

Analysis: Middle East crude OSP cuts fail to buoy market sentiment

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Official selling prices issued by producers of Middle East sour crude grades fell largely within trader expectations of reasonable value, oil traders in Asia told S&P Global Platts on Friday.

But falling market sentiment for sour crude grades could mean further downside in trading differentials this month, they added.

Producers including Saudi Aramco, ADNOC, Qatar Petroleum, Kuwait Petroleum and Iran's NIOC all issued their respective OSPs in the first few days of November, with some of these being retroactive prices, while others are for forward loading barrels.

LIGHT SOUR CRUDE CUTS GAIN TRACTION

OSP for crude grades on the lighter end of the barrel saw cuts across the board, in line with weaker naphtha product margins.

"Some people said Saudi [OSP] was higher than they expected, but I think it's reasonable, especially on the lights," a North Asian refiner said.

Saudi Aramco cut the December loading OSPs for all of its lighter crude grades destined for Asia, going as low as a 70 cents/b cut for Arab Super Light, 30 cents/b down for Arab Extra Light and 10 cents/b down for Arab Light.

Iran's NIOC cut its Iranian Light crude grade loading in December and heading to Asia by 10 cents/b versus Oman/Dubai.

Aramco and NIOC are amongst the producers that issued forward looking OSPs. In November, they typically issue the prices for December loading crudes.

The October OSPs for ADNOC's lighter sour crude grades Murban and Das Blend, saw cuts of 19 cents/b and 24 cents/b, respectively, when taken as differentials against Platts front-month cash Dubai assessments.

"ADNOC OSPs were more reasonable than expected," the refiner added.

Qatar Petroleum's comparable light sour crude grade Qatar Land also saw a similar cut of 19 cents/b against Dubai for October loading barrels.

"QP is doing a good job with its OSPs, keeping it more in line with market levels -- [value for QP grades] looking better than ADNOC [grades]," the refiner added.

ADNOC and QP are amongst the producers that issue retroactive OSPs, issuing prices for October loading crude grades in the month of November.

DOWNSIDE FOR MEDIUM TO HEAVY GRADES

Some OSPs, however, seemed high compared to market structure, said crude sources.

"Aramco OSPs could have been lower," a trader with an oil major said Friday.

Prices for medium sour grades such as Abu Dhabi's Upper Zakum, did not see a cut, while market structure for Dubai -- to which the grade's pricing is linked -- fell significantly since last month.

"UZ OSP is too high," a China based source said, echoed by others in the market.

The weaker market sentiment potentially opens up the possibility for sour crude grades to trade in discounts against their respective OSPs in this cycle, traders said.

"Light grades are suffering because there are too many cargoes in the market," the refiner said.

Sour crude grades originating in the Middle East and Persian Gulf trade two months ahead of the calendar month to accommodate physical logistics of crude production and transportation.