

Fujairah

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New Silk Road

WEEKLY NEWSLETTER

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

IMO 2020 Rollercoaster Gains Speed

Exclusive Interview

Chris Wood, Managing Director
Uniper Energy DMCC

How has IMO 2020 fared since implementation on January 1st?

It's been a rollercoaster ride with market demand and prices. January started with very strong demand for very low sulfur fuel oil (VLSFO), driving margins to levels never predicted. And then on February 19th, we started to see knock on effects from the coronavirus. This started having a major impact on the global economy, including the shipping industry. It took a lot of heat out of January's implementation frenzy, in terms of LSFO demand, resulting in the pricing easing back to predicted levels. Essentially, China's economy hasn't returned to normal since their Chinese New Year (from mid-January).

What's next?

Firstly, our thoughts are with all those affected by the coronavirus and the health and safety of our staff and their families. We hope for a speedy containment of the coronavirus. Being the world's largest oil importer and second largest economy, China's dented momentum is impossible to ignore. Hopefully we'll see the virus quickly contained and people can get back to work, leading to increased demand – another potential loop in the rollercoaster. Oil markets have priced geopolitical influences into business models. But a potentially global virus is different. IMO 2020 can recover its high, but when is the bigger question.

“BEING THE WORLD'S LARGEST OIL IMPORTER AND SECOND LARGEST ECONOMY, CHINA'S DENTED MOMENTUM IS IMPOSSIBLE TO IGNORE.”



Fujairah Average Oil Tank Storage Leasing Rates*

BLACK OIL PRODUCTS

**Average Range
\$3.59 - \$4.16/m³**



↑ Highest: \$4.50/m³

↓ Lowest: \$3.30/m³

*Time period: Weekly

Source: GI Research

Fujairah Weekly Oil Inventory Data

7,343,000 bbl

Light Distillates



2,659,000 bbl

Middle Distillates



12,954,000 bbl

Heavy Distillates & Residues



Source: FEDCom & S&P Global Platts

Insights brought to you by:



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THE WEEK In Numbers

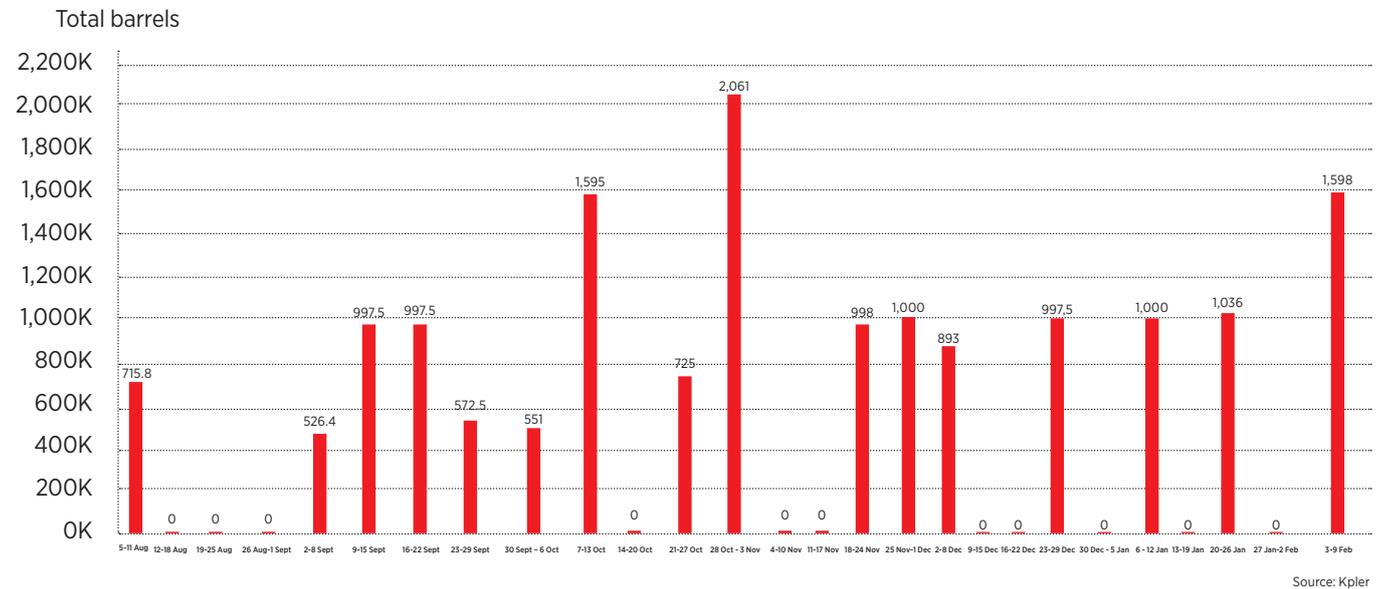


Weekly Average Oil Prices

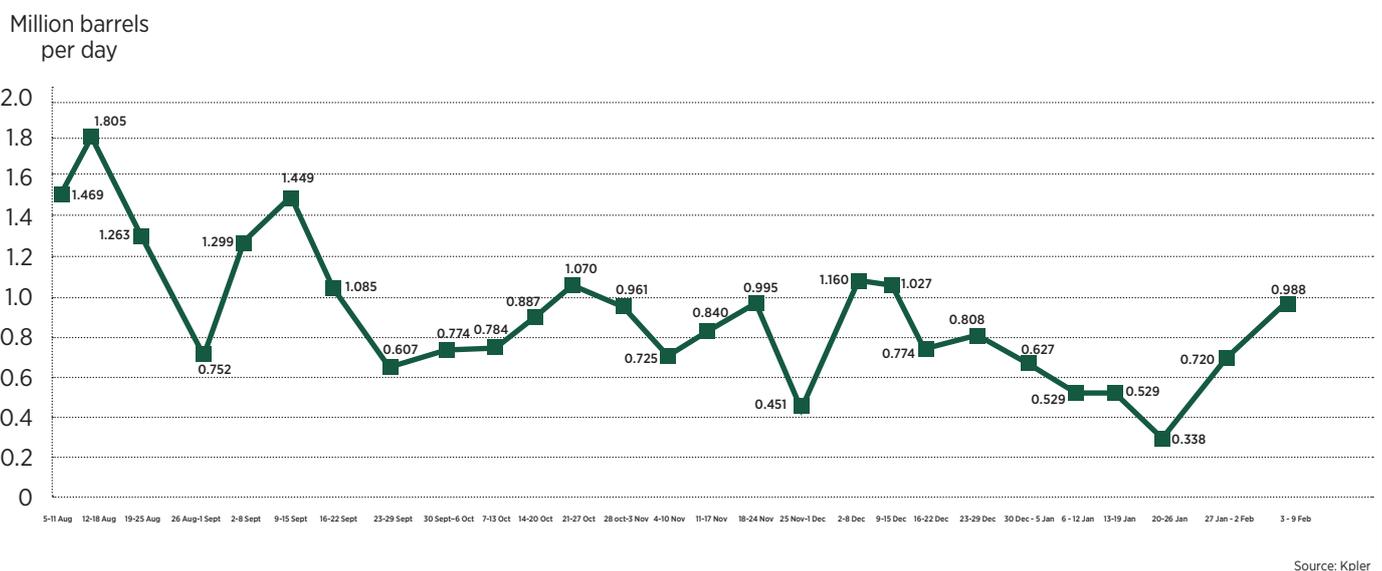
Brent Crude: \$57.27/bbl
WTI Crude: \$52.34/bbl
DME Oman: \$56.66/bbl
Dubai: \$55.83/bbl

Time Period: Week 3, February 2020
 Source: IEA, OilPrice.com, GI Research

Weekly Imports of Heavy Sweet Crude into Fujairah



Total Refined Product Exports from the GCC to Asia-Pacific



GIQ EXCLUSIVE



IMO 2020 SIX WEEKS IN Scrubbers Move Center Stage...

On January 1st, the International Maritime Organization (IMO) implemented a sulfur limit of 0.5% for fuel used in ships, down from 3.5%. But there was a loophole. Those equipped with exhaust scrubbers would be exempt. Great skepticism pervaded 2019 as to whether scrubber investments were justified, versus LSFO or even LNG bunkering. Would ship owners earn back their capital expenditure on installing scrubbers from fuel bill savings? Are scrubbers a long-term solution versus compliant fuel?

With IMO 2020 well underway, answers are fast emerging.

OUR TOP 3 TAKEAWAYS



1 SCRUBBERS WIN OVER FUELS...FOR NOW.

Global VLSFO-HSFO spreads are currently \$200/mt-\$300/mt, while it could now be less than one year to payback scrubber investments.

2 SECURITY OF HSFO SUPPLY?

Shipping companies using scrubbers need to know that they can secure HSFO in the long-term at multiple ports for the right price. But as the marine fuel market's greening gets underway – from refineries to shippers – access to HSFO will likely become more limited. Shippers need a safety net to avoid soaring costs.

3 TIME OUT ON OPEN-LOOP SCRUBBERS?

Closed-loop scrubbers are considered the most environmentally viable scrubber. But open-loop scrubbers, where the wash water is discharged into the ocean, are not. The IMO's Pollution Prevention and Response Subcommittee are meeting this week (17-21 February) to debate the impact of scrubbers' wash water. Steps to limit open-loop scrubbers are already underway. Malaysia prohibited their use in its waters from last November, for example. More will likely follow suit. Ships' safest route is to switch to closed-loop scrubbers or LSFO in the early 2020s.

Sources: IMO, Ship&Bunker, Morningstar, Marine Bunker Exchange, Reuters

\$2.5mn

This is the estimated cost for a scrubber installation on a very large crude carrier (VLCC) with a capacity of 2mn barrels.

2,753 vessels fitted

Scrubber penetration is increasing worldwide. China's Cosco Shipping is the biggest backer of such technology, with 113 vessels fitted.

1 year

Due to current VLSFO-HSFO spreads, the projected payout period for scrubber investments on ships has dramatically decreased from approximately three years in 2019 to less than one year in 2020.

2024

Saudi Aramco, the world's biggest energy company, wants to eliminate fuel oil production at its refineries by 2024 as environmental regulations shift marine demand to cleaner fuels.

\$14.6mn

This is the saving that DHT reported in its Q4 2019 operations after using HSO for its vessels fitted with scrubbers for 15 bunkerings compared to if it had bunkered compliant fuel.

80+

The number of ports worldwide that have banned open-loop scrubbers. The wash water from such scrubbers is discharged at sea.

Sources: Clean Marine, S&P Global Platts, Morningstar, Lloyd's List Intelligence, LoadStar, DHT

DO YOU HAVE A SCRUBBER? WATCH THIS SPACE!

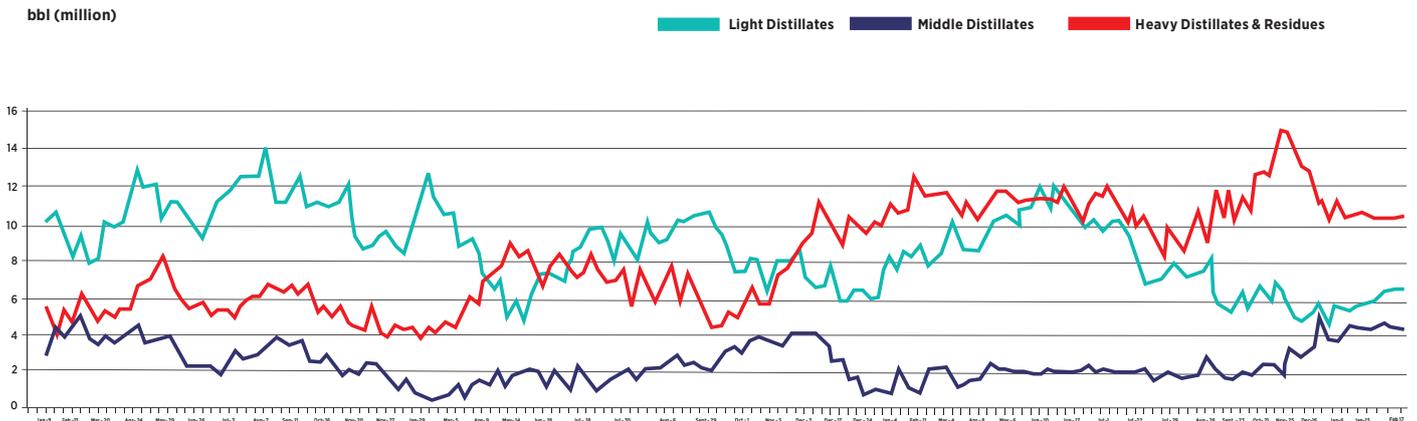
“We want to stop selling fuel oil for power generation.”

Patrick Pouyanne, CEO, Total, February 6th, 2020



Total aims to reduce the carbon intensity of its products by 15% by 2030 from their 2015 levels by reducing sales of carbon-intensive products and boosting sales of cleaner fuels, plus renewable power. Energy giants may all follow suit as they look to support governments' adherence to the Paris Agreement.

Fujairah Weekly Oil Inventory Data



TOP 10 TAKEAWAYS Monday, February 17

- Total oil product stocks in Fujairah stood at 22.956mn barrels – above the 2019 average of 21.655mn barrels for the third consecutive week. Stocks rose marginally by 152,000 barrels week-on-week. Draws in light and middle distillates offset by a build in heavy residues.
- Stocks of light distillates fell by 632,000 barrels (-7.9%)

week-on-week to 7.343mn. East of Suez gasoline market saw declining values as increasing regional spot supply, sources said. In China, outflows seen returning. The FOB Singapore 92 RON gasoline physical crack against front-month ICE Brent crude futures slumped to \$6.34/bbl on Tuesday – a \$2.96/bbl fall week-on-week.

- Stocks of middle distillates fell by 290,000 barrels (-9.8%) to 2.659mn. Gasoil

East of Suez found support from ongoing refinery turnarounds in the Arab Gulf. A spot buy tender from India's HPCL could lend further support.

- Stocks of heavy distillates rose by 1.074mn barrels (+9%) on the week to 12.954mn. The bunker market in Fujairah saw a decline in flat price values for both IMO 2020 compliant fuel and HSFO, due to declining crude prices, sources noted.

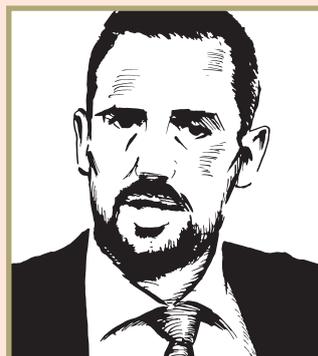
- Prices in Fujairah for delivered bunkers of marine fuel 0.5% and HSFO were assessed lower than Singapore on Tuesday as demand impacted by the coronavirus. Marine fuel 0.5% delivered bunkers were assessed in Fujairah at \$495/mt on Tuesday – a \$5/mt discount to Singapore. At \$305/mt, HSFO delivered bunkers had a \$2.50/mt discount to Singapore on Tuesday.

Source: S&P Global Platts

“As the virus spreads, will OPEC+ actually meet?”

Henry David Thoreau once said: “Not until we are lost, do we begin to understand ourselves.” This market has lost its way. I suppose it was a little late, but the market is waking up to headlines that read: “Oil prices fall as market weighs coronavirus demand impact.” I mean, really? Did the market need a headline to say: “Listen, this bug is pretty serious, and China is on lock

down, so don't expect demand to be great, OK?” Thanks Sherlock. The mitigating factor for the bulls lies in OPEC+ – and what they do with any more potential supply cuts. Brent has a lot further to collapse before we see any actual decisions being made, or indeed for there to be an actual meeting. Keeping a ceiling on the market really collapsing is sadly the inevitable news that most of Libya's



BY MATT STANLEY
SENIOR BROKER
STAR FUELS

supply is disrupted again, with production only a tenth of capacity. But as I have always said, rely on production from such

countries at your peril. Analysts said the second quarter looks optimistic for oil prices. And yes, while stimulus measures have been put in place fairly quickly by China at least, the markets have still not seen the impact of what the outbreak has done for demand in this quarter. I imagine we will see some grim data coming out of both the US in terms of EIA stockpiles and China import figures over the coming weeks before things really look any better. Good day.

February 19, 2020

ENERGY NEWS Highlights



IMO 2020 UPDATE

Fuel Oil Price Spread

Bunker Market	HSFO	LSFO (<0.5%)
Singapore	\$368/mt	\$512/mt
Fujairah	\$312/mt	\$512/mt
Rotterdam	\$299/mt	\$469/mt

February 19, 2020



Sources: Ship & Bunker, GIC

Saudi exports drop 11%

Saudi oil exports, including crude oil and petroleum products, averaged 8.339mn b/d in 2019, down from an average 9.344mn b/d in 2018.

Source: JODI

Aramco Trading locks in long-term deal for Kuwaiti oil supply

Aramco Trading Company (ATC) has sealed a deal to secure long-term crude oil supplies from state-run Kuwait Petroleum Corporation (KPC) that can be processed at refineries owned by Saudi Aramco in Asia. The deal allows ATC to widen its supply sources globally beyond Saudi Arabia to secure feedstock for Saudi Aramco's expanding refining and petrochemical base in Asia after a drone attack in September 2019 crippled its oil production facilities and forced domestic refineries to cut output.

Source: Reuters

CORONA VIRUS UPDATE

Oil prices inch higher

Brent crude gained for a seventh consecutive day this week after a slowing of new coronavirus cases in China eased demand worries. Plus, supply was curtailed by a US move to cut more Venezuelan crude from the market. Brent crude was up 73 cents (+1.2%) to \$58.48/bl, while WTI crude gained 70 cents (+1.3%) to \$52.75/bl on Wednesday, February 19th.

Source: CNBC

Oman & Bahrain: Vulnerable economies

Oman and Bahrain are vulnerable to a potential rating downgrade if the coronavirus outbreak, and the impact on the global economy, lasts longer than expected. Both have high fiscal breakeven oil prices. Brent and US crudes are down by more than 10% since the beginning of the year.

Source: S&P Global Platts



Middle East-India: Exports fall 5%

The share of oil imports from the Middle East in India's total crude imports fell by 5% in 2019 year-on-year - the highest decline since 2015.

Source: Arabian Business



China rethinks tariffs on US oil and LNG

China has opened applications for tariff exemptions on several US products, including crude oil and LNG. Tariffs were blamed for the slump in US oil and LNG exports to China, one of the world's biggest importers. They also affected US LNG companies' plans for new export capacity.

Source: OilPrice.com

