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Global Markets Strategy
28 October 2026

Oil Flash Note

Back in business

Global Commodities Research

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Sometimes, the absence of news is the biggest story. Since the October 15 strike on the Ryazan refinery, there have been no further confirmed attacks on Russian refining infrastructure. The silence has allowed Russian refinery runs to rebound by 350 kbd last week to 4 mbd **(Figure 1)**. The recovery illustrates just how quickly Russia's refining system can regain lost ground once repeated disruptions to primary processing units stop.

The implications for global diesel markets could be significant. Preliminary plans call for 15 million barrels of diesel to be shipped from Russia's Baltic ports in November—nearly 500 kbd, or roughly 300 kbd above current levels **(Figure 2)**. Only recently, with runs hovering around 3.8 mbd and attacks ongoing, we had estimated that Russian diesel exports could reach no more than 140 kbd. What seemed nearly impossible a few weeks ago now looks increasingly achievable.

The arithmetic is relatively straightforward. If attacks remain on hold, Russian refinery runs could recover to 4.5 mbd or higher in November. At an average diesel yield of roughly 37%, that would tranlsate into about 1.7 mbd of diesel production. Assuming domestic consumption of 1.2 mbd, Russia would have around 500 kbd available for export. Higher refinery throughput would also boost domestic gasoline and jet fuel supply, easing pressure in local fuel markets.

There is, however, an important distinction between what is achievable and what is sustainable. The rebound reflects improved operating conditions rather than a permanent restoration of refining capacity. Its durability hinges on the absence of renewed strikes. Another sustained campaign against Russian refineries could quickly reverse the gains and once again constrain exports.

The consequences extend beyond refined products. Higher runs would also allow Russia to lift crude production by a broadly comparable amount, reversing part of the recent decline that pushed output to 8.4 mbd—its lowest level since 2003. Even so, higher crude production would not necessarily translate into higher crude exports. Russia's Baltic terminals are already operating close to capacity, while flows through Novorossiysk on the Black Sea remain constrained by recurring strike damage **(Figures 3 & 4)**.

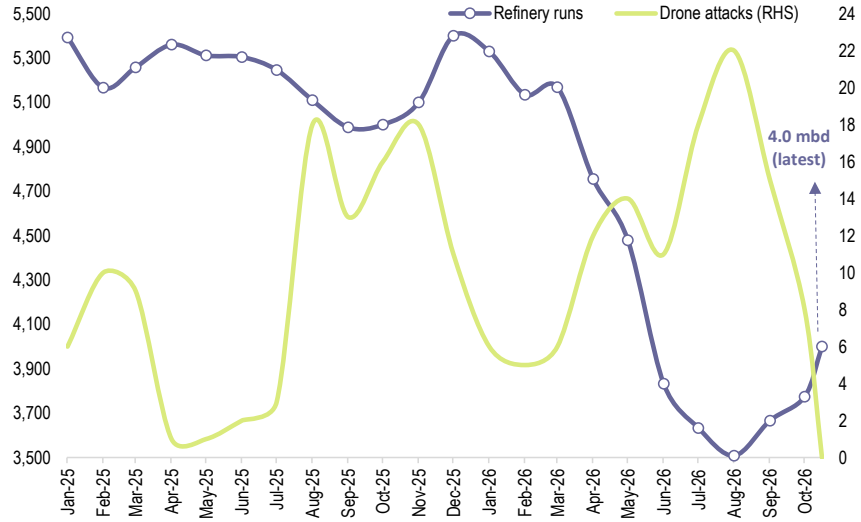
See page 4 for analyst certification and important disclosures.

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Figure 1: Russian refinery runs vs drone attacks

LHS: Refinery runs (kbd), RHS: The number of drone attacks

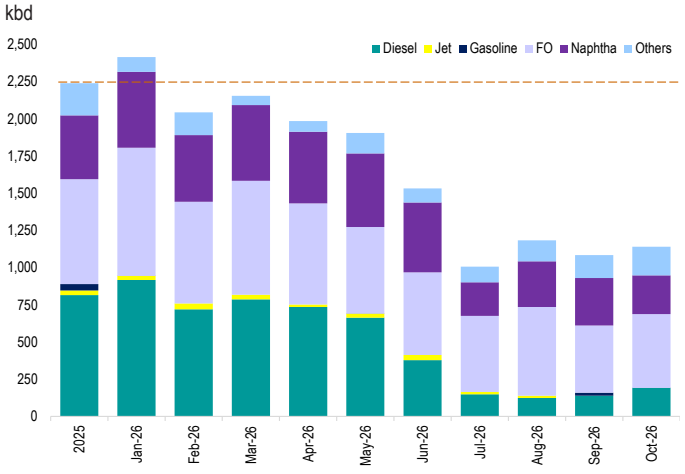


Source: Bloomberg Finance L.P., various news sources, J.P. Morgan Commodities Research

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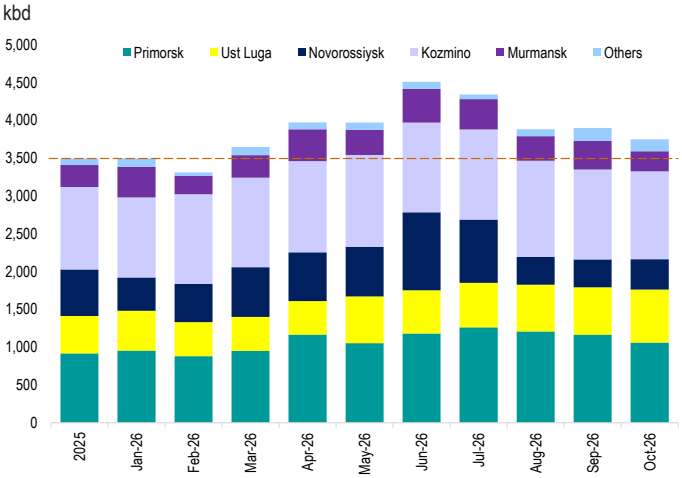
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Figure 2: Russian refined product exports



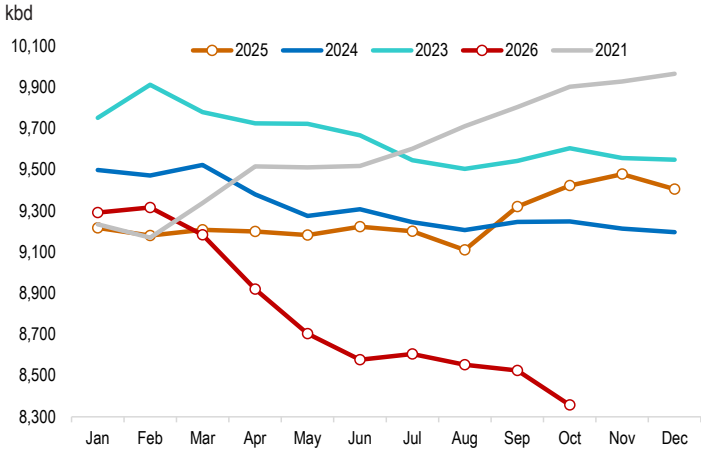
Source: Kpler, J.P. Morgan Commodities Research

Figure 3: Russian crude seaborne exports, by port



Source: Kpler, J.P. Morgan Commodities Research

Figure 4: Russian crude production



Source: S&P Global Platts, J.P. Morgan Commodities Research

