

Fujairah

New Silk Road

WEEKLY NEWSLETTER

Eid Mubarak

JULY 29th 2020
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AN EXCLUSIVE GULF INTELLIGENCE INTERVIEW

“WE CANNOT BLAME ALL OUR MISERY IN THE CHEMICAL INDUSTRY ON COVID-19”

Mutlaq Al-Morished,
Chief Executive Officer, Tasnee

The chemical industry had already started to see oversupply coming from the US (chemical-based and shale gas) around the middle of last year. This was nine months before Covid-19 was ever mentioned. That oversupply disturbed the pricing situation in the chemical industry. Then, Covid-19 came in and added to all the misery. So, we had an oversupply situation that was already established, and then reduction of demand due to the pandemic mainly from China at the beginning. But, to be honest, China and Asia have recovered remarkably well. Asia in general is faring better than what we have seen in Europe or North America. In our situation, most of the Gulf Arabian producers were able to ship what we made. It was not a situation where we could not deliver the molecules. But the drop in prices is what has impacted us the most.”



CONTINUED ON PAGE 3

Fujairah Weekly Oil Inventory Data

6,765,000 bbl
Light Distillates



4,390,000 bbl
Middle Distillates



14,559,000 bbl
Heavy Distillates & Residues



Source: FEDCom & S&P Global Platts

Fujairah Average Oil Tank Storage Leasing Rates*

BLACK OIL PRODUCTS

Average Range
\$3.61 - \$4.38/m³



↑ Highest: \$4.50/m³

↓ Lowest: \$3.50/m³

Source: GI Research - Weekly Phone Survey of Terminal Operators

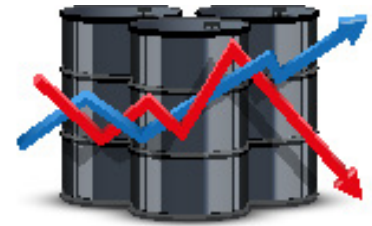
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THE WEEK In Numbers

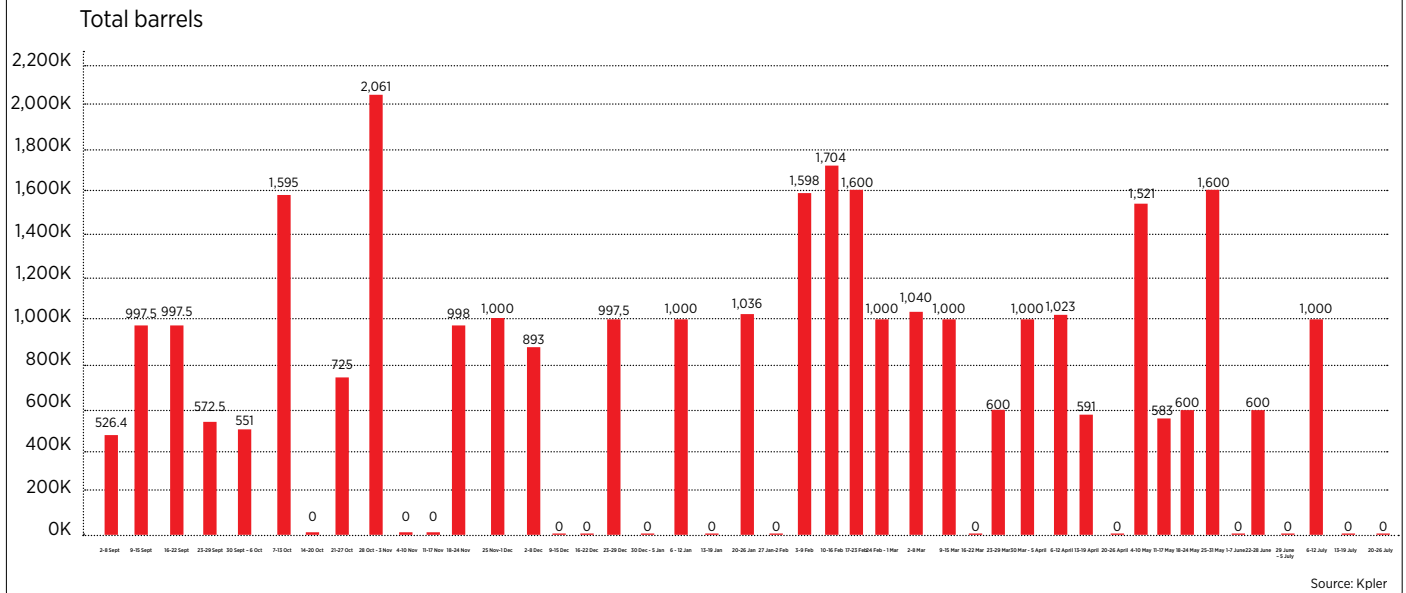


Weekly Average Oil Prices

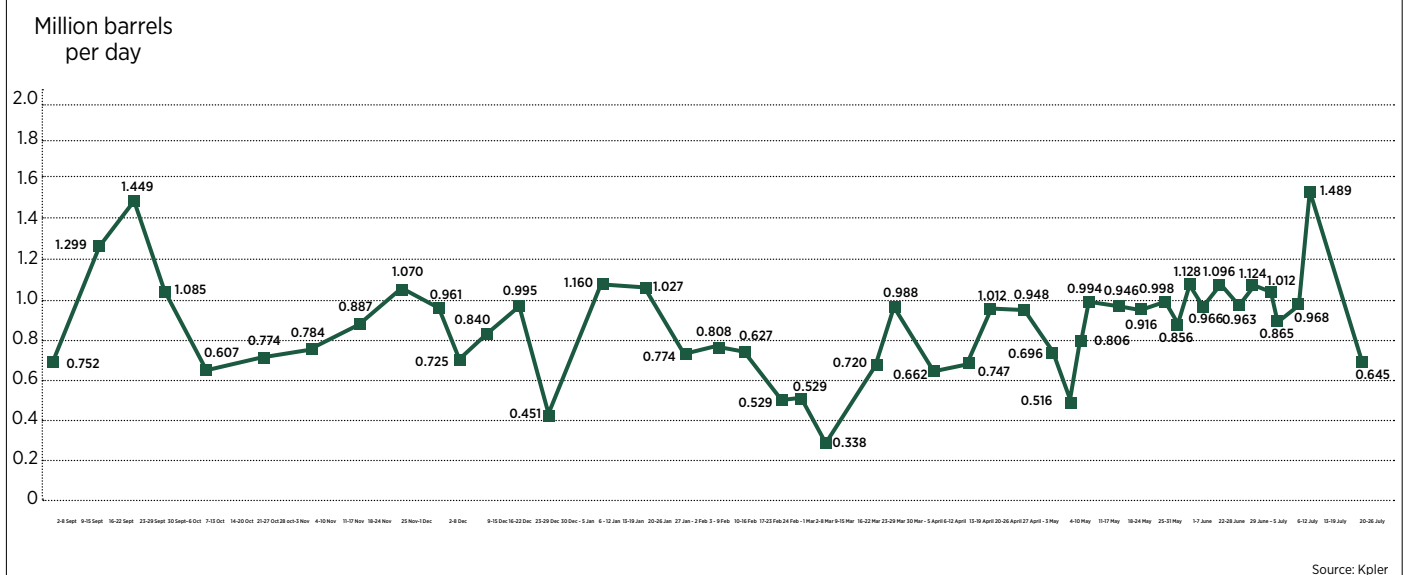
Brent Crude:	\$43.73/bl
WTI Crude:	\$41.30/bl
DME Oman:	\$43.43/bl
Murban:	\$41.29/bl

Time Period: Week 4, July 2020
Source: IEA, OilPrice.com, GI Research

Weekly Imports of Heavy Sweet Crude into Fujairah



Total Refined Product Exports from the GCC to Asia-Pacific



CONTINUED FROM PAGE 1

GIQ: Has Covid-19 created any opportunities for the petrochemical industry?

Mutlaq Al Morished: One-time-used plastic got a huge boost from the Covid-19 situation. People do not want to touch things twice. A large amount of demand is coming from the packaging of products that are thrown away. This is still continuing on a large scale. People in the past have always said that plastic is bad and that it generates a lot of waste. Frankly, we have to face reality, and this is one of the ways that you have to deal with Covid-19. You don't want to continue using the same plastic bag and get it contaminated. However, on the other side, we have durable goods. For example, these are the plastics that are used in dryers, washers, refrigerators, cars, and planes. These plastics have taken a hit. A lot of countries stopped production, like China early on, and then the US and Europe at a later stage. So, we have one side of the segment that is doing well and another side which is not.

GIQ: How has the current US Shale situation impacted the petrochemical industry?

Mutlaq Al Morished: We don't see a reduction on the US shale gas side. Maybe there has been a reduction in oil, but that's not my field of expertise. Remember, there are a lot of shale fields in the US that produce mainly gas and not oil. These contracts between the chemical industry and the US shale players are for 10-20 years. I don't know of a chemical plant that has been shut down because shale gas was unavailable. I always laugh when somebody tells me companies are going bankrupt and the market could improve. No, it won't, because when a chemical company or a shale company goes bankrupt, the tonnage doesn't leave the market. You're just changing owners. One owner leaves, and a new one comes in and re-finances. The new owner is then hungry for cash and they start pumping more.

GIQ: At the moment, it has been difficult for the US to keep exporting gas. Is there a lot more gas in the domestic market?

Mutlaq Al Morished: Yes, but they were not exporting gas for chemicals, like ethane. US ethane exports were not that big. So, there was still a lot of ethane in the fuel pool in the US. The value between C1 and C2 is narrowing, so there are not many extraction benefits at the moment. The US players are waiting for ethane to be naturally higher than methane. Then, they will extract more. But the bottom line is: shale gas is here to stay. The chemical industry that was built around shale gas is not closing down. It is still getting feedstock and shale is still producing. The question is, will there be another wave? I doubt it. We are reaching a stabilization in US production capacity, especially in the chemical segment of the industry. I think we will see one or two crackers every five years. That's nothing. The market can absorb it.

GIQ: How has US-China tension impacted the chemical industry?

Mutlaq Al Morished: When two large elephants fight in a forest, a lot of the small things around them get crushed. Unfortunately, a lot of us are among those small things that could easily get crushed if we do not move away from these elephants. But, I'm a believer in logic. China and the US are both smart. They have a lot of joint interests involving billions of dollars in trade. There is a lot of rhetoric going on at the moment, with some being election-related. They will reach a deal at some point. The question is when and how much collateral damage will there be?

GIQ: Should the GCC diversify its industrial dependence away from China?

Mutlaq Al Morished: Yes. But let's face it, you can't diversify away from China. There are physical limits. It's the law of physics. For example, you can't get Africa to replace China, no matter what you do. There are realities that we have to face. I think the situation is manageable. There will be some disruption and distortion in certain parts of the supply chain. The impact of US-China tensions has not been that huge for the region. Don't get me wrong, we have seen some dislocation here and there, but it's not gloom and doom. It's not the end of the world. We're not talking about a subprime situation or a huge cycle like we saw in the late 2000s.

GIQ: Tasnee recently restructured its debt from short-term to long-term. How has that played out given the current global situation?

Mutlaq Al Morished: We are glad that we did it. Luckily, the financial situation in Saudi Arabia and the liquidity in the banking sector is quite healthy. It's not really an issue. Moving your debt away from short-term to long-term allows you to breathe a bit.

GIQ: Is there capital currently available for CapEx or expansion?

Mutlaq Al Morished: Yes there is. However, what is holding us back in Saudi Arabia though, is the availability of feedstock. It's a feed spot game. It's not the market, capital, or the people. It's the feedstock. If you're a blacksmith without coal, then you aren't going to be able to do much.

GIQ: What is your outlook for the industry in H2 2020?

Mutlaq Al Morished: From a financial point of view for H2, I think nothing will get worse than what it is now. Things being equal, I think we will see a better second half than the first half. We have seen an improvement in prices. For example, demand lifting of tonnage was not an issue. Inventory wasn't being built up because you can't move the pumps. It's been a price situation.

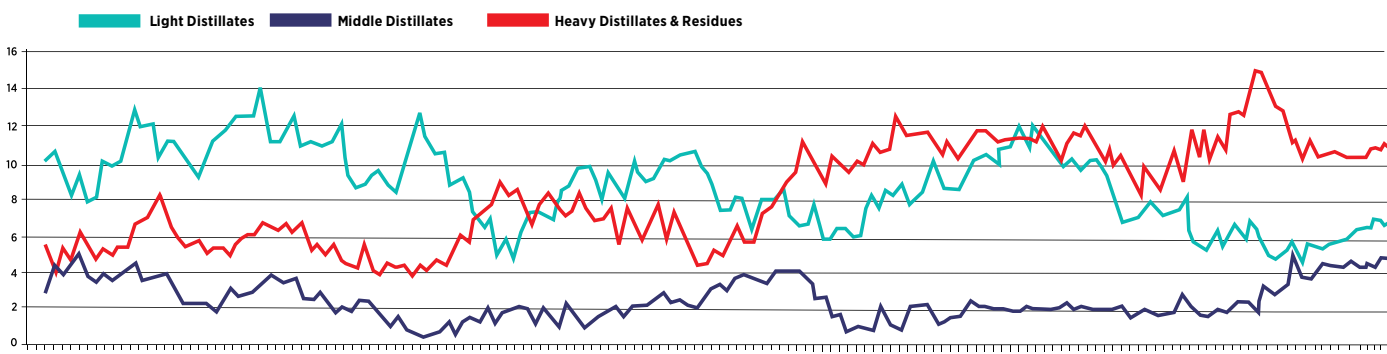


WATCH FULL INTERVIEW HERE

Fujairah Weekly Oil Inventory Data



bbl (million)



TOP TAKEAWAYS

- Total oil product stocks in Fujairah were reported at 25.714mn barrels. Stocks rose by 372,000 barrels, building 1.5% week on week, with builds in middle distillates and heavy residues offsetting a fall in light distillates.
- Stocks of light distillates fell by 546,000 barrels or 7.5% week on week. Total volumes stood at 6.765mn barrels. The gasoline market saw downward pressure persisting as higher outflows from China were weighing on the physical

market, sources noted. In China, crude throughput at domestic refineries are likely to hit another record high in July as the state-owned oil companies, which collectively account for 69% of the country's refining capacity, were reported to have boosted their average utilization rate to a six-month-high of 83.6% this month from 80% in June.

- Stocks of middle distillates rose to 4.390mn barrels as they rose by 11.4% or 449,000 barrels. East of Suez gasoil was steady to bearish as market participants keep a keen

eye on current supply and demand fundamentals. Some traders have said that gasoil sentiment going into August looks set to soften further, with the bullishness seen earlier in July ebbing away due to expectations of a more well-supplied market. "I think the market is generally just slow at the moment, and 10 ppm is weaker than 500 ppm in terms of sentiment," a trader said.

- Stocks of heavy residues saw a build rising by 3.3%, building by 469,000 barrels on the week to stand at 14.559mn barrels. The

delivered bunker market in Fujairah was seeing bullish sentiment buoyed by an uptick in crude values. "The whole system has gone up on the back of higher Brent and the products market seems stronger than Brent at the moment," a trader said. Fujairah delivered bunker prices remained at a discount to Singapore, with delivered bunker prices for Marine Fuel maximum 0.5% sulfur in Fujairah standing at \$337/mt on Tuesday, with the discount to Singapore narrowing on the week to \$8/mt.

Source: S&P Global Platts

Bookcase Integrity?

Brent is trading this morning at \$43.50/bl, up 0.28/bl, and WTI is trading up 0.20/bl, at \$41.24/bl. I find myself not wanting to talk about oil again this morning, of course, I will later because I can't help myself, but to start I want to talk about bookcase integrity. Who would have that at Christmas time last year, the world would care more about what was on your bookshelf than where you got your Christmas turkey from? Today four of, arguably, the world's most powerful business leaders testify before Congress. Testifying via zoom, of course, and background nosiness is now a thing. These

4 companies are worth \$4.85 trillion. Trillion. But it's not what they say that interests me, it's what's on their bookshelves. Let me have a guess what books exactly: Bezos "Marriage for Dummies". Pichai "Ask Jeeves: Where is he now?". Zuckerberg "How to not look awkward speaking in public". Gates "How to buy an island and set up an independent state". Just a guess. Anyway. Shall we talk about oil? Well, there's not much to say, really, apart from what everyone else is saying, i.e. "Oil steady at \$43 as investors unsure on looming lockdowns as crude stocks show draw". It's not to be dismissed though, you know, a stable



BY MATT STANLEY
DIRECTOR
STAR FUELS

market. Isn't that what OPEC+ have been trying so hard to achieve? Stable oil prices? The answer, of course, is yes, but stable at \$43/bl? Ummmm no. Sure, it looks a lot better than \$19/bl where we were at the end of April but OPEC+ really need flat prices, I would say

about \$15/bl-\$20/bl higher in order to deem the cuts as "successful". The problem is, as we all know, that prices up there will encourage non-OPEC producers to open the flood gates and that is the last thing the market needs. I said a couple of weeks ago that the 1H of 2020 was about supply curtailment - reactionary measures taken by producers to stabilise the oil market. The 2H will be all about oil demand, and at the moment, it's looking weaker than a cup of tea on a European holiday. Indeed, IATA said yesterday that air travel will not recover until 2024. Let's see what EIA data says later about US product demand.

July 29, 2020

ENERGY MARKET NEWS

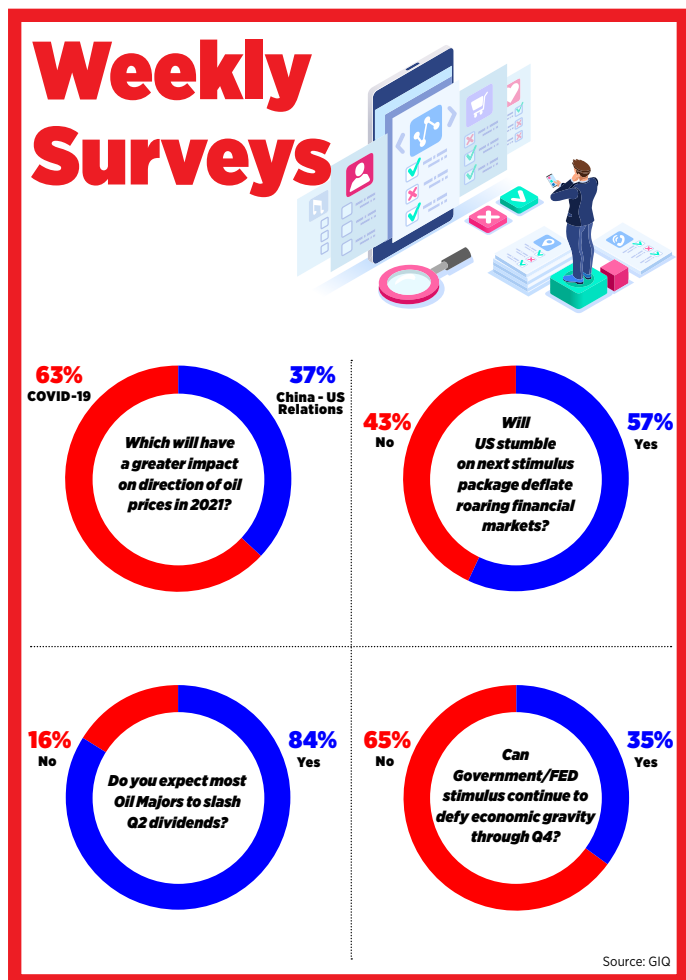
RECOMMENDED READING & VIEWING

- 1. COVID-19: KENYA EXTENDS CURFEW FOR A MONTH AS CASES JUMP**
- 2. KING DOLLAR'S DECLINE RIPPLES ACROSS THE GLOBE**
- 3. CHINA'S SURGING CRUDE IMPORTS MASK WEAKNESS IN REST OF ASIA**
- 4. US DOLLAR'S REIGN AS WORLD'S RESERVE CURRENCY IS UNDER THREAT**
- 5. CHINA'S MULTILATERAL AND GLOBAL AMBITIONS**
- 6. CNOOC ACQUIRES STAKES IN ABU DHABI'S MAJOR OFFSHORE BLOCKS**
- 7. OPEC PREPARES FOR AN AGE OF DWINDLING DEMAND**
- 8. OPEC'S SUCCESSFUL STABILIZATION OF OIL MARKETS**
- 9. AUSTRALIA TELLS US IT HAS NO INTENTION OF INJURING CHINA TIES**
- 10. WALL STREET FALLS ON HURT CONSUMER CONFIDENCE; STIMULUS PLAN UNDERWHELMS**



RECOMMENDED VIDEOS & REPORTS

- **GI EXCLUSIVE: "ENERGY TRANSITION WILL ACCELERATE BECAUSE IT MAKES ECONOMIC SENSE!"**
- **TASNEE: "WE CAN'T DIVERSIFY AWAY FROM CHINA, FULLSTOP!"**
- **WALL STREET FALLS ON TOUGH STIMULUS TALKS, MIXED EARNINGS**



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Fujairah Spotlight

National Bank of Fujairah Sees 81.8% Drop in First-Half 2020 Net Profit

National Bank of Fujairah saw operating income drop 10.2 per cent to Dh755.6 million in the first six months, with “substantial” pressure brought to bear on margins. But despite the headwinds, the extent of the decline was mitigated by “management action to protect the core business,” it added in a statement. NBF had a net profit of Dh65.1 million for the six-month period, down 81.8 per cent. It was brought on by “absorbing the elevated level of provisions” needed to factor in “current exceptional market conditions”. “NBF maintained its policy of prudent and transparent recognition of problem accounts and taken the opportunity to enhance net impairment losses in response to the potential impact of COVID-19 and current market conditions,” the statement added. Net impairment provisions were Dh456.3 million for the six-month period compared to Dh209.9 million in 2019. The bank’s other comprehensive income for the three-month period ended June 30 was up by Dh71.4 million, helped by improvement in investments.

Source: Gulf News

Fujairah Ruler Orders Release of 45 Prisoners Ahead of Eid Al Adha

H.H. Sheikh Hamad bin Mohammed Al Sharqi, Supreme Council Member and Ruler of Fujairah, ordered the release of 45 prisoners incarcerated by the Fujairah Punitive and Correctional Establishments who are from different nationalities and are deserving of being pardoned. The decision coincides with the advent of Eid Al Adha. Sheikh Hamad’s gesture reflects his keenness to give prisoners a second chance and make their families happy. Major General Mohammed Ahmed bin Ghanim Al Kaabi, Commander-in-Chief of the Fujairah Police, thanked Sheikh Hamad for this gesture, hoping that it will enable the released prisoners to start new lives, contribute to their community, and show good behaviour.

Source: Emirates News Agency

Fujairah Fine Arts Academy Organises Virtual Summer Programmes for School Students

The Fujairah Fine Arts Academy, in cooperation with the Ministry of Education, is organising virtual training programmes for public school students for the 2020 summer holidays. The programmes aim to enrich the knowledge of students, improve their skills and capacities in many artistic areas, and equip them with important life skills. The programmes will also involve three specialisations, including Arabic calligraphy, painting and photography, and will comprise four sessions per week for each specialisation over a two-week period. Ali Obaid Al Hefaiti, Director-General of the Academy, said that upon the directives of H.H. Sheikh Mohammed bin Hamad bin Mohammed Al Sharqi, Crown Prince of Fujairah, the academy is focussing on its cooperation with its strategic partners in artistic and academic subjects, through exchanging ideas, expertise and holding workshops and training programmes, in coordination with the Ministry of Education. Al Hefaiti also praised the academy’s cooperation with the ministry, which has given students an opportunity to gain skills and expertise, noting that the academy is promoting the culture of arts to inspire students, especially during their holidays, to develop their skills and promote positive values.

Source: Emirates News Agency

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GI EXCLUSIVE SOUNDINGS

US Dollar Weakens Among Economic Uncertainty and Fear of Covid-19 Resurgence

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

- Christof Rühl, Senior Research Scholar, Center on Global Energy Policy, Columbia University
- Dr. Aldo Flores-Quiroga, Former Deputy Secretary of Energy for Hydrocarbons, Mexico's Ministry of Energy
- Omar Najia, Global Head, Derivatives, BB Energy
- Robin Mills, Chief Executive Officer, Qamar Energy
- Dr. Carole Nakhle, Chief Executive Officer, Crystol Energy
- Kevin Wright, Lead Analyst APAC, Kpler
- James McCallum, Executive Chairman, Xergy; Professor of Energy, Strathclyde University
- Peter McGuire, CEO, XM Australia
- Randall Mohammed, Vice President, Energy Solutions, Ahart Solutions International

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

"China-US tensions are going into a higher gear. There is only one big ticket item that both participants in the upcoming US elections agree on, and that is that China is the bad backer of all sorts of things. We should also expect the current US administration to ratchet things up ahead of November."

Dr. Aldo Flores-Quiroga, Former Deputy Secretary of Energy for Hydrocarbons, Mexico's Ministry of Energy

"We still don't know when and how we are coming out of this extraordinary situation with the pandemic. From a demand perspective, I think a second wave of Covid-19 infections is coming and this will generate even more uncertainty."

Omar Najia, Global Head, Derivatives, BB Energy

"The weakness in the US dollar is done. We will see renewed strength because the S&P will turn over. When fear hits the market, people will start to forget about other currencies and turn to the US dollar. 495 of the 500 companies on the S&P Index are down for the year. It is not good news when you have a market where only five companies are carrying the other 495."

Robin Mills, Chief Executive Officer, Qamar Energy

"It's well known or established that OPEC will increase production again. That has helped cap oil prices and is why they haven't moved beyond their current range. I think it is a right move though because demand has recovered since April. It is still very weak but it's not as disastrous as it was."

Dr. Carole Nakhle, Chief Executive Officer, Crystol Energy

"I would look at the data coming out of Asia with caution. The region started at a very low base for growth numbers. Demand in China is still very anemic. We will have a better understanding of where the economy is heading once we see some real growth in consumer spending."

Kevin Wright, Lead Analyst APAC, Kpler

"The reporting cycle for big oil and gas companies will now start. We have already seen them preparing the market and investors for significant write-ins in Q2. Where markets are right now, I can see a bullish scenario going into Q3. I think we are going to see some very bleak results."

James McCallum, Executive Chairman, Xergy; Professor of Energy, Strathclyde University

"As long as oil prices stay where they are, the US shale story will continue to be a mix of the best low-cost producers and how much the US is willing to underpin financial support energy stability. The financial security to invest in shale production and those companies is not going to be there."

Peter McGuire, CEO, XM Australia

"Crude has been consolidating around the \$40/bl level. There has been nothing there with no breakouts on either side. However, the market has a different tone at the moment with softness on the US dollar and gold up."

Randall Mohammed, Vice President, Energy Solutions, Ahart Solutions International

"The situation on the ground in the US at the moment doesn't look good. We are very far from any kind of V-shaped economic recovery."

ENERGY MARKETS COMMENTARY WEEK IN REVIEW



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PODCAST

DAILY ENERGY MARKETS NEW SILK ROAD



Robin Mills
CEO
Qamar Energy



Peter McGuire
Chief Executive Officer
XM Australia



Randall Mohammed
VP, Energy Solutions
Ahart Solutions
International

Wednesday July 29th, 2020

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PODCAST

DAILY ENERGY MARKETS NEW SILK ROAD



Kevin Wright
Lead Analyst APAC
Kpler



Vandana Hari
Founder & CEO
Vanda Insights



James McCallum
Executive Chairman, Xergy
Professor of Energy
Strathclyde University

Tuesday July 28th, 2020

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PODCAST

DAILY ENERGY MARKETS NEW SILK ROAD



Dr. Aldo Flores-Quiroga
Former Deputy Secretary
of Energy for Hydrocarbons
Mexico's Ministry
of Energy



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



Sean Evers
Managing Partner
Gulf Intelligence

Sunday July 26th, 2020

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PODCAST

DAILY ENERGY MARKETS NEW SILK ROAD



Rustin Edwards
Head, Fuel Oil Procurement
Euronav NV



Dr. Carole Nakhle
Chief Executive Officer
Crystal Energy



Omar Najia
Global Head, Derivatives
BB Energy

Monday July 27th, 2020

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DAILY ENERGY MARKETS WEBINAR July 26th - July 29th NEW SILK ROAD "LIVE"



EXCLUSIVE

TOP 10 MARKET OBSERVATIONS FOR THE WEEK

- 1.** OPEC+ should continue with ramping up production next month as they can't afford to allow lost market share to become a permanent feature.
- 2.** Demand is likely to weaken through Q4 as the biggest four US states by size and GDP are facing big waves of Covid-19 infection.
- 3.** Weak dollar offers a minor stimulus to emerging markets but nothing close to what is needed to help these countries overcome massive debts.
- 4.** Oil majors are likely to report never seen before losses in Q2, and follow Shell's lead from Q1 in slashing dividends.
- 5.** Covid-19 fires now restarting in the East and West, throwing up the big question of will we see Lockdown 2.0?
- 6.** Safe-haven Gold is grabbing all the headlines as oil remains in a coma – tells its own cuckoo-in-the-coalmine story.
- 7.** Oil markets are slowly finding their way to a rounded top correction ahead of the next attempt to reach \$50/bl, maybe.
- 8.** Shale is the perfect analogy of our time – on paper it is clear it has never made a profit and should be shutdown, yet it survives nuclear winters and comes back.
- 9.** Everything that has been soaring i.e. gold and equities, may find that bump on their head is from hitting their ceiling.
- 10.** EU may be the adult in the room smart-money bet as China-US beat each other up over the medium term.

ENERGY MARKETS VIEWS YOU CAN USE

By Rustin Edwards
Head of Fuel Oil procurement, Euronav NV

Chinese imports

All the crude is moving East-bound. Once their tanks are full then it's hard to import more, but then again, they did purchase a lot of crude. So, there is a fair amount of crude still on the water heading to China. And so the backlog is going to continue, which is supporting the VLCC freight market.

US Inventories

Overall, inventories are still moving in the right direction. But in the US these last couple of weeks the big question is: Is shale coming back? Depending on where the rig increases are, and if they continue on their current path, a thaw in the Dakota access pipeline issue is going to come to bear here in another week, and how will that impact the inventory balance?

Libya

I'm watching Libya. That's still a part of the world that's being stirred by a lot of different cooks. But it freaks me out to think that something silly can happen



to spark off a major confrontation there. And the US has just announced that it could potentially place sanctions on Libya, which I thought was an interesting move given that they were initially supporting them.

European stimulus, recovery and performance

Europe has done a fair amount to get people back to work and to bring back a semblance of normality. And I

think a lot of the Europeans are willing to comply because nobody wants a prospect of another six weeks at home. For example, if you're a shop, you want people to wear a mask.

People are now flying to Mallorca, southern Italy and Greece, which will help support the local economies in general. And I think this will help keep Europe out of the downward slide. Demand coming back. But Europe still has a little bit further to go.

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