OPIS Europe LPG & Naphtha Report

A Daily Report on Europe LPG and Naphtha Spot Prices with News and Commentary

OPIS By IHS Markit

9 January 2020

ICE Brent Futures at 16:30

Brent Crude Oil ($/bbl)		
Month	Price	Change
MAR	65.45	-1.12
APR	64.74	-1.14
MAY	64.08	-1.11

Energy Futures at Settlement

WTI Crude Oil ($/bbl)		
Month	Price	Change
FEB	59.56	-0.05
MAR	59.44	-0.02
APR	59.25	+0.02

Table of Contents

JANUARY PROPANE DOWN $63/T IN FOUR SESSIONS

In NW Europe, propane swaps for January fell for a third straight session, ending at $447/t inside the 4:00-4:30pm GMT timeframe, down $22/t on the day. The January marker has now lost $63/t in just four sessions. January/February softened Thursday to +$34/t from +$38/t.

Two bidders returned to the TOT fold – a trader sought a 19-25 January TOT or 19.4-23kt cargo, whilst a retailer was seeking a TOT cargo along similar dates. Neither bid solicited offer interest. With the flat price coming off steeply Thursday, bid ideas were also softening. Broking sources put the premium for propane slightly lower at +$29/t to market, where OPIS made its assessment.

Some uncertainty surrounded the Very Large Gas Carrier (VLGC) Chaparral, which had been earmarked for the feedstock pool having loaded in the U.S. East Coast. On leaving the loadport, sources suggested the vessel could have been redirected to the Mediterranean.

Propane/naphtha continued to widen, ending at -$80/t for January (around -$50/t when taking into account the closing propane value-to-market). The spread for February stepped back into triple digit territory, ending at -$105/t from -$91/t.

The small-stem ARA-range propane market continued to be buoyed by deals Thursday, with a 1.7kt FOB parcel bid to $550/t by a Norwegian major and booked by an Italian major. Outstanding interest came from a retailer, offering a similarly-sized FOB parcel ex-Karlshamn with a wider date range. No further deals were heard.

With no physical activity seen, large-cargo butane was pegged at 93% to January naphtha.

(Continued on Page 3)

OPIS LPG Settle Prices ($/mt)

Location	Low	High	Mean	Change	MTD Avg
Propane CIF ARA	474.00	478.00	476.00	-26.00	507.417
Butane CIF ARA (+4,000mt)	491.00	495.00	493.00	-1.00	496.917
Propane FOB Med	568.00	572.00	570.00	-25.00	599.167
Butane FOB Med	513.00	517.00	515.00	0.00	519.167

OPIS CIF ARA Propane Swaps ($/mt)

	Mean	Change
Balance January 4:00-4:30pm	447.00	-22.00
Physical-Paper Differential	+29.00	-4.00

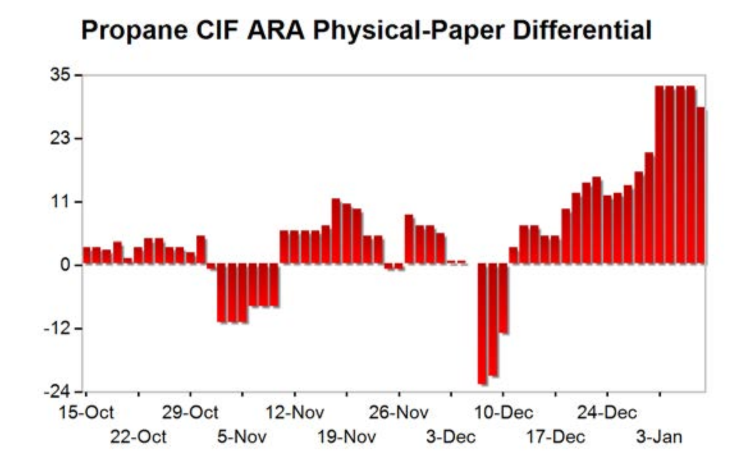
OPIS LPG Mont Belvieu Snapshot ($/mt)

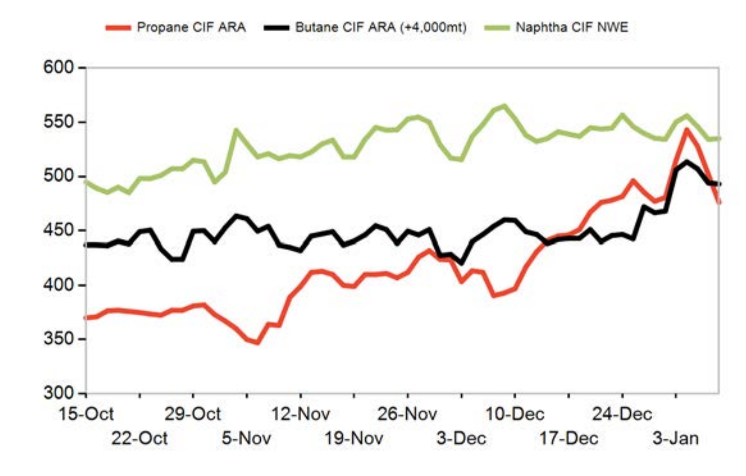
Location	Mean	Change	MTD Avg
Mont Belvieu Non-TET Propane	226.64	+5.21	227.286
Mont Belvieu Non-TET Butane	319.37	+6.80	316.251

OPIS Naphtha Settle Prices ($/mt)

	Mean	Change	MTD Avg	Diff to Flat Price
Naphtha CIF NWE (4:00-4:30pm UK time)	535.00	0.75	542.625	-- --
Open-Spec Naphtha	540.00	0.75	550.625	5.00
Paraffinic Naphtha	555.00	-4.25	567.792	20.00

OPIS Spot Prices ($/mt)





OPIS Global Spot LPG Prices ($/mt)

		Propane		Butane	
	Date	Price	Change	Price	Change
CIF ARA	9-Jan-2020	476.00	-26.00	493.00	-1.00
CFR Japan	9-Jan-2020	523.50	-45.75	603.00	-45.50
Mont Belvieu Non-TET	8-Jan-2020	225.33	-3.26	316.53	-4.81
FOB Arab Gulf	9-Jan-2020	527.50	-31.50	555.50	-30.50

OPIS 44,000mt VLGC Freight Rates ($/mt)

Route	Rate	Change	NWE C3 Netback	NWE C4 Netback
AG - Japan	65.50	+0.50	-- --	-- --

Route	Rate	Change	NWE C3 Netback	NWE C4 Netback
USGC - NWE	65.00	0.00	411.00	428.00

January LPG Posted Prices ($/mt)

	Propane		Butane	
	Price	Change	Price	Change
Saudi Arabia FOB	565.00	+125.00	590.00	+135.00
Algeria FOB	467.00	+62.00	470.00	+20.00
North Sea	463.00	+63.50	434.00	+12.00

OPIS End of Day NWE Forwards Prices ($/mt)

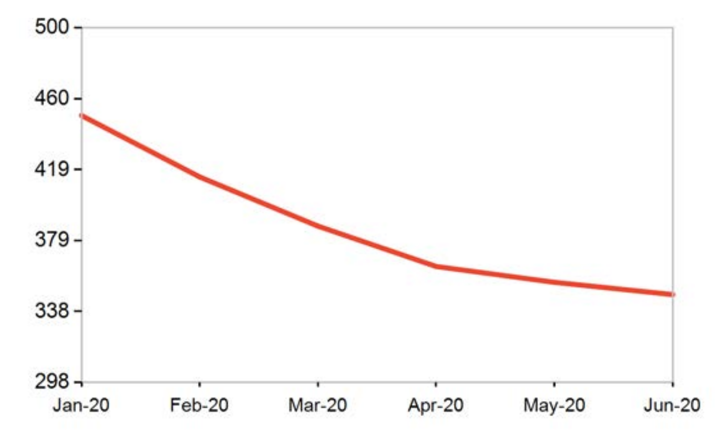
Month	Min	Max	Mean	Change	Time Spread	Pro/Nap	Naphtha	Change
JAN 2020	448.00	452.00	450.00	-16.00	+35.00	-80.00	530.00	-1.00
FEB 2020	413.00	417.00	415.00	-15.00	+28.00	-105.00	520.00	-1.00
MAR 2020	385.00	389.00	387.00	-14.00	+23.00	-122.00	509.00	-3.00
APR 2020	362.00	366.00	364.00	-9.00	+9.00	-136.00	500.00	-2.00
MAY 2020	353.00	357.00	355.00	-7.00	+7.00	-139.00	494.00	-2.00
JUN 2020	346.00	350.00	348.00	-6.00	+4.00	-140.00	488.00	-2.00
JUL 2020	342.00	346.00	344.00	-6.00	-5.00	-138.00	482.00	-2.00
AUG 2020	347.00	351.00	349.00	-4.00	-6.00	-129.00	478.00	-1.00
SEP 2020	353.00	357.00	355.00	-2.00	-5.00	-119.00	474.00	-2.00
OCT 2020	358.00	362.00	360.00	-3.00	-6.00	-111.00	471.00	-1.00
NOV 2020	364.00	368.00	366.00	-3.00	-6.00	-101.00	467.00	-2.00
DEC 2020	370.00	374.00	372.00	-2.00	-5.00	-92.00	464.00	-1.00
JAN 2021	375.00	379.00	377.00	+1.00	-- --	-83.00	460.00	-1.00
Q1 2020	415.00	419.00	417.00	-15.00	+61.00	-103.00	520.00	-1.00
Q2 2020	354.00	358.00	356.00	-7.00	+7.00	-138.00	494.00	-2.00
Q3 2020	347.00	351.00	349.00	-4.00	-17.00	-129.00	478.00	-2.00
Q4 2020	364.00	368.00	366.00	-3.00	-2.00	-101.00	467.00	-2.00
Q1 2021	366.00	370.00	368.00	0.00	-- --	-87.00	455.00	-1.00
CAL 2020	370.00	374.00	372.00	-7.00	+21.00	-118.00	490.00	-2.00
CAL 2021	349.00	353.00	351.00	0.00	-- --	-91.00	442.00	-1.00

OPIS Global Propane Forward Prices ($/mt)

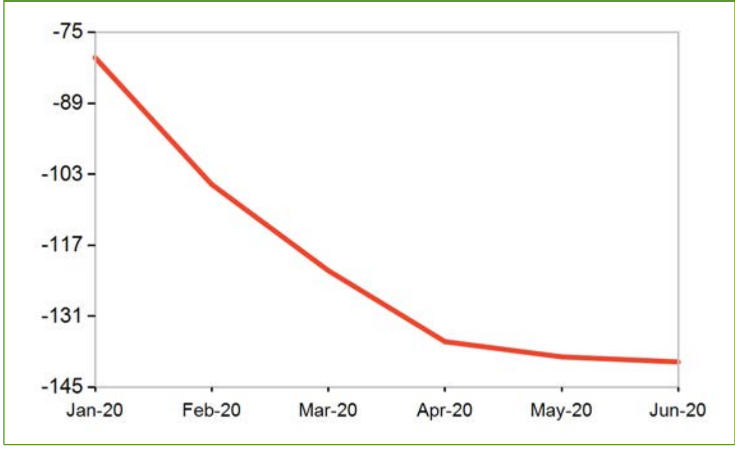
Month	Belv.	Change	Arb	CP	Change	FEI	Change	E/W
JAN 2020	237.00	+6.00	-213.00	-- --	-- --	505.00	-30.00	+55.00
FEB 2020	243.00	+7.00	-172.00	502.00	-19.00	478.00	-20.00	+63.00
MAR 2020	242.00	+7.00	-145.00	448.00	-21.00	448.00	-15.00	+61.00
APR 2020	241.00	+8.00	-123.00	413.00	-18.00	419.00	-14.00	+55.00
MAY 2020	242.00	+7.00	-113.00	388.00	-11.00	408.00	-12.00	+53.00
JUN 2020	245.00	+8.00	-103.00	368.00	-10.00	400.00	-12.00	+52.00
JUL 2020	250.00	+8.00	-94.00	363.00	-10.00	397.00	-12.00	+53.00
AUG 2020	256.00	+9.00	-93.00	364.00	-9.00	399.00	-11.00	+50.00
SEP 2020	260.00	+9.00	-95.00	367.00	-8.00	402.00	-12.00	+47.00
OCT 2020	265.00	+9.00	-95.00	371.00	-7.00	407.00	-11.00	+47.00
NOV 2020	270.00	+10.00	-96.00	374.00	-8.00	411.00	-11.00	+45.00
DEC 2020	274.00	+9.00	-98.00	378.00	-8.00	415.00	-11.00	+43.00
JAN 2021	278.00	+12.00	-99.00	381.00	-5.00	419.00	-9.00	+42.00
Q1 2020	241.00	+7.00	-176.00	475.00	-20.00	477.00	-21.00	+60.00
Q2 2020	243.00	+8.00	-113.00	390.00	-13.00	409.00	-13.00	+53.00
Q3 2020	255.00	+8.00	-94.00	365.00	-9.00	399.00	-12.00	+50.00
Q4 2020	270.00	+10.00	-96.00	374.00	-8.00	411.00	-11.00	+45.00
Q1 2021	275.00	+11.00	-93.00	375.00	-4.00	414.00	-3.00	+46.00
CAL 2020	252.00	+8.00	-120.00	394.00	-12.00	424.00	-14.00	+52.00
CAL 2021	266.00	+11.00	-85.00	357.00	-5.00	395.00	-5.00	+44.00

OPIS 6-Month Forward Curve ($/mt)

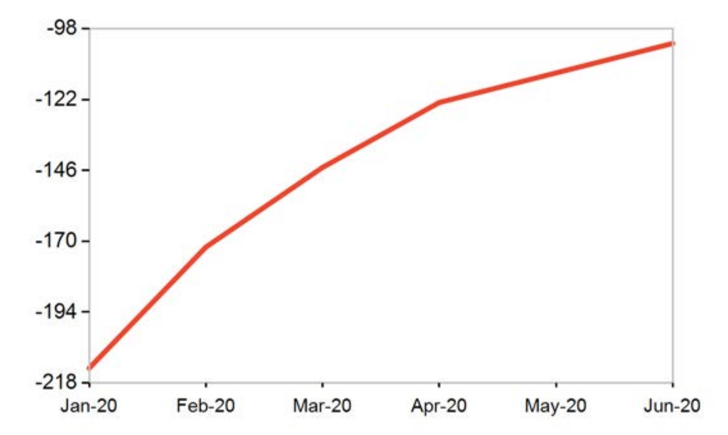
Propane



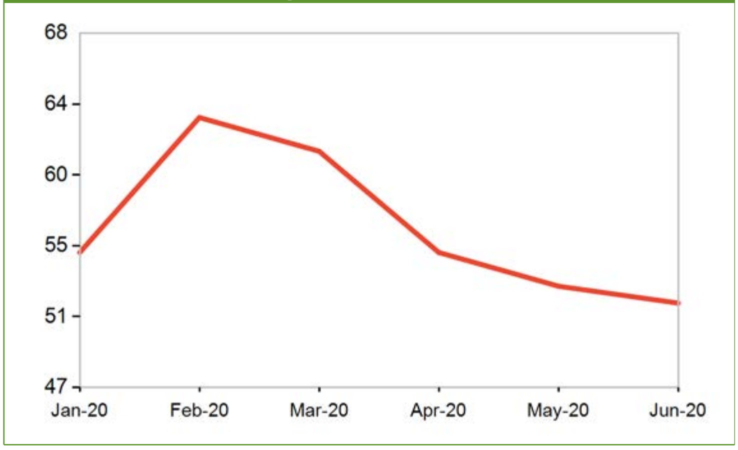
Propane/Naphtha



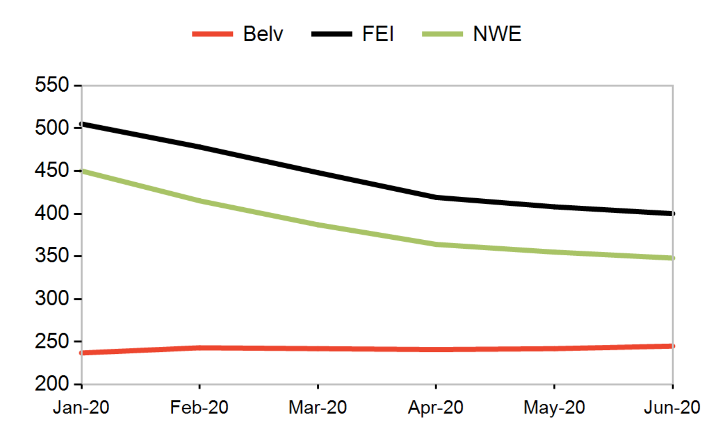
Propane Arb



Propane East / West



Propane Global Swaps



(Continued from Page 1)

BID: PROPANE, TOT or 19.4-23kt, 19-25 January, TOT terms, $460/t and +$20/t to January (+$16.50/t to January)

BID: PROPANE, TOT14, 19-23 January, TOT14 terms, $455/t and +$15/t to January (+$11.50/t to January)

OFFER: PROPANE, 1700mt propane 5% molbo, ambient commercial propane meeting Portuguese specifications for propane with max 15% olefins, Fob Karlshamn loading any 3-day range within 12-20 January, TBN acceptable to seller and loading terminal, 24 hrs, 12500 dem, 20 days payment after b/l date, independent inspection if required by buyer 50/50. Price usd/mt 540 basis weight in air.

DEAL: EQUINOR-ENI on the bid, 1,700mt propane 5% molbo, ambient commercial propane meeting Portuguese specifications for propane with max 15% olefins, Fob osb-p Le Havre-ARA range including wcuk, scuk and ecuk, final load port/berth to be declared by 6pm Stavanger today, loading 16-18 January but if Tees/c-p then 14-16 January , lpg/c Crystal Lavender or Eco Nemesis or Magdalena or sub acceptable to seller, 24 hrs, 13500 dem, 20 days payment after b/l date, independent inspection if required by buyer 50/50. Price usd/mt 550 basis weight in air. if Immingham/hgj

(Continued on Page 4)

OPIS Europe LPG & Naphtha Report Methodology

OPIS assesses daily spot propane and butane and naphtha prices at the key trading hubs in northwest Europe and the Mediterranean region. Editors record and confirm deals, bids and offers, analyse supply and demand fundamentals, and gauge market sentiment and outlook. Prices are quoted in US dollars per metric ton. Times quoted are that of the United Kingdom.

In the northwest European propane market, OPIS assesses cargoes CIF basis Flushing for 10-20 days forward delivery. The grade and quality, delivery and nomination terms are based on the prevailing, industry-accepted forward contract, such as the TOT contract. Positions referencing alternative forward delivery contracts will be considered if the dates fall into the 10-20 day forward delivery range. The cargo quantity considered for assessment is between 19,400-23,100 metric tons in seller's option.

Butane prices are for field grade mixed butane cargoes above 4,000mt delivered 5-20 days forward basis CIF ARA.

In the Mediterranean, OPIS assesses field grade and refinery grade propane and butane FOB basis Lavera 5-15 days forward. Cargo sizes are 1,500mt and above.

The physical flat naphtha price assessment is based on public physical spot deals transacted between 4:00-4:30pm London time. The delivery period assessed is a forward 10-25 delivery window basis CIF NWE, also termed CIF Rotterdam. The typical cargo size for assessment purposes will be in the range 12.5-25kt and deals done in larger volumes may at times be included at the discretion of the editor.

OPIS assesses on a full day basis for the Open Spec and for Paraffinic grade (LVN) naphtha (basis min 80% paraffins).

For further details on the LPG or naphtha methodology see www.opisnet.com/about/methodology.aspx

OPIS contacts a cross-section of market participants daily. Information published is according to the best available data on the day and is subject to change. Please direct any enquiries to energylpedseurope@opisnet.com

OPIS Europe LPG & Naphtha Editorial Staff

Karen Tang (London, UK)
ktang@opisnet.com
+44 779 415 0133
ICE: ktang11

Diane Miller (NJ, USA)
dmiller@opisnet.com
+1 732 730 2530
ICE: dmiller_opis

Dermot McGowan (London, UK)
dmcgowan@opisnet.com
+44 752 522 5300
ICE: dermotmcgowan

Inge Erhard (London, UK)
ierhard@opisnet.com
+44 777 375 7940
ICE: ierhard1

Yazdi Merchant (London, UK)
ymerchant@opisnet.com
+44 7801 383135
ICE: ymerchant

Cuckoo James (London, UK)
cjames@opisnet.com
+44 7773 646543
ICE: cjames9

Jessica Marron (MD, USA)
jmarron@opisnet.com
+1 301 284 2046
ICE: jmarron1

Charles Kim (Houston, USA)
ckim@opisnet.com
+1 832 619 8650
ICE: ckim12

Rob Sheridan (London, UK)
Robert.Sheridan@ihsmarkit.com
+44 770 208 9953
ICE: rsheridan3

(Continued from Page 3)

then usd/mt 4 less, if Stanlow then less usd/mt 8. latest Statoil/Equinor gt&c for fob sales.

--Dermot McGowan, dmcgowan@opisnet.com

In the U.S. Gulf Coast FOB propane market, participants responded to the drop in Asian flat price and cash differentials by taking a cautious approach to fixing resale deals. Additional risks posed by potential weakness in Mont Belvieu pricing in the near future also factored in the lull in activity.

A market source said: "Right now things have just got a bit quiet as traders are waiting for some direction."

A broker added on LPG resale pricing: "Best offers are not yet below 30cpg for February FOBs but it is coming off."

OPIS established its 1H February assessment value accordingly in a range of 29-31cts/gal, steady day on day. Previously, a mid-February deal had been concluded at around 30cts/gal.

"We would expect more Mount Belvieu weakness. But so far the only weak market is FEI," a market participant said.

In Asia, cash premia have been volatile, shifting from +$30s/t late last week to +$50s/t early this week. On Thursday, the 1H March physical/paper differential stood relatively low at +$46.5/t. Meanwhile, the propane Far Eastern Index for March has dropped from $500/t on Monday 6 January to $447/t on the day, adding to concerns the huge netbacks seen recently might be coming off.

"We think the peak has passed," a source said.

In fact, an OPIS analysis of netbacks revealed a dip in arbitrage economics from mid-week. On Thursday, netbacks dropped for the second day in a row, falling to 26.625cts/gal from 36.625cts/gal on Monday for U.S. Gulf Coast cargoes loading over 1H February.

FOB USGC PROPANE 1H FEB LOW / HIGH / MEAN 29.000/31.000/30.000

FOB USGC PROPANE 2H FEB LOW / HIGH / MEAN 26.000/28.000/27.000

--Cuckoo James; cjames@opisnet.com

NWE LPG IMPORTS

JANUARY

- BW vessel, ex-Nederland, ldg 14-15 Jan, est 44kt LPG, dest Europe (NWE or Med)**
- Sibur Tobol, ex-Ust Luga, ldg 15 Jan, est 12kt LPG, dest TBD**
- Navigator Luga, ex-Ust Luga, ldg 11 Jan, est. 13kt LPG, dest TBD**
- Chaparral, ex-MHK, ldg 6 Jan, est 46kt C3, dest NWE/Med**
- Karoline N, ex-Nederland, ldg 3 Jan, est 42kt C3, ETA Le Havre 18 Jan
- Spread Eagle, ex-Targa, ldg late Dec, est 44-46kt LPG, ETA Antwerp 11 Jan
- Sibur Tobol, ex-Ust Luga, ldg 5-6 Jan, est 12kt LPG, ETA Antwerp 10 Jan
- Navigator Yauza, ex-Ust Luga, ldg 28 Dec, 13kt C4, arr Rotterdam 2 Jan
- Navigator Luga, ex-MHK, ldg end-Dec. 13kt C3, arr Brunsbuettel 6 Jan
- BW Princess, ex-Nederland, ldg H2 Dec, est 44-46kt LPG, arr Terneuzen 4 Jan

(Continued on Page 5)

(Continued from page 4)

- Corvette, ex-Nederland, ldg mid-Dec, est 44-46kt LPG, arr Terneuzen 1 Jan

NWE LPG EXPORTS

JANUARY - Antwerpen, ex-Karsto, ldg mid Jan, est 12kt LPG, dest Livorno - Navigator Leo, ex-Karsto, ldg early Jan, est 12kt LPG, arr Sines 7 Jan - Sibur Voronezh, ex-Stenungsund, ldg early Jan, est 12kt LPG, ETA Donges 8 Jan - Vivit Thuban, ex-Stenungsund, ldg late Dec-01 Jan, est 46kt LPG, dest East Med**

** Unconfirmed

NWE NAPHTHA STEMS CRUDE OIL SELLOFF AS GASOLINE RECOVERS

Northwest European naphtha margins extended previous gains Thursday, aided by a recovery in the gasoline segment, where the continued selloff in crude oil futures also outpaced flat-price declines.

Balance-of-Jan. cracks added 60 cents on the day to -$5.6/bbl by the close, taking the lead from a similar rise in EBOB Jan. margins to $3.7/bbl, which effectively reversed the previous losses related to data outlining a sizeable U.S. gasoline stock build amid slackening implied demand.

The cost of crude oil refining input eased as the risk premium for strained U.S.-Iran relations faded in the face of media reports that the U.S. would put sanctions over another military strike. The Brent front-line marker drifted as low as $65/bbl, wiping out all gains accrued since mid-December.

The backwardated naphtha structure also illustrated front-end strength. The bal. Jan./Feb. spread was valued at +$10/t and higher by the close, and Feb./March was stretched to a similar extent, settling at around +$10.5/t.

A year ago, the nearby curve had been in a slight contango and cracks had been weaker, at under -$8/bbl, according to broker data.

OPEC+ producer cuts have contributed to propping up Far Eastern values, and the relative firmness of lighter cracking feedstocks this winter has temporarily aided naphtha economics.

However, Thursday’s sessions saw propane paper pulling back to under 85% of naphtha for the current month and to just under 80% for February, thus returning the economic advantage for cracking to the discounted feedstock.

There was unconfirmed rumor from aromatics trading circles, noting tighter benzene supplies, about a continued technical issue at a cracker in the ARA region, which may dent naphtha demand.

A source with a chemicals manufacturer reported “flat-out” operations at its continental facilities, in the wake of unspecified glitches and disruptions related to industrial action in the French refining sector.

The latter still manifested itself through some blockades to product deliveries from refineries in Donges, Feyzin, Grandpuits and La Mede, according to separate OPIS reporting.

Open physical discussion produced a trade at $535/t, which was $5.75/t above bal. Jan. swaps, marked at $529.25/t by 4:30pm GMT. Two bids and one offer remained outstanding.

Valuations for physical differentials have diverged in recent days, falling for LVN grade into a low-/mid-teen to mid-$20/t range, amid observations of some offering activity. OPIS gauged LVN at +$20/t over the floating marker and open-spec grade at +$5/t.

--Inge Erhard, ierhard@opisnet.com

U.S. NORTHEAST ETHANE GENERATES MOST ATTRACTIVE GROSS STEAM CRACKER MARGIN.

Thursday saw the Dominion South Point (DSP) gas price and the Mont Belvieu Purity Ethane value part company, as the former kept on its southerly path and the latter reversed direction to head north. Subsequently, the theoretical landed price Northwest Europe for U.S. Northeast ethane decreased while that for U.S. Gulf Coast ethane increased.

The fall in the estimated CIF NWE ethane ex-Marcus Hook value helped increase its attractiveness for European steam cracker operators, as it generated the highest gross steam cracking margin of all products at $643.50/t on 8 January. Falls in LPG and naphtha prices also helped boost their gross steam cracker margins, but these remain some distance behind those for ethane. The sharp rise in the notional CIF NWE ethane ex-Morgan’s Point price meant its margin saw a sharp contraction on the day.

The propane gross steam cracker margin moved from $196.48/t to $220.74/t, some $413.60/t below the average U.S. ethane margin of $634.34/t. Butane’s gross margin improved to $208.67/t from $197.04/t previously, though this is $425.67/t under the average ethane margin. Naphtha saw its margin grow from $133.55/t to $144.81/t, but still left it trailing the average U.S. ethane margin by $489.53/t.

Even though most of the Mont Belvieu NGL complex weakened on the day in the face of a bearish U.S. propane inventory data, Mont Belvieu Purity Ethane values went in the opposite direction buoyed up by a higher range of ethane trades. This helped lift the OPIS Mont Belvieu non-TET (Enterprise) purity ethane quotation up by 1.125cts/gal (6.9%) to 16.25cts/gal, which, in turn, sent the theoretical CIF NWE ethane ex-Morgan’s Point price into orbit.

The latest forward ethane values listed in the OPIS NGL Forwards Report also reflected ethane’s buoyancy on the day, with the range out to Q3 2021 expanding to 16.375 cts/gal – 18.50cts/gal from its prior 15.75cts/gal – 18.50cts/gal. The first five months of 2019 to May 2020 remain depressed in a 16.375 – 16.875cts/gal band, while the four months December 2020 – February 2021 continue to remain robust in a span of 18cts/gal – 18.50cts/gal.

The latest OPIS Point Logic U.S. Northeast gas supply/demand data record a sharp contraction in demand with a further smaller shrinking of supply. Temperatures are forecast to be abnormally warm. These drivers combined with lower Henry Hub gas values to send the DSP gas price plunging by 7.30cts/MMBtu (4.3%) to $1.7070/MMBtu, resulting in the hypothetical U.S. Northeast ethane delivered price to Northwest Europe crumpling on the day.

Estimated CIF NWE Ethane ex-Morgan’s Point -- $311.97/t, an $8.38/t increase.

Notional CIF NWE Ethane ex-Marcus Hook -- $293.65/t, a $3.56/t decrease.

--Yazdi Merchant, ymerchant@opisnet.com

SONATRACH AWARDS$3.7 BILLION REFINERY CONTRACT TO SAMSUNG, TECNICAS

Algerian state-oil firm Sonatrach has awarded to Samsung Engineering Co. and Tecnicas Reunidas a $3.7 billion contract to build a refinery in Hassi Messaoud.

The Engineering, Procurement and Construction (EPC) lump-sum turn-key deal for a 110,000 barrel a day (b/d) refinery is to be completed in 52 months, or sometime in 2025, Samsung said in a statement on Thursday.

Samsung said its stake in the deal is worth about $1.6 billion and the rest is held by Tecnicas.

Algeria currently has crude and condensate refining of 637,500 b/d, which is well short of its around 1.05 million b/d of crude oil output capacity.

The country's refining sector lacks complexity despite recent upgrade investments, leading to relatively high volume of fuel oil output, according to IHS Markit's "Algeria - Infrastructure" report in November 2019.

The government has reiterated its priority to increase domestic production of gasoline in order to reduce reliance on imports, which are becoming increasingly expensive, especially with the depreciation of the Algerian Dinar, the report showed. It highlighted that both greenfield and expansion projects remain highly uncertain.

Algeria exported 571,000 b/d of crude oil, while domestic demand totaled at 431,400 b/d in 2018, according data from the Organization of the Petroleum Exporting Countries (OPEC).

Reporting by Jongwoo Cheon, Jongwoo.Cheon@ihsmarkit.com; Editing by Raj Rajendran, Rajendran.Ramasamy@ihsmarkit.com

SHIPS' FUEL SELLING FOR SIX TIMES THE VALUE OF RBOB IN NORTH ATLANTIC

A funny thing happened while most of the oil world was rightly focused on various scenarios that could play out in Iran and Iraq, following the assassination of Iranian commander Qassem Suleiman.

Refiners and traders in the North Atlantic are now looking at a midwinter landscape where IMO-compliant bunker fuel (No. 6 oil with less than 0.5% sulfur) fetches a price that yields six times the margin available for winter gasoline.

OPIS confirmed yesterday that 0.5% sulfur max VLSFO (Very Low Sulfur Fuel Oil, or No. 6 residual fuel) saw Northeastern deals consummated at $24/bbl over the front-month Brent number. As of Tuesday morning, that equated to a price of about $89.40/bbl, with March Brent at $65.40/bbl.

Diesel, which represented the "cut" of the barrel that many analysts speculated might be the biggest beneficiary of IMO, commanded a margin of about $16.50/bbl over Brent, with a presstime outright number of $81.90/bbl. Jet fuel, a cut where some other molecules might slide into VLSFO production, was a penny shy of the spot diesel numbers.

RBOB, which typically slides during winter until spring turnarounds and the shift to a much more difficult to manufacture low-RVP summer blend, was just $4/bbl above Brent, with a measly value of $1.6525/gal. If the price of RINs for RFS compliance were considered, some merchant refiners saw margins under $4/bbl.

Put into cents per gallon for comparison, gasoline blendstock fetched a price that was almost 50cts/gal below the gallon value for VLSO.

So, does this represent the new IMO world, and will refinery executives trumpet the high returns for VLSFO in upcoming earnings reports?

Not likely, say most analysts that OPIS talked to. The problem is that simple light sweet crude refiners can't make a lot of VLSFO unless they run very expensive sweet crudes that have heavier gravity and yield a reasonable No. 6 oil. Many of the worldwide crude grades that are the best choices for a high-compliant residual fuel fetch large premiums to other benchmarks or have other problems such as high metals or high acid.

Two of the crude oil blends bandied about as attractive, for example, are Doba crude from Chad and some other blends from Angola. But suspicions are that these high-priced heavy sweet crudes represent only a percentage point or two of global blends. In the U.S., refiners running Uinta crude might be able to manufacture a compliant No. 6 oil, but that crude is mostly run by Salt Lake City processors with no means to move marine fuel to tidal water.

Thus, some refinery executives may use conference calls to point out that they are doing better than standard crack spread metrics, but it's tough to trumpet a fuel that might represent just 5% or 10% (or less) of refinery yields.

"This will not be the new normal," one refinery analyst told OPIS adding that refiners "need to make their money on the large cuts of the barrel, whether it be distillate or gasoline."

There is speculation that more distillate molecules will find their way into compliant bunker fuel through blending, and there is evidence that vacuum gasoil is getting blended into the new fuels as well. The diversion of vacuum gasoil from catcrackers hasn't impacted gasoline inventories, but it may play a role in lower total motor fuel output.

Ultimately, this may prove to be a very odd quarter. Refiners collecting margins of nearly $25/bbl on residual fuel won't make investments to hydrotreat barrels coming off crude towers, since there is the threat that such an investment might be stranded thanks to scrubber installation or LNG preferences for ships.

And there is still a chance that gasoline will surge back to the top of the margin pyramid this spring. Even lighter-than-normal refinery maintenance will knock out gasoline production just as the industry approaches its annual challenge to flush out winter gas and replace it on the fly with summer blends.

But in the meantime, the greatest responsibility and power in U.S. refined products markets may lie with the blenders, whether they be inside or outside the refinery. To the extent that they solve challenges related to what stable mixtures of components work on the high seas (typical residual fuel, diesel, jet fuel, light cycle oil, VGO and other streams) they can become heroes in a market that is as differentiated as we've seen in years.

--Tom Kloza, tkloza@opisnet.com