ENERGY MARKETS FORUM
DAILY BULLETIN

Consultancy Intelligence Publishing

THURSDAY /// JULY 8th /// 2021

TOP 10 DAILY NEWS DIGEST

BY MATT STANLEY
DIRECTOR
STAR FUELS

Brent is trading this morning at $73.22/bl, down 0.21/bl. WTI is trading at $71.93/bl, down 0.27/bl. Robert Louis Stevenson once said, "Everybody sooner or later sits down to a banquet of consequences". Well, feast away because OPEC+ is dishing up roasted confusion served with a side of no statement drizzled with a jus mostly made out of belligerence. The market does not seem to like the fact that no official statement from OPEC+ is a good thing. Sure, there won't be as much oil in August as the market hoped for, but everyone is looking beyond that. The longer that we do not hear of a resolution seemingly between the UAE and Saudi Arabia, the longer the market assumes that taps will be opened. Here is the thing: EIA data later today will more than likely show sizable draws of both crude oil and gasoline. The first week of July, the first week of the second half of the year, and this draw on products proves the forecasters right that demand is indeed getting better in the second half. This is bullish. No? Wrong. Here is why. I think if stats show draws, there will be an immediate spike before the market says, "hang on, demand is picking up, that means we need more oil, more oil?!!? no" and bosh down we go. So, we find ourselves in the extraordinary position of positive news being negative. Bear in mind that for the last year or so, it has been the other way - negative economic news was positive: "NFPs much lower than forecast". Excellent news! More free money! And up we went. Now? It is the other way. And it does not sit well with a transitory inflation argument the Fed is banging on about either.

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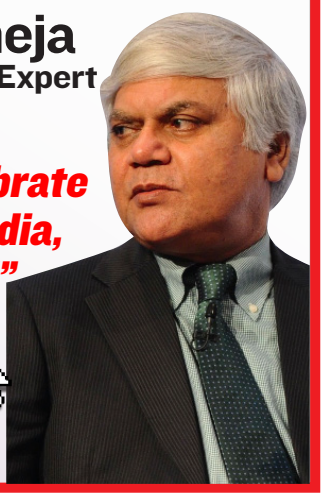

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Kevin Wright
Lead Analyst APAC
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Is there an urgency for OPEC to address the post April 2022 period?
The world is looking at Brent now in the high $70s and refiners, in this region in particular, and traders, are looking at the uncertainty and raised volatility in the market. The biggest indicator of where we're going to go is the current spat between the UAE and Saudi Arabia. I do think prudence will come to the fore but until that gets resolved, we're going to see the volatility continue.

Is OPEC disagreement causing concern in Asia on pushing prices higher?
There's a lot of noise about Chinese refining margins potentially coming under pressure and they already are because of weak gasoil and jet fuel margins especially. But we're still seeing relatively stable import numbers into China of around 9.6 - 9.7 million barrels per day.

What's the outlook for global refinery margins?
We've got a real problem with the oversupply of middle and heavy distillates in Asia but on the other side of the world - looking at US gasoline cracks for example that were at $25/bl - those are the highest we've seen in years. Margins in Asia are going to continue to struggle, and I think that's going to be the case for Europe as well. We also have the complexity and scale of the refineries that have been built in Asia in the last 10 or 20 years; when you compare that with those around the Med and NW Europe, you're going to see margins in Europe coming under pressure much more quickly and therefore run rates getting trimmed while Asian refineries in countries like Korea, China and India, are going to try and carry on running as long as they can.

How disruptive is China's structural management of its products market?
The tax changes on imports are going to have a big impact on the balances in Asia, including in China, because all of a sudden, that LCO flow that was going from Korea in particular to the Chinese refineries, suddenly stops, and you lose the surpluses. That could start to be more supportive for products like gasoil in the region. ■

**Paraphrased comments*