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LIQUID FUELS AND CHEMICALS|WEEKLY NEWS IN REVIEW

Looking back and ahead – how are you positioned for 2018?

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Trading conditions in the crude oil and refined product markets were challenging in 2017, resulting in a surge in senior-level recruitment which has continued into 2018.

Challenging trading conditions globally in 2017 triggered several high-profile exits from the market, both in terms of companies and individuals. In this month’s market review, we have summarised some of the general trends across the barrel and our outlook for 2018.

Crude oil

The crude market was extremely tough to trade in 2017 due to Opec and Russia’s efforts to cut production conflicting with the rapid increase of US production. US exports provided Opec and Russian crudes with fresh competition into markets including China and India.

Competition for crude talent was equally tough in 2017. We saw 37 crude-related front office hires in EMEA, accounting for just over 20pc of total recruitment in 2017. Of these hires, 60pc were attributable to trading houses, with 20pc to oil majors/juniors and the remainder spread across utilities and NOCs. Unsurprisingly, we saw no hiring into the funds. Last year, 95pc of all moves in the space were of male personnel, with only two female hires seen.

London-based firms accounted for 80pc of crude hiring in 2017. Geneva came in second place at 15pc, with the balance split evenly between Zug and Dubai. Interestingly, Geneva attracted four crude traders from London, but none moved the other way.

Hiring stagnated in North America due to an oversupply of talent, caused by a combination of depressed margins and high-profile exits from the market. Noble Group being a notable example. There were 35 total moves captured in the US of which 50pc were attributable to trading houses.

Human Capital captured a similar total number of moves in Singapore, of which over 75pc were into trading houses. This abnormally high percentage demonstrates how prominent the trading houses have been in the last 12-18 months in contrast to the majors, NOC's, refiners and investment banks.

Despite the rising price of crude and high storage costs painting a gloomy picture for physical crude trading in 2018, the demand for talent shows no signs of easing due to strong rumours of teapot refiners seeking to establish trading desks internationally.

With the IMO spec change fast approaching, fuel oil remains a competitive market in which businesses identify future value if handled correctly. We expect to see demand for talent steadily rise in 2018 as senior traders in established businesses continue to retire, however the profile of trader is also evolving to reflect this rapidly changing landscape.

Fuel oil

The fuel oil market has been facing challenges for some time, with maritime consumption falling and set to come under strict new emissions rules, natural gas replacing it in the power generation mix and the market generally switching its focus to higher-value products. These broad trends continued in 2017, but demand slowed less than supply, lifting the product's crack spread later in the year and moving price curves to backwardation from contango. While backwardation indicates more favourable conditions in terms of the balance of supply and demand, the loss of a contango structure – with prompt prices below forward prices – can make trading conditions more difficult for some.

In the face of these challenging conditions, there were 15 European fuel oil trading hires in 2017, of which around one third were derivatives-focused. Trading houses were responsible for almost all hires, with a little over 50pc of these taking place in Geneva. London, Copenhagen and Singapore split the balance evenly.

The US saw very little hiring in fuel oil throughout the year as majors, refiners, and trading houses all continue to consolidate their teams. There was no news of standout performances with rumours of significant losses at several prominent trading houses.

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Middle distillates

The middle distillate market was a mixed picture, with prices rising strongly between June and November in line with firm demand and supply interruptions. The shutting-in of some refining capacity at the US Gulf coast because of hurricane activity supported prices, taking around 25mn bl off the market.

India continues to grow as a centre of supply and demand. The country’s rising demand for diesel, its large deep-conversion refineries and its location on east-west shipping routes made its exports a key swing factor in the global market. Middle distillates are expected to remain the key driver of global oil demand growth in 2018, reflecting expansion across most developed and developing economies.

We saw 18 EMEA hires in 2017, with much of the physical trading recruitment taking place in Geneva and Dubai. Activity in London was less than half of that seen in 2016 and was mostly concentrated on derivatives trading within the banks. Performances were polarising with several exceptional results counterbalanced by significant losses.

Distillates has been a bright spot for US hiring with several trading houses replacing and upskilling talent while second tier refiners continue to upgrade their trading and optimisation capabilities in the space. The hurricane in the US Gulf coast was rumoured to have rescued several books that were positioned on the right side of inventory supplies during refinery outages.

We expect to see some growth in middle distillates moves this year following some senior departures across the market. Unipec has already supported this trend by picking up a three-person jet trading and operations team from Noble Group.

Gasoline

Firm margins drove high refinery runs in the key regions, causing the periodic oversupply of gasoline and pressure on the product’s crack versus crude. Competition was high and volatility was low for most of the year, but mis-matches between supply and demand presented some attractive trading opportunities.

The Atlantic basin market was under pressure from high inventories for much of the year, but firm demand growth in Asia-Pacific and refinery outages in the Mideast Gulf created arbitrage opportunities for Atlantic basin refiners.

Unplanned refinery shutdowns at the US Gulf coast because of intense hurricane activity created a gasoline shortfall around the peak of the US driving season, causing prices to spike and drawing arbitrage shipments in from northwest Europe. The US became a net exporter of gasoline on an annual basis for the first time in 2016. The shift toward this has been a long-term trend, and the US was a net exporter for the second year running in 2017.

While demand for European gasoline trading talent was high in 2017, the number of moves was low, with the market seeing more departures than hires. The consensus seems to be that the market remains saturated and dominated by a few large trading houses/oil majors.

Gasoline books in the US were also hit by refinery outages during hurricane season. Several high-profile winners and losers were seen in both trading houses and majors. There has been some movement in trading over the 2nd half of the year with a few traders moving firms most notably several high-profile pipeline traders from the Noble team joining Gunvor.

We expect demand for gasoline trading and blending talent to remain high in 2018 among small-to medium-sized companies looking to gain a more secure foothold in the market.

Naphtha

The naphtha market was stable for most of 2017, with prices rangebound and supply and demand broadly balanced. Exceptions to these conditions came in the third quarter of the year as a sharp rise in propane prices shifted buyers’ attention back to naphtha as a feedstock and as disruption to US gasoline production during the hurricane season caused distortions in the naphtha complex.

Only a handful of moves in the broader oil space involved naphtha talent in 2017.

Those observed featured senior exits from established businesses.

LPG

LPG enjoyed some of the most rapid demand growth among refined products in 2017. Demand was supported as governments favoured LPG because of it being cleaner-burning than other fossil fuels and easily transported in cylinders. Transport costs have also fallen sharply, making the fuel even more attractive. Freight has fallen by around $200/t over the last three years, making LPG more competitive on a British Thermal Unit and volume basis than traditional liquid fuels for power generation, transportation, heating and cooking.

There were some attractive trading opportunities in 2017. Imports into China rose by 2mn t year on year to meet domestic retail demand and to feed new propane dehydrogenation plants, diverting LPG that would otherwise have gone to petrochemical crackers in east Asia. Mideast Gulf supply was thinner because of Opec crude production cuts, but this effect was partly offset by higher exports to Asia-Pacific from the US, Europe and west Africa.

Demand for LPG Traders was high in 2017, but the relatively small number of moves that we saw in Europe did not support this trend. Utilities and small-to medium-sized trading houses have been actively seeking to grow their LPG market footprints, but have found it difficult to attract talent from the bigger firms. We expect this trend to continue into 2018 as LPG grows in global prominence.

In the US, LPG exports continue to be a major issue for many of the majors, trading houses and refiners with export contracts that are way out of the money. Several traders have moved and will likely continue to move out of books holding losses from bad export deals.

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