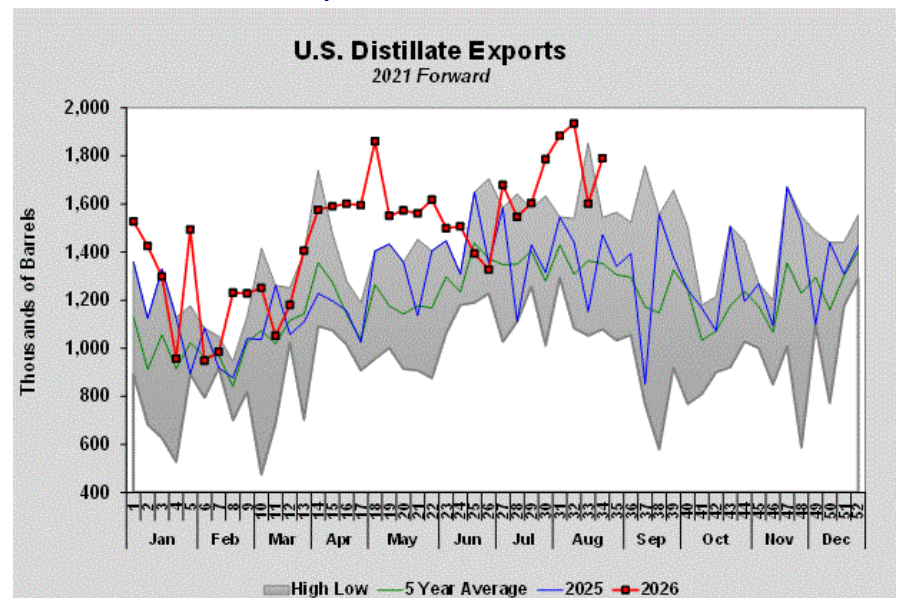
**Exhibit 12: Japan inventory – middle distillate**



Sources: TOP

At the same time, US exports continue to pull barrels away from domestic inventories. Distillate exports were 1.33m bpd in the week to 18 Sep-26, after running at 1.61m bpd the previous week and as high as 1.79m bpd in Aug-26. With US product demand also close to 4.0m bpd, high exports make inventory rebuilding difficult even with refinery output above 5m bpd.

### Exhibit 13: US distillate export



Sources: [IPgas magazine](https://www.ipgas.com/magazine)

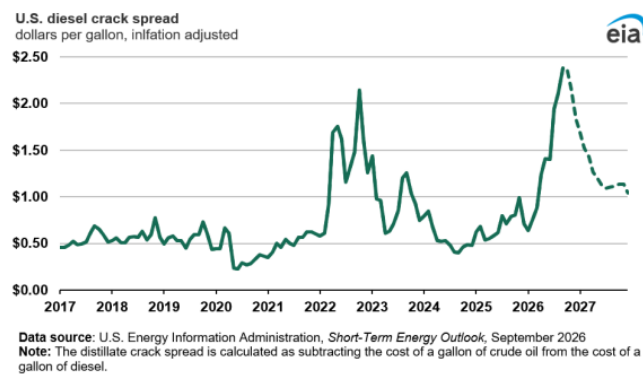
Low inventories also make diesel cracks more sensitive to incremental supply disruptions. When inventory buffers are thin, even a relatively small refinery outage or export disruption can result in a disproportionate increase in product prices and refining margins.

## 4Q26 remains the tightest period

The magnitude of the diesel crack rally also indicates that the problem is at the product level, rather than simply reflecting higher crude prices. The US diesel crack reached a record USD118.62/bbl on 14 Sep-26, while Asian 10ppm diesel cracks rose above USD87/bbl, nearly four times the pre-conflict level of around USD22/bbl. Asian front-month diesel time spreads also widened to more than USD11/bbl, indicating strong demand for prompt barrels.

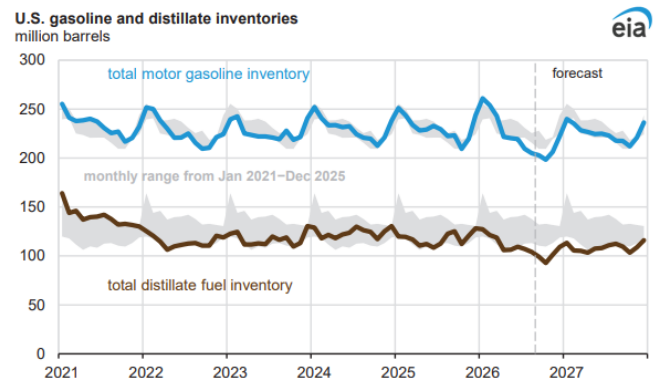
In our view, this is important for refiners: even if crude prices ease, diesel cracks can remain elevated as long as product inventories stay low and replacement supply remains insufficient. The normalization of crude supply therefore does not necessarily translate immediately into normalization of diesel margins.

**Exhibit 14: US diesel crack spread**



Sources: EIA

**Exhibit 15: US inventory – gasoline & middle distillate**



Sources: EIA

We expect the diesel market to remain particularly tight in 4Q26 due to the combination of refinery maintenance, low inventories and stronger seasonal demand. Refinery maintenance temporarily reduces product supply, while winter-related demand increases the call on distillates.

As a result, we see limited downside to diesel cracks in the near term even after the sharp recent rally. The market would likely need either a meaningful recovery in disrupted exports, a further increase in Chinese exports, or a significant demand slowdown before diesel cracks normalize materially.

### Tightness should ease gradually, not disappear, in 1H27

We expect diesel market conditions to gradually improve during 1H27 as refinery maintenance ends and winter demand normalizes. Additional supply from China and higher refinery runs could also help narrow the supply deficit.

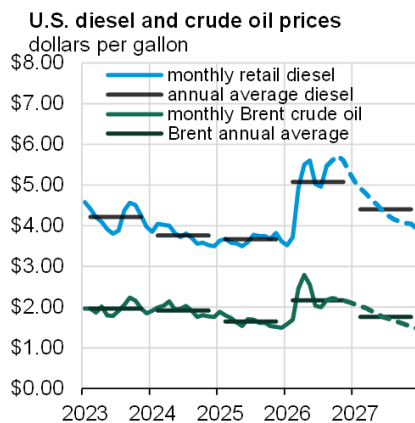
However, we do not expect diesel cracks to return quickly to historical levels. The first incremental barrels will likely be needed to rebuild inventories rather than create excess supply. With EIA expecting US inventories to remain below their five-year range through most of 2027, we see a gradual rather than sharp normalization, with more meaningful easing likely from mid-2027.

## Strong GRM, but policy risk limits earnings upside

### US prices reflect market tightness, while Thailand absorbs part of the shock

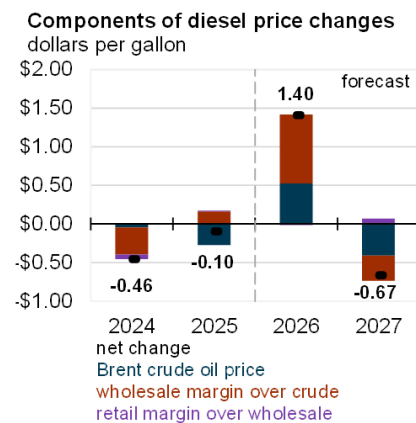
The key difference between the US and Thailand is how global diesel costs are transmitted to retail prices. In the US, retail diesel prices are largely determined by crude oil costs + refinery margins + distribution and marketing costs + taxes. Taxes are relatively fixed: the federal diesel tax is USD0.244/gal, while average state taxes and fees were another USD0.359/gal as of Jan-26. As a result, changes in crude prices and diesel cracks pass through relatively directly to wholesale and retail prices. US retail diesel therefore rose to USD6.38/gal as of 28 Sep-26, from USD5.60/gal at end-Aug, as both crude prices and refinery margins increased.

**Exhibit 16: US diesel and crude oil prices**



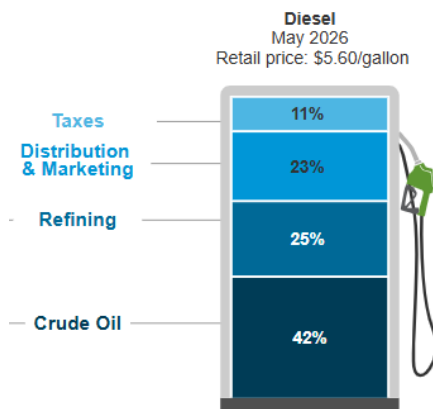
Sources: EIA

**Exhibit 17: US diesel price changes breakdown by components**



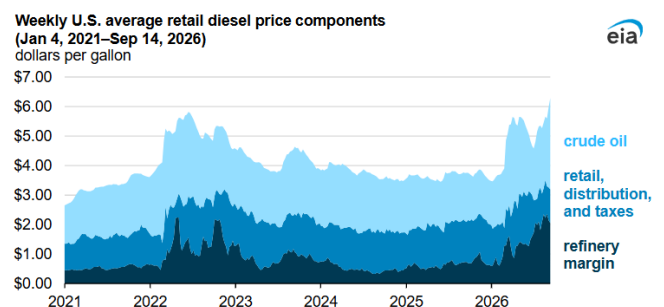
Sources: EIA

**Exhibit 18: US retail diesel price breakdown**



Sources: EIA

**Exhibit 19: US retail diesel price weekly**



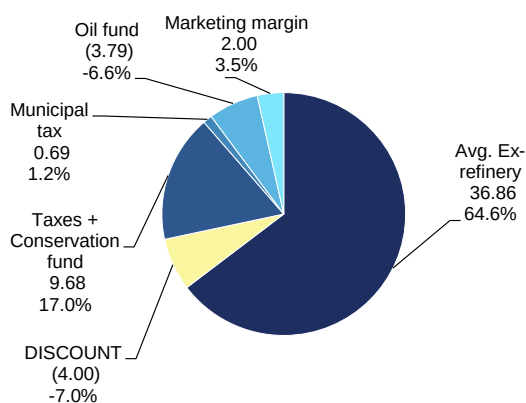
Sources: EIA

Thailand's diesel price structure is more policy-sensitive. Retail prices are built from the ex-refinery price, excise and municipal taxes, Oil Fuel Fund contribution/subsidy, Energy Conservation Fund, VAT and marketing margin. More importantly, the government can adjust both the Oil Fuel Fund subsidy and the effective ex-refinery price, meaning that changes in global diesel prices do not have to pass through immediately to consumers.

The current intervention illustrates the size of this buffer. Since 16 Sep-26, the government has required a THB4.0/liter reduction in the ex-refinery price of B0, B7 and B20 diesel, effective through 31 Oct-26. On 18 Sep, B7 also received an Oil Fuel Fund subsidy of THB8.62/liter, keeping the retail price at THB40.69/liter. The government estimated that, with other components unchanged, removing the THB4.0/liter refinery discount alone would have lifted the retail price to around THB44.97/liter, while removing both the refinery discount and Oil Fuel Fund support would have pushed it to around THB54.19/liter.

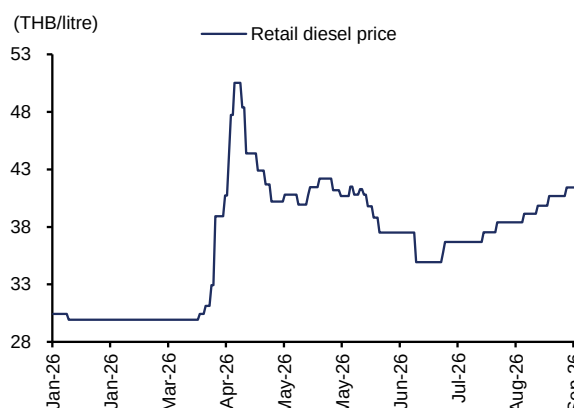
By 29 Sep, B7 retail diesel stood at THB41.44/liter, despite the sharp increase in global diesel cracks. This highlights the key structural difference with the US: part of the global cost shock in Thailand is absorbed before reaching consumers, rather than being fully reflected at the retail price.

**Exhibit 20: Thailand diesel price (THB 41.44/litre) as of 30 Sep-26**



Sources: EPPO

**Exhibit 21: Thailand retail diesel price**



Sources: EPPO

### Policy support protects consumers, but shifts downside to refiners

In the US, stronger cracks are transmitted more directly through wholesale and retail prices, allowing refiners to capture most of the margin expansion. For Thai refiners, persistent diesel tightness should continue to support GRM through 2027, particularly for refiners with high middle-distillate exposure. However, strong product margins also increase the risk of government intervention as policymakers seek to limit the impact of higher diesel prices on transport and logistics costs.

The THB4.0/liter diesel discount is an example of this trade-off. While the impact on 3Q26 should be limited due to the partial-month effect, the full-quarter impact will be more visible in 4Q26. Strong diesel cracks should partly offset the earnings impact, but regulatory intervention could limit the extent to which high global refining margins translate into refinery earnings.

**Exhibit 22: Our estimates on refinery margin cuts for Diesel**

|                                 |                        |                      | 16Sep - 30Sep | 1Oct - 31Oct | Unit      |
|---------------------------------|------------------------|----------------------|---------------|--------------|-----------|
| Refinery margin cuts for Diesel |                        |                      | 4.00          | 4.00         | THB/litre |
| Number of days                  |                        |                      | 15            | 31           | day       |
|                                 | Sales volume per month | Sales volume per day | 16Sep - 30Sep | 1Oct - 31Oct | Unit      |
| TOP                             | 600                    | 20                   | 300           | 620          | ml        |
| SPRC                            | 250                    | 8                    | 125           | 258          | ml        |
| BCP                             | 600                    | 20                   | 300           | 620          | ml        |
| Net profit loss                 | 16Sep - 30Sep          | 1Oct - 31Oct         | Total         |              | Unit      |
| TOP                             | 1,200                  | 2,480                | 3,680         |              | THB m     |
| SPRC                            | 500                    | 1,033                | 1,533         |              | THB m     |
| BCP                             | 1,200                  | 2,480                | 3,680         |              | THB m     |

Sources: Companies; Globlex Research

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## RECOMMENDATION STRUCTURE

### Stock Recommendations

Stock ratings are based on absolute upside or downside, which we define as (target price\* - current price) / current price.

**BUY:** Expected return of 10% or more over the next 12 months.  
**HOLD:** Expected return between -10% and 10% over the next 12 months.  
**REDUCE:** Expected return of -10% or worse over the next 12 months.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

\* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

### Sector Recommendations

**Overweight:** The industry is expected to outperform the relevant primary market index over the next 12 months.  
**Neutral:** The industry is expected to perform in line with the relevant primary market index over the next 12 months.  
**Underweight:** The industry is expected to underperform the relevant primary market index over the next 12 months.

### Country (Strategy) Recommendations

**Overweight:** Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

**Neutral:** Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

**Underweight:** Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.