

## GLOBAL ENERGY MARKET UPDATE

### AUGUST 2025



### OIL CONSUMERS ARE IGNORING A GEOPOLITICAL RISK THAT COULD SIGNIFICANTLY RAISE COSTS

For physical oil consumers, the greatest risk is often the one the market has yet to price in. At present, traders appear complacent about a scenario that could sharply raise input costs: India being forced to reduce its Russian crude purchases.

The threat stems from mounting political pressure in Washington - led by the Trump campaign and now echoed in Congress - to impose secondary sanctions and punitive tariffs on buyers of Russian oil. India is the largest single market for Russian seaborne crude. If compelled to pivot away, the resulting supply shock in certain crude grades could be severe, with direct cost implications for refiners, shippers, and industrial fuel buyers.

#### WHY THIS MATTERS

India currently imports about 1.75 million barrels per day (bpd) of Russian crude, roughly 35 - 40% of its total oil imports, peaking near 2.1 million bpd earlier this year. The dominant grade is Urals, a heavy sour crude well-suited to India's complex refineries.

The economics are compelling: discounts of \$15 to \$20/bbl below Brent have kept domestic fuel prices low, allowed Indian refiners to export diesel and jet fuel at global prices, cushioning the fiscal cost of subsidies.

If these barrels are cut off or made uneconomic due to tariffs, refiners would need to turn to alternatives such as WTI Midland, Bonny Light, Angola's Dalia, and Basrah Medium, which come with:

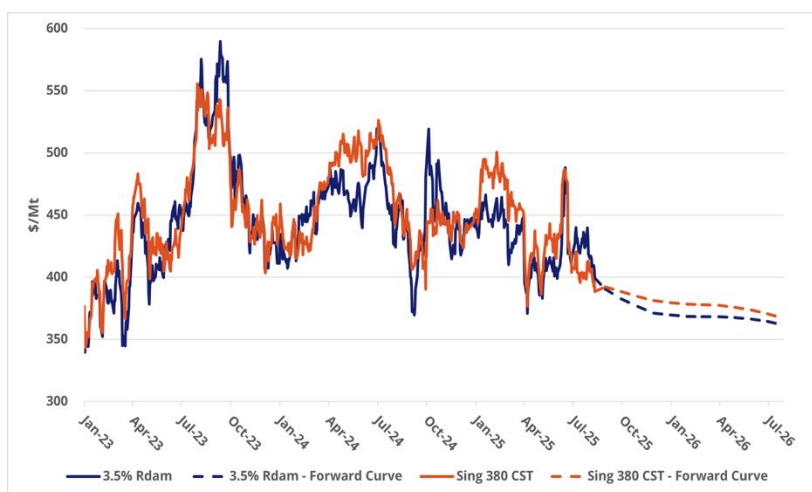
**Quality mismatch:** Lighter, sweeter crudes require blending or reconfiguration.

**Higher landed cost:** These grades often trade at premiums to Brent, with freight and demurrage materially higher from US or Latin American origins.

**Tighter competition:** India would compete with Europe and China, straining medium-sour availability and inflating premiums.

This shift would not only disrupt India's crude slate but also ripple into global refined product markets, including fuel oil benchmarks in Europe and Asia.

#### EU & SINGAPORE FUEL OIL



Source: ICE Futures Europe

Curve prices for both Rotterdam and Singapore fuel oil have been weakening over recent weeks. This softening stands in contrast to the potential supply-side disruption from reduced Russian flows to India, underscoring the risk of a sharp reversal if heavy and medium-sour grades tighten. Recent headlines contributing to downward pressure on the curve include:

- OPEC confirming a production increase for September, restoring the 2.2m b/d voluntary cuts
- Egypt's LNG imports more than doubling, leading to the cancellation of half of the fourteen fuel oil cargoes (350,000 mt) tendered in June
- Global refinery runs continuing to increase, though this trend is likely to reverse in September

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## THE COST IMPACT

Replacing Russian crude could add \$9 to \$11 billion to India's annual oil import bill. This would push refined product prices higher globally, lift diesel and jet cracks, and filter into freight, aviation, and industrial fuel costs. Economists estimate such an impact could trim 0.5% off India's GDP, a scale that ensures New Delhi will resist as long as possible.

However, resistance may not be enough. State refiners have already begun pausing Russian purchases, and private refiners are likely to follow if penalties intensify. July imports of Russian crude into India have already fallen by more than 500,000 bpd from June.

## KNOCK-ON EFFECTS FOR THE MARKET

For Russia, losing India would mean deeper dependence on China, which already takes ~47% of Russian seaborne crude. Beijing would gain leverage to demand steeper discounts and could cut volumes at will. For the broader market, the loss of Indian demand for Urals would tighten heavy and medium-sour supply globally, supporting Brent and Dubai benchmarks and steepening physical spreads. OPEC+ is adding ~550,000 bpd from September, but those barrels will not immediately fill the gap.

Any forced realignment of Indian crude flows could pre-empt those barrels and create instability in Q4 2025 and into 2026.

## IMPLICATIONS FOR PHYSICAL OIL BUYERS

For entities with exposure to crude or refined products, directly or indirectly, this is not an abstract geopolitical risk. It is a quality-specific squeeze that raises the floor on the grades most relevant to diesel, jet, and shipping markets.

Even in a structurally balanced crude market, a shortage of the right quality barrels can escalate input costs quickly. Waiting for the market to "price it in" carries risk. Price spikes in this scenario are likely to be headline-driven, providing little time to respond before premiums surge.

SCENARIO	INDIA ACTION	DISPLACED SUPPLY IMPACT (Approximate barrels per day)
Low disruption	Gradual 20% cut in Russian imports	350,000
Medium disruption	50% cut within 3 months	900,000
High disruption	Full halt within 6 weeks	1,750,000

## THE BOTTOM LINE

The India-Russia oil link has quietly stabilised global fuel markets for the past two years. If it unravels under U.S. pressure, physical oil consumers will feel the effects swiftly - not because total supply disappears, but because the right kind of supply becomes scarce. That scarcity can drive fuel costs higher more quickly than headline Brent prices would indicate.

Even a minor reduction in Russian barrels heading to India, such as the ca 350,000 barrels per day low-disruption scenario above, could have outsized effects given the current market tightness in the front. Distillate inventories are likely to remain low; even with refinery runs at seasonal highs, US distillate stocks saw a small draw last week. There is limited time to build stocks ahead of winter and refinery turnarounds, and so far, there has been no hurricane disruption. Any additional shock could destabilise a market already in a precarious balance.

Proactive fuel-processing risk management now would likely cost less than chasing protection once the shock emerges. This is one geopolitical risk the market is not yet pricing.



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