GENERAL INDEX

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GX EUROPEAN REFINED PRODUCTS MARKET ANALYSIS

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Eurobob Oxy Gasoline NWE FOB Barges
699.75 +68.25
EUROBOBC

Jet Fuel NWE CIF Cargoes
687.75 +36.75
JETNWEC

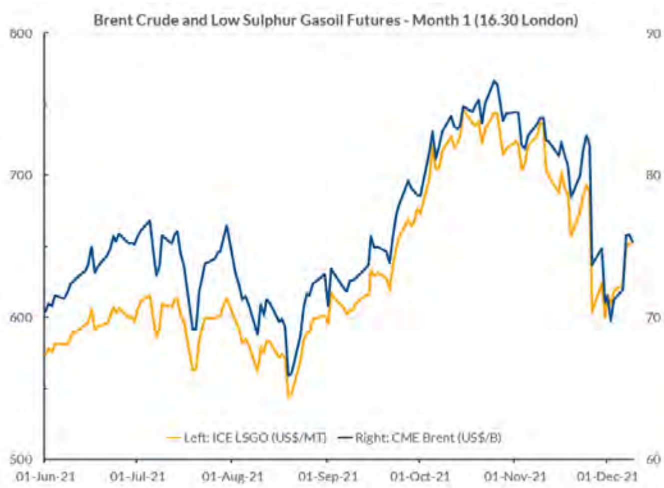
ULSD NWE CIF Cargoes
657.25 +43.50
ULSDNWEC

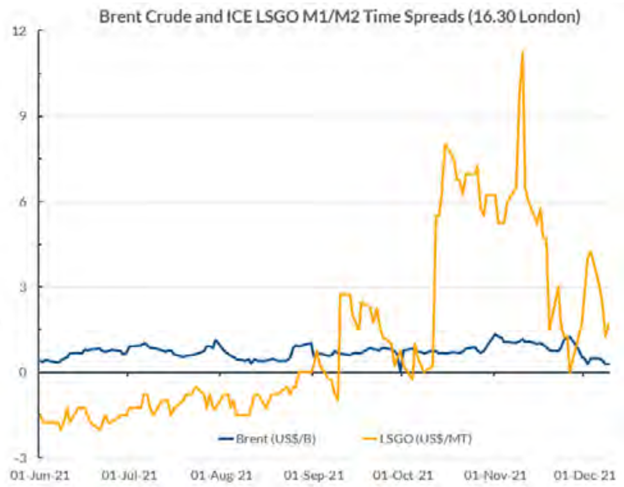
Naphtha NWE CIF Cargoes
691.75 +52.50
NAPNWE

Omicron shock wanes, driving oil up 8% despite new restrictions

Oil markets rallied by as much as 8% on an improving outlook around the Covid-19 variant Omicron over the past week.

At 1630 London time pn 9 December, the front-month Brent contract was last reported trading at $75.30/b, up $5.53/b or 8% week on week. The Low-Sulphur Gasoil futures last traded at $652.50/MT, up $43.25/MT or 7%.

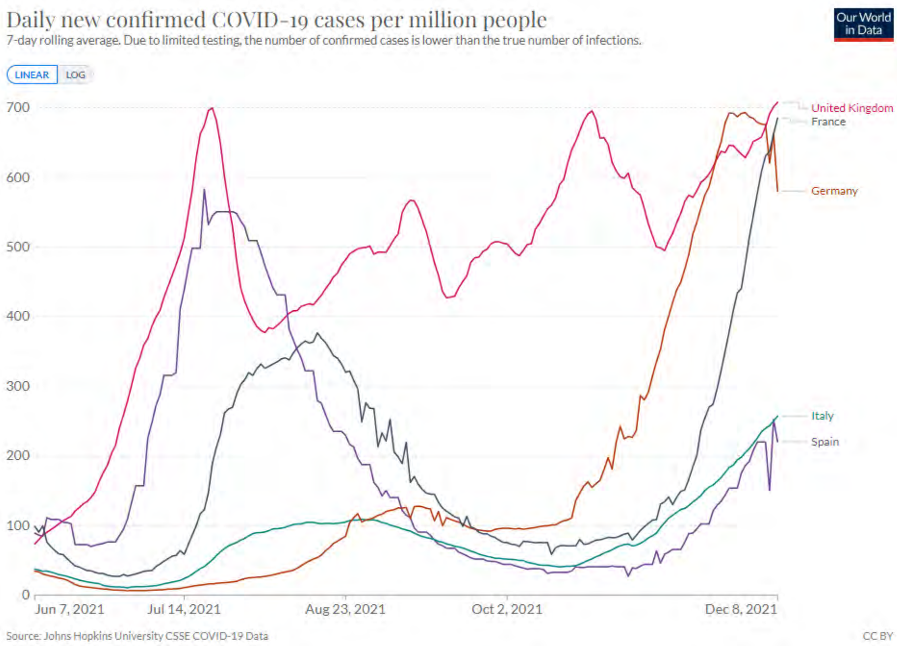




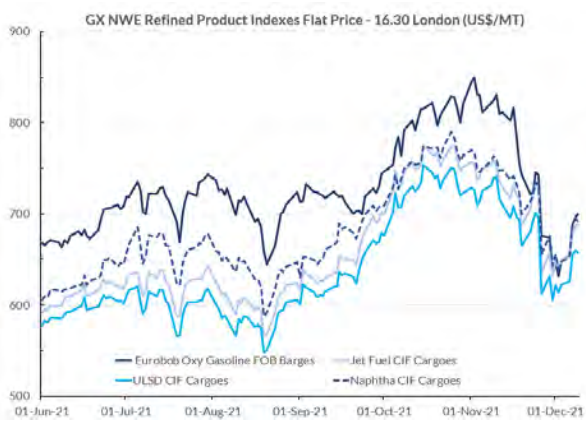
Investors weighed the prospect of new restrictions by national governments across Europe denting fuel demand against signals Omicron might not be as damaging as first feared – and the bullish view won out, leading to a fresh injection of funds to recoup around half of the losses posted at the end of last month.

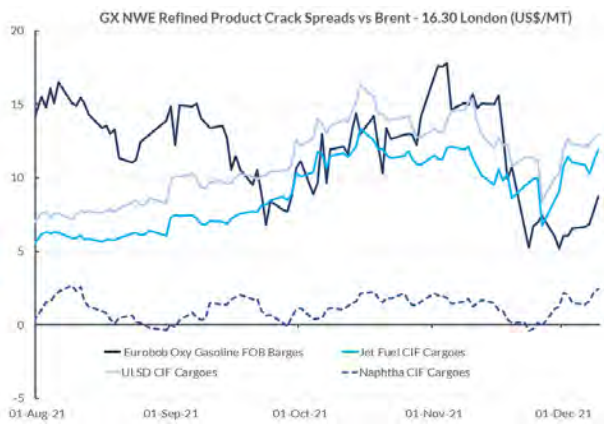
Also in the mix for the bulls was the announcement from Saudi Aramco it raised the OSP price for crudes sold to Asia and the US, suggesting it was expecting demand to remain firm.

In Europe, while headlines inevitably focused on Omicron and the prospect of this newest variant taking hold over the coming weeks and months, the current situation dominated by Delta remained the main driver of case numbers (see Our World In Data chart). Biosecurity Consultant Conor Browne told GX in a written Q&A case numbers in France and Germany could "absolutely" accelerate those countries heading into lockdown.



"The more transmissible a pathogen becomes, the more severe non-pharmaceutical interventions must be put in place to control its spread, he said, adding: "However, the restrictions that France and Germany – and other European countries – have put in place to control the spread of Delta will also serve to slow down the transmission of Omicron." Controlling the latest waves of coronavirus is top of the in-tray for new German Chancellor Olaf Scholz, who inherits a policy which recently plunged millions of unvaccinated residents into lockdown. In the UK, Prime Minister Boris Johnson announced so-called "Plan B" restrictions, including more stringent mask wearing and encouraging people who can to work from home.





In product markets, **gasoline** proved to be the week's biggest winner. The GX Eurobob Non-Oxy Barge crack spread versus Brent futures was up by $2.79/b and the Oxy (E5) crack was up by $1.74/b. After falling sharply last month when Omicron fears roiled markets, the latest upswing can likely be attributed to a recalibration in mood rather than any new fundamental strength. So it's worth deconstructing the possible impact of a major biofuels policy announcement by the White House. The Biden administration will allow US oil refiners to blend less biofuels into their fuel mix to help them deal with the impact of the coronavirus pandemic. In theory, this could reduce demand for biofuel credits, a key component cost for arbitraging gasoline into the US from Europe. But there was little sign so far the credits had responded in this fashion, and since the policy was partly retrospective, applying to renewable fuel volumes for 2020, 2021 and 2022, the impact could ultimately be limited. Also likely to be a cap on further gasoline price gains in the short-term is rising stocks on the US East Coast. The latest EIA data showed PADD 1 gasoline inventory up 4% at 57mn bl, while imports (from Europe and Canada almost exclusively) are steady, rangebound between 400,000-600,000 b/d since October.

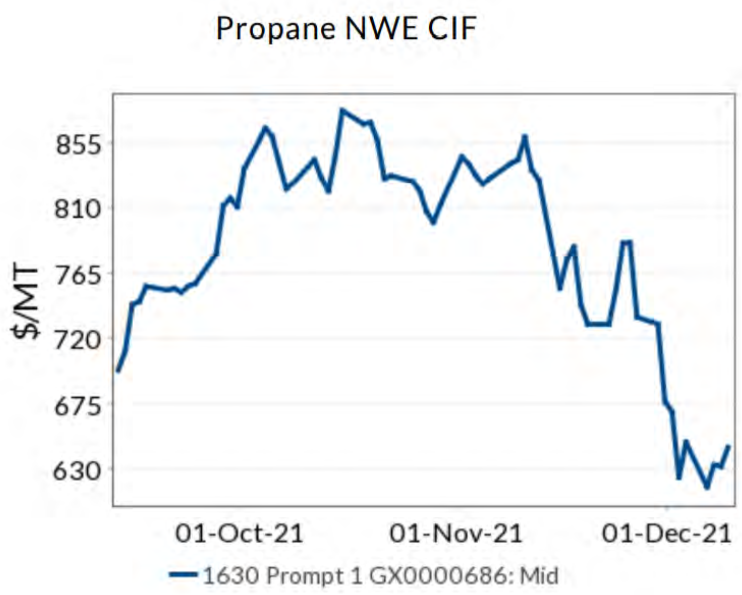
Light ends have enjoyed a week of improved stability following recent market volatility. The physical Propane and Butane windows have been completely inactive since last Friday, with very little demand being seen at all within the propane market before late December. Propane NWE CIF large cargo prices have remained relatively steady since Monday, however this has equated to a $2.70/b fall in the propane crack to crude. Net exports of propane from the US to North West Europe have reached a new six week low, whilst US propane stocks have risen for the first time in five weeks. Having fallen last week, the ratio of butane to naphtha has this week settled, remaining at 100.3%. The butane crack to crude has also remained very still, falling only $0.01/b over the past week. The naphtha crack to crude has performed similarly, with only a $0.03/b fall in value, ending at $2.17 /b on Wednesday 8th December. Although no trades have been seen, the naphtha window has been busier than that of propane and butane, with multiple naphtha bids for pre-Christmas delivery and one offer for delivery centering around new year.

US-Europe LPG arb briefly reopens, weighs on prices in unusual winter season decline

Length finally emerged in the European LPG market as the US arbitrage to Europe opened last week alongside a slight rise in US propane supplies.

High demand and increasing prices globally have kept the arbitrage between the US and Europe firmly shut for months.

This has been exacerbated by low US propane stocks, which finally rose last week (Dec 3) by 400,000 bbl after expected seasonal falls over the past several weeks as winter contracts are fulfilled. A rise in stocks in December is highly unusual.



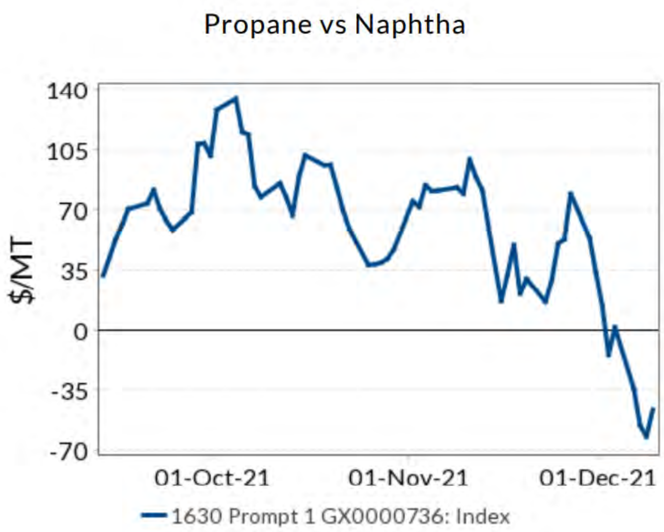
After spiralling prices throughout autumn where CIF ARA large cargo propane hit the mid-$800s/t in November, values have fallen right back to the mid-$600s/t in December, when prices would historically often be on an upward trajectory.

Not only was there a rush of VLGCs into the region from the US last week, but a technical problem at Dow's Terneuzen facility led to some hasty selling by one of the region's biggest consumers. The petrochemical giant was rumoured to have offered at least one VLGC and two ToT cargoes into the local market . This surge in US arbitrage supply and a subsequent switch from a market in high demand with spiralling prices to some serious price crashes resulted in an unsold VLGC leading the spot market down even further last week.

Meanwhile repairs are heard to be already underway at Dow with at least one cracker back up and running and the rest thought to be back online within the next two weeks.

The VLGC onslaught into northwest Europe and the Mediterranean is not over. December still has plenty of arrivals booked thanks to better netbacks than to Asia, for the first time in a long time so spot large cargo prices are expected to remain pretty slack leading up to Christmas, with December arrivals rumoured at a discount to paper, despite a decline in temperatures across parts of Europe.

Meanwhile the propane-naphtha spread has also been incredibly volatile, with propane's yo-yo-ing premium making predictions almost impossible. Propane finally fell below naphtha at the start of December.

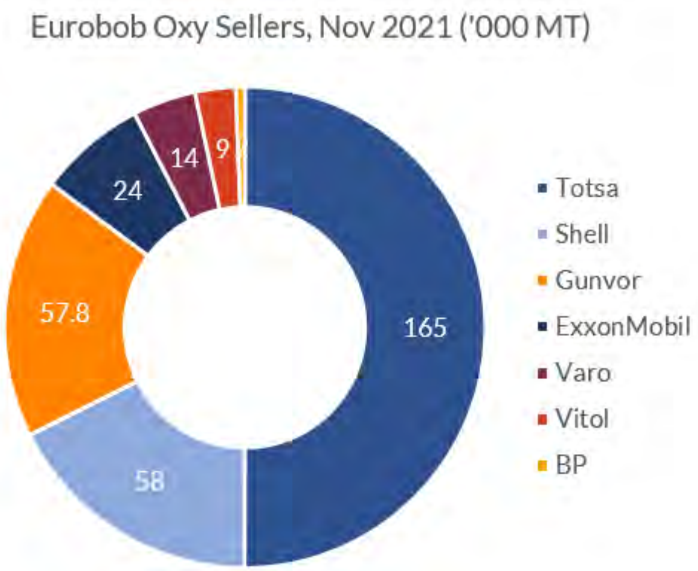


Gasoline: Totsa E5 spot Nov sales highest since mid-2020; Litasco top buyer

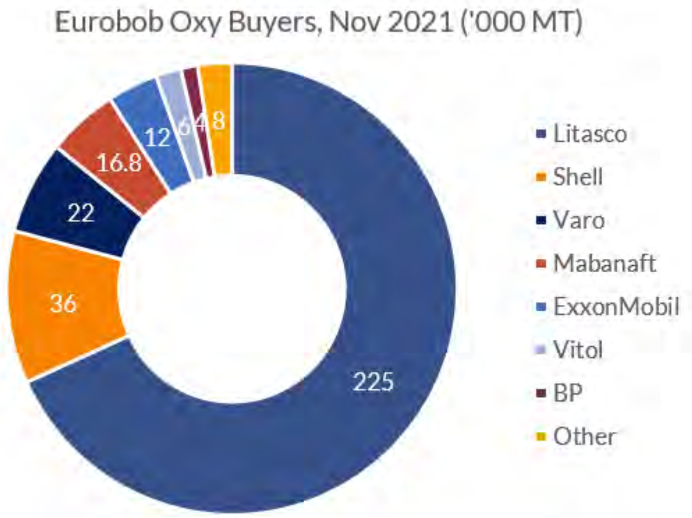
- E5 sell side: Totsa volumes highest since mid-2020, while Varo and Exxon sales surge
- E5 buy side: Litasco at top spot as volumes hit multi-year high
- E10: ExxonMobil displaces Varo at top buying spot; Glencore returns to sell side after one-year absence

Traded volumes in the all-day spot Eurobob gasoline barge market in November rose from the previous month, hitting a three-month high of 379,500 MT across the two Eurobob grades. Trading interest in the Eurobob Non-Oxy (E10) grade was broadly steady on the month, while volumes on Eurobob Oxy (E5) rose slightly from October. Year-on-year, November Oxy volumes were considerably higher at 329,800 MT, compared to 130,000 MT in 2020.

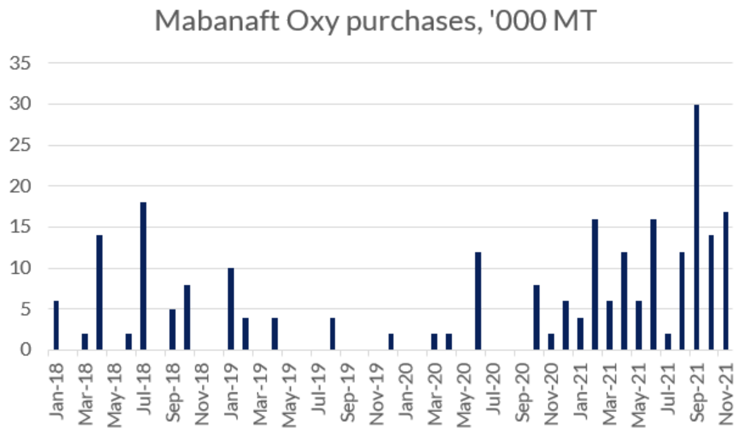
On Eurobob Oxy, Totsa roared back to the top of the sellers' list, parting with its highest volumes since June 2020. Shell re-entered on the sell side after a month's absence, while Gunvor's sales slumped by 72% from the previous month. Varo's Oxy sales hit their highest since May 2020, while ExxonMobil sold its highest Oxy volumes in a month since November 2019:



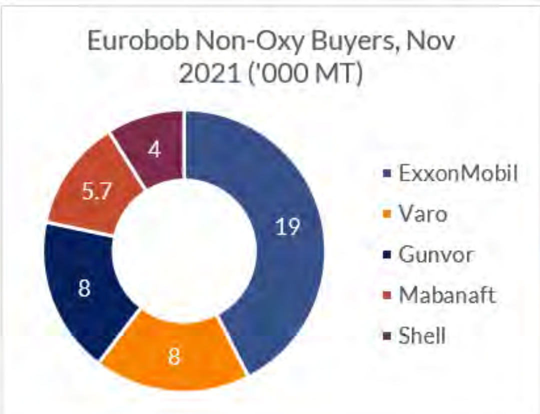
Litasco switched enthusiastically to the buy side last month, purchasing 225,000 MT – its highest single-month volume since at least 2017. Shell's sales fell by 75% on the month, while BP's fell to its lowest of the year. Totsa failed to purchase an Oxy barge for the first time since November 2020. Trafigura and Hartree returned to the buy side after respective gaps of one and two months, while Petroineos refrained from buying, having purchased 52,000 MT during Sep-Oct this year.

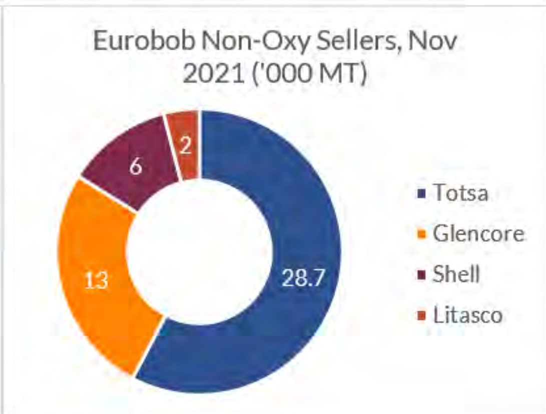


An emerging trend of the year has been Mabanaft's growing participation on the buy side. Year-to-date volumes are at a record high for the company, and Mabanaft has purchased every month this year so far:



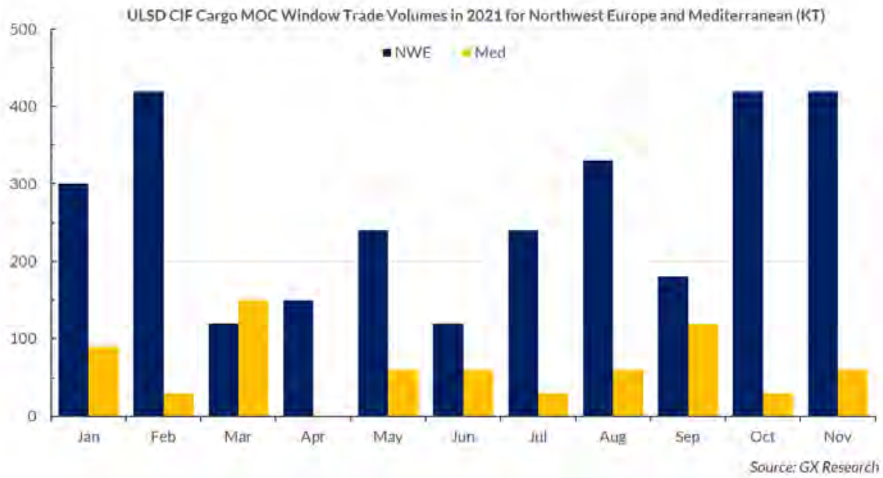
On the Non-Oxy grade, the pool of buyers widened to eight, from five in the previous month, although the most noteworthy trend was the displacement of Varo from its customary top buying spot. For the first time since January 2018, a company other than Varo was the biggest buyer of Eurobob Non-Oxy barges – in November, it was ExxonMobil. The US major's 19,000 MT was the highest ever it has purchased in a month. Varo's purchases fell to their lowest since April 2020. Gunvor and Shell bought Non-Oxy for the first time in four and three months, respectively, while Van Raak was absent from the list of Non-Oxy buyers for the first time in 13 months. On the sell side, Totsa retained their top spot from the previous month, but the number of fellow sellers dwindled to only three others. One of these was Glencore, which had not sold Non-Oxy since October 2020, and last month rose to the second-highest seller by volume. Shell resumed selling after a month's absence, while Hartree, Gunvor and ExxonMobil all refrained from selling in November.





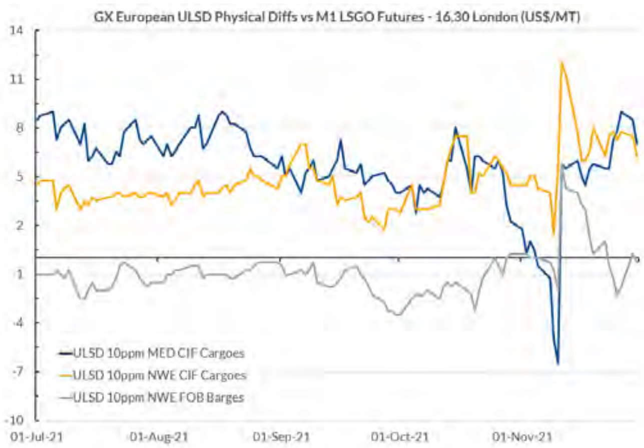
Diesel: NWE MOC cargo deals stable in Nov; LR3s pose headache for Med

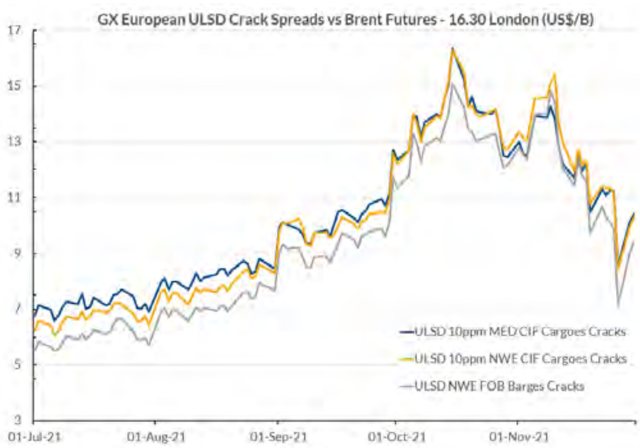
Overview: Spot trading activity in Northwest Europe's daily pricing window for diesel cargoes held steady in November at 420,000 MT, as high imports supported optimisation despite steep backwardation in the region's underlying diesel futures increasing volatility around expiry. The number of Mediterranean MOC cargo deals doubled to the grand total of 60,000 MT, continuing what's been a year of paltry activity in the window. Traders' appetite and ability to optimise in the window could also have been affected by a rise in the number of arbitrage cargoes arriving on LR3 tankers – a size outside the standard acceptable parameters to place into the MOC. 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 mobility and fuel demand.



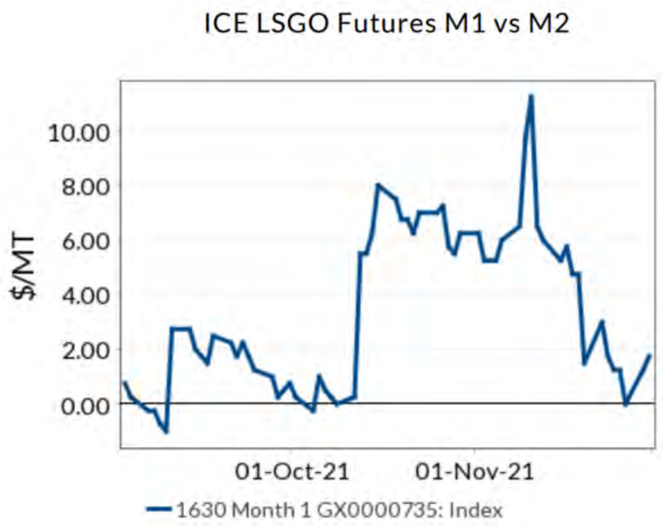
Prices: Ultra-low sulphur diesel fell on average by more than 4% on an outright price basis over the month, as investors in the underlying diesel (ICE LSGO) and closely-linked crude (ICE Brent) futures trimmed positions amid rising coronavirus cases in Europe and China, as well as following President's 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.

Over the course of the month, GX ULSD CIF NWE Cargoes averaged US$696.25/MT, down from US$727.23/MT in October; while GX ULSD CIF Med Cargoes averaged US$693.38/MT, down from US$727.33/MT; and GX ULSD FOB NWE (basis ARA) Barges averaged US$690.45/MT, down from US$720.75/MT.

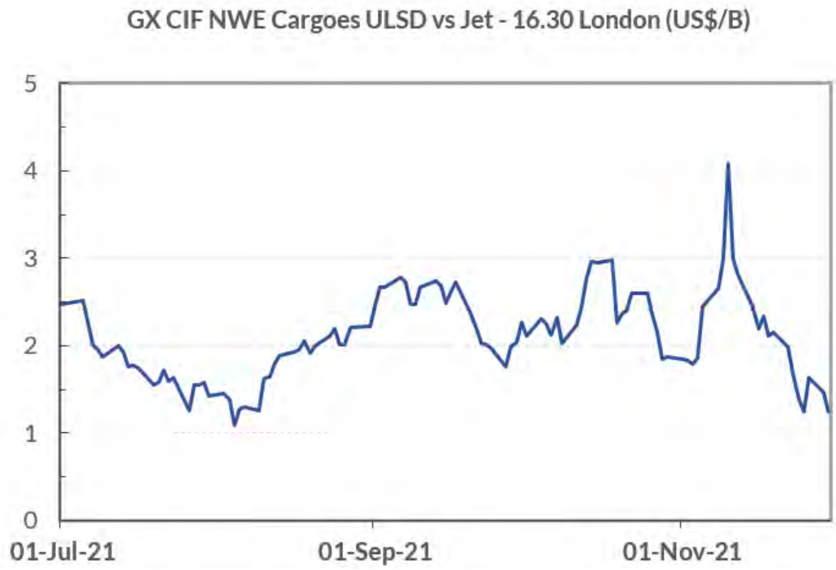




Crack spreads versus Brent futures fell across the board, with values returning to levels last seen end-August: NWE cargoes fell to $12.43/b from $13.90/b; Med cargoes were down $1.86/b to $12.05/b; and NWE barges fell to $11.66/b from US$13.03/b. NWE barge and cargo physical differentials vs M1 LSGO were up in November, suggesting firmer fundamentals for those markets; while the Med's diff was down.



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. M1 LSGO futures fell 4.5% to $689.80/MT over the month, compared to Brent crude's losses of 3.2% to $81.02/b, based on an average of the last trade at the 1630 London time close. M1 LSGO futures contract averaged a premium (backwardation) over Month 2 of +$4.56/MT in November, up from +US$4.44/MT in October, +$1.09/MT in September, and compared to a discount (contango) of -US$0.85/MT in August.



Diesel's premium over jet for the CIF NWE Cargoes averaged +$2.14/b over the month, down from +$2.38/b in October. By month's end, the diesel versus jet spread fell to +$1.24/b, the narrowest since early-August, reducing (but still far from eliminating) the incentive for refiners to blend jet fuel into the diesel pool. OilX analysts saw the gasoil/diesel refining yield for OECD Europe at 40.8% in November, little changed on the year and predicted it would dip to 40.4% this month. While the jet yield was at 6.2% in November, compared to 4.8% a year earlier and predicted to rise to 6.4% in December.

Supply & Demand: Diesel/gasoil demand for OECD Europe totalled 6.511 mn b/d in November, according to OilX, down from 6.748 mn b/d. Demand was on a par with the five-year average and 9% above a year earlier. December consumption predictions would see demand fall month on month to 6.446 mn b/d, but this would be 2.3% higher than pre-pandemic Dec-2019 levels. The unknown is exactly how much the latest Covid outbreaks could impact road travel. So far, Europe's largest economies and most populous countries have resisted blanket lockdowns to curb the spread of Omicron. Stay-at-home orders are in place for the unvaccinated in some countries, while working-from-home advice was rolled out in others.

Apple Mobility data for France, Germany, Italy, Spain and the UK showed driving activity remained on a downward trajectory, but remained well above year earlier levels. November activity was on average 88% higher than Nov 2020, back when much more stringent restrictions were put in place last winter. October's activity had been 42% higher than the year before.

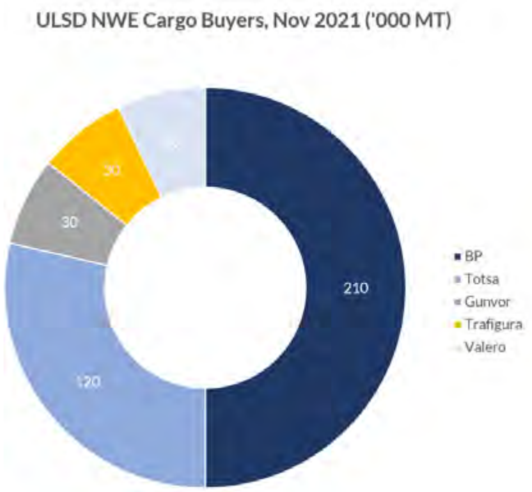
Diesel/gasoil stocks across OECD Europe were estimated by analysts OilX at 421.6mn bl for November, down from 427mn bl. Inventories stand below the five-year average of 425mn bl and some 41.5mn bl down on Nov 2020.

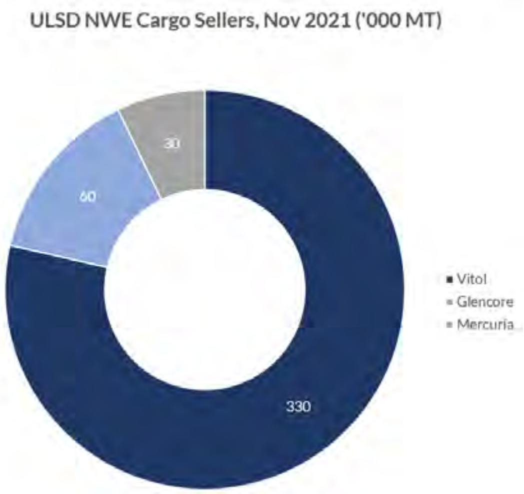
In trade flows, NWE's diesel seaborne cargo imports (including intra-regional flows) were stable month on month at 4.15mn MT, according to Kpler tanker tracking. Russian origin volumes were at 1.5mn MT up from 1.4mn MT. Arrivals from the Red Sea and Mideast Gulf were down 25% at 517,000 MT.

In the Mediterranean Basin, imports were up 4% at 2.433mn MT. Mideast Gulf and Red Sea origin cargoes totalled 1.026mn MT, the most on record for a single month. In each of the last three months, arbitrage cargoes have moved on LR3 tankers – the first time since August 2020. The larger vessels, capable of carrying up to 140,000 MT, have been used for bigger shipments coming out of Jubail and Ruwais, where expansion projects have boosted capacity. Med imports from the Mideast Gulf and Red Sea on LR2 and LR3 tankers in particular totalled 901,000 MT last month, the highest on record.

<u>**ULSD CIF NWE Cargoes MOC**</u>

- **Volume:** A total of 420,000 MT across 14 cargoes traded in the NWE end-of-day pricing window in November, matching the volume done last month.



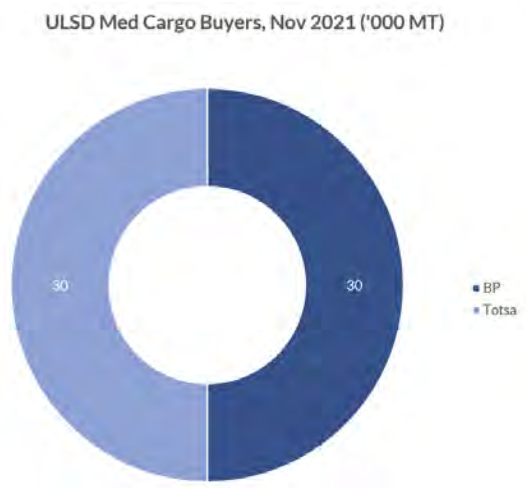


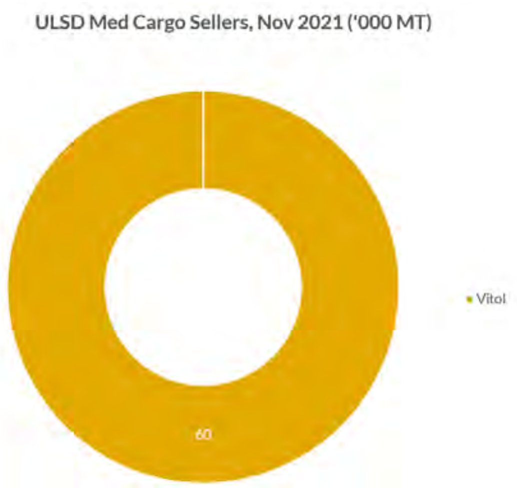
- **Buyers and Sellers:** BP took top spot on the buy side, purchasing 210,000 MT across seven cargoes, up from 120,000 MT a month earlier. Totsa quadrupled its purchases to 120,000 MT. Valero took just the one cargo, down from six. Gunvor bought one cargo again. While Trafigura returned on the buy side for the first time since April, purchasing one cargo.
- Vitol continued to ramp up its sales, offloading 330,000 MT, up from 180,000 MT in Oct and 90,000 MT in Sep. Glencore sold two cargos and Mercuria, returning for the first time since Aug, sold one.
- **Location:** Of the 14 cargoes, nine were sold basis Le Havre, three basis Hamburg, and one basis Amsterdam. Donges was also a delivery basis for the first time this year, Vitol selling to Tosta.
- **So Far This Year in the MOC:** The cumulative traded volume this year now stands at 2.94mn MT. BP remains by far and away the largest single buyer on 1.26mn MT, followed Totsa (420,000 MT), Valero (330,000 MT), Glencore (300,000 MT), Litasco (210,000 MT) and Trafigura (120,000 MT). Gunvor, Mabanaft and Mercuria have now each bought 90,000 MT. BB Energy remains on 30,000 MT.
- On the sell side, Vitol took top spot on 750,000 MT, followed by Glencore (690,000 MT), Gunvor (450,000 MT), BP (390,000 MT), Mercuria (210,000 MT), Litasco (120,000 MT), Trafigura (120,000 MT), Unipec (90,000 MT), Hartree (60,000 MT), Mabanaft (30,000 MT) and Shell (30,000 MT).

<u>**ULSD CIF MED Cargoes MOC**</u>

- **Volume:** Two 30,000 MT cargoes traded in the Mediterranean window in November, double last month's volume.

- **Buyers and Sellers:** Vitol sold both cargoes, one to BP (basin Mersin) and another to Totsa (basis Lavera).

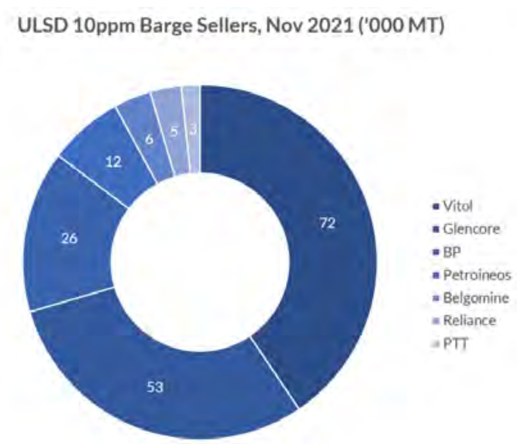




- **So Far This Year in the MOC:** Cumulative traded volumes for 2021 total 690,000 MT. BP extended its position as the top buyer on 210,000 MT, followed by Glencore and Vitol with 120,000 MT apiece, and Shell and Totsa on 60,000 MT. One cargo each has been bought by Exxon, Gunvor, Litasco and Repsol.
- Among the sellers, Repsol remained on top, with sales of 210,000 MT. Vitol now takes second spot on 120,000 MT, followed by Petroineos with 90,000 MT, and 60,000 MT sold by Cepsa and Gunvor. One cargo apiece has been sold by Glencore, Saras and Shell.

ULSD FOB NWE Barges MOC

- MOC Volume: Deals done in the end-of-day pricing window for 10ppm barges totalled 176,290 MT in November, down from 206,200 MT in October.



- Buyers: BP retained is position as the top buyer, purchasing 75,600 MT (albeit down from 95,700 MT last month). The other buyers included Gunvor (23,500 MT), Mercuria (14,200 MT), Totsa (13,300 MT), Mabanaft (12,000 MT), Vitol (11,690 MT), Reliance (9,000 MT), Litasco (6,000 MT), Exxon (3,000 MT), Shell (3,000 MT), Trafigura (3,000 MT) and Finco (2,000 MT).
- Sellers: Vitol took top spot on the sell side from Glencore. Vitol sold 71,5000 MT, followed by Glencore (52,750 MT), BP (26,040 MT), Petroineos (12,000 MT), Belgomine (6,000 MT), Reliance (5,000 MT) and PTT (3,000 MT).

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