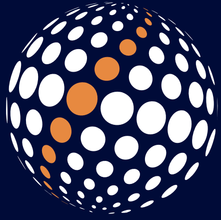

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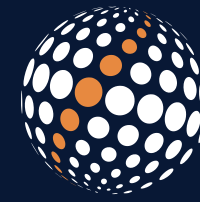
ENERGY TRADING LEADERS' ROUNDTABLE
MID-YEAR MARKET INSIGHTS
2024



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ENERGY TRADING LEADERS' ROUNDTABLE MID-YEAR MARKET INSIGHTS 2024

Contents

04 LOOKING OUT TO H2 OIL MARKETS?

06 THE BIG SHORT?

08 OPEC+ TO RAISE OR NOT TO RAISE?

10 REFINERIES TO RUN HARD OR SOFT?

Exclusive soundings detailed in this "Mid-Year Market Insights Report" were harvested from the moderated discussions held at the *Rystad Energy Trading Leaders Roundtable* held in Dubai on June 11th, 2024. The annual gathering of those tasked with building the national energy trading companies in the Middle East and their international peers leading the regional operations for the world's biggest independent commodity trading firms, was produced by Gulf Intelligence and conducted under the Chatham House Rule. All commentary used in this report is an aggregation of many different views shared at the event and not for reproduction by third parties.

LOOKING OUT TO H2 OIL MARKETS?

The global oil market is navigating a complex landscape marked by caps, cuts, and quotas. These are influenced by strategic decisions from OPEC+ and government sanctions, alongside evolving financial regulations, geopolitical tensions, and a worldwide shift towards sustainable energy practices. Collectively, these factors significantly affect crude oil and its derivatives, impacting broader macroeconomic indicators across the globe.

Today, the global oil dynamics are characterized by a delicate balance. Oil prices have stabilized around the $80-85 mark, though occasional fluctuations occur. In the futures market, crude oil shows backwardation—a situation where future prices are lower than current prices—while diesel and gasoline exhibit contango, where future prices are higher than current prices. This indicates varied expectations about future supply and demand for these commodities.

There are differing viewpoints on demand patterns, especially amid concerns about a potential summer slowdown. This has prompted cautious adjustments in production strategies. Brent crude faces pressures due to uncertainties in the gasoline and diesel markets, reflecting the complexities of balancing supply with evolving demand patterns.

OPEC+ has opted to maintain production cuts until the third quarter of the year andsignaling a cautious approach to market management extending through 2025. This strategy aims to sustain supply amidst high prices and potential unexplained supply, estimated at approximately 1 million barrels per day. A notable strategy within this framework is "oil circularity," which optimizes product revenues while effectively managing crude oil pricing and volume dynamics.

Refineries are expected to operate above demand levels, leading to bearish product balances extending into the fourth quarter and beyond. This oversupply necessitates further market adjustments to stabilize prices and align production with consumption patterns. The Middle East plays a pivotal role in the refining and petrochemical sectors, both domestically and globally, influencing discussions on refining quotas and product adjustments in the near future.

Recent guidance from OPEC+ suggests continued constraints on global oil supply growth in the upcoming year, with significant downside risks to 2025 production forecasts. Factors such as unexplained supply leakage into the market and increased exports of oil products internationally have moderated oil prices, keeping them within a restrained range around $80 per barrel.

The decision to reintroduce barrels in the fourth quarter reflects a commitment to maintaining internal cohesion within OPEC+ rather than an urgent need for increased oil output. Market dynamics in early 2024 revealed underlying overproduction due to non-compliance with production cuts. This led to revised expectations for global demand growth to approximately 1.1 to 1.2 million barrels per day, contrasting with earlier, more optimistic projections by OPEC.

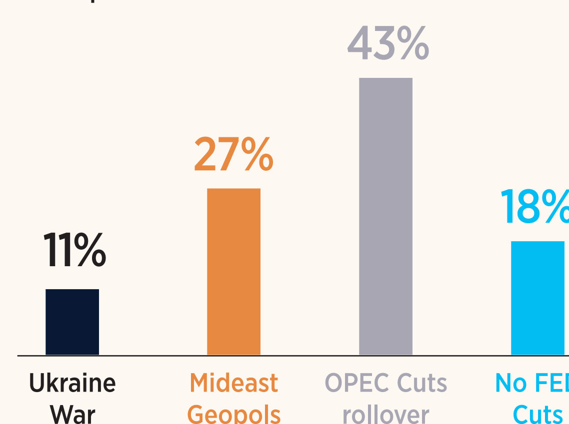
Rystad Energy forecasts minimal global oil (crude and condensate) supply growth of just 80,000 barrels per day in 2024, significantly adjusted downwards due to the extended OPEC+ agreement. The gradual easing of cuts through October 2025 indicates that 2024 may witness no growth in oil supply for the first time since 2020.

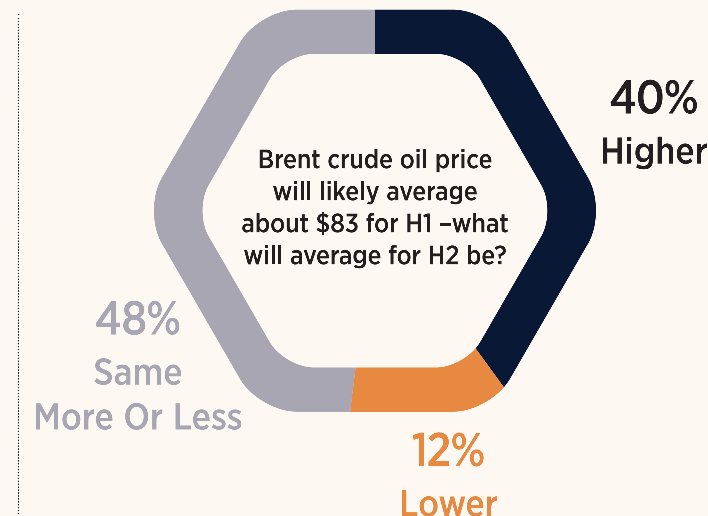
Excluding exempt countries like Venezuela, Iran, Libya, and Mexico, total OPEC+ oil supply is expected to decline by about 830,000 barrels per day in 2024. Projected production under quotas for OPEC+ is around 37.2 million barrels per day, reaching 37.4 million barrels per day by year-end, down from earlier projections. Non-OPEC+ supply remains resilient at 37.1 million barrels per day, with slight upward adjustments primarily from US shale and offshore production in Brazil and Guyana.

Looking ahead, the future outlook for global oil markets hinges on sustained adherence to production quotas, the evolving landscape of geopolitical tensions, and the ongoing transition towards sustainable energy sources. Managing these factors will be crucial in navigating uncertainties and maintaining stability in oil prices and market dynamics moving forward.

As OPEC+ continues to navigate these challenges, the global energy market remains in a delicate balance. Each decision made by OPEC+ impacts not only short-term prices but also long-term sustainability and economic stability worldwide. The strategic maneuvers of OPEC+ and responses from non-OPEC producers will shape the trajectory of global oil supply and demand dynamics in the years to come, influencing global economic outlooks and energy policies alike.

The influence of oil prices extends beyond the energy sector, affecting broader macroeconomic indicators.





Source: GI RESEARCH Polled 100+ Energy Market Stakeholders in Q2, 2024

Stable oil prices contribute to economic predictability, influencing inflation rates, currency values, and investment flows. Conversely, significant fluctuations in oil prices can lead to economic volatility, affecting both oil-exporting and oil-importing nations differently.

For oil-exporting countries, high oil prices can lead to increased revenues, boosting government spending and economic growth. However, for oil-importing countries, higher prices can strain budgets, increase production costs, and lead to inflationary pressures. The current stability around $80 per barrel helps maintain a balance, supporting global economic stability.

The global shift towards sustainable energy practices adds another layer of complexity to the oil market. Governments and corporations are increasingly investing in renewable energy sources, aiming to reduce carbon emissions and dependency on fossil fuels. This transition impacts long-term oil demand, as alternative energy sources become more viable and widespread.

OPEC+ and other major oil producers are aware of this shift and are adapting their strategies accordingly. Investments in renewable energy and diversification of energy portfolios are becoming more common among traditional oil companies. This dual approach aims to balance the need for short-term oil revenue with the long-term goal of sustainability.

In conclusion, the global oil market today is a complex and dynamic environment, influenced by strategic decisions from OPEC+, government sanctions, financial regulations, geopolitical tensions, and the transition towards sustainable energy. The interplay of these factors shapes crude oil and related product prices, impacting macroeconomic stability worldwide. As OPEC+ navigates these challenges, its decisions will continue to have far-reaching implications, affecting global supply and demand dynamics, economic stability, and the future of energy.

TOP 10 TAKEAWAYS

1. **OPERATIONAL FRAMEWORK** Caps, cuts, and quotas define global oil market boundaries influenced by OPEC+ policies, sanctions, financial regulations, geopolitical tensions, and sustainability transitions.

2. **GLOBAL CAPACITY VS. REGIONAL CONCERNS** Ample global oil industry capacities contrast with regional imbalances causing local concerns like product deficits in the Atlantic basin and oversupplies east of Suez.

3. **CURRENT MARKET DYNAMICS** Oil prices around $80, with crude in slight backwardation and diesel/gasoline in contango, reflect divergent views on demand amid fears of summer slowdowns prompting production adjustments. Backwardation to improve as summer demand starts to show-up.

4. **OPEC+ STRATEGY** OPEC+ delays production cut rollbacks until Q4, signaling a cautious approach through 2025 amidst market uncertainties.

5. **REVENUE STRATEGY** Balancing volume vs. pricing in crude oil to optimize product revenues, with managed product exports helping mitigate price increases and sustain demand.

6. **REFINING OUTLOOK** Refineries expected to operate above demand growth levels, leading to bearish product balances into Q4, necessitating ongoing market adjustments.

7. **MIDDLE EAST INFLUENCE** Middle East retains strong positions in refining and petrochemicals, with discussions on refining quotas potentially becoming relevant soon.

8. **SUPPLY GROWTH CONSTRAINTS** OPEC+ expects sustained global supply growth constraints with downside risks to 2025 forecasts due to factors like supply leakage and increased oil product exports.

9. **PRODUCTION FORECASTS** Revised downward expectations for global oil demand growth in 2024 to approximately 1.1 to 1.2 million barrels per day, contrasting with earlier projections.

10. **SUPPLY ADJUSTMENTS** Anticipated non-OPEC+ supply resilience with expected production totaling 37.1 million barrels per day, highlighting US shale and other key contributors despite industry changes.

THE BIG SHORT?

> *"The current oil market is marked by a significant accumulation of short positions, driven by a mix of unexpected production announcements, geopolitical tensions, and broader economic uncertainties."*

The current oil market is experiencing a decade-high accumulation of short positions, setting the stage for pivotal developments in the coming months. Looking forward, market dynamics will be heavily influenced by a range of external factors that collectively paint a complex and uncertain picture. OPEC+, which historically provided stability through coordinated production adjustments, now operates under a new paradigm marked by less predictability and more responsiveness to immediate market conditions and geopolitical developments. Recent market movements reflect significant impacts from geopolitical tensions, fluctuations in Russian gas supplies, conflicts like those in Yemen, and other disruptive events that contribute to the volatility seen in oil prices.

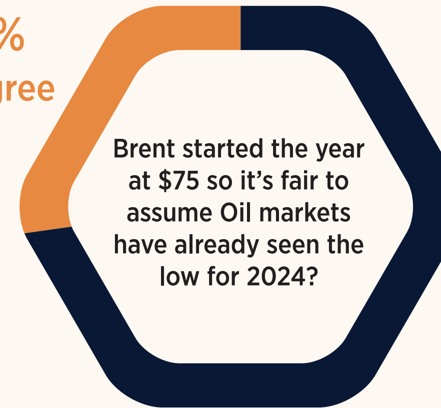
In early June, portfolio investors triggered a historic sell-off in petroleum futures and options following OPEC+'s unexpected announcement of production increases set to begin in the fourth quarter of 2024. This decision took the market by surprise, resulting in a wave of sell-offs by hedge funds and money managers who divested a record 194 million barrels over seven days. This rapid divestment marked the fastest rate of selling seen since 2013, underscoring the shock and uncertainty that the announcement injected into the market. However, the market's reaction did not end there. In the following days, assurances from Saudi Arabia and other OPEC+ allies regarding their willingness to adjust production if necessary led to a partial reversal of the sell-off. By mid-June, investors had repurchased 80 million barrels, effectively reversing 40% of the previous week's massive sell-off.

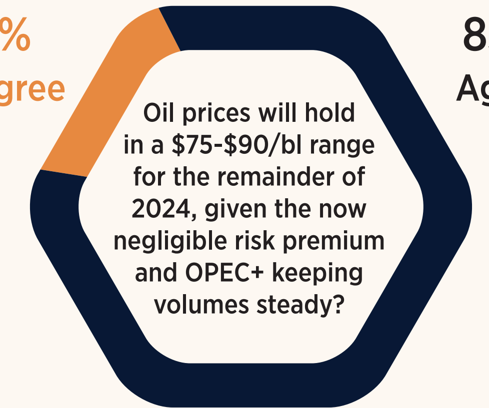
Recent trading activities have shown a notable resurgence in buying, particularly in crude oil, where investors bought back 68 million barrels. This included significant positions in NYMEX and ICE WTI (+42 million barrels) and Brent (+26 million barrels), which helped offset the earlier heavy sales. Additionally, European gas oil saw substantial buying, with an increase of 17 million barrels. In contrast, U.S. gasoline positions remained relatively stable, and U.S. diesel experienced further sales, with a reduction of 5 million barrels. Despite the rebound in prices to levels seen before the OPEC+ meeting and the partial restoration of positions, the overall sentiment in the market remains cautious.

Fund positions across the petroleum complex continue to be largely bearish. The collective short position across all contracts has reached 288 million barrels, placing it in the 6th percentile of weekly data since 2013. This indicates a significant level of pessimism among investors. Long positions, while outnumbering shorts with a ratio of 1.96:1, fall into the 11th percentile, reflecting a generally cautious outlook. Investor sentiment across the petroleum complex is predominantly bearish, with most sentiment measures falling between the 25th to 49th percentiles. In some cases, sentiment is very bearish, registering below the 24th percentile. This widespread pessimism indicates that investors have minimal optimism about price increases later this year.

Several key factors shape this bearish outlook. One of the most significant is the substantial spare capacity within OPEC+, which gives the group the ability to increase production if prices rise too quickly, thus capping potential price gains. Additionally, ongoing production growth from major non-OPEC+ producers such as the United States, Canada, Brazil, and Guyana further contributes to the ceiling on crude oil prices. These countries have been steadily increasing their output, adding to global supply and exerting downward pressure on prices. The combination of these factors underscores the cautious sentiment prevailing in the market as participants remain wary of overcommitting in a context where supply dynamics can shift rapidly.

Moreover, the broader macroeconomic environment adds another layer of complexity to the oil market outlook.





Which 2024 oil demand growth forecasts are markets bedding-in with Brent crude oil averaging in the low $80s?

OPEC at 2.2mbpd

26%

EIA & IEA at 1.1mbpd

73%

Source: GI RESEARCH Polled 100+ Energy Market Stakeholders in Q2, 2024

Inflationary pressures, interest rate adjustments by central banks, and economic growth projections all play crucial roles in shaping demand expectations. For instance, higher interest rates can dampen economic growth, reducing oil demand and exerting downward pressure on prices. Conversely, signs of strong economic growth could bolster demand expectations and provide some support to prices. However, the interplay between these macroeconomic factors and the specific supply dynamics in the oil market creates a highly uncertain environment where investors remain cautious.

In summary, the current oil market is marked by a significant accumulation of short positions, driven by a mix of unexpected production announcements, geopolitical tensions, and broader economic uncertainties. While there has been a partial recovery in investor positions following initial sell-offs, overall sentiment remains bearish, reflecting the many constraints on potential price increases. The substantial spare capacity within OPEC+, combined with production growth from major non-OPEC+ producers, plays a critical role in shaping market expectations. As such, the oil market is likely to continue experiencing volatility and cautious trading in the coming months, as participants navigate this complex and uncertain landscape.

(*Market Data Source use in article is from Reuters)

TOP 10 TAKEAWAYS

1. **RECORD SHORT POSITIONS** Oil markets are experiencing the highest accumulation of short positions in a decade, suggesting a strong bearish sentiment among investors.
2. **IMPACT OF OPEC+ STRATEGY** OPEC+ has shifted its approach, now potentially influenced by external factors such as geopolitical tensions, Russian gas supply fluctuations, and conflicts like Yemen.
3. **MARKET REACTION TO OPEC+ ANNOUNCEMENT** Following OPEC+'s unexpected decision to increase production from Q4 2024, portfolio investors initiated a historic sell-off in petroleum futures and options.
4. **SWIFT DIVESTMENT** In just seven days, hedge funds and money managers sold a record-equivalent of 194 million barrels across primary contracts, reflecting rapid market response.
5. **RECOVERY IN POSITIONS** Reassurances from Saudi Arabia and OPEC+ allies led to a partial reversal, with investors repurchasing 80 million barrels by mid-June.
6. **BUYING RESURGENCE** Recent trading weeks have seen increased buying activities, particularly in crude oil (NYMEX and ICE WTI) and Brent, offsetting previous heavy sales.
7. **MARKET SENTIMENT** Despite some recovery, fund positions across the petroleum complex remain predominantly bearish, indicating cautious optimism among investors.
8. **SHORT VS. LONG POSITIONS** The collective short position across all contracts is at 288 million barrels, ranking in the 6th percentile since 2013, while long positions slightly outnumber shorts.
9. **BEARISH OUTLOOK** Investor sentiment remains consistently bearish or very bearish across the complex, with factors such as OPEC+ spare capacity and non-OPEC+ production growth cited as constraints on price increases.
10. **EXTERNAL FACTORS INFLUENCE** Market direction in the second half of the year will likely be shaped by ongoing geopolitical tensions, global production dynamics, and the responsiveness of market participants to supply changes.

OPEC+ TO RAISE OR NOT TO RAISE?

The recent OPEC+ meeting unfolded with significant implications for the global oil market, marking a strategic decision to extend production cuts through the end of 2024 and initiate a phased increase thereafter. These developments reflect a careful balance between stabilizing current prices and preparing for potential shifts in demand and supply dynamics going forward.

OPEC+ announced the continuation of existing production cuts until Sep-2024, withholding approximately 3.6 million barrels per day (bpd) from the market. This decision aims to maintain the tight market conditions and relatively elevated prices observed over the past 18 months. However, the meeting also introduced surprises, particularly from a subset of OPEC+ members, including Saudi Arabia and Russia, who announced plans to gradually phase out additional voluntary cuts starting in the fourth quarter of 2024. This initiative will reintroduce 2.2 million bpd to the market over a 12-month period beginning in October 2024, contingent upon market conditions.

The decision underscores OPEC+'s cautious optimism regarding future demand growth and its strategy to balance production increases with market stability. The phased approach allows flexibility, with provisions for adjustments or reversals depending on evolving economic conditions and demand indicators. This nuanced strategy is designed to maintain market equilibrium, avoiding abrupt fluctuations in prices that could destabilize the global economy.

Initially, the market responded with volatility, with oil prices dropping briefly post-announcement before stabilizing. Analysts' reactions varied, with some viewing the decision as bearish in the short term due to potential increased supply, while others saw it as bullish for the longer term, anticipating stronger global demand despite current uncertainties. Goldman Sachs, for instance, revised their price outlook to $75-$90 per barrel, highlighting potential downside risks. Conversely, JP Morgan maintained a more optimistic view, suggesting that the move could be bullish in the long run, indicating expected stronger demand despite short-term market weaknesses.

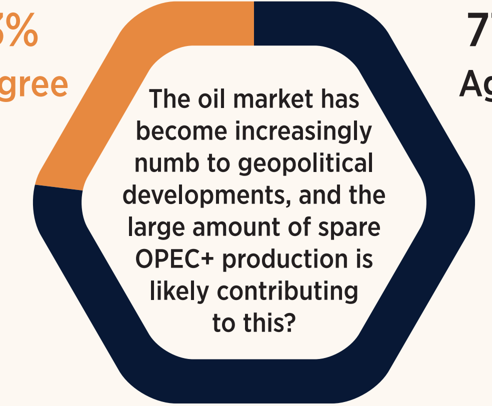
Looking ahead to the fourth quarter of 2024, several key factors will shape the oil market outlook. OPEC+ has anticipated rising demand during this period, particularly driven by seasonal factors like increased jet fuel demand and robust refinery operations. However, scheduled refinery turnarounds in October are expected to temporarily reduce demand by approximately 1.5 million bpd, influencing OPEC's cautious approach to production increases during this period. These turnarounds are a critical consideration, as they temporarily decrease refining capacity, impacting the overall demand for crude oil.

Non-OPEC+ supply dynamics, especially from countries like the US and Brazil, also play a significant role in the supply-demand balance expected in Q4. Despite regulatory approvals and recent acquisitions among US majors, logistical constraints such as pipeline capacities and lead times may limit significant shale production expansion in 2024. This constraint underscores the importance of OPEC+'s careful management to prevent price volatility while considering potential supply-side responses. Additionally, the US shale industry's production has shown signs of stagnation, with output remaining flat since October 2023. This stagnation, coupled with logistical bottlenecks, suggests that the US may not significantly boost production in the near term, reinforcing OPEC+'s strategic stance.

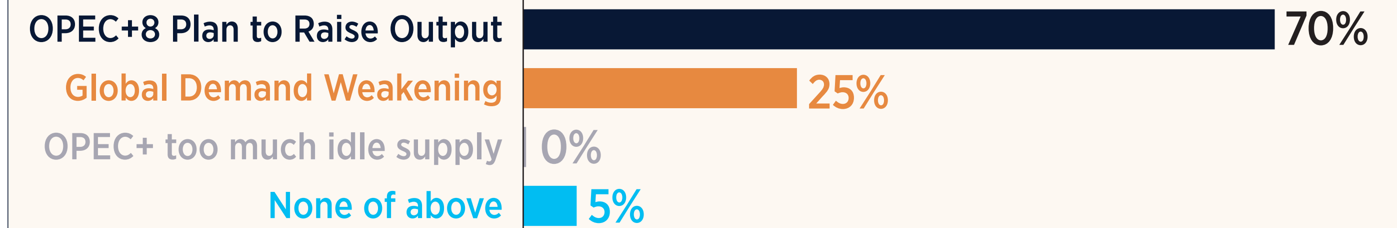
China's role emerges as pivotal, with its dual economic profiles influencing oil demand dynamics. Anticipated demand growth from China, particularly as a global manufacturing hub ("China 2"), will be crucial in justifying OPEC+'s gradual production increases. However, uncertainties remain regarding the magnitude of this demand growth, posing challenges for OPEC's strategy if it falls short of expectations. "China 1" refers to the country's domestic demand, while "China 2" encompasses its global manufacturing demand. The divergence in these profiles complicates OPEC's forecasting efforts, making it essential to monitor economic indicators closely. If China's demand does not surge as anticipated, it could pose challenges for OPEC in justifying further production increases, potentially leading to a reevaluation of their strategy.

Looking further into 2025, OPEC+ faces strategic decisions on whether to extend production cuts beyond the current timeline. The cautious approach signaled by OPEC+ suggests readiness to adapt to evolving market dynamics, including potential shifts in global economic conditions and energy demands. This strategic flexibility aims to mitigate both upward and downward price volatility, fostering a stable market environment conducive to sustained economic recovery. Analysts have pointed out that while OPEC+ has maintained its stance on production cuts, there is a growing recognition of the need to balance price stability with market share growth. This nuanced strategy is designed to prevent market imbalances that could lead to significant price swings, thereby supporting a more stable and predictable oil market.

In conclusion, OPEC+'s recent decisions reflect a delicate balance between short-term price stability and preparing for potential shifts in demand and supply dynamics in the oil market. The extension of production cuts through December 2025 aims to uphold current market conditions, while the phased increase in production starting in Q4 2024 indicates a strategic readiness to respond to anticipated demand growth. The interplay between OPEC's maneuvers and global market conditions will continue to shape oil dynamics, influencing both short-term price movements and long-term supply strategies. As OPEC+ navigates these complexities, its ability to manage production adjustments effectively will be crucial in maintaining stability and supporting sustainable economic growth for oil-exporting nations and beyond. This strategic approach is not just about managing supply but also about ensuring that market conditions remain conducive to growth and stability, helping to mitigate the risks associated with both supply surpluses and shortages.



Why has oil market responded bearishly to OPEC meeting thus far?



Source: GI RESEARCH Polled 100+ Energy Market Stakeholders in Q2, 2024

TOP 10 TAKEAWAYS

1. **PRODUCTION CUT EXTENSION** OPEC+ decided to extend existing production cuts through December 2025, withholding approximately 3.6 million barrels per day (bpd) until the end of 2025 to maintain tight market conditions and elevated prices.
2. **VOLUNTARY CUTS PHASE-OUT** Eight OPEC+ members, including Saudi Arabia and Russia, will gradually phase out additional voluntary cuts starting Q4 2024, reintroducing 2.2 million bpd to the market over a year with flexibility to adjust based on market conditions.
3. **COORDINATION AMONG OPEC+ 8** These key members met separately in Riyadh to synchronize strategies, enhancing coordination within the broader OPEC+ framework for maintaining market balance.
4. **MARKET IMPACT AND ANALYST REACTIONS** Initial market reaction saw a temporary price drop, followed by partial recovery. Analysts differ in interpretation, with Goldman Sachs revising price outlook to $75-$90 per barrel and JP Morgan viewing it as bullish for longer-term demand.
5. **SHORT-TERM PRICE STABILITY** Recent stability in oil prices around $85 per barrel reflects OPEC+'s careful management of production cuts, aiming to mitigate price volatility amid economic uncertainties.
6. **SUPPLY DYNAMICS** Despite planned production increases from OPEC+, Q4 2024 is expected to face a supply deficit, partly due to scheduled refinery turnarounds and cautious market conditions.
7. **DEMAND CONSIDERATIONS** OPEC's decision to hold off production increases in Q3 anticipates stronger demand in Q4, especially with recovering jet fuel demand and robust refinery operations.
8. **GEOPOLITICAL AND ECONOMIC FACTORS** Ongoing uncertainties in global economic conditions and geopolitical tensions continue to influence OPEC+ decisions and market sentiment.
9. **NON-OPEC+ SUPPLY CONSTRAINTS** Limited production increases from major non-OPEC+ producers like the US and Brazil add complexity to the supply-demand balance projected for 2024.
10. **LONG-TERM STRATEGY** The phased approach to production increases reflects OPEC+'s shift towards sustainable market share growth, balancing short-term price impacts with longer-term demand considerations.

REFINERIES TO RUN HARD OR SOFT?

In the rapidly evolving global energy landscape, the focus remains on future prospects amidst significant shifts and challenges. Refinery operations are anticipated to remain robust, particularly during the upcoming summer months. While some regions may experience supply imbalances, the commencement of increased refining capacities elsewhere is expected to generate surplus products. This surplus is crucial for OPEC+ as it navigates through 2024 and looks towards 2025, highlighting the importance of effective product market management in understanding crude market dynamics. Downstream activities, integral to petrochemical recovery, are expected to play a pivotal role in shaping these dynamics.

In the United States, despite strong performance in sectors like technology and sustained full employment, concerns persist due to persistent inflation. The Federal Reserve faces the challenging task of managing inflation amidst a burgeoning fiscal deficit, compounded by ambitious green initiatives from the Biden administration and potential fiscal challenges exacerbated by prior tax cuts. These fiscal vulnerabilities underscore potential risks akin to a "grey swan" scenario if not managed effectively, posing uncertainties for future economic stability.

Globally, there is a transformative shift towards green initiatives amidst a high-interest-rate environment. Accelerating this transition without adequate support could introduce setbacks, potentially prompting reconsideration of fossil fuel sources like coal. Investment trends heavily favoring green initiatives are adding complexity and volatility to the market, exacerbated by divergent global perspectives and unexpectedly resilient energy demand anticipated over the next decade.

U.S. oil refineries are currently operating at near peak capacity, processing 17.5 million barrels per day as of June, marking a significant increase from previous years. This intensive processing has boosted gasoline and diesel production, resulting in increased inventories exceeding seasonal averages. Despite high margins from this activity, the buildup of fuel stocks suggests potential future slowdowns in refinery operations.

The 3-2-1 crack spread, a key metric indicating refining profitability, has seen fluctuations, reflecting market dynamics and inflation adjustments. The current spread aligns with pre-pandemic averages, indicating ample fuel supply in the market despite ongoing challenges.

Looking ahead, the 2024 Atlantic hurricane season is expected to be active, potentially impacting refinery operations along the Gulf Coast. While the absolute risk of major disruptions remains low, higher inventory levels are recommended during peak storm months to mitigate potential interruptions.

The addition of over one million barrels per day in new refining capacity, particularly in the Gulf region including the OQ Refinery in Duqm, has significantly influenced market dynamics. This expansion has bolstered supply capabilities amidst geopolitical uncertainties that continue to influence supplier and end-user behaviors globally. Regional policies favoring energy security have mitigated traditional reductions in refinery operations during oversupply conditions, underscoring the strategic importance of securing supply chains.

Looking forward, despite current market challenges, expectations of improved demand and economic conditions as markets stabilize offer optimism. Potential interest rate adjustments by central banks could further support recovery efforts, potentially mitigating some of the current price and margin pressures observed in the refining sector.

As the refining sector prepares for the future, navigating through these complexities will be crucial. The integration of new refining capacities, such as those emerging in the Gulf region, presents both opportunities and challenges. These expansions not only enhance local supply capabilities but also influence global supply chains and market dynamics. For instance, the OQ Refinery in Duqm represents a significant addition to the refining capacity in the region, potentially altering regional supply dynamics and refining margins.

Geopolitical uncertainties continue to play a pivotal role in shaping energy policies and market behaviors. Recent geopolitical events have underscored the importance of supply security, prompting regions worldwide to prioritize energy self-sufficiency. This shift has implications for global refining operations, as regions traditionally reliant on imports may adjust their strategies to enhance energy security and resilience.

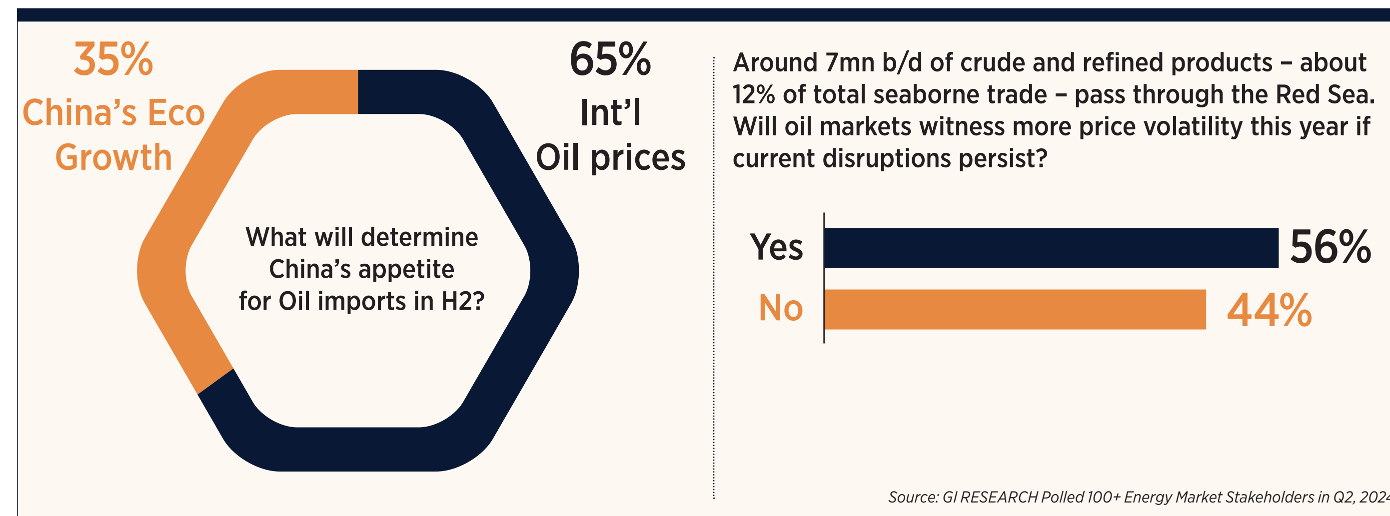
The ongoing transition towards green energy initiatives is reshaping the investment landscape within the refining sector. Investors and stakeholders are increasingly focusing on sustainability metrics and the integration of renewable energy sources into refining operations. This transition is not without challenges, as it requires substantial investments in technology and infrastructure to adapt existing refineries to meet stringent environmental standards and support renewable energy integration.

Market volatility remains a significant concern for refining stakeholders. Fluctuations in crude oil prices, geopolitical tensions, and regulatory changes can impact refining margins and profitability. As such, refining companies are adopting strategies to enhance operational flexibility, optimize refining processes, and diversify product portfolios to mitigate risks associated with market volatility.

Looking ahead, technological advancements and innovation will play a crucial role in shaping the future of the refining sector. Digitalization, artificial intelligence, and predictive analytics are transforming refining operations, enabling real-time decision-making and operational efficiency improvements. These technologies not only enhance operational performance but also support sustainability goals by optimizing energy consumption and reducing environmental impact.

In conclusion, while the refining sector faces challenges from geopolitical uncertainties, market volatility, and the transition towards green energy initiatives, opportunities abound for innovative solutions and strategic investments. The integration of new refining capacities, advancements in technology, and proactive adaptation to market dynamics will be key to navigating the evolving landscape successfully. By embracing these opportunities and addressing challenges proactively, the refining sector can position itself for sustainable growth and resilience in the years to come.

- (*Market Data Source use in article is from Reuters)



Source: GI RESEARCH Polled 100+ Energy Market Stakeholders in Q2, 2024

TOP 10 TAKEAWAYS

1. **ROBUST REFINERY OPERATIONS** US refineries are operating at 95% capacity, processing 17.5 million barrels per day (b/d) as of June 2024, the highest since pre-pandemic levels in 2019.
2. **SURPLUS PRODUCT CONCERNS** Increased refining capacity is expected to result in surplus products, particularly gasoline and diesel, posing challenges for market balance and pricing.
3. **IMPACT OF HIGH REFINING MARGINS** Despite high margins, gasoline and distillate inventories have built up, signaling potential slowdowns in processing activity ahead.
4. **CRACK SPREAD AND MARKET CONDITIONS** The 3-2-1 crack spread averaged $24 per barrel in June, suggesting ample supply in the fuel market despite inflation-adjusted levels matching pre-pandemic averages.
5. **2024 HURRICANE SEASON OUTLOOK** Forecasted to be more active than usual, the Atlantic hurricane season poses risks to refinery operations along the Texas and Louisiana coasts, emphasizing the need for higher inventory levels.
6. **GEOPOLITICAL AND ECONOMIC FACTORS** Global geopolitical uncertainties and regional energy security policies are influencing refinery operations and market dynamics, favoring supply security over immediate profitability concerns.
7. **NEW REFINERY CAPACITIES** Over one million barrels per day of new refining capacity, including the OQ Refinery in Duqm, is expected to increase global supply, with regional policies mitigating potential operational cuts.
8. **MARKET EVOLUTION AND DYNAMICS** Refining expansions east of the Suez Canal contrast with anticipated consolidations west of Suez, shaping future market dynamics amidst evolving economic conditions.
9. **CHALLENGES FOR NEW ENTRANTS** Current oversupply conditions and geopolitical tensions pose challenges for new refinery entrants, though recovery prospects improve with potential interest rate cuts by central banks.
10. **FUTURE OUTLOOK AND MARKET STABILIZATION** Expectations of improved demand and economic recovery, alongside strategic refinery expansions and policy adjustments, provide optimism despite current market pressures.

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