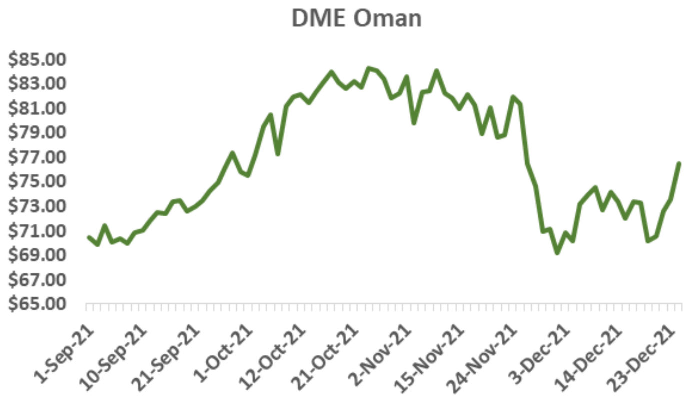
ASIAN REFINING MARGINS REBOUND STRONGLY AS MARKETS SHRUG OF OMICRON WOES

Oman crude oil trading on Dubai Mercantile Exchange rebounded strongly from the three-month lows registered at the start of December, when markets retreated sharply following the emergence of the Omicron covid-19 variant.

In a one-week period from late-November to early-December benchmark DME Oman retreated by $13/barrel, dropping from almost $82/b to $69/b, before rebounding back in the second week of December, followed by a strong finish to the month.



The strong performance from refined products has been key to the rebound in crude prices. Products broadly outperformed crude oil, giving a strong indication that end-user oil demand largely held up, despite the rapid spread of the Omicron variant and regional mobility restrictions.

Distillates

The gasoil market, which makes up the largest share of oil demand in Asia, rallied strongly through December with no sign that diesel demand would drop. The initial wave of the new variant led to fears that economic activity would drop, curtailing demand for road fuels.

Benchmark 10ppm Singapore gasoil/diesel had been in retreat since mid-October after hitting a post-pandemic peak of DME Oman +$14/b (front-line DME Oman futures versus front-line 10ppm swap), to under $9/b at the end of November.

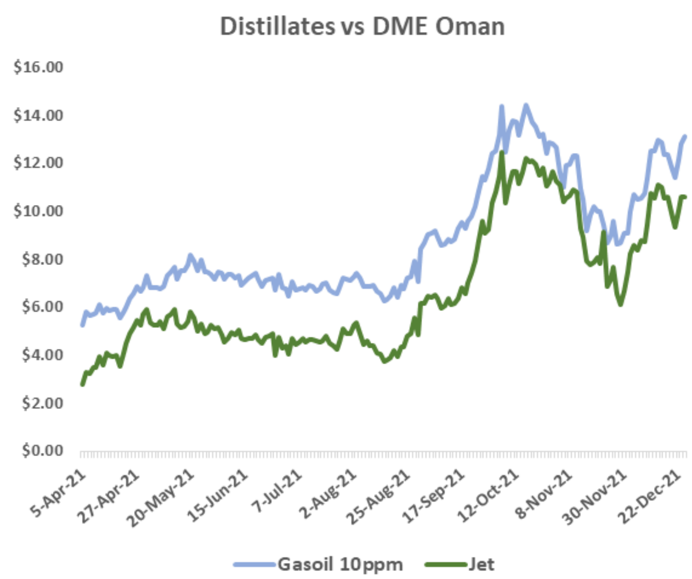
But gasoil comfortably outperformed crude in December, as the crack rebounded to around +$13/b.

Demand remains healthy and availabilities were reduced as China cut exports ahead of the key domestic winter-heating demand season.

Jet/Kerosene cracks followed a similar pattern to gasoil, despite initially tumbling to a two-month low on fears that the Omicron variant would sharply curtail flight activity.

Airlines have, however, only seen relatively small reductions in capacity and the jet/kero crack versus DME Oman rebounded back above $10/b.

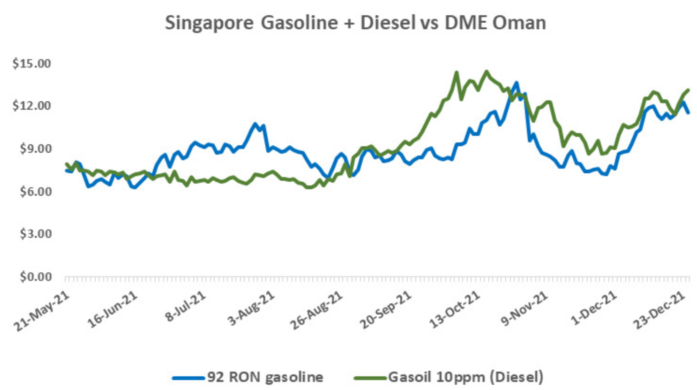
Record LNG prices in Asia and Europe also helped to underpin distillate values, although a relatively mild December in northeast Asia capped oil demand from the power-generation sector.



Gasoline

Refining margins for gasoline initially retreated with the onset of the Omicron variant, again on concerns that a wave of global lockdowns would sharply reduce demand. But consumption has held up over the month and with a preference for private transport over public, demand is seen remaining relatively high for the time of year.

Benchmark 92 RON gasoline initially sunk to around $7/b over DME Oman but has since returned to around +$11.50/b, largely tracking the distillate market.

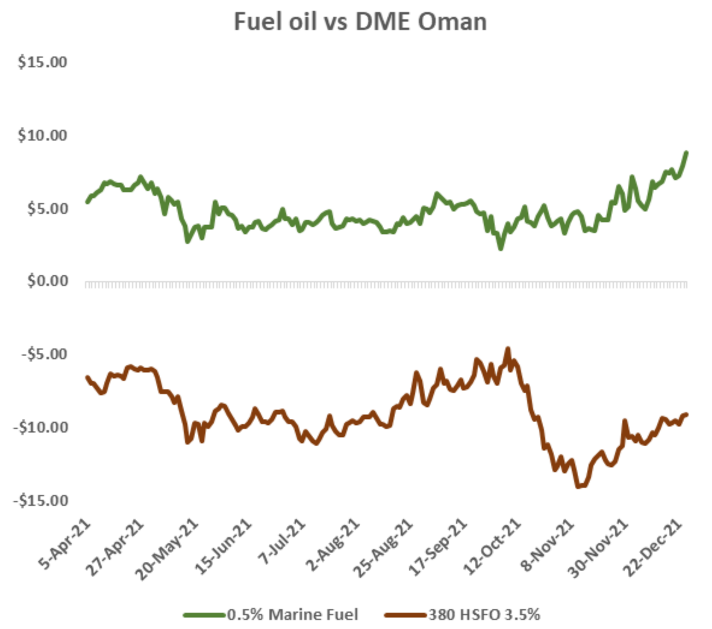


Fuel Oil

Fuel oil margins, which are important for heavier Middle East barrels, including the medium sour Oman grade, continue to perform well, particularly the 0.5%-sulfur Marine fuel grade. Tight supplies across the region and firm demand lifted Marine Fuel cracks to 2021 highs of above $8/b versus DME Oman.

Demand for bunker fuel in the key Singapore hub remained robust, shrugging off any fears that a wave of the Omicron variant could cause significant delays to shipping. Premiums for the 0.5%-sulfur grade reached +$30/metric tonne over cargo prices in late December, the highest of the year.

The 3.5%-sulfur fuel oil grade rebounded from the yearly lows in November of around minus $14/b versus DME Oman, recovering to around minus $9/b by late December.



Summary

Refining margins in Asia rebounded strongly in December from the weak performance in November, which should give crude oil producers confidence heading into the new year.

In particular, the strong performance from key transport fuels of diesel and gasoline have underpinned margins, while jet cracks holding up will also be a confidence booster for the refining industry.

Dubai Mercantile Exchange
Dubai International Financial Centre
Gate Village 10, Level 4
P.O. Box 66500
Dubai, UAE
T +971 4 365 5500
F +971 4 365 5599

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www.dubaimerc.com