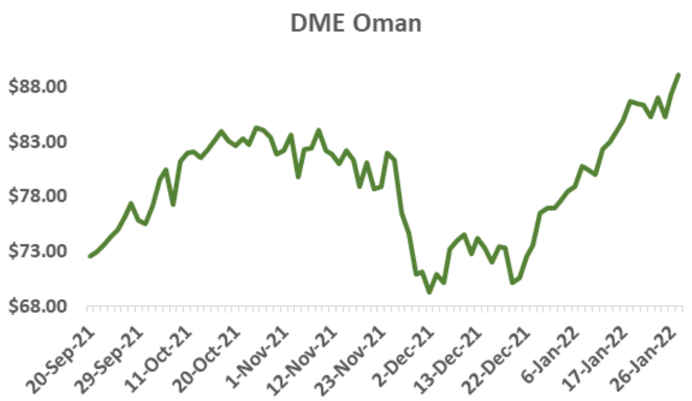
DME

ASIAN REFINING MARGINS REMAIN BUOYANT ON DISTILLATE, GASOLINE CRACKS

Oman crude oil trading on the Dubai Mercantile Exchange surged by around 15% during January, in line with other global markets, as supply-side concerns and growing tensions in Eastern Europe lifted crude oil to multi-year highs.

March-loading Oman crude trading on DME surged from around $77/b at the start of the year to $89/b by January 27, as a number of OPEC+ producers, mostly from outside of the Middle East, have struggled to keep pace with the quotas agreed by the producer alliance.

Such a sharp rally might have left refined products struggling to keep up, but the key gasoil and gasoline markets have outpaced Oman crude, while jet has also rallied strongly despite airline capacity continuing to run at reduced levels.



Distillates

The gasoil/diesel market, which makes up the largest share of oil demand in Asia, soared by around $15/b in outright-price during January, comfortably outpacing DME Oman.

Fears that the Omicron variant of Covid-19 would derail economic growth in Asia largely failed to materialize and distillate cracks reached post-pandemic highs.

Benchmark 10ppm Singapore gasoil/diesel saw a second monthly rally, hitting a post-pandemic high of around DME Oman +$15/b (front-line DME Oman futures versus front-line 10ppm swap), which compares to around +9/b at the start of December.

The initial spread of the Omicron variant sent oil prices into a tailspin at end of November, which also dragged down refined product cracks.

Demand across Asia remains healthy and key suppliers such as China and India have reduced gasoil exports in order to meet domestic requirements.

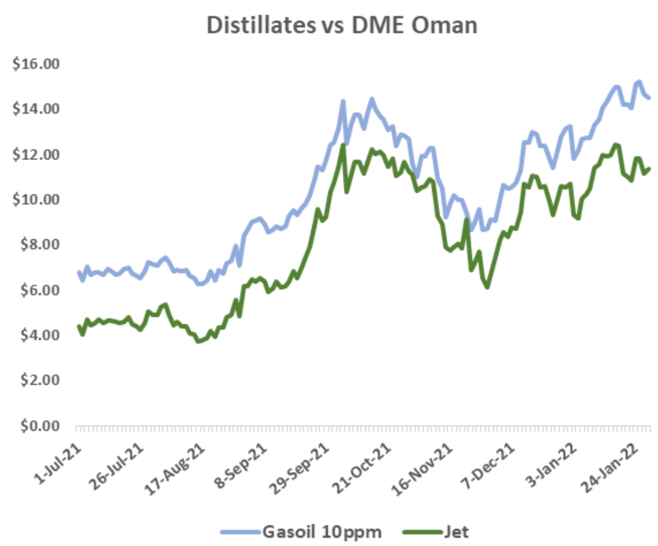
Jet/Kerosene cracks also rallied despite the Omicron variant stalling the recovery in airline capacity.

The jet/kero crack versus DME Oman was in the +$11/+$12/b range throughout the second-half of the month, having tumbled to around $6.50/b in late November.

However, Omicron cases in Asia-Pacific have hindered the jet fuel demand recovery in the region over the near term, as some airlines are forced to reduce flight capacity due to wider mobility restrictions.

Saudi Aramco noted that global oil demand was nearing pre-pandemic levels and will beat it by the end of 2022, although noted jet fuel still hasn't recovered fully recovered yet.

"However, we're seeing a pick-up in jet fuel and we think [that] very soon we will exceed 2019 in terms of total demand," Aramco's CEO Amin H. Nasser said.

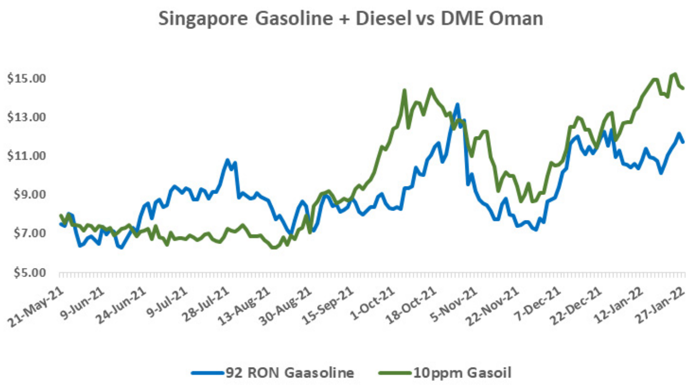


Gasoline

Refining margins for gasoline had initially retreated with the rapid spread of the Omicron variant in December on concerns that renewed lockdowns would lower demand.

However, consumption held firm and benchmark Singapore 92 RON gasoline swaps have been at double-digit premiums to DME Oman since December 8, peaking at +$12/b in the final week of January.

Gasoline deliveries in the US, a proxy for demand, jumped back to 8.5 million bpd in the week to January 21, up 281,000 bpd on the week as mobility picked up after the slow first half of the month, data from the Energy Intelligence Administration showed.



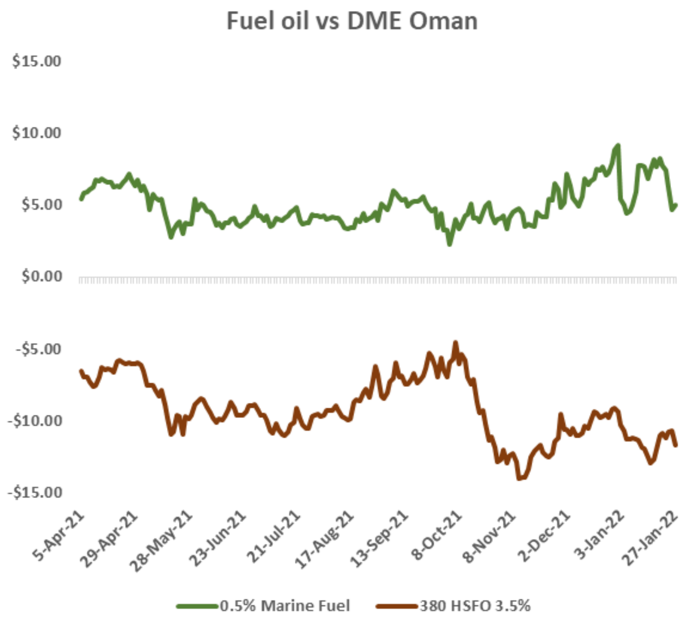
Fuel Oil

Fuel oil margins, which have an important role for the heavier Middle East barrels, have retreated over the last month, dampening the overall upbeat sentiment in the refining sector.

Marine fuel oil cracks retreated to a two-month low in the final week of January, falling sharply as stocks in Singapore rose 12% to hit their highest level since September.

Tight supplies across the Asia region and firm demand had lifted Marine Fuel cracks to above $8/b versus DME Oman, but retreated to around +$5/b by late January.

The 3.5%-sulfur bunker fuel oil grade eased during January but recovered slightly towards the end of the month to finish January at around minus $11.50/b versus DME Oman.



Summary

Refining margins in Asia have largely built on the solid gains seen in December, and even the weaker performance from fuel oil has not dampened broader sentiment.

Strong returns from distillates and gasoline have supported the overall performance of refining margins, underpinning demand for Middle East barrels.

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