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Russian Products Special Report:

EU ban redraws Russia's export map

Half the world away

Crude grabs most of the attention in oil markets, but voters use refined products. EU embargoes on Russian oil imports — announced in July last year and implemented for crude, then products — first caused consternation among market stakeholders because of European refiners' huge intake of Urals. But it quickly became clear that substituting Russian products imports, particularly diesel, was the bigger problem for Europe.

Until now, high product stocks and moderate prices have helped Europe and the wider market adjust. But as we explore in this issue's special report, marking six months since the products ban started, the EU embargo and the G7 price caps face stern tests as markets tighten, and prices of key fuels begin rising again.

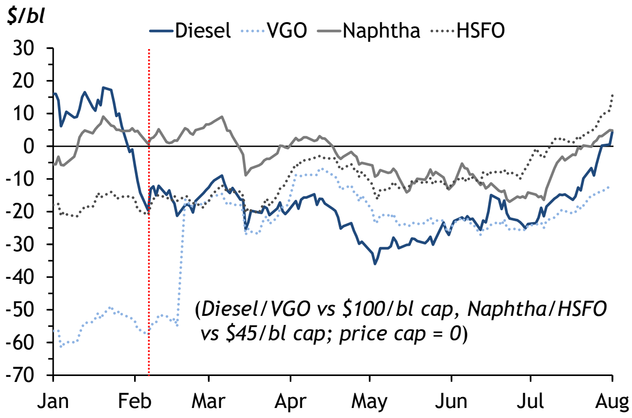
The EU ban on Russian products imports took effect on 5 February, two months after the equivalent ban on crude. Europe imported 1mn b/d of refined products from Russia before the invasion of Ukraine in February 2022, half of which was diesel, in addition to significant quantities of fuel oil and refinery and petrochemicals feedstocks. As with crude, some exemptions were made. Bulgaria can take Russian products for its domestic market and Croatia is allowed to import vacuum gasoil — for the cracking units at Ina's 90,000 b/d Rijeka refinery. But otherwise, the EU had to find new suppliers and Russia new buyers.

Much of Russia's products now flow to the Mideast Gulf and Asia-Pacific. The UAE and Saudi Arabia have become key importers of Russian fuel oil and feedstocks, either as inputs for new, complex refineries, or as fuel for their oil-thirsty utility sectors. Diesel goes there too, as well as to Latin America. And Russian naphtha has made inroads into Asia's depressed petrochemical feedstocks market, stoking a surplus that has kept margins at multi-year lows.

Opening up these new trade routes has triggered a ripple effect on existing supply lines in the Atlantic basin and beyond. Turkey now takes a third of Russia's diesel and exports some of its own products back to Europe. Refiners in the Mideast Gulf and India have new surpluses to ship west, their tankers passing cargoes of Russian oil coming the other way through the Suez Canal. And US Gulf coast refiners have had to find new markets as their previous fiefdom in Latin America takes in more of Russia's discounted products.

This wholesale rerouting of supply lines has strained the freight industry, which must now cope with longer voyage times and new ways of financing and insuring cargoes. Costs have gone up as tanker capacity is kept on the water for longer. But this is oil trade like the old days — opaque and highly profitable. A web of new firms, many based in Dubai, has emerged to take advantage of large western companies' reluctance to trade Russian oil — although their influence may wane as buyers seal direct, longer-term deals with Russian exporters.

Russian products vs price caps



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The future of Russian products trade may be murkier still. By the start of this month, almost all Russian products were trading above G7 price caps, putting insurance and financing services in the EU and G7 out of reach. Crude market participants appear confident that they can adapt to the new realities of the price cap, but solving the same puzzle for Russian products may be much harder. The price rally that began in late June has added another layer of complexity to the trade in Russian products.

Middle East dominates Russia's new export map

The EU import ban presented a huge challenge for Russia. Even well into 2022, months after the invasion of Ukraine, Europe remained the main market for Russian products exports. But from February, new customers would have to be found, almost inevitably in more distant markets, with increased freight costs and more complex logistics complicating sales.

Six months on, Russia has largely succeeded in finding new outlets for its products, but at a price — as the EU and G7 intended. Around 60pc of Russian exports headed to Europe before the ban, according to oil analytics firm Vortexa. This has slumped to about 20pc since February, with countries in the Middle East, north Africa, South America and Asia-Pacific picking up the slack. Several of these destinations began importing Russian products around the time the war began, but significant growth in arrivals mostly started only after the import ban.

The big incentive to import more Russian products is simple — discounted prices, which in many cases are critical to help offset higher freight costs. But the market effect of those new or higher imports varies. For some countries, they have displaced more expensive imports from elsewhere. For others, Russian products are meeting domestic demand and freeing up refinery output for profitable export — often to Europe — at regular market prices.

New market

A key new market has been the Middle East, which imported 144,000 b/d (3.5mn t) of Russian gasoil and diesel in the first half of this year, Vortexa data show, compared with 12,500 b/d two years earlier. Imports of Russian fuel oil quadrupled over the same period to 181,000 b/d (5mn t), and a steady flow of naphtha and gasoline has replaced previously sporadic trade.

Saudi Arabia and the UAE are the region's dominant buyers, using Russian imports domestically and offering more of their own refinery output for export. Saudi Arabia has used discounted Russian fuel oil for power generation, reducing its summer crude burn, while the UAE's bunkering hub at Fujairah has absorbed higher quantities of Russian low-sulphur fuel oil.

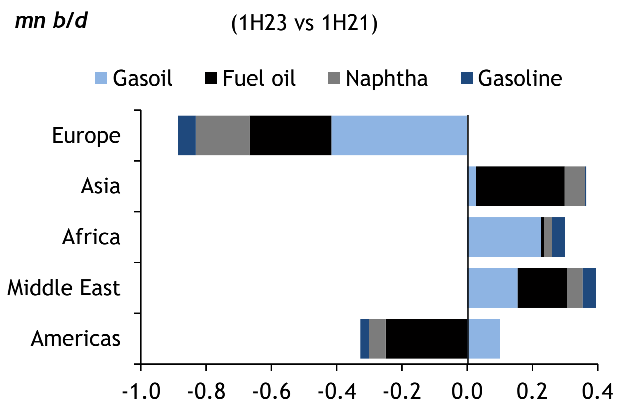
Outside the Mideast Gulf, growth in Russian products exports is notable elsewhere in Asia, in Turkey, north Africa and Brazil. Turkish imports tripled to 302,000 b/d in the first half of 2023 against January-June 2021, largely to meet domestic needs, while Turkish refiners exported more diesel — Turkey also takes about 0.7pc sulphur gasoil for secondary processing. Egypt, Tunisia and Morocco are importing around 130,000 b/d of Russian products compared with 4,000 b/d in the first six months of 2021 — mainly using supply to cover domestic shortfalls and partially replace more expensive imports from Europe.

Transatlantic boost

Brazil previously received Russian products cargoes very occasionally, but it imported 81,000 b/d in January-June. Arrivals of primarily diesel have displaced imports from the US — which has redirected exports to Europe — and Brazil has occasionally diverted Russian products to Argentina, Paraguay and Uruguay.

The final part of Russia's new export map, mainly for fuel oil and naphtha, is Asia-Pacific. Russian fuel oil shipments to India, Singapore, China and Malaysia jumped to 415,000 b/d in the first half of 2023, from 112,000 b/d two years earlier — for use in power generation and bunkering, and as refinery feedstock in China. Russian naphtha shipments to the region have risen more modestly, by around 15pc to 307,000 b/d over the same period. Singapore and Malaysia have emerged as the main new destinations, storing and blending naphtha before re-export, including to South Korea. Previously a big direct importer of Russian naphtha, the country halted buying of the product at the start of the conflict because of fears over sanctions.

Russian product flow net changes



Challenges emerge for new products traders

The EU ban has not only created new trade routes and customers for Russian products — it has also given rise to a swathe of companies looking to exploit associated trading opportunities. But there are signs that the influence of these new traders is waning, as consumers seek direct relationships with Russian exporters.

Most of these new companies are based in Dubai or Hong Kong — strategic geographical locations for Russian products exporters' target markets, which also offer strongly pro-business fiscal conditions. Their basic strategy has been simple — buy Russian products at wide discounts to benchmark prices and re-export at higher prices, notably to the Mideast Gulf, where Saudi Arabia and the UAE have become prominent buyers.

Recent Russian customs data show the influence that these trading companies have acquired. A familiar name tops the list of products exporters — Lukoil trading arm Litasco, with sales of more than $3bn in January-April (*see graph*). Litasco relocated some trading staff to Dubai from Geneva last year.

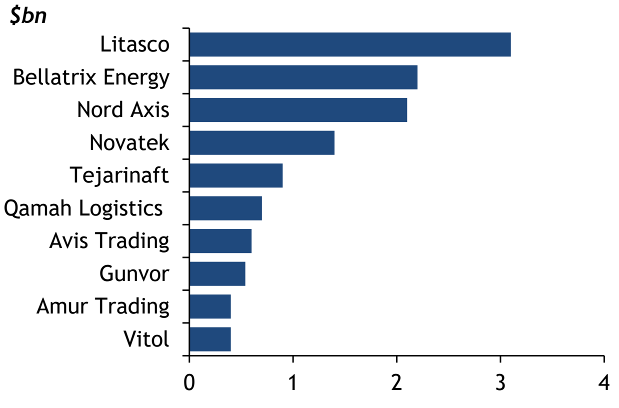
But just behind Litasco, with sales of around $2bn, are newer market participants Bellatrix and Nord Axis — just two of several other prominent new names in Russian product trade such as Tejarinaft, Qamah Logistics, Petroruss, Amur Trading, QR Trading, GMS Trading and Sunrise X.

In many cases, traders say, these companies are new in name only. Some have developed close links with more established trading entities and some have hired traders with experience gained at those more-established companies. Others have been created by traders with the expertise to identify lucrative opportunities within the restrictions resulting from sanctions — often gained through their experience of oil trade with Iran.

Information on many of these companies remains sketchy, but a few facts have emerged. Hong Kong-based Nord Axis was incorporated in February 2022 and was virtually unknown in oil trade circles until July last year, when it acquired Trafigura's 10pc stake in Rosneft's upstream Vostok Oil project.

Tejarinaft was established in Dubai soon after Russia's invasion of Ukraine in February last year, and has become, alongside Nord Axis and Bellatrix, a significant supplier of Russian products to Turkey — now a crucial market. Turkish imports from Russia were nearly five times higher on the year at 10.61mn t in January-June, according to shipping agents, covering more than 73pc of total Turkish products imports, up from 39pc a year earlier.

Top lifters of Russian products



A second shift

But trading opportunities in some markets may soon become scarcer. Political and economic instability in potential African and south Asian markets — such as Sudan, Egypt, Sri Lanka, Pakistan and Bangladesh — may limit commercial opportunities. Trading firm Coral Energy was until recently one of the biggest suppliers of Russian-origin fuel oil to Pakistan, but the country has imported no fuel oil since November, as an economic slowdown has squeezed demand from industrial customers.

Buying preferences are also changing for some more economically robust importers. "Importers of products, such as Saudi Arabia, have started to bypass intermediaries and purchase directly from Russian refiners," a former trader with a company actively involved with Russian trade says.

This shift in purchasing patterns will enable consumers to negotiate better deals with Russian exporters such as Rosneft, Gazpromneft and Surgutneftegaz, ensuring a steady supply of oil products. And, if successful, opportunities for the new trading firms will be restricted, dulling their allure.

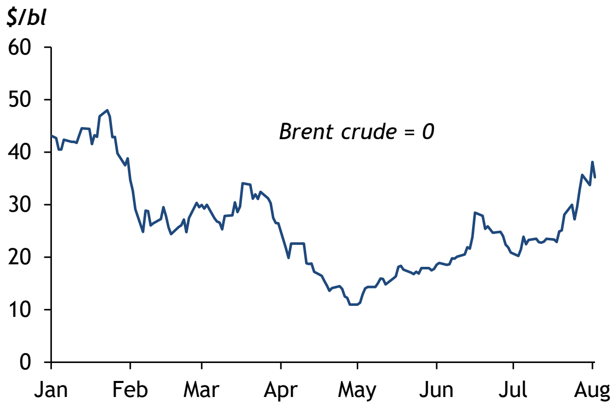
Diesel market takes Russia ban calmly, so far

The EU's ban on Russian diesel imports sharply lowered the price at loading ports, but flows continued, keeping diesel markets far calmer than many expected.

By accepting discounts of more than $26/bl for Baltic-loading diesel relative to non-Russian cargoes delivered to northwest Europe, Russian refiners have successfully reallocated their diesel to markets with no ban. Nearly a third of Russian gasoil exports went to Turkey on 5 February-30 June, according to oil analytics firm Vortexa, 16pc was spread quite evenly across north Africa, 14pc was shared between Saudi Arabia and the UAE, and 11pc headed to Brazil.

Brazil, north Africa and Turkey have switched to Russian diesel to fill some of their net import requirements. On the other hand, Saudi Arabia and the UAE are large net diesel exporters and appear to be taking Russian diesel for domestic consumers, allowing them to export more of their own output.

NWE diesel margins



Since the EU ban, Russian diesel and gasoil exports have exceeded loadings before the invasion of Ukraine in February last year. Russia has shipped nearly 1.1mn b/d of diesel and gasoil for export since the ban, up from 920,000 b/d in the comparable period over the previous seven years. Those previous years included a spike in loadings in 2020, when Russian demand collapsed, but even that fell short of exports since the EU embargo.

Russian refiners are partly responding to the cheapness of their crude inputs — since the EU banned Russian imports in December. Low-sulphur diesel loading at Russian Baltic ports has been trading at an average premium of $23.40/bl to Urals since the February products ban — a very strong refining margin by pre-war standards compared with an average of less than $15/bl in 2015-19, before dropping during the Covid-19 pandemic.

The EU market has also adjusted far more smoothly to the ban than many expected — Russian diesel covered 10-15pc of EU consumption — assisted by an influx of product displaced by Russian supplies. North Africa now takes less diesel from the Middle East, Turkey buys less Indian product, Brazil buys less from the US and Mideast Gulf countries consume less of their own diesel. All these non-Russian sources have more to offer to the EU as a result. Saudi Arabia, India and the US are now the EU's largest external diesel suppliers.

A price to pay

But these supplies come at a premium for EU consumers because of the greater distance travelled — journeys can take 5-6 times as long as on routes from Russia. Shippers economise by using larger tankers than was customary on Russia-Europe routes. But few ports in Europe have the capacity to receive such large tankers, leaving many buyers facing extra "breaking bulk" costs to discharge product to smaller vessels at Rotterdam and other hubs.

These inefficiencies largely explain higher EU diesel margins since the ban than they were before the war. But margins have fallen significantly, and stabilised, compared with the more chaotic market of 2022, partly because European demand has been low since late 2022. German diesel deliveries were 8.5pc lower on the year in February-April, Eurostat data show, reflecting a recession and a slowdown in industrial activity.

A second reason for lower diesel margins has been larger export quotas for Chinese refiners towards the end of 2022 — China's diesel exports in December were six times higher than earlier last year. In much the same way as Russian diesel has been reallocated to other parts of the world, Chinese diesel has displaced Mideast Gulf and Indian product in the Asian markets, and those suppliers were looking for markets just as the EU was looking for new diesel sources.

Europe shurgs off loss of Russian naphtha

Russia has maintained steady naphtha exports this year, forcing product barred from Europe further afield, with journeys taking as much as four times longer. But the European naphtha market is oversupplied, despite the loss of imports from Russia — previously an important source of supply.

Naphtha exports were 450,000 b/d (8.8mn t) between February and mid-July, according to oil analytics firm Vortexa. Russian loadings were roughly unchanged on the year, but export routes shifted significantly, as exports headed mainly to Asia-Pacific. Singapore was the top destination, taking around 23pc of exports, followed by Malaysia and China with 17pc and 13pc, respectively. The UAE doubled its imports on the year, taking 10pc of the total.

Belgium and the Netherlands were the top destinations for Russian naphtha a year earlier, each accounting for around 21pc of Russian exports.

Journey times have risen sharply as a result. Russia's Baltic port of Ust-Luga is the main outlet for naphtha — the trip to the Netherlands takes just over a week and to Singapore closer to a month. But there has been a slight shift in Russian loadings to ports further south and east, as Ust-Luga's share of exports has fallen to 56pc from 63pc last year. Shipments from Tuapse on the Black Sea have accounted for 14pc of exports this year, up from 6pc, and loadings at Russia's far east port of Nakhodka, although relatively small, have made up 5pc of the total, against 1pc in 2022. The journey to Singapore from Nakhodka takes only a week.

Europe has more than managed the loss of Russian supply, although alternative imports have not covered the shortfall. Russian naphtha imports of 260,000 b/d between February and mid-July 2022 accounted for more than half of Europe's 475,000 b/d total. The drop in European naphtha imports to 220,000 b/d this year almost exactly mirrors the loss of Russian supply.

Algeria has captured the largest share of the European market, providing 47pc of imports this year, up from 20pc in 2022, although Algerian shipments were only 11pc higher on the year at 103,000 b/d in February-July. European naphtha imports from the US — the second-largest supplier in 2023 and third-largest in 2022 — have fallen by 21pc to 60,000 b/d this year.

European naphtha margins have strengthened slightly compared with last year, although the cif northwest Europe discount to benchmark North Sea Dated crude was still low by historical standards at an average $16.50/bl in the first half of July. The discount deepened by $8/bl in June, when Russian exports fell to 330,000 b/d — the lowest since at least 2016 — before firming again last month.

Demand drivers

Several factors have helped Europe weather the loss of Russian supply. Naphtha output at European refineries has risen this year, reflecting a shift to lighter and sweeter crude slates — with a growing share of US WTI in the mix, as medium sour Urals was removed from December. Naphtha output in the EU 15 and Norway rose by 7pc on the year in January-May, Euroilstock data show.

The prevalence of redirected Russian naphtha in the Asia-Pacific markets, as well as rising light products output and supply from Mideast Gulf refineries this year, is meeting petrochemical sector demand in northeast Asia. This has freed up product from the Mediterranean region for markets in Europe — naphtha that previously might have been pulled east of Suez.

Perhaps most importantly, global petrochemicals demand for naphtha feedstock, particularly in Europe, has been hit by unfavourable economics that have supressed steam cracker throughputs. Until this demand recovers, the global naphtha market will remain well supplied.

Ban squeezes Europe's HSFO supply

The EU ban on Russian fuel oil imports has been a bigger problem for Europe than for Russia — unsurprising, considering Russian high-sulphur fuel oil (HSFO) accounted for a much bigger share of EU imports than of Russian exports.

Russia provided 78pc of EU HSFO imports in the first half of 2021 — before the war in Ukraine and the EU's ban from February — most of which headed to the Amsterdam-Rotterdam-Antwerp refining and bunkering hub, according to oil analytics firm Vortexa. But that plunged to just 7.2pc in January-June.

Without Russian supply, EU buyers are competing for HSFO in the global markets and Turkey, Mideast Gulf states and the US are now the region's main suppliers — together accounting for around 68pc of EU imports since February.

EU HSFO imports *'000 b/d*

	1H21			1H23	
	Vol.	% share		Vol.	% share
Total:	**332.1**	**100.0**	**Total:**	**129.3**	**100.0**
Russia	258.0	77.7	Turkey	25.9	20.0
UK	16.3	4.9	UK	22.0	17.0
Egypt	13.5	4.1	Saudi	21.0	16.3
Canada	12.0	3.6	Russia	9.4	7.2
Mexico	9.8	2.9	US	8.7	6.7
Colombia	7.0	2.1	UAE	8.7	6.7
US	5.9	1.8	Iraq	7.7	6.0

— Vortexa

EU buyers are also paying more. HSFO margins have risen markedly since the ban, switching to a rare premium this week, from discounts to Ice Brent futures of around $26/bl in February. HSFO at the key Mediterranean bunkering hub of Malta moved to a rare — if ultimately brief — premium to very-low sulphur fuel oil in May because of tight supply, with the Russian ban an underlying factor.

Russia has managed to maintain overall HSFO exports, shipping 660,000 b/d in the first half of 2023 against 671,000 b/d two years earlier, with customers east of Suez stepping up. China and India took 22pc and 17pc of Russian exports in January–June, respectively, against 4.8pc and 0.9pc in the same period of 2021.

Russia has also markedly increased sales to Turkey and Saudi Arabia. Turkey more than doubled its share of Russian HSFO exports to 7.2pc in the first half of 2023 from 2.4pc two years earlier. Saudi Arabia and other Middle East buyers, such as Iraq and the UAE, have exploited deep discounts for Russian fuel oil to boost imports, while exporting their own HSFO to the EU. Saudi Arabia previously bought Russian fuel oil to meet increased summer power-sector demand, a seasonal surge that could still limit availability for export in the coming months.

Russian HSFO exports *'000 b/d*

	1H21			1H23	
	Vol.	% share		Vol.	% share
Total:	**670.9**	**100.0**	**Total:**	**659.5**	**100.0**
US	226.4	33.8	China	146.3	22.2
Neths.	123.0	18.3	Saudi	124.7	18.9
India	41.7	6.2	India	113.6	17.2
Spain	32.5	4.8	Singapore	67.5	10.2
Estonia	23.1	3.4	UAE	50.3	7.6
Saudi	17.8	2.9	Turkey	47.3	7.2
UAE	17.8	2.7	Malaysia	20.9	3.2

— Vortexa

VGO uncertainty persists

European refiners lost a crucial source of vacuum gasoil (VGO) following the EU ban on Russian products. Limited options for alternative supply have meant a sharp drop in VGO arrivals since February, leaving markets unreliable and expensive, traders say, and encouraging some refiners to balance their needs internally.

Russia supplied 93pc of European VGO imports of 3.65mn t (138,000 b/d) in the first half of 2022 and arrivals in Europe have dropped by 54pc to 1.67mn t this year. Saudi Arabia has plugged some of the supply gap, exporting 475,000t of VGO to Europe in January-June. Portugal's 227,000 b/d Sines refinery has been the main destination for high-sulphur VGO from the 400,000 b/d Jizan refinery, although the imminent start-up of a second Jizan hydrocracker will curb exports.

But one of the largest refineries in the Mediterranean region, which previously bought Russian VGO, has adjusted its crude slate rather than rely on a spot market with limited liquidity. It is running heavier crudes with a higher residue yield, increasing VGO output for internal processing, according to one of the refinery's traders. Spanish VGO imports were 177,000t in January-June — Russia provided 84pc of the country's 326,000t imports in the first half of 2022.

Russian VGO loadings of 5.82mn t (230,000 b/d) in January-June were 13pc lower on the year, according to data from oil analytics firm Vortexa. But as shipments to Europe fell, exports to China and India increased significantly — destinations east of Suez accounted for around a third of Russian exports at 1.88mn t, up from 7pc in the first half of 2022.

EU ban hits gasoline blending, lifts competition

Europe's status as a gasoline exporter has been preserved since the EU ban on Russian products imports. But exporters face a reduced blending pool and increased competition on markets where Russian gasoline is still accepted.

Russia was the largest external supplier of gasoline and blending components to Europe in 2022, at around 78,000 b/d (1.6mn t), according to oil analytics firm Vortexa. But those amounts are insignificant compared with European output, and the region remains structurally oversupplied. EU-15 and Norway gasoline production was 2.35mn b/d in June, the latest Euroilstock data show.

The effects of the EU embargo are mainly on export trade, market participants say, and Europe relies on exports to clear its supply overhang — the Amsterdam-Rotterdam-Antwerp (ARA) trading and blending hub the key source.

Russia previously exported naphtha to Europe, supplying around 240,000 b/d in 2022. Heavier grades favoured in the gasoline blending pool have fetched premiums in Europe as high as $180/t to open-specification naphtha this year and that has made blending US gasoline grades more expensive at ARA, traders say.

The European market for octane-boosting gasoline additive alkylate has also tightened, traders say. And some expect an absence of Russian butane for blending winter gasoline grades to further weigh on economics.

The EU embargo has tightened gasoline availability in Europe in other ways, with supply falling short of some traders' expectations, despite the overhang. Refinery reconfigurations to maximise middle distillate output — to offset the loss of Russian diesel — have counteracted a lightening crude slate.

Eastern promises

Russia has found new outlets for gasoline in Africa and east of Suez, enabling relatively steady exports — down by 14pc on the year at 98,000 b/d on 5 February-27 July, but 5pc higher than in 2021, Vortexa data show. The UAE is the top destination for Russian gasoline and components, with supply almost four times higher on the year at 32,000 b/d. Russian naphtha shipments to the UAE doubled to 48,000 b/d over the same period, some of this for the gasoline blending pool.

A new blending hub is emerging in the UAE, which is well positioned to supply Africa and Asia-Pacific — gasoline exports neared a three-year high of 264,000 b/d in April-June, with Pakistan, Yemen, Kenya and Iraq the top buyers.

Similar operations could be occurring in north Africa, traders say. Around 13pc of Russian gasoline loadings have gone to Tunisia and Libya since February, with combined exports from those countries almost 10 times higher at 16,300 b/d.

Russian gasoline is also competing with European supply in west Africa. Russia's share of overall imports has more than trebled on the year to 7pc since February, while Europe's market share in west Africa has dropped to 77pc from 82pc. Competition with discounted Russian product has added to obstacles faced by European exporters. Import demand has been hit by the Nigerian government's deregulation policies, while a new Dutch environmental law has effectively banned blending of west Africa's traditional, high-sulphur specification gasoline.

But price spikes and shortages on the Russian domestic market have prompted Moscow to consider action to rein in exports. That could help European suppliers regain some market share — in west Africa in particular, while full start-up of Nigeria's 650,000 b/d Dangote refinery remains delayed.

Russia's gasoline market often tightens during peak summer demand, prompting threats from Moscow to keep prices in check — a temporary export ban was proposed in 2021. But this year, the energy ministry is considering longer-term restrictions, limiting the number of companies with permission to export.

Russian products net big freight returns

Russian clean products trade has become one of the most profitable freight businesses globally since February — rates are often 50pc higher than on comparable routes for non-Russian products. And prices below G7 price caps meant there was limited sanctions risk, although that may be about to change.

Medium Range (MR) 33,000-40,000t tankers have become the key vessel class for Russian exports — at the expense of 20,000-25,000t Handysize vessels. The cost of an MR on a standard northwest Europe-west Africa route was $36.47/t on 28 July, while the rate from a Russian Baltic port was 53pc higher at around $55.95/t.

Some shipowners have been drawn to Russian products markets by the opportunity for large profits, but a significant number remain on the sidelines. Tankers carrying Russian products sold below the price cap are not subject to sanctions, but owners are wary of other negative consequences.

Many charterers will not use vessels previously involved in Russian trade for any shipment entering or exiting the EU, because tankers that have moved Russian products risk EU ports refusing entry, even if the cargo is not Russian. The Maersk Magellan was refused entry to Tarragona in Spain in February, although it was carrying Turkish vacuum gasoil (VGO) — it previously carried a Russian VGO cargo. Shipbrokers now often label MR tankers as "previously involved in Russian business" when providing a list of all available ships to charterers.

The fleet now handling Russian exports is divided into mainstream tankers — the majority of vessels — the "grey fleet" and the "dark fleet", also known as the shadow fleet. The grey fleet comprises tankers owned by small — and often obscure — operators, while the dark fleet includes tankers that are usually already under sanction and well known for carrying products subject to sanctions.

Russian oil exports rely heavily on mainstream tankers and many of these will probably step back from the trade if products prices consistently breach G7 caps, risking sanctions. More than 25pc of Russian Black Sea product shipments since February have been on Greek tankers, while a significant number of other EU-based shipowners have provided vessels.

To access G7 and EU insurance and shipping services for Russian oil, the shipowner requires a note of compliance showing the cargo was sold under the price cap. Mainstream tanker owners have already stepped back from the Russian crude market after Urals exceeded and remained above the $60/bl price cap in July.

Shifting markets

The EU ban on Russian oil imports has caused another shift in freight markets, with large amounts of products redirected to Turkey, Brazil and the Mideast Gulf.

There has been a big increase in Long Range 2 (LR2) 70,000-90,000t tanker charters between the Mideast Gulf and Europe — peaking at 2.59mn t in June, more than double a year earlier — as European buyers seek diesel to replace Russian imports. But rates have not reached the highs seen last year, because of reduced demand in northeast Asia for Mideast Gulf naphtha, leaving spare LR2 capacity for routes to Europe. The Mideast Gulf-UK Continent LR2 rate peaked at $6.45mn in December but has not surpassed $4.9mn in 2023.

The MR market has also registered some unusual movement. Brazil is taking large amounts of Russian clean products, at the expense of US supply, while west Africa has followed a similar trend but receiving less from Europe. Consequently, the spot MR market is now almost completely reliant on the Europe-US gasoline trade, pressuring rates. And US-Europe MR diesel trade has become viable again — for product freed up from routes to Brazil — leading to a surplus of MRs in Europe and further pressuring Europe-US freight rates.

For more information:

contact@argusmedia.com +44 20 7780 4200 www.argusmedia.com @argusmedia