GX EUROPEAN REFINED PRODUCTS MARKET ANALYSIS

The Big Picture

- Historic oil collapse on Omicron Covid variant
- OPEC+ sticks to Jan supply hike...for now
- European jet cargo MOC deals at multi-year low in Nov

Eurobob Oxy Gasoline NWE FOB Barges
631.50 -110.75
EUROBOBC

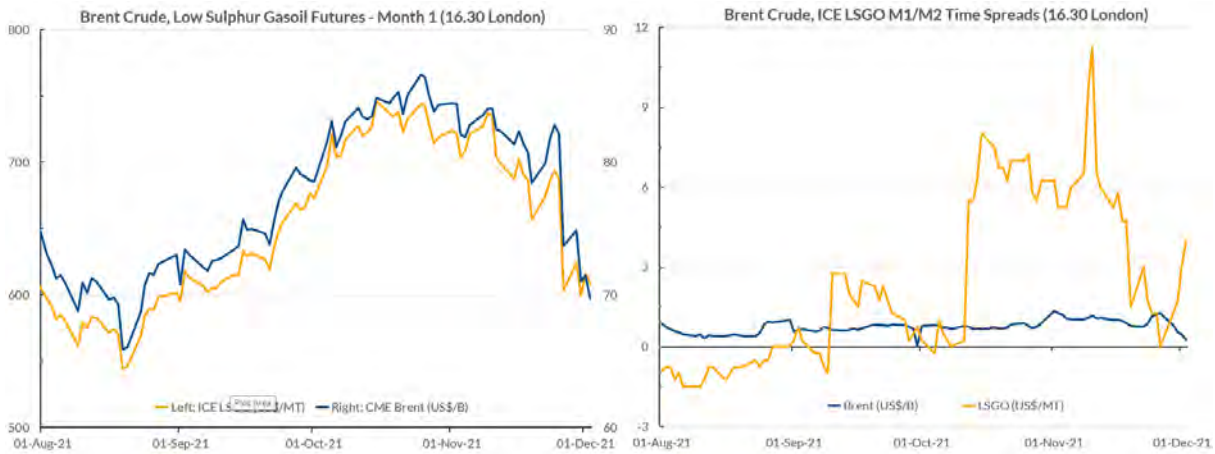
Jet Fuel NWE CIF Cargoes
640.50 -86.00
JETNWEC

ULSD NWE CIF Cargoes
613.75 -81.50
ULSDNWEC

Naphtha NWE CIF Cargoes
639.25 -93.00
NAPNWE

Historic oil collapse on Omicron Covid variant; OPEC+ sticks to Jan supply hike...for now

Fears a new vaccine-resistant Covid-19 variant could sweep around the world and bring a fresh wave of demand destruction in the run up to the Christmas holiday season sent oil prices into freefall this week. During European trading on Friday, 26 November, Europe's diesel futures plummeted by 12% or $84/MT to around $600/MT, even more than Brent's losses of 10% or some $8.50/b to under $74/b.



Initial studies of the variant dubbed 'Omicron', which was first identified in southern Africa, suggested it could be more resistant than the dominant Delta variant to the present crop of vaccines which have enabled a return to something resembling more normal life across Europe and North America.

The slump in prices was widely believed to be overdone, and markets attempted to correct on Monday. But it didn't last for long. Crude led the way, posting another $3.8/b loss to close at $71/b in Europe on Tuesday, and fell to sub-$69/b by Wednesday's US close. Many expected OPEC+ to change course and withhold additional supply from the market to bolster prices. But the cartel was not for turning. Opec+'s decision Thursday to extend its policy of adding 400,000 b/d of output into January caught the market –which was expecting some sort of reaction to assuage the Omicron bearish concerns – off guard, sending Brent down closer to $66/b, a near 20% fall over the past week.

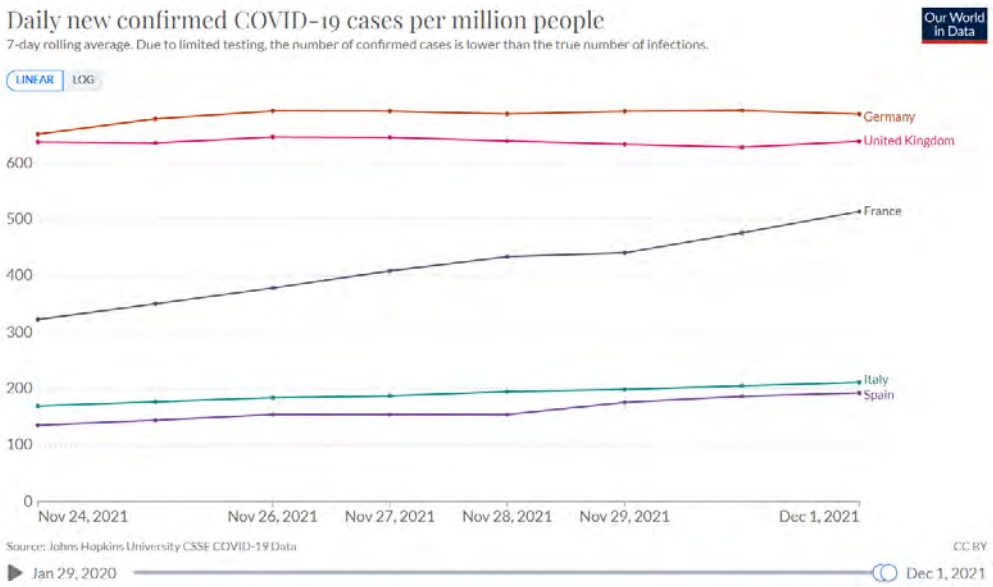
By Friday, OPEC+, perhaps realising it had underestimated the angst among investors, said it would keep the current supply plans under review if Omicron hits fuel demand. At 1000 London time, the front-month Brent contract was last reported trading

at $71.58/b, up $1.81/b from Thursday's close in Europe, but still down more than $10 on the week. The Low-Sulphur Gasoil futures last traded at $624.25/MT, up $15/MT, but lower by more than $60/MT from a week earlier.

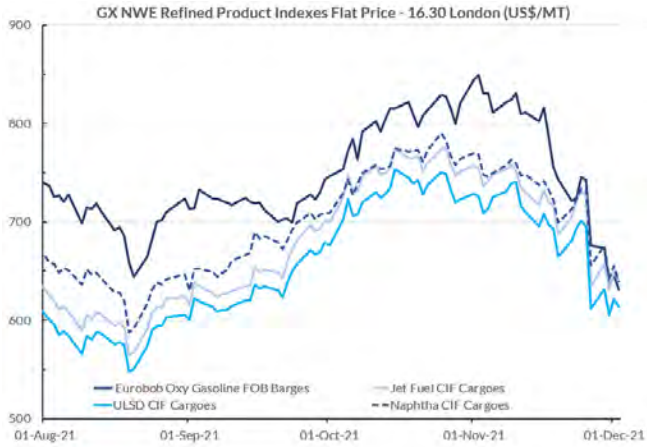
A week ago, the market appeared to have deemed as a failure President Biden's attempt to ease the burden of high retail gasoline prices on US motorists by enlisting the help of several other countries to release crude stocks from their strategic petroleum reserves. Omicron has done the job Biden's SPR release didn't.

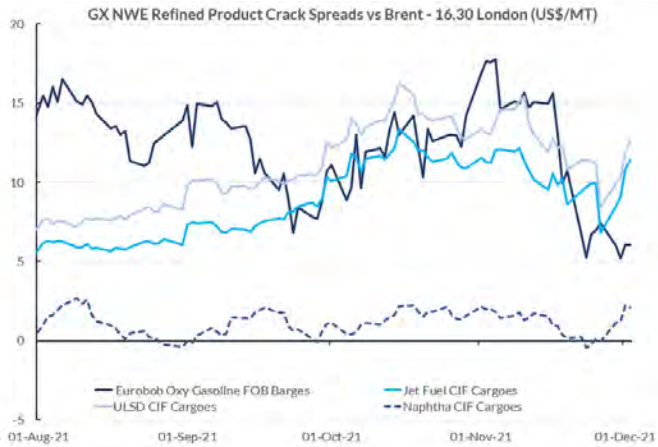
Also in the mix for the bears this week was US inventory data showing a lower-than-expected fall in crude stocks, higher-than-expected increases in gasoline and distillate inventories, and weaker demand.

In Europe, the trickle of Omicron cases identified so far comes on the back of a proliferation of Delta-variant which has seen policymakers in many countries once again reach for the emergency brake. Everything from curfews on hospitality to vaccine mandates and Covid certificates, through to more restrictions on travel and full lockdown have been adopted. Over the past week, the number of new confirmed cases appears to have flattened out in Germany, Italy, Spain and the UK, according to Our World in Data. But cases in France have surged to 513 per million on 1 Dec from some 300 per million a week earlier.



Light ends markets have been struck by uncertainty following the emergence of the Omicron Covid variant. Gasoline cracks to crude tumbled in the second half of November, with stocks rising in the US amid higher refinery output in the Atlantic Basin. Weak demand to blend winter-grade gasoline likely contributed to the drop in butane NWE CIF Large Cargo prices, which fell $118/MT in outright terms during 24 November – 1 December, while butane as a % of naphtha declined to 99% from 104.9% in the previous week. Propane values also came under pressure over the past week. Whilst US propane stocks continue to fall and exports to North West Europe have slightly increased, buyers appear tentative, with no spot physical propane bids placed within the window this week. Physical naphtha has been volatile, but began showing signs of tentative recovery against crude midweek, with cracks moving into positive territory: naphtha cracks to Brent have risen $2.45/b to +$2.20/b.





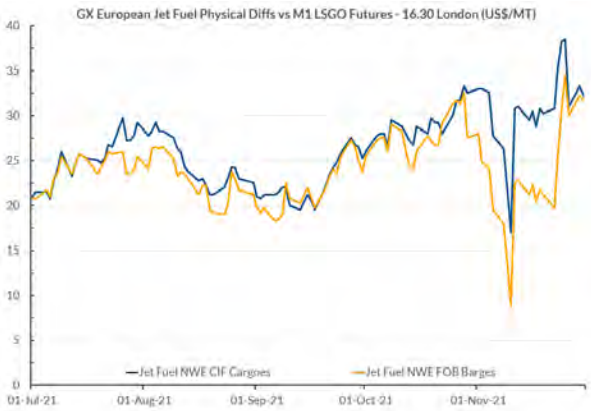
On middle distillates, diesel and jet fuel cracks fell to their lowest since August on Friday, 26 November, as markets reeled from the impact of Omicron fears and oil's collapse. In Northwest Europe, GX CIF NWE ULSD Cargoes fell to $8.58/b from $11.23/b, while GX Jet CIF NWE Cargoes fell to $6.78/b from $9.91/b. But cracks rebounded sharply over the week, rising to $11.87/b and $10.84/b, respectively by 1 December, suggesting product market fundamentals were not so gloomy as the macro investors thought. Perhaps the week's most eye-catching event was the debut of Saudi Aramco's trading arm in the European jet fuel cargo MOC pricing window. Aramco Trading Company offered 27,000 MT for delivery into CIM Le Havre on 15-19/12 dates on the *BW Neso* vessel. Pricing was at CCM+$3.25 over Full-Month Dec. The offer was yet to trade, but was competitively priced against other bids in the market. The cargo was loaded at Petro Rabigh refinery. ATC's entry follows China Aviation Oil's debut earlier this year. But ATC, with its access to a growing source of supply in Saudi Arabia, likely poses the bigger threat to the incumbent traders who have themselves been placing these cargoes into NWE and using the MOC to optimise.

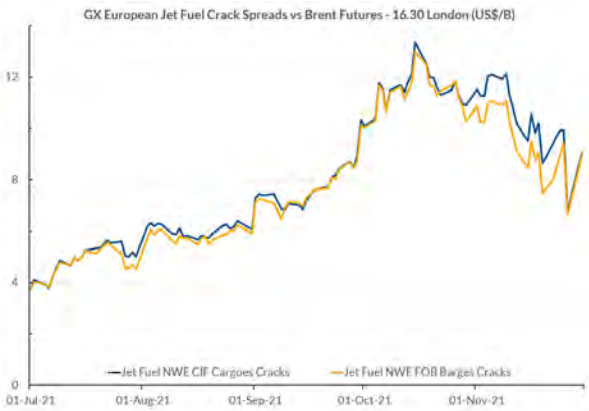
For the aviation segment, airlines are expected to be busy processing the possible impact of travel bans and rule changes and adjusting their schedules accordingly. Global airline capacity by seat numbers for the week commencing 29 Nov was at 78.75mn, some 25.3% behind 2019 levels, according to OAG aviation analysts. In Western Europe, airlines scheduled 14.05mn seats, up 0.7% on the week and 27.9% behind 2019. For Eastern & Central Europe, seat capacity totals 3.045mn, down 0.9% on the week and 19.6% lower than pre-pandemic levels.

European cargo MOC deals slide to multi-year low in Nov; US reopening impact limited

Overview: Spot trading activity in Northwest Europe's daily pricing window for jet fuel cargoes slumped to its worst performance in recent years in November, as lower imports and falling demand combined with volatility and steep backwardation in the underlying diesel futures to deter traders from optimising, depreciating MOC volumes. Just one 30,000 MT cargo traded in the Jet CIF NWE Cargo window, down from 270,000 MT the previous month. It compared to 540,000 MT in Nov 2020 and was the lowest monthly volume for at least the last three years. Jet FOB NWE Barges fared only a little better, with 24,000 MT swapping hands, down roughly a third on the month to record the second-lowest amount this year. At the macro level, an explosion in coronavirus across continental Europe, and, at month's end, the emergence of new Covid-19 variant Omicron, clouded the short-term outlook for air travel which has seen only a limited impact from the reopening of international travel to the US.

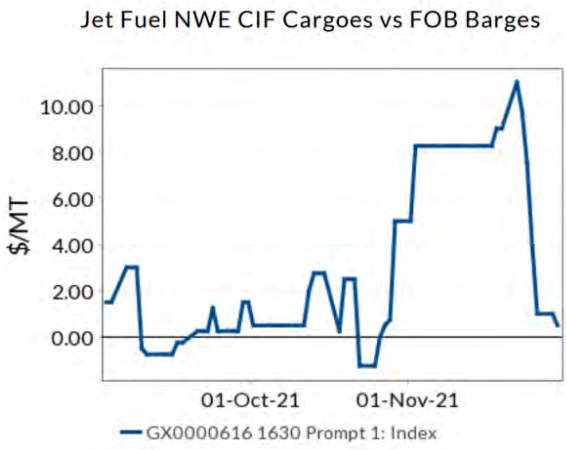
Prices: Jet fell on average by more than 4% on an outright price basis over the month, as investors in the underlying diesel (ICE LSGO) and closely-linked crude (ICE Brent) futures trimmed positions amid rising coronavirus cases in Europe and China, as well as following President's Biden efforts to corral many of the world's largest oil-consuming nations into releasing stocks from their strategic petroleum reserves. But the biggest impact came from the spread of Omicron, a new Covid-19 variant first identified in southern Africa. Prices fell by almost $100/MT on 26 Nov, as the market tanked in one of the largest single-day moves in recent history.

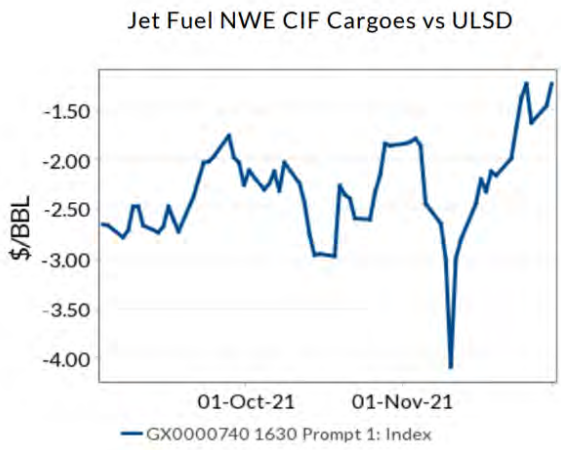




GX Jet CIF NWE Cargoes averaged US$720.45/MT, down from US$751.44/MT in October; while GX Jet FOB NWE Barges averaged US$713.33/MT, down from US$750.23/MT. The cargo crack spread versus Brent futures fell to $10.29/b from US$11.53/b and the barge crack spread fell to $9.39/b from US$11.37/b. The jet physical differentials to M1 LSGO attempted to offset the flat price decline. The CIF cargo diff averaged +$30.66/MT, up from +US$28.98/MT, while the FOB barge diff averaged +$23.53/MT, up from +US$27.78/MT. Sharp fluctuations in the differentials over the month corresponded to a spike in prompt ICE LSGO backwardation in the run up to expiry of the Nov'21 contract on 11 Nov. The day beforehand, the M1/M2 LSGO

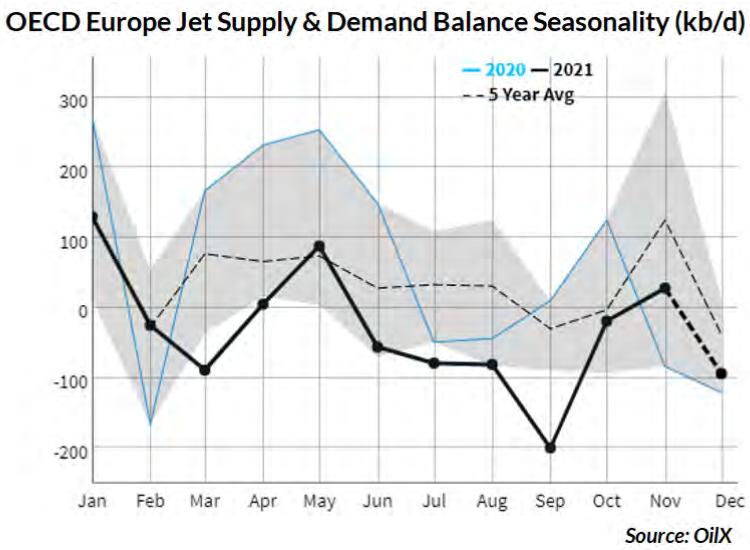
timespread reached +$11.25/MT, with the jet physical differentials also falling sharply. Barges fell more sharply than cargoes in the first half of the month under aggressive selling pressure in the MOC, before the barge discount to cargoes (which exceeded $10/MT at one point) one again swung into reverse on supportive buying interest later in the month.





Jet concluded Nov at its narrowest discount to diesel for several months, supporting additional jet production. OilX saw the jet yield for OECD Europe at 6.2% in November, compared to 4.8% a year earlier and predicted to rise to 6.4% in December. At the same time, the gasoil/diesel yield was at 40.8%, little changed on the year and predicted to fall to 40.4% this month.

Supply & Demand: Jet fuel demand for OECD Europe totalled 1.052mn b/d in November, according to OilX analysts, down from 1.11mn b/d in October. Demand has now held above the 1mn b/d mark for four consecutive months for the first time since the pandemic struck in March 2020. Consumption is currently seen flat through December, a 54% improvement on year earlier levels, but still lagging 2019 by almost 26%. The unknown is exactly how much the latest Covid outbreaks will impact air travel and, by extension, jet fuel demand. Goldman Sachs wrote in a note on 30 Nov the sharp slump in oil prices suggested the market was pricing in a "7mn b/d negative demand hit" which corresponded to "not a single plane flying around the world for three months". While such a scenario in reality currently seems unlikely, a hit to demand is inevitable, as travellers will (if earlier waves are anything to go by) pre-empt national government policy decisions to restrict travel and cancel or reschedule plans of their own volition.



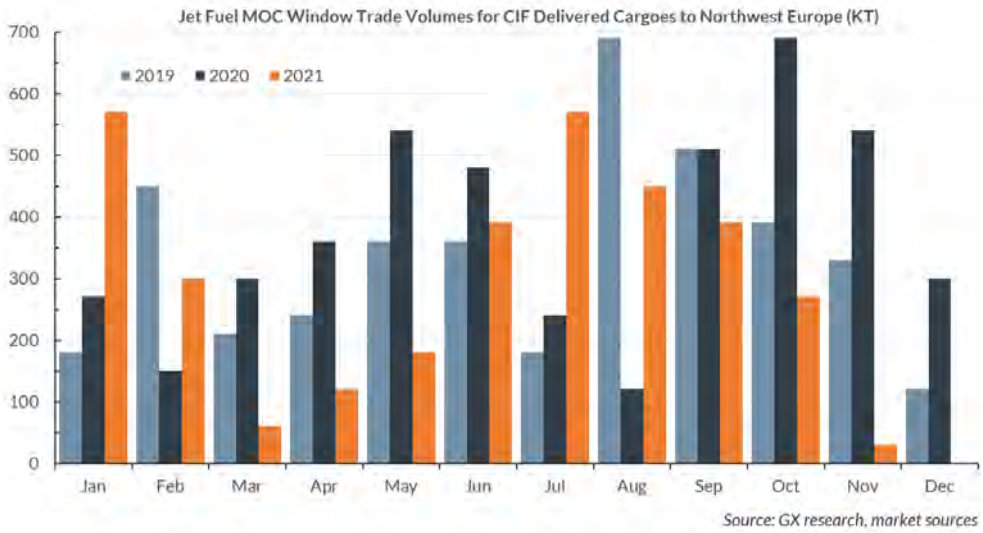
On the supply side, seaborne cargo imports into NWE from East of Suez fell 37% in Nov to 177,000 b/d (675,000 MT), according to Kpler tanker tracking data. The Mideast Gulf accounted for 62% of the imports. In a snapshot taken at 1422 GMT on 2 December, this month's arrivals were so far estimated at 180,000 b/d (709,000 MT). At the local level, refinery output was seen at 790,000 b/d in Nov, compared to 1.24mn b/d in 2019, but up from 582,000 b/d in 2020.

European Air Traffic: Daily flights reached on average 77% of 2019 levels over November, up from 75% the previous month, according to Eurocontrol. But the growth trend swung into reverse over the course of the month, falling to 24.3% under 2019 on

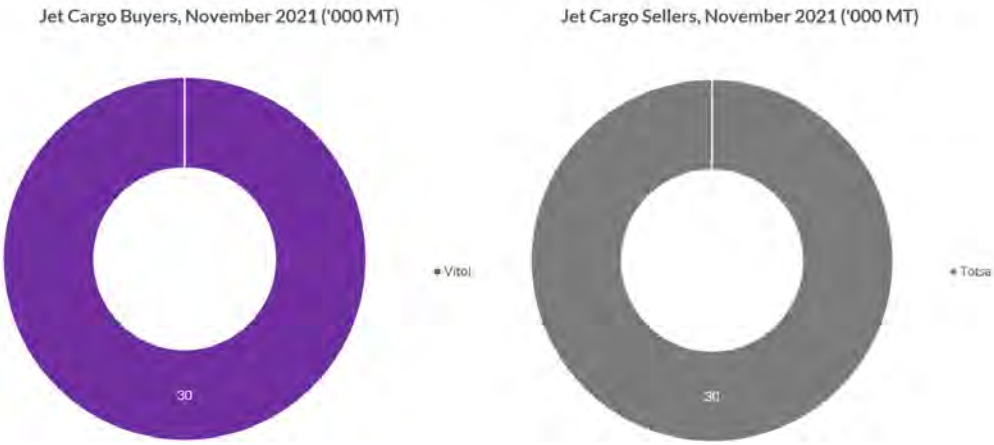
30 Nov versus 19.7% below on 1 Nov. We "didn't get the bounce from the North Atlantic that we anticipated", Eamonn Brennan, director general of Eurocontrol said at an industry event.

Jet CIF NWE Cargoes MOC

- **Volume:** November's traded volume totalled 30,000 MT, down from 270,000 MT the previous month. This compared to 540,000 MT in Nov 2020 and 330,000 MT in Nov 2019.



- **Sellers and Buyers:** Totsa returned on the sell side for the first time since April, offloading the month's only cargo sold to Vitol. It was also the first month since Sep 2020 Unipec did not sell a cargo.

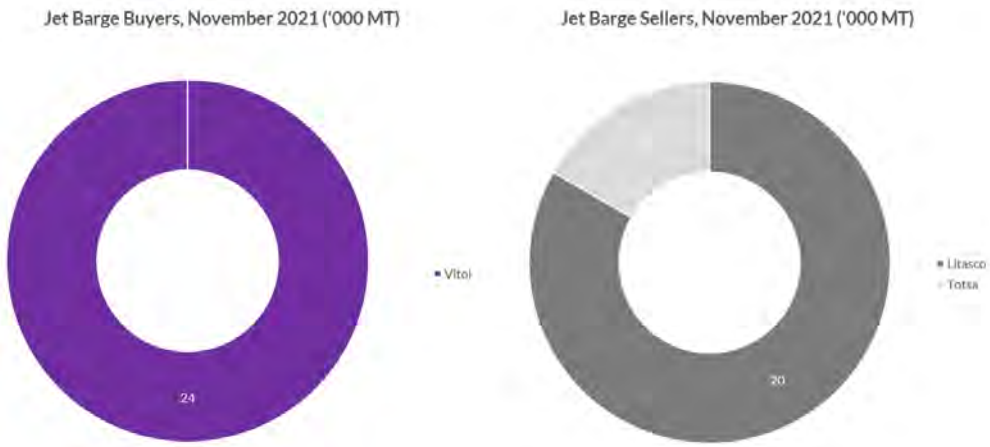


- **So Far This Year In The MOC:** The traded window volume for cargoes has totalled 3.33mn MT during January-October, compared to 4.2mn MT over the same period in 2020 and 3.9mn MT in 2019.
- **2021 Sellers:** Despite not selling a cargo in Nov, Unipec remains well ahead of the pack, with window sales over Jan-Nov still at 2.31mn MT, followed by Vitol (390,000 MT), Totsa (270,000 MT), Shell (270,000 MT) and BP (90,000 MT).
- **2021 Buyers:** Shell remained the single-largest buyer so far in 2021 with 1.38mn MT, despite no purchases last month, followed by Vitol (810,000 MT), BP (630,000 MT), Totsa (300,000 MT), Glencore (120,000 MT) and Unipec (90,000 MT).
- **Locations:** France's Le Havre and the Netherland's Rotterdam – the jet fuel market's two so-called "par ports" in NWE – remain the only basis delivery locations seen in 2021. In November, the single trade was done basis Le Havre. So far this year, Le Havre accounts for a total of 1.95mn MT versus 1.38mn MT for Rotterdam.

Jet FOB NWE (Basis FARAG) Barges MOC

- **MOC Volume:** November's traded volume totalled 24,000 MT across six barges all sized 4,000 MT, down from 35,000 MT last month. It was the second-lowest monthly volume this year.

- **Sellers and Buyers:** Litasco remained the largest sellers (20,000 MT down from 23,000 MT last month) and Totsa sold one barge (4,000 MT down from 12,000 MT). Vitol was the only buyer (24,000 MT up from 15,000 MT.



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