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Fujairah New Silk Road WEEKLY NEWSLETTER

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

OPEC+ SPARE CAPACITY DECLINING TO ALARMING LEVELS

Mike Muller, Head, Vitol Asia

Spare capacity in OPEC+ is down to two or three members, and month after month, the 400,000 barrels a day that's being put on the market is in effect, a much smaller number. That leads us to a point in time where we can debate whether the second half of this year or sometime next year, OPEC spare capacity reaches levels that are considered alarming. So much so that the debate now is that we might need Iranian supply soon or even need to release more Strategic Petroleum Reserve to alleviate the situation. Fundamentals are a very resolute positive. We have so much backwardation that the market is saying, don't be short, because we are one disruption, one refinery wobble away from markets getting even stronger. Jet fuel is trading at or above gasoil and there's backwardation in crude and distillates - these are all a manifestation of tightness at the front where there's a perceived scarcity of supply. Refining margins are telling us that they should be running flat out because product cracks are at levels we haven't seen for many months, and that should be pulling very hard on crude markets. Meanwhile, inventories continue to sit at levels that are worrisome. Markets have very high implied volatility at these levels. We've moved from what seemed to be a market in risk off mode at the end of 2021, to now greater interest in the energy complex.

CONTINUED ON P 3

Fujairah Weekly Oil Inventory Data

Light Distillates	Middle Distillates	Heavy Distillates & Residues
6,499,000 bbl	2,529,000 bbl	10,905,000 bbl

Source: FEDCom & S&P Global Platts

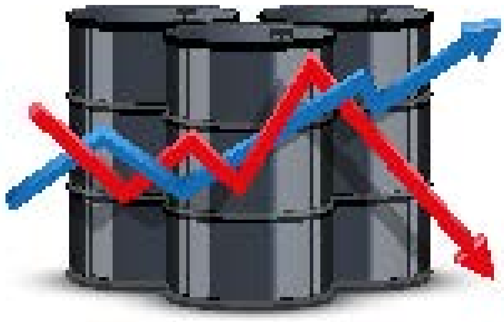
Fujairah Average Oil Tank Storage Leasing Rates*

BLACK OIL PRODUCTS

Average Range
$3.57 - 4.06/m³

↑ Highest: $4.50/m³
↓ Lowest: $3.20/m³

THE WEEK In Numbers



Weekly Average Oil Prices

Brent Crude:	$91.89/bl
WTI Crude:	$90.43/bl
DME Oman:	$90.77/bl
Murban:	$92.67/bl

*Time Period: Week 2, February 2022
Source: IEA, OilPrice.com, GI Research

Fujairah Weekly Bunker Prices

VLSFO

High = $733.50/mt

Low = $694.00/mt

Average = $716.50/mt

Spread = $39.50/mt

MGO

High = $882.00/mt

Low = $843.00/mt

Average = $862.00/mt

Spread = $39.00/mt

IFO380

High = $544.50/mt

Low = $528.00/mt

Average = $535.00/mt

Spread = $16.50/mt

*Source: Ship and Bunker, *Time Period: February 2 - 9*

Fujairah Bunker Sales Volume (m^3)

1,411 180cst Low Sulfur Fuel Oil	560,565 380cst Low Sulfur Fuel Oil	108,405 380cst Marine Fuel Oil
2,868 Marine Gasoil	24,443 Low Sulfur Marine Gasoil	4,936 Lubricants

Source: FEDCom & S&P Global Platts

CONTINUED FROM PAGE 1

Mike Muller, Head, Vitol Asia

Will 2022 be a year of two halves in terms of supply easing?
I don't subscribe to the view where the market is weak in 2H, except that everybody is building into their balances that Iranian crude will return. But that's also really a question of when. Administratively, even if there were to be an agreement to drop sanctions, we won't see Iranian crude in the second quarter. And then it's a question of what sort of rate of ramp up it is. Most observers will be aware that there is also a floating inventory of unsold Iranian oil on ships that would obviously get released into the market somewhat quicker and then the rates of ramp up will also be reasonably quick. But the fact is that it is in people's balances already. Without exception - every investment bank, advisory consultant, and oil major – has a view that Iranian oil will back later this year and that tells us that the world needs that oil.

What is China's crude import appetite at these prices?
It's fair to say that China is at bare minimum operating level in terms of the prescribed levels of mandatory stockholding that the state-owned enterprises (SOEs) are meant to hold. All eyes are now on what happens after Chinese New Year, because there is a feeling that some restocking will be required. Up until the very last day before the New Year, the Chinese SOEs seemed interested in buying crude at these prices. And I don't think China is as price sensitive as South Asian nations are. When LNG prices went to unprecedented levels in December, South Asia went on a buying strike, but not China. It also has the ability, by policy, to force the coal sector to ramp up dramatically. And unlike in 2020 and 2021, there's relative freedom to travel around China today. It also has extra refineries coming on stream and so has to run more crude and build inventory. It has integrated petrochemical complexes which are designed to have a margin and designed to run at 100% and they will have to build the inventory and the line fill that goes with all that.

"Unlike in 2020 and 2021, there's relative freedom to travel around China today. It also has extra refineries coming on stream and so has to run more crude and build inventory."

How much demand destruction are we likely to see with oil at these levels?
It's an extremely confusing picture on demand elasticity. Let's remember that the world was at \$110 to \$115 a barrel for nearly four years solid from 2011 to 2014 before that price correction occurred and the market knows how much demand destruction occurred there and what the impact was on economies. But I don't think it's anything compared to what's going on today with people's household electricity gas bills, eating away at disposable income. The lower to middle income strata of even the western world, let alone the developing and the emerging markets, will abstain from consuming quite as much energy as before. However, I don't think it's a linear thing that necessarily kicks in at \$95 or \$100 a barrel.

Other distortions in the market because of continuous eroding inventories?
Just a few refinery incidents have tipped this market into a very steep backwardation and disincentivized anybody to store, made it very expensive to blend and also disincentivized long haul voyages. Throw on top of that, a good dose of cold weather or ports and crew changes being hampered by Covid, and everyone wants to plan to have adequate supply in the system. The other issue is that the market is still relatively risk off – the general index of managed money is still nowhere near where you'd expect to see, given some people consider oil to be a good inflation hedge. The fundamental picture on oil is a very resounding thumbs up and so should be attractive to money markets which are still on the sidelines. And whilst there is risk in a market that has very limited open interest, with a sell side that starts talking it up to \$100, it does look robust. Still, implied volatility and options markets are at record levels that we haven't seen for a very long time. We saw earlier in Q4 that the market is capable of \$10 pullbacks, all of which then get put back on in a matter of weeks, so it's not for the faint hearted.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"$90 OIL IS TERRIBLY BAD NEWS FOR INDIA"

Narendra Taneja, India's Leading Energy Expert

India is a country which imports 85% of its requirements so anything more than $68 is not good. At the same time, we see geopolitical tremors in Europe and in parts of the Middle East, which cause further concern for high prices. The lack of investment in E&P in the industry in the western part of the world is also very disturbing because it means oil is going to go up on a sustained basis about 15 months from now. But despite high prices, Indian refiners will keep buying crude because demand is growing. Covid is dropping and the country and economy are open. Refineries have to buy oil for domestic demand and let's not forget, India is also a major exporter of products – petrol, diesel and turbine fuel –to 105 countries around the world. Economic sentiment is very high and GDP is growing. We now have the fastest growing emerging economy in the world which means more demand for oil. We expect the economy will be back to normal by summer.

What does $90 oil do for demand destruction elsewhere in Asia?

Even though Asian countries are heavily dependent on oil, we don't see significant demand destruction because their economies are in fundamental need of oil, and that includes China. If prices remain high, economies like India and Bangladesh will be forced to cut taxes on oil products. Roughly 50% of what we pay at the petrol pump is tax. But that will impact government social programs and our fiscal deficit and currency. What is more concerning than the immediate high prices, is that Asian economies are going to consume more oil and gas in the next five to ten years. That is why the energy transition is so worrying. We need more investment in oil and gas.

Does OPEC+ have an incentive to produce more if Asian demand is secure?

Except for Saudi Arabia, no other producer today is in a position to suddenly start pumping more oil. And even if sanctions are dropped on Iran, it will take them time to rebuild their export infrastructure and Russia is pumping as much as it can. Saudi knows that if prices go beyond a certain limit, countries like India will have no choice but to invest more and fast track renewables to reduce their dependence on oil. We don't think Saudi Arabia would want that so producers should try and keep prices below $80. And let's not forget, behind the market, countries like India, Japan, the US, are talking regularly with big producers. But the fact is that even if they wanted to increase output, there would not be sufficient amounts available. That is a bigger worry than what we are going to face over the next four or five months.

WATCH FULL INTERVIEW HERE

Energy Markets Views You can Use

Dr. Carole Nakhle
Chief Executive Officer
Crystol Energy

Expectations for US Fed policy going forward?
I don't think we're going to see a deviation from what they have announced in terms of increasing rates. Finally, we're getting some reaction and a tighter monetary policy to tame inflation. In the end, it's about striking the right balance between that, and not damaging the economy by decelerating growth. There's also the other side of the story beyond what the Fed is going to do, and that's the supply chain bottlenecks that have been driving inflation. If we have a gradual increase in rates starting from a low base and at the same time, the supply chain starts to ease, we might not end up in the drastic scenario that some are fearing. It's better than going down the route of higher inflation rates which might cause the Fed to take more aggressive steps. For now, I remain optimistic.

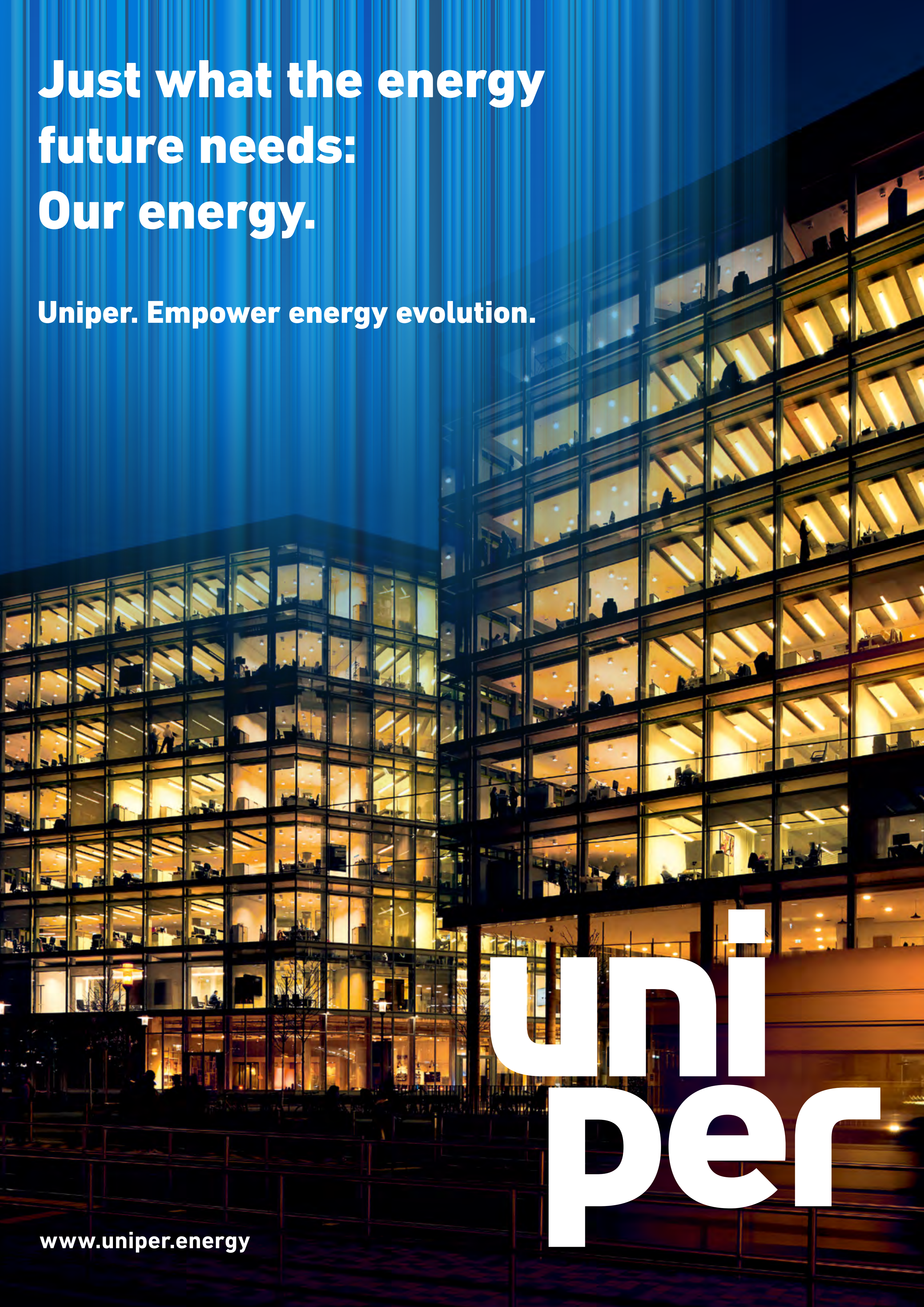
Is the lack of spare capacity within OPEC+ alarming?
OPEC spare capacity is declining but it is not alarming. It is around 4% of global spare capacity production supply. If it was below 1%, then we would be in a much worse situation. And if you look at the numbers for the rest of the year, we see a build-up and that it's going to stabilize.

Do you expect the market to shift out of its current rangebound standstill?
In the very short term, the market seems to be balancing around $90 a barrel. We are seeing some diffusion of geopolitical tensions in Europe but no final outcome yet. We hear about progress vis-a-vis Iran, but does that mean there will be a deal? And Libyan production is uncertain. So, the geopolitical card is still not clear. On the other hand, we're expecting higher supplies from outside OPEC, such as from the US, but not necessarily in the coming weeks. If geopolitical tensions are resolved completely, we will see downward pressure on prices but if not and supply continues to be constrained, I see us remaining where we are today.

Reem Shamseddine
Senior Correspondent, Zawya, Arabic

Is OPEC+ credibility and policy under review?
Despite the pressure from the US, it's clear that Saudi Arabia wants to maintain the existing deal and not put any extra barrels on the market. US production is also increasing, and prices will go down as we come into the seasonal drop in demand in Q2 and Q3 with refinery maintenance. Even if the Saudis were to add more oil, it would erode spare capacity and prices would still go up. So, the options are limited. OPEC also doesn't want to make any revisions to its current output because there are many uncertainties. That was the reason they made no changes at their last meeting. The group sees that these high prices are not only due to fundamentals and that the market will correct itself. Some analysts are estimating a geopolitical premium of $8.00 or $9.00. OPEC+ is also planning revisions of the baselines of the top five producers later this year so that might deliver more than the 400,000 bd.

How is the instability in Libya affecting oil market dynamics?
The scheduled elections didn't happen and as we know, the prime minister didn't want to step down, so that does shed a lot of uncertainty and intensifies all the tension that affects the resumption of oil production in the country. And it's a pity because Libyan crude could have alleviated the tightness in the market.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GI Soundings Week in Review

"GEOPOLITICS, TIGHT SUPPLY CONTINUE TO LEND SUPPORT TO PRICES"

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

- **Omar Al-Ubaydli, Director of Research, Bahrain Center for Strategic International & Energy Studies (DERASAT)**
- **Mike McGlone, Senior Commodity Strategist, Bloomberg Intelligence**
- **Capt. Mohamed Juma Al Shamsi, MD and Group CEO, AD Ports Group**
- **Charif Souki, Executive Chairman, Tellurian Inc.**
- **Omar Najia, Global Head of Derivatives, BB Energy**
- **Oscar Garcia Berniko, Director General for State Petroleum Companies and Petroleum Assets, Ministry of Mineral Resources and Hydrocarbons of Equatorial Guinea**
- **Daniel Richards, Senior MENA Economist, Emirates NBD**
- **Matt Stanley, Director, Star Fuels**

Omar Al-Ubaydli, Director of Research, Bahrain Center for Strategic International & Energy Studies (DERASAT)
"Whether a US Iran deal happens or not, in the long run, it won't make much of a difference to oil markets. Eventually, Iran will be in the market, either indirectly via its partners like China and Russia or directly if US sanctions are lifted."

Mike McGlone, Senior Commodity Strategist, Bloomberg Intelligence
"Saudi Arabia output policy is incentivizing the global shift to decarbonization and more US shale to come online, as those costs also decline."

Capt. Mohamed Juma Al Shamsi, MD and Group CEO, AD Ports Group
"In 2021, we signed major agreements with international organisations and we delivered strong results across every part of our business despite significant stress on global supply chains caused by the impact of COVID-19. Our commitment will ensure sustained success that will benefit our shareholders and other key stakeholders in the year ahead."

Charif Souki, Executive Chairman, Tellurian Inc.
"You are seeing a reset of global energy prices that is going to be critical for the rest of the world. We in the US are extremely lucky because we have the resources, but the rest of the world isn't in that position. It is no surprise that today you see French President Macron in Russia and Chancellor Scholz in the US, because the US and Russia are two of the prime energy providers for the next few decades. This is where the rest of the world is going to have to make their deals!"

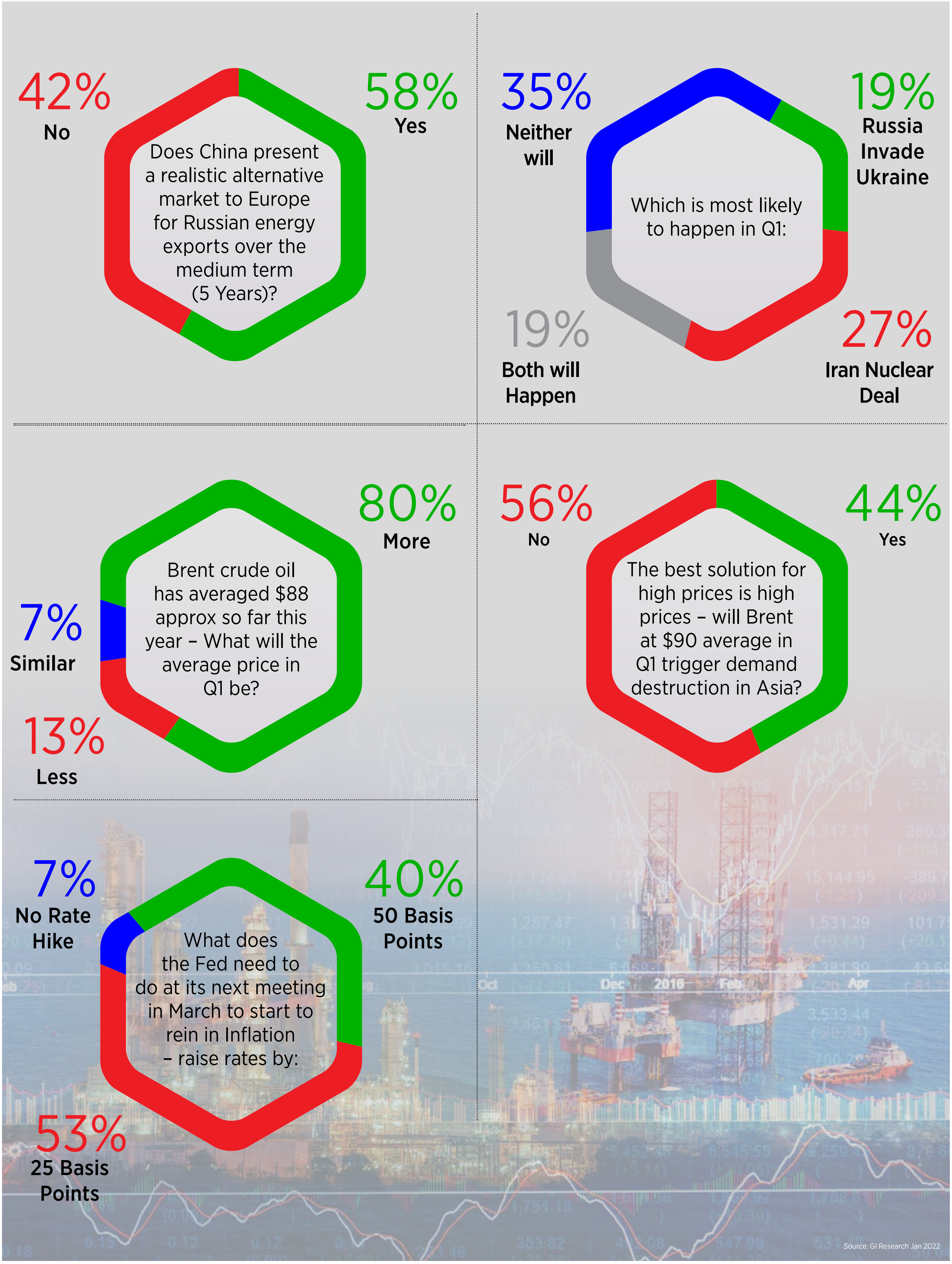
Omar Najia, Global Head of Derivatives, BB Energy
"This market needs a massive correction because we've been moving up for the last 16 months, but a bull market corrects when the market becomes euphoric, not because of skepticism, and we aren't there yet."

Oscar Garcia Berniko, Director General for State Petroleum Companies and Petroleum Assets, Ministry of Mineral Resources and Hydrocarbons of Equatorial Guinea
"The primary reasons oil production is declining in Africa is because IOC´S are being influenced by lobbies that are pushing them to divest in fossil fuels towards renewables. It is now more difficult to raise capital for investment in E&P, because loans are more expensive, and some financial institutions are starting to limit capital available for these purposes. Without that investment, there won't be many discoveries and clearly production should decline at some point."

Daniel Richards, Senior MENA Economist, Emirates NBD
"The ECB acknowledged this week that inflationary risks continue to mount but maintained the line that the target 2% rate could still be achieved without drastic tightening of policy, as demand conditions were not as frothy in the EU block as seen in other major economies."

Matt Stanley, Director, Star Fuels
"We are moving into the expiry of the front gasoil contract on ICE, and I wouldn't be surprised if we saw it shift further south. On the physical side however, gasoil imports into the EU have fallen to an eleven-month low, despite the usual increased demand we see for heating at this time of year."

GI Weekly Surveys



Energy Markets Views You can Use

Peter McGuire
Chief Executive Officer
XM Australia

US January Inflation Rate Due Today – fasten Your Seat Belts!
The US economy remains robust with healthy consumption feeding economic growth. Full employment is expected to be on the horizon and average hourly earnings have improved, nourishing wage growth. The latter makes things tricky for the Fed as it doesn't want extra factors in their economic blueprint to boost inflation when they are trying to put a cap on it. Thus, investors' focus remains centred around Thursday's US CPI data, which will reveal whether historic levels of inflation persisted in January. The CPI rate is forecasted to rise to 7.3% from 2020's ending rate of 7.0% y/y. The headline monthly figure excluding food and energy is expected to tick lower to 0.5% from December 2021 of 0.6%.

How are Energy Prices Impacting Inflation?
One narrative is that inflation globally has been boosted by the energy crisis. Oil has extended its rally that began at the start of December 2021 throughout January with WTI oil futures recording a $93.15 per barrel peak, which may tip the scale towards a US CPI result that is rather elevated or stronger. The question is how much will a high inflation figure underpin the dollar? Clearly, should inflation prove to remain hot, the domino effect of this is a vigilant Fed with a home run March hike.

What have Markets Already Priced In?
However, is this already somewhat priced in? Looking back, the hawkish stance reiterated in the last FOMC meeting gave the dollar some legs after the Fed confirmed its move to post-pandemic policy, without lift-off in rates. Moreover, less government spending as the road to normalization unfolds in 2022 has a lot of analysts expecting the pace of the US economy will begin to hamper especially if the Omicron variant disappears into the mist. Furthermore, across the globe, it is apparent that some central banks are ahead of others on the interest rate theme as their recoveries move at different paces.

Jose Chalhoub
Political Risk & Oil Analyst

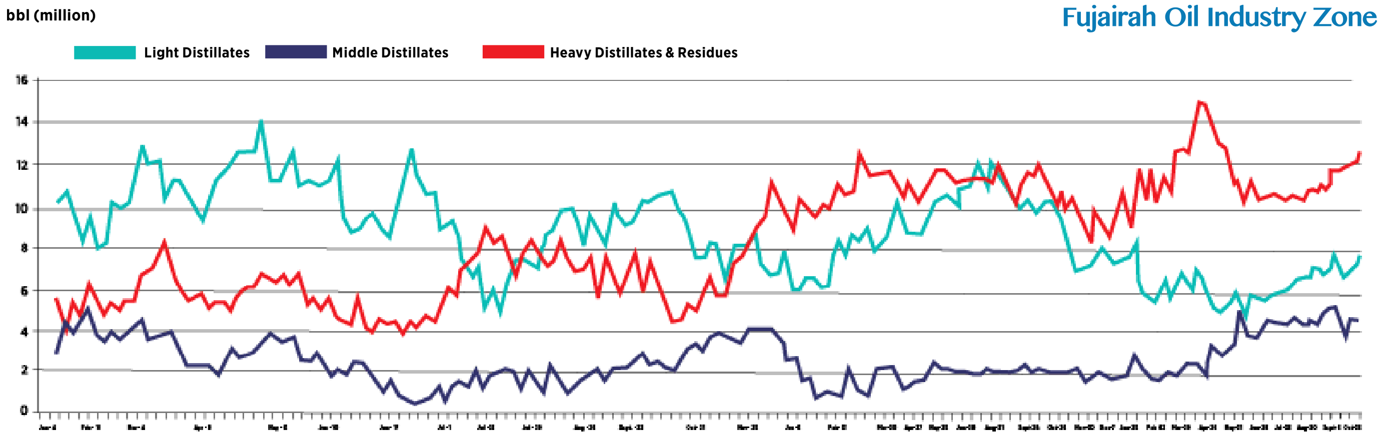
How bad is the health of PDVSA?
Fifteen years ago, $90 barrel would have been very good news for PDVSA and Venezuela because our production cost per barrel was around $10 to $15. Now, costs are hovering over $35 and we're not producing enough - hardly reaching one million barrels per day. To recover our production, we need to get massive investments and loans from international institutions. PDVSA needs around $50 billion just to recover its oil refining sector, which is heavily damaged and has caused our gasoline shortages. We are getting a bit of relief from our swap deal with Iran where we get condensates and in exchange, send Iran heavy crude. But if Iran reaches a deal with the US, it could lose its incentive to keep on exporting condensates and oil to Venezuela.

Your view on new opportunities in other Caribbean countries?
There's a changing landscape in South America, such as in Guyana, but it needs to be careful with managing any inflow of money. Look at what's happened with resource nationalism in Venezuela in the last 15 years and Argentina has gone in the same direction. Petrobras in Brazil is having a significant recovery after years of corruption. Pemex in Mexico is now facing problems under Lopez Obrador, following a relatively important reform process under the previous administration for the last five or six years.

Should Chevron be able to get paid back its debt in Venezuelan oil cargoes?
If Washington moves ahead with that waiver, I think it would be a good idea. Chevron is one of the few international companies that remain here, and their facilities and security protocols are one of the best in the country. It has a very good reputation.

Fujariah Weekly Oil Inventory Data

FOIZ
منطقة الفجيرة للصناعة البترولية
Fujairah Oil Industry Zone



TOP TAKEAWAYS

- Total oil product stocks in Fujairah were reported at 19.933 million barrels – the highest level since mid-November. Total stocks rose 332,000 barrels with overall stocks up 1.7 % week-on-week. The stocks movement was driven by a net rise in light and middle distillates while heavy residues posted a net fall.

- Stocks of light distillates, including gasoline and naphtha, increased by 137,000 barrels or 2.2% on the week to 6.499 million barrels. This is a slight continuation of last week's rise when light distillate stocks in Fujairah surpassed 6 million barrels for the first time since Jul. 26, 2021. The East of Suez gasoline market firmed as rising omicron cases continued to cast uncertainty and Indonesia said it would tighten its mobility restrictions rule in Jakarta, Bandung and Bali to level 3 out of 4 for one week effective Feb. 7. In tenders, India's Bharat Petroleum was offering three 35,000 mt spot cargoes of minimum 91.5 RON gasoline. According to market sources, the cargoes are for loading over Feb. 25-26 from Mumbai. The cargoes will load over Feb. 18-19 and Feb. 26-27 from Kochi. The tender closes Feb. 9 with next-day validity. Pakistan State Oil (PSO) also issued a tender for three 50,000 mt (plus/ minus 5%) cargoes of 92 RON gasoline, for delivery to Keamari terminal, Karachi over March 15-29. The tender closes Feb. 9. Meanwhile, US gasoline stocks are expected to climb 1.4 million barrels to around 251.4 million barrels during the week ended Feb. 4, analysts surveyed by S&P Global Platts said. This is in line with seasonal norms, putting inventories 1.6% behind the five-year average of the US Energy Information Administration data for a second week.

- Stocks of middle distillates, including diesel and jet fuel, rose by 669,000 barrels or 36.0% on the week to 2.529 million barrels. Market participants said there was little change on the demand front despite supply constraints previously driving bullish sentiment. Trade sources said there was no incentive for regional refiners to increase jet fuel production given the deep negative regrade, the spread between jet fuel and gasoil values. In the downstream aviation sector, global weekly scheduled airline capacity fell 2.6% on the week to 73.77 million seats for the week started Jan. 31, as a heavy fall in Northeast Asia capacity offset increases in Western Europe and Southeast Asia, according to aviation data company OAG. Global seat capacity was at 70.4% of the level in the week that started on Jan. 28, 2019, OAG data showed. A further 11 million seats have been removed for the next three months, which is 1% of all planned capacity and consistent with the levels seen for many weeks. Separately, supply was heard tightening East of Suez amid lower Chinese export quotas, which led to a reduction in refinery yields.

- Stocks of heavy residues fell 474,000 barrels or 4.2% on the week to 10.905 million barrels. Fujairah bunkering operations continued to be impacted by rough sea conditions and strong winds, first reported last weekend. Furthermore, tight availability of barges restricted the supply of prompt LSFO bunker deliveries and strengthened delivered premiums despite adequate stockpiles, Fujairah bunker suppliers said. Spot trading activity at Fujairah and Singapore was heard to be above average, as the flat price rally receded Feb. 8, according to market sources. During and outside the MOC Feb. 8, offers for delivered marine fuel 0.5%S fuel in Fujairah were heard at $720- $732/mt with offers around the lower end of the range for product deliverable from Feb. 9 onward. The grade was assessed at $718/mt Feb. 8, up $5/mt week on week, Platts data showed. The price of marine fuel 0.5% sulfur bunkers in Fujairah represents a $2/ mt premium to Singapore which saw its delivered bunkers on the same basis assessed at $716/mt.

Source: S&P Global Platts

BY MATT STANLEY
DIRECTOR
STAR FUELS

Thursday, arguably my favourite day of the week, not sure why, I just like Thursdays. Right, oil? Oil it is. Brent is trading this morning at $91.18/bl down 0.37 and WTI is trading down 0.26 at $89.40/bl. Today I want to talk about mango farming. Don't laugh, I know this is a very sensible commentary usually but today I want to talk about mangoes. "A really premium class, large R2E2 mango was worth $5 16 years ago — it's still worth $5," Mr Smith said. "And yet all our input costs, our fertilisers, our fuels, everything has gone up significantly, extremely. "We got our monthly [diesel] bill for January, which is our biggest month, and it was up about 30 per cent on normal for our harvest period, and that really stood out. "We're struggling. We don't have that expendable cash at the end that we used to have.". See. Mangoes. Told you. And you thought I was going to make some stupid joke about mangoes, didn't you? Honestly as if I would do that? It's enough to make a mango crazy thinking about jokes like that. Anywayyyy. Mangoes and Mr Smith. I think this could well be a theme for 2022, ever rising ancillary costs and not a great deal that can be done about increasing the price of the thing you are actually producing, it doesn't matter whether it's a mango, a chocolate bar or a lawn mower, all end user products are facing increased costs to be produced and eventually this will be passed on. Of course, all this boils down to the very real threat of demand destruction, and in a world that is coming out of a pandemic this will need to be managed very carefully. POTUS is thinking along these lines too and he is actively in talks with energy producing nations to find a way to bring prices back down, indeed the first call of which happened yesterday with King Salman of Saudi Arabia. What do I think will happen here? My guess is that not a lot, really, but the fact that Biden is actively involved in trying to calm increasing energy prices may be enough for producers to try and increase production. The thing is however that OPEC+ have managed the supply situation so expertly over the last two years that even the President of the USA may not be enough to allow the group to change course on a policy that has worked very well since the pandemic began. Mr Smith the mango farmer? Hmm, here's the irony, perhaps OPEC+ listen to Mr Smith, more than they would to Mr Biden. Must be off, this tropical fruit diet isn't going to eat itself.

February 10, 2022

Energy Markets Views You can Use

Laury Haytayan

MENA Director, Natural Resource Governance Institute

How should we interpret Russia's actions with Ukraine?
Russia is unlikely to jeopardize everything by going to war with Ukraine. Why would Putin endanger what he already has and incur economic loss because of sanctions? Russia is making all these gains as a main part of the OPEC+ coalition. If it does invade Ukraine, it would have to sustain that war and that would be at a big cost.

How destabilizing is the situation in Libya for its oil industry?
It's very unclear where the situation is going politically but there is an understanding between the different parties that they need to keep the oil money flowing - everybody's paid by the government in Libya. The most important issue is this clash between the National Oil Company chairman and the Minister of Oil. There are discussions that even if they don't have elections, maybe they can form another government. Whether they will keep the Ministry of oil is also in question, but they don't want any more clashes as that will impact oil production and revenue.

Where are the plans at to get Egyptian gas to Lebanon?
We are in the lead up to the US midterms and every day, there's a letter from a Republican to the Biden administration questioning whether the proposal to send gas from Egypt to Lebanon will empower Syria's Assad regime. The Egyptians want guarantees that they will not be sanctioned at any moment in time by the US administration or by any entity in the US, because of this project. The Egyptian gas sector is doing very well. The country is attracting many investors and they have new discoveries. With Europe in need of diversifying its sources of gas, Egypt wants to play the role of provider, with its LNG plant and future planned pipelines. It is not going to jeopardize all that opportunity and potential for a small market like Lebanon.

Wael Mahdi

Senior Business Editor & Head of Business Section
Arab News

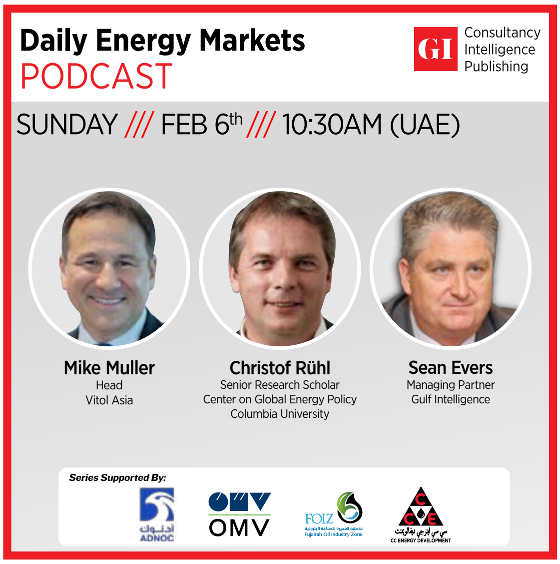
Tricky today for Saudi to manage its relationship with Russia and the US?
This is not the first time that geopolitics is the name of the game for OPEC. They have gone through it a lot and sometimes been at war internally. I'm sure Saudi Arabia has some kind of contingency plan. They don't want to see any escalation in the Russia Ukraine conflict as that will only mean more pressure for Saudi to step in to compensate with more oil production. At the same time, it does want to ensure that energy market stability is not affected. Energy security is one of the top priorities for Saudi Arabia, whether under its G20 commitments or as an individual nation. It has a lot of responsibility as a leader of OPEC Plus.

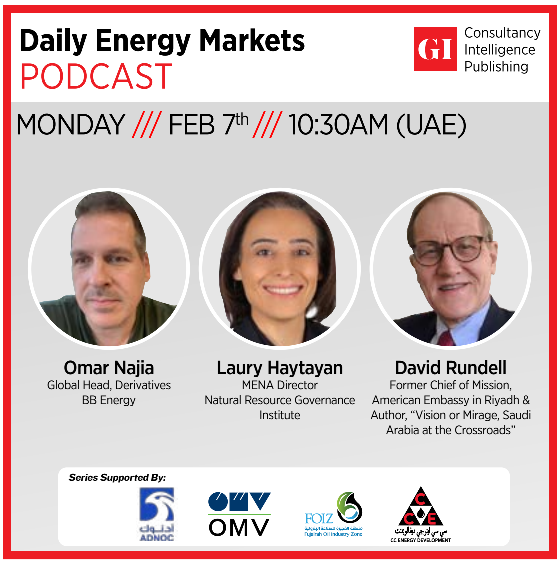
What is the Saudi position on the Iran nuclear talks?
Saudi Arabia wants to see more stability and peace in this region. They want to make sure that the Iran negotiations go smoothly and that everyone agrees to good terms. Iran cannot be kept on the side for too long. They are an OPEC member and need to come back to the market at one point and share some of the burden with other countries. Saudi Arabia cannot balance the world market alone. But as far as the nuclear negotiations go, it's not Saudi's call – it's in the hands of Iran and the US.

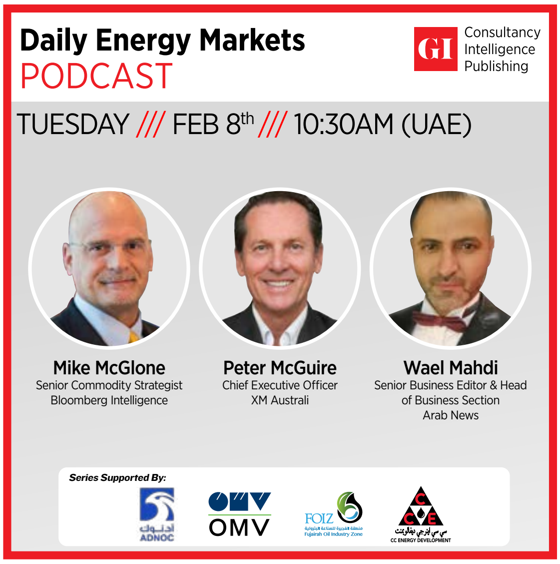
Why did Saudi solicit a credit rating for its sovereign wealth fund?
They want to be rated because they want to expand their reach to investors. They also want to assure investors that there is governance and transparency in what they are doing. A positive rating by the agencies also indicates a belief that Saudi's finances will be there for the fund for a significant period and therefore that oil prices will remain high. It can also indicate that the kingdom is going in the right direction in diversification of income away from oil.

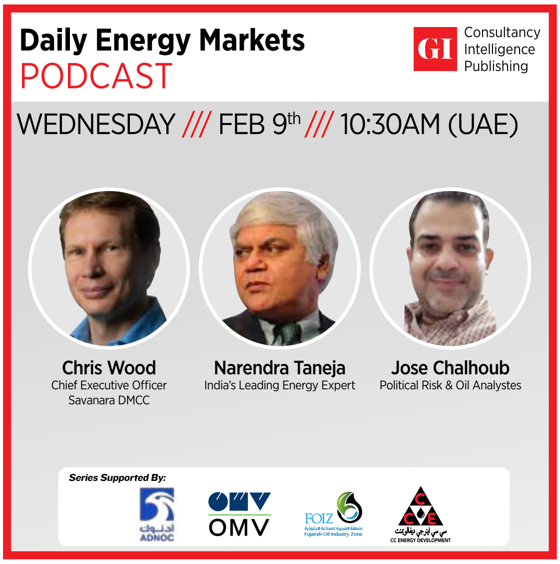
Energy Markets COMMENTARY

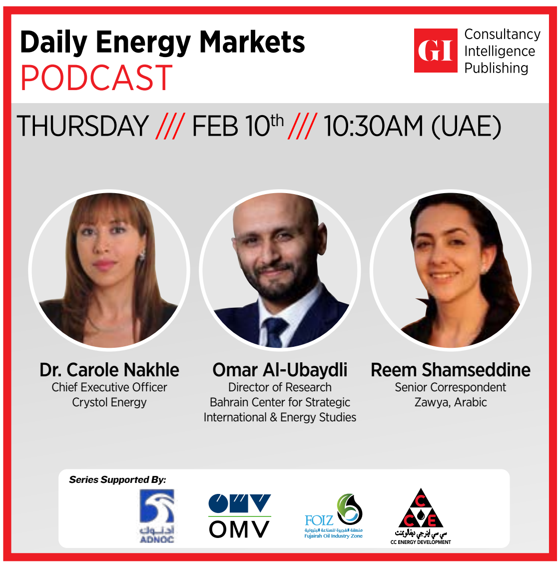
WEEK IN REVIEW











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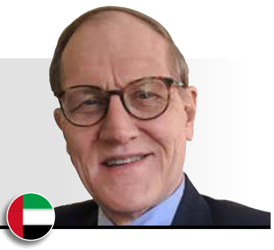
Energy Markets Views You can Use

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

How much of the oil price rise is being pushed by fundamentals?
Low spare capacity hasn't been on the agenda since the 1970s and today, although aggregate spare capacity is sufficient to deal with these price spikes, it is concentrated in Saudi Arabia, and a little bit in Kuwait and the UAE, and they are showing no sign of making up the shortfall from other members. The question is whether that will be sustained and for how long and whether they give in and steer the market with a more gradual increase or not. Another part of fundamentals is expectations and there are reasonably well-founded expectations that supplies from the US and from outside OPEC+ are in general increasing fast enough to have a trend change in inventories - not only by 2023, but at the latest, by this summer. In the meantime, on the demand side, it's far from clear whether China and others will exercise continued strong demand. And the most important factor seems to be that we are entering an interest cycle hike, which is higher than expected, and that could put pressures on economic growth just at the point in time when the supply side in oil markets is responding.

Inflation policy outlook?
Stabilizing inflation would be good news in the sense that expectations of future inflation will be more anchored, and so the demands for wage increases will be further removed. If inflation rates go up, then you immediately have people losing trust in the system and demanding wage increases. That's the dangerous situation we're in right now. What we are seeing is the ugly picture of unraveling expectations, which is exactly what central banks wanted to avoid – that they are losing control over the narrative. The inflation numbers are spilling over into people's electricity, food and other bills. If oil and natural gas prices do calm down in the spring or summer, that would obviously be beneficial for economic policymakers. But either way, when we have inflation at 7% in the US and 5% in Europe, even if interest rates are increased by two or three percent over the year, we still have negative interest rates. That means we still have expansionary monetary policy and more money sloshing around than can be deployed for expenditures. And that means high demand for assets, such as equities and real estate in terms of price bubbles, and also energy.



David Rundell
Former Chief of Mission, American Embassy in Riyadh &
Author, "Vision or Mirage, Saudi Arabia at the Crossroads"

What is the US strategy on the Russia-Ukraine matter and is it working?
This entire Ukraine problem is like an own goal. We created this problem for ourselves when we expanded NATO eastwards, threatening the Russians unnecessarily – at least that's the way they perceived it. Places like the Baltic states, which had been part of the Soviet Union and part of what Russia considered a buffer zone between it and the rest of Europe. The Russians actually tried to join NATO, but we were not receptive and then we went so far as to say we were going to put the Ukraine in NATO. That's like the Russians saying they're going to build a naval base in Nova Scotia. I think they're going to do something. I don't think they're going to take over Kiev, but maybe the Donbas which after all is largely populated by people who speak Russian and who probably would vote to leave the Ukraine and join Russia if given a referendum.

Where do the nuclear talks with Iran currently sit and where may they end up?
The Biden administration is very keen on restoring those talks, but I don't think any agreement will be decisive in stopping the Iranian nuclear program and I don't think the Israelis are going to sit back and let the Iranians develop a nuclear weapon.

Can the Iranians get a guarantee the US won't back out of the JCPOA?
The only way you can keep the JCPOA in a final format is to have a vote in the Senate so that the treaty becomes law and that's not going to happen. And as we know, executive orders can always be changed.

What's the dynamic today between the US and Saudi Arabia?
The Saudis are developing alternative friends to the US. They've been doing that for a long time but whereas their long-term relationship with the US didn't used to cost them anything, they now have friends whose interests do not align with the US - their biggest friend in OPEC Plus (Russia) and their biggest energy customer (China), so the idea that the Saudis are always going to line up with the US, is fading.

"OPEC members accounted for much of last month's crude production increase, with Mideast Gulf producers delivering some of the largest hikes. Saudi Arabia and the UAE — which hold most of the group's remaining spare capacity — raised production by 100,000 b/d and 60,000 b/d, respectively."

– Argus Media

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Fujairah Spotlight

Oil product stocks extend gains as middle distillates surge 36%

Oil product inventories at the UAE's Port of Fujairah rose for a fourth consecutive week as of Feb. 7, led by a 36% jump in middle distillates, such as jet fuel and diesel, according to Fujairah Oil Industry Zone data shared exclusively with S&P Global Platts on Feb. 9. Total stockpiles stood at 19.933 million barrels as of Feb. 7, up 1.7% from a week earlier and extending the highest level since Nov. 15, according to the data provided to Platts since January 2017. Middle distillates rose to 2.529 million barrels, the most since Nov. 22. Middle distillates exports from Fujairah slowed for a third consecutive month in January, with average shipments at 41,100 b/d for the month, the lowest since May 2021, according to Kpler data.

Source: S&P Global Platts

VLSFO cash premiums up, cracks gain

Fujairah Oil Industry Zone (FOIZ) inventories for heavy distillates and residues fell 4.2%, or 474,000 barrels (about 71,000 tonnes), from the previous week to 10.9 million barrels (1.6 million tonnes), data via S&P Global Platts showed. Compared with year-ago levels, the weekly fuel oil inventories at FOIZ were about 11% higher. Fuel oil stocks at FOIZ averaged 10.2 million barrels so far this year, compared with a weekly average of 10.3 million barrels in 2021, Reuters calculations showed. Three 180-cst high-sulphur fuel oil (HSFO) deals, one 380-cst HSFO trade.

Source: Business Recorder

Fujairah Police launch campaign on safety of pedestrians

Fujairah: Fujairah Police have launched a pedestrian safety campaign to create awareness among road users. The Traffic and Patrols Department of Fujairah Police launched the first quarterly campaign for 2022 under the slogan 'Safety of pedestrians and drivers from run-over accidents'. The campaign is part of the Traffic and Patrols Department's objective to highlight a traffic-safety culture through public awareness programmes. This is also in keeping with the objectives of the UAE Ministry of Interior and Fujairah Police to make the roads safer for all. The campaign particularly aims to reduce run-over accidents, injuries and deaths.

Source: Gulf News

Mall of the Emirates partners with Fujairah Municipality and Emirates Environmental Group to plant 1,250 trees

Dubai – United Arab Emirates: Mall of the Emirates, owned and operated by Majid Al Futtaim, has joined forces with Emirates Environmental Group and Fujairah Municipality to plant 1,250 indigenous Ghaf and Sidr sapling trees in Fujairah. This follows Mall of the Emirates launching a unique festive installation last December, which saw visitors encouraged to make a commitment to a more sustainable lifestyle through festive pledges. Each tree planted this year is a direct result of the group's inspiring initiative.

Source: Zawya

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Daily Energy Markets

TOP TAKEAWAYS
MARKET OBSERVATIONS FOR THE WEEK
Feb 6th - 10th

- Oil markets jumped \$2.50 last week and \$2.50 the week before. It's hard to identify anything of note that would stop it happening again next week.
- The Russia – China alliance is bedding in and looks increasingly like the most serious geopolitical development since the end of the Cold War more than 30 years ago.
- The narrative that 2022 will be a year of two-halves in the global oil markets – a tight first six months and a loose second - puts a lot of expectations on new supply coming from where exactly.
- Russia's invasion of Ukraine could be quite beneficial for the US as Moscow could get locked into their own "Vietnam" struggle of endless turbulence.
- OPEC+ may be struggling to reach production quotas because many countries probably exaggerated their production capacities at the start of the agreement.
- The announcement of the FED rate-hike cycle is being absorbed by the financial markets thus far, but once the rates actually start moving up, then all bets are off.
- The FED is caught between a rock and a hard place -- restrain inflation without smothering economic growth.
- The outlook for available spare oil capacity in H2 rages on as so many variables are still unclear - from the outlook of the Iran nuclear talks to the appetite for financing shale production in Texas.
- Saudi - US relations being tested as Washington gets closer and closer to renewing the JCPOA agreement with Iran – what happens the day after if Biden makes too many concessions?

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