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Fujairah New Silk Road WEEKLY NEWSLETTER

Supported By:
FOIZ منطقة الفجيرة للصناعة البترولية Fujairah Oil Industry Zone
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EXCLUSIVE INSIGHTS /// ACTIONABLE INTELLIGENCE /// DATA TRENDS /// LATEST NEWS

AN EXCLUSIVE GULF INTELLIGENCE INTERVIEW

"ENERGY DEMAND REMAINS TEPID DESPITE SOME COUNTRIES SLOWLY COMING OUT OF LOCKDOWN..."

John Roper, CEO, Middle East, Uniper Global Commodities SE

Natural gas and LNG have not been immune from the hit that global energy demand has taken this year. US LNG cargoes have felt a particular impact and it's simply been a matter of price - LNG coming out of the US is at or close to pricing positions in Europe. The structure of LNG contracts for US tolling projects also allows buyers to exercise their right to cancel a certain amount of cargoes and the 40-50 daily cancellation rate we have been witnessing is likely to continue through to the fourth quarter. Despite some countries now seemingly slowly coming out of lockdown, demand remains tepid and adding to the challenge for all LNG suppliers is that, unlike the oil market, they don't generally have the flexibility to turn the taps off when demand drops. Producers around the world have stuck to their quota commitments and one result has been very active trading for LNG in Asia. We have exchanged on more cargoes during the first quarter of this year than in previous periods.

CONTINUED ON PAGE 3

Fujairah Weekly Oil Inventory Data

8,244,000 bbl	5,073,000 bbl	16,901,000 bbl
Light Distillates	Middle Distillates	Heavy Distillates & Residues

Source: FEDCom & S&P Global Platts

Fujairah Average Oil Tank Storage Leasing Rates*

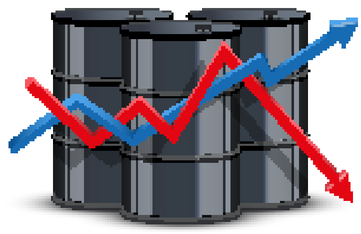
BLACK OIL PRODUCTS

Average Range
$3.55 – $4.38/m³

↑ Highest: $4.50/m³
↓ Lowest: $3.50/m³

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

THE WEEK In Numbers

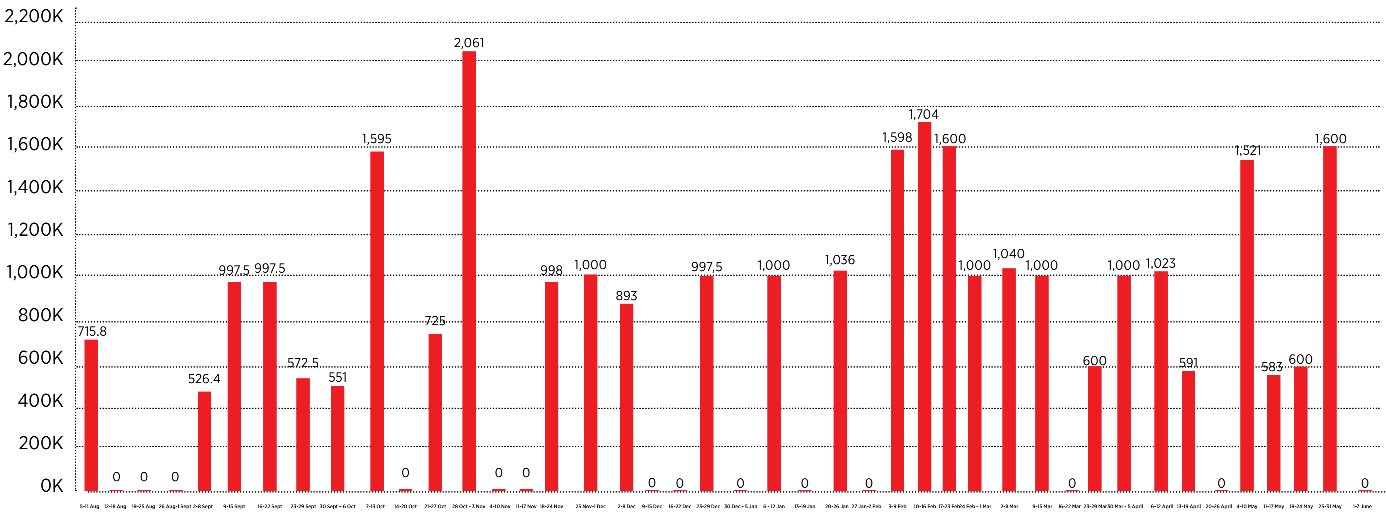


Weekly Average Oil Prices

Brent Crude: **$41.88/bl**
WTI Crude: **$39.57/bl**
DME Oman: **$43.38/bl**
Murban: **$42.59/bl**

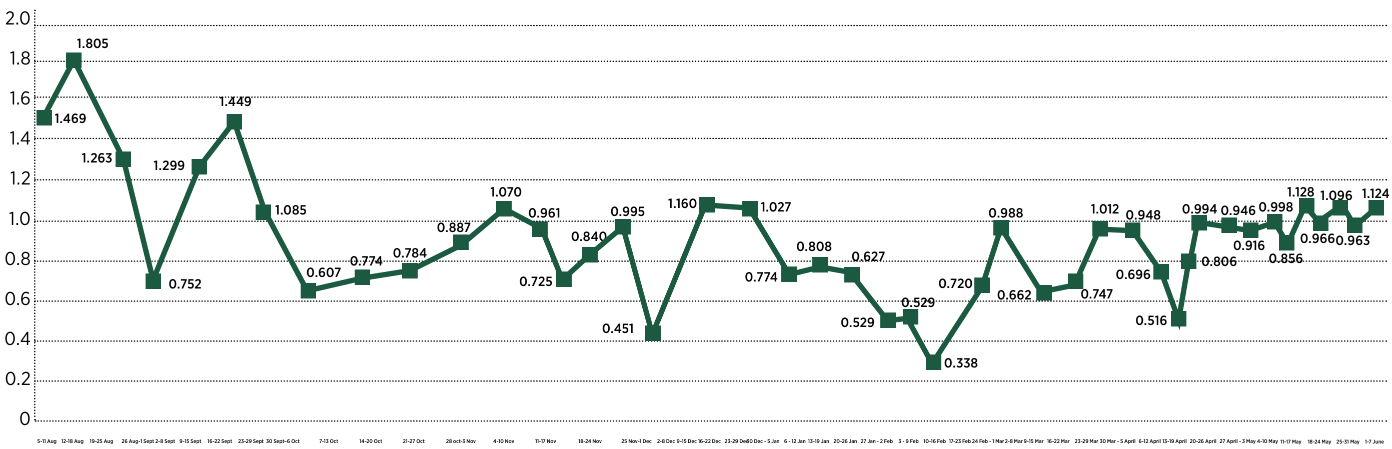
Time Period: Week 4, June 2020
Source: IEA, OilPrice.com, GI Research

Weekly Imports of Heavy Sweet Crude into Fujairah



Source: Kpler

Total Refined Product Exports from the GCC to Asia-Pacific



Source: Kpler

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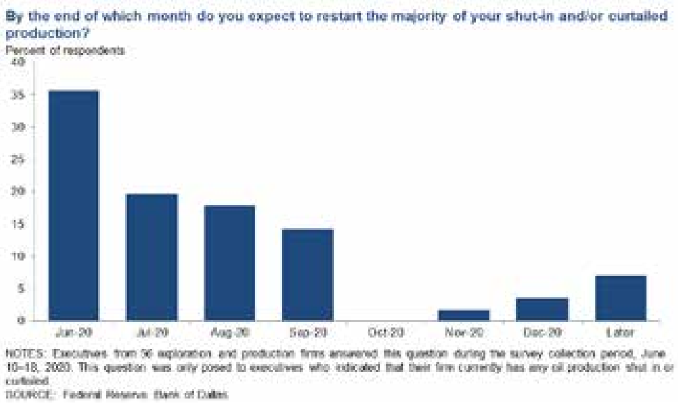
GIQ: What are the other big trends currently impacting the markets?

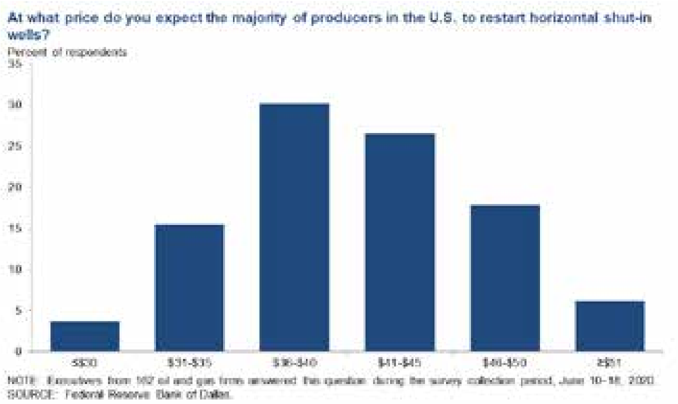
John Roper: Supply remains the fundamental issue. We are seeing the crude market firming up as the world emerges and adjusts out of lockdown but there is the big unknown of whether and when a second wave of COVID-19 will happen and we have to expect that it will. So, we need to temper the positive reports and forecasts for increased oil demand with caution for later in the year. There are also other unpredictable factors like the China-US trade deal and the US election in November, so it's those issues that are going to influence people's perspective on what they see in terms of energy demand going forward.

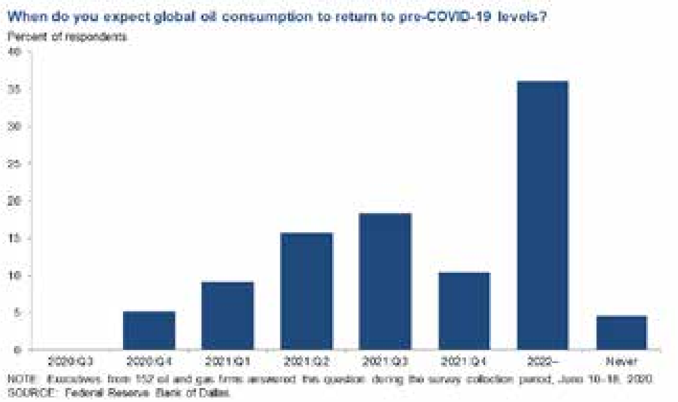
GIQ: What's the outlook for US shale oil in the third quarter?

John Roper: Technical insolvency for shale is a real warning sign for directors of companies because it means that their future value is not likely to be met by their current ability to produce. So firms have to start taking measures to sort that out. There's no doubt that US shale oil companies are going to go into bankruptcy, but they have a final opportunity during Chapter 11 to reorganize themselves. This will inevitably mean a reduction in production but I think shale will bounce back. It's an industrial manufacturing type of business and if there's increased demand, it's a sector that can respond to that demand in a way that other parts of the world can't necessarily do. The big question will be whether these prices of $40/bl - $45/bl hold over the third quarter. Covid-19 is going to be with us for a lot longer than the optimist economists think and it has a direct impact on demand for energy and demand for oil. We also still have 200 million barrels of crude oil in floating storage to take into account – that's 300% more storage than we had a year ago at the beginning of the year. Those barrels are going to come out of storage at some point.

"THERE IS THE BIG UNKNOWN OF WHETHER AND WHEN A SECOND WAVE OF COVID-19 WILL HAPPEN AND WE HAVE TO EXPECT THAT IT WILL."

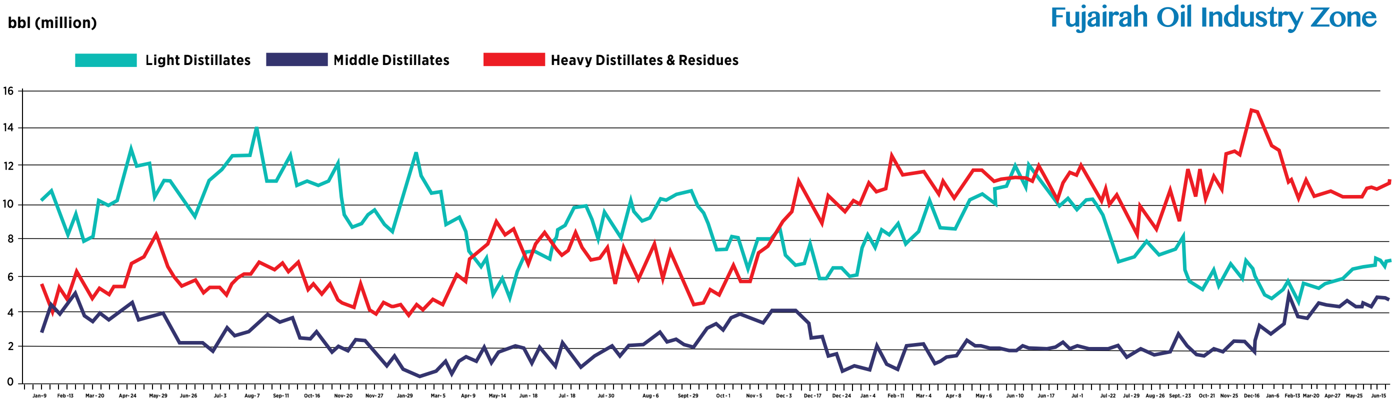






Fujariah Weekly Oil Inventory Data

FOIZ
منطقة الفجيرة للصناعة البترولية
Fujairah Oil Industry Zone



TOP TAKEAWAYS

- Total oil product stocks in Fujairah were reported at 30.218mn barrels, holding above the 30mn barrel level for the fourth consecutive week. Stocks rose slightly from last week's levels, rising by 105,000 barrels adding 0.3% week on week, with a build in light distillates offsetting draws in middle distillates and heavy residues.

- Stocks of light distillates rose by 757,000 barrels or 10.1% week on week. Total volumes stood at 8.244mn barrels. The East of Suez gasoline market was mixed as market participants were closely monitoring the regional demand picture, which was showing different signs of recovery, country by country. Driving activity overall is resuming with consumers preferring the use of private cars due to Covid-19 contagion fears. However, demand from Asia's largest importer Indonesia was set to remain at tepid levels, capping the upside in the regional motor fuel market, sources noted.

- Stocks of middle distillates dipped to 5.073mn barrels as they fell by 8.4% or 463,000 barrels. Flows of Middle Eastern gasoil into Asia have risen lately with the barrels having a downward impact on the overall gasoil complex. These flows have come on the back of shut arbitrage lanes to send Middle East gasoil to the West. Despite these flows, sources have pointed out that with Indian gasoil export volumes looking slimmer for June, leading to fundamentals shifting toward a more balanced situation rather than demand being overwhelmed by available supply.

- Stocks of heavy residues fell by 1.1%, drawing down 189,000 barrels on the week to stand at 16.901mn barrels. The market for bunkers in Fujairah continued to be characterized by a well-supplied market amidst stable demand, leading to no urgency from buyers to cover requirements. Rising crude prices were in turn putting upward pressure on bunker fuel prices. Values for Marine Fuel 0.5% delivered bunkers in Fujairah remained at discounts to Singapore with the grade assessed in Fujairah at $320/mt on Tuesday, reflecting a discount of $11/mt to Singapore.

Source: S&P Global Platts

What exactly has caused the latest downturn?

BY MATT STANLEY
DIRECTOR
STAR FUELS

Brent is trading at $39.78/bl, down 0.53c/bl and WTI is trading at $37.45/bl, down 0.55c/bl. Brent is on the edge of getting in to the mid $30's over the coming days but what exactly has caused the latest downturn? Well, you can't say it wasn't coming. Last night, EIA data revealed another build in crude oil stocks and whilst there was a modest draw on gasoline stocks, the biggest issue was that US oil production was up by 500,000 per day last week. There was going to come a point where US oil production was going to return, and I don't mean return to levels pre Covid-19, I am referring to a resurgence in supply of any kind. The rally we have seen on Brent has been based on curtailment of supply and perhaps a modicum of demand returning, but mainly supply cuts. When flat price got to a point that most US producers could deem "satisfactory" they were of course going to start drilling again. This was an issue before the outbreak, and it still an issue now. The problem is that some members of OPEC+ whose economies have been severely impacted this year, are not going to sit idly by and watch someone else reap the rewards of their hard work. This is, quite rightly, what the market is worried about. It's an inconvenient truth that the bulls have to face, but quite how much longer supply cuts remain in place is anyone's guess.

June 25, 2020

ADNOC Announces $20.7 Billion Energy Infrastructure Deal

His Excellency Dr. Sultan Al Jaber, UAE Minister of State and ADNOC Group CEO

"This milestone transaction demonstrates the trust and confidence placed in ADNOC by the global investment community and unlocks significant value from our pipeline portfolio, following last year's groundbreaking oil pipeline infrastructure investment partnership. Today's landmark investment signals continued strong interest in ADNOC's low-risk, income-generating assets, and sets another benchmark for large-scale energy infrastructure investments in the UAE and the wider region. It solidifies ADNOC's position as an attractive partner and reinforces the UAE's track record as the region's go-to foreign direct investment destination, even during the current unprecedented circumstances."

Record Investment Deal In-Numbers

$10.1bn
FDI reserved for ADNOC pending closing conditions

49% Stake
Held by consortium in select gas pipeline assets for 20 years

51% Stake
Held by ADNOC with full ownership of assets

6
Global Investors

Ahmed Al Zaabi, Chief Financial Officer, ADNOC

"The $20.7bn deal is the single biggest energy infrastructure investment in the world so far this year. And by far, the region's largest. Given the global economic climate, it's a huge achievement and endorsement of our world class assets. For ADNOC, this deal is the largest transaction since we kicked off our value maximizing strategy three years ago...It will attract more investment."

ENERGY EXPERT WEIGHS IN

Robin Mills, CEO, Qamar Energy

"The deal had been underway since late last year, so it's not an oil price related or Covid-19 related reaction. However, that said, the fact that ADNOC was able to get this deal through with an interesting and strong suite of investors, is an overall positive sign for the company and for Abu Dhabi's economic stability. The deal is volume-based with investors paying a tariff per unit of gas moved through the pipelines, so you have to be confident that enough gas is being produced and then consumed domestically, to justify the price being paid."

Source: Gulf Intelligence Daily Energy Markets – New Silk Road "Live"

ADDITIONAL TRANSACTION DETAILS

ADNOC will pay ADNOC Gas Pipelines a volume-based tariff for the use of pipelines that transport sales gas and natural gas liquids (NGL) from ADNOC's upstream assets to Abu Dhabi's key outlets and terminals. The tariff will be charged on the total volumes transported through the pipelines, together with liquefied natural gas (LNG) flows, subject to a volume cap. The new subsidiary will distribute 100% of free cash to the investors in the form of quarterly dividends.

Source: ADNOC

ENERGY MARKET NEWS

Recommended Reading JUNE 25th, 2020

1. IMF: COVID-19 CRISIS SINKS GLOBAL ECONOMY IN 2020, COLLAPSING GDP 4.9%

2. OIL DIVES OVER 5% AS US CRUDE STOCKS HIT RECORD, COVID-19 CASES MOUNT

3. NORWAY PLANS BIG EXPANSION OF ARCTIC OIL EXPLORATION

4. CHINA'S OIL PRODUCT EXPORTS FALL SHARPLY IN MAY

5. HSBC HAS LITTLE CHANCE OF RECOUPING HIN LEONG LOSSES

6. US ENERGY PRODUCERS SOUGHT BAILOUT AS OIL PRICES FELL

7. CHINA URGES JAPAN TO JUST SAY NO TO HOSTING AMERICAN MISSILES

8. INDIA REINFORCES FLASHPOINT AREA AS CHINA HOLDS GROUND

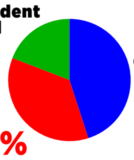
9. GERMANY ORDERS NEW LOCKDOWNS IN TWO AREAS IN RESPONSE TO COVID-19 OUTBREAK

10. BEIJING REMAINS CAUTIOUS ABOUT COVID-19 OUTBREAK

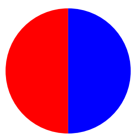
DAILY RECOMMENDED READING & VIDEOS:
- OIL PRICES WILL LIKELY REBOUND TO PRE-COVID LEVELS IN THE MEDIUM-TERM
- "US ENERGY POLICY WILL CHANGE SIGNIFICANTLY IF VP BIDEN ELECTED"
- VANDA INSIGHTS BULLS & BEARS: MILDLY BULLISH ON CRUDE

Weekly Surveys

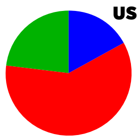
How confident are you that Brent will reach $50/bl in Q3?



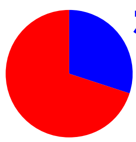
The FED printing trillions of dollars will deliver hyper-inflation over the midterm (3-5 years)?



All things being equal with OPEC, What will have biggest impact on #oilprices in Q3?



Do you expect second wave of Covid-19 to result in same scale lockdown as we saw in Q2?



Source: GIQ

Fujairah Spotlight

Fujairah's Al Taif Business Centre to be Ready by Year-End

The Al Taif Business Centre in Fujairah is heading for a year-end handover. The $113.8mn twin-tower project from Al Taif Investments is in a ground plus 19-storey format, featuring offices, residences, and a hotel component. The four-star hotel will have 228 rooms operated by Marriott International.

Source: Gulf News

Etisalat Launches New Data Centre in Fujairah as UAE Strengthens its International Connectivity Links

Etisalat will launch a new data centre in Fujairah, supporting the UAE's vision to become an ICT and data hub for the region. The facility will address the diverse requirements of global data centres and technology companies. With the launch of the new facility Etisalat's Carrier & Wholesale Services (C&WS) have set a benchmark in the region and is also a testimony to the company's strategy of 'Driving the digital future to empower societies'.

Source: Gulf News

Preparatory Committees of Arab International Conference on Mineral Resources Approves Agenda

The Preparatory Committees of the 16th Arab International Conference on Mineral Resources and its accompanying exhibition approved an updated agenda and objectives of the pan Arab industrial gathering to accommodate the current exceptional developments. The UAE will host the three-day meeting in the Emirate of Fujairah from November 22 - 24, 2021, which will be held under the theme '' Mineral Resources: Bedrock for National Development''. Ahmed Mohammed Al Kaabi, Chairman of the Preparatory Committee, and Assistant Under-Secretary for Oil, Gas and Mineral Resources at the UAE Ministry of Energy and Industry, chaired the meeting which was attended by Adel Al Saqr, Director-General of the Arab Organization for Industrial Development and Mining, members of the committee and representatives from the Ministry of Energy and Industry and the Fujairah Natural Resources Corporation.

Source: Emirates News Agency (WAM)

Fujairah oil products stockpiles edge upwards

Inventories of oil products at the UAE's East Coast port of Fujairah have climbed for the first time in three weeks, led by gains in gasoline and other light distillates. Fujairah stockpiles are a clue to regional demand for refined products, with total inventories setting four record highs since early May as the global pandemic curbed the need for everything from gasoline to jet fuel and marine fuel. As the authorities in the region began to ease restrictions on movements, light and middle distillates inventories have declined this month.

Source: Emirates News Agency (WAM)

GIQ EXCLUSIVE SOUNDINGS

Covid-19 Lockdowns have Eased, but will Oil Recover in Q3 2020?

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
- Adi Imsirovic, Research Associate, Oxford Institute for Energy Studies
- Vandana Hari, Founder & CEO, Vanda Insights, Singapore
- Matt Stanley, Director, Star Fuels
- James McCallum, Executive Chairman, Xergy & Professor of Energy, Strathclyde University
- Omar Najia, Global Head, Derivatives, BB Energy
- Daniel Colover, Market Engagement Manager Middle East, S&P Global Platts
- Amena Bakr, Deputy Bureau Chief, Energy Intelligence
- Dr. Carole Nakhle, Chief Executive Officer, Crystol Energy
- Robin Mills, Chief Executive Officer, Qamar Energy
- Marc Holtzman, Chairman of the Board of Directors Bank of Kigali & Chairman, CBZ Holdings

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

"Demand coming back and people saving more is a contradiction. Oil demand still depends on economic performance. With people saving more and spending less money, it means that the economy is not growing fast, and demand is not coming back fast."

Adi Imsirovic, Research Associate, Oxford Institute for Energy Studies

"I would not be shorting this market, that's for sure. But I think we will struggle to go over $50/bl in Q3 because of the sheer volume of stored barrels."

Vandana Hari, Founder & CEO, Vanda Insights, Singapore

"Our view for the market is moderately bullish. It does seem that demand and supply are rebalancing, but there is uncertainty of whether this balance remains in place or not. We have to be cautious of a potential snapback of Covid-19 restrictions."

Matt Stanley, Director, Star Fuels

"The pivot point is what the market is worried about. Until it gets to a point where US producers start coming back, people will buy as much oil as they possibly can. The same issues are still there, which have been clouded by the fall in Covid-19 cases. If OPEC cuts, then the US will produce more."

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

"If you look at where we have been over the last four months, it remains remarkable that oil prices are where they are. This is a function of the fact that we are seeing a massive change in the US Shale oil industry, a halt of any new development activity amongst the supermajors, and stability within OPEC."

Edward Bell, Senior Director, Market Economics, Emirates NBD

"Everyone has moved on to say that 2020 is a write off in terms of where commodity prices and corporate profitability ends up. It's the longer-term outlook that we have to focus on in terms of public debt, which is now the highest it has been since WWII."

Omar Najia, Global Head, Derivatives, BB Energy

"You have to look at where we have come from. We have come from low levels on the S&P and on oil. The market is still down a massive amount overall. Could the markets continue and rise higher in Q3? Definitely. But it's less probable that they will do so."

Daniel Colover, Market Engagement Manager Middle East, S&P Global Platts

"The flat price for oil has picked up. The more it picks up, then the more the backwardation structure develops, and people will be incentivized to take oil out of floating storage. On the other hand, the flat price strength has been squeezing refining margins. It's a bit of a mixed picture. We could see the markets in flux for the weeks and months ahead."

Amena Bakr, Deputy Bureau Chief, Energy Intelligence

"Saudi Arabia is insisting that all members must comply and stick to their quotas for this deal to be effective. But if members don't stick 100% to their quotas, will this deal fall apart? I don't think so. This deal is being held together by the leadership in Saudi Arabia, Russia, and the US, which is why cooperation is so high amongst OPEC+ members."

Dr. Carole Nakhle, Chief Executive Officer, Crystol Energy

"Covid-19 is not really over yet. We are hearing of more cases and we are seeing an overall increase of infection rates. I would be very concerned and cautious about economic forecasts."

Robin Mills, Chief Executive Officer, Qamar Energy

"The US-China deal is as dead as the famous dead parrot, and it has been for a long time. It was ill even on delivery. The deal never really looked realistic and Covid-19 was the last nail in the coffin. There is no way China was going to be able to make those purchases. A large portion of those purchases from the US was energy. This kind of bi-lateral trade is nonsense."

Marc Holtzman, Chairman of the Board of Directors Bank of Kigali & Chairman, CBZ Holdings

"From a mid-term point of view, in terms of inflation, I don't think it is really an issue. If there is inflation, and it does return, it won't be before the US election."

ENERGY MARKETS COMMENTARY WEEK IN REVIEW

CLICK HERE TO LISTEN

DAILY ENERGY MARKETS WEBINAR June 21st - 25th
NEW SILK ROAD "LIVE"

GIQ EXCLUSIVE

TOP 10 MARKET OBSERVATIONS FOR THE WEEK

1. The market is all about perception – whatever the reality, OPEC has to keep talking up about strict compliance.

2. The tweets of Donald Trump may annoy half the world, but three years later, the markets still read each one of them before making a trade.

3. The runaway financial markets ignore record Covid-19 infections, particularly in emerging economies, at their peril.

4. China oil demand juggernaut that kept going through first half of 2020 could be running out of steam.

5. Market structure could be at a tipping point moving from Contango to Backwardation, which could see oil starting to flow out of storage.

6. OPEC+ deal will hold even if some members continue not to comply 100% – current consensus within the group is to extend current cuts beyond July.

7. US shale could materialize as 'just in time' responder to Q3 oil demand if prices hold above $40/bl.

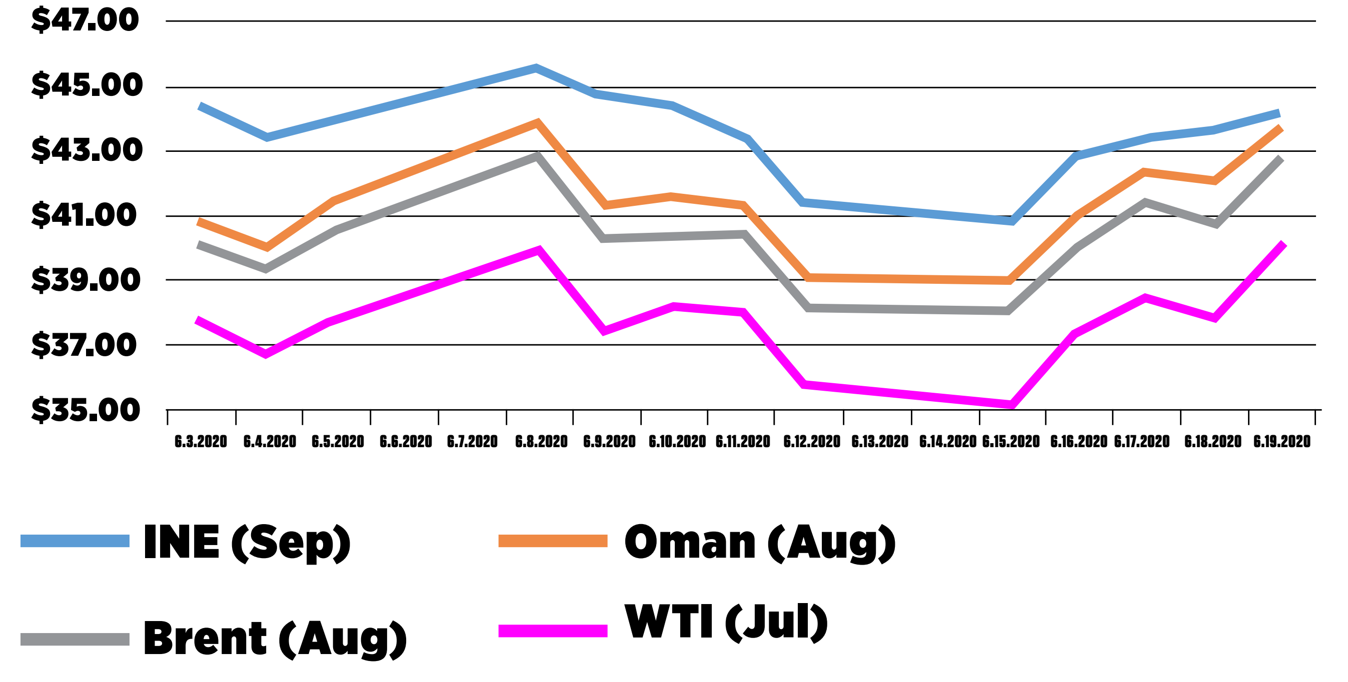
8. Spot crude market across the board looking very strong but prices will be capped below $50/bl due to sheer volumes and storage availability.

9. COVID 2.0 may have kicked off sooner than expected, but a return to total lockdown is no longer an option.

10. Asian demand recovery remains on track for a cautiously optimistic Q3.

Crude oil futures benchmarks

June 2020



Source: Dubai Mercantile Exchange (DME)

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