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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

"FUJAIRAH CRUDE OIL STORAGE TO BE FULL WITHIN A WEEK..."

Chris Bake, Member of Executive Committee, Vitol

Globally all incremental crude oil storage is basically already full. So any storage that wasn't under contract 3 or 4 weeks ago, is now currently under contract, and is not necessarily full yet, but is filling up.

The availability of free-market incremental crude oil storage in fujairah is limited. We will see all available storage full, if it is not already full, in the next week to 10 days.

The demand floor is still evolving and has some way to run. China is 6-8 weeks ahead of the rest of the world in oil demand recovery. However, over the past week we have seen significant decisions being made on incremental demand loss, not only the tightening up of quarantine moves in the US, but also quite a lot of activity in Africa. In particular, India shut down on Friday, March 27, which has caused a backlog for product and crude oil demand.

Demand destruction for April 2020 can easily be down 20mn b/d – 30mn b/d. It's very difficult to extrapolate on an annual basis because the demand erosion has happened so fast. It started in the jet fuel market when 50-70% of global demand evaporated. It has now moved into gasoline demand, which is down approximately 50% in terms of draws across the rack over the past few days. Last weekend, US demand for gasoline was down 40%. As the shutdown continues, we will extrapolate further. It is very fast moving and totally un-quantifiable in terms of previous experiences to see this kind of demand loss.

**edited transcript*

CONTINUED ON PAGE 3

Fujairah Weekly Oil Inventory Data

6,107,000 bbl	2,304,000 bbl	14,486,000 bbl
Light Distillates	Middle Distillates	Heavy Distillates & Residues

Source: FEDCom & S&P Global Platts

Fujairah Average Oil Tank Storage Leasing Rates*

BLACK OIL PRODUCTS

Average Range
$3.54 – $4.38/m³

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

*Time period: Weekly

Source: GI Research

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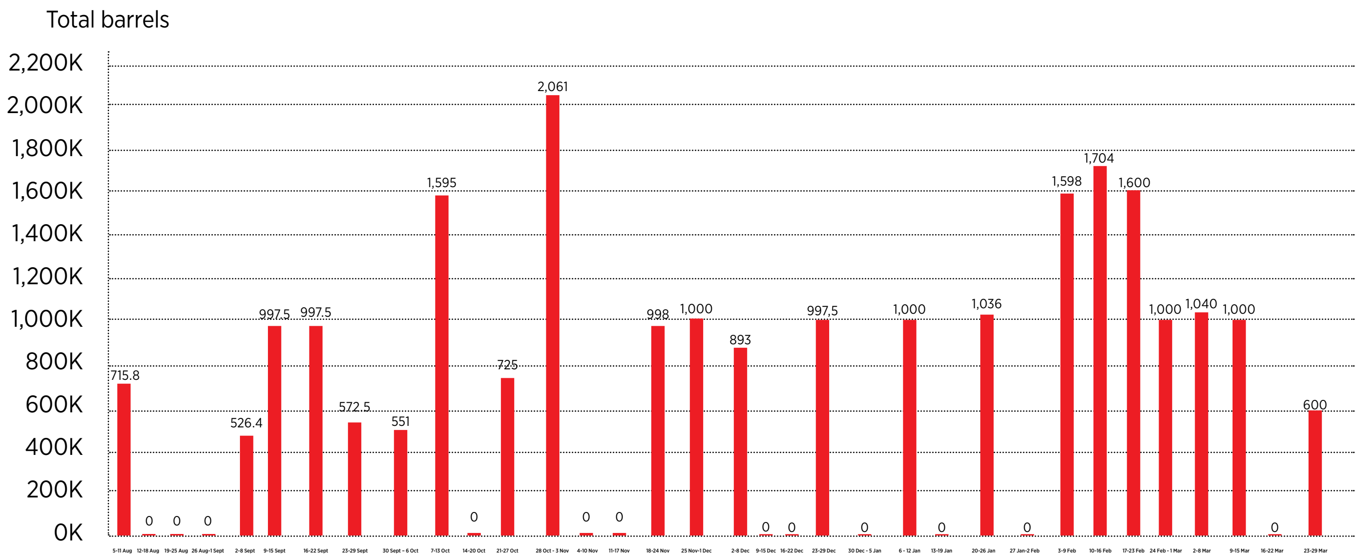
THE WEEK In Numbers

Weekly Average Oil Prices

Brent Crude:	**$26.87/bbl**
WTI Crude:	**$21.20/bbl**
DME Oman:	**$26.12/bbl**
Dubai:	**$26.77/bbl**

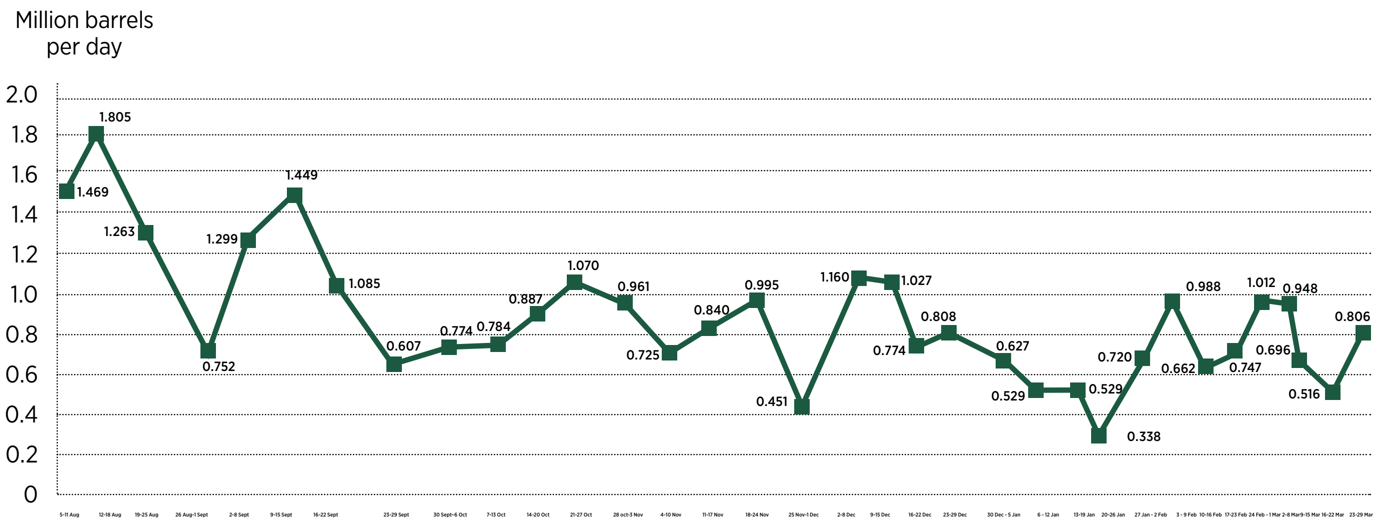
Time Period: Week 4, March 2020
Source: IEA, OilPrice.com, GI Research

Weekly Imports of Heavy Sweet Crude into Fujairah



Source: Kpler

Total Refined Product Exports from the GCC to Asia-Pacific



Source: Kpler

Exclusive

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Supply continues to increase, even with oil demand disappearing – How do you think this is going to play throughout April?

Price pressure will continue. The only way to regulate supply is to stop producing crude oil. Somewhere, there is going to have to be some capitulation to leave oil in the ground. We have seen small indications of this already. Canadian producers and some central US producers, who are getting netbacks well below $5/bl, are looking at production curtailment. Part of the problem in the US, especially with shale, is that there is no experience in terms of reducing well capacity. Due to the nature of shale wells, it is not conducive to have capacity restraints. There is very little experience in terms of throttling back a fracked well. The current experience is that a well is produced at full and then you move onto the next one. This is a major concern for shale producers in the US.

We are going to need commensurate supply curtailment in order to help stabilize the market. The Saudis have made it clear that they are not going to be the sole buffer at this point. Even at full capacity, if Saudi decided to cut back total exports, it still wouldn't be enough. You need to have a joined effort across every single producer. That is going to take some time and some coordination. Saudi Arabia has felt it has been the buffer for oil markets for the past few years and they don't want to continue to play that role.

Where would you place Russia in this narrative?

It is massively complex. Russia was smarting against sanctions, especially against Rosneft. They have taken moves to remove those sanctions over the past few days by re-assigning their assets in Venezuela to different entities. This is one step towards engagement between Russia and the US. The Russians thought with Libya out, they had some breathing room and they also saw some vulnerabilities at the lower prices against shale, which they thought they could mitigate. The Russians didn't expect that Saudi would be frustrated at them for refusing to cut a few thousand barrels per day in production. There was an expectation that there would be an OPEC+ agreement on the size of production cuts.

What does the current oil markets situation mean for storage providers, such as Fujairah, the largest energy trading hub in the Middle East?

The tankage in Fujairah has become a lot more valuable in terms of what is available to store. Over the past few weeks, it has been filling up with products. The real week spot in the market now is the availability of crude oil storage. Unfortunately, the availability of free market incremental crude oil storage is limited. We will see all available storage full in the next week to ten days. Globally, all incremental storage is accounted for. Anything that wasn't under contract 3-4 weeks ago is probably under contract. It's not necessarily full yet, but filling up.

What is your outlook for the current contango market structure and opportunity?

The current market structure is incentivizing players to carry oil well into next year. Whether this steepens or extends really depends on how quickly we rebalance supply and demand. Supply is going to have a hard time in re-balancing the destruction of demand in the immediate term, which could last more than April alone. There are discussions that we are going to curtail movement at least through May, if not longer.

What are the market parameters that will guide your outlook moving forward?

Understanding continued demand destruction is essential. We have seen the Indian subcontinent and parts of Africa shutting down. Russia is shutting down. Understanding total demand destruction is imperative. In terms of the supply side, there will be political discussions with prices at historical lows, but this will take a bit of time to figure out. In the meantime, pricing pressure will continue to curtail production, which will be essential to re-balancing the market.

**edited transcript*

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GIQ EXCLUSIVE SOUNDINGS

Deal or No Deal?

This week, US President Trump said he'd spoken to Crown Prince Mohammed bin Salman and President Vladimir Putin with the view of brokering a truce. The jury's out on whether this attempt at diplomacy between the world's two largest oil exporters will work. But oil prices being at their lowest point since the early 2000s certainly fuels a sense of urgency.

Over the last week, GIQ has engaged with oil market experts in Asia, the Middle East and Europe. The intelligence below is harvested from these exclusive briefings.

Adi Imsirovic, Research Associate, The Oxford Institute for Energy Studies
"The press gets a little too excited about this whole relationship between the US, Russia and Saudi Arabia. It is the buzz story to talk about at the moment. The whole scheme of things is very much a side show. The key issue is the drastic demand destruction that we are currently seeing in the market."

Frank Kane, Senior Business Columnist, Arab News
"I've been speaking with Crown Prince Mohammed bin Salman and we know a couple of days ago he spoke with Vladimir Putin. It seems there's some substance in this and it could get some traction. A three-way deal between the US, Saudi Arabia and Russia might be possible."

Andy Lavin, Chief Operating Officer, Sahara Energy Resources
"Trump has to be seen doing something. He doesn't have any leverage in this game, which is all about market share and price. Russia's game is to take away more market share from OPEC. Who is going to give that market share to Russia? At the moment, it looks like US shale producers and the Saudis."

James McCallum, Chairman, Exergy
"It should have happened by now. Whether it's too little or too late remains to be seen."

Robin Mills, CEO, Qamar Energy
"We have seen various contacts over the past couple of weeks between the Texas Railroad Commission with OPEC and the US cooperating with Saudi Arabia on production cuts. I find it hard to see that there will be a deal. The difficulties of coordinating with US producers, even on their own, and then trying to have them coordinate with Saudi Arabia and Russia is an impractical situation."

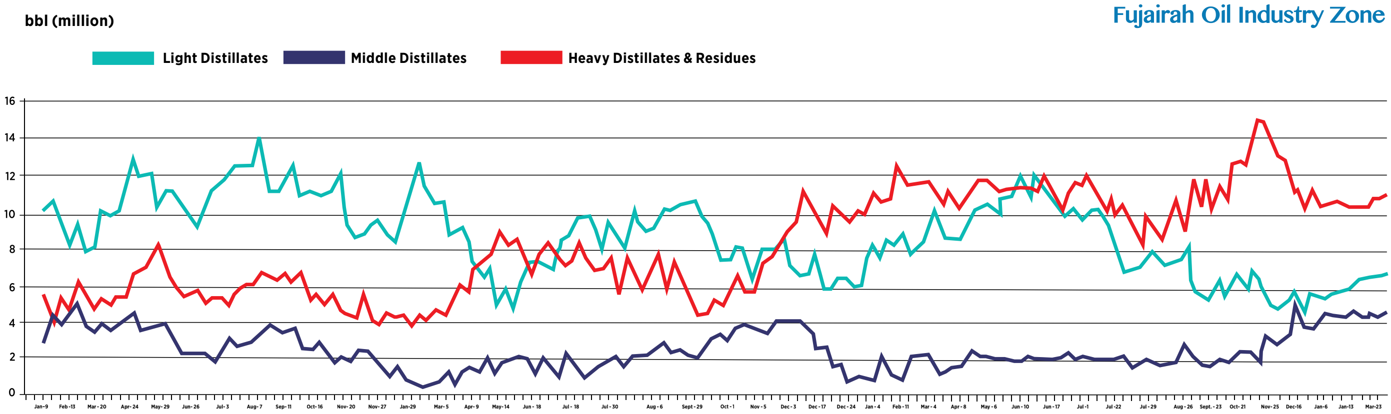
Matt Stanley, Director, Star Fuels
"From a trading pointing of view, it is as grim as I have ever known for oil markets. The one thing that continues to surprise me on an hourly basis is the outlook that the Saudis have and the agenda behind flooding the world with oil."

Amena Bakr, Deputy Bureau Chief, Energy Intelligence
"We are watching out for any mediation efforts, but I don't expect for any of that to be successful."

Zhuwei Wang, Lead Analyst, S&P Global Platts
"A lot of regions in the southern part of China are seeing 70% normalization levels for transportation. But the remaining 30% of China will take longer to recover in terms of manufacturing and global demand destruction."

Source: GIQ

Fujariah Weekly Oil Inventory Data



TOP TAKEAWAYS

Monday, March 30

- Total oil product stocks in Fujairah stood at 22.897mn barrels. Stocks rose by 1.717mn barrels (+8.1%) week-on-week, led by builds across all three stock categories.
- Stocks of light distillates rose by 100,000 barrels (+1.7%) on the week, to 6.107mn. A weak global oil complex and tepid demand for gasoline continued to exert downward pressure on the East of Suez gasoline market. Platts assessments of 95 RON gasoline cargoes on an FOB Fujairah basis fell to a record low since assessments began in October 2016 to $20.62/bl on Monday. This is a stark fall from when they were assessed at $75.07/bl on January 2, 2020.
- Stocks of middle distillates rose by 445,000 barrels (+23.9%), to 2.304mn. Sentiment in the middle distillate market East of Suez continued to have a bearish vein as ample supplies and a downward decline in regional demand weighed on the market. Spot gasoil volumes were seen in the Arab Gulf with Kuwait's KPC awarding its second spot gasoil tender for April loading at a discount to the Mean of Platts Arab Gulf gasoil assessments, FOB. The refiner previously sold a similar gasoil cargo for loading over April 15-16 at a premium of around 30-50 cents/b to MOPAG gasoil assessments.
- Stocks of heavy distillates rose by 1.172mn barrels (+8.8%), to 14.486mn. Steady demand for bunker fuel reported in Fujairah, with the lower flat price for fuel stimulating some demand from shipowners looking to cover requirements. Delivered bunkers for Marine Fuel 0.5% in Fujairah were assessed at $255/mt, with $257/mt in Singapore on Tuesday.

Source: S&P Global Platts

"Let's start with a joke."

I said to the gym instructor: "Can you teach me to do the splits?" He said: "Sure, how flexible are you?" I said: "I can't make Tuesdays." Very true that, actually. So, oil stats [Tuesday] didn't surprise any of us with a 14mn build on crude - the largest in four years. Refinery runs were down 5% and product supplied, a proxy for demand, fell by 1.5m b/d, including a 2.2mn b/d drop in apparent gasoline consumption. So far, production has held stable at 13mn b/d. I imagine we will see further builds in the next few weeks as the US tries to bring the Covid-19 outbreak under control and demand inevitably drops off. I said this week that the oil market faces itself with one of those ugly two-headed things from Dungeons and Dragons. Number one is demand destruction owing to the outbreak. Number two is the apparent collapse of OPEC+. Well, it seems old Donny is there to save the day. Trump "believes" that both Russia and Saudi Arabia will come to some sort of conclusion to end the price war that, let's face it, has been one of the final nails in the coffin for the oil market. I do still think that prices would have been trading around these levels regardless of the price war. But when the two issues converged into what seemed like a hopeless

BY MATT STANLEY
DIRECTOR
STAR FUELS

spiral, the market panicked and refused to really budge out of the $20/bl. We are trading at similar levels to last week, but one could argue that data on the Covid-19 outbreak is only getting worse, but crude is stabilizing somewhat. I'm not saying there are green shoots. Just perhaps one of those daffodil buds you see in mid-Feb in the UK. Bit early, you say to yourself. Quite whether Russia and Saudi Arabia will come to an agreement, I am sceptical of to be honest. If Saudi Arabia changes tactics and reverts back to cutting production to support the market, then the last month has been nothing but an extremely expensive experiment. Russia has already stated that current prices are too low to maintain current production. It looks like US production will start to drop off, as it should. But an agreement between the US and Russia on oil production? Hmmm. Keep your eyes on developments, but don't hold your breath.

April 2, 2020

ENERGY NEWS Highlights

Saudis Boost Oil Output, Defy Trump's Plea

Saudi Arabia showed no sign of bowing to pressure from US President Trump to dial back its oil price war with Russia. Instead, the kingdom pushed crude supply to record levels. The kingdom started April by boosting supply to more than 12mn b/d - the most ever. In an apparent show of force, Aramco was loading a record 15 tankers with 18.8mn barrels of oil on a single day earlier this week.

Source: Bloomberg

India: Top Refiner Declares Force Majeure On Saudi Oil

Indian Oil Corporation (IOC), the country's biggest refiner and fuel retailer, has declared a force majeure on oil imports from some of its top oil suppliers, including Saudi Arabia. After India went into a nationwide lockdown, IOC slashed refinery runs and declared a force majeure on imports from four key Middle Eastern suppliers: Saudi Arabia, Kuwait, Iraq, and the UAE.

Sources: Economic Times, OilPrice

Oil Market Braces as Storage Fills

When refineries shut down, many oil producers have nowhere to send their crude if the refinery is also part of the logistical chain to the market. "For land-based or land-locked oil producers, this means only one thing. The local oil price or well-head price they receive very quickly goes to zero, or even negative. If they have too much oil, they must pay someone to transport it away until they have managed to shut down their production," according to Bjarne Schieldrop, Chief Commodities Analyst, SEB.

Sources: SEB Group, CNBC

China: Buyers Snap up US Oil Purchases

China has increased US crude purchases with some buyers snapping up cargoes at the widest discounts, even as sellers seek to offload excess supplies in Asia. US Mars Sour crude has been sold to Chinese buyers at discounts of $7/bl - $9/bl to September ICE Brent futures for July arrival, while the discounts for West Texas Intermediate (WTI) crude in Midland were $6/bl - $7/bl.

Source: Reuters

Fujairah Port: Storage Expansion on Hold

Fujairah, which currently has crude and oil products storage capacity exceeding 10mn cubic meters, had plans to reach 16mn cubic meters in 2023. Current inventories are nearly at capacity, with around 80% of oil products and the remainder crude. "We were aspiring to invest to expand crude storage, but we have put those plans on hold to see what happens to the market. As a port, we want the stored products to be traded, but trading has dropped," said Captain Mousa Murad, Managing Director of the Port of Fujairah.

Source: S&P Global Platts

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