Fujairah New Silk Road
WEEKLY NEWSLETTER

FEBRUARY 27th 2020
VOL. 18

EXCLUSIVE INSIGHTS /// ACTIONABLE INTELLIGENCE /// DATA TRENDS /// LATEST NEWS

IMO 2020 INDUSTRY CANNOT CUT CORNERS

EXCLUSIVE INSIGHTS

Captain Salem Al Hmoudi
Director, Fujairah Oil Industry Zone

We are two months into IMO 2020 and Fujairah holds a prime opportunity to lead in the blending and production of low sulfur fuel oil (LSFO) and gain market share. But hybrid fuel oil blends are under scrutiny for compatibility. It is vital that the industry prevents corners being cut. There are several compliant fuels with different blends – that could be a challenge. With Fujairah's current storage capacity at more than 10mn cubic meters, this is a critical topic for us.

According to GlobalData, there are currently 3,756 vessels with scrubbers installed, compared to 767 in 2018. But discharge of wash-water from ships using scrubbers is still a risk factor. Fujairah has banned this, but more must be done internationally to clamp down on misuse. On the 1st March, a global carriage ban on high sulfur fuel oil (HSFO) for bunkers comes into force. So, unless ships have scrubbers, they will be deemed not in compliance. According to certain forecasts, non-compliance will be 10% in 2020. How stringent will the penalty system be, and will there be a grace period? Questions remain as to who is responsible for policing compliance Will it be port authorities? Many have said leaving it to flag states would be a weak option.

A year ago, the market was forecasting an initial shortage of LSFO. But in the second half of 2019, we saw participants better prepared than expected with a stock build emerging. Nevertheless, since January we have seen a rise in prices for compliant fuels and some bunker vendors have doubled their credit lines with banks to meet the unexpectedly high price of compliant ultra LSFO.

Fujairah Weekly Oil Inventory Data

7,411,000 bbl	3,402,000 bbl	15,167,000 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
$3.59 – $4.10/m³

↑ **Highest: $4.50/m³**

↓ **Lowest: $3.30/m³**

*Time period: Weekly

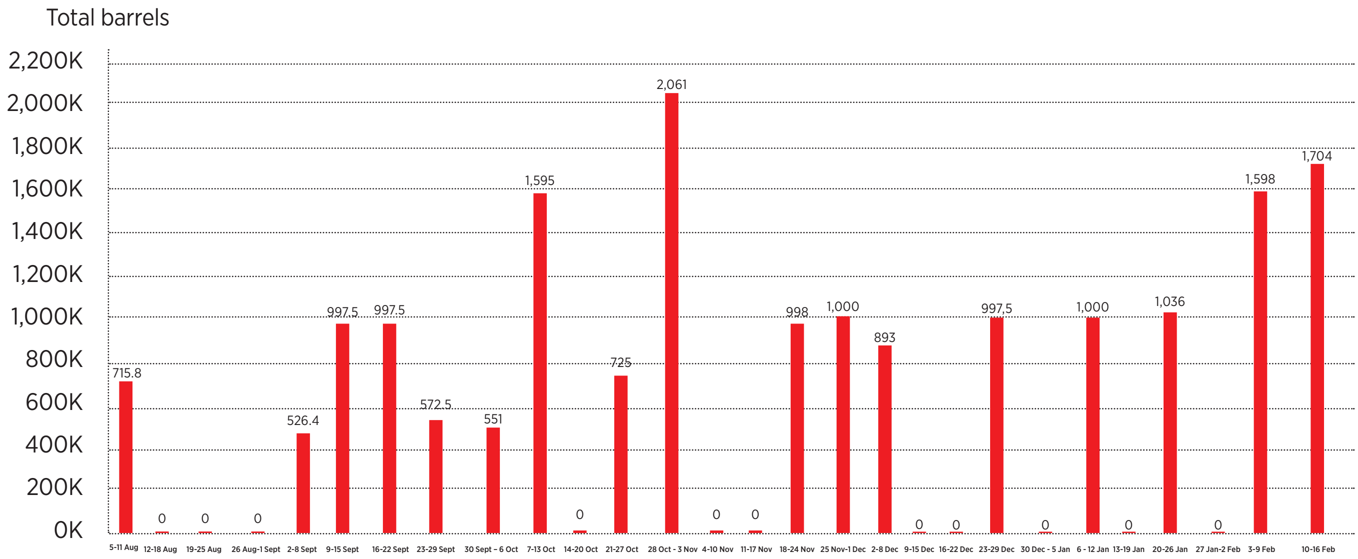
Source: GI Research

Weekly Average Oil Prices

Brent Crude:	**$57.64/bbl**
WTI Crude:	**$52.36/bbl**
DME Oman:	**$57.06/bbl**
Dubai:	**$56.42/bbl**

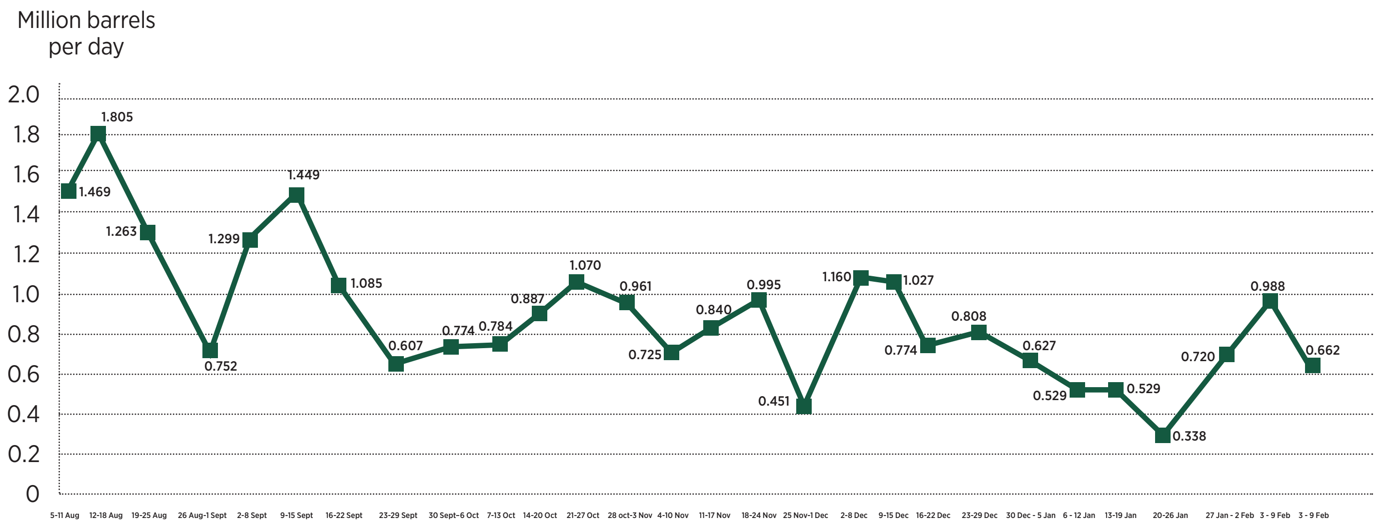
Time Period: Week 4, February 2020
Source: IEA, OilPrice.com, GI Research

Weekly Imports of Heavy Sweet Crude into Fujairah



Source: Kpler

Total Refined Product Exports from the GCC to Asia-Pacific



Source: Kpler

GIQ NETBACK PRICING SERIES

PART 1/3 – FOLLOW THIS SPACE!

FLASHBACK 1985

SAUDI STRATEGY IN CUTTING OIL PRICES

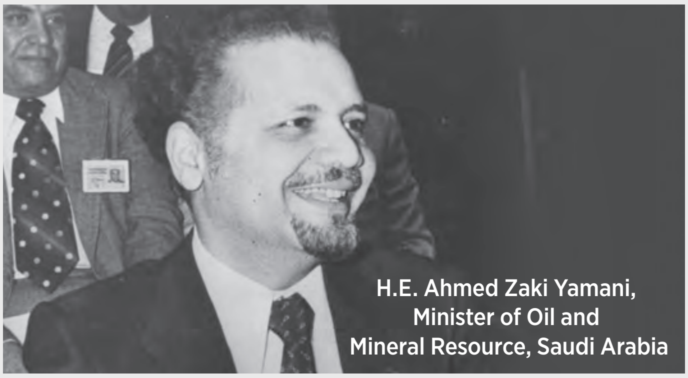
By Fred Marc Biddle, Chicago Tribune, September 22, 1985

When Saudi Arabia`s Oil Minister, Ahmed Zaki Yamani, announced a week ago that the price of crude oil might fall in 1986 to two-thirds of its current level, many industry analysts announced the end of an era.

Yamani said that if other members of OPEC continue to undercut official prices, the price of oil on world markets could fall as low as $18/bl by early next year. Saudi Arabia, Yamani said, would soon undercut the official price of $28/bl by selling about 1mn barrels of new crude each day to American multinational oil firms under a pricing scheme that would put it on equal footing with its OPEC brethren who ignore the cartel`s pricing agreements.

The danger in the Saudi position, some analysts say, is that other cash-starved OPEC nations could retaliate by cutting prices, thus risking a downward spiral that would wreak economic havoc on many countries and sound the death knell for OPEC itself.

However, Yamani`s announcement at a meeting of energy officials in Oxford, England, now appears less than apocalyptic. The threatened 1mn barrels of oil haven`t materialized, and analysts suddenly realize they know little about the pricing scheme.



H.E. Ahmed Zaki Yamani, Minister of Oil and Mineral Resource, Saudi Arabia

Yamani`s scenario of $18/bl has been reinterpreted as saber-rattling that was timed to intimidate OPEC members, who will meet in Vienna on the 3rd October to discuss production. Spot-market crude prices have rebounded since Yamani`s speech.

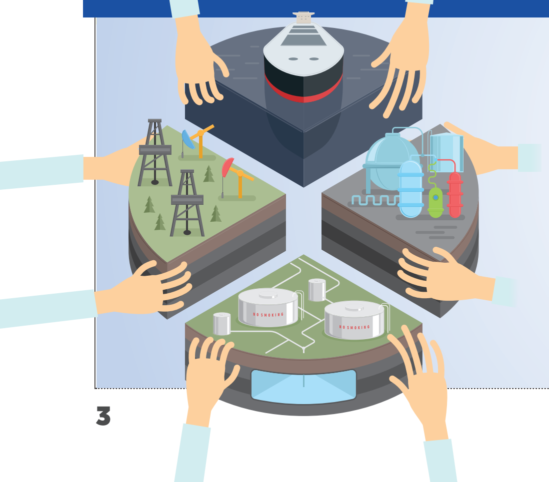
Plus, Saudis are repudiating their traditional role as the backbone of OPEC`s pricing system. They will no longer prop up prices while other members profit by selling oil at cut-rates.

Because of the continuing world oil surplus, which has in the last year been worsened by increased non-OPEC production and continuing energy conservation, the Saudi oil has so far remained in the ground, thus supporting prices. Still, few analysts underestimate the resilience of OPEC, which has many times survived premature obituaries.

READ FULL STORY HERE

Many of the themes in this article from the mid-1980s still dominate news headlines today. Will OPEC survive? How is Saudi playing its card of influence? How to react in an oversupplied market? Alas, oil markets still lack a crystal ball. But as Albert Einstein said: "If you want to know the future, look at the past." What lessons can today's market glean for 2020?

WHAT'S CHANGED IN 35 YEARS?



2020 Some aspects of the oil market have changed dramatically. For one, OPEC+ heralds a leap in the level of cooperation – or lack of – that pervaded the oil markets. Such flexibility bodes well for the 2020s amid talk that OPEC+ may have to evolve to reflect the increasingly mixed energy basket. *Watch this space.*

1985 Saudi Arabia tried hard to enforce production and pricing discipline at two emergency OPEC meetings earlier this year, but no one voted to temporarily forfeit revenues for the long-term good of the cartel. At the most recent meeting in July, members argued for three days before agreeing on a miserly 50-cents-a-barrel price cut for certain grades of crude.

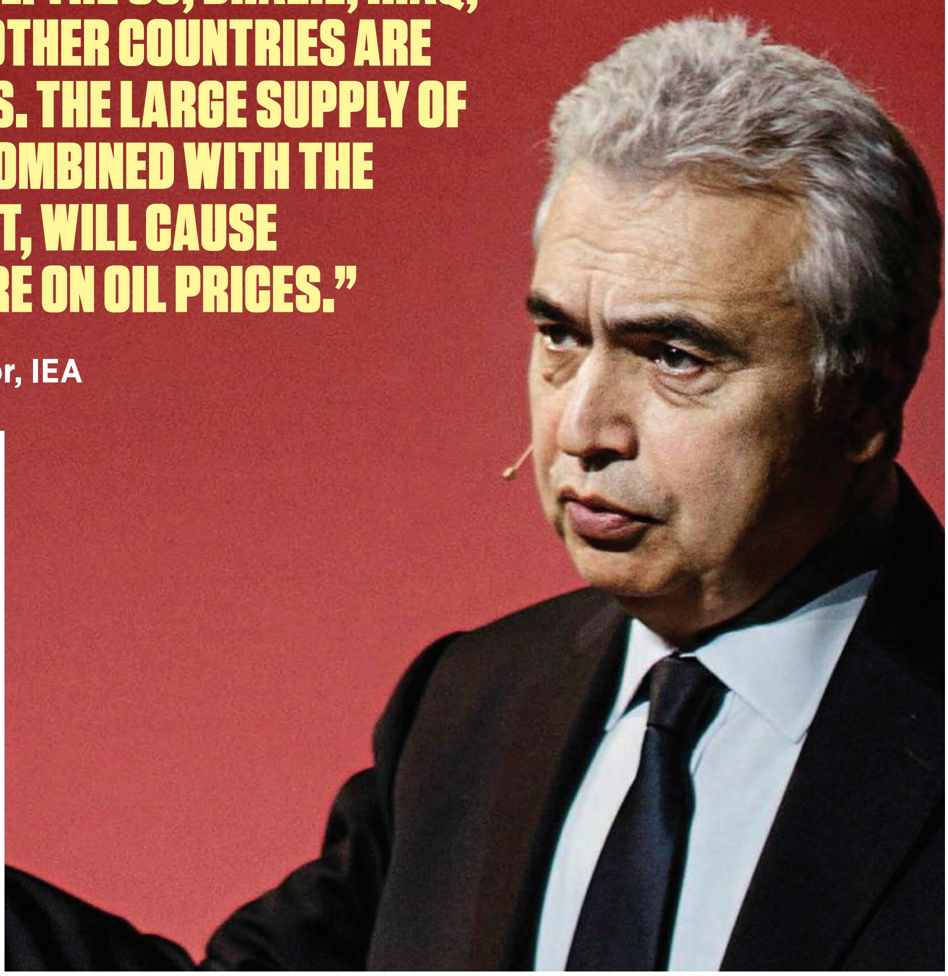
GIQ TAKEAWAYS

IEA OIL MARKET REPORT, FEBRUARY 2020

"THERE IS AN ABUNDANCE OF OIL IN THE MARKETS. A HUGE AMOUNT OF OIL. THE US, BRAZIL, IRAQ, NORWAY, AND MANY OTHER COUNTRIES ARE INCREASING VOLUMES. THE LARGE SUPPLY OF OIL IN THE MARKET, COMBINED WITH THE CORONAVIRUS THREAT, WILL CAUSE DOWNWARD PRESSURE ON OIL PRICES."

Fatih Birol, Executive Director, IEA

Sources: IPWeek 2020



IMPACT OF CORONAVIRUS

$10/bl

decrease for Crude Oil Futures in January, 2020, as a result of the anticipated negative impact of virus on demand.

1.1m b/d

is the expected cut in Chinese crude throughputs for Q1, 2020. They are now expected to contract by 500,000 b/d year-on-year.

0.7m b/d

is the downgrade forecast now expected for global runs. However, IMO 2020 boosted simple refining margins as a result of the new fuel regulations.

OPEC+

Before the coronavirus epidemic, producers expected oil markets to balance out in H2, 2020. Now, OPEC+ countries are evaluating additional emergency cuts to oil production of 0.6m b/d on top of the 1.7m b/d already pledged.

GLOBAL OIL DEMAND

435,000 b/d

is the expected fall in demand year-on-year for Q1, 2020. This is the first quarterly contraction in more than 10 years.

825,000 b/d

is the revised cut in the 2020 growth forecast, up from 325,000 b/d – the lowest growth forecast since 2011.

GLOBAL OIL SUPPLY

0.8m b/d

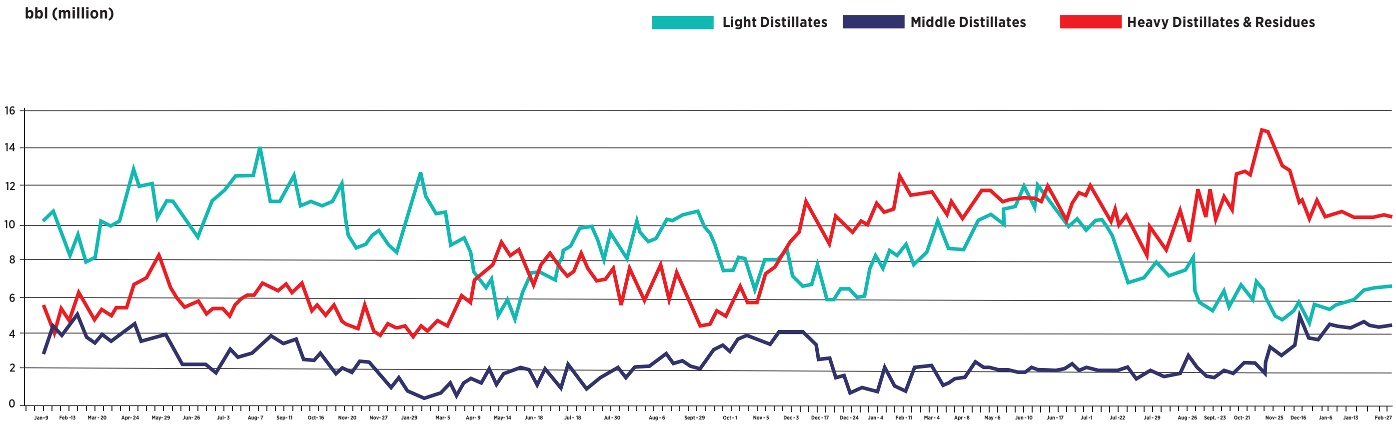
decrease in global oil supply January, 2020, down to 100.5m b/d.

2.1m b/d

in non-OPEC production has offset lower supply volumes from OPEC countries, which leaves world oil output unchanged from a year ago.

Sources: Internationl Energy Agency (IEA), IPWeek 2020, GIQ

Fujariah Weekly Oil Inventory Data



TOP 10 TAKEAWAYS

Monday, 24th February

- Total oil product stocks in Fujairah stood at 25.98mn barrels – a record high. Stocks rose by 3.024mn barrels (+13.2%) week-on-week, based mainly on a large build in heavy residues.
- Stocks of light distillates saw a small build of 68,000 barrels (+0.9%) to 7.411mn. Gasoline under pressure from increasing outflows from China. Several Chinese refiners – including CNOOC, Wepec and independent refiner Hongrun Energy – emerged in the spot market, offering gasoline March loading. "Chinese exporters are starting to clear their domestic supplies into the regional market. March will be heavy [for gasoline]," one Singapore-based gasoline trader said. Refinery maintenance in the Middle East saw the region draw in additional volumes from Europe.
- Stocks of middle distillates jumped by 743,000 barrels (+27.9%) to 3.402mn. Sentiment for East of Suez middle distillates continued to lean bearish due to the coronavirus. Still, Middle East gasoil premiums remain at a strong level due to ongoing refinery maintenance. The FOB Arab Gulf 10 ppm sulfur gasoil spot differential on Tuesday was assessed at $2.20/bl to Mean of Platts Arab Gulf assessments, up from $1.80/bl since the start of the year.
- Stocks of heavy distillates rose by 2.213mn barrels (+17.1%) to 15.167mn – a three month high. In Fujairah, the bunker market remained weak due to the coronavirus. Demand for LSFO, which is compliant fuel for IMO 2020, has fallen by 15% since mid-January. "Demand is weak. There are big quantities out there and suppliers have to turn around their barges. They might have even bought some quantities themselves since prices are low," a UAE-based bunker trader said. Fujairah bunker prices for 0.5% marine fuel fell by $30/mt week-on-week to $465/mt – a new low for 2020. The differentials between 0.5% marine fuel and 380 CST high sulfur fuel oil (HSFO) bunker narrowed to $160/mt – down by almost $300/mt since the start of the year.

Source: S&P Global Platts

"Oil benchmarks are flirting around key support levels in the $50s/bl. It won't take a lot to break these."

BY MATT STANLEY
SENIOR BROKER
STAR FUELS

The world is coming to terms with the fact that the coronavirus is not going away any time soon. Data showing that demand is actually taking a sizeable hit will start dribbling in over the coming week or so. But it cannot be ignored that, regardless of a few oil ministers saying the market will bounce back in H2 of 2020, we will see some pretty grim figures. The issue now is not solely about China. It's about the fact that reports of the virus are increasingly global and that most countries are preparing for further outbreaks. The market now faces a global drop in demand, not just in China. This is reflected in the equities market – and oil is following suit. Both benchmarks are flirting around the key support levels of $55/bl on Brent and $50/bl on WTi. I don't think it is going to take lot for those to be broken. Data from the Energy Information Administration (EIA) is out soon and I imagine we will see more of the same, i.e. builds on crude and draws on products. If US production stays steady at a massive 13mn b/d, then the market is going to have to have a good look at itself as to where all this crude oil is actually going to go. I thought we would have heard more from OPEC+. I'm not sure if it is a case of no news is good news. Usually when we see dramatic movements in the futures markets, which we have this week, we hear from an OPEC minister or ten. But nothing has really surfaced. Libyan outages are keeping things in some kind of ironic check, at 1mn b/d of production down from this time a year ago. But eventually that will come back online and then OPEC+ really do have a job to do.

February 26, 2020

FOIZ
منطقة الفجيرة للصناعة البترولية
Fujairah Oil Industry Zone

Fujairah Delegation in LONDON

IPWEEK 2020 | DAY 1-3

Meeting at Shell

Meeting with Platts and Uniper

S&P Global Platts uniper

MERCURIA

H.H. Sheikh Sultan Bin Saleh Al Sharqi attends IPWEEK 2020

Fatih Birol, Executive Director of IEA iea

Chris Bake, Member of Board, Vitol, hosts Fujairah Delegation at IPWEEK

ENERGY NEWS Highlights

Saudi shale, OPEC, climate and the oil playbook

Oil prices are crashing, coronavirus is peaking and Saudi has plans to play a role in keeping all things oil and gas related under control, even if it means steering OPEC without Russia or investing billions in shale.

Source: AmeInfo

Saudi shale: Plans accelerate

Saudi Arabia has adopted techniques developed in US fields to develop its own $110bn Jafurah shale gas field project.

Source: International Business Times

LNG: Good news for Middle East bunkering

Oman and the UAE are leading the way as the region catches up to a shipping industry revolution spurred by low gas prices and tighter marine fuel regulations.

Source: Petroleum Economist

FOIZ-Brooge Petroleum: Reaffirm land lease agreement

Fujairah Oil Industrial Zone (FOIZ) and the oil storage and services business Brooge Petroleum and Gas Investment Company (BPGIC) have reaffirmed their partnership in a recently signed land lease agreement.

Source: GI

CORONA VIRUS UPDATE

Saudi: OPEC+ to take responsible approach

Saudi Arabia's Minister of Energy has stressed that OPEC+ will do everything it can to tackle the coronavirus.

Source: Reuters

India: Refiners get rare oil cheap

Indian refining companies are snapping up rare crude grades as the coronavirus outbreak curtails China's demand for processing, sources said. Prices for some grades fell by up to 15%.

Source: Yahoo Finance

IEA: Oil crash warnings intensify

The International Energy Agency (IEA) said the outbreak could send oil prices sliding even further as global demand wanes.

Source: CCN