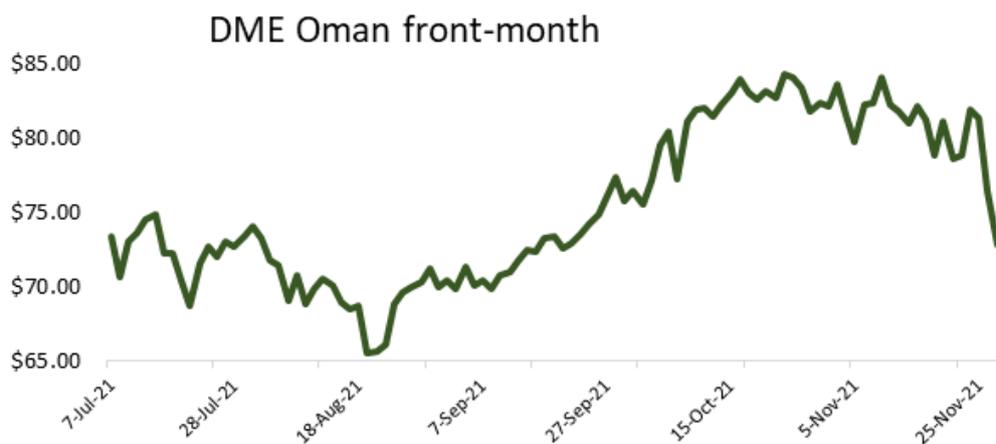




SHARP DOWNTURN IN ASIAN REFINING MARGINS ADDS TO MARKET WOES

Oil markets were thrown into disarray in late November following the emergence of the new Omicron variation of coronavirus, leading to a sharp retreat in crude oil prices and spreading volatility across the refined products markets.

While headline Brent and WTI futures dropped by around \$10 per barrel on November 26, losses in benchmark Middle East DME Oman crude futures were spread over two sessions, but the overall losses were moderated by the broader rebound in prices on November 29.

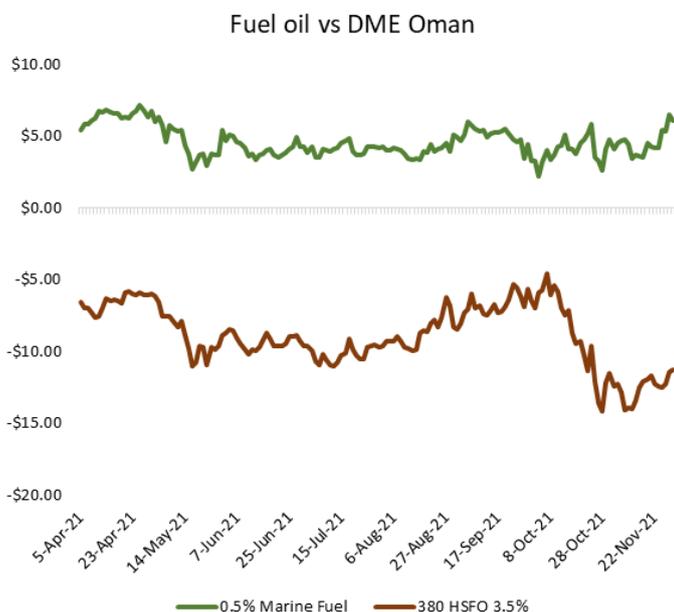


Refined products

Fuel Oil

Marine fuel was the strongest performer among the Asian refined products complex during November, as 0.5%-sulfur Marine Fuel oil cracks surged to their highest level since early 2020 when the grade was first introduced, meeting the new bunker fuel specification mandated by IMO 2020 legislation. A global shortage of the low-sulfur bunker grade lifted December swaps cracks for Marine Fuel to around \$6/b over DME Oman, as bunker buyers compete with the power generation market ahead of the peak power-demand season in northeast Asia.

Huge premiums were also seen for the physical barrels as 0.5%-sulfur traded at a record \$25/b above the underlying 0.5% swap, valuing physical cargoes of Marine Fuel at a double-digit premium to DME Oman and making it the most expensive refined product across the barrel. The 3.5%-sulfur fuel oil grade by contrast reached yearly lows in November of around minus \$14/b versus DME Oman, although recovered to around minus \$11/b by the end of the month as crude oil prices dropped faster than heavy fuel oil.



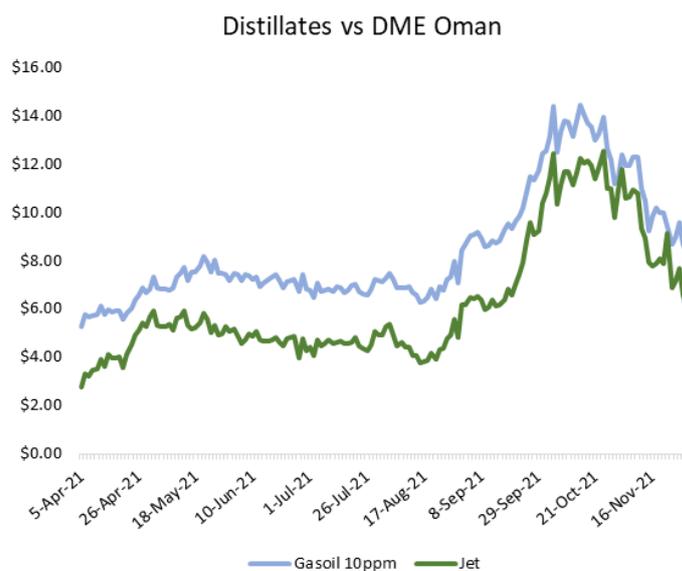
Distillates

Jet fuel was left the most exposed as the initial wave of flight restrictions were announced in response to the Omicron variation. Europe and US have both barred flights from southern Africa, while Japan and Australia have imposed more severe flight restrictions.

Jet fuel cracks had already been falling sharply in Asia during November as demand failed to increase to match increased supplies. Jet fuel had reached double-digit premiums versus Oman crude futures in October, but the gradual decrease through November, including a \$2.50/b drop following the emergence of Omicron, saw cracks return to levels last seen in September.

Chinese airline capacity was down 17% in November compared to the previous month, as China continues with its cautious policy with regards to coronavirus outbreaks.

Adding to refiner woes, Gasoil/Diesel cracks in Singapore also followed jet lower over the month, retreating from around DME Oman \$14/b at the end of October to just above \$8/b at the end of November.



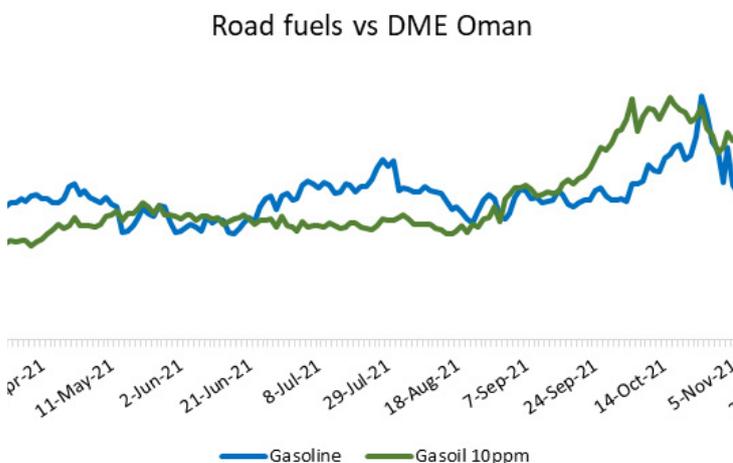
Gasoline

A poor month for Asia's refiners was rounded off by a sluggish performance from Gasoline, which also ended November at two-month lows versus Oman crude.

Benchmark 92 Ron swaps for December dipped below \$7/b for the first time since September.

Rising Covid cases in Europe, even before the emergence of the Omicron variant, was already dampening global fuel demand and the weaker sentiment weighed on the light-end of the barrel, which had previously helped to underpin crude oil prices in October.

Naphtha values versus DME Oman on a FOB Japan basis initially edged lower during November, but improved slightly in the final week to end the month just below Oman +\$4/b.



Summary

Market confidence has taken a huge dent with the emergence of new Covid variant, impacting negatively on the key transport fuels Diesel, Gasoline and Jet.

While Marine Fuel proved a bonus for refiners able to maximize production of 0.5%-sulfur grade, the bunker fuel market is considered too small to support overall refining margins.

OPEC+ meets on December 2 to discuss output policy for January 2022 and beyond, but with recent confidence in the oil price recovery having taken a severe blow the producer group is seen as unlikely to endorse adding further output to the market.

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