ENGINE: East of Suez Physical Bunker Market Update

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Zhoushan's LSMGO price has shot up to bigger regional premiums in the past day.

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

- **VLSFO prices up in Zhoushan ($6/mt) and Singapore ($3/mt), and steady in Fujairah**
- **LSMGO prices up in Zhoushan ($37/mt), Fujairah ($8/mt) and Singapore ($4/mt)**
- **HSFO prices up in Zhoushan ($5/mt) and Singapore ($3/mt), and down in Fujairah ($6/mt)**

Zhoushan's LSMGO price has flipped from a $9/mt discount to a $20/mt premium over Fujairah's price. Its premium over Singapore has more than doubled to $56/mt.

Singapore's LSMGO price is still relatively strong compared to fuel oil grades in after two months of declining middle distillate stocks in the port. Stocks have averaged 6% lower this month than in July, and 12% lower than in June.

But after peaking last week, Singapore's LSMGO premiums over VLSFO and HSFO now seem to be shrinking. They have come down by $30/mt each since Monday, to $244/mt over VLSFO and $334/mt over HSFO now.

VLSFO availability is better than normal in Singapore. Barges have been freed up during a period of average to weak demand. Recommended lead times are 2-4 days for the grade.

More VLSFO is being blended with biofuels in Singapore now as more shipowners look to trim their CO2 emissions. Bio-blended VLSFO sales rose from 35,000 mt in June to an all-time high of 39,000 mt in July. Bio-VLSFO sales still only make up just over 1% of total VLSFO sales in Singapore, but is poised to grow further in the months ahead.

Both Singapore and Zhoushan now price VLSFO around $10/mt higher than in Fujairah, where stiff competition between suppliers has contributed to drive down prices. Access to discounted Russian fuel oil cargoes have also weighed down on prices in the UAE hub. Lead times of 4-5 days are advised.

Brent

The front-month ICE Brent contract has gained $0.58/bbl on the day, to trade at $84.16/bbl at 17.00 SGT (09.00 GMT).

Upward pressure:

Concerns over tight supply have resurfaced today and helped Brent futures to gain upward momentum.

"[Crude oil] supplies are tight and are getting tighter," said Price Futures Group's market analyst Phil Flynn. "If you look at US crude oil inventories, they are about 1% below the five-year average for this time of year," Flynn said in a note.

Earlier this month, Saudi Arabia and Russia pledged to extend their supply cuts into September. The move has provided support to Brent futures in recent weeks.

Moreover, the People's Bank of China (PBoC) cut key policy rates for the second time in three months on Tuesday to support the country's economic recovery, Reuters reported. Oil traders gained some confidence after the central bank in the world's largest crude importing nation decided to hold back monetary tightening, to drive demand growth.

"Investors find comfort in the PBoC's demonstrated willingness to leverage its comprehensive policy toolkit to steer the situation in a positive direction," said SPI Asset Management's analyst Stephen Innes.

Downward pressure:

Brent felt some downward pressure amid growing fears of more interest rate hikes by the US Federal Reserve (Fed). At a Federal Open Market Committee (FOMC) meeting in July, Fed officials indicated that further rate hikes are possible to combat inflation. The next FOMC meeting is scheduled to take place on 19 and 20 September.

A higher interest rate could reduce consumer spending and drive oil demand down.

Additionally, Chinese oil data has also weighed down on Brent this week. China's total crude oil imports in July were about 43.69 million mt, down 18.8% from June, JLC reported.

By Erik Hoffmann and Aparupa Mazumder