Oil Flash Note

Counted but not delivered

Global Commodities Research

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Diesel prices reached record levels across major markets in September, increasing pressure on governments to intervene. Meanwhile, exceptionally wide transatlantic arbitrage has increasingly pulled US diesel into Europe. US shipments to Europe rose from roughly 200-250 kbd before the war to around 400 kbd in July and nearly 500 kbd in August, tightening US inventories while helping cushion further inventory declines in Europe **(Figures 1-2)**.

Against this backdrop, the G7 agreed last Friday to release 100 million barrels of crude oil and diesel from emergency stocks over the next four months. A substantial portion of the diesel release will be frontloaded into the first 20 days. Importantly, the group also pledged to refrain from imposing energy export restrictions.

The announcement, however, left many of the most important details unresolved. It did not specify the split between crude and products, nor which countries would contribute to the release. Earlier discussions had centered on a roughly 50/50 split between crude and diesel. These details are expected to be finalized when the governing board of the International Energy Agency, which coordinates emergency oil stock releases among its member countries, meets on October 14-15.

More importantly, our interpretation of the press release is that the headline 100 million barrels does not represent 100 million barrels of new intervention. Friday's 100 million barrel package explicitly takes into account previously fulfilled commitments **(Tables 1 & 2)**. By our calculations, around 321 million barrels of the 412 million committed by IEA members in March have already been released, leaving roughly 91 million barrels outstanding (104 million excluding the over-release in APAC).

This implies that much of Friday's announcement represents the completion of the earlier IEA release rather than a new injection of barrels, albeit with a much stronger focus on diesel. It also likely includes the remaining 40 million barrels of the US SPR release under the same March IEA commitment, with those crude deliveries already scheduled through December.

Europe has so far been reluctant to draw down its own reserves. Under the March IEA release, European countries committed 108 million barrels, including 34 million barrels of crude and 73 million barrels of refined products. Yet based on observed inventory changes since February, we estimate that only around 16 million barrels of diesel, 17 million barrels of gasoline, 10 million barrels of fuel oil and 12 million barrels of other products have been released to date. The exact volumes are difficult to track: when government-mandated stocks are released, commercial inventories are often replenished at the same time, making net changes difficult to interpret. Still, based on what we can observe, very little, if any, crude appears to have been released from European reserves.

Europe also retains by far the largest pool of emergency diesel inventories, at around 377 million barrels—more than three times the 106 million barrels

See page 6 for analyst certification and important disclosures.

currently held in the US. Germany and France alone hold around 64 million and 61 million barrels, respectively **(Figure 3).** Yet despite this much larger inventory cushion, Europe and the US have each released only around 16 million barrels of diesel since the war began.

Even within Europe, the releases have not been led by the largest stockholders. The Netherlands has contributed the most so far, releasing around 4 million barrels of diesel, followed by France with 3 million, Italy with 2 million, and Poland with 1 million **(Figure 4)**. This leaves considerable scope for Europe—and particularly its largest inventory holders—to take on a larger share of the next diesel release.

If the full release goes ahead, global *oil inventories* would fall from about 7.9 billion barrels today to around 7.8 billion barrels by the time the program is completed sometime in January—the lowest level in a decade, but still about 150 million barrels above the stress threshold **(Figure 5)**. Viewed globally, therefore, the draw does not look particularly alarming. The picture becomes materially tighter once we consider where those inventories are held and, crucially, the diesel balance.

From an OECD *diesel* standpoint, the release would pull inventories down to around 504 million barrels, a level last seen two decades ago. That would take stocks below our 529 million barrels stress threshold, equivalent to 41 days of demand cover, though they would remain above the operational floor of 439 million barrels, or around 34 days of cover. Measured in days of demand rather than absolute barrels, OECD diesel inventories would fall to around 39 days, compared to 40 days at the previous low in September 2022 **(Figure 6)**.

Europe would bear much of that burden. Assuming the G7 package includes around 40 million barrels of European diesel, the additional release would reduce European stocks to roughly 337 million barrels, about 57 days of demand cover **(Figure 7)**. If those volumes were released over 60 days, they would add an average of roughly 660 kbd to the market—equivalent to around 57% of Europe's current diesel imports.

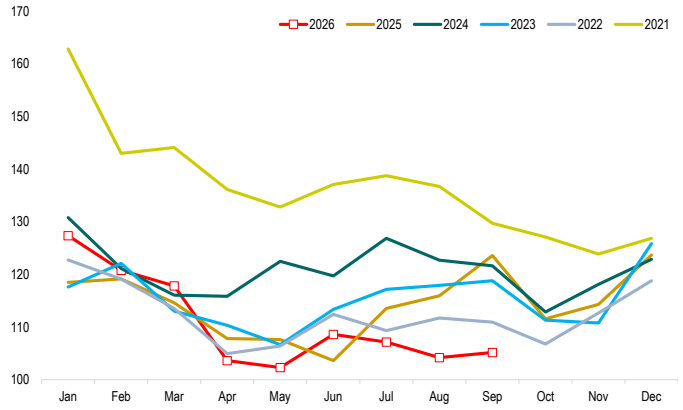
That would be a meaningful volume. A release of this size should materially ease prompt diesel tightness, narrow the transatlantic arbitrage and reduce Europe's reliance on US exports. For now, the constraint is not the availability of emergency barrels, but governments' willingness to deploy them—and, ultimately, to deliver the volumes they have committed.

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Figure 1: US diesel inventories

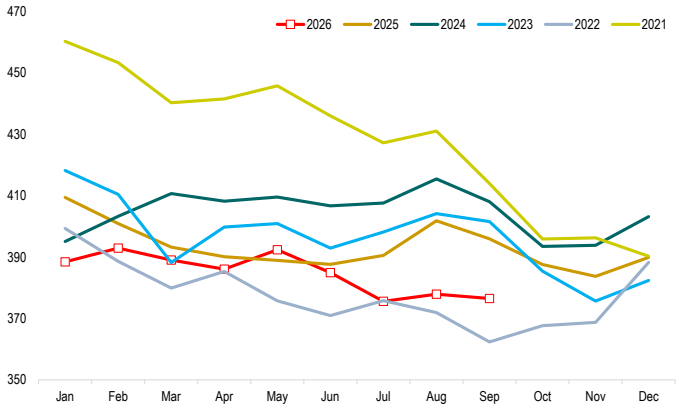
million barrels



Source: EIA, J.P. Morgan Commodities Research

Figure 2: OECD Europe diesel inventories

million barrels



Includes SPR and commercial inventories
Source: IEA, J.P. Morgan Commodities Research

Table 1: IEA emergency stock releases by region

million barrels

	As announced on March 11			Released							
mb	Total oil	Crude	Products	Mar	Apr	May	Jun	Jul	Aug	Sep	Remaining*
Cumulative release:	**412**	**297**	**115**	**76**	**140**	**229**	**274**	**300**	**318**	**321**	**104**
Europe	108	34	73	44	54	60	63	68	68	68	40
Americas	196	196	0	1	21	60	93	110	128	131	65
US	*172*	*172*	*0*	*0*	*18*	*58*	*90*	*111*	*129*	*132*	*40*
APAC	109	67	42	31	65	109	118	122	122	122	0

*Remaining volumes exclude the over-release in APAC
Source: IEA, EIA, J.P. Morgan Commodities Research

Table 2: OECD diesel inventories

million barrels

OECD diesel inventory, mb	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Feb-Sep
Europe	393	389	386	392	385	376	378	377	-16
Americas	144	142	128	124	131	130	127	128	-16
US	121	118	104	102	109	107	104	105	-16
APAC	50	47	52	57	55	49	50	49	-1
OECD	**587**	**578**	**566**	**574**	**571**	**555**	**554**	**554**	**-34**
Days of demand coverage									
Europe	67	66	66	67	66	64	64	64	-3
Americas	28	28	25	24	26	25	25	25	-3
US	31	30	27	26	28	27	27	27	-4
APAC	44	40	45	50	48	43	43	43	-1
OECD	**45**	**44**	**44**	**44**	**44**	**43**	**43**	**43**	**-3**

Includes SPR and commercial inventories
Source: IEA, EIA, J.P. Morgan Commodities Research



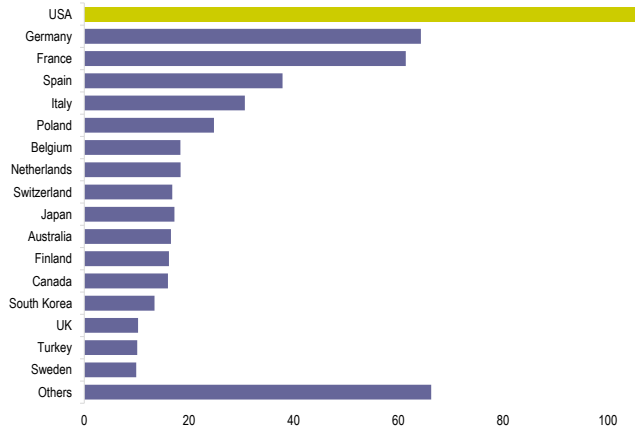
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Figure 3: OECD diesel inventories by country

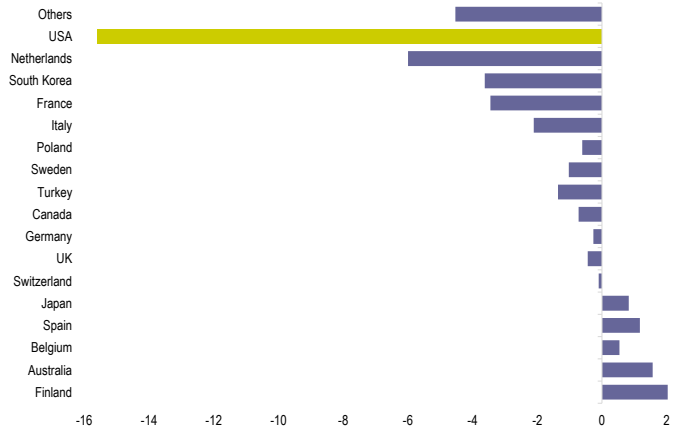
million barrels



Source: IEA, EIA, J.P. Morgan Commodities Research

Figure 4: Change in diesel inventories across different OECD countries Feb vs Sep

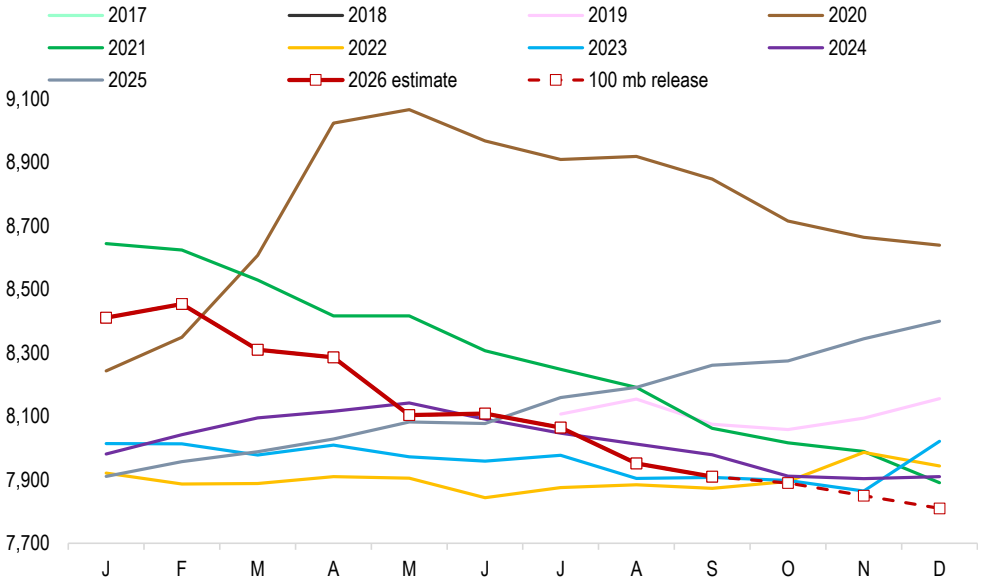
million barrels



Source: IEA, EIA, J.P. Morgan Commodities Research

Figure 5: Global oil inventories

million barrels



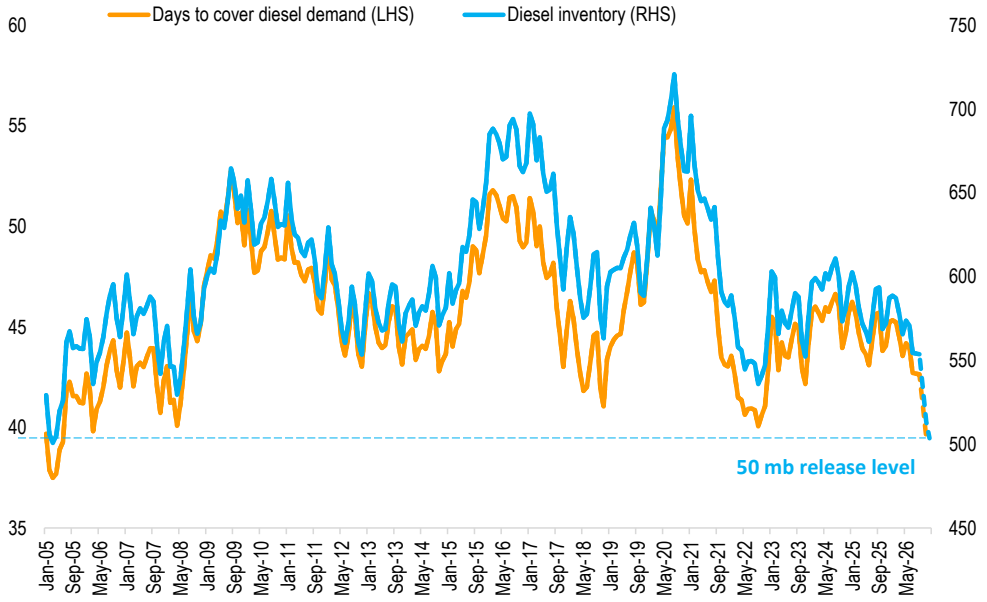
Source: IEA, EIA, Kpler, OilChem, JODI, Bloomberg Finance L.P., J.P. Morgan Commodities Research

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Figure 6: OECD diesel inventories, total and in days of demand cover

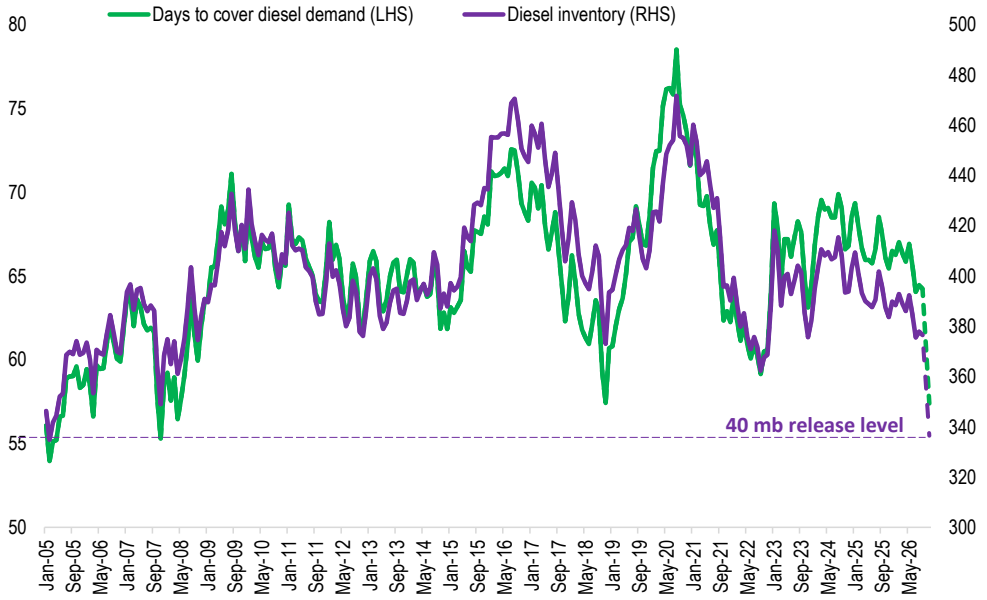
LHS: diesel demand cover in days; RHS: diesel inventory in million barrels



Source: IEA, J.P. Morgan Commodities Research

Figure 7: European diesel inventories, total and in days of demand cover

LHS: diesel demand cover in days; RHS: diesel inventory in million barrels



Source: IEA, J.P. Morgan Commodities Research