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The biggest factor affecting the bitumen market in the year ahead will be the breakdown of its relationship with high-sulphur fuel oil (HSFO).

Waterborne bitumen cargo exports have typically been priced as a differential to HSFO. But this has started to change as buyers and, in some cases, sellers move to using crude benchmarks or outright pricing options instead. The disconnect with HSFO has come about thanks to a reduction in the permitted sulphur content in marine fuels to 0.5pc from 3.5pc from January 2020.

The International Maritime Organisation's (IMO) sulphur cap has also led to changes in the amount of bitumen that many refineries produce. Some have increased production as they try to switch away from HSFO, while others have reduced or stopped output because of changing crude slates or refinery upgrades that have done away with the residue used to make bitumen.

Argus predicted around a year ago that European bitumen supply would tighten in 2019, with fewer producers and longer distances travelled to meet demand. This process has accelerated in recent months and new arbitrages for Europe's surplus bitumen have opened — including to the Mideast Gulf and Asia-Pacific — on top of already workable movements to west Africa and the Americas.

But it is in pricing where the biggest shockwaves are being felt and this is going to be a long-term trend. HSFO values are expected to remain depressed for a long time and many in the bitumen market have questioned the reliability of using the 3.5pc sulphur fuel oil pricing marker.

Bitumen differentials have moved higher and are likely to trade at premiums of above \$100/t to HSFO out of Rotterdam and also from the Mediterranean, where fob offers have

already been as high as \$80/t from Spanish export terminals, with trades done nearer \$70/t in December.

In Italy, bitumen was trading at a discount of around \$25/t to HSFO in January 2019 but is now at a \$50/t premium. In Rotterdam, bitumen has gone from trading at parity to HSFO in January 2019 to a premium of \$95/t at the end of the year. Premiums in all regions will move into three figures early next year. HSFO values will remain depressed for a long period and ultimately are unlikely to recover to previous levels.

Crude supply will also become more important and will often dictate bitumen output. Many refineries will want to run more light sweet crudes, while heavy sour grades will be less desirable.

Bitumen consumption in Europe is likely to be fairly steady next year, with many countries — not least the UK — facing an uncertain political and economic climate, which could limit spending on road and infrastructure projects.

Growth in bitumen demand will come from outside Europe. North Africa will increase buying, not least because refinery capacity in the region will not recover any time soon. Egypt's 115,000 b/d El-Mex refinery in Alexandria will stay down beyond the summer of 2020, while Morocco's 220,000 b/d Mohammedia refinery will remain shut. In Libya, revenue from slowly rising crude output will help fund road projects. And Algeria will keep buying strongly.

The story from west Africa should also be more upbeat, with Nigerian demand likely to rise. Nigerian president Muhammadu Buhari has pledged to prioritise road building during his second term in office, promising over 2,000km of ongoing federal road and bridge projects across the country.

For the year ahead, bitumen's value will continue to rise rela-

tive to HSFO. And at the peak of the paving season, the market could again be tight in Europe as demand outstrips generally tighter supply. While some bitumen-producing refiners will increase production, many will not and may reduce output to produce more low-sulphur fuel oil and other higher-value products. Further closures are possible at refineries that have not upgraded, while weak refinery economics could hurt others in the post-IMO world.

By Jonathan Weston

Argus European Bitumen and Asphalt Conference

Continue your learning of the key topics discussed at the meeting place the meeting place for the bitumen and asphalt supply chain – the *Argus* European Bitumen and Asphalt Conference.

With IMO 2020 on the horizon, questions around bitumen prices, availability of grade and the balance of supply and demand continue. Reflecting on the challenges and opportunities of the above, alongside the impact of geopolitics and plans for mobility and eco-friendly roads and highways are just some of the many topics being covered in this year's European Bitumen and Asphalt Conference.

Returning for its 11th edition, Argus European Bitumen and Asphalt is the premier event that brings together 200+ key representatives from regional governments, bitumen and asphalt suppliers, end-users and thought-leaders to discuss and shape the future of the bitumen industry.

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contact@argusmedia.com



+44 20 7780 4200



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