OCTOBER 31st 2019
VOL. 4

Fujairah New Silk Road
WEEKLY NEWSLETTER

EXCLUSIVE INSIGHTS /// ACTIONABLE INTELLIGENCE /// DATA TRENDS /// LATEST NEWS

AN EXCLUSIVE GULF INTELLIGENCE INTERVIEW

"Energy security is key for China and when the trust of a free market is disrupted by excessive tariffs, countries secure supply either through partnerships or new investors."

Arif Mahmood, Executive Vice President & CEO of Downstream, PETRONAS

Moderator: *Are energy companies prepared for the long-term structural impact of the US-China decoupling?*
Arif Mahmood: The oil business has always been impacted by abrupt changes. Refiners, traders, shippers and storage companies have always expected to adjust. Long-term, things will eventually normalize in this new trade dynamic but that is not to say that we will continue as we are today. A new normal will have to be established.

Moderator: *What has the main impact been on countries and downstream industries?*
Arif Mahmood: The three areas that the trade war impacts are demand, trade flows and pricing margins. If the sweet spot of prices is not right, it impacts investment. Some refining projects take years to build and the market needs stability for this so having these erratic tariffs leads to a lot of uncertainty. I do see potential positive points. If you look at petrochemicals, the tariffs against the US can open new markets for those operating in Asia and offer more flexibility to producers in the region. There were a lot of polymers coming into the Asian market from the US and these are now looking for new ports. But by the same token, there are not many markets in Asia that can give the volume of demand that China does.

*Edited Transcript

FULL INTERVIEW HERE

WATCH VIDEO HERE

Fujairah Weekly Oil Inventory Data

6,032,000 bbl	2,023,000 bbl	14,551,000 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
$3.57 – $4.06/m³

↑ **Highest: $4.50/m³**
↓ **Lowest: $3.20/m³**

*Time period: Weekly

Source: GI Research

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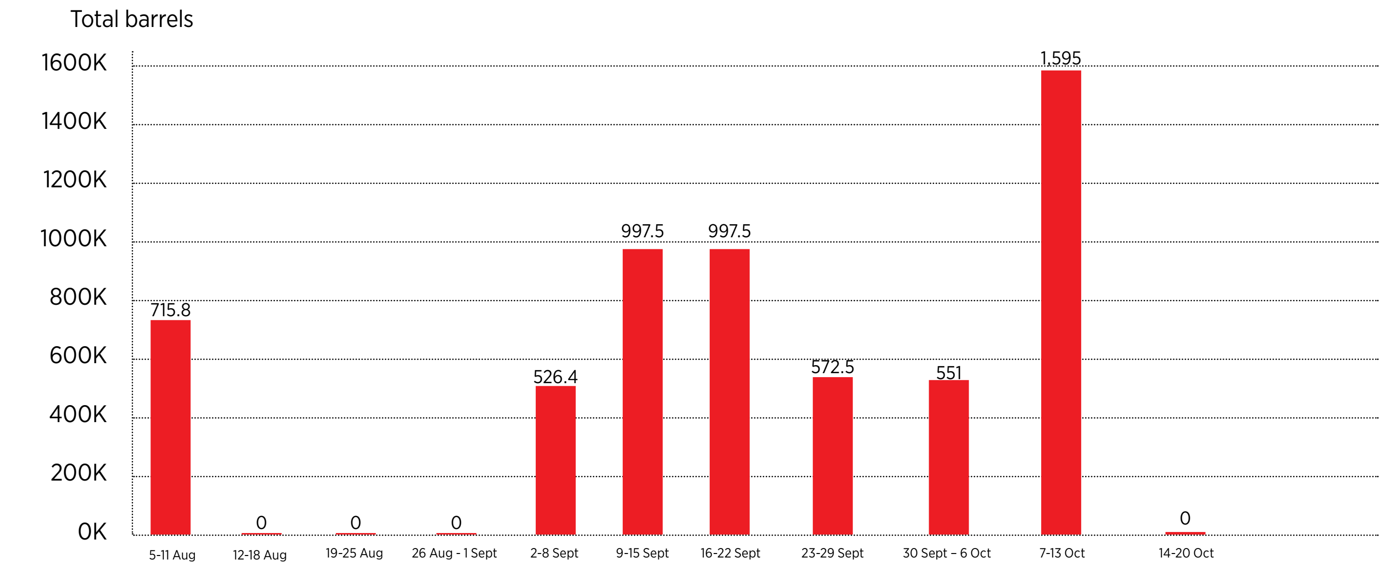
THE WEEK In Numbers

Weekly Average Oil Prices

Brent Crude: $61.59/bbl
WTI Crude: $55.92/bbl
DME Oman: $62.68/bbl
Dubai: $58.96/bbl

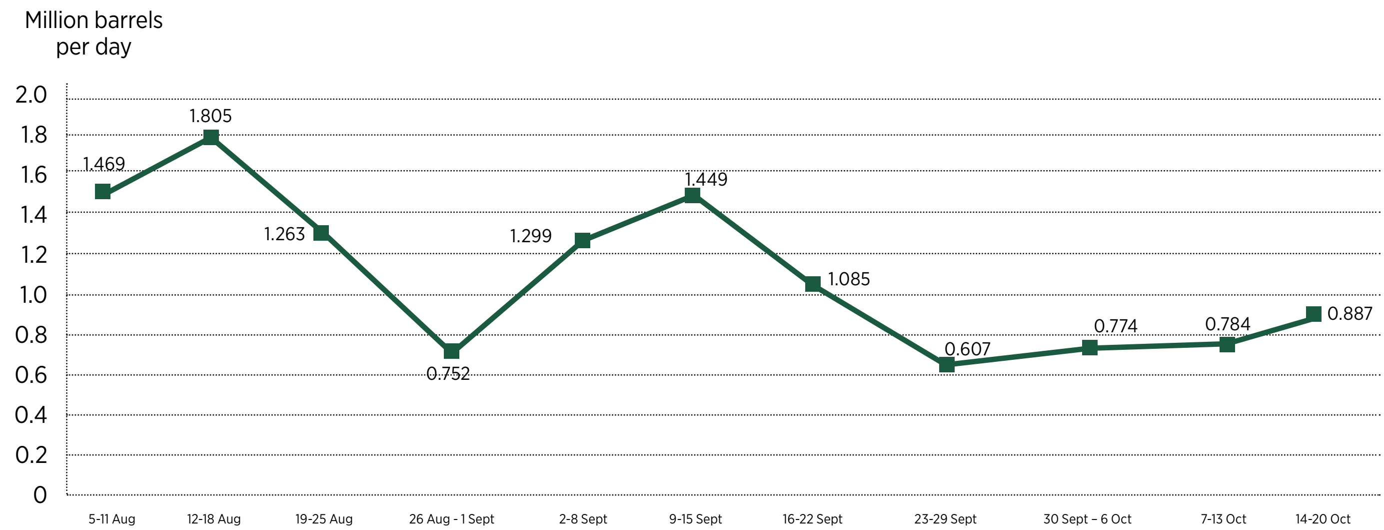
Time Period: Week 4, October 2019
Source: IEA, OilPrice.com, GI Research

Weekly Imports of Heavy Sweet Crude into Fujairah



Source: Kpler

Total Refined Product Exports from the GCC to Asia-Pacific



Source: Kpler

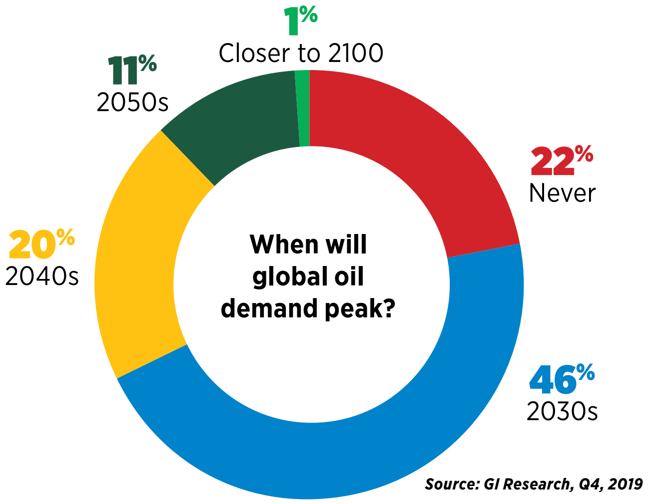
EXCLUSIVE REPORT

BLACK GOLD

Guessing Game Continues: What's Next?

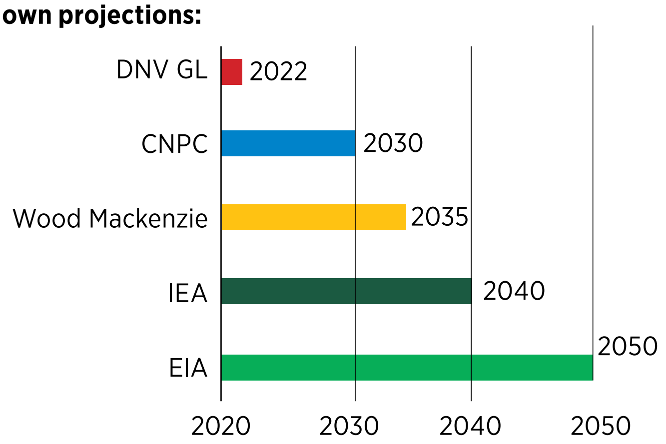
EXECUTIVE SUMMARY

Cautious eyes watch every barrel that goes to market; very few getting the guessing game 100% right. Ambiguities abound, from the current and very real threat of volatile geopolitics impacting energy flows to what OPEC+ will do next week. And the forecasts over peak demand are gaining more accuracy (maybe). While a longer-term discussion, the market's confidence in forecasts today dramatically impacts how deep much-needed investors' pockets will stretch tomorrow. Their elasticity is vital to meeting demand for oil and the wider energy basket in the Middle East and beyond.



Source: GI Research, Q4, 2019

International companies weigh in with their own projections:



Source: GI Research, DNV GL, CNPC, Wood Mackenzie, IEA, EIA

INSIGHT

"I don't see oil peaking. The global population is growing and with that comes continuous growth in energy demand, particularly when one looks at the potential growth of rising economies in the Middle East and Africa. Oil demand will probably not be matched by an equivalent growth in production."

Mele Kyari, Group Managing Director, Nigerian National Petroleum Corporation (NNPC)

9.7bn

The world's population will require a vast amount of energy as it is expected to increase from 7.7 billion currently to 9.7 billion in 2050.

Source: United Nations

GIQ, a unit within Gulf Intelligence, provides forecasts and advisory services through research and analysis.

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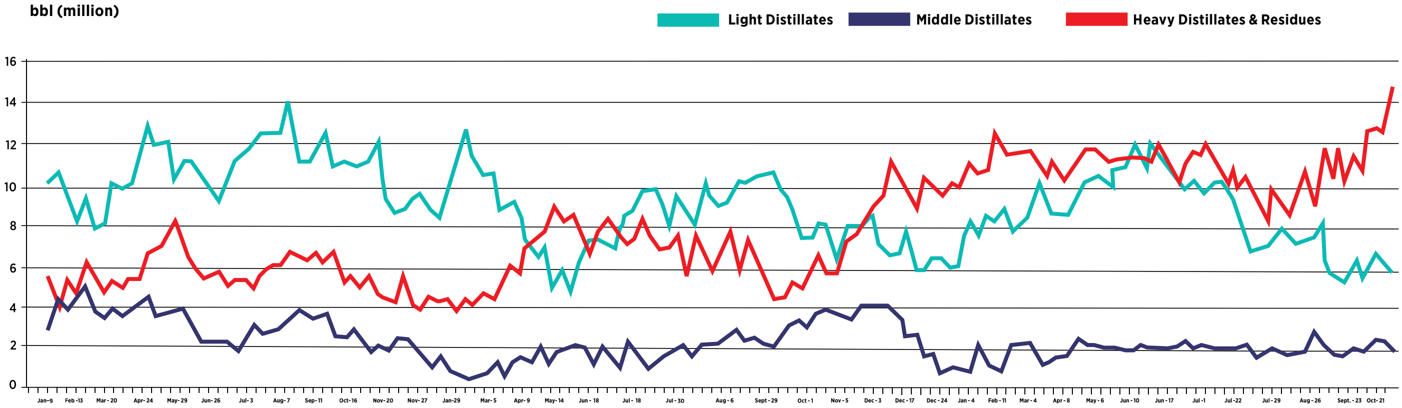
Fujariah Weekly Oil Inventory Data



As of 28 October, total oil product stocks in Fujairah stood at 22.606mn barrels. Stocks rose by 589,000 barrels week-on-week. Overall product stocks built by 2.7% with a build in heavy distillate stocks, which hit a fresh record high. This offset falls in middle distillate and light distillate stocks.

Stocks of light distillates fell by 737,000 barrels, reflecting a fall of 10.9% week-on-week. Total volumes stood at 6.032mn barrels. Overall, the market East of Suez was seeing some downward pressure from higher supply in the region, particularly from North Asian refiners. The FOB Singapore 92 RON gasoline crack against front month ICE Brent was assessed at $6.07/bl on Tuesday, standing $1.38/bl lower week-on-week.

Stocks of middle distillates fell by 25.6%, falling 695,000 barrels to stand at 2.023mn barrels at the start of the week. Higher freight rates had impacted arbitrage economics to move middle distillates to different regions, however an easing of these rates was expected to lead to an uptick in trading activity. On paper, the arbitrage to move ultra low sulfur gasoil from the Arab Gulf to Northwest Europe was seen as closed at the start of the week.

Stocks of heavy distillates rose by 16.1%, rising by 2,021mn barrels on the week to stand at 14.551mn barrels, setting a fresh record high for heavy distillate stocks in Fujairah since stock reporting began at the start of 2017. The previous record high of 13.456mn barrels was on 17 July, 2017. The build in stocks comes as vessels were heard to be switching from high sulfur fuel oil (HSFO) as a fuel source to low sulfur fuel oil (LSFO) with just over two months now before the implementation of IMO 2020. Regionally, Kuwait's KPC was seen selling higher amounts of straight run fuel oil. A source noted that the uptick in sales comes as demand within Kuwait for fuel oil for power generation had decreased after the peak summer demand season, coupled with scheduled maintenance at a refinery unit in the country.

Source: S&P Global Platts

Oil Commentary

"If US shale production is here to stay, where does this leave OPEC+?"

BY MATT STANLEY
SENIOR BROKER
STAR FUELS

Brent is trading this morning at $61.43/bl, down 0.16 from last night's close. WTi is at $55.27/bl, down 0.26. As another month draws to an end and that jolly, red faced fat bloke in a suit who delivers everyone gifts at Christmas gets ever closer, I wonder how the bulls feel. Point of order, I'm not talking about Trump either. Of course, I'm talking about Santa Claus, but the irony is that the bulls do need Tubby Trumpy to deliver some form of good news before any geese are laying or any maids a milking. Chances? Not great, I have to say. But progress has been made so I imagine before the holidays start, we may see something of a deal. Perhaps Q4 isn't looking as bad as many had feared – let's see. Now I know I go on about US oil production a LOT but it's important. I made a point a few months ago about how US oil production is becoming ever more efficient. This is evidenced as follows: in the week ending October 18, US crude oil production was at its record high of 12.6mn b/d. The production was at this level despite the oil rig count at more than a two-year low. Last week, the oil rig count fell to 696 – the lowest level since 28 April, 2017.

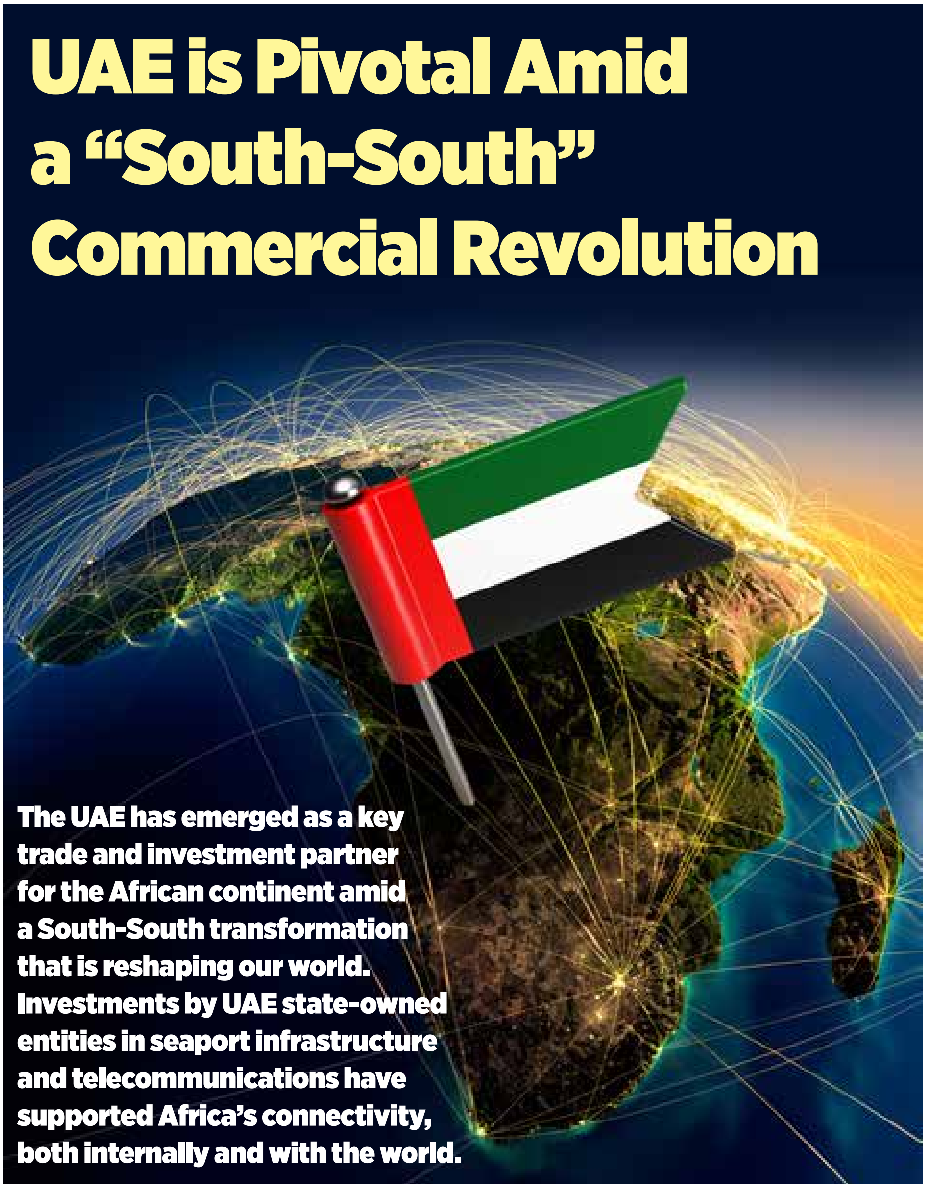
On a year-over-year basis, the new-well oil production per rig is estimated to rise 20% next month. Efficient. Even though I may be contradicting my own commentary published yesterday regarding Q3 earnings, you have to wonder if the US shalevolution is indeed over, or if it is here to stay. Based on current efficiency, you'd have to say the latter.

So, if US shale production is here to stay, where does this leave OPEC+? Well, it certainly can't do anything apart from maintain current output policy in the face of such brutal facts emanating from across the pond. Anything other than an "extension" of the cuts yields, quite frankly, nothing but a disaster. Keep your eyes open on this. Stats out later – apparently we will see a draw on crude and products. Let's wait and see.
Good day y'all.

October 30, 2019

New Silk Road Monitor

By Afshin Molavi, Senior Fellow, Johns Hopkins School of Advanced International Studies



UAE is Pivotal Amid a "South-South" Commercial Revolution

The UAE has emerged as a key trade and investment partner for the African continent amid a South-South transformation that is reshaping our world. Investments by UAE state-owned entities in seaport infrastructure and telecommunications have supported Africa's connectivity, both internally and with the world.

Future investments announced for West Africa will substantially boost infrastructure needs across the region. UAE-based airlines — Emirates, Etihad, and FlyDubai — are growing their African networks, and Emirates, in particular, has emerged as the most important foreign carrier in several of Africa's largest markets. Dubai International Airport has become a virtual "Africa hub" and the city has emerged as a key logistics and financial gateway, linking Asia to Africa. African traders increasingly view Dubai as a base of operations to link their home countries to world trade. Several global multi-nationals use Dubai as their Africa headquarters owing to its extensive air and sea links as they accelerate their engagement across a continent that has seen seven of the ten fastest growing economies over the past decade and the rise of a growing consumer middle class. Dubai also serves as an air and sea (and increasingly finance) hub that supports China's well-documented engagement across Africa, as well as Africa's growing relations with India.

The trajectory is clear: UAE-Africa relations are on the rise, and it is a relationship that will only grow in importance for both sides. As Africa rises, it will need strategic partners that view the continent as a promising place to invest and a business opportunity for growth, not a charity case to be "saved." US policy-makers can seek to leverage the growing UAE-Africa relationship to support initiatives ranging from bridging Africa's power gap to supporting expanded trade.

GIQ TOP 3 TAKES

How to Get Ahead of the Great Energy Transition?

1. PUBLIC-PRIVATE COORDINATION

Key to energy efficiency success is that government policy and the private sector work hand-in-hand. GCC governments should focus on setting regulatory frameworks for energy efficiency (subsidies, competition policy), while industry gets on with innovating and providing smart solutions to the customer.

2. SUBSIDIES STYMIE EFFICIENCIES

Removing or lowering subsidies on water and electricity is essential to encourage end users to make rational choices and adopt energy efficient solutions (such as home smart meters) that private businesses are offering.

3. DEREGULATE & INTRODUCE SPOT MARKET

As Europe has done over the last 20 years in its monopoly-style utility sectors, GCC countries should move to deregulate and privatize parts of their power infrastructure and introduce a spot market to allow for competition along all elements of the value chain. This would open up end user choice, which is critical for enabling the energy transition, particularly when it comes to driving consumer behavior and introducing new technology.

Source: GI Research, Q4 2019

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ENERGY NEWS Highlights

Oil falls on Weak Chinese Data, Forecasts for US Crude Stocks Build

Oil prices fell on Monday, 28 October, after four days of gains as expectations that US crude stockpiles will rise and worries about weak Chinese industrial data offset hopes that demand will increase if talks progress on a Sino-American trade deal.

Source: Reuters

Kenya to Export 500,000 Barrels of Crude Oil

Kenya plans to export half a million barrels of crude oil in February 2020. The east African nation is currently producing 2,000 b/d from its oil fields in the Lokichar basin in northwest Kenya.

Source: Xinhua

Iran's Impossible Task: $194/bl Oil

Iran's fiscal breakeven oil price is $194.60/bl for 2020, the International Monetary Fund (IMF) said. The IMF has also lowered its economic growth forecasts for the entire Middle East region.

Source: IMF

India's Refinery Run Rates Hit 15 Year Lows

India, one of the main drivers of oil demand growth in Asia and the world, has just seen its oil imports drop to three-year lows and fuel processing rates plunge to a 15-year low, as slowing economic growth takes its toll on demand.

Source: OilPrice.com

Eni Strike Oil Offshore in Egypt

On Friday, 25 October, Eni announced an oil discovery at its Abu Sidri development lease in the Gulf of Suez, offshore Egypt. The Sidri 36 appraisal well in the Abu Rudeis Sidri lease encountered 200 meters of hydrocarbon column while assessing the westward extension of this year's Sidri discovery well.

Source: Africa Oil & Power

A Death Sentence for Small Oil and Gas Drillers

Some of the largest banks financing US oil and gas drillers have recently reduced their expectations for oil and natural gas prices, determining the value of companies' reserves and loans that they can take against those reserves.

Source: OilPrice.com

Emirates NBD
MENA Quarterly Q4 2019

Khatija Haque – Head of MENA Research
Edward Bell – Commodity Analyst
Daniel Marc Richards – MENA Economist
Published Date: 27 October 2019

HIGHLIGHTS

Oil markets will go through an enormous transformation from January 1, 2020 as new regulations covering the sulphur content of marine fuels take effect. For a region that produces a relatively sour barrel **the Middle East could face changes in the demand profile for its crude exports post 2020.**

Several GCC countries have now released GDP growth data for Q2 2019, allowing us to assess the performance in the first half of this year against our expectations. While there have been some bright spots (notably non-oil sector growth in Saudi Arabia), the decline in oil production in H1 2019 has weighed on headline growth numbers. **With the OPEC curb on production expected to remain in place through Q1 2020, and taking into account H1 GDP data where it is available, we have downgraded real GDP growth forecasts for 2019 in four out of the six GCC countries.**

The biggest change is in our forecast for Saudi Arabia, despite a strong rebound in non-oil sector growth in the first half of this year. Although output has recovered after the damage to Aramco's facilities in September, average crude output this year is likely to be significantly less than we had expected. As a result we now expect a -4.5% contraction in the oil sector, bringing headline GDP growth down to -0.4% this year compared with our previous forecast of 2.0%.

Lower oil production is also the main reason for downgrades to Kuwait, Oman and Qatar, although in Oman and Qatar's case, we have revised our expectations for non-oil growth lower as well.

For the UAE and Bahrain, we retain our 2019 growth forecasts at 2.0% respectively. The UAE has increased oil production 2.8% this year relative to 2018, while still meeting its OPEC-agreed production target. On a GDP weighted basis, average GDP growth in the region this year is likely to slow to 0.5% from 1.9% in 2018. While the headline number is soft, this is largely due to lower oil production than had been expected earlier this year.

A combination of international and domestic factors have enabled the Central Bank of Egypt to begin rate-cutting in earnest, in a move which should provide a boost to the Egyptian economy. The 100bps cut enacted by the bank's MPC in late September took the total rate cuts to 550bps so far this year, and the overnight deposit rate to 13.25% - the lowest since November 2016 when the country embarked on its IMF-sponsored reform programme.

Protests in Iraq, and in particular Lebanon, have highlighted ongoing political risk in ex-GCC MENA countries. The Lebanese protests have elicited concessions from the government, but the fiscal consolidation targets announced have little chance of being realized.

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