Bunker prices, beyond OPEC+ cuts

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After the OPEC+ announcement, where voluntary cuts totaling 2.2 million barrels per day (bpd) for Q1 2024 were revealed, the market response was more focused on the manner of communication than the cuts themselves. Despite the cuts appearing to be already factored into market expectations, the separate and uncoordinated announcements from various OPEC+ members created a disunited message.

On Friday, Brent and WTI futures experienced declines of $1.98 to $78.88 and $1.86 to $74.07, respectively. However, VLSFO prices at key ports displayed a mixed trend. In Singapore, prices rose by $4/mt to $670.50/mt, while Rotterdam gained $2/mt to $588.50/mt. In contrast, Houston saw a decline of $12.50/mt to $577/mt.

Looking ahead, bunker fuel prices for the remainder of the year, barring unexpected developments, will be influenced by two primary factors. Firstly, China is expected to experience tighter-than-anticipated supply of low sulfur fuel oil (LSFO). Reports suggest a doubling of LSFO imports in November cargoes from Singapore, bound for China with an anticipated arrival in December.

Secondly, the Panama Canal is facing challenges due to the new restrictions, causing delays in transit. According to data from the American Power Association (ACP), the average wait time for ships without a reservation for Southbound (Atlantic-Pacific) routes increased from 2.1 days in November to 11.4 days last week. These prolonged delays are likely to prompt shipping companies to opt for longer routes through the Suez Canal, resulting in higher bunker fuel costs.

Considering these factors, the current scenario is expected to provide bullish support for the VLSFO-Brent Crack Spread in the coming weeks.