Fujairah New Silk Road WEEKLY NEWSLETTER

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

UAE Leadership Supports Transformation of Industrial Sector into Global Manufacturing Hub

H.E. Dr. Sultan Ahmed Al Jaber, Minister of Industry and Advanced Technology, Managing Director & Group CEO of Abu Dhabi National Oil Company (ADNOC)

اصنع في الإمارات
MAKE IT
IN THE EMIRATES

The UAE is launching a national industrial strategy designed to contribute to a diversified and sustainable economy and leverage the UAE's value proposition and competitive advantage to build a strong industrial sector, enhance self-sufficiency and localize supply chains. The Covid pandemic and recent geopolitical challenges have disrupted our supply chains and affected the global economy, an experience from which we extracted many lessons. One of these was that regardless of global economic conditions, enhancing self-sufficiency and resilience in vital sectors such as, food, healthcare, and the sectors critical to ensuring business continuity and economic growth, is critical. The UAE, with its strong will, resources, capabilities and effective policies, is capable of building a global economic base. By achieving self-sufficiency in vital industries, we will enhance the resilience of our economy in the face of global crises. We have conducted consultations with all relevant parties in the industrial sector, including government and private sector companies, investors, and financial institutions through a transparent dialogue and various workshops, studies, and international and regional benchmarking. Our industrial strategy aims to create an attractive business environment for local and international industrial investors, support the growth of national industries, enhance their competitiveness, and empower innovation and the adoption of advanced technologies. It also aims to strengthen the UAE's position as a global destination for industries of the future and the Ministry encourages financial institutions to offer competitive financing and administrative services based on quality, efficiency and transparency, as well as contribute to support the development of legislation that helps protect our national products, with an ultimate goal of increasing the industrial sector's contribution to our GDP to more than USD $80 billion approx by 2031.

CONTINUED ON P 3

Fujairah Weekly Oil Inventory Data

5,807,000 bbl	3,460,000 bbl	10,197,000 bbl
Light Distillates	Middle Distillates	Heavy Distillates & Residues

Source: FEDCom & S&P Global Platts

Fujairah Average Oil Tank Storage Leasing Rates*

BLACK OIL PRODUCTS

Average Range
$3.54 - 4.38/m³

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

Weekly Average Oil Prices

Brent Crude:	$110.57/bl
WTI Crude:	$107.97/bl
DME Oman:	$108.69/bl
Murban:	$114.39/bl

*Time Period: Week 4, June 2022
Source: IEA, OilPrice.com, GI Research

Fujairah Weekly Bunker Prices

VLSFO

High = $1,134.50/mt

Low = $1,097.50/mt

Average =$1,110.50/mt

Spread = $0.00/mt

MGO

High = $1,563.50/mt

Low = $1,477.00/mt

Average = $1,534.00/mt

Spread = $0.00/mt

IFO380

High = $707.50/mt

Low = $646.00/mt

Average = $673.00/mt

Spread = $61.50/mt

*Source: Ship and Bunker, *Time Period: June 1 – June 15 – June 22*

Fujairah Bunker Sales Volume (m^3)

453 180cst Low Sulfur Fuel Oil	555,151 380cst Low Sulfur Fuel Oil	154,721 380cst Marine Fuel Oil
1,087 Marine Gasoil	33,652 Low Sulfur Marine Gasoil	5,713 Lubricants

Source: FEDCom & S&P Global Platts

GI Consultancy Intelligence Publishing

CONTINUED FROM PAGE 1

H.E. Dr. Sultan Ahmed Al Jaber

Minister of Industry and Advanced Technology, Managing Director & Group CEO of Abu Dhabi National Oil Company (ADNOC)

Prioritise Sectors & Financing

A key enabler of our work has been to research and identify priority sectors to achieve our goal, which include food and agriculture, pharmaceuticals, petrochemicals, heavy industries such as aluminium and iron, defense, and electrical equipment and appliances, in addition to future industries like space, and clean energy such as hydrogen.

We have worked closely with the Emirates Development Bank to provide competitive financing solutions supporting the growth of industrial companies. So far, the bank has provided AED 2 billion to finance priority sectors. The Ministry is looking forward to more competitive financing programs through the various financial institutions and authorities in the country.

Following the directives of His Highness Sheikh Mansour bin Zayed, Deputy Prime Minister and Minister of Presidential Affairs, during the latest edition of the World Government Summit, to support the nation's industrial development, the Ministry increased its efforts to develop our industrial ecosystem and support the growth of the national industrial sector. The Ministry also introduced important programs and initiatives to standardize procedures, reduce duplication, reduce fees in the sector, provide a platform for innovative entrepreneurs and start-ups, and open new markets in cooperation with our colleagues at the Ministry of Economy and the national departments of economic development.

Global Partnerships

As part of the UAE's commitment to cooperate with global partners, we entered into an Industrial Partnership with Egypt and Jordan. The partnership leverages the competitive advantages of each of these nations to promote the growth of industry and to contribute to achieving sustainable economic development. Most importantly, the partnership will provide new export opportunities for manufacturers and focuses on five promising industrial sectors, including food and agriculture, fertilisers, pharmaceuticals, textiles, minerals, and petrochemicals.

In-Country Value

Another very important initiative was the launch of the National In-Country Value (ICV) Program. The program aims to redirect a large amount of the purchase value of major companies and government agencies into the local economy, by providing local companies with a competitive advantage in the government procurement process and access to capital and smart financing solutions. This will contribute to developing local industry, strengthen supply chains, substitute imports, and create jobs. Currently, 45 government entities, 6 leading national companies, and 5,500 local industrial companies are participating in the program. In its first year, the National ICV Program succeeded in redirecting more than AED 40 billion into the national economy. One of the most important objectives of the Ministry of Industry and Advanced Technology is to leverage local purchasing power to develop the industrial sector, especially through the National ICV Program. Twelve of the UAE's leading companies, such as ADNOC, Emirates Steel and Masdar, have committed to allocate nearly AED 110 billion in potential purchase agreements for local manufacturers and have identified over 300 products across 11 sectors to be manufactured locally. This unprecedented move will contribute to creating opportunities for the growth of the national industrial sector, adding at least AED 6 billion annually to GDP. Local manufacturers will have the opportunity to increase local production to meet the needs of these large national companies, whether by relying on their existing capabilities or by creating partnerships and attracting external investors.

Competitive Advantages

The UAE enjoys many competitive advantages, the most important of which is a wise and supportive leadership that always looks to the future with a positive outlook, provides and focuses on ensuring stability, and has given directives for a flexible and encouraging environment to achieve our goals. We also enjoy a highly skilled workforce, energy resources, raw materials, a strategic geographic location, advanced infrastructure, transparent regulations and laws, reliability and credibility, competitive financing, an excellent quality of life in a diverse, tolerant and secure society, strategic partnership agreements and cooperation and trade agreements with various countries around the world. All of which have enabled us to develop our national industry, attract investments, build partnerships, and enter new markets.

Source: *Speech given at Make It in The Emirates Forum*

10th Anniversary ENERGY MARKETS FORUM

ITINERARY

October 4th - 6th, 2022 | Novotel, Fujairah

Port of Fujairah

DAY 1 - OCT. 4th

What: Port of Fujairah Executive Boat Tour
Where: Port of Fujairah
Time: 2:00pm

What: FOIZ Oil Storage Terminals Industry Tour
Where: Port of Fujairah
Time: 2:00pm

What: The Aramco Trading New Silk Road CEO of the Year Awards 2022
Where: Novotel, Fujairah
Time: 7:00pm

DAY 2 - OCT. 5th

What: Industry Forum - East of Suez Outlook
Where: Novotel, Fujairah
Time: 8:00am - 3:00pm

What: International Energy Journalism Awards Dinner
Where: Novotel, Fujairah
Time: 7:00pm

DAY 3 - OCT. 6th

What: Energy Markets Workshop - Benchmarks
Where: Novotel, Fujairah
Time: 8:00am - 2:00pm

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Energy Markets Views You can Use

Dr. Carole Nakhle
Chief Executive Officer
Crystol Energy

There is a silver lining for Europe this winter when it comes to gas.
We will of course still see higher prices if there's a complete cut in Russian supplies, but Europe has been preparing for this worse-case scenario. Russia may have escalated its cutting of gas exports recently but if you look at the last few months, you can also see that Europe has been building up its storage more rapidly than what we saw last year for example. There will be greater flexibility this time around because the system has had more time to be prepared. Europeans are also becoming more practical and flexible in their policy decisions on finding a solution. We see that coal is back in fashion in support of energy security and even nuclear decommissioning is being considered. So, it's not like the whole of Europe is hanging on Russian supplies.

What should we expect from OPEC+ in September when their deal expires?
It all depends on the outlook. Like the Fed, OPEC is monitoring the situation step by step. They want to see what the macro data shows and the impact of that on oil demand. But I don't see the OPEC+ group going anywhere – there is an important benefit, particularly the role of Russia, of this alliance sticking together for as long as possible.

Have we seen the top in oil prices for the year?
We're still in the territory of volatility. The recent decline is due to the fear of a global recession becoming more and more pronounced. That's the biggest factor weighing on prices today, but at around $110, they are still pretty high compared to a few years ago.

How much is China impacting the current price trajectory?
Global macroeconomic developments are outweighing any potential improvement in Chinese demand and even if we put the country's zero-Covid policy aside, economic forecasts on China were not looking very strong. China is also buying a lot of discounted Russian crude so that should be taken into account when assessing its impact on the global oil market.

Significance of Biden's upcoming trip to Saudi Arabia?
Politically speaking, the US is an important player in the region, so it's a wise decision in that regard. Any escalation of tension or further geopolitical risk does not help anyone, whether in the region or elsewhere. There could be economic gains such as an element of energy coming into the discussion, but I see more of a positive outcome for both players in the form of a rapprochement. How long that will last is the bigger question.

Osama Rizv
Energy & Economic Analyst
Primary Vision Network

Pakistan's petrol prices have risen 45% in less than five weeks.
Electricity prices have risen more than 60% and the effective rate of inflation is around 40%. The rise in prices of energy and food in this short period of time is unimaginable. Our domestic gas production is expected to continue falling for the next five years and our oil production is down because of lack of technical knowhow and import caveats. As a result, we remain dependent on Russian supply, but due to diplomatic caveats with the US, we have not been able to take advantage of the discounts on Russian crude. Pakistan has officially condemned what is going on in Russia, but our cooperation with Russia is also important because of our energy security. I am a strong proponent of buying Russian crude. India is also a strategic ally of the US, but they are prioritizing their energy security and taking Russian crude, so why shouldn't we do that as well?

How can Asia compete with Europe now also scrambling for gas?
It's going to wreak havoc for countries like ours. It already is. Unfortunately, in the short term, all we can do is endure more pain. Our leaders need to take unpopular measures to consolidate the fiscal situation first and then move towards policies that would provide relief for the people in the medium to longer term.

Fujairah Spotlight

Fujairah Ruler Meets Faraj Fund Board, Reviews Achievements

H.H. Sheikh Hamad bin Mohammed Al Sharqi, Supreme Council Member and Ruler of Fujairah, received members of the Board of Directors of the Faraj Fund, and was briefed about its humanitarian objectives and achievements and ways to achieve its vision as one of the pioneering models of societal humanitarian work. Sheikh Hamad hailed the fund's key role in bolstering solidarity, tolerance, and fraternal values in the Emirati society and its humanitarian vision, which is supported and followed up by H.H. Lt. General Sheikh Saif bin Zayed Al Nahyan, Deputy Prime Minister and Minister of the Interior. In attendance of many officials, the Fujairah Ruler was briefed by Khalil Daoud Badran, Chairman of the Board of Directors of Faraj Fund, on the work progress and mechanism of the fund and its achievements to alleviate the suffering of the financially insolvent inmates of correctional and punitive institutions and their families across the UAE.

Source: Emirates News

Adnoc Readies for LNG Era in Fujairah

Changing domestic gas fortunes have enabled Abu Dhabi National Oil Co. (Adnoc) to push forward with plans to build an LNG export plant in Fujairah. Adnoc's two ultra-low carbon intensity trains will make the United Arab Emirates the Mideast Gulf's second-largest LNG exporter, ahead of Oman but far behind Qatar. The timely capacity addition will bolster Adnoc's position as a supplier just as Russia's invasion of Ukraine tightens the global LNG market.

Source: Energy Intellingece

4,000 Coral Polyps Planted Off Fujairah Coast to Regenerate Marine Ecosystem

Emirates Draw recently celebrate a new milestone in its 'Coral Reef Restoration Programme' with the planting of over 4,000 coral polyps across various sites. Representatives from the organisation and members of the media toured an existing planting site in Khor Fakkan in Sharjah to learn about its progress as well as a new site in Dibba, Fujairah, where planting is currently underway.

Source: Gulf News

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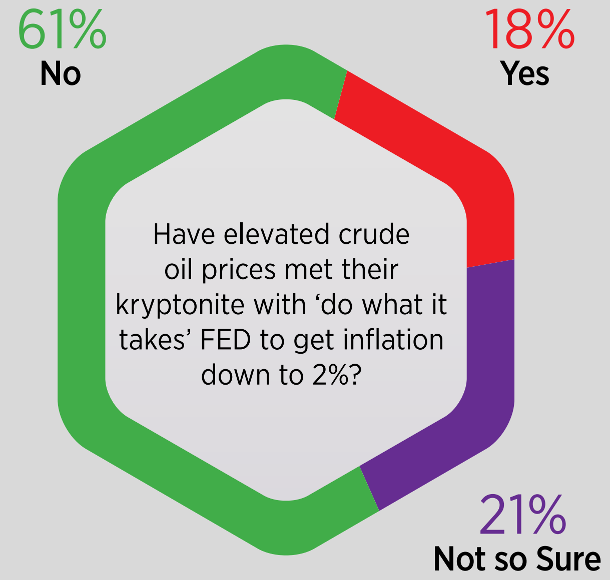
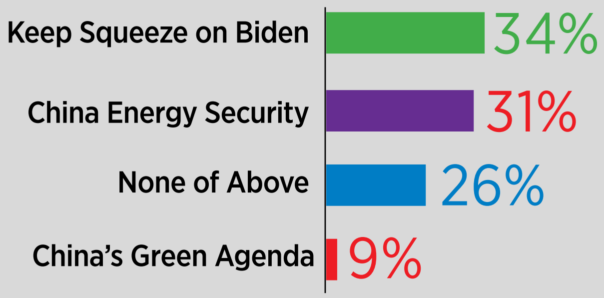
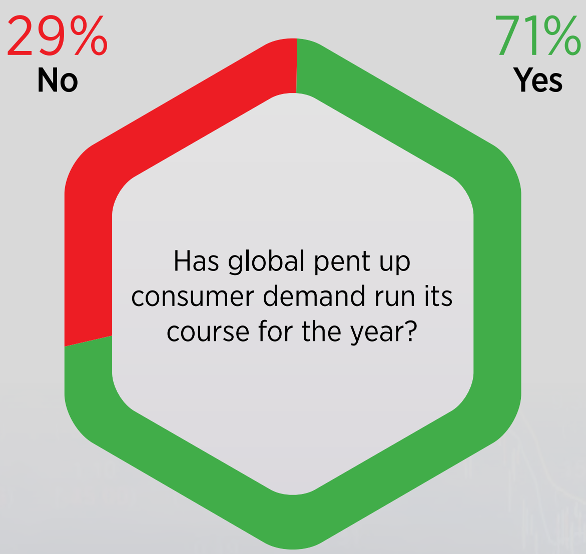
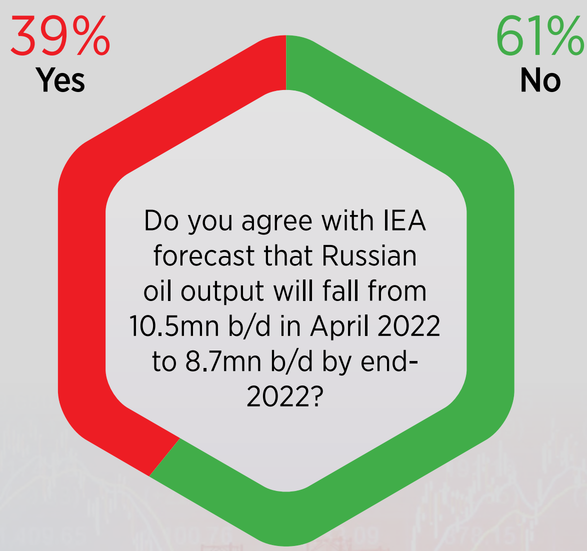
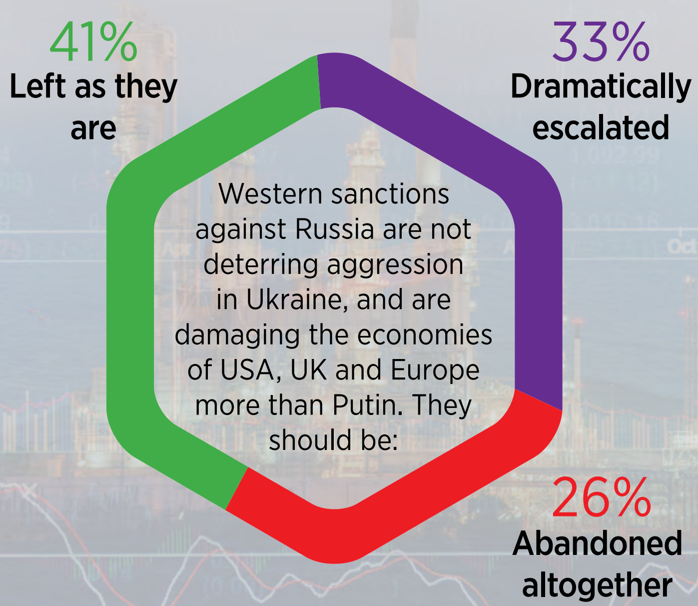


CHINA's May gasoline exports fell 45% y-on-y despite stalling domestic demand and soaring Asian/global demand -- What is biggest reason WHY?









Source: GI Research March 2022

Energy Markets Views You can Use

Danial Rahmat
Senior Energy Security Consultant

The war in Ukraine has stymied the JCPOA deal.
The deal was about to be signed earlier this year, but then Russia made some problems and Iran started to make new demands compared to the previous JCPOA agreement. The whole problem with JCPOA is political and somehow tied to the interests of Russia in Ukraine, and as long as that crisis continues, there's less chance for the deal to be revived.

What does the US visit to the Gulf tell us given wider regional dynamics?
There's been a lot of shuttle diplomacy in the region recently between Iran and Central Asian countries, Russia and even Iraq. All of this, combined with President Biden's planned visit to the GCC and Israel next month, shows that Iran and the US are on the brink of making a final decision on the JCPOA. They will either revive it or we will start a new formation in the region. Iran today is seeing a new political and security world order taking shape as a result of the Ukraine war.

What does the US hope to gain?
They might ask Saudi to somehow increase oil production, but it will be more interesting to see what the Saudis and Israel ask for in return and whether it is the same thing – for example, kicking Iran off the table for a long time. Meanwhile, Iran will try to use this momentum to increase its level of strategic partnership with Russia. If Russia needs a regional ally, Iran is not going to make a deal with the US easily. At the same time, the US is not going to make a deal with Iran without reducing Iran's activities in the region. So, the chances for an agreement are lower than before, but the whole issue depends on what Saudi and Israel are going to ask for in return.

Outlook for Iranian oil continuing to sell into Asia?
The 100 million barrels of floating and onshore storage is a serious headache for the National Iranian Oil Company, especially the gas condensate issue, because we cannot simply switch that production off. if China does not import gas condensates from Iran and exports to Europe are also suspended, there's a very limited market for it worldwide. Venezuelan demand might provide some respite but it's not going to be the final solution.

Clyde Russell
Asia Commodities & Energy Columnist
Thomson Reuters

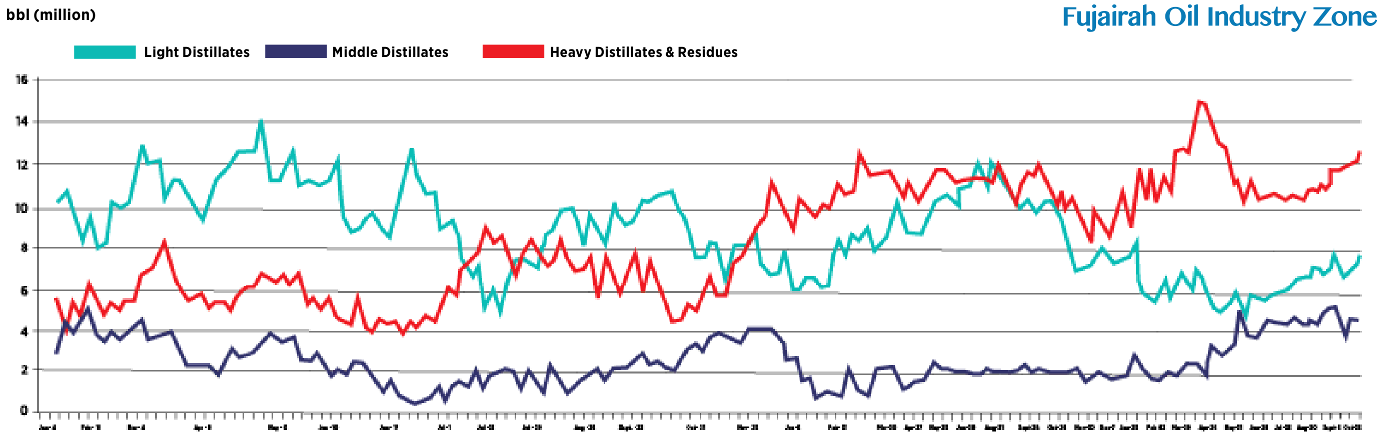
Why is China not exporting more oil products at these prices?
Logic says that it should be taking advantage of these massive spreads on producing diesel and gasoline, especially since they also seem to be getting fairly good access to cheap Russian crude. I would have expected China to have started to issue a lot more quotas because it's an easy economic win for them and a way to quickly ramp up exports. Their diesel exports in May were around 29,000 bd, down from record levels of 400,000 -500,000 bd last year. That's an enormous amount of diesel to lose out of the Asian market and partially explains the crack above $50 a barrel in Singapore. It's not in China's interests to not supply these barrels. It risks hastening the advent of recession in much of the developed world and certainly developing world.

Could Russia displace Saudi as the biggest exporter into China?
Saudi Arabia is interested in playing the long game. They see this as a temporary disruption and not as undermining their long-term relations with Russia. They know the Chinese have very little option but to continue to rely heavily on Saudi oil. Plus, they have the ability to cut their prices but at the moment, they're thinking that the Russians simply cannot supply enough to make a huge dent in demand for Saudi oil. Some have also said that Russia was panic selling in May and June and offering much steeper discounts than what's been reported. So, we might see a tapering of the amounts of Russian crude that China is taking but it won't necessarily stop. India will also continue to do so if they can continue to organise freight and insurance. But it's questionable that the Russians can offset cargoes to Japan or South Korea, not to mention what they were doing in Europe. Overall, they will struggle to sell as much crude as they were prior to the invasion, but they're probably going to sell a lot more than what was expected.

Impact on Asia from holding so much US dollar denominated debt?
People are underestimating the effect that this will have on demand for commodities.
The world's had commodity driven inflation - prices have gone up quite dramatically and the Russian invasion of Ukraine poured fuel on to that fire. The only way that you're going to solve this inflation problem is demand destruction and that's probably the point we're reaching now, especially in the developing world in Asia, Africa and even Latin America. Pakistan already can't keep the lights on because it can't afford LNG, because the Europeans are buying everything. India is struggling with buying Australian thermal coal at $400 a ton. So, when these prices start to filter through, we will end up with a nasty slowdown in the economy.

Fujairah Weekly Oil Inventory Data

منطقة الفجيرة للصناعة البترولية
Fujairah Oil Industry Zone



TOP TAKEAWAYS

- Total oil product stocks in Fujairah were reported at 19.464 million barrels. Total stocks increase by 1.515 million barrels with overall stocks up 8.4% week-on-week. The stocks movement was driven by the build-up of middle distillates and heavy residues, while light distillates recorded a net draw.

- Stocks of light distillates, including gasoline and naphtha, fell by 1.294 million barrels or 18.2% on the week to 5.807 million barrels. Summer driving activity, particularly in the US, and relaxed coronavirus restrictions globally have strengthened Asian gasoline market, leading gasoline cracks to average at multi-year highs since May. China's June gasoline exports are expected to step up, helping ease some of the supply tightness in the region. But the expected increase in June outflows is unlikely to outweigh seasonally strong gasoline demand. In tenders, Vietnam's Saigon Petro was heard seeking 10,000 mt of 95 RON gasoline and 10,000 mt of 500 ppm sulfur gasoil for delivery to Cat Lai terminal over June 25-July. 3, loading from Singapore/Thailand/Malaysia June 22-30 or South Korea June 18-26 in a tender that closes June. 20, market sources said.

- Stocks of middle distillates, including diesel and jet fuel, rise by 713,000 barrels or 26.0% on the week to 3.460 million barrels, highest recording in this year. They were last higher on November 15, 2021 when they stood at 3.577 million barrels. The Asian gasoil market are facing pressure as demand recovery was met with growing regional supply. Strong crack spreads and lucrative margins continued to incentivize refineries to maximize gasoil production. Although, with the East-West arbitrage window shut, excess barrels that were moving from Asia to the West were now stuck in the region and exerting downward pressure on the physical market. In recent tender activity, Kuwait Petroleum Corporation issued a sell tender closing June 22 for 40,000 mt of 10 ppm sulfur gasoil loading from one or two safe Kuwaiti ports over July 25-29. India's Bharat Petroleum Corp and Indian Oil Corporation issued a purchase tender each, both closing June 21 with validity until June 22, for a total of five 30,000-40,000 mt cargoes of high speed diesel for delivery over end-June to early July. The two state-owned oil majors generally issue sell tenders for gasoil.

- Stocks of heavy residues increased by 2.096 million barrels or 25.9% on the week to 10.197 million barrels. The Asian high sulfur fuel oil market was supported ahead of the summer season as the Middle Eastern countries were expected to increase buying HSFO to prepare for summer electricity demand. While the Asian very low sulfur fuel oil market has been experiencing difficulty in finding cutter stocks amid high middle distillate margins as the cutter stocks are taken by the middle distillate market. In Fujairah, LSFO 180 CST sales in May plunged 58.21% on the month to 453 cu m, while LSFO 380 CST gained 7.53% to 551,151 cu m. Marine gasoil volumes retreated 41.96% to 1,087 cu m. HSFO 380 CST sales jumped 32.67% to 154,721 cu m.

Source: S&P Global Platts

Commodities
All markets will be on the lookout for recession indicators and commodities were no different overnight. Brent futures fell by 2.5% to USD 111.74/b while WTI dropped more than 4% to USD 106.19/b. Numbers from the API reported a build in US crude stocks of 5.6m bbl last week along with a decent increase in gasoline stockpiles, up by 1.2m bbl. Official numbers from the EIA will be released one day later than usual thanks to a public holiday at the start of the week. Weakness in commodities stretched into industrial metals as well with copper prices down 2.5% to USD 8,773/tonne and aluminum on the LME off by 2% to USD 2,479.50/tonne. Iron ore continues to edge lower, down by 1.5% overnight to USD 127/tonne.

Equities
Equity markets resumed their sell-off yesterday. In the US, The S&P 500 lost -0.1% while both the Dow Jones and the NASDAQ dropped -0.2%. In Europe, the FTSE 100 closed down -0.9% and the DAX -1.1%. Locally, the DFM ended the day -0.9% lower, the ADX -1.9% and the Tadawul -2.9%.

FX
With markets now squarely focusing on recession risks rather than inflation, the outlook for currency markets is more mixed. The dollar sank overnight as major peers rallied, even as economies such as the Eurozone would still be at risk of contraction this year. EURUSD rallied by 0.3% to 1.0566 while USDJPY dropped by 0.23% to 136.26. GBPUSD was roughly steady at 1.2266. Commodity currencies were weaker across the board, however, with USDCAD up by 0.19% to 1.2946 even after the hot May CPI print (up by 7.7% y/y) raised the prospects of the Bank of Canada needing to respond more aggressively. AUDUSD fell by 0.6% to 0.6927 while NZDUSD fell by 0.7% to 0.6285.

Source: Emirates NBD Report

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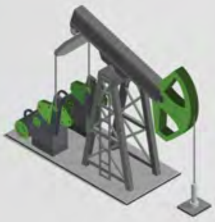

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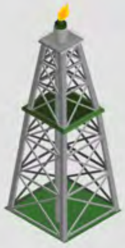

PROCESSING
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Today, we continue to look for new and innovative ways to maximize the value of our resources, pioneering those approaches and technologies that will ensure we are able to meet the demands of an ever-changing energy market, and continue to have a positive impact on the Sharjah economy for future generations.

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Energy Markets Views You can Use

Jamie Ingram
Senior Editor
Middle East Economic Survey

The European electricity situation is a complete mess.
We've just emerged from COP26 with everybody talking about phasing out hydrocarbons, and now we've got Germany planning to fire up coal plants. Germany is also moving towards LNG, but the issue is where to get it from. New Qatar supply won't start up till 2025 and supply from the US Golden Pass LNG Terminal not until 2024. In the meantime, Europe's basically outbidding emerging markets for LNG. We're also seeing oil trade flows start to crystallize into new patterns. Iraq has been very aggressive in terms of cutting their pricing into Europe, certainly in comparison to the Saudis and Kuwaitis, and that seems to be starting to pay dividends.

Can Europe hold together in its appetite to face off with Russia?
We're seeing real political divisions, with the UK and Eastern Europe tending to take a more hardline stance, while France and Germany are tending to be more conciliatory to try and cut a deal with Putin.

What does US President Biden get from coming to Saudi Arabia?
Oil is going to be one of the issues to discuss, but he's also going to Israel and meeting other countries like Iraq and Jordan in the GCC, so security will also be top of the agenda, including Iran, which is getting closer and closer on its enrichment capabilities. If Iran is effectively capable of producing nuclear weapons, we will need a complete reset of the talks on that deal. If Biden can demonstrate he can pivot the relations with Saudi, it will have more impact on the domestic front than the fundamentals of adding a bit more oil, which is not going to move the market. Saudi Arabia also wants to make sure that they maintain some spare capacity in case something even bigger happens in Libya, for instance, or in another volatile hot spot.

Adi Imsirovic
Senior Research Fellow
The Oxford Institute for Energy Studies

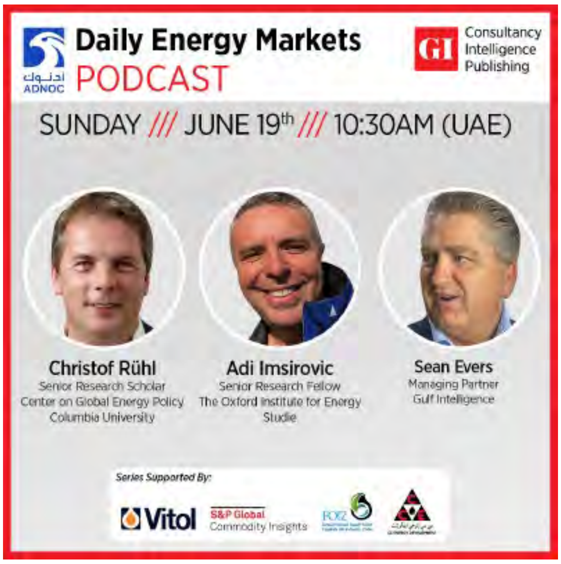
Inflation is not a result of OPEC policies and high oil prices.
It is a result of the massive stimulus in the global economy of the past two years and more, which has caused a massive bounce back in oil demand and that's also why products are being hit first rather than crude. Inflation is also defined as a persistent increase in the general price level, so any one-off oil price rise won't cause it. And as interest rates go higher, commodities don't yield anything. If you're long commodities, you have primarily storage and insurance costs so you're counting on capital gains for any yield, and in the current environment of a high risk of recession in the US by the end of the year, that certainly doesn't bode well for highly leveraged stocks and assets, and oil very often falls into that. So, any speculative buying or being long on oil is going out the window.

Can the Fed do 'whatever it takes' to bring inflation to 2%?
It is a massive statement and it's an attempt to nip inflationary expectations in the bud with interest rates and in the process basically bursting the bubble. You can see it best in what's happening with Bitcoin and high-risk corporate bond yields. I think they will have no choice but to probably increase by 0.75% again – it has a long way to go to bring down 9% inflation. The other problem coming home to roost is debt and there is a danger that governments don't quite go all the way because they're too worried about that.

Impact of Europe sanctions on Russia and can the block hold its position?
The import ban on Russian crude will really hurt Russia. On gas, the Russians are clearly using this as a weapon and in hindsight, we saw the signs of this prior to the Ukraine invasion, when Gazrprom was already cutting supplies for European storage. But whatever the apparent discord within European countries, I think they have never been more determined and never been stronger in their position towards Russia, and the key to that has been the U-turn in Germany. That's extremely significant. And while Russia is an energy superpower, it's a dwarf compared to Europe when it comes to this economic warfare.

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

I am leaning more to those who are bearish on oil for Q3.
Recessionary fears, decline in China demand, one million barrels a day already being pumped from the Strategic Petroleum Reserve, and the upcoming Biden visit to the Middle East with possibly more Saudi and UAE oil forthcoming, in addition to Venezuelan oil being signed off to be sold to Europe - all these indicate that the crude oil market is not as tight as everybody said, and lower crude oil prices will also eventually feed through to product prices.

How well are sanctions on Russia working so far?
From a US perspective, what the Biden administration wants is the redirection of oil flows. Firstly, they want more oil from the Middle East going to Europe, and then they want to slowly throttle Russian supplies, by Europe not buying it and then presumably by Asia, either voluntarily or forced to join the sanctions regime by secondary sanctions, but I'm quite skeptical about the latter. Not only are countries like China benefitting from getting sanctioned Russian oil at a 35% to 40% discount, but also Chinese businesses in terms of oil and to some extent gas costs, will now be outcompeting European business on a large scale, so it's not clear that they're going to be lining up to give up this advantage. China and India are more oil intensive economies than the West and their oil demand is growing, so they're much more sensitive to the oil price.

What about Russia's curtailment of gas deliveries to Europe?
Gas is different and is being approached in a completely decentralized and voluntary mode by Europe. Countries such as Bulgaria and the Netherlands have been cut off by Gazprom as they have refused to pay in Rubles – that's accounting for 16% to 20% of European deliveries already. But despite Gazprom turning up the heat, the EU will maintain a flexibility and we're now for example seeing it starting to replace gas with coal. The storage of gas in Germany is at 50% right now, far above the lowest levels we have seen over the last five years. Russia won't be able to sell its gas anywhere else, so this will eventually have more tangible financial consequences than what we see in the oil markets. And if EU energy sanctions are maintained, in a falling oil price environment, it will cause serious problems internally for Russia.

Energy Markets Views You can Use

Jose Chalhoub
Political Risk & Oil Analyst

Venezuela Emerging as a Big Geopolitical Prize in Era of Energy Shortage

Venezuela's ties with the majority of the Gulf Cooperation Council (GCC) states under the Bolivarian Revolution have followed a rather pragmatic and subtle approach and direction over the last 20 years, with all of them having diplomatic representatives in Venezuela. To this respect, important is the fact that such ties have mainly developed within the framework of OPEC, but at the same time there have been diverse disagreements between Venezuela and the GCC states within the group of oil producers as Caracas has tended to side with the more "radical" OPEC members (Algeria, Libya, and Iran), over issues of production quotas and prices.

If there were ever to be the case of a potential removal of the Maduro government and the Bolivarian Revolution, the current geopolitical order in the Latin America region would definitely change and tilt towards a more pro-U.S. government. This would also be aligned with the interests of the most moderate and conservative regimes in the Gulf and the Arab world and also Israel, while to the detriment of regimes and systems like Iran, along with the important strategic geopolitical gains achieved by Russia and China in Venezuela over the last decade.

This is why what happens in Venezuela could have important geopolitical consequences for not only the Latin America region vis-à-vis Washington, but also for the Middle East, OPEC+ and the entire Islamic world, and in turn how this would redesign the equilibrium of power in the global oil markets. It could also have ramifications for redefining of Caracas relations with the state of Israel, Turkey and Iran, mainly because of the highly geopolitical and geo-strategic relevance of Venezuela in the Caribbean basin and South America and as the largest non-conventional oil reserve in the world at a time when Energy Security has move to the top item of concern on the geopolitical agenda.

ENERGY MARKET NEWS

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4. KUWAIT'S CROWN PRINCE DISSOLVES PARLIAMENT, CALLS ELECTIONS
5. IEA: RUSSIA MAY CUT OFF GAS COMPLETELY, EUROPE MUST ACT NOW
6. MINING FIRM GLENCORE PLEADS GUILTY TO UK BRIBERY CHARGES
7. SAUDI CROWN PRINCE VISITS TURKEY FOR FIRST TIME SINCE KHASHOGGI MURDER
8. BIDEN AIMS TO 'INCREASE PRESSURE ON RUSSIA' AT G7 SUMMIT
9. API REPORTS BIGGEST CRUDE OIL INVENTORY RISE SINCE FEBRUARY
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- EXPLAINER-BIDEN'S US FUEL TAX HOLIDAY PLAN NO EASY RELIEF FOR GAS PRICES
- RUSSIAN OIL DISAPPEARS AS TANKERS GO DARK NEAR AZORES

GI Soundings Week in Review

"Negative Oil Demand Sentiment Overtakes Tight Supply Concerns!"

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 Najia, Global Head, Derivatives, BB Energy**
- **Victor Yang, Senior Editor, JLC Network Technology**
- **Bora Bariman, Managing Partner, Hormuz Straits Partnership**
- **Ali Al Riyami, Consultant & Former Director General of Marketing, Ministry of Energy & Minerals, Oman**
- **Dr. Charles Ellinas, CEO, Cyprus Natural Hydrocarbons Co. & Senior Fellow Global Energy Centre – Atlantic Council**
- **Andrei Belyi, Professor, Founder & CEO, Balesene**

Omar Najia, Global Head, Derivatives, BB Energy: "I don't think anybody wants to play now. People want to take stuff off the board because we're coming into summer. It's quite a difficult market now because it really could go either way, but I think the highs are not going to come now until September. When the market moves like it did last Friday, it means that people aren't interested in the upside, at least not immediately."

Victor Yang, Senior Editor, JLC Network Technology: "We expect China to continue taking Russian crude at least until the end of this year and especially if prices of other grades stay high. In May, Russian crude averaged $93.6/bl, about 15% below the grade from Saudi Arabia, so it overtook Saudi Arabia for the first time in 19 months."

Bora Bariman, Managing Partner, Hormuz Straits Partnership: "When it comes to trying to gauge where prices can go from here, the question to ask is about elasticity - at what oil price do we prevent demand by growing by 2 million barrels a year, projected to grow to 102mbd in 2023, and can people slow down their consumption enough to prevent these prices of energy and commodities from rising as significantly as they have been."

Ali Al Riyami, Consultant & Former Director General of Marketing, Ministry of Energy & Minerals, Oman: "If we agree with the recent downgrades in world economic growth forecasts, then there is no justification for OPEC to increase production much more than what is available at the moment. There are also only a few countries that could do that, because in totality within the group, we still see conformity levels are very high."

Dr. Charles Ellinas, CEO, Cyprus Natural Hydrocarbons Co. & Senior Fellow, Global Energy Centre – Atlantic Council: "All of the predictions are that inflation is going to be difficult to contain this year and some are now saying there's an 80% chance of the US going into recession. In Europe, total energy use has dropped 3-5%. All of this indicates that demand for energy, including oil, will not be very strong and as result, OPEC+ may not need to do anything dramatic other than carry on with what it's doing."

Andrei Belyi, Professor, Founder & CEO, Balesene: "There are already projections of Russian oil production declining 30% between now and the end of the year. Even those who produce are not always able to sell - Russian oil companies are spending additional capital to keep their tankers at sea. And to get to India, most of them have to pass via European ports so when the sanctions come into effect, that will make their deals more complicated."

Daily Energy Markets

TOP TAKEAWAYS
MARKET OBSERVATIONS FOR THE WEEK
June 19th - 23rd

1. Oil demand destruction is likely to trump supply concerns over the coming weeks, as the FED grows muscles and follows through with pledge to 'do what it takes' to wrestle inflation down to 2%.
2. Don't underestimate Europe's resolve to protect almost 80 years of alignment since WW2.
3. OPEC+ will face the challenge of solidarity over the coming weeks as they try find agreement on a new level of production quotas.
4. Oil markets caught at possible inflection moment where they could move in either direction depending on dominant sentiment - supply constraints vs demand destruction.
5. Europe energy policy in a mess 6 months after COP26 as energy security battles for a seat at the table with energy transition, and the realization in Brussels-Berlin-Paris etc. that you can't have your cake and eat it.
6. Low US unemployment figures give Fed space to continue hawkish rates policy to tackle what it sees as problem number 1 – Inflation.
7. China will continue to take Russia crude as long as prices of other grades stay high. Energy security now its top concern so priority is storage to avoid exposure to future price hikes.
8. Difficult to see any light at the end of the tunnel on Iran nuclear issue with the two sides now clearly pushing in opposite directions.
9. Iran is facing serious problems with finding markets for its gas condensates because unlike oil, which it can switch off, it can't stop gas production.
10. Pakistan is unable to take advantage of buying discounted Russian oil like its neighbor in India, as Pakistan's domestic and global political posture won't allow it to cross Washington at present.

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