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Fujairah New Silk Road WEEKLY NEWSLETTER

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AN EXCLUSIVE GULF INTELLIGENCE INTERVIEW

"SAUDI ARABIA'S SURPLUS OIL CAPACITY IS CRITICAL TO GLOBAL MARKET STABILITY"

David Rundell – Author
Longest Serving US Diplomat in Saudi Arabia

Saudi Arabia's role in the oil markets is political as well as economic. The West depends on Saudi Arabia to provide stability in the international oil markets, and in return the Kingdom depends on the West and particularly the US for its security. What has made this relationship last for so long is not the fact that the Kingdom can produce a lot of oil cheaply. It is the fact that they maintain a surplus, or surge capacity, which they can turn on and turn off. This is not a commercial decision, it is a political one. It costs them billions of US dollars, but when there is a hurricane in the Gulf of Mexico or a strike in Venezuela, for example, the only people who can really make up that volume at short notice is the Saudis. That gives them their standing geopolitically and I do not think they'd be inclined to give that up. Saudi Arabia is unlikely to give-up on OPEC and move to a market-share strategy as they would lose their geopolitical standing in the world if they no longer maintained a significant amount of idle capacity.

CONTINUED ON PAGE 3

Fujairah Weekly Oil Inventory Data

6,286,000 bbl	4,435,000 bbl	8,965,000 bbl
Light Distillates	Middle Distillates	Heavy Distillates & Residues



Source: FEDCom & S&P Global Platts

Fujairah Average Oil Tank Storage Leasing Rates*

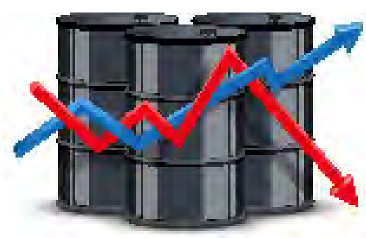
BLACK OIL PRODUCTS

Average Range
$3.54 - 4.38/m³

↑ **Highest: $4.50/m³**
↓ **Lowest: $3.40/m³**

Source: GI Research – Weekly Phone Survey of Terminal Operators

Insights brought to you by: 2010 GI 2019 Publishing Thegulfintelligence.com

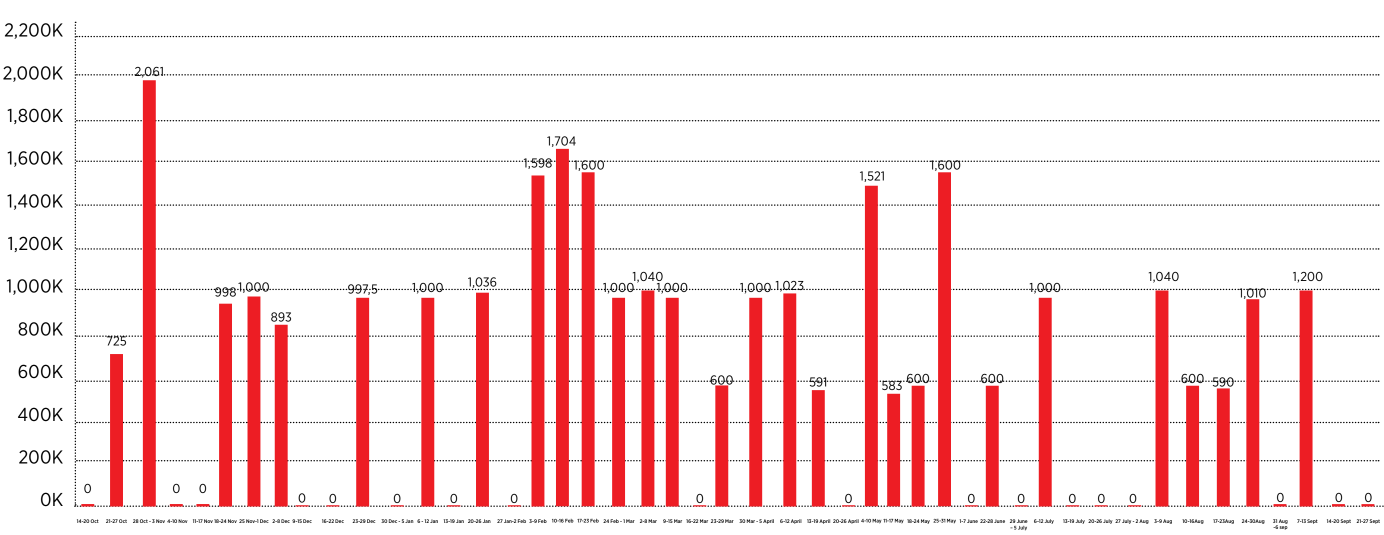


Weekly Average Oil Prices

Brent Crude:	$42.60/bl
WTI Crude:	$40.33/bl
DME Oman:	$41.98/bl
Murban:	$40.33/bl

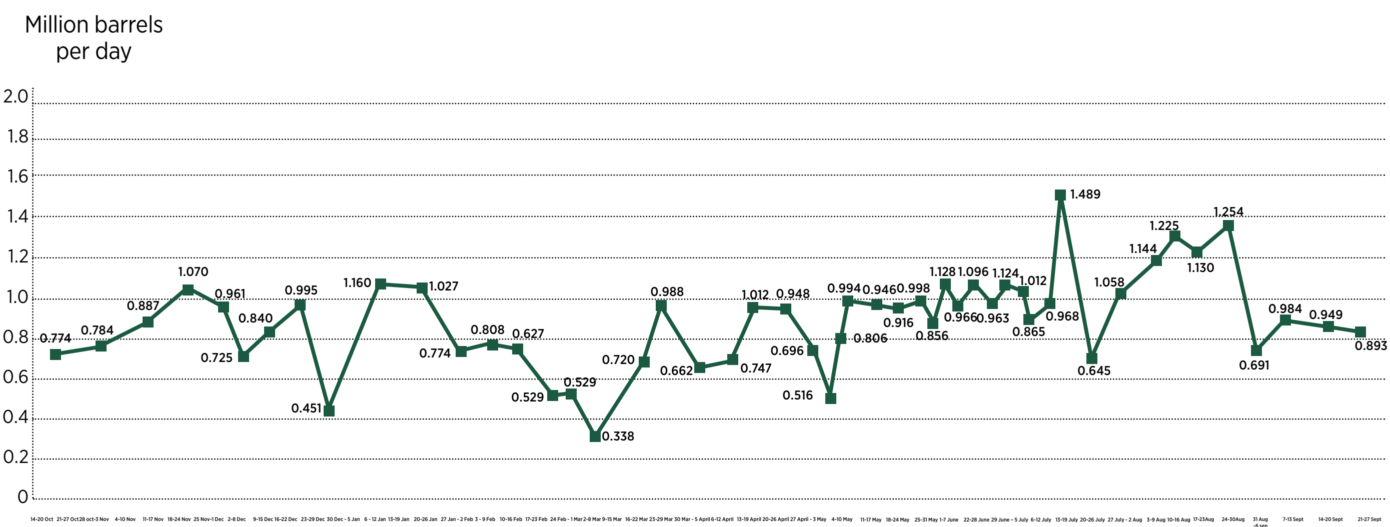
Time Period: Week 2, October 2020
Source: IEA, OilPrice.com, GI Research

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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GIQ: For many countries, it doesn't hugely matter who the US president is in terms of maintaining relations. Is that the case for Saudi Arabia?

David Rundell: It's true for most countries – but not Saudi Arabia. When you look at the US-UK relationship, it doesn't really matter who the president or ambassador is. There are very deep relationships there that have been institutionalized over more than 60 years. That's not true in Saudi Arabia. Who the ambassador is also makes a difference.

The ambassador to Saudi Arabia is almost always a political appointee. The institution, if you will, is to some extent cut out. The ambassadors in Saudi Arabia are almost always people who have some personal relationship with the US president, and they can call the White House if they want to. That's not true in most countries. People will argue whether you think it's a good thing or a bad thing. I thought it was a good thing and that the political ambassadors that we had in Saudi Arabia, who I worked for, did a good job. Their access to senior leadership was helpful. The Democrats would probably use more institutions for most relationships, but the Saudi relationship is a special case.

GIQ: What's Saudi Arabia's status in today's global arena?

David Rundell: Saudi Arabia has been a lot more stable than many people predicted for a long time, including the US government. Since 2015, the stability of the country has declined. I wouldn't say that it's unstable, but it's less stable. Why? Well, to answer that, we must look at why it was stable in the first place and see what's changed. Why was Saudi Arabia stable for a long time? First, the Al Saud family effectively created the country. In the beginning of the 20th century, King Ibn Saud knitted dozens of tribes, villages, and city-states together to create a new country. That gives his family historic legitimacy.

A second factor was their ability to handle succession peacefully and repeatedly. They were able to quickly transfer power from one king to another six or seven times from over the last 60 years. That is something many countries in the Arab world were unable to do. That provided legitimacy for the regime. Legitimacy is really the foundation of its stability.

The third leg of their table was that they created a coalition of stakeholders. Each of those groups has elite leadership, which has a symbiotic relationship with the monarchy. The monarchy helps those leaders remain in charge of their group. Those leaders represent the interests of their group to the monarchy, which balances competing interests and factions. Those groups consist of the tribes, the religious leadership, the merchant class, the Western educated technocrats, and the royal family itself, which is tens of thousands of people. I distinguish between the royal family, which has tens of thousands of people, and the ruling family which is a couple dozen at most.

The fourth leg of the table was the ability of the Al Saud family to provide competent government. They provided security, both internal and external, when there wasn't much of it. They provided economic development, which anyone who saw Saudi Arabia 30 years ago can certainly attest to. And they provided gradual social change at a pace that most people in a conservative society would agree with.

GIQ: How has this dynamic changed in recent years?

David Rundell: To summarize, each leg has weakened in the last five years. The historic legitimacy is fading because young people don't remember. It's like Americans trying to remember the civil war. And the succession issue has become more complicated. Basically, King Faisal set up a system where there were half a dozen senior princes who cooperated, who each ran their own ministry, who each had respect, to some extent their own budget, their own authority, and their own financial ecosystem. There was a lot of independence and consensus. King Fahd told the ambassador, when I wasn't the acting ambassador, that the Gulf War was the only time he'd ever made a decision without consulting a broad collection of his brothers, cousins, and uncles. So, it was a consensus driven system. People say that it had its good and its bad. It made it stable, but it made decision-making very slow.

King Salman did not end the system – the system ended itself. The brothers passed away, and he had to come up with a new system. This was always going to be an issue. It could've been a problem for stability in that hundreds of people, or certainly dozens, thought they should be the next king. There were 34 sons and more than 500 grandsons. So, the King engineered the rise of HRH Mohammed bin Salman. He effectively removed two crown princes and put the man that he thought would do the best job in place. He is now clearly going to be the next king. Traditionally, there is a number one, a number two, and a number three. There is no 'number 3' at the moment. It's not clear what would happen should Mohammed bin Salman leave the scene.

GIQ: What's next for Saudi Arabia?

David Rundell: That's probably the key crossroad that we're at. In the next five to 10 years, Saudi Arabia will evolve into either a more accountable monarchy or a police state. Americans tend to lump monarchies along with tyranny. They tend to think that there are two kinds of government. There is either a republic where the emphasis is on individual liberty and human rights, or you're a dictatorship governed by fear and authority.

In fact, most of Europe was governed by monarchies for most of its history – and every monarch was and is not a tyrant. There is the ability for a monarchy to evolve, like many in Europe. I believe the Saudis have an opportunity to evolve to a large extent because they were never colonized. It's really the only major Arab country that was not colonized in some way or another. They still have a lot of their own traditional political system.

GIQ: How important was Saudi Aramco's Initial Public Offering (IPO) for its Vision 2030?

David Rundell: It was a positive move, and it made a lot of sense. Many people, including myself, had suggested it a long time ago. The Saudis have a lot of oil sitting in the ground that earns them nothing. It's far better to monetize some of those reserve and invest that money. You can even go and buy treasury bonds with it and you'll get some kind of return. It also brought some private sector discipline. Saudi Aramco has always been one of the better run, maybe the best, of the national oil companies. It functions very differently to most government oil companies, but nonetheless it's now become even more like a private company. That is helpful in terms of efficiency. It was also a step in the direction of centralizing control in the sense that I think there were people in Aramco who didn't like this idea and felt they should maintain their complete independence. They were overruled by the Crown Prince, which is an example of his increasing control. Part of Vision 2030 is to try and privatize many state-owned assets. This was a major step in that direction.

GIQ: What impact will the US presidential election have on US-Saudi relations?

David Rundell: If President Trump is re-elected, the US-Saudi relationship will go on much the same and the Saudis will work with the Trump administration on resolving the Arab-Israeli dispute. If Biden wins, you'll see a downturn. You'll see people complaining about the war in Yemen, complaining about arms sales to Saudi Arabia and complaining about Jamal Khashoggi's death. But ultimately, the US-Saudi relationship won't change. The US-Saudi Arabia relationship goes up and down, but there are constant factors of common interest. What this relates to with a potential Biden administration is a fundamental tension in foreign policy; between protecting your interests and promoting your values. If you abandon your values, you've got nothing worth protecting. And if you abandon your interests, you've no way to protect your values. The US has interests in its partnership with Saudi Arabia that go beyond oil, which include counterterrorism, security of Israel, and stability of the region – and those interests need cooperation. Even a Biden administration would continue to cooperate; they'll recognize the importance of the Saudis. When the US oil industry was collapsing amid Covid-19, who did President Trump call? The Saudis.

WATCH FULL INTERVIEW HERE

ENERGY MARKETS FORUM 2020

NEW SILK ROAD LIVE

GI Consultancy Intelligence Publishing

TOP 10

OCTOBER 10th - 15th

MARKET OBSERVATIONS FOR THE WEEK

1. As many OPEC+ countries face growing fiscal deficits, it may limit their ability to keep oil output constrained.
2. Stock markets reaching pre-Covid-19 highs may offer Trump a lifeline from pandemic meltdown.
3. OPEC+ will have to factor into their thinking that Libya's oil production could see recovery above 1mn b/d as soon as Q1 2021.
4. Global economic recovery is still struggling to deliver the new dawn that the stock markets are apparently the only ones privileged to see.
5. China's oil storage tanks may finally be near full after months of record imports.
6. OPEC+ may need to revisit plans to raise oil output in January as the weak demand recovery seen in H2 is likely to extend into 2021.
7. Chinese oil refining capacity is set to grow by 500,000 b/d in Q4, at a time when China's oil products exports to Asian neighbors are already declining.
8. Between more stimulus and more China recovery, there should be enough upward momentum to sustain oil prices in their low $40s/bl comfort zone through the New Year.
9. As far as the upcoming winter goes, we will be entering Solar Cycle 25, which is expected to bring very low solar activity associated with cooler temperatures.
10. China steals all the headlines, but India's oil demand growth is quietly experiencing a steeper recovery in recent months.

ENERGY MARKETS VIEWS YOU CAN USE

Christof Rühl
Senior Research Scholar, Center on Global Energy Policy
Columbia University

What Should OPEC+ do Next?

It is becoming a very big strategic question. Should they follow the original plan and increase production in January or not? And the reason is not just that the recovery of prices took longer than expected. The reason is also, once again, the US election. So, suppose you have Democrats coming in as it looks like now, and then suppose one of the things they want to do is to renegotiate with Iran. And you have the threat of Iranian barrels coming back at relatively short notice, sometime in the Spring. Would you then go for an increase of only 2 million barrels a day or wouldn't you really face the big question - we give up on this and we just swamp the market and see where everybody lands, or we double down and we cut some more and we don't do this 2 million increase. What is building up is a really, really consequential question for OPEC+, a strategic question, for which route to take next.

What is the Outlook for a second wave of lockdowns?

There are some places on this planet like the European Union, where you can have targeted or large-scale lockdowns without people going without food. And there are some places, like the U.S., where if you do that you can get into serious social trouble in some corners. And then there are some places like India, you cannot do it, full stop, because people would starve if you lock the economy down again. So, we see a very mixed response contingent on the economic and social conditions of the countries and the politics.

How important is the need for a second Stimulus package in the US?

It is important to first sort out how much of the economic recovery we are seeing is a response to the first stimulus or is the result of a real bounce-back - the numbers indicate that there's a lot of stimulus driven short term effects on growth. Employment does not follow anymore, anywhere, as quickly as projected even if economic activity bounces back temporarily. Companies often increase sales by cutting prices. And with the lack of stimulus 2.0 in the US, the kind of permanent damage created by the short-term pandemic shock becomes larger and larger. ■

Mike Muller
Head of Vitol Asia

Will OPEC+ Proceed with Output Hike in January?

The OPEC+ 2mn b/d planned resumption of oil production in January is probably one of the biggest planned changes in production that we will ever see. I do not believe the market sees it happening in one fell swoop. It is becoming increasingly clear that demand projections are disappointing, and the world may not see the fragile recovery return volumes of demand to the market at the pace that maybe was felt to be the case a few months ago. The smart money in the market is already anticipating OPEC+ will revise that 2mn b/d change in supply to market from Jan. 1st to a later date, or perhaps phase it in over a number of months to align with demand.

How Sustainable is the OPEC+ Consortium?

OPEC+ as an entity is intact and critical to today's oil price. There has been cohesion because common sense prevails. While the target prices of various players in the OPEC+ entity may not be the same, the objective for now has been fulfilled.

How has COVID 19 Impacted the Energy Transition?

The virus market conditions have accelerated the debate on the energy transition and of the role of traditional players in the future energy landscape. The pace of change was accelerated by recent declarations, such as BP, offering all these scenarios with each one suggesting that peak oil demand is right now. The world is going to need a lot more electricity and a lot more non-oil commodities to build the lower-carbon society required by the Paris Agreement. The international energy firms, that we used to call the oil majors, certainly need to continue to play a role in leading the energy transition. It is grossly unjust to see some observers generalize or speculate that these companies are not fit to walk the talk when it comes to leading the energy transition. ■

ENERGY MARKETS VIEWS YOU CAN USE

John Roper
CEO, Middle East Uniper Global Commodities SE

Where are crude prices headed for the remainder of the year?
Crude price bands are unlikely to move significantly in the medium-term. U.S. daily production has fallen from 13mn to 11mn b/d over the course of this year, along with continued general restraint from OPEC + producers. The markets are quite stable. The main impact we could see on prices and volumes will come from the extent of the second wave of the pandemic as the winter season gets under way in the northern hemisphere.

Is the resumption of Libyan production a game changer for OPEC?
Markets have already priced in the extra 350,000 b/d coming out of Libya in the past two weeks. However, if we see another 300,000 to 400,000 b/d, coupled with the half million barrels from OPEC non-compliant countries, that effectively adds a million barrels to the target volumes that the group has been trying to achieve, so there will be an impact.

What is the outlook for gas & LNG in the current demand environment?
Post-summer, gas prices have been firming on the back of winter demand, outages in Europe and hurricanes in the U.S. Gulf. One-month ahead prices for TTF are about $4.8, JKM's at $5.3 and Henry Hub's around $2.6, and these are likely to hold through to the beginning of next year. China's plans for seven million households to switch from coal to gas, increasing winter demand for gas by about 6%, will lend a further boost. LNG volumes into the country are expected to be up by about 3.5mn tons over the winter period, a change of 2% year-on-year. ■

Adi Imsirovic
Senior Research Fellow, The Oxford Institute for Energy Studies

I Outlook for China Demand?
All the demand growth in 2020 is coming from Asia. Yes, we do have the COVID situation worsening in Europe, but Asia is what matters, and we have seen a lot of positives signs at the moment. Chinese buying has been very, very important this year, as year-on-year, we've seen their imports at about one million barrels a day over and above last year, which is absolutely remarkable given the impact of COVID19 on global demand. Seasonally, China could step up buying, particularly for deliveries in January prior to the Chinese New Year. It seems far away, but do not forget, we are buying December crude right now for January delivery. However, in October, we have seen that trend slowing down quite a bit and moving closer to last-year levels. So, the key thing will be to see what happens next, whether we are going to see another cycle of buying from China. It is certainly true that the independent Chinese buyers have exhausted their quotas for this year, but we're already buying December contracts, and loadings for the second-half of December will be for next-year delivery, which would be marked against next year's quotas.

OPEC's Next Steps?
OPEC has done a tremendous job to control supply over the last six months. I think that is what provided stability to the market, but as we go forward, it seems to me they are moving into another even more challenging period. The demand recovery may not be happening as previously expected, which is putting increasing pressure on OPEC not to go forward with plans to add 2 million barrels of new supply in January. It is just very hard to say what will happen in terms of Libya, which is on track towards about 500,000 barrels a day of exports. But you never know with the political situation there as the underlying causes of the political problems in Libya have not been resolved. What they have now is just a sort of cease fire, so that could change overnight very, very quickly. ■

GIQ EXCLUSIVE SOUNDINGS

WEEK IN REVIEW: *Energy Market's Pressure Points?* Covid-19, US Presidential Election, and Peak Oil Demand

Every week, Gulf Intelligence holds exclusive interviews with many high-level energy experts in Asia, Europe, the US, and the Middle East. These insights are harvested from this week's engagements.

- Omar Najia, Global Head, Derivatives BB Energy
- Robin Mills, Chief Executive Officer, Qamar Energy
- Dr. Aldo Flores-Quiroga, Former Deputy Secretary of Energy for Hydrocarbons, Mexico's Ministry of Energy
- Peter McGuire, CEO, XM Australia
- Victor Yang, Senior Editor, JLC Network Technology
- Laury Haytayan, MENA Director, Natural Resource Governance Institute
- Peter McGuire, Chief Executive Officer, XM Australia
- Paul Young, Head of Energy Products, Dubai Mercantile Exchange
- Vandana Hari, Founder & CEO, Vanda Insights
- Dr. Carole Nakhle, CEO, Crystol Energy
- Andrei Belyi, PhD, Adjunct Professor Energy Law & Policy, University of Eastern Finland

Omar Najia, Global Head, Derivatives BB Energy
"History shows that statistically the incumbent president will always win if, at the time of the election, the S&P index is above the highs set at the beginning of the year. The highs at the beginning of this year were around 3393 – we're higher than that now."

Robin Mills, CEO, Qamar Energy
"If there's an effective vaccine soon, we'll see much stronger recovery. However, if we're still muddling through, it's hard to see a rapid demand recovery. We aren't going to go back to strict lockdowns, so we would expect a recovery next year across most parts of the barrel."

Dr. Aldo Flores-Quiroga, Former Deputy Secretary of Energy for Hydrocarbons, Mexico's Ministry of Energy
"A replication of the lockdowns that we saw in the first wave of the pandemic is unlikely to take place. At the same time, I still see a very volatile and shifting environment. We have uncertainty about the course for demand recovery and uncertainty about the course for policy."

Peter McGuire, Chief Executive Officer, XM Australia
"There's nothing guaranteed in equity markets. An 'unknown unknown' coming out of nowhere with President Trump three weeks before an election could lead to derailment. There are many moving parts at the moment that can cause a great amount of concern to all traders."

Victor Yang, Senior Editor, JLC Network Technology
"In September, China spoke with its refiners about stocking up on oil for further consumption and energy security for next year. But there's not much room for more storage right now – crude stock levels are quite high."

Laury Haytayan, MENA Director, Natural Resource Governance Institute
"Everyone is talking about peak oil demand and, of course, they all have different timelines on when it will occur. The reality is that peak oil demand is coming, whether it's today, tomorrow, or farther in the future. Now is the time to tackle this issue and not just hope that oil prices will rebound tomorrow."

Paul Young, Head of Energy Products, Dubai Mercantile Exchange
"Murban will be competing more with Brent, rather than Dubai or Oman benchmarks. Will the Middle East and Asian markets go with their own regionally produced crude as a benchmark or stick with Brent, which they have been using for the past 10+ years?"

Vandana Hari, Founder & CEO, Vanda Insights
"A V-shaped economic recovery keeps being delayed. It's going to take longer to achieve those growth rates that international organizations, such as the IMF, are providing. The recovery is also not as steep as they're expecting."

Dr. Carole Nakhle, CEO, Crystol Energy
"There are a few things about OPEC that we must keep in mind. They've done an amazing job with putting a floor in place on oil prices and stabilizing Brent. However, they've not been able to restore those prices to pre-Covid-19 levels. That's going to be a lot more difficult."

Andrei Belyi, PhD, Adjunct Professor Energy Law & Policy, University of Eastern Finland
"If the war between Armenia and Azerbaijan continues, Azerbaijan will have the upper hand in terms of military. However, it'll lose the information war. Therefore, it's very difficult to see what is going to be the outcome of this conflict."

Insights brought to you by: 2010 GI 2019 Publishing Thegulfintelligence.com

ENERGY MARKETS COMMENTARY WEEK IN REVIEW

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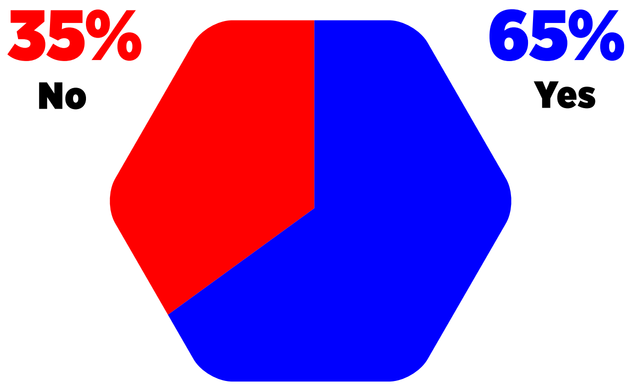
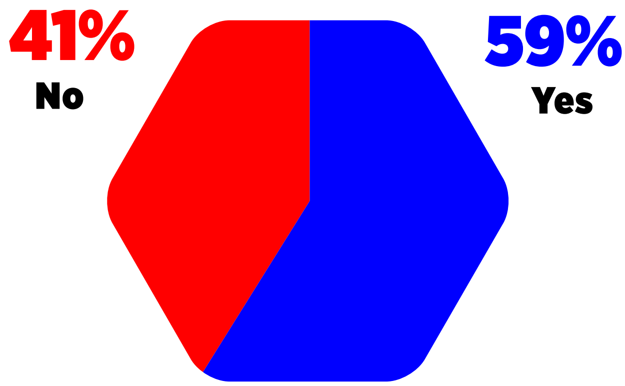
GIQ Weekly Surveys

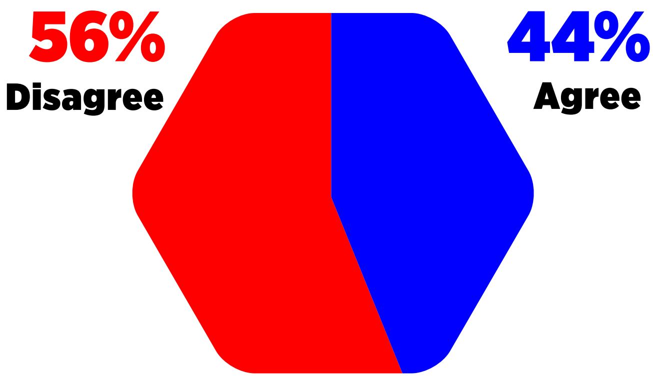
Will Saudi be able to hold OPEC+ together if they don't proceed with January output hike?



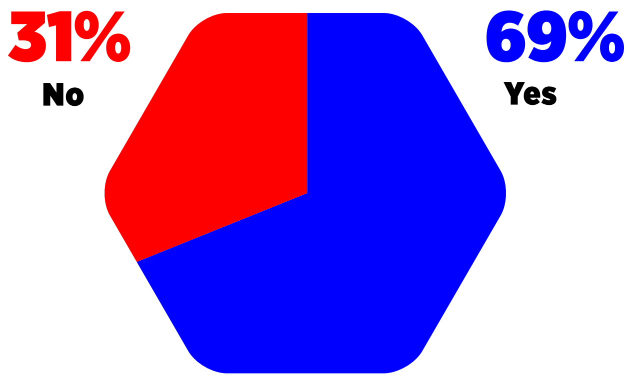
Can Libya return to +1mn b/d by Q1 2021?



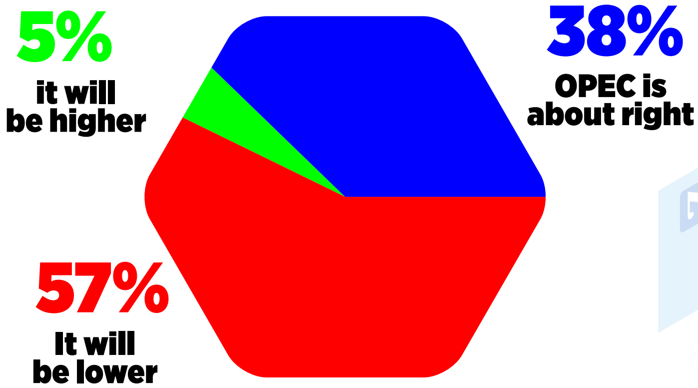
Global economic recovery will surprise on the upside in Q4 as world learns to navigate Covid-19 2.0?



Do you expect OPEC to signal next week on how they plan to proceed with January production hike?



OPEC sees global oil demand rising by 6.5mn b/d in 2021 – what do you think it will be:



Source: GIQ

Fujairah Spotlight

Port of Fujairah Expansion Contract Awarded

Plans for the expansion of the Port of Fujairah are taking shape with the awarding of a design-and-build contract to boost bulk handling capacity and operational efficiency. The works for the Dibba Bulk Handling Terminal Project were awarded to the consortium of Six Construct, BESIX's entity in the Middle East, and Jan De Nul Group by the UAE-based Port of Fujairah. The contract is valued at EUR 90.4mn Works will be carried out over 19 months.

Source: Port Strategy

Over 2,000 Construction Violations Spotted in Fujairah

The Dibba Fujairah Municipality has registered a total of 2,111 construction violations during the first nine months of this year, an official has said. The violations included installing shades and caravans outside without permission and doing maintenance work without being licensed. Some of the constructors disposed of the construction wastes and debris outside the site. The official warned violators of stiff penalties and said more inspection campaigns will be launched to ensure constructors' compliance with rules and regulations.

Source: Khaleej Times

Gulf Petrol Supplies Files Complaint against GP Global unit for Fraudulent Behavior

Gulf Petrol Supplies LLC (GPS) has filed a complaint with UAE police alleging Gulf Petrochem FZC issued fake contracts and invoices to banks and finance houses suggesting GPS owed it money for petroleum products. GPS, part of the Fujairah National Group, said in a statement late on Monday that it had filed the case against Gulf Petrochem FZC with the Hamriyah police station in Sharjah in September. Gulf Petrol Supplies said in its statement it has told the companies and banks involved in the case that it had not received the purported supply contracts and had no outstanding debts with Gulf Petrochem.

Source: Hellenic Shipping

Fujairah Oil Product Stocks hit Near Six-Month Low

Inventories of oil products at Fujairah on the UAE's East Coast have fallen to their lowest in almost six months, led by the biggest drop in heavy distillates in almost two years as bunker fuel prices flipped to a premium over Singapore. "The UAE was exporting more crude than they usually do and this is the time of year when crude demand is usually higher in preparation for winter heating oil demand," Mali said. "Two suppliers left the Fujairah bunker market, which has reduced the competition." Ships needing prompt spot bunker fuel from Fujairah will likely pay a premium until the end of September, because of tight availability of barges until then, sources told Platts previously.

Source: Emirates News Agency


أدنوك
ADNOC
ADNOC DERIVATIVES TRADING
Two Trading Entities
ADNOC Global Trading (AGT) and ADNOC Trading (AT) have been established at Abu Dhabi Global Market (ADGM).
Enhanced Services
Trading offers a better and broader service to ADNOC's UAE and international customers.
Greater Value
Trading delivers greater value from every barrel ADNOC produces, refines, and sells.
Source: Abu Dhabi National Oil Company (ADNOC)
GI
Consultancy
Intelligence
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PORTS
STORAGE
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~ Presents ~
THE ARAMCO TRADING
NEW SILK ROAD
CEO
– OF THE YEAR –
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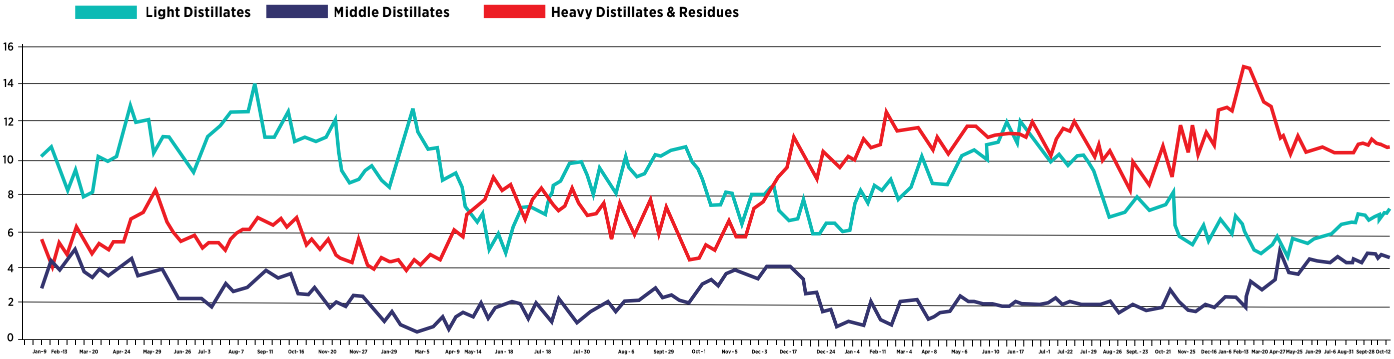
2020
FUJAIRAH
aramco
trading

Fujariah Weekly Oil Inventory Data

FOIZ
منطقة الفجيرة للصناعة البترولية
Fujairah Oil Industry Zone

bbl (million)



TOP TAKEAWAYS

- Total oil product stocks in Fujairah were reported at 19.686mn barrels. The last times stock were recorded below the level of 20mn barrels was December 30, 2019. Total stocks fell by 1.012mn barrels or 4.9% week on week, driven mainly by a sharp draw in the heavy distillates category.
- Stocks of light distillates saw a small rise of 8,000 barrels week on week to stand at 6.286mn barrels. Increased driving activity across the Middle East is leading to a sharp recovery in demand for gasoline, which at a time of tightening regional inventory levels, has strengthened the Middle East gasoline complex. Saudi Arabia, the region's largest consumer of gasoline taking further steps to ease restrictions on October 4 by allowing pilgrims to return to the Muslim Holy site of Mecca. Reflecting the stronger Middle East complex, cash differentials for gasoline cargoes have stayed on an upward trajectory in October, with the premium against the Mean of Platts Arab Gulf 92 RON gasoline assessments averaging $3.69/bl month-to-date as of October 12, up from the $3.48/bl in September, Platts data showed.
- Stocks of middle distillates rose by 572,000 barrels to 4.435mn barrels - up by 14.8%. The East of Suez remains well supplied with gasoil owing to a closed arbitrage from Middle Eastern and Indian barrels to Europe. The EFS spread between 10 ppm gasoil Singapore swaps and ICE low sulfur gasoil futures was valued at minus $41 cents/mt on October 13 – still well above typical arbitrage levels. Calculations by S&P Global Platts Analytics showed that Arab Gulf gasoil arbitrage economics to move volumes to the Mediterranean and the UKC were still closed.
- Stocks of heavy residues plunged by 1.592mn 432,000 barrels or 15.1% on the week to stand at 8.965mn barrels. This is the lowest total since July 29, 2019. Tightening inventories reflect robust bunker demand against prolonged low refiner runs due to weak margins. Despite a narrowing differential between 0.5% marine fuel and gasoil, most participants do not expect to see a quick switch toward distillate-based fuels just yet. Market participants said buyers do not typically inquire for LSMGO unless supply of LSFO was tight. This occurred during the IMO 2020 transition in January when LSFO was scarce. "We don't necessarily have to buy LSMGO just because the spread is narrowing. We usually opt for LSFO first," a shipowner said.

Source: S&P Global Platts

Commodities

Oil prices took heed of a drop in inventories to rally by more than 2% in both Brent and WTI futures, settling at $43.32/bl and $41.04/bl respectively. The API reported a draw in crude stocks of more than 5.4m bbl last week, the largest weekly drop since August. EIA data will be released later than usual thanks to a public holiday at the start of the week. The IEA cautioned that OPEC+ may be unable to increase production from January as planned given the "fragile" outlook for oil demand. The agency left its demand expectations more or less unchanged but noted that the risks remain weighted to the downside.

Equities

Equity indices sold off yesterday, as hopes for further US stimulus were dashed by comments from Treasury Secretary Steven Mnuchin and fears over renewed lockdowns in Europe returned to the fore. In the US, the Dow Jones, the S&P 500 and the NASDAQ lost 0.6%, 0.7% and 0.8% respectively, while in Europe the FTSE 100 was a major loser on the day, dropping 0.6% as Brexit concerns also weighed on markets.

FX

The USD closed lower overnight, sliding by 0.16% on the DXY index. USDJPY dropped to two-week lows following the USD's sell off, dipping by almost 0.3% to reach 105.17. A break below the 105 handle will signal further losses. The EUR was virtually unchanged, still hovering around the 1.1750 region, with little direction either way. GBP surged off the back of news that the UK government will allow Brexit talks to go beyond the former deadline set by British PM Boris Johnson. Sterling advanced by 0.59% and trades at 1.3015 today. Both the AUD and NZD experienced volatile sessions but declined this morning to reach 0.7131 and 0.6645 respectively.

Source: Emirates NBD

ENERGY MARKET NEWS

RECOMMENDED READING

1. OIL HOLDS GAINS ON SHRINKING US STOCKPILES
2. OPEC+ COMPLIANCE WITH OIL CUTS IN SEPTEMBER SEEN AT 102%
3. REFINERS CRANK UP RUNS AHEAD OF INDIA'S FESTIVE BOOST TO DEMAND
4. BIGGER THAN EXPECTED CRUDE INVENTORY DRAW BOOSTS OIL PRICES
5. HSBC IS LEFT OFF FIRST CHINA DOLLAR BOND DEAL SINCE 2017
6. TURKISH SURVEY SHIP BEGINS OPERATIONS IN EAST MEDITERRANEAN
7. CHINA-CAMBODIA TRADE PACT LAYS BARE BEIJING'S DESIRE TO INFLUENCE ASEAN
8. THAI PROTESTS: LARGE GATHERINGS BANNED UNDER EMERGENCY DECREE
9. MACRON ORDERS VIRUS CURFEW IN BIG CITIES AS FRANCE DECLARES STATE OF EMERGENCY
10. CHINA 'READY TO WORK WITH RUSSIA' TO RESIST US GLOBAL DOMINANCE

RECOMMENDED VIDEOS & REPORTS

- US-SAUDI RELATIONS MAY BE NOISIER UNDER BIDEN, BUT ULTIMATELY WON'T CHANGE!
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- VANDA INSIGHTS: CRUDE PAUSES AROUND 1-MONTH HIGHS EARLY THU DESPITE BULLISH API DATA
- GI SPECIAL REPORT: THE GLOBAL ENERGY TRANSITION ACCELERATED BY COVID-19?

OPEC OCTOBER REPORT

- OPEC SEES 2020 WORLD OIL DEMAND FALLING BY 9.47MN B/D
- OPEC SEES 2021 OIL DEMAND RISING BY 6.54MN B/D
- OPEC SAYS IT IS NOT EXPECTED THAT THE CONSIDERABLE ECONOMIC RECOVERY IN 3Q20 WILL CONTINUE INTO 4Q20 AMID RISE IN VIRUS INFECTIONS
- OPEC SAYS NEAR TERM MARKET ENVIRONMENT IS EXPECTED TO REMAIN RELATIVELY WEAK DUE TO LARGE OVERHANG IN MIDDLE DISTILLATE STOCKS

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Source: OPEC

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