

# PAKISTAN OIL & GAS

# MARKET VISTA

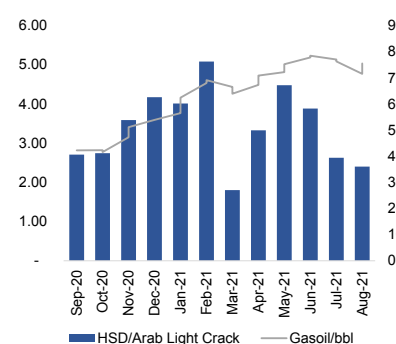
REP-019

## Crack spreads reacting to energy crunch

- Refining margins continue to tread on the same path with spreads for HSD/MOGAS remaining at USD2.4/3.6/bbl for first fifteen days of Sep'21 where HSD spreads rebound sharply from USD0.54/bbl for last fifteen days of Aug'21
- Even though export of MOGAS from China and India has declined, the cracks continue to trade in the range of USD4-6/bbl as demand of the product is facing a slower recovery compared to HSD which is mainly used in industries and industrial transport
- HSFO cracks though remain negative, a significant recovery has been witnessed as recent news reports indicate increased demand from shipping sector while increasing gas prices have also forced countries to shift their power production to HSFO.
- For local refiners, improvement in HSFO cracks is a significant positive with 25-30% of the product slate belonging to HSFO however the cracks still remain significantly lower than pre-pandemic levels hence the pressure on profitability is expected to continue.

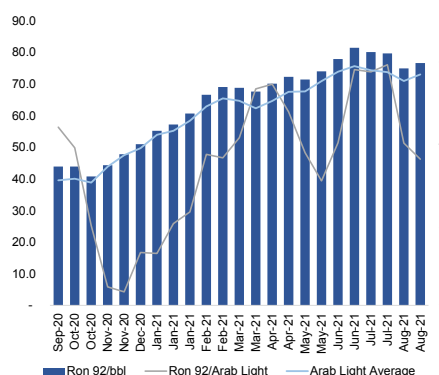
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HSD to Arablight crack

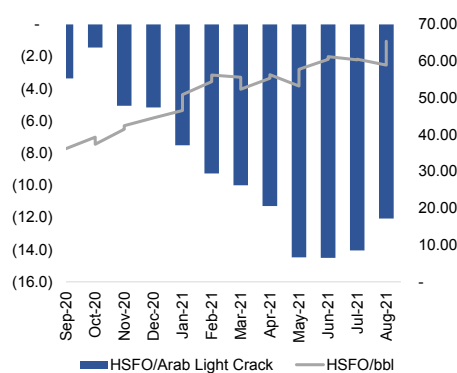


Source: OGRA, Bloomberg &amp; AKD Research

RON92 to Arablight crack



HSFO to Arablight crack



Source: OGRA, Bloomberg &amp; AKD Research

**HSD cracks rebound sharply:** Refining margins continue to tread on the same path with spreads for HSD/MOGAS remaining at USD2.4/3.6/bbl for first fifteen days of Sep'21 where HSD spreads rebound sharply from USD0.54/bbl for last fifteen days of Aug'21 after China controlled its exports in order to control ballooning local prices while the demand for the product also remains strong as economies continue to come back online post increased vaccination program. On the other hand, even though export of MOGAS from China and India has declined, the cracks continue to trade in the range of USD4-6/bbl as demand of the product is facing a slower recovery compared to HSD which is mainly used in industries and industrial transport. MOGAS crack for first fifteen days of Sep'21 stood at USD4/bbl against USD5.0/bbl average of Aug'21. HSFO cracks though remain negative, a significant recovery has been witnessed as recent news reports indicate that increased scrubber installation has resulted in increased demand while surging gas prices have brought back the fuel back in favor for countries like Pakistan and Bangladesh which are switching power production back to HSFO. HSFO cracks stand at negative USD7.7/bbl for first fifteen days of Sep'21 against average of negative USD13.3/bbl for last four months.

**Outlook:** With increased pace of vaccination programs, economic activity around the globe is increasing and the same is expected to keep the demand of oil price high where Arablight has already increased to USD76.5/bbl, up 3.5% against average for Aug'21 of USD71.9/bbl. Moving



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forward, additional trigger is expected to arise as we move into winter where shortage of natural gas has resulted in economies shifting towards coal and oil based power generation. On the other hand, even though supply from OPEC+ is expected to increase, in near term, the expected increase in supply is unlikely to counter the strong demand. The same is expected to keep the cracks strong as well, in our opinion, where HSD cracks are likely to outshine MOGAS as industrial activity remains strong however increasing inflation might result in subdued consumer activity and mobility. For local refiners, improvement in HSFO cracks is a significant positive with 25-30% of the product slate belonging to HSFO however the cracks still remain significantly lower than pre-pandemic levels hence the pressure on profitability is expected to continue.

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- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

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