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Fujairah New Silk Road WEEKLY NEWSLETTER

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

Shipping Insurance Ban may have a Bigger Impact on Russian Oil Exports than a Disjointed EU Embargo!

Amrita Sen, Founder & Director of Research, Energy Aspects

Regardless of whether the EU oil embargo on Russia goes ahead or not, there is already in the next package of sanctions – the sixth package – a Shipping Insurance ban that will go ahead and will likely kick-in from August. That is a really big deal! You know, 95% of shipping insurance and reinsurance is done either out of the UK or out of the Nordic countries, and without that, it will get very, very difficult to move Russian oil. Of course, Russia can use its own fleet, which we calculate has about 68 vessels between crude and products. India could potentially provide some sovereign insurance with the government stepping in. But overall, international oil trading houses will find it exceedingly difficult to move Russian oil. In many ways, the insurance ban is far more important than any possible oil embargo, which in any case, would not kick in for at least six months. So, the impact of that would be much more a 2023 story than a 2022 story. But you have obviously already had the May 15th deadline pass, which is when the trading houses started to really scale back on purchasing Russian oil, because that is the date after which you could not deal with Rosneft, Gazprom and the other Russian companies. The embargo when it comes will accelerate Europe's push towards zero Russian oil imports. But the reality on the ground is not waiting for official sanctions, and we have already seen self-sanctioning commence by European companies. Europe has already reduced its crude oil purchases from Russia. It used to import about 3.2 million barrels per day of total oil from Russia. Right now, it is probably importing about 2.2. It is close to a million barrels per day lower. And that number will probably go towards 1.5 million barrels per day lower next month.

CONTINUED ON P 3

Fujairah Weekly Oil Inventory Data

6,601,000 bbl	2,298,000 bbl	10,902,000 bbl
Light Distillates	Middle Distillates	Heavy Distillates & Residues



Source: FEDCom & S&P Global Platts

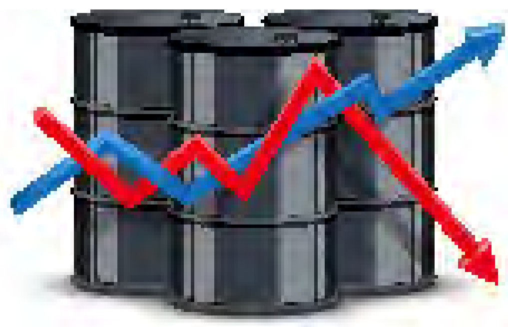
Fujairah Average Oil Tank Storage Leasing Rates*

BLACK OIL PRODUCTS

Average Range
$3.54 - 4.38/m³

↑ Highest: $4.50/m³
↓ Lowest: $3.40/m³

THE WEEK In Numbers



Weekly Average Oil Prices

Brent Crude:	$111.44/bl
WTI Crude:	$110.34/bl
DME Oman:	$109.12/bl
Murban:	$111.04/bl

*Time Period: Week 4, May 2022
Source: IEA, OilPrice.com, GI Research

Fujairah Weekly Bunker Prices

VLSFO

High = $972.50/mt

Low = $918.00/mt

Average =$944.50/mt

Spread = $54.50/mt

MGO

High = $1,391.50/mt

Low = $1,329.00/mt

Average = $1,370.00/mt

Spread = $62.50/mt

IFO380

High = $707.50/mt

Low = $654.50/mt

Average = $687.00/mt

Spread = $53.00/mt

*Source: Ship and Bunker, *Time Period: May 19 - May 26*

Fujairah Bunker Sales Volume (m^3)

1,084 180cst Low Sulfur Fuel Oil	512,565 380cst Low Sulfur Fuel Oil	116,621 380cst Marine Fuel Oil
1,873 Marine Gasoil	32,727 Low Sulfur Marine Gasoil	5,193 Lubricants

Source: FEDCom & S&P Global Platts

GI Consultancy Intelligence Publishing

CONTINUED FROM PAGE 1

Amrita Sen, Founder & Director of Research, Energy Aspects

What is your outlook for an EU oil embargo on Russia?

It has not been easy, right? Germany is really pushing ahead now, trying to get the deal done, to get an embargo pushed through in the ministerial meeting on May 30th/31st. But Hungary is really holding out! They are demanding about E700-€750 million to be able to wean its refineries off Russian oil. Ultimately, these are political moves and Hungary needs concessions. What Europe has offered so far is not good enough for Hungary. We understand from our sources that what the EU has offered Budapest is in the form of loans, but they want grants. So, there is still some negotiations to be done.

What do you think will be the impact on Russian oil production capacity over the medium term?

The companies that have already left Russia are pretty much all Western companies, and particularly the oil service sector, which is so important for Russian production. It does mean that Russian oil production is not going to grow over the medium term. We are already in a very constrained environment when it comes to oil supplies and spare capacity. Russia was going to be one of the few countries that was poised for some growth over the medium term. Now, we think Russian production will be one million barrels per day lower than pre-COVID levels in the medium term, and we are being extremely generous. We are basically making the assumption that Indian and Chinese companies will step in and help out. But their technology is nowhere close to what Western technology is and what Russia needs with 90% of their oil sitting in very high-water pressure reservoirs with high water cuts. So, I would say we are being conservative when stating only a loss of one million barrels per day (mbpd) over the medium term. I have heard estimates of as high as two, two and a half million barrels per day that Russia could lose in the medium term. Any further sanctions will accelerate that movement. It might not be as dramatic as the West hopes for because you have still got support from India and China, but you are going to see some significant drops in Russian production.

We are 3 months into the War on Ukraine and yet Russia's oil exports haven't been massively disrupted – what is your outlook for the next 3 months?

The big thing to watch out for over the next three months are very much around the shipping sanctions because with that kicking in it will mean even less oil flowing from Russia. We have obviously seen India in particular buy a lot of Russian oil, especially the private sector companies. I think that could change. We have seen that change already appear in some of the loading numbers because that oil was being moved by international trading houses who have now dramatically reduced their dealings with Russia since the May 15th sanctions kicked in. You will probably see India still buying a lot, but slightly less than what we have seen in the first three months of the War. China, however, probably will step up from here. We have seen China kind of being on the sidelines when it comes to Urals, at least in part because it's been battling with COVID. The Eastern Siberia Pacific Ocean (ESPO) oil pipeline, which exports crude oil from Russia to the Asian Pacific markets of Japan, China and Korea, is still flowing to China. We think that will continue, and the ESPO crude that is rejected by Japan and Korea will now flow to China. So, net-net overall, we could see about one million barrels per day of seaborne Urals being shared between India and China. Even with all that, we are still talking about a million and a half barrels per day of Russian oil not finding a home right now. It has been going to Asia, just floating off Malaysia and in the hope that it will find a home. But that is going to get incrementally harder without trading houses and without shipping insurance.

Do India and China have the extra storage capacity to take advantage of discounted Russian crude oil?

India does not have a lot of strategic reserves capacity – you are talking about 30 or 40 million barrels – and it has got deals with the UAE and Iraq to use its storage facilities. If anything, India will continue to just run the Russian oil directly into its refineries. China, on the other hand, which over the last two years added over 200 million barrels to its strategic petroleum reserves (SPR) and more importantly to its commercial petroleum reserves (CPR), has a huge amount of tank space available. Barring the last two months where we've seen a bit of an uptick in Chinese stocks because of low demand due to covid, they've run down pretty much all the inventory they built up in 2020. So, yes, we do expect China to step in and buy some Urals, in particular discounted crude, for their SPR.

Still, there is a problem for China in taking more Russian Urals because it would need to back out of Saudi, Iraqi and other Middle Eastern crudes to make space for Urals, and our understanding is that China doesn't necessarily want to do that. These are long term relationships they have with the region. They will likely tinker at the margin, but it's not going to be much more than that. So, China will also struggle to take advantage of the Ural discount, like India is, because the teapot refineries in China are configured more for Middle Eastern crude rather than Urals. That is not their baseload demand. So that's why China will probably use its SPR to an extent to store this oil, but there will be limits to how much they would want to fill up its SPR with Russian Urals. You do not want to fill your SPR with a crude oil that is not your baseload. Our assessment is that they will take advantage of the discount to an extent, but it does not mean that you are going to get 200 million barrels of Russian oil moving into Chinese SPR.

WATCH FULL INTERVIEW HERE

أدنــوك
ADNOC

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.

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Energy Markets Views You can Use

Dr. Carole Nakhle
Chief Executive Officer
Crystol Energy

Oil prices have broken away from the $10 range that we saw quite predominately throughout the month of April and most of March.
This was expected. The war in Ukraine is getting more heated with additional measures and sanctions imposed on Russia, we're heading closer to the holiday and driving season in the Western world, and people are questioning how sustainable China's Covid policy can be, given its emphasis on supporting economic growth. So, there's not much to put downward pressure on prices today, but I would not rule out a reversal of that if we get gloomier macroeconomic data in the coming months.

EU fractures are clearly starting to emerge on Russia energy sanctions?
These will persist because we have a very diverse group of countries, not only in terms of their dependance on Russian oil and gas, but also in their historical relationship with Russia. We also need to think about what's already happening in these economies. The refugee problem is perhaps the biggest humanitarian crisis in Europe since World War Two and that by itself is having a major impact. One can understand where Italy and Hungary are coming from in a way.

Are central bankers across the world any closer to tackling inflation?
The Fed's policy of trying to balance between taming inflation and not slowing down the economy, has already been factored in. OECD central banks still seem to be hoping that the inflationary pressure will start to ease as we approach the end of this year. We may see demand correct on the back of these high commodity prices as they take a larger toll on consumption and household incomes. We're also now seeing a protectionist movement growing on food exports, for instance in some Asian countries. So, not only are we seeing a reversal vis a vis climate change or investment in oil and gas, but there's also a major reversal in the globalization trend that has been around for decades. We will have to see how that impacts global trade and global economic growth

Clyde Russell
Asia Commodities & Energy Columnist
Thomson Reuters

China's been importing more oil than it needs.
Excess imports in April were 1.2 million barrels and will have flowed into storage tanks. Chinese oil demand is down by about 1 million bd because of Covid lockdowns. There are some signs that those are easing so demand could presumably come back at some point but even when it does, we're not necessarily going to see a huge leap in imports because of the oil in storage.

Why does China not come to the rescue of the global diesel shortage?
China is the only country with spare capacity to resolve this, but their exports were down to about 100,000 bd in April and will probably drop even further in May. That compares to as much as 500,000 bd of diesel exports as recently as the last quarter of 2021. One reason for the drop has been to control pollution. The other is that they wanted to avoid importing crude at a time when they deemed the price to be unreasonable and so didn't issue export quotas. That doesn't mean that China won't export in the coming months, but it does mean that we shouldn't expect a flood of imports of crude or exports of refined products, even though it would be very profitable for China to do so. If they were really looking to stimulate the economy, they would get a lot of economic value out of that.

What data point is most relevant for the direction of oil markets in 2H 2022?
There are so many balls in the air. I would want to see what's going to happen with China crude imports and then subsequently product exports. Will they reopen their economy and provide stimulus for metals first and energy and commodities second? Will much more Russian crude come from the Baltic ports, and will that travel all the way around to India? I would say the risk is more that we will see higher oil demand from China and that more Russian crude will stay in the market than what people currently think, so we may get the opposite of current expectations by the second half of this year.

Will Chinese refineries keep buying Russian crude?
I expect they will buy as much as they can, but also, let's remember that not every Chinese refinery is able process the type of crude that Russia will be providing. The same applies to India. But even if more oil flows out of Russia, it's going be faced with longer sea voyages and higher freight and insurance costs. That sort of disruption lasts for a long time and causes an upward structural shift in pricing.

Fujairah Spotlight

Fujairah Set To Offer LNG Bunkering

Adnoc last week announced that it plans to develop a 9.6mn t/y LNG facility at the UAE's Indian Ocean port of Fujairah. The facilities will also provide LNG bunkering facilities, a senior Fujairah official confirms, and these could be operational even before LNG exports begin. Martin Hejiboer, Business Development Manager at the Port of Fujairah told the MPGC conference in Bahrain on 16 May that the two-train facility will come with LNG bunkering facilities. The project is at an early stage, but Mr Hejiboer tells MEES that it could be on a scale of approximately 200,000-250,000 t/y capacity.

Source: MEES

Fujairah Crown Prince launches initiative to honour story, values of Prophet Muhammad

Sheikh Mohammed bin Hamad bin Mohammed Al Sharqi, Crown Prince of Fujairah, highlighted the key role of initiatives and projects that bear the values of the life and legacy of Prophet Muhammad (PBUH), in promoting the principles of tolerance and peace in the community during the launch of the Al Badr initiative today. The initiative aims to encourage participation in various competitions targeting all age groups around the world, with total prize money worth Dh1 million.

Source: The Khaleej Times

Fujairah readies for passenger flights from India, plans to launch its own carrier

An Indian carrier is in the final stages of discussions to start direct flights to Fujairah International Airport (FIA), a senior official told Zawya. The UAE's northern emirate is also planning to launch its own passenger airline in the near future, the official said. "We have had several discussions with almost all the carriers from India. Hopefully, we will soon see one of those operators operating from the emirate," said Esmaeil Mohamed Al Boloushi, General Manager of Fujairah International Airport, a largely cargo-based airport. The name of the carrier is yet to be announced.

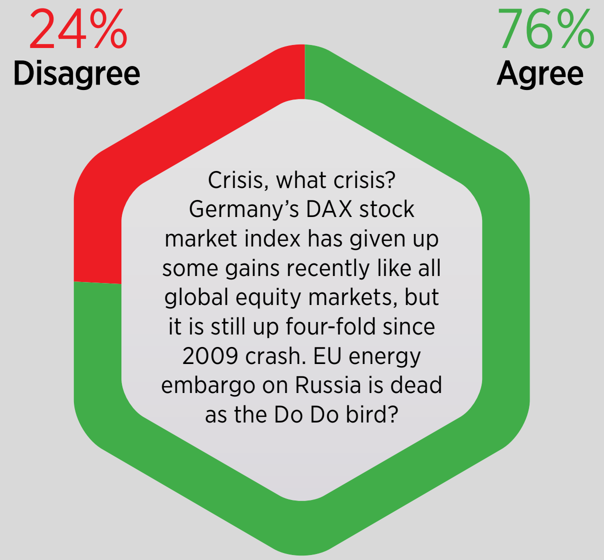
Source: ZAWYA

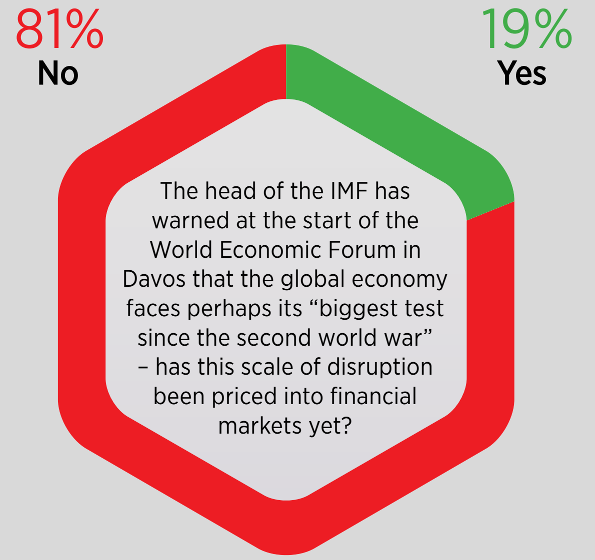
Oil product stocks climb to 3-month high led by 35% gain in middle distillates

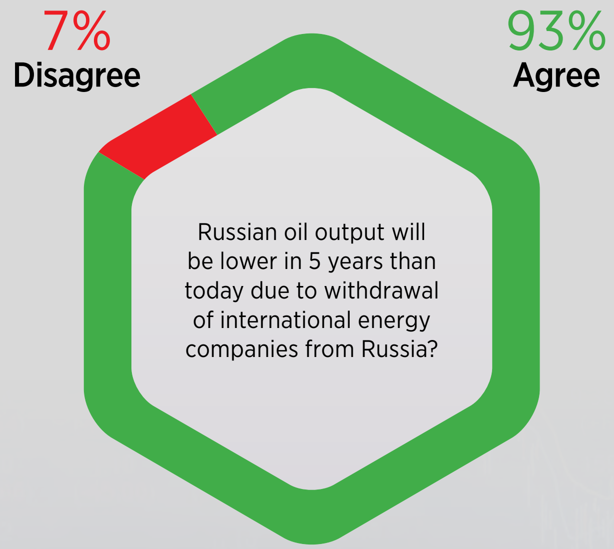
Oil product stockpiles at the UAE's Port of Fujairah climbed to a three-month high as of May 23 with buildups across the board, according to Fujairah Oil Industry Zone data published May 25. The total inventory was 19.801 million barrels as of May 23, up 11.6% from a week earlier, the port data provided exclusively to S&P Global Commodity Insights showed. It was the biggest weekly gain since Feb. 21 to the highest level since Feb. 7. Inventories are still 15.54% below levels of a year earlier.

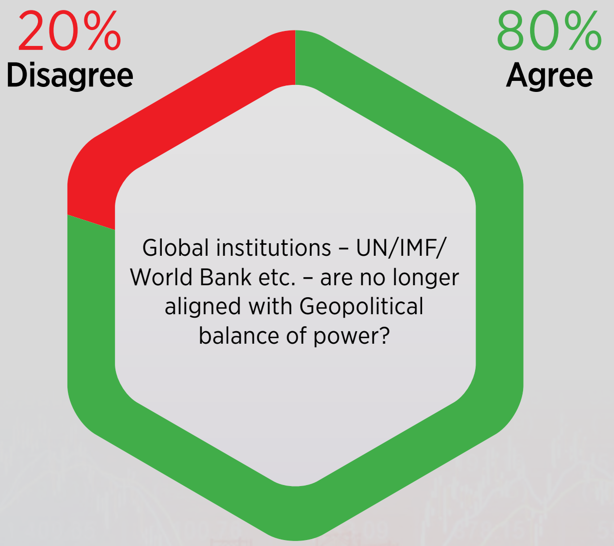
Source: S&P Global Commodity Insights

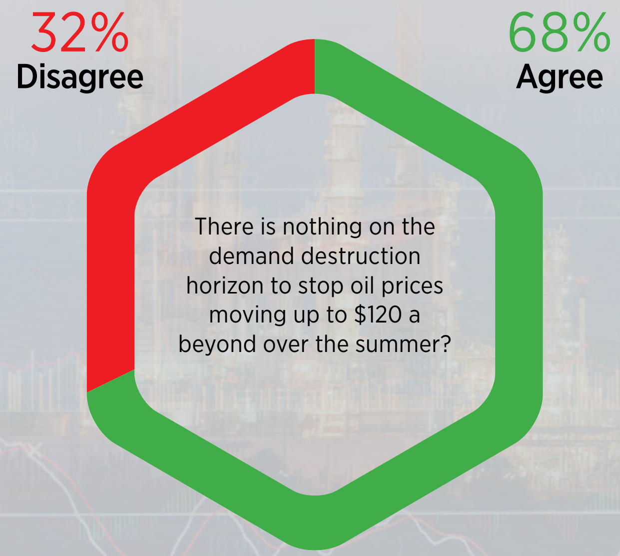
Weekly Surveys











Source: GI Research March 2022

Energy Markets Views You can Use

Laury Haytayan
MENA Director
Natural Resource Governance Institute

Can the JCPOA be salvaged in this calendar year?
There might be attempts but I don't believe this can happen before the outcome of November's US midterm elections. We are now hearing that the Iranians have put aside the issue of removing the Revolutionary Guard from the terrorism list, as a sign that they want to move on, but there's still also some opposition being put up by Republicans in the US.

Are the Iranians willing to wait around?
If they keep on selling their oil and have the potential to attract investment to develop their resources and if US keeps pretending it doesn't notice the illegal oil sales, then Iran won't care about that deal. At the end of the day, having the nuclear bomb is more important to Iran than anything else. With it, they would be equal to Israelis and so in a more powerful position to negotiate with the US. The US also won't be able to put sanctions on them left, right and center. I don't see that they are getting any guarantees that once and if these sanctions are removed, that another US administration won't impose them again.

Are we seeing new progress in the East Med concession areas?
It's mostly a collaboration between Egypt and Israel to make sure that they have enough gas going to Europe. Israel has said that within 18 months, it's possible that Israeli gas could be flowing through the Egyptian LNG network to Europe. Even Turkey has shown some interest in coming to Europe's rescue as a hub for gas, but that would require investment in infrastructure and might take three to four years. The quickest way to get East Med gas today is through Egypt.

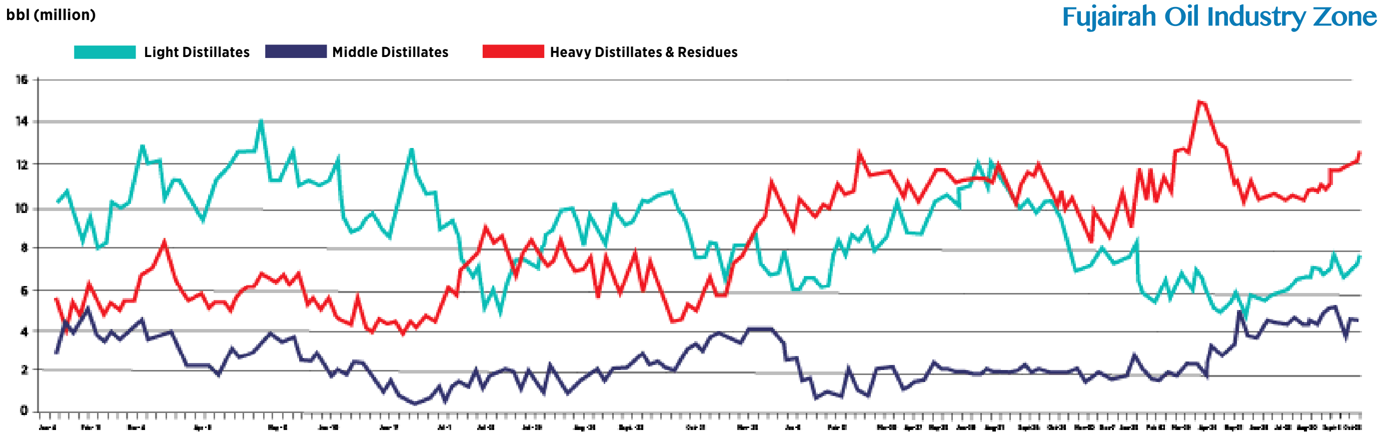
Robin Mills
Chief Executive Officer
Qamar Energy

Only a significant slowdown in demand will reverse this oil market tightness.
I don't see that the China lockdown story is over by any means, but the oil market does seem rather more relaxed about the outlook. At the same time, we have the clouds over inflation and what action central banks may have to take over that. But if we don't get concerns about Chinese lockdowns or demand destruction returning, the oil market structure remains very tight. OPEC countries are almost maxed out. There's pessimism on whether an Iran deal will be done, and a lot of cost inflation in the US shale oil patch. On top of that, there is the prospect of losing a lot of Russian oil from a complete EU embargo. There will be a significant reduction in European imports of Russian oil one way or another over the next year. Some of the oil will not find its way to other markets for logistical reasons and because of other constraints from sanctions, such as shipping or insurance.

Your view on the US seemingly coming back into alignment with Riyadh?
Because of today's events, Biden is having to climb down from his position during the election campaign - that he was not happy with the Saudi leadership. The two countries have been diverging for a while, but they still have fundamental mutual interests. The US is a security provider and Saudi Arabia is a key player and arbiter in the oil markets. I think the fundamental reasons why the two countries are drifting apart will continue but it's a slow process. However much the Saudis think about diversifying their relationships and becoming friendly with China or Russia, they recognize deep down that those countries can't provide them with what the US does. From a security standpoint, the US is the only game in town.

Will Russia's place in OPEC+ remain secure?
OPEC+ and Saudi Arabia in particular, very much see the value of having Russia in the group. They've been trying to bring Russia into that kind of arrangement for a couple of decades so they're not going to lose them over this war in Ukraine. And the fact that Russian production is dropping anyway and that its exports may drop in a way makes Russia less valuable and so there isn't the need to restrain them. On the other hand, it also makes Saudi very much kind of top dog in that relationship.

Fujairah Weekly Oil Inventory Data



TOP TAKEAWAYS

- Total oil product stocks in Fujairah were reported at 19.801 million barrels. Total stocks rose by 2.059 million barrels with overall stocks up 11.6% week-on-week. This is the first time they have breached 19 million barrels since late February. There was a build across all three stock categories of light distillates, middle distillates and heavy residues.
- Stocks of light distillates, including gasoline and naphtha, rose by 907,000 barrels or 15.9% on the week to 6.601 million barrels. The East of Suez gasoline market was seeing some downward pressure, amid expectations that Chinese exports may increase moving forward, market sources said. "I believe that gasoline cracks have narrowed significantly recently as the market is expecting a new gasoline export quota that may be as high as 3.5 million mt," one trader said.
- Stocks of middle distillates, including diesel and jet fuel, rose by 592,000 barrels or 34.7% on the week to 2.298 million barrels. The gasoil market was finding headwinds from easing supply tightness pressuring the complex even as demand continues to recover across the region. Market participants are also eyeing fresh supplies coming from new refineries in the region, with Saudi Aramco's Jazan refinery heard having begun export operations for oil products, and expectations for Kuwait's Al-Zour refinery to start-up during the second half of the year, sources said. "Kuwait's new refinery will be online [soon]... we heard their new refinery will be online in June or July," a trader said.
- Stocks of heavy residues rose by 560,000 barrels on the week to 10.902 million barrels rising by 5.4%. In Fujairah, offers for delivered marine fuel 0.5%S bunker were heard at $930-$940/mt for product deliverable from May 25 onwards, while the grade was assessed $5/mt lower on May 24 at $930/mt. The premium for Singapore-delivered marine fuel 0.5%S bunker over Fujairah-delivered marine fuel 0.5% widened further to $25/mt, up from $15/mt May 23 with Singapore delivered bunkers assessed at $905/mt.

Source: S&P Global Platts

Commodities
Oil prices closed mixed at the start of the week with Brent futures added 0.8% to USD 113.42/b and new month WTI settling flat at USD 110.29/b. An EU-wide ban on Russian oil imports has yet to be approved given some reticence among member states that rely heavily on Russian oil flows though EU leadership will meet again next week to consider the proposal.

FX
The euro soared to open the trading week, benefitting from a risk-on tone in markets and commentary from ECB president Christine Lagarde that rates would start going higher from the July monetary policy meeting. EURUSD added 1.2% to settle at 1.0691 though is edging slightly lower in trade today. The move in EURUSD helped to drag other currencies higher against the dollar with GBPUSD up by 0.9% to 1.2588 while USDJPY was relatively flat.

Equities
A return of risk-on sentiment saw the major global indices close higher yesterday. In the US, the NASDAQ, the S&P 500 and the Dow Jones added 1.6%, 1.9% and 2.0% respectively. In Europe, the FTSE 100 was the standout winner as it closed 1.7% higher, while the CAC added 1.2% and the DAX 1.4%.

Source: Emirates NBD Report

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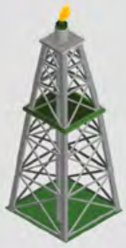
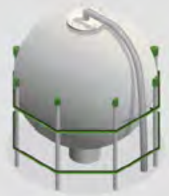
EXPLORATION
& PRODUCTION



PROCESSING
& EXPORTING



STORAGE
& LOADING

Today, we continue to look for new and innovative ways to maximize the value of our resources, pioneering those approaches and technologies that will ensure we are able to meet the demands of an ever-changing energy market, and continue to have a positive impact on the Sharjah economy for future generations.

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Energy Markets Views You can Use

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

Oil prices are caught between a possible recessionary demand drop and possible sanctions.
China's leadership is clearly poised to execute its zero Covid policy until the party conference in November so that's bad for energy markets. It may be buying more oil for restocking but what's very clear is that the economic and political picture is deteriorating very fast. Growth forecasts are now going coming in below 4%. We are not only seeing the consequences of the lockdown and of the overleveraged financial crisis, but also the political campaign for more egalitarian distribution of wealth, which hit the tech sector for example. All of that is leading to a decline in investment and productivity. In terms of EU sanctions, we've had lots of detailed proposals from the US, but this time around, sanctions are totally unilateral and decentralized - we have voluntary decisions country by country and across fuels. That's been successful so far, but the moment the conflict situation is no longer ratcheted up, the system will recalibrate, flows will go to Asia and the money will continue to flow to Russia. The cracks are beginning to emerge in EU sanctions policy.

Has the panic on inflation settled down a little?
We don't see it accelerating anymore and we might see it coming down a little but it's not over. We should also remember that Europe and the US are much better placed to withstand inflation and an oil price shock than the emerging markets. Energy expenditures per person are less in terms of percentage of income and they have lower oil intensity and less vulnerability in terms of trade, as well as a sophisticated system of energy storage and distribution.

How much of the current oil price is a war premium?
You can never specify but I would think that without the war, we would be in the same range as before around the $80s. That seems to be the upper end of an oil price in an undisturbed world. And if we had oil from Libya, Nigeria, Iran, Venezuela, the world would have more than enough oil. But this is unlikely to happen.

How come the German DAX is stable despite an energy crunch crisis?
The German economy came out of Covid very strong, but it does have one central weakness – it is export dependent. If these deglobalization trends continue and if they are cut off from export markets because economies slow down, then they will be in trouble. But internally from a consumption demand point of view, Germany is okay.

Dr. Charles Ellinas
CEO, Cyprus Natural Hydrocarbons Co. &
Senior Fellow, Global Energy Center – Atlantic Council

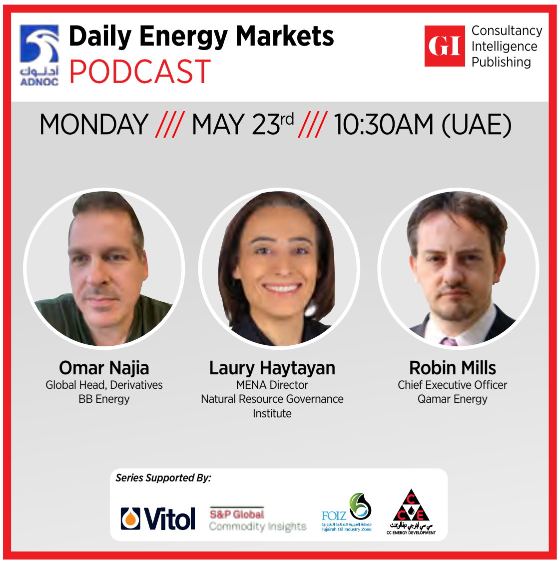
The fractures within Europe's approach to Russia will get deeper.
Look at the proposal for getting rid of Russian gas which they issued recently called Repower – they're going for a joint storage of gas and expecting countries that store gas to share it with others. I see problems in that because the mechanism is not very clear and somebody who has paid for the gas to not give priority to their own needs or to sell it onto somebody else and not be properly compensated is unlikely. There are also already signs that interest in the Ukraine war is slowing down. It's difficult to maintain that when the cost of energy and food are rising. The UK just issued a warning that the annual cost of energy, even for lower income households, is going to increase to about GBP 1800 by the end of this year. Some families will effectively be paying close to half their money just to keep themselves fed and heated. Ten million families in the UK did not have enough to eat last month.

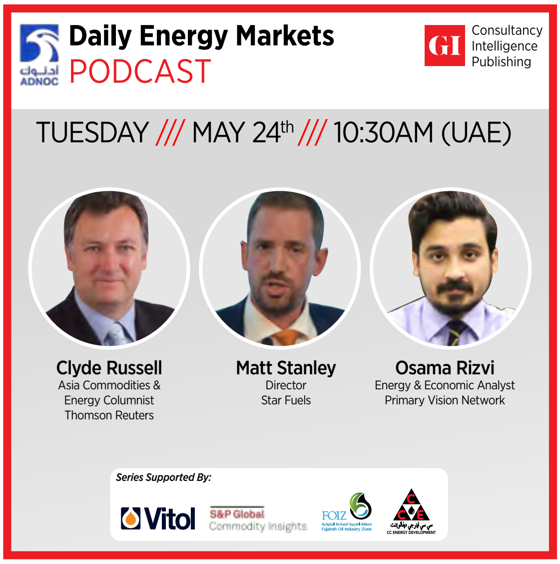
Is the only solution to this commodity inflation central banks killing demand?
Demand in Europe is already dropping. There are forecasts that between this year and next, energy consumption will go down by 3%. Europe is also purposefully driving longer term consumption down. The new targets of Repower expect consumption to drop by 13% by 2030 compared to the previous outlook of 9%. This demand destruction issue is going to continue and will have an effect over the next few years.

Can institutions like the EU withstand the geopolitical shifts we're seeing today?
The realignment we are experiencing globally with the US and Europe on one side, and Russia and China on the other, is pounding these institutions and making their functioning more difficult. The US and Europe, in the predominant position, are using these institutions to curb whatever affects Russia or China. The result is that China for example is now looking at pulling its money out of international banks because they're worried the US might take it away if there is a conflict regarding Taiwan. I'm afraid we're gradually heading to a bipolar world.

Energy Markets COMMENTARY

WEEK IN REVIEW





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Energy Markets Views You can Use

Adi Imsirovic
Senior Research Fellow
The Oxford Institute for Energy Studies

EU energy sanctions considerations are a complete mess.
Despite further ideas on measures such as additional import taxes on Russian imports, nothing has come out of it. Europeans have basically put their arms up in the air and said, we can't do this. In terms of gas, it's a very similar story. There are significant grey areas despite all the recommendations put forward by the European Commission. They've probably been deliberately left that way as they continue to figure out how they can deal with Russia.

Outlook for China demand?
The shipping tracking data in May shows that there's been quite a significant pick up in purchases of Russian crude - an increase of over 1 million bd - compared to probably 700,000 or 800,000 in the last couple of months. But we don't know that's because of a real increase in demand. It could simply be because that oil is cheap. ESPO Russian crude in the east is pricing about $20 below Dubai. That's extremely cheap. And many refiners, including the Koreans and Japanese, are not buying it, so China might as well. Chinese storage is also available at the moment so they will take the opportunity to buy cheap oil and rebuild that while they can.

How has European economic activity been impacted by sanctions so far?
Italy has in fact been importing more Russian oil than in at least a couple of years. This is an example of the unintended consequences of various European policies. In terms of economic activity, we've had the rebound from Covid with a massive injection of funds in all the developed world, so economies are doing relatively well. Unemployment figures are at record lows. Still, the long-term function of what happens with inflation is uncertain.

Have global supply chains eased at all?
Most of the supply chain comes from China so things are not much better. But again, Europe is not doing badly simply because it has very good economic and energy policies. We're focusing too much on Europe when it comes to this energy crisis. It's the developing world that's really going to suffer from elevated prices and expensive dollar denominated debt.

Outlook for commodities prices?
They are going to be volatile. Most of the current price and supply problems we are seeing in the commodity markets, particularly in oil and gas, are purely political. But expected higher interest rates also won't be good for commodities. Despite real rates still being negative because of inflation, hikes of 0.5% or 0.75% are still big. Also, stored commodities don't yield anything other than capital gains, so unless you can count on that, high interest rates just become a higher cost and that's going to hit commodity prices.

Energy Markets Views You can Use

Andy Laven
Chief Operating Officer
Sahara Energy Resources

The market's been creeping up for several months and will continue to do so.
There's nothing in view for the next six months that will push prices down unless the war comes to an end. We're also now almost seeing a reduced necessity for countries to embargo Russian oil because companies are doing it themselves. That's what is causing real tightness, especially in Europe, and especially in middle distillates that come from Russia. I don't see that dynamic going away. The Ukraine war is going to continue, and OPEC is not going to be able to produce more oil if demand comes back. Plus, as we move into the US summer driving season, there's going to be more demand - that's another element that's just sitting in the background pushing the market up.

What about demand destruction concerns?
We have enormous issues for the globe to address. The challenge is that demand destruction will probably come because of inflation rather than because of lockdowns and reduced activity in China. In addition, we still don't know what's going to happen in terms of food poverty.

Can Europe reach a united front on Russian sanctions?
We've got the country layer and the company layer and at moment they're all moving together quite consistently but we're starting to see some fractures. Still, the reality is people are embargoing Russian oil and gas because their shareholders don't want it or because the banks refuse to finance it. I'm not convinced that Hungary's position really makes much difference in terms of where we'll end up.

ENERGY MARKET NEWS

1. CHINA PREMIER SAYS ECONOMY FACES BIGGER CHALLENGE THAN 2020
2. PRIVATE EQUITY IS BACK WITH A BANG IN OIL & GAS
3. NATURAL GAS ROCKETS HIGHER AND IT SHOULD CONTINUE TO DO SO
4. BIDEN HAS NOT RULED OUT EXPORT LIMITS ON PETROLEUM TO CURB FUEL PRICES
5. THE ACHILLES' HEEL OF RUSSIAN OIL
6. SERBIA TO STORE GAS AT HUNGARIAN SITES AHEAD OF WINTER
7. COULD IRAQ DETHRONE SAUDI ARABIA AS LARGEST OIL PRODUCER?
8. STOCKS CLIMB AS FED MINUTES SHOW DETERMINATION ON RATES
9. EU CRACKS WIDEN OVER UKRAINE AS ITALY, HUNGARY URGE TRUCE
10. INDIA TO CONTINUE BUYING 'CHEAP' RUSSIAN OIL

RECOMMENDED REPORTS
- US OIL PRODUCT RESERVES NOT 'WELL SUITED' TO HANDLE SUPPLY DISRUPTIONS
- US CLOSES LOOPHOLE FOR RUSSIAN DEBT PAYMENTS
- CHINA: POLICE FILES OFFER 'SHOCKING' NEW EVIDENCE OF CHINA'S HUMAN RIGHTS ABUSES
- TOTAL'S GERMAN LENA REFINERY IS REDUCING CONSUMPTION OF RUSSIAN CRUDE
- CHINA WANTS 10 PACIFIC NATIONS TO ENDORSE SWEEPING AGREEMENT
- ISRAEL SAID TO TELL US IT KILLED IRGC OFFICER WHO WAS DEPUTY HEAD OF COVERT UNIT
- "CRUDE OIL PRICES TO MOVE HIGHER OVER NEXT 3 MONTHS!"
- TREASURY TARGETS OIL SMUGGLING NETWORK GENERATING MILLIONS OF DOLLARS

GI Soundings Week in Review

EU Oil Embargo on Russia Loses Steam As Tight Market Holds

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.

- **Omar Najia, Global Head, Derivatives, BB Energy**
- **Ali Al Riyami, Consultant & Former DG of Marketing, Ministry of Energy & Minerals, Oman**
- **Rafiq Latta, Senior Correspondent, Energy Intelligence**
- **Meg O'Neill, Woodside Energy CEO and Managing Director**
- **Li Keqiang, Premier of China's State Council**
- **Osama Rizvi, Energy & Economic Analyst, Primary Vision Network**
- **Peter McGuire, Chief Executive Officer, XM Australia**

Omar Najia, Global Head, Derivatives, BB Energy: "What we're seeing is a market in absolute fear of not enough energy coming into winter. This is not something that suddenly appeared – it's because of sanctions. Meanwhile, OPEC+ is unlikely to increase supply and there's no more SPR. When we do see a breakout from the current price consolidation in the market, it's going to be larger than people expect, and it will be to the upside."

Ali Al Riyami, Consultant & Former DG of Marketing, Ministry of Energy & Minerals, Oman: "Gulf countries have managed to sustain their market share in Asia so far but I'm a bit worried that the big producers like Saudi Arabia, Iraq and the UAE will face competition from Russian oil in another three or four months. Russia will always push oil to China and India with these huge discounts and we cannot compete with these prices."

Rafiq Latta, Senior Correspondent, Energy Intelligence: "I can't see a blanket EU oil embargo on Russia. We've seen a lot of kickback from the Italians, from Hungary and from Cyprus - they're not going to fold on this issue. Insurance measures might be more salient and that will certainly make it more costly for Russia to export its crude. That will probably have more impact than other collective efforts so far."

Meg O'Neill, Woodside Energy CEO and Managing Director: "The LNG market is structurally tight. It already was before Russia invaded Ukraine and now, with the world trying to move away from Russian hydrocarbons, demand for LNG from places like Australia is up. There is a little bit of new supply coming, but we still expect prices to be elevated for the next year, and perhaps next few years, as the world tries to rebalance gas supply and demand." *(Source: 28th World Gas Conference)*

Li Keqiang, Premier of China's State Council: China will try to make sure the economy grows in the second quarter. This is not a high target and a far cry from our 5.5% goal. Economic indicators in China have fallen significantly, and difficulties are to a certain extent greater than when the epidemic hit us severely in 2020. At the same time as controlling the epidemic, we must complete the task of economic development." *(Source: media reports)*

Osama Rizvi, Energy & Economic Analyst, Primary Vision Network: "Pakistan imports 65% of its energy and its import bill is doing a lot of damage to the overall country's reserves, which are now less than $9 billion. We don't even have proper energy storage facilities. There's a lot of work to be done on the element of energy security. Pakistan ended up signing one of the most expensive LNG deals recently."

Peter McGuire, Chief Executive Officer, XM Australia: "There can be no doubt that the European Central Bank and Bank of England are in the most dreaded spot policymakers can find themselves in. The ECB is about to do the unthinkable and abandon its policy of negative rates, possibly tipping the euro area into recession, while the BoE is desperately trying to avoid hiking rates by 50 basis points even though it might not have much choice after UK inflation jumped to 9% in April."

Daily Energy Markets

TOP TAKEAWAYS
MARKET OBSERVATIONS FOR THE WEEK
May 22nd - 26th

1. OPEC+ will discover many new reasons to build a renewed agreement on, including the change in global oil flows and the return of Iranian barrels.
2. EU oil embargo may be drifting off over the horizon, but what is replacing it is a ban on shipping insurance that kicks in from August. That is a Big Deal as 95% of global shipping insurance and reinsurance is done either out of the UK or the Nordics, and without that it will get very, very difficult to move Russian oil.
3. China's economic slowdown is having a limited impact on restraining crude oil prices climbing slowly but surely towards $120.
4. European sanctions discussions hitting grey areas and EU likely to continue dragging its feet hoping to find potential solutions to keep Russian oil and gas purchases possible, which will keep oil prices in limbo around current levels.
5. Chinese oil demand is looking stronger, taking advantage of cheaper oil grades to rebuild storage, but overall economic and political picture deteriorating very fast, with GDP now seen below 4% for 2022 and political brass split on Covid approach.
6. Europe and US much better placed to withstand oil price shock than emerging markets, with less intense energy expenditure per person and a more sophisticated energy storage and distribution system.
7. Russian oil production is heading lower regardless of when or even if an EU embargo will be imposed, because it will be very difficult to maintain current output levels after the withdrawal of all the internal energy companies.
8. Saudi-US relations look to be on a pathway back towards possible rehabilitation with reports of a planned visit by US President Joe Biden to the Kingdom, but question remains what is the price for all parties involved?
9. Crude oil is going to continue to move higher over the next three months, mainly because of constrained refining capacity globally, and with sky-high margins, refiners are coming out of maintenance season and buying more crude.
10. Asia is about 18 months behind the West when it comes to post-Covid economic re-opening, and there is so much pent-up demand. We are looking at a 40% increase in mobility versus 2019 levels in Indonesia, Malaysia etc. so we don't believe we will get a global recession next year.

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

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