

## European gasoline has changed – Argus assessments are changing too



### *The European gasoline market has changed to a predominantly E10 market, and Argus assessments are shifting from next year to reflect that change.*

In most European countries, gasoline must contain up to 5% or 10% bioethanol to create finished grade blends known as E5 and E10. E5 was introduced first, and the spread of E10 across Europe has gathered pace in recent years as countries aim to meet ever-rising biofuel mandates set by the EU's Renewable Energy Directive. The majority of European demand at the pump is for E10 gasoline, and most of the largest gasoline-consuming nations are firmly E10 markets – including the Netherlands, which forms the basis of Argus gasoline barge assessments loading from the ports of Amsterdam and Rotterdam.

The blendstock for E10 production is Eurobob non-oxy, while the blendstock for E5 is Eurobob oxy. E10's dominance across Europe has shifted refinery production to Eurobob non-oxy, and heavily shifted physical barge trading volumes towards non-oxy material. Argus non-oxy barge trade has accounted for 48pc of all Argus-related gasoline barge trading in 2023 so far, compared with just 25pc as recently as 2020. And in the first three quarters of 2023, Argus-related non-oxy barge trade has risen by 33pc, while oxy barge trade has fallen by 22pc.

Argus considers it natural that European pricing gasoline benchmarks in the paper market should also shift towards non-oxy to better align with the reality of the physical market – and the large majority of the European gasoline industry is in agreement.

#### **How is Argus evolving its European gasoline benchmark methodology?**

Following widespread consultation with market participants, from 1 January 2024 Argus will only assess the Eurobob non-oxy gasoline price using a volume-weighted average (VWA).

The VWA means that the outright prices of all eligible trades during a trading day are used to calculate the final price assessed by Argus. This is a transparent and fair approach to assessing the price of a commodity in a liquid market, as eligible trades provide robust price signals.

Simultaneously, as of 1 January 2024, Argus will change its assessment of the Eurobob oxy gasoline price to a differential to the Eurobob non-oxy price. That means the outright price of Eurobob non-oxy will be assessed first, and Argus will then apply the difference in price between the two grades to calculate the oxy price. In effect, this means that non-oxy will become the primary driver of the oxy price.

A full range of financial derivatives that reference Argus Eurobob non-oxy gasoline barge assessments is listed on futures exchanges – the principal ones have been in place for a number of years. These are the prices that traders use for hedging their short and long-term non-oxy price exposure. Much of the feedback received during Argus' consultation period suggested that the market expects non-oxy derivatives to become the more commonly used instrument by the end of this year.

#### **Future years**

E10 is set to continue to grow its market share at the expense of E5 markets, and the Argus Eurobob non-oxy prices are developing alongside the market for gasoline that they represent. The relationship between the two grades has reversed – until just four years ago, indeed, it was non-oxy that was priced as a differential to Eurobob oxy. Argus Eurobob non-oxy is now set to take over as the more liquid benchmark gasoline grade.

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### What does this mean in practice?

Eurobob non-oxy barge trade will form the basis of *Argus*' European gasoline barge assessments from 1 January 2024. Below are some theoretical examples of how that might look:

#### Trades

##### Non-oxy trades

- 9am 2kt @ \$890/t (M1 swap +\$20.00)
- 10am 2kt @ \$895/t (M1 swap +\$21.00)
- 12am 2kt @ \$900/t (M1 swap +\$22.00)

##### Oxy trades

- 12am 2kt @ \$902/t (M1 swap +\$24.00)
- 2pm 2kt @ \$906/t (M1 swap +\$24.00)
- 4pm 2kt @ \$910/t (M1 swap +\$24.00)

#### Assessments

##### Non-oxy VWA (PA0005644) is \$895/t on 6kt

- Average differential to M1 swap of \$21.00

##### Oxy (assessed as a differential to non-oxy) (PA0005643)

- Average differential to M1 swap of \$24.00
- Difference between non-oxy and oxy differentials is -\$3/t
- Oxy price as a diff therefore is \$895/t (non-oxy price) minus -\$3/t = \$898/t
- Oxy as a VWA would have been \$906/t

## Frequently asked questions

Historically on any given trading day both oxy and non-oxy grades have traded, so the assessment is derived as above.

### Will the outright prices of oxy trades be taken into account for the Eurobob oxy barge price PA0005643?

No. The oxy price will be defined as a differential to non-oxy. Only the differential between oxy trades and non oxy trades against the underlying swap will be taken into account. The outright price of oxy will come from the outright price of non-oxy with the respective differential applied (see worked examples).

### What if there is no trade on oxy barges?

*Argus* will assess an implied differential for oxy barges against the underlying swap, accounting for the best bids and offers in the market at 4:30pm London time, and the previous session's assessed spread between oxy and non-oxy barges. The assessed differential for oxy barges will be compared with the day's traded differential for non-oxy barges to derive the assessed spread between the two grades.

### What if there is no trade on non-oxy barges?

Nothing is changing with regard to the non-oxy barge VWA assessment. As such, a 3,000t assessment will be made for non-oxy barges based on the best bids and offers in the market at 4:30pm London time. The differential to the underlying swap for the non-oxy barge assessment will be compared with the day's average traded differential for oxy barges to derive the assessed spread between the two grades.

### How often will the assessment change?

The oxy differential to non-oxy will be assessed on a daily basis. The movement in the daily assessment will depend on the given day's trade, but the spread has the possibility of changing each day.

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