GENERAL INDEX
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GX EUROPEAN REFINED PRODUCTS MARKET ANALYSIS

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Eurobob Oxy Gasoline NWE FOB Barges
809.75 -20.75
EUROBOBC

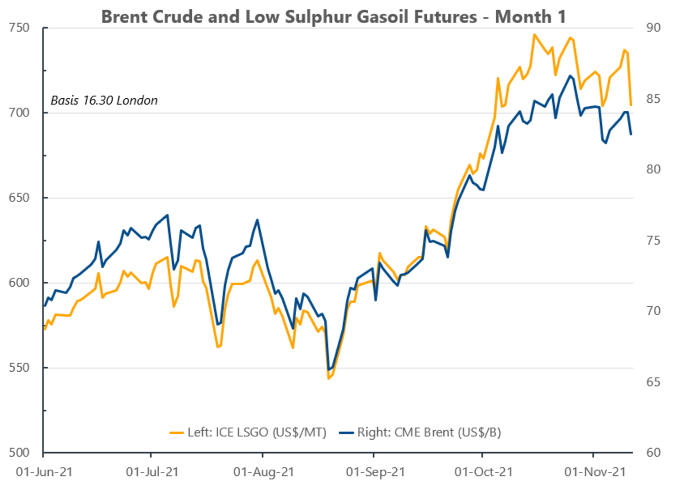
Jet Fuel NWE CIF Cargoes
735.25 -5.75
JETNWEC

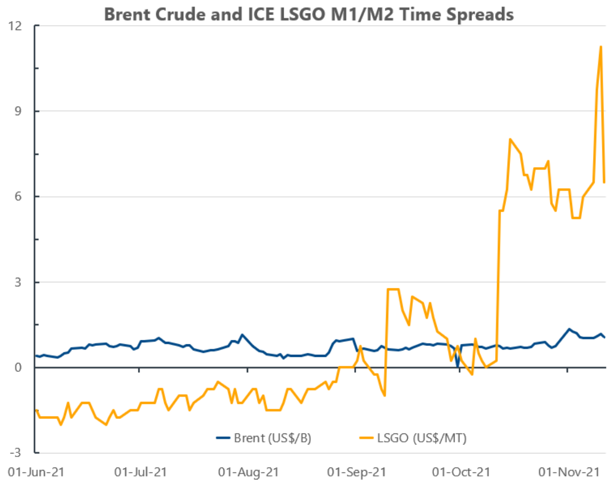
ULSD NWE CIF Cargoes
716.50 +3.00
ULSDNWEC

Naphtha NWE CIF Cargoes
747.25 +2.00
NAPNWE

Investors eye decision on SPR release; OPEC downgrades 2021 demand growth

Oil prices mostly recovered from last week's drop which saw prompt European crude and gasoil futures fall to their lowest since early October. Brent recovered by 5% to almost $85/b Tuesday, with the return this week of international travel to the US as the Biden administration's new rules took effect and are expected to bolster demand heading into winter. The White House further set the agenda with investors awaiting the President's decision on how to address soaring retail fuel costs in the US.



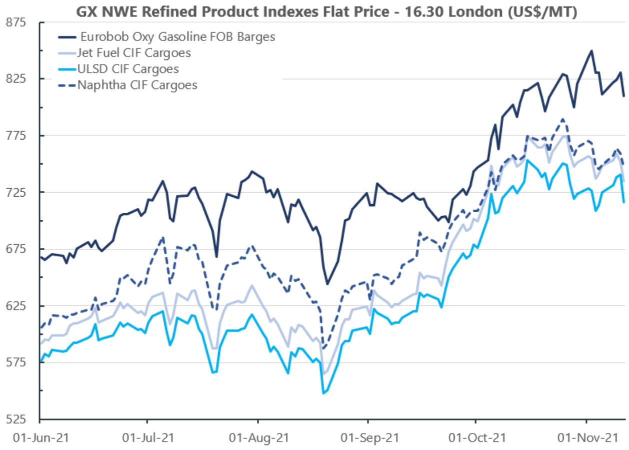


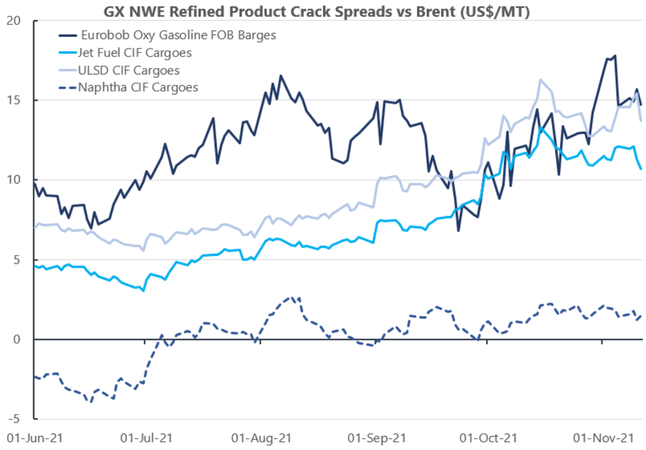
OPEC downgrading its demand growth estimate for this year joined the bears on the downside. In its monthly report today, the group cut 2021 oil demand growth predictions by 160,000 b/d to 5.7mn b/d, which would bring overall demand in at 96.4mn b/d. It's worth noting here that others in the market (such as Vitol's CEO) believe demand has already recovered to pre-pandemic levels above 100mnn b/d. Opec's estimates for 2022 were left unchanged: demand growth next year is seen increasing 4.2mn b/d to100.6mn b/d (up 500,000 b/d on 2019).

The sizeable builds in US commercial crude oil inventories – a closely followed indicator of crude supply and demand balances – contributed to the selloff, which was exacerbated by chatter of a release of Strategic Petroleum Reserves in the US. Indeed, President Biden has repeatedly been calling for OPEC+ to increase production, hoping to cap rising energy prices and curtail skyrocketing inflation. The US consumer price index released 5 November highlighted a 6.2 percent increase in October from a year prior, the largest increase since 1990.

However, the potential impact of SPR releases from the US on oil prices are expected to be relatively limited. The US president can unilaterally release 30mn bbl over a period of up to 60 days. This would only amount to 82,000 b/d on a yearly basis, which is unlikely to have a sizeable impact on the imbalance. Moreover, the EIA's Short-Term energy Outlook published this Tuesday dialled down expectations of an SPR release. The report forecast that increased production – notably from OPEC nations – would send oil prices down in 2022, with Brent expected to average $72/b next year. Stocks are also likely to start building up after months of continuous draws as demand growth for liquids slows. Some US drillers are also contemplating the possibility of increasing production further, in particular private drillers with less pressure to give returns to investors and practice capital discipline. The number of primarily oil-focussed rigs increased by 16 on the week to reach 528 according to the latest Enverus data, which is the highest since the crash in April 2020.

Either way, the market remains systemically imbalanced and is likely to remain so until close to the end of the year at least. Economic data in the US offered another boost to the market as a Friday 5 November report showed unemployment rates fell to 4.6% in October, a 19-month low. With the US reopening borders for fully vaccinated travellers from the Schengen area, short to medium term oil demand is likely to receive another boost. According to the IEA, global consumption in 2021 remains below 70% of 2019 levels on the aviation fuel. With the holiday season coming up, airlines are hoping to see an uptick in demand, especially as Covid-19 infections appear to remain under control.





On Thursday 11 November at 16.30 London time, the front-month Brent contract was last reported trading at $82.48/b, up $0.58 /b on the week. In Northwest Europe, ICE Low-Sulphur Gasoil futures had last traded at $704.50/MT, down $30.75/MT day on day and $4/MT on the week. The Eurobob gasoline December swap was heard around $744.62/MT, down $9.45/MT on the day and down $0.76/MT on the week.

PADD 1 pulls distillates from Europe, stocks tight widening LSGO futures backwardation

The US East Coast (PADD 1) has been pulling more diesel and gasoil from Northwest Europe, Russia and the Mediterranean, adding to the drain on stocks in the region. Along with tightness in the wider global supply chain, the distillate exodus provides the backdrop to steepening backwardation (the state of higher prompt prices versus later contracts) on Europe's diesel futures exchange.

Seaborne cargo arrivals into PADD 1 from Europe in November are currently estimated at 91,000 b/d, the equivalent of 366,000 MT in total and the highest for eight months, according to Kpler tanker tracking at 1030 GMT on 11 November. The trade flow is more common during the winter months, often bolstering supplies from rising heating oil demand in the US.

This month's volume is up from 85,000 b/d (327,000 MT) in October and 81,000 b/d (355,000 MT) in September. November arrivals from Europe are likely to come in well below the 194,000 b/d (806,000 MT) recorded in March and compares to a November 2020 flow of 120,000 b/d (484,000 MT).

But only one shipment earmarked for arrival in PADD 1 has actually left Europe this month. The other eight vessels carrying product from Amsterdam, Rotterdam, Poland, Barcelona and Russia's Primorsk departed in October, suggesting the pull could be slowing.

Russia-loadings account for 51% of the volume, with 34% from the Netherlands, 13% from Spain and 2% from Poland, according to Kpler.

ARA diesel, gasoil seaborne exports at record levels

For the trading and refining hub of Amsterdam-Rotterdam-Antwerp in particular, exports to the United States represent just a fraction of recent outflows compared to markets closer to home. ARA monthly exports of diesel and gasoil averaged 546,000 b/d in October, the most since Kpler started tracking the market in 2017. Vortexa saw the volume higher at 610,000 b/d. Kpler data showed NWE was the destination for the lion's share of the volume, totaling 343,000 b/d.

While distillate demand in Europe is falling heading into winter – OilX estimates OECD Europe consumption down 2% month on month 6.362mn b/d in November – a lower stocks picture leaves the market exposed to further price shocks in the event of a cold and long winter.

Inventories of diesel and gasoil for the 27 OECD Europe countries are close to 434.7mn bl, down 6.1% on year-earlier levels, but still 2.2% higher than the five-year average, according to OilX.

Even though diesel exports are reported to be stronger from Russia's Primorsk this month and East of Suez flows to Europe have been high of late, tightness in the Asia-Pacific was highlighted by Vortexa as potentially reducing the volume heading west over the coming weeks.

Bullish pricing on LSGO futures strongest since October 2019

After months of pandemic-related demand destruction and price weakness, market sentiment has been transformed – not least due to the ripple effect on distillates of the gas-to-oil switch resulting from the recent natural gas price shock.

Since mid-September, weak contango pricing on Europe's diesel futures exchange has given way to bullish backwardation. Month 1 Nov-21 ICE LSGO futures reached around a $11/MT premium over the Month 2 Dec-21 contract earlier today, up from +$6.50 /MT at the start of the week and taking the backwardated prompt timespread to its widest since October 2019, according to ICE data.

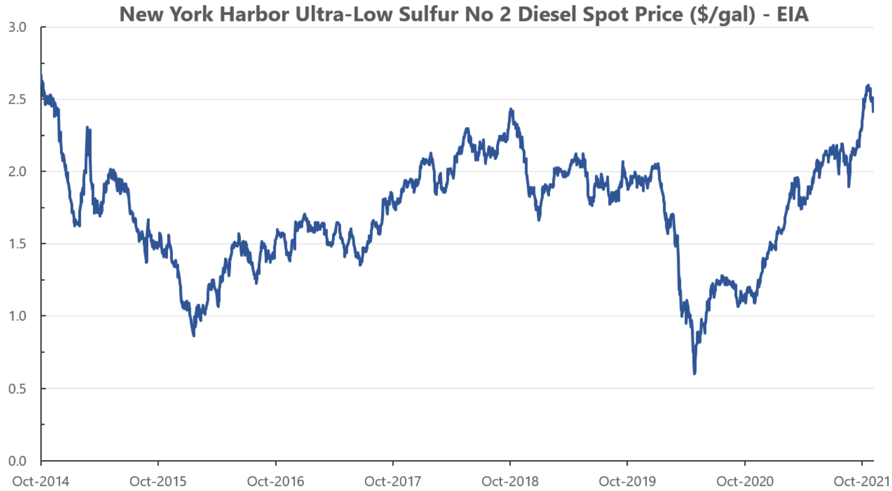
The latest sharp fluctuation is likely to be the result of position taking ahead of the Nov-21 contract expiry today. But the bullish trend extends along the curve to Q4-2022. The new prompt timespread (Dec-21/Jan-22) is around +$7.50/MT and Dec-21/Oct-22 is +$48.25/MT.

Gone are the days in the depth of the pandemic when steep contango offered traders myriad of opportunities to store product on land or at sea and carry forward to sell at higher future prices. By contrast, the backwardated structure could encourage any traders with surplus product in tank to destock and search for more lucrative homes outside the region.

That may explain why some have chosen to place cargoes into the US.

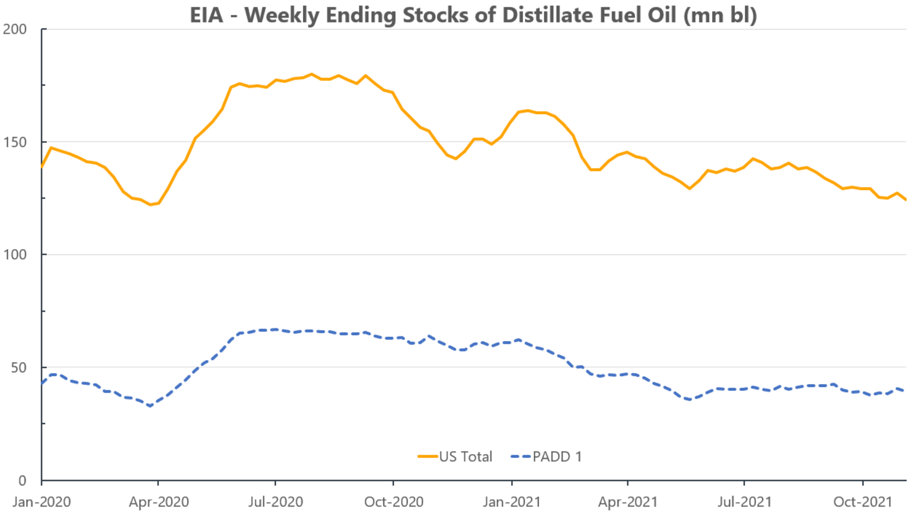
Strong US diesel pricing on bumper demand; but closed ARA-NY Harbor arb could cap flows

Strong trucking demand for diesel to meet healthy economic activity has hiked spot prices and reduced fuel inventories in the US.



Diesel prices at the pump on the East Coast are at their highest since late 2014. Data from the US Energy Information Administration showed retail prices for New York Harbor ULSD No.2 at $2.478/gal, up $0.023/gal on the week. Prices reached a seven-year high of $2.598/gal on 20 Oct, a trend mirrored by the Gulf and West Coasts.

Distillate fuel oil stocks for the US as a whole are at their lowest since early April 2020. EIA data for the week ending 5 Nov put the volume at 124.509mn bl, down 2.613mn bl on the week and from the summer 2020 high of around 180mn bl. For the PADD 1 district specifically, stocks have fluctuated around the 40mn bl mark since June. For the last reporting week, they fell by 1.068mn bl to 39.442mn bl.



Gasoil for use as a heating fuel will be bolstered heading in the colder months, eating into some of the US domestic ULSD refinery output. Diesel trucking demand is also expected to get a boost shipping gifts ahead of Christmas.

Strong demand for distillates at home has diverted US Gulf Coast production away from the seaborne export market and into the domestic pipeline system. The EIA's Short-Term Energy Outlook issued this week put four-week average ULSD exports at 1mn b /d on 29 October. "If confirmed in monthly data, this average for exports would be the lowest level for October since 2014 and would continue the trend of exports lower than the five-year average in every month since August 2020," the agency wrote.

Kpler data estimates PADD 3 diesel/gasoil exports to Europe at 414,000 MT in November. While it's a rise on the recent monthly export of around 200,000 MT on average this year, the European market would have to price much more competitively to attract more US cargoes.

A snapshot on 10 Nov of the key pricing dynamics on either side of the North Atlantic showed New York Harbor ULSD futures well above its ARA counterpart. Prompt NYH ULSD was at US$2.4908/gal or US$779.371/MT, while in ARA the ICE LSGO futures were around at US$735.50/MT.

For traders eyeing possible opportunities to ship diesel from Europe to PADD 1, the +$43.8713/MT spread would not only have to cover freight costs to make the arbitrage movement viable but also the Renewable Volume Obligation (RVO) cost for all on-road fuel which is levied on either the shipper or importer. Heating oil has no RVO obligation.

GX understands RVO is currently around $0.135/gal or $43.12/MT, which would – at least on paper – leave no room for freight and keep the arbitrage closed.

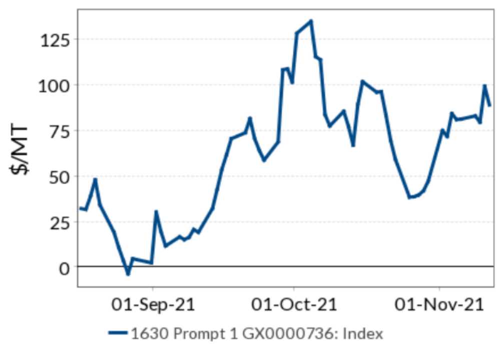
LPG supply tight, pricing strong on natgas feedstock switch, closed US-Europe arbitrage

Pressure on European LPG supply continues to grow as natural gas prices remain high, driving demand for alternative feedstocks, and the arbitrage from the US remains closed thanks to another drop in US propane stocks.

On the supply side, Norwegian output remains limited as the natural gas supply is spiked with LPG while upward pressure on natural gas prices continues.

US propane stocks fell by more than 1mn bbl last week to 74.7mn bbl, causing further panic over winter supply distribution and shutting the arb to Europe even more tightly.

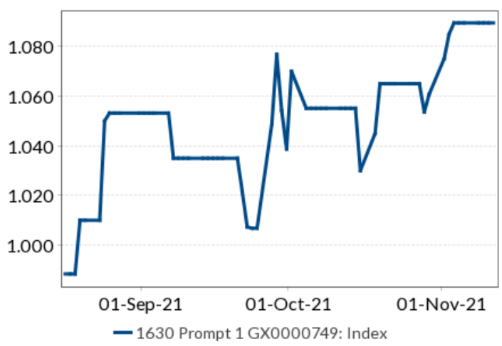
Propane vs Naphtha



The propane-naphtha spread remains at a high double-digit premium, boosting the use of naphtha over propane for the foreseeable future.

The LPG-natural gas relationship is unlikely to shift until heating demand begins to ease towards or during Q2 2022. The subsequent fall in natural gas prices will mean LPG is no longer spiking the natural gas stream or being burned in refineries in place of natural gas. As LPG prices drop naphtha is then expected to start taking the place of LPG in the cracking pool.

Butane Ratio of Naphtha (Basic MOC)



Gasoline blending economics remain decidedly unhealthy even though seasonal demand is falling in Europe. Tight US supply is boosting gasoline production in Europe which in turn means more fighting over barrels of butane for blending. This is pushing up the outright price as well as keeping it well over parity to naphtha in both large and small cargoes, with values between 105-110% of naphtha for small cargoes and pushing nearer to 100p% for large NWE butane.

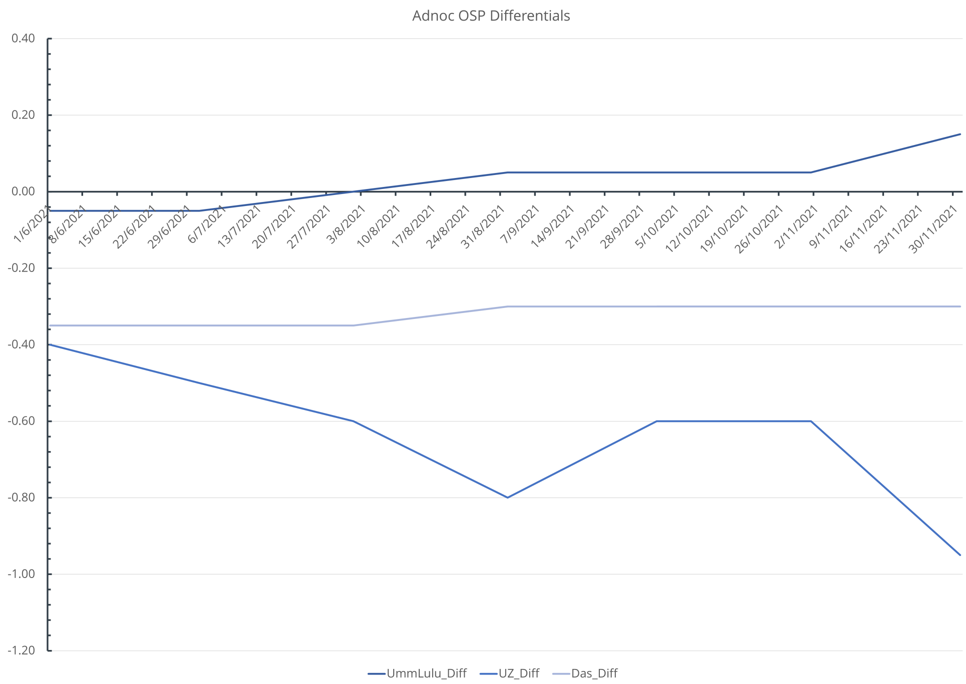
To add to the misery, low Rhine levels mean barge transport to inland Europe is limited, although companies further down the Rhine like BASF and Ineos can use the newer wide, flat barges that can transport over shallower waters.

Middle East-Asia Spotlight: Lighter crudes bolstered by strong gasoline, diesel cracks

Lighter crudes sold in the Middle East have been enjoying better premiums recently due to strong gasoline and diesel cracks. The phenomenon has manifested itself in various ways.

Grade	Basis	Dec-21	Nov-21	Change
ADNOC Umm Lulu OSP	IFAD Murban	0.150	0.050	+0.100
ADNOC Das Blend OSP	IFAD Murban	-0.300	-0.300	+0.000
ADNOC Upper Zakum OSP	IFAD Murban	-0.950	-0.600	-0.350

Adnoc's OSPs were released recently. Lighter Umm Lulu crude clearly received better premiums than its heavier cousins, whose OSP differentials decreased.



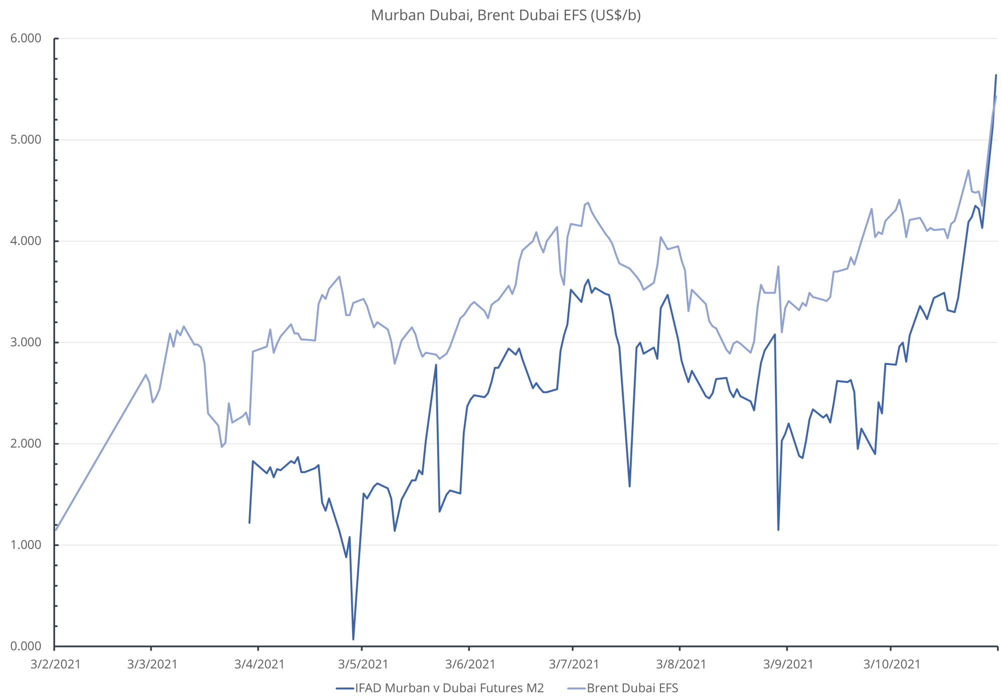
Refiners are also acting to leverage strong cracks right now. Indian private refiner Nayara, for example, has completely stopped production of VLSFO to channel more resources into production of gasoline and diesel.

Nayara runs a complex 400,000b/d refinery in Vadinar, equipped with units that allow for the cracking of long carbon chains into lighter products, which enabled it to stop production of VLSFO in favour of light ends.

At a global level, the light premium was in part supported by the imbalance in production amongst OPEC+ countries. Looking at production figures in October, Mideast countries which produce majority of the medium, sour crudes have managed to raise production in tandem with increased quotas.

On the other hand, African production fell instead. Chief amongst them was Nigeria whose Bonny Light suffered from a bout of force majeure.

The premium was also reflected in the Brent-Dubai EFS which has widened to US$5.00/b levels since the start of the November trading cycle.



Murban, which is a light, sour crude, has also experienced a similar price movement with Brent, even overtaking Brent on Wednesday in a rare occurrence. The premium at which Murban is trading proves that the current level of Brent-Dubai EFS is mainly due to a premium being paid for light grades because otherwise Murban's price would not be as high.

Given the strength of the EFS, arbitrage crudes would have a harder time finding its way into Asia where refiners generally use the instrument to gain exposure to Dubai for internal benchmarking purposes.

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