VORTEXA

Market Views
January 2025

Special Report

Record crude shortfall building - and market may miss it in summer lull

Key Takeaway

Crude prices, structure and – to a lesser extent – physical crude differentials appear to be undervalued (to say the least)

Crude on the water collapsed by 175mb in four weeks, while observed onshore oil inventories fell by 81mb, translating into a combined draw rate of about 9mbd

The main culprit is a 5mbd collapse in exports from Iran, Russia (incl. Kazakhstan), Saudi Arabia and the United States

Supplies may recover somewhat, but real geopolitical solutions appear increasingly far-fetched, while risks for maritime infrastructure may have entered a new paradigm

Strong refinery runs – at record levels in the Atlantic Basin and rising in Asia – are another culprit for increasingly visible stockdraws

The glaring shortfall of refined products, in particular diesel, is unlikely to allow crude demand for refining to ease much in the next two months

Atlantic Basin crude arrivals in Asia are set to dry up in September

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where we present our key views in 15min

(every Tuesday SGT 15:45 for EoS markets & ET 12:00 / GMT 17:00 for Atlantic Basin)

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Crude on the water experiences record collapse in late July/early August, much bigger than the fall right after the ME war start

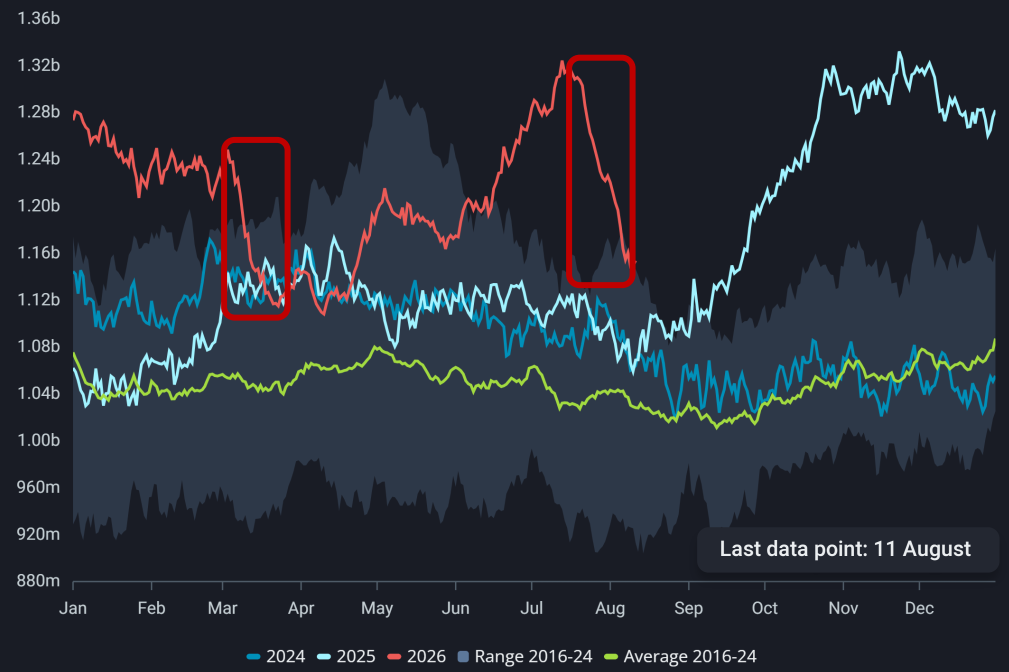
By 13 July, crude/condensate on the water reached a peak above 1.32 billion barrels, as the effects of higher Hormuz transits after the US/Iran truce and sanction waivers combined with record exports in many other places as well as long voyage times to Asia

- ➔ records of Q4 2025 and post-Covid/price-war period in Q2 2020 have been matched
- ➔ This provided a sense of ample market supplies, providing what now looks to be misleading comfort to market players

In the following four weeks, crude/condensate on the water drew by 175mb or at a rate of 6.2mbd

- ➔ The 175mb draw compares to a 102mb draw in the four weeks after 3rd March (peak after war start)

Crude/condensate on the water (b)



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Flows - Get live data

Crude and other oil in onshore floating roof tanks hits 1-year low, with accelerating drawing pattern over last four weeks

The four weeks to 12 Aug saw global onshore stocks in floating roof tanks shrink by 81mb or a rate of 2.9mbd

- ➔ About two thirds of the draws materialised in Asia
- ➔ Global stocks as well as Asian stocks are now showing a year-on-year deficit

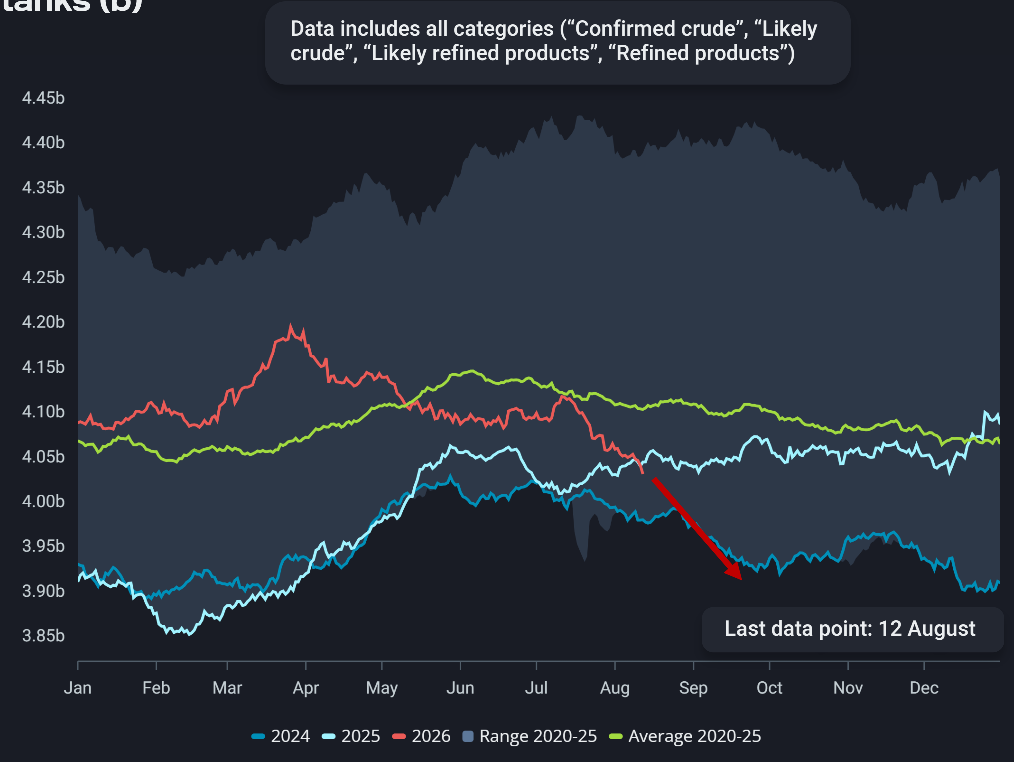
Record-high (Atlantic Basin) or increasing refinery runs (Asia) in consuming nations amid growing product export shortfalls in oil producer countries (Middle East and Russia, see slide 8) are the key driver of recent onshore crude stockdraws

Relative to the seasonal average, observed global inventories have been drawing by 200mb or a rate of 1.4mbd since a peak in March

- ➔ This excludes draws from strategic reserves in underground or otherwise non-observable storage

Onshore inventories are set to reach a seasonal low by latest end September, but possibly already early September

Crude/condensate and other oil in global onshore floating roof tanks (b)



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Onshore inventories - Get live data

Crude/condensate exports from five countries collapse by 5mbd in a month's time - reaching a record low

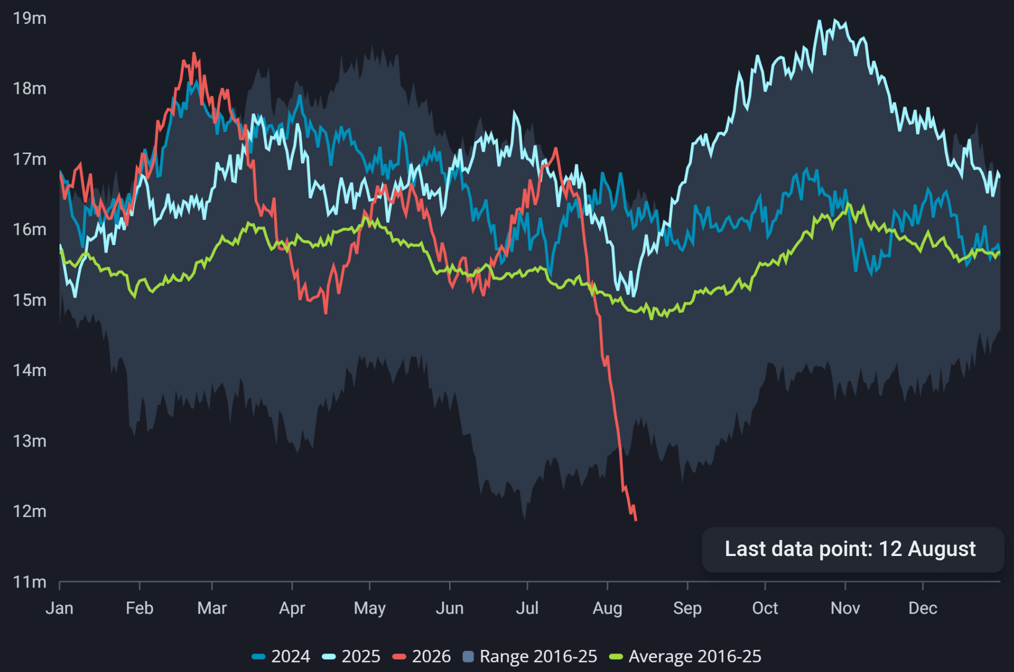
Crude/condensate exports from Iran, Russia (including transit barrels from Kazakhstan), Saudi Arabia and the United States collapsed to a record low of about 12mbd

- This is a whopping 5mbd less than a month earlier and 6.5mbd down from a pre-war peak in February (4-week moving averages)

The reasons for the decline are diverse, with unclear perspectives on the potential recovery

- Kazakhstan and Russia are suffering from frequent Ukrainian drone attacks on infrastructure along the supply chain, including increasingly tankers in the Black Sea
- Iranian exports fell to close to zero after the re-installation of the US blockade outside the Straight of Hormuz
- Saudi exports fell after the escalation in both Hormuz and Bab el-Mandeb (Houthi threats), and potentially also limited vessel supply into the crucial Red Sea port of Yanbu
- US exports decline after SPR releases have largely stopped for now, peak refinery operations have eaten into domestic storage, and arbitrage economics were temporarily unfavourable

Seaborne crude/condensate exports from Iran, Russia (incl. Kazakh grades), Saudi Arabia and United States (bd, 28-day moving average)



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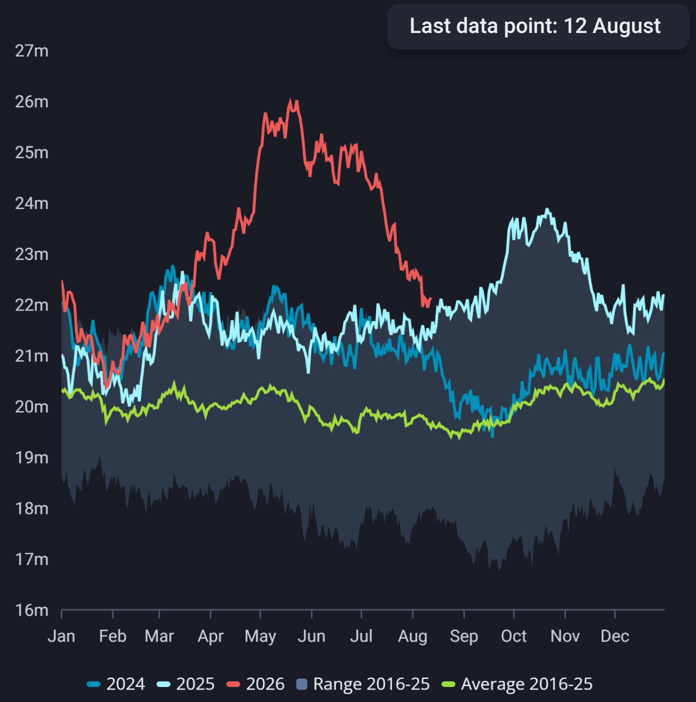
Atlantic Basin crude exports dive back towards seasonal range, while Iranian and Saudi crude exports hit record lows

Seaborne crude/condensate exports from Atlantic Basin (bd, 28-day moving average)



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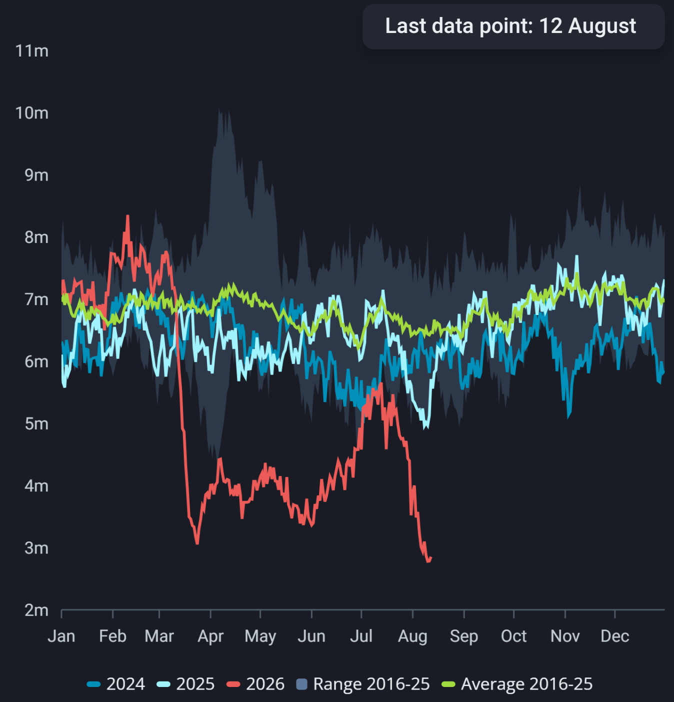
Crude/condensate exports from Saudi Arabia (bd, 14-day moving average)



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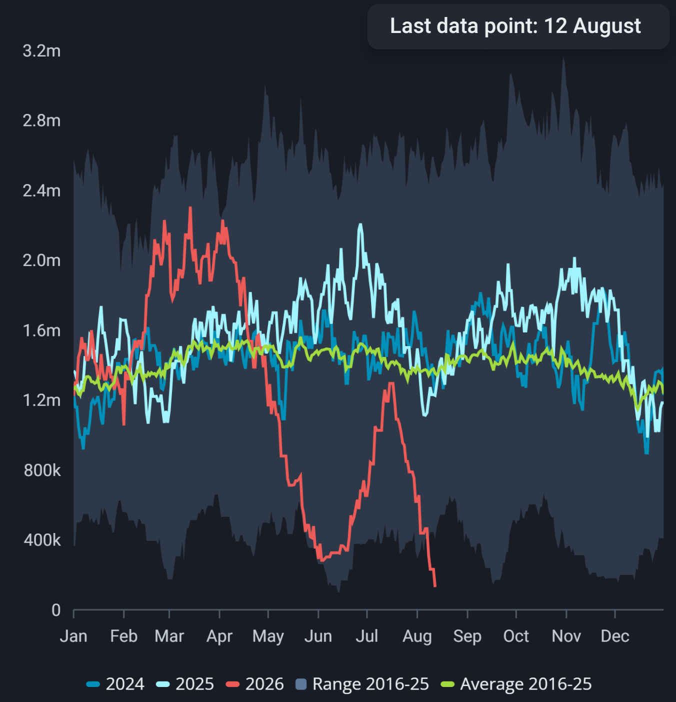
Seaborne crude/condensate exports from Iran (bd, 28-day moving average)



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Flows - [Get live data]

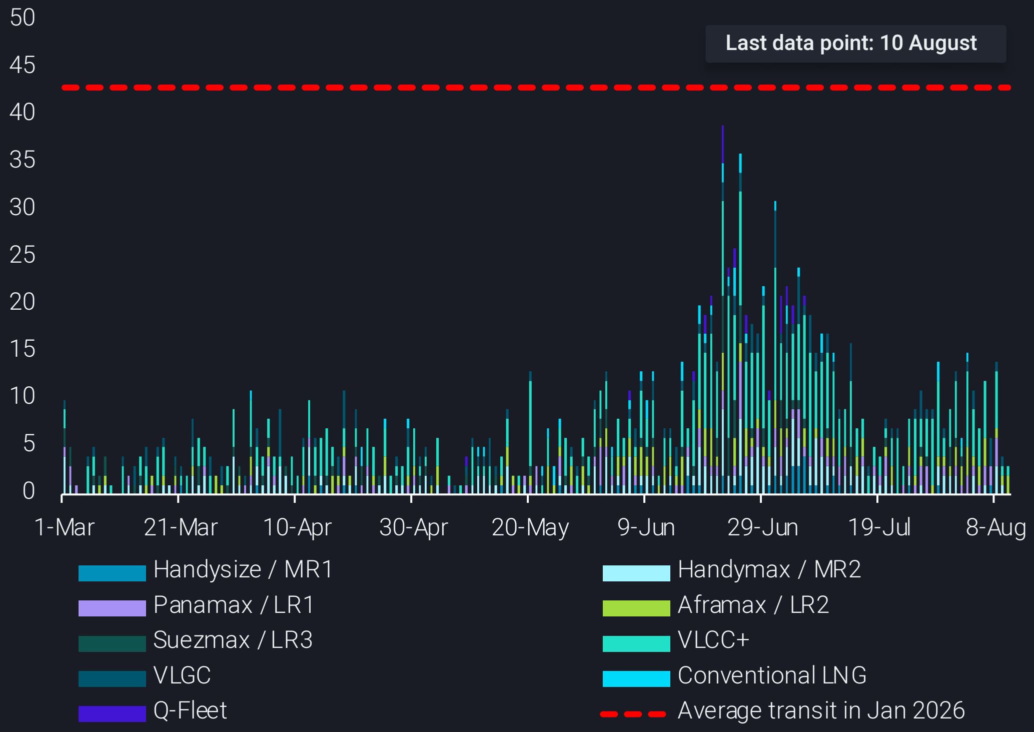
Geopolitical situation in the Middle East and Russia/Ukraine give limited hopes for crude, product and LNG supply recovery

Up to the failure of the Memorandum of Understanding (signed between the US and Iran on 17 June), market consensus appeared to be that there will be a solution to the conflict and in particular to the widespread closure of the Strait of Hormuz

Since the collapse of the MOU in mid July this perception is increasingly questioned

- ➔ Transits through the Strait of Hormuz are now much lower than in the MOU period and as a standard happen dark (no AIS signal)
- ➔ Iran's interest in a diplomatic solution appears low, unless 100% of its demands are met
- ➔ MEG producers take increasingly a high-risk approach using shuttle tankers, before transferring barrels to buyer vessels via (dark) STS
- ➔ The partial Bab el-Mandeb closure is adding another hotspot to supply outages
- ➔ The Russia/Ukraine war also appears to escalate, at least concerning attacks on oil, gas, and shipping infrastructure

Daily strait of Hormuz transit split by vessel class by waypoint entry date (Handysize/MR1s and above and VLGC and LNG) (no. of vessels)



Voyages - Get live data

Worsening refined product shortage should keep crude demand in consumer refining centers elevated beyond summer season

Refinery margins around the world are close to record levels

Similar to crude, the escalation of the wars in the Middle East and Ukraine/Russia have spread supply losses

- → Russia has extended its diesel export ban to the start of September
- → Red Sea product exports are shrinking now as well, amid others due to the outage of the Jizan refinery

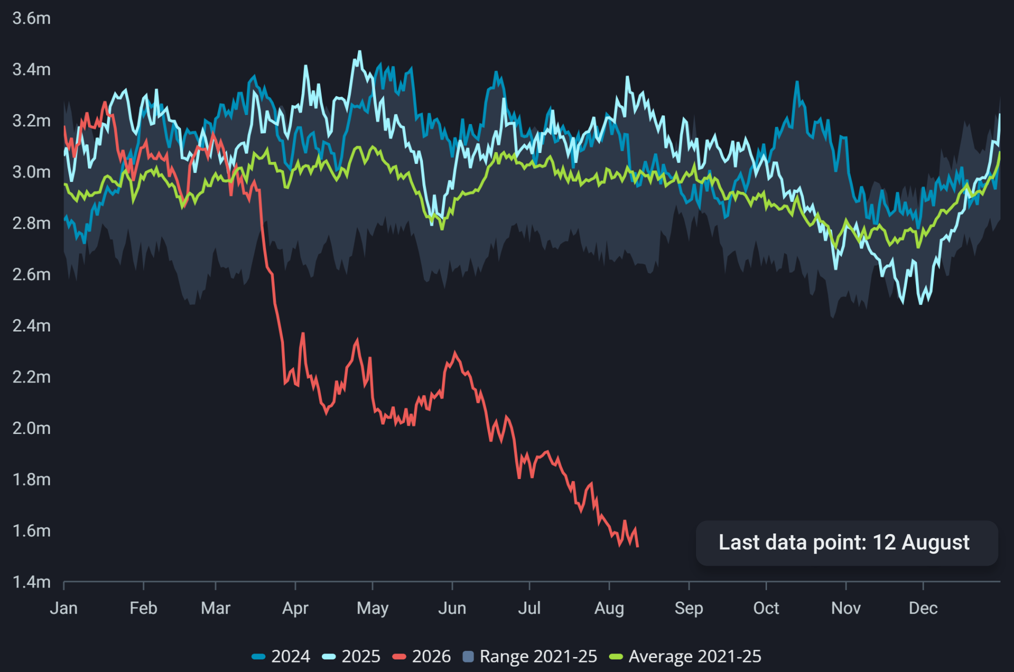
On a year-on-year basis, diesel exports from the Middle East and Russia are down by more than 50% or by 1.7mbd to just 1.6mbd recently

- → An imminent resumption of flows appears unlikely

Refineries in the US, Europe and elsewhere in the Atlantic Basin will continue to run at highly elevated levels beyond the peak summer season, while Asian refinery runs are currently picking up

- → Crude demand will remain elevated, leading to stronger competition for available barrels, e.g. between China and India for Russian barrels

Diesel/gasoil loadings from Middle East and Russia (bd, 28 day moving average)



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Higher refinery runs in Asia have underpinned recent stockdraws in spite of relatively high crude arrivals; deeper draws now likely

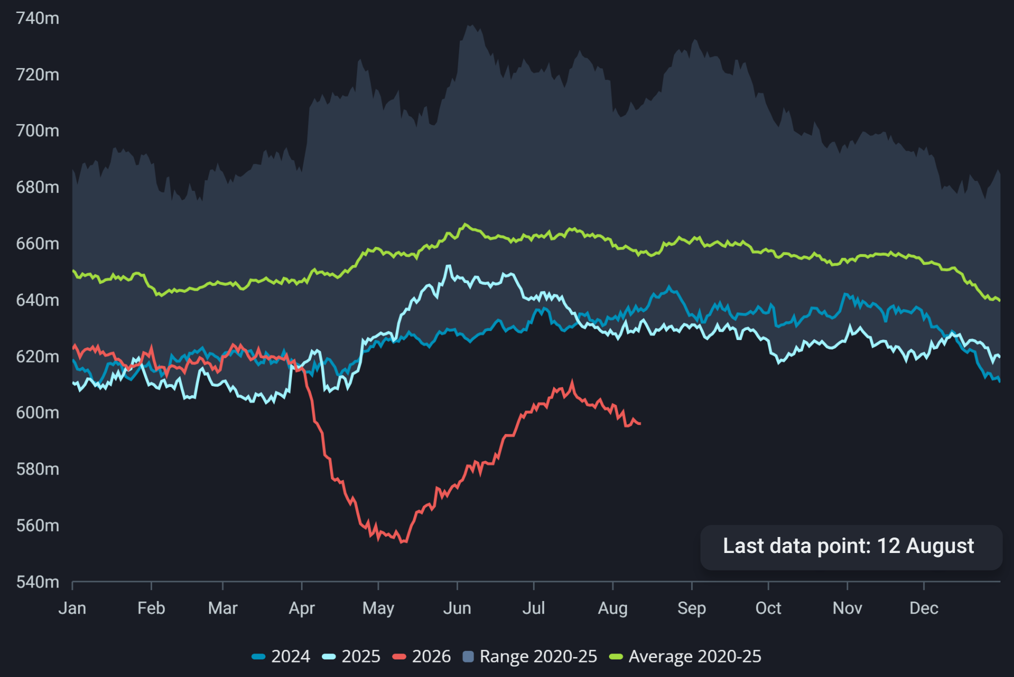
Excluding China, observed Asian crude inventories hit a low point in early May

This was followed by a period of restocking until mid-July, thanks to a recovery of crude imports to Asian countries outside China, as well as to constraints on demand and refinery operations

Over the last four weeks, Asian crude inventories fell by nearly 50mb or at a rate of 1.8mbd

- 12mb of the draws happened outside China
- The recent draws stand out because crude arrivals over this time span hit temporarily seasonal highs (see next slide)
- If refinery runs increase as expected and crude arrivals ease (also expected), crude stockdraws can only accelerate in the coming 6-8 weeks
- The likely transitioning of Iranian barrels from the water into China storage tanks will provide some help, but cannot stop the overall dynamic

Onshore crude/condensate inventories in Asia excl. China (b)



Source: Vortexa

Onshore inventories – Get live data

Asian crude imports have temporarily hit seasonal highs, but are set to drop off…

Crude arrivals in Asia have recently surpassed seasonal averages - for about five weeks to 10 August

- This is in stark contrast to an average shortfall of about 5mbd (vs seasonal average) during Q2
- It was made possible by the June revamp of Hormuz transits, record inflows from the Atlantic Basin (see right-hand chart on next slide), and a marked increase in Chinese imports after three months of self-imposed restraint

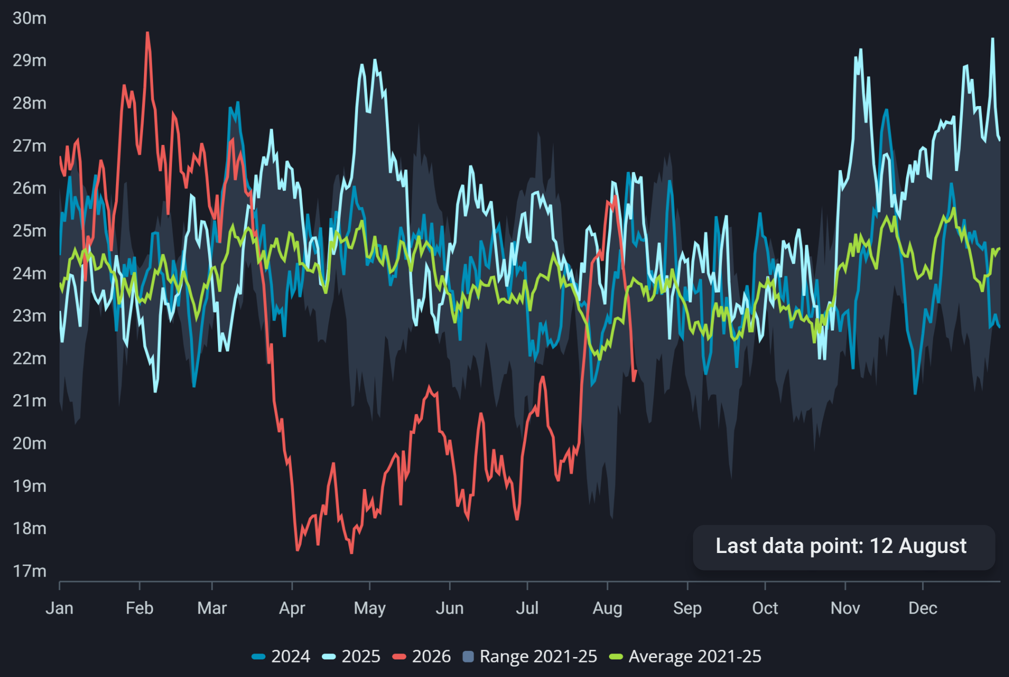
However, the availability of Middle Eastern crude oil is clearly shrinking now (especially Iran, Saudi Arabia), while the inflow of Atlantic Basin crude is set to slow drastically over the next month

The left-hand chart on the next slide shows that Atlantic Basin exports to Asia fell off a cliff from 10 July onwards, which will show its full impact in September arrivals

Asian crude stocks are set to fall markedly over the next 1.5 months, with crude procurement set to become more aggressive

Outright crude prices, crude differentials and structure are set to rise

Seaborne crude/condensate imports into Asia (bd, 14-day moving average)



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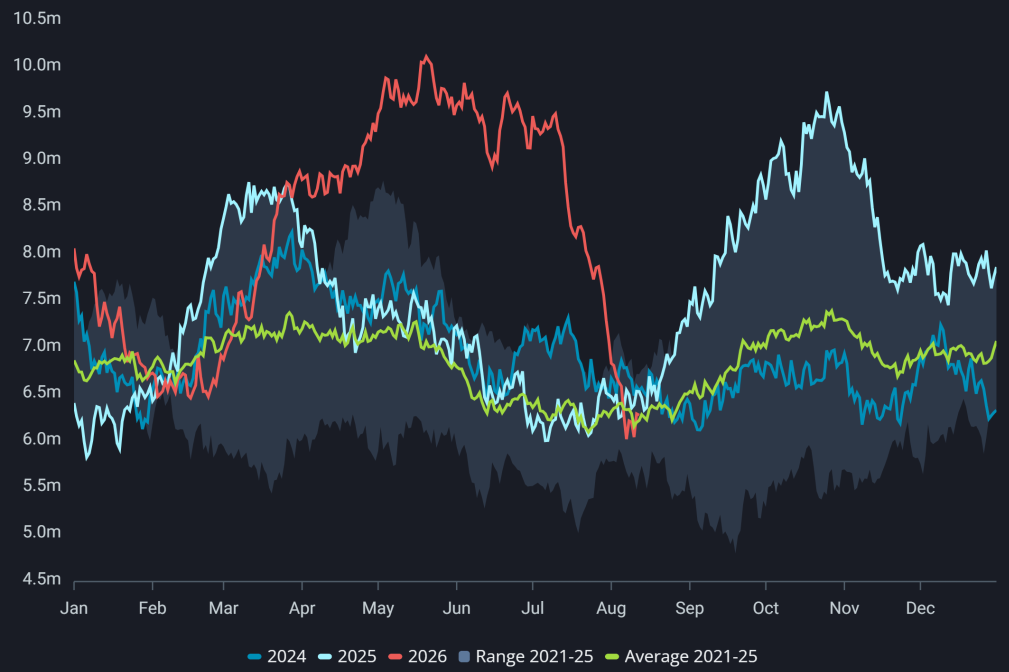
Flows – Get live data

... especially in September, when inflows from the Atlantic Basin are set to dry up based on limited liftings during July and August

Atlantic Basin crude/condensate exports to Asia (bd, 28-day moving average)



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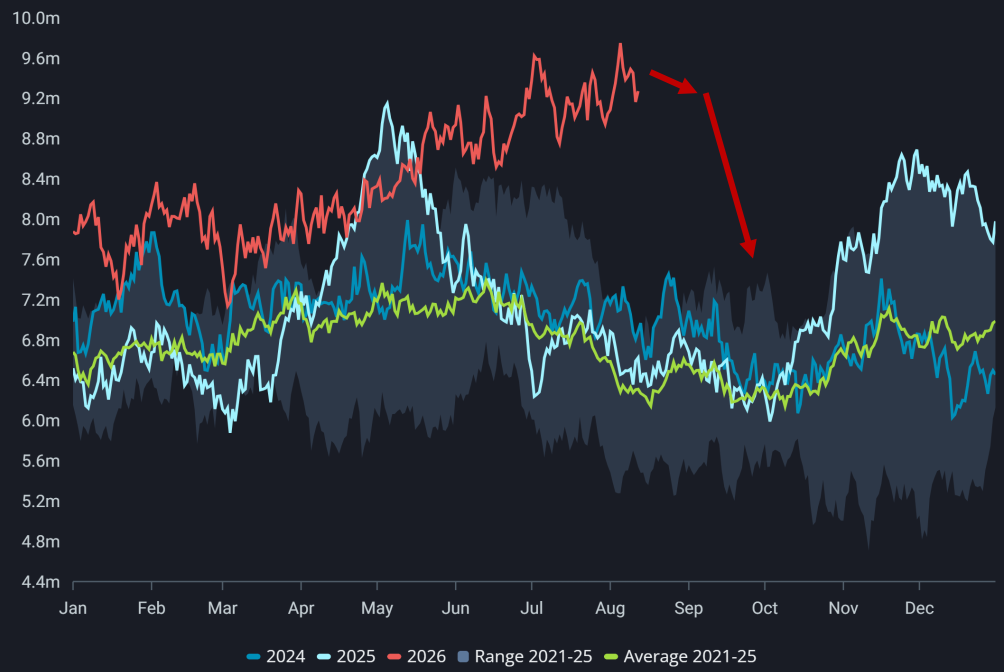
Asian imports of Atlantic Basin crude/condensate (bd, 28-day moving average)



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Flows – [Get live data]

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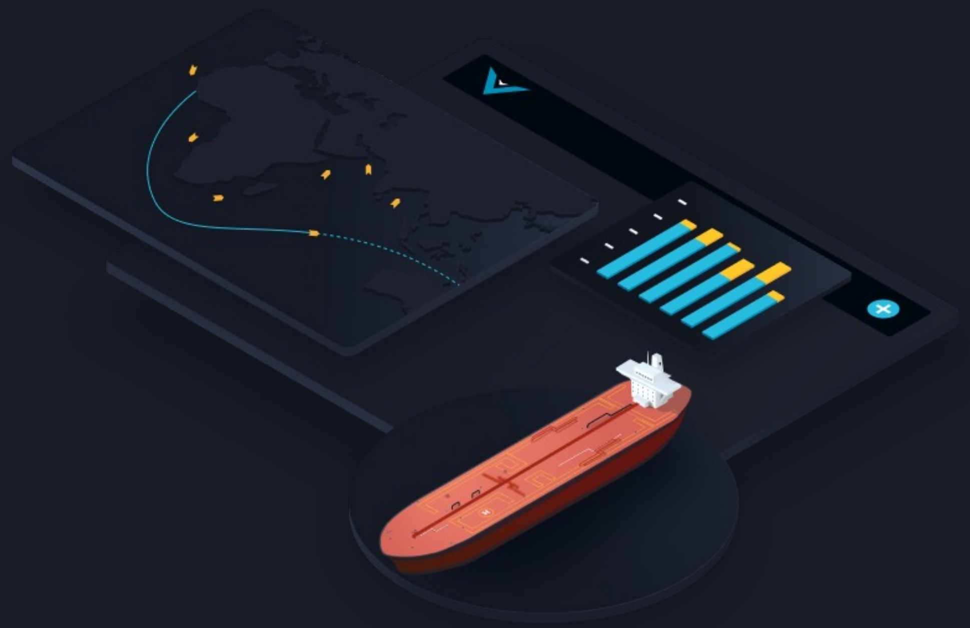

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