US base oils update

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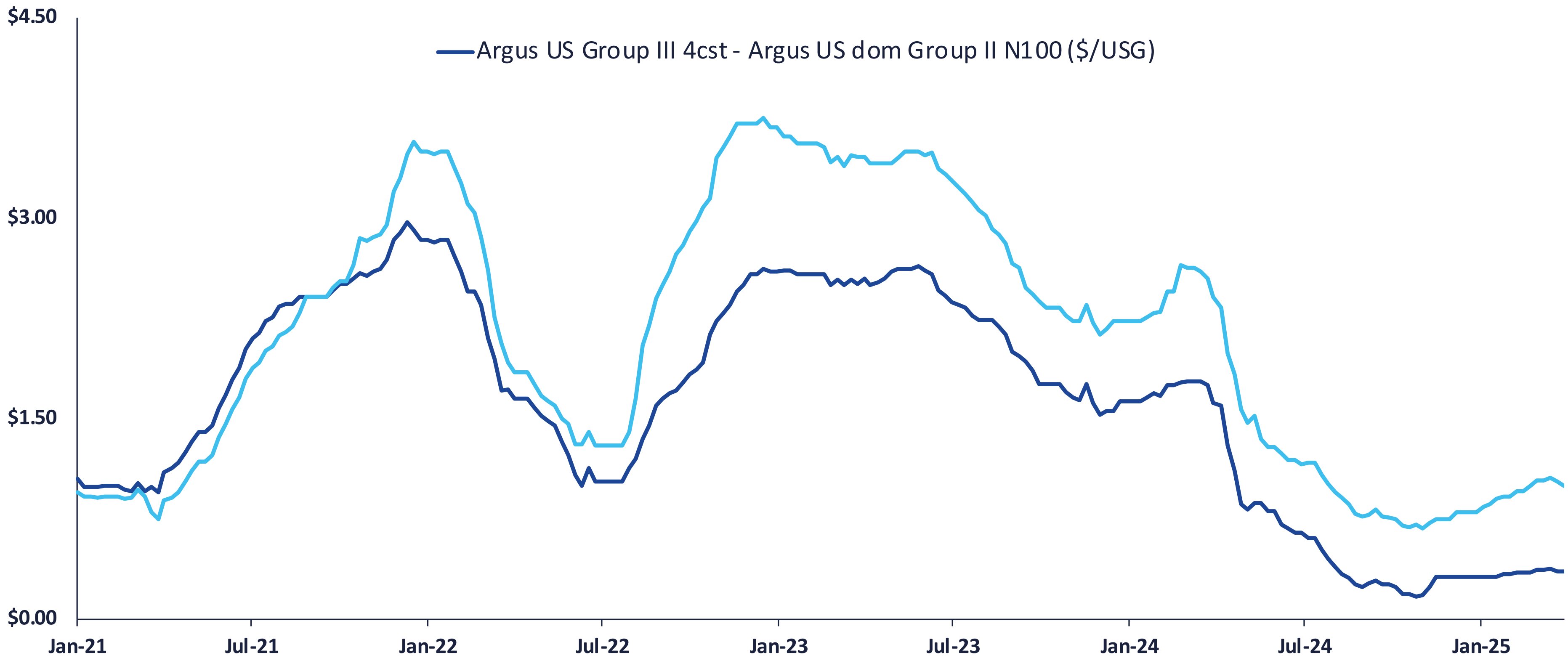
argus

Key Points

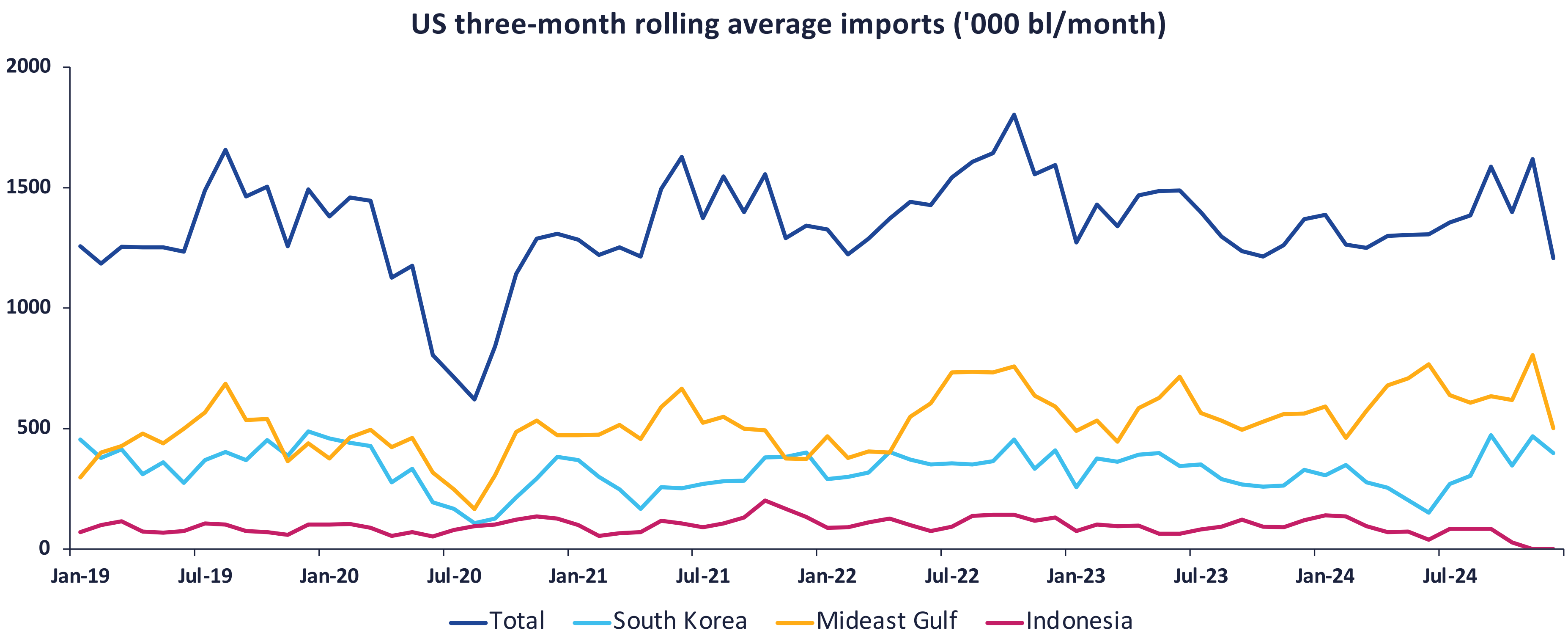
- Group III more balanced following domestic production cuts
- Narrow lubricant margins keeping downward pressure on base oils
- Base oil margins remain more attractive than fuels
- Tariff update on exports and trade flows

US production shakes up global Group III



Narrower premiums for Group III over Group II less important because of internal consumption strategies and weak Group II export markets

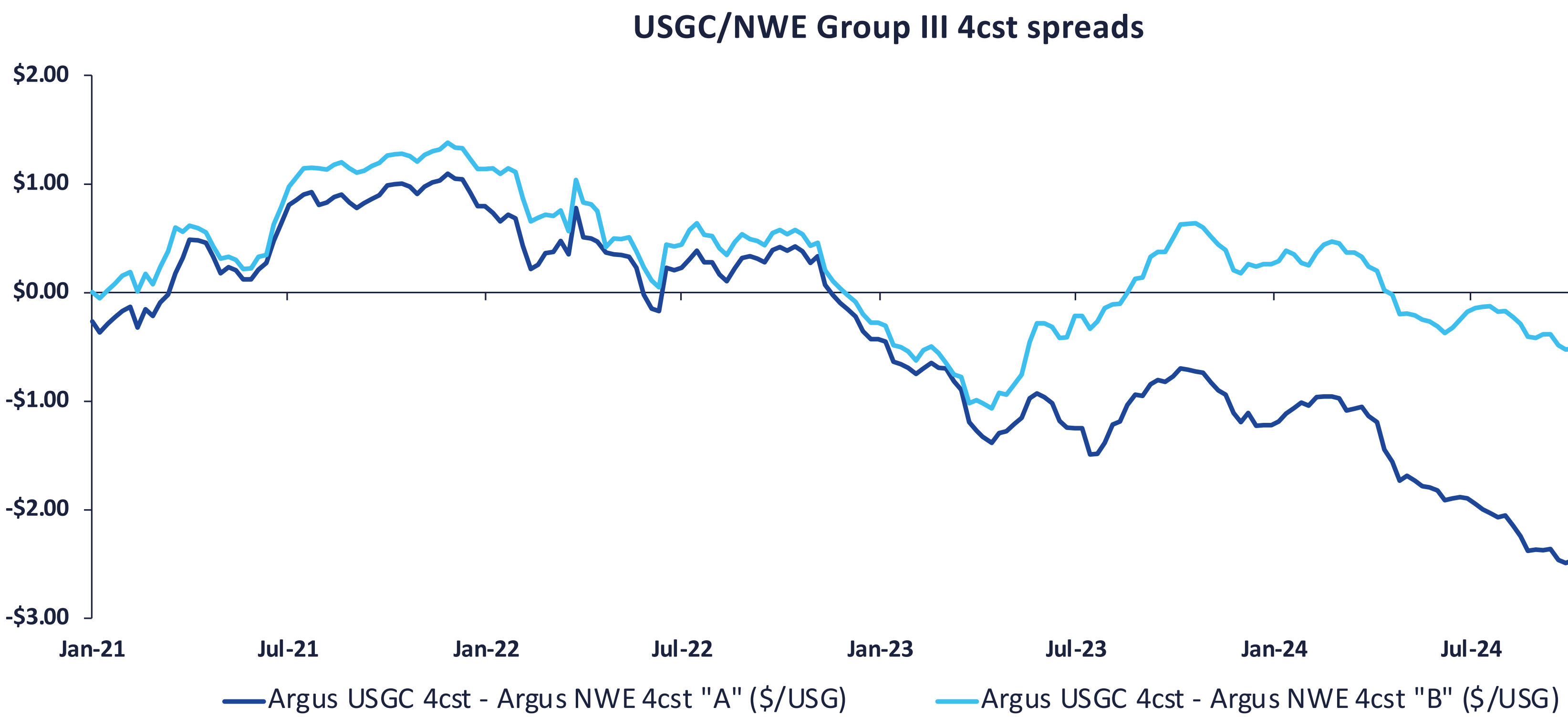
Reduced Group III imports creates length



Group III imports becoming something of a zero-sum game as increased supply availability is outpacing demand growth within the US

Source: US EIA data

US on equal footing with Europe for Group III

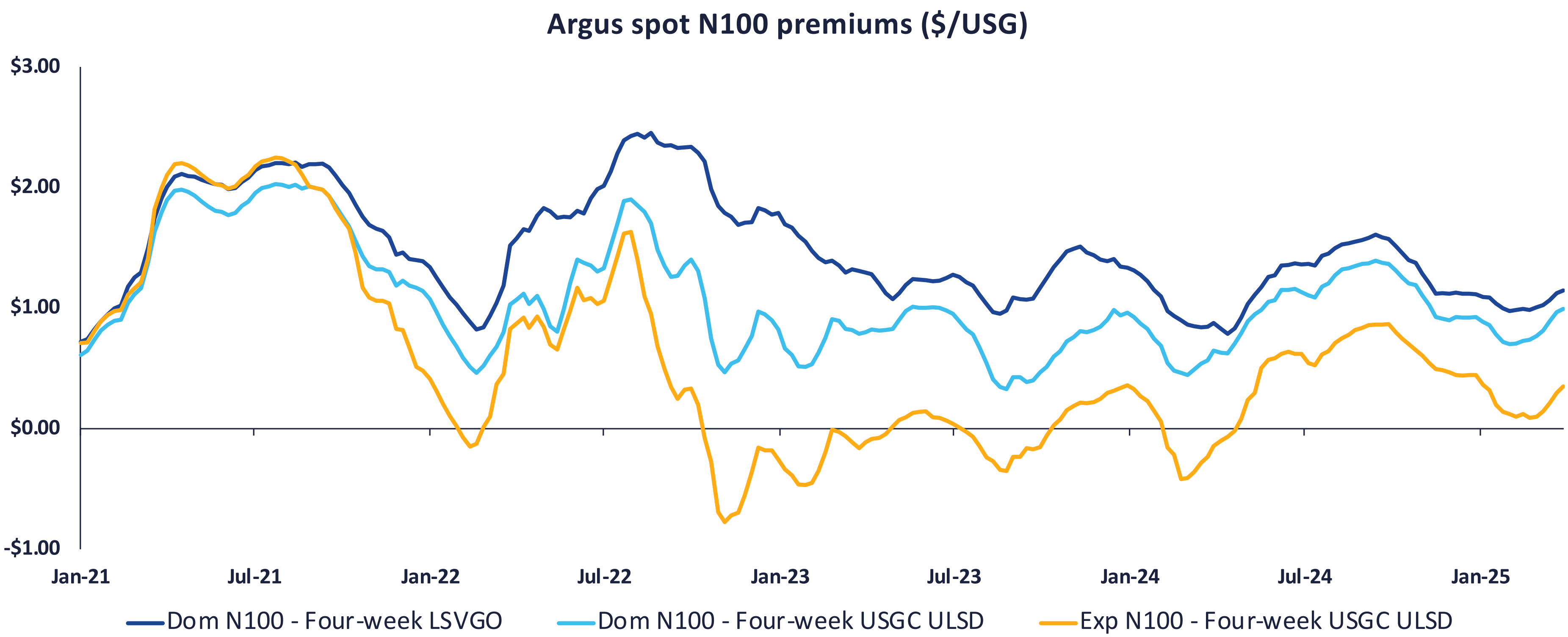


US domestic prices have moved up European “b” prices, which is expected to keep US an attractive outlet for available surplus in second quarter

US gains flexibility in global Group III market

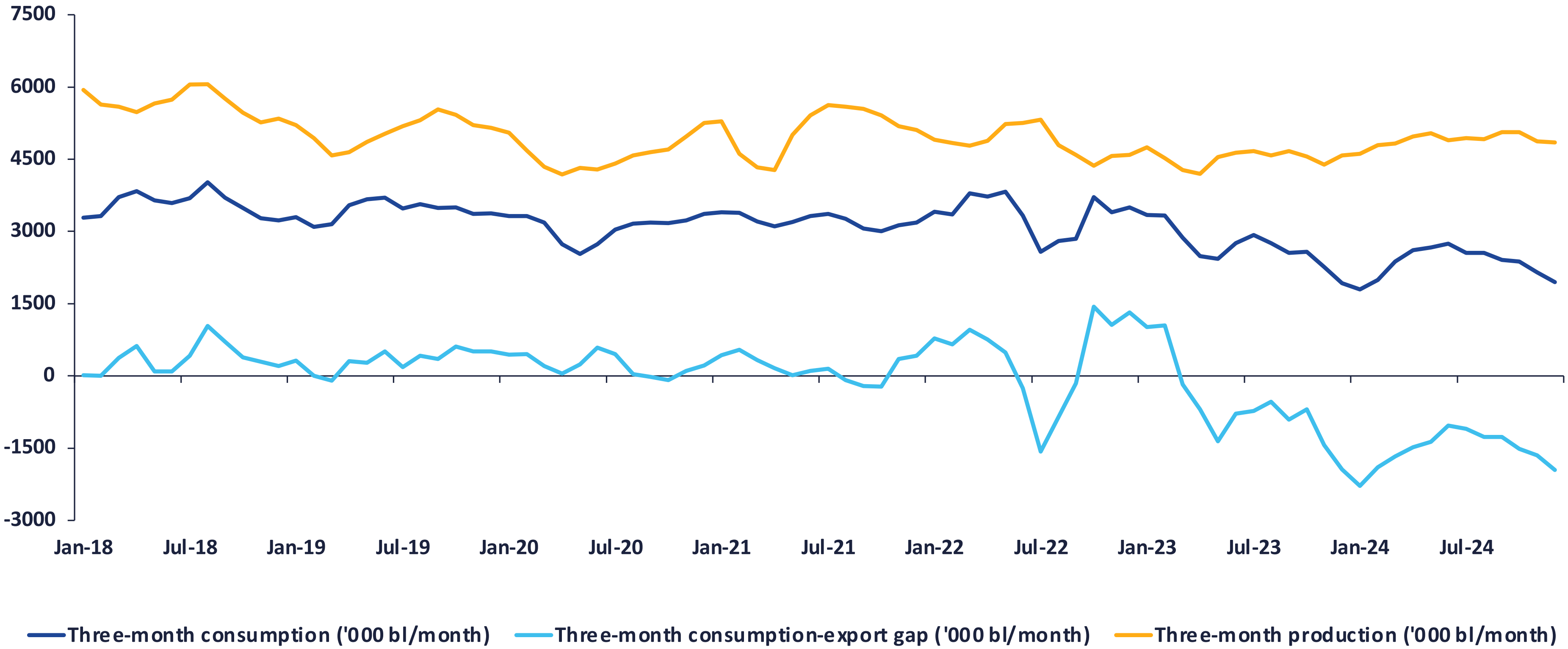
- Domestic Group III production hit record highs in 2024, pushing spot prices for Argus 4cst to its lowest since January 2021
- Market participants are expecting that overseas Group III producers are offering some US refiners attractive 2025 term deals to reclaim volume
- This is expected to increase US Group II/II+ production if domestic base oil refiners continue to prioritize base oils over competing fuels
- Several domestic refiners have minimal Group III merchant sales, but large and highly valued positions in full synthetic/semi-synthetic lubes

Base oil margins facing downward pressure



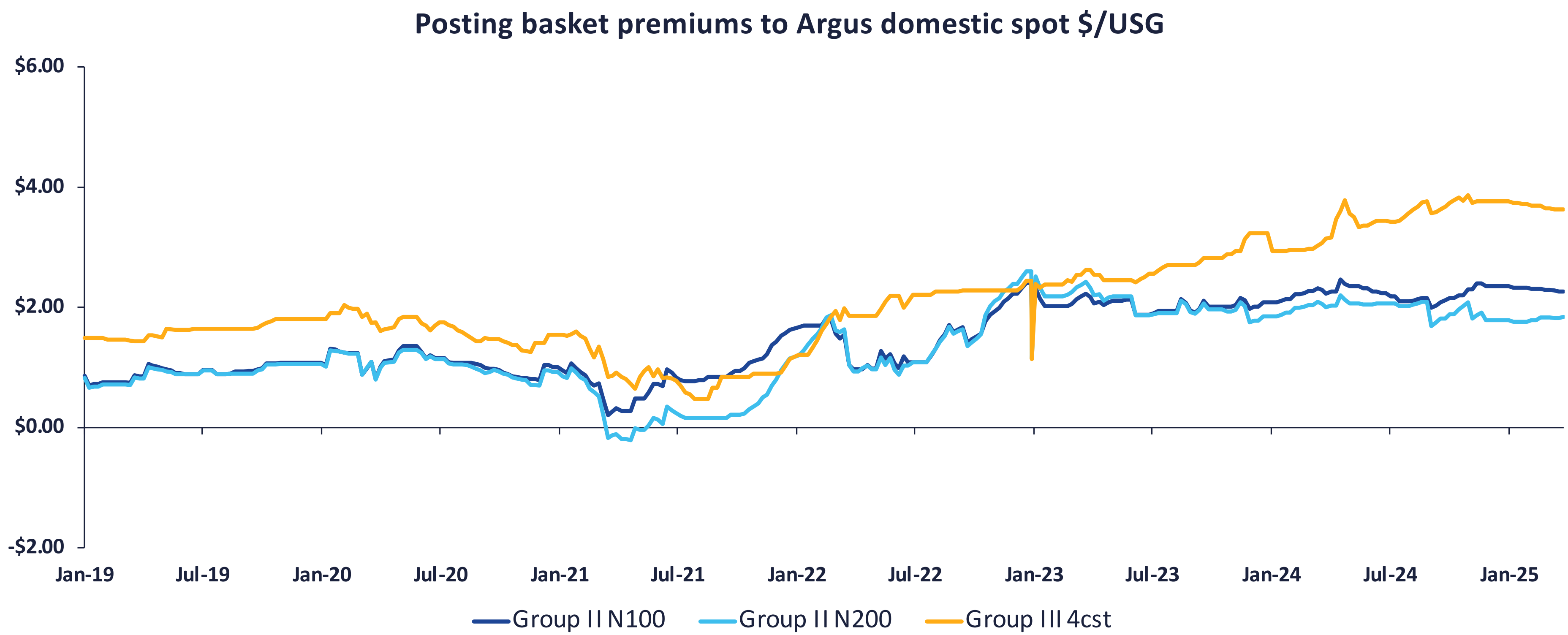
Domestic blenders expected to push back against feedstock-driven base oil increases unless matching finished lubricant increases are supported

Record-low demand driving US market



US three-month rolling consumption and consumption-export spread at lowest or near-lowest starting in mid-2022

Environment pressuring posting usage lower

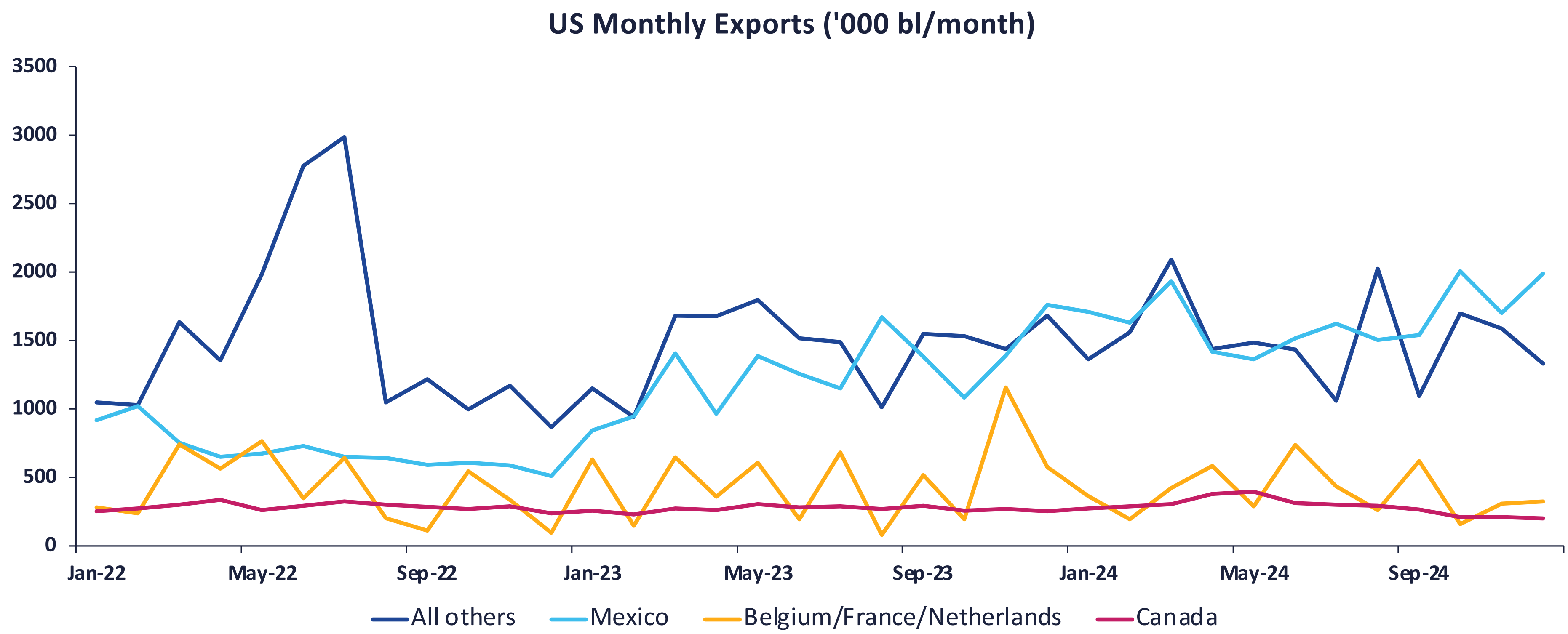


The market is increasingly adopting more complex pricing formulas for 2025 term business, with traditional posting price usage declining

Purchasing power flows to retailers/distributors

- Spot base oil margins have come off record highs from mid-2022, term volumes are facing same pressure as postings usage is declining
- Independent blenders report margin compression throughout 2023-24 despite lower base oil prices, citing oversupply as demand weakens
- Retail pricing remains largely steady as consumer has limited leverage, allowing bulk buyers and distributors to claim margin growth
- Competitive lubricant market and elevated additive costs are pushing blenders to adjust formulations more aggressively than normal

Tariffs are the major unknown for 2025



Market is split among which major trading partner, or partners – Mexico, Canada, or the European Union – most likely to be affected by tariffs

Tariffs on US Group II bigger factor than on imports

- Only grades likely affected by Trump tariffs on imports could be Group III grades from South Korea, as tariffs on Mideast Gulf unlikely

- Potential tariffs on Mexico/Canada/Europe imports expected to lead to reciprocal tariffs from those countries/regions on US exports

- US relies on Group II exports to Mexico/Europe in particular to keep domestic market balanced and margins strong

- US has advantage on Group II into Europe with higher freight because of Suez Canal -- tariffs plus canal opening would open arb from Asia

