

GX EUROPEAN REFINED PRODUCTS MARKET ANALYSIS

The Big Picture

- That SPR release don't impress me much, shrug investors as crude climbs again
- New Covid-19 waves threaten to choke off aviation recovery in Europe

Eurobob Oxy Gasoline NWE FOB Barges 742.25 -12.75
EUROBOBC ©

Jet Fuel NWE CIF Cargoes 726.50 +9.00
JETNWEC □

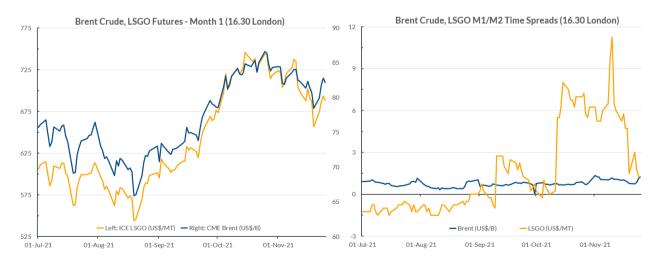
ULSD NWE CIF Cargoes 695.25 +2.00 ULSDNWEC □

Naphtha NWE CIF Cargoes 732.25 +10.50 NAPNWE 団

That SPR release don't impress me much, shrug investors as crude climbs again

In the week when the US, after much speculation, joined forces with several of the world's largest oil-consuming nations to dip into their strategic reserves to attempt to tackle rising fuel costs, global oil prices rose by some 4%.

On Thursday 25 November at 16.30 London time, the front-month Brent contract was last reported trading at \$82.16/b, up \$1.43 /b on the week. In Northwest Europe, ICE Low-Sulphur Gasoil futures last traded at \$688/MT, up \$1.25/MT from a week earlier. Brent and LSGO's gains measured against last Friday's dip were actually greater, up \$3.71/b and \$31.25, respectively.



Rising gasoline prices in the US have been a thorn in the side of President Biden as he approaches key mid-term elections in 2022 and battles inflationary pressures in the economy. The SPR decision came after repeat calls from the White House for OPEC+ to hike production faster were rebuffed. The combined 80mn bl of crude earmarked for release by the US (50mn bl), China (15mn bl), India (5mn bl), South Korea (3.5mn bl), Japan (4.2mn bl) and the UK (1.5mn bl) is expected to be delivered by early next year, although exact timeframes remained unclear.

Investors were unimpressed by the size of the release. Goldman Sachs described it as "a drop in the ocean". The upswing in prices came as the market weighed the prospect of retaliatory action by OPEC+, a lack of progress in negotiations to return Iranian oil to the market and lower capex in oil & gas projects against the prospect of demand destruction over the coming weeks triggered by an explosion in coronavirus cases across Europe, as well as in China.

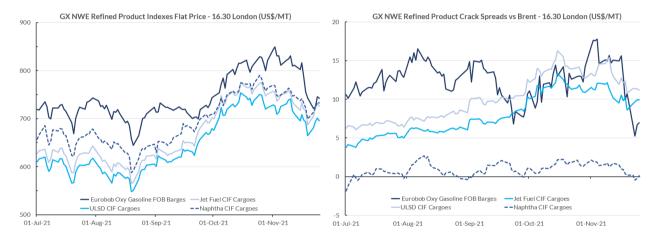
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Some will point to the bullish reaction as evidence President Biden's plan was badly executed and doomed to fail. Others will note oil has still fallen several bucks from its October highs since SPR chatter first circulated, despite this week's uptick.

"The lack of concrete plans and prompt timing weakens the downward price impact and can cause prices to rise because it is seen as a disappointment to what was expected," Wood Mackenzie vice president Ann-Louise Hittle said in a note. "In effect, news of the SPR release had been widely discussed for several weeks and was already priced in."

To borrow from a colleague's *blog*: "Trying to influence the US gasoline price is like firing an arrow from a bow while you're standing on the bed of a rolling pickup truck. Biden is finding out just how hard that is."

Amid the SPR noise, surging coronavirus cases on are throwing a spanner in the works of Europe's recovery. National lockdowns imposed so far in Austria and Slovakia alone won't degrade oil patterns alone, but the prospect of tighter restrictions in Germany, where cases are skyrocketing, would pose a fresh headache for regional refiners who've enjoyed healthier margins since the summer. Outgoing Chancellor Angela Merkel reportedly pushed for a two-week lockdown only to be blocked by the new incoming coalition government. Many countries are seeing much fiercer resistance to restrictions this time round. Is Europe on the brink of a winter of discontent?



Light ends markets have begun their recovery after a sizeable slump last week. The week beginning 15 November saw a \$38/MT fall in the value of naphtha NWE CIF cargoes, while naphtha cracks to crude fell \$1.74/b before bottoming out at \$-0.25/b. This took place alongside a fall in the butane-naphtha ratio to 104.9% and the next month pro-nap collapsing into the negatives for the first time since August. Alongside this fall in prices the LPG market saw the re-opening of the US arbitrage and a large spike in US exports of propane to North West Europe. This however has not persisted into this week, with US propane inventories depleting and US-NWE export volumes falling significantly. Propane NWE CIF large cargo prices have seen a major upturn, with a cumulative rise of 7.6% since the beginning of the week. This is an increase which has been matched by the December swap, rising 7.9% between Monday and Wednesday. Butane has remained at 104.9% of naphtha and has therefore outright prices perfectly tracked the naphtha recovery.

On middle distillate markets, Europe's diesel futures contract continued to retreat from recent bullish highs. Backwardation on the prompt timespread on ICE LSGO futures fell to \$1.25/MT at today's close, narrowing by \$3.50/MT on the week, having been as high as \$11.25/MT earlier this month. Seaborne cargoes imports to ARA and North West Europe remain high, with the market braced for a hit to demand from a slew of restrictions being added to each day across the region to bring the latest coronavirus outbreak under control. Diesel and jet fuel cracks are around \$11.20/b and \$9.90/b, respectively, up from last Friday's lows. The relatively slower gains being posted by LSGO futures – which make up the bulk of the price for the associated physical markets assessed by GX – compared to Brent could be a lag on cracks rallying further.

For the aviation segment, global aviation capacity continues to trail 2019 levels by 28%, with an explosion in Covid-19 across Europe threatening to compound already lower seasonal trends for air travel and jet fuel demand in the region. OAG data shows airline seat numbers globally total 76.488mn for the week starting 22 Nov, compared to 76.441mn for the previous week and 106.716mn for the equivalent week in 2019. In Western Europe, airlines scheduled 13.958mn seats, down 1.5% week on week and 29% behind 2019, according to OAG. For Eastern & Central Europe, seat capacity totals 3.072mn, down 1.5% on the week and 19% lower than pre-pandemic levels.

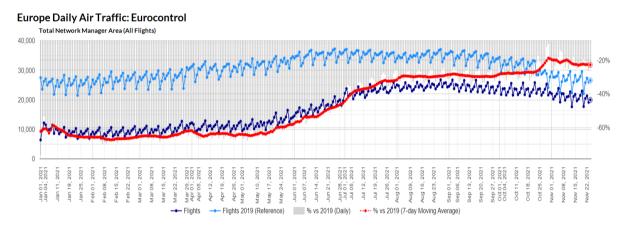


Analysis: New Covid-19 waves threaten to choke off aviation recovery in Europe

Only 17 days have passed since, to much fanfare, the US reopened its borders to international travellers. Proof of vaccination status and/or a negative test are now a condition of entry to the US, replacing the Trump-era travel bans. To herald the next phase of the aviation revival, for the first time ever, British Airways and Virgin Atlantic even synchronised take-offs from London Heathrow: destination New York City.

The return of transatlantic travel was also a major piece in the jigsaw of oil's demand recovery. Analysts uplifted global oil consumption models by around a quarter of a million barrels a day, as higher jet fuel demand (it was expected) would ease the seasonal descent into winter.

Despite the hoopla, the promise of a boost to aviation (and ergo jet fuel demand) so far appears to be minimal in Europe, and the segment is also now under threat from the deteriorating coronavirus situation across the continent.



Regional daily air traffic has averaged 20,646 flights between 8-23 Nov. As a proportion of 2019 traffic, this has reached 77.36%, only fractionally higher than the 76.71% averaged over the previous month, according to Europe's air traffic network manager Eurocontrol.

We "didn't get the bounce from the North Atlantic that we anticipated", Eamonn Brennan, director general of Eurocontrol said at an event this week.

It's beginning to look a lot like...a Covid Christmas

Christmas appeared to have come early for the travel and tourism sector on both sides of the North Atlantic when the Biden administration moved to a rules system based on individual risk. But less than three weeks later, the US Centers for Disease Control and Prevention (CDC) is now advising Americans against traveling to Germany and Denmark.

The World Health Organisation this week said Europe was "once again the epicentre" of Covid-19, with 60% of the world's cases and deaths in the last week. It estimated a further 700,000 deaths across Europe and Central Asia by next spring, which would take the cumulative total to 2.2mn.

The pandemic surge has already seen the famous Christmas markets planned for Munich and Dresden cancelled. Germany, Europe's largest economy, is facing a fourth wave of the Covid-19 pandemic. Intensive care units are filling up fast. The country has now passed 100,000 deaths and today posted a record 75,961 cases for the last 24 hours.

Austria on Monday became the first EU country to reimpose a national lockdown, and vaccination will become compulsory from February. Slovakia has locked down too. The Netherlands has opted for mandatory social distancing, while several other countries are hoping vaccination certificates will allow them to avoid returning to lockdown.

The UK is hoping its decision to loosen restrictions over the summer, which caused cases numbers to spike but did not overwhelm the health service, has bolstered immunity and will avoid the exponential rise in transmission now taking place on the continent by extending booster shots to more adults.

Lockdowns are not on the cards in France, despite a surge in infections. President Macron is opting for beefed-up health pass and social distancing rules, as well as a faster booster campaign.

The Mediterranean's major economies are so far not experiencing the same sharp spike in cases as the north. Nevertheless, new vaccine pass rules and hospitality limits are planned in Italy and Spain.

Airline bosses nervous, turbulent times are here again

Aviation leaders, as you would expect, are calling on governments to hold their nerve and not resort to earlier travel bans.

Ryanair, the biggest carrier in Europe, has returned to 100% of pre-Covid flight volumes. But CEO Michael O'Leary expects a "fraught period" between now and Christmas due to the Covid surge.

"Up until last weekend things were going great," O'Leary said, speaking at the same event as Brennan. But now "we have no choice" but to get nervous, he said, adding renewed concern of a fourth or fifth wave of coronavirus will unsettle people and "undermine confidence".

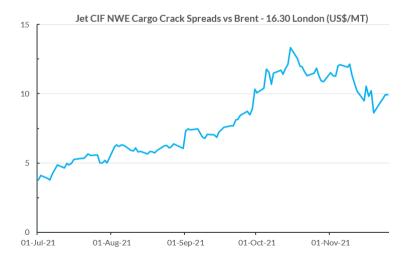
Brennan belives the pursuit of "zero Covid has failed" and governments should "strongly resist" the idea of restricting air travel. He praised the "widespread recognition" of the EU Digital Covid-19 certificate as the way to keep passengers on the move over what's expected to be a difficult 5-6 weeks.

The EU appears to be listening. The certificate will pivot this week to travellers' Covid-19 status, rather than the country from which they have travelled. Of course, this doesn't preclude national governments from implementing their own travel rules.

As scientists and policymakers consider the path ahead – weighing how to encourage more of the unvaccinated to get jabbed, how soon to ramp up boosters for those with waning protection, and whether or not to reach for the emergency lockdown brake in the face of stronger public backlash against severe restrictions – the current trajectory makes clear the situation will get worse before it gets better. However, predicting policymakers' precise response to this latest unfolding crisis would be a fool's errand.

Jet fuel cracks weaken after Oct peak on waning seasonal demand

Jet fuel crack spreads to crude have fallen by some 25% since peaking mid-October.



GX assessed the Jet CIF NWE Cargo crack to Brent futures at \$9.93/b on 24 Nov, down from \$13.33/b on 15 October and are now at levels last seen end-Sep.

The October rally was in large part a result of bullish investor outlook across the distillate pool owing to the gas-to-oil switch, and diesel tightness in Far East Asia, rather than strong aviation demand alone. Gains in the underlying diesel ICE LSGO futures

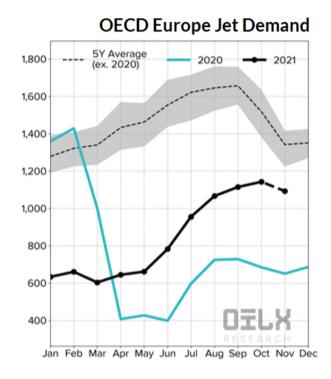


contract, which represent a majority of the jet fuel price in Europe, outpaced crude to also help bolster cracks in the run up to their peak. Diesel futures subsequently fell more sharply than crude.

Jet fuel supply & demand data suggests pent-up travel demand on the lifting of restrictions resulted in a longer-than-usual summer holiday season this year.

OilX data shows OECD Europe jet fuel demand reached 1.129mn b/d in October – the highest monthly consumption figure since the start of the pandemic. Demand typically peaks in September pre-pandemic.

"Usual seasonalities are not fully in effect yet for as long we are not back to normal levels," OilX CEO Florian Thaler told GX. "In other words you will have a counter-current to seasonal trends from the lifting of restrictions in Sep/Oct."



The Covid surge across Europe will likely deter many travellers from flying even if lockdowns are not formally imposed at a national level. OilX currently forecasts Nov demand at 1.088mn b/d. But prices in North West Europe could remain supported by a reduction in arrivals from East of Suez.

Imports to ARA are currently estimated by Kpler at 94,000 MT for November, down from 421,000 MT last month. For NWE as a whole, arrivals are so far seen at 556,000 MT, down from 1.016mn MT.

US domestic air travel climbs ahead of Thanksgiving...fuel exports to Europe limited

The American aviation segment has been relatively well insulated from the pandemic limitations on intercontinental travel by a healthy domestic market, with the coming holiday weekend expected to inject further activity.

The count of Transportation Security Administration checkpoints shows foot traffic through US airports at 90% of 2019 levels during the last pandemic-free year. Comparisons with Thanksgiving 2019 levels in the next report will provide the most important indication for the health of US jet fuel markets moving forward. The Sunday after Thanksgiving, coming 28 Nov, is one of the busiest travel days of the year.

US jet fuel inventory through Nov 19 has declined for eight straight weeks on a four-week average measure, suggesting airlines and refiners alike are keeping tight reins on stockpiles and approaching indications of strong travel demand ahead with a conservative view. The decline in inventory last week also marks reductions in 16 of the last 17 weeks. National inventory has been in the 37-38 million barrel range for all of November, with the latest figure at 37.49mn bl.

Restrained supply management and healthy domestic demand will likely continue to curtail volumes available for export to Europe. Year-to-date, Europe has imported around $5,000 \, \text{b/d}$ (239,000 MT) of kero/jet from the US, down from $9,000 \, \text{b/d}$ (438,000 MT) in 2020 and $17,000 \, \text{b/d}$ (785,000 MT) in 2019, according to Kpler.

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