THE FUEL OIL CRACK SPREAD

FUEL OIL

Anyone that trades in the bunker market should be aware of the fuel oil crack spread.

Unlike the traditional 321 crack spread where you trade the cracked out refined products (like gasoil). The fuel oil crack spread is the differential between the Rotterdam barges (divided by 6.35) minus the Brent swap price.

BRENT

The relationship between Brent futures and the Rotterdam barges is not as straightforward as a simple 6.35 ratio. This is due to the crack spread which is one of the most liquid of the oil spreads, and often the preferred trading tool for prop traders and hedgers alike.

Exhibit 1 Highlights the close correlation between the Brent futures and the Fuel oil, it also highlights the rising and falling spread between the two.

FUEL OIL CRACK SPREAD

Exhibit 2 Highlights the inverse relationship between the crack spread and the Brent futures. As Brent rallies the crack spread generally weakens as the Rotterdam barges rally at a slower rate.

In most cases, if Brent is rallying and the fuel oil is not it is a function of the crack spread that is stopping it. This could be because of a large offer in the market as a hedger tries to roll out of a position, or just a technical level in the spread.

The recent strong upward move in the crack spread highlights why it can be very difficult to get filled in the barges as the Brent futures trade lower,

OUR MARKETS

FIS has established itself as the leading broker across a variety of products. The markets we cover include:

FORWARD FREIGHT AGREEMENTS
IRON ORE
BUNKERS
COAL
FERTILISERS
STEEL
PHYSICAL BROKERAGE

For more Information about our products call:
London: +44 (0) 207 090 1120
Singapore: +65 6535 5189
Shanghai: +86 21 6335 4002
Twitter : @freightinvestor
RichardW@freightinvestor.com
AndrewC@Freightinvestor.com

Leading the way in freight and commodity derivatives www.freightinvestor.com

NB: Barges quoted as the front commodity.