

Weekly Market News

18th-22nd December 2023

Hot off the press:
Prices have been falling over the past month, even after OPEC+ announced a 2.2 million b/d cut

READ
REPORT



Red Sea attacks force ships to Cape of Good Hope

Shipping companies are rerouting vessels away from **Houthi attacks** in the Red Sea and from Suez Canal transits, to sail the long route around the Cape of Good Hope. A host of ships sailing long-distance between Asia, Europe and the North American east coast have been rerouted around Africa via the Cape of Good Hope. It has become risky to sail through the Red Sea as ships believed to be bound for Israel are being hit by airstrikes and drone attacks. “We have faith that a solution enabling a return to using the Suez Canal and transiting through the Red Sea and Gulf of Aden will be introduced in the near future, but at this time it remains difficult to determine exactly when this will be,” Maersk said in a statement.

Most vessels defy attacks to sail Red Sea route – Kpler

Most vessels are still sailing through the Red Sea despite continued Houthi attacks, **Matthew Wright**, lead freight analyst at Kpler told ENGINE. Yemen's Houthi rebel group has been attacking ships in the southern Red Sea and the Bab al-Mandeb Strait between Yemen and Africa. It has led several shipping companies to announce that they will reroute vessels to avoid Houthi attacks in the Red Sea and Suez Canal transits. However, Kpler analyst Wright informed ENGINE that the majority of vessels continue to transit through the Red Sea, despite increased traffic towards the Cape over the past few days. Some tanker companies like Euronav and Frontline have also announced similar plans, and Maersk Tankers is considering the Cape route, Wright said. The longer route around the Cape of Good Hope has not yet presented any bottlenecks, but it will increase travel time by around 50%, according to his estimates.

US-led offensive aims to quell Houthi threat in Red Sea

The US has launched a multination force to counter the Houthi attacks on commercial ships in the Red Sea. The US-led initiative - **Operation Prosperity Guardian** – intends to alleviate the escalating Houthi attacks on commercial vessels in the Red Sea and Gulf of Aden under the Combined Task Force 153 (CTF-153), according to US Secretary of Defense Lloyd Austin. “The recent escalation in reckless Houthi attacks originating from Yemen threatens the free flow of commerce, endangers innocent mariners, and violates international law,” Austin said in a statement. The Bahrain-based CTF-153 is an existing combined maritime forces group, which is focused on Red Sea security. Since its inception last year, it has been commanded by US naval forces on three occasions and once by Egyptian forces.

Rising bunker demand in African ports - sources

Suppliers in South African ports are registering a spike in bunker demand as rerouted ships sail via the Cape of Good Hope to avoid attacks in the Red Sea region. There has been a rise in the number of bunker enquiries coming in for **Durban** and **Richards Bay**, two traders told ENGINE. Availability for VLSFO is good in these ports and recommended lead times are 5-7 days, while LSMGO is very tight and subject to enquiry. Mozambique's **Maputo** and **Nacala** have also registered a spike in bunker demand and tighter barge schedules, a shipping agent told ENGINE. The Suez Canal route is currently the shortest shipping route between Asia and Europe, with vessels averaging a transit time of nine days, the Suez Canal Authority (SCA) claims. Rerouting will increase this transit period by two weeks, the SCA says. It will also encourage higher speeds for ships behind schedule, which means higher fuel consumption and greater bunker demand.



Zero-emission fuel target insufficient for IMO 2030 ambition

Even the IMO's recently revised greenhouse gas (GHG) strategy will **fail to reduce emissions** substantially this decade, a new report from the Maersk Mc-Kinney Moller Center for Zero Carbon Shipping finds. The IMO strategy aims for 5-10% of the total energy used onboard ships to have zero- or near-zero GHG emissions by 2030, but the report forecasts that this green fuel uptake, and carbon intensity targets, will only achieve a 17% reduction in GHG.



EU to investigate allegations of unfair Chinese biofuel trade

The European Commission has launched an investigation into allegations of **dumping of biodiesel** from China into the EU. The EU's anti-dumping measures apply to fuel imports from countries it believes are artificially lowering biofuel costs to levels that EU producers can not compete with. It already has such measures in place for biofuel imports from Argentina and Indonesia, which it argues have an unfair advantages because of access to low-cost raw materials.

US fuel oil demand in December

305,000 b/d

US fuel oil demand in November

294,000 b/d

US fuel oil demand at highest since February

US fuel oil supply, or implied demand, has averaged 4% higher in December so far compared to November, and hit its highest since February, data from the Energy Information Administration (EIA) shows. **305,000 b/d of fuel oil was supplied** out of storage to outlets like bunker fuel blenders and bulk terminals, to refinery coking units for upgrades to other higher-value products, or to power generation.

Despite higher demand, total US fuel oil production decreased by 8% - from 275,000 b/d fuel oil produced in November, to 254,000 b/d in December. West Coast refiners have led the drop and produced 45% less fuel oil in December.

Total US fuel oil stocks have averaged 26.25 million bbls in December, which is 2% lower than in November. East Coast and West Coast stocks have declined by 4% and 8% this month, while Gulf Coast stocks have remained unchanged.

The country's overall fuel oil stocks are down for a third consecutive month.

Weekly Brent developments

Brent crude has pushed **3% higher** in a week of violence and caution. Repeated Houthi attacks on ships in the Red Sea have made the key Suez Canal transit route unworkable for many.

Upward pressure:

Drone attacks by Iran-aligned Houthi militants in the Red Sea have caused substantial delays to commercial shipping voyages, including those of oil tankers, this week. It has also supported Brent's price.

"For the oil trade, it is a wake-up call," said Price Futures Group analyst Phil Flynn.

Sustained Houthi attacks on vessels sailing in the Red Sea, and rising war-risk premiums, have put upward pressure on Brent futures.

"War premium is a real cost. Because we are seeing shipments being delayed, taking longer routes is a real cost," Flynn added.

Downward pressure:

Brent gains have been capped by a bigger-than-expected US crude stock build reported by the EIA. This could signal weaker demand growth in the world's largest oil-consuming country.

Meanwhile, Brent futures felt additional downward pressure after domestic US oil production hit a record high, said SPI Asset Management's managing partner Stephen Innes.

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