Fujairah New Silk Road WEEKLY NEWSLETTER

FEB 3rd 2022
VOL. 104

Supported By:
FOIZ منطقة الفجيرة للصناعة البترولية Fujairah Oil Industry Zone
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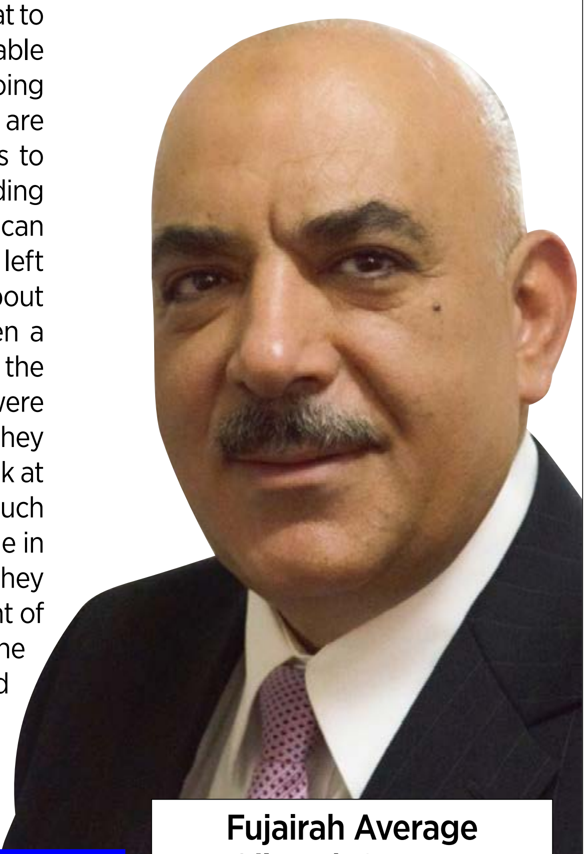
US SEES HIGH OIL PRICES AS NATIONAL SECURITY THREAT IN RUSSIA CRISIS

Dr. Anas Al-Hajji, Managing Partner, Energy Outlook Advisors



US administrations have historically viewed high oil prices as a threat to national security if they limit foreign policy choices. That is applicable today with regards to Russia and so the Biden administration is going to do whatever it can to lower oil prices, although their options are limited. By contrast, Russia has historically not wanted oil prices to go above $65 for its own economic reasons, but today, it is finding $90 oil as very lucrative and very valuable politically because it can choke Europe's choices and Biden's choices. This has in turn left OPEC, particularly the Gulf states – who might be thinking about increasing production to lower prices – stuck politically between a Biden administration and Putin administration. For that reason, the group will likely stay the course in their production plans. If they were to increase production, Russia might view that as against it, and if they don't increase production, the Biden administration is going to look at it as supporting Russia. It is the first time the OPEC+ group faces such a major geopolitical crisis. They have been trying to walk a fine line in terms of balancing economics and politics, and all of a sudden, they have this major problem. We should also note that the involvement of Russia in the group is not only about oil. Russia is OPECs voice at the UN Security Council, Russia can fight the carbon tax in Europe and Russia can fight on currencies – all elements that other OPEC+ members cannot do – so Russia is very valuable to the group.

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Fujairah Weekly Oil Inventory Data

6,362,000 bbl	1,860,000 bbl	11,379,000 bbl
Light Distillates	Middle Distillates	Heavy Distillates & Residues

Source: FEDCom & S&P Global Platts

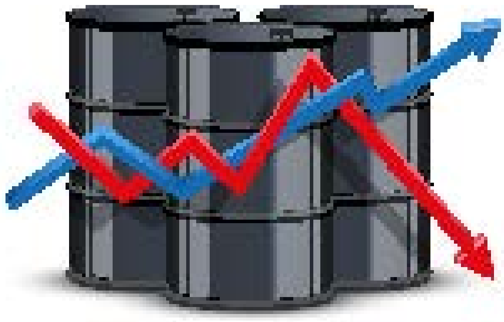
Fujairah Average Oil Tank Storage Leasing Rates*

BLACK OIL PRODUCTS

Average Range
$3.57 - 4.06/m³

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

THE WEEK In Numbers



Weekly Average Oil Prices

Brent Crude:	$89.97/bl
WTI Crude:	$87.79/bl
DME Oman:	$87.85/bl
Murban:	$89.29/bl

*Time Period: Week 1, February 2022
Source: IEA, OilPrice.com, GI Research

Fujairah Weekly Bunker Prices

VLSFO	MGO	IFO380
High = $695.00/mt	High = $846.00/mt	High = $529.00/mt
Low = $681.00/mt	Low = $823.00/mt	Low = $515.50/mt
Average = $690.50/mt	Average = $834.50/mt	Average = $525.00/mt
Spread = $14.00/mt	Spread = $23.00/mt	Spread = $13.50/mt

*Source: Ship and Bunker, *Time Period: January 26 – February 2*

Fujairah Bunker Sales Volume (m³)

1,411 180cst Low Sulfur Fuel Oil	560,565 380cst Low Sulfur Fuel Oil	108,405 380cst Marine Fuel Oil
2,868 Marine Gasoil	24,443 Low Sulfur Marine Gasoil	4,936 Lubricants

Source: FEDCom & S&P Global Platts

GI Consultancy Intelligence Publishing

CONTINUED FROM PAGE 1

Dr. Anas Al-Hajji, Managing Partner, Energy Outlook Advisors

Can OPEC+ even meet its current output commitments?
Some members are not able to meet their quotas but that is not a new problem within OPEC. It's been happening for a long time. What was new in 2021 was that those countries with spare capacity refused to infringe on the market share of those who could not increase production and that has affected the structure of the oil market. OPEC prioritised cohesion over increasing production.

Expectations for average Brent prices in 2022?
The sweet spot is \$68-\$75 for consumers and producers – it's where we can balance the short-term market with long term demand. In terms of forecasts, if we exclude

Russia and Ukraine, we will not see \$100 oil. We will see a range of \$75-\$85. But \$85 is still dangerous for OPEC. The US dollar is going through roof, interest rates are going up and so are taxes. Government spending is going to decrease in the coming years so that's where high oil prices become dangerous. Also, for the first time in the history of the oil market, we have a buyer, China, which is able to have market power to control prices through the use of its strategic petroleum reserves and import quotas. The only reason we did not get \$100 in 2021 was China. We also had last year, governments and companies move towards spot markets from long term contracts. That was a big mistake because we had people going back to burning coal and oil in power plants, and we had substitution among energy sources in a way that we have never seen before, with spot market prices going through the roof. We must always balance cost with energy security.

Do you anticipate a supply squeeze again in 2022?
All we need by the end of the year, assuming we are not going to have major lockdowns, is about 3.3 to 3.5 million barrels a day of additional oil and liquids, to satisfy demand. And after April, with the changes in baseline calculations for the OPEC+ group and with the deal supposed to end by October, it should mean that every country is free to increase production any way they want to after that.

What's your outlook for US production this year?
The US is going to have multiple peaks. The only issue is when. The only reason why, especially small operators, have not increased production is because they hedged at a very low price while the banks and others did not finance them. Now, those hedges are coming off and they are going to have enough cash flow to support their operations. We are also seeing private equity back – with \$60 billion in cash on standby to be invested – and other investors from around the world, whether from Latin America or China or the Middle East. We will probably reach another record in US production towards the end of 2023. We may then see ups and downs, but we should not write off shale. Those in the industry today are a completely different breed from what we have seen in the past. And if you look at the bankruptcies in 2015, most of them were in natural gas, not oil.

How does Biden's green policy play into US production recovery?
When operators realized that Biden was going to win, they bought a massive number of licenses, especially on federal land. Biden will not have enough power to hold those drilling activities. In terms of green energy, we are struggling in several ways. The stocks of those companies are lower than what they started at in 2021. Biden is struggling between his green policy and the realities of the market.

Is China's decade as the major magnet of marginal demand growth over?
China's oil imports declined last year because they used their strategic petroleum reserves. Their demand did not decline. So, it is not over and if we have a more peaceful world, including with trade, demand will grow again. We have to also remember that China is growing at 5% now and in terms of numbers, that is way higher than when it was growing at 11%.

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Energy Markets Views You can Use

Kate Dourian, FEI

MEES Contributing Editor & Non-Resident Fellow
The Arab Gulf States Institute in Washington

Expectations from the OPEC meeting?

They will go along with the policy of increasing by 400,000 barrels a day, even though they're missing their targets. They don't seem to be that worried about the high price. They will say it's not about fundamentals but rather to do with geopolitics. I don't think they're going to change course just because there is a slight change in demand. They can address any imbalance later in the year. Now that they've got this policy going, it's not going to be very easy to reallocate quotas. If there's a need for more supply, then we may quietly see some of the producers shipping a few extra cargoes.

Can OPEC succeed in changing baselines come April?

Some of these baselines are unrealistic. A few countries can increase production, such as the UAE and Saudi Arabia, and possibly Russia, but not by very much. It's sort of a two-track organization at the moment. Global inventories are low and need to be replenished. Spare capacity is shrinking and there are even questions about Saudi Arabian capacity. The IEA is also revising down Iraq's production capacity. So, there's more supply side uncertainty than there is on demand. And if demand proves to be stronger, then we are going to have a tight market for the rest of the year, with ups and downs and maybe a bit of a surplus in the first quarter. We're still expecting some cold weather so if it comes, then we are going to have higher prices.

Are high oil and gas prices forcing manufacturers to shut operations?

High energy prices do feed inflation because businesses are paying more for products. The oil price doesn't seem to want to move despite bearish indicators such as Iranian oil possibly coming back. The talks look like they may be on the verge of an agreement to return to the 2015 nuclear deal.

Amena Bakr

Deputy Bureau Chief & Chief OPEC Correspondent
Energy Intelligence

Should OPEC adjust its output because of these high prices?

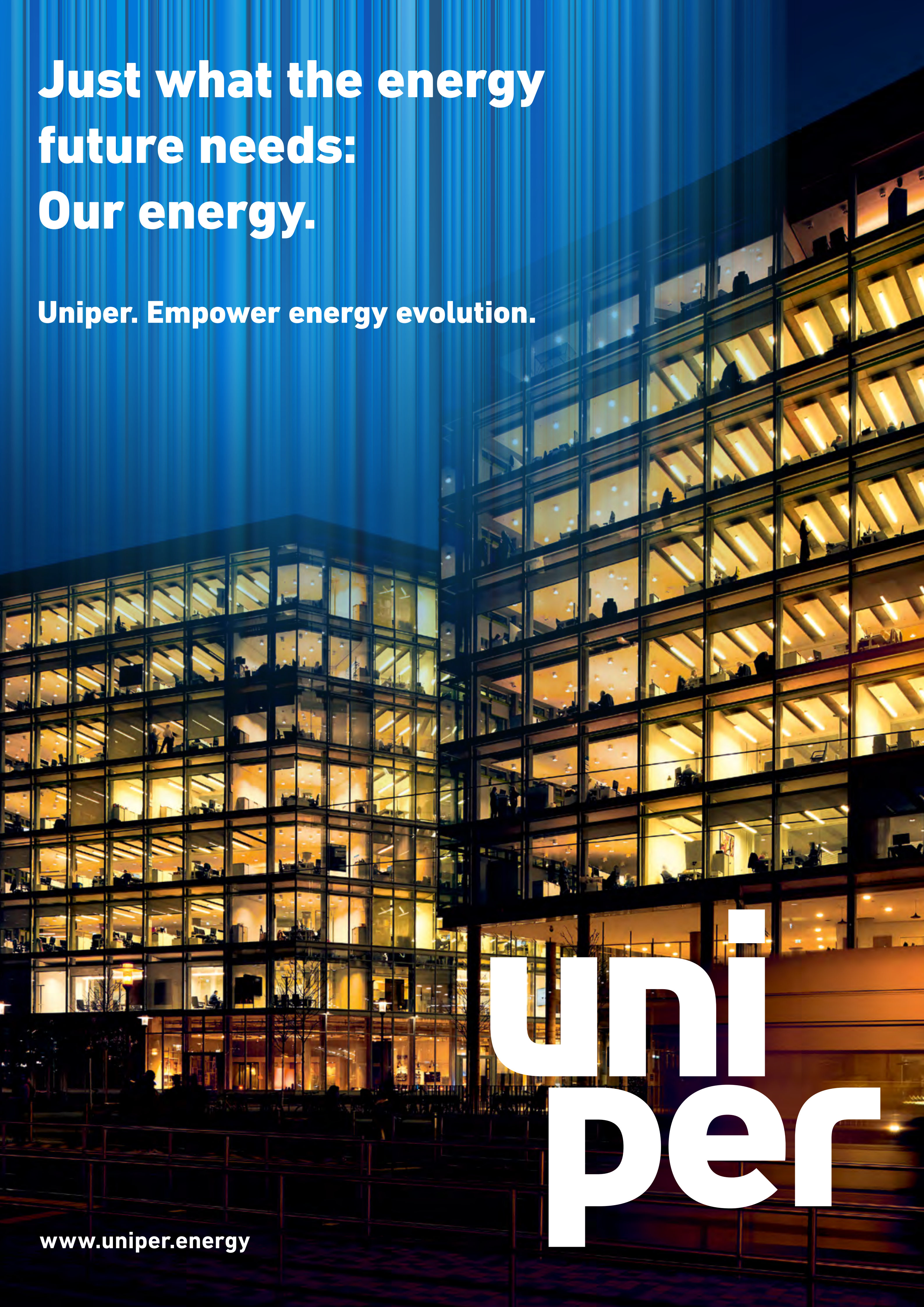
Prices have touched $90, and the trend is clearly up. But OPEC+ have said this isn't due to fundamentals or supply shortages, but rather geopolitical tensions and uncertainty about the US Iran nuclear agreement, which are factors beyond the group's control. They also don't feel they can do much at this point as their spare capacity is eroding fast – our assessment is that it's about 2.5 million barrels. Only Saudi Arabia and the UAE could immediately add sustainable production. So, they will keep policy steady at the meeting and continue with the 400,000 bd increments. They're not going to go into a discussion of who can't produce and what other countries would substitute.

Does OPEC lose credibility with this challenge to meet quotas?

They're not delivering the 400,000 bd but they're building their credibility on the fact that during a time where the market is so volatile and has so many moving parts, they're able to keep a steady hand on policy. Consistency is what they're bringing to this environment. Nobody at OPEC+ wants to see $100 oil as it could lead to demand destruction and a crash in the global economy.

Can the designated OPEC members meet elevated quotas come April?

At that point, they really need to revisit this whole quota situation. Perhaps they need to go back to a system where they have a combined ceiling for the group so that they keep their credibility intact. Saudi, the UAE, and maybe Kuwait will be able to deliver on that front. I'm not sure about Russia or Iraq. One point Gulf producers do want to make is about the switch to and investment in renewables. They are hoping that the current situation of tight capacity and increased prices will highlight that renewable energy is not able to fill the gaps today and it's also getting more expensive with inflation. They're hoping that policymakers will realize the importance of investing more in the upstream sector.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GI Soundings Week in Review

OPEC+ MAINTAINS OUTPUT PLAN FOR MARCH DESPITE TIGHT SUPPLY

Over the last week, Gulf Intelligence has held high-level interviews with energy experts in the MiddleEast, Asia, Europe, and the US. This intel is harvested from the exclusive briefings.

- **Walter Simpson, Managing Director, CC Energy Development**
- **Ole Hansen, Head of Commodity Strategy, Saxo Bank**
- **Sara Akbar, Chairperson & CEO, OiLSERV, Kuwait & Non-Executive Director, Petrofac**
- **Adi Imsirovic, Senior Research Fellow, The Oxford Institute for Energy Studies**
- **Omar Najia, Global Head of Derivatives, BB Energy**
- **Dr. Carole Nakhle, Chief Executive Officer, Crystol Energy**
- **Rustin Edwards, Head of Fuel Oil Procurement, Euronav NV**
- **Clyde Russell, Asia Commodities & Energy Columnist, Thomson Reuters**

Walter Simpson, Managing Director, CC Energy Development

"Even if you have the ability from a technical perspective, you may not have the cash to do it. And so national oil companies are going to drive investment going forward, rather than the independents."

Ole Hansen, Head of Commodity Strategy, Saxo Bank

"The yield curve is flattening in the bond market, which indicates that we could be putting the breaks on too fast into a slowing economy."

Sara Akbar, Chairperson & CEO, OiLSERV, Kuwait & Non-Executive Director, Petrofac

"The only people with real capacity are Saudi Arabia and the UAE and for OPEC+ to be credible, they have to fulfil their commitments and now is the time to add the barrels that are missing, for the market to stabilise."

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

"The market is pretty tight – physical dated Brent is trading in February about $2.5 above futures. When we have this backwardation so strong at the front end, oil is not going into storage and we are now going well below the five year 2014-2019 average."

Omar Najia, Global Head of Derivatives, BB Energy

"The oil market is trending higher into March. After that, I'm not at all friendly to the market but between now and March, it's pointless to pick a top."

Dr. Carole Nakhle, Chief Executive Officer, Crystol Energy

"We are expecting additional supplies from within OPEC, and outside led by the US, but only after Q1, so at the moment we have a stronger rebound in demand and tighter supply than what many expected, but we are not in a mode of crisis."

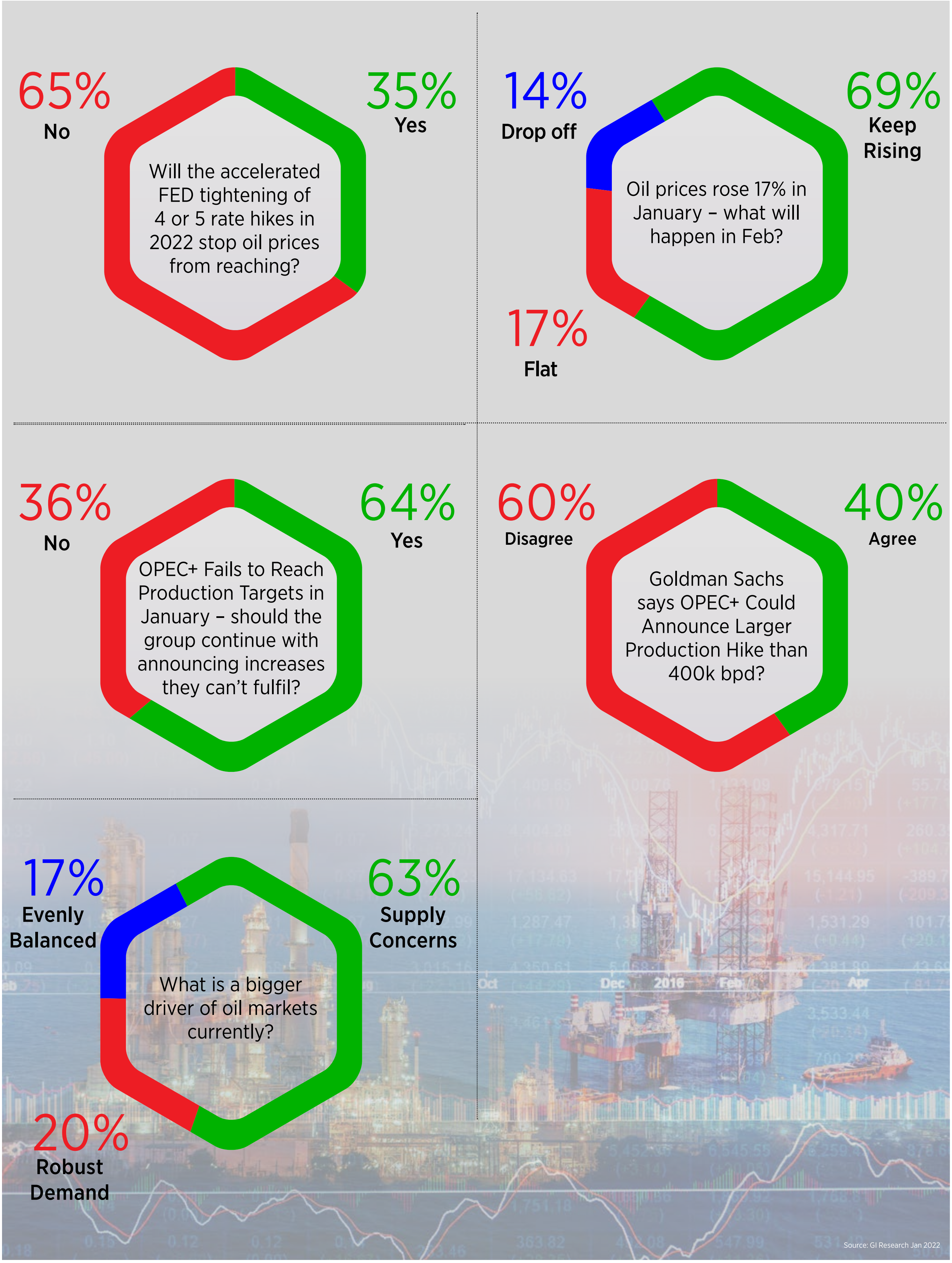
Rustin Edwards, Head of Fuel Oil Procurement, Euronav NV

"Prices are still elevated on box rates – a 40-foot container from China to the US west coast is at $8000, which is $6000-7000 over pre Covid prices. The high cost of freight continues to roll through and put that inflationary pressure on the consumer."

Clyde Russell, Asia Commodities & Energy Columnist, Thomson Reuters

"The problem for OPEC is if the price does rise to $100, that will have a serious impact on demand, especially in Asia and for countries like India, China and Japan. OPEC really has to decide what it wants in the short term - otherwise it will suffer long term pain."

Weekly Surveys



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Energy Markets Views You can Use

Christof Rühl

Senior Research Scholar - Center on Global Energy Policy
Columbia University

Are you surprised by the oil market spiking up?

We are in a very volatile phase. We have some problems such as the disruption from the Russia Ukraine issue and we also don't know what demand will be. The signs are all pointing to global growth slowing and being less than many had hoped for, not only from China, but now also from the US. The Fed has finally come around and is being forced to react a little bit. The rate of inflation is 7% and while we don't expect it to disappear very fast, we also don't expect the market to crash and burn. There's still too much money which has to be invested somewhere and that's why the market is coping with all this uncertainty quite well.

How will the steep backwardation in oil impact inventories?

Backwardation removes the incentive for inventory. We do have tight markets now but the outlook for supply and spare capacity and the possibility that geopolitics may calm down, could mean some moderation for prices.

How strong is the intersection between oil prices and inflation?

Oil goes directly and indirectly into almost anything we do, and so it lifts prices generally. However, oil price fluctuations tend to be short lived whereas inflation is more of a longer-term problem. That's why the favored inflation measure of the Fed is not the CPI, which includes everything. Rather, it's the core CPI, which excludes energy and food prices. Core CPI in the US today is around 4.5% to 5%. Inflation expectations for Europe this week are 5% and core inflation about 2.6%. The oil price alone does not create inflation, but it can accelerate it and make it worse, just as it can help bring inflation down if the oil price drops.

Outlook for the Ukraine crisis?

Uncertainty prevails, but the fact that they are now talking in so many different political and diplomatic channels is probably good news. Russia is swirling its weight around, bullying a neighbor, probably initially without a clear game plan. The west meanwhile is mustering a response. With the threat of maximum sanctions hanging over it, Russia will try to do something just under the level which would trigger that. Russia wants the Ukraine to be a vassal state. That's the goal. Russia will try to inflict as much damage on Ukraine as possible without being cut off from the global financial system and energy markets. And the level for what they can do is quite high because that reaction from the US and Europe is pretty far away.

Andy Laven

Chief Operating Officer, Sahara Energy Resources

How significant is the tightness and backwardation in the market?

There is nothing in the fundamentals that tells you the price should be coming down. There's an enormous amount of general floating up for the price, and it's been like that for the last six months. There's also so much going on across the world geopolitically that it is doing nothing but pushing prices up. But is the market really tight? There's an increased bifurcation of demand, with developed countries coming back quicker and the reality is the developed world is what drives the price. The six-month backwardation shows that sentiment in the market is that we will move to a position where oil will be cheaper. The Permian is back up above pre-pandemic levels, but it also takes time to bring wells on. OPEC can bring barrels but it's going to take time. So, everybody's pricing that further into the future - the return of OPEC oil, the return of more Iranian oil.

Is there a scenario where the tightness could continue into 2H 2022?

It very much depends on whether demand keeps going up. Environmental policies are also making it more difficult for some producers to get access to capital to bring new production online. So, you really need to look at something like Iran coming back in a big chunk, to see softening in the back end of the year. But that almost requires demand to be flat as well. If the world economy continues to grow, then prices may soften a bit, but it's more that we will see them peaking rather than drop. I can't see a downward drop in prices because of anything fundamental.

Fujariah Weekly Oil Inventory Data

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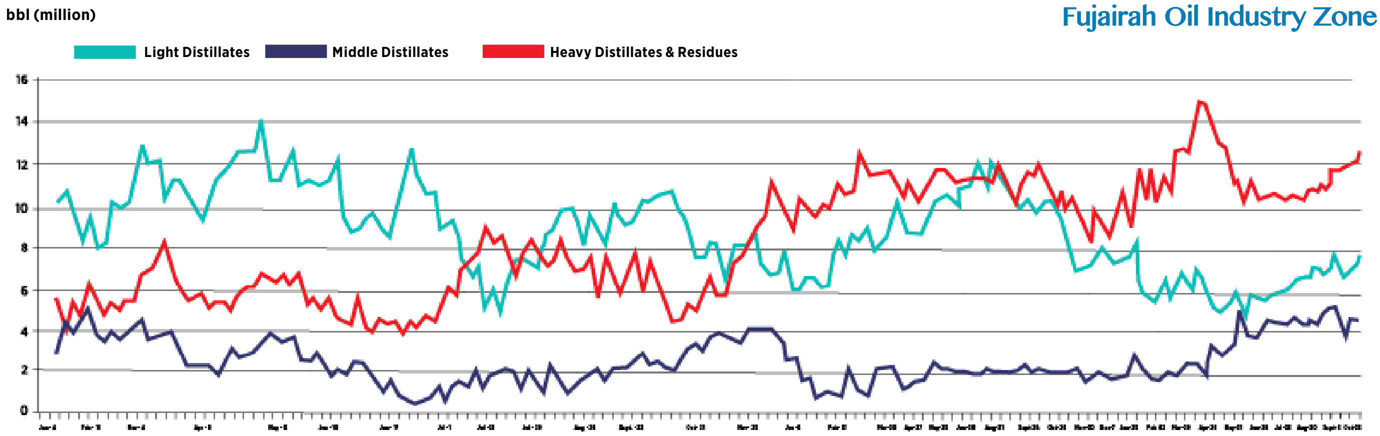

TOP TAKEAWAYS

- Total oil product stocks in Fujairah were reported at 19.601 million barrels – the highest level since Nov. 15, 2021. Total stocks rose 2.660 million barrels with overall stocks up 15.7 % week-on-week. The stock movement was driven by rising stocks in all three product categories of light distillates, middle distillates and heavy residues.

- Stocks of light distillates, including gasoline and naphtha, rose 1.052 million barrels or 19.8% on the week to 6.362 million barrels. This is the first time they have been above 6 million barrels since Jul. 26, 2021. The East of Suez gasoline market weakened at the start of the trading week, amid bearish indications of increasing supply availability in the region. In the Middle East, Qatar's Mesaieed refinery extended its maintenance and will be back online early March instead of February, traders said. The full refinery is undergoing maintenance and Qatar Energy sought cargos of 20,000 mt 91 RON gasoline and 20,000 mt 95 RON gasoline for delivery over Feb. 6-7, 20,000 mt 91 RON gasoline and 20,000 mt 95 RON gasoline for delivery over Feb. 13-14 and 15,000 mt 91 RON gasoline and 20,000 mt 95 RON gasoline for delivery over Feb. 27-28. Meanwhile, India's HPCL was seen on the spot market offering 10,000 mt of minimum 83 RON gasoline for loading over Feb. 8-10 from West Coast India, in a tender that closed Jan. 31.

- Stocks of middle distillates, including diesel and jet fuel, rose by 64,000 barrels or 3.6% on the week to 1.860 million barrels. Frigid weather in the US and declining stockpiles pulled the East of Suez jet fuel/kerosene complex higher Jan. 31, with the front-month backwardation structure climbing up to multi-month highs. "Overall product spreads all went up, diesel also did the same — cold winter in the US is pulling stock and that has resulted in stronger spreads everywhere," a regional trader said Jan. 31. "Cracks are all stronger also — diesel and jet always have to compete for yield," he said. The strength in the jet fuel/kerosene market has been underpinned by restricted supply, with refiners keeping a tight lid on production and preferring to maximize output of distillate gasoil due to a weak regrade. In addition, China's decision to slash product exports has also tightened the supply balance in the market, and while some traders and analysts have said the country may push out more exports of jet fuel volumes than earlier expected due to declining domestic demand for the aviation fuel, that has had little immediate impact on the wider jet fuel market.

- Stocks of heavy residues rose 1.544 million barrels or 15.7% on the week to 11.379 million barrels. East of Suez spot trading activity slowed amid a low volume of inquiries as buyers fulfilled forward requirements ahead of the Lunar New Year holidays, traders said. During and outside the MOC Jan. 31, offers for delivered marine fuel 0.5%S fuel in Fujairah were heard at $686-$690/mt with offers around the lower end of the range for delivery from Feb. 6 onwards. Although LSFO stockpiles are "normal", barge schedules at Fujairah are expected to remain tight for at least the next 10 days with limited prompt availability, local bunker suppliers said. The grade was assessed at $685/mt Jan. 31, up $5/mt week on week, Platts data showed. The price of marine fuel 0.5% sulfur bunkers in Fujairah represents a $3/mt discount to Singapore which saw its delivered bunkers on the same basis assessed at $688/mt.

Source: S&P Global Platts

BY MATT STANLEY
DIRECTOR
STAR FUELS

To all those who celebrated Lunar New Year, I wish you health and prosperity for the year ahead. For all those who celebrated a bit too much, I wish you lots of coffee and fried egg sandwiches, and to all of those who are still celebrating I wish I was you. Rightttt, oil? Oil it is. Brent is trading this morning at $89.07/bl down 0.40 and WTI is trading down 0.52 at $87.74/bl. "Well, I better be bouncing along now! Cheerio! Hoo-hoo-hoo-hoo!" You know who said that? Tigger, from Winnie the Poo. Why am I quoting Tigger? Well, for one it is the Year of the Tiger, so Tigger gets to represent his feline friends. But it is also how I imagine every bull in the market acts right now. With a springy tail jumping from one positive headline to another whilst ignoring pretty much everything else. The wonderful thing about oil bulls is oil bulls are wonderful things. Pajoinngg. That's the sound of a spring breaking. Trading floors are now scenes of patched up Tiggers all walking on crutches in the face of fundamental realities hitting home. The thing is though is that I don't see Tigger stopping. I am not saying I am bullish but that is mainly down to the fact that I can't stomach or form an argument for $90/bl oil when the world is still facing economic uncertainties in how best to ease monetary policy in a, dare I say it? A "Post COVID world"? Hmm, this one will be the big talking point over the next few months. But when I look at the oil market, I look at massive under investment and a reality that there does not seem to be enough oil to cover existing demand. This, right now, is a problem. But I was always told "every problem has a solution", and of course this one does. OPEC+ met yesterday and bought back 400kbpd of production. The meeting lasted 16 minutes. The group still have 2.5mn bpd of production to bring back online over the course of 2022. Seemingly it seems the struggles many a producer are going through in meeting production quotas is driving the whole supply crunch rhetoric, and right now, this is justified. I wonder what level it will take before we see those who are able to pump more to actually do it. $100/bl? I mean we are literally only days away from that it would seem, even if prices are taking a breather this week. US oil production is not increasing any time soon as the weather is freezing. Hmmm. $120/bl oil soon? Don't be ridiculous, an old friend would say. Good day.

February 3 2022


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our partners and our customers. But this is just the start of our story.
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Energy Markets Views You can Use

Maleeha Bengali
Founder
MB Commodity Corner

The US Fed has been playing a reactionary role in the market.
But it has now come to terms with the fact that this inflation is not transitory. The bond market and rate market have been talking about this stress in the market for some time, suggesting a Fed policy error – just look at the two-year and ten-year yield spreads. Markets have started this year pricing in inflation to be higher, while growth is plateauing and softening at the same time. The market right now is asking whether the rate increases will happen. The Fed's in a bit of a corner. They cannot print more money because inflation is too high, but if they reach their increased rates too fast, markets will collapse. Although the market has priced in a hawkish scenario, we don't think the year will end up with that many rate rises based on forward-looking data indicators. The Fed will start to taper its $9 billion balance sheet, but it should not tighten too fast. Still, until the price of commodities, raw materials, goods and services come down, the Fed will have no choice but to raise rates.

Higher rates, stronger dollar, higher oil price - negative for Asian demand?
China started tightening a lot faster and sooner than the Fed. The Winter Olympics in Beijing and related infrastructure projects have also supported demand for copper and other commodities. The big question is what happens at the end of the first quarter? Does the softness elsewhere in the markets also feed into China and Asia? A stronger dollar could certainly impact emerging markets..

Oil is holding up well despite expected interest rate rises?
The physical oil market is very tight through February because of winter in the northern hemisphere although demand is still not back to pre-Covid levels. After March, given the macro inflationary fears, we might have a bit of cause for concern for demand but for now, OPEC+ is not able to produce any more than its planned 400,000 bd increase and there are questions about spare capacity. The bigger picture will be to look at demand on a six month basis and how any global economic slow down will affect that.

Jihad Azour
Director
IMF Middle East & Central Asia

COVID Pandemic Delivers Major Transformation to Middle East Economies
As we enter our third year of dealing with an unprecedented global health and economic crisis, I want to first highlight a few key economic developments from 2021. Many countries in the region saw a noticeable rebound last year following 2020's unprecedented contraction. The IMF's January World Economic Outlook (WEO) Update showed 4.1 percent growth in the region in 2021.

Nonetheless, the recovery is uneven, as some countries—particularly those facing instability, conflicts, and political volatility—continue to grapple with the economic and social consequences of the slow rollout of vaccines. Yet, there is a silver lining. The pandemic has accelerated the economic transformation of several countries in areas such as technology investments, digitalization, adaption of production patterns to global changes and supply chain developments, and the development of social programs.

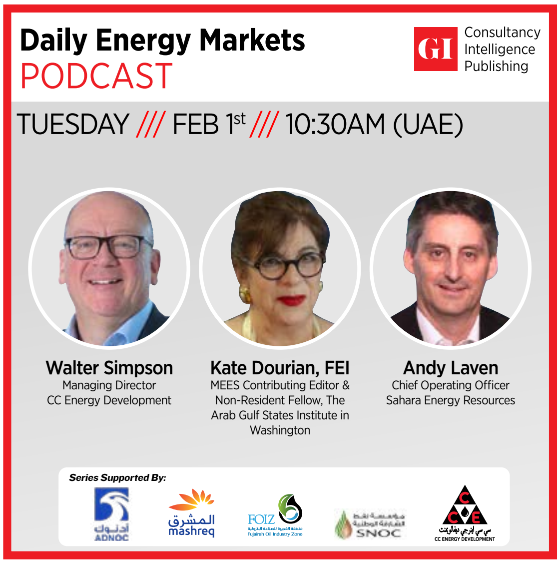
Still, the global economy is traversing a new phase of uncertainty, which will affect our region. The WEO Update, which I encourage you to read, underscores several factors that will shape the global outlook in 2022: the spread of the Omicron variant, triggering new mobility restrictions; rising energy prices and ongoing supply chain disruptions, leading to more persistent elevated inflation; ongoing retrenchment of China's real estate sector, which could have spillover effects on the broader economy and on the region; and upcoming interest rate increases by the FED.

Therefore, given this backdrop, pursuing a transformational policy agenda will be critical for the MENA region in 2022.

On the positive side, the pandemic has accelerated the economic transformation paths of a number of countries, which have progressed in the areas of technology investments, digitalization of their economies, adaption of their production patterns to global changes and supply chain developments, and the development of social programs. Technology and digital transformation are essential to any strategy to build the future, support social safety nets, create new sectors that support growth, and ensure the region's global competitiveness.

Energy Markets COMMENTARY

WEEK IN REVIEW



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Energy Markets Views You can Use

Peter McGuire
Chief Executive Officer, XM Australia

US Employment Report May Underwhelm

The latest US employment report will be released at 13:30 GMT Friday. Nonfarm payrolls likely cooled because of the Omicron wave and a negative print cannot be ruled out. That said, the most important metric for the Fed is wage growth, as that will decide how many rate increases are needed to hammer inflation. As for the dollar, the playbook may be to fade the initial negative reaction if payrolls disappoint.

The US labor market has recovered at a stunning pace. Even the Fed chief admitted last week that the jobs market is tight, highlighting the record number of job openings in the economy and the record number of people quitting their jobs in search of higher salaries. Labor force participation is the only dark spot, as it remains lower than before the pandemic. There's a big debate about whether that will change - if the people that retired in 2020 are ever coming back. Luckily that doesn't matter much for markets as the Fed generally focuses on the unemployment rate, which is currently below 4%.

Another even more crucial variable for the Fed is wage growth. With inflation so hot already, Fed officials worry that it could spill over into wage negotiations, fueling a wage-price spiral that keeps feeding inflationary pressures even after the supply chain normalizes. This means wage growth is seen as the canary in the coal mine, telling the Fed where inflation will be in the future and hence guiding policy changes. In other words, wage growth is the single most important factor at this stage of the economic cycle.

This is going to be a weird report. Nonfarm payrolls are forecast to have risen by 150k in January, which would keep the unemployment rate unchanged at 3.9%. However, there might be some room for disappointment. The Bureau of Labor Statistics collects the data for these surveys during the second week of each month. In January, this was the week when covid cases peaked amid the Omicron outbreak. If someone was sick during this week and was not getting paid sick leave, they would be counted as unemployed in the jobs survey.

Hence, this could artificially skew the nonfarm payrolls number lower this month. Also arguing for a weak NFP print are jobless claims, which rose dramatically during the survey week from a month ago. This implies we could even see a negative payrolls number. On the bright side, wage growth might be strong. Forecasts suggest average hourly earnings accelerated to 5.2% in yearly terms from 4.7% previously, something supported by business surveys like the Markit PMIs that pointed to "soaring wage bills" as companies competed to attract workers.

In the markets, the initial reaction in the dollar might be negative in case the nonfarm payrolls print is indeed disappointing. Yet any dollar weakness may not last long, as it wouldn't represent the true state of the labor market - only a statistical quirk.

Marc Ostwald
Chief Economist & Global Strategist
ADM Investor Services International

Is Chinese marginal demand a concern for oil markets in 2022?

Taking Chinese demand for oil as a measure of what their economy is doing is not wise. They try and buy low and sell high. The better indicator is to look at how much product they are having to reexport, which is an indicator of domestic demand. The Chinese economy is stumbling and that will be important for commodity markets, but we also have western economies and their industrial sectors not in full tilt. What worries me is that we don't know how much productive capacity is being lost from the global economy. This is absolutely critical because that is what is driving inflation. There is simply no measure. We have some vague idea - in the US for example, roughly 10% of refining capacity has gone offline permanently. That obviously makes a huge difference when they get any disruptions. So, the underlying picture is still one of everything being driven by supply chain disruptions, which aren't going to go away this year. We have a broader cost of living crisis across the world – not just in Asia but in Europe and the US. Unless we see huge wage rises, there is a big risk of demand destruction because consumers are under such enormous pressure from non-discretionary areas, and we also see these price pressures piling on businesses.

Do European politicians see the Ukraine issue as a major crisis?

The real worry is that Europe is not singing from the same hymn sheet. Germany is completely and utterly at odds with the rest of NATO and that only amplifies peoples' fears because they see Germany as appeasing Russia. Putin wants to make the US and the whole of Europe look very weak. And China is looking on and saying that's wonderful as it partly distracts from attention from the US. People in western Europe are saying nothing's really going to happen with Ukraine but others in central Europe have always been fearful of Russia and that's not going to go away. It's built into their genes.

"Oil showed some indecisive response to the OPEC+ plan to continue adding 400k b/d in March as an initial pop higher following the news faded quite quickly. Brent settled up 0.35% on the day to USD 89.47/bl while WTI added less than 0.1% to USD 88.26/bl and both are testing lower this morning."

– Emirates NBD

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Fujairah Spotlight

FUJAIRAH DATA: Oil product stockpiles climb across the board after crude gains

Oil product inventories at the UAE's Port of Fujairah climbed to an 11-week high with gains registered across all categories with buyers of marine bunker fuels holding back due to rising crude oil prices. Total stockpiles stood at 19.601 million barrels as of Jan. 31, up 16% from a week earlier and the most since Nov. 15, according to data from the Fujairah Oil Industry Zone shared exclusively with S&P Global Platts on Feb. 2. Gasoline, naphtha and other light distillates led the gains, rising almost 20% to 6.362 million barrels, the most in six months. Heavy distillates and residues used for shipping and power generation jumped 16% to 11.379 million barrels, a nine-week high, while middle distillates used for jet fuel and diesel climbed 3.6% to 1.86 million barrels, the most in two weeks.

Source: S&P Global Platts

AD Ports begins deliveries on UAE's Fujairah Terminal expansion

Deliveries have begun on the Fujairah Terminal expansion by AD Ports Group to offer container, general cargo and cruise operations at the Port of Fujairah on the UAE's east coast, and they are in use, the AD Ports director of ports commercial said Feb. 1. The Dirham 1 billion ($272 million) investment adds container capacity of 720,000 twenty-foot equivalent units and general cargo capacity of 1.3 million mt, Julian Skyrme told reporters on the sidelines of the Breakbulk Middle East conference in Dubai. "It's already delivered, it's in use now," he said. The expansion at Fujairah "will link east-west shipping routes and tap into the business opportunities in emerging trade routes," Skyrme told the conference.

Source: S&P Global Platts

Fujairah Authorities Fujairah Police launch free drive-through COVID-19 test centre

Fujairah: A free drive-through COVID-19 test centre has been launched by Fujairah Police in coordination with Ministry of Health and Prevention, represented by Fujairah Medical District. Major General Mohammad Ahmad bin Ghanem Al Kaabi, Commander-in-Chief of Fujairah Police and Head of the Emergency, Crises and Disasters Team in Fujairah; and Dr Mohammad Abdullah Saeed, Director of Fujairah Medical District, inaugurated the centre.

Source: Gulf News

National Bank of Fujairah launches new account for SMEs, startups

National Bank of Fujairah (NBF) has announced the launch of the NBF Lite Bank Account for startups and small-and-medium-enterprises (SMEs) operating in the country. The new offering will cater to the needs of flexi-desks and co-working businesses in select free zones. The Lite Account will also offer startups with exclusive banking services, to help them build their network, connect with peer companies and identify growth opportunities.

Source: Gulf Business

Daily Energy Markets

TOP 10 TAKEAWAYS
MARKET OBSERVATIONS FOR THE WEEK
Jan 30th - Feb 3rd

1. Markets still a little bit suspect of Powell's sudden emergence as a reborn hawk -- as they say in Texas, 'all hat, no cattle'!
2. OPEC+ monthly meeting to announce another increase of 400,000 bd per month may start to sound a little hollow as most in the group fail to reach new quotas.
3. China and Russia announce plans for joint-venture trip to the moon, capping off a week where Beijing and Moscow appear increasingly aligned with the view that my enemy's enemy is my friend!
4. Oil prices keep on steady march towards $100 with little regard for FED tightening cycle or any other bearish signals, like China slowdown.
5. OPEC+ spare capacity is destined to shrink every month through the Spring - what happens when they can't add anymore barrels?
6. The official policy of OPEC+ is not to eat the lunch of fellow producers that can't meet higher output quotas, but failure to do so is triggering more and more questions about whether even the big producers can add more.
7. Iran nuclear talks may be winding slowly but surely towards a deal, but unlikely to unwind in time to allow Iranian oil to ease a tight market in second half of 2022.
8. While it is clear that oil prices are a little inflated ($5 to $7 approx) by geopolitical hotspots, this is still a fundamentally a very tight market.
9. International oil majors are enjoying record profits but constrained by climate agenda and shareholders to pump profits into dividends rather than new production.
10. China is well placed to draw on inventories if international oil prices remain close to 8-year highs.

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