Oil Markets Weekly

Risk premium, geography discount

Global Commodities Research

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What is the price of oil? Eight months into the war with Iran, what should be a straightforward question has become surprisingly hard to answer. Oil is once again flowing from the Middle East, and our pricing model puts Brent's fair value at $94/bbl. Yet Brent is trading near $114, almost $20 above what fundamentals imply. Is this simply the price of geopolitical risk, or is something else influencing the value of oil?

We have never been fully comfortable with the concept of 'geopolitical risk premium.' Not because geopolitical risk is irrelevant, but because it is remarkably difficult to quantify. Over the years, we have tested conflict indicators, geopolitical risk indices, and even the performance of traditional safe-haven assets as explanatory variables in our oil pricing model. None improved the model's fit. Moreover, any risk premium tends to be fleeting. Historically, sustained deviations of more than 5% above our model's fair value have lasted on average just 3.8 months before prices either converged back to fundamentals or slipped into a discount.

Of course, a model built solely on oil market fundamentals cannot capture every movement in prices. Uncertainty can push prices away from fair value, sometimes by a wide margin. During the COVID pandemic, crude traded at a discount of nearly $20/bbl to our model's estimated value. In the first months following Russia's invasion of Ukraine, prices carried a premium of roughly $15. Deviations of this magnitude make forecasting oil prices considerably more difficult, even when the underlying supply and demand outlook is relatively clear.

But before we attribute today's nearly $20 gap entirely to geopolitics, we need to ask whether something else has changed in the way oil is being priced.

One reason to question this explanation is the growing divergence in physical crude markets. Crude grades that once moved broadly in line with benchmark prices are now trading at sharply different levels. With freight costs reaching extraordinary highs, the key question is whether transportation costs are merely widening physical price differentials or whether they are also influencing the benchmarks against which these barrels are priced.

The scale of the divergence in physical crude prices is striking. So far in October, the UAE's Upper Zakum crude price has averaged just $71/bbl, Congo's Djeno $79 and Brazil's Mero $89. At the other end of the spectrum, North Sea grades have commanded substantially higher prices, with Forties averaging $127/bbl, Johan Sverdrup $118 and Ekofisk $130—against an average Brent price of $106.

Even after accounting for differences in crude quality and refining characteristics, the nearly $60 spread between the cheapest and most expensive grades is extraordinary, particularly as all prices exclude freight to the final destination.

To understand this divergence, it helps to start with the basics.

See page 7 for analyst certification and important disclosures.

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The world's two main crude benchmarks—Brent and WTI—reflect what the market is willing to pay today for crude delivered in a specific future month, but neither includes the cost of transporting the oil. These are the prices we forecast. Dated Brent, which assesses physical crude cargoes loading in the near term, is also quoted on a free-on-board (FOB) equivalent basis, which—like futures pricing—excludes freight to the final destination **(Table 1)**.

Table 1: Incoterms (International Commercial Terms)

Incoterms are recognized rules that define the costs, risks and of buyers and sellers in trade contracts

		FOB	CFR	CIF	DAP
Location/stage	Charges	Free on Board	Cost and Freight	Cost Insurance & Fright	Delivered at Place
Origin country	Inland costs, fees, duties and taxes	Seller	Seller	Seller	Seller
Origin country	Loading at the port	Seller	Seller	Seller	Seller
Sea transport	Freight	Buyer	Seller	Seller	Seller
Sea transport	Insurance	Buyer/Seller	Buyer/Seller	Seller	Buyer/Seller
Destination country	Unloading at the port	Buyer	Buyer	Buyer	Seller
Destination country	Inland costs, fees, duties and taxes	Buyer	Buyer	Buyer	Buyer

Source: International Chamber of Commerce, J.P. Morgan Commodities Research

Other grades are priced differently.

Russian Urals has traditionally been priced on both a free-on-board (FOB) basis at Russian export terminals—where the buyer covers delivery costs—and on a delivered basis, including cost, insurance and freight (CIF) at destination ports—where the producer pays the expenses. Historically, however, it made little difference to the overall crude price: freight from Russia to Europe was typically only around $2 per barrel.

Since Western sanctions redirected Russian exports toward Asia, opaque shipping arrangements, intermediary margins and sanctions-related costs have made it increasingly difficult to determine how much producers actually receive.

Most Middle Eastern crudes are assessed through yet another mechanism. Saudi grades, Iraq's Basrah and Kuwait Export Crude are more commonly sold under term contracts using official selling prices (OSPs). Rather than negotiating a fixed outright price for each cargo, producers typically set a monthly premium or discount to a regional benchmark—generally Oman/Dubai for Asian buyers, and often Dated Brent (or a related Brent reference) for European buyers.

That structure makes OSPs particularly hard to interpret. Unlike a freely traded spot price, an OSP is set by the producer and reflects a blend of market conditions, competing crude grades, refinery economics, and commercial strategy. A reduction in the OSP differential may signal weakening demand, but it could just as easily represent an attempt to protect market share or compensate buyers for higher transportation costs.

We began to see this dynamic in early July 2026. After the US signed the MoU with Iran, more Hormuz-linked barrels flowed back into the market, but buying remained cautious. Producers therefore had to compete more aggressively for market share in Asia.

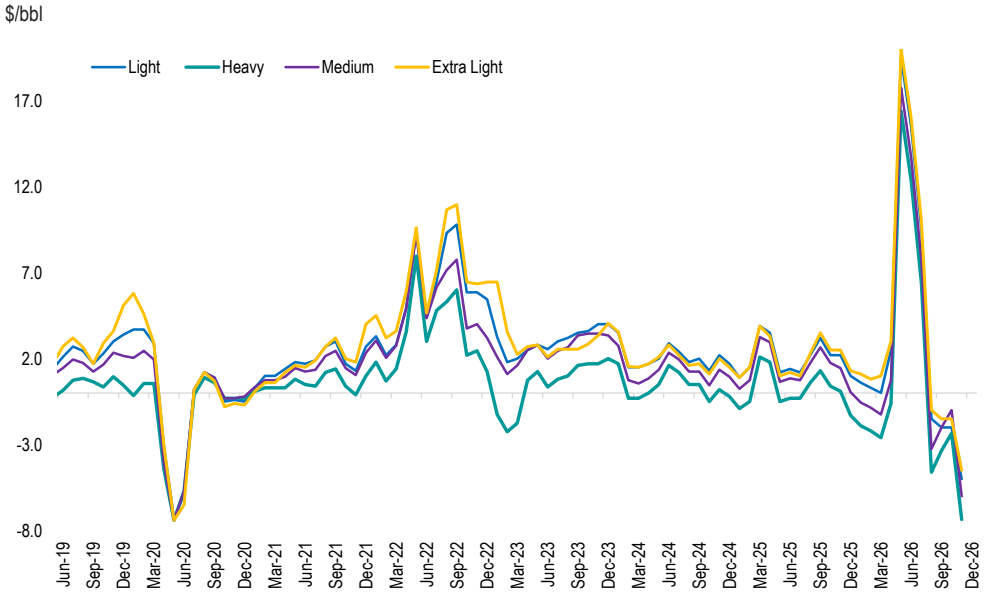
Saudi Arabia's July 6 announcement underscored that shift. It set some of the deepest discounts for August deliveries to Asian buyers—levels comparable only to the COVID period—and the month-on-month cut was described as the steepest in roughly two decades. By October, those discounts had widened further, moving from roughly $3 to $7 versus Dubai for November delivery across different grades—a $14/bbl swing in the differential in just four months **(Figure 1)**.

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Yet it would be misleading to read this as a corresponding decline in the underlying value of Saudi crude. At least part of the adjustment reflects an effort to compensate refiners for extraordinary freight costs and preserve the competitiveness of Saudi barrels.

Figure 1: Saudi Arabia OSP premium/discount vs Dubai for Asia-bound cargoes



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

The adjustment has been particularly visible in the Atlantic Basin. Brazilian, Guyanese and some West African grades initially benefited from higher crude prices as the war disrupted Middle Eastern supply. More recently, however, physical differentials have begun to move in the opposite direction to freight rates. As the cost of transporting these barrels increased, their FOB values weakened to preserve competitiveness in destination markets **(Figures 2-5)**.

The scale of the adjustment is remarkable. On October 19, Guyana's Payara Gold was assessed at $26/bbl discount to Brent, its weakest level since assessment began in 2023. In West Africa, Congo's Djeno crude traded at a $34 discount, widening by $25/bbl in just three weeks. These moves are not simply indications of weakening demand for individual grades. They largely reflect the rising cost of transporting crude, which is increasingly being absorbed through lower prices at the point of loading.

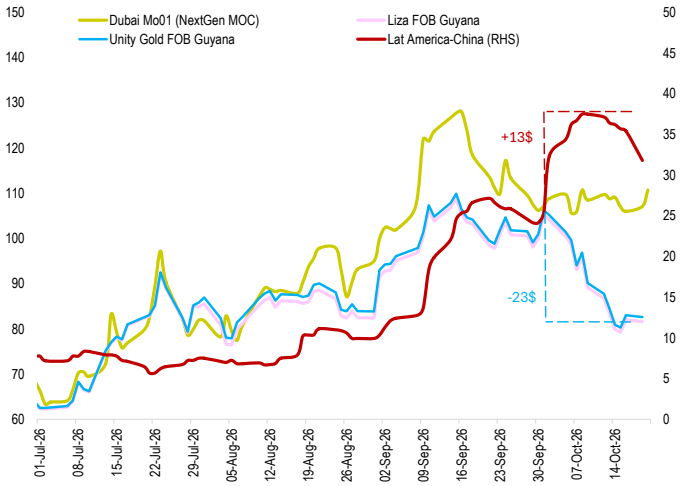


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Figure 2: Guyana FOB crude prices and freight costs to China

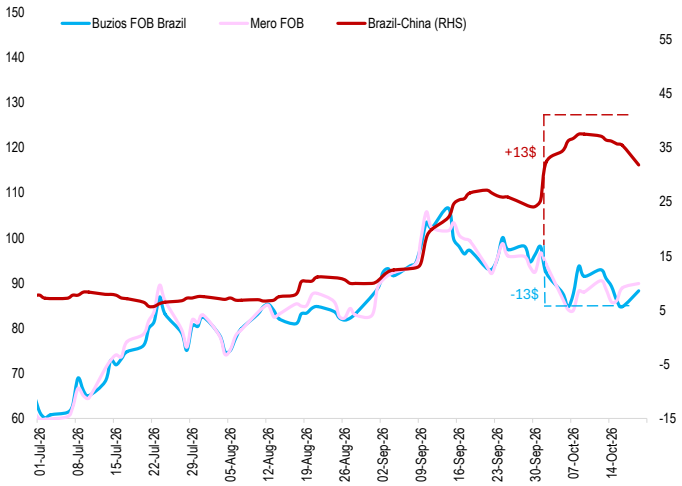
LHS: FOB prices ($/bbl); RHS: freight costs ($/bbl)



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

Figure 3: Brazil FOB crude prices and freight costs to China

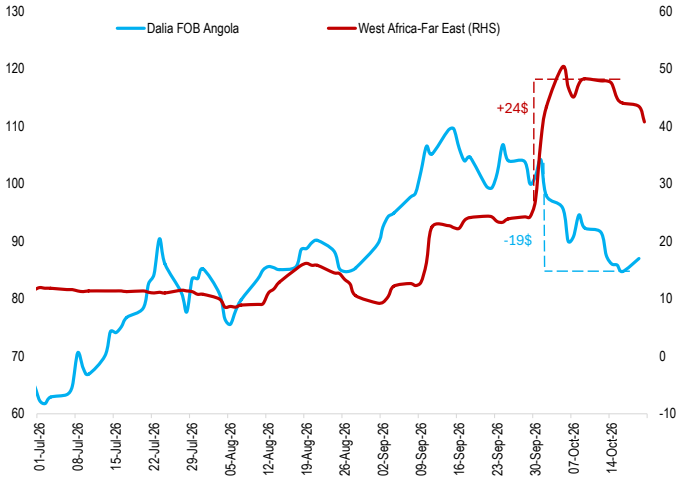
LHS: FOB prices ($/bbl); RHS: freight costs ($/bbl)



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

Figure 4: Angola FOB crude prices and freight costs to China

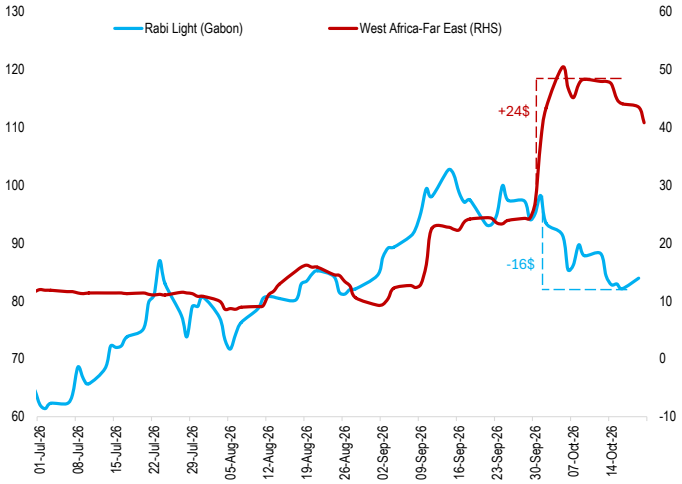
LHS: FOB prices ($/bbl); RHS: freight costs ($/bbl)



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

Figure 5: Gabon FOB crude prices and freight costs to China

LHS: FOB prices ($/bbl); RHS: freight costs ($/bbl)



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

The divergence becomes even clearer when comparing crudes of broadly comparable quality destined for Asia and Europe. In April, the average FOB price of crude bound for Asia was $106/bbl, compared with $111 for Europe. So far in October, the Asian-bound price has averaged $93, while Europe's has slipped only to $107, widening the gap from $5 to $14.

Yet the picture reverses once freight is included. Over the same period, the average delivered cost of crude to Asia has risen from $116 to $131, while Europe's has increased from $116 to $120. The implied transportation cost for Asia has therefore surged from $10 to $38, compared with an increase from $5 to $13 for Europe. Crude destined for Asia is now $14 cheaper at the loading point, yet $11 more expensive once delivered **(Table 2)**.

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This is the 'geography premium' at work. Higher freight costs are being absorbed partly through lower FOB prices—particularly for barrels traveling longer distances—while refiners still face sharply higher delivered costs **(Figure 7)**. The result is a market in which crude can become more expensive for the buyer even as it becomes less valuable to the producer.

But does this explain why Brent is trading nearly $20 above its fundamental value? Our analysis suggests not. Despite the extraordinary increase in freight costs, we find no evidence of material freight pass-through into either Brent futures or Dated Brent. The adjustment is occuring primarily through physical crude differentials, rather than through the benchmarks themselves.

This leaves geopolitical risk as the more plausible explanation for Brent's premium over fair value. Geography is reshaping the relative value of crude around the world, but it does not explain why the benchmark itself remains so elevated. The distinction matters: one reflects the cost of moving oil today. The other reflects what the market is willing to pay for the possibility that tomorrow's supply may once again be disrupted.

Table 2: Oil cost comparison for Asian and European markets

Total delivered price of crude		Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26	Sep-26	Oct-26	Oct vs Jan
Total delivered price for China		**67**	**73**	**113**	**116**	**110**	**89**	**85**	**95**	**122**	**131**	**64**
From Gulf		65	73	141	116	114	90	87	104	141	142	78
From Angola		70	74	113	121	109	89	86	96	121	135	65
From Gabon		69	73	109	116	107	88	84	92	114	131	62
From Brazil		66	73	104	114	109	88	81	91	117	123	56
From Guyana		67	74	108	114	110	89	84	92	121	124	57
From US		68	73	106	114	112	92	90	96	121	133	65
Total delivered price for Europe		**66**	**70**	**105**	**116**	**108**	**87**	**85**	**90**	**113**	**120**	**54**
From US		65	70	101	111	107	87	85	89	105	109	44
From UK		69	73	107	126	110	87	86	93	121	132	63
From Norway		66	70	111	124	110	90	88	92	124	122	56
From Argentina		64	70	100	105	107	87	82	90	107	123	58
From Kazakhstan		61	63	98	107	102	78	77	78	100	102	41
From Libya		69	72	109	123	111	88	88	94	117	127	58
From Nigeria		69	74	107	115	111	91	89	97	116	128	59

Freight rates		Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26	Sep-26	Oct-26	Oct vs Jan
Freight rates to China		**5**	**7**	**12**	**10**	**9**	**9**	**9**	**12**	**22**	**37**	**32**
From Gulf	VLCC	3	4	12	11	11	11	10	15	27	34	31
From WAF	Suez	7	8	15	12	9	9	11	12	19	44	37
From Lat America	VLCC	5	7	9	7	7	7	7	9	21	34	29
From US	VLCC	6	7	12	9	9	9	9	11	21	35	29
Freight rates to Europe		**3**	**3**	**6**	**5**	**3**	**3**	**4**	**4**	**6**	**13**	**10**
From US to UK	Afra	4	4	6	7	4	4	4	4	6	12	8
From Lat America to UK (avg)	Suez	4	4	8	7	5	5	6	6	10	24	20
From WAF to UK	Suez	4	4	7	6	4	4	5	6	9	22	18
From MED to UK	Afra	3	4	7	6	3	3	5	4	7	12	9
From Novorossiysk to August	Suez	2	2	2	3	2	1	2	2	2	5	3
From Norway to Rotterdam	Afra	2	2	2	3	2	1	2	2	2	5	3

FOB prices	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26	Sep-26	Oct-26	Oct vs Jan
FOB prices of Asian competitive grades:	**62**	**66**	**102**	**106**	**101**	**80**	**74**	**83**	**101**	**93**	**31**
Dubai (UAE)	62	68	129	106	103	79	77	89	114	108	46
Dalia (Angola)	63	66	99	108	100	80	75	84	101	91	28
Rabi Light (Gabon)	62	65	94	104	98	79	72	80	95	87	25
Mero (Brazil)	62	66	95	107	103	81	74	83	97	89	27
Buzios (Brazil)	62	65	94	107	102	81	73	82	97	90	28
Liza (Guyana)	62	66	98	107	103	81	77	84	100	90	28
Unity Gold (Guyana)	63	67	99	107	103	82	77	85	101	91	28
FOB prices of European competitive grades:	**63**	**67**	**99**	**111**	**105**	**84**	**81**	**86**	**106**	**107**	**44**
WTI (US)	62	66	94	105	103	83	81	85	99	97	36
Forties (UK)	67	72	105	123	108	86	84	91	118	127	60
Johan Sverdrup (Norway)	65	68	109	121	109	88	86	91	121	118	53
Medanito (Argentina)	60	65	91	98	102	82	76	83	96	97	36
CPC Blend (Kazakhstan)	58	59	92	101	98	75	72	74	92	90	32
Es Sider (Libya)	66	68	102	117	108	85	83	90	110	114	49
Bonny Light (Nigeria)	65	70	100	110	106	87	83	91	107	106	41

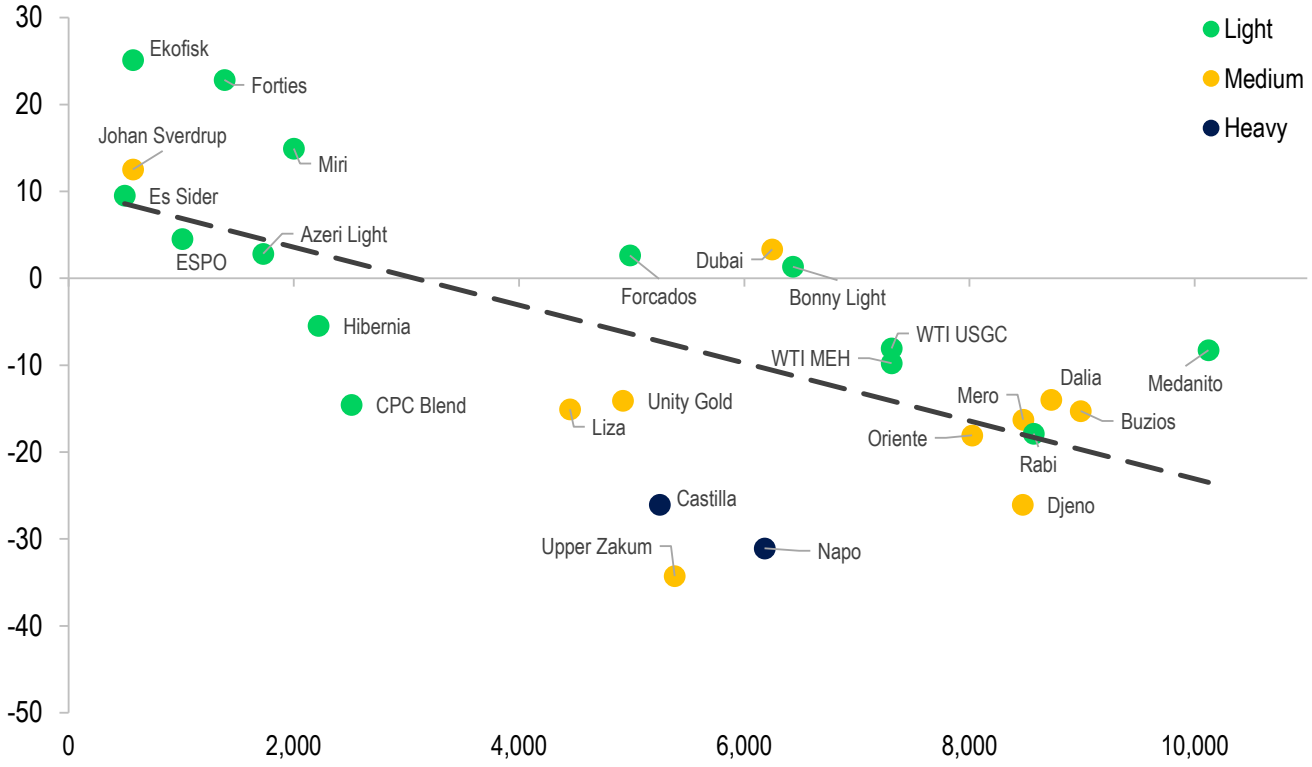
Source: S&P Global Platts, J.P. Morgan Commodities Research

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Figure 6: Crude grade differentials against distance to buyer

Y-axis: Grade's differential to Brent (US dollars per barrel); X-axis: trade-weighted distance to buyer (miles)



Note: Prices are October 2026 averages
Source: S&P Global Platts, Kpler, Bloomberg Finance L.P., J.P. Morgan Commodities Research



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