APRIL 30th 2020
VOL. 27

Fujairah New Silk Road WEEKLY NEWSLETTER

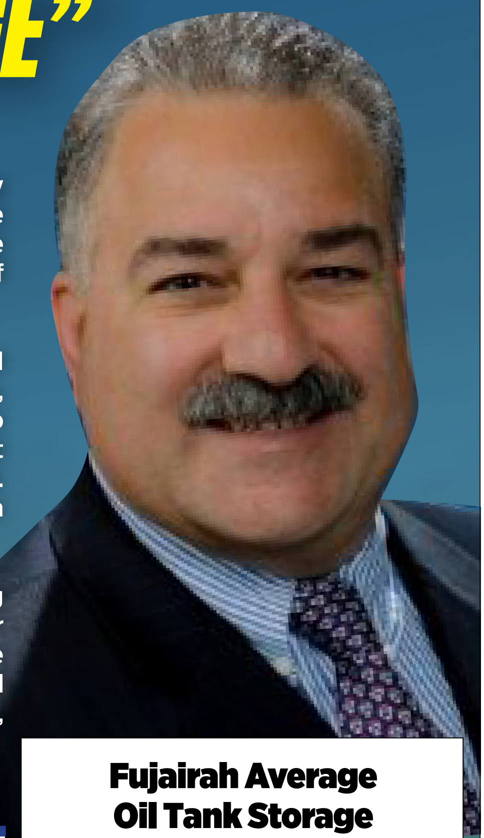
EXCLUSIVE INSIDE
GLOBAL OIL EXPERTS SHARE THEIR INSIGHTS PAGE 4

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

AN EXCLUSIVE GULF INTELLIGENCE INTERVIEW

"THE WORLD IS NEVER GOING TO RUN OUT OF STORAGE"

Ernie Barsamian, CEO & Principal, The Tank Tiger



At the end of the day, oil prices were negative because it was a price discovery moment. The same thing is going to happen with oil storage. There will be a price discovery moment, where the signals that we get from pricing are going to reduce production, which it already has, or generate the need for more storage somehow. If it behooves you to find more storage, people will do it.

The big hubs in North America, South America, and the Caribbean have a substantial amount of storage for crude, that ranges in millions of barrels. Cushing, Oklahoma, with a 100mn barrel position and a 9x delivery point, is where everybody wants to store crude, so they can take advantage of the cash-and-carry situation in the easiest manner. However, the contango structure will feed on itself once it is established. Storage will become rare which, as a result, will create the contango curve to sustain itself until that inventory overhang gets pulled down

The world is never going to run out of storage. It cannot happen. We are never going see oil on the ground. Essentially, wells will shut-in because it is not profitable for producers to deliver barrels at prices that do not cover their costs. Also, refineries are not going to run when it doesn't make sense for them to produce product. It will all slow to a halt and we will not be forced to go over the tops on tanks. Fundamentally, the oil will stop moving more than anything.

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Fujairah Weekly Oil Inventory Data

7,466,000 bbl	4,121,000 bbl	13,063,000 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
$3.61 – $4.38/m³

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

*Time period: Weekly

Source: GI Research

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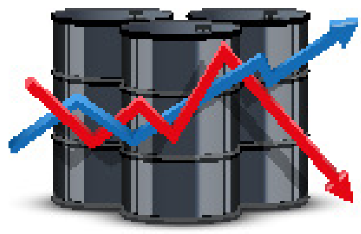
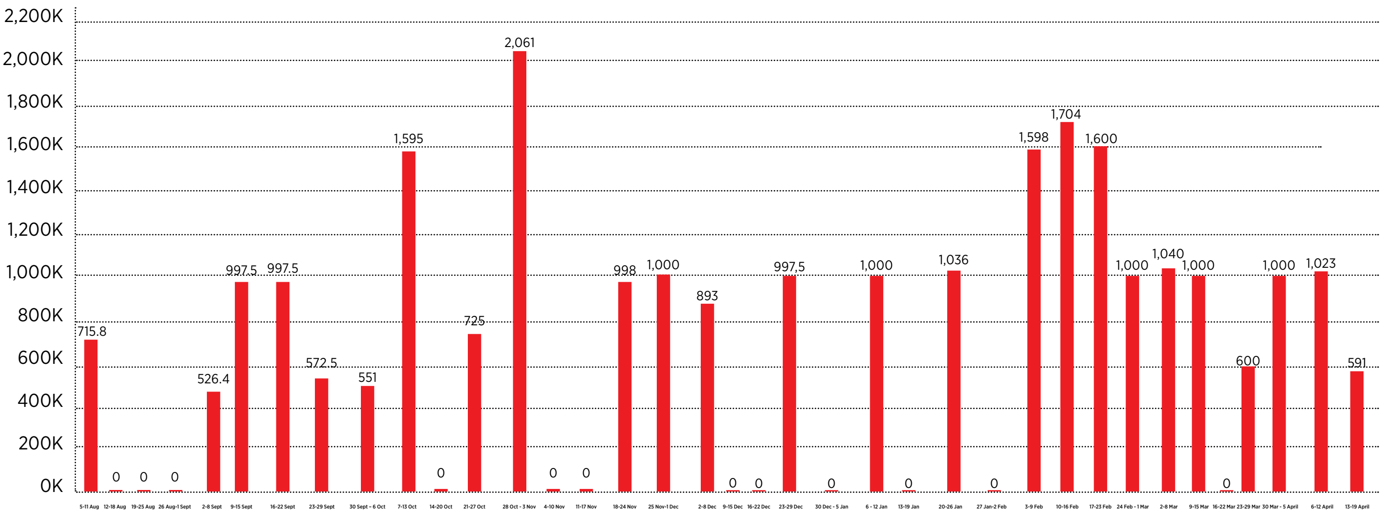


Weekly Average Oil Prices

Brent Crude: **$21.87/bbl**
WTI Crude: **$11.30/bbl**
DME Oman: **$20.02/bbl**
Murban: **$18.43/bbl**

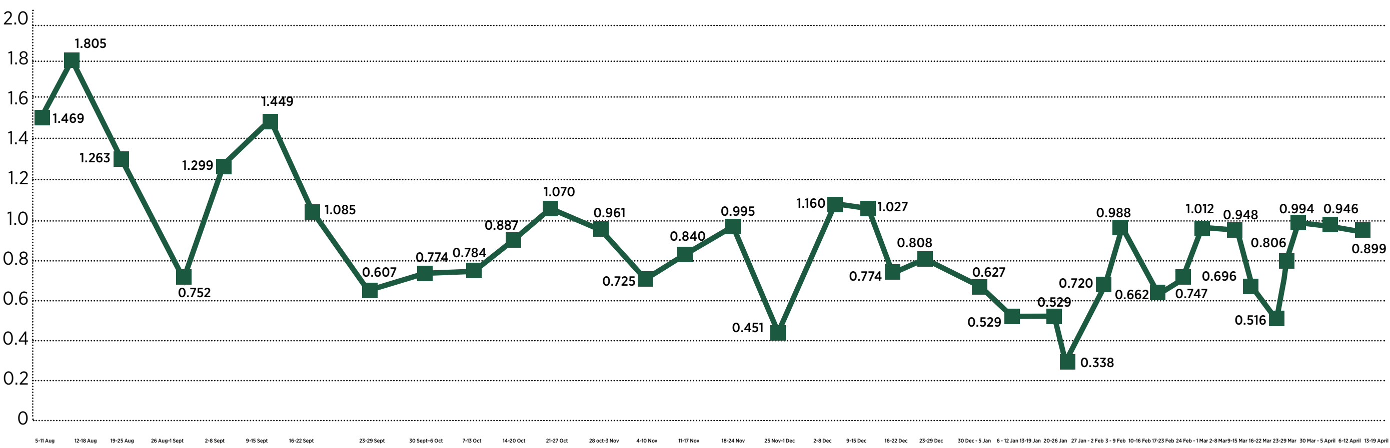
Time Period: Week 4, April 2020
Source: IEA, OilPrice.com, GI Research

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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Why have producers been slow to respond in terms of shutting-in wells?

It is a lot like trying to stop the Titanic when it is headed for the iceberg. For the producers, the wells are already flowing. Even at very low prices you can still generate cash, although you are losing money incrementally to cover your debt service. That is what must happen. It becomes a survivor's game, where those that have highly leveraged balance sheets essentially must stop. This will create an opportunity where an oil price floor is established and those prices firm up. Survivors can then sustain themselves a little bit longer.

What specific oil products or crude are clients currently looking to store?

When you look at the contango play, right now it is essentially "what can I get that's the cheapest?" Ultimately, that is where the value is created. There are so many types of crudes that are now in prison and trading well below the WTI oil price. If you can find a place to store the barrels, then that contango play will be more rewarding. Of course, it is logistically more challenging to go get the crude, find a place to store it, and then sell it. However, all of those costs are baked-in when you decide to move forward on the contango play.

What is the correlation between refinery cuts and demand recovery?

Everything is connected. The lack of demand for jet fuel, which happened in January 2020, led to curtailment in gasoline as self-isolation measures were implemented. Since there is no opportunity to continue to refine products and store them, refineries had to cut their crude runs. This of course also backs up the crude that wanted to get to refineries. Ultimately, until we see restoration of demand, the refineries are not going to respond. When all of this comes to pass, we are going to see a big problem with product availability. People are going to respond to demand pretty much on the same signals. We are going to see that increase rapidly. As a result, I do not think refineries are going to be ready to provide that product. We are going to see a big runup on product prices and refining margins.

In terms of storage rates, we are seeing a lot of renewals for H2, 2020. Do you think rates will be closer to the spot price we are seeing now?

It is easy to take advantage of the contango and then raise storage prices for traders that want to get in. Utilize your tanks. They always know if your price is too rich, and a trader does not want to do, they will step away and someone else will step in. Terminals tend to benefit and get a larger percentage of the contango profitability when people do these storage plays. You want to establish relationships with these people. For example, if a trader wanted to take out storage for 12 months, instead doubling storage prices, you should see if they want to do 18 months at the same price. Ultimately the backwardation will come back. At least you get a coupon for your tanks that are not being utilized.

What are current storage spot rates for H2, 2020?

It is difficult to give you an answer because there isn't any storage to be contract. It is not a liquid mechanism that you could attribute to contango. Instead, it is a function of relationships and the reward that some terminals want to give to long-standing customers. They will make sure they get the first dibs on unavailable storage. The terminals are going to get double the prices for storage; maybe even triple. At the end of the day, the terminals are looking for utilization. When they're getting $0/bl for their tank in backwardated market, they have a long memory. They know to get utilization when they can.

What are your views on the United States Oil Fund ETF? How do you see it playing out?

From a storage standpoint, most of the excitement that we saw was in March 2020. WTI oil prices went negative in the third week of April 2020. Maybe the traders of the USO don't fully understand what goes on when your forced to take physical barrels. I'm sure they didn't want to get caught short like they did. The open interest was so large, relative to the number of physical barrels that get transacted. They just waited too long to try to unwind their positions. That is why we saw that freefall in pricing. The open interest is a little bit lower for the June contract that it was in May. We have a divergence now. When the contract expires, futures matches physical. When you look at the amount of open interest in the NYMEX futures contract, it's almost like two different games being played.

Given the current situation, there must be some consideration for building new tankage. What is your outlook?

Clearly, we are not going to be out of this contango structure until we see a reduction of inventory. We are not going to see a reduction of inventory until we see a significant increase in demand. OPEC+ already announced their cut back, but that wasn't even below where they were when this mess all started. It's going to take a long time to get those inventories down and for the contango structure to behave in a normal fashion. We are going to continue to see these contangos roll from month to month. Terminals are looking at patching up tanks that have been historically out of service and underutilized. If you can get them going in 2-3 months, I'm confident that the contango structure is still going to be there. That is going to be the first wave of available tankage that comes in; the tankage that actually exists but is currently out of service. This is not a small amount of tankage. There are millions of barrels of capacity there. On top of that, there's caverns. We just listed two new cabin facilities today. That is going to some interest on the crude side. Also, the gathering systems, which certainly are not going to be utilized as much if this flat price stays low, is available storage too. People are going to try and monetize their assets in any way they can. They're going to go for these storage opportunities to find customers they may not know about.

WATCH FULL INTERVIEW HERE

GIQ EXCLUSIVE SOUNDINGS

Oil Prices Swing as Covid-19 Fuels Volatility

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.

- Adi Imsirovic, Research Associate, Oxford Institute for Energy Studies
- Dr. Zhen Wang, Deputy Director-General, Policy Research, CNPC
- Omar Najia, Global Head Derivatives, BB Energy
- Christof Rühl, Senior Research Scholar, Center on Global Energy Policy at Columbia University
- Paul Young, Head of Energy Products, Dubai Mercantile Exchange
- Bora Bariman, Managing Partner, Hormuz Straits Partnership
- Dr. Carole Nakhle, CEO, Crystol Energy
- Andy Laven, CEO, Sahara Energy Resources
- Vandana Hari, Founder and CEO, Vanda Insights
- Rustin Edwards, Head – Fuel Oil Procurement, Euronav NV
- Dr. Jonathan Fulton, Assistant Professor of Political Sciences, Zayed University

Adi Imsirovic, Research Associate, Oxford Institute for Energy Studies
"The WTI contract does exactly what it says on the tin. There is no difference between a physical and financial delivery contract whatsoever. There must be a convergence at the end of both contracts. Whether its financial or physical, in the current market it should be negative. We are seeing big pressure on benchmarks "

Dr. Zhen Wang, Deputy Director-General, Policy Research, CNPC
"The Chinese oil companies face a very serious situation due to market volatility. The government hasn't taken many actions to help the oil companies."

Omar Najia, Global Head Derivatives, BB Energy
"On the futures market, the reason for the pressure and the reason that the pressure will continue, some players have very, very, large positions. Those large positions are likely to be squeezed. It's like knowing that your neighbor bought 30% of all available face masks and at the same time there is no virus situation, but you know that he has to sell them."

Christof Rühl, Senior Research Scholar at the Center on Global Energy Policy Columbia University
"I don't find it shocking when prices become negative. It's a sign that markets are doing what they are supposed to do. The markets are saying tanks are full, stop pumping."

Paul Young, Head of Energy Products, Dubai Mercantile Exchange
"The percentage swings in oil prices are not really relevant at the moment. For example, a 20% increase may be huge, but that might only equate to $4. People will look more at the outright numbers."

Bora Bariman, Managing Partner, Hormuz Straits Partnership
"The global economy has contracted. The uncertainty in recovery is driving oil price volatility. We don't know when people will be able to consume fuel again. It's also not just energy. As a reflection of a bearish outlook, the banks are taking their loss provisions up by 350%; HSBC at 600% and Credit Suisse at 1000%."

Dr. Carole Nakhle, CEO, Crystol Energy
"We should expect oil prices to maintain the current volatility. On one day they will respond upwards off the back of positive news, and on the other day they will move downwards because of negative news. This situation is going to stay with us over the coming weeks, until we see more robust data hinting in a single direction."

Andy Laven, CEO, Sahara Energy Resources
"The history of WTI goes back several years when everyone realized it was a landlocked benchmark. If you run out of storage and oil is there to be bought, then it must go negative. WTI is going to have a challenge because it is a physically settled contract."

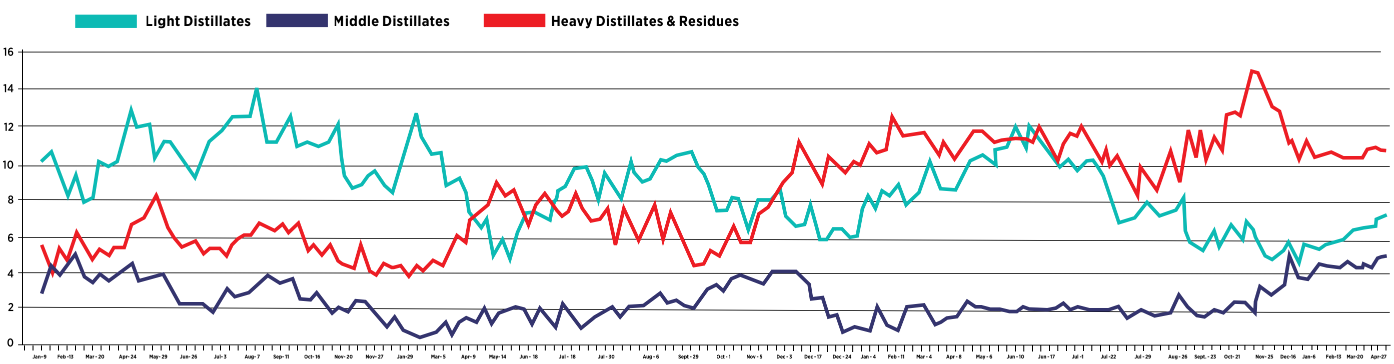
Vandana Hari, Founder and CEO, Vanda Insights
"The market, as well as OPEC and non-OPEC members, are going to look closely at Saudi Arabia and Russia as the biggest producers. But, overall, the intent is certainly there for all members to comply with the supply cuts."

Rustin Edwards, Head – Fuel Oil Procurement, Euronav NV
"With many governments announcing their easing plans to get the economy back and running, the green shoots are certainly there. However, the market is getting a little ahead of itself with thinking that the demand is not going to come back with a flip of the light switch. Rather, there will be a slow, gradual ramp up of demand over time."

Dr. Jonathan Fulton, Assistant Professor of Political Sciences, Zayed University
"China has been actively changing the narrative from being a victim of Covid-19, to a big supporter and dispenser of technology and aid; while the US has been doing nothing at all. Ultimately, China is making gains not only in the current situation, but also post Covid-19."

Fujariah Weekly Oil Inventory Data

FOIZ
منطقة الفجيرة للصناعة البترولية
Fujairah Oil Industry Zone



TOP TAKEAWAYS

- Total oil product stocks in Fujairah stood at 24.650mn barrels. Stocks rose by 6.1% or 1.422mn barrels week on week.
- Stocks of light distillates saw a build of 1.429mn barrels or 23.7% week on week. Total volumes stood at 7.466mn barrels. The East of Suez gasoline market continued to see poor demand leading to the region remaining under pressure, as more spot supply was emerging. In addition to volumes being seen offered from India and Malaysia, several LR tankers were heard to have been placed on subjects to carry gasoline from the Middle East to Asia. Specifically, LR1 tanker Analipsi Lady was heard being placed on subjects to load gasoline in early May for a Ruwais to Singapore voyage, with the option to discharge at East Africa. Norstar Invictus as well, was heard to have been placed on subjects for mid-May loading, for a Yanbu to Singapore voyage.
- Stocks of middle distillates rose by 16% or 568,000 barrels to stand at 4.121mn barrels at the start of the week, their highest level since mid-January. Asian gasoil traders were warily eying inflows of gasoil into the East from the Arabian Gulf and India prompted by favorable arbitrage economics seen by a firm front-month Exchange of Futures for Swaps spread. However, with multiple countries in Asia extending lockdown periods in order to minimize population movement, end user demand outside the industrial and commercial sectors remained limited.
- Stocks of heavy distillates fell by 4.2%, drawing down 575,000 barrels on the week to stand at 13.063mn barrels. While the Ramadan month in the Middle East typically sees a slowdown in trading activity, so far this month there had been an uptick in trade with the easing of some movement restrictions in the region. A record $35/mt spread in delivered bunker prices for Marine Fuel 0.5% between Singapore and Fujairah was seen on Friday, April 24, as supply cancelations by embattled Singaporean oil trader Hin Leong's bunker arm Ocean Bunker Services led to higher prices at the South Asian port. The spread narrowed this week, to stand at $20/mt on Tuesday, April 28, with delivered Marine Fuel 0.5% bunkers assessed in Fujairah at $180/mt, with Marine Fuel 0.5% bunkers in Singapore assessed at $215/mt.

Source: S&P Global Platts

"I don't understand it any more than you do, but one thing I've learned is that you don't have to understand things for them to be."
– A Wrinkle in Time, by Madeleine L'Engle

BY MATT STANLEY
DIRECTOR
STAR FUELS

Let's be honest, is Mads wrong? Not on your nelly. Brent is trading this morning at a mind boggling $24.23/bl, up 1.69/bl. WTI is at a monumental $17.07/bl, up 2.01/bl from last night's close. I can't argue with Mads; you know. Why does it bother a person so much when, fundamentally, you think the market should take one direction, but it is in fact, taking the complete other one? It's infuriating. But I have a theory. Economically, for the foreseeable future, the world is going to be a different place. Spending habits are going to change, and I think the whole world has taken a reality pill on the amount of stuff we all buy that we don't actually need. I mean, I'm not getting to the point where we think about selling our old toothbrushes, but people will certainly think twice when it comes to ordering a Chicken Chow Mein with prawn on toast, instead of using up what's left in the fridge. Know what I mean? Let's bring that down to the commodity markets. Gold is currently trading at $1,730 per ounce. Yet demand for jewelry in Q1 was down 41% in India, and 65% in China; the world's top two gold consuming nations. Gold has always been a "safe haven" in times of economic uncertainty. Much like the Japanese Yen. However, you wonder if this will be the way things carry on post Covid-19. We can all live without gold in our lives, unless you're a James Bond villian ofc. But the one thing we can't live without, is oil. As I have said before, from replacing a worn-out bicycle tire to buying your child a pack of crayons, oil is part of the everyday make up of life. Do investment funds see things the same way? Does oil look cheap here since demand, inevitably, will come back later this year? I'd have to argue, yes. And this is perhaps a poisoned chalice. Of course, on one side it is a good thing for those who need the flat price higher than where they are now to survive economically. Prices are still low enough for the end user (i.e., you and I, who relish the chance to go to a petrol station and say "Look at that! So cheap!). I think I'll treat myself to a pack of Opal Fruits when I go to pay. Yet, the futures market and the physical market, whilst linked, will continue along this fractured path which will only become wider. On a fundamental basis, demand is still historically low, and supply is more than plentiful. But prices are going up. Rest on this as a sustained rally at your peril. Hello $30/bl. Hello $10/bl. To those who are off tomorrow and those who are off Monday, just have a picnic in the garden/balcony/front room. Stay safe and enjoy the long weekend.

April 30, 2020

Fujairah Spotlight

Brooge Energy Appoints MUC for Fujairah Refinery

Brooge Energy Limited has appointed MUC Oil & Gas Engineering Consultancy (MUC) to complete the basic design for a 180,000 b/d refinery and Front End Engineering Design (FEED) study for its planned Phase III oil storage terminals in Fujairah.

Source: ME Construction News

COVID-19: New Guidelines for Fujairah Eateries and Hotels

The emirate of Fujairah has issued a new protocol for eateries and hotels in the holy month of Ramadan to ensure public health and curb the spread of the Covid-19 coronavirus.

- All food institutions, restaurants and hotels operating in the emirate need to strictly adhere to these rules.
- Open buffets and mass Iftars are strictly banned in hotels and restaurants.
- All preventive measures need to be stringently observed, he pointed out.
- staff safety has to be ensured with full attention to physical distancing, mainly when delivering orders.
- Deliveries are allowed up to 4am
- All staffers of eateries and hotels need to stick to the health instructions."
- Wearing masks and gloves is a must for all staff, while hand sanitizers should be used all the time to avoid any contraction of viruses or disease.

Source: Khaleej Times

National Bank of Fujairah Posts Net Profit of $20.5mn

National Bank of Fujairah (NBF) has announced a net profit of $20.5mn for the three month period ended March 31, 2020, up 85.9% compared to Q4 2019 and down 55% compared to $45.6,mn in the corresponding period of 2019, despite the continuing subdued business activity in the market exacerbated by Covid-19.

Source: Khaleej Times

ENERGY MARKETS COMMENTARY WEEK IN REVIEW

CLICK HERE TO LISTEN

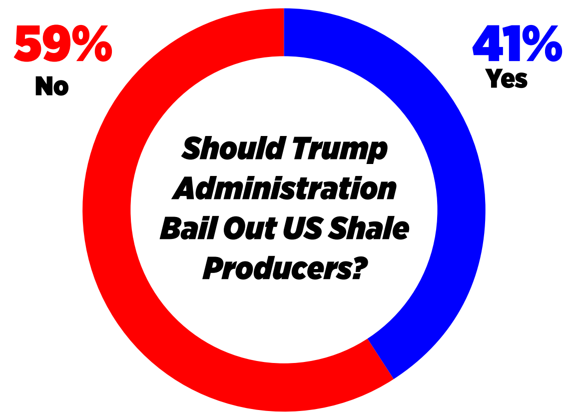
ENERGY MARKET NEWS

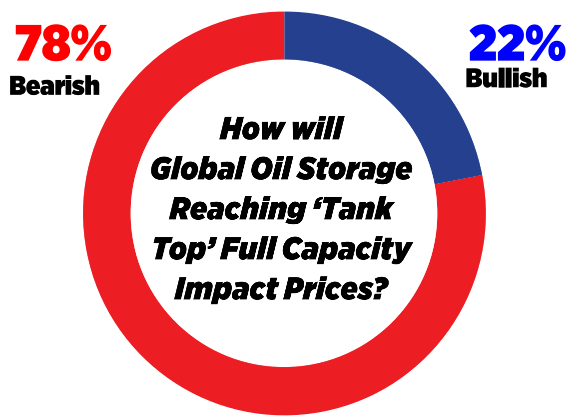
RECOMMENDED READING & VIEWING

1. US GDP SHRANK 4.8% IN THE FIRST QUARTER AMID BIGGEST CONTRACTION
2. EVERYTHING IS RISING IN ASIA THIS MORNING ON SIGNS OF COVID-19 RETREAT
3. CHESAPEAKE ENERGY PREPARING BANKRUPTCY FILING
4. CHINA'S CNOOC SLASHES OIL OUTPUT AND SPENDING
5. INVESTING IN TANKER COMPANIES COULD EMERGE AS HEDGE AGAINST COVID-19 RELAPSE
6. SAUDI OIL FLOTILLA HEADING TO US TO WORSEN PORT CONGESTION
7. TRUMP ADMINISTRATION TO OFFER SHALE OIL COMPANIES EMERGENCY LOANS
8. CHINA MANUFACTURING MOOD STEADIED IN APRIL
9. UAE'S ADNOC TO CUT VOLUMES OF MURBAN BY 20% IN JUNE
10. COVID-19: INDIA'S DEATHS PASS THROUGH 1,000

DAILY RECOMMENDED VIDEOS:

- US OIL TERMINAL OWNERS MAY REHABILITATE RETIRED STORAGE TANKS FOR SUPER-CONTANGO
- FAUCI WARNS, US COULD BE IN FOR 'A BAD FALL AND A BAD WINTER'





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Gulf Intelligence
~ Presents ~

THE ARAMCO TRADING NEW SILK ROAD

CEO

– OF THE YEAR –

AWARDS 2020

FUJAIRAH

SEPT. 28th 2020

aramco trading

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