ENGINE: Europe & Africa Bunker Fuel Market Update

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Regional bunker benchmarks have dropped with Brent values, and Canary Island ports witness high bunker demand as vessels reroute around Africa to avoid attacks in the Red Sea.

Changes on the day to 09.00 GMT today:

- **VLSFO prices down in Durban ($14/mt), Gibraltar ($8/mt) and Rotterdam ($2/mt)**
- **LSMGO prices down in Durban ($14/mt), Gibraltar ($13/mt) and Rotterdam ($8/mt)**
- **HSFO prices down in Gibraltar ($11/mt) and Rotterdam($3/mt)**

LSMGO availability is good in the wider ARA hub with prompt deliveries available. A trader recommends short lead times of 2-4 days to secure the bunker grade. Moreover, lead times of 5-7 days are recommended for HSFO and VLSFO, the trader adds.

At Rotterdam, the LSMGO price decline has been slightly steeper compared to price declines in its VLSFO and HSFO benchmarks. One non-prompt lower-priced LSMGO stem fixed at $745/mt for 50-150 mt added downward price pressure on the benchmark.

Gibraltar's HSFO price drop has outpaced that of Rotterdam's. As a result, the port's HSFO premium over Rotterdam has narrowed by $8/mt to $49/mt. Meanwhile, Gibraltar's Hi5 spread has widened slightly to $104/mt.

Lead times of 4-5 days are recommended for HSFO at Gibraltar, 4-6 days for LSMGO and longer 5-6 days for VLSFO.

Adverse weather conditions are forecast to hit the Strait of Gibraltar later today with strong wind gusts of 28 knots predicted. High winds could impact bunkering in the Gibraltar Strait ports.

Bunker demand in the Canary Islands ports, including Las Palmas and Tenerife, has been substantially higher than usual, a trader says. The heightened demand has been largely from vessels rerouted around Africa to avoid attacks in the Red Sea.

The demand is expected to remain strong over the coming weeks due to vessel diversions and uncertainty around the Red Sea transits. Availability of all bunker fuel grades is normal at both ports, the trader adds.

Brent

The front-month ICE Brent contract lost $1.06/bbl on the day, to trade at $78.12/bbl at 09.00 GMT.

Upward pressure:

Brent futures felt upward pressure this week driven by growing concerns of supply disruption in the Middle East.

On Thursday, Israel's defence minister Yoav Gallant announced the country's latest strategy for the upcoming phase of its ground assault in the Gaza Strip, Reuters reported. The new strategy involves advancing towards the northern part of Gaza, alongside its ongoing efforts to weaken Iran-aligned Hamas militants in the southern part of Gaza.

Meanwhile, two explosives planted by the Islamic State (IS) near Iranian leader Qassem Soleimani's tomb left about 100 civilians dead, Reuters reported. This event has further heightened the already escalating geopolitical tensions in the region.

"Iran is vowing revenge because of the bombing at the memorial service for General Soleimani that killed many people," commented Price Futures Group's senior market analyst Phil Flynn.

Downward pressure:

Brent futures shed the previous day's gains following the huge build of gasoline and distillate stocks in the US.

The US Energy Information Administration (EIA) reported that US gasoline stocks jumped by 10.90 million bbls on the week, to 237 million bbls on 29 December, the highest since March 2023.

Similarly, distillate stocks, which include diesel and gasoil increased by 10.09 million bbls to 126 million bbls, the highest since January 2022. The rise in gasoline and distillate stocks indicates that demand for these fuels declined in the US last week.

"The [EIA] report was overwhelmingly bearish for refined products, indicating outsized builds across all three product categories due to exceptional demand weakness," said SPI Asset Management's managing partner Stephen Innes.

The gasoline stock build has raised concerns about a disparity between the market's "Goldilocks narrative" and actual demand, "especially when considering gasoline demand as a forward indicator of economic activity," he added.

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