

A more balanced market?

by Jeroen Looye

THE RALLY IN CRUDE OIL PRICES THAT STARTED IN February ran out of steam in June. Crude prices fell from above US\$70 per barrel to under US\$60.

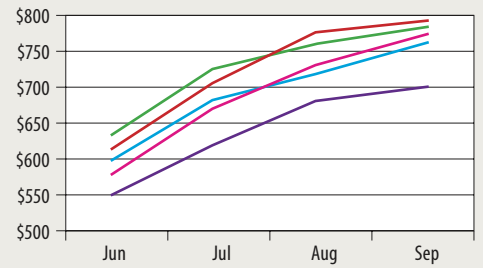
In July, prices rebounded to the US\$70 level, after which no further gains were realized although volatility remained high.

Markets are caught between the hope of an economic recovery and the fear of disappointing growth and a possible double dip.

The U.S. dollar has depreciated against the Euro since March. On the positive side, this is seen as a result of the increasing risk appetite among investors who are leaving the safe haven of what still remains the world's only reserve currency, to invest in weaker currencies with more growth prospects. On the negative side, fears of the future cost and inflationary effects of the huge deficits that the U.S. government and central banks are running are driving money flows to currencies that are perceived to be more stable. A fall in the U.S. dollar usually leads to a rise in oil prices as we have witnessed this year. However, as long as the economic outlook for Europe and Japan remains troubled and the U.S. shows increasing signs of recovery, the decline in the U.S. dollar will most likely halt and may well reverse in the short term, which will put renewed pressure on global crude oil prices.

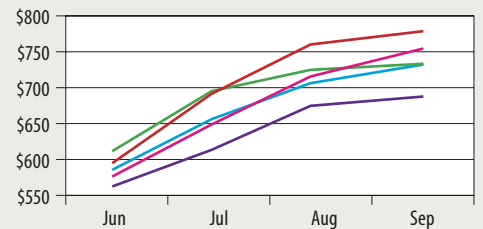
Future contract prices for crude oil reflect an expected further rise in prices, with prices for 2014 contracts hovering around US\$80. Future curves are not known to be a reliable indicator for spot prices in the future; however, it shows that speculators are

2009 Base oil SN500 prices (\$/MT)



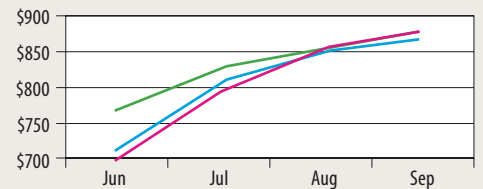
Legend: FOB SE Asia (Green), FOB NE Asia (Red), FOB Middle East (Pink), FOB Europe (Blue), FOB Baltic (Purple)

2009 Base oil SN150 prices (\$/MT)



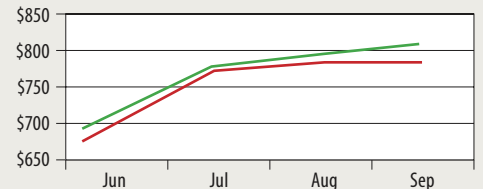
Legend: FOB SE Asia (Green), FOB NE Asia (Red), FOB Middle East (Pink), FOB Europe (Blue), FOB Baltic (Purple)

2009 Base oil BS150 prices (\$/MT)



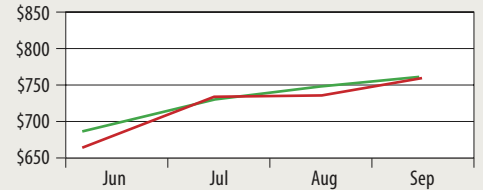
Legend: FOB SE Asia (Green), FOB Middle East (Pink), FOB Europe (Blue)

2009 Base oil SN500 prices (\$/MT)



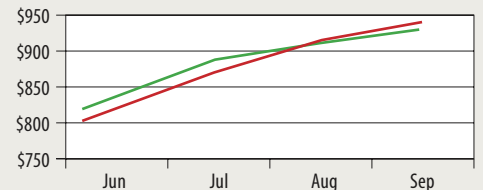
Legend: CFR NE Asia (Green), CFR India (Red)

2009 Base oil SN150 prices (\$/MT)



Legend: CFR NE Asia (Green), CFR India (Red)

2009 Base oil BS150 prices (\$/MT)



Legend: CFR NE Asia (Green), CFR India (Red)

Source: www.baseoilmarket.com

"A more balanced market," continued on page 10 >>

>> "A more balanced market," cont. from page 6

still willing to bet on price increases and oil producers are not willing or able to sell future production at these price levels.

In the context of these developments in crude oil pricing, base oil prices continued to rise by US\$60 to US\$100 per metric ton from July to September in most regions.

To explain these somewhat unusual events, let's take a step back to the first se-

mester when base oil prices had increased significantly from US\$500 per metric ton in January to US\$670 by the end of June, for SN500 FOB Europe. The uplift in demand for base oils that caused this rally was mainly driven by demand from Asian countries, especially from China and India.

This trend continued in early July, with base oil prices continuing to rise due to the tight supply conditions and speculation that prices would keep on

Many lubricant blenders expected base oil prices to weaken due to the development in crude oil prices.

rising. However, there was some price resistance, particularly for lighter viscosity grades, such as SN150.

The window for imports was closing as base oil prices in western countries were firming up by US\$50 per metric ton in one month to US\$720 per metric ton for SN500 FOB Europe. By mid-July, buyers became passive due to the sharp decline in crude oil prices, which fell briefly under US\$60. This passivity was also reflected in the low production rates of lubricant producers. To highlight, in China where the fluctuations in prices are predominantly driven by PetroChina and Sinopec, prices remained stable in July at 7,000 to 7,200 yuan (US\$1,025 to \$1,054) per metric ton for SN150 and 7,200 to 7,500 yuan (US\$1,054 to \$1,098) per metric ton for SN400 due to lackluster demand. Many lubricant blenders expected base oil prices to weaken due to the development in crude oil prices.

Some market participants commented that the lackluster market was mainly due to the effect of the traditional off-season in July and August. Nevertheless, prices kept on rising to US\$800 per metric ton FOB Asia. Some spot deals were made of an Iranian cargo to India for SN500 at around US\$800 per metric ton CFR and US\$850 per metric ton for SN500 CFR Singapore. This price increase was mainly supply driven, as many refiners preferred to produce diesel fuel for better margins. Rumors of production problems at Lukoil refineries in Russia, as well as a turnaround at Galp Energia in Portugal in August-September and the temporary closure of ExxonMobil in Singapore in September, added to the perception of a supply shortage.

However, high inventories in storage tanks in India and China by September made for a quiet market. According to several traders, Group I SN150 and Group II N500 were long and interest was limited. Supply of heavier grades of Group I and II remained tight, however. On the demand side, the slowdown in demand was reflected by PetroChina's offer of US\$795 per metric ton FOB China for SN400 for export.

Buyers and sellers both agree that the market was more or less balanced during these last few months. Refineries were not willing to lower their current prices, as crude oil prices started to recover in September to US\$70 per barrel.

Visit www.BaseOilMarket.com for more information. ♦



Base Oil Market

www.BaseOilMarket.com

