

MNI Commodity Weekly: Global Diesel Markets Face Counter Seasonal Tightness as Russian Supply Dynamics Bite

By Andrew Couper and David Lee (August 2, 2023)

Global Diesel Markets Face Counter Seasonal Tightness as Russian Supply Dynamics Bite: A slew of refinery outages, high temperatures and weak stock levels are driving global diesel prices as the impact of Russian sanctions creates counter seasonal tightness.

Oil Markets: Crude and oil product markets await the latest Saudi decisions for September as markets rally amid tight OPEC+ crude supplies, limited refinery runs and on optimism for improving global economic expectations.

Gas Markets: Volatile TTF trading continues against high storage levels and low demand is set against a dip in Norwegian supply as LNG imports decline. For the US, a small dip in LNG exports and steady domestic production are set against ongoing above normal demand after recent warm weather.

Global Diesel Markets Face Counter Seasonal Tightness as Russian Supply Dynamics Bite

Global diesel markets are facing an unusual summer surge on factors such as refinery outages and high temperatures across Europe and the US which are impacting production levels. It compounds on top of a western market that is still trying to adjust to the removal of key Russian diesel flows because of sanctions earlier this year.

- The initial removal of Russian diesel into the European market Feb 5 proved to be somewhat underwhelming for markets which had stockpiled Russian flows ahead of the date and against a backdrop of sluggish demand. Now however, the lack of readily available diesel out of nearby western Russian ports is proving difficult for markets that have seen a huge increase in ton miles due to trade pattern reshuffles.
- Russian diesel cargoes have found new footing in Brazil, North Africa, Turkey, the Middle East and Asia but at a cost of much longer journey times and the need for Russia to offer discounts to lure buyers.
- The impact of Russian diesel into Brazil has muscled out US Gulf suppliers, previously the top exporters to the region, instead pushing those flows across the Atlantic towards Europe.
- US diesel/gasoil shipments to the EU and UK rose to the highest for five years in July according to Vortexa.
- The EU and UK imported 1mn t of US diesel/gasoil in July – up 41% m/m and almost four times higher than year ago levels. It made the US the top diesel supplier to Europe in July for the first time this year.
- Mideast Gulf shipments to Europe also remained strong July at 1.75mn t and India supplied 1.06mn t – the highest on Vortexa records. It highlights the complications of cheap Russian oil heading to India and coming back to Europe in the form of refined products – a big win for Indian refiners this year and a subject western leaders are reluctant to address in their battle with stubborn domestic inflation, set for further tests as energy prices bite again.
- Argus sources said that Mediterranean basin refining had dropped 10% as a result of the current heatwave while outages such as Eni's Livorno, Spain's Petronor and Coruna refineries knocks production further.
- In Northwest Europe, persistent issues at Pernis in recent months and low Rhine levels have impacted regional diesel markets. Independent gasoil stocks in the region have fallen 8% on the month according to Argus.
- As a result of the above factors, diesel futures in Europe and the US are trading at highs not seen since January in the run up to the Russian ban, accompanied by a jump in Asian futures too.

- OPEC+ supply cuts are also having an impact as diesel rich heavy crudes come off the market with many Atlantic refiners instead forced to pull in lighter crudes such as those from the US.
- In a JP Morgan note last week, the bank said the global shift to lighter crudes can remove 1mn bpd of oil products from global markets. The hottest-ever June and July prompted refiners to curtail oil processing by at least 2% globally according to Macquarie.
- In the US, Valero, the second biggest refiner said that US diesel inventories were behaving somewhat counter cyclically by flattening at a point when they usually build - something that will cause post summer issues if not resolved. European refiners referred to market tightness as the diesel price driver at present while diesel stockpiles in US/European markets are around 10-15% below normal.
- Chinese diesel exports are forecast to drop in August which will add to Asian market tightness. Planned Chinese diesel exports will be 25% lower in August m/m at 642k tons according to OilChem. The country's diesel exports averaged about 170,000 bpd in the past four months despite a rebound in July — less than half the daily amount in January-March, according to Kpler.
- Keep an eye on any further refinery issues such as outages or heat related slowdowns that could further exacerbate issues in US/Europe. On a more positive note for global supplies, Russian diesel exports remain strong as crude pulled from the export market is pumped into domestic refineries and exported as refined fuels to a large extent. Russian diesel exports grew 5% m/m in July to 3.8mn mt according to Refinitiv.
- If diesel prices keep rising, the \$100/bbl price cap for Russian diesel will breach and limit tankers like those from Greece from helping move flows onto global markets. Lower expected Russian refinery runs September also remain a risk.

European ICE Gasoil Premium Over Brent



Source: ICE/Bloomberg

MNI Commodity Analysis: Commodity Markets Await Meaningful Signs of China Stimulus

See our latest on the China commodity market on the link below:

- **Chinese crude imports have showed signs of weakness**, but the market overall still remains bullish China this year. It awaits signs of meaningful stimulus measures to help an ailing economic backdrop as it returns from last year's lockdowns, a move that would likely provide crude another boost.
- **The upcoming Chinese fuel export quota is expected to be 10mn tons** in the imminent third release, with gasoline exports from the country set to jump in August while planned diesel and jet fuel exports slip back.
- **Chinese refineries returning from maintenance** are supporting runs but it is not clear if refiners will return to buy up more crude imports or tap into buoyant domestic stockpiles built up at cheaper prices. Russian production cuts are limiting discounted crude availability and tightening discounts. Higher fuel oil imports are also arriving at the expense of crude.
- **Peak summer demand has supported gasoline and jet**, with further likely to run before peaking demand, but sluggish economic indicators show a weak economic background weighing on diesel as manufacturing and construction lag.

Full piece here:

<https://enews.marketnews.com/ct/x/pjJscFeBwuQ16ahhIU9ySA~k1zZ8KXr-kA8x6iQU8OsptIPjO1OcQ>

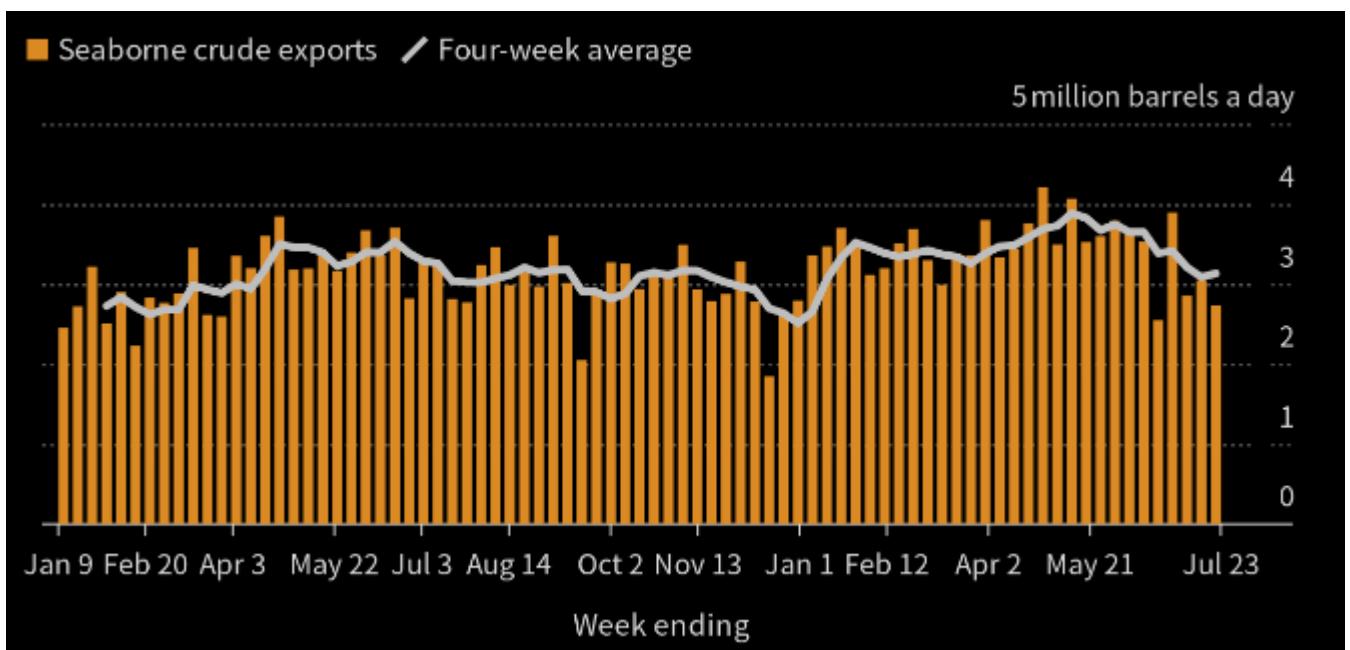
Oil Markets:

Crude oil markets have in the last week seen an extension of the mid-July rally, driven by tighter OPEC+ supply while the US looks to avoid a recession as well as optimism around potential stimulus measures in China.

- Saudi Arabia lowered its output by 860k bpd m/m in July after the country pledged to cut production by 1mbpd as OPEC oil output fell to the lowest level since Sep 21. Saudi Arabia is largely expected to extend the voluntary output cuts into September and could also raise its price for Arab Light crude to Asian refiners for a third month. The OPEC JMMC is not expected to recommend any overall policy changes when they meet on 4 Aug.
- Russia's seaborne crude flows in the four weeks to July 30 fell to the lowest since early January according to Bloomberg vessel tracking as pledged cuts are reflected in the data. Exports are down by more than 900k bpd from the peak seen in mid-May. The drop in exports is set against an increase in crude processed in Russia's refineries in July, with several plants completing major maintenance.
- Combined oil exports from 10 West African countries in July dropped 12.1% from June to the lowest level since November. Nigeria output was the lowest average monthly output since November with a drop in loadings from Forcados after the suspension of loadings on 12 July due to a leak. The repair work is expected to be completed by early next week.

- Iraq’s crude oil exports were the highest monthly level since March as the country awaits a visit from the Turkish President Erdogan to discuss the resumption of flows from the country’s northern fields via a pipeline to the Turkish port of Ceyhan.
- The US Government is again delaying the replenishment of the nation’s strategic petroleum reserves amid an increase in crude prices. The US plans to purchase around 12mn barrels of oil for the reserves this year.
- The average price for Russian Urals crude export blend rose above the G7 price cap of \$60/bbl causing mainstream tanker owners to shy from lifting Russian barrels according to BRS shipbrokers. This is most notable with Greek shipowners according to Vortexa.
- The tight supply is reflected in the strong curve backwardation with the Dec23-Dec24 spread following the front month rally to the highest since April and the prompt WTI spread still holding near the highest since November.
- Despite the bullish trend in futures prices, the crude option put skews have turned more bearish over the last week with ongoing economic downside risks to global demand. Aggregate daily crude traded volumes for Brent and WTI have fallen in the last week as volatility falls and the market awaits a decision from Saudi Arabia as to whether the voluntary production cuts will be extended into September – a move supported by the latest Bloomberg survey as well as Goldman analysis.

Russia Seaborne Crude Shipments



Source: Bloomberg

(Shipments from the ports of Primorsk, Ust-Luga and Novorossiysk fell to 1.17 million barrels a day in the week to July 23 according to Bloomberg vessel tracking, a drop of 625,000 barrels a day from the previous week.)

Oil Products:

Diesel and gasoline cracks have surged higher as the US front month diesel crack spread breaks above the highs seen in March to reach the highest since early February amid tight supplies and low stocks. A tighter diesel market is supported with crude runs hampered by hot weather and amid refinery disruptions (see main newsletter feature).

- European Gasoil backwardation continues to strengthen reflecting tight supplies and low inventories. The prompt Gasoil spread is the highest since March while the Dec23-Dec24 spread broke through the high of around 75\$/bbl seen several times during 2022 to a record high.
- ICE Gasoil managed money net long positions rose for a third week according to the latest data from Friday to the highest since late January.
- US gasoline cracks rallied from around 34\$/bbl to 40.2\$/bbl during July. US RBOB front month last week reached the highest since October to drive US retail pump prices to the highest since November.

European Gas:

TTF has once again seen volatile trading this week between a low of 25.4€/MWh and high of 34.3€/MWh. A drop in Norwegian supply in early August and the risk of LNG competition from Asia are weighed against high storage levels and low industrial demand as LNG imports decline.

- Total European gas in storage has risen above the five-year range to 85.79% full on 30 July according to GIE data and is now the highest for this time of year in data back to 2008 according to Bloomberg figures. The level compares to the five-year average of 70.7% for this time of year and with an EU target of 90% by November.
- European storage injection rates averaged near normal throughout July after seeing rates averaging 83% of the five-year average since April. Full end of summer season inventories is a bearish risk for near term TTF prices with a period of oversupply in late summer/early autumn possible, particularly if October weather is mild.
 - Norwegian pipeline supplies to Europe are lower at the start of August with additional “corrective maintenance” capacity reductions at Troll on top of an initial maintenance plans and with works also at Kollsnes and several UK gas facilities.
 - Global LNG supply was down in July largely due to maintenance and more LNG on the water with a drop in both major importing regions of Europe and Asia according to the Centre on Global Energy Policy. The estimated quantity of LNG cargoes on the water for at least 20 days rose to the highest floating volume since May according to Bloomberg.
 - LNG sendout to Europe fell just below 300mcm/d at the end of July compared to an average of around 333mcm/d for the whole of July, 378mcm/d in June and an average of 372mcm/d in July last year according to Bloomberg data. A total of 52 cargoes arrived into NW Europe in July down from 59 in June with shipments from the US dropping from 37 in June to 29 in July.
 - Asia remains more profitable than Europe for US LNG exports in September and October, according to BNEF. Exports to Europe constituted just 45% of all US LNG exports in July according to Kpler, amid a continued fall from 65% in May and 52% in June.
 - The IEA warned in July that Europe could still suffer a very tough winter if Russia halts its remaining natural gas deliveries to the continent.

European LNG Net Flows (left) – European Storage % Full (right)



Source: Bloomberg

US Natural Gas:

US front month Henry Hub has drifted lower from a high on 26 July although remains above a low of around 2.5\$/mmbtu seen on 27 July. A small dip in LNG exports and steady domestic production are set against ongoing above normal demand after recent warm weather.

- LNG exports from the US jumped 9% on the month in July, as operations resumed following planned maintenance. A total of 7.74m mt of LNG was exported, 43% of which went to Europe, 36% to Asia, and 10% to Latam, according to Refinitiv data. Shipments to Europe have continued to decline at the expense of exports to Asia, whose exports hit an 18-month high in July.
- US LNG export terminals feedgas averaged 12.8bcf/d in H1 2023 up 4% from the same period last year and 8% (1.0bcf/d) from the 2022 annual average. EIA expected exports to average 12.0bcf/d in 2023 and 13.3bcf/d in 2024 with the start of operations at two new liquefaction projects - Golden Pass and Plaquemines. Feedgas flows are this week down around 12.5bcf/d according to Bloomberg data.
- Domestic natural gas consumption is holding above the five-year seasonal average although the weather forecast has trended slightly cooler over the last week to ease some of the cooling demand pressure.

Oil Market Calendar:

| Key Events | | | |
|----------------------------------|-------------|---------------------|---------------------|
| Release | Type | Release date | Release Time |
| EIA weekly oil | weekly | 2-Aug-23 | 10:30 ET |
| Genscape crude ARA inventories | weekly | 2-Aug-23 | 09:00 BST |
| EIA weekly gas | weekly | 3-Aug-23 | 10:30 ET |
| Insights product ARA inventories | weekly | 3-Aug-23 | |
| Singapore oil product stockpile | weekly | 3-Aug-23 | 08:00 BST |
| BOE | monthly | 3-Aug-23 | 12:00 BST |
| JMMC Meeting | bimonthly | 4-Aug-23 | |
| Baker Hughes rig count | weekly | 4-Aug-23 | 13:00 ET |
| ICE COT report | weekly | 4-Aug-23 | 18:30 BST |
| Nymex CFTC report | weekly | 4-Aug-23 | 15:30 ET |
| US Nonfarm Payrolls | monthly | 4-Aug-23 | 08:30 ET |
| API oil data | weekly | 8-Aug-23 | 16:30 ET |
| EIA Short Term Energy Outlook | monthly | 8-Aug-23 | 17:00 BST |
| EIA weekly oil | weekly | 9-Aug-23 | 10:30 ET |
| Genscape crude ARA inventories | weekly | 9-Aug-23 | 09:00 BST |