GENERAL INDEX

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GX MIDDLE EAST CRUDE MARKET ANALYSIS

The Big Picture

- SOMO to discontinue Basrah Light exports
- Rongsheng receives extra quotas

End of an Era

It is finally confirmed, Iraq's State Oil Marketing Organization (SOMO) has decided to stop exports of its classic Basrah Light grade come January 2022.

Early October, market chatter was rife with rumours of SOMO stopping its Basrah Light exports when a letter sent to its refiner clients surfaced. The letter, seen by GX, requested for term nominations of crude grades and quantities expected to be bought in 2022 from refiners.

Conspicuously missing in the list of available crudes for selection was SOMO's long standing Basrah Light.

Back in early October, due to reticence on the part of SOMO, GX was unable to confirm further details regarding the supposed discontinuation of Basrah Light exports. Even refiners GX talked to were unsure of the current situation.

However, it is clear now that SOMO has intentions to restrict the grade from export.

The move should be viewed as an ongoing effort to improve the oil industry in Iraq. As the Zubair field which produced much of Iraq's lighter crude degrades in quality and heavier crudes from the Mishrif comes online, it is only natural for Iraq to change its export basket to better reflect upstream realities.

The creation of Basrah Medium in 2021 was a first step in supporting this transition. A significant amount of Basrah Light was cannibalized by Basrah Medium when it was introduced and now after its first year of trading, it is clear that Basrah Medium is more welcomed amongst refiners and that Basrah Light has fallen out of favor.

Refiners have often complained about Basrah Light's expensive OSPs and SOMO could have decided to discontinue the grade all together in interest of focusing efforts on producing Basrah Medium and Basrah Heavy.

The Calvary Arrives for Rongsheng

On the other side of the world, following China's distribution of its fourth round of crude import quotas, Rongsheng, a mega refiner situated on the eastern island of Zhoushan, received special concessions to import 12mn MT more crude oil this year.

It is no secret that Rongsheng's 800,000b/d petrochemical plant thirsts for crude. During 2021, the plant completed its second phase refinery expansion which saw its capacity double from 400,000b/d to 800,000b/d.

Before special concessions of 12mn MT were granted, the company has only received 20mn MT of quotas cumulatively in 2021, which is only sufficient to keep its phase 1, 400,000b/d crude distillation unit running at 100% capacity.

The market had a knee jerk reaction to the news, expecting Rongsheng to frantically source for crude cargoes at the last minute. Dubai window on Monday, 25th October, had its strongest performance in the year. Term structure widened to US$2.860/b as assessed by GX.

However, it turns out Rongsheng could have already pre-purchased all the cargoes it needs to expend its extra quotas.

“Yes not sure how much of quota will actually translate into spot buying,” said a trader GX spoke to.

“RS quota only covers what they already have on books, floating position and remainder of term contracts”, said another trader familiar with the Rongsheng situation.

Eventually, it became clear that Rongsheng does not need to source for spot crude at the eleventh hour. Dubai window reflected this, eventually narrowing down to the US$2.400/b levels which better reflect market conditions pre quota announcements.

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