Latin America's Spot Oil Sales Hit by Low Prices, Demand Drop: Traders

By Reuters

March 20, 2020

MEXICO CITY — Spot sales of Latin America's heavy crudes mostly dried up this week amid a demand contraction and steep slump in oil prices that left some heavy grades below the $10-per-barrel level, traders from producing companies told Reuters on Friday.

Latin American crude prices have fallen by around 40% this week, according to independent calculations, as a collapse in global demand caused by the coronavirus outbreak slashed sales to the region's primary market, the United States.

The region's most emblematic heavy crude, Mexico's Maya, tumbled on Wednesday to below $13 a barrel, its lowest in 18 years, dragging down similar grades indexed to it or price benchmarks like Brent <LCOc1> or West Texas Intermediate crude <CLc1>, which also plummeted.

The only current spot offer for selling a Latin American heavy grade on the open market, launched this month by Ecuador's state-run Petroecuador and scheduled to receive bids through March 25, has not been suspended so far, the traders said.

"They shrank the original size of the tender, which aimed to lift several hundred million dollars in sales for debt payment, to only eight 360,000-barrel cargoes," one of the traders said. "But they did not halt the offer because they need the money."

A Petroecuador spokesman said on Friday that all scheduled exports are going ahead as planned, so delivery dates will be fulfilled. He did not provide details on the tender.

Ecuador's Vice President Otto Sonnenholzner said the nation faces a $325 million debt payment in the coming days, so the government is working with banks to honor its external debt amid a "complex situation."

LESS CRUDE FLOWING

Another tender launched by Colombia's Ecopetrol to sell a cargo of Vasconia crude was suspended this week, while producers in Argentina, Brazil and Mexico have avoided going to the spot market amid very low prices, the sources added.

Guyana on Friday extended the deadline for companies interested in a crude marketing contract for a second time, the South American country's Department of Energy said.

For their part, Latin America's fuel importers including Mexico, Argentina and Peru continued buying on the open market to take advantage of declining prices, the sources said.

Venezuela's state-owned oil firm PDVSA, Ecopetrol, Brazil's state-controlled Petrobras and Mexico's state-run Petróleos Mexicanos [PEMX.UL] did not immediately reply to requests for comment.

So far in March, U.S. imports of Latin American crude have fallen 21% from February levels to average some 845,000 barrels per day (bpd), according to Refinitiv Eikon's TradeFlows data.

"The spot market has turned almost completely illiquid," another trader said.

Latin America's oil producers have allocated about two-thirds of exports through spot sales this year, some of them on the open market and others in bilateral negotiations with customers. The remaining sales are made through long-term supply contracts that include price formulas less vulnerable to spikes.

The proportion of Latin American spot oil sales as a share of total exports has increased after PDVSA switched almost all exports to spot sales following U.S. sanctions imposed in early 2019.