

The slow road to recovery

by Jeroen Looye

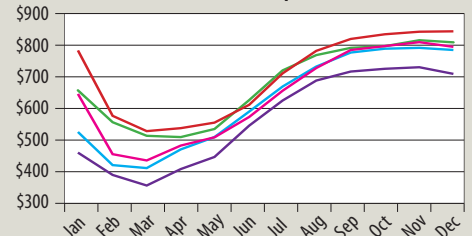
THE BENCHMARK CRUDE, WEST TEXAS INTERMEDIATE OR WTI, started in 2009 at around US\$45 per barrel. The poor economic environment pushed prices further down to US\$35 per barrel in February. When sentiment in the financial markets turned and the economic outlook improved gradually, the early-cyclical character of crude oil was once again confirmed as prices rose to more than US\$70 in June. After a correction to US\$60 in July, crude oil resumed the upward move to more than US\$80 in October.

The first stage of the economic recovery is now well underway in 2010, but markets are starting to realize that economic growth is not nearly as strong as in 2007 when crude oil reached more than US\$140 per barrel. On a fundamental basis, there is little reason to expect a substantial further price increase. On the contrary, most economic indicators point to a long and slow path to recovery. It is no surprise then that crude oil prices seem to fluctuate between US\$70 and US\$80 per barrel.

Renewed price pressure can be expected in 2010 as the cyclical part of the economic recovery draws to an end, governments reduce their stimulus packages and final demand from the private sector disappoints.

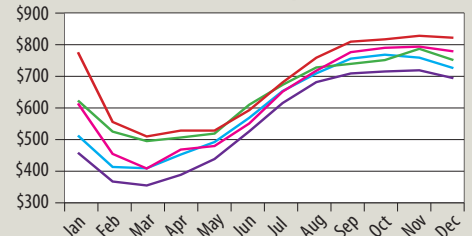
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2009 Base oil SN500 prices (\$/MT)



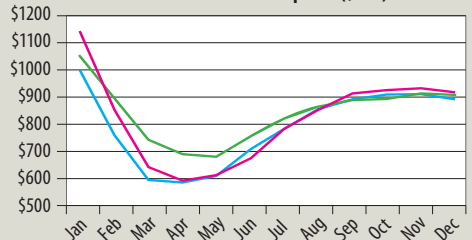
■ FOB SE Asia ■ FOB NE Asia ■ FOB Middle East ■ FOB Europe ■ FOB Baltic

2009 Base oil SN150 prices (\$/MT)



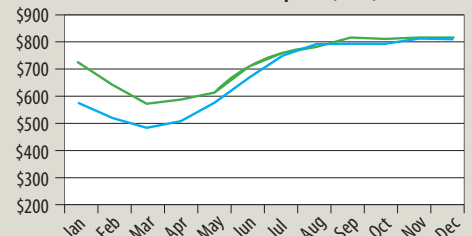
■ FOB SE Asia ■ FOB NE Asia ■ FOB Middle East ■ FOB Europe ■ FOB Baltic

2009 Base oil BS150 prices (\$/MT)



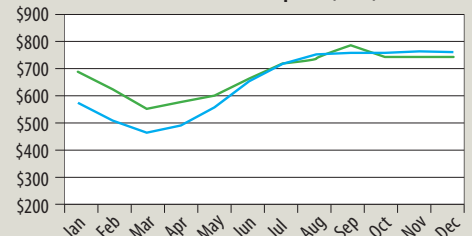
■ FOB SE Asia ■ FOB Middle East ■ FOB Europe

2009 Base oil SN500 prices (\$/MT)



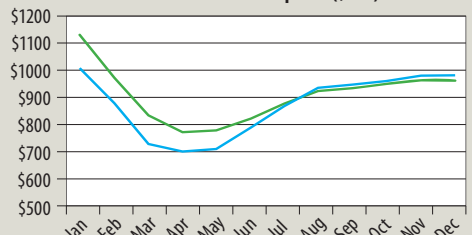
■ CFR NE Asia ■ CFR India

2009 Base oil SN150 prices (\$/MT)



■ CFR NE Asia ■ CFR India

2009 Base oil BS150 prices (\$/MT)



■ CFR NE Asia ■ CFR India

Source: www.baseoilmarket.com

Infineum announces leadership team changes

Infineum International Limited, a major worldwide developer, manufacturer and marketer of lubricant and fuel additives, has announced a number of changes to its senior leadership team that will become effective February 1, 2010.



Mark Struglinski, currently vice president sales & marketing, will be appointed vice president technology. Assuming this role from **Shaun Kennedy**, who has elected to retire from Infineum as of January 31, Struglinski will continue to be based at the Linden Business & Technology Centre in Linden, N.J., U.S.A.



Trevor Russell will take on the role of vice president sales & marketing in place of his current position as vice president supply. Russell will also assume additional responsibility as chief strategy officer. He will remain based at the Milton Hill Business & Technology Centre in Abingdon, U.K.

Sara Lefcourt, now crankcase global business manager, will be promoted to vice president supply. In this role, Lefcourt will be accountable for manufacturing; health, safety and environment; process technology; supply chain and supply planning operations. She will continue to be based at the Linden Business & Technology Centre in Linden.



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In the first quarter of 2009, base oil prices continued to edge downwards as refineries continued to question whether production cuts would be able to curb the fall in base oil prices. The decline in base oil prices was not evenly spread among the continents. This opened the window for arbitrage to Asia. However, many traders were only interested in base oil parcels at exceptionally low levels. Several refineries decided to take their losses and sell out their inventories. This resulted in several trades in February/March from Europe and U.S. to India and China. India imported more than 210,000 metric tons of base oil in the first quarter of 2009. Strong demand from China was mainly caused by seasonal strengthening and inventory replenishment.

As the demand for low-priced base oils continued from the Asian countries, prices bottomed out in Europe and the U.S. in the second quarter. Refineries reduced their operating rates for 2009 to 75%, like Motiva in the U.S, Kuwait Petroleum in Europe and ExxonMobil in Singapore. Other refineries (e.g., Agip in Italy, Cepsa in Spain and Lotos Oil in Poland) were taken offline for maintenance or even extended their shutdown due to poor economic conditions (e.g., Kremenchug refinery in Ukraine and Repsol in Spain). Tightening of supply conditions worldwide and the rise in crude oil prices resulted in a strong upward trend in base oil prices which started in May 2009. During the following months, prices kept rising up to US\$730 per metric ton FOB Europe for SN500 in July.

Resistance to supply-driven price increases grew. Base oil markets couldn't absorb them. Asian countries scaled back their activity in the markets and the window for arbitrages closed around the month of August. Many lubricant blenders expected the market to weaken due to the development in crude oil prices. This passive stance was also reflected in the produc-

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tion rates of lubricant producers. Nevertheless, large shipments of Group II base oils from the U.S., Korea and Taiwan were sent to India and China.

During the last quarter of 2009, buyers' attitudes remained cautious and prices were largely unchanged at around US\$760 per metric ton FOB Europe for SN500 and US\$725 per metric ton FOB Europe for SN150. Prices were around US\$785 per metric for SN500 and US\$730 per metric ton for SN150 FOB Asia.

Prices of Group I base oil recovered at levels closer to the levels seen at the end of 2007-early 2008. Last year, market players were also more open to using Group II due to its competitive pricing. For example, SN500 (Group I) and N500 were both US\$840 per metric ton FOB Taiwan. ♦

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