# In conversation with...

***Marc Hong**, Lead Analyst &*
***Gabriella Twining**, Associate Editor Europe, Argus Media*

*Argus Base Oils is a weekly, global market report including global base oils spot prices, posted prices, market commentary, news and analysis for key markets. Argus also publishes a monthly report called the Outlook which includes a 12-month price forecast and analysis.*

*We spoke to Marc Hong and Gabriella Twining at Argus about their work.*

***Marc, you joined Argus at the start of January 2017 when the market for base oil was very different from that of today. What market changes have you observed in this period?***
Marc: One major change is the rise in global base oil production capacity, by more than 10% since 2017. Additional production of mostly Group II and Group III base oils has made prices more dynamic and volatile. Most of the new capacity is in Asia, which has opened more arbitrage opportunities for buyers in Europe.

***Gabriella, you joined the base oils team from the biomass team recently, how would you describe Argus's methodology in determining the market for Base Oils?***
Gabriella: Just like biomass, the base oils market is illiquid, and so a robust and comprehensive methodology is needed so that weekly spot price assessments are reflective even when the market is short, as it its now in Europe.

Like my time covering biomass, my goal each week is to speak to as many market participants as possible; refiners, traders, blenders and brokers to collect deals, bids and offers and supply-demand information. I also exchange information with my colleagues covering Russia, Americas and Asia markets. This global network of reporters that I constantly keep in contact allows us to capture global developments in real time – its exciting!

***Although traditional base oils are comprised of paraffinic base stocks, there seems to be little direct correlation between crude oil and base oils prices. Why is this?***
Marc: The supply -demand fundamentals affecting base oils and crude oil prices are very different. The correlation between crude and base oil prices had been much stronger – around 0.8-0.9 – before a significant volume of Group II capacity was added in 2014. It has since deteriorated to around 0.3-0.5, coinciding with the start-up of even more base oil capacity. Supply and demand fundamentals for base oils and lubricants are now playing a more important role than feedstock costs in determining prices.

***If base oil prices are driven by supply and demand, how important are temporary supply factors such as plant shutdowns compared with longer term structural issues, especially in Europe?***
Marc: They are extremely important. This is why Argus' places so much emphasis on monitoring global supply to inform our spot and outlook reports. Currently, the global market is structurally oversupplied. In reality, base oils are produced daily and sold monthly, so supply shocks in a given period can have a strong influence on prices. This explains why Group II prices in Europe often rise when there is a heavy round of plant maintenance work in US and Asia-Pacific. To that end, being aware of what is happening globally and not just in Europe would allow European market participants to make better procurement decisions.

***Argus covers many different regions around the world, are there many differences in market for base oils in the Americas, for example, compared with Europe?***

Gabriella: Yes, one key difference is the use of refinery posted prices in the US domestic market whereas the European market predominantly uses spot prices.

Argus' weekly spot price assessments for European and US markets include deals, bids and offers. The methodology also incorporates a cross check to feedstock and supply-demand fundamentals which produces more reflective prices. By comparison, posted prices move every couple to weeks to months meaning they can often lag the market or be reflective of that refiners' position in the market.

We want to provide the most useful prices for our clients, so Argus publishes US refinery posted prices in $/t and $/USG along with a suite of US spot prices for domestic and export markets.

***6. In America there is less of a price premium of Group II base oil compared with Group I than in Europe, why is this?***

Gabriella: The regional differences in Group II premiums is because of domestic production capacity. In Europe, Group II carries more of a premium to Group I only 10pc of domestic production is Group II while 77% is Group I. In North America, the majority – 58% is Group II capacity.

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**www.argusmedia.com/oil-products/argus-base-oils**