



# **ICE Low Sulphur Gasoil Futures excludes Russian origin gasoil**

**Mike Wittner**

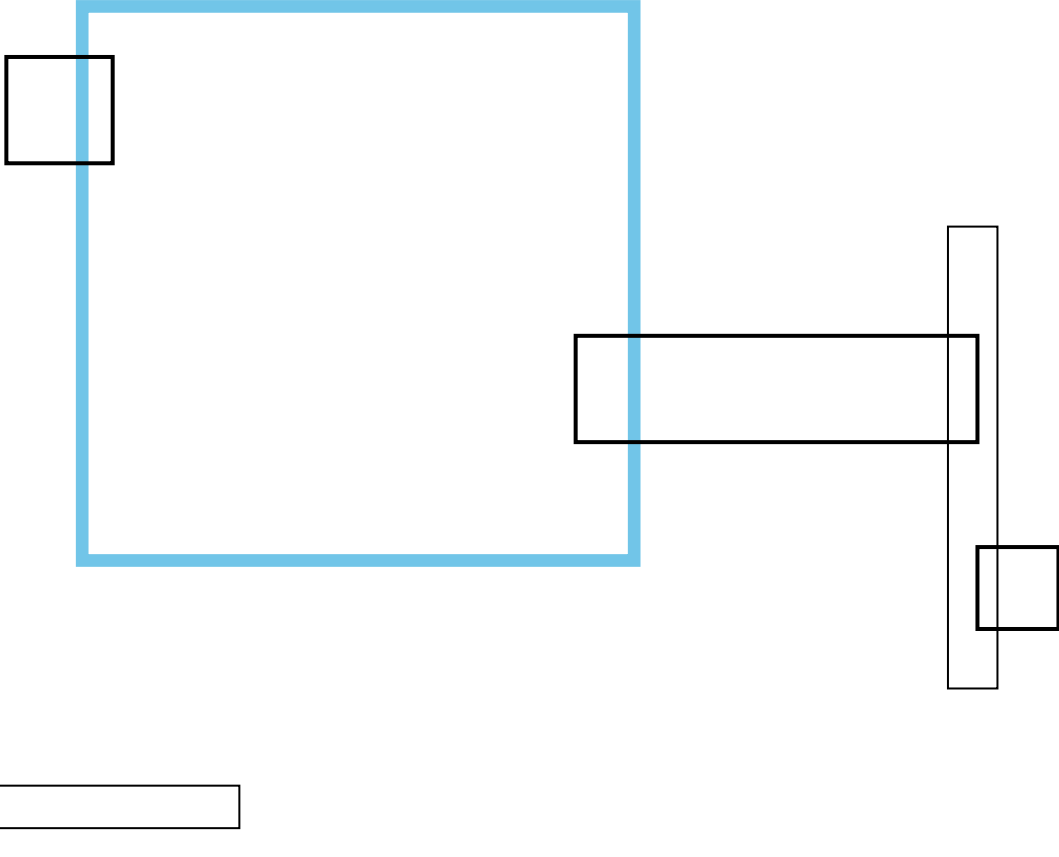
Global Head of Oil Market Research, ICE

26 January 2023

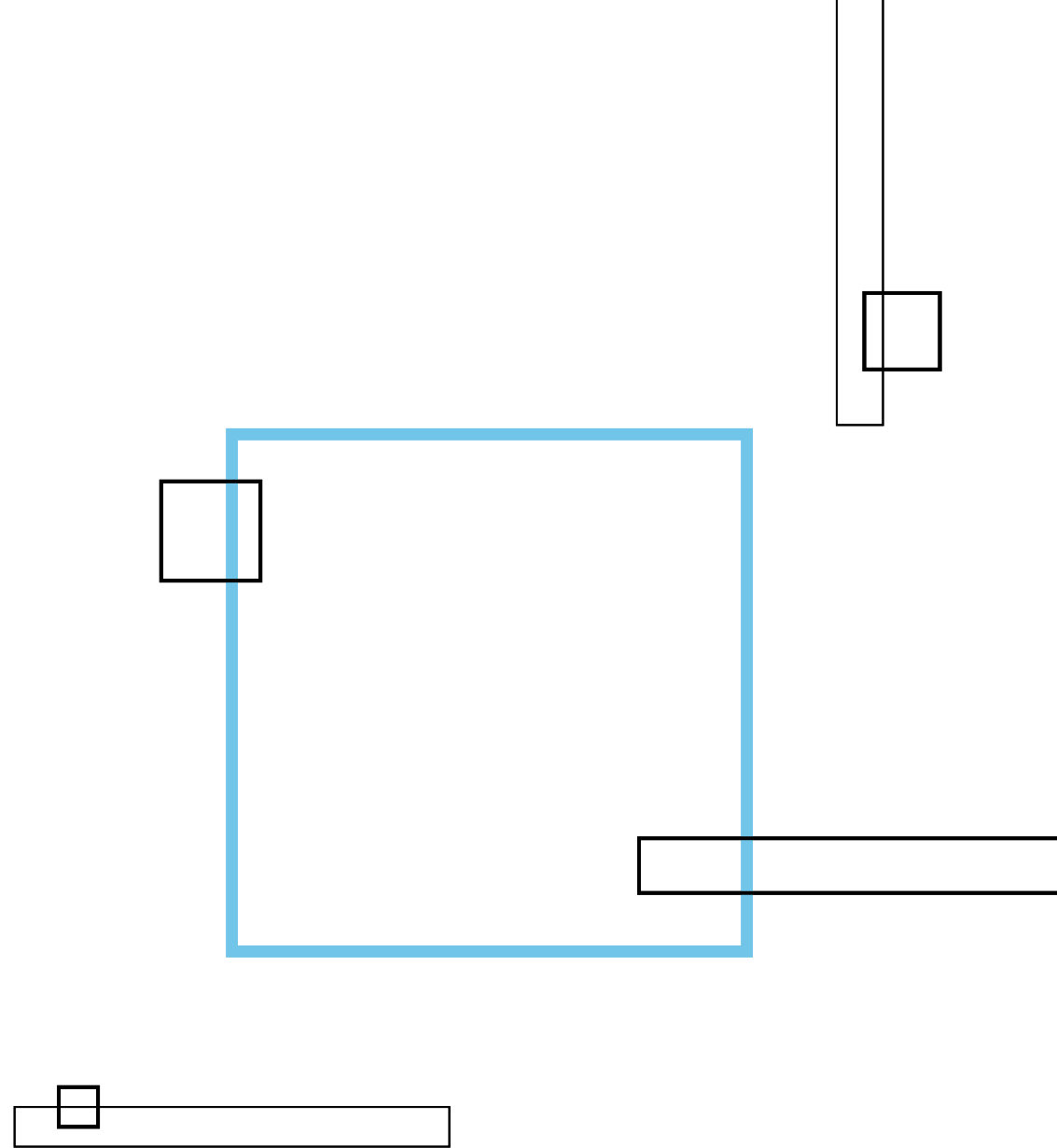


# ICE Low Sulphur Gasoil Futures update: ahead of the Feb. 5, 2022 EU embargo on Russian refined products

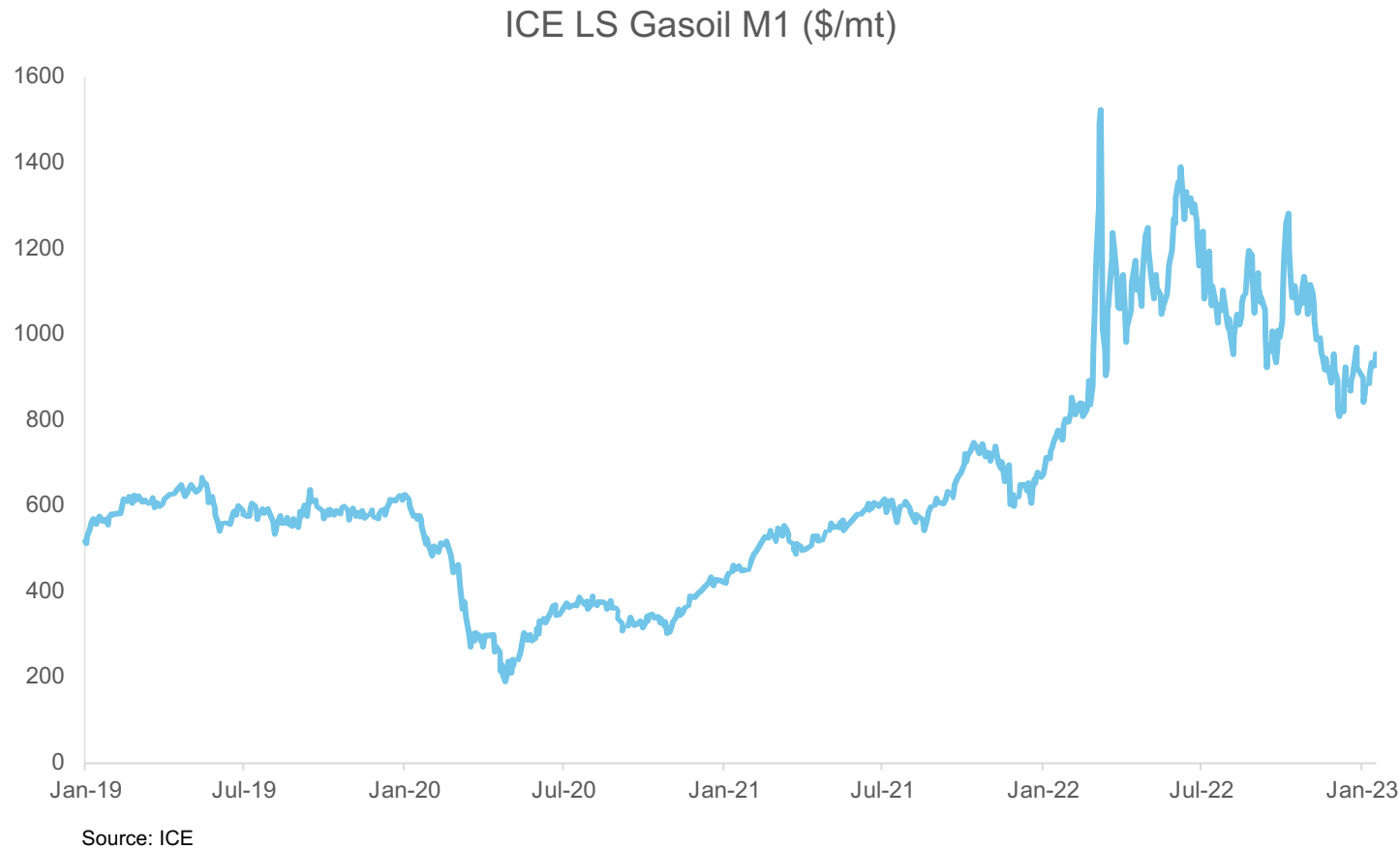
- Gasoil market overview
- Steps that ICE has taken to exclude Russian origin gasoil from delivery via the ICE Low Sulphur Gasoil contract
- The gasoil market outlook following the EU embargo



# ICE Low Sulphur Gasoil Futures: prices and activity



# ICE Low Sulphur Gasoil Futures – Outright Prices

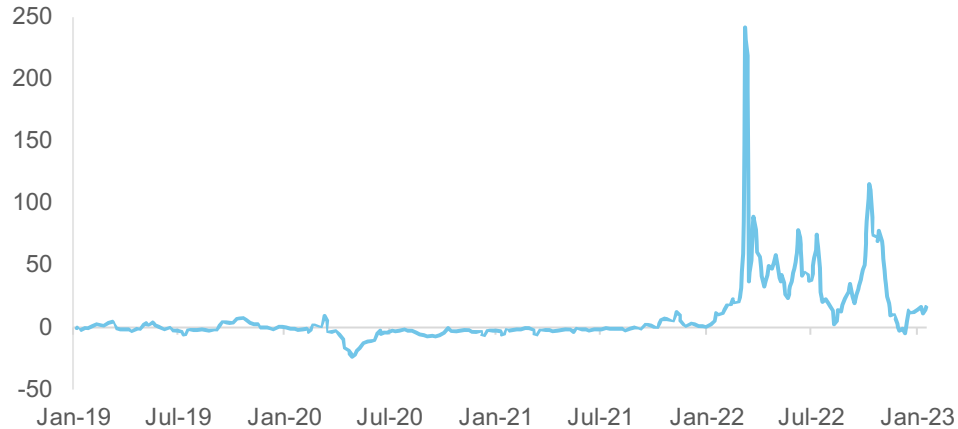


The last few years have been eventful

- COVID in 2020; demand recovery, tight refining capacity and very low gasoil/diesel stocks in 2021; Russia vs. Ukraine war in 2022

# ICE Low Sulphur Gasoil Futures – Timespreads and Cracks

ICE LS Gasoil M1 vs. M2 (\$/mt)



ICE LS Gasoil Crack vs. ICE Brent (\$/bbl)



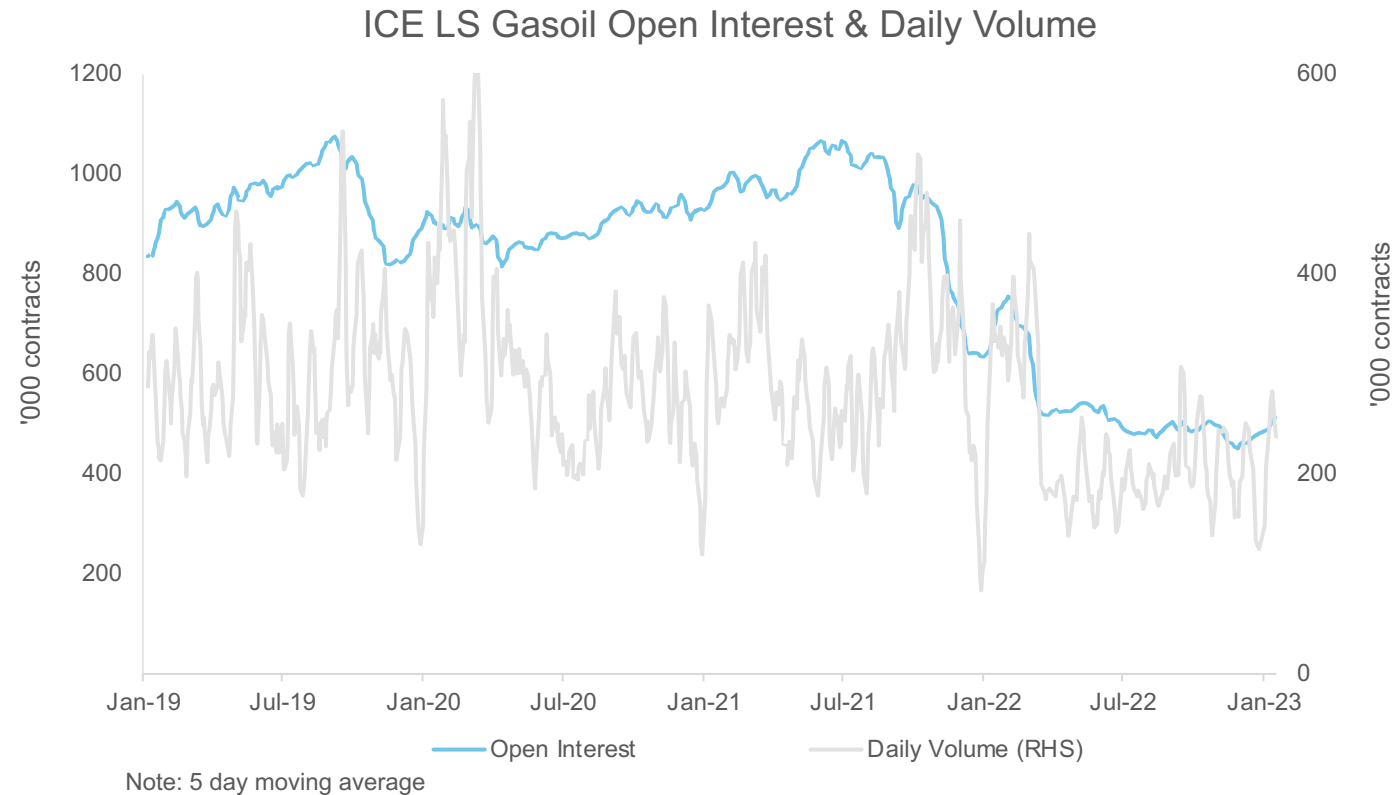
## Timespreads:

- 2021 avg:  $-\$0.20/\text{mt}$  (contango).  
Contango Jan-Sept, backwardation Oct-Dec.
- 2022 avg:  $+\$38.44/\text{mt}$  (backwardation)

## Cracks:

- 2021 avg:  $\$7.78$
- 2022 avg:  $\$39.50$

# ICE Low Sulphur Gasoil Futures – Open Interest and Daily Volume



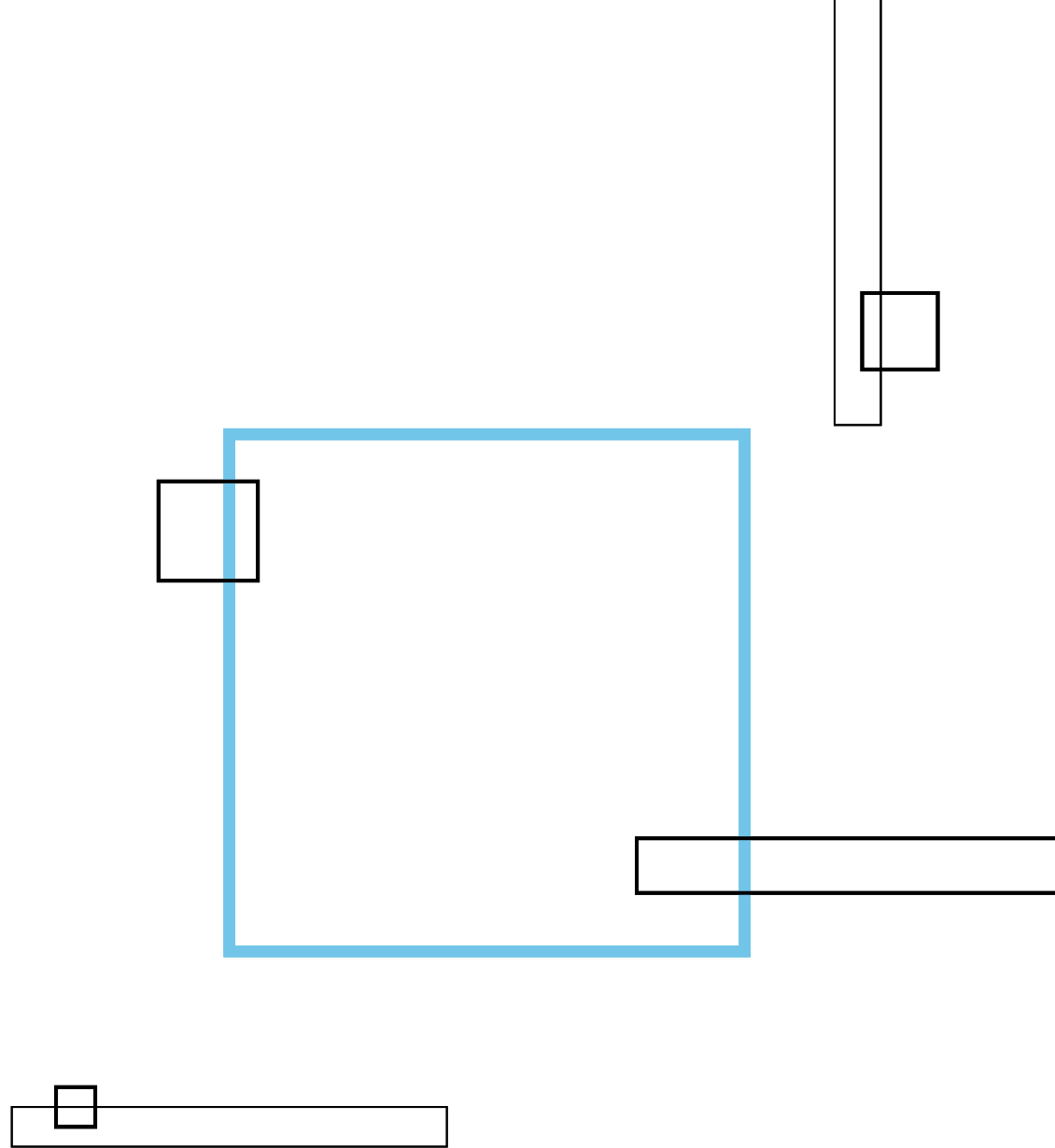
Source: ICE

## Activity levels stabilized in the second half of 2022

**Open interest:** 2022 avg: 536k lots

**ADV:** 2022 avg: 224k lots

# Excluding Russian origin gasoil from the ICE Low Sulphur Gasoil contract



# Excluding Russian origin gasoil from ICE Low Sulphur Gasoil contract

- Following a market consultation and feedback period, ICE announced in August 2022 that Russian origin gasoil would be excluded from delivery against the Low Sulphur Gasoil Futures contract.
- Took effect with the January 2023 contract, which expired on Jan. 12, 2023. Delivery period Jan. 16-31, 2023.
- Potential sellers of gasoil (such as refiners and physical traders) that want to be able to make a delivery against the contract need to prove to ICE and their clearing members that stocks/inventories held in specific tanks do not contain any Russian origin gasoil
  - At ICE approved delivery locations in ARA region
  - Potential seller could own, rent, or otherwise control tanks
  - Only for tanks that the potential seller may wish to use to make delivery
- Detailed submission process and methodology
  - Need to account for opening stocks, movements in and out of tanks, and closing stocks (“mass balances” FIFO approach, including density)
  - Supporting evidence and written assurances
  - Completed submission due at least 5 calendar weekdays before expiry of contract month

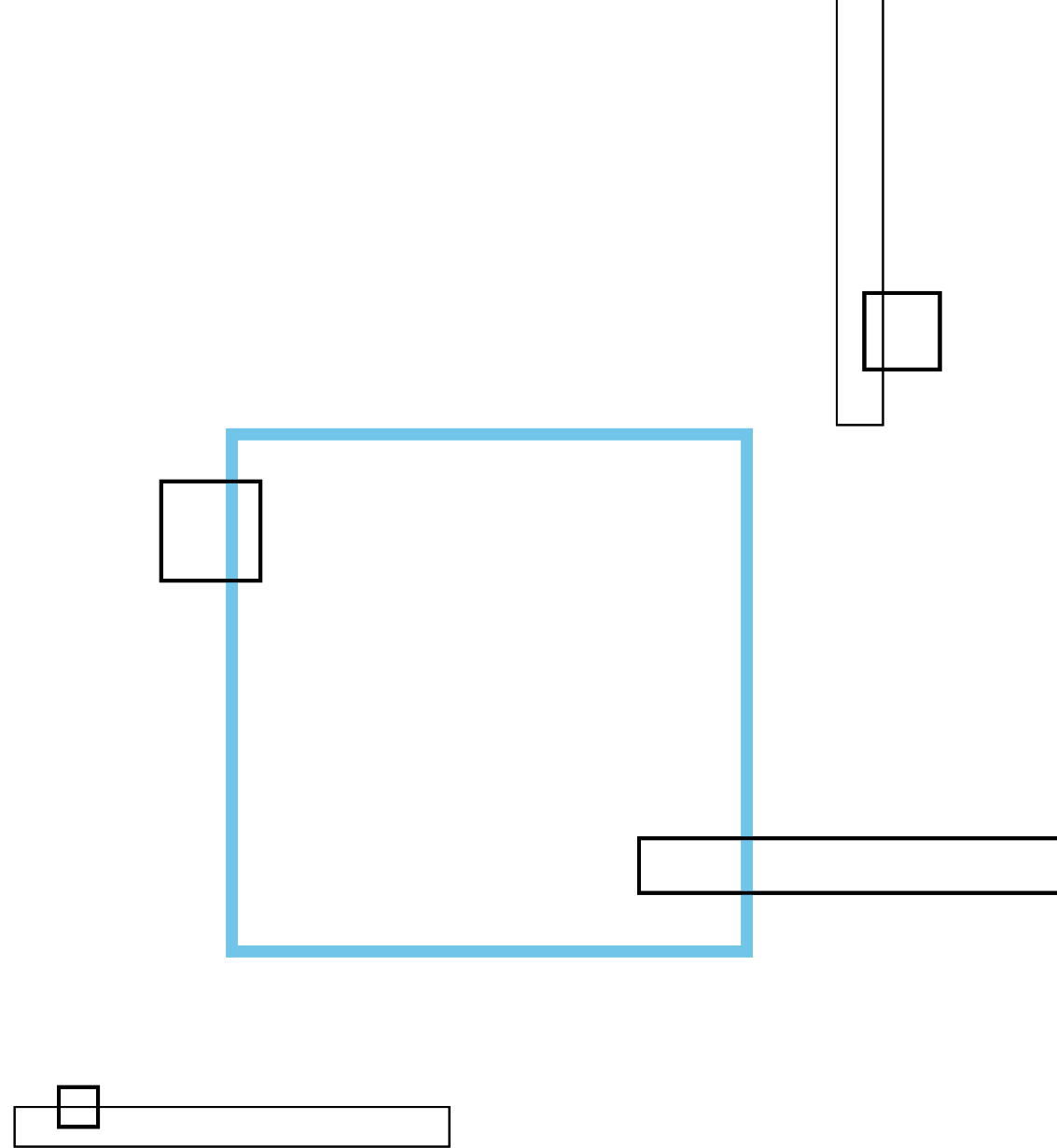


# Excluding Russian origin gasoil from the ICE Low Sulphur Gasoil contract

- Trading and expiry of the January 2023 contract – the first to exclude Russian origin gasoil – is considered by ICE to have been a success
- There were successful submissions that gave participants the ability to make deliveries against the contract (potential sellers)
- These included major European oil companies and large physical trading houses
- For January 2023, deliveries will be 698 lots or 69,800 mt
- Many market participants, both buyers and sellers, have expressed confidence and comfort with the contract amendments and submission procedures
- The exclusion of Russian origin gasoil is an important step that lays the groundwork for future trading activity in a sanctions environment

**Further questions:** [Notifications-IFEU-GasoilEnquiries@ice.com](mailto:Notifications-IFEU-GasoilEnquiries@ice.com)

# Gasoil / Diesel market: current fundamentals and looking ahead



# Russian Oil Exports

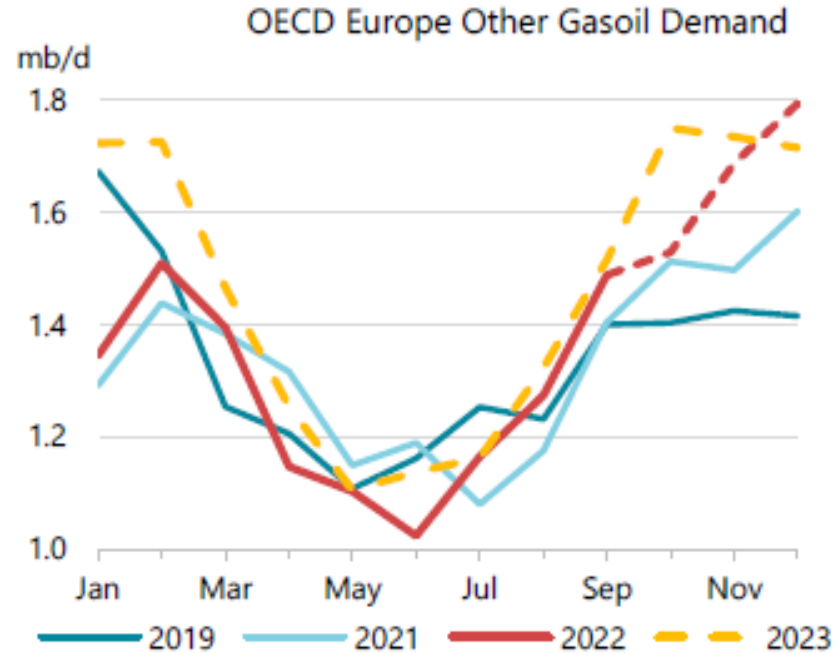
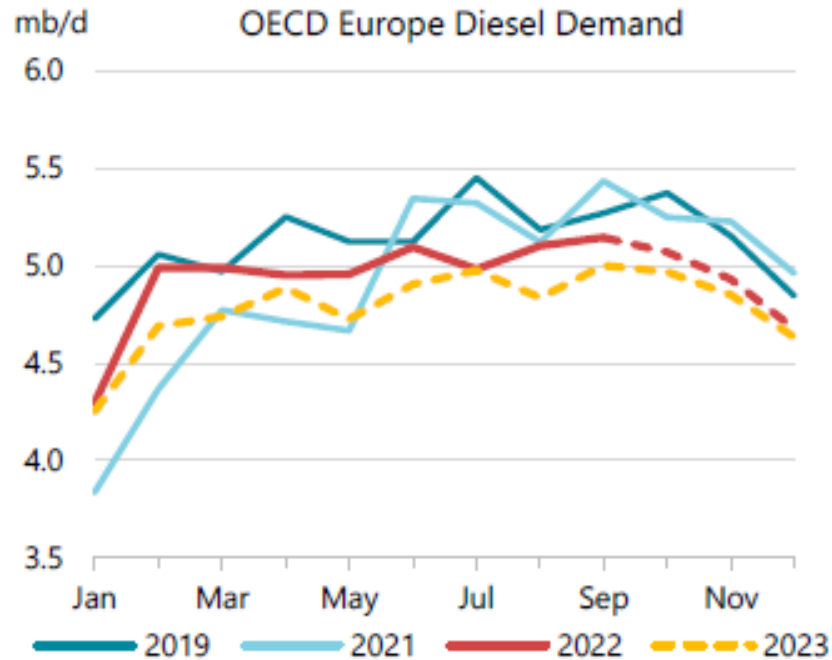
Russian Oil Exports (mb/d)														
	2021 avg	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	2022 avg
EU crude oil	2.1	2.4	2.5	2.1	2.1	2.2	1.9	1.7	1.9	1.6	1.5	1.1	0.9	1.8
EU products	1.2	1.4	1.6	1.3	1.4	1.3	1.2	1.1	1.0	1.0	1.0	1.2	1.2	1.2
UK+US	0.7	0.6	0.9	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Türkiye	0.2	0.2	0.2	0.4	0.4	0.3	0.4	0.4	0.6	0.6	0.6	0.5	0.4	0.4
China	1.6	1.8	1.6	1.8	1.8	2.0	2.2	1.8	2.0	2.0	2.0	2.0	1.9	1.9
India	0.1	0.1	0.1	0.5	1.0	1.0	0.8	1.2	1.0	1.1	1.2	1.5	1.6	0.9
OECD Asia	0.5	0.5	0.4	0.4	0.3	0.1	0.0	0.1	0.1	0.0	0.1	0.1	0.1	0.2
Other/unknown	1.1	1.0	0.9	0.8	1.1	0.9	1.1	1.3	1.2	1.4	1.6	1.6	1.7	1.2
<b>Total exports</b>	<b>7.5</b>	<b>8.0</b>	<b>8.2</b>	<b>7.6</b>	<b>8.2</b>	<b>7.8</b>	<b>7.6</b>	<b>7.4</b>	<b>7.8</b>	<b>7.7</b>	<b>8.0</b>	<b>8.0</b>	<b>7.8</b>	<b>7.8</b>
<i>Memo</i>														
Pipeline to EU	0.7	0.8	0.8	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.7	0.6	0.7	0.8
Pipeline to China	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
<b>Crude Oil</b>	<b>4.7</b>	<b>5.0</b>	<b>4.9</b>	<b>5.1</b>	<b>5.6</b>	<b>5.4</b>	<b>5.1</b>	<b>4.9</b>	<b>5.1</b>	<b>4.9</b>	<b>5.1</b>	<b>5.0</b>	<b>4.7</b>	<b>5.1</b>
<b>Oil Products</b>	<b>2.8</b>	<b>3.0</b>	<b>3.2</b>	<b>2.5</b>	<b>2.6</b>	<b>2.4</b>	<b>2.5</b>	<b>2.5</b>	<b>2.7</b>	<b>2.8</b>	<b>2.9</b>	<b>3.0</b>	<b>3.1</b>	<b>2.8</b>
<b>Estimated export revenues, \$bn</b>	<b>14.7</b>	<b>20.3</b>	<b>20.5</b>	<b>21.5</b>	<b>18.4</b>	<b>19.9</b>	<b>21.0</b>	<b>18.8</b>	<b>17.8</b>	<b>15.0</b>	<b>16.7</b>	<b>15.0</b>	<b>12.0</b>	<b>18.2</b>

Sources: IEA, Argus, Kpler.  
 Note: Recent months volumes and revenues are estimates and subject to change.

Source: International Energy Agency, monthly Oil Market Report

- Europe imported 1.2 Mb/d of Russian refined products last year, of which around 0.5 Mb/d was diesel
- Russia accounted for just under half of EU diesel imports last year, or 10% of EU consumption

# OECD Europe Gasoil / Diesel Demand

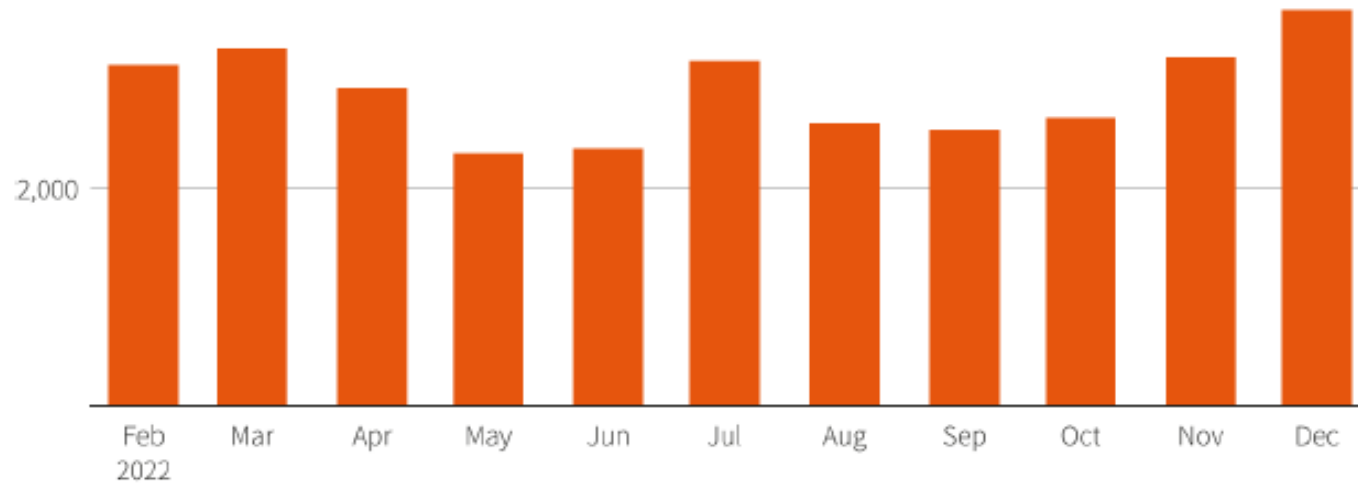


Source: International Energy Agency, monthly Oil Market Report

- European demand has been weak, due to the economic slowdown and warmer than normal weather
- Lower natural gas prices have reduced fuel switching into oil
- Strong seasonality, especially for “other gasoil” – heating oil
- Downward revisions

# European Diesel Imports from Russia

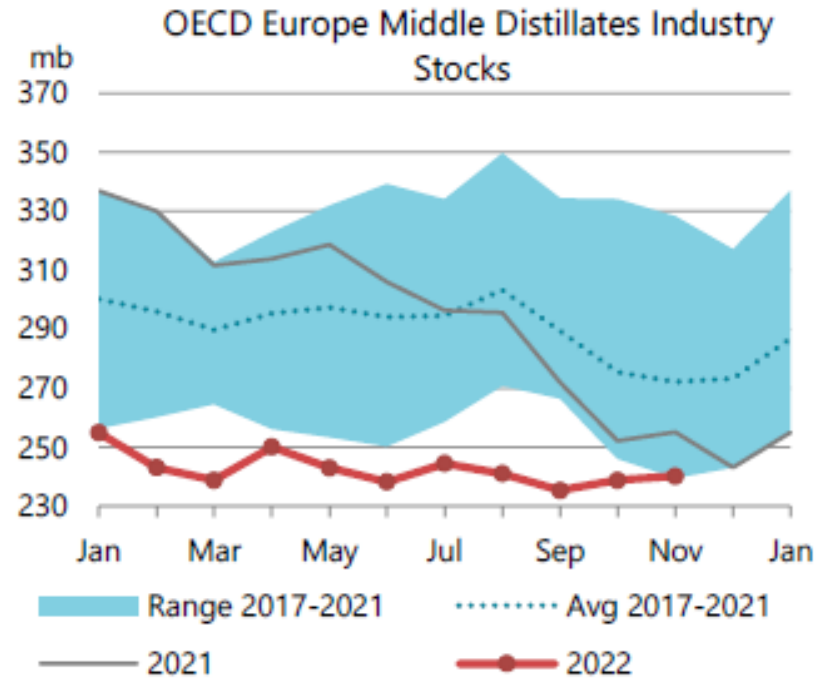
## European Diesel Imports from Russia ('000 tons)



Source: Reuters/Refinitiv

- Imports ramping up ahead of Feb. 5 embargo
- Discounts for Russian origin product vs. non-Russian product also a factor

# OECD Europe Gasoil / Diesel Inventories



Source: International Energy Agency, monthly Oil Market Report

- Although inventories remain low, they have been gradually building in recent months, against normal seasonal trends
- Discounts for Russian origin product have been more than offsetting backwardation, which usually discourages building stocks

# Gasoil / Diesel markets: current situation

- Europe imported 1.2 Mb/d of Russian refined products last year, of which around 0.5 Mb/d was diesel
- Demand has been weak, due to the economic slowdown and warmer than normal weather
- Imports from Russia have been high, ahead of the Feb. 5 embargo
- Although inventories remain low, they have been gradually building in recent months, against normal seasonal trends
- The EU embargo on Russian refined products is, without question, a major event for the markets. Refined product markets are more complex than the crude markets. Gasoil / diesel represents around one-third of global product demand.
- However, as a result of weak demand, high imports, and building stocks, the product markets are relatively more relaxed about European gasoil/diesel fundamentals than two months ago.
- Europe may get through winter heating season, but challenges remain ahead.

# Gasoil / Diesel markets: looking ahead

- Gasoil/diesel fundamentals could tighten in the second half of this year, as global oil markets start to draw stocks
- Where will replacement volumes for 0.5 Mb/d of Russian diesel into Europe come from?
- Higher exports from the Middle East and China

## Middle East:

- New refineries include Kuwait's Al-Zour (615 kb/d) and Saudi Arabia's Jazan (400 kb/d)

## China:

- Spare capacity leaves room for refinery crude runs and product exports to increase (higher product export quotas)
  - Chinese refinery crude runs were down over 600 kb/d in 2022; expected to increase by 700 kb/d in 2023
  - New refineries at Zhoushan, Jieyang, and Lianyungang
- Trade flows need to adjust. In addition to direct replacement flows from the Middle East and China, there will be indirect adjustments.
    - Middle Eastern refiners: as they increase exports to Europe, could reduce exports to Asia
    - Chinese refiners: could increase exports to Asia, as well as directly to Europe
    - Indian refiners: could reduce exports to Asia, and increase exports to Europe
- European prices will have to be high enough to pull in flows from other regions



# Gasoil / Diesel markets: looking ahead

- Freight market impact
  - “Clean” tanker fleet is smaller than “dirty” tanker fleet, and therefore less flexible
  - Russian refined products will have to be shipped over greater distances, as Russian refiners seek new markets
  - Shipping transport times: Russian Baltic to Europe 4-6 days. Middle East Gulf to Europe 20-25 days.
  - *On Jan. 16, ICE launched a new Baltic Exchange freight futures contract for Middle East to UK Aframax clean tanker voyages (TC 20). The contract traded on the first day and has been trading actively, with multiple participants.*
- Russian refiners will need to cut prices to offset higher freight rates and Russian domestic refining margins will suffer
- Russian refinery crude runs are expected to be cut. Run cuts could be on the order of +/- 750 kb/d
- Adds tightness to global product markets



# **Summary & conclusions**

# Summary and conclusions

## Changes to the ICE Low Sulphur Gasoil contract

- ICE has excluded Russian origin gasoil from delivery via the ICE Low Sulphur Gasoil contract
- Took effect with the January 2023 contract, which expired on Jan. 12, 2023. Delivery period Jan. 16-31, 2023
- Successful submissions gave participants the ability to make deliveries against the contract
- These participants included major European oil companies and large physical trading houses
- Confidence and comfort with the contract amendments and submission procedures is expected to continue to grow
- The exclusion of Russian origin gasoil is an important step that lays the groundwork for future trading activity in a sanctions environment

## Gasoil / diesel market outlook

- The Feb. 5 EU embargo on Russian refined products is a major event for the markets
- As a result of weak European demand, high imports from Russia, and building stocks in Europe, the product markets are relatively more relaxed about near-term European gasoil/diesel fundamentals than two months ago
- However, even if Europe gets through the winter OK, gasoil/diesel fundamentals could tighten in the second half of this year
- Where will replacement volumes for 0.5 Mb/d of Russian diesel into Europe come from? The Middle East and China.
- Trade flows will need to adjust. Freight market impact will be key (longer transport times and higher freight rates)
- Russian domestic refining margins expected to suffer, and Russian refinery crude runs expected to be cut

# Contacts and resources

For more information on ICE Low Sulphur Gasoil

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## Mike Wittner

**Global Head of Oil  
Market Research**

+1 646 733 5007

[mike.wittner@ice.com](mailto:mike.wittner@ice.com)

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## Elena Khatsava

**Senior Director, European  
Refined Products &  
Freight**

+44 20 7012 8774

[elena.khatsava@ice.com](mailto:elena.khatsava@ice.com)

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## Jeff Barbuto

**Global Head of Oil**

+1 646 733 5014

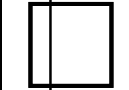
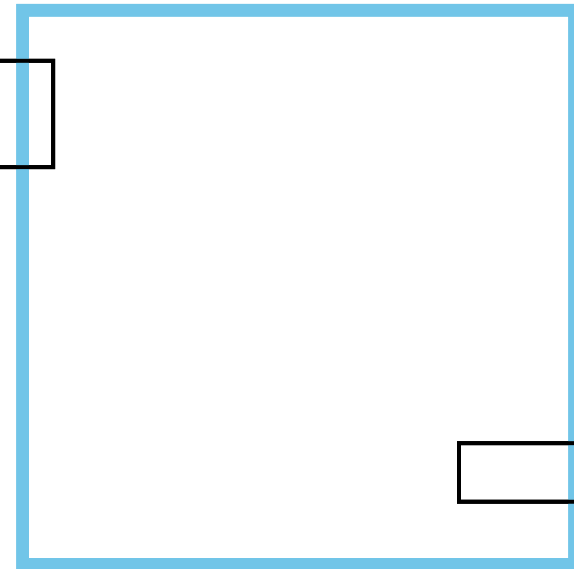
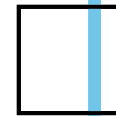
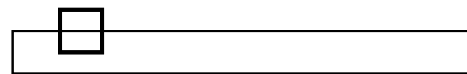
[jeff.barbuto@ice.com](mailto:jeff.barbuto@ice.com)

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## Further questions on physical deliveries

[Notifications-IFEU-  
GasoilEnquiries@ice.com](mailto:Notifications-IFEU-GasoilEnquiries@ice.com)

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