MAY 28th 2020
VOL. 31

Fujairah New Silk Road WEEKLY NEWSLETTER

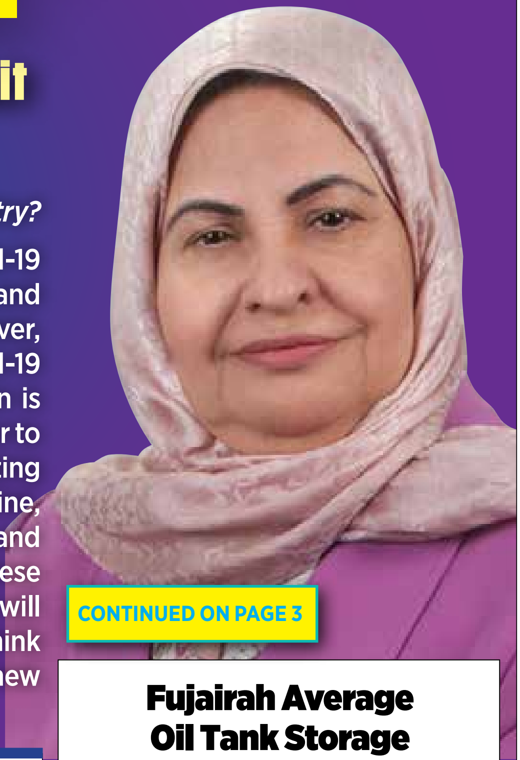
EXCLUSIVE INSIDE
GLOBAL OIL EXPERTS SHARE THEIR INSIGHTS PAGE 4

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

AN EXCLUSIVE GULF INTELLIGENCE INTERVIEW

"DEMAND WILL NEVER RECOVER TO PREVIOUS LEVELS."

Sara Akbar, Chairperson & CEO, OiLSERV, Kuwait & Non-Executive Director, Petrofac



What is your outlook for the supply chain into the national energy industry?

Sara Akbar: The oil industry has faced a double hit because of the Covid-19 situation. At the same time, there was an oversupply in the market and the industry's reaction to what was happening was very slow. However, the indirect impact of this pandemic is much bigger longer term. Covid-19 accelerated the future forward. The direct impact of this acceleration is less movement of people and transportation. Demand will never recover to previous levels because people are much more comfortable now utilizing digital systems. For example, at Petrofac, all our meetings are now online, and we are more efficient than if we were sitting in these meetings and had been travelling for two days. People are more comfortable with these new norms so the main issue here is that some portion of this demand will be shaved off indefinitely. If somebody at my age can do this, then think about the young people where all this is at their fingertips. These new behavioral aspects will impact demand.

CONTINUED ON PAGE 3

Fujairah Weekly Oil Inventory Data

7,961,000 bbl	5,869,000 bbl	15,001,000 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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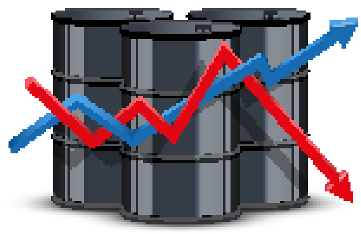


Weekly Average Oil Prices

Brent Crude: **$35.60/bl**

WTI Crude: **$33.24/bl**

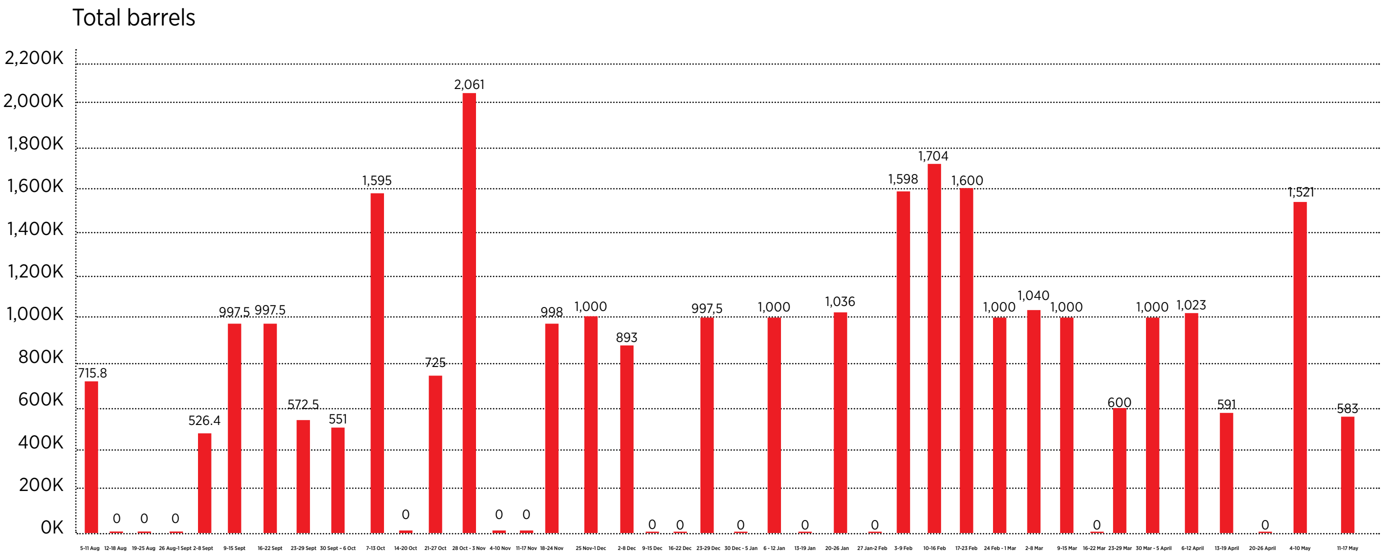
DME Oman: **$36.70/bl**

Murban: **$34.19/bl**

Time Period: Week 4, May 2020

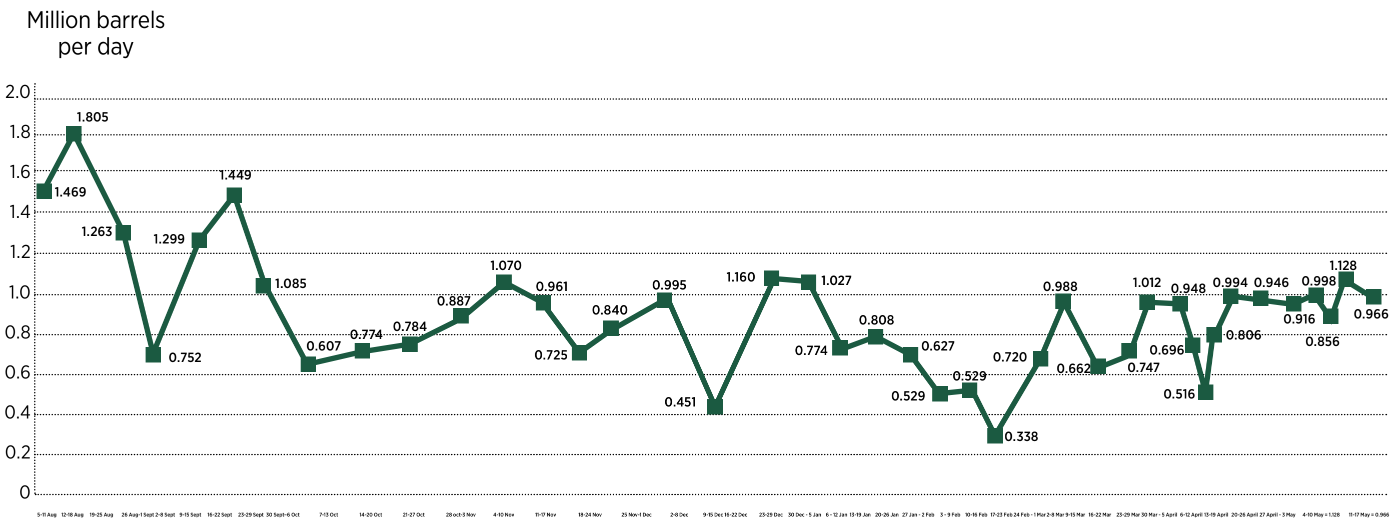
Source: IEA, OilPrice.com, GI Research

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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What is your outlook on the supply side?

If you look at the supply side, we have two elements. One is that our industry is completely based on capital spending. Even for a developed oil field, you need to keep spending money to maintain production. Capital in this part of the world, and in many other countries like Russia and in Southeast Asia, always comes from governments and big companies and it will not be a big problem for companies to continue to avail of this.

The big problem is in the US as all the independent producers depend heavily on the availability of capital from the stock market and debt market, and that is not there anymore. In the last five years, there was plenty of capital investment into this market but now, you cannot find a single dollar. Investors are not interested in oil and gas and, as a result, many of these independents cannot recover. The IEA forecasts that US shale will come back, but it cannot come back without capital and that will impact supply from the US. So, we are shaving off the more expensive side of global supply. The second element in the US is the cost of production which is much higher than producing oil in this region, which has a lower cost base as well as capital coming directly from NOCs and from governments. The result of all these regional disparities will balance the demand and supply in the market – not necessarily the price as such, but on the longer-term effect where both supply and demand will be lower.

Another sector heavily impacted by the crisis has been oil services. These companies have been the first victim of the crash of the market. The first thing any of the NOCs or IOCs did was go back to the service companies and demand cuts. We are bound to see some restructuring of this sector – mergers, bankruptcies, and a lot of changes. Also, I don't think any of these companies will put any money into R&D anymore because they simply they can't afford it. The margins are very low.

Can the service sector make more cuts in terms of managing costs and efficiency?

Sara Akbar: There isn't much to cut. Frankly speaking, many of the service companies try to find alternative methods of executing work, such as utilizing Artificial Intelligence and technology to do things in a much more cost-efficient way. Petrofac, for example, is a very good model and they were extremely successful in bringing the price down by doing this. But truly, at this time, there isn't any fat left to cut. They are barely working with current margins. Look at Schlumberger, Halliburton, Weatherford, and Baker Hughes. It's really not easy for them. That's why I'm saying you will see consolidation because of the low margins and the severity of this current situation.

Are we going to see cheaper Asian energy supply companies do very well now and squeeze out some of the regional and Western supply chain companies?

Sara Akbar: Many times, you don't get the quality with a lower cost service. You have to be very careful with how you balance quality with service fees. I am sure many of the Southeast Asian companies in the service sector will be able to cut costs. I really can't understand how they do it though. They probably have a fully integrated system where one thing subsidizes the other somehow. It is very challenging for the rest of the service companies to do what the Southeast Asian companies do.

We've seen the Asian supply chain come into the Middle East over the last 10 years. Is there any legacy or consequence of this? Or, is it just the same quality at lower costs?

Sara Akbar: It is important to note that many of these countries have a local content element in their contracts. As you could imagine, if you wanted to cut costs to levels where you can create some margins, especially for these Asian companies, you actually won't be able to put any content into the local economy. That's a big problem for all the companies operating in this region. There is now a shift in the business environment in the Middle East because Covid-19 opened everyone's eyes to the fact that if you don't have local content, such as nationals operating and working in these companies, then you will suffer. There will be new policies coming from all these governments in order to control how much you can boost their local content. This will be the element of balance between what international companies can do, and what Asian companies can do.

What's your forecast for the second half of this year? How do you see things playing out for energy markets?

Sara Akbar: We will still be struggling to come out of this massive downturn. Even in the past, it took much longer for the industry to come back than anybody could forecast. What we have now is even worse. We will recover somehow and somewhat, but not much. The recovery will be much slower than many people expect.

What are your expectations from the OPEC+ meeting taking place next week where they will review the first month of the cuts under the new agreement?

Sara Akbar: Well, it is interesting. Last year people thought that OPEC was an ineffective cartel that could not last. Now we are in a situation where we heavily rely on the decisions of OPEC+ to save the industry. So, it's ironic when you think about it. How far can this actually go in the future? Over time, we have to move to a world where oil and gas is a commodity that is traded like any other commodity without interference of politics. For as long as I can remember, the industry, has always been manipulated by one party or the other. The impact of politics has completely ruined our industry. The impact is that we lose talent. We cannot attract the best talent to the industry because of the fluctuations that have occurred over the years.

WATCH FULL INTERVIEW HERE

GIQ EXCLUSIVE SOUNDINGS

Have Energy Markets Abandoned Fundamentals?

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

- **Andy Laven, Chief Operating Officer, Sahara Energy Resources**
- **Omar Najia, Global Head, Derivatives, BB Energy**
- **Dr. Carole Nakhle, Chief Executive Officer, Crystol Energy**
- **Adi Imsirovic, Research Associate, Oxford Institute for Energy Studies**
- **Rustin Edwards, Head, Fuel Oil Procurement, Euronav NV**
- **Vandana Hari, Founder & CEO, Vanda Insights**
- **Kevin Wright, Lead Analyst APAC, Kpler**

Andy Laven, Chief Operating Officer, Sahara Energy Resources
"The statistics and numbers lag the reality of the current situation. We are missing the macro perspective. I don't think there is a single government that hasn't found it financially difficult to do what they have done. We are going to see the consequences of this for many years to come."

Omar Najia, Global Head, Derivatives, BB Energy
"The markets are focusing on positive news surrounding Covid-19, but they are not focusing on the problems that the virus caused."

Dr. Carole Nakhle, Chief Executive Officer, Crystol Energy
"We are rushing with our interpretation of the positive signals that we are getting. We have to ask ourselves what threshold we are comparing current market conditions to. Compared to April, things are definitely looking better, but I wouldn't get too excited because we are still in an uncertain volatile period."

Adi Imsirovic, Research Associate, Oxford Institute for Energy Studies
"it's been pretty remarkable. In many ways we are going back to pre Covid-19 pandemic levels. I like to look at the indications on the front end of the market. In April, we had dated Brent that went down almost $10/bl below the front month. Now, it is only a couple of dollars below the front month."

Rustin Edwards, Head, Fuel Oil Procurement, Euronav NV
"Recovery has to be demand driven. It can't be pushed by supply. Even though there has been a lot of enthusiasm, with financial trading going back into crude futures and boosting the price of crude forward, we still haven't had actual gasoline distillate pick up yet."

Vandana Hari, Founder & CEO, Vanda Insights
"Globally, the financial markets appear to be quite rattled again with the political tensions between the US and China now spilling over into the trade arena. As we know, the phase one trade deal is fragile."

Kevin Wright, Lead Analyst APAC, Kpler
"Chinese refining runs and imports, from what we see in our data, are very strong. Clearly, there is a little bit of industrial recovery occurring in China."

GIQ EXCLUSIVE INTERVIEW

CHINA RECOVERY UPDATE

Victor Yang, Senior Editor, JLC Network Technology

GIQ: There were a lot of things that came out of the China National People's Congress meeting. What was your biggest takeaway?

Victor Yang: For us, we paid close attention to the economy and topics related to the oil market. We noticed key emerging indicators such as allowing oil product exports from private companies like Jiyong Petrochemicals and Huling Petrochemicals. These two refineries are likely to get a license to export refined oil products this year. The government has said more than once that they encourage private firms in free trade zones to export products and import crude oil. The government gave licenses to three private companies in Q1 to import crude oil. All three companies are located in Fujian's new Free-Trade Zone. So, we see that there is a lot of encouragement for the free-trade zones to import crude oil.

GIQ: What about the decision by the congress not to announce an economic growth target for 2020? Is that significant for you?

Victor Yang: This is quite understandable and is not really a surprise because there are a lot of uncertainties. We are coming into June, and it doesn't make much sense to have a GDP growth target at this point of the year. Furthermore, the government is paying less attention to GDP growth and, instead, is focusing on other targets like poverty eradication and building a prosperous society.

GIQ: Is China as optimistic about economic recovery as the global equity markets appear to be?

Victor Yang: Most people in china are optimistic about what is specifically happening in China. In the domestic market, everything is recovering fast, but globally we are not very optimistic. The virus is still devastating a lot of countries. We don't expect it to go away anytime soon or at least not this year. Hence, we are preparing for a lot of uncertainty in the international market and the same uncertainty goes for oil prices. Markets might rebound for a short period of time, but their longevity depends on the progress to contain the virus worldwide. If there is another spark in the near term, demand might collapse again. So, that is quite a risk. But again, China is coming back quite strongly. As you can see, the country has started rebounding. Imports in April and May increased. We can see more cargo coming in this month, particularly in Shandong, and we are expecting to see congestion at ports as well. Some refiners have applied for the third batch of quotas for crude imports in July. China issued the second batch in April, but some refiners didn't get the quotas at that time as they were slow in processing crude in February and March, but they are now catching up.

GIQ: Is there any concern in China about the growing face off with the US and it moving from a trade spat to a cold war? Will this be an obstruction to oil demand growth?

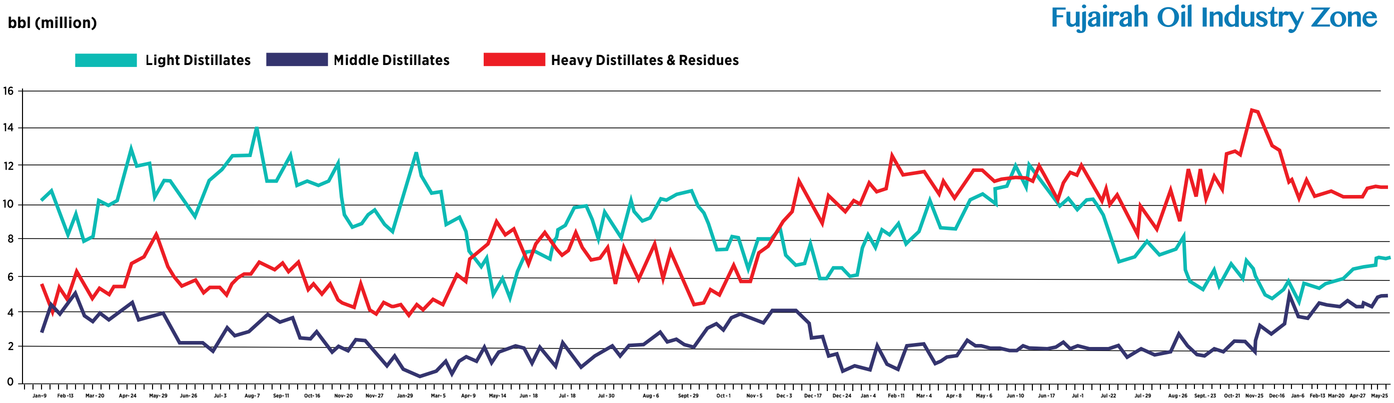
Victor Yang: Some of us are concerned about what is going on between the US and China. I believe the government is preparing for a possible increase in tensions. So, this is another uncertainty we are facing.

GIQ: What are some big things that still need to fall into place for China's economy to go back to pre Covid-19 levels?

Victor Yang: One of the issues is operating rates. In some plants, they are still low compared to levels of last year because overseas demand is collapsing. A lot of orders for exports have been cancelled. To compensate, they had to stimulate domestic demand and focus on the domestic market. Workers are back in business, but the issue is the operating rate that must rise and to go back to normal. On the other hand, China has been boosting infrastructure development this year, so this has been pushing up demand for many products. Even in Guangzhou, I have seen more infrastructure construction this year than the year before. This is happening all over the country.

Fujariah Weekly Oil Inventory Data

منطقة الفجيرة للصناعة البترولية
Fujairah Oil Industry Zone



TOP TAKEAWAYS

- Total oil product stocks in Fujairah were reported at 28.831mn barrels. Stock levels fell from last week's record high of 30.262mn barrels. This ended a three-week streak of consecutive fresh record highs. Overall stocks fell by 4.7% or 1.431mn barrels week on week, which led a large draw in the heavy residue stock category.
- Stocks of light distillates fell by 275,000 barrels or 3.3% week on week. Total volumes stood at 7.961mn barrels. The East of Suez gasoline market saw little change to recent flat sentiment, with Singapore physical gasoline cracks versus Dubai crude in negative territory. Although lockdown restrictions are being lifted in more countries, the region remains oversupplied. Notably, Chinese gasoline exports were reported up by 30.8% year on year through January-April. Gasoline demand in the Middle East and Muslim-majority countries in Asia typically sees a boost around Eid festivities, but the impact has been damped due to Covid-19.
- Stocks of middle distillates set a new record high of 5.869mn barrels as they rose by 5.3% or 296,000 barrels at the start of the week. The previous record high was seen last week. Gasoil markets have rebounded from the lows seen earlier this month but have struggled to build further momentum amid weak demand and heavy Chinese exports. Chinese gasoil exports fell by 9% month on month in April, but still totaled a sizable 2.57mn mt. Gasoil surpluses in Asian and the Middle East could persist even as demand recovers due to a lack of arbitrage to send volumes to Europe.
- Stocks of heavy distillates fell by 8.8%, drawing by 1.452mn barrels on the week to stand at 15.001mn barrels. Last week saw stocks hit a fresh record high while and breaching 16 million barrels for the first time. Delivered prices for 0.5% marine fuel in Fujairah rose above Singapore for the first time in about six weeks. Singapore bunker premiums rose following the withdrawal of Hin Leong from the market in April, but have seemingly readjusted. Demand in both ports was reported as sluggish recently as rising crude prices and ample supply kept buyers on the sidelines.

Source: S&P Global Platts

More fiscal stimulus in Europe and Japan

Commodities

Oil prices fell overnight as the market grew anxious over the return to hostile trade relations between the US and China and dithering on the part of some OPEC+ producers over whether to keep deep cuts in place for an extended period. The API also reported a build in US crude stocks of 8.7m bbls last week, snapping a few weeks of decline. EIA data will be released tonight, delayed thanks to a public holiday earlier in the week. Brent futures settled at $34.74/bl, down almost 4% and have given up an additional 2% in early trading today. Meanwhile WTI lost 4.5% to settle at $32.81/bl and is off by another 3.2% in trading today.

FX

It was mostly a quiet session for major currencies on Wednesday. Despite the announcement of an ambitious fiscal stimulus package by the European Union, the euro itself was largely unchanged for the day but has picked up steam in the early hours of this morning to reach 1.1020. The DXY index saw the dollar continue its bearish form but recorded minimal movement to reach 99.880. The JPY was similarly timid, trading at 107.80. Sterling saw some of the most movement, with the currency declining by over -0.50% to reach 1.2270 after Brexit negotiator David Frost said that the UK would not extend the Brexit transition period. The AUD and NZD also declined, dropping by over -0.50% and -0.20% respectively but have partially reversed some of their losses this morning.

Equities

Developed market equities closed higher as investors retained their optimism over the reopening of various economies and expectations that damages to the economy from the pandemic has peaked. Investor sentiment also received a boost from the EU's economic recovery plan. The S&P 500 index and the Euro Stoxx 600 index added Some regional markets returned to trading following Eid holidays. They closed sharply higher as most countries in the region have also eased restrictions and allowed businesses to operate. The DFM index and the KWSE PM index added +2.4% and +3.0% respectively. Gains were broad based with most sectors participating in the rally.

Source: Emirates NBD

Fujairah Spotlight

Covid-19: What UAE Residents Can and Can't do From May 27

On Wednesday, May 27, the UAE continued its gradual return to normal life as more restrictions were eased allowing residents to return to the gym and resume other activities. Gyms and cinemas will open, and nightly restrictions pushed back from 8pm to 11pm until 6am. Non-essential trips to the dentist are also among the services that will be allowed. Mandatory use of masks when outside the home has not changed. In Fujairah, hotels and bars began trading two weeks ago to capitalize on staycations for residents. Fujairah has allowed hotel facilities and bars and restaurants to open, with some restrictions, along with water sports and other activities.

Source: The National

Man Trapped in Burning House Rescued in Fujairah

A man trapped in a burning house in Fujairah was rescued by the emirate's civil defence team on Saturday, May 23. The fire broke out in the Badiya area and police were alerted to the incident at 12.20pm. Firefighters, patrols, and rescue teams were immediately dispatched to the site. As soon as rescuers found the man inside the house, paramedics took over and administered first aid. "He was fine and managed to escape the blaze unharmed," authorities said.

Source: Khaleej Times

Fujairah Data: Middle Distillate Stocks Extend Streak to Record High as Total Declines

Jet fuel and other middle distillate stockpiles at the Middle Eastern oil hub of Fujairah in the UAE jumped 5% over the past week to a new high as of Monday, May 24, marking the ninth consecutive weekly advance, with inventories more than tripling since the Covid-19 pandemic decimated air travel in the region starting in late March 2020.

Source: S&P Global Platts

Daily Energy Markets Commentary NEW SILK ROAD “LIVE”

May 26th - 28th

EXCLUSIVE

TOP TAKEAWAYS from this Week’s Webinars

1. Covid-19 virus infections may be entering the ‘beginning-of-the-end’ phase, but economic fallout is only entering the ‘end of the beginning’ phase.

2. OPEC+ gets an A+ for talking up the oil markets even though there is still no confirmed supply-demand data.

3. A war of words between China-US is fast becoming a Cold War, which isn’t good for trade, growth or oil demand – but do the markets care? Not Yet!

4. Oil traders who try stand against the massive stimulus wave holding banners of real economy demand destruction, do so at their peril!

5. China recovery still waiting to see factory production operations return to normal levels.

6. Oil prices could return to market-share war levels just in time for OPEC+ meeting on June 10th.

7. Oil markets need to see some tangible robust demand data because hope isn’t a tangible strategy for economic growth.

8. Rising US-China political tensions do not bode well for the world’s economic recovery after the pandemic.

9. China oil imports remain robust thus far in 2020 at around 10mn b/d since the start of the year. Hands up if you know why?

ENERGY MARKETS COMMENTARY WEEK IN REVIEW

CLICK HERE TO LISTEN

ENERGY MARKET NEWS

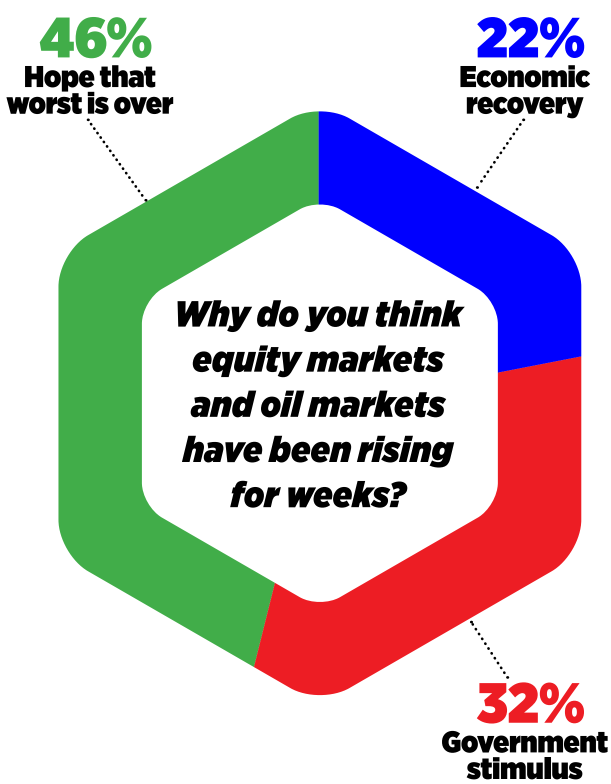
RECOMMENDED READING & VIEWING

1. OIL PLUNGES AFTER API REPORTS LARGE UNEXPECTED CRUDE INVENTORY BUILD
2. EXXONMOBIL WON LARGEST CONTRACT FOR SPR STORAGE
3. IEA WARNS GLOBAL ENERGY INVESTMENT WILL FALL BY $400BN IN 2020
4. AUD FATE SHIFTING AS CHINA MAY CONSIDER TARGETING AUSSIE COAL
5. CHINA LOSES BID TO BUILD $1.5BN DESALINATION PLANT IN ISRAEL
6. HONG KONG IS NO LONGER AUTONOMOUS FROM CHINA, US DETERMINES
7. AFRICA'S YOUNG AND RURAL POPULATION MAY LIMIT SPREAD AND SEVERITY OF COVID-19
8. OIL: IT'S A TERRIBLE TIME TO BE REFINERY, BUT THERE MIGHT BE LIGHT AT END OF THE TUNNEL
9. EU PLANS A RECORD-BREAKING $826BN STIMULUS PACKAGE TO EUROPE
10. COVID-19: US DEATH TOLL TOPS 100,000, HIGHEST IN THE WORLD

DAILY RECOMMENDED REPORT/VIDEO

- IEA: WORLD ENERGY INVESTMENT REPORT 2020
- CEO, OILSERV, KUWAIT: "DEMAND WILL NEVER RECOVER TO PREVIOUS LEVELS."

Weekly Survey



Gulf Intelligence
~ Presents ~
THE ARAMCO TRADING
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