Fujairah New Silk Road WEEKLY NEWSLETTER

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AN EXCLUSIVE GULF INTELLIGENCE INTERVIEW

"OIL MAJORS ARE IN TROUBLE!"

Christof Rühl, Senior Research Scholar, Center on Global Energy Policy, Columbia University & Former Chief Economist, BP

We're entering the holiday season but I'm not sure it's going to be a peak driving season this year, and spontaneously, I'd say there's nothing over the horizon that would kick the oil prices to break out of the current tight range of $40s. The longer this continues, the more likely we'll see a movement downwards rather than upwards. A few months ago, we thought August would be the time of year where we'd be at the second leg of a V-shaped recovery and, consequently, oil demand would pick up and everything would be on track to return to the end of 2019 levels of oil demand and economic activity. But that's becoming an increasingly doubtful proposition. The one thing that has been guiding this journey over the last few months has been inventories building massively in the second quarter, and the expectation that they would start to come off in the third quarter and over the last few weeks of July. However, they've been very inconsistent. They would have to slowly diminish eventually and, even then, we're left with an enormously complex picture. First, we have to recognize that oil is at the receiving end of all this. We have energy markets hostage to the economic situation. We have the economic global situation hostage to the efforts of fighting the pandemic. This idea of a synchronized recovery is increasingly unlikely and being replaced with great divergence across countries as regards the pandemic, the economy and, consequently, energy demand.

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Fujairah Weekly Oil Inventory Data

7,283,000 bbl	3,552,000 bbl	14,175,000 bbl
Light Distillates	Middle Distillates	Heavy Distillates & Residues

Source: FEDCom & S&P Global Platts

Fujairah Average Oil Tank Storage Leasing Rates*

BLACK OIL PRODUCTS

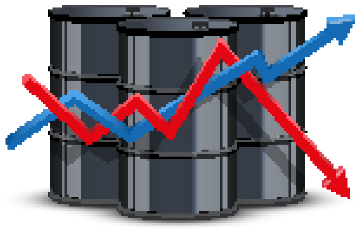
Average Range
$3.57 – $4.06/m³

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

Source: GI Research – Weekly Phone Survey of Terminal Operators

Insights brought to you by: 2010 GI 2019 Publishing Thegulfintelligence.com

THE WEEK In Numbers



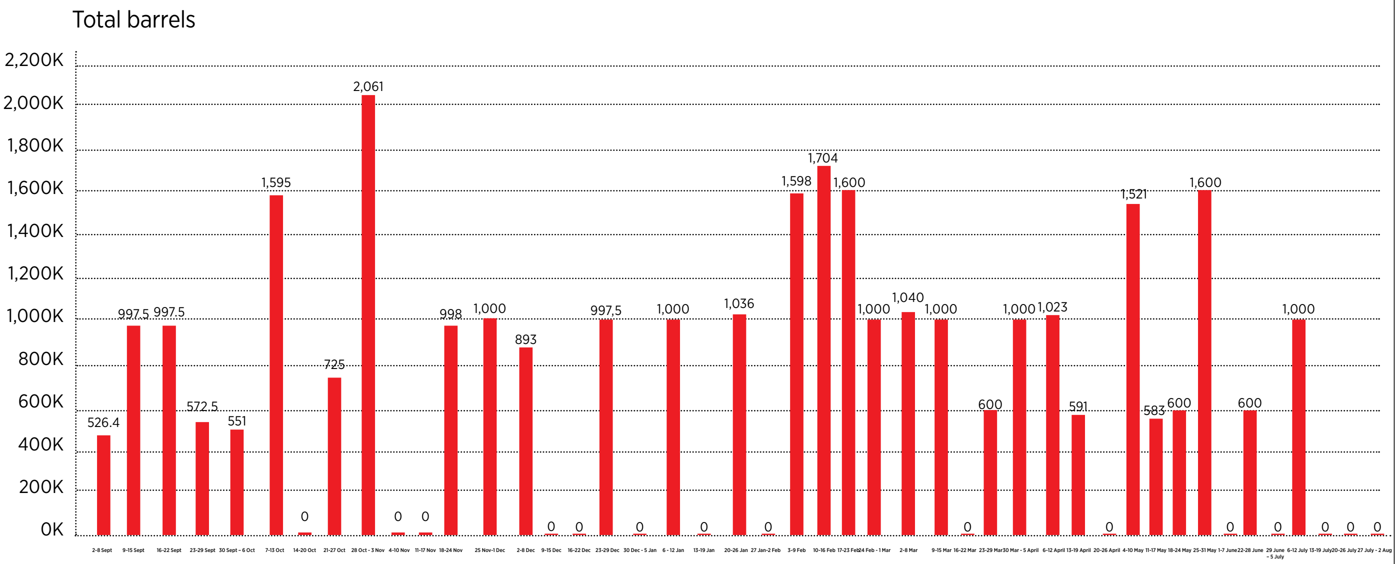
Weekly Average Oil Prices

Brent Crude:	$44.28/bl
WTI Crude:	$41.25/bl
DME Oman:	$43.85/bl
Murban:	$43.35/bl

Time Period: Week 1, August 2020

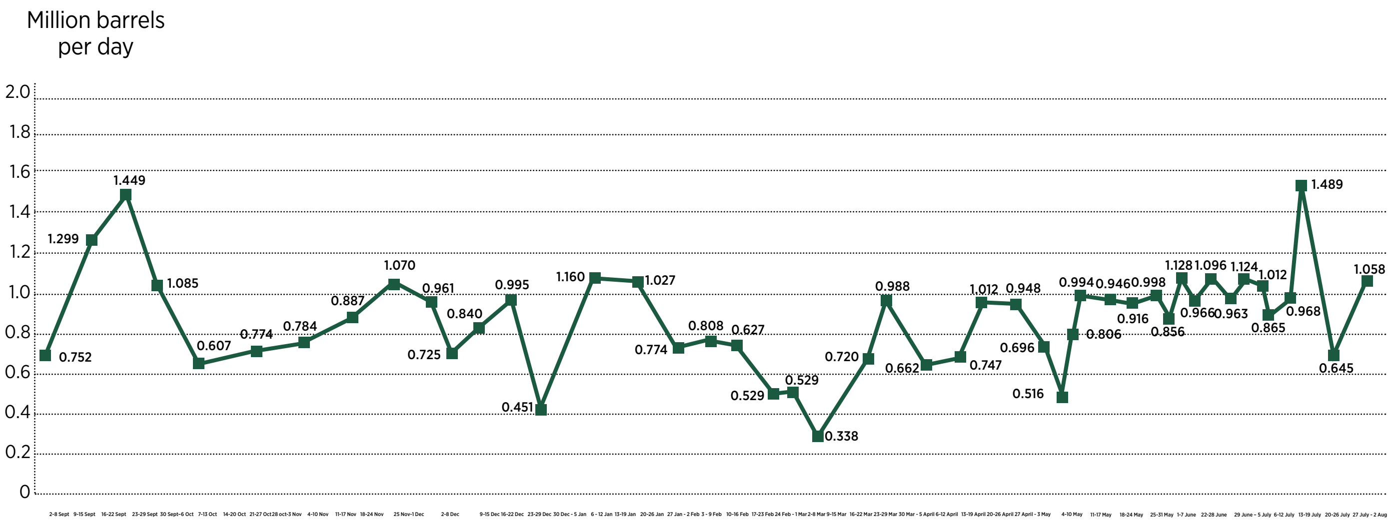
Source: IEA, OilPrice.com, GI Research

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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GIQ: It seems that we have this battle between Covid-19 cases resurging and the stimulus that keeps coming. Which one will eventually win?

Christof Rühl: The economy has the problem that the longer the current stalemate continues, the less likely it becomes that we'll see a smooth, synchronized recovery, simply because parts of the capital stock will start degrading. The human capital and the labor market will start to become more complicated with people out of work for months. Therefore, you'll see more structural change being necessary to achieve higher growth rates. That makes it more complicated for the economy. For oil demand, when you think of where the growth centers were: India, China, and the Middle East. Growth has slowed down in all of these places. Large parts of the rest of the world didn't even have demand growth before the pandemic. I think that OPEC+ has to recognize that they have to wipe out excess inventories in order to recapture the ability to impact the markets. Having said that, OPEC+ had very little choice but to increase production from August because, in order to keep people online and keep the alliance together, you need to stick to the plan. They have already added an extra month to those cuts, given that demand hasn't recovered to the extent necessary to pick up the slack. But nobody could have known this back in April when the deal was struck. And the last thing you can do now is to undermine the deal.

GIQ: What is your outlook for the trilateral relationship between US, Saudi Arabia and Russia in terms of managing the global energy oil markets?

Christof Rühl: In the very long-term, it'll break up. What we have to recognize is that the moment oil markets stop growing and start shrinking, the whole game changes, and it'll be almost impossible for cheap suppliers like the OPEC countries to increase prices by cutting production. When you're in a market which is falling, you need to take market share from somebody else in order to keep your own production levels constant. The only way to do this is by price competition. So, we switch to a mechanism where these parties start competing on price. The price war between Saudi Arabia and Russia was our first taste of what's yet to come. That's the situation in durably lower prices because of the price competition. That will change everything. And it will change a lot, in particular for the Gulf countries, as they will have to think about viable alternatives. The only conceivable alternative to me is one where the three big producers get together, continue the dialogue and come up with a quota regime to stabilize market share. The US would have an incentive to do that because in a world where price competition rules, they'd lose their status as an oil exporter. Saudi Arabia certainly has a huge incentive to do that because they are so dependent on oil revenues. Russia doesn't have an incentive to do so because they'd like to see the US using their own energy stages.

GIQ: What is your outlook for shale oil?

Christof Rühl: To think that shale is disappearing is just nonsense. It's just not going to happen. Like any upstart industry, there has always been profitable parts, deeply indebted parts and unprofitable parts of shale. The increase of the financial sector restructuring and reorganization, which has taken place in the shale industry, will make the sector stronger. They may lose a few hundred thousand, or maybe a million barrels, but they'll come out stronger like they always have. I think what we've seen in the past will be replicated where you have a very sensible bankruptcy and financial restructuring system. At the end of the day, we will see increased productivity from that segment of the industry. It will not disappear 10 years down the road.

GIQ: How do you see this moment in time impacting the major oil companies and their journey forward?

Christof Rühl: They're in trouble and they're defending themselves with the best way they know how. There are two defense lines: first is to cut costs, which will be beneficial in the long-term. But they also take huge impairment charges. What that means is you eliminate part of your capital value and then you look at the rates of return on capital. With this, the return on investment will improve automatically even if your returns don't improve. We are in a journey where in the third quarter you will see improvements everywhere because of the low basis that has been established. You'll see the economy suddenly grow very fast and you'll see oil markets recovering to some extent, not because something stellar has happened, but because the second quarter was so miserable. My best guess is that the oil companies will have to swim through that bad patch, which can be a long time, by adjusting costs and downsizing. I believe that the promises which have been made about making the energy transition journey, will come back to haunt them because there's no way they can finance it from extra profits from the oil and gas segment. There is no way in which you can suddenly start to act like a utility and produce wind and solar power to get a profit anywhere close to what you made from oil.

WATCH FULL INTERVIEW HERE

Fujariah Weekly Oil Inventory Data

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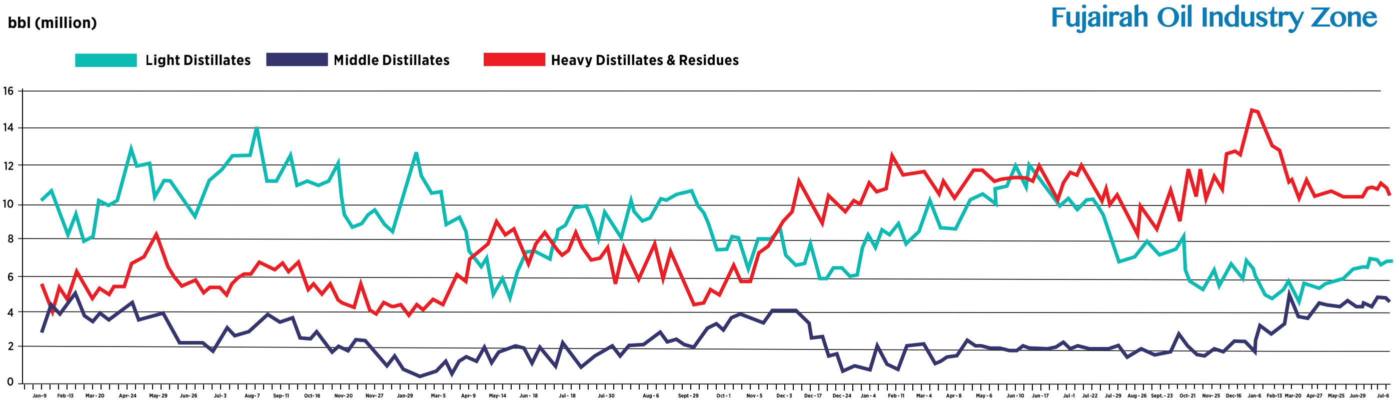


TOP TAKEAWAYS

- **Total oil product stocks in Fujairah were reported at 25.010mn barrels. Stocks fell by 704,000 barrels falling 2.7% week on week, with draws across middle distillates and heavy residues outpacing the build in light distillates.**
- **Stocks of light distillates rose by 518,000 barrels or 7.7% week on week. Total volumes stood at 7.283mn barrels. The gasoline market East of Suez was mixed with a fresh wave of Covid-19 lockdowns in the region threatening the demand outlook for the motor fuel. On the other hand the recent uptick in values in the US for the fuel was seen as providing some support to global cracks for gasoline. In other news, state-owned Pakistan State Oil was heard to seeking 92 RON gasoline and 97 RON gasoline cargoes for October deliveries.**
- **Stocks of middle distillates fell by 838,000 barrels to 3.552mn barrels as they fell by 19.1%. This is their lowest level since mid-April, when they stood at 2.919mn barrels on April 13. Gasoil this week was sluggish amid weak sentiment, with some trading sources saying that the near term view remained soft on the back of growing supplies seen from China. "I am having a bearish view due to more supply and regionally there are new lockdowns," a source said. The move to softer fundamentals marks a quick reversal in fortunes for the middle distillate, which as recently as early July had been experiencing tight supply amid growing demand, with these two factors combining to shore up the gasoil complex.**
- **Stocks of heavy residues saw a draw falling by 2.6%, drawing by 384,000 barrels on the week to stand at 14.175mn barrels. The delivered bunker market in Fujairah had seen a pick up month on month with volumes in July rising from June. Furthermore, traders were hoping for a continued rise in activity though August. "There were more inquiries today. We did see some increase in bunker fuel volumes from June to July so maybe demand will pick up further in August," said a trader. Fujairah delivered bunker prices continued to be at a discount to Singapore, with delivered bunker prices for Marine Fuel maximum 0.5% sulfur in Fujairah standing at $325/mt on Tuesday, with the discount to Singapore narrowing on the week to $5/mt.**

Source: S&P Global Platts

Fixed Income

Optimism that a new fiscal stimulus deal in the US could be reached soon helped to sink US Treasuries overnight. Officials in the administration and Democratic party have set Friday as a deadline to reach a deal, when combined with the release of July's non-farm payrolls could set markets up for some wide two-way moves. Yields on the front end of the curve were marginally higher while the 10yr yield added 4bps. European bond markets were also weaker overnight with gilt yields up more than 5bps and bund yields moving up by 4.5bps. High yield and emerging market debt closed higher in anticipation of a new US stimulus deal.

Equities

Global equities maintained positive momentum yesterday as services PMI surveys surprised to the upside, even despite the concerning indications for the labour market. In the US, the S&P 500 closed up 0.6%, cementing its ytd gains to 3.0%, while the Dow gained 1.4% yesterday. In Europe, the FTSE 100 was the big gainer, climbing 1.1%, largely driven by mining and travel firms, while the DAX and CAC added 0.5% and 0.9% respectively.

Regional equities were broadly flat, as the DFM added 0.3% and the Tadawul 0.2%.

Commodities

Oil prices added another day of gains with both Brent and WTI rising. Brent futures settled at $45.17/bl, their highest level since March while WTI was up by 1.2% at $42.19/bl. Data from the EIA showed a 7.4mn barrels draw in US crude stocks with modest gains across much of the rest of the barrel allowing total petroleum inventories to decline. Crude output in the US was down by 100k b/d but product supplied (a demand proxy) fell by 1.2mn b/d. Gold prices settled up nearly 1% at $2,038/troy oz. The odds are for the yellow metal to continue hitting new record levels until there is a clearer picture on the shape of economic recovery that will take place globally. However, the upward moves in gold are occurring in tandem with gains in equity markets: indeed the 90-day correlation between daily returns in gold and the S&P 500 is at near its strongest positive level in the past five years. Should a clearer picture for the pace of economic recovery emerge, funds may choose to liquidate their gold positions to fund equities, sparking a major correction.

Source: Emirates NBD

ENERGY MARKET NEWS

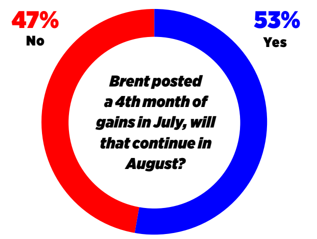
RECOMMENDED READING & VIEWING

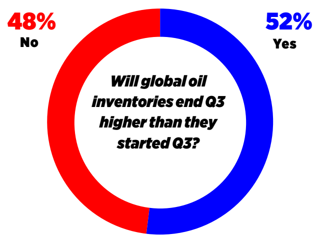
1. OPEC DISCIPLINE TESTED AS CUTS ARE SCALED BACK
2. EIA: US CRUDE STOCKPILES FALL SHARPLY AS REFINING RISES
3. OIL PRICES MIXED AS COVID-19 UNDERCUT LOWER US CRUDE STOCKS
4. THE GEOPOLITICS OF CHINA'S LIBYA FOREIGN POLICY
5. AVOID SIDING WITH US OR CHINA, MALAYSIA URGES ASEAN
6. SHALE REBOUND LOOKS MUTED AS OIL PRICES REMAIN BELOW KEY TRIGGER
7. BRUTAL MONTH FOR PIPELINES SHOWS A FRIENDLY WHITE HOUSE IS NOT ENOUGH
8. PHILIPPINES CAUGHT BETWEEN SUPERPOWERS IN SOUTH CHINA SEA
9. US JOB MARKET RECOVERY APPEARS TO BE SLOWING, SERVICES SECTOR POWERS AHEAD
10. SECOND STIMULUS CHECK: PROGRESS SLOW AS FRUSTRATED SENATE REPUBLICANS RE-UP COMPLAINTS

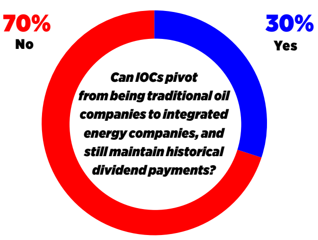
RECOMMENDED VIDEOS & REPORTS

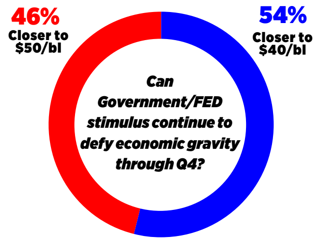
- "OIL MAJORS ARE IN TROUBLE!"
- DRONE FOOTAGE SHOWS THE SCALE OF DESTRUCTION IN BEIRUT

Weekly Surveys









Source: GIQ

Fujairah Spotlight

Saudi Staycations Boost Fujairah's Gasoline Exports

Dubai — Saudis staying home for vacation because of the Covid-19 pandemic are helping to boost demand for gasoline in Fujairah, where motor fuel exports jumped to a two-year high in July, according to cargo-tracking company Kpler. Gasoline exports from the UAE's east coast port averaged 192,000 b/d in July, the most since May 2018, Kpler data show. Shipments to Saudi Arabia hit a three-year high in June at 50,000 b/d and were still at 30,000 b/d in July. Pakistan, Iraq and South Africa were also big buyers in July. Aramco Trading Co. (ATC), the Saudi Aramco subsidiary with offices in Fujairah, "needs to import to cover seasonal gasoline demand which has been higher than usual, owing to the fact that, because of Covid-19 restrictions, many Saudi Arabian residents are unable to make their annual travel out of the region over the hot summer months," Kevin Wright, lead Asia Pacific analyst in Singapore at Kpler, told S&P Global Platts. "ATC has sourced barrels from Fujairah to cover their demand. Iraq has also seen higher imports of gasoline drawn from traders' Fujairah inventories."

Source: S&P Global Platts

Two Free Covid-19 Testing Centres Open in Dibba, Fujairah

Fujairah: The Ministry of Health and Prevention in the UAE has opened two free Covid-19 testing centres in Dibba, Fujairah. They will be located at the community council in Om area and the Fujairah Exhibition Centre. The centres have been provided with state-of-the-art equipment and top professional cadres to serve both Emiratis and expats.

Source: Gulf News

Watch: Volunteer Divers in Action to Help Restore Fujairah's Coral Reefs

Volunteer divers are being sought to help to restore and replant coral reefs in the open waters of Fujairah. In the next five days, teams will take fresh coral from Dibba Port and replant it further out at sea, about a kilometre from Dibba Rock, a popular diving spot. The campaign is part of an initiative to help sustain and grow marine life in UAE waters. The Ministry of Climate Change and Environment said dives will take place every day this week from 7AM to noon and finish on Saturday.

Source: The National

FUJAIRAH DATA: Oil products stocks slip, down 19% from record in June

Dubai — Stockpiles of oil products at Fujairah on the UAE's east coast resumed declines, further eroding inventories that had climbed to a record on June 1. Inventories fell to 25.01mn barrels as of Aug. 3, down 2.7% from a week earlier, the fifth drop in six weeks, according to an Aug. 5 report from the Fujairah Oil Industry Zone and provided exclusively to S&P Global Platts. Middle distillates tumbled 19% in the latest week to 3.552mn barrels, the lowest since April 13. Gasoil has been in tight supply recently amid growing demand, notably in India, Platts previously reported. Other middle distillates are jet fuel, diesel, marine bunker gasoil and kerosene. Light distillates climbed 8% to 7.283mn barrels, a two-week high. The category covers gasoline, blending components such as reformate and alkylate, naphtha and other light petrochemical feedstocks and condensates. A fresh wave of Covid-19 infections has weakened the gasoline complex, which would lead to less naphtha used for blending, and increase availability of cargoes for naphtha buyers, Platts reported earlier. Heavy distillates and residues which include fuel used in marine bunkers and for power generation dipped 3% to 14.175mn barrels, a two-week low.

Source: S&P Global Platts

GIQ EXCLUSIVE SOUNDINGS

What Is Next For Oil Prices As OPEC+ Eases Supply Cuts?

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:

- Kevin Wright, Lead Analyst APAC, Kpler
- Edward Bell, Senior Director, Market Economics, Emirates NBD
- Robin Mills, Chief Executive Officer, Qamar Energy
- Frank Kane, Senior Business Columnist, Arab News
- Mike McGlone, Senior Commodity Strategist, Bloomberg
- Andy Laven, Chief Operating Officer, Sahara Energy Resources DMCC
- Ahmed Mehdi, Research Associate, Oxford Institute for Energy Studies
- Vandana Hari, Founder & CEO, Vanda Insights
- Dr. Carole Nakhle, Chief Executive Officer, Crystol Energy
- Paul Young, Head of Energy Products, Dubai Mercantile Exchange

Kevin Wright, Lead Analyst APAC, Kpler
"When you get to the level where the usable and accessible storage is almost full, you're going to have to see a slight slowdown in the import level. On top of that, congestion around Shandong is still very high. Over the last few weeks, we've seen an excess of 50, 60 vessels waiting to berth, sometimes in excess of 23, 24 days just to be able to discharge. All of these factors contributed to an inevitable slowing down of imports."

Edward Bell, Senior Director, Market Economics, Emirates NBD
"The year started with data that said for Q3 and Q4 your best-case scenario is that consumption is down 20%. That's still not a very rosy outlook."

Robin Mills, Chief Executive Officer, Qamar Energy
"We're seeing a two-track economy where the trade and the manufacturing side is doing okay but the consumption side, which is the main driver for the US economy in particular, is really struggling. We have bounced back from the very low levels of April but it's struggling to go any further."

Frank Kane, Senior Business Columnist, Arab News
"The disconnect between markets and the real economy seems to be getting wider and wider. People are still waiting for the long-term economic repercussions of all this to finally play through with a feeling that we still haven't seen the end of it in financial markets and debt markets."

Mike McGlone, Senior Commodity Strategist, Bloomberg
"I think the market has been buoyed by now. We're on a cliff's edge: we need more fiscal stimulus and we need the stock market to continue appreciating. Otherwise, if the stock market gives away a little, crude oil is going to just do what it's been doing for most of the last 10 years – go down."

Andy Laven, Chief Operating Officer, Sahara Energy Resources DMCC
"BP, like all the majors, is very good at what it does and, that is, producing and using fossil fuels. To simply state that in the next 10 years they're going to cut fossil fuels by 40% is fantastic but there is going to be an enormous effort and challenge in actually delivering and maintaining the company at the same scale."

Ahmed Mehdi, Research Associate, Oxford Institute for Energy Studies
"The record crude import levels are not only attributed to opportunistic buying, but also due to the fact that in the physical markets, the Chinese load two months ahead. Furthermore, China has a price floor mechanism, which effectively gives refiners a margin on an incentive to purchase extra crude."

Vandana Hari, Founder & CEO, Vanda Insights
"If you look at India, the second largest consumer in Asia, the demand recovery doesn't look very good. We had the country's largest state oil firm, Indian Oil Corporation, saying that they have once again reduced their utilization rates to about 75%. So India's still waiting for that elusive peak in Covid-19."

Dr. Carole Nakhle, Chief Executive Officer, Crystol Energy
"The important point to make here is that the GCC have been driving the success of the OPEC+ supply cuts and, if you want to know where OPEC+ is heading, you have to watch the GCC, particularly Saudi Arabia."

Paul Young, Head of Energy Products, Dubai Mercantile Exchange
"We expected a lot more demand for gasoline and a lot more movement of people but it's clearly not happening. Gasoline margins were on the way up but they've dipped into negative territory again, which is not very healthy."

ENERGY MARKETS COMMENTARY WEEK IN REVIEW

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DAILY ENERGY MARKETS WEBINAR NEW SILK ROAD "LIVE"

August 3rd - August 6th

GIQ EXCLUSIVE

TOP 10 MARKET OBSERVATIONS FOR THE WEEK

1. OPEC+ will struggle to maintain unity as prices creep up towards $50/bl.

2. China oil imports likely to fall in coming months to 2019 average as tanks fill and ports get too congested.

3. The 'Oil' majors will struggle to sustain historic dividends as they pivot to become 'energy' companies – buyer beware.

4. Financial markets have reached a blinded-in-the-headlights state of exaggerated elevation – clasping onto the roof rafters and hoping they are floor boards.

5. All eyes turn to OPEC+ again with the easing of cuts bringing more oil barrels into a soft market as COVID 2.0 looms.

6. Oil demand recovery remains uncertain, but bright-spot China may see another record month of imports in August.

7. Financial assets are likely to keep soaring on the back of endless stimulus as trillions of dollars need to find a home.

8. August will be a holiday month of building sand castles with one hand as the other will be clasping your Iphone close.

9. Trump's beat-up China election strategy increasingly falling on deaf ears as the boy who cried wolf.

10. Q3 Demand recovery is likely to disappoint with the printing of free money stimulus unmasked as a mirage.

ENERGY MARKETS VIEWS YOU CAN USE

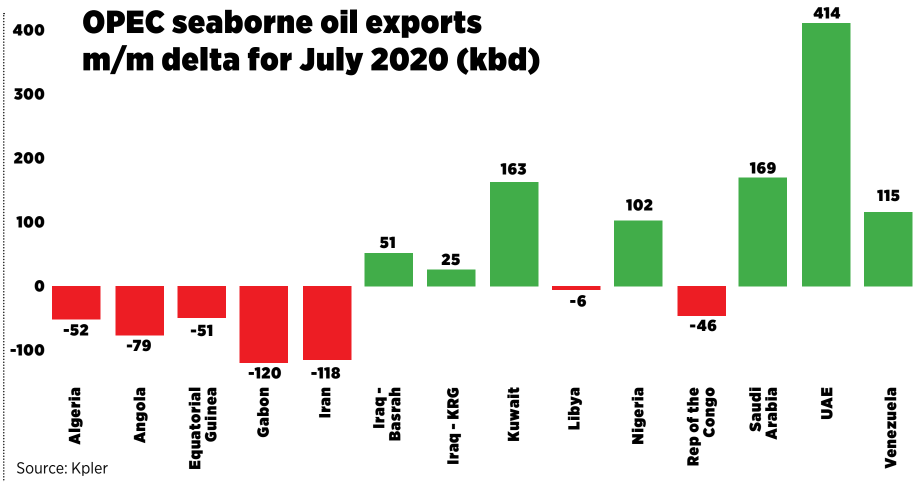
By Adi Imsirovic
Research Associate, Oxford Institute for Energy Studies

It's the summertime blues market

We're very much range-bound, it's the summertime blues market. It's quite volatile and we're seeing a lot more noise than information in the market. For a start, $40/bl has proved to be a pretty good support, reason being, very good compliance from OPEC+, who are clearly very serious about maintaining some minimal market price. On the other hand, the whole crisis has been caused by Covid-19. And for as long as the pandemic continues without a resolution in sight, it's very hard to see a bright light at the end of the tunnel. And the market does want to rally. Earlier this week, we saw good manufacturing numbers from both China and the US. That was a surprise. Earnings numbers have also been better than expected in the US. So, it's a mixed bag.

Keeping an eye on China

Inventory levels very much depend on demand. Keep an eye on China. They've been massive in terms of buying, and in May, they had record numbers of about 2mn barrels over and above. This is imports, over and above 2019 in June. That number swelled to almost 3mn barrels. Then in July, it started tapering off. And we all thought, that's it, China is going away. That demand is going to disappear. They filled up their storage. But all the ship-tracking data is pointing to a pick-up in August. August is probably going to be the highest month at this stage. And we're seeing over 11.5mn barrels of potential imports into China in August. So these are huge numbers. And that will certainly help support the market. There has also been a record trading volumes on the Shanghai Exchange that's allowed a lot of arbitrage barrels from the Middle East to move into China.



Source: Kpler

Monetary policy can't do much more

We are at zero interest rates right now. If Milton Friedman were around, he'd say: "Hey, guys, monetary policy can't do anymore". In fact, monetary policy can't do very much. Do something that gives money to the economy right now so the people can spend it tomorrow, so that they can stimulate the economy. Monetary policy will help in 12 months' time, 18 months' time. We need a fiscal stimulus, a big one, from both China and the US.

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