GLOBAL
BASE OILS
OUTLOOK
2019

Regions covered: America, Asia, Europe and Middle East
Benchmark your position in global base oil markets with ICIS price assessments

For efficiency and transparency when trading or negotiating base oils market contracts, ICIS benchmarks are invaluable.

We are the largest, most established provider of commodity benchmarks in the world, providing trusted prices for buyers and sellers around the globe for 30 years.

ICIS has global benchmarks for base oils including:
- Group I 100, 150, 500 and bright stock
- Group II 100/120, 200/220 and 600
- Group III 4 cst, 6 cst and 8 cst

Why choose an ICIS benchmark?

- ICIS MEETS IOSCO PRINCIPLES
- WE COVER 180+ COMMODITIES ACROSS 5 REGIONS
- ASSUANCE & RELIABILITY
- TO ENSURE FAIRNESS
- TO SPEED UP NEGOTIATIONS

How are ICIS benchmarks set?

Our benchmarks are based on data gathered by ICIS editors through thousands of interactions each week with a wide cross-section of participants in each market, including consumers, producers, traders and distributors.

We adopt a rigorous methodology and every benchmark is checked, verified and free from conflict of interest – trusted by buyers and sellers around the globe.

New ICIS grades for base oils markets

Reflecting the growing competition in the market, ICIS has added the following quotes to the base oil reports to help you further with your negotiations in the shift away from Group I to higher-numbered base oils, such as Group II and Group III:
- Group II – 150N (€/tonne FCA NWE)
- Group II – 500/600N (€/tonne FCA NWE)
- Group III – 8 cSt (€/tonne FCA ARA)

For further information, speak to a member of the team or email clientsuccess@icis.com
Asia’s spot import prices for Group II low viscosity 150N as well as high viscosity 500/600N base oils are expected to come under further pressure in the first quarter of 2019 as a result of long supply.

Group II spot supply from northeast Asia is set to rise after refiners in the region switched back to producing more base oils instead of gasoil following a plunge in crude and gasoil prices since October. Declines in gasoil prices slumped to an 18-month low on 2 January, tumbling 36% to $455/tonne FOB (free on board) Singapore from its 2018-high of $709.5/tonne FOB Singapore recorded on 12 October 2018, according to ICIS data.

Taiwan’s Formosa Petrochemical Corp (FPCC) and most South Korean refiners – the main spot exporters of Group II cargoes – have resumed full base oils production after cutting output by 10-20% in October and November 2018 and switching to produce more gasoil, which was generating better margins at the time.

In South Korea, three of the country’s four refiners increased base oils production to full capacity in mid-November, and the fourth has resumed its normal operating rate at around 80% capacity.

The increase in Group II supply going forward will continue to weigh on prices with the Indian market expected to be especially hard-hit as Asian suppliers face stiff competition from Middle East and US-origin material.

The same can also be said of Group III base oils with lower-priced Middle Eastern cargoes set to gradually expand market share in Asia including India.

South Korea is the main Group III exporting nation in Asia, while Malaysia’s Petronas and Indonesia’s Pertamina also produce Group III base oils.

South Korea’s S-Oil will shut its 880,000 tonne/year Onsan Group III unit in March 2019 for a scheduled maintenance which will result in less spot availability from the refiner in the first quarter. SK Lubricants is the other Group III refiner in South Korea.

Upcoming capacity expansions in Asia include China’s Hengli Petrochemical’s 540,000 tonne/year Group II and III base oils units. It is slated to come on stream in Q1 2019, and expected to aggravate the oversupply situation even though a new start-up might not run at a high rate amid the current long supply and poor market sentiment.

Group I SN500 and brightstock prices are expected to track broader movements in Group II prices although the overall supply of Group I material is relatively tighter.
Japan’s JX Nippon & Energy, a major exporter of Group I cargoes, is scheduled to put several of its Group I base oils units in for maintenance in Q2 and Q3 2019. This includes its 180,000 tonne/year Mizushima A unit, its 300,000 tonne/year Mizushima B unit and 200,000 tonne/year Kainan unit.

The refiner has another 240,000 tonne/year Negishi Group I unit which is not scheduled for a turnaround this year.

Iran Group I cargoes are expected to be less prevalent in the Indian market due to uncertainty following the renewed US sanctions on Iran in early November 2018. This is likely to result in Indian buyers sourcing more of their imports from Asia.

Since the beginning of this year, overall demand in Asia including India has been lacklustre as global economic concerns weigh on market sentiment.

Demand is unlikely to see any significant improvement until after the Lunar New Year, at the earliest. This is when downstream plants, notably in China and Taiwan, will come back on stream following the celebrations.

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The European base oils market has been going through a period of transition over the past few years, as a gradual shift towards Group II and Group III base oils has been accompanied by capacity closures in Group I.

This transitional phase looks set to accelerate in 2019 and into 2020 amid significant changes to both market capacity and regulation.

GROUP II CAPACITY GROWS

Europe tends to import most of its Group II and Group III base oils from the US and Asia, with a real lack of commercial production in the domestic market.

However, this is all set to change when ExxonMobil’s Group II expansion at its Rotterdam refinery begins commercial production in the first quarter of 2019. No official capacity has been confirmed, but market sources suggest that it will boast a nameplate capacity of 900,000-1m tonnes/year.

There are a lot of unknowns about the plant and any potential impact it may have on the European market. Market players say it is still unclear what percentage of production will be used internally and how much will be offered in the open market.

In addition, it remains unclear whether the Group II offerings from ExxonMobil will compete directly with product flowing into Europe from the US. There has been speculation that a Group II export market could open up on the basis of this new capacity, but a lot will depend on how much is destined for the open market.

Should this new Group II capacity compete directly with imported volumes from the US, both the competition and sizeable new capacity could see Group II prices become attractive to buyers who usually purchase Group I, and further facilitate the switch to higher-numbered base stocks.

Switching to a different base oil is not necessarily a decision that can be made or actioned quickly by blenders, but it could accelerate the shift from Group I to Group II in the longer term, especially if it is advantageous to buyers from a pricing perspective.

ACEA REGULATIONS

In addition to this move towards higher-numbered base stocks are the ACEA 2016 regulations which came into effect on 1 December 2018.

Led by Europe’s automobile association, ACEA 2016 dictates the quality specifications for lubricants used in motor engines, a major end use for base oils. Industry players say this new specification heavily endorses Group II base oils. As a result, a number of European blenders have already or are expected to make a shift towards Group II.

IMO 2020 PROMPT RETHINK

On top of that, new rules from the International Maritime Organization (IMO) that take effect from 1 January 2020 will force shipowners to cut sulphur emissions to 0.5% or less. This is expected to pose challenges for many parts of the shipping, fuels and refinery supply chain.
The shippers face increased costs from using “scrubber” technology to strip high sulphur fuels of sulphur content or buying costly new versions of low sulphur fuel. They also face a looming deadline at a time when operators will be trialling options. There are also the operational challenges of where to load new fuel and finding the appropriate new lubricants to match.

The future is uncertain. Large quantities of low sulphur fuel are yet to be made available, refiners’ offerings are not widely known, lubricant approvals from original equipment manufacturers (OEMs) have yet to be declared and each vessel operator has yet to announce its plans. Some believe this will mean a significant change for the market; for others, little or none.

Lubricants are made with base oils. Historically, the marine sector has based itself on Group I which is still a key feature of the European base oils market. This is despite a wave of consolidation in 2015 that resulted in the loss of around 1.5m tonnes of capacity.

In the longer term, as Group I base oils supply shrinks and Group II becomes more prevalent, it is possible that pressure may shift onto the marine sector and Group II could grow. However, there will be at least one hurdle to overcome: OEMs do not allow approvals for a lubricant formulation in their engines to be traded across from Group I to Group II.

In the short term, and ahead of the 2020 deadline, lubricant producers and additive companies are developing new products for the market, but they all have just one clear mantra in mind: “Be prepared”. A number of outcomes are being readied, and this suggests that flexibility will be key.

With shipowners, including Hapag-Lloyd, trialling and experimenting with different technologies, new lubricants are emerging. This presents an evolution for shipping fuels which could have immediate and long-lasting consequences for selected lubricant uses. In the meantime, the short-term horizon is dotted with new lubricants, news of new approvals and new fuels.

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During the last few months, the Middle East base oils market has been struggling with weak demand, supply overhangs and prolonged uncertainty. However, there are growing hopes that conditions will improve in 2019.

Part of last year’s jittery environment has been blamed on the threat of renewed US economic sanctions against the region’s key Group I producer, Iran, as well as deteriorating trade relations between the US and China.

The trade war between the US and China began in July 2018. It saw two of the world’s largest trading nations embark on tit-for-tat tariff measures that caused turmoil in the global financial markets.

In the Middle East, 2018 was a volatile year for Group I prices.

In mid-February, SN500 prices traded up to $807.50/tonne FOB (free on board) Iran, their highest level since ICIS began tracking the data in November 2015. At almost the same time, SN150 also traded near record highs, hitting $727.50/tonne FOB Iran.

These highs held until early May even though buyers showed growing resistance to the new levels and despite market uncertainty ahead of the deadline for the US to decide on whether it would remain in the Iran nuclear deal.

On 8 May, when US President Donald Trump announced the US withdrawal from the Iran nuclear deal and the reimposition of sanctions against Tehran, crude prices were driven to highs not seen since late 2014.

Base oils prices in Iran were largely stable that week, but the market outlook was now clouded with uncertainty.

Prices began to slide in mid-May when it became apparent that the reimposition of sanctions would cause disruption to business dealings with Iranian entities.

Mid-May also marked the start of the Muslim fasting month of Ramadan, which is typically a slow season in the Middle East.

Market players encountered problems conducting financial transactions with Iran and many financial institutions were reluctant to deal with Iran-based businesses, worried that they would fall foul of US sanctions.

By the end of the year, SN500 prices in Iran had slumped to a two-year low of $605.00/tonne FOB Iran, with SN150 not far behind at $610.00/tonne FOB Iran.

On the supply side, market players in the United Arab Emirates (UAE) said sufficient cargoes had been built up over recent months and, as a result, there was less demand for Group I spot deals, particularly given the threat of renewed sanctions.
In the second half of the year, base oils supply from Iran fell because of the tighter restrictions and demand was stagnant as many buyers had built up inventories ahead of the renewed sanctions.

Since then, demand has slowed with the market struggling to offload these inventories amid rising trade tensions between the US and China.

This has caused part of the oversupply conditions that many blame for the decline in prices.

“This is all about politics,” said one Iranian source. “The market will not be able to cope if all the Group I supply from Iran were to suddenly stop.”

Despite the latest tranche of US sanctions, Iranian oil is expected to continue to flow into the global market in 2019.

The US has given sanctions waivers to eight importers of Iranian crude, a list that is believed to include India, Iraq and South Korea.

This may soothe worries about any impending stoppage of Group I supply from Iran.

Demand on the other hand has seen a seasonal increase so far this first quarter. Many players will be hoping that a similar pattern emerges in the year ahead.

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BASE OILS

BASE OILS – US

CRUDE OIL/MARPOL STIR UNEASY WAVES FOR AMERICAS BASE OILS

BY JUDITH TAYLOR JANUARY 2019

Two subjects are stirring uneasy waves for the Americas base oils markets in 2019: crude oil prices and the MARPOL (International Convention for the Prevention of Pollution from Ships) initiatives under the IMO (International Marine Organization) on new sulphur content guidelines for marine fuels.

A consequence of crude oil prices staying in the $50s/bbl along with deliberations within OPEC and the global oil-producing regions, is the above-average uncertainty about crude oil prices for 2019.

Those uncertainties are keeping a crunch on base oil prices that is unlikely to abate in the first quarter of the new year.

The following ICIS graph shows the price direction for benchmark West Texas Intermediate (WTI) crude and for Louisiana Light Sweet (LLS) crude oil that closely mirrors Brent movements.

Late 2018, indications were that Saudi Arabia continues to work to convince Russia to take another round of supply cuts. Both countries hold different views about respective break-even costs.

Late 2018, indications were that Saudi Arabia continues to work to convince Russia to take another round of supply cuts. Both countries hold different views about respective break-even costs.

Iran appeared as a late-entry obstacle to any supply deal, as the sanction-hit country is claiming the right to an exemption because of its current circumstances. Additionally, the Saudi energy minister noted uncertainty that any deal could be concluded.

Part of the challenge facing base oil prices comes from the compression of the crude oil spike to about $75/bbl in October and the dive into the $50s/bbl across the span of the quarter.

In September/October when crude hit $75/bbl, Americas base oils posted prices increased about 25 cents/gallon from most producers in each of the base oils groups.

By November/December, paraffinic posted prices had shed the 25 cents/gallon and several producers, mostly Group I at the time of writing, had moved down another 15 cents/gallon. The decreases were primarily driven by sinking crude oil prices that moved into the $50s/bbl and continued to move around that mark.

These changes represented a 40 cent/gallon reduction in base oils posted prices in less than three months.

With the coming holiday season keeping demand subdued, this put a bookend on the year with snarled crude oil prospects still hanging for the new year.

Naphthenic base oil prices were not immune to the effects of the crude plunge, snagged by lower prices in the paraffinic sector that encouraged buyers to expect lower prices in pale oils as well, despite the fact that pale oils do not necessarily trend one-on-one with the paraffinics.

Driven by the crude oil dive and by seasonally slower demand in some of the viscosity grades, most naphthenic producers formally announced 20 cent/gallon reductions on all viscosity grades with effective dates from late November to early December.

An exception was Cross Oil, which elected to reduce prices by 3-8% per gallon depending upon the viscosity grade, effective 10 December.
The second attention-grabbing item for base oils and industrial lubricants in 2019 will come into more focus as the effects of the IMO initiative on sulphur content percent in marine fuels begin to emerge.

This initiative is set to become effective in 2020, making 2019 the year for examination of what changes can actually take place, how to put these into place and what enforcement will look like.

MARPOL is the main international convention aimed at preventing pollution from ships caused by operational or accidental issues. It was adopted by the IMO in 1973, with the Protocol of 1978 being adopted in response to a number of tanker accidents in that decade.

On 1 January 2020, new global rules from the IMO through MARPOL will take effect and shipowners will have to reduce sulphur emissions from 3.5% to 0.5% or less.

A low-sulphur cap under the MARPOL rule already applies to areas known as Emission Control Areas (ECAs) in North America, the Baltic region and the North Sea.

Group I base oils are a major component of marine lubricants and market players are watching the IMO situation closely in order to gauge the likely effect.

In the IMO view, responsibility for monitoring compliance lies with states that are party to MARPOL’s Annex VI, which is a section of the US Environmental Protection Agency (EPA). States within this relation are viewed by the IMO as responsible for any fines or sanctions for non-compliance.

One Group I base oil producer said, “It is still undecided, lots of questions.”

From an Americas base oil perspective, that comment closely sums up the market and industry stance entering 2019.

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7th INDIAN Base Oils & Lubricants Conference
9-10 April 2019
Mumbai, India
www.icisevents.com/indianbaseoils

13th ASIAN Base Oils & Lubricants Conference
25-27 June 2019
Singapore, Asia
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16th MIDDLE EASTERN Base Oils & Lubricants Conference
15-16 October 2019
Dubai, UAE
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8th AFRICAN Base Oils & Lubricants Conference
Autumn 2019
Africa
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15th PAN AMERICAN Base Oils & Lubricants Conference
4-6 December 2019
New Jersey, USA
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24th WORLD Base Oils & Lubricants Conference
February 2020
London, UK
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