COVID-19 - LATAM Refining and Marketing Insight

March 26th

- **Latin America's jet fuel, gasoline, and diesel demands are just starting to collapse.** After a delayed response compared with other regions from local governments in enacting stringent measures—such as shelter in place, travel bans, and gathering restrictions—to contain the outbreak of the coronavirus disease 2019 (COVID-19) virus, IHS Markit preliminary estimates reflect a demand loss in the major Latin American economies of 36%, 13%, and 10% through the first half of 2020 for jet, pure gasoline, and diesel, respectively. The immediate impact may deteriorate further as the flu season in South America is approaching and healthcare infrastructure is insufficient.

- **Three refined-products supply forces will collide:** existing local refineries, the US refining sector, and Chinese refiners will battle for market-share. On one side, the local refining sector, where the existing local refineries are available and in reasonable operational conditions such as in Brazil, Colombia, Chile, Argentina, will fight to keep its facilities running and personnel employed. On the other side, the economically favored US refining sector, which already supplies most of the petroleum products imports to the region—exporting 5.6 MMb/d in 2019—is currently in dire straits as local US demand has begun to reach record lows and will attempt to grab the last profitable market space. Finally, Chinese production will search for a destination as the country reestablishes normality after the virus outbreak; although, local demand remains sluggish at this point.

- **Mexico's crippled refining sector may be the most vulnerable** to a flood of imports from the US Gulf Coast; a trend observed in the past couple of years.

- **Potential dual threat to Latin America may occur** if the US refining complex significantly cuts back on crude runs, particularly in PADD 3 and 5, as North America is home to approximately 1.4 MMb/d of crude oil exports from the region.