



# FUTURES INSIGHTS

Issue 28- August 2021

## Refinery margins pick up as US gasoline leads the demand recovery

 <b>OSP</b> <b>\$72.73</b>	 <b>TOTAL DELIVERY</b> <b>12,454</b> <small>MILLION BARRELS</small>	 <b>TOTAL EXCHANGE VOLUME</b> <b>93,105</b> <small>CONTRACTS</small>	 <b>ADV</b> <b>4,434</b> <small>CONTRACTS</small>
---	---	--	---



DME Oman futures act as a major benchmark for refiners to track values of refined products calculate margins

Of the three global oil futures contracts, namely WTI, Brent and Oman, the first two are classified as light sweet crude, while Oman is a medium sour crude, typical of the crude quality in the Middle East Gulf.

The spread between these grades will be determined by regional supply/demand fundamentals, but the value of refined products in relation to benchmark crudes will play a major part.

Light sweet crudes typically have a higher yield of light ends including naphtha, gasoline and LPG, while heavier barrels will contain a greater cut of heavy residual fuel.

The vast majority of the world's refineries have upgrade facilities that further process residual fuels into more valuable products such as gasoline and diesel, but this is still factored into relative values of crude.

In theory, Brent and WTI should command a premium over Oman, but this is not always the case because lighter barrels have been in abundant supply since the US became a major crude oil exporter in the last few years.

### Transport fuels

Gasoline and diesel account for the largest share of oil demand, with diesel dominant in Asia, while gasoline is the key product for the US - in fact North American motorists consume around 10% of the world's oil in the form of gasoline, based on global demand of around 95 million barrels per day.

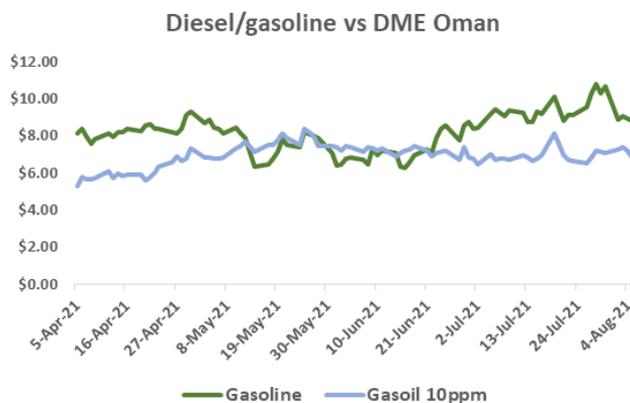
While China largely led the demand recovery in 2020, the US has taken up that mantle in 2021, with strong gasoline demand and tumbling inventories leading to gasoline trading at premiums of more than \$20/b to WTI crude.

This has had a strong knock-on effect for the rest of the world with gasoline performing strongly in Asia for the Q2/O3 period of 2021.

Historically, diesel has traded at a premium to gasoline in Asia, but the slump in jet fuel demand since the onset of Covid-19 has kept the distillate market subdued.

Gasoil briefly moved above gasoline during June, with the M1 (Month 1) swap trading at a premium of around \$8/b over front-month DME Oman, but has since retreated to around DME +\$7/b.

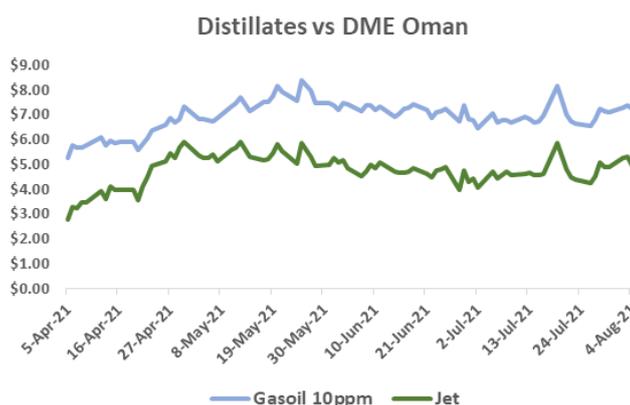
Gasoline, meanwhile traded at premiums of more than \$10/b to DME Oman in July, before easing back to around +\$9/b by early August.



### Jet fuel

Among distillates, jet fuel has predictably been the weak link as airline demand tumbled by around 80% versus 2019 levels, although is slowly recovering over the summer.

Jet fuel spent much of 2020 trading at a discount to DME Oman, so recent premiums of DME Oman +\$4/+\$5/barrel have helped beleaguered refiners finally push back into profit.



### Fuel oil

Fuel oil is primarily used by the shipping industry as bunker fuel, which since the IMO 2020 ruling has mandated 0.5%-sulfur fuel Marine fuel, replacing the legacy 3.5% HSFO grade.

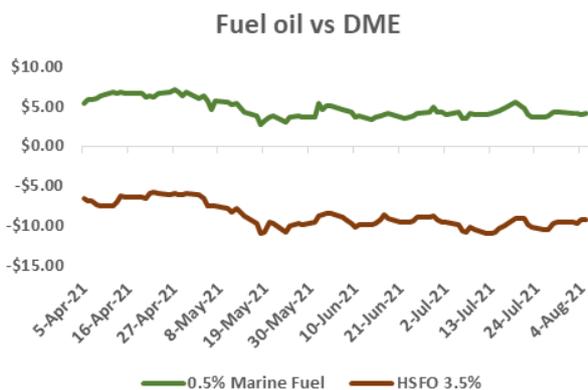
However, vessels fitted with scrubbing technology that can remove sulfur onboard can still use the 3.5% HSFO grade

Additionally, fuel oil is used for power generation

in times of high demand, although this is typically discouraged due to the adverse environmental impact.

The 0.5% Marine Fuel grade has traded either side of DME Oman +\$5/barrel during Q2/Q3 2021, while HSFO has languished around the minus \$10/b mark.

However, the 3.5%-sulfur grade has strengthened recently as strong power generation demand over the summer months has lifted relative values versus crude.

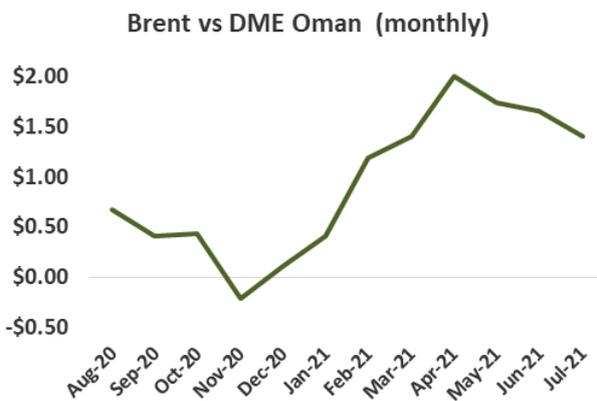


0.5% Marine Fuel trades at a strong premium to HSFO

### Brent/DME Oman spread

Historically, Brent has commanded a premium over medium sour barrels due the higher yield of light ends. But since the expansion of light sweet shale crude and the supply management of heavier barrels by the OPEC+ producer group, the spread has usually been narrower.

DME Oman was regularly trading above Brent in 2020 but with the demand recovery this year, led by gasoline and naphtha demand, Brent has pulled ahead medium sour crudes.



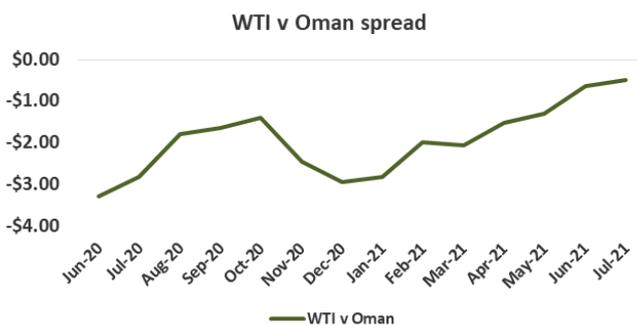
Brent/Oman briefly reached \$2/b has since eased back

### WTI/Oman spread

The US WTI has registered the strongest gains in 2021, again pulled up by gasoline demand, but also boosted by the drop in shale production and falling US stocks.

Crude stocks at the Cushing hub in late July fell to the lowest levels since the pandemic, with stocks at the WTI delivery point nearly 30% under the 2015-2019 average.

Gasoline inventories have also tumbled to pre-pandemic levels as US demand is almost back to 2019 levels. Between mid-May and mid-July, the Energy Information Administration reported stocks falling by 50 million barrels.



WTI/Oman narrowed to a multi-year low of minus \$0.50/b in July

### Refining margins

In the first-half 2021 earnings reporting season in late July, oil companies announced a strong return to refining profits, which are expected to continue throughout the third quarter.

DME Oman is a key benchmark in tracking these margins and for Asia refiners and is the most reliable measure of refining profitability.



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

Regulated by the DFSA