ENGINE: Europe & Africa Bunker Fuel Market Update

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Bunker benchmarks in European and African ports have declined, and tight barge availability has been reported in Augusta.

Changes on the day to 09.00 GMT today:

VLSFO prices down in Durban ($24/mt), Gibraltar ($16/mt) and Rotterdam ($6/mt)
LSMGO prices down in Durban ($53/mt), Gibraltar ($33/mt) and Rotterdam ($27/mt)
HSFO prices down in Gibraltar ($14/mt) and Rotterdam ($10/mt)

Regional bunker benchmarks have declined in the past day as the Brent rally has run out of steam. But LSMGO declines have been slightly more pronounced than for other grades, partly supported by drops in the front-month ICE Low Sulphur Gasoil Futures contract, which has declined by about 3% in the past day.

ICE gasoil premiums have come down sharply in recent months. Its premium over Rotterdam's LSMGO currently stands at a marginal $14/mt, down from levels of $44/mt seen in March, and from a $270/mt to $160/mt premium over VLSFO.

Securing VLSFO for very prompt dates (0-2 days) in the Italian port of August can be difficult due to tight barge availability, a source says. Product availability is said to be normal, but barge availability is under pressure.

French trade unions called for fresh strike action today, according to local media. While these strikes are likely to disrupt air travel, bunkering in major French ports Le Havre and Donges is unlikely to be affected. LSMGO and VLSFO availability is said to be normal in both ports, a source says.

In recent months, the country has witnessed widespread strikes against the controversial pension reform. The French Parliament is expected to hold a discussion on the reform on 8 June.

Brent

The front-month ICE Brent contract has plunged $3.10/bbl lower on the day, to $74.77/bbl at 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.

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