Diesel: Global dynamics and Brazilian supply

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After a period of easing, the ongoing war in Iran has pushed oil prices back toward US$90/barrel, with significant relief last week following the U.S. elections. However, distillate prices have risen more than crude prices, reflecting not only the war in the Middle East but also the conflict between Ukraine and Russia. Since the second quarter, Ukraine has stepped up attacks on refineries, cutting Russian refining capacity by as much as 60% (by some estimates).

Chart 1: Diesel Crack Spread vs. Brent
US$ per barrel

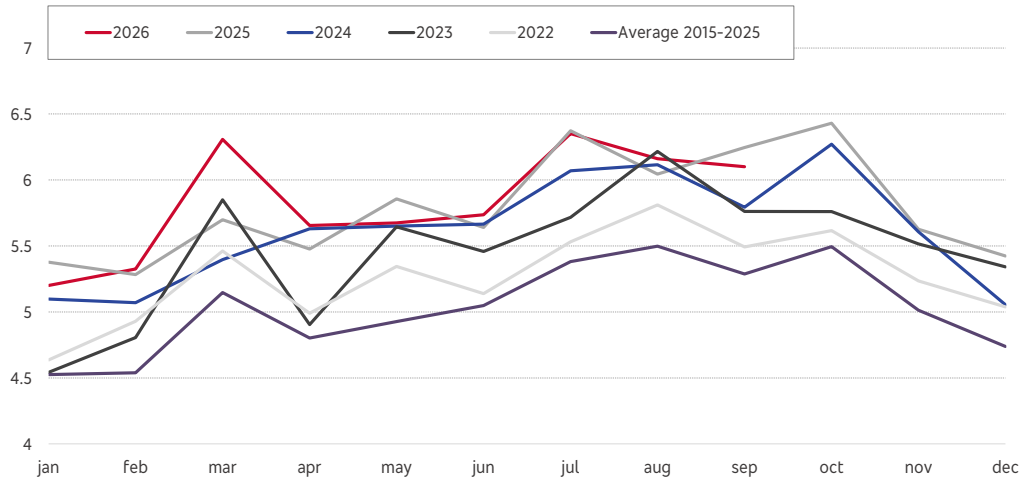


Source: Bloomberg, Bradesco

Because the premium sits at the refining stage, the decoupling of distillate prices from crude has pushed the ULSD crack on the U.S. Gulf Coast above US$80/barrel. That is above the levels seen in 2022 and well above the 2009-2021 average of US$20/barrel. Tightness is evident in low inventories (U.S. distillate stocks hit their lowest level since the 1980s, even with refinery utilization at 94.5%), in export restrictions, such as Russia's through January and China's through year-end, and in emergency stock releases in Europe.

Brazil imports 22% to 25% of the Type A diesel it consumes. Diesel sales in Brazil follow a seasonal pattern that reflects the agricultural calendar and its logistics. The second-crop corn ("safrinha") harvest and shipment take place between June and September, and sugarcane between April and November, overlapping in September-October with the logistics of soybean planting. As a result, fuel sales are strongest from July through October, peaking in August and October, when demand has historically run almost 14% above the first half of the year. Therefore, even with lower external availability due to production and export restrictions, and with October now behind us, concerns about domestic supply should ease.

Chart 2: Monthly Diesel Sales
Million m^3



Source: ANP, Bradesco

Although there does not appear to be a risk of shortages, price concerns are likely to persist. Inventory problems could last through the end of next year, according to the IEA. Our baseline is therefore for elevated crack spreads and continued price pressure on importers. The gap between domestic diesel prices and import parity (PPI), as calculated by Abicom, reaches 82% at the main hubs and 93% at Petrobras hubs. In addition, the federal government is already spending R$12.5 billion per month on the diesel subsidy. This situation is hard to resolve and points to either higher prices or elevated fiscal costs.

One possible mitigant to external demand is a higher biodiesel blend in diesel. The current blend is 15% biodiesel in diesel (B15), raised in August 2025. The Fuel of the Future Law envisioned reaching B20 by 2030, which would lift the blend to 16% as early as 2026. However, high fuel prices led the government to begin studying B17 this year. Each additional percentage point in the blend reduces fossil diesel demand by roughly 0.7-0.8 million cubic meters, in a market of approximately 70 million cubic meters per year of diesel sold directly to consumers (diesel B). In our previous Agro Insights[1], we noted that the domestic soybean oil market can accommodate this additional output. By our estimates, raising the blend from B15 to B17 throughout 2027 could reduce imports by approximately 10% relative to 2026.

Even so, the baseline scenario remains one of volatility and tight markets throughout 2027. The higher biodiesel blend and increased local production should help avert shortages and may mitigate price pressures. But they cannot offset the global supply picture, whose resolution depends on structural and slow-moving factors, such as vessels transiting Hormuz at lower costs (easing oil prices) and the recovery of global refining capacity, especially in Russia, which would narrow the crack spread.

[1] Agro Insights 02/19/2026

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