

10/19/2021 12:47:17 [BN] Bloomberg News

Energy Crisis Helps Refiners Push Runs to Pre-Pandemic Level (1)

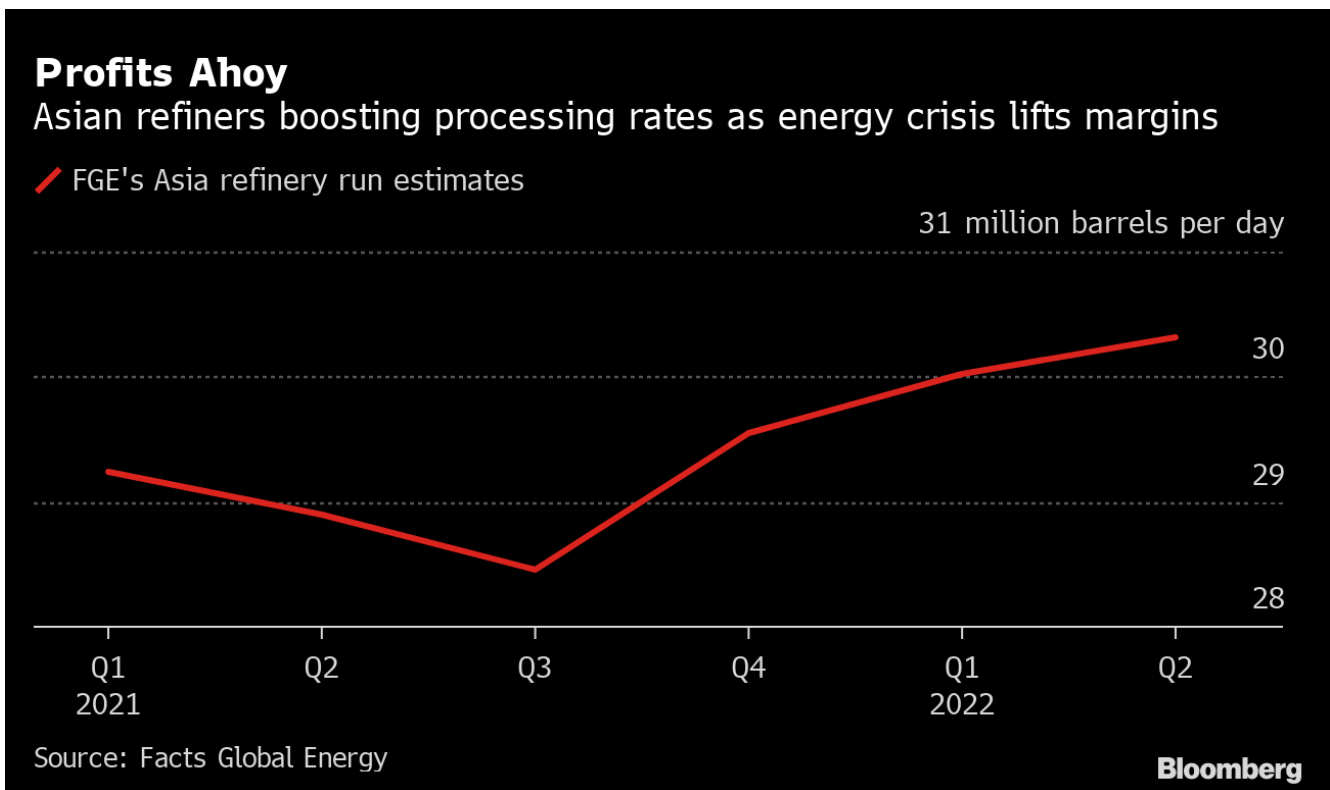
- Gas-to-oil switching and rebound in travel raise profitability
- FGE sayss runs this quarter to be the highest since early 2020

By Saket Sundria

(Bloomberg) -- The global energy crunch is making winners out of oil refiners in Asia as the shortage of gas and coal sparks a rush to secure alternative supplies, lifting industry margins in a revival that'll stretch into next year.

Operating rates at refineries from Japan to India are rising as the squeeze prompts buyers to make a dash for diesel and kerosene, fuels that can be burned instead of gas and coal for heating and power generation. That's hoisted profits for processors across the region to levels last seen before the pandemic, with a revival in travel also fanning jet fuel demand.

"Things have changed now and the products market has finally found some footing," said Sri Paravaikkarasu, Asia oil lead at Facts Global Energy, who expects fourth-quarter runs to be the highest since the opening three months of 2020. "The market is expecting a strong natural gas-to-oil switch."



Gas and coal rallied to records this quarter, sending shock waves through energy markets and spurring complementary gains in crude. The International Energy Agency says fuel oil and gasoil will be the main beneficiaries

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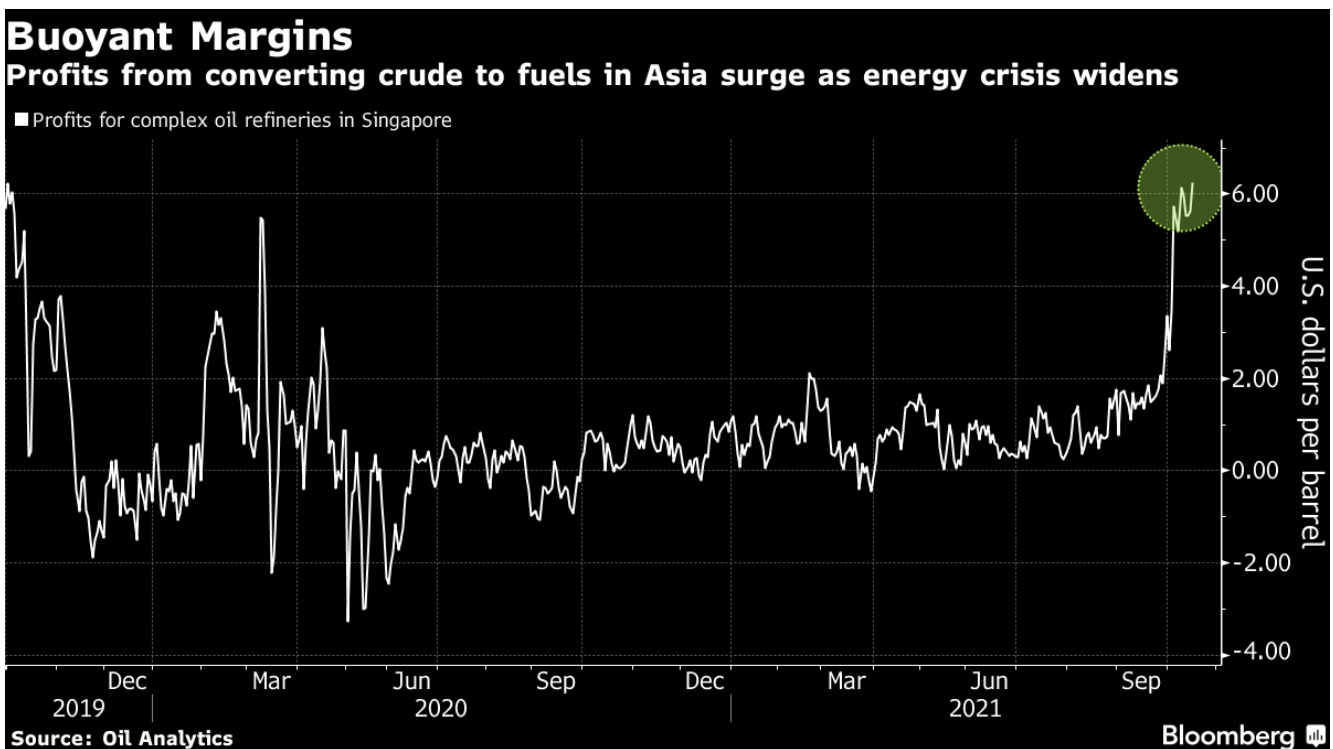
of gas-to-oil switching over the winter. The buying stampede, plus revival in travel, has cut key oil product inventories to the lowest since 2014, according to FGE.

Gas-to-Oil Switching: A Trend to Shape Winter Crude Prices

“The price mix is looking good,” said John Driscoll, chief strategist at JTD Energy Services Pte. “Generally, travel is rebounding, and that trickles down to refiners. Kerosene and heating oil demand is also surging” pre-winter, he said.

China, the second-biggest oil user, lies at the heart of rapidly evolving crisis. Beijing ordered top energy firms to secure supplies at all costs. As part of that push, the nation will import more diesel after local prices surged.

The burgeoning demand for diesel has helped refiners in Asia enjoy the highest profits on making that fuel since November 2019. Benchmark refinery margins across the region are now back at the highest in two years after languishing at low levels for the best part of this year and last.



That prolonged bout of weakness since the onset of the pandemic led to the closure of about 2.3 million barrels a day of global refining capacity, according to FGE. However, the positive impact of the reduced capacity wasn't felt earlier due to a slow demand recovery and high product inventories.

Now the industry landscape has changed. The big increase in crude runs in Asia through this quarter will be led by 500,000 barrel-a-day growth in India, followed by increases in Japan and South Korea, said Paravaikkarasu, who expects rates across the region to hit pre-Covid levels early next year.

Refiners in India -- including Indian Oil Corp. and Hindustan Petroleum Corp. -- are cranking up rates toward full

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capacity, while those in Japan are also likely to boost throughput. In China, operating rates are also set to rise by 150,000 barrels a day this quarter, but tight crude import quotas for independents and power rationing may limit the upside, according to FGE.

Three of South Korea's four refiners -- GS Caltex Corp., Hyundai Oilbank Co. and S-Oil Corp. -- have each increased crude runs to pre-pandemic levels of almost 90% of capacity or higher. Taiwan's Formosa Petrochemical Corp. will boost rates at its 540,000 barrels a day refinery to more than 85% by December, from below 70% now.

"Refining margins have improved a lot, not only for gasoil but gasoline margins could be maintained at pretty good level. Better than we expected," said Lin Keh-Yen, a spokesman for Formosa Petrochemical.

India is one of the region's top diesel exporters and local refiners are set to gain from rising winter demand from Europe and northeast Asia. In addition, local consumption of the fuel has rebounded close to pre-pandemic levels.

"It's not going to be a short-term phenomenon," Driscoll said. "Winter will be supportive in getting better margins for refiners this quarter and early next year, particularly if they get that blast of cold weather in the northern hemisphere."

(Updates with S. Korea, Taiwan runs in 11th paragraph)

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