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Fujairah New Silk Road WEEKLY NEWSLETTER

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AN EXCLUSIVE GULF INTELLIGENCE INTERVIEW

"OIL MARKETS LOOKED INTO THE ABYSS DURING Q2 BUT FOUND THEMSELVES STABILIZED AT $40/BL AT THE END OF IT."

Martin Fraenkel, President, S&P Global Platts

Looking back, we have never seen any crisis like the one we witnessed in the second quarter. Covid-19 dwarfs anything we have seen in our lifetime, especially for oil and energy markets at large. The impact on oil demand has been truly unprecedented and something that none of us ever envisaged. Furthermore, we must not forget that the beginning of the Covid-19 crisis coincided with the dislocation of the OPEC+ agreement and the price war which ensued. So, we had a massive supply side rupture at the same time. These twin crises, just as far as the oil markets were concerned, are unprecedented. Taking all these factors in at the end of the second quarter, the oil markets have really done a remarkable job of stabilizing. They looked into the abyss but found themselves relatively stabilized at the end of the quarter at $40/bl."

CONTINUED ON PAGE 3

Fujairah Weekly Oil Inventory Data

7,239,000 bbl	3,857,000 bbl	16,265,000 bbl
Light Distillates	Middle Distillates	Heavy Distillates & Residues

Source: FEDCom & S&P Global Platts

Fujairah Average Oil Tank Storage Leasing Rates*

BLACK OIL PRODUCTS

Average Range
$3.59 – $4.16/m³

↑ Highest: $4.50/m³
↓ Lowest: $3.30/m³

Source: GI Research – Weekly Phone Survey of Terminal Operators

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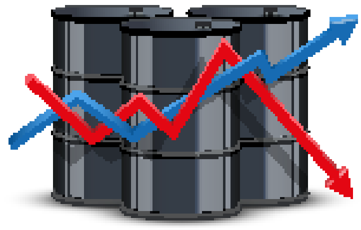
THE WEEK In Numbers

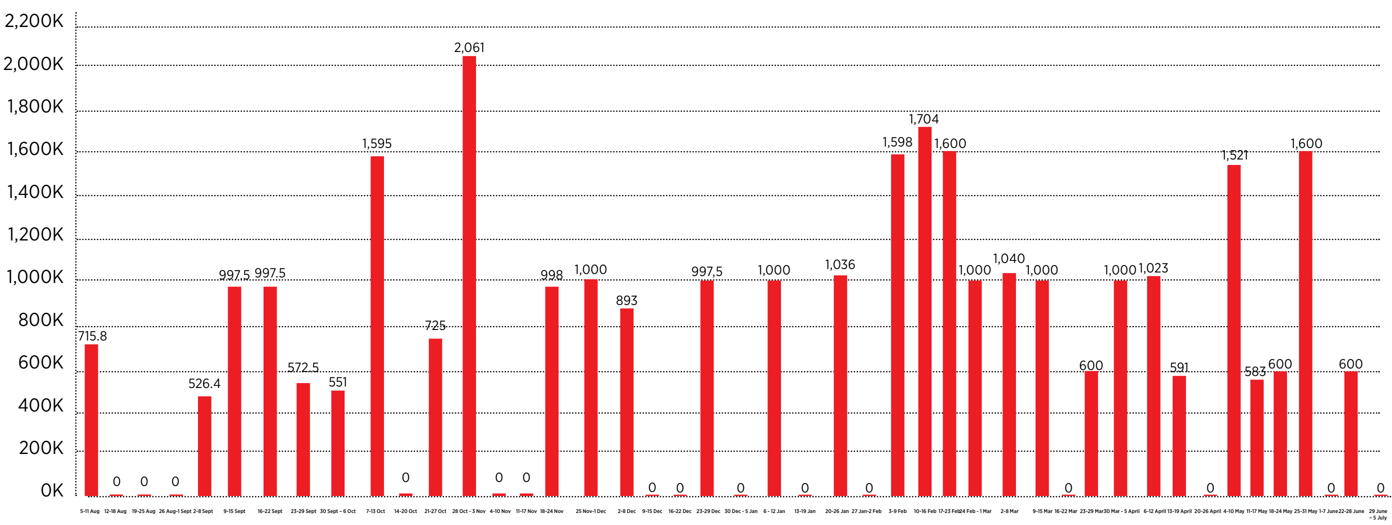


Weekly Average Oil Prices

Brent Crude:	$43.10/bl
WTI Crude:	$40.58/bl
DME Oman:	$43.92/bl
Murban:	$43.46/bl

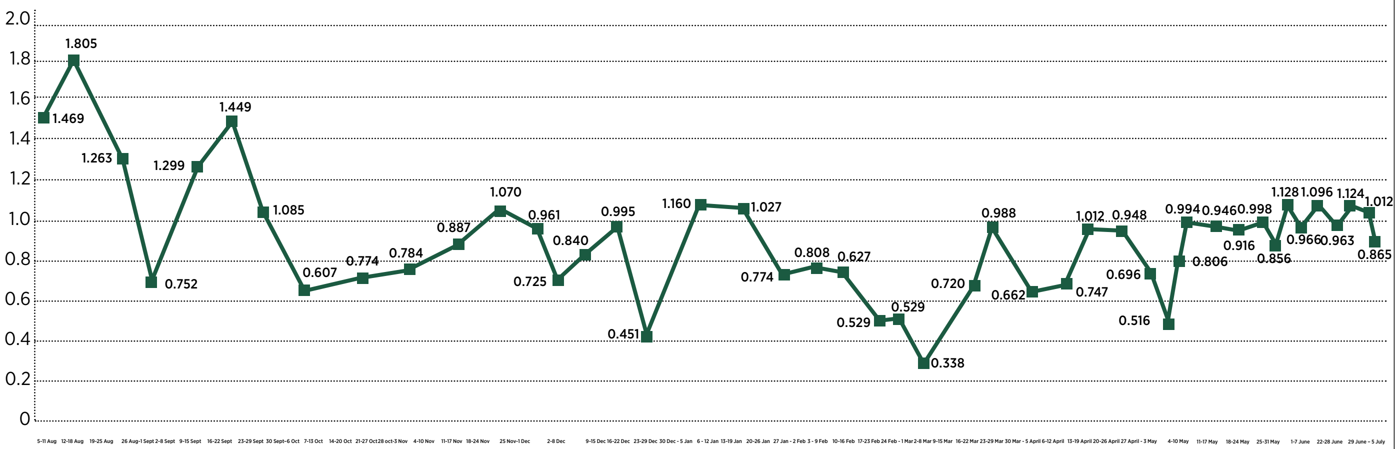
Time Period: Week 2, July 2020
Source: IEA, OilPrice.com, GI Research

Weekly Imports of Heavy Sweet Crude into Fujairah



Source: Kpler

Total Refined Product Exports from the GCC to Asia-Pacific



Source: Kpler

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CONTINUED FROM PAGE 1

GIQ: How robust is the Saudi-Russia alliance and how important is it in keeping the markets stable?

Martin Fraenkel: It certainly had a big wobble in Q2, but the alliance regrouped pretty effectively and succeeded in cutting supply to an unprecedented level. If you look at the analysis at the time, we all thought it would take longer for the supply correction to come. There was a lot of talk about the world running out of storage space and we had WTI famously expiring at minus $40/bl on 20th April because of the fear that storage was filling up and there was nowhere to store oil. Taking all this into consideration, the reaction from the supply side has really averted that catastrophic situation and things look better now. Our forecast for the second half of the year is that stock levels will gradually go down. We're already beginning to see some drawdown on storage and floating storage and freight rates are coming down. There's obviously a long way to go and a lot of ways in which the demand side can be undermined by the economic situation of the world but things certainly look significantly more constructive at the end of Q2 than at the low point around the beginning of April.

GIQ: Are we likely to see an underestimation of demand in the second half of the year as we appear to have done in Q2?

Martin Fraenkel: Oil demand is going to be quite closely tied to the risk of a second wave of Covid-19. We will continue to see increasing demand in the second half of the year, provided that the world continues to move in the right direction, but it's not going to be uniform. This crisis is very different from the one in 2008. The latter emanated from the banking industry and affected every sector in the economy. This crisis is segmented. If you look at the stock markets, they are being driven by two big factors. One is the massive liquidity being injected by central banks and the second is that there are clear winners and losers. The virtual economy technology stocks are doing well while other parts of the economy are getting absolutely devastated. The oil sector is certainly one of those that is getting negatively impacted and we are seeing contrasting factors emerge from this crisis. We are probably going to see more of these localized or regional lockdowns in certain countries like China, which have been relatively successful in dealing with the virus, and this will impact the demand picture. It is going to be quite closely tied to the risk of second wave of Covid-19 in the second half.

"WE WILL CONTINUE TO SEE INCREASING DEMAND IN THE SECOND HALF OF THE YEAR, PROVIDED THAT THE WORLD CONTINUES TO MOVE IN THE RIGHT DIRECTION, BUT IT'S NOT GOING TO BE UNIFORM."

GIQ: What's S&P Global Platts view on the supply-demand gap as it moves towards the end of the year?

Martin Fraenkel: We think it will continue to stabilize towards the end of year with Brent around $40/bl, assuming that we don't get a big second wave of Covid-19. Going into 2021, we could continue to see some appreciation and get to $50/bl by the end of the year but with demand below the highs of 2019.

GIQ: How have Middle East benchmarks held up amidst this massive scale of dislocation and volatility?

Martin Fraenkel: The events of the last few months have brought some of these into the spotlight. Our job is to reflect prices and transparency and give insight to the markets. We are very confident that all of our benchmarks stayed positive throughout and didn't go negative, even on April 20th, and that has been the case in the Middle East as well.

WATCH FULL INTERVIEW HERE

Fujariah Weekly Oil Inventory Data

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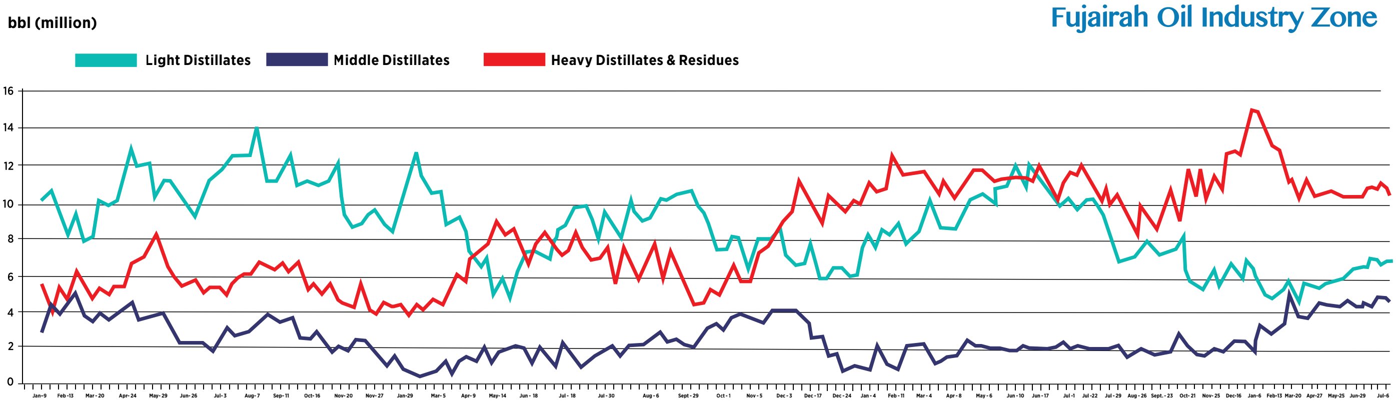

TOP TAKEAWAYS

- **Total oil product stocks in Fujairah were reported at 27.361mn barrels, falling below the 28mn barrel level for the first time since early May. Stocks fell by 1.134mn barrels drawing down 4.0% week on week, with draws across all three stock categories for the second consecutive week.**
- **Stocks of light distillates fell by 680,000 barrels or 8.6% week on week. Total volumes stood at 7.239mn barrels. The gasoline market in the Arab Gulf was finding support from an uptick in buying interest from Pakistan with barrels heard flowing towards the South Asian country from the region. Pakistan has stepped up gasoline buying since end-May amid domestic tightness in supply, brought about by low refinery run rates and a sharp recovery in demand.**
- **Stocks of middle distillates fell to 3.857mn barrels as they fell by 6% or 245,000 barrels. This is the first time they have fallen below 4mn barrels since late April. The East of Suez gasoil market continued to be characterized by relative tightness owing to lower production levels, however with regional end-user buying requirements largely met for the month market activity was somewhat muted.**
- **Stocks of heavy residues fell by 1.3%, drawing down 209,000 barrels on the week to stand at 16.265mn barrels, the fifth consecutive week they have been above 16mn barrels. The market for bunker fuel in Fujairah continued to be characterized by a well-supplied market, however a recent uptick in crude values and knock-on effect on bunker fuel prices was spurring some buying interest. "There are more inquiries since bunker prices have been increasing with crude oil prices last week," a trader said. Delivered bunker prices for Marine Fuel maximum 0.5% sulfur in Fujairah remained under Singapore on Tuesday, with the grade assessed at $322/mt, reflecting a discount of $3/mt to Singapore.**

Source: S&P Global Platts

Fixed Income

It was a largely uneventful day across the fixed income space with US treasury yields nudging higher across much of the curve. The 10-yr yields closed at 0.66%, adding more than 2bps. Elsewhere across G10 markets yields had a bias lower in much of Europe or showed little change.

The biggest move was in Canada where 10-yr yields added more than 6bps as the government outlines a major borrowing plan to finance the country's deficit.

Emerging market debt was also quiet with a broad index of EM bonds closing nearly unchanged. Yields on 10-yr Saudi Arabia edged upward to settle at 3.462%.

FX

Wednesday saw the dollar experience a similar pattern to Tuesday's session, losing all upside momentum in the evening. The DXY index dipped to 96.420 after US coronavirus cases passed the 3 million mark. USDJPY traded mostly sideways for the day but was undermined by the continuous selling pressure on the dollar and has dropped to 107.30. The euro rallied in the evening and has consolidated gains above the 1.1300 region at 1.1345. Sterling also advanced late in the session, increasing by over 0.50% to trade at 1.2610. This comes in spite of German Chancellor Angela Merkel commenting that Brexit talks had made little progress. Newly imposed lockdown restrictions set in Melbourne did not deter the AUD as the currency benefitted from the weakening dollar, earning modest gains to trade at 0.6975. The NZD followed a similar pattern, rallying to 0.6570 in the evening.

Equities

Equity markets showed a split performance overnight with European markets closing in the red—the FTSE fell 0.55% while the Dax was down nearly 1%—but US markets closed higher with the S&P 500 up 0.8%.

Asian markets are showing some strength in early trading today with gains across all major indexes.

Local markets were offered with the DFM and ADX both down by 0.7% and the Tadawul showing a bias lower. In Dubai, real estate and consumer-oriented businesses were the main drags with Union Properties down 5% while DXB Entertainment fell by 1.7%.

Commodities

Oil prices drifted higher overnight, settling at USD 43.29/b in Brent and USD 40.90/b in WTI, even as strong catalysts to push them higher remain absent. Both are tentatively testing lower this morning. The EIA reported a build in US crude inventories of 5.6m bbl last week, blowing past expectations for a draw. Gasoline stocks showed a healthy decline while builds in distillates and other products meant that total petroleum inventories still added 9.8m bbl last week.

Source: Emirates NBD

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ENERGY MARKET NEWS

Recommended Reading JULY 9th, 2020

1. OPEC+ LIKELY TO ROLL BACK OIL CUTS IN AUGUST AS MARKET CONTINUES TO RECOVER

2. OIL FALLS AFTER EIA CONFIRMS LARGE CRUDE INVENTORY BUILD

3. POMPEO: WE ARE TRYING TO PREVENT IRAN FROM SELLING CRUDE OIL TO HEZBOLLAH

4. STOCK MARKET MANIA COMES TO CHINA AGAIN. CAN IT LAST THIS TIME?

5. OPEC+ CUTS DEEPER IN JUNE ON PRESSURE TO BOOST OIL MARKET RECOVERY

6. OIL SANDS EXPLORERS RESTORING PRODUCTION

7. MEXICO'S PEMEX PLANS $22.4BN DEBT SWAP

8. TRUMP IS MAKING LIFE REALLY DIFFICULT FOR CHINESE STUDENTS IN US

9. ST. LOUIS FEDERAL RESERVE BANK'S BULLARD SEES MOST EMPLOYEES REHIRED IN 90 DAYS

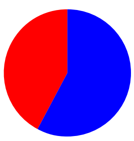
10. INDONESIA PRODUCES 104.8 LNG CARGOES BETWEEN JANUARY TO JUNE

DAILY RECOMMENDED VIDEOS

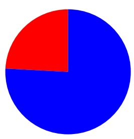
- HARVARD AND MIT SUE TRUMP ADMINISTRATION TO STOP NEW US POLICY ON FOREIGN STUDENTS
- MARTIN FRAENKEL: "OIL MARKETS LOOKED INTO THE ABYSS IN Q2."

Weekly Surveys

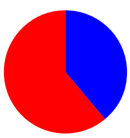
China's geopolitical and economic aspirations in the South China Sea will trigger a conflict over next 3 to 5 Years?



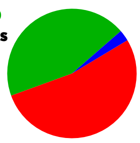
Should OPEC+ Extend deeper oil cuts of 9.7mbpd beyond July until end of Q3?

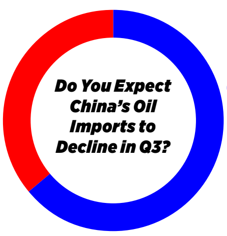


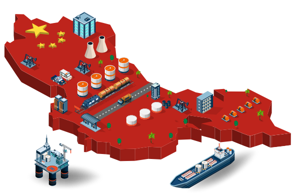
The run up on the financial markets will not be reversed by the reality of covid infections?



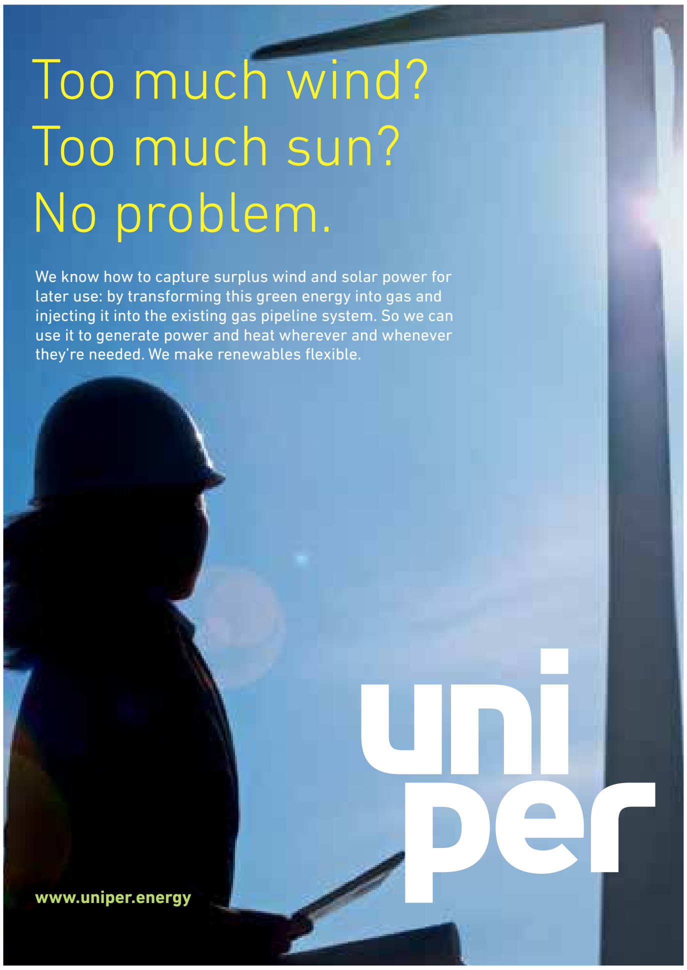
How long will it take for global oil inventories to drawdown to 5 year average levels?







Source: GIQ



Fujairah Spotlight

UAE state-run utility selects Doosan Heavy for turbine & generator at 2.4-GW Fujairah CCGT plant

South Korea's Doosan Heavy Industries & Construction will supply turbine and generator components for a combined cycle gas-fired plant in the United Arab Emirates. DHIC announced it was awarded a contract for the Fujairah F3 plant some 300 kilometers northeast of Abu Dhabi. The components include a 270-MW steam turbine and 540-MW generator.

Source: Power Engineering

Brooge Energy reports record revenue of $44 mn

Brooge Energy Limited made $44 million in revenue for the full year 2019, an increase of 23% compared to $36 million in the full year 2018. Its gross profit for 2019 was $34 million, compared to $26 million for 2018. The company plans to have eight new oil storage tanks in Fujairah fully operational by the end of the year and reported that a single customer would lease all of the additional capacity.

Source: Arabian Industry

Fujairah Field Hospital bids farewell to last coronavirus patient

The competent health authorities in Fujairah closed the Fujairah Field Hospital, the last in the city's exhibition grounds. Ahmed Al Khadim confirmed that the field hospital was established with a capacity of 450 beds to relieve hospitals in the city and areas of the eastern coast are accommodate simple and medium cases of people infected with the coronavirus. The field hospital celebrated the farewell of its last patients and the level of services provided by the Ministry of Health and Prevention Society.

Source: Gulf Today

Fujairah oil products stockpiles fall to two-month low, light distillates down 9%

Stockpiles of light, middle and heavy distillates at the oil trading and bunkering hub of Fujairah declined to a two-month low July 6th, extending declines from the record set in early June amid signs of improved demand for transportation fuels as nations ease travel restrictions. Stockpiles are now the lowest since 4th May and down 11 percent since the record 30.71 million barrels on 1st June, according to the inventory data, compiled and published by S&P Global Platts since January 2017.

Source: Emirates News Agency

GIQ EXCLUSIVE SOUNDINGS

Oil Moves Between Gains and Losses as the Market Struggles to Get Strong Conviction to the Upside

Over the last week, Gulf Intelligence has Interviewed energy market experts in Asia, the Middle East, Europe and the US – the intelligence below is harvested from these exclusive briefings

- Christof Ruhl, Senior Research Scholar, Center On Global Energy Policy, Columbia University
- Matt Stanley, Director, Star Fuels
- Dr. Leila R. Benali, Chief Economist, APICORP
- Randall Mohammed, VP- Energy Solutions, Ahart Solutions International
- Laury Haytayan, MENA Director, Natural Resource Governance Institute
- John Roper, CEO, Middle East, Uniper Global Commodities SE
- Dr. Carole Nakhle, CEO, Crystol Energy
- Adi Imsirovic, Research Associate, Oxford Institute for Energy Studies
- Zhuwei Wang, Lead Analyst, S&P Global Platts
- Kevin Wright, Lead Analyst APAC, Kpler
- Edward Bell, Senior Director – Market Economics, Emirates NBD

Christof Ruhl, Senior Research Scholar, Center On Global Energy Policy, Columbia University
"The system is struggling to come to the point where demand is larger than supply flows to allows us to draw down global inventories. Inventories not only have to be drawn down in a mechanical sense, they have to be finely balanced because they are spewed into a different product groups . The worry that remains is that as OPEC, for understandable reasons, enforces compliance, prices hover in an area where Non-OPEC Producers continue to produce, making the global adjustment so much larger."

Matt Stanley, Director, Star Fuels
"Market structures have changed from contango to backwardation because the market has drawn on current stocks. However, It is a very delicate balance that we are in right now and we could be going into another cycle. This is because a lot of countries have bought cheap oil to store and they will reach tank tops again very soon."

Dr. Leila R. Benali, Chief Economist, APICORP
"The next three months will be quite transformative for supply demand fundamentals and whether or not OPEC will back away from deeper cuts. I think for now, there is a consensus that the motivation, primarily between Saudi Arabia and Russia and other partners, is there to avoid a second major crash in prices. But at the same time, you never know how things are being are being interpreted in different places."

Randall Mohammed, VP- Energy Solutions, Ahart Solutions International
"We are going to see shale production coming back from larger producers and those with more profitable reservoirs. What we have to keep in mind is that shale sector has been dominated by small and medium sized oil companies and while they are receiving support from the Fed, it doesn't mean that they're going to bring back any kind of drilling."

Laury Haytayan, MENA Director, Natural Resource Governance Institute
"The East-Med region has had a lot of hopes but with the oil prices today, there are uncertainties on the return on investment on oil and especially gas . However, knowing the region, I believe, there will be more investments in this space."

John Roper, CEO, Middle East, Uniper Global Commodities SE
"Although the Shale industry is still holding up, there is going to be a lot of consolidation amongst those US companies. Simply because oil prices at $40/bl is a lifeline for these companies and it's not really a sentiment that allows them to look ahead into the next five years."

Dr. Carole Nakhle, CEO, Crystol Energy
"if you look at the forecasts for the rest of the year compared to what we had last month, Things are improving, but these are margin improvement. We were talking about Oil prices at $35-$37/bl few months ago, and now its $40/bl for the rest of the year. So, yes, there are some movements here and there, but nothing that's going to change that situation drastically."

Adi Imsirovic, Research Associate, Oxford Institute for Energy Studies
"I can only guess that if China perceives the current situation as dangerous geopolitically, they would be filling up their tanks to the top and that's exactly what they seem to be doing. If you look at their oil imports, they were over and above 2019 levels by 2mn barrels in May and 2.5mn barrels in June."

Kevin Wright, Lead Analyst APAC, Kpler
"Storage is finite and China has to rationalize its crude imports. .You're getting to the point where, , the storage facilities that are now available are very small, remote and not in optimal locations for storing large volumes of readily definable crude. So when you get into that situation and you've got refining margins that don't really incentivize runs, it brings a situation of general negative sentiment."

Edward Bell, Senior Director - Market Economics, Emirates NBD
"Conditions don't look very promising in the kingdom at the moment. From the oil side, things are quite tough. But the pro cyclical measures that the Kingdom has taken, like raising revenue and increasing VAT , are going to increase pressures on spending in the kingdom so the non-oil sector is going to be struggling as well."

Zhuwei Wang, Lead Analyst, S&P Global Platts
"The targets that China has to achieve under the Phase one of the trade deal, which will require China to increase their Crude oil imports from the US, will pose a lot of pressure to Chinese buyers to buy more crude oil from US in the second half this year."

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ENERGY MARKETS COMMENTARY WEEK IN REVIEW

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DAILY ENERGY MARKETS WEBINAR NEW SILK ROAD "LIVE"

July 5th - July 9th

GIQ EXCLUSIVE

TOP 10 MARKET OBSERVATIONS FOR THE WEEK

1. OPEC+ would be wise to stick with deeper output cuts through Q3 if they want to make a dent in drawing down record inventories.

2. Financial markets and oil markets could diverge as massive government stimulus packages deliver a ghost economic recovery that doesn't consume energy.

3. Clear and accurate data that gives a true picture of energy demand recovery is hard to come by, which is leading to a lot of 'hope as a strategy'.

4. US stimulus will need to be of a nuclear-bazooka scale to stop markets crashing as Q2 reporting season unveils what going off a cliff looks like i.e. GDP crashes 50%.

5. The East-Med could deliver the US election 'October Surprise' with the possibility of conflict rising as the list of active players grows.

6. The Brazilian President could become a bellwether for the second phase of Covid-19 pandemic – if he recovers without an issue then the naysayers could be heartened.

7. Crude oil is detached from reality and not an appropriate index to garner accurate insights on economic recovery – better indicator would be refinery runs & product stocks in the US.

8. Financial markets are so ahead of their skis they are already on the other mountain – Tesla worth more than Exxon and Toyota?

9. US election posturing around being 'soft on China' could trip over into unexpected consequences for the markets.

10. Gulf economies showing signs that worst is over for now, but all are holding their breath on possible Covid 2.0 wave.

THE WEEK IN REVIEW

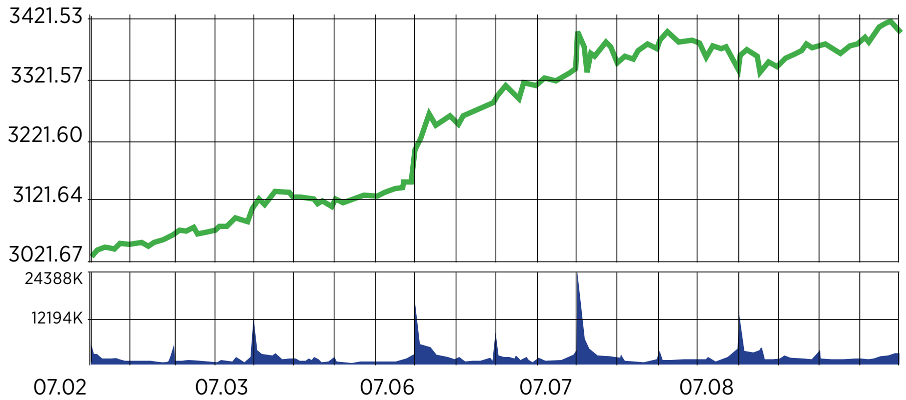
BULLISH MOVE TO UPSIDE FOR EQUITIES

By Peter McGuire
CEO, XM Australia

Nasdaq set for new records as China exports optimism

The markets had a strong rebound naturally over the last month with global stocks surging alongside commodity currencies. Chinese markets are leading the charge, jumping more than 5% after a flurry of confident commentaries from state-owned media pushed the narrative that a new bull market is here. Just looking at the charts, one might conclude that things are getting better quickly. After all, China relies on the rest of the world to buy its manufactured products, so if Chinese stocks are flying, doesn't that mean investors are pricing in a rosier outlook for world demand? Maybe not. Perhaps the real answer is that Chinese markets are soaring simply because there's too much liquidity floating around in the global financial system that needs to find a home, rather than reflecting improving global demand. Could the China recovery story keep the markets of Asia moving upwards and the demand on oil strong?

SHANGHAI STOCK EXCHANGE COMPOSITE INDEX



SNAPSHOT

No.of Listed Companies:	1646	Turnover:	794.92 *
No.of Listed Securities:	1689	Average P/E Ration:	15.59
Total Market Cap.:	41734.30*		

* in RMB billion, 07 Jul 2020 GMT+8, Source: Shanghai Stock Exchange

US going in wrong direction?

The surge in US Covid-19 cases continues, shattering hopes of a V-shaped recovery now that California, Texas, Florida, and Arizona have closed some businesses again to bring the outbreak back under control. Combined, these four states alone are home to almost 100mn people and account for roughly one-third of the US economy, so there's a real risk of the nationwide recovery faltering if the situation continues to worsen. Markets don't seem worried though, which may come down to different factors including expectations that the bar for another nationwide lockdown being very high extremely high if the White House has any say in the matter. Looking ahead, there will possibly be a continued push to the upside for S&P and Dow from a stimulus side. Does the US capitulate? Not necessarily. There's too much momentum and the Fed will do whatever is required to get a result. And that's nothing short of a mind-blowing stimulus.

Source: XM Australia

"China is pushing forward with its marketization and liberalization of oil and oil products markets in 2020, despite the impact from Covid-19. This aligns with the country's aims to increase the level playing field for all market participants and switch to drivers of growth."

Victor Yang, Senior Editor, JLC Network Technology

Source: Gulf Intelligence Daily Energy Markets – New Silk Road "Live" *Edited Text

"The reporting season is now coming up. In the first quarter of this year, US GDP fell by 4.8% and earnings in the US fell by 17% to about $1.4tn in the second quarter. And we know the Fed will do anything to hold everything up. In addition, it has become clear that the US is losing its No. 1 position in the world, whether it be on trade or pretty much everything else the US economy produces."

Omar Najia, Global Head, Derivatives, BB Energy

Source: Gulf Intelligence Daily Energy Markets – New Silk Road "Live" *Edited Text

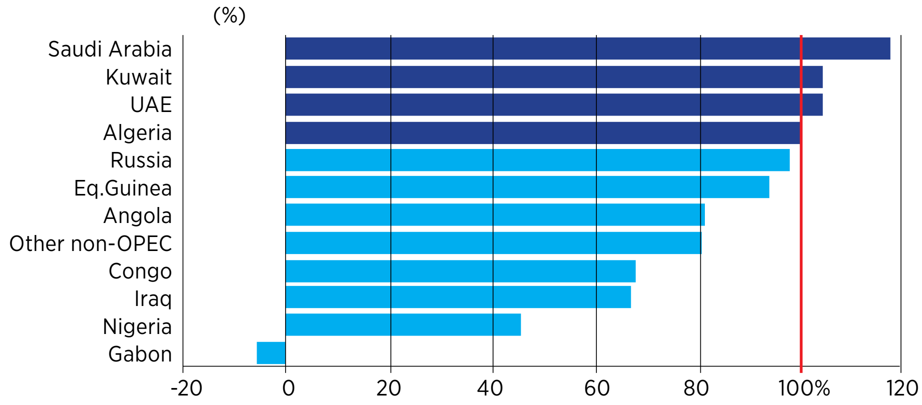
OPEC+ DEEPER CUTS BOOST OIL MARKETS RECOVERY

– *Will They Step Back from Steeper Cuts in August?*

By Robin Mills
CEO, Qamar Energy

OPEC's compliance with the supply cuts has been impressively high.
The alliance's crude output was slashed at record highs in order to boost oil market recovery. What's interesting is the diplomatic pressure that has been put on some of the members that haven't been fully compliant, specifically Iraq, Nigeria and Angola. There is also the consensus that countries that weren't fully compliant in May and June should make it up with further cuts in July. We also have Saudi Arabia heavily over-complying while the UAE and Kuwait are a little over full compliance. So, the group as a whole, has close to 100% compliance with supply cuts. As the global economy emerges from Covid-19, we would have to wait and see whether there will be easing of quotas in August.

OPEC+ OUTPUT COMPLIANCE WITH QUOTAS
96% average OPEC+ compliance since May 2020



Source: S&P Global Platts Survey

Surge in Covid-19 cases and its impact on demand is the key issue to watch.
Oil prices could slump as demand concerns over surging Covid-19 cases continue.. Now, even if full lockdowns are not imposed again, some states might continue to have restrictions that will delay the return to some form of normalcy. There's also an effect on sentiment as well, which is why we are seeing stalls in recovery levels and fuel demand. Without substantial control over the virus, it would be difficult to see economic activity returning to 2019 levels even in counties that have been more successful in controlling infection rates.

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