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Fujairah New Silk Road WEEKLY NEWSLETTER

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

"China Is the Story This Year for Both Oil and Gas!"

Jamie Webster, Partner & Associate Director BCG Center for Energy Impact

If you have an understanding of where China growth is going to be, then you have your year set for trade. That's the one data point that we are all looking at. Global jet fuel demand has finally popped up and while it hasn't quite recovered back to pre-COVID levels, the number of flights has. That has been driven by China, and we will see some additional strength over the next couple of months. Balance of payments data in the country will be an important indicator for downstream demand for Chinese products and therefore for economic activity, in addition to whether the government is going to pump money into the economy to make sure that it has that big pop in growth. Certainly, in the US we had a lot of money that was injected into our economy during COVID that helped short term growth and now we're having to pay our way through that. Oil prices will remain volatile for the next few years. At the beginning of the year, many big forecasters were saying we could see $100-120, and now we are down in the $70s. What that really comes down to is a concern that the global economy is going to start to slow down, even though almost every data point that we're getting is still strong. The latest job numbers in the US came in well above expectations and several China data points have also exceeded forecasts. In the short- term, prices will remain supported by production constraints. But eventually we are going to be moving into peak demand and once the natural decline starts especially, pricing will also shift. The long-term price that producers will need, will shift from the marginal cost of oil to the marginal OpEx cost of oil, which will push prices quite a bit lower.

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Fujairah Weekly Oil Inventory Data

7,970,000 bbl	3,379,000 bbl	11,814,000 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:	$76.61/bl
WTI Crude:	$72.75/bl
DME Oman:	$74.67/bl
Murban:	$75.46/bl

*Time Period: Week 2, May 2023
Source: IEA, OilPrice.com, GI Research

Fujairah Weekly Bunker Prices

VLSFO
High = $583.00/mt
Low = $555.00/mt
Average = $564.00/mt
Spread = $28.00/mt

MGO
High = $970.00/mt
Low = $905.50/mt
Average = $924.00/mt
Spread = $64.50/mt

IFO380
High = $463.50/mt
Low = $436.00/mt
Average = $445.50/mt
Spread = $27.50/mt

*Source: Ship and Bunker, *Time Period: May 3 – May 10, 2023*

Fujairah Bunker Sales Volume (m^3)

250 180cst Low Sulfur Fuel Oil	451,405 380cst Low Sulfur Fuel Oil	81,058 380cst Marine Fuel Oil
538 Marine Gasoil	26,549 Low Sulfur Marine Gasoil	3,475 Lubricants

Source: FEDCom & S&P Global Platts

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CONTINUED FROM PAGE 1

Jamie Webster,Partner & Associate Director BCG Center for Energy Impact

Will the new flows in global energy trade become permanent?

Most likely. Some of the flow changes will effectively create wheel tracks that are going to deepen the market in those channels, so we will see greater permanence for some of those. In Europe, there's a real recognition among policymakers that they want to protect themselves from dealing with Russia in the future.

Is the US Inflation Reduction Act spurring companies to invest in decarbonisation?

We've already seen US oil and gas companies commit $200 billion to the $375 billion earmarked for Energy Transition in the IRA. Of course, the whole purpose is for the government to inject money, but also to get companies to do so, and to accelerate the Energy Transition in the US and globally, and to position the US as a leader in that space. For energy producers, it's a fantastic opportunity because they now have more safety and support in the form of subsidies for projects which were already part of their strategy. The IRA also pushed Europe to bring forward its green development program to ensure it remains competitive, and other countries like the UK, Canada, Australia, Japan are all looking at similar initiatives.

Has the focus on energy security slowed down investment in the Transition?

The Energy Transition will be a bumpy ride. Even Europe has taken a half step backwards in the past year, burning more coal. We cannot ignore that we need reliable energy to have economic growth. It needs to be a parallel track. The answer is not to say we're stopping oil and gas production. We don't want to be ahead of where people are at and where the actual flows are. Energy companies should also stick to what complements their expertise and core skillset – project management and assessing risk, rather than jumping out too far beyond that.

Is holding COP 28 in the UAE an opportunity for oil and gas producers?

Before the Russia-Ukraine conflict, there was a belief by some that keeping oil and gas in the ground would be fine. But last year woke up most people's understanding that that's not the case. Energy producers have a role and a responsibility to show how they will accelerate their decarbonization programs. There's also going to be more pressure on scope three, which is very difficult thing for them. Holding the COP meeting in the UAE will also lend a larger voice to the Global South. The discussion about climate change and the Energy Transition has been focused too much on Western countries, but the reality is that it's critically important for the Global South to be brought along. Different countries are going to take different strategies to get the oil, gas or coal they need. Look at Pakistan which has now decided that LNG is no longer a suitable fuel for its energy security policy. It's going to be quadrupling coal demand and coal-fired generation over the next couple of years. You can't just have success in one region - it needs to be a global discussion.

WATCH FULL INTERVIEW HERE

Energy Markets Views You can Use

Mike Muller
Board Director
Vitol and Viva Energy Australia

Has the OPEC+ move to support the market worked?

It seems characteristic of the market this year that we've seen managed money negatively positioning on oil and we've had a few signals on fundamentals that have helped to reinstate that outlook. We've had slightly disappointing consumption data from China and more global stock builds of oil for the latter half of 2023, although in my view that could give way to a stock draw later in the year, especially when Asian seasonal demand kicks in. Adequate supply is manifesting itself in diesel markets and that's against the backdrop of a year where we still think we're going to have more than 1.5mn b/d of demand growth, two thirds of which is jet demand. On crude, there seems to be more supply from Iran and Iraq and perhaps more oil to come from US exports also. However, I still haven't seen any major needle moving disappointment in demand, that justifies the market sell off from $87 down to the $72.50 that we saw last week.

Any evidence on the ground in China for stronger 2H growth?

The bit that's missing from the Chinese demand equation is long haul aviation and unless that is reinstated, there will be a gap in demand in the jet part of the barrel. The other revision globally is in diesel; industrial indicators have been disappointing when compared to the service sector which is looking extremely healthy. Year on year demand for diesel globally in 2023 versus 2022 is just 100,000-200,000 b/d and gasoline is picking up the slack. The other bearish note is that refining margins are such that people are talking about run cuts in certain areas, and those refinery runs are usually a big normalizer for the market. The final thing weighing on oil is gas. US Henry Hub is at just above $2 per MMBTU, and the international price of LNG has also come down, to the point where it's now competitive with low sulfur fuel into utilities. LNG now has a chance of featuring in those South and Southeast Asian economies where it has been shunned for the best part of the last year and a half.

Fujairah Spotlight

Oil product stocks jump 18% on week to year-to-date high

Stockpiles of oil products at the UAE Port of Fujairah jumped 18% in the week ended May 8 to a year-to-date high, with double-digit gains in all categories, Fujairah Oil Industry Zone data showed May 10. Total inventories climbed to 23.163 million barrels May 8, the highest since Dec. 12, the FOIZ data showed provided exclusively to S&P Global Commodity Insights showed. Total inventories, which had been down 4.7% for the year as of May 1, are now up 12% since the end of 2022.

Source: S&P Global Commodity Insights

Fujairah CP witnesses signing of MoU between MoI, FFRD

H.H. Sheikh Mohammed bin Hamad bin Mohammed Al Sharqi, Crown Prince of Fujairah, witnessed the signing of a Memorandum of Understanding (MoU) between the Ministry of Interior (MoI) and the Fujairah Foundation For Region Development (FFRD), which took place today at the Al Rumaila Palace. The MoU aims to promote a culture of respect for the law among individuals and raise awareness of legal aspects among various segments of society in the emirate.

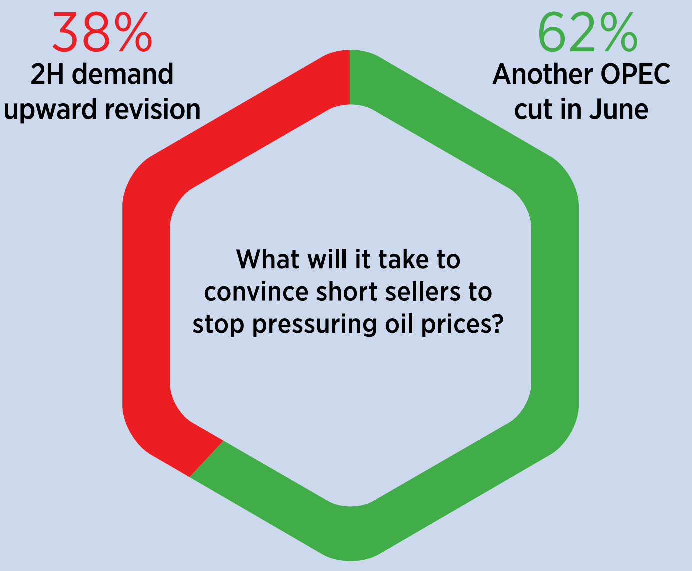
Source: Emirates News Agency-WAM

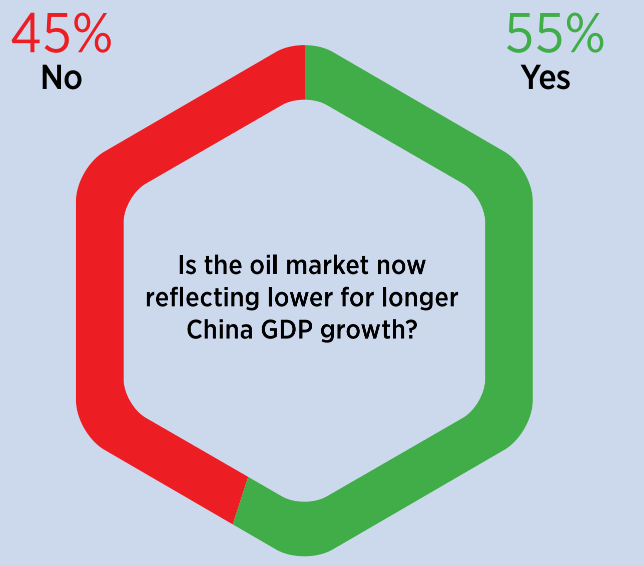
East of Suez Fuel Availability Outlook

All grades remain tight for prompt dates in Fujairah. Lead times of 5-7 days are recommended for all grades in the UAE port. Smaller stem sizes can have longer lead times, a source says. Fujairah's fuel oil inventories averaged 7% lower in April than in March, data from Fujairah Oil Industry Zone (FOIZ) and S&P Global shows. Distillate stocks surged by 18% on the month.

Source: Hellenic Shipping News

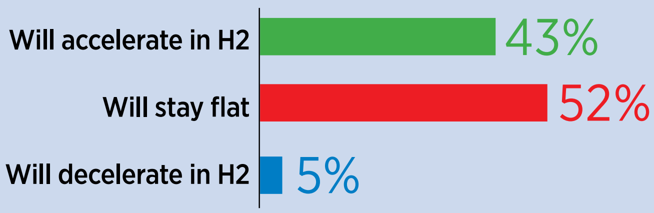
Weekly Surveys



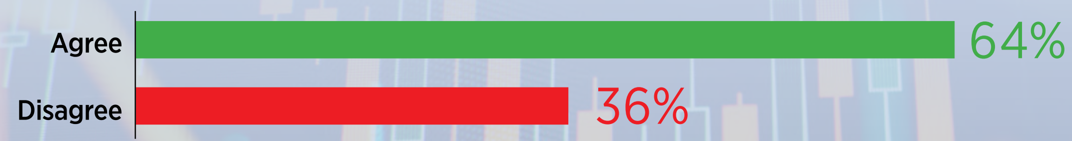


The biggest driver of volatility in crude over the next four weeks will be:

China's Jan-Apr macro-economic data suggests the country's rebound is:



Climate technology - like carbon capture and clean hydrogen development - is the "silver bullet" that will allow oil companies to meet their energy transition commitments while continuing to produce hydrocarbons.



Source: GI Research March 2023

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Fujairah Weekly Oil Inventory Data

FOIZ
منطقة الفجيرة للصناعة البترولية
Fujairah Oil Industry Zone

TOP TAKEAWAYS

- Total oil product stocks in Fujairah were reported at 23.163 million barrels with a rise of 3.470 million or 17.6% week-on-week rising past 20-million-barrel level. The stocks movement saw a rise across the board for light distillates, middle distillates and heavy residues.
- Stocks of light distillates, including gasoline and naphtha, rose by 1.209 million barrels or 17.9% on the week to 7.970 million barrels. The East of Suez gasoline complex strengthened in early trade May 9, tracking a widening US RBOB-Brent crack amid some optimism regarding firm US gasoline demand ahead of the summer driving season, sources said. However, some market participants cautioned that the US summer gasoline import demand this year could be moderated by healthier than expected inventories. The volume of gasoline futures contracts traded on the Tokyo Commodity Exchange remained unchanged at zero for the third straight month in April, latest TOCOM data showed. There were 156 lots traded in April 2022, according to the data. Two traded lots in January 2023 were the last reported trades. In tenders, Indonesia's Pertamina was heard seeking 200,000 barrels/month of 92 RON gasoline for delivery or loading over July-September, via a tender that closes May 11, sources said.
- Stocks of middle distillates, including diesel and jet fuel, increased by 403,000 barrels or 13.5% on the week to 3.379 million barrels. The East of Suez gasoil market remained pressured May 9, as market participants expect China to release its next batch of oil product export quotas in the coming days. China's April oil product exports fell 31% from March to a nine-month low of 3.7 million mt, preliminary customs data showed May 9. "The export data is over our estimation. It is still a lot so [we] expect the market to be bearish in the near-term," a northeast Asian refinery source said. Consequently, market participants reiterated that they are expecting China to announce at least 10 million mt of clean oil product allocations in its fresh batch of quotas. "Demand for gasoil is still weak but if northeast Asian refiners start cutting their refinery run rates, there should be some support for the market even if China exports more volume," a regional gasoil trader said. Meanwhile, Vietnam is looking to expand the capacity at state-run Dung Quat refinery by more than 30% in five years, as Hanoi strives to maintain adequate volume of domestic oil products output amid recent financial troubles at Nghi Son refinery. The country will continue to pursue its goal to progressively reduce its reliance on imported essential fuels.
- Stocks of heavy residues rose by 1.858 barrels, up 18.7% on the week as they stood at 11.814 million barrels. Spot trading activity at both the key bunker hubs of Singapore and Fujairah was subdued day on day as buyers drifted to the sidelines awaiting pricing cues amid steady crude oil prices, according to market sources May 9. Steadier demand for low sulfur fuel oil at the bunker hub of Singapore has progressively buoyed bunker premiums and tightened barge schedules for prompt refueling dates, local bunker suppliers said May 9. LSFO bunker demand has been stable to slightly healthier to date in May than overall requirements in April, market participants said. This was reflected in a gradual rebound in the LSFO bunker premium after the downstream market was earlier bogged down by underwhelming demand and ample stocks. With production at Kuwait's Al-Zour refinery recovering and cargo loadings resuming May 2, the prospect of incremental supplies from the Middle East doused earlier expectations that upstream valuations might remain buoyed, local traders said.

Source: S&P Global Commodity Insights

Energy Markets Views You can Use

Dr. Carole Nakhle
Chief Executive Officer, Crystol Energy

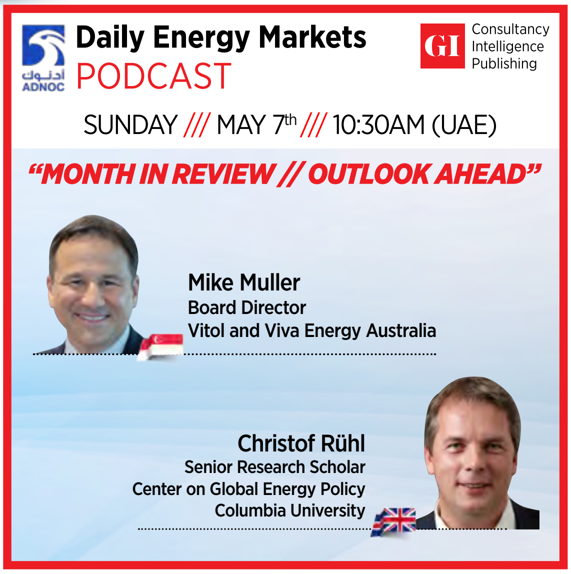
Is the market surprised by the evident revisions in oil demand?

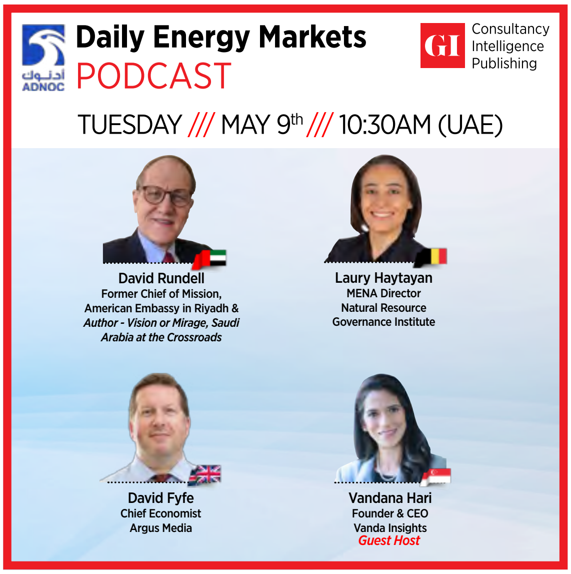
We can't expect demand to continue its momentum when prices are high, especially with a volatile or uncertain economic outlook for the rest of the year. There's less confidence today than we had at the beginning of the year, when we had some of the bulls on Wall Street expecting triple digit oil prices and a boom from China. That super excitement has faded to a certain degree. Spikes may still happen later in the year but there's more cautious optimism now. Even the Fed itself does not know what it's going to do next. Some say there's still room for more interest rate rises while others say it's time to pause because the data does not seem to be very encouraging. We do have a strong jobs market in the US, but the rate of jobs growth is not as strong as anticipated so there are indicators of a slowdown in the economy overall and the banking crisis is also reflecting some structural weaknesses in the system.

Is Russia becoming less relevant within the OPEC+ group?

Even though today we don't see a significant decline in Russian production yet, this is going to become more notable. It's a simple equation. No investment or less investment will translate to lower supply. OPEC in its long-term oil market outlook, is still saying that Russia's oil production is going to remain constant. I find that very strange because where is the investment coming from? Lots of Western capital has left the country. Could it be compensated for by investment from Asia or Middle Eastern countries? We'll have to wait and see but any long-term loss of Russia's market share would be captured by other countries, including those in OPEC.

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

Has the market absorbed revised demand forecasts for 2023?

The narrative has been that oil prices will depend on whether we have weak or strong demand in the US or China. It's obvious now when the actual numbers come in and are put in historical perspective, that it is high oil prices that have taken their toll on demand. If you have a period of sustained high prices, that causes demand destruction, and the same economic activity will then be satisfied with less oil demand. That's what we are seeing. The other development is that on the supply side because of the OPEC cuts, we now have safety buffers in the system, which were previously very small. So that pressure on inventories which would have resulted in higher price spikes, has been removed. So, fundamentals are reasserting themselves and probably point more towards $60-70 than $90-100. Short sellers, long sellers, speculators - while fulfilling a beneficial role because they smoothen prices by being present in the market - at the end of the day don't determine where the trend is going.

Disappointment in the market at Chinese demand?

It was never going to be this big explosion. China did not have the same monetary transfers during the lockdown period as we saw in the US and to some extent in Europe. So, the lockdown in China has just integrated itself into the trend growth decline. Meanwhile, in the US, the data is maybe indicating an economy technically bordering a recession, but it's still functioning on a very high level, with full employment, most cylinders humming and consumer spending strong. Also, trade disruptions did not hit the US as much as Europe and China, and its domestic market is also large enough for driving and other oil demand components to play an independent role. The risks today for the US economy comes from its financial sector.

ENERGY MARKET NEWS

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5. PAKISTAN KEEN TO PAY FOR RUSSIAN OIL IMPORTS WITH CHINESE YUAN
6. SAUDI ARAMCO TO SUPPLY FULL OIL VOLUMES TO ASIA IN JUNE, BUT SOME SEEK LESS
7. DOLLAR SINKS VERSUS YEN WITH US YIELDS DEPRESSED AFTER CPI
8. NEW OIL PIPELINE TO BE BUILT BETWEEN HUNGARY, SERBIA -HUNGARIAN MINISTER
9. TURKEY DEFERS $600-MILLION PAYMENT FOR RUSSIAN ENERGY TO 2024
10. GERMAN UTILITY GIANT SAYS THE ENERGY CRISIS "IS NOT OVER YET"

RECOMMENDED READING:

- ENERGY ORACLES: IEA'S BIROL ON ENERGY SECURITY AND THE CASE FOR AN ORDERLY TRANSITION
- TRUMP PLAYS DOWN CONSEQUENCES OF A US DEFAULT: 'COULD BE MAYBE NOTHING'
- UKRAINE SAYS IT ROUTS RUSSIAN BRIGADE, KREMLIN ACKNOWLEDGES 'VERY DIFFICULT' CAMPAIGN
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- PHILIPPINES Q1 GDP SLOWS TO 6.4%, BUT FASTER THAN FORECAST
- UPDATE 1-NORWAY OFFERS 92 OIL AND GAS BLOCKS IN NEW MATURE AREAS LICENSING ROUND
- ASEAN MUST SHOW UNITY TO TACKLE MYANMAR'S ESCALATING CRISIS, INDONESIA PRESIDENT SAYS
- TRADERS DUMP OIL AS CONCERNS ABOUT THE ECONOMY PERSIST

Energy Markets Views You can Use

Omar Al-Ubaydli
Director of Research
Bahrain Center for Strategic International & Energy Studies

Could OPEC decide to cut output again at its June meeting?
The cut announced in April was in anticipation of low demand and to maintain excess capacity to cover for any unfortunate spikes. It wouldn't surprise me, if we see further softening in the price, if OPEC steps in again because their eyes are on oil markets five years from now. They've been pursuing a very consistent line for the last few years - to try and maintain price stability to encourage investment, even if that means decreasing revenues for some of the bigger producers.

Will Russian crude and product exports continue to flow at the same pace?
China and India will keep Russia's oil interests operational. Russia also has quite a lot saved up in the bank, so I don't expect the economic side of the equation to affect its oil or pressure the country geopolitically in any significant way, at least for the next couple of years. On the contrary, European and American efforts to try to cool Russia economically are in some sense backfiring, such as having to deal with inflation and rearranging their energy markets.

Have the Iranian nuclear talks been forgotten?
Saudi Arabia is motivated to a significant degree by the correct realization that if the nuclear deal happens, it might lose some leverage on the rapprochement between the two countries, so it's trying to get ahead of that. Iran obviously is very happy to entertain new courtiers. As for the US, its foreign policy in the Middle East is in complete disarray and until they form something more coherent, you're not going to see any action on the nuclear deal. What's adding to that delay is that it's not now a policy priority with US elections coming up next year – the average voter is not particularly interested in Middle East geopolitics as long as US troops are not on the ground there, which is not going to happen any time soon.

GI Soundings Week in Review

“Debt Ceiling Drama Starts to Weigh on All Markets!”

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**
- **Marc Ostwald, Chief Economist & Global Strategist, ADM Investor Services International**
- **Henning Gloystein, Director – Energy, Climate & Resources, Eurasia Group**
- **Vibhuti Garg, Director – South Asia, IEEFA**
- **David Rundell, Former Chief of Mission, American Embassy in Riyadh & Author - *Vision or Mirage, Saudi Arabia at the Crossroads***
- **Laury Haytayan, MENA Director, Natural Resource Governance Institute**
- **David Fyfe, Chief Economist, Argus Media**

Omar Najia, Global Head, Derivatives, BB Energy PRICE TRAJECTORY “The market is defensive right now. WTI is trading about $72. If you can get this market above $74, then it would start to look pleasant. But to really look bullish, bullish, bullish, you’d have to take out the $83, which is $10-12 away from where we are now.”

Marc Ostwald, Chief Economist & Global Strategist, ADM Investor Services International INTEREST RATES “A lot of people have fixed rate loans, and they don’t necessarily roll over when the Fed hikes rates or the ECB or the Bank of England or anyone else. It’s only when people then have to refinance that it starts to hit the economy quite hard and it will, by extension, hit energy demand.”

Henning Gloystein, Director – Energy, Climate & Resources, Eurasia Group SANCTIONS “The US would like China to comply more with Western pressure not to buy Russian oil, but they’re not that desperate. They really don’t want to pick a fight with China at this stage - the plate of conflict is full enough. So, at this stage, we do not expect secondary sanctions to be imposed by the West.”

Vibhuti Garg, Director – South Asia, IEEFA INDIA RENEWABLES “We have seen the renewable energy tariff going up by 30% because of financing costs and in India as well, there was an imposition of basic customs duties on imports of modules and cells from China. It is still lower than the cost of setting up a new coal power plant. So, it is still attractive to build renewable energy.”

David Rundell, Former Chief of Mission, American Embassy in Riyadh & Author **– Vision or Mirage, Saudi Arabia at the Crossroads** OIL PRICE FLOOR “I think the Saudis would like to get as much money as they can without driving the world into a recession and therefore destroying demand. I think right now, $75 or $80 is something that is a reasonable number that they can hope for without destroying demand.”

Laury Haytayan, MENA Director, Natural Resource Governance Institute TURKEY GAS DISCOVERY “Erdogan wants to keep pushing the agenda of energy independence so that he could ease the budget because more than 90% of Turkey’s energy needs is imported. It is a trend in the policy of Turkey, and I don’t think whichever leadership comes will change that policy.”

David Fyfe, Chief Economist, Argus Media DIESEL FLOW “We did think the European diesel market was going to be struggling to find replacement supplies. Potentially, China could help fill that gap -not necessarily Chinese cargoes moving into Europe but Chinese cargoes going into Southeast Asia and liberating diesel supplies from East of Suez. That may still happen if domestic demand and construction in China remains relatively weak.”

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