

BIODIESEL MARKET REPORT

Issue N° 357 | October 29, 2020

Market Status p.1

Editorial & News p.2
· Uncertainty about German changes

Charts p.3

Regulatory p.5
· France – Soy ban drafted for 2022

Statistics p.6
· Ireland – Blending ratio closer to B7
· Portugal – Biodiesel output down 30% in 1H

Industry p.8
· Finland – Co-processing by Neste soon?

Market Status

As of October 28, 2020

EUR/USD 1,175

BIODIESEL QUOTES					
PREMIUMS	USD/MT	(Δ)	INCENTIVES	USD/MT	
FAME 0° vs ICE Gasoil	570	60	DC UCOME vs FAME 0°	305	
RME vs ICE Gasoil	685	40	Germany high GHG	20	
UCOME EU vs ICE Gasoil	835	-30	Italy NIS premium DC	140	

FOB ARA T2, RED	USD/MT	(Δ)	EUR/CUM	REPLACEMENT COSTS	
				USD/MT	(VS SPOT)
FAME 0°	885	45	665	953	68
RME	1 000	25	751	1 006	6
SME	920	40	691	1 011	91
PME	840	45	631	901	61
UCOME EU	1 150	-45	864	1 041	-109
TME cat. 1	1 100	-50	827	831	-269

FOB ORIGIN, RED	USD/MT	(Δ)	EUR/MT	RINS (CURRENT)	CTS/RIN
SME Argentina	855	5	728	D4	81
PME Indonesia	850	40	723	D5	80
				D6	58

FEEDSTOCKS QUOTES					
FEEDSTOCKS DDP NWE	USD/MT	(Δ)	EUR/MT	SPREADS	USD/MT
Rape oil	945	-15	804	ROGO	630
Soy oil	880	-10	749	BOGO	421
Palm oil	790	15	672	POGO	424
UCO EU	880	-10	749	UCOGO	565
Tallow cat. 1	700	0	596	TALGO	385
FFA 60%	645	-5	549		
Methanol EX-W NWE*	320	0	272		

*Q4 contract set at EUR 275/mt

GLYCERINE	USD/MT	(Δ)	EUR/MT
Crude EX-W NWE	280	10	238
Refined EX-W NWE	670	20	570
Crude FOB ARGENTINA	150	10	128
Refined FOB ARGENTINA	380	20	323

OTHER FUELS	USD/MT	(Δ)	EUR/MT
Diesel 10 ppm FOB NWE	312	-15	266
Gasoline FOB NWE	375	-5	319
Ethanol anhydrous FOB ARA	995	-55	847

FUTURES	USD/MT	(Δ)	EUR/MT
ICE Gasoil	315	-13	268
CBOT Soy oil	736	5	626
BMD CPO	739	44	629
Euronext Rapeseed	448	-11	381

Editorial & News

Uncertainty about German changes

The drafts of new regulations circulated by the German Ministry for Environment (BMU) (see BMR n° 352) contained specific dates for enforcement of most of the features (GHG mandate increase, biojet obligation or high ILUC phasing-out). One crucial point remains however uncertain: the enforcement date for the cap of Annex IX Part B feedstocks. The draft of the new 38 BImSchV mentions a level at 1.9% e.c (physical) but without specifying the enforcement date. Local sources familiar with the German regulatory developments commented that a big uncertainty lingered on this issue. Officially, the BMU is targeting Spring 2021 to finalize the transposition of the RED2 Directive but two elements could significantly push back this deadline. Firstly, discussions between Ministries are reportedly complex: rather than debating small parts of the draft, three Ministries refused it in its entirety by imposing their veto. Secondly, the decision process is delayed by the consequences of the 2nd wave of Covid. Potentially, the cap for Annex IX B could be enforced retroactively for 2021, from 2022 or even on a later date. In 2020, our model shows that the share of Annex IX B feedstocks would be close to 2.3% e.c (physical). Another pending issue is the extension or not of the co-processed HVO eligibility towards the mandate, which is due to lapse by the end of 2020. The draft currently does not address this issue, which several stakeholders from the bio-fuels industry would like to see included as they believe the eligibility of co-HVO would be a solid argument to increase the GHG mandate before 2026.

Shipping

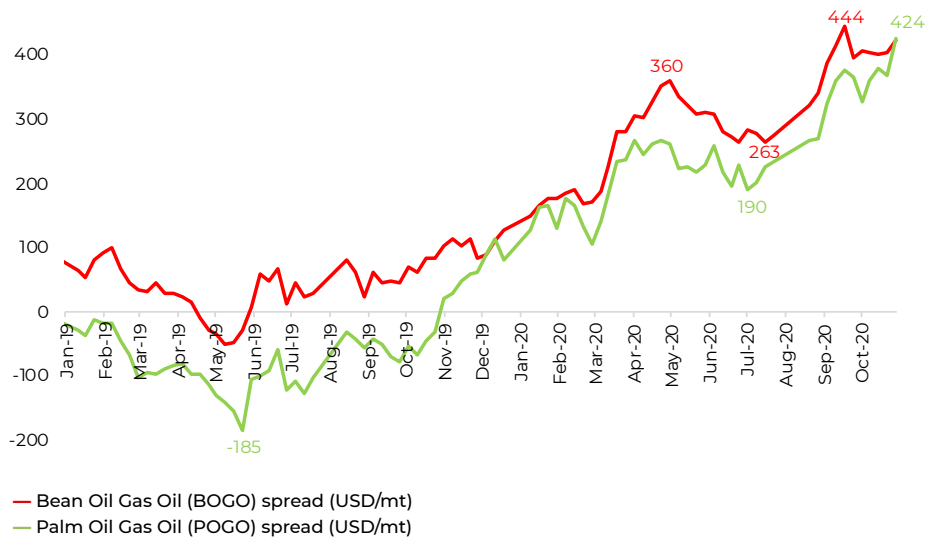
Latest fixtures reported

FAME	
4'000 mt Fredrikstad/Stenungsund + Sodertalje	(09-10/11)
4'000 mt Ghent/Fredrikstad	(05-06/11)
5'280 mt Sete/Gothenburg	(19-22/10)
3'000 mt Antwerp/Hamburg	(19-21/10)
4'500 mt Hamburg/ARA	(21-25/10)
10'000 mt El Ferrol/ARA	(01-03/11)
10'000 mt Barcelona/Tarragona+Cartagena	(22-24/10)
5'000 mt Huelva/Cartagena	(19-20/10)

Charts

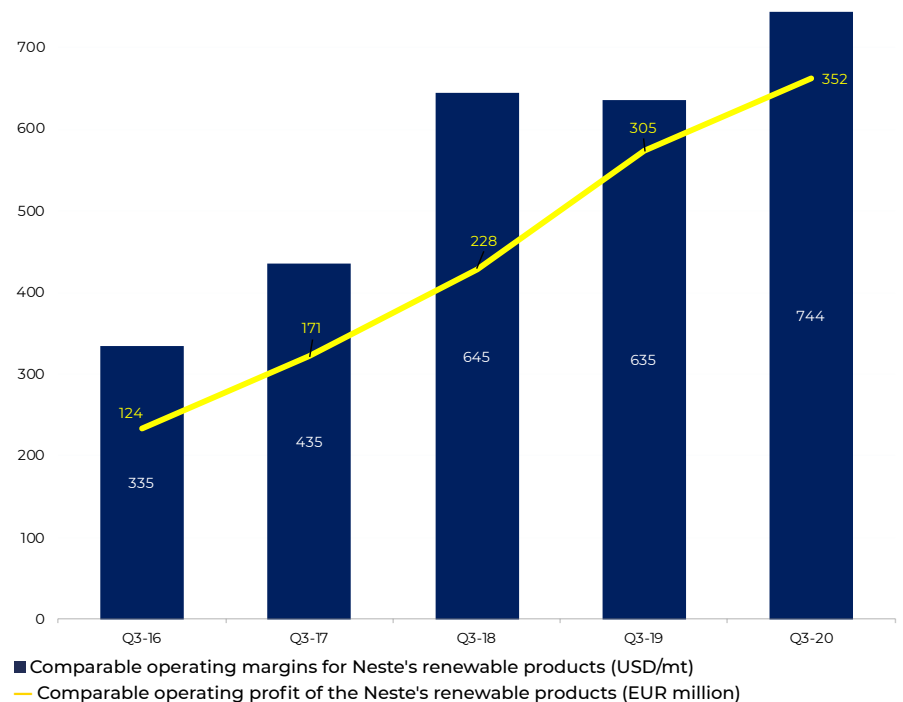
POGO at all-time high, above BOGO

Tighter stocks and lower production recorded in the palm complex have pushed the POGO spread to an all-time high this week (USD 424/mt), USD 3/mt above the BOGO spread. The average spread between the two spreads was of USD 103/mt in 2019 and USD 54/mt in 2020 YTD. That has an important impact on the incentive to blend DC UCOME vs SC Fame 0°, recorded at multi-years high.



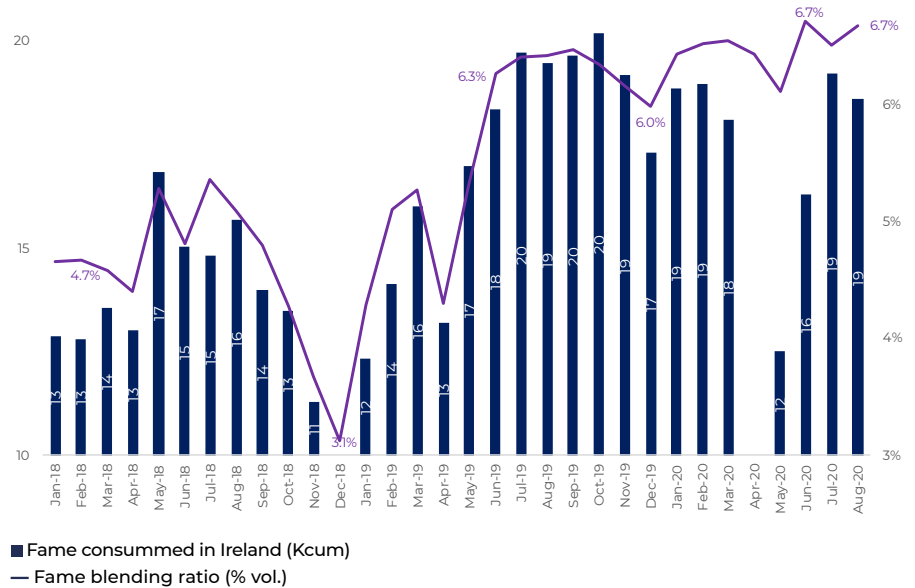
Neste posted again record results in Q3

The Finnish company posted the best results for its performance of the renewable product business achieved in the third quarter. Resilient sales (730 KT, + 2%) and still improving margins as shown beside continued to be the main drivers for success. During the Jan-Sep period, the sale of 2.34 million mt of renewable products contributed to an operating profit just below EUR 1 billion.



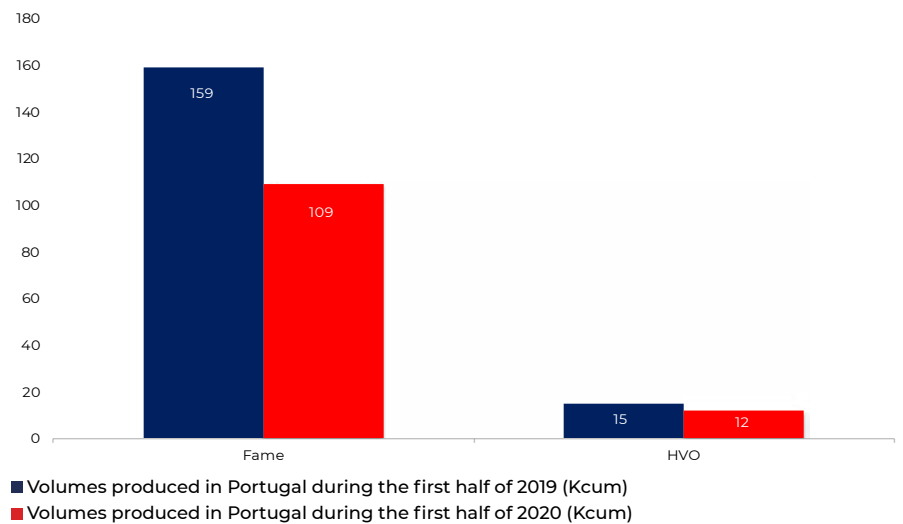
Irish blending ratio close to blend wall

The difficult business environment characterized by a 16% fall in diesel sales during the first eight months of the year did not support the expected absolute growth in Ireland. However, the levels of blending ratio recorded in June and August were the highest ever reported at 6.7% vol.



Portuguese output collapsed in 1H-20

The erosion of the biodiesel production in Portugal, reported at -30% in 1H20 compared to 1H19, significantly exceeded the fall pace of diesel sales (-17%). That is even more paradoxical since the blending mandate surged for the first time in years from 7% to 10% e.c in 2020.



Regulatory

France

Soy ban drafted for 2022

French deputies of the lower chamber of the Parliament voted on the first part of the budget law (PLF 2021 – first reading) last week. We review here the content of the article 15 focusing on biofuels rules.

The first part of the debate closed last week. Elements analyzed hereafter are only provisional and can change by the time the legislative process ends during the second half of December.

The most decisive feature of the current version of the article 15 is that from 2022, “products based on soy oil and palm oil including PFAD are not considered as biofuels” eligible under the blending obligations.

The initial proposal by the government to limit the use of soy-based biofuels from 2022 has provoked an intense debate around the “imported

deforestation” that leads to the potential first ban of soy-based biofuels in the world. That may have important repercussions on the trading flows of SME from Argentina, as France is by far the n°1 outlet of the quality. For 2021, the situation remains unclear as two sub-parts of the article 15 are mentioning two different levels of caps: one of 0.35% e.c (as initially proposed for 2022 but then moved forward to 2021) and one of 1%. The case will have to be settled in the next steps of the debate.

The inclusion of PFAD is not really a big surprise. The State Council has still to release its decision about the inclusion or not of PFAD within the definition of palm products. Several local sources believe the outcome will be positive, so PFAD would be banned retroactively from January 2020. The opposition to the product is rather big, so there is only a small chance to see its eligibility safeguarded.

From 2022, the proven use of renewable electricity by the road sector will be eligible for both the gasoline and diesel bio components obligations. A multiplier of 4 will be applied. Depending on the development of the road electricity sector in the subsequent years, this feature may become bearish for biofuels use. Obligated parties will be free to choose under which blending mandate they use the certificates bought from electricity suppliers.

Another feature which remains unclear is how the 1.2 multiplier will be considered for the 1% e.c biojet obligation in 2022. Since most of the volumes will be waste-based and eligible for double counting, will the actual energy amounts be multiplied by 2.4 or 2.2?

Statistics

Ireland

Blending ratio closer to B7

Data recently published by NORA confirmed the resilience of biodiesel demand, despite a massive setback of diesel sales.

NORA OFFICIAL DATA FOR BIOFUELS USE (KcUM)				
	Fame demand	Fame ratio	Ethanol demand	Ethanol ratio
Jan-19	12.3	4.29%	4	4.87%
Feb-19	14.1	5.10%	4.1	5.25%
Mar-19	16	5.27%	4.3	4.93%
Apr-19	13.2	4.30%	4.5	4.94%
May-19	17	5.34%	4.6	4.96%
Jun-19	18.4	6.26%	4.3	4.97%
Jul-19	19.7	6.40%	4.5	4.94%
Aug-19	19.5	6.41%	4.4	4.92%
Sep-19	19.6	6.46%	4.3	4.98%
Oct-19	20.2	6.34%	4.3	4.92%
Nov-19	19.2	6.16%	4.2	4.96%
Dec-19	17.3	5.98%	4.1	4.93%
Jan-20	18.8	6.42%	3.9	4.93%
Feb-20	19	6.52%	3.9	5.03%
Mar-20	18.1	6.54%	3.3	4.90%
Apr-20	9.2	6.43%	1.3	5.02%
May-20	12.5	6.10%	2.3	4.98%
Jun-20	16.3	6.70%	2.9	5.00%
Jul-20	19.2	6.51%	3.9	4.98%
Aug-20	18.6	6.67%	3.8	4.99%

During the first eight months of the year, the Irish consumption of diesel and gasoline fell by 16% and 27%, respectively.

A total of 132 Kcum of Fame was absorbed, recording a slight growth of 1% compared to the same period last year. In absolute terms, the monthly consumption of Fame remained shy of the records hit several times in Q3 and Q4 2019 (20 Kcum). The story was different in relative terms. The average blending ratio reached 6.5% vol. during the period, sharply up from 2019 (5.7%). In June and August, the blending ratio recorded its highest level ever at 6.7% vol., closer than ever to the B7 blend wall. As the mandate keeps on increasing, the potential for DC Fame growth is quickly drying up.

This is happening because the ethanol segment has been running at the full E5 potential for years. During Jan-Aug, ethanol demand crashed by 27%, exactly in line with the gasoline sales, leading to a 10 Kcum demand destruction. If E10 is not enforced soon, it will clearly open the door to the creation of a new HVO outlet in Europe, as the Fame segment will hit the B7 blend wall in 2021.

Portugal

Biodiesel output down 30% in 1H

The numbers published by LNEG for the production of Fame and HVO during the first two quarters highlight a dramatic fall of output when compared to the same period last year.

LNEG OFFICIAL DATA FOR BIODIESEL PRODUCTION (KcUM)			
	1H19	1H20	Y/Y
Total Fame+HVO output	171	121	-29%
<i>Incl:</i>			
UCO	108	74	-31%
Rapeseed	25	20	-21%
Palm	20	12	-38%
Soy	12	11	-3%
FFA/Tallow	2	0	-100%
Advanced (IX A)	0	4	-

The Portuguese biodiesel industry produced only 121 Kcum of product in 1H-20: 109 Kcum of Fame and 12 Kcum of HVO (vs 158 and 15 Kcum in 1H-19). The 30% drop occurred in a period when the blending mandate increased from 7% e.c in 2019 to 10% e.c, highlighting a very difficult situation on the sale front. Although diesel sales lost 17% of their volumes compared to 1H19, this negative evolution can't explain a 30% output fall by itself.

The production of HVO experienced an abrupt decline in Q2, when only 2.6 kcum were produced in April (0 in May-Jun). Interestingly, the import numbers for HVO increased significantly during the same period, when 10 Kcum were brought in. Most of the HVO volumes imported were palm-based. Although the imports of Fame remained small, they were significantly above 2019 levels (3.2 Kcum imported in 1H20 vs 2 Kcum for the whole 2019).

The feedstock mix did not evolve significantly compared to the 2019 average: UCO is still largely dominant (61%), followed by rapeseed (17%). The share of palm and soy in 1H20 was almost equal (10% each), although palm used to be more used previously. For the first time in several years, the small volumes of FFA and tallow disappeared. Instead, a total of 3.5 Kcum of advanced feedstocks were reported during 1H20. This was most probably POME.

Industry

Finland

Co-processing by Neste soon?

The leading renewable diesel producer published its financial results for Q3 last week. Once again, the results were very solid with the coupled effect of improved margins and resilient sales leading to a comparable profit for the Jan-Sep period just under EUR 1 billion.

NESTE PERFORMANCE KEEPS ON IMPROVING		
	Sales (KT)	Profit (EUR million)
9M2015	1642	171
9M2016	1560	323
9M2017	1854	352
9M2018	1686	701
9M2019	2153	928
9M2020	2234	996

One number summarizes well the level of resilience of Neste's HVO segment: comparable margins hit a new all-time high in Q3 at USD 744/mt. This mind-blowing figure was achieved in a challenging environment, still characterized by harsh competition on feedstocks and operational issues linked to the pandemic.

The comparable operating profit was recorded in line with the previous quarters at EUR 352 million. Although sales were slightly below Q1 and Q2 at 730 KT, the operating rate remained high at 95% or 762 KT produced. Europe remained the main outlet for Neste with 72% of its sales there (526 KT) vs 28% to North America (204 KT). The share of wastes (including PFAD) was measured at 86%, the second-highest on record after 92% hit in Q2-18.

During the 9M period, Neste sold 2.23 million mt of HVO and 177 KT of other renewable products (including bionaphta and biojet). These sales allowed the company to secure an impressive operating profit of EUR 996 million, up 7% compared to the same period last year.

A very interesting feature of the quarterly report was the comment on the challenging environment for the Oil Products segment, which posted a EUR 1 million loss in Q3. The company is exploring solutions to restructure drastically its refinery operations in Finland. "We are exploring the shutdown of the refinery operations in Naantali and focusing the Naantali site on the terminal and harbor operations, as well as transforming the Porvoo refinery operations to co-processing renewable and circular raw materials." Potentially, the oil refinery in Porvoo could be modernized for co-processing, which would increase the capacity of HVO. At this stage, however, it is too early to put numbers on this new potential of HVO supply in Europe.

Thanks!

The next release will be released on November 5, 2020.

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