fundstrat

Evidence-based research.
150 East 52nd St, 3rd Floor New York, NY 10022

First to Market

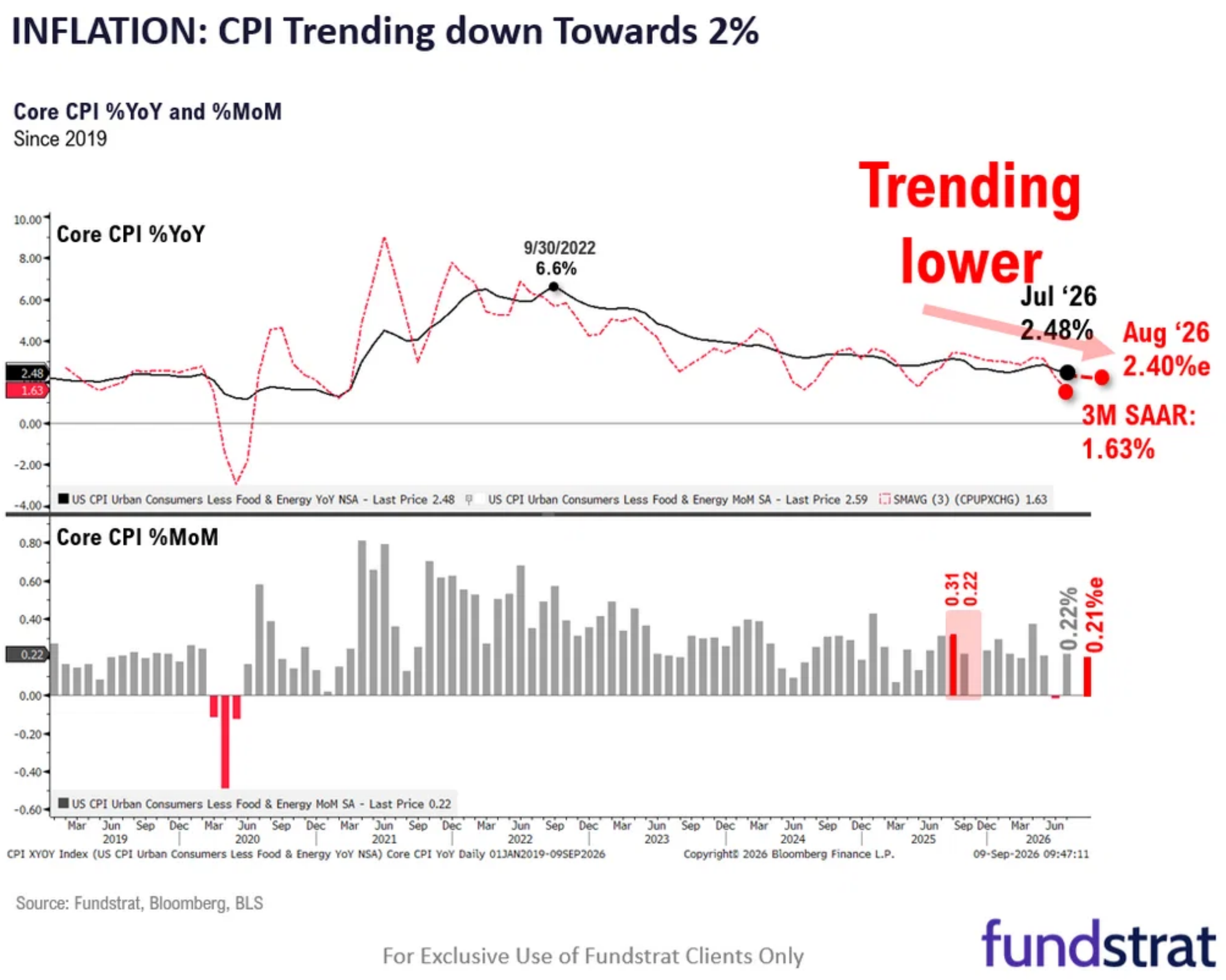
September 11, 2026

REFINERIES ARE RUNNING HOT. WHEN IS THE PIT STOP?

Kent Fung

VICE PRESIDENT, MARKET INTELLIGENCE

Chart of the Day



Good morning!

At a recent internal discussion, Fundstrat Head of Technical Strategy Mark Newton mentioned that oil refinery stocks have performed well of late. The VanEck Oil Refiners ETF $CRAK is up 75.7% thus far in 2026. It's up 46.9% since the Iran war began on Feb. 28, and it rose 11.2% in August alone.

It's not difficult to see why. Global refinery capacity has been hurt by not just the Iran conflict, which has seen key refineries in the Middle East (in countries such as Saudi Arabia, the U.A.E., and Kuwait) damaged or destroyed, but by the ongoing Russia-Ukraine war. Ukrainian drones strikes have wrought significant destruction of Russian energy infrastructure, particularly in recent months. Meanwhile, impeded shipping through the Strait of Hormuz has left a major source of global refining capacity with less crude to refine: Chinese refineries, traditionally a major regional supplier of refined petroleum products, are operating well below historical averages, at roughly 69% capacity.

On the flip side of that coin, U.S. refineries are running at essentially full capacity (i.e., over 95%) to help make up for some of that loss, and they've been doing so for more than three months, striving to meet both domestic needs and higher export demand. They've averaged 93.4% utilization rates thus far in 2026, arguably the highest average since 1998 (it is more or less tied with 2018 figures). That's also true in India and in Europe. In fact, refineries in India and Europe have been similarly running hot since late February. In all three countries/regions, some individual refineries have on occasion run above 100% of maximum recommended capacity. (In India, the state-owned MRPL disclosed on Wednesday that its refineries have been running at 105-108% since late February.)

Even before the Iran hostilities began, President Trump had urged energy companies to increase their capex, expanding not just drilling and exploration, but also building new refineries. That doesn’t seem to have worked.

The refining industry, like the rest of the energy sector, is prone to boom and bust cycles. It has been burned by temporary price spikes before, and it now strives for strict capital discipline. In 2008, for example, the industry decided to expand capacity in response to record crude prices and historic crack spreads (the difference between the price of crude and the price of the refined products made from crude), only to limp through the Global Financial Crisis. Episodes like that constitute one of the major reasons why there has been little real enthusiasm for calls to build new refineries, even with the Trump administration offering to streamline the red tape involved. To be fair, this would not matter in the short term anyway, since the process of building and bringing a new refinery online can take between five and seven years.

A similar situation is being seen in Europe, although that has somewhat older roots. Europe has not built a major refinery since 1997. Increasingly stringent climate-related regulations have made such investment unpalatable even as existing refineries aged out beyond useful life, reducing capacity. Yet even in Europe, which has arguably been hit harder than the U.S. by the closure of Hormuz, intentions to restart refinery development have been nearly non-existent.

Existing refinery infrastructure is thus being forced to meet continued heightened demand. However, this sustained hot running poses a problem. Refineries are not supposed to run at or near full capacity for extended periods of time. Sustained high utilization rates mean accelerated wear and tear as extended periods of high temperatures, high pressures, and exposure to corrosive materials degrade parts and machinery.

To make matters worse, constant usage prevents maintenance. Many refineries both at home and abroad have delayed maintenance in order to continue meeting demand (and maximizing profits from higher prices and margins) – even though forestalled maintenance prevents inspections that are used to spot problems before they become catastrophic while also leading to a gradual degradation in yield and efficiency.

Shares of companies that provide maintenance and repair solutions to refinery facilities have been a mixed bag lately. Fluor $FLR, a major provider of plant maintenance expertise and labor, is up 34.8% this year. However, Flowserve $FLS, a major provider of the solutions that tend to wear out in refineries (precision valves, pump-repair), has underperformed, up just 4.30% over the same period.

A case can therefore be made that there is pent-up demand for their offerings that could boost their respective stock prices more broadly. After all, maintenance or repair can be delayed, but it can rarely be postponed forever. And as any gearhead will tell you, the longer one postpones maintenance, the more that will likely need to be done when one bites the bullet.

Share your thoughts

Which do you think will give out first – refinery infrastructure, or demand for gasoline? Click here to send us your response.

✍Here's what a reader commented ✍

Q: Do you think Secretary Bessent can back up his confident talk?

A: Secretary Bessent is playing a dangerous game. We need to find a good balance between higher taxes and lower defense and Medicare spending. We also need to improve relations with our trading partners, who would have been bond buyers, but are now exploring other options.

Catch up with Fundstrat

Markets are cautious heading into August CPI (today). And in our view, this is a setup for a “face ripper” rally to come sometime this month.

Technical

A 2% decline in roughly one month since the mid-August peak hasn't caused much technical damage, and $SPX should arguably bottom between today and next week's FOMC, with tech leading the charge back to the highs.

Crypto

In the short-term, I remain biased long, while acknowledging that the swing factors in yields and crude could induce some downside volatility should they not resolve in a constructive direction soon.

News We're Following

Breaking News

- Consumer prices rose 0.4% in August, as expected; core inflation was higher than estimated CNBC

Markets and economy

- Scott Bessent fails to break 'fever' in US bond market FT
- US diesel prices rise past $6 a gallon for first time ever BBG
- BOJ set to lift rates next week but offer few clues on terminal, sources say REU

Business

- Anthropic disrupts bioweapons research efforts, Russian hacking, Chinese Claude misuse REU
- Oracle's stock edges up on earnings beat as cloud infrastructure revenue more than doubles CNBC
- Kroger stock falls on earnings. Why the grocer is cutting sales guidance BAR

Politics/U.S.

- Americans to mark 25 years since September 11 attacks amid enduring grief, reflection REU
- Supreme Court again blocks Missouri from using GOP-friendly voting map WSJ
- Prosecutor brought in to lead investigation of Trump foes tells AP that he has resigned his position AP

Overseas

- Iran is producing ballistic missiles again WSJ
- Gulf states weigh rare meeting with Iran next week on Hormuz BBG
- BRICS 2026: Trump shadow looms large over Delhi summit as Modi hosts Putin and Xi BBC

Of Interest

- Little Mercury may be shrinking faster than scientists expected AP

Overnight

S&P Futures	+40 ▲ point(s) (+0.5% ▲)
overnight range:	-4 ▼ to +49 ▲ point(s)

APAC

Nikkei	-1.93% ▼
Topix	-0.65% ▼
China SHCOMP	-1.18% ▼
Hang Seng	-0.60% ▼
Korea	-1.76% ▼
Singapore	+0.11% ▲
Australia	-0.89% ▼
India	-0.34% ▼
Taiwan	-1.61% ▼

Europe

Stoxx	50 +0.69% ▲
Stoxx	600 +0.53% ▲
FTSE	100 +0.56% ▲
DAX	+0.62% ▲
CAC	40 +0.60% ▲
Italy	+0.66% ▲
IBEX	+0.61% ▲

FX

Dollar Index (DXY)	+0.11% ▲ to 99.16
EUR/USD	-0.16% ▼ to 1.1593
GBP/USD	-0.04% ▼ to 1.3506
USD/JPY	+0.24% ▲ to 154.05
USD/CNY	+0.06% ▲ to 6.7082

USD/CNH	+0.08% ▲ to 6.7090
USD/CHF	-0.32% ▼ to 0.8154
USD/CAD	-0.19% ▼ to 1.3860
AUD/USD	+0.22% ▲ to 0.7173

UST Term Structure

2Y-3M Spread narrowed	-1.7bps ▼ to 61.8bps
10Y-2Y Spread narrowed	-0.3bps ▼ to 37.2bps
30Y-10Y Spread widened	0.2bps to 40.2bps

Yesterday's Recap

SPX	-0.58% ▼
SPX Eq Wt	-0.68% ▼
NASDAQ	100 -1.08% ▼
NASDAQ Comp	-0.65% ▼
Russell Midcap	-0.90% ▼
R2k	-1.04% ▼
R1k Value	-0.30% ▼
R1k Growth	-0.99% ▼
R2k Value	-0.67% ▼
R2k Growth	-1.40% ▼
FANG+	-0.79% ▼
Semis	-2.44% ▼
Software	-0.62% ▼
Biotech	-1.61% ▼

Regional Banks	+0.49% ▲
SPX GICS1 Sorted	-1.48% ▼
Utes	-1.00% ▼
Tech	-0.94% ▼
REITs	-0.87% ▼
Indu	-0.70% ▼
SPX	-0.58% ▼
Healthcare	-0.53% ▼
Cons Disc	-0.45% ▼
Energy	-0.42% ▼
Fin	-0.30% ▼
Cons Staples	+0.24% ▲
Comm Srvcs	+0.25% ▲

USD HY OaS

All Sectors	-1.3bps ▼ to 305bps
All Sectors ex-Energy	-1.8bps ▼ 282bps
Cons Disc	+0.6bps ▲ 304bps
Indu	-0.2bps ▼ 186bps
Tech	-5.2bps ▼ 440bps
Comm Srvcs	-2.4bps ▼ 488bps
Materials	-1.6bps ▼ 266bps
Energy	-3.0bps ▼ 186bps
Fin Snr	-0.3bps ▼ 288bps
Fin Sub	-3.6bps ▼ 249bps

[illegible]	[illegible]
Cons Staples	-1.3bps ▼ 234bps
Healthcare	-1.8bps ▼ 253bps
Utes	-1.4bps ▼ 208bps *

DATE	TIME	DESCRIPTION	ESTIMATE	LAST
9/11	8:30 AM	Aug CPI m/m	0.4	0.1
9/11	8:30 AM	Aug Core CPI m/m	0.2	0.2
9/11	8:30 AM	Aug CPI y/y	3.4	3.4
9/11	8:30 AM	Aug Core CPI y/y	2.4	2.5
9/11	10:00 AM	Sep P UMich 1yr Inf Exp	4.2	4
9/11	10:00 AM	Sep P UMich Sentiment	51	51.7
9/16	8:30 AM	Aug Import Price m/m	n/a	-0.4
9/16	8:30 AM	Aug Retail Sales m/m	0.9	-0.6
9/16	10:00 AM	Sep Homebuilder Sentiment	34	35
9/16	2:00 PM	Sep 16 FOMC Decision	3.75	3.75
9/16	4:00 PM	Jul Net TIC Flows	n/a	133.452

Disclosures

This research is for the clients of Fundstrat Global Advisors only. For additional information, please contact your sales representative or Fundstrat Global Advisors at 150 East 52nd Street, New York, NY, 10022 USA.

Conflicts of Interest

This research contains the views, opinions and recommendations of Fundstrat. At the time of publication of this report, Fundstrat does not know of, or have reason to know of any material conflicts of interest.

General Disclosures

Fundstrat Global Advisors is an independent research company and is not a registered investment advisor and is not acting as a broker-dealer under any federal or state securities laws.

Fundstrat Global Advisors is a member of IRC Securities' Research Prime Services Platform. IRC Securities is a FINRA registered broker-dealer that is focused on supporting the independent research industry. Certain personnel of Fundstrat (i.e., Research Analysts) are registered representatives of IRC Securities, a FINRA member firm registered as a broker-dealer with the Securities and Exchange Commission and certain state securities regulators. As registered representatives and independent contractors of IRC Securities, such personnel may receive commissions paid to or shared with IRC Securities for transactions placed by Fundstrat clients directly with IRC Securities or with securities firms that may share commissions with IRC Securities in accordance with applicable SEC and FINRA requirements. IRC Securities does not distribute the research of Fundstrat, which is available to select institutional clients that have engaged Fundstrat.

As registered representatives of IRC Securities, our analysts must follow IRC Securities' Written Supervisory Procedures. Notable compliance policies include (1) prohibition of insider trading or the facilitation thereof, (2) maintaining client confidentiality, (3) archival of electronic communications, and (4) appropriate use of electronic communications, amongst other compliance related policies.

Fundstrat does not have the same conflicts that traditional sell-side research organizations have because Fundstrat (1) does not conduct any investment banking activities, (2) does not manage any investment funds, and (3) our clients are only institutional investors.

This research is for the clients of Fundstrat Global Advisors only. Additional information is available upon request. Information has been obtained from sources believed to be reliable, but Fundstrat Global Advisors does not warrant its completeness or accuracy except with respect to any disclosures relative to Fundstrat and the analyst's involvement (if any) with any of the subject companies of the research. All pricing is as of the market close for the securities discussed, unless otherwise stated. Opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Past performance is not indicative of future results. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The opinions and recommendations herein do not take into account individual client circumstances, risk tolerance, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies.

The recipient of this report must make its own independent decision regarding any securities or financial instruments mentioned herein.

Except in circumstances where Fundstrat expressly agrees otherwise in writing, Fundstrat is not acting as a municipal advisor and the opinions or views contained herein are not intended to be, and do not constitute, advice, including within the meaning of Section 15B of the Securities Exchange Act of 1934. All research reports are disseminated and available to all clients simultaneously through electronic publication to our internal client website, fundstrat.com. Not all research content is redistributed to our clients or made available to third-party aggregators or the media. Please contact your sales representative if you would like to receive any of our research publications.