ENGINE: East of Suez Physical Bunker Market Update

06/06/23

Prices have fallen in East of Suez ports, and VLSFO and HSFO availability remains tight in Singapore.

Changes on the day to 17.00 SGT (09.00 GMT) today:

- **VLSFO prices down in Zhoushan ($32/mt), Fujairah ($27/mt) and Singapore ($13/mt)**
- **LSMGO prices down in Fujairah ($56/mt), Zhoushan ($36/mt) and Singapore ($24/mt)**
- **HSFO prices down in Singapore ($18/mt), Fujairah ($17/mt) and Zhoushan ($13/mt)**

Bunker benchmarks across all grades in East of Suez ports have come down sharply in the past day, tracking Brent's downward movement. But Singapore's VLSFO price has declined by a modest $13/mt. A total of seven VLSFO stems were fixed in the past day in a wide range of $37/mt in Singapore. Stems at the higher end of the range have supported the port’s resistance against Brent’s downward pull.

The marginal price drop in the port's VLSFO price has contributed to widen its premium over Fujairah to $21/mt, and narrowed its VLSFO discount to Zhoushan to $10/mt.

Securing VLSFO and HSFO stems in Singapore can be difficult. Lead times for VLSFO are 9-11 days – almost unchanged from last week, while lead times for HSFO have increased from 8-11 days last week to 8-14 days. On the other hand, LSMGO availability has improved with lead times dropping from 6-8 days last week to 3-5 days.

Meanwhile, VLSFO availability remains tight in South Korean ports, with lead times of 8-13 days – virtually unchanged from last week. LSMGO availability has improved drastically in South Korea. Some suppliers, who were offering the grade at lead times of 10-14 days last week, can now supply the grade for prompt delivery dates. HSFO requires lead times of 3-5 days – almost similar to last week's four days.

Brent

The front-month ICE Brent contract has plunged $3.10/bbl lower on the day, to $74.77/bbl at 17.00 SGT (09.00 GMT).

Upward pressure:

Brent has drawn some support from Saudi Arabia announcement at Sunday's OPEC+ meeting to slash its oil output target by 1 million b/d 9 million b/d from July. This could be the country's biggest output cut in several years. The UAE was allowed by OPEC+ to increased its output by 200,000 b/d, which means 800,000 b/d will added to the 1.16 million b/d cuts committed to by OPEC+ in April.

Russia’s Deputy Prime Minister Alexander Novak announced Russia will continue to hold 500,000 b/d of its production back from the market. OPEC+ as a whole agreed to cut output by an additional 1.4 million b/d from January 2024.

“The size of (the Saudi) reduction is credible and should at minimum limit the downside pressure on prices for the rest of the year,” Reuters quoted JP Morgan’s head of global commodities strategy Natasha Kaneva saying.

Global oil demand is expected to grow by 1.9 million b/d this year and reach record levels, says ING's head of commodities strategy Warren Patterson. “This growth is predominantly driven by non-OECD countries and specifically China,” he adds.

“The US economy is about to show a very robust summer travel season that should mean jet fuel demand is going to be very strong,” notes OANDA analyst Ed Moya.

Downward pressure:

Saudi Arabia - and to some extent the wider OPEC+ group - has sought to prop up crude prices by committing to near-term and longer-term output cuts. But the price rally after Sunday's OPEC+ meeting was short-lived and Brent has slumped by over $3/bbl in the past day. The market seems to have shrugged off the output cut and refocused its attention on weak economic prospects for the US and the West.

"The market remains focused on the risk to demand with recession concerns mounted on a broad-based miss in US services PMI giving room for a Fed pause on rates," Saxo Bank says in a note.

China's oil demand recovery has also been more tentative than initially expected. Weak figures on manufacturing activity for May will be followed by trade data due tomorrow. Being one of the top oil consumers in the world, demand indications from China can have market-moving impacts.

“Oil might remain stuck in a trading range until we see evidence that China’s recovery is improving,” OANDA’s Ed Moya says.

By Tuhin Roy and Aparupa Mazumder