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Bunker and Shipping Markets Update

IBIA New Regional Dynamics
İstanbul
22 June 2022

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Agenda

- Refining margins and supply overview
- Impact of the Russian invasion on markets
- Pricing difficulties
- Outlook on sanctions
- Bunker prices
- Concluding thoughts

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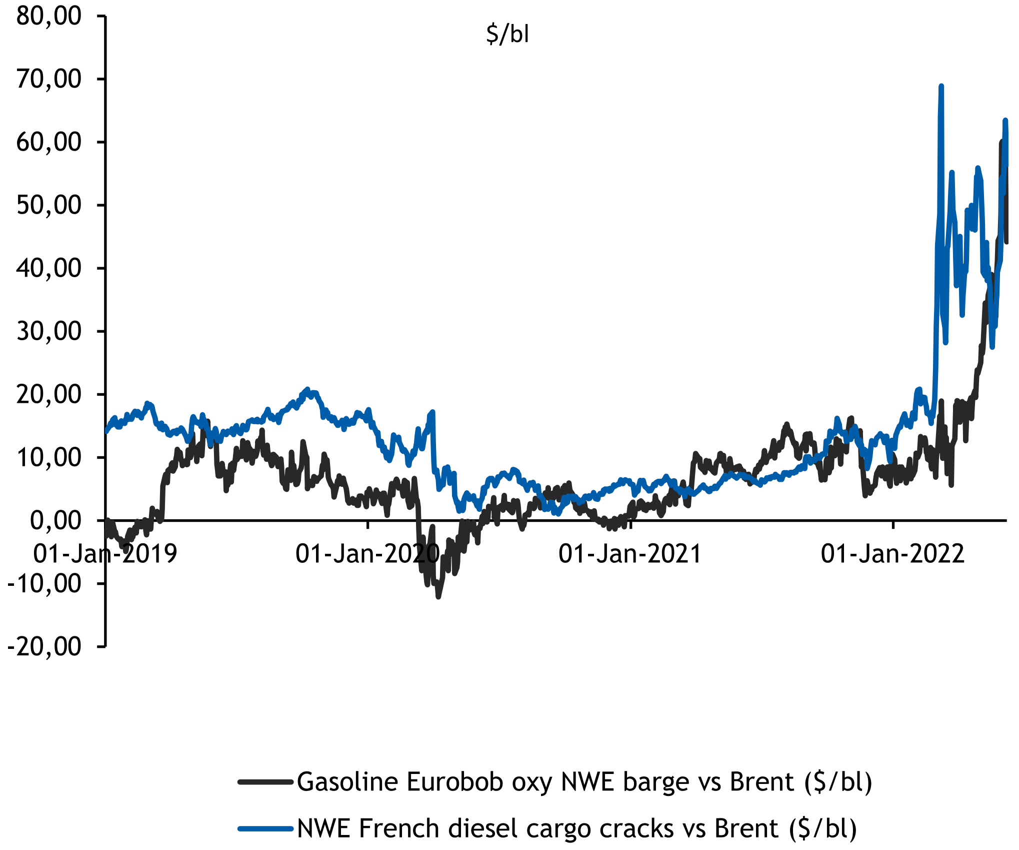
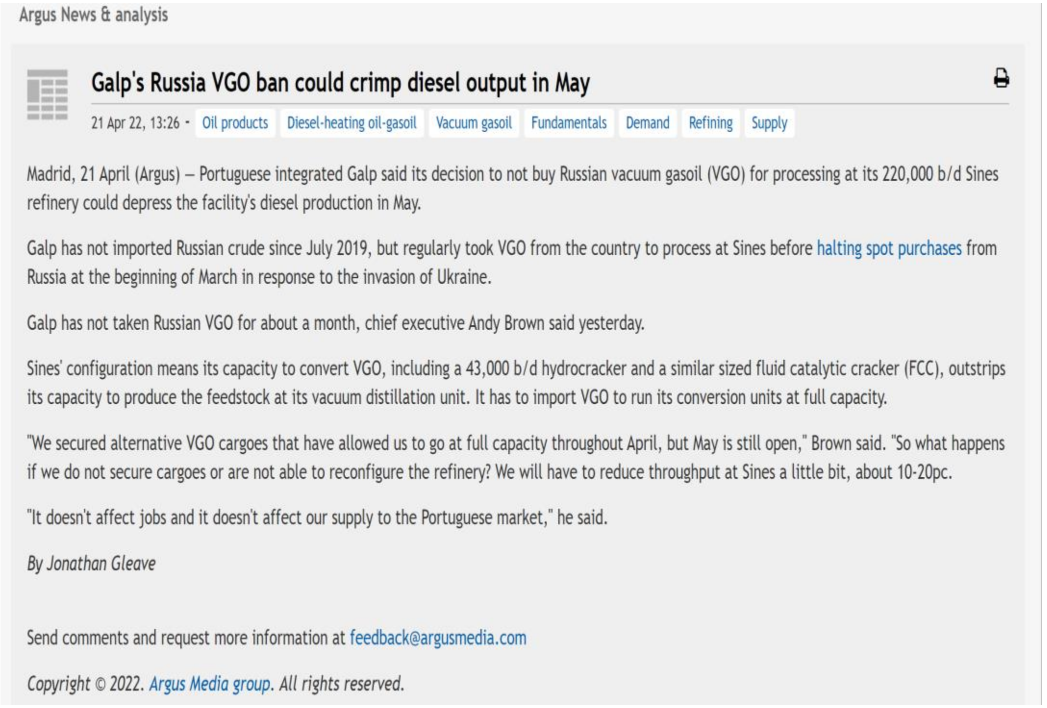
Road fuel refining margins surging but bottlenecks exist





Argus News & analysis

Galp's Russia VGO ban could crimp diesel output in May

21 Apr 22, 13:26 · Oil products | Diesel-heating oil-gasoil | Vacuum gasoil | Fundamentals | Demand | Refining | Supply

Madrid, 21 April (Argus) – Portuguese integrated Galp said its decision to not buy Russian vacuum gasoil (VGO) for processing at its 220,000 b/d Sines refinery could depress the facility's diesel production in May.

Galp has not imported Russian crude since July 2019, but regularly took VGO from the country to process at Sines before halting spot purchases from Russia at the beginning of March in response to the invasion of Ukraine.

Galp has not taken Russian VGO for about a month, chief executive Andy Brown said yesterday.

Sines' configuration means its capacity to convert VGO, including a 43,000 b/d hydrocracker and a similar sized fluid catalytic cracker (FCC), outstrips its capacity to produce the feedstock at its vacuum distillation unit. It has to import VGO to run its conversion units at full capacity.

"We secured alternative VGO cargoes that have allowed us to go at full capacity throughout April, but May is still open," Brown said. "So what happens if we do not secure cargoes or are not able to reconfigure the refinery? We will have to reduce throughput at Sines a little bit, about 10-20pc.

"It doesn't affect jobs and it doesn't affect our supply to the Portuguese market," he said.

By Jonathan Gleave

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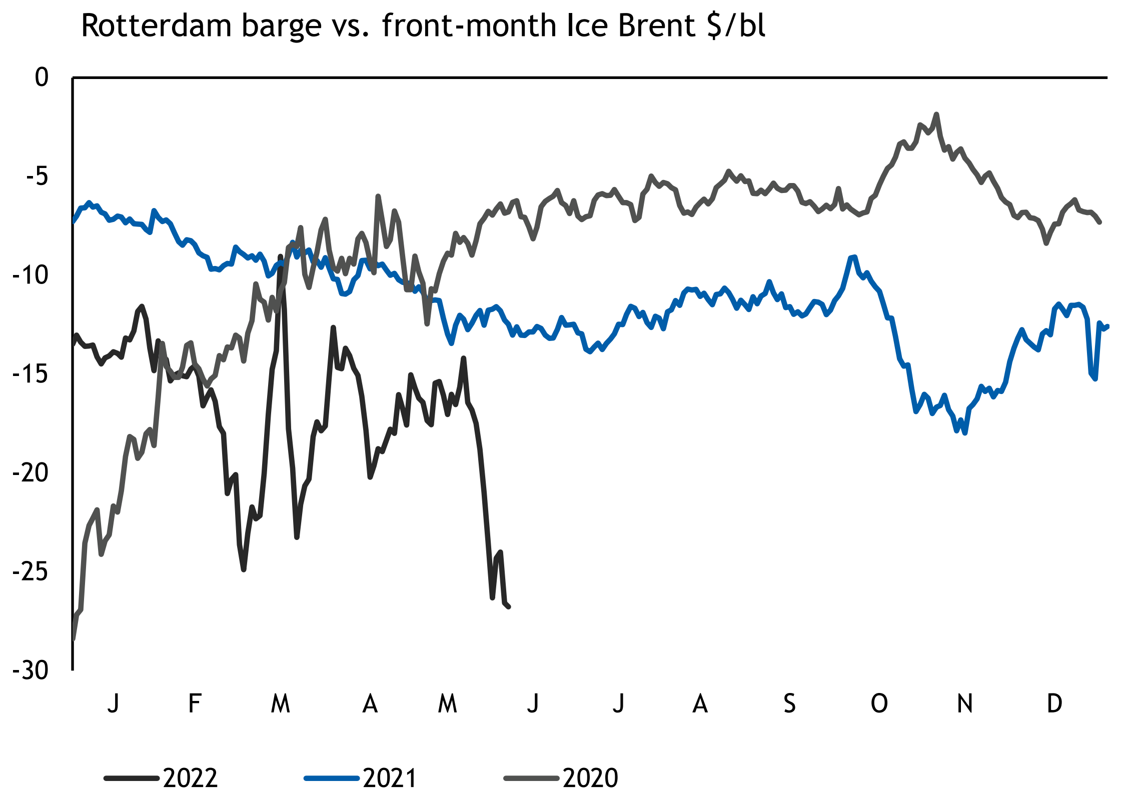
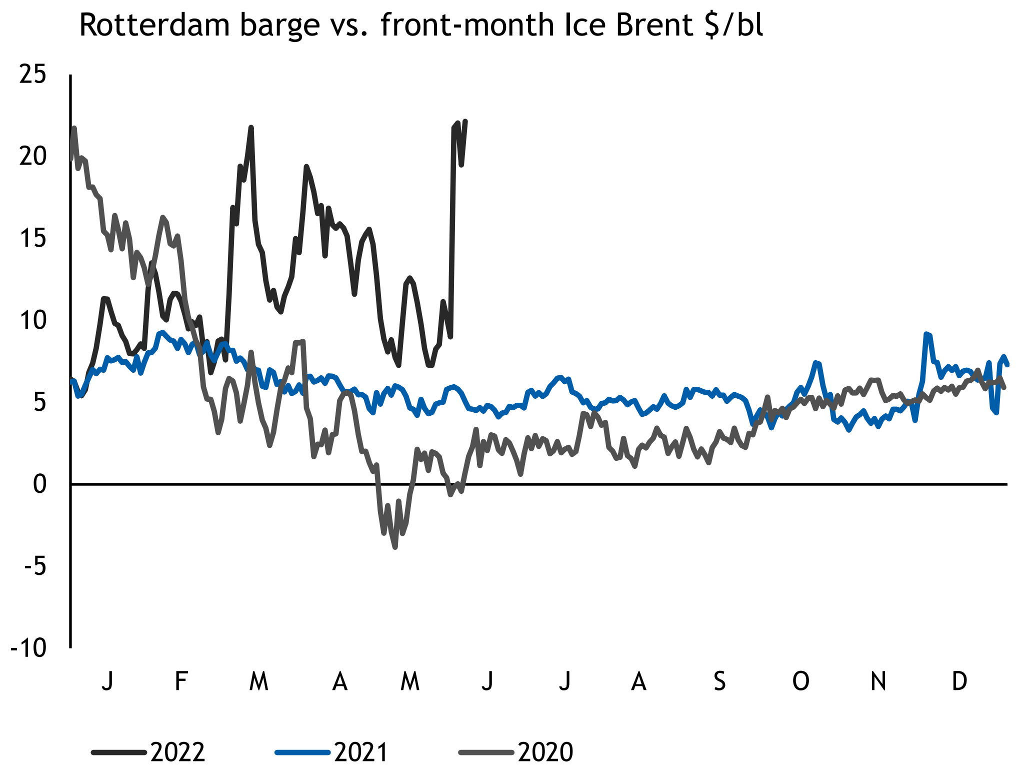
Fuel oil 3.5pc refining margins diverge





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Sanctions and corporate behaviour create pricing questions

- Price reporting agencies faced with difficult decisions on Russian supply
- Counterparties differing on definitions of Russian-origin
- Bids and offers diverging in the Mediterranean fuel oil market

- Traders discuss around $20-25/t premium for non-Russian fuel oil
- Non-Russian HSFO supply limited and not enough to replace Russia
- Russian-sourced supply excluded from pricing in some markets such as naphtha

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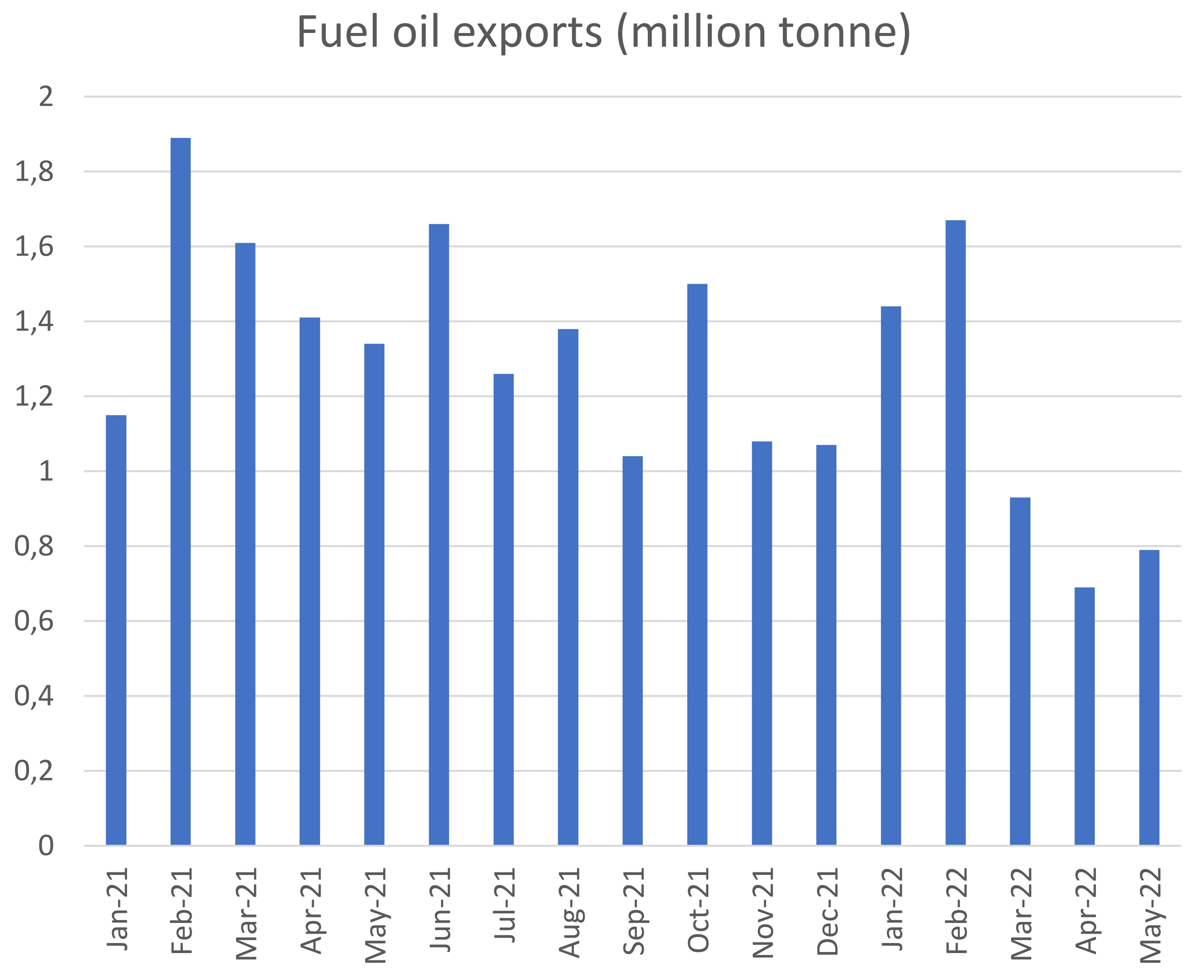
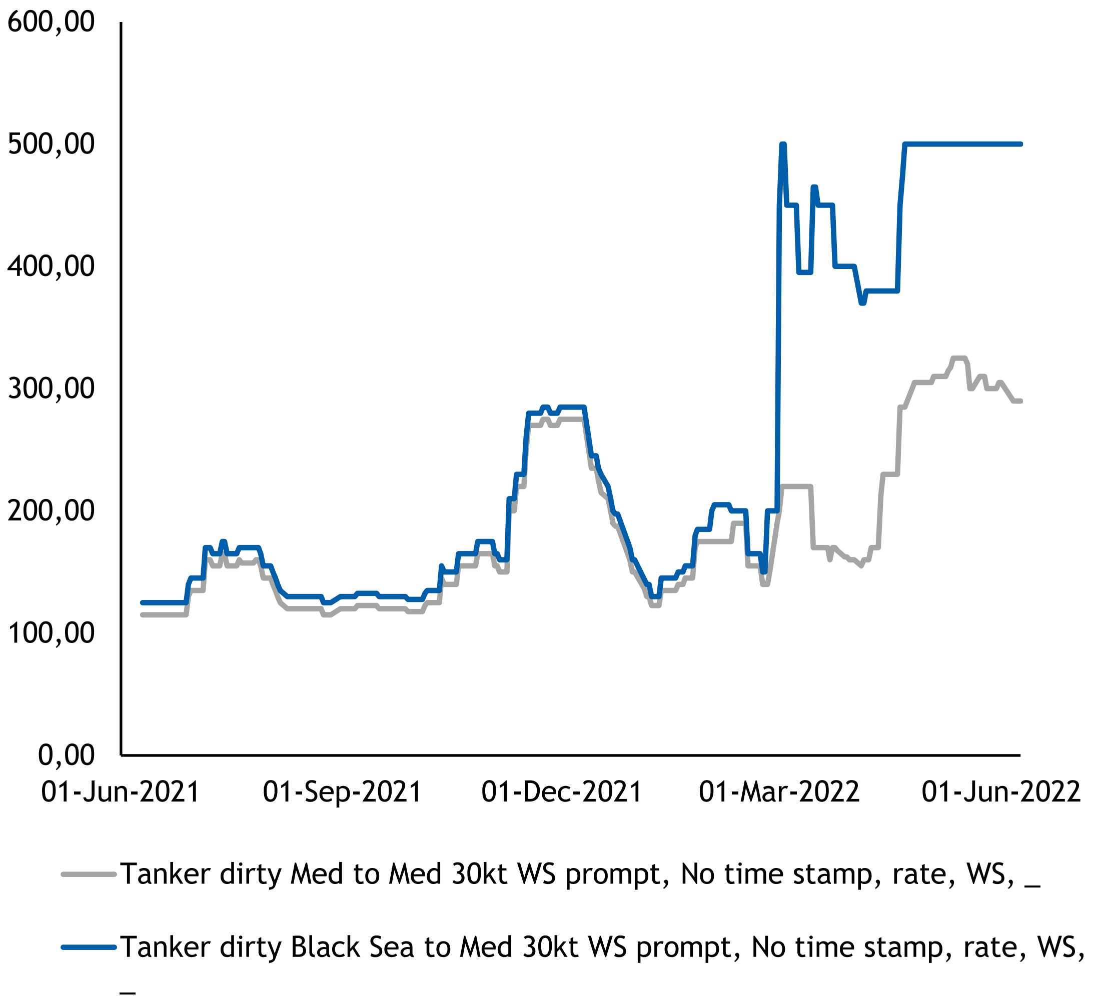
Russian Black Sea fuel oil exports and freight rates





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Source: Vortexa

Outlook on sanctions

- The EU and US ban on Russian oil imports to change trade flows
- Middle East and Asia could absorb some of the excess volume
- HSFO and VLSFO prices to receive continued support
- Buyers to compete for non-Russian supply
- Potential impact of tanker reinsurance ban

Tanker reinsurance ban narrows Russia's options

Published date: 08 June 2022

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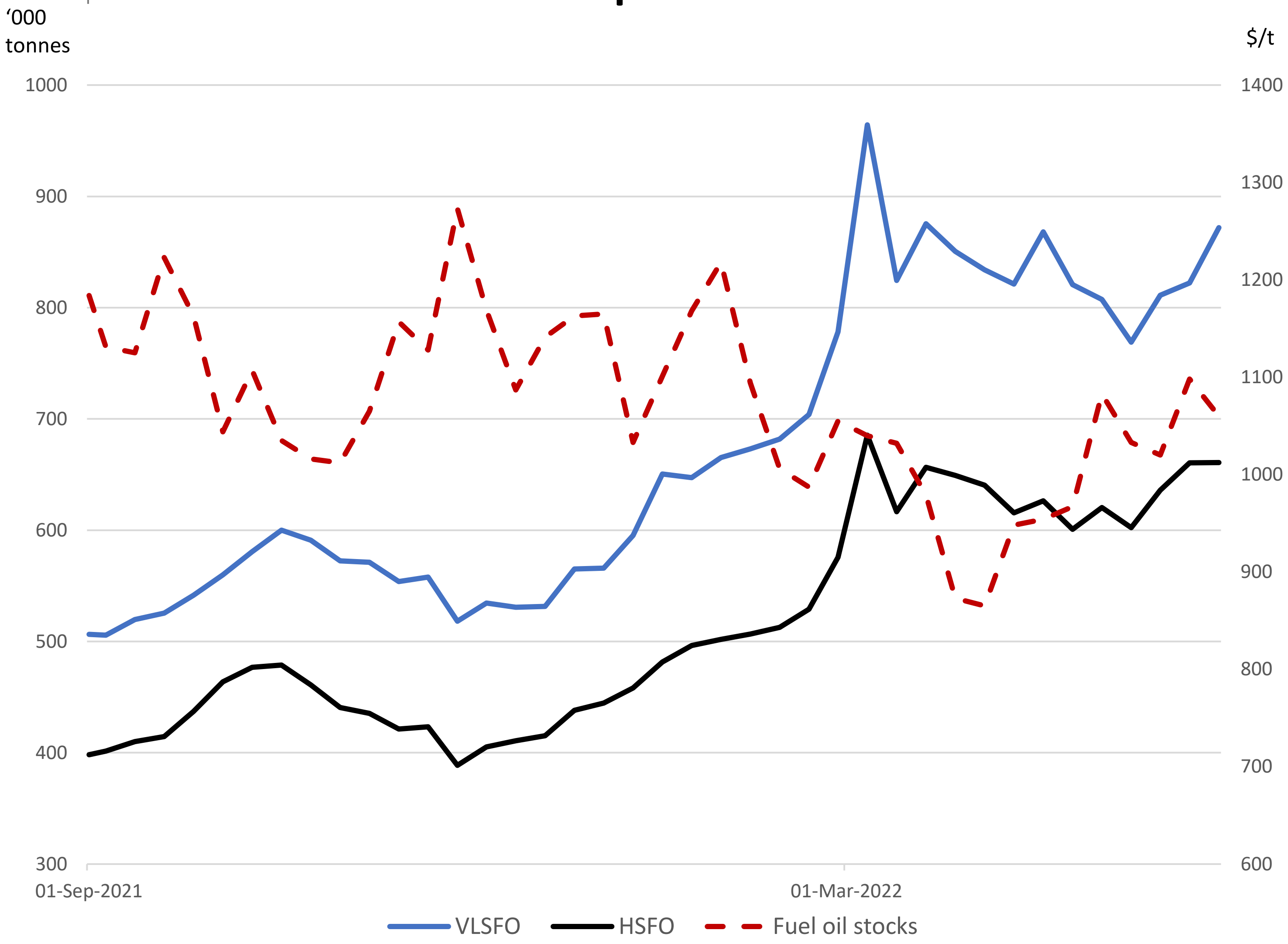
The EU's ban on marine insurance for tankers carrying Russian oil exports could limit options for insuring vessels outside the bloc as it also covers the reinsurance market. There will be fewer options still if, as expected, the UK follows the EU's lead.

In theory, Russia could export oil like Iran, using sanctioned vessels insured outside the EU and UK but options for doing so could be limited. Most insurers globally, even those outside of the EU, use the London and European reinsurance markets, with a significant portion of the business being conducted in the EU and UK. Insurers underwriting policies use the reinsurance market to spread risk.

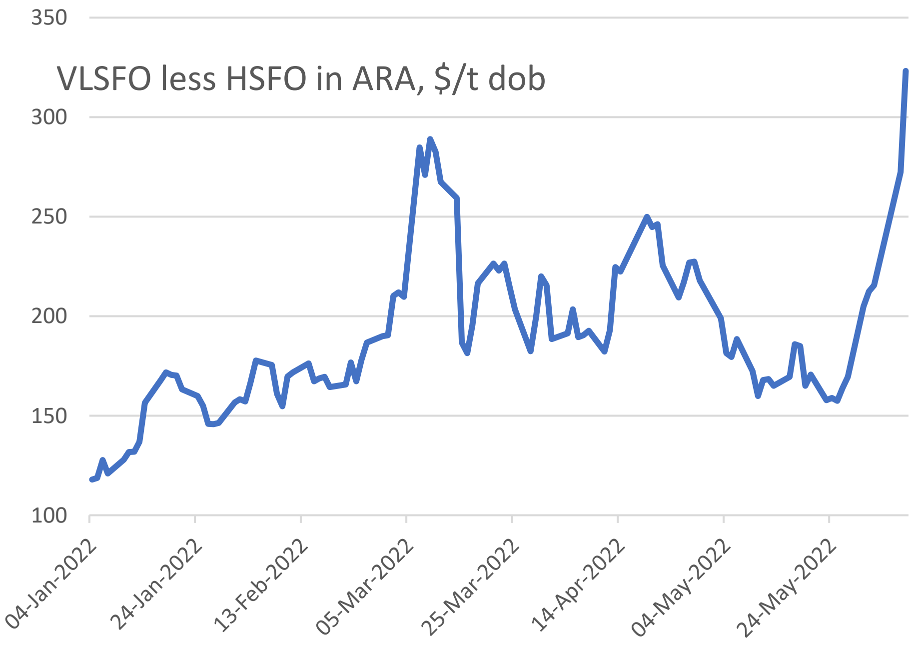
The International Group of Protection and Indemnity (P&I) Clubs — mutual insurance associations that provide risk pooling — has 13 members that cover 90pc of the world's fleet and most of these use European reinsurance markets. Lloyds of London is the traditional source but Munich Re and Swiss Re are also active.

Countries currently trading with Russia have considered creating localised insurers that provide insurance outside of the EU's jurisdiction in currencies other than the US dollar. But even these localised insurers would still have to rely on the reinsurance market to hedge their risk, something the EU ban might make impossible.

ARA bunker prices at record high



- Prices rise to record high
- Declining prompt availability of bunker fuel
- Scrubber spread at record high



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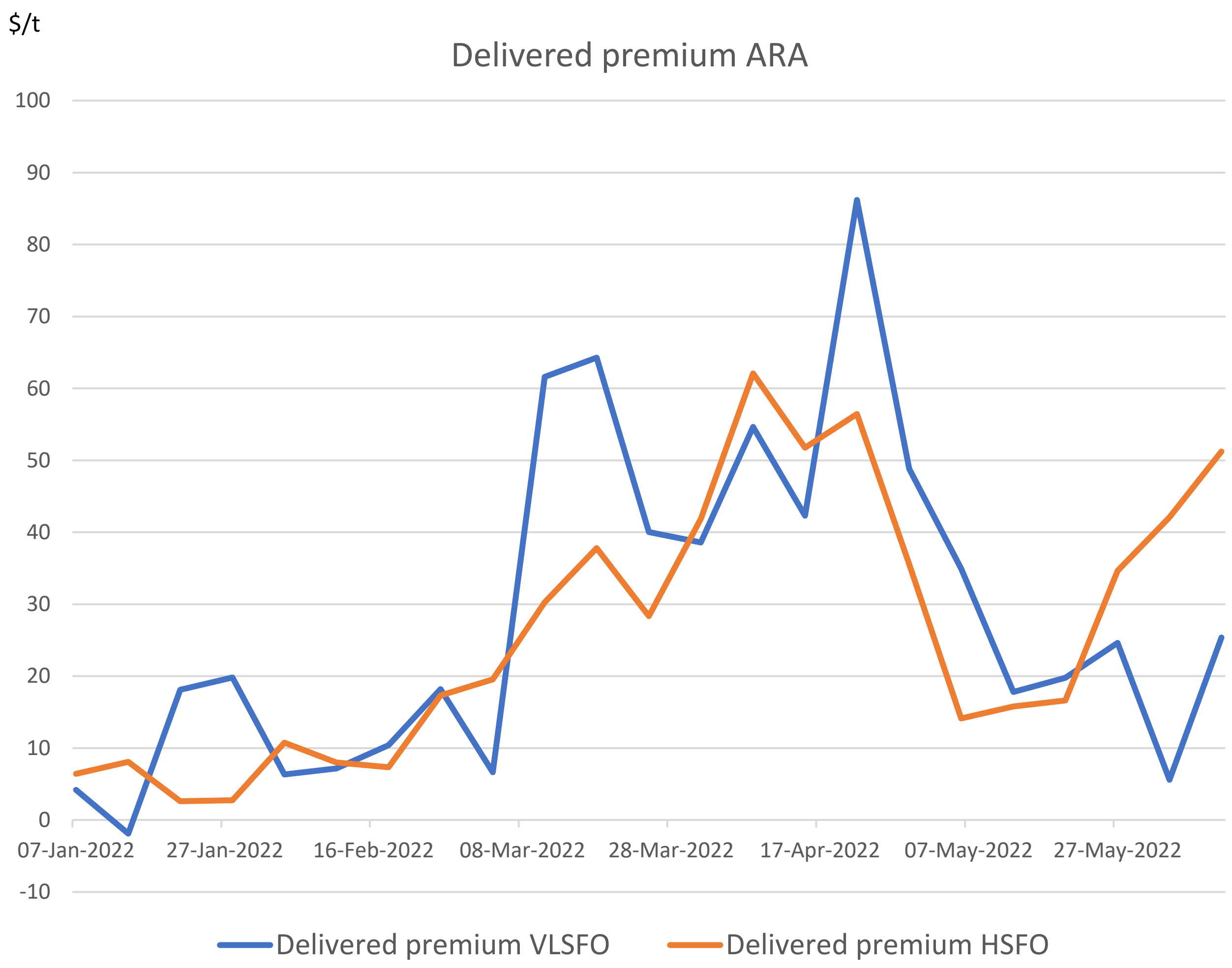
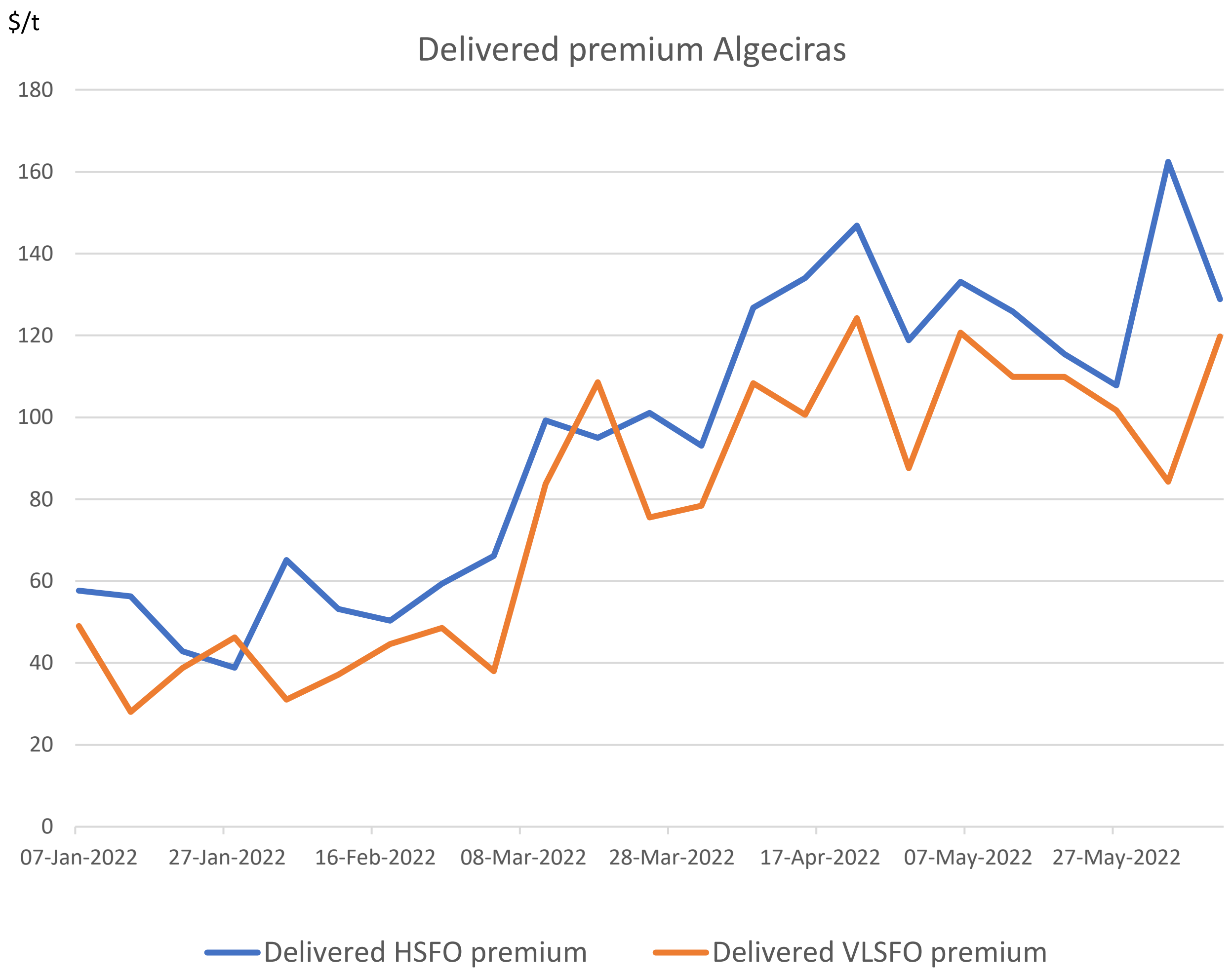
Firming delivered premiums





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Concluding thoughts

- Prices to stay supported with supply constraints in the near term
- European buyers to seek alternative supplies with sanctions coming into force next year
- Some regions might benefit from discounted Russian supply
- Differing approaches to Russian supply create reverse arbitrage opportunities
- But heightened volatility and steep backwardation in swaps markets making it difficult for long-haul exports

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