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Fujairah New Silk Road WEEKLY NEWSLETTER

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

CORONAVIRUS Impact In-Numbers

Chinese Oil Demand 2020	Global Oil Consumption 2020	Brent Crude Price (so far)
↓ 2mn b/d -3mn b/d	↓ 300,000 b/d - 500,000 b/d	↓ 20%

**Estimates calculated from date of first case reported: 31.12.19 Sources: GIQ, Goldman Sachs, BP, Markets Insider*

"The coronavirus has had a negative impact on economic activity. An additional reduction in oil production should be made until the end of the second quarter."

H.E. Mohamed Arkab, President of OPEC and Minister of Energy, Algeria – February 9, 2020

GIQ TAKEAWAYS

1 Oil prices fell by 20% during the 2003 SARS epidemic. However, the impact was limited as the virus was contained within six months *(See: Case Study, page 3)*.

2 Demand contraction is a distinct possibility. There may be no demand growth in 2020.

3 OPEC+ unlikely to immediately deliver additional production cuts. The Joint Technical Committee (JTC) has called for OPEC, Russia and nine other countries to trim quotas by 600,000 b/d through Q2, 2020. Russia has yet to respond.

4 Oil futures fell this week to lowest settlement in over a year. The long-term outlook for demand will depend on the containment of the outbreak. The World Health Organization (WHO) has not declared a pandemic. The worst of this epidemic may still be contained in China.

5 Since 2017, there have been four bear markets for crude oil. Unlike previous trends, this bear market is driven by a decline in demand and not excess supply.

** Sources: GIQ, World Health Organization (WHO), International Monetary Fund (IMF) OPEC*

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Fujairah Weekly Oil Inventory Data

7,975,000 bbl	2,949,000 bbl	11,880,000 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
$3.59 – $4.16/m³

↑ **Highest: $4.50/m³**
↓ **Lowest: $3.30/m³**

*Time period: Weekly

Source: GI Research

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Thegulfintelligence.com

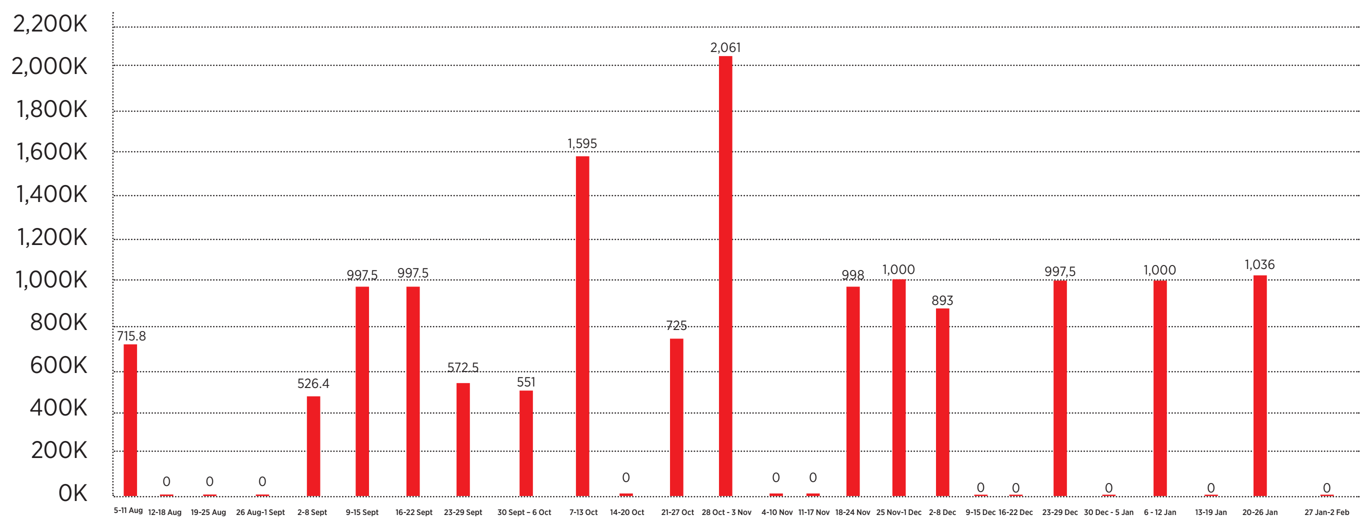
THE WEEK In Numbers

Weekly Average Oil Prices

Brent Crude:	**$53.36/bbl**
WTI Crude:	**$50.30/bbl**
DME Oman:	**$53.81/bbl**
Dubai:	**$53.26/bbl**

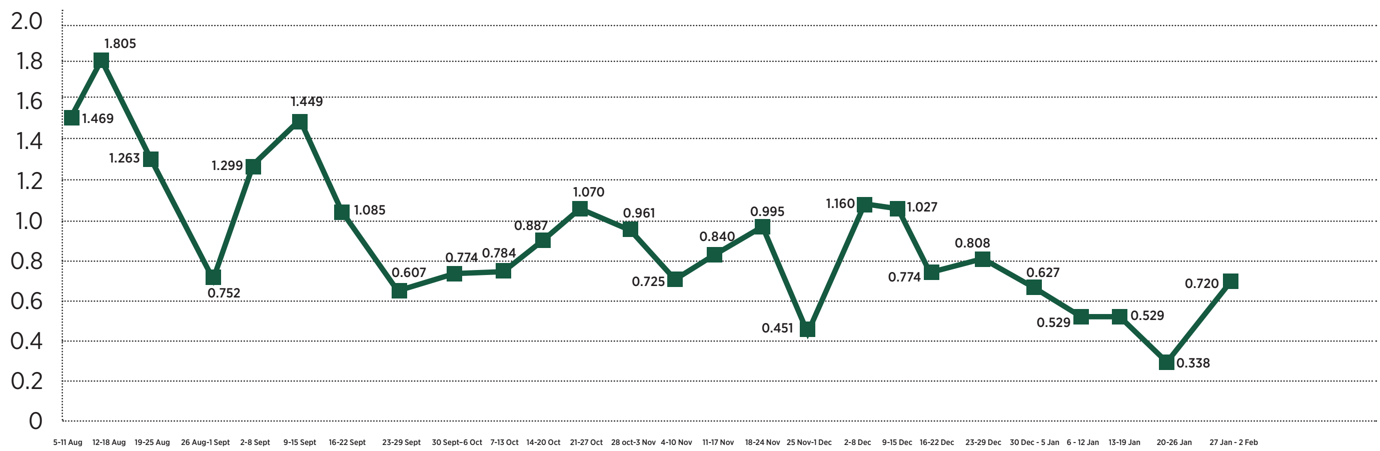
Time Period: Week 2, February 2020
Source: IEA, OilPrice.com, GI Research

Weekly Imports of Heavy Sweet Crude into Fujairah



Source: Kpler

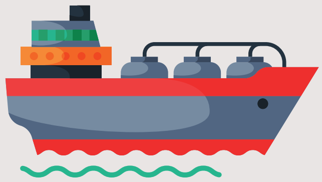
Total Refined Product Exports from the GCC to Asia-Pacific



Source: Kpler

Exclusive

GIQ SNAPSHOT



CORONAVIRUS Downstream Update

Traders

Two questions stand out: How long will the virus impact oil markets and where can I store crude to take advantage of higher prices in the future? Royal Dutch Shell Plc, Vitol SA and Litasco SA are among firms seeking supertanker hires for storage. This reflects weakening Chinese demand, as land base storage is typically cheaper.

Shippers

Oil tankers face a double hit: the impact of the coronavirus on trade, plus the lifting of US sanctions on Chinese shipping companies. Rates have substantially decreased. May rise amid appetite for floating storage.

Storage

Inventories will continue to rise as refineries cut output, first in China and then others. Storage companies will do well in contango, as traders are incentivized to store crude for a more profitable resale in the future.

Refiners

Refineries in China have scaled back processing by 2mn b/d over the last week; this roughly equates to twice the size of Oman's daily output. As airlines cancel flights to China (50,000+ so far), throughput could fall further, especially for jet fuel.

Ports

Shipping volumes could slide by 0.7% in 2020, with ports on the New Silk Road seeing a decline in business as China's trade appetite contracts.

Sources: GIQ, Bloomberg, Economic Times, BIMCO, Alphaliner

Oil Slips into Contango

↓ $0.40/bl

On February 4, 2020, Brent oil entered contango for as much as $0.40/bl for the first time since July 2019.

VLCC Earnings Freefall

↓ 82%

VLCC earnings from the Middle East to China have dropped from $103,274/d on January 3 to $18,351/d on February 3 – an 82% contraction.

Opportunity for Global Oil Storage

↑ $661bn by 2023

This is the overall projected value of the global storage market by 2023. Disruptions, such as coronavirus, support this growth.

Record Decline for Oil Refining

↓ 1.7mn b/d

This reduction in global refining runs resulted in a 1mn b/d net decline in production in February, due to dislocations in China and overstocked gasoline inventories.

Global Ocean Container Volumes Sink

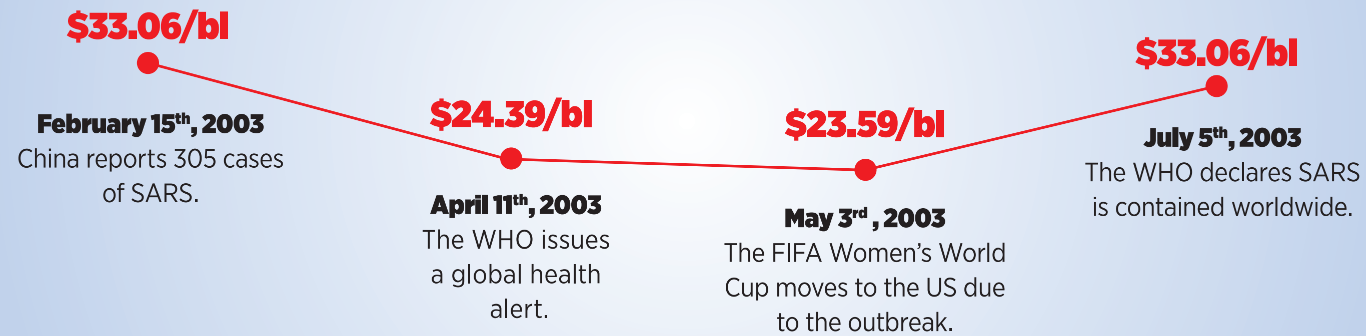
↓ 6mn

The number of shipping containers removed from the market this year, due to factory shutdowns and other restrictions hitting China's economic output.

Sources: GIQ, Reuters, Economic Times, BIMCO, Clarksons, Alphaliner, BCC Research, IHS Markit

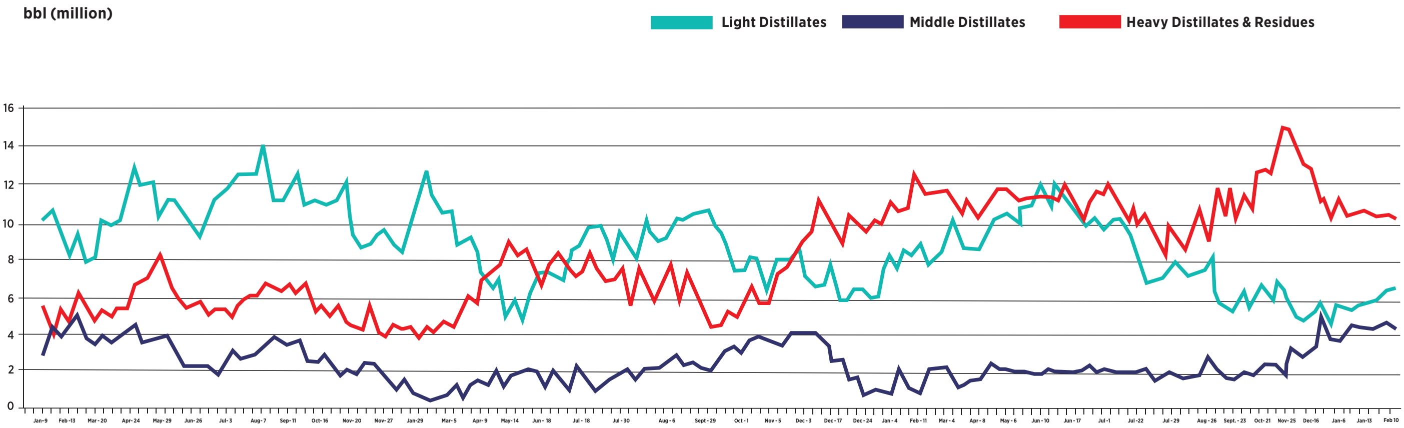
CASE STUDY SEVERE ACUTE RESPIRATORY SYNDROME (SARS)

Duration: 6 months ***Brent Crude Oil Price:*** ↓ 20%



Sources: GIQ, World Health Organization (WHO), Markets Insider, International Monetary Fund (IMF)

Fujariah Weekly Oil Inventory Data



TOP 10 TAKEAWAYS
Monday, February 10

- Total oil product stocks in Fujairah stood at 22.804mn barrels. Stocks down by 1.448mn barrels week-on-week. Overall product stocks down 6%.
- Light distillates saw a rise of 643,000 barrels (+8.8%) week-on-week, to 7.975mn barrels – highest level since August 19, 2019. East of Suez gasoline market rebound continued amid news of refinery outages globally, helped buoy regional crack spreads. More Chinese refineries cut run rates amid dip in domestic demand (coronavirus outbreak).
- Middle distillates fell by 1.109mn barrels (-27.3%), to 2.949mn barrels. Gasoil volatile, potentially searching for direction amid impact of coronavirus on China's demand. "It's becoming very dynamic. And although China has cut [refinery] runs already, the domestic demand is much lower, so exports could be more in the end," a North Asian gasoil trader said.
- Heavy distillates fell by 982,000 barrels (-7.6%) on the week, to 11.880mn barrels. The bunker market in Fujairah was well supplied. Abundance of LSMGO and LSFO available for loading.
- A significant narrowing of the spread between marine fuel 0.5% assessments for delivered bunkers and HSFO delivered bunkers. In Fujairah, marine fuel 0.5% delivered bunkers were assessed on Tuesday at $510/mt with HSFO delivered bunkers assessed at $290/mt – a $220/mt differential. This is a 40% contraction from the average spread of $365.38/mt seen in January.

Source: S&P Global Platts

"How is Brent at $55/bl? China is nigh on lockdown."

Can someone please explain to me how and why Brent oil is trading at $55/bl? Let's break things down, shall we? China is nigh on lock down. President Xi came out to tell everyone that things are fine (the first time he has been in seen in public in two weeks). The thing is, he was wearing a great big mask and one of those suits that Marty McFly wore in Back to the Future. So, China in lock down is ultimately going to have a massive impact on demand, which in turn has an impact on shipping, which has an impact on fuel oil, which has an impact on crude oil. Or am I missing something? As we all sadly know, this COVID-19 outbreak is not just contained to China. Its impact is far reaching. People will not want to travel or venture out much, the elderly will stay in and watch Countdown reruns and children will sit at home smearing Smarties onto every conceivable surface. This is not good for consumerism and indeed, the oil market. Jerome Powell testified last night; even he said that the US economy will suffer some kind of effect.

BY MATT STANLEY
SENIOR BROKER
STAR FUELS

That's about as positive a spin as he could have put on it. You must wonder, what can Powell and the Fed possibly do in the event of a financial downturn in the US? Not that I'm predicting one – far from it. But with interest rates at historical lows, he doesn't have much in the bag, does he? Apart from a tweet outburst from his Royal Trumpishness. Hellooooooo Congress. Chinese crude stocks rose by 13.8mn barrels last week – nigh on 2mn b/d. Of course, with Chinese demand down, we can expect to see a hugggeee crude oil build. Yet crude is up. UP! It's OK because if we put a '!' like Trump does on his tweets, then everyone will think it's kind of funny. Good day.

February 12, 2020

WORLD 1st

Virus-triggered global recession underway

BY MATEIN KHALID
Chief Investment Officer
Asas Capital

Thankfully, I was not in the global markets during the Black Death, the Great Plague and the Spanish flu pandemic. But Coronavirus cases have now crossed 40,000 infections and this is way beyond a local Wuhan outbreak. Despite the blowout 225,000 US January non-farm payrolls growth data, I am alarmed by the global recession SOS in the capital markets metrics I track.

1 The bellwether US Treasury ten-year note has tanked to below 1.6%. And the Uncle Sam IOU yield curve has inverted once again. Fear, not greed, obsesses the debt markets.

2 Dr. Copper, the red metal with its mythical doctorate in predicting the global economic pulse, has been in free fall for a shocking fifteen successive sessions – last seen in 1984. Copper futures traders in New York seriously think the slump in demand (the PRC is the world's biggest consumer) could see copper plunge from the current 2.59 to as low as 1.80 per pound. This is a classic advance indicator of global recession and it is flashing red alert.

3 West Texas/Brent crude have fallen 19-20% in the past month, despite an escalation of geopolitical tensions in the Gulf, Libya's oil terminal blockade and the fall of Sirte to General Haftar's militia, rising political violence in Iraq and the Niger Delta, unrest in Algeria and Sudan. And above all, draconian US Treasury sanctions on Iran and Venezuela. Jet fuel is 8% of global refined products market – and the price has plunged as 50,000 flights

> **"My four heartbeats of global finance flash a case of imminent cardiac arrest for the global economy."**

> **"Can Brent fall as low as $45/bl or lower? Absolutely, yes."**

have been cancelled to China. An oil economist I greatly respect in a New York investment bank estimates a shocking 3mn b/d fall in Chinese oil demand (20% of the Dragon Empire's daily consumption). No OPEC supply cut, even if Russia and Iraq were on board with the Saudi Arabian "swing producer" strategy, can remotely offset a demand shock of this magnitude. Can Brent fall as low as $45/bl or lower? Absolutely, yes.

The Chinese coronavirus is now a global pandemic, moving from the central Wuhan/Hubei province to the Pearl River Delta, Ground Zero in global supply chains and the economic engine of coastal China ever since the late Paramount Leader Deng Xiao Ping initiated his Open Door policy four decades ago. In the SARS outbreak in 2002, crude oil lost one third of its value even as the Bush White House planned to invade and execute regime change in Baathist Iraq. Yet China is vastly more critical to the global economy now than in 2003, a $14trn GDP colossus that is the world's second largest consumer of crude oil. If China GDP growth plunges to 1%, as Wall Street hedge funds believe, Brent could easily fall 50% from its peak or $35/bl. This is not a Cassandra call, but pure black gold economics 101.

> **"Coronavirus infections are increasing at an exponential rate – a literal viral curve! "Trust me" is not a reassuring thought when it comes to the Orwellian doublespeak of the Chinese Communist Party, as the world learnt to its horror in the SARS epidemic."**

4 I track the Baltic Dry Freight Index like a hawk, because shipping freight rates are a proxy for world trade. This index scared me from buying DP World at its IPO price of 1.30 in November 2007, as it had begun falling in that fateful summer.

Instead, I flew to Muscat, conducted due diligence on the Gulfar IPO and tripled my money on the deal – and earned $19mn for the family office. DP world plunged from $1.30 to as low as 19 cents – I repeat 19 cents - wiping out thousands of the 50,000 leveraged bulls who had never heard of the Baltic Dry Freight index but trusted their local bankers and brokers (same thing). This index now flashes a global deflation SOS to me as it has fallen from 1285 in December to 430 now. World trade has collapsed, period, as have shipping freight rates. This is beyond scary to me as freight indices don't lie.

5 Germany is the world's second largest exporter after China and the Teutonic Fatherland's GDP is one third of the Eurozone economy. Yet German industrial production has fallen to its worst levels since 2008. Factory orders have shrunk now for two successive years, a first since the 2001-2002 recession. The Mittelstand is in deep distress as its capital goods and auto component industry is most integrated with the coastal provinces of the Middle Kingdom. This is the reason domestic factory order books are falling faster than foreign orders. Unmöglich nicht wahr? Yes, this is unbelievable. Germany is going down, and so is Japan.

READ FULL REPORT HERE

ENERGY NEWS Highlights

IMO 2020 UPDATE

Bunker Market: Fujairah

Price: 0.5% Fuel Oil

January 1, 2020

$771.00/mt

33%

February 11, 2020

$516.50/mt

Source:s Ship & Bunker, GIQ

BPGIC-FOIZ ink land lease deal

Broоge Petroleum and Gas Investment Company (BPGIC), a wholly owned energy investment company of Brooge Holdings, has signed a land lease agreement with Fujairah Oil Industries Zone (FOIZ) for a strategic plot of land that spreads over 450,000sqm. The area will be utilized by BPGIC to build its phase III facility. Phase III alone could add storage and services capacity of up to three and half times the size of its projected operations post-phase II, which will be 1mn cubic meters.

Source: ME Construction News

Tanzania: LNG hopes on knife-edge

International oil companies sitting on large gas discoveries offshore Tanzania say they are keen to resume drawn-out and currently halted talks over the development of LNG export projects, based on large reserves in the south of the country. But even if talks restart soon, the country will still face a struggle to start exports within the next decade given an increasingly competitive global LNG market. Negotiations were paused by the government in mid-2019 to allow a review of Tanzania's production sharing agreement framework.

Source: Petroleum Economist

CORONA VIRUS UPDATE

China cuts refinery runs

As the coronavirus continues to batter fuel demand in China, PetroChina is cutting refinery runs and is talking to key suppliers in the Middle East about possibly deferring some crude oil loadings or reducing volumes. The Chinese refiner doesn't see fuel demand rebounding in March 2020.

Source: Reuters

Russia reviews OPEC+ proposal

Russia is still reviewing the recommendation of the OPEC+ technical panel for additional cuts of 600,000 b/d in response to the slump in oil demand over the coronavirus outbreak. Moscow continues to avoid a direct comment on last week's proposal that the OPEC+ coalition deepen the production cuts.

Source: OilPrice.com

India eyes China's diverted oil

Distressed oil supplies are being offered to India as the spread of the coronavirus crimps fuel consumption across China, prompting requests for cargo deferrals and cancellations for Asia's largest importer. State-owned Bharat Petroleum Corp Ltd received offers for supplies of crude from the Caspian Sea and South America for March 2020 loading. The shipments, originally meant for Chinese refiners, were being shown at low prices, potentially yielding up to 15% more returns when processed.

Source: Reuters