ONE YEAR AGO TODAY, COVID-19 WAS DECLARED A PANDEMIC BY THE WHO

COVID-19 GLOBAL CASES:

125,000
March 11th, 2020

118,000,000
March 11th, 2021

Sources: WHO, Worldometer

Fujairah New Silk Road WEEKLY NEWSLETTER

MARCH 11th 2021
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Supported By:

FOIZ منطقة الفجيرة للصناعة البترولية Fujairah Oil Industry Zone

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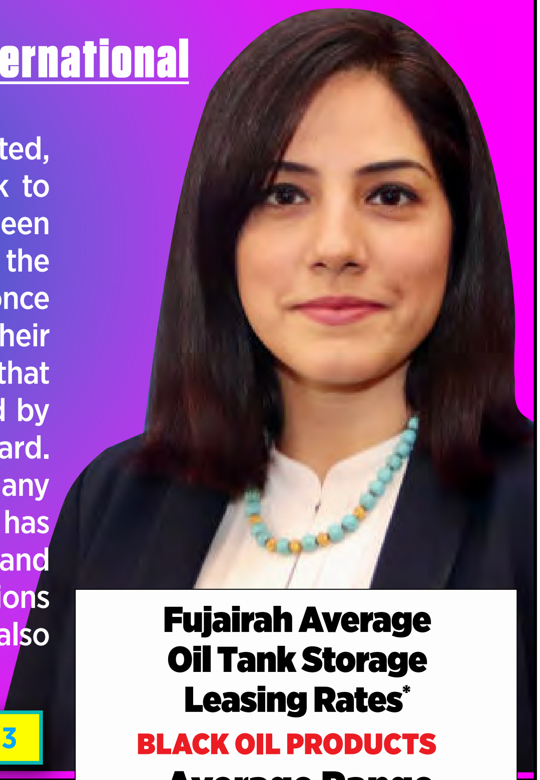
AN EXCLUSIVE GULF INTELLIGENCE INTERVIEW

US NEEDS TO BRING GULF REGIONAL ALLIES ON IRAN RAPPROCHEMENT JOURNEY

Dr. Sara Vakhshouri, President, SVB Energy International



US President Biden, both in his campaign and since he was elected, has been clear that his administration is seeking to get back to negotiations with Iran and the JCPOA. However, there hasn't been any clear roadmap yet of how this will be executed nor what the conditions will be. Iran, meanwhile, made the assumption once Biden won the election, that there would be less pressure on their oil exports than there had been under President Trump and that the policy of "maximum pressure" would not be implemented by Washington D.C. However, it's not going to be that straightforward. The US is not going to simply unwind sanctions and meet any condition that Iran sets, just to get back to the JCPOA. The US has other allies in the Middle East, such as Saudi Arabia, the UAE and Israel, who have their own concerns about Iran. The negotiations over the JCPOA are very complicated as the US needs to also address the security concerns of these other countries.

CONTINUED ON PAGE 3

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

Source: GI Research – Weekly Phone Survey of Terminal Operators

Fujairah Weekly Oil Inventory Data

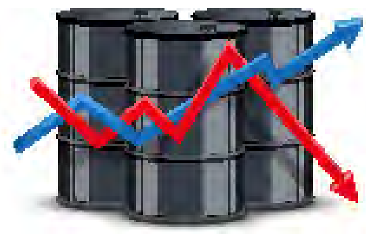
6,620,000 bbl	3,710,000 bbl	7,636,000 bbl
Light Distillates	Middle Distillates	Heavy Distillates & Residues



Source: FEDCom & S&P Global Platts

GI Consultancy Intelligence Publishing

THE WEEK In Numbers



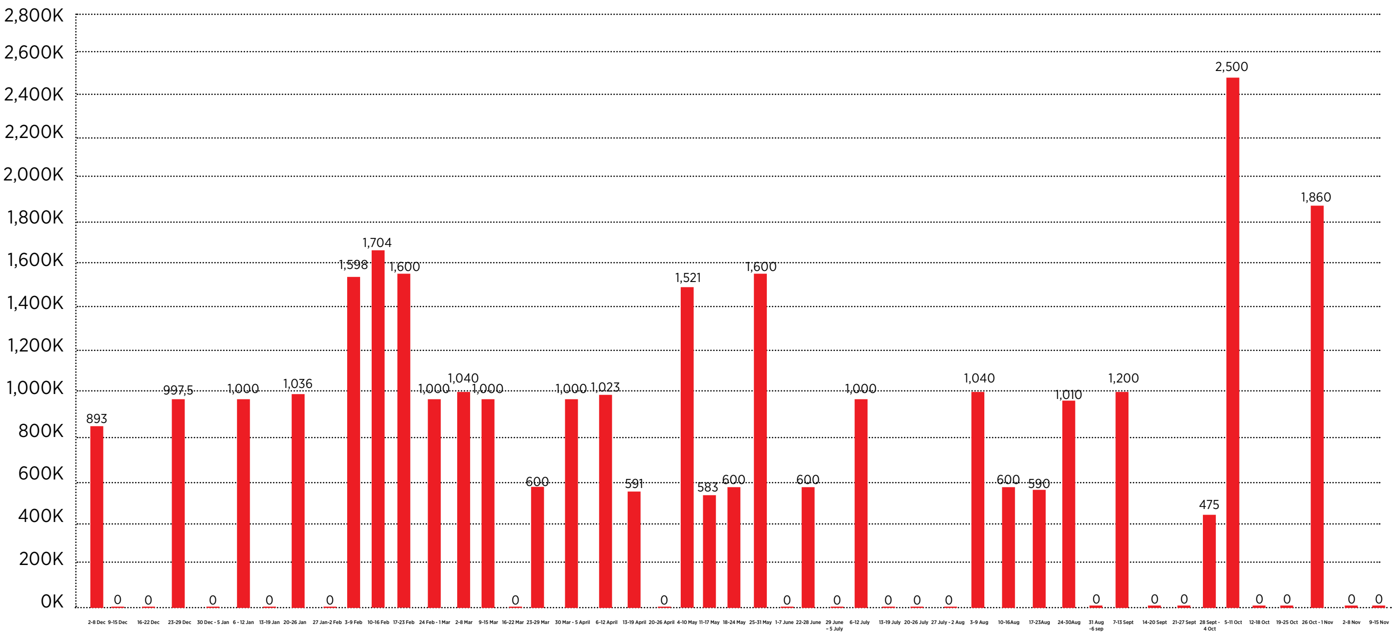
Weekly Average Oil Prices

Brent Crude: **$68.34/bl**
WTI Crude: **$64.95/bl**
DME Oman: **$66.77/bl**
Murban: **$67.30/bl**

Time Period: Week 2, March 2021
Source: IEA, OilPrice.com, GI Research

Weekly Imports of Heavy Sweet Crude into Fujairah

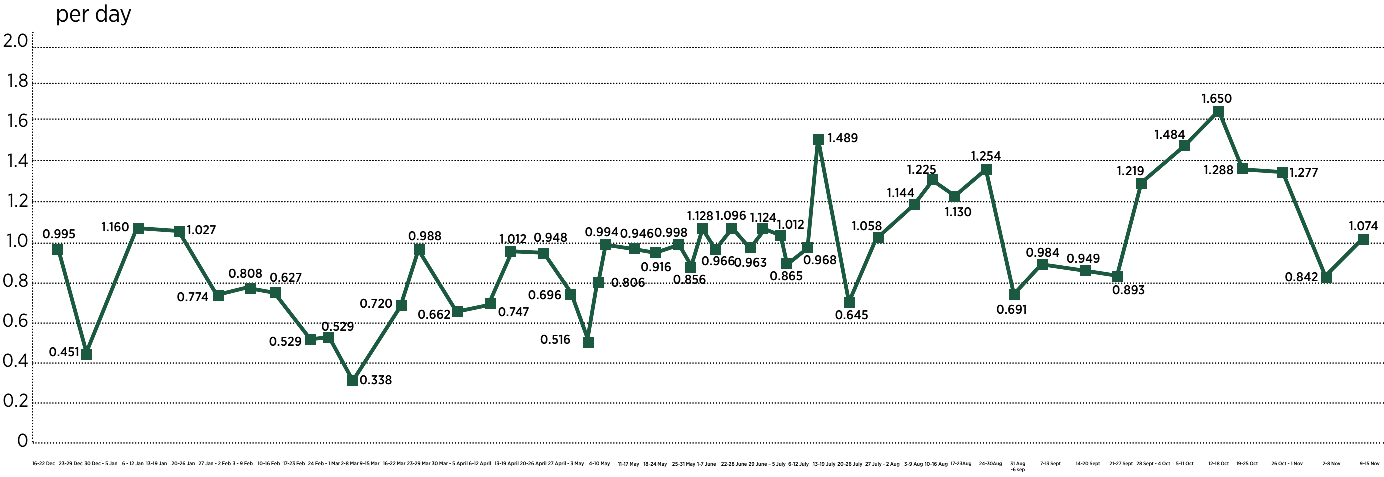
Total barrels



Source: Kpler

Total Refined Product Exports from the GCC to Asia-Pacific

Million barrels per day



Source: Kpler

GI Consultancy Intelligence Publishing

Dr. Sara Vakhshouri
President, SVB Energy International

CONTINUED FROM PAGE 1

GIQ: How has the election of US President Joe Biden impacted the Iranian crude market?

Dr. Sara Vakhshouri: Iran made the presumption that with the US seeking a rapprochement, it could start to increase its production and exports. Indeed, the figures show a gradual increase in the fourth quarter of last year. From October to November, exports increased about 90,000 b/d. This then increased to roughly 125,000 b/d in December, and an additional 125,000 b/d was added in January. So overall, Iranian oil exports jumped from approximately 490,000 b/d to roughly 800,000 b/d within three months. We do need to bear in mind that these were sold on the black market or what Iran calls the grey market. There have been no official sales - no country has formally imported oil from Iran.

GIQ: Was that the right assumption for Iran to make?

Dr. Sara Vakhshouri: In February, we saw a huge setback in Iranian oil exports, which dropped by 240,000 b/d. Some tankers that had taken Iranian oil were returning half full, indicating that sanctions were still firmly in place. If the rapprochement between Iran and the US is delayed, it will impact the psychology of the oil market just as it did in 2019. What's interesting is that despite the demand shock of last year, the market is now facing a supply contraction, both from OPEC plus and US producers, and that has triggered the upward trend in oil prices.

GIQ: What is the current appetite for foreign investment in the Iranian energy sector?

Dr. Sara Vakhshouri: Investors are very conservative towards Iran. Even if sanctions were lifted today, many would be hesitant, preferring to wait a few years for the geopolitics to settle down, with the expected swing in US policy from President Trump to President Biden. Instability and insecurity are not encouraging for long term investors – they will want to assess clearly

what the approach to Iran will be. Still, there is in general, strong interest by oil services and other companies for the US-Iran rapprochement to work and for sanctions to be removed.

GIQ: How will the relationships between Saudi Arabia, Russia and China impact US-Iranian negotiations?

Dr. Sara Vakhshouri: President Biden's administration may want to be more conservative towards the Saudi leadership, which now has a very close relationship with China and Russia.

GIQ: What is the outlook for the rapprochement with Iran over the next few months?

Dr. Sara Vakhshouri: Iran will probably take a more conservative approach to increasing their production and exports. Obviously, the recent events in the Gulf with Saudi Arabia have added new ingredients to the whole agenda. It's going to be much harder to negotiate with Iran without considering the country's missile program and support for certain groups in the Middle East.

WATCH FULL INTERVIEW HERE

ENERGY MARKETS VIEWS YOU CAN USE

Laury Haytayan
MENA Director, Natural Resource Governance Institute

Was OPECs decision to keep supply unchanged a surprise?
It was but there was also general agreement between all the producers, whose economies are under stress, to continue the cuts to keep prices supported. Even the Russians saw that US shale had not come back as expected with the higher prices. OPECs main objective is to keep prices high because they know they can't keep them there for long. The accepted consensus within the industry is now a range of $45-$65 so the level we're seeing today is an exception.

Where does the OPEC plus group go from here?
It is becoming much more difficult to predict. For example, about 30% of summer destinations are still closed due to lockdowns so I'm not sure how much people will be able to travel. Until everything is back to normal, and OPEC sees a clear and strong recovery in demand, they will be very hesitant to bring back these barrels.

Are the recent incidents in the Gulf part and parcel of the Iran-US rapprochement?
Part one was the moment that Biden took office and through to the Feb 21st deadline for the additional protocol implementation. That didn't work so we are now on part two, where Iran is working on its proxies in Saudi Arabia and Iraq as another way of pressuring the US to take action - either to partially or completely lift sanctions. This will go on until at least the Iranian elections in June. They want the Americans to make the first move.

Khatija Haque
Head of Research & Chief Economist, Emirates NBD

Does keeping oil output supply unchanged hinder or help GCC economies?
The delay in increasing production will drag on GDP growth in GCC countries this year. Even when and if they do start to generate extra oil revenue, it won't lead to a boost in spending and investment. Any oil windfall will be used to narrow budget deficits, which have been quite significant across the region since 2015. Countries have already been running down reserves to plug these budget gaps. Governments will use any temporary higher oil prices to reduce deficits and potentially build reserves again. Even at today's prices, the only GCC country looking at a balanced budget or small surplus is the UAE. Other producers like Saudi Arabia and Kuwait will have to find alternative sources of revenue to fix their structural deficits. That could mean higher taxes or other solutions which won't involve restricting spending growth once and if prices retreat. Oil won't stay at $70 for that long.

How deep are the concerns around inflation picking up?
Economy shutdowns in Q2 last year disrupted supply chains globally and lead to significant drops in the price of services. That's all going to be reversed now and we will see a very high base effect from stronger energy and commodity prices. Fiscal stimulus will also boost demand quite strongly over the next few months and with inventory supply chains not back on track in many parts of the world, inflationary pressures will build. But institutions like the Federal Reserve and other major central banks have indicated that this will only be transitory and probably last six to nine months as an adjustment based on where we've come from. Inflation won't be entrenched.

OPEC March Monthly Oil Market Report

Crude Oil Price Movements

Spot crude prices surged by more than 13% in February to their highest monthly average since January 2020. Oil prices were supported by ongoing improvements in oil market fundamentals and a futures market that remained bullish in anticipation of a recovery in demand amid restrained global oil supplies. Oil prices extended gains after severe winter weather triggered a supply disruption in the US. The OPEC Reference Basket (ORB) gained $6.67, or 12.3%, to average $61.05/b for the month. Similarly, crude oil futures prices increased sharply in February on both sides of the Atlantic, with the ICE Brent front month up $6.96, or 12.6%, to average $62.28/b while NYMEX WTI rose $6.96, or 13.4%, to average $59.06/b. Consequently, the Brent-WTI spread was unchanged in February, averaging $3.22/b. The forward curve of the three main futures prices – Brent, WTI and Dubai – steepened further last month as the market rebalancing process continued. Meanwhile, hedge funds and other money managers were bullish on the outlook for oil prices, further increasing combined futures and options net long positions linked to ICE Brent and NYMEX WTI to their highest point in more than a year.

World Economy

The contraction in the global economy in 2020 is reduced after the better-than-expected actual performance by key economies in 2H20. As a result, the global economy now shows a decline of 3.7%, y-o-y. For 2021, additional stimulus measures in the US and an accelerating recovery in Asian economies are expected to raise the global economic growth forecast to 5.1%. However, this forecast remains surrounded by uncertainties including but not limited to COVID-19 variants, the effectiveness of vaccines, sovereign debt levels in many regions, inflationary pressures, and central bank responses. After a contraction of 3.5% in 2020, US economic growth in 2021 is now expected to reach 4.8%. The forecast for the Euro-zone in 2021 is raised to 4.3%, following a contraction of 6.8% last year. Japan’s GDP in 2020 is officially reported at a contraction of 4.9%, while it is forecast at 3.1% for 2021. Following growth of 2.3% in 2020, China’s GDP is forecast to increase by 8% in 2021. Official data shows India’s economy contracted by 7.0% last year but the country’s growth in 2021 is expected to reach 9%. Government estimates show Brazil’s economy contracted by 4.1% in 2020 but the growth forecast for 2021 is expected to be at 3%. After contracting by 3.1% in 2020, Russia’s growth forecast for 2021 is expected to remain at 3%.

World Oil Demand

World oil demand in 2020 shows a contraction of 9.6 mb/d, to stand at 90.4 mb/d. OECD oil demand contracted by 5.6 mb/d, while non-OECD demand declined by 4 mb/d. For 2021, world oil demand is expected at 5.9 mb/d, to stand at 96.3 mb/d. Oil requirements in 1H21 are adjusted lower, mainly due to extended measures to control COVID-19 in many key parts of Europe. In addition, elevated unemployment rates in the US slowed the recovery process. In contrast, oil demand in 2H21 is adjusted higher, reflecting expectations for a stronger economic recovery with the positive impact of vaccination rollouts. In regional terms, OECD oil demand is expected to increase by 2.6 mb/d in 2021 to stand at 44.6 mb/d, while non-OECD demand is seen rising by 3.3 mb/d to average 51.6 mb/d.

World Oil Supply

Non-OPEC liquids production is estimated to average 62.9 mb/d in 2020, a contraction of 2.6 mb/d, y-o-y. Non-OPEC oil supply in 2020 declined in Canada, Colombia, Kazakhstan, Malaysia, the UK and Azerbaijan, but increased in Norway, Brazil, China, and Guyana. Non-OPEC liquids supply for 2021 is forecast to grow by almost 1 mb/d to average 63.8 mb/d. The US liquids supply forecast remains unchanged, with growth of 0.16 mb/d in 2021, although uncertainties persist. The main contributors to supply growth are expected to be Canada, the US, Norway, Brazil and Russia. OPEC NGLs are forecast to grow by 0.08 mb/d in 2021 to average 5.2 mb/d, following a decline by 0.13 mb/d last year. In February, OPEC crude oil production decreased by 0.65 mb/d, m-o-m, to average 24.85 mb/d, according to secondary sources.

Product Markets and Refining Operations

Refinery margins showed diverging trends in February. In the US Gulf Coast and Asia, a rise in planned maintenance, unplanned outages and a subsequent decline in refinery intakes led to bullish market sentiment and provided support for fuel markets. Europe showed negative performance as refining economics experienced slight losses. The negative impacts of higher feedstock prices and higher product output, given the extension of mobility restrictions in some countries, have completely overshadowed support provided by robust product exports.

Tanker Market

Dirty tanker rates picked up in February, as a more than 20% increase in both Suezmax and Aframax spot freight rates outpaced a 6% decline in VLCCs. Weather was a key factor in boosting rates with weather delays in the Turkish straits and around the Mediterranean, lifting rates West of Suez amid a pickup in chartering activity. Unusual freezing weather in the US which struck in the middle of February led to disruptions in US crude and product trade flows, providing further support for Aframax as well as Suezmax rates amid limited availability in the Atlantic basin. Rising bunker fuel prices also provided some momentum for higher rates.

Crude and Refined Products Trade

A plunge in temperatures disrupted trade flows of US crude and products in February. US crude imports fell back from the strong levels seen in January, and hence crude exports were down around 1 mb/d in the second half of February relative to the first half due to the freezing weather and power outages on the US Gulf Coast. Meanwhile, Japan’s crude imports were stable in January, averaging 2.6 mb/d. A jump in heating demand for kerosene and fuel oil led to higher product imports and reduced exports. China’s crude imports surged above 11 mb/d in the first two months of 2021, as independent refiners returned to the market armed with fresh quotas. Net product exports were sharply higher. In India, crude imports remained at healthy levels in January, although lower m-o-m and y-o-y, averaging 4.6 mb/d. Product imports and exports also fell back from the strong performance seen the month before.

Commercial Stock Movements

Preliminary data shows that total OECD commercial oil stocks fell by 11.3 mb, m-o-m, in January. At 3,052 mb, inventories were 138.7 mb higher than the same month a year ago and 92.2 mb above the latest five-year average, 125.7 mb above the (2015-2019) average. Within the components, crude stocks declined by 17.7 mb, m-o-m, while product stocks increased by 6.4 mb over the same period. OECD crude stocks stood at 46.3 mb above the latest five-year average, 61.3 mb above the (2015-2019) average while product stocks exhibited a surplus of 45.9 mb, 64.3 mb above the (2015-2019) average. In terms of days of forward cover, OECD commercial inventories declined by 1.1 days, m-o-m, in January to stand at 69.6 days. This is 0.2 days lower than the year-ago level and 5.5 days above the latest five-year average, 7.8 days above the (2015-2019) average.

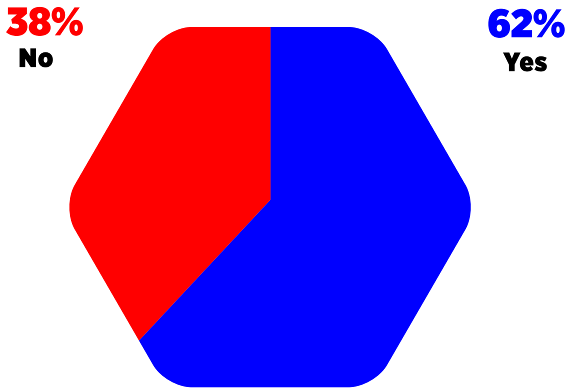
Balance of Supply and Demand

Demand for OPEC crude in 2020 is estimated at 22.4 mb/d, around 6.9 mb/d lower than in 2019. Demand for OPEC crude in 2021 is forecast to stand at 27.3 mb/d, around 4.9 mb/d higher than in 2020.

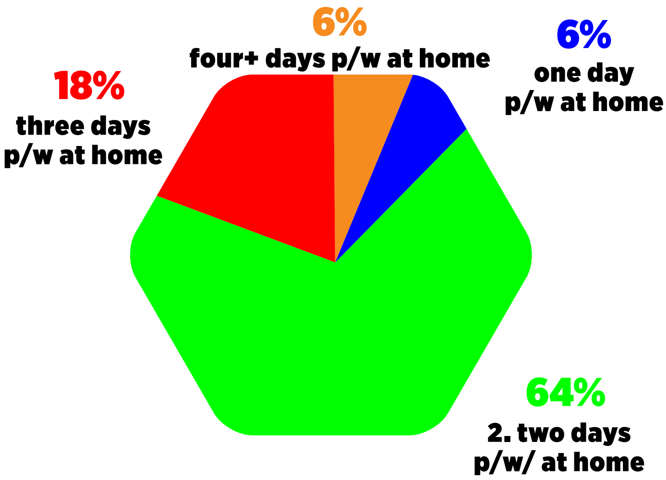
GIQ Weekly Surveys

What will be the average price of Brent crude oil in Q2?

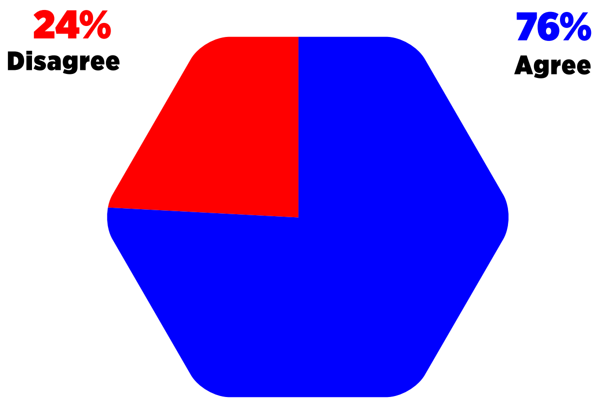
Do you expect a rise in Gulf regional tensions to get worse before it gets better and in doing so disrupt oil flow?



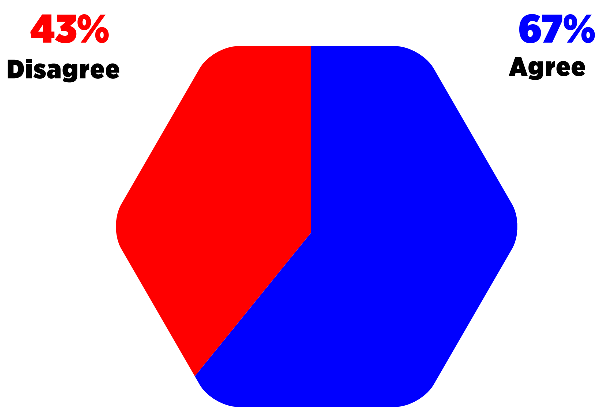
After a year of positive experience with working remotely, what should time split between home/office settle at in post-pandemic world?

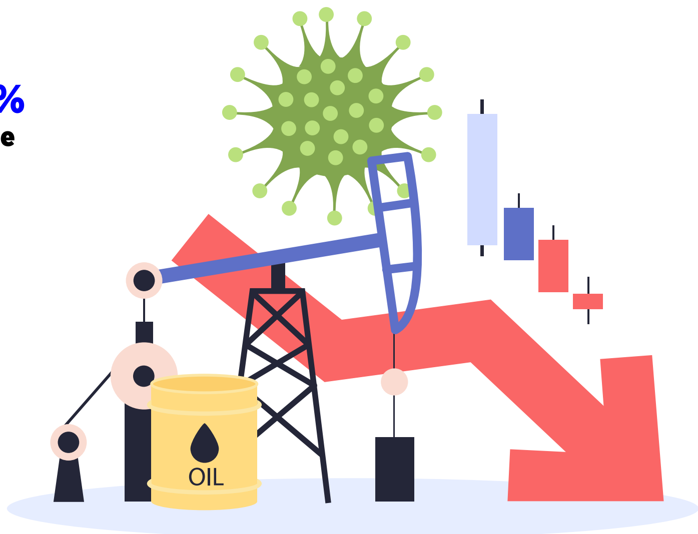


Oil prices are falling for the 3rd day in a row, and so vindication the OPEC+ decision to keep supply restrained in April.



Given the powerful signals from the US re-opening narrative, it suggests that the path of least resistance for oil prices in Q2 is higher?





Source: GIQ

S&P GLOBAL PLATTS OPENS FURTHER CONSULTATION ON BRENT BENCHMARKS TRANSITION

- **Plans to change existing core FOB Dated Brent benchmark and related assessments deferred**
- **Allow time for the fullest possible discussion of new, constructive suggestions**

London (March 10, 2021) - S&P Global Platts ("Platts"), the leading independent provider of information and benchmark prices for the commodities and energy markets, announced that it is opening a further consultation on the transition Dated Brent and its related components. This reflects extensive feedback following its announcement on 22 February that the basket would reflect WTI Midland and be amended to a CIF delivered Rotterdam basis from June 2022 loadings. Changes to the core Dated Brent benchmark and related assessments, including Cash BFOE, will be deferred. This means that Dated Brent and all related assessments, including Cash BFOE will remain unchanged on an FOB basis. Platts will focus on incorporating WTI Midland into its existing CIF Dated Brent assessment for deliveries from July 2022, as previously announced.

Vera Blei, Head of Oil Markets Price Reporting, S&P Global Platts, said: "Platts takes its stewardship of the Dated Brent benchmark and its on-going collaboration with the industry very seriously. Since changes to the complex were announced in February, we received extensive feedback from market participants in support of introducing WTI Midland into the basket but there is not agreement on how it would be fully reflected into the wider Brent complex. We have listened to this feedback and believe the best route forward is to defer changes to the core FOB Dated Brent complex and to keep Dated Brent and all related assessments, including Cash BFOE unchanged on an FOB basis. This allows the opportunity for a widespread consultation with market participants so that we act on constructive suggestions to safeguard the future of the benchmark."

S&P Global Platts

Platts will continue to focus on incorporating Midland WTI into its existing CIF Dated Brent assessment (PCAKM00) for deliveries from July 2022, as previously announced. This step will bring transparency to the pricing of the existing basket grades combined with WTI Midland crude on a delivered basis, which is the way WTI Midland typically trades when delivered to the market.

Platts will also continue with its plans to form an industry working group to consult on revised terms and conditions for voluntary use to reflect the inclusion of WTI Midland in the Brent complex. This will allow consideration of CIF terms and conditions, as well as any alternatives that will ensure continued connectivity between Dated Brent and Cash BFOE in light of the upcoming incorporation of Midland WTI into the complex.

These efforts are designed to result in core terms and conditions that Platts would reflect in its Brent complex of assessments. This will be subject to further public consultation ahead of being published as a final document.

READ FULL STORY HERE

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For over fifty years, we've helped drive the prosperity of our world, our nation, our partners and our customers. But this is just the start of our story. We are determined to constantly improve our products, optimize our costs, drive greater efficiencies and deliver more value. All while innovating to protect our environment and to empower the communities we serve. That's not simply our purpose, it's our promise to future generations.
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Abu Dhabi National Oil Company

Fujariah Weekly Oil Inventory Data

FOIZ
منطقة الفجيرة للصناعة البترولية
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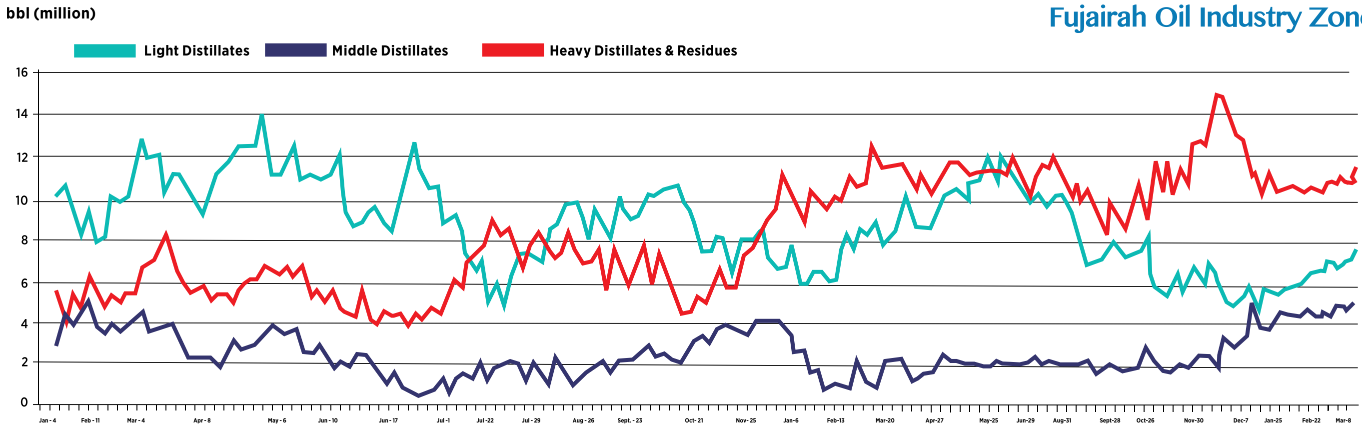


TOP TAKEAWAYS

- Total oil product stocks in Fujairah were reported at 17.966mn barrels. Total stocks fell by 2.872mn barrels, as they fell for the second consecutive week dropping to their lowest level since September 9, 2019 when they stood at 17,355mn barrels. Overall stocks fell 13.8% week-on-week. There were draws seen across all three stock categories with heavy residues posting the greatest week on week draw.
- Stocks of light distillates saw a fall of 523,000 barrels reflecting a fall of 7.3% week on week to stand at 6.620mn barrels. This is their lowest level since November 16 last year when they stood at 6,307mn barrels. The East of Suez gasoline market was finding support with US refinery runs continuing to hold well below normal levels. In addition there were increased flows of gasoline from Asia into the Arab Gulf region, with long Range tanker Hafnia Europe, heard to have been placed on subjects to load gasoline mid-March for a Sikka-to-Fujairah voyage, and MR tanker BW Lynx was heard to have been placed on subjects to carry gasoline mid-March for a Sikka-to-Sohar voyage.
- Stocks of middle distillates fell by 413,000 barrels dropping to 3.710mn barrels – down by 10% on the week, falling to their lowest level since August 17 last year when they stood at 3,389mn barrels. The gasoil market was under pressure with a contango structure developing as supply concerns continued to plague sentiment. Trade participants said the weakening values for the fuel is reflective of supply concerns — Chinese gasoil exports in particular, which are being eyed warily.
- Stocks of heavy residues fell by 1.936mn barrels dropping by 20.2% on the week to 7.636mn barrels, this is their lowest level since November 23 last year when they stood at 7,271mn barrels. In the port of Fujairah an uptick in activity in the bunker market was seen with falling flat prices stimulating demand, sources noted. "Yes, it's busy today. the drop in crude helps," said a bunker trader. "[The market] is busier as compared to yesterday ... the lower flat price, I think, helps," he added. Fujairah delivered marine 0.5%S bunker was heard offered at $516 - $519/mt on Mar. 9. Fujairah-delivered marine fuel 0.5%S bunker was assessed at $515/mt, $14/mt lower on the day. The price level on Mar. 9 in Fujairah reflects a $4.00/mt discount to Singapore delivered Marine Fuel 0.5% bunker prices which were assessed at $519/mt.

Source: S&P Global Platts

BY MATT STANLEY
SENIOR BROKER
STAR FUELS

Morning all. Brent is trading this morning at $68.39/bl up 0.49/bl. WTI is up 0.50/bl, at $64.95/bl. Today marks one year since the World Health Organisation declared Covid-19 a global pandemic. That is a sobering thought, and let's face it, not that many people have been sober over the past year. Terms that we use in our everyday life now would have sounded alien to us only twelve months ago. Herd immunity. Furlough. Social distancing. Zoom shirt. The thing is though that yes vaccines are being rolled out very well and hopefully this will continue, but our lives, and I mean everyone's, have changed over the last 12 months whether that be your spending habits or dealing with the fact that we really haven't been able to travel anywhere. How has it changed the oil market though? Well, this time last year, Brent was trading at $35.79/bl. We had just witnessed a 30% fall in Brent, the biggest since the Gulf War and Q1 was shaping up to be the worst performing quarter ever for the oil market. The catalyst for this? As we all know, the fallout between Russia and Saudi Arabia and the ensuing price war we embarked on for a month. Look where we are today though, 91% higher than a year ago. It really is quite extraordinary. Of course, this recovery is based on the fact that Trumpy got his best broking skills together and tweeted to the world that he was to be thanked for ensuring Russia and Saudi made up and OPEC+ cut 10mn bbls of production. Demand has made a recovery from its cataclysmic fall last year. It went down to about 75mn b/d and today global oil demand is around 94mn b/d. Ish. Ishhhhh. And this is where we are. 80% on the way to a full recovery or so, but it is this that is the issue. This final push to put us back on track where we were before this COVID (insert expletive) was with us. Can the market absorb more production? Or are we still in a fragile state? I'd argue no it can't and yes, we are. The market doesn't think so, but any rumors of production returning could have Brent back to $50/bl before you can say "Is that a vaccination passport?" Good day.

March 11, 2021

ICE Murban Futures: Launching March 29

The Middle East is a key crude supplier to Asia, exporting more than two thirds of its oil to the region. Sourced from ADNOC's onshore concessions, Murban crude is recognized for its production capacity of around 2 million barrels of high quality crude, representing more than half of the UAE total oil production.

ICE Murban futures will bring transparent pricing and a forward curve to participants, establishing a secondary market for the first time. Murban represents a new oil benchmark, with this light sweet crude well-positioned to serve a global market.

Traded on ICE Futures Abu Dhabi, the contract will complement ICE's global oil complex of over 600 products covering 47 distinct geographic locations. This provides participants with delivery at the point of consumption, capital efficiency, and inter-commodity spreads between ICE exchanges.

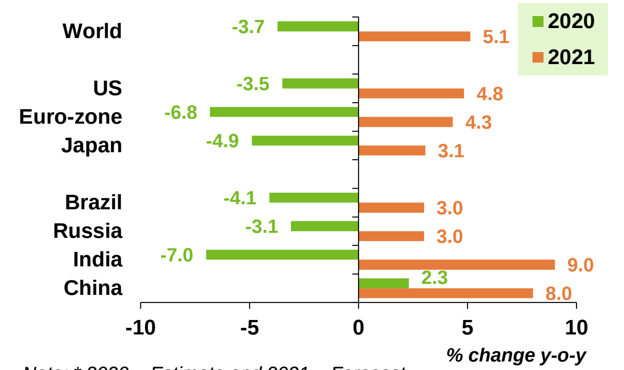
For an overview of ICE Futures Abu Dhabi, product details for Murban Crude Oil Futures, FAQs and other resources, visit: theice.com/murban

Feature Article

Assessment of the global economy

The year 2020 witnessed an extraordinary and unprecedented turn of events that have negatively impacted the global economy. While it seemed that global economic developments were improving at the beginning of 2020, the COVID-19 pandemic hit economic momentum relatively early in 1Q20, and the highly volatile growth trend continued throughout the remainder of the year. World economic growth is estimated to have declined by 3.7% in 2020. Considerable fiscal and monetary stimulus in many key regions have led to a recovery in 2H20, and expected to gain more traction in the current year. The recently approved $1.9 trillion fiscal stimulus bill in the US, which comes in addition to the already more than $3 trillion fiscal stimulus package in 2020, will further support US and global economic growth. In addition, the ongoing recovery in Asian economies will support the global recovery, forecast at 5.1% in 2021.

Graph 1: GDP growth forecast for 2020–2021



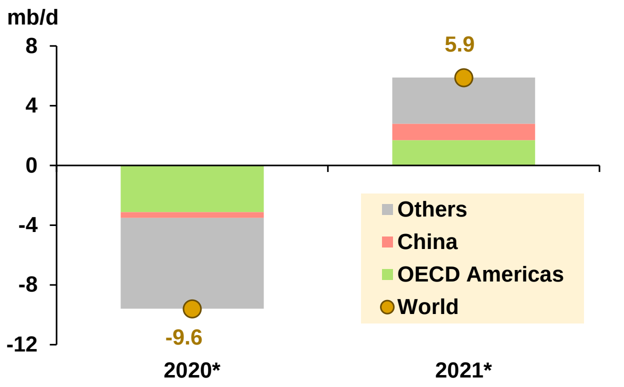
*Note: * 2020 = Estimate and 2021 = Forecast.*
Source: OPEC.

However, the current forecast will very much depend on the near-term path of the COVID-19 pandemic. The base assumption of this forecast is that by the beginning of 2H21, the pandemic will largely be contained with the majority of the population in western economies vaccinated, with COVID-19 not posing a major obstacle for emerging and developing economies. Nonetheless, numerous challenges remain, including COVID-19 spread and the effectiveness of vaccines against mutations. Moreover, sovereign debt in most economies has risen to levels at which raising interest rates could cause severe fiscal strain. While not imminent, a further rise in inflation, especially in the US and the Euro-zone, may cause some tightening of monetary policies, an area that needs monitoring in the short term. Additionally, trade-related disputes, especially between the US and China, may continue.

On a quarterly basis, 1Q21 growth will still be considerably affected by ongoing lockdown measures, voluntary social distancing and other pandemic-related developments. This may, to some extent, carry over into 2Q21. However, by the end of 1H21, economic activity is expected to accelerate as the impact of the pandemic is expected to taper off. The momentum is then expected to be supported by pent-up demand, especially in contact-intensive service sectors such as tourism and travel, leisure and hospitality. The seasonal aspect of warm weather in the Northern Hemisphere and the summer travel season will add more support. Forced household savings from lockdowns, combined with ongoing monetary and possibly additional fiscal stimulus, will add to the momentum of the rebound. The base assumption for this scenario is that by the end of 2H21, COVID-19 will largely be contained.

Evidently, the COVID-19 pandemic has negatively global economic growth and demand for energy, including oil. As the pandemic had a major impact on the oil market balance, OPEC, together with its non-OPEC partners in the Declaration of Cooperation (DoC) took historic action to help stabilize the oil market. This proactive stance turned out to be a very important element in supporting global economic growth, after an estimated drop in oil demand of 9.6 mb/d in 2020. Oil demand is forecast to recover in 2021, growing by 5.9 mb/d. However, this year's demand growth will not be able to compensate for the major shortfall from 2020, as mobility is forecast to remain impaired throughout 2021. Thus, oil-intensive sectors, especially travel and transportation, will remain disproportionately affected, with a larger negative impact on 2020 oil demand and a lower positive contribution to 2021 oil demand, relative to global economic growth.

Graph 2: World oil demand growth in 2020-2021



*Note: * 2020 = Estimate and 2021 = Forecast. Source: OPEC.*

Similarly, non-OPEC supply is expected to have declined by 2.6 mb/d in 2020, while growth of 0.95 mb/d is anticipated for 2021. However, as the impacts of COVID-19-related developments remain uncertain, continued responsible global policy action from all market participants, including the efforts undertaken by OPEC and the participating non-OPEC producers of the DoC, will continue to be crucial over the coming months to return markets to more stable conditions.

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FLASH BACK - MARCH 11, 2020

"In the days and weeks ahead, we expect to see the number of cases, the number of deaths, and the number of affected countries climb even higher...We have therefore made the assessment that Covid-19 can be characterized as a pandemic."

– Tedros Ghebreyes,
Secretary General,
World Health Organization
(March 11th, 2020)

Consultancy Intelligence Publishing

GIQ EXCLUSIVE SOUNDINGS

Oil Prices Rise on Economic Outlook and Restrained Supply

Over the last week, Gulf Intelligence has held high-level interviews with energy experts in the Middle East, Asia, Europe, and the US. This intel is harvested from the exclusive briefings.

- Tony Quinn, Operating Partner, Prostar Capital; CEO Tankbank International
- Rustin Edwards, Head, Fuel Oil Procurement, Euronav NV
- Homayoun Falakshahi, Senior Commodity Analyst, KPLER
- James McCallum, Executive Chairman, Xergy; Professor of Energy, Strathclyde University
- Victor Yang, Senior Editor, JLC Network Technology
- Khatija Haque, Head of Research & Chief Economist, Emirates NBD
- Peter McGuire, CEO, XM Australia
- Dr. Carole Nakhle, CEO, Crystol Energy
- Andrei Belyi, Professor, Founder & CEO Balesene OÜ

Tony Quinn, Operating Partner, Prostar Capital; CEO Tankbank International
"Demand is growing. The whole of Southeast Asia needs oil. We're still the only growing area in the world."

Rustin Edwards, Head, Fuel Oil Procurement, Euronav NV
"The problem with this rapid increase in the front month curve, is it is pushing into this large backwardation structure. Refining margins on the back-end have not been keeping up. We've got distillate cracks getting hammered across the world."

Homayoun Falakshahi, Senior Commodity Analyst, KPLER
"Demand hasn't really picked up globally as much as OPEC+ thought at the beginning of the year that it would do. Looking at global onshore oil inventories, we have only lost about 15mn-20mn bbls globally since the beginning of the year."

James McCallum, Executive Chairman, Xergy; Professor of Energy, Strathclyde University
"The fact of the matter is that we're getting back to pretty much where we were before the OPEC meeting. There were 1mn bbls off the market. There are still 1mn bbls off the market. The price is softening."

Victor Yang, Senior Editor, JLC Network Technology
"Iranian crude is sold below market prices to some countries. So that's not fair competition. But once the United States lifts the sanctions on Iran, prices might go up. You may not actually buy more crude from Iran."

Peter McGuire, CEO, XM Australia
"From a producer's standpoint, if prices stay at these levels then there's going to be very strong global demand. However, the consumption side of things coming back is going to be fairly tough."

Dr. Carole Nakhle, CEO, Crystol Energy
"By now, OPEC should have no more than 5mn b/d in terms of cuts to be relaxed until April 2022. Today, they have more than 3mn b/d in addition to that, that they are going to roll over for several months to come. The picture has changed, at some point they will have to relax it."

Andrei Belyi, Professor, Founder & CEO Balesene OÜ
"Some independent smaller Russian producers suffered from the cut. At some point, Russia might propose to soften down the quotas. However, the OPEC+ agreement remains a priority."

ENERGY MARKETS FORUM NEW SILK ROAD LIVE

GI Consultancy Intelligence Publishing

TOP 10

MARCH 6th - MARCH 11th

MARKET OBSERVATIONS FOR THE WEEK

1. TOPEC+'s decision will accelerate the decline of global oil inventories through Q2 and embed a backwardation structure in the market.

2. OPEC+'s decision is likely to elevate concerns about inflation and feed greater volatility in the financial markets.

3. OPEC+'s decision is likely to increase the average price range for Brent crude in Q2 from the $60s/bl to the $70s/bl.

4. Market technicals point to next line of resistance on WTI could be above $76/bl.

5. Gulf regional tensions could get worse before they get better, and in doing so may disrupt oil flow as we saw in 2019.

6. Iran is unlikely to show any willingness to compromise in rapprochement with the US until after the Iranian presidential elections in June – expect more tension.

7. OPEC+ is moving away from counting oil inventories to counting vaccinations before deciding on the next oil supply increase.

8. Before the pandemic, roughly 8% with office jobs worked primarily from home, this is set to soar in a post-pandemic world.

9. Gulf Arab economies are unlikely to get a bump this year from higher oil prices as regional government focus extra revenue on closing fiscal deficits.

10. China set modest GDP growth for 2021 at 6% in order to remove pressure on local leaders to chase low-quality manufacturing growth, and focus more on high-value growth.

ENERGY MARKETS VIEWS YOU CAN USE

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

Was the OPEC decision to keep supply unchanged a surprise?

It was - OPEC has been saying it wants to balance the market and although that objective had been reached, they did not increase production. The official explanation is that they're erring on the side of caution, but they are also setting the system up for more volatility - the market is now looking towards a supply increase at some point. On the other hand, the decision gives OPEC full control, as commercial inventories will continue to be driven down while they hold all the spare capacity.

At what point does US shale production start to increase?

These prices will call for a reaction from shale – there are already signals of that from all the hedging going on. Some of the larger companies have indicated they may not rush to bring shale back too quickly, but shale is by no means dead. Rather, it has changed, with the big boys replacing the mom-and-pop shops. That may remove the old spontaneity in the industry, but it will not hold back forever.

What's the impact of rising prices on the global economic recovery?

$70/bl oil is bad for economic development. However, it is not countries in Southeast Asia or even India that will drive global economic growth. That will be determined by the EU, the US and China, for whom these price levels are not a serious stumbling block as oil's role in their economies has diminished. Secondly, the US, now an exporter, on balance benefits from higher oil prices. Higher oil and commodity prices also fuel inflation, and we are today facing the risk of a demand onslaught hitting the US economy on the back of the massive stimulus. We've already seen the markets starting to react, shorting US Treasuries which has pushed yields up. The US Federal Reserve Chairman Powell last week, failed in his attempt to reassure markets against inflationary dangers.

Mike Muller
Head, Vitol Asia

Demand for more oil from OPEC+?

The demand growth is clearly there. Yet, because of the sideways movements in the market, where we saw flat prices pretty much go sideways in January in response to very disappointing demand numbers coming through in early Q1, that seems to have given the key members of OPEC+ sufficient pause for thought and concern. I think the takeaway was, "until we see it, we're not sure we can act to put extra oil in the market that everyone is saying is required". In the tug of war between vaccine and virus, the vaccine should be winning, but there are still hots spots like in Brazil and Italy.

What's next for Global Oil Inventories?

The OPEC+ decision will now certainly trigger a faster acceleration in the decline of inventories, and all the features that come with it such as backwardation and a perceived strong front-end of the market. However, the very front of the market is still not motoring quite as much as we expected out here in Asia, because the much-awaited demand surge from China is not yet an all-out surge. So, people are still seeing pause for thought. But I must remind everybody Chinese demand is up. It is the only country that grew materially in 2020, and China demand will definitely be more this year than last year.

Could Shale Oil Return to take Market Share from OPEC+?

The message from the oil majors is in many ways a shrinking exploration for oil as part of an overall company strategy. No new projects, and in the price sensitive Permian basin, which people often refer to as a "manufacturing basin" rather than an oil price dependent basin, there has been a shift into the hands of oil majors who have historically not hedged, and do not therefore adopt the same spontaneous approach as other operators there. If you look at the rig counts, it is still nowhere close to supporting the US returning to anywhere like the 13mn b/d achieved in 2019.

Fujairah Spotlight

Oil Products Stocks Tumble to 18-Month low on Widespread Demand Rebound

Oil products stockpiles at the UAE's Port of Fujairah slumped to an 18-month low, with fuel oil recording the biggest plunge in more than two years on signs of recovering demand from the pandemic. "Stock levels everywhere have drawn down as oil markets have shifted from contango at the height of the pandemic into backwardation on the back of demand recovery and OPEC+ supply cuts," said Alex Yap, a senior analyst at S&P Global Platts Analytics in Singapore. A backwarded market structure implies higher current prices for an asset than the contracts maturing in later months in the futures market. Oil markets have been shifting from contango to backwardation since about the fourth quarter of 2020.

Source: S&P Global Platts

Fujairah Shut 23 outlets for Covid-19 Violations in 2020

The Fujairah Municipality shut down 23 outlets, including eateries and health centres, last year for flouting measures put in place to check the spread of Covid-19 pandemic. Mohamed Saif Al Afkham, director-general of Fujairah Municipality, said they have also issued 1,457 violation tickets and warning letters to some other shops. "These shops were found to be preserving and displaying food in improper condition, and blatantly breaching the anti-Covid measures and health protocols." Staff inspectors inspected up to 35,749 food and health entities across the emirate of Fujairah last year, he revealed. Records show that the civic body also issued 5,354 health cards over the same period to make sure that the staffers "who are handling food" are free from any contagious disease.

Source: Khaleej Times

FUJCON 2021 Virtual to Discuss Impact of Covid-19 on Crude Oil and Bunker Market

FUJCON is held biennially under the auspices of the Government of Fujairah & the Port of Fujairah and FOIZ, under the patronage of H.H. Sheikh Hamad bin Mohammed Al Sharqi, Supreme Council Member and Ruler of Fujairah. Under the theme "Fuelling the Future: Solutions & Challenges", speakers will examine both key post COVID-19 and IMO 2020 scenarios, addressing commercial and technical aspects of the outlook for oil and bunker markets, prices and demand uncertainty, spreads between VLSFO, HSFO and MGO, blending practices and the increasing market share for LSFO, bunker fuel procurement patterns and the future fuels landscape with the role of LPG, LNG, Methanol and Hydrogen. The status of scrubbers, ship efficiency indices under GHG, shifting crude slates and refined product demand post COVID-19 and the large scale adoption and technical challenges of digital technologies will also be addressed in eight (8) distinct panels from March 23-24 Through presentations and roundtable discussions, over the two-day event, 45 visionaries, key decision makers, thought leaders and marine experts will be sharing their views, analysis and insights on the global bunker and fuel oil market developments, and challenges to be tackled by the fuel oil and maritime industry in paving the road to recovery post the global pandemic

Source: Emirates News Agency

Fujairah to have its First 'Sustainable' Residential Community

Future residents of Naseem Al Bahar – being built by Rawasi Real Estate – will have villas where owners can have water and power savings of up to 50 per cent. This will be solar panels and heat-resistant panels as well as ample LED lighting. The rooftops consist of a combo system that doesn't absorb heat, thus "saving on HVAC requirements in the buildings". The community is located in the upscale neighborhood of Al Faseel, set near to mountains and springs. The homes are within a two-minute walking distance from Umbrella Beach. Dubai and Sharjah have their own residential communities with emphasis on sustainable features.

Source: Gulf News

ENERGY MARKETS VIEWS YOU CAN USE

Amena Bakr
Deputy Bureau Chief, Energy Intelligence

What's been the main impetus to propel Brent to $70 a barrel this week?
Brent has broken through $70/bl on the back of OPEC's decision last week to keep production unchanged and also due to heightened geopolitical tension in the region. The move by OPEC was a surprise - their own internal report had indicated a tight market which would need 1.4 million bd in April, another 500,000 bd in May and 400,000 bd in June - so, the expectation was that there would be some form of supply easing.

Is the new strategy now a case of Saudi leading and other members following?
Saudi Arabia is taking back control and perhaps the price of that is extending that one million bd voluntary cut for another month. In this instance, the other group members probably had prior communication with Saudi and it appears they all agreed to a strategy of being cautious and not flooding the market. Kazakhstan and Russia were again exempted and allowed to increase their production while the remainder rolled over their cuts.

Is there any insight on how long Saudi will hold onto their voluntary cut?
They have said it will not be released all at once or within one month. The Saudis are looking for more evidence on the fundamentals that are supporting these higher prices. They're worried about putting back supply into the market and triggering a price drop that they won't be able to control. They would rather overcorrect than under correct but overcorrecting also carries the risk of overheating this market. They will continue to make any necessary adjustments through their strategy of managing the market month to month.

Omar Najia
Global Head, Derivatives, BB Energy

Where is the next level of resistance for oil markets?
Technicals are bullish and market momentum is to the upside. The next resistance on WTI will be around $76/bl, having broken through the previous level of $65/bl. In the meantime, the market needs to correct a little bit and when it does, the corrections will be bought and it will push higher. We might be about halfway there today.

How much are geopolitical tensions in the Gulf impacting market expectations?
As far as the US and Iran relationship goes, the US has to go back into the nuclear deal with no preconditions and live up to their commitments. Only then will Iran comply with the letter of the agreement, which is what they have been doing. If the US insists on its current approach, then we are heading for more tension.

Do these higher prices encourage or discourage investment in green energy?
The argument for or against investment in green energy in Europe and the US has gone beyond where oil prices are at. That investment is happening no matter what. It has become dogma: Invest in green - Green is the future - Oil is dead. Everyone understands that, including OPEC, which is why they will be incentivized to always maximise oil revenues as much as possible.

ENERGY MARKETS COMMENTARY WEEK IN REVIEW

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