ENGINE: Europe & Africa Bunker Fuel Market Update

16/06/23

Rotterdam's HSFO premium over Gibraltar has nearly been erased as product availability remains tight in the ARA and suppliers price the grade in a wide range.

Changes on the day to 09.00 GMT today:

- **VLSFO prices up in Gibraltar ($15/mt), Rotterdam ($14/mt) and Durban ($9/mt)**
- **LSMGO prices up in Durban ($24/mt), Rotterdam and Gibraltar ($20/mt)**
- **HSFO prices up in Rotterdam ($18/mt) and Gibraltar ($16/mt)**

HSFO has been indicated in a wide $52/mt range in Rotterdam in the past day. The fuel grade is in tight supply in the ARA and Rotterdam's premium over Gibraltar has shrunk by another $2/mt to just $3/mt now.

Multiple factors such as the Russian import ban, a sweetening of EU refineries' crude slates, and the Kurdish export suspension have contributed to tighten of HSFO supply in the ARA hub, several sources have pointed out.

Only three in six suppliers have been able to commit to an HSFO stem with 4-7 days of lead time. For 8-10 days of lead time, four in six suppliers can offer. Others are out of product.

Upward pressure on HSFO prices has diminished the fuel cost savings against VLSFO for scrubber-fitted vessels bunkering in the ARA recently. Rotterdam's Hi5 spread has shrunk to just $58/mt now, which makes it less favourable than Gibraltar's $82/mt, and Singapore and Fujairah's much wider $150-170/mt spreads.

VLSFO, and especially LSMGO, grades continue to be considerably cheaper in Rotterdam than in Gibraltar, with $27/mt and $59/mt discounts now, respectively.

The earliest delivery date for VLSFO and LSMGO has been as long as eight days with a supplier in Algeciras this week, rendering it unable to commit to prompter stems.

Availability is generally good in Durban and other South African ports, a trader says and pegs its recommended lead time to 5-7 days ahead. But prompter stems can be possible, it says.

Brent

The front-month ICE Brent contract has pushed $2.39/bbl higher on the day, trading at $75.67/bbl at 09.00 GMT.

Upward pressure:

Brent futures drew some support from optimism over recovering Chinese oil demand. The world's largest oil importer's refinery throughput rose by 15% on the year in May, official data reported by Reuters has shown.

China's oil demand is expected to increase over the remainder of 2023 at an "assured rate", Kuwait Petroleum's chief executive Sheikh Nawaf Al-Sabah told Reuters.

"Oil might find some support as energy traders expect China's recovery to only improve and as Wall Street doubts Fed Chair Powell will be able to deliver on his hawkish threats," said OANDA market analyst Ed Moya.

On the supply side, a voluntary output cut by Saudi Arabia from July, and by OPEC+ as a whole from January next year, has lent some support to Brent.

OPEC said that the group's crude oil production decreased by 464,000 b/d from April, to average 28.06 million b/d in May, according to secondary sources.

Downward pressure:

Commercial US crude inventories increased by 7.92 million bbls in the week to 9 June, when they stood at 467.12 million bbls, Energy Information Administration (EIA) figures showed this week. The weekly stock build was way bigger than the American Petroleum Institute (API) estimate of a 1.02 million-bbl build that was published a day earlier.

Global oil demand growth will slow from a record high of 2.4 million b/d this year to 860,000 b/d next year, the International Energy Agency (IEA) forecasts.

Weak economic growth prospects in the US and EU continue to put a lid on further Brent gains. While the US Federal Reserve (Fed) kept its key interest rate unchanged this month, the European Central Bank hikes its rate by 25 basis points in an effort to tame persistent inflation, but with a potential fallout of weaker purchasing power and lower fuel demand. The Fed also warned that further interest rate hikes are on the cards this year.

"Crude prices are trying to find support as the global growth outlook remains vulnerable to further shocks from aggressive rate hiking campaigns," said Ed Moya.

By Erik Hoffmann and Aparupa Mazumder