



Onyx Capital Advisory

15th December 2023



Fuel Oil



Summary & View

HSFO

- **The HSFO complex initially saw strong downward price action in the week to Dec 01. We then saw more support coming in and levels remained more rangebound once this renewed strength was found.**
- Despite volatile price action, the 3.5% Barge crack has strengthened over the past two weeks, from -\$11.70/bbl on Dec 01 to -\$10.80/bbl on Dec 14. However, the market positioning is skewed to the sell-side in the Jan contract and was at 40:60, on an overall long:short basis.
- The 380 prompt spread came off from \$5.25/mt on Dec 01 to lows of \$3.50/mt on Dec 6 amid selling interest seen in the physical. It later saw more support at these levels which propelled the Jan/Feb 380 price action into the \$5/mt handles, at which point where it continued trading around these levels.
- The E/W contract was seen weakening over the past two weeks amid a downward trending Eastern market. Prices were initially trading around \$4.50/mt levels on Dec 05 and later came off to lows of \$3.25/mt on Dec 14.

VLSFO

- **This fortnight in VLSFO saw more rangebound price action, although relaxation in Eastern fundamentals has lead to an overall weakening in prices as the Al-Zour refinery is back online, against market rumours that technical problems would last longer.**
- The European VLSFO market saw no clear directional flow, with the Jan 0.5% Barges crack gaining \$0.85/bbl on Dec 04 and subsequently losing \$0.80/bbl on Dec 14. Despite this, a strongly oversold E/W could trigger a weakening in the 0.5 Barges complex.
- Along with supply tightness relaxing in the East as the Al-Zour refinery is back online, price action retraced lower, reaching lows of \$9.91/bbl at the start of the week. Open interest in the contract has risen by 41% over the last fortnight for the Jan contract. The long:short ratio stands at 55:45.
- As a result of a relatively better-offered Eastern VLSFO, the E/W contract came off to lows of \$40.64/mt and traded around these levels in the subsequent days. Stronger demand for fuel out of China and raised oil quotas should support further price action. Technical indicators are flagging oversold territory as the RSI stood at 12 on Dec 13.

Market Headlines

- Pakistan exported 115,000 mt of fuel oil in November of this year, surpassing all time export highs, with the winter oncoming and low temperatures expected, a cut in Pakistani power demand is forecasted. Exports as a result are expected to surge even higher to 150,000 mt for the December month and with the Sing 380 coming off of lows this week, refiners are lining up to ship out the product en mass.
- Russian fuel exports also saw an increase into the winter, increasing on a 4-week average basis, led by diesel and naphtha shipment after road restrictions were eased and Black Sea ports recovered from storms. Refined fuel flows averaged 2.2mbbls/day for the week onto Dec 10, up 88kbbls/d from the week prior.
- With sanctions eased up on Venezuela, their output of fuel oil has seen an influx as well, with nearly 6mbbls of fuel shipped to the Asian markets. Three VLCCs with a 2mbbls capacity each offloaded cargo of fuel oil in Southeast Asia according to shipping data. Independent Chinese refineries have been the major buyers of Venezuelan products as import quotas for fuel as a feedstock saw a 3mbbls increase at the end of Nov.
- Onshore fuel oil inventories rose to nearly 3-month highs on Dec 13, rising 14.4 % (3.40mbbls) on the week to 21.57mbbl as fuel imports increased, with main flows coming into Singapore from China, the Philippines, and New Caledonia. The sale of Bunker fuels additionally fell by 3.1% month-on-month amid lower vessel calls.
- KPI OceanConnect, a company supporting biofuel bunkering across 85 ports has made its first delivery to Fujairah UAE. With biofuel bunkering demand continuing to grow worldwide KPI OceanConnect saw the delivery as an opportunity to grow their presence in the Middle East.

Chart of the Fortnight

Jan/Feb Sing 0.5 (\$/mt)

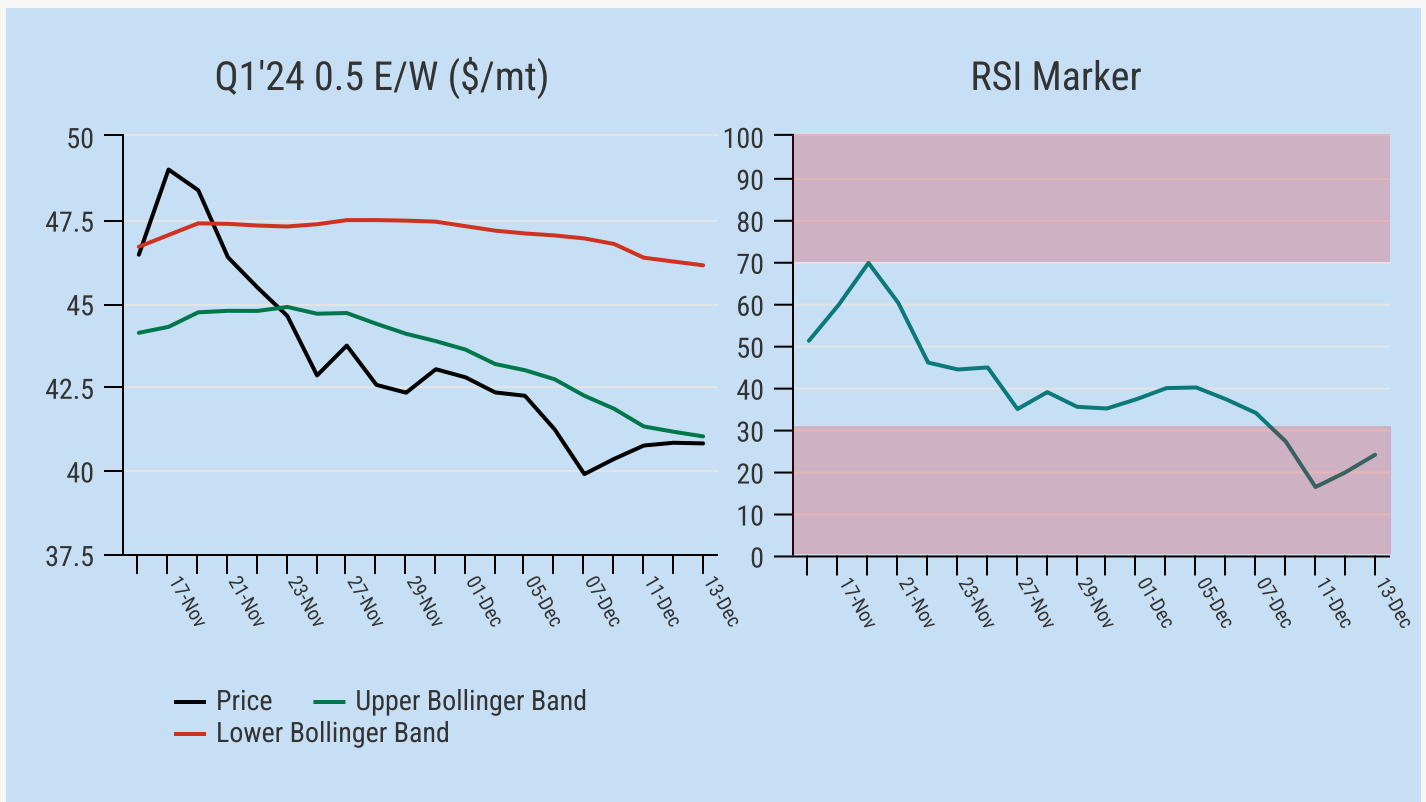


- The Jan/Feb 0.5 saw a decrease in the past two weeks, continuing the month long trend albeit at much less volatile levels.
- Price action decreased from \$9/mt handles on Dec 01 to lows of \$5/mt, increasing slightly to \$6.5/mt onto the 15th as strength at low levels was seen in the Asian 0.5 complex.
- Prices are still strongly in oversold territory, having been firmly under the lower Bollinger band since Dec 05. RSI showed the same oversold narrative at 17.
- In the past two weeks Onyx counterparty data observed 450kbbls of added shorts from trade houses with an additional 116kbbls seen from end user selling.

Trade Idea

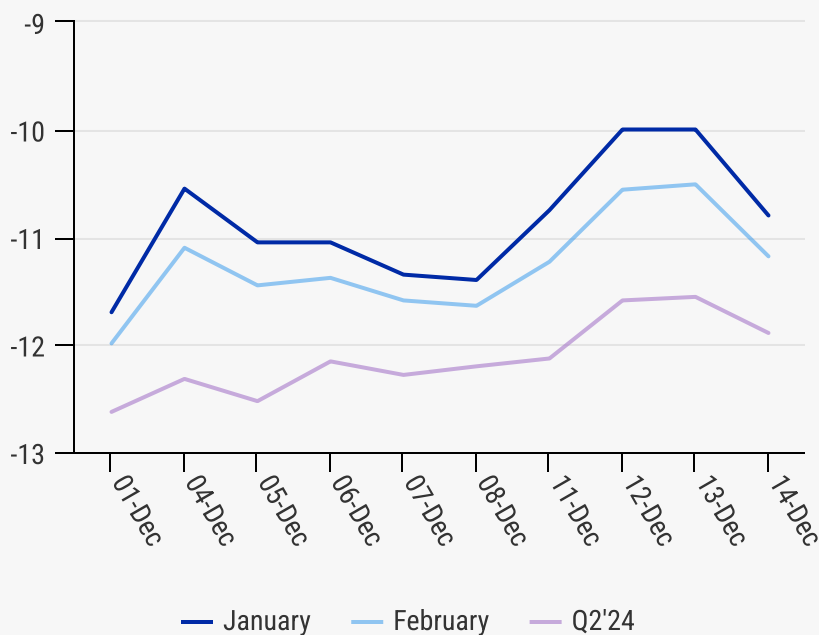
Long Q1'24 0.5 E/W

- The Jan Sing 0.5 crack found any potential rally restricted over the past week by MOC selling and Chinese flat price selling. However, we are now beginning to see real buy-side interest gain traction and push levels higher. With crude also seeing a recovery from this week's lows, Sing 0.5 spreads are seeing buy-side interest from trade houses.
- At the same time, Euro 0.5 spreads have seen support from the East and 0.5% cracks have seen support from selling in the Jan Sing 0.5 E/W. With expected strength in Sing 0.5 spreads and cracks, we believe any strength in the West will be outperformed by its Eastern counterpart.
- Looking at technicals, the Q1 0.5 E/W is well within oversold territory based on both an RSI of 24 as of Dec 13 alongside price action falling below the lower Bollinger band, signalling room for a further upward price trajectory. Cementing this view further is the Onyx COT dashboard displaying a long market position for the Q1'24 0.5 E/W, as well as showing open interest rising to above the 5-year max in Jan and near the max in Feb and March.

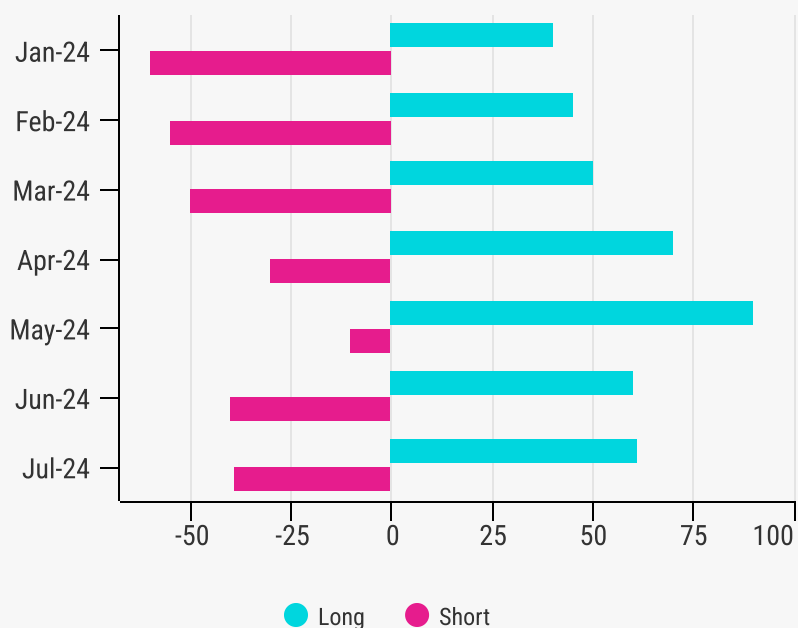


3.5% Barge Crack

2-week Overview (\$/bbl)



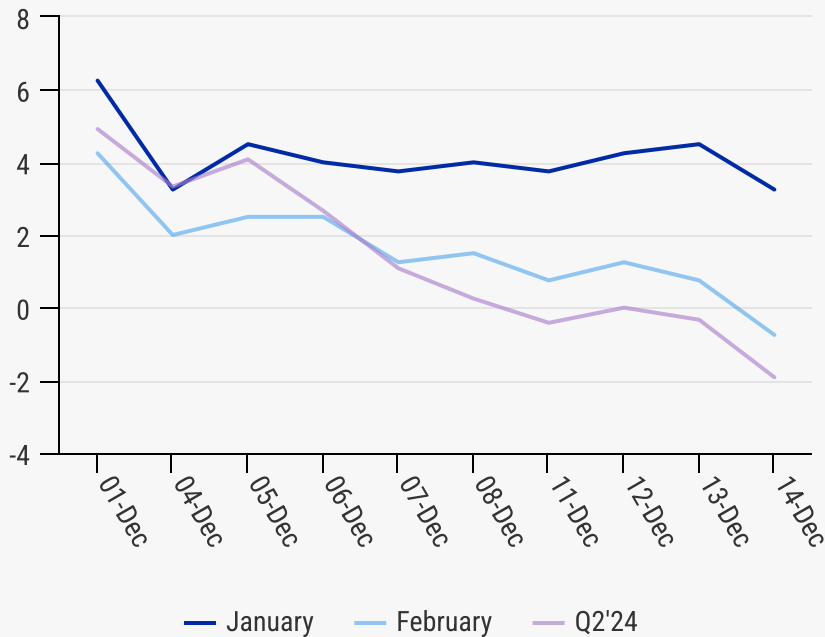
Overall Market Trading Split



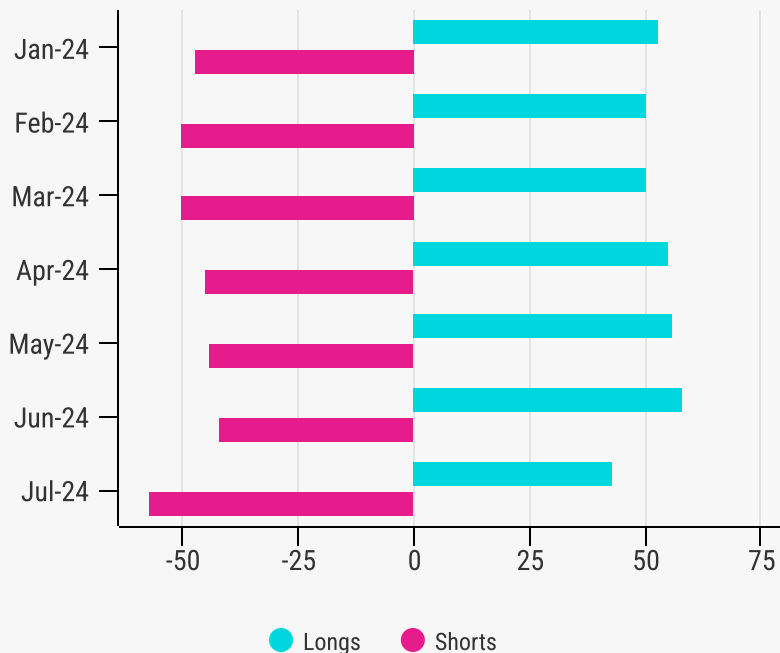
- The 3.5% barge crack strengthened over the past fortnight albeit we still witnessed choppy price action. Prices overall though were on an upward trajectory, with the Jan barge crack rising from **-\$11.70/bbl on Dec 1 to -\$10.80/bbl on Dec 14.**
- European HSFO began the month with support on the back of buying interest in spreads and deferred cracks. However, as crude sold off more aggressively into the week to Dec 08, spreads weakened in line with this and this weakness pressured cracks lower, with the Jan crack falling to **-\$11.40/bbl on Dec 08** from **-\$10.55/bbl on Dec 04.**
- This past week however we saw crude weaken even further, lending support to the cracks - especially as barge spreads continued to be bid into the week. Combining this with the continuation of buying in deferred cracks, specifically Q3'24 and H2'24, this allowed the prompt crack to rally as high as **-\$9.50/bbl.**
- Despite this recent strength, the Onyx COT dashboard shows a sell-side skew in January, where the long:short ratio currently sits at 40:60 on an overall and 7-day flow basis. Notwithstanding this, 7-day flows saw an increase in length post Jan 2024, with Feb-24 seeing 7-day flows sit 70:30 on a long:short basis.
- Jan open interest has steadily increased though remains 25% lower than 5-year averages. The RSI for the Jan crack is currently at 75, signalling that price action could soon be tested.

380 East/West Price Analysis

2-week Overview (\$/mt)



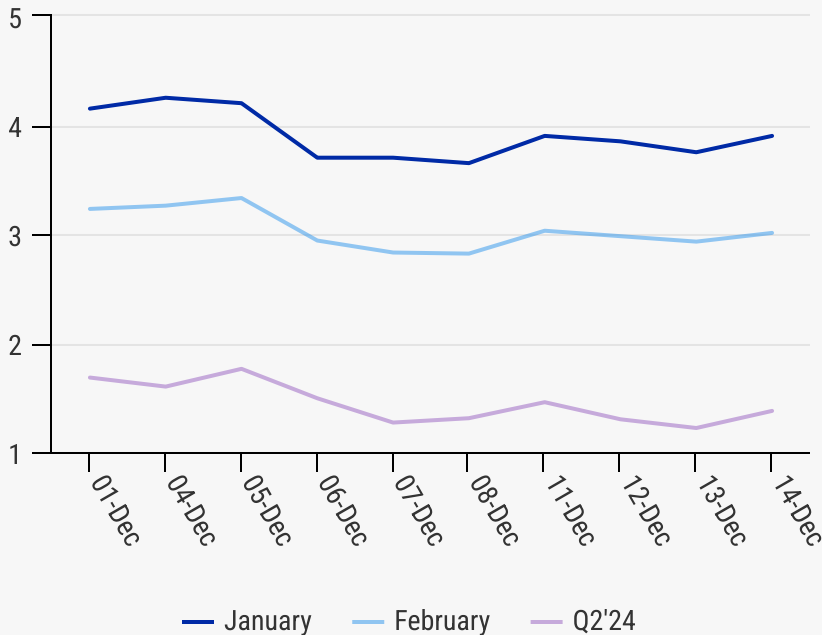
Overall Market Trading Split



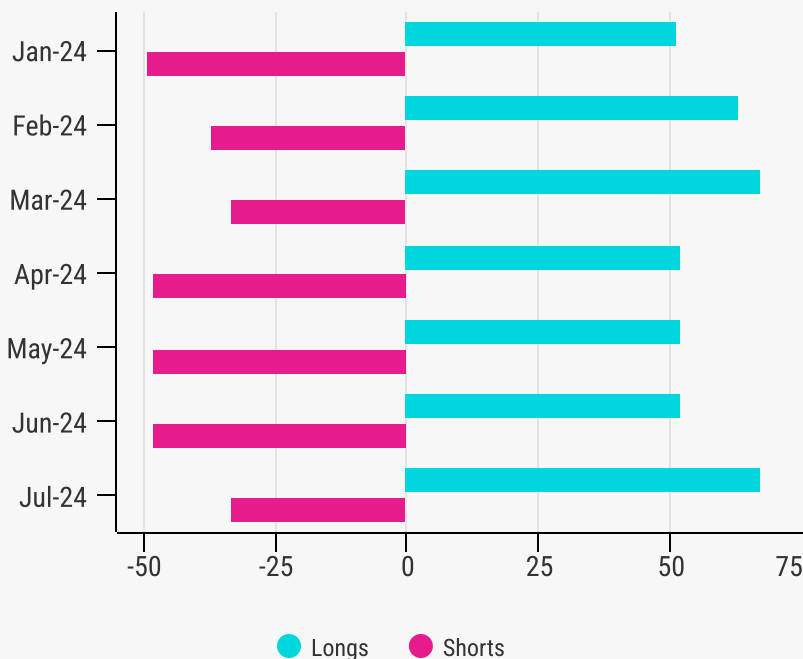
- **Over the past fortnight**, 380 E/W weakened overall. The first week saw an aggressive sell-off on the back of weaker 380 spreads as they were sold down by a Singapore trade house, with the Balmo spread trading down to \$3.75/mt in Dec 04 or a 57.1% slump day-on-day. Later buying interest was found, prompting the E/W contract to trade back up from \$3.25/mt on Dec 04 to \$4.50/mt the following day.
- The second week saw an even better offer for Jan contract as it was sold down to \$3.25/mt on Dec 14, coming off from \$3.75/mt on Dec 07 amid European strength with the Jan 3.5 Barges crack notably rising 7% on Dec 12, day-on-day, to -\$10/mt.
- Open interest for the Jan contract has been rising further over the last two weeks with an overall 41% trend upwards. Although seeing an important rise in OI, the interest in the Jan contract was still well below the 5-year historical average by over 37%.
- New interest is on the buy side with Onyx COT dashboard more buyside interest compared to the previous report where the contract was sitting at 55:45, on a long:short basis.

Bgs 0.5% Crack Price Analysis

2-week Overview (\$/bbl)



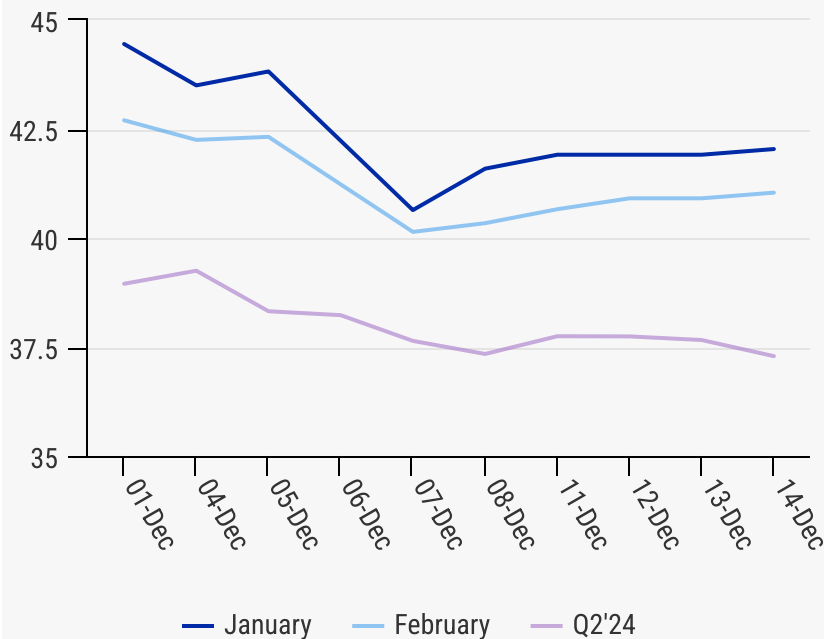
Overall Market Trading Split



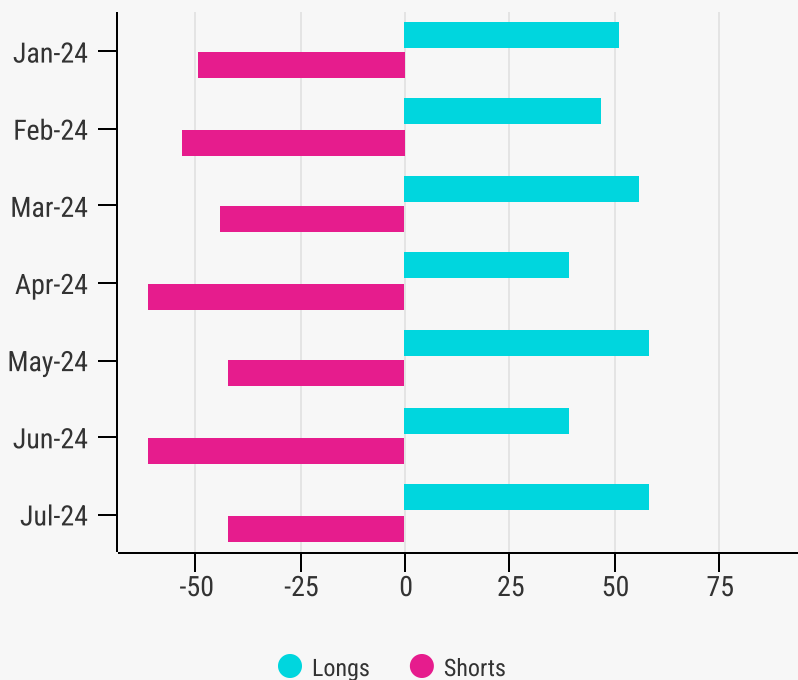
- The past fortnight saw limited volatility in European VLSFO as the Barges 0.5, drawing some support from the continued drop in the E/W. In general little activity was seen in the Euro cracks with price seeing no axed or strong directional flows.
- The Jan tenor stayed relatively flat, with the largest price action occurring on Dec 04 which saw a 50c/bbl price drop to \$3.70/bbl on Dec 06. The later tenors were seen to be weaker with interest in the Feb tenor 3x lower than the Jan.
- Technical indicators over the past two weeks stayed in neutral territory, hovering below the upper Bollinger band. Price action saw a ceiling at the upper band, whilst the RSI showed further indication of neutral territory at 52, indicating room for a further drop, as the RSI in the E/W shows lows of 16 and is ripe for a reversal.
- The 7-day market trading split in the Jan and Feb tenors is showing a sell-side skew with a 30:70 and 40:60 long: short ratio in Jan and Feb tenors respectively.
- Open interest saw a sharp spike to 6.9mbbls, 3.7mbbls over its 5-year average.
- Onyx positioning data saw very little activity this week with refineries and end users observed on the buy-side with 31.7kbbbls and 24.3kbbbls respectively, while trade houses were on the sell-side with 31.75kbbbls this week.

Sing 0.5% East/West Price Analysis

2-week Overview (\$/mt)



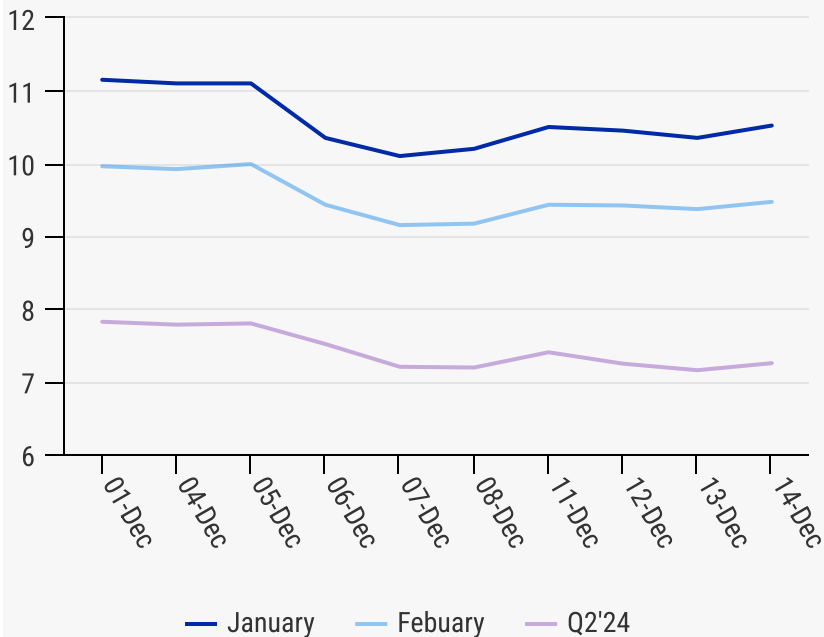
Overall Market Trading Split



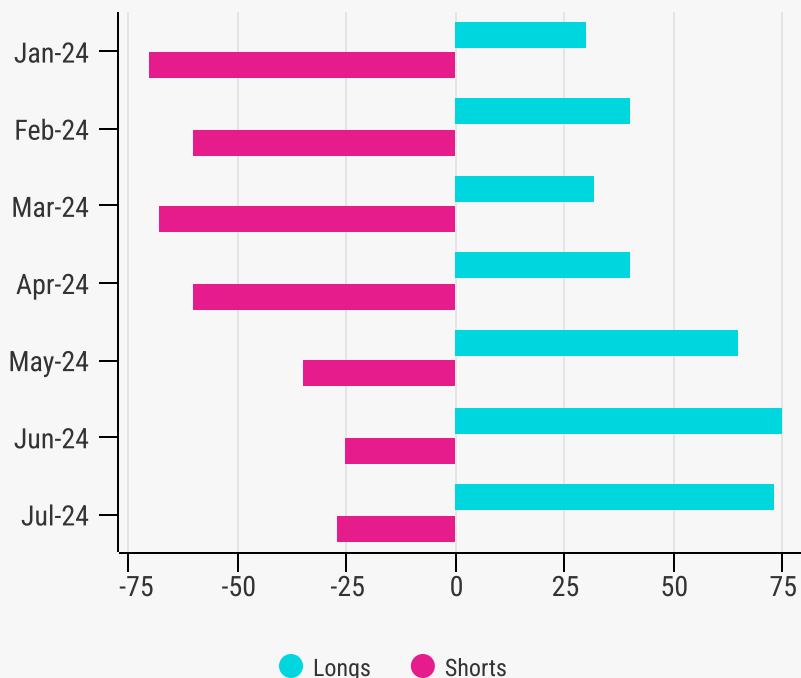
- **Adequate supplies in the East saw levels tick lower** in the E/W with the front contract hovering in the low \$40/mt handles, with selling coming from Chinese Arb players this week, though we are beginning to see buying in the more deferred tenors with stable buying from a major seen in Q4'24, with Q3'24 also seeing some better buying interest.
- A stronger demand picture for fuel out of China, with the country raising fuel oil quotas, should see levels supported in the coming weeks though we would remain cautious of ample inventories with Singapore's commercial stockpiles of heavy distillates at a 12-week high.
- However, levels now may be looking low enough for length to return and looking at the technicals for the Jan contact, we can see the RSI is firmly indicating levels are in oversold territory with an RSI value of 16 at present.
- Onyx counterparty type dashboard indicates that over the past two weeks, it has been trade houses heavily on the sell-side of the Jan E/W. Short positioned players are now well in the money and given the heavy sell-side skew, with a 7-day market trading split of 30:70 on a long:short basis, we expect that should these players look to take profit, which would exacerbate a move higher.

Sing 0.5% Crack Price Analysis

2-week Overview (\$/bbl)



Overall Market Trading Split

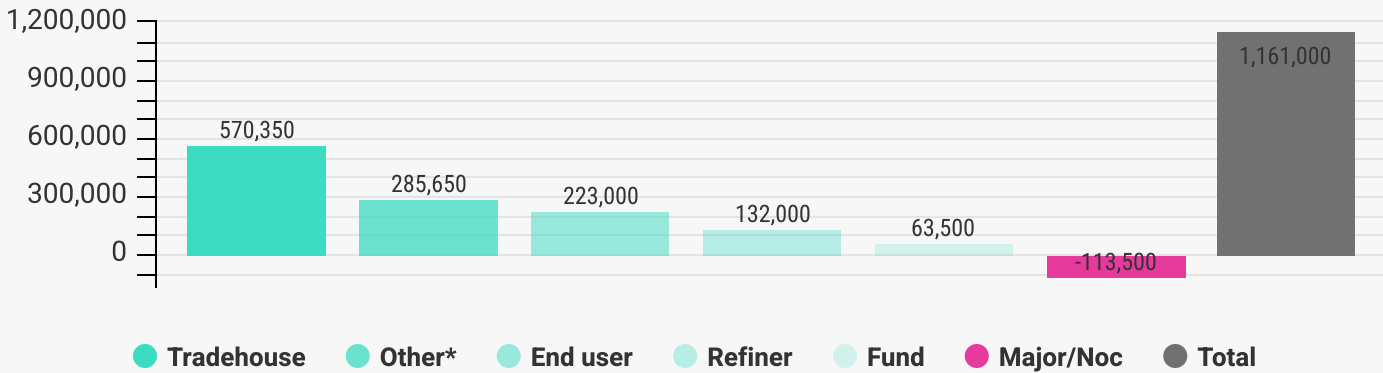


- Eastern VLSFO started the month on a bearish note after two Singapore trade houses offered the physical. The past fortnight has accordingly seen Sing 0.5% cracks trade in a tight range.
- The Jan crack has been rangebound between \$10-11/bbl over the past two weeks. The week to Dec 08 found the Jan Sing 0.5% crack trade between \$11-11.50/bbl with support stemming out of Chinese crack and flat price buying whilst scale back trade selling took place in good volume. Over the week to Dec 08, the Chinese also turned to selling these cracks, seeing them shift lower to around \$9.70/bbl.
- This past week also saw selling in Jan and Feb Sing 0.5 cracks by Chinese arb players alongside flat price selling due to MOC offers. Prices remained within a range of \$10.50-\$11/bbl due to market maker and Singaporean trade house buying. Finally, while the collapse in Brent structure put Sing 0.5 spreads under pressure, the subsequent recovery in crude triggered buying in spreads from trade houses - lending further support to spreads.
- Looking at the Onyx COT dashboard, the market continues to be skewed short in the near term, with Jan sitting on a long:short ratio of 30:70. Length returns into the next years contracts however, with May'24 sitting on a long:short ratio of 65:35. Finally, OI in Jan is currently 190% over the 5-year maximum.

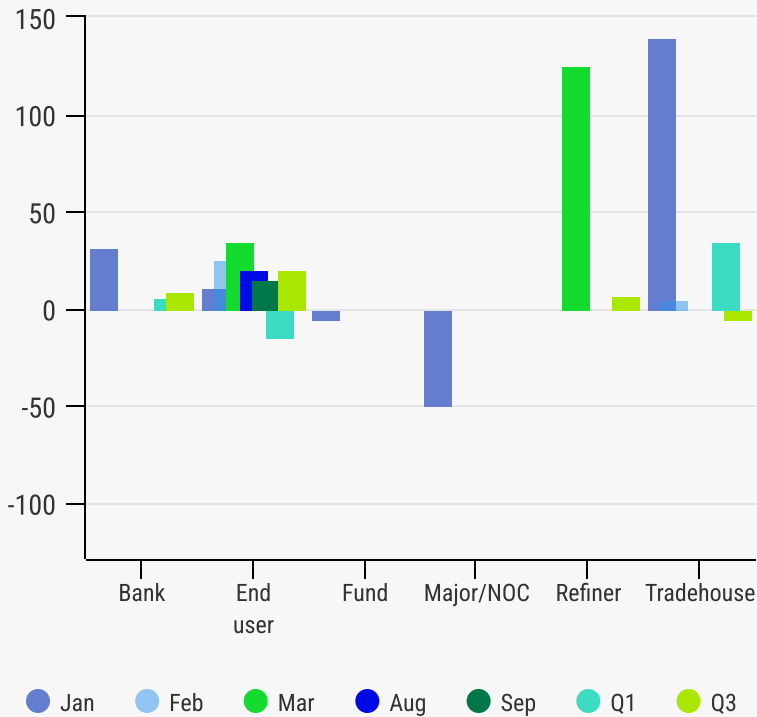
Counterparty Data HSFO

3.5% Barge Crack

Market positions change in the Jan contract by counterparty



Net flows for 3.5% Barge Crack



Looking at the net flows of counterparties in the 3.5% Barge crack over the past two weeks, we can see that the most aggressive interest across the curve came from trade houses, with a net buying flow of 140kbbbls in the prompt which flips to minor selling in Q3'24, totalling 5kbbbls.

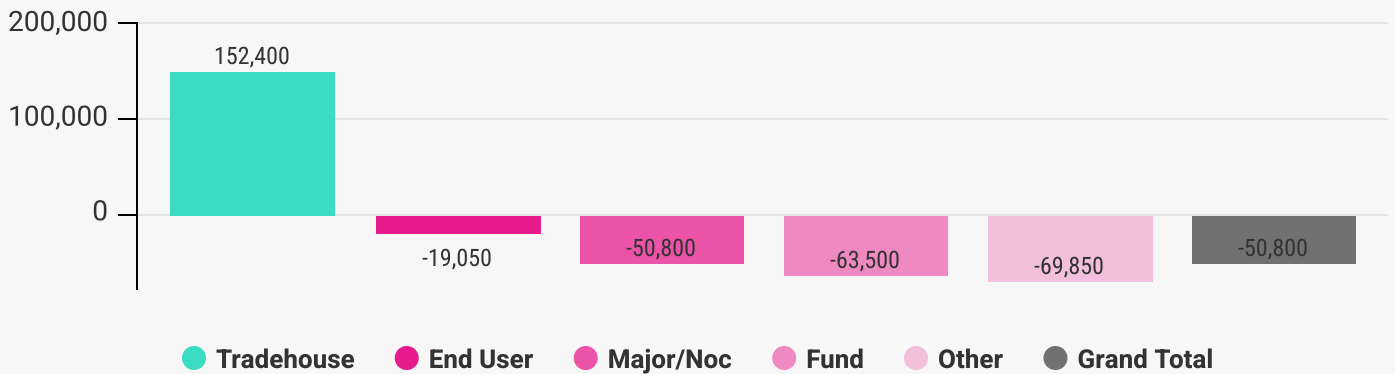
Notably, alongside trade house buying in early 2024, we also saw positive flows from refiners in the Mar contract, buying 125kbbbls. End users were active across the curve but in smaller capacities, holding a buyside stance in all but the Q1 contract, with the most significant being Mar, where end users purchased 35kbbbls.

* The other category includes counterparties whose contribution was overall low in the past two weeks. These can include banks, margins, importers, and market makers trading in small volumes.

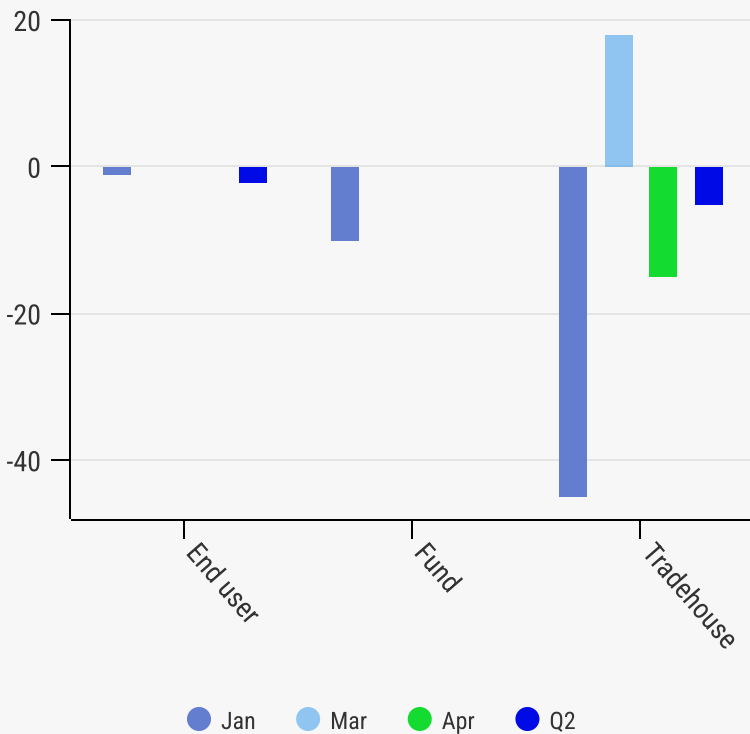
Counterparty Data HSFO

380 East/West

Market positions change in the Jan contract by counterparty



Net flows for 380 East/West



Looking at the net flows of counterparties for the HSFO East/West contract over the past two weeks, we observe pretty muted flows, though the majority of the interest is still coming from trade houses, with selling of 45kbbbls in Jan, 15kbbbls in Apr, and 5kbbbls in Q2, however, buying flows of 18kbbbls was seen in Mar.

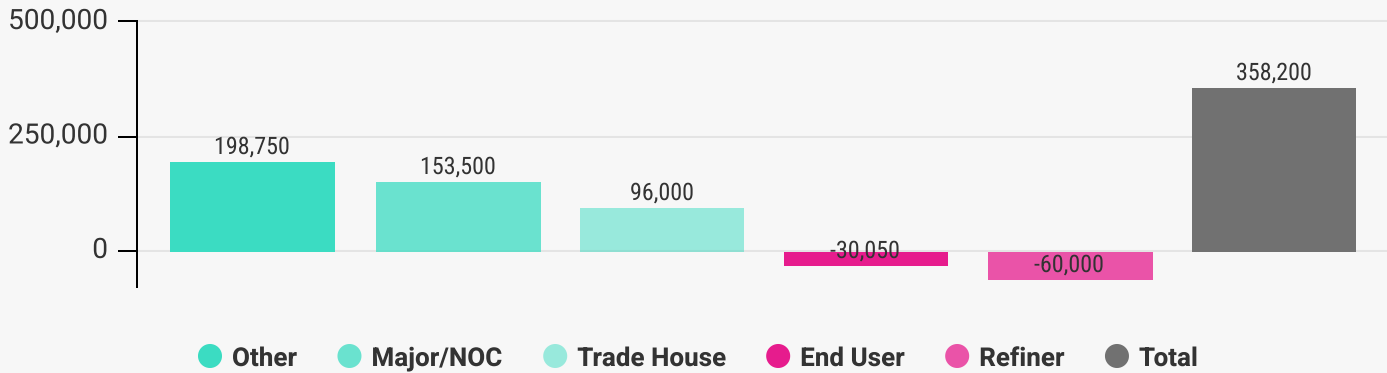
However according to the Onyx COT dashboard, from Dec 12 trade houses have flipped their mentality and were seen buying the prompt contract. In turn this pushed their overall market position change for the fortnight from -340kbbbls on Dec 12 to +150kbbbls come Dec 14.

* The other category includes counterparties whose contribution was overall low in the past two weeks. These can include banks, margins, importers, and market makers trading in small volumes.

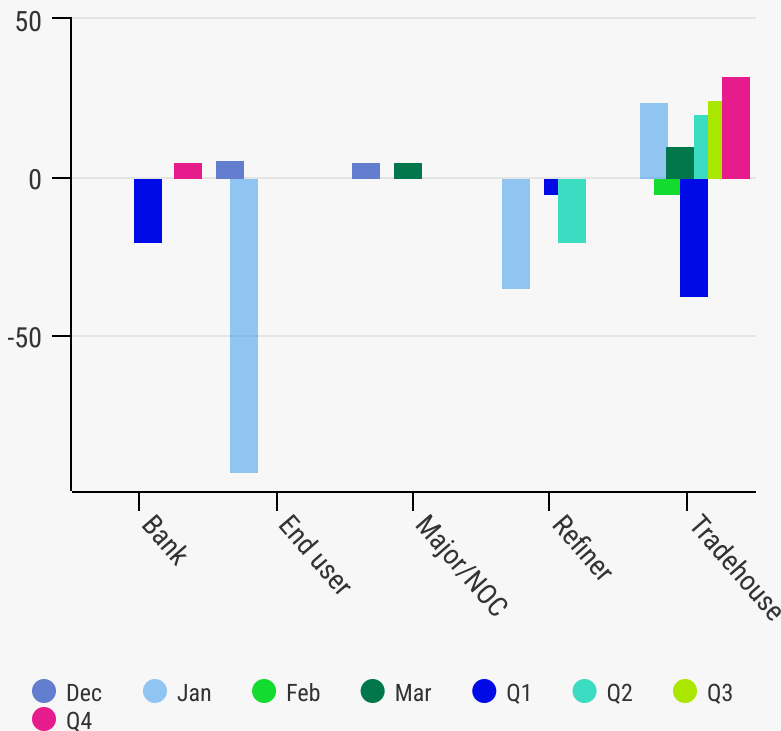
Counterparty Data VLSFO

0.5% Barges Crack

Market positions change in the Jan contract by counterparty



Net flows for 0.5% Barge Crack



The Euro 0.5% Barges crack saw a more mixed fortnight across the curve, with the most notable flow being on the sell-side from end users in the Jan contract, equating to just over 90kbbbls.

Trade houses saw the most flows across the curve, with the majority on the buy-side. However, the most significant trade house was net selling in Q1, totalling 37kbbbls.

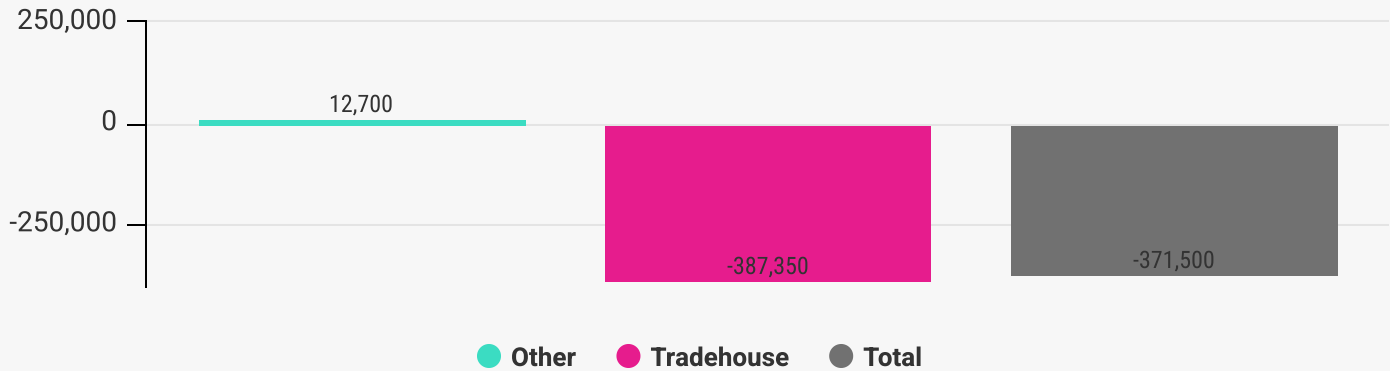
Nevertheless, the overall market split has flipped from skewed long at 70:30 long:short two-weeks ago to balanced on the back of the 7-day market trading split portraying a 30:70 split.

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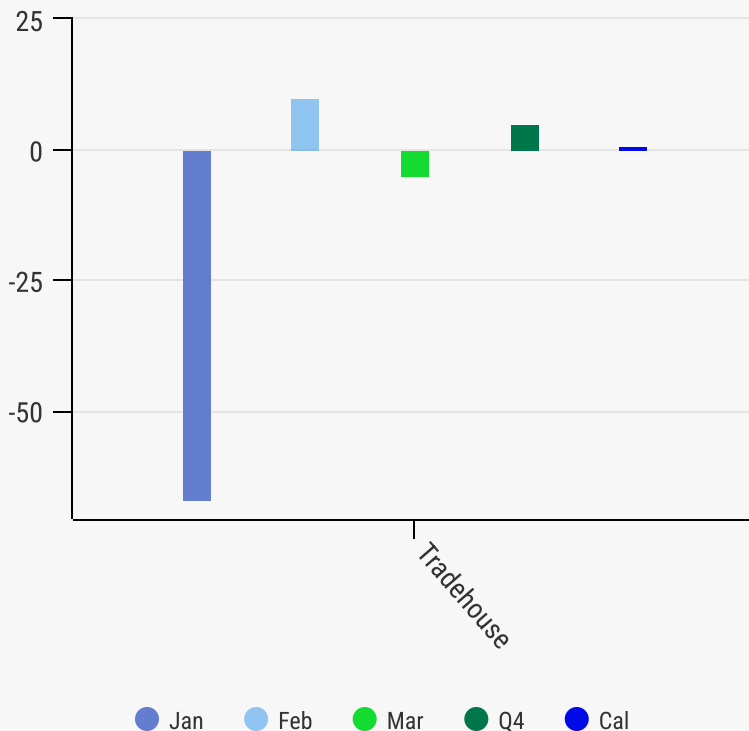
Counterparty Data VLSFO

Sing 0.5% East/West

Market positions change in the Jan contract by counterparty



Net flows for 0.5% East/West



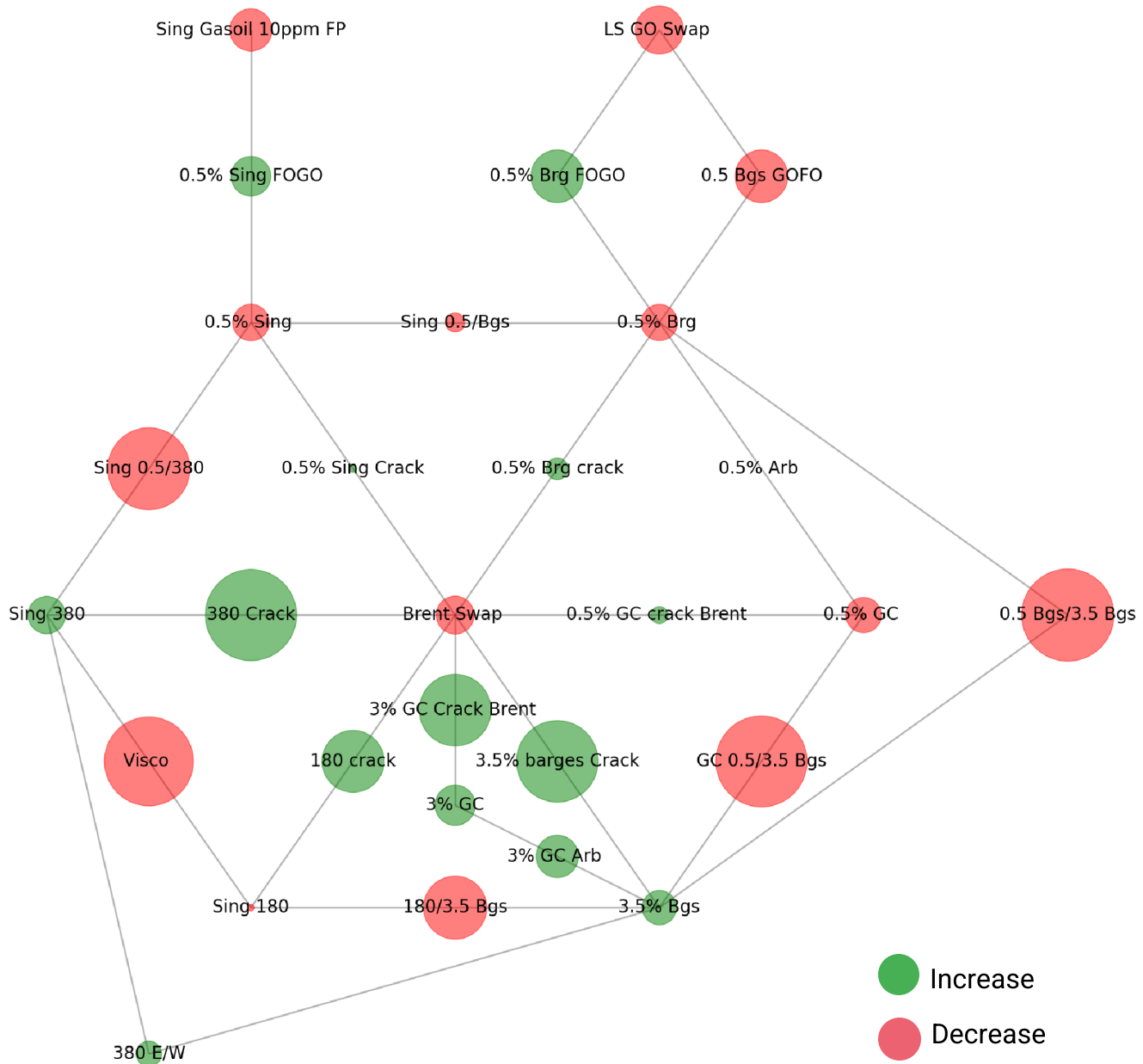
Price action for Jan Sing 0.5% E/W steadied over the past two weeks after prices previously came off aggressively over the past two weeks.

Trade houses have been the active counterparty across the curve, portraying a notable sell-side flow in the Jan tenor of almost 70kbbbls. Aside from this, mixed flows were seen with sentiment flipping into Feb and then again into Mar.

The dominant sell-side flow in the prompt is reflected in the 7-day market split for Sing 0.5% E/W, which currently sits at 30:70 on a long:short basis for the Jan tenor, bringing the overall split back to balanced.

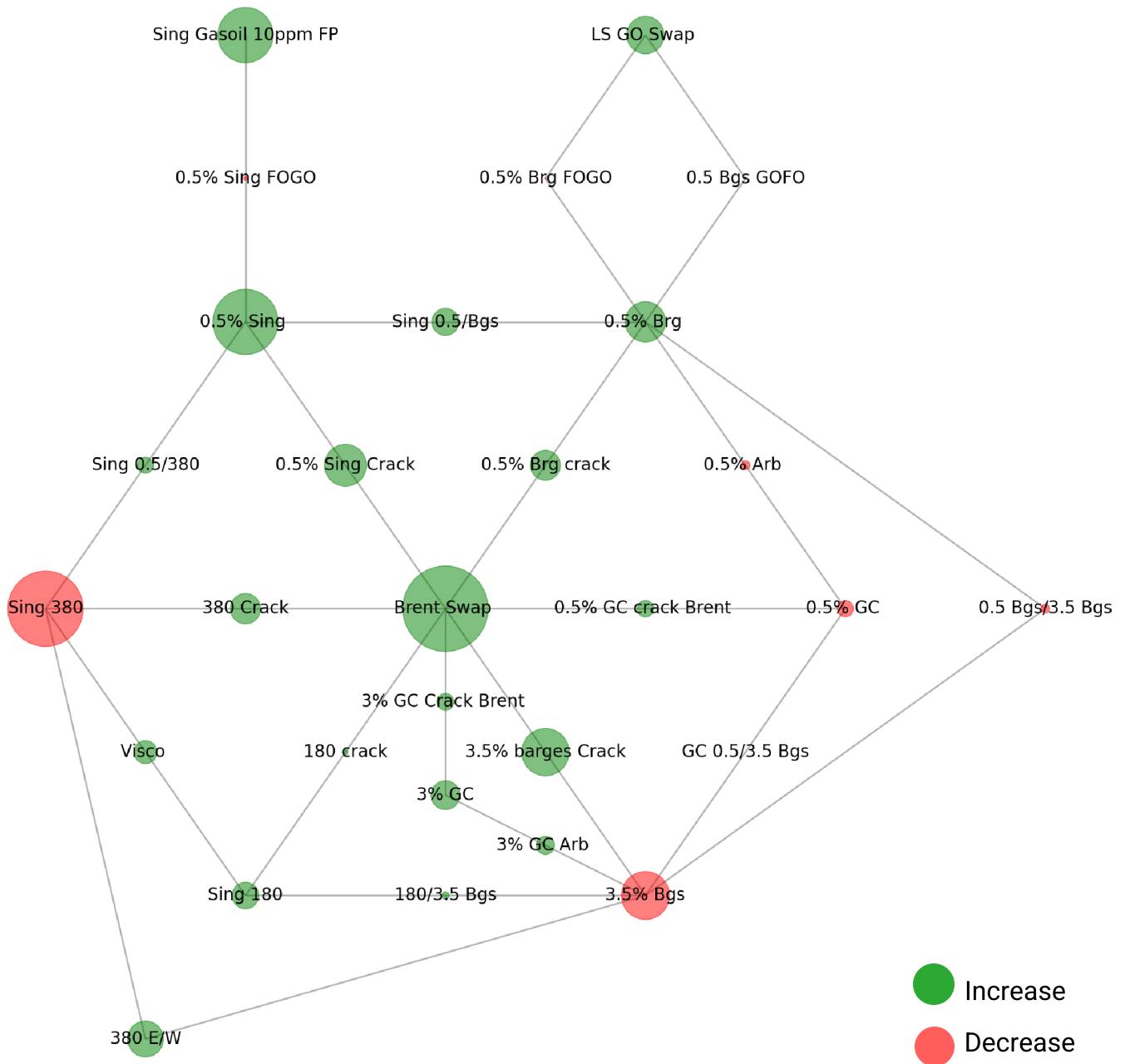
* The other category includes counterparties whose contribution was overall low in the past two weeks. These can include banks, margins, importers, and market makers trading in small volumes.

Network Analysis - Price Action



- Looking at **price movements** in the January contracts across the fuel complex in **the five trading days** to the 13th of December, we can see the bulk of the strength concentrated in the high sulfur complex.
- An overall upward price action in HFSO was seen with high sulfur cracks finding some support from weaker Brent as the 3.5% barges crack notably rose 7% on Dec 12, day-on-day and were trading at -\$10/mt. As well as weaker crude, deferred barges crack buying was also a reason for this rally in price. Asian markets over the the same period were stronger with a Chinese player seen on the buy-side, although the strength in Asian HSFO was concentrated in the front.
- In VLSFO, the outright contracts saw their price action decrease with the Jan/Feb 0.5 Barges coming off to \$4/mt on Dec 13 from trading at \$5/mt on Dec 11. For the same period, Sing 0.5 came off from \$6.25/mt to \$5/mt.

Network Analysis - Open Interest

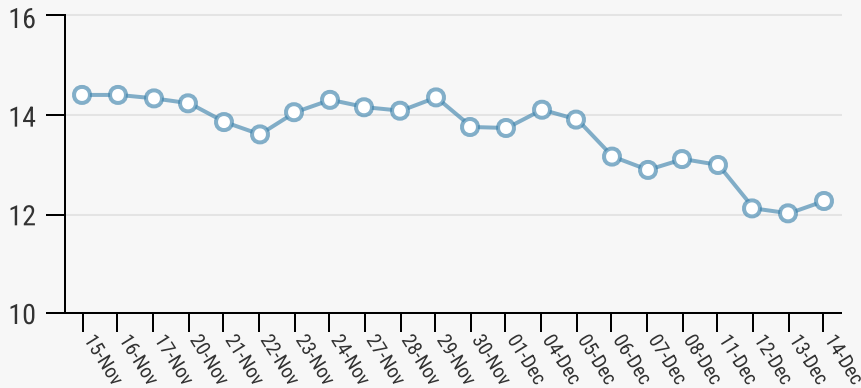


OPEN INTEREST

- Looking at the **open interest** in Jan contracts across the fuel complex in the **five trading days to the 13th of December**, risk-on sentiment grew across the board in both HSFO and VLSFO complexes, with the exception of Sing 380 and 3.5% barges flat price. Open interest seems to be recovering from OPEC+-induced risk-off sentiment.
- We saw interest in the HSFO outright decreasing alongside an increase in price action, signalling market participants covering their shorts. Although Jan 380 had diminished open interest it remains fairly high, historically. This is illustrated by the Jan 380 crack seeing its open interest 2.5 times above the 5-year maximum, signalling historical highs in Asian VLSFO.
- For VLSFO, interests in both the Asian and the European markets have been bearish although cracks attracted bullish sentiment.

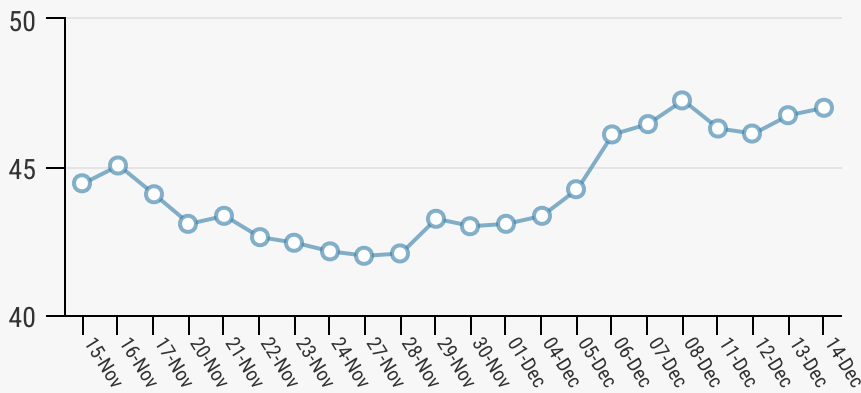
Freight Routes

M1 TD3C - Dirty Freight Route from Middle East Gulf to China



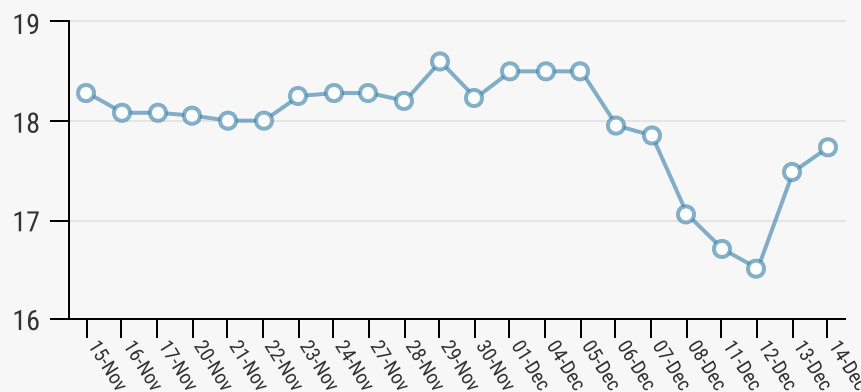
Tenor	Level (\$/mt)	2 Week change (%)
M1	12.25	-11%
M2	12.15	-6%
Q1'24	14.10	-2%
Q2'24	12.15	-6%

M1 TC5 - Clean Freight Route from Arabian Gulf to Japan



Tenor	Level (\$/mt)	2 Week change (%)
M1	47.00	9%
M2	45.58	7%
Q1'24	40.30	-2%
Q2'24	45.65	7%

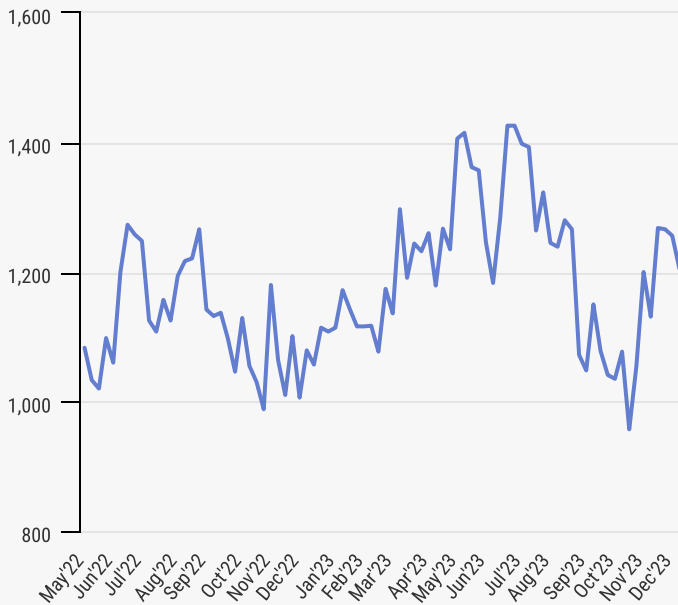
M1 TD20 - Dirty Freight Route from West Africa to UK Continent



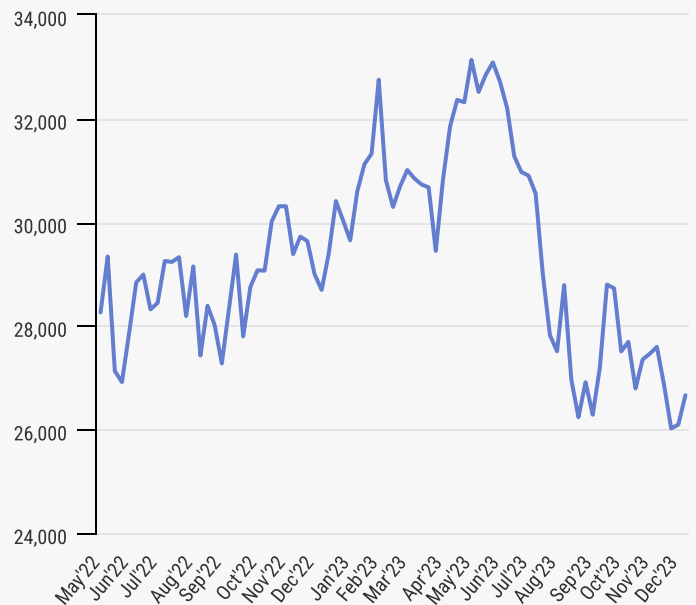
Tenor	Level (\$/mt)	2 Week change (%)
M1	17.73	-3%
M2	17.05	3%
Q1'24	16.88	-1%
Q2'24	17.05	1%

Inventories Snapshot

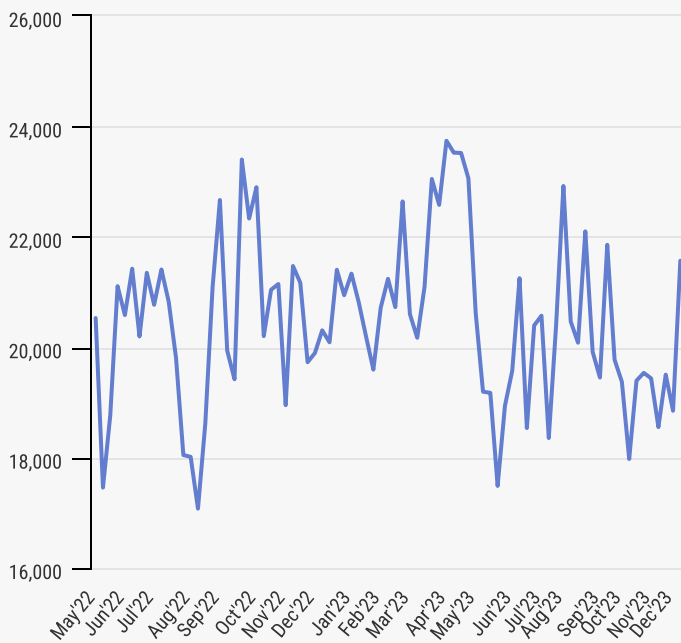
ARA Fuel Oil Inventories 2022-23 (kt)



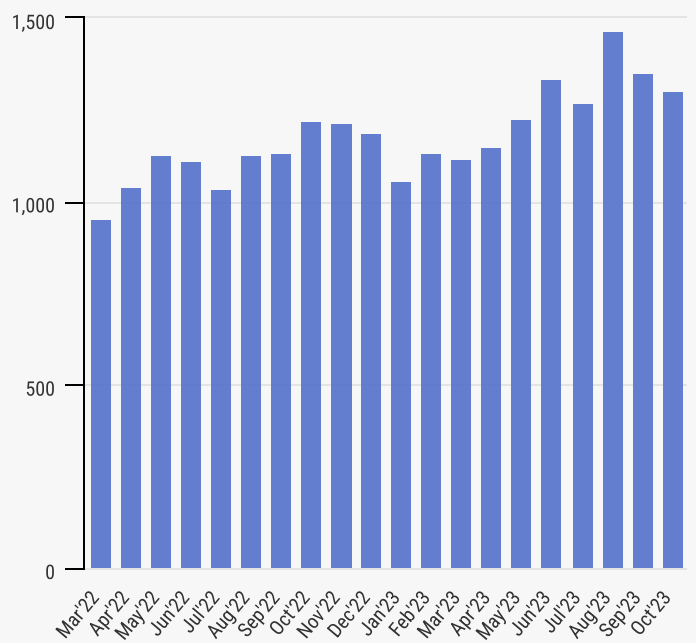
US EIA Fuel Oil Inventories 2022-23 (kbbbls)



Singapore Residues Inventories 2022-23 (kbbbls)

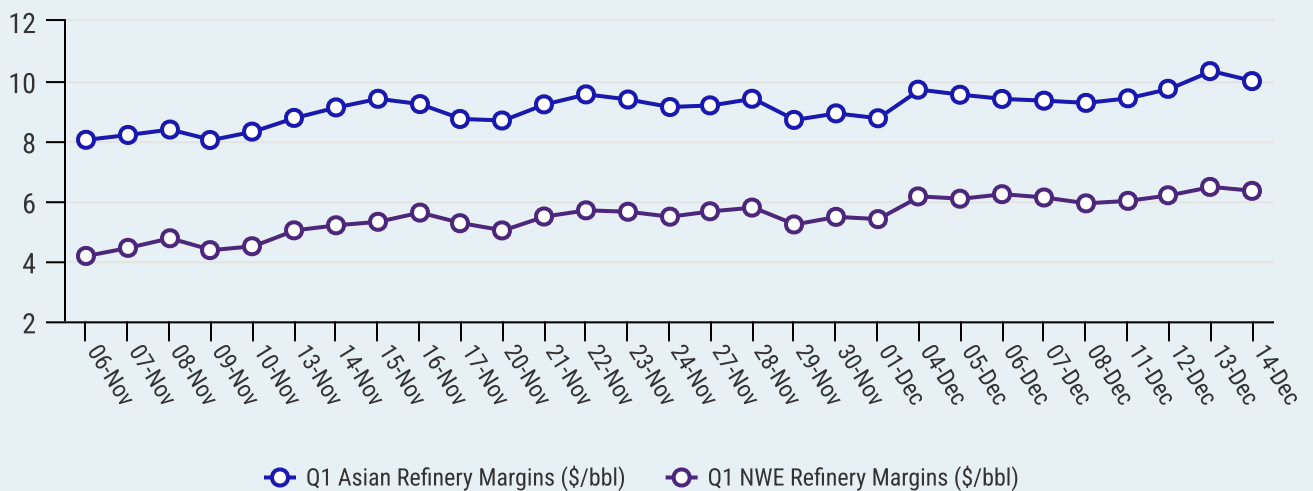
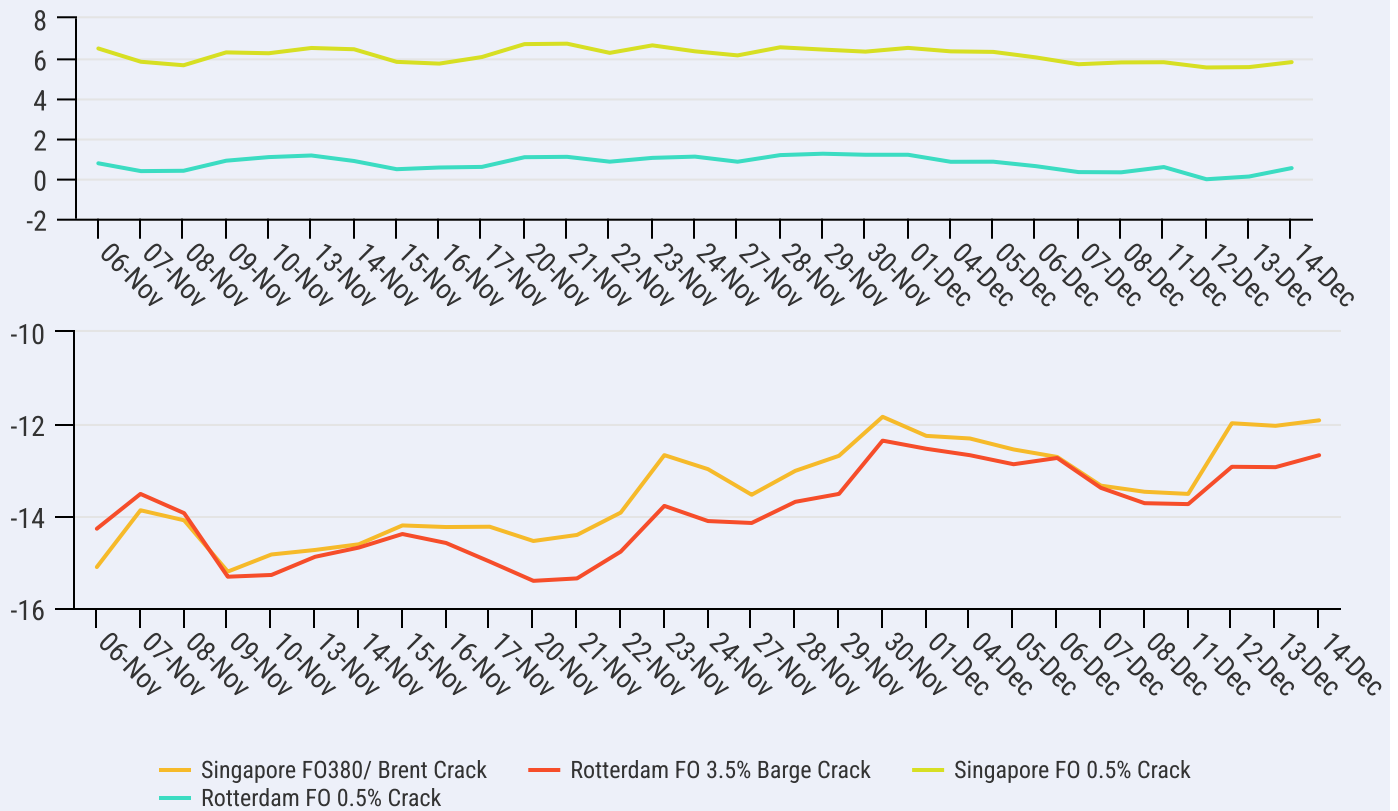


Japan Fuel Oil Inventories 2022-23 (kl)



Refinery Margins

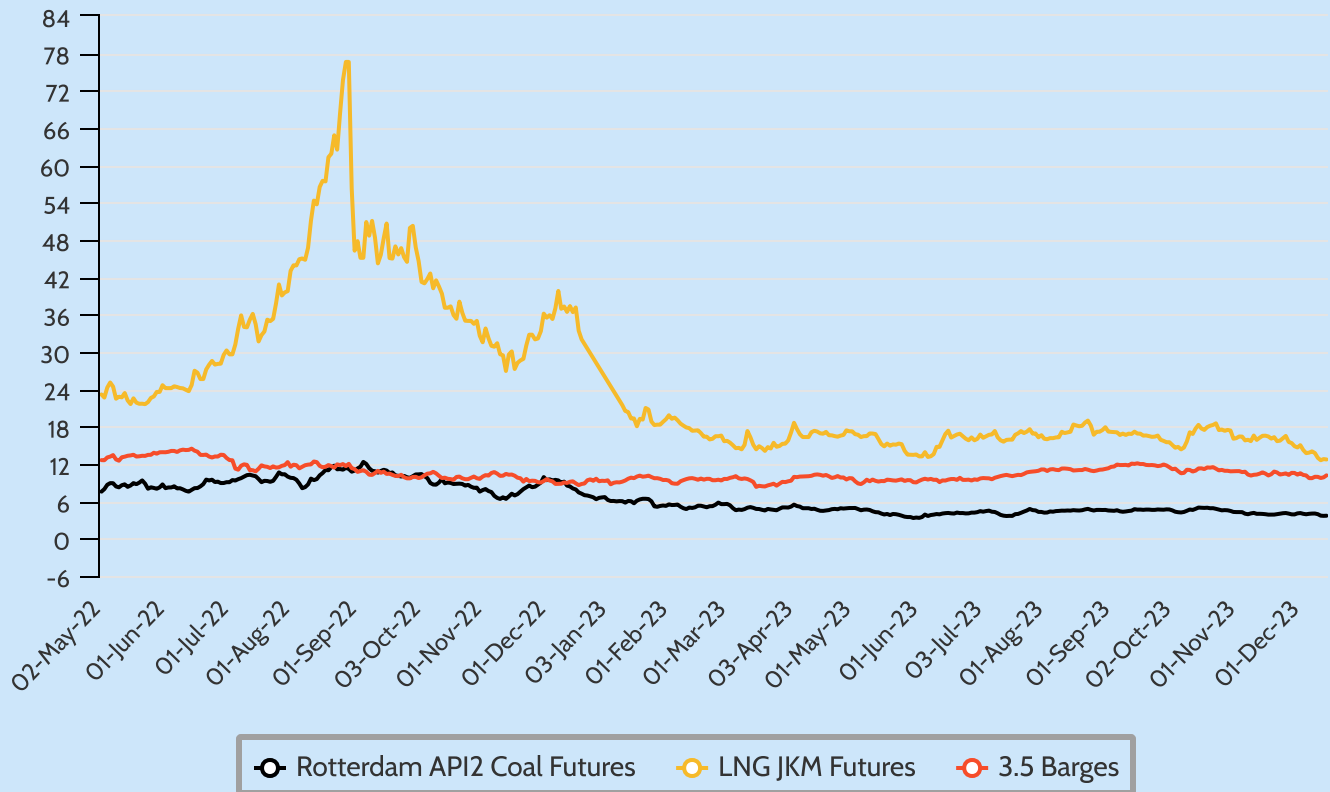
1H24 Fuel Oil Brent Cracks (\$/bbl)



- **Refinery margins** were better supported this fortnight, with Q1 NWE increasing \$0.22/bbl since Dec 07 despite stronger Brent prices drawing on the margins. This week, the European margins was heavily product-driven, largely off the EBOB rally, as the Jan price action jumped \$50/mt from Dec 12. The Asian margins were much stronger this week, also benefiting from product strength.
- HSFO cracks were relatively rangebound in the past two weeks with prices increasing 30c/bbl in the 3.5% barges whilst the Sing 380 stayed flat on the week.
- Similar sentiment was seen in the VLSFO cracks with little activity, observing only a slight decrease although generally staying rangebound.

Power: HSFO, Coal and LNG

Cal 24 Power Generation Differentials (\$/MMBtu)

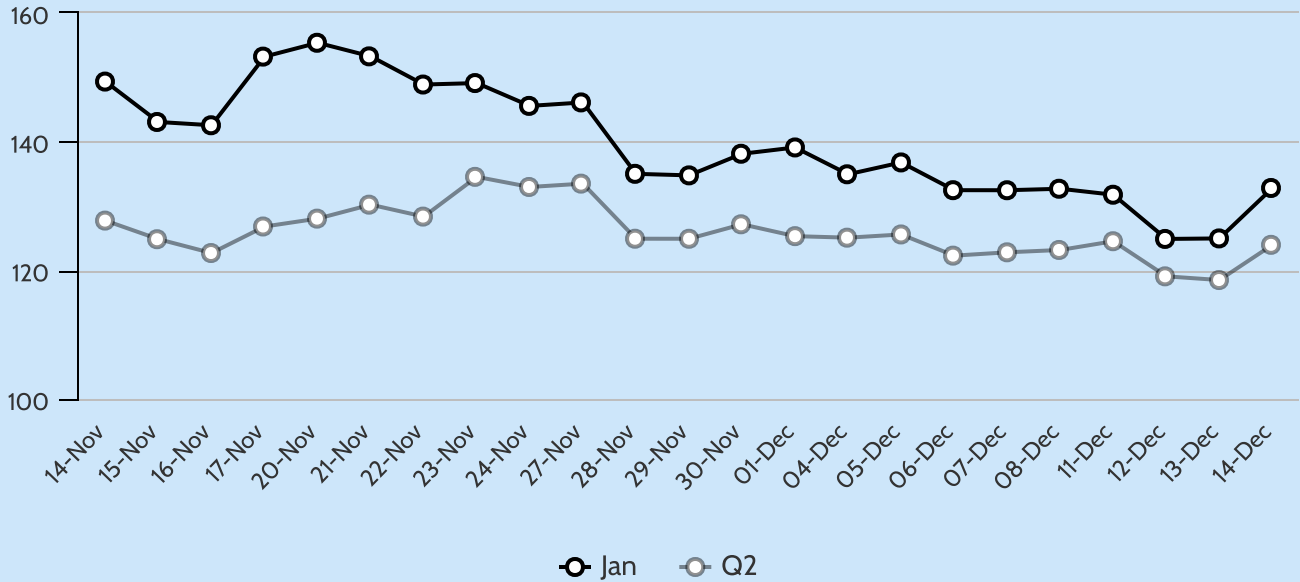


Global Benchmark Spreads

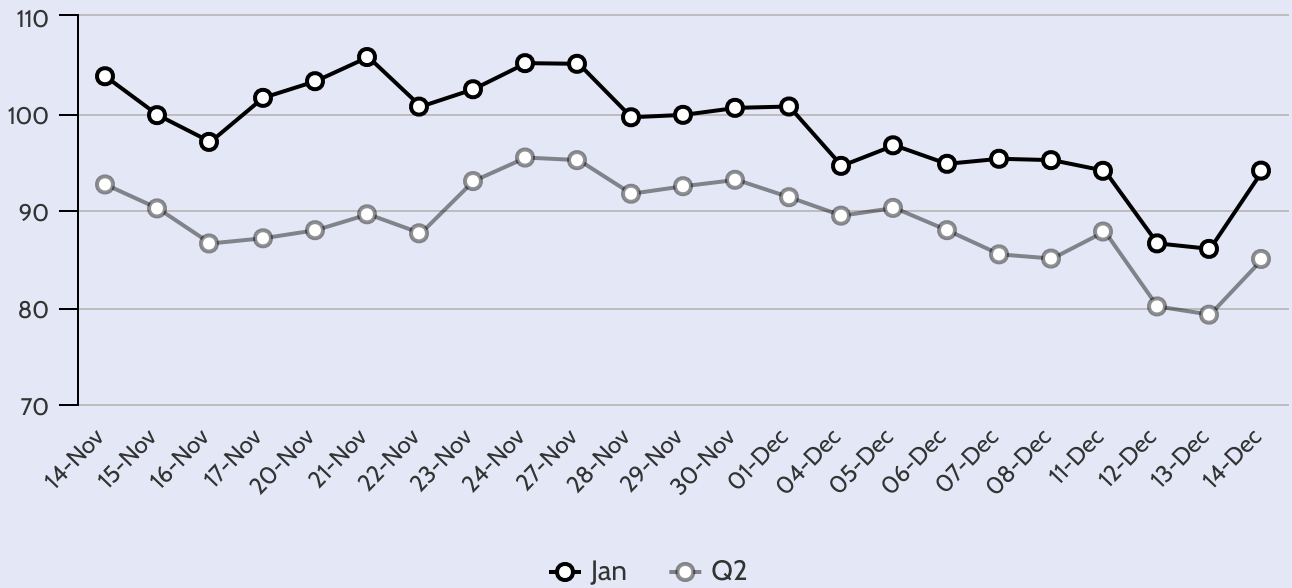
\$/MMBtu	3.5 Barges/JKM	3.5 Barges/API 2
Feb	-1.95	6.66
Q2'24	-1.32	6.75
Cal'24	-2.54	6.49

Hi-5 VLSFO vs HSFO Spread

Sing Hi-5 (\$/mt)

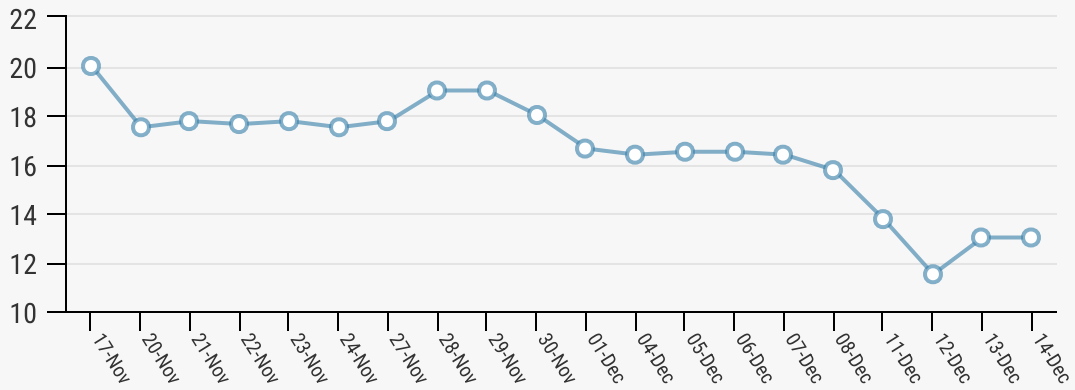


Europe Hi-5 (\$/mt)

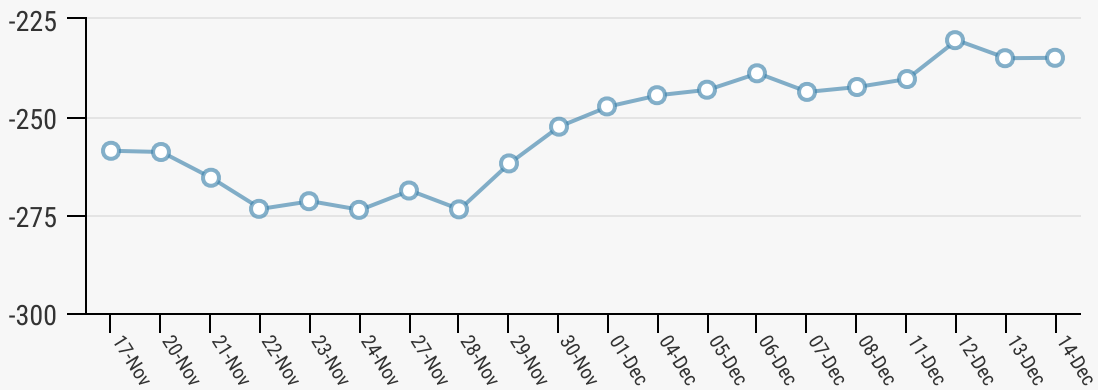


Appendix - Product Diffs

M1 Visco (\$/mt)



M1 Euro FOGO (\$/mt)



M1 Sing FOGO (\$/mt)

