Long Q3 3.5% barge crack

Broker's View on Q3 3.5% barge crack

Over the past week, there has been significant downward pressure on 3.5% barge cracks, particularly evident in the prompt months which have experienced substantial sell-offs. Notably, the May, June, and July contracts reached lows of -$13.68/bbl, -$12.34/bbl, and -$11.44/bbl, respectively. This trend has extended into Q3, attributed to trade houses divesting prompt month positions. While European trade houses initially expressed interest in exiting long positions in March, recent activity indicates increased buy-side flow from physical players in Q3, Q4, and Q1'25.

The market's dynamics have been influenced by contrasting factors. While there is strong bunkering demand for high sulphur fuel oil (HSFO) in Northwest Europe and the Mediterranean, consistent supply from the Americas has prevented market tightening, contributing to sustained weakness. Despite expectations of increased HSFO imports to Europe, such projections have yet to materialise, partly due to reduced demand prompting Europe to scale back imports from America.

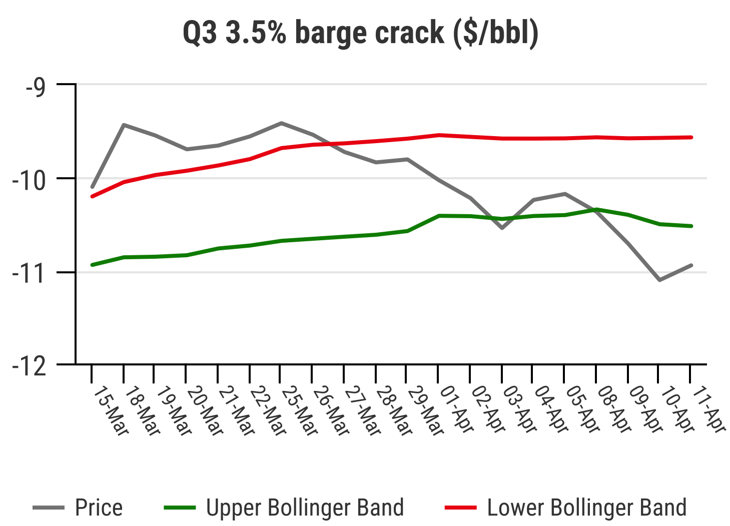
The inability of Indian refineries to meet demand stems from various factors, including operational challenges and disruptions. Production constraints from a limited number of refineries play a significant role, exacerbated by output reductions from major players such as HPCL and BPCL. Additionally, maintenance seasons in Asian refineries further strain supply capabilities. Compounded by high freight rates and new restrictions on importing Russian crude, India's reliance on imports becomes more pronounced. Consequently, there's a potential shift towards increased imports from Europe, which could heighten demand for 3.5% barges. Despite robust demand dynamics in India, evidenced by nearly doubled demand since January across key ports like Mumbai, Kochi, and Gujarat, these production challenges have led to shortages, particularly along the West Coast since mid-January.

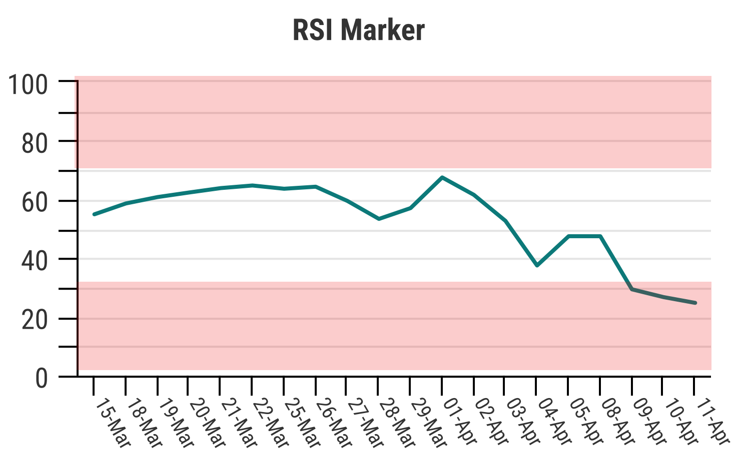
Suggested trade:

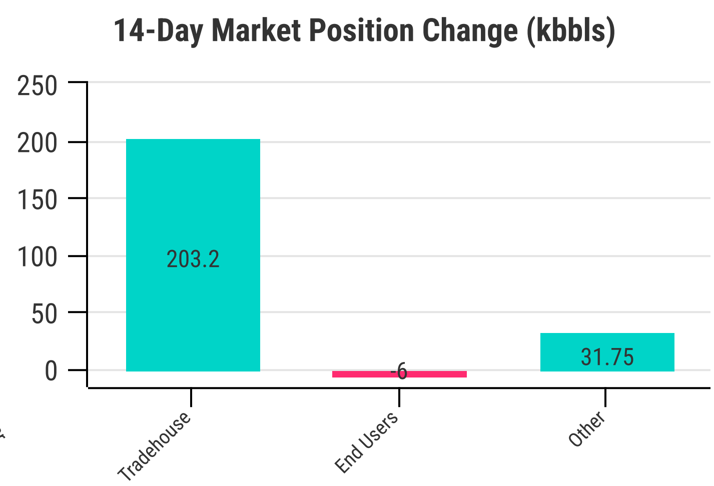
Long Q3 3.5% barge crack

Entry	-$10.80/bbl
Target 1	-$9.80/bbl*
Target 2	-$8.80/bbl
Stop	-$11.80/bbl

***50c trailing stop from here**
Size: 3.33KT/month
Risk: $10,000
Trade Type: Trending (past week)







Onyx Brokerage: A Broker's Take

Long Q3 3.5% barge crack

Broker's View on Q3 3.5% barge crack

The recent disruption in the Russian Ural supply chain due to floods is poised to further constrict heavy fuel oil supply, potentially bolstering European HSFO demand amidst reduced overall supply. Additionally, expectations of a 1.6% GDP growth expansion in 2024 signal a potential uptick in oil demand, investments, and industry growth, reflecting an improving economic outlook.

Potential support may also come if Israel retaliates against Iran's attack over the weekend or if Iran decides to close the Strait of Hormuz. Such a development would increase freight rates, making it more expensive to import crude and refined products. This will also substantially affect the prices of 3.5% barges as major importers, such as India, that use the Strait of Hormuz as a vessel passage will have to pay an increase in premiums to import due to having to travel a longer alternate route to import oil. Due to the longer routes and higher tensions, demand for marine fuel and insurance premiums may increase and insurance premiums. Coupling this with increasing demand for HSFO during summer cooling should strengthen the 3.5% barge crack.

Moving forward, key factors to monitor include the easing of tensions in the Red Sea, although prospects appear dim given Iran's retaliation against Israel over the weekend where it attacked the latter with over 331 drones and missiles. Furthermore, any uptick in HSFO imports into Europe amid consistent demand will be pivotal in shaping market dynamics. Also if FFA rates increase exponentially then it may not be viable for importers to arb as this can potentially weaken prices.

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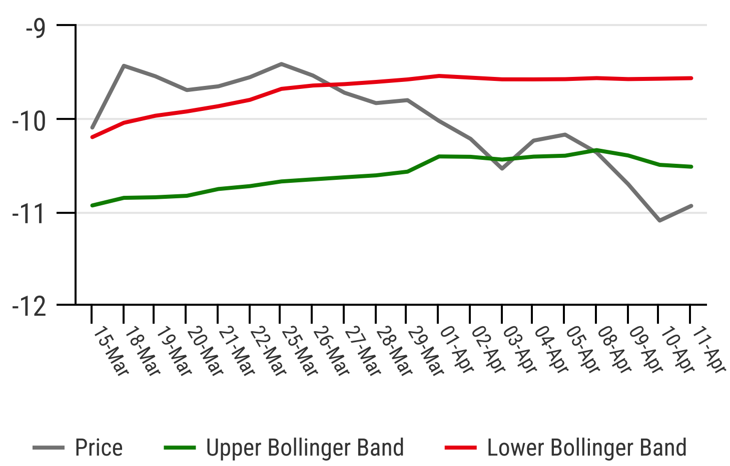
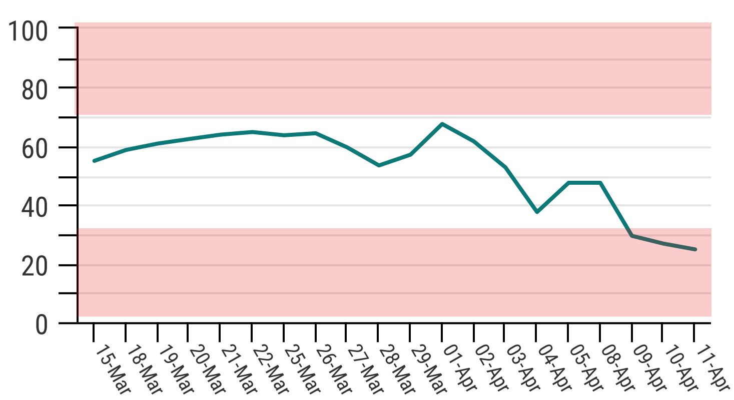
Risk: $10,000
Trade Type: Trending (past week)

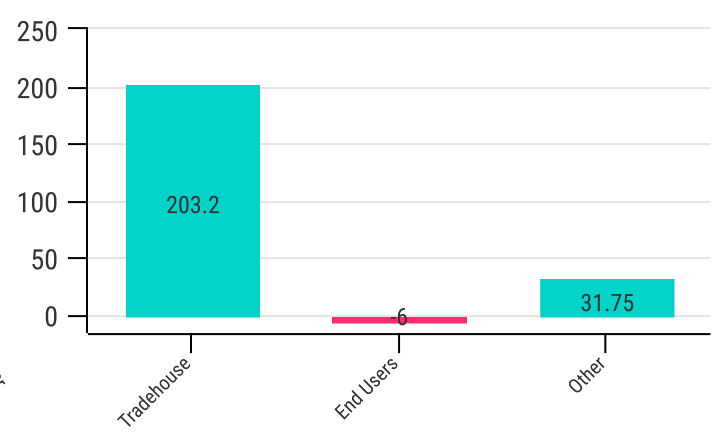
Q3 3.5% barge crack ($/bbl)



RSI Marker



14-Day Market Position Change (kbbls)



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Year-to-Date Review

April Open Trades

Open Trades:	Entry Level	Current MTM	Initial Target	Stop Loss	Status
Long Q3 Sing 0.5% Crack	$11.25/bbl	$10.55/bbl	$12.25/bbl	$10.75/bbl	Stopped Out
Long May/Sep 0.5% Barges	$26.50/mt	$26.35/mt	$30.00/mt	$24.50/mt	Awaiting Entry
Short May Naphtha E/W	$14.75/mt	$14.50/mt	$12.25/mt	$15.75/mt	Stopped Out
Long Q3 3.5% barge crack	-$10.80/bbl	-$10.50/bbl	-$9.80/bbl	-$11.80/bbl	Hold

Monthly PnL (US $)