Fujairah New Silk Road WEEKLY NEWSLETTER

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VOL. 122

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"Artificial Intelligence Can Help Ships Navigate Sanctions and Compliance!"

Ami Daniel, Co-Founder & CEO, Windward

The shipping sector has been quite traditional in its adoption of technology. Covid did accelerate that, but I still think it's strongly skewed by geography. Northwest Europe has been more of an early adopter than others and Singapore is taking off a bit. I do believe that there's a lot of potential in the GCC area with respect to anything concerning legal sanctions and compliance and we would expect to see a lot of growth in that market. AI technology hasn't been very important in the Arabian Gulf because basically the policeman, if you will, was the US or the UK, but they haven't been policing that strongly in this area. Having said that, as of two weeks ago, the EU decided that Russian sanctions circumvention is going to be a criminal offense. I think that is going to make a really big difference. Many of the traders, shipping companies and owners have assets in Europe and that means that they're now exposed. Another advantage of AI technology is helping terminal operators, liners, freight forwarders and cargo owners predict the arrival of their containers up to 30 days out. Jebel Ali in the UAE is a very important port that handles 20% of the world's freight capacity and freight rates today are off the charts for containers - about 15X up, while reliability is down from 80% to 40%. Our technology solutions can also help customers find more business opportunities for bunkering, such as sourcing deals by contacting owners of ships that might be coming into the port of Fujairah in the UAE at a specific time. Big Data can also answer critical questions such as who really owns a vessel and whether the sales being made are legitimate. We have created a product which has what we call a 'network effect', where we want our customers not just to use our platform, but also contribute data to it in an automated manner. The more people use the platform, the better the data and the better the insights.

CONTINUED ON P 3

Fujairah Weekly Oil Inventory Data

7,101,000 bbl	2,747,000 bbl	8,101, 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

Weekly Average Oil Prices

Brent Crude:	$120.68/bl
WTI Crude:	$118.40/bl
DME Oman:	$120.24/bl
Murban:	$120.41/bl

*Time Period: Week 3, June 2022
Source: IEA, OilPrice.com, GI Research

Fujairah Weekly Bunker Prices

VLSFO

High = $1,130.50/mt

Low = $1,085.00/mt

Average =$1,110.50/mt

Spread = $0.00/mt

MGO

High = $1,565.50/mt

Low = $1,527.00/mt

Average = $1,543.00/mt

Spread = $0.00/mt

IFO380

High = $710.50/mt

Low = $692.00/mt

Average = $701.50/mt

Spread = $18.50/mt

*Source: Ship and Bunker, *Time Period: June 8 – June 15*

Fujairah Bunker Sales Volume (m^3)

Volume	Product
453	180cst Low Sulfur Fuel Oil
555,151	380cst Low Sulfur Fuel Oil
154,721	380cst Marine Fuel Oil
1,087	Marine Gasoil
33,652	Low Sulfur Marine Gasoil
5,713	Lubricants

Source: FEDCom & S&P Global Platts

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CONTINUED FROM PAGE 1

Ami Daniel, Co-Founder & CEO, Windward

Barriers to adopting AI technology in the maritime sector?

The main challenge is process and capacity building. We partner with our customers to help them build the processes in the trial phase of adopting and testing the technology. We also help them see what else they can do with it – for example, if they use our solutions for compliance, we can show how the technology can also find new business, make their proprietary systems more efficient and reduce development costs, accelerating their time to money.

How can Predictive Intelligence help the shipping industry tackle emissions?

Currently, the collection of fuel consumption data by vessels is quite manual, only giving 70% accuracy and taking months to consolidate reports. We have a program called Data for Decarbonization, where we are building an AI platform and model to predict and analyze carbon emissions and fuel consumption on a global scale. We've built a capability to assess the fuel consumption of every vessel without human touch between an accuracy of 95 to 99%. Operators might have anomalies such as engine problems and so they can pick up such issues in their fleet with AI, improving their fuel consumption and as the derivative, improve their carbon emissions.

What's the next big AI application in shipping?

Many people still see AI in this sector as a project-based thing. We look at it as a product, using our platform to allow us to run hundreds of models in the cloud for optimisation, with our data and customer data. By having a C-level executive talk about their million-dollar problem, and how to drive it with AI, we can make significant advancements. On logistics, we can go door-to-door visibility with AI, taking into account the trucking side of things also and helping terminal operators like Jebel Ali optimise their operations better. We are just in the first steps of AI in shipping and trading.

WATCH FULL INTERVIEW HERE

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ENERGY FOR LIFE

Abu Dhabi National Oil Company (ADNOC) is one of the world's leading energy producers and a reliable global energy supplier. With a production capacity of 4 million barrels of oil per day and around 11 billion standard cubic feet of natural gas per day, our work continues to enable our country and our people to realize their remarkable potential, acting as a catalyst for the growth and diversification of the UAE economy.

TOGETHER, WE BRING ENERGY TO LIFE.

Energy Markets Views You can Use

Kate Dourian, FEI
MEES Contributing Editor & Non-Resident Fellow
The Arab Gulf States Institute in Washington

We're not going to see the impact of EU oil sanctions on Russia until 2023.

In the meantime, we're still having to live with inflation and higher commodity prices across the board. Yes, certain countries are saying they can't do without Russian oil and are buying it at a discount. There have always been ways around sanctions, like with Iran, and we're seeing that now and as this whole crisis drags on, you may find more slippage. But I think Europe is pretty concerned. If you look at, for example, imports into Italy, they're not Italian companies that are buying this oil. There are a couple of Russian owned refineries. So, you're seeing a slight switch from Middle Eastern crudes that are similar to Russian Urals making their way to Europe, and those flows will increase, and it's only a very small percentage of oil that isn't locked into long term contracts.

Will OPEC's extra pledged barrels make a difference?

The markets are telling us that we're not going to get this 600,000 bd plus that OPEC has pledged over two months. So many of its producers cannot increase production. The spare capacity is held by two countries - Saudi Arabia and the UAE and it's less than 3mbd. If we anticipate that Russian production is going to go down even more than the 1mbd that it has already, then we have gap of 3mbd anyway in the market because most OPEC+ members can't produce at their quotas. And when we talk about Biden going to Saudi Arabia, I don't think he can unless something is negotiated in advance so that he doesn't come back empty handed to the US. Even within the US, producers are not answering his calls for more volumes because his whole energy policy has been up and down, so companies are continuing with their capital discipline.

Abhi Rajendra
Head of Global Oil/Downstream Markets, North America
Energy Research, Energy Intelligence

The US administration can't do much to alleviate these high oil prices.

Consumers – trucks, cars - don't buy oil. They buy gasoline and diesel. Refiners buy oil and they have no incentive to stop at the moment, even if cracks were to fall by $10, $15, or $25. Only two things can help alleviate these price conditions - more US supply and more global refining capacity, neither of which is going to happen anytime soon. Expectations were too high in terms of the US ramping up supply over the course of this year – we're seeing a whole host of financial and labour supply chain issues hitting producers and that's going to continue. As for new capacity coming online, it's really just China plus locally for the Middle East region. The best case is that you work towards a gradual alleviation and in 2023 and 2024 supply will go up, but nowhere near as fast as the market needs.

Can the Fed fend off recession for the US economy?

The Fed has been way behind the curve in handling the inflation issue and is now effectively being forced to overcorrect the economy into a slowdown. But while US consumer savings rates are the lowest since 2008, the impact to energy and power spending is probably very minimal because of the firm support for commodities. I don't see oil going to $50 as it did in 2008. Interest rate rises and winding down government stimulus will be a major headwind for the economy, but despite macro concerns, there's also very firm supply side support mechanisms for oil and many other commodities.

Outlook for India oil demand for the remainder of 2022?

Consumption is robust and picking up as the year goes by and the economy is holding firm as it battles these higher price dynamics and perhaps is not being as shocked as Western Europe, the US and other markets. India has been the most opportunistic in terms of taking advantage of displaced and discounted Russian crude. It took 50,000 bd last year compared to over 800,000 bd this year so far – that's a sizable step up.

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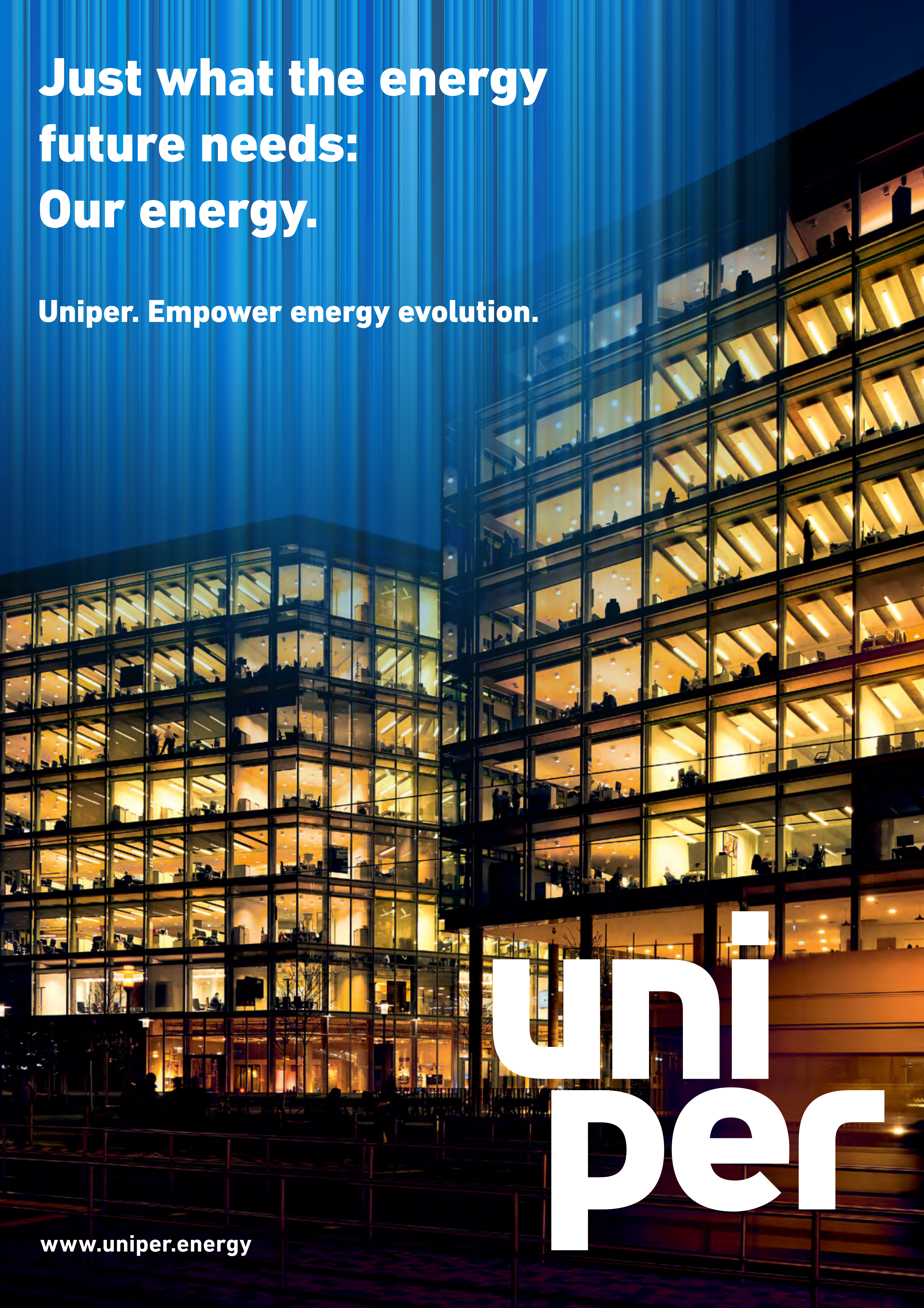

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Fujairah Spotlight

VLSFO Steady as Tight July Supply Caps Declines

Oil product stockpiles at the UAE's Port of Fujairah dropped from a three-month high as of May 30 with declines registered in light distillates and heavy distillates and residues, according to Fujairah Oil Industry Zone data published June 1. The total inventory was 19.678 million barrels as of May 30, down 0.6% from a week earlier, the port data provided exclusively to S&P Global Commodity Insights showed. Inventories were 3.48% lower than the same time last year.

Source: Business Recorder

NBF Announces the Launch of The Second Intake for The NBF Technology Academy

National Bank of Fujairah (NBF) PJSC announce the launch of the exclusive 'Technology Academy' for 2022 in partnership with the Port of Fujairah. NBF Technology Academy is a unique initiative launched by NBF that aims to provide intensive training to UAE students in the field of IT, programming, and the application of the emerging digital capabilities, empowering them with the knowledge and skills to fulfil their ambitions in their career path while contributing to the country's economic growth.

Source: ZAWYA

UAE to Create Electric Vehicle Charging Corridor

Ultra-fast chargers from Siemens will be installed on the highways in Fujairah, Ras Al Khaimah, Ajman and Umm Al Quwain with the network connecting seven emirates. The nationwide network of ultra-fast electric vehicle chargers aims to help boost adoption of EVs by addressing range anxiety, and lay the groundwork for a more connected and sustainable transportation system. To meet the changing market demands, the chargers have a scalable power up to 300kW and can be expanded with additional external dispensers for up to two additional charging cables.

Source: SmartCities World

Fujairah Police Change Speed Limits on 16 Roads of the Emirate

Speed radars on 16 roads of Fujairah have been recalibrated for changed speed limits in the emirate. These new speed limits will apply to both heavy as well as light vehicles. Fujairah Police posted a message in Arabic and English on social media, alerting motorists that speed limits have been adjusted on both internal and external roads. The social media post shows the names of the roads and their respective speed limits for light and heavy vehicles.

Source: Gulf News

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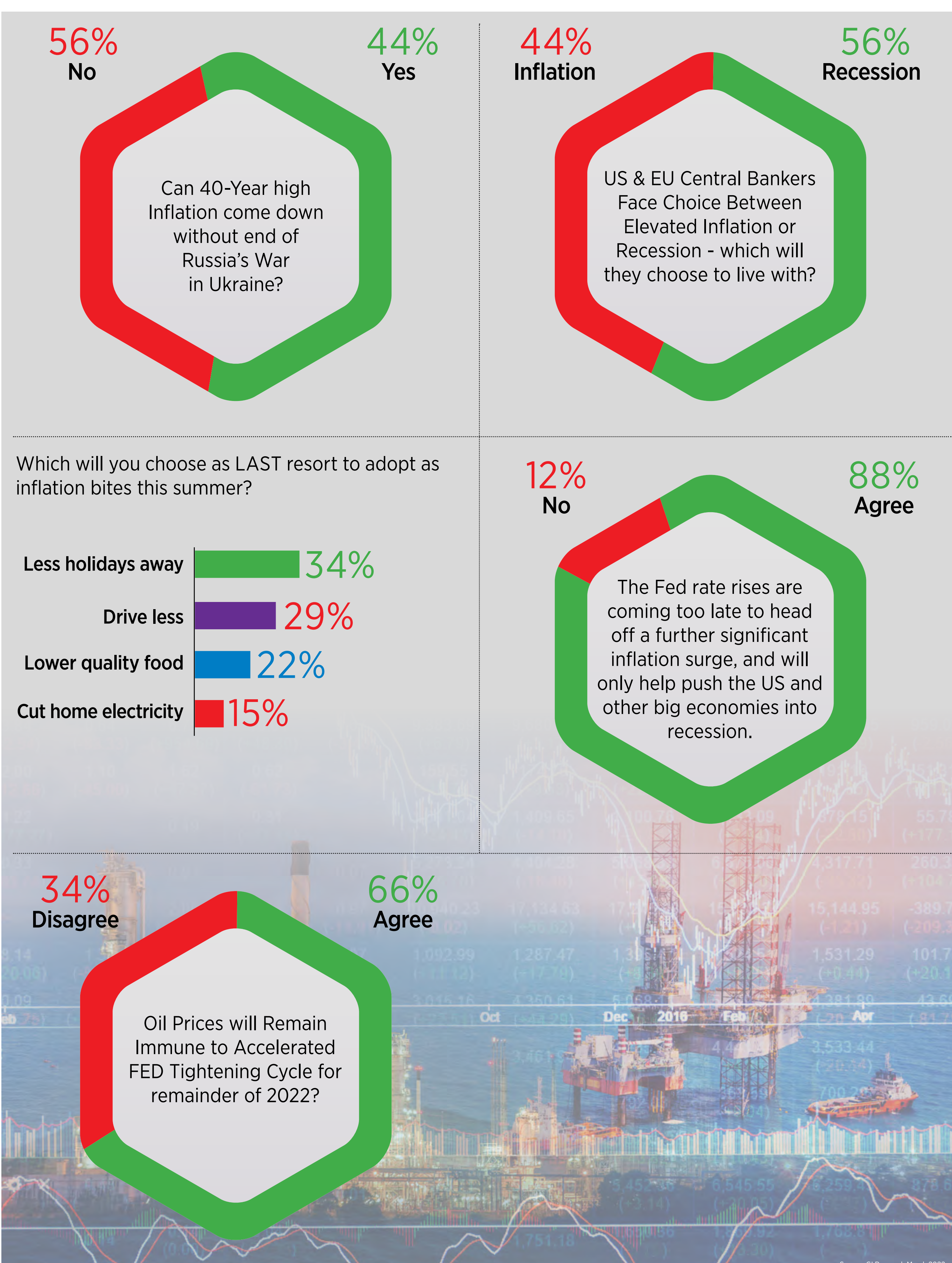

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Energy Markets Views You can Use

Narendra Taneja
India's Leading Energy Expert

India's energy demand in May rose by 8%.
Petrol demand is more or less back to pre-COVID levels and while diesel demand is not there yet, it is catching up and we've seen a lot of imports from different geographies in the last six weeks, so I don't see any sign of demand destruction. Still, our projected growth compared to the last five years before Covid is not good. We should be growing at 9% or 10%. Our GDP should be at $3.3 trillion on a nominal basis but instead, we are around $2.7 trillion because of Covid and the sanctions issue. The government has had to do a lot of maneuvering to keep the economy growing, such as cutting taxes and expenses on welfare and infrastructure. But the Rupee is depreciating and when our refiners have to buy oil, we have to go to the Reserve Bank of India and buy dollars.

How is the US Fed interest rate policy impacting India?
It's not good for us if the US and EU inflation get out of control. We are closely integrated with these democracies, so it is a worry for India. Our central bank is keeping a very close eye on the Fed and struggling in terms of its own monetary policy. The result is that our interest rates are going up, in areas like housing, which is a major player in the Indian economy, especially in terms of jobs.

India must be benefitting from discounted Russian crude?
We consume roughly 5 million barrels a day of crude so even if we are getting 350,000 barrels a day from Russia, it doesn't make much of a difference because we still have to buy the rest of our crude at a premium. It's also not easy to import oil from Russia because of a shortage of tankers and the payment issues.

What would India like to see happen now?
I think the sanctions on Russia should go easy so that its oil can continue to flow to the global market. Oil sanctions have not worked. The Ukraine war is about NATO, the US and Russia, so why should three billion poor oil consumers around the world be punished? We would like to see these countries talk or at least keep oil out of it. The US and Europe will be paying a much heavier price than India come this winter.

James McCallum
CEO & Chairman, Xergy Group
Professor of Energy, Strathclyde University

IOCS are still placing profits into dividend paybacks and financial discipline.
Investors are not imagining that there's going to be a return to activity in the ground any time soon. The Baker Hughes Rig Index has nudged up but it's not anywhere near where it could be – at about 730 rigs in the US right now, down from 1900 at its peak, and that is helping build the support around current prices.

High energy prices don't seem to be deterring travel plans?
We are seeing a lot of travel activity in the EU, but the cold winter is coming. Retail prices at the pump are twice what they are in the Middle East or in the US and people are starting to curtail their day to day driving functions and that will follow through after the summer season.

Does the EU have the appetite to take the economic pain of its stance on Russia?
Europe has been prepared to take some pain, but clearly there is a fracture within the EU as to who's taking the pain and who's having the chance to opt out. And elsewhere, because the US has not introduced secondary sanctions, the discounted Russian crude is flowing into countries, such as China, which also have a significant refining capacity, underpinning their ability to continue a strong manufacturing sector. The recent PMI index and data coming out of China shows that they are, despite the COVID situation, on the verge of 50, which is when they are actually expanding.

Can new supply come fast enough to meet the current tightness?
We are clearly in a world where all of the parts are losing. We are going to end up in a situation in the next two or three months where there is going to be either more tightness because of additional secondary sanctions on economies that are accessing Russian oil, or we find a different answer to bringing additional hydrocarbons into the market. That might be telling shale oil producers that they're going to pay a windfall tax unless they start to take on more rigs and more activity and bring that into the marketplace. We're in for a very rough two months.

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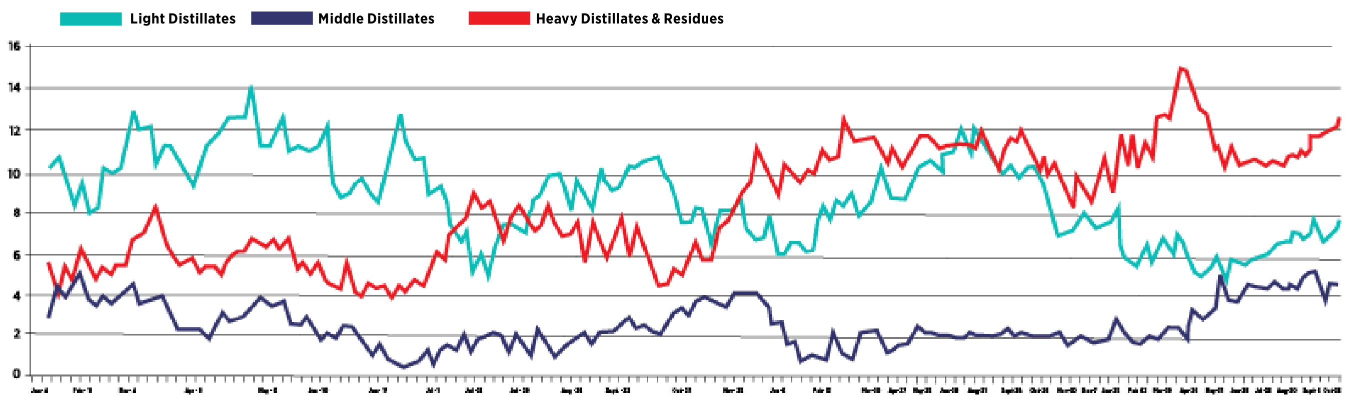
Fujairah Weekly Oil Inventory Data

bbl (million)



TOP TAKEAWAYS

- Total oil product stocks in Fujairah were reported at 17.949 million barrels. Total stocks fell by 2.244 million barrels with overall stocks down 11.1% week-on-week. The stocks movement was driven by a net draw of light distillates and heavy residues, while middle distillates recorded a net build-up.

- Stocks of light distillates, including gasoline and naphtha, fell by 313,000 barrels or 4.2% on the week to 7.101 million barrels, down from last week's record high of the year. The Asian gasoline complex weakened June 14, tracking a narrowing US-RBOB Brent crack, amid uncertainty in the US commodities market, market sources said. "Moving forward, fundamentals are still strong, supplies are low, so I expect the market sentiment to recover in due course," a Singapore-based trader said. In tenders, Qatar Energy was heard offering 25,000 mt of 95 RON gasoline for loading over July 3-4 in a tender that closes June 14, market sources said.

- Stocks of middle distillates, including diesel and jet fuel, rise by 336,000 barrels or 13.9% on the week to 2.747 million barrels, highest in this year. They were last higher on November 22, 2021 when they stood at 2.822 million barrels. The Asian gasoil market continued to move sideways June 14, with demand rising in most parts of Asia, while supply rose in tandem amid robust cracks. Demand cues from most parts of Asia continued to be constructive, as most countries have eased COVID-19 restrictions, which is keeping the gasoil complex propped up. The gasoil market was seeing record high level for cracks continuing to boost the export incentive for gasoil producers with excess barrels. The strength in the gasoil market has been outpacing that of crude oil in recent days, pushing cracks of the distillate to fresh highs. In recent tender activity, Kuwait Petroleum Corp has issued a tender offering a 40,000-mt cargo of 10 ppm sulfur gasoil for loading over July 21-25 from one or two Kuwaiti ports, sources said. The tender closes June 14, with same-day validity.

- Stocks of heavy residues fell by 2.267 million barrels on the week to 8.101 million barrels falling by 21.9%. The Fujairah-delivered marine fuel 0.5% bunker premium to benchmark Singapore marine fuel 0.5% cargo surged to a near 29-month high of $70.76/mt June 14 on tight supply. The differential was last higher January 21, 2020, at $75.54/mt, S&P Global data showed. The Fujairah-delivered marine fuel 0.5% bunker premium has averaged $52.92/mt to date in June, 28% higher than the $41.33/mt averaged in May, S&P Global data showed. Tight product availability in Singapore, which has largely mirrored the similar situation for low sulfur fuel oil globally, has seen the premium for the IMO-compliant marine fuel surge to record-high levels, both in the upstream cargo and downstream end-user bunker markets, in recent sessions.

Source: S&P Global Platts

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Energy Markets Views You can Use

Kieran Gallagher
Regional Product Head
Vitol Bahrain E.

Outlook for middle distillates and impact on cost of living in 2H 2022?
Retail prices in the US of $5 a gallon at the pump and £2 for diesel on the forecourt in the UK are causing headline numbers in the media. In the Middle East, the prolonged period of subsidized petrol is starting to bite. We're also seeing bigger financial hold issues and a larger buildup of vessels waiting to discharge because of access to US dollars to pay for those, so that's having an impact all along the east coast of Africa and over to Pakistan and Sri Lanka. So, these prices are now hitting demand in those developing economies and some refined products are becoming more hand-to-mouth because of the backwardation. Meanwhile, the US and Europe are still going into holiday season so we're not quite seeing a bite into demand there yet. It's very much a tale of two markets.

How disruptive have EU oil sanctions on Russia been?
It has played out to an extent but not as fully as the market was expecting. Even with the ICE gasoil contract, only from January onwards will no more Russian gasoil be allowed to be delivered, so that's giving further leeway to deliver into Europe, and on a relatively short freight basis. Towards the heavy end of the barrel, fuel oil is coming through the Suez and heading east to markets that have very healthy summer demand for power generation, so that's pulling a larger amount of heavy barrels from the Black Sea and the Baltics. On the cleaner fuels, the naphtha market is particularly heavy given the amount that comes out of Russia and so its ability to find a new home may weigh on cracks. Still, month by month, shipping and insurance restrictions will get tighter and tighter and the list of owners willing to call on certain ports will shrink, so we will see the full impact of the sanctions by the end of the year.

Any hope for more global refining capacity becoming available?
Given that current refinery margins are super generous, where refiners have that extra 5% capacity, they will use it and so we could see that in India for example and there are signs of a bit of an increase in runs in Saudi Arabia. But until we see China being unlocked, there just won't be that extra products capacity.

Daniel Richards
MENA Economist
Emirates NBD

Headline 2022 GDP growth looks very positive for GCC region.
We are forecasting 5.7% for the UAE and 7.7% for Saudi Arabia but of course a lot of it is being driven by the uptick in oil production. Oil sector growth in Saudi is forecast at 13%. However, even on the non-oil side, the region is holding up well compared to much of the rest of the world, one of the reasons being that inflation hasn't hit to the same degree as elsewhere on aggregate. We see UAE inflation at 4.5% by the end of this year, with transport as the key driver so far. House prices have not yet come into play but will start to, in addition to other pressures from oil and food prices. The only risk would be that a strong dollar could pose a threat to exports and that generally higher interest rates could be a curb on activity.

What's the economist's view on OPEC+ these days?
Even if production curbs are being eased, half of the group are not meeting their quotas.
OPEC has made very vague references to the situation with Russia and with China. There needs to be more clarity and openness and they should also look at their agreement more frequently. The current one as it stands seems to have gone past its sell by date in many ways, whether because of what's happening in Ukraine or simply because of missed quota targets. They will need to decide what's the most beneficial course of action over the next few months.

Can Europe continue to take the pain emanating from Russia sanctions?
We already have the risk of households struggling to heat or eat and the longer this war goes on, the greater the political pressure that might come on governments to make some kind of accommodation. We're not seeing that yet in most of the big European economies but that may start to shift.

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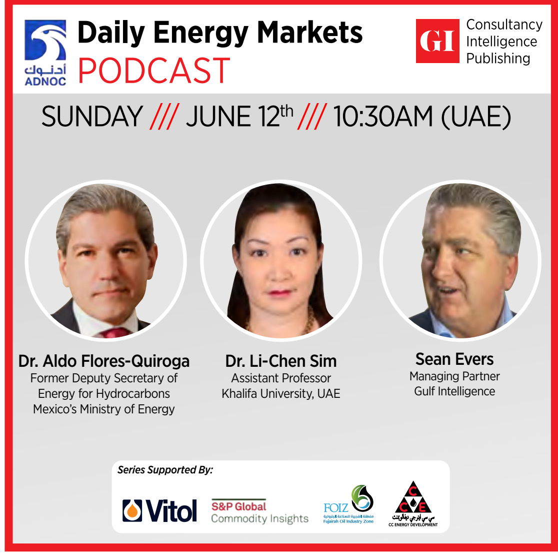
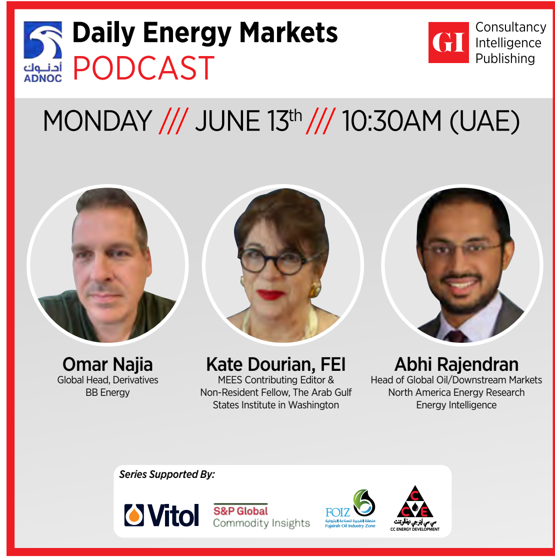
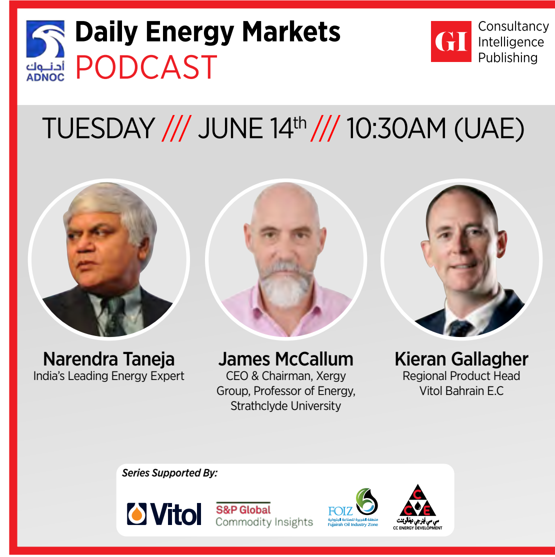
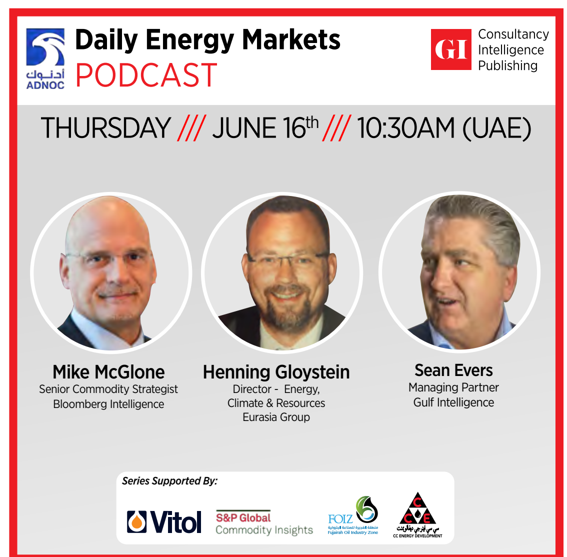
Energy Markets COMMENTARY

WEEK IN REVIEW









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Energy Markets Views You can Use

Robin Mills
Chief Executive Officer
Qamar Energy

Crude prices at $120 a barrel, are not that high.
Historically speaking, record prices adjusted for inflation, are closer to $170 today. However, end user prices are very high because the refining complex is so stretched, and we are absolutely in demand destruction territory there. We should watch price sensitive consumers, such as those in India, where are already seeing signs of demand destruction. We're not yet seeing that in Europe or the US but at these price levels, it's inevitable.

What can the US get out of a meeting with Gulf leaders?
In terms of oil price relief, Saudi Arabia has thrown a small bone but it's of no real practical effect as it would mean busting the OPEC+ framework. Structurally, there are also real refining constraints so if there isn't that capacity, extra crude production would not really help.

What might replace the current OPEC+ agreement?
The production cuts will be phased out by the end of August, but the deal runs until December. OPEC+ can't just leave production flat until then so they will need to come up with a new agreement on production increases. Saudi, the UAE and perhaps Iraq can increase, which means everybody else either gets granted notional increases that they can't make, and then the target becomes more of a fiction, or there's some complete realigned quotas to give them realistic baselines. Russia will be a sticking point on that as it will ask for its 11 million bd baseline. If the group doesn't come to any agreement, we may find Saudi and the UAE saying, everyone go back to producing what you wish.

How vulnerable are Gulf economies to inflation pressures elsewhere?
There'll be some measure of imported inflation on fuel prices and food. But on the energy side, earnings are extremely strong so the economies will do very well overall. Real estate and consumer goods should also do well as long as the oil earnings keep coming. For now, the outlook is about as good or better in the Gulf than almost anywhere else in the world.

The Gateway to the World's Fastest Growing Energy Consumers!

As the UAE's only emirate on the Arabian Sea coast, Fujairah is at the heart of the new energy corridor opening up East of Suez to Asia. The emirate is already established as a world-scale storage and bunkering center alongside Rotterdam and Singapore and is set to benefit in the next few years from companies' plans to expand crude and petroleum product facilities to avail of the state-of-the-art physical infrastructure on offer.

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Energy Markets Views You can Use

Rafiq Latta
Senior Correspondent
Energy Intelligence

There are many reasons why the oil price will stay structurally strong.
If the war in Ukraine and the policies being used to combat Russia stay as they are, I don't see the energy complex easing much. It would take a serious global recession to take some steam out of the crude price because global capacity is so limited. Oil prices could go $10 either way but not beyond and I do think there's a slight disconnect between GDP growth and the oil price that we haven't seen in the past.

What could Biden hope to achieve by coming to the region?
Leaving aside US pressure, I suspect the Saudis will be shifting their view on Russia, not in terms of their long-term commitment to the OPEC+ alliance, but in terms of their view on how the war is damaging oil prices and demand. They will be concerned about a recession, and they would now see it more of an advantage that this war comes to an end sooner rather than later as that would make prices go down and also help the demand destruction side. So, I suspect they're more likely to be flexible to US appeals compared to two months ago.

How will Europe tackle its gas supply challenge for the remainder of the year?
Europe needs to build up stocks ahead of this winter because Russia will exploit that economic weakness. If I was an EU policymaker, I'd be very worried. The Ukraine war has completely altered the outlook for energy security and LNG. We're going to see a lot more project approvals and investment in short term FSRU types of projects. Only two years ago, people were wondering whether there was a need for new projects as the supply outlook was outpacing demand. That has completely flipped.

ENERGY MARKET NEWS

1. OIL PRICES SLIP AHEAD OF EXPECTED US FED INTEREST RATE HIKE
2. SURGING OIL PRICES SHOW BUSINESS CYCLE SLOWDOWN IS INEVITABLE
3. CHINA'S TEAPOTS CRANK BACK TO LIFE, AIDED BY CHEAP RUSSIAN OIL
4. US SENATE FINANCE CHAIR TO PROPOSE TAX ON EXCESS OIL PROFITS
5. BEIJING IN 'RACE AGAINST TIME' TO TACKLE SERIOUS COVID OUTBREAK
6. US ALLOWS SOME RUSSIAN ENERGY-RELATED TRANSACTIONS UNTIL DEC. 5
7. HERE'S WHERE I THINK OIL IS HEADED
8. UKRAINE INCREASINGLY MORE DESPERATE, CALLS FOR MODERN WEAPONS
9. THE S&P 500 IS IN A BEAR MARKET; HERE'S WHAT THAT MEANS
10. PEOPLE IN PAKISTAN URGED TO DRINK FEWER CUPS OF TEA

RECOMMENDED VIDEO & REPORTS

- API DATA REPORTEDLY SHOW A WEEKLY CLIMB IN US CRUDE SUPPLIES
- ENERGY TRANSITION FOCUSES ON SECURITY, AFFORDABILITY AMID HIGH ENERGY PRICES
- CHINA REDUCED AIR POLLUTION IN 7 YEARS AS MUCH AS US DID IN THREE DECADES
- CORPORATE 'SELF-SANCTIONING' OF RUSSIA HAS US FEARING ECONOMIC BLOWBACK
- REWRITTEN SCHOOLBOOKS SAY HONG KONG WAS NEVER BRITISH COLONY
- GERMANY'S ENERGY POLICY BALANCING ACT
- COMMODITIES ARE SHOWING OFF AT THE RIGHT TIME
- YEMENI FORCES WILL TARGET SAUDI OIL FACILITIES IF COALITION TANKERS CONTINUE SMUGGLING FUEL

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GI Soundings Week in Review

"Tight Refinery Capacity Supports Market Amid Mounting Recession Concerns!"

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.

- **Henning Gloystein, Director, Energy, Climate & Resources, Eurasia Group**
- **Mike McGlone, Senior Commodity Strategist, Bloomberg Intelligence**
- **Dr. Aldo Flores-Quiroga, Former Deputy Secretary of Energy for Hydrocarbons, Mexico's Ministry of Energy**
- **Dr. Li-Chen Sim, Assistant Professor, Khalifa University, UAE**
- **Omar Najia, Global Head, Derivatives, BB Energy**
- **Peter McGuire, Chief Executive Officer, XM Australia**

Henning Gloystein, Director, Energy, Climate & Resources, Eurasia Group: "Most of the economic signals we see from China are weak. Their on and off Covid restrictions are causing all sorts of domestic and international economic issues and while their stimulus program is expected, it's nowhere near as strong as it was in the last couple of years. Politically, China obviously can't come out in support of the US or Europe over Russia, but they're clearly unhappy because this war has caused huge problems for the energy and raw materials space."

Mike McGlone, Senior Commodity Strategist, Bloomberg Intelligence: "We are in the middle of one of the greatest reversions in asset prices ever. We're taking away inflation at the fastest pace I've ever seen. Crude oil is still sticky but at some point, it's going to collapse. Part of the reason global GDP and consumer sentiment is plunging is because of energy prices. The spike in US gasoline prices is starting to roll into demand - a clear indication that inflation is just about ready to peak, and what the Fed just did with 75 basis points might go down in history as the last one."

Dr. Aldo Flores-Quiroga, Former Deputy Secretary of Energy for Hydrocarbons, Mexico's Ministry of Energy:: "It's time to think differently about the oil market. Given the tightness, the search for more sources of supply is increasing, so it's now possible to speak with Iran and to begin conversations with Venezuela. It's becoming more likely that we will see an agreement with both countries that allows some production increase. This is also in line with a new form of globalization taking place, which is the reorganization of the world into regions – it makes the Venezuela equation more likely to be addressed in a constructive way with respect to oil markets."

Dr. Li-Chen Sim, Assistant Professor, Khalifa University, UAE: "If the nuclear agreement fails, then Iran is going to continue to try to export its oil in the grey market. We could then actually see the Russians and Iranians try to outdo each other in the market with steeper discounts, and that means Russia is going to draw in less money from its revenues and some people would see that as a good thing."

Omar Najia, Global Head, Derivatives, BB Energy: "I'm still convinced we're going to hit $150. In general, the market has broken out from that sideways trading. It went over $117 basis WTI, then we hit $120 something, and we're now trading around $118. Meanwhile, we're seeing massive strength on products with cracks on gasoil and gasoline absolutely gigantic."

Peter McGuire, Chief Executive Officer, XM Australia: "The US savings rate, which skyrocketed during the lockdown periods, has slumped to the lowest since 2008, somewhat justifying the resilience in consumption. Home sales declined for the third straight month in April as higher mortgage rates and rising prices weighed, while jobless claims rose to the highest since the start of the year, portraying some cooling in the tight labor market too."

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Daily Energy Markets

TOP TAKEAWAYS
MARKET OBSERVATIONS FOR THE WEEK
June 12th - June 16th

1. The FED's 75 basis point bazooka hike in interest rates may be enough to send equity markets significantly lower and take inflation down with them -- and that is the good news! I don't want to spoil your weekend with the bad news outcome.
2. China's post-Covid lockdown stimulus is unlikely to be sufficient to change the trajectory of what looks like the lowest economic growth for decades (bar 2020 pandemic).
3. The accelerated QT rate tightening underway in most OECD states is unlikely to move Brent crude oil prices off their $110-$120 average for 2022.
4. Saudi Arabia is not reacting to the market-share challenge presented by Discounted Russian oil sales into China for the time being, but all bets could be off if this status quo doesn't change in 2023.
5. Oil prices heading higher and won't be checked by demand destruction or macro concerns, as it is refiners, and not consumers, who buy oil, and they have no incentive to stop with cracks so attractive.
6. Expectations for US to ramp up production this year were set too high - financial and supply chain bottlenecks still proving a deterrent.
7. Russian oil flow into East of Suez is likely to grow significantly in 2H 2022 as sanctions in the West force it to seek discounted buyers in Asia.
8. Refineries around the world are operating at capacity, and in some cases beyond nameplate capacity, and likely to continue as China's reopening is stumbling.
9. Saudi may start to shift stance on Russia and Ukraine war because of demand destruction concerns, becoming more flexible to US appeals than it would have been two months ago.
10. Stretched refining complex triggering end user demand destruction in price sensitive consumers like India, soon to follow in Europe and US.

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10th Anniversary ITINERARY

ENERGY MARKETS FORUM

October 4th - 6th, 2022 | Novotel, Fujairah

DAY 1 - OCT. 4th

What: Port of Fujairah Executive Boat Tour
Where: Port of Fujairah
Time: 2:00pm

What: FOIZ Oil Storage Terminals Industry Tour
Where: Port of Fujairah
Time: 2:00pm

What: The Aramco Trading New Silk Road CEO of the Year Awards 2022
Where: Novotel, Fujairah
Time: 7:00pm

DAY 2 - OCT. 5th

What: Industry Forum - East of Suez Outlook
Where: Novotel, Fujairah
Time: 8:00am - 3:00pm

What: International Energy Journalism Awards Dinner
Where: Novotel, Fujairah
Time: 7:00pm

DAY 3 - OCT. 6th

What: Energy Markets Workshop - Benchmarks
Where: Novotel, Fujairah
Time: 8:00am - 2:00pm

S&P Global Commodity Insights

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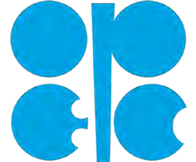
Oil Market Highlights



Crude Oil Price Movements

Crude oil spot prices recorded solid gains in May, buoyed by strong physical crude market fundamentals. Tight oil product markets and high refining margins have prompted refineries to increase throughputs, boosting crude demand, specifically for light sweet crude. Planned and unplanned oil supply disruptions in several regions contributed to tightening fundamentals. The OPEC Reference Basket increased $8.23, or 7.8%, to settle at $113.87/b. Oil futures prices rallied in May driven by tightening oil products markets, near-term global oil supply risks amid continued geopolitical tensions in Europe, as well as the prospect of a firm recovery in demand after Chinese authorities started to gradually ease COVID-19-related lockdown measures. The start of the summer driving season in the Northern Hemisphere provided further support. The ICE Brent front-month contract rose $6.04, or 5.7%, in May to average $111.96/b and NYMEX WTI increased by $7.62, or 7.5%, to average $109.26/b. As a result, the Brent/WTI futures spread narrowed by $1.58 to average $2.70/b. Backwardation in the Brent, WTI and Dubai futures markets strengthened significantly in May and the near-month contract spreads moved into deep backwardation as the outlook for oil market fundamentals tightened. Hedge funds and other money managers turned bullish on crude prices in May, raising their total futures and options net-long positions in ICE Brent and NYMEX WTI by 18.2%.

World Economy

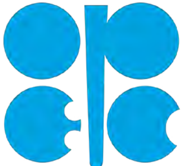
World economic growth in 2022 remains broadly unchanged at 3.5%, following growth of 5.8% in 2021. US GDP growth for 2022 is revised down to 3.0% from 3.2%, after growth was reported at 5.7% for 2021. Euro-zone economic growth for 2022 is revised down to 3.0% from 3.1%, following growth of 5.4% in 2021. Japan's economic growth for 2022 is revised down to 1.6% from 1.8%, after growth of 1.7% in 2021. China's 2022 growth remains unchanged at 5.1%, after growth of 8.1% in 2021. India's 2022 GDP growth remains at 7.1%, after 2021 growth of 8.3%. Brazil's economic growth forecast for 2022 is revised up to 1.2% from 0.7% in the previous assessment, following growth of 4.6% in 2021. For Russia, the 2022 GDP growth forecast is unchanged, showing a contraction of 6.0%, following reported growth of 4.7% in 2021. Consumption remains robust, especially in the advanced economies, with an expected continued recovery particularly evident in the contact-intensive services sector, which includes travel and transportation activity, leisure and hospitality. However, significant downside risks prevail, stemming from ongoing geopolitical tensions, the continued pandemic, rising inflation, aggravated supply chain issues, high sovereign debt levels in many regions, and expected monetary tightening by central banks in the US, the UK, Japan and the Euro-zone.

World Oil Demand

World oil demand growth in 2021 remained unchanged at 5.7 mb/d. Oil demand in the OECD increased by 2.6 mb/d in 2021, while the non-OECD showed growth of 3.1 mb/d. For 2022, world oil demand growth is broadly unchanged to stand at 3.4 mb/d. Within the quarters, the 2Q22 is revised down, reflecting the lockdown in some part of China leading to lower-than-expected demand, while 2H22 is revised up on expectations of higher demand during the summer holiday and driving season. Oil demand growth in 2022 is forecast at 1.8 mb/d in the OECD and 1.6 mb/d in the non-OECD.

World Oil Supply

The estimate for non-OPEC liquids supply growth in 2021 remains broadly unchanged at 0.6 mb/d. Total US liquids production is estimated to have increased by 0.1 mb/d y-o-y in 2021. The forecast for non-OPEC supply growth in 2022 is revised down by 0.25 mb/d to 2.1 mb/d. Russia's liquids production for 2022 is revised down by 0.25 mb/d. The US liquids supply growth forecast for 2022 remains marginally unchanged at 1.3 mb/d. The main drivers of liquids supply growth in 2022 are expected to be the US, Brazil, Canada, Kazakhstan, Guyana and China, while declines are expected mainly in Russia, Indonesia and Thailand. OPEC NGLs and non-conventional liquids production in 2021 is revised up by 20 tb/d from last month's assessment, representing growth of 0.1 mb/d y-o-y to average 5.3 mb/d. Growth of 0.1 mb/d is also expected for 2022. In May, OPEC-13 crude oil production decreased by 176 tb/d m-o-m to average 28.51 mb/d, according to available secondary sources.



Product Markets and Refining Operations

Refinery margins on all main trading hubs continued to increase in May, albeit at a considerably lower rate than in the previous months. With the conclusion of the peak turnaround season, rising product output started to limit the contraction in global product balances. In the Western Hemisphere, gasoline was the sole positive performer and margin driver across the barrel. Gasoline inventories declined in the US, while gasoil stocks showed some recovery. In Asia, all product markets strengthened, with the exception of naphtha and fuel oil, as regional transport fuel consumption improved amid the roll back of COVID-19 lockdown measures in China. Going forward, refinery intakes are expected to rise further to accommodate a seasonal pickup in fuel consumption and to replenish stocks.

Tanker Market

Dirty tanker spot freight rates fell back from the sharp gains seen the previous month. Suezmax rates declined 37% m-o-m and Aframax fell 22% over the same period, as ample availability overwhelmed the upward pressure caused by trade dislocations. VLCC rates declined 20%, with losses both East and West of Suez. In contrast, clean rates continued to surge, up 37% on average amid tight product markets. Dirty spot freight rates are likely to remain capped by ample tanker supply, while clean rates could continue to benefit from trade shifts necessitating higher vessel demand in the summer driving season in the Northern Hemisphere.

Crude and Refined Products Trade

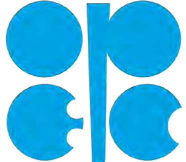
Preliminary data shows US crude imports averaged 6.4 mb/d in May, a gain of 6% m-o-m, while crude exports set a new record high of 3.7 mb/d in May. US product imports remained steady, averaging 2.2 mb/d, supported by an increase in gasoline flows ahead of the driving season. China's crude imports averaged 10.5 mb/d in April and preliminary data shows May imports at 10.8 mb/d, as inflows continued to pick up from the weak performance in February despite lower refinery throughputs. China's product exports edged lower in April, averaging 1.0 mb/d, as declines in gasoline, diesel and fuel oil exports offset increased jet fuel outflows. The anticipated lifting of lockdown measures should support China's crude imports in June, although this could be offset by refiners drawing from existing inventories. India's crude imports jumped 13% to a new record high of 5.1 mb/d in April, as refineries maximized run rates and snapped up discounted Russian crude. Japan's crude imports saw the fourth-consecutive m-o-m gain in April, edging up to average 2.9 mb/d amid expectations of improving product demand. Japan's product imports, including LPG, were broadly flat, while product exports fell 30% m-o-m, with declines across most major products amid lower flows to China. OECD Europe trade flows remain a key uncertainty due to sanctions and the challenges of sourcing crude and refined products from other suppliers.

Commercial Stock Movements

Preliminary April data sees total OECD commercial oil stocks up 1.8 mb m-o-m. At 2,628 mb, inventories were 287 mb less than in the same period a year ago, 332 mb lower than the latest five-year average, and 299 mb below the 2015–2019 average. Within components, crude stocks rose m-o-m by 9.3 mb, while product inventories fell m-o-m by 7.5 mb. At 1,293 mb, OECD crude stocks were 129 mb lower than the same time a year ago, 180 mb lower than the latest five-year average, and 179 mb below the 2015–2019 average. OECD product stocks stood at 1,335 mb, representing a deficit of 158 mb compared to the same time a year ago, 152 mb lower than the latest five-year average, and 120 mb below the 2015–2019 average. In terms of days of forward cover, OECD commercial stocks fell m-o-m by 0.6 days in April to stand at 57.4 days. This is 7.6 days below April 2021 levels, 8.0 days less than the latest five-year average and 4.8 days lower than the 2015–2019 average.

Balance of Supply and Demand

Demand for OPEC crude in 2021 is revised down by 0.2 mb/d from the previous month's assessment to stand at 28.0 mb/d, which is around 5.0 mb/d higher than in 2020. Demand for OPEC crude in 2022 is revised up by 0.1 mb/d from the previous month's assessment to stand at 29.2 mb/d, which is around 1.1 mb/d higher than in 2021.

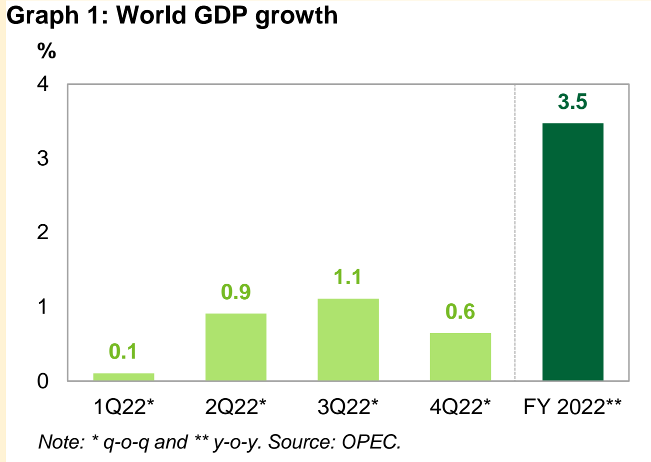


World oil market prospects for the second half of 2022

The global economy in 2022 continues to be fraught with uncertainty. The first quarter of the year showed a weakening growth trend amid strongly rising commodity prices and a surging Omicron wave, both of which dampened the economic dynamic, particularly in the advanced economies and China. Nevertheless, economic growth is forecast to pick up towards the end of 2Q22.

Recently, economic momentum has been building, especially in the contact-intensive services sector, which includes travel and transportation, leisure and hospitality. This renewed activity is expected to lead into the summer holiday season of the northern hemisphere, supported by still-sufficient savings in advanced economies to be spent on pent-up demand. A similar seasonal dynamic was observed during the summer months of pandemic years 2020 and 2021. However, once the summer holidays are over, it will remain to be seen to what extent inflation, i.e. rising cost of living, financial tightening and rising geopolitical uncertainty, dampen the growth dynamic towards the end of the year (***Graph 1***).

Graph 1: World GDP growth



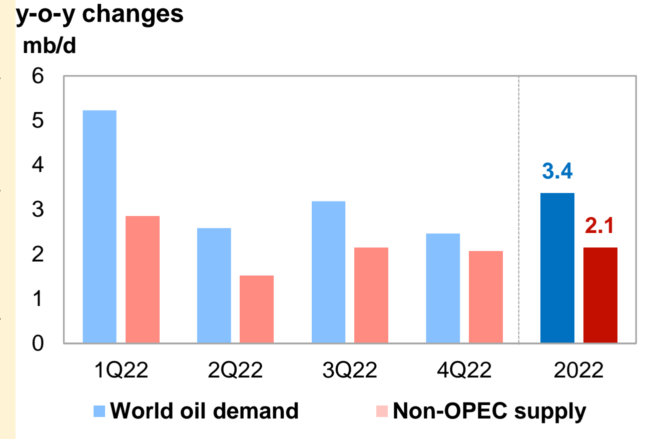
*Note: * q-o-q and ** y-o-y. Source: OPEC.*

Turning to the oil market, global oil demand is anticipated to average 101.8 mb/d in 2H22, up from 98.7 mb/d on average seen in 1H22. For the year, world oil demand is forecast to grow by 3.4 mb/d (*see **Graph 2***). Improving mobility in major economies, as well as seasonal containment of the pandemic is projected to support gasoline and distillate demand. Oil demand growth in the OECD is forecast to average 1.2 mb/d y-o-y in 2H22, with OECD Americas remaining the largest contributor to oil demand growth. In terms of main products, gasoline is expected to lead oil demand growth in the region, closely followed by LPG, middle distillates and naphtha. In the non-OECD, oil demand is estimated to increase by 1.6 mb/d in 2H22 y-o-y, driven mostly by China, India, Other Asia and the Middle East. The rapid containment of COVID-19 in China is expected to support a healthy rebound in economic momentum in the region. In terms of products, middle distillates are projected to be the main contributor to growth, followed by gasoline, LPG and naphtha.

Following estimated growth of 2.2 mb/d y-o-y in 1H22, non-OPEC liquids supply is forecast to grow by 2.1 mb/d y-o-y in 2H22. For the entire year, non-OPEC liquids supply is projected to grow by 2.1 mb/d y-o-y (***Graph 2***).

On a regional basis, OECD liquids supply is expected to grow by 1.7 mb/d y-o-y in 2H22, mainly in the US with a projected increase of 1.2 mb/d, and additional incremental production coming from Canada and Norway. However, liquids supply from the non-OECD region is forecast to increase only by 0.3 mb/d y-o-y in 2H22. Lower production from Russia is forecast to be offset by higher output in other regions like Latin America. However, the second half of the year remains highly uncertain due to geo-political developments in Eastern Europe.

Graph 2: World oil demand and Non-OPEC supply, y-o-y changes



Note: 2022 = Forecast. Source: OPEC.

Looking ahead, current geopolitical developments and the uncertain roll-out of the pandemic toward the end of the second half of the year continue to pose a considerable risk to the forecast recovery to pre-pandemic levels. Inflationary pressures are likely to persist and it remains highly uncertain as to when geopolitical issues may be resolved. Nevertheless, oil demand is forecast at healthy levels in the second half of this year. In order to meet this incremental demand, the countries participating in the Declaration of Cooperation (DoC) decided in their 29th Ministerial Meeting held on 2 June 2022 to advance the planned production adjustments of September 2022 in an ongoing endeavour to ensure market stability.

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