

GX EUROPEAN REFINED PRODUCTS MARKET ANALYSIS

The Big Picture

- · Brent tumbles towards \$78/b as bulls retreat
- Market focuses on short-term supply boost prospect, European Covid-19 infections rise
- New York turns to pipeline market as little European gasoline heads west

Eurobob Oxy Gasoline NWE FOB Barges
755.00 -54.75
EUROBOBC □

Jet Fuel NWE CIF Cargoes
717.50 -17.75
JETNWEC □

ULSD NWE CIF Cargoes
693.25 -23.25
ULSDNWEC □

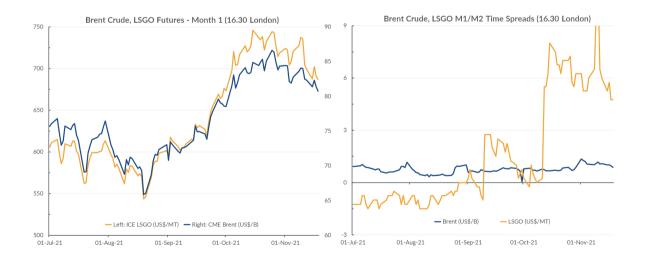
Naphtha NWE CIF Cargoes
721.75 -25.50

NAPNWE □

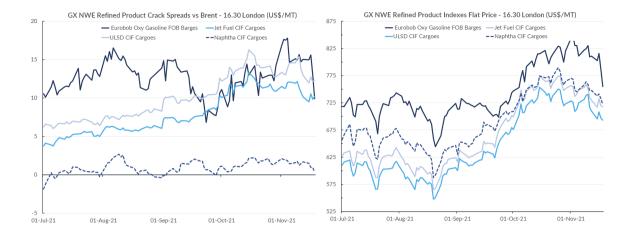
Bulls retreat on prospect of higher supply, European Covid-19 worries

Oil prices came under pressure this week, as the prospect of increased crude supply took on market bulls and appeared to push them onto the back foot towards the week's end, while Europe's persistently high Covid-19 infection rates continue to raise short-term demand concerns.

On Thursday 18 November at 16.30 London time, the front-month Brent contract was last reported trading at \$80.72/b, down \$1.75/b on the week, and fell further into the low \$78s early on 19 November. In Asia, the GX-assessed January Dubai partial fell to \$78.64/b on 18 November, down from \$81.80/b a week earlier. In Northwest Europe, ICE Low-Sulphur Gasoil futures last traded at \$687/MT, down from \$705.50/MT from a week earlier.



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In the US, high retail gasoline prices began producing tougher rhetoric from Washington. The White House announced on 17 November that it would ask the Federal Trade Commission to investigate any "anti-competitive" or "illegal" conduct ostensibly behind the high pump prices. Previous calls by Washington for OPEC to boost output faster than scheduled thus far failed to produce the desired outcome, and Washington has therefore been talking up a further release of crude from strategic reserves – both the US' own SPR as well as a coordinated release with other countries, such as China, India and Japan, Reuters reported. The last such coordinated release was during the Libyan civil war in 2011, when Brent futures were trading well above \$110/b.

The possibility of additional crude volumes appeared to break the momentum of oil bulls, as Brent fell \$2/b on the day to 17 November – the day that EIA data showed a pre-arranged 3.2mn bl release from SPR reserves. The following day, Reuters reported an official Chinese statement about a possible crude release from Chinese reserves. And the IEA said this week it expected global crude output to rise by 1.5mn b/d in remainder of 2021, easing the crude supply-demand balance.

Meanwhile, on the demand side, European indicators are turning bearish. A fourth wave of Covid-19 infections in Europe's largest economy – Germany – has prompted new restrictions, with the head of the country's RKI public health institute terming the situation a "national emergency," according to Bloomberg. Neighbouring Austria is moving into full a lockdown, the Netherlands imposed a partial lockdown earlier this month owing to record high infection rates, and Belgium has also tightened restrictions.

Within the European refined products markets, cracks weakened on the week, with outright prices generally outpacing the drop in crude. Noteworthy has been the downward move in light distillate cracks, led by Eurobob gasoline barges. While day-to-day NWE gasoline barge prices can be volatile, the move could help to pull more gasoline westwards into a tight US Atlantic Coast market, as we explore in the following pages. Light ends are under pressure: Eurobob fell to a discount to winter blending component butane, while propane looks weak against naphtha.

On middle distillate markets, crack spreads versus crude are down sharply following expiry of the November ICE LSGO futures contract last week. Diesel cargo and barge cracks for Northwest Europe are down by \$1.25-1.50/b, while Mediterranean cargoes have shed some \$0.75/b; Gasoil 0.1% NWE and Med cargo cracks are lower by around \$0.75-0.80/b; and jet fuel's losses are closer to \$0.50/b. An exuberant final few sessions of trading saw the Nov'21 LSGO contract soar to around an \$11.75/MT premium over December. Post-expiry the new spread (Dec'21-Jan'22) has fallen to some +\$5-6/MT, with the lower nearby LSGO pricing deflating its associated markets. Rising Covid-19 cases and related tightening restrictions in continental Europe could affect demand for both diesel and jet fuel. A relatively mild start to the autumn has meant that the pull on heating oil has not been strong enough to substantially strengthen the gasoil complex significantly, keeping significant volumes of Asian diesel within the east of Suez region, according to Energy Aspects, but relatively low North Atlantic inventories mean a tight supply buffer.

Turning to the aviation segment, capacity fell across Europe this week as seasonal cutbacks heading into winter outstripped an uptick in demand from the reopening of international travel to the US. Seat capacity in Western Europe totalled 14,177,332 for the week commencing 15 November, down 2.1% on last week and lagging 2019 by more than 28%, according to OAG analysts. For Eastern and Central Europe, capacity was down 4.2% at 3,118,932 which was a little under 18% behind pre-pandemic levels. The UK trailed the recovery seen elsewhere in major European hubs for most of 2021, but capacity is now ahead of Germany,

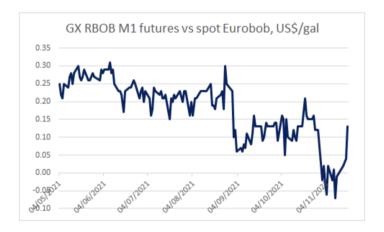


Italy and France in OAG's country ranking, despite still being more than 40% behind 2019 levels. Spain remains Europe's largest market by seat capacity. Europe's air traffic measured by flight numbers is around 23% behind 2019 levels, Eurocontrol data shows.

NY gasoline market tightens as arbitrage flows dry up

There are few signs of an increase in gasoline heading from North West Europe (NWE) to the US Atlantic Coast (PADD 1) in the coming weeks, despite signs of a tight New York Harbor (NYH) market.

Pricing in the US pipeline market indicates firm demand for product into NYH, delivered from the Gulf Coast (PADD 3) refining hub via the Colonial pipeline system's gasoline-bearing Line 1. The pipeline was fully allocated earlier in November for the first time in several months, and therefore shippers only received a portion of their requested allocation. PADD 3 refiners who feed Colonial have been cautious about ramping up gasoline production even with stout gains in demand. Gulf coast refinery net production of finished motor gasoline fell to a five-week low on 12 November, according to EIA data, and production in the four weeks to 12 November is 110,000 b/d lower than in the same period in 2019.



This has helped to tighten NYH – a key demand centre within PADD 1, where gasoline inventories are low by seasonal standards. PADD 1 stocks in the week to 12 November were around 7.7% below 2019 levels and around 16% below the five-year average to November 2019. Shippers had been paying as much as \$0.06/gal to obtain space on Colonial's Line 1, indicating healthy NYH demand, although regional gasoline prices have taken a step back following the latest EIA data showing a 900,000 bl build in PADD 1 stocks in the week to 12 November. GX assessed the RBOB Colonial F Gasoline NYH premium to the NYMEX futures settlement at \$0.0475/gal on 18 November, paring gains from earlier in the week.

PADD 1 is a natural short for NWE gasoline sellers, but no PADD 1-bound gasoline cargoes have loaded in the Amsterdam-Rotterdam-Antwerp refining hub since 8 November, Kpler data indicated at the time of writing. The four-week moving average of flows along this route have declined to around 25,000 b/d – the lowest since January 2020. For the broader NWE region, Kpler pegs exports to PADD 1 at 188,000 b/d during 8-14 November, up slightly from the previous week, but forecast volumes for the week starting 15 November were at 74,000 b/d at the time of writing.

The same shipping data indicates healthy demand within NWE for regional cargoes, which could in turn be further supported by a tighter market. The NWE gasoline supply-demand balance is forecast by OilX at below the five-year range: +35,000 b/d this month, only slightly better-supplied than October's +21,000 b/d. Regional refinery gasoline output this month is forecast by OilX to average around 150,000 b/d lower than the five-year average, and in line with last November's (pandemic-era) 1.53mn b/d.

And so arbitrage economics appear difficult to work on paper: the GX assessed RBOB front-month futures' premium to Eurobob physical barges fell into negative territory last week, having reached as much as \$0.21/gal on 20 October, although the drop was partly driven by the RBOB market transitioning to (lower-cost) winter grade on 16 November. The current spread does little to incentivise a westward pull of barrels from NWE. Eurobob barge premiums to front-month swaps did decline considerably in trading on 18-19 November – potentially helping to make the transatlantic arbitrage more workable (see chart).

Market participants have suggested that relatively high Eurobob traded physical premiums to front-month swaps so far in November might pull more gasoline from the Mediterranean. The latter region's exports have dropped in recent months, and

forecast exports for the week commencing 15 November are heading almost entirely to regions other than NWE, according to Kpler.

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