S&P Global
Platts

Oil

Specifications guide
North Sea sulfur de-escalator

Latest update: August 2019

Platts assesses Forties de-escalator at 20 cents/b from September 1, 2019

On August 23, 2019, S&P Global Platts announced that the sulfur de-escalator to be effective September 1, 2019 in Forties cargoes and related instruments in the Platts MOC Process would be 20 cents/b per 0.1% weight of sulfur over the 0.6% wt standard. This is unchanged from August. The September sulfur de-escalator should apply to cargoes loading from September 1, 2019.

Platts considers a number of indicators in the determination of the Forties de-escalator level including the behavior of sweet and light crudes versus sourer and heavier streams in the North Sea and other competing regions, as well as the performance of refined products and refinery feedstocks, and the outright price of crude oil.

Dated Brent prices have continued to oscillate around the $60/barrel mark throughout much of the last month, which remains significantly lower than the levels seen earlier this year, when the de-escalator was raised in May. On August 22, Platts assessed Dated Brent at $59.60/b, down more more than $14/b from the $73.74 seen April 24, when Platts raised the de-escalator in May.

Further, Brent's relationship to Dubai has also continued to hold month-on-month after widening out earlier in August. The front-month Brent-Dubai Exchange Futures for Swaps (EFS) contract was assessed at $2.18/b on August 22, compared with $2.13/b on July 24 ahead of the publication of the August de-escalator.

Urals differentials, however, have weakened relative to alternative sweet crudes in both the Mediterranean and Northwest Europe, with its discount to grades like CPC Blend, Azeri Light, Gullfaks and Oseberg bouncing sharply higher over the month. However, historically speaking, Urals differentials in both regions remain supported, and above the levels seen when the de-escalator was last set higher than 20 cents/b.

In the product markets, the high sulfur fuel oil crack tumbled substantially over the course of August, with trading sources pointing to the upcoming switch towards marine distillate fuels in the shipping industry ahead of IMO 2020. It fell to a discount of more than $16/b in late-August, its lowest level in more than two years, according to S&P Global Platts data. Fuel oil has proved to be unexpectedly strong over much of the last-half of the year, though it is unclear whether or not the drop will be long-lived.

The drop in fuel oil cracks has seen a corresponding widening between it and naphtha, even ahead of the upcoming shift towards winter specification gasoline, which has seen a drop in the overall value of the gasoline barge crack.

By contrast, there has been little-to-no change in the diesel/gasoil spread, and the ULSD barge crack has held largely unchanged since July.

While there has been some evidence in both product cracks and crude spreads that higher sulfur is starting to impact pricing levels, the shift is still new and has not yet demonstrated its sustainability. Further, the consistently low outright price of Dated Brent – and its consistency relative to Dubai – argues against an increase.

Consequently, the Forties sulfur de-escalator was assessed unchanged from the previous month.