SEPTEMBER 3rd 2020
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Fujairah
New Silk Road
WEEKLY NEWSLETTER

Supported By:
FOIZ
منطقة الفجيرة للصناعة البترولية
Fujairah Oil Industry Zone
Port of Fujairah
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EXCLUSIVE INSIGHTS /// ACTIONABLE INTELLIGENCE /// DATA TRENDS /// LATEST NEWS

AN EXCLUSIVE GULF INTELLIGENCE INTERVIEW

"DEMAND IS A HUGE QUESTION MARK OVERSHADOWING THE MARKET."

Joseph McMonigle, Secretary General International Energy Forum

After an initial spike in demand driven by gasoline, we have hit a plateau. We may now be even more in a risk exposure environment in terms of demand. There were expectations that international travel might have come back in the summer. Obviously, that didn't happen. There's a big uncertainty on all of that, but that's just one part of the demand picture. Demand is a huge question mark overshadowing the market. The other big takeaway that I'm focused on in particular, is the concern about an investment crisis. We're seeing companies announcing capex cuts. In 2020, we will see general energy investment down around 20%. Upstream investment is down about 35% and renewables investment will be down about 10%. This could have real big implications in terms of the supply deficit in the future if it's not addressed. I'm confident that OPEC and others will start talking about this because it's a big concern. On the other hand, you have to understand where CEOs of major energy companies and their boards come down on this.

CONTINUED ON PAGE 3

Fujairah Weekly Oil Inventory Data

7,566,000 bbl
Light Distillates

4,240,000 bbl
Middle Distillates

13,318,000 bbl
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**

Source: GI Research – Weekly Phone Survey of Terminal Operators

Insights brought to you by: 2010 GI 2019 Publishing
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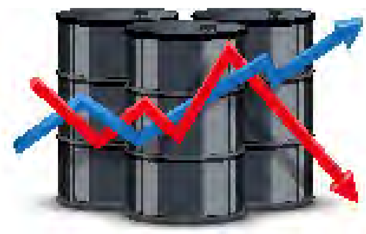
THE WEEK In Numbers



Weekly Average Oil Prices

Brent Crude: $44.98/bl

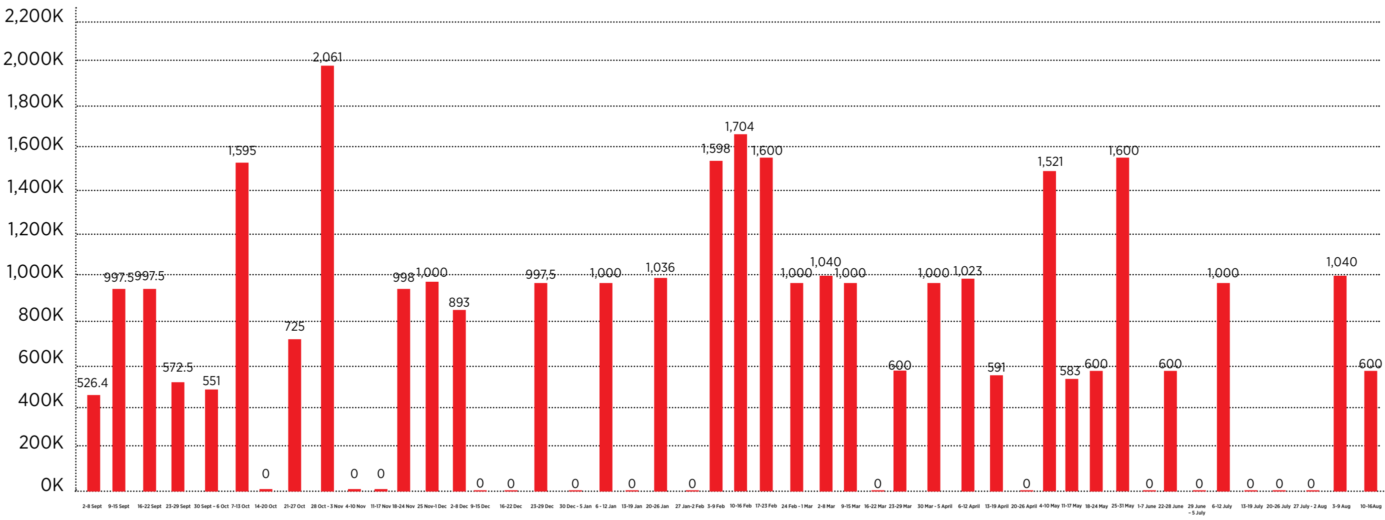
WTI Crude: $42.21/bl

DME Oman: $45.10/bl

Murban: $42.20/bl

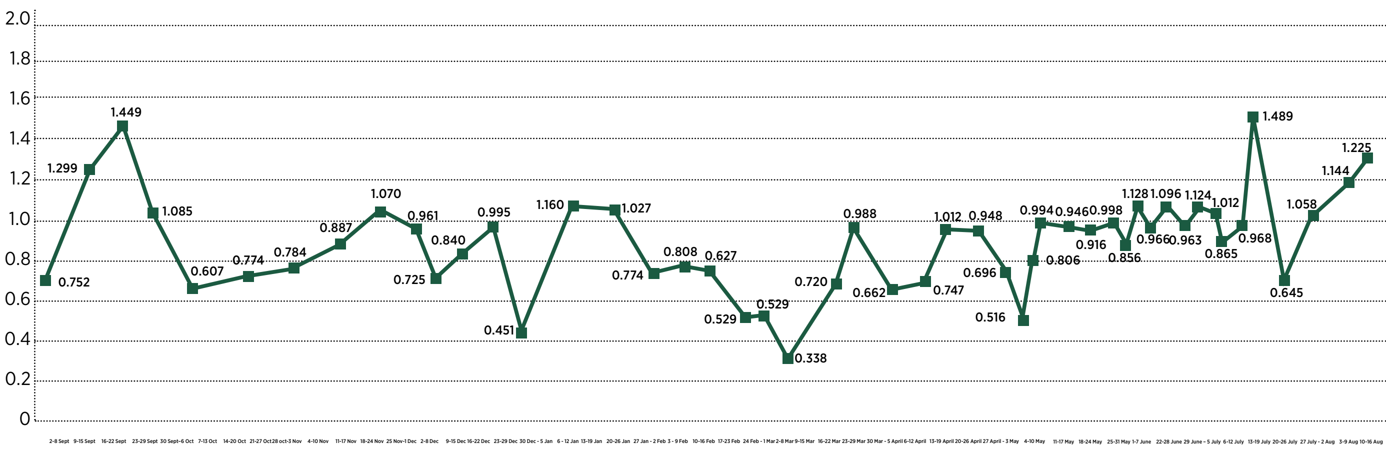
Time Period: Week 1, September 2020
Source: IEA, OilPrice.com, GI Research

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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"THE US-CHINA COMPONENT WILL RESUME ITS FOCAL POINT AS ONE OF THE MAIN DRIVERS OF SENTIMENT IN THE MARKET IF WE CAN EVER GET COVID-19 BEHIND US."

GIQ: How has the investment crisis impacted the drive to address global energy poverty?

Joseph McMonigle: The World Bank is very concerned about it. There could be a widening divide in terms of energy access as a result of Covid-19. The current numbers reveal that there are about 1.8bn people without access to modern energy. There are roughly 2.5bn people who don't have access to clean water. We can't really afford for these numbers to get greater. This is a huge problem that gets overlooked because the focus has been on other segments such as day-to-day energy trading.

GIQ: What is your outlook for investor appetite in the energy sector?

Joseph McMonigle: Covid-19 has had a huge impact on investor appetite in the sector, just like it has impacted other sectors that are most vulnerable to global retractions. A lot of this also has to do with shareholder appetite for what is perceived as growth sectors. Obviously, the tech sector is very hot. We have to keep reminding ourselves the tech sector and all of its products require a great deal of energy. So, there's always going to be a need for energy. Hydrocarbons are going to be a very dominant source of the energy mix going forward. If you look at fundamentals, which are underappreciated at the moment, the energy sector is still quite promising. The other element to consider is this whole idea of energy transition. A lot of these portfolio managers are younger and more interested in these types of issues. We're seeing a preference in this regard and it's something that we need to pay attention to. I do think that ESG investing, criteria, and transparency, can play a big role in a resurgent look at the energy sector. It is a narrative that could potentially benefit OPEC and its countries. But on the other hand, OPEC has been one of the strongest voices for greater investment in the energy sector. They understand today that extreme high prices and extreme volatility is not good for the global economy. It's not good for their customers and their businesses. This concern about investment in the sector I think is shared by OPEC even though they could be the beneficiary of it. You will see a slower return in non-OPEC production and US shale as a result of the uncertainty that we're in. So, that's another part of this issue that will actually exacerbate the problem in terms of supply.

GIQ: What is your outlook on the US-China trade war?

Joseph McMonigle: One of the things that Covid-19 has taught us is that the world is interdependent. We need to do more to bridge these divides. The China-US trade issue was driving a lot of the market sentiment pre-Covid-19. It's sort of in the back seat right now. All of the market sentiment is on Covid-19 and the return of demand. The US-China component will resume its focal point as one of the main drivers of sentiment in the market if we can ever get Covid-19 behind us. I don't really see that changing whatever the result is of the upcoming US presidential elections. This is something that's going to be here for a while. It will be dependent on leaders in both countries to robustly try to dissolve it.

GIQ: How does the US government and President Trump view multilateral energy organizations like OPEC?

Joseph McMonigle: The US is a big producer and consumer. When I started my career in energy at the US Department of Energy in the early 2000s, we were constantly communicating to OPEC about keeping production up to keep prices low. It was a little bit of tin-cup diplomacy. Now, because of how dependent the US economy is on the growth of the sector for job creation, higher prices are good. President Trump has really transitioned in his view of OPEC over the last two years. He used to be a very anti-OPEC. Now he understands what higher prices mean to US producers and global energy market stability. He may still always be an OPEC critic, but I think he now appreciates the interdependence of the US and its interests.

GIQ: How has COVID 19 impacted global energy policy?

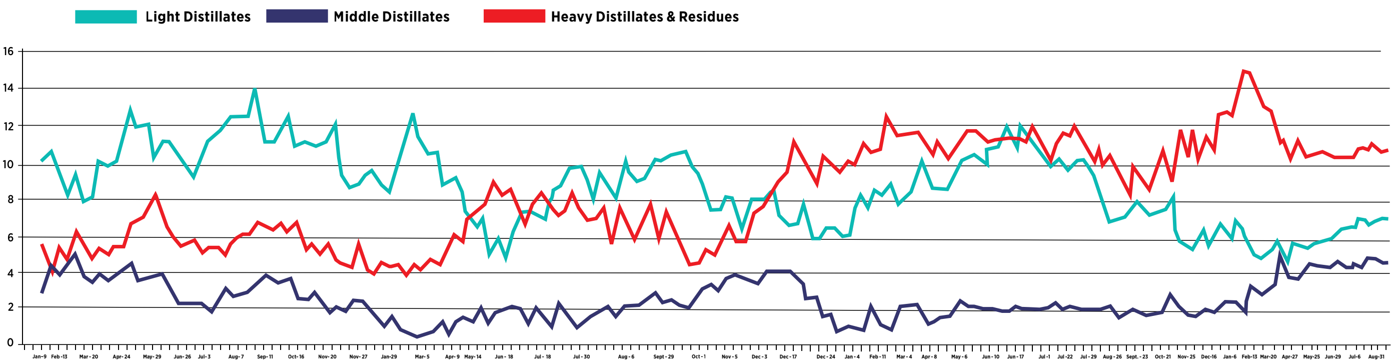
Joseph McMonigle: This pandemic has created a lot of uncertainty that continues in the market today. There have been huge impacts on energy markets and the sector in general. Against that backdrop, we've seen a strengthening of the producer-consumer dialogue and cooperation. There was unprecedented action by the G20 in concert with OPEC's unprecedented action in April. I think we're fortunate by the circumstance, that Saudi Arabia is the president of the G20. They really demonstrated leadership. The G20 is still very much involved in the energy part of this picture. Going forward there shouldn't be any social distancing between the producer and consumer dialogue. It's going to be critical to the recovery of the sector and the global economy.

WATCH FULL INTERVIEW HERE

Fujariah Weekly Oil Inventory Data

FOIZ
منطقة الفجيرة للصناعة البترولية
Fujairah Oil Industry Zone

bbl (million)



TOP TAKEAWAYS

- Total oil product stocks in Fujairah were reported at 25.124mn barrels. Total stocks fell by 1.557mn barrels falling 5.8% week on week, with a large draw in heavy residues offsetting builds in light and middle distillates.
- Stocks of light distillates rose by 507,000 barrels or 7.2% week on week. Total volumes stood at 7.566mn barrels. The gasoline market East of Suez was seeing an uptick in movement with product expected to flow into both the Philippines and Sri Lanka in the weeks ahead, according to recent shipping fixtures. This evidence of increased cargo flows within Asia has helped to provide some support, signaling that demand from typical buyers of gasoline have returned, however heavy Chinese supply is expected to cap any rise in the motor fuel complex.
- Stocks of middle distillates rose by 104,000 barrels to 4.240mn barrels as they rose by 2.5%. The gasoil market was seeing an uptick in movement in barrels out of the Arab Gulf, with demand from East Africa providing some support. In addition “latin America is drawing some barrels from the AG and north Asia,” a trader said. Still, demand concerns remained a factor, with gasoil consumption patterns in many countries expected to remain in the doldrums which was casting a pall over the market.
- Stocks of heavy residues saw a large draw falling by 14%, drawing down by 2.168mn barrels on the week to stand at 13.318mn barrels. This is the lowest level since late April when they stood at 13.063mn barrels on April 27. The move from August to September was seeing subdued bunker demand in Fujairah with buyers holding back amidst a decline in crude oil prices. “The market is low because the demand is low and Brent has fallen too,” said a Fujairah-based supplier. The discount of Fujairah delivered bunker prices relative to Singapore has widened, with delivered bunker prices for Marine Fuel maximum 0.5% sulfur in Fujairah standing at $325/mt on Tuesday, with the discount to Singapore standing at $18/mt.

Source: S&P Global Platts

Commodities

Oil prices dropped sharply overnight despite a reasonably supportive set of data from the EIA. Brent futures closed at $44.43/bl, down 2.5% while WTI was off by 2.9% to settle at $41.51/bl. The primary catalyst seems to be two days of dollar strength shaking confidence in how much further oil could rally. EIA data showed a large drop in US output last week—in response to Hurricane Laura—to 9.7mn b/d. However, as the storm has dissipated that is likely to recover quickly. Product supplied was also sharply lower, again likely a result of the hurricane which pushed refinery utilization to 76.7%, its lowest since the peak of the demand drop in April-May. Total crude stocks fell by 9.4mn bbl last week with the Gulf Coast seeing the largest drop as deliveries were affected.

FX

The dollar had a positive session on Wednesday. The DXY index advanced by 0.5% to reach 92.85 at the close and is holding ground today. USDJPY also earned moderate gains to trade at 106.20, with a move towards the 50-day moving average of 106.45 in sight.

Subsequently the euro declined by -0.5% overnight to reach 1.1855 and is pushing lower this morning. Sterling also sold off and has tested 1.3329 in early trade today. The AUD fell sharply to 0.7320, still reeling from the latest Q2 GDP results, whilst the NZD was largely unchanged at 0.6760.

Equities

US equities continued their strong run yesterday, with the S&P 500 gaining 1.5% on the day, pushing it up to a 10.8% gain ytd. The technology-heavy NASDAQ has gained an even more impressive 34.4% since the start of the year, adding to it with a 1.0% gain yesterday. Meanwhile, the FTSE 100 rebounded from the three-month low it sank to the previous day, climbing 1.4% yesterday, driven by homebuilders following positive news about the market.

Source: Emirates NBD

ENERGY MARKET NEWS

RECOMMENDED READING & VIEWING

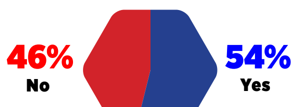
1. OIL HOLDS STEADY NEAR MULTI-WEEK LOWS ON DEMAND WORRIES
2. EIA REPORTS A WEEKLY DECLINE OF MORE THAN 9MN BARRELS IN US CRUDE SUPPLIES
3. US OIL DRILLING SET TO START RISING AFTER CYCLE TURNS
4. OIL MINISTER: IRAQ WANTS TO BE EXEMPT FROM OPEC EXPORT CUTS IN Q1 2021
5. INDIA, AUSTRALIA AND JAPAN TO LAUNCH RESILIENT SUPPLY CHAINS FOR INDO-PACIFIC
6. US CUTS AID TO ETHIOPIA OVER NILE DAM DISPUTE
7. JAPAN'S AUGUST SERVICE SECTOR ACTIVITY WORSENS AS PANDEMIC STYMIES RECOVERY
8. REMOTE WORK IS KILLING THE HIDDEN TRILLION-DOLLAR OFFICE ECONOMY
9. IS A DEBT AMNESTY THE BEST SOLUTION TO CHINA'S SUBPRIME CREDIT CRISIS?
10. SUMMER TRAVEL DEMAND BOOSTS RECOVERY OF CHINA'S AVIATION SECTOR

RECOMMENDED VIDEOS & REPORT

- "COVID-19: ASIA IS PRIORITIZING ECONOMIC RECOVERY OVER ENERGY TRANSITION"
- "OIL DEMAND RECOVERY STILL A HUGE QUESTION MARK"
- VANDANA INSIGHTS : CRUDE INCHES UP EARLY THU, MAY CORRECT AFTER WED'S STEEP SELL-OFF
- THE TRAGEDY OF VACCINE NATIONALISM

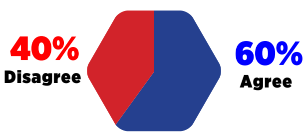
Weekly Surveys

Children all over the world return to their school over the coming days – will the majority of them still be in classrooms by the end of September?

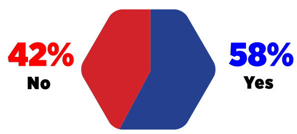


Will the Fed-fueled global equities rally end in tears before end of 2020?

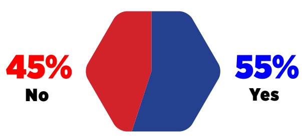
Demand recovery building momentum for march towards $50 by end of September.



We had the UAE compliance wobble earlier this week; now Iraq wobble – Is OPEC losing its grip on compliance discipline?



During the three-month period from May to July, aggregate overproduction for the Opec-plus alliance totaled 70 million barrels, which equates to an average daily rate of 770,000 b/d – will oil prices react to break out of low $40s band if this deficit is filled?



Source: GIQ

Fujairah Spotlight

Mitsubishi Hitachi to Supply Fujairah F3 Gas Turbines

Japan's Mitsubishi Hitachi Power Systems (MHPS) will supply three gas turbine generators for the planned 2,400MW Fujairah F3 independent power producer (IPP) project in the UAE. MHPS confirmed on 25 August it has received an order for three M701 JAC gas turbine generators to be installed at the combined-cycle plant. The firm will supply the turbines and other auxilliary equipment through South Korea's Samsung C&T, the project's lead contractor. Samsung C&T confirmed in February that it had been awarded the $953mn engineering, procurement and construction contract for the scheme.

Source: Power Technology

57km Internal Roads Connect 15 key Fujairah Areas

The department of public works and agriculture has built up to 57km of internal roads that connect 15 key areas across the emirate of Fujairah. Salem Al Maksah, director of the department, pointed out that the first phase of the internal roads project has been completed. "The 57km of internal roads have been laid out in collaboration with the Fujairah Municipality, Dibba Fujairah Municipality, and Fujairah Foundation for Natural Sources.

Source: Khaleej Times

6 of the UAE's best Scuba-diving Sites: from a Dubai Shipwreck to a Fujairah Marine Reserve

The global pandemic has created a scuba-diving boom in the UAE. As a result of travel restrictions put in place to help curb the spread of the coronavirus, many people have found themselves staying put over summer, and have used this as an opportunity to discover the region's waters. According to the Professional Association Diving Instructors, the GCC experienced its best July in 10 years in terms of student diver numbers. Updated regulations and new safety rules were quickly implemented by Padi to help dive centres safely maximise on this captive audience.

Source: The National

Fujairah Heavy Distillates Stockpiles Slump

Oil products stockpiles at the UAE's East Coast Port of Fujairah dropped to a two-week low on 31st August, with heavy distillates such as marine bunkers tumbling 14% week on week, the biggest decline since December 2019. Total stockpiles stood at 25.124mn barrels on 31st August, down 5.8% from a week earlier, the biggest drop since April, according to data shared by the Fujairah Oil Industry Zone, or FOIZ, today. Light and middle distillates inventories climbed in the week ending 31st August. Inventories of heavy distillates, which also include fuel for power generation, have dropped 22% as of the end of August from the record level of 17.168mn barrels on 8th June, at a time of peak electricity demand for air conditioning and increased crude production from OPEC. The 23-country OPEC+ alliance implemented a historic 9.7mn b/d cut pact starting in May, which was rolled back to 7.7mn b/d in August.

Source: Emirates News Agency

GIQ EXCLUSIVE SOUNDINGS

Is the Oil Market Finally Heading Towards a Sustained Positive Direction?

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:

- Christof Rühl, Senior Research Scholar, Center on Global Energy Policy, Columbia University
- Amena Bakr, Deputy Bureau Chief, Energy Intelligence
- Victor Yang, Senior Editor, JLC Network Technology
- Omar Najia, Global Head, Derivatives, BB Energy
- James McCallum, Executive Chairman, Xergy & Professor of Energy, Strathclyde University
- Peter McGuire, Chief Executive Officer, XM Australia
- Frank Kane, Senior Business Columnist, Arab News
- Dr. Carole Nakhle, Chief Executive Officer, Crystol Energy
- Vandana Hari, Founder & CEO, Vanda Insights
- Ahmed Mehdi, Research Associate, Oxford Institute for Energy Studies
- Paul Young, Head of Energy Products, Dubai Mercantile Exchange

Christof Rühl, Senior Research Scholar, Center on Global Energy Policy, Columbia University
"Energy has little hope of going back to the demand rules that we were used to. This raises the question on whether the market has peaked or will peak in the next few years. In this case, the days of association with organizations like OPEC will be numbered because it would be almost impossible to keep an organization together in the face of a falling market, and competition would start in earnest on low prices."

Amena Bakr, Deputy Bureau Chief, Energy Intelligence
"On August 28th, countries that couldn't produce their quotas had to present their plans to the [OPEC] secretariat on how they plan to compensate the volumes that they overproduced in August and in September. The documents show that overproduction in the three months since the deal started was 2.3mn b/d, which is roughly an average of about 770,000 b/d for each month. They plan to cut that 2.3mn b/d in August and in September. How that's going to happen remains to be seen."

Victor Yang, Senior Editor, JLC Network Technology
"Chinese refiners considered it a great time to amplify their margins from June to August because they heavily purchased low cost feedstock earlier this year, but product demand didn't recover as fast as production. So now they have high oil product inventories. In some regions this could be about 80% of storage capacity, which is close to a five-year high."

Omar Najia, Global Head, Derivatives, BB Energy
"We just need to get this market moving. I'm very wary about the S&P, NASDAQ, and the Dow Jones. They're just not related at all with fundamentals at the moment. This is great, but how long can they continue that way?"

James McCallum, Executive Chairman, Xergy & Professor of Energy, Strathclyde University
"There is an enormous opportunity for the oil and gas industry. The opportunity lies in understanding where you want to sit and what you want to do in the blended supply of energy. I think that is where the hope lies."

Peter McGuire, Chief Executive Officer, XM Australia
"Asian markets have done quite well. Certainly, their currencies have done well against the US dollar. We've seen a fairly good move up across the Asian sector but nothing like we've seen on the tech side as far as US equities, the Dow and the S&P are concerned. In some cases, these are just beyond even imagination at the moment."

Frank Kane, Senior Business Columnist, Arab News
"There is growing optimism on demand recovery. Goldman Sachs' forecast for the third quarter of next year is the highest forecast level that there has been so far and they are attributing this to the vaccine, increased demand that will come from a vaccine and discipline on the part of producers, namely OPEC+ and shale production cuts. So overall, things are looking quite good."

Dr. Carole Nakhle, Chief Executive Officer, Crystol Energy
"We have to remember that this kind of optimism and improvement in the data is expected because we're starting from a very low base and a period which was really dark for all industries. Anything we're seeing today is an improvement, but we have a long way to go."

Vandana Hari, Founder & CEO, Vanda Insights
"I think the long-term view is for the US dollar to continue weakening. That will provide support to a range of commodities that are priced in the dollar setting."

Ahmed Mehdi, Research Associate, Oxford Institute for Energy Studies
"Fundamentally, OPEC compliance has been strong. What's been introduced is this compensation mechanism. This is a signal from the Saudis to the markets that they're taking the cuts very seriously. My concern is that Iraq is now trying to manage Saudi Arabia's expectations."

Paul Young, Head of Energy Products, Dubai Mercantile Exchange
"Gasoline demand figures saw quite a hefty fall in consumption from 9.2 to 8.78. But it could be just linked to the recent hurricanes and a lot less driving. I wouldn't worry too much about it. It could be just a one-off on the figures like the drop in oil prices overnight on Wednesday."

ENERGY MARKETS COMMENTARY WEEK IN REVIEW

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DAILY ENERGY MARKETS FORUM
NEW SILK ROAD "LIVE" - WEBINAR Aug 30th - Sep 3rd

GIQ EXCLUSIVE

TOP 10 MARKET OBSERVATIONS FOR THE WEEK

1. LFor better or worse, the FED decision to change inflation target from 2% to avg. 2% will ensure near-zero interest rates for as far as the eye can see.

2. Oil prices could float up towards $50/bl in Q4 with declining inventories and free money stimulus.

3. In Guangzhou, China people are queuing up to get on the metro during rush hour and they are not wearing masks in the office i.e. things are pretty much back to normal.

4. OPEC+ may be losing its robust grip on compliance with supply cuts after a week in which some member states were back in the headlines for over-production.

5. China's crude oil imports in August are likely to be higher than July, which should help consolidate prices in the $40s/bl through Q4.

6. China demand recovery looking solid as the official manufacturing Purchasing Managers Index reported gains in August.

7. Congestion offloading oil at Chinese ports has tied up close to 20% of world's VLCCs for best part of a month and counting.

8. US oil inventory drawdown continues into a second month as market sentiment swings firmly in direction of sustained demand recovery.

9. Saudi Official Selling Price (OSPs) for crude oil may trend lower when they emerge in the coming days after market sell-off yesterday.

10. Demand recovery momentum and the juggernaut Equity market rally is putting wind in the sails of Trump re-election with the polls now too close to call.

UPDATE

Iraq Denies it was Seeking Exemption from OPEC+ Oil Cuts

Official Statement: Iraq's Ministry of Oil

"A false statement has been circulating in the media today, attributed to HE the Iraqi Minister of Oil that the Republic of Iraq would be seeking an exemption on production limits agreed under the OPEC+ Declaration of Cooperation.

The Ministry of Oil would like to categorically deny this baseless statement, and affirm that, to the contrary, Iraq remains fully committed to the April OPEC+ Declaration of Cooperation, and the compensation mechanism agreed to in June, and will continue to work with all of the other signatories in our collective efforts to enhance the stability of global petroleum markets.

Furthermore, Iraq's conformity has exceeded 100% in August, and will continue to perform at this elevated level, while compensating in August and September for the previous overproduction of 850 kbd, in accordance with the OPEC+ agreement. If the full compensation volumes cannot be made by the end of September, Iraq will request the Joint Ministerial Monitoring Committee to seek an expedited decision from the OPEC+ countries, immediately after the Committee's meeting on September 17th, for an extension of the compensation period to the end of November."

Source: Ministry of Oil

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