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Argus White Paper:

Urals pricing seeing drastic changes

The beginning of the military conflict in Ukraine and the ensuing increase in geopolitical tensions led to unprecedented changes in the global crude market. European and international companies, conventional buyers of Russian crude, began turning away from Urals, a grade that made up by far the largest share of European refinery throughputs.

As a result, Urals discounts to Dated Brent — or North Sea Dated, in *Argus* terminology — fell to the widest ever, standing at $34.85/bl (cif Rotterdam) and $31.95/bl (cif Augusta) on 4 April, whereas previously differentials rarely broke out of the range of a $3/bl discount to a $1/bl premium in both locations.

Simultaneously with a slump in Urals prices, a trend towards lower transparency emerged in the European market as most transactions were concluded on private and confidential terms and regular price signals were no longer received from market participants. This continued for several months until 20 July, when a number of sources reported that the grade's discount was $15/bl. From that moment, market transparency increased, and more dynamic price movements re-emerged. On the last trading day of last month, 31 October, the discount for Urals in northwest Europe (NWE) was said to be $25.50/bl (cif Rotterdam) and $25/bl (cif Augusta) in the Mediterranean. Urals deals are still not being publicly reported.

By then it had become obvious that Urals assessments at European ports of destination did not fully reflect the fair value of the crude. Shipments to the EU in January, before the start of the conflict, accounted for 85pc of the total seaborne exports of Urals by Russian companies, but they had fallen to 37pc in July. Over the same period, shipments to Asia-Pacific had risen to 49pc from 8pc in January, with India becoming the largest market after buying more than 40pc of Russia's Urals exports in July.

This trend continued during the following months — shipments to the EU accounted for less than a quarter of total exports in September, while India bought just over 40pc of seaborne Urals cargoes, non-EU Turkey took 21pc and exports to Cuba increased. Some Urals cargoes continued to go to the EU but most of them were supplied under long-term contracts signed before 4 June — after this date, new long-term contracts for Russian crude to the EU by sea were banned by EU resolution 2022/884 — or by Russian companies for their own refineries in Europe.

The large-scale reorientation of Urals exports from the EU to other regions, primarily Asia-Pacific and Turkey, caused a slump in trading activity in the traditional pricing hubs — NWE and the Mediterranean — resulting in these regions becoming less relevant for pricing. The upcoming embargo on seaborne imports of Russian crude to the EU, expected on 5 December, will render such shipments impossible, meaning that the existence of Urals price assessments at ports of destination in their current form will also become impossible.

Liquidity shifts to new locations

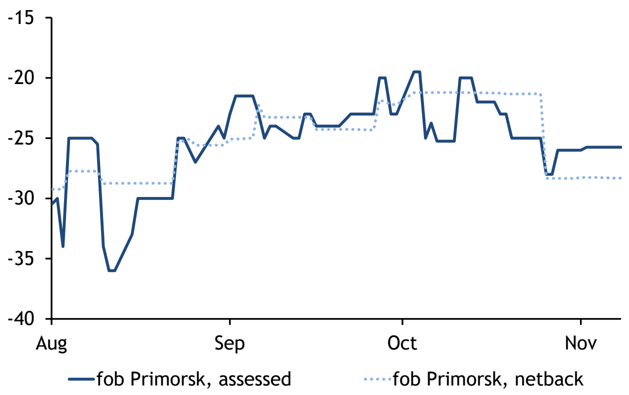
Reduced Urals shipments to the EU along with the decline in trading activity at traditional hubs have resulted in increased spot liquidity at Russian ports of loading — Primorsk, Ust-Luga and Novorossiysk. Fob assessments at these locations are becoming more important because they reflect the value of seaborne cargoes shipped from Russia to any destination.

Argus in late July started shadow assessing Urals on a fob Primorsk, fob Ust-Luga and fob Novorossiysk basis, and the assessments were officially launched in early October on consultation with market participants.

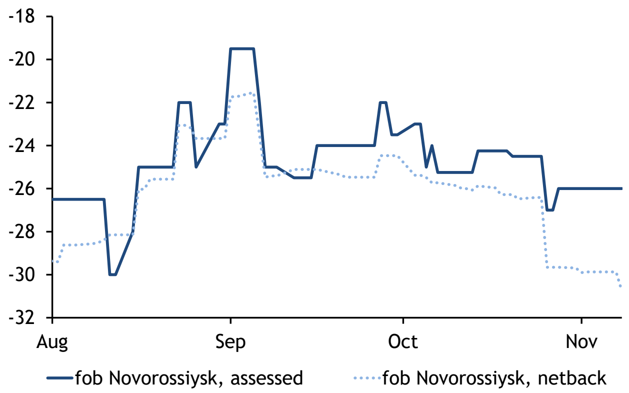
Comparison shows no clear correlation between netted-

Urals seaborne exports by Russian companies, Jan-Sep 22									'000t
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
EU	5,158	4,390	3,724	3,369	3,215	2,989	2,749	2,878	1,779
Netherlands	1,499	900	1,300	600	800	700	699	945	400
Italy	300	200	899	1,042	1,165	969	1,200	800	700
Poland	700	801	405	500	100	200	291	200	200
Bulgaria	220	294	160	317	404	479	320	559	400
Romania	140	220	80	449	205	402	0	180	80
Finland	500	500	100	100	101	100	100	0	0
Lithuania	500	400	200	0	0	0	0	0	0
France	300	200	200	100	200	0	0	55	0
Germany	400	400	100	0	0	0	0	0	0
Croatia	0	0	179	60	140	140	140	140	0
Spain	200	300	0	200	0	0	0	0	0
Greece	200	0	101	0	100	0	0	0	0
Sweden	200	175	0	0	0	0	0	0	0
Mediterranean (outside the EU)	280	240	1,040	1,001	720	1,089	791	1,390	1,517
Turkey	280	240	1,040	1,001	720	989	691	1,390	1,517
Egypt	0	0	0	0	0	100	100	0	0
UAE	0	0	0	0	0	0	100	100	0
Asia-Pacific	501	526	2,039	4,084	4,527	4,104	3,660	3,459	3,902
India	0	0	1,139	3,679	3,323	2,094	3,013	2,559	3,198
China	501	526	900	405	1,204	2,010	447	900	605
Sri Lanka	0	0	0	0	0	0	200	0	0
Singapore	0	0	0	0	0	0	0	0	99
Cuba	100	100	0	0	0	100	100	0	200
Total	**6,039**	**5,256**	**6,803**	**8,454**	**8,462**	**8,281**	**7,400**	**7,827**	**7,398**

Urals price differentials in Primorsk



Urals price differentials in Novorossiysk *$/bl*



back Urals values and price assessments based on reported transactions, bids and offers on a fob Primorsk, fob Ust-Luga and fob Novorossiysk basis. This is because the actual transacted prices at the ports of loading now reflect trades for cargoes heading to a wide range of end destinations, including in Asia-Pacific, while the netted-back prices reflect only the NWE and Mediterranean markets.

Kazakh Urals is notably more expensive

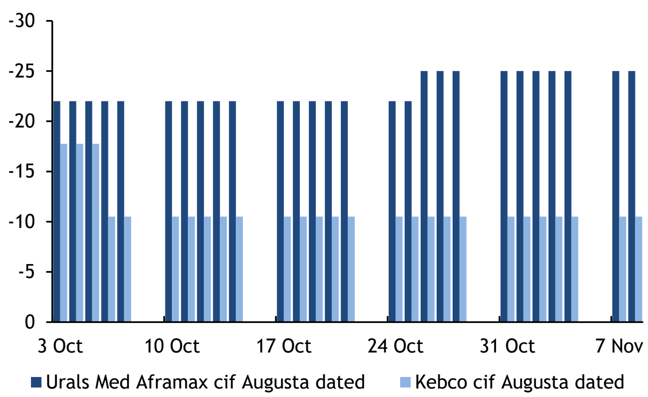
The growing geopolitical tensions led to a significant increase in discounts for both Russian and Kazakh Urals. But sellers of Kazakh crude eventually managed to convince buyers that such discounts should not apply to Urals of Kazakh origin, even though it is exported using Russian transport infrastructure.

Urals is a blend of crudes of different quality, produced at various fields in Russia. The Transneft pipeline system also receives crude from Kazakhstan, and earlier did the same from Azerbaijan and Turkmenistan. The resulting blend acquires a uniform quality and is shipped as Urals, or Rebco (Russian Export Blend Crude Oil), from Primorsk and Ust-Luga on the Baltic and Novorossiysk on the Black Sea. It is also pumped through the Druzhba pipeline directly to refineries in the EU.

The Urals coming out of the pipeline is distributed among exporters in proportion to the amounts delivered to the Transneft system. Exporters of Kazakh crude receive export cargoes of Urals at Ust-Luga and Novorossiysk.

Kazakh-produced Urals was reported in early spring to be discounted in Europe to the same degree as Urals of Russian origin. But subsequent Kazakh cargoes traded at a premium to

Urals and Kebco differentials to Dated *$/bl*



the Russian crude of similar quality. Buyers that turned away from Russian shipments still needed medium sour crude, resulting in increased demand for Kazakh supplies, as no sanctions were imposed on Kazakhstan.

Kazakh producers re-registered their Urals as Kebco (Kazakh Export Blend Crude Oil). *Argus* launched Kebco cif Augusta price assessments in October 2022 after consultation with market participants. Kebco premiums to Urals stood at $4.25/bl on 3 October, before increasing to $11.50/bl on 6 October and $14.50/bl on 26 October.

Market participants expect the shortage of Urals in Europe to increase after the embargo on Russian crude shipments to the EU enters force, which means that demand for Kazakh crude of similar quality will rise even more firmly, and Kebco premiums to Urals assessments may increase.

Siberian Light is still exported to EU

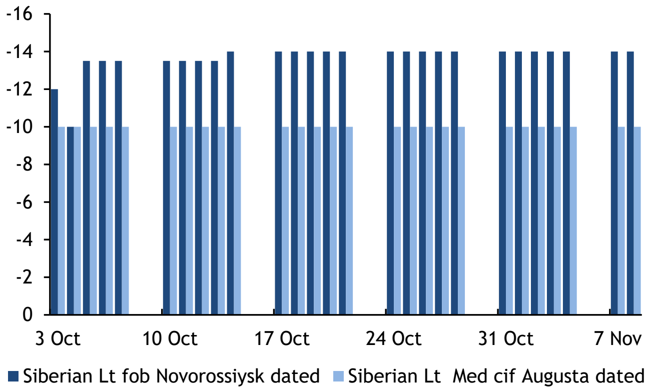
In contrast to Urals, the market for Siberian Light did not see such a pronounced trend of EU-bound cargoes being moved to other countries. On the contrary, while only a third of Siberian Light volumes went to the EU in January, shipments in that direction accounted for at least half total exports in each subsequent month. They even rose to just above 80pc in September.

This is explained by the fact that Lukoil, a major exporter of Siberian Light, owns refineries in Bulgaria, Romania and Italy, the only destinations for Siberian Light shipments within the EU. After the embargo on Russian crude takes effect, Bulgaria is likely to remain the sole destination of these, as it is exempt from the ban.

The embargo will prevent Russian companies from supplying Siberian Light to the EU, except Lukoil, which is likely to continue shipping crude to its refinery in Burgas, market participants say. Upon consultation, *Argus* launched a price assessment for Siberian Light on a fob Novorossiysk basis. The assessment aims to reflect the value of Siberian Light after the EU embargo enters force.

For more information on this topic, contact James Gooder, Vice-President Crude – Europe and Africa, at James.Gooder@argusmedia.com.

Siberian Light differentials to Dated *$/bl*



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