Fujairah New Silk Road

WEEKLY NEWSLETTER

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

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FOIZ منطقة الفجيرة للصناعات البترولية Fujairah Oil Industry Zone

Port of Fujairah ميناء الفجيرة Port of Fujairah United Arab Emirates

AN EXCLUSIVE GULF INTELLIGENCE INTERVIEW

DIGITAL REVOLUTION MAY OPEN PATH FOR WOMEN TO ADVANCE IN GULF OIL SECTOR

Prof. Yusra Mouzughi, President, Royal University for Women

Knowledge is the new cutting-edge commodity for modern economies and women in this region can play a vital role on this journey. The new digital tools enable this largely silent workforce - which has been educated and well trained but not necessarily had the full opportunity to contribute - to drive us forward towards a stronger knowledge economy. Yes, we need hard infrastructure but it's the soft infrastructure - digital understanding, the ability to program, code, analyze and pick up trends, that can be done by anyone with the right skillset, anywhere. We need to create and harness this opportunity in the region to establish clusters of excellence. Traditionally, research has been based on Western centric problems or challenges being superimposed on a regional issue. Today, we need to adopt technologies and knowledge to create efficiencies to address local challenges, such as energy and food security. The region also needs to empower its youth with a platform to become the future leaders of its national industries. Countries like Oman and Bahrain have ample abilities in their work force that can take their economies to the next level. They have had 30-40 years of foreign investment and knowhow imparted both explicitly and implicitly. Young graduates who have secured excellent educations abroad now have the background and training and should be provided with the platform to demonstrate leadership. It's time for national capabilities to drive these economies to the next level. Investing in national human capital should become part and parcel of any contract so that they are given the authority and accountability to make decisions and drive us forward.

CONTINUED ON PAGE 3

Fujairah Average Oil Tank Storage Leasing Rates*

BLACK OIL PRODUCTS

Average Range
$3.54 - 4.38/m³

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

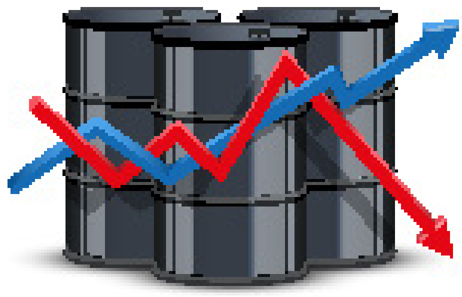
Source: GI Research – Weekly Phone Survey of Terminal Operators

Fujairah Weekly Oil Inventory Data

5,427,000 bbl	4,256,000 bbl	12,944,000 bbl
Light Distillates	Middle Distillates	Heavy Distillates & Residues

Source: FEDCom & S&P Global Platts

THE WEEK In Numbers



Weekly Average Oil Prices

Brent Crude:	$74.17/bl
WTI Crude:	$72.79/bl
DME Oman:	$72.70/bl
Murban:	$73.26/bl

Time Period: Week 3, June 2021
Source: IEA, OilPrice.com, GI Research

Fujairah Weekly Bunker Prices

VLSFO

High = $540/mt

Low = $526/mt

Average = $534.50/mt

Spread = $14/mt

MGO

High = $658/mt

Low = $639/mt

Average = $648.50/mt

Spread = $19/mt

IFO380

High = $432.50/mt

Low = $432.50/mt

Average = $432.50/mt

Spread = $0/mt

*Source: Ship and Bunker, *Time Period: June 17 - June 24*

Fujairah Bunker Sales Volume (m^3)

2,378 180cst Low Sulfur Fuel Oil	**528,575** 380cst Low Sulfur Fuel Oil	**109,883** 380cst Marine Fuel Oil
1,684 Marine Gasoil	**25,298** Low Sulfur Marine Gasoil	**5,173** Lubricants

Source: FEDCom & S&P Global Platts

GI Consultancy Intelligence Publishing

Prof. Yusra Mouzughi, President, Royal University for Women

CONTINUED FROM PAGE 1

Is academia in the region changing fast enough to meet these objectives?

Prof. Yusra Mouzughi Traditionally, the role of universities has been very much about teaching and research and we still need more investment into this. More recently, there's been a push for a third stream added to our portfolio of work, which is the transfer, interpretation and commercialization of that research. That requires a different skill set and is a real area of growth. Higher education institutions have grown exponentially in this part of the world, particularly in relation to the size of population. We need to seek the opportunities for these institutions to add value to our economies. We also need more collaboration and don't need to look too far afield. There are strengths closer to home - an area that has not been leveraged as much as it could have been.

Has Covid-19 accelerated academia's path to a knowledge economy?

Prof. Yusra Mouzughi Universities, schools and training institutes have had to almost overnight, transform the way they operate and deliver. Nobody was prepared for this. Academia and industry in this part of the world are immigrants into this digital age so it's been a steep learning curve in utilizing technology in education and online learning methodologies. One of the fundamental pillars of a knowledge economy is education and training. There is a myriad of opportunities to engage, collaborate, and access knowledge and information. Covid-19 has really opened up the doors for innovation and development, though there's still a level of caution on what methodologies are reliable and what collaborative opportunities to pursue.

Can the region follow a cohesive policy on this front?

Prof. Yusra Mouzughi This part of the world has a broad range of economic abilities and educational attainment levels. In the GCC for example, we have established economies, a strong ICT infrastructure, and political stability - fundamentals that allow the focus to develop a knowledge economy. In other countries, some of those factors are not there and we have also witnessed a brain drain of sorts, with a lot of expertise moving to other parts of the world.

Is the Gulf still playing catch up with the West on its knowledge economy path?

Prof. Yusra Mouzughi The online environment gives the region an opportunity to accelerate that. Globally, it's not a level playing field but Covid-19 has brought everybody back to a particular standing point of getting on the same page. The Gulf benefits from having relatively smaller and younger populations – that can be a real asset because that's where innovation, entrepreneurship and the embracing of technology is most likely to happen. Education is playing a vital role in the economic strategy plans of GCC countries. It's recognized as the key driver to bringing countries to a level where they can compete on the international stage on specific areas of focus.

WATCH FULL INTERVIEW HERE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ADNOC
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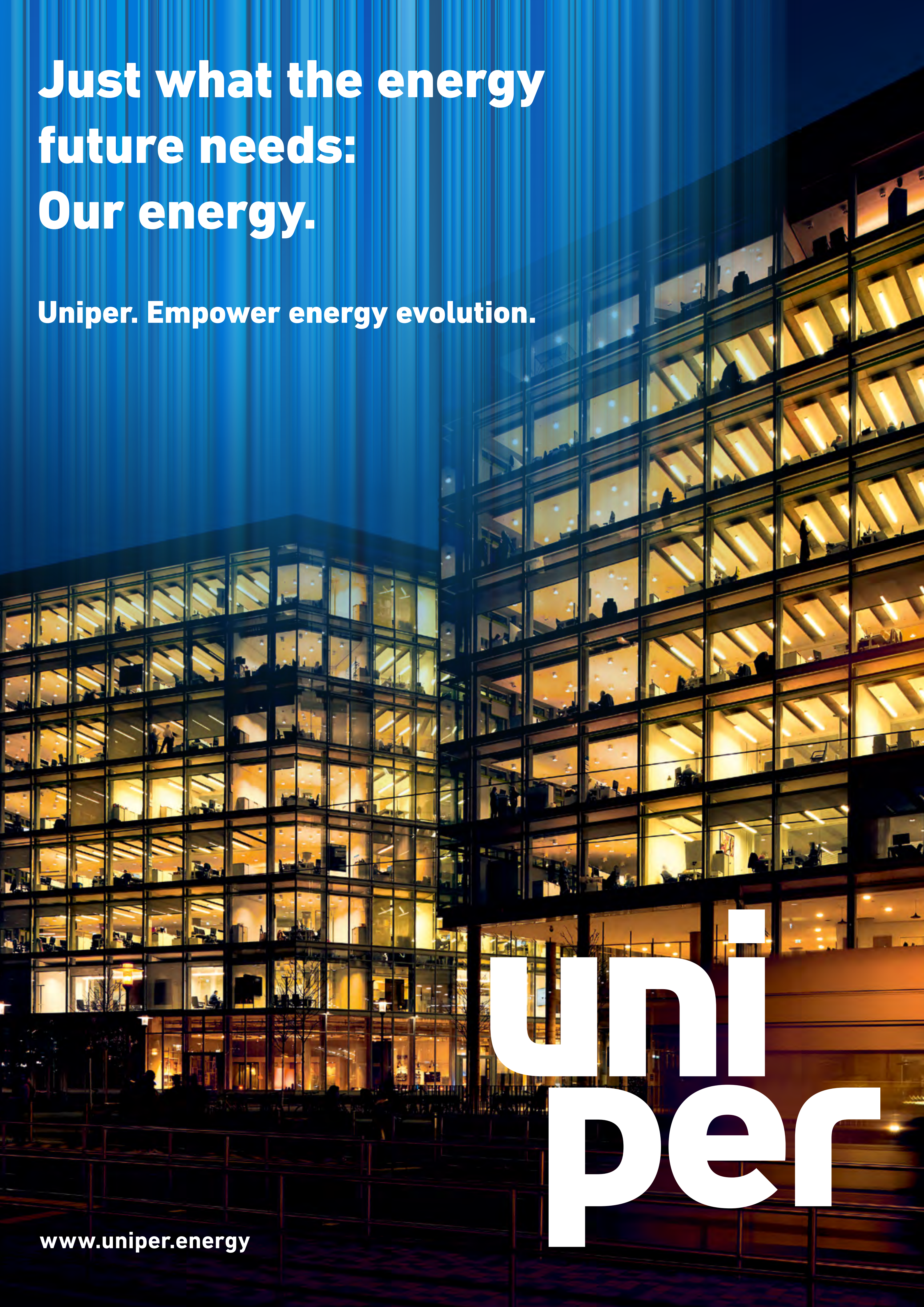
For over fifty years, we've helped drive the prosperity of our world, our nation, our partners and our customers. But this is just the start of our story. We are determined to constantly improve our products, optimize our costs, drive greater efficiencies and deliver more value. All while innovating to protect our environment and to empower the communities we serve. That's not simply our purpose, it's our promise to future generations.
adnoc.ae @adnocgroup
Abu Dhabi National Oil Company

ENERGY MARKETS COMMENTARY WEEK IN REVIEW

CLICK HERE TO LISTEN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GIQ EXCLUSIVE SOUNDINGS

Oil Climbs to Highest in over Two Years as Supply Tightens

Over the last week, Gulf Intelligence has held high-level interviews with energy experts in the Middle East, Asia, Europe, and the US. This intel is harvested from the exclusive briefings.

- James McCallum, Executive Chairman, Xergy; Professor of Energy, Strathclyde University
- Frank Kane, Senior Business Columnist, Arab News
- Peter McGuire, Chief Executive Officer, XM Australia
- Albert Stromquist, Principal, Lanstrom Advisors
- Rustin Edwards, Head, Fuel Oil Procurement, Euronav NV
- Andrei Belyi, PhD, Professor, Founder & CEO, Balesene OÜ
- Ole Hansen, Head, Commodity Strategy, Saxo Bank
- Dr. Carole Nakhle, Chief Executive Officer, Crystol Energy
- Vitaly Yermakov, Senior Research Fellow, The Oxford Institute for Energy Studies

James McCallum, Executive Chairman, Xergy; Professor of Energy, Strathclyde University
"What happens in terms of production returning to the market to meet supply increase? It's quite clear that demand for products in the West is returning faster than many people thought."

Frank Kane, Senior Business Columnist, Arab News
"After a three-month period of graduated increases, OPEC have to give some indication about where it goes from August onwards. There has been talk of increasing supply by another 1mn b/d for example but I think that would be too much. Saudi Arabia will continue to take a cautious approach."

Peter McGuire, Chief Executive Officer, XM Australia
"The realization is that the world is opening back up, demand is picking up, and it seems to be a feel good over this Northern Hemisphere summer season."

Albert Stromquist, Principal, Lanstrom Advisors
"The majors in the oil industry in the West kind of follow the oil price in lockstep. So, if recovery is in the cards for the majors, it will be because of an aggressive growth in oil prices and also and aggressive management of costs within the organization."

Rustin Edwards, Head, Fuel Oil Procurement, Euronav NV
"OPEC can still keep that specter of flooding the market because they still have 5.7mn – 5.8m barrels sitting on the sideline. If they wanted to price shale out, they could just say 'open the taps boys, we're done.' Then the market will drop from $70/bl down to $50/bl rather quickly."

Andrei Belyi, PhD, Professor, Founder & CEO, Balesene OÜ
"Iran remains a point of uncertainty because the new president seems to be uneasy about negotiating a deal. Therefore, it's not that evident that Iranian oil is going to go to the market."

Ole Hansen, Head, Commodity Strategy, Saxo Bank
"We are facing investors who basically want to invest as if we were in 2030 already. They want to move away from some carbon intensive industries. But, we have to accept the fact that we are going to rely on carbon or heavy fuel for a number of years into the future."

Dr. Carole Nakhle, Chief Executive Officer, Crystol Energy
"It was naive to really believe that an agreement or a deal would be reached before the Iranian elections. Now that you have a new president in office, it's also not going to happen overnight because you may have a different agenda."

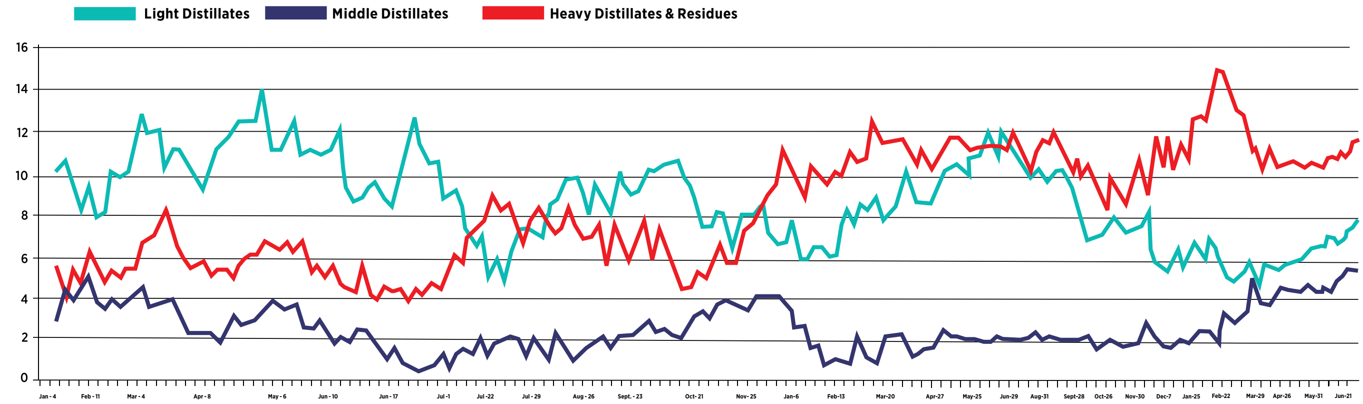
Vitaly Yermakov, Senior Research Fellow, The Oxford Institute for Energy Studies
"OPEC seems to be in the driver's seat while shale increasingly looks like a giant on clay feet. Everyone is wondering why the US producers are not striking back. It really has to do with the way the shale operations are organized. They need to run a bit faster just to be capable of producing the same amount of oil."

GI Consultancy Intelligence Publishing

Fujariah Weekly Oil Inventory Data

FOIZ
منطقة الفجيرة للصناعة البترولية
Fujairah Oil Industry Zone

bbl (million)



TOP TAKEAWAYS

- Total oil product stocks in Fujairah were reported at 22.627mn barrels. Total stocks fell 843,000 barrels with overall stocks falling by 3.6% week-on-week. This contrasts with last week's total stocks rise of 1.135mn barrels, or 5.1%. This week's total stocks fall was mainly driven by light distillates posting a 23.7% week-on-week draw, in contrast middle distillates and heavy residues rose 6.6% and 4.7% week-on-week respectively.
- Stocks of light distillates, including gasoline and naphtha, fell by 1.688mn barrels, down 23.7% week-on-week, to stand at 5.427mn barrels. This is a reversal of last week when light distillates jumped 42.9% to 7.115mn barrels. The gasoline market East of Suez was under pressure, with a combination of demand-side concerns weighing on overall sentiment, coupled with an anticipated build up in gasoline inventories in the US adding to existing headwinds. In the spot market, South Africa's Engen was heard seeking 37,000 mt of 95 RON gasoline for loading over July 23-25 from the Arabian Gulf or over July 19-21 from Singapore/ Malaysia.
- Stocks of middle distillates, including diesel and jet fuel, rose by 263,000 barrels to total 4.256mn barrels – up 6.6% on the week. Sentiment in the gasoil market East of Suez has been lackluster due to the resurgence on Covid-19 infections in Southeast Asia and India. Furthermore, refiners are expected to maximize their gasoil output over its co-distillate jet fuel due to the widening regrade – the spread measuring the premium jet fuel commands over 10ppm sulfur gasoil. Singapore front month regrade swap averaged minus $2.44/bl over June 1-21 compared with an average of minus $2.10/bl in May.
- Stocks of heavy residues, including fuel for power generation and bunkers, rose by 582,000 barrels to total 12.944mn barrels, representing a 4.7% rise week-on-week. Market participants said bunker demand in Singapore and Fujairah has tapered off and they were limiting their buying to the minimum required volumes on a prompt basis due to the rising flat price, which was being pushed up by rising crude prices. Fujairah-delivered marine fuel 0.5%S bunker was heard offered at $529-$532/mt, sellers however later in the day lowered offers to around $527/mt to attract buying interest. The grade was assessed at $527/mt on June 22, up $4/mt from the previous day, this level represents a $2.75/mt discount to delivered bunkers in Singapore.

Source: S&P Global Platts

BY MATT STANLEY
SENIOR BROKER
STAR FUELS

Morning all. Brent is trading this morning at $75.47/bl, up 0.26/bl. WTI is trading up 0.27/bl, at $73.35/bl. So, where do we begin, I know - Napoleon Bonaparte "The fool has one great advantage over a man of sense; he is always satisfied with himself." Sums up the bull market quite nicely. Thanks for that Napy, Bony? I don't know, what was his nickname? Anyway, good news! If you're in the UK you can go to where Bony was buried - Saint Helena, that's on the travel green list. Just make sure you book in advance because there's only one flight every six weeks. And this is where I'm going with this because I want to talk about international travel and the effect thereof on jet fuel demand.

Let me start with why this is important. Oil demand is still down by about 5mn b/d since the start of the pandemic, (a pandemic we are still in by the way even if you do have to search for headlines on it). Many are predicting, including OPEC+, that the vast majority of that demand will come back by the end of 2021. Half of this demand return is jet fuel. There was a poll on the radio this morning and it asked a very simple question - What are your summer travel plans? There were three answers to choose from. 1) Booked a holiday. 2) Staying in UAE. 3) Still deciding. The results were 1) 30%, 2) 47% and 3) 23%. I am using this poll result because this is a real-life question that people are answering. It's not been put together by a desk of people with way bigger brains than mine and applying lots of algorithms to lots of models. No. This is the reality. Don't get me wrong I want the freedom to travel as and when I please back more than I could go on about, but the reality is that people are just genuinely a little bit afraid of international travel. That may vary from anxiety about getting put on a red list whilst you're in the middle of sipping on some of Piedmont's finest to calming your apprehensive daughter down about a cotton bud being shoved up her nose. The situation is this - we are in a better place than we were regarding demand, EIA data showed this last night, but talk about demand returning in the fashion many forecasts is frankly a little delusional. The public have spoken. All the while Brent has consolidated above $75/bl. At what point do those barrels eventually start making a comeback? Because this isn't a demand driven rally, it's all down to side-lined supply. Ohhhhhhh Viennnnnnaaaaaa. Via Zoom. Because remember, we are still in a pandemic. Good day to all.

ENERGY MARKETS VIEWS YOU CAN USE

Maleeha Bengali
Founder
MB Commodity Corner

WHAT IMPACT HAVE RECENT FED STATEMENTS ON RATE HIKES HAD ON OIL MARKETS?

The Fed is still very committed to a loose monetary policy, but it is indicating that the rate of change of QE is slowing down and the market is digesting that. We're now talking about inflation being quite sticky, not transient, and that can change the whole inflation dynamic. Commodities have been knocked lower in general but not oil, as supply is very tight right now and we have seasonal demand in US gasoline and European travel also opening up. We will have a shortage of oil for the next two or three months.

THE FED BACKTRACKED A LITTLE THIS WEEK – WHY?

The Fed was caught by surprise as to how the markets reacted to their comments about rate hikes. But the long-term story is still that they will be looking to take their foot off the pedal. It won't be a fast tapering because of the risk of collapse, but the needle has moved in the right direction. At end of the day though, they're still buying $120bn of assets every month – that's a lot of QE and liquidity in the market.

SHOULD OPEC BE CONCERNED ABOUT OIL PRICES HARMING EMERGING MARKETS?

OPEC has the opportunity to take their time to manage any market supply increase. Oil demand is picking up but interestingly, one thing they cannot quantify is how much of that is coming from commodity index fund flows. Still, it suits them to run with $75 or $80 for now. They have worked hard to get prices up and there's no risk of US shale coming back due to capital discipline. They can take it one month at a time.

Laury Haytayan
MENA Director
Natural Resource Governance Institute

WILL OPEC DECIDE TO TEMPER RISING OIL PRICES AT ITS MEETING ON JULY 1?

With Iranian oil and US shale not back on the market, prices will continue to get support towards and beyond $80. Saudi Arabia has said it wants to see significant demand recovery before anything more happens on the supply side. OPEC is also happy with prices - they took it really hard last year and now want to enjoy these levels, continuing to meet monthly to manage the market.

WHAT'S NEXT FOR US, IRAN TALKS WITH THE ELECTION OF A NEW IRANIAN PRESIDENT?

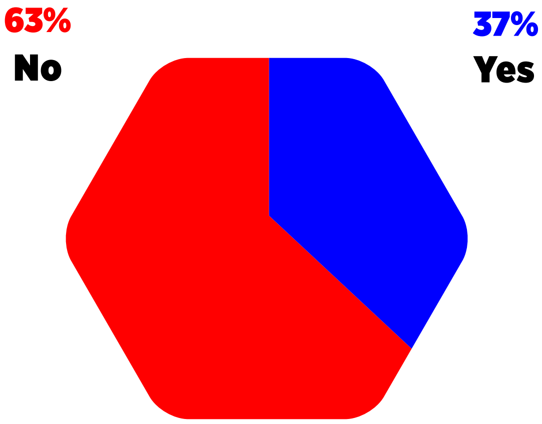
Iran is saying that the US needs to recommit to the JCPOA, remove all sanctions without conditions, give guarantees that it will stay committed to any deal and not discuss ballistic missiles and regional proxies. That doesn't leave much room for negotiation. The new Iranian President needs to meet the expectations of the hard liners that have elected him. The first thing he said was that he was not interested in meeting with Biden, even under the requested conditions. At the same time, Joe Biden has to consider his electorate and can't look soft on Iran. So, we are stuck with national interests taking the upper hand on the negotiations.

ANY PROGRESS ON THE TALKS BETWEEN THE SAUDI AND HOUTHIS ON YEMEN?

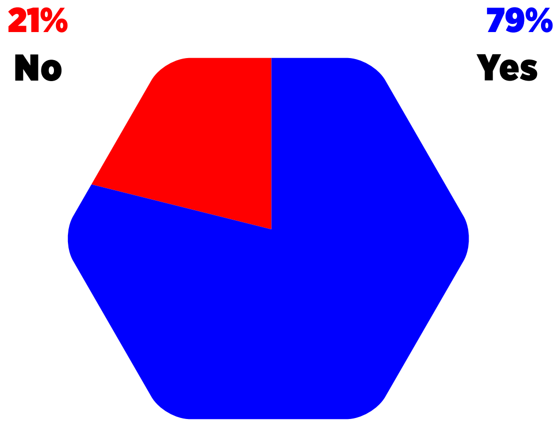
That is also linked to the Iran-US negotiations. Let's see how the Iranian President positions himself on the discussions within the region - the hardliners have always taken the view that these are regional issues, which should be without US or other influence. Whether the discussion of ballistic missiles and proxies will also be off the table between Iran and the Saudis remains to be seen.

GIQ Weekly Surveys

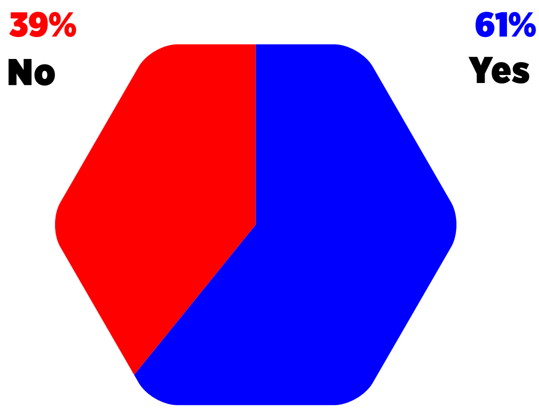
Following FED announcement have we seen the 2021 high for oil prices?



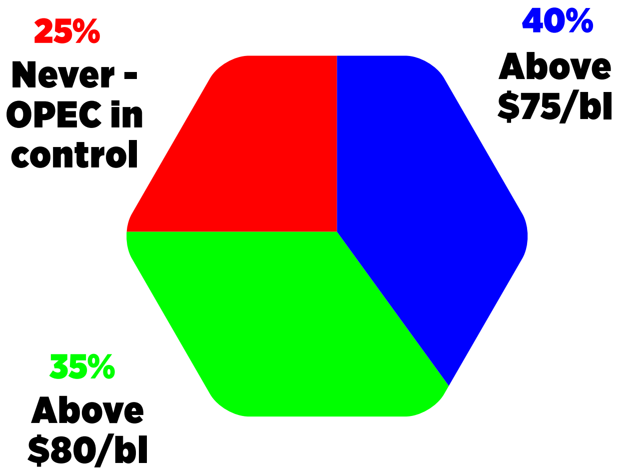
Brent-WTI spread has narrowed $4 last year to under $2 now – will this spread continue to narrow towards $1 in H2 2021 with US recovery?



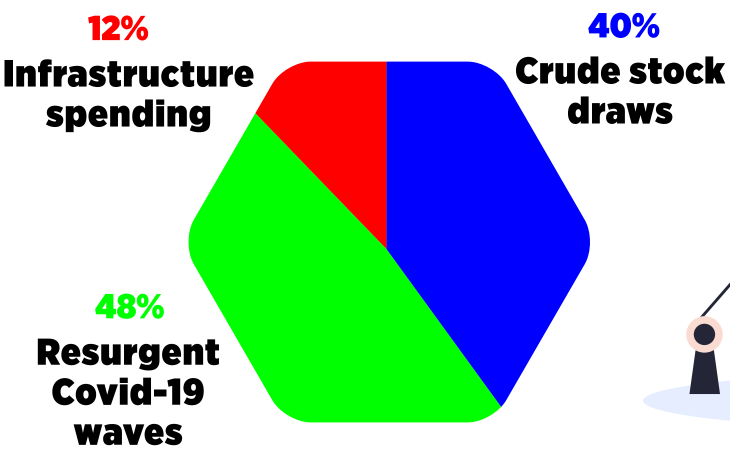
Was the market reaction to the Fed's June meeting too extreme?

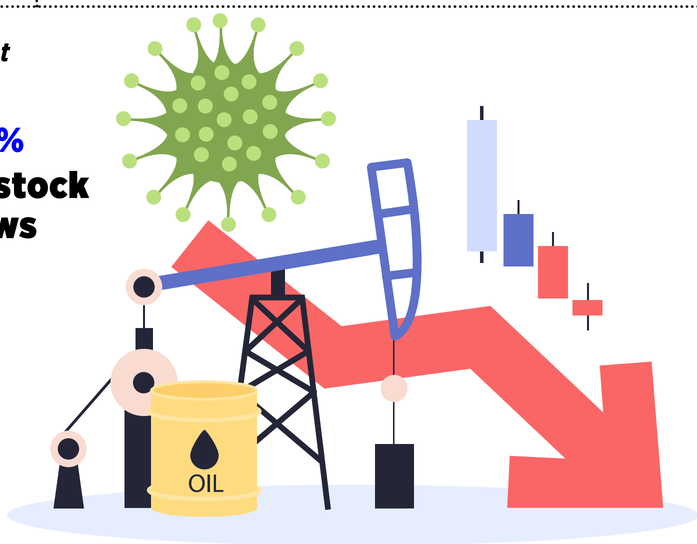


Shale producers continue to hold back on reentering the market, even with prices holding firmly above $70/bl. At what point will they come back in?



As we enter 2H 2021, what has the upper hand on market demand sentiment?





Source: GIQ

GI Consultancy Intelligence Publishing

ENERGY MARKETS VIEWS YOU CAN USE

Omar Najia
Global Head, Derivatives
BB Energy

ANY SIGNIFICANCE IN THE LATEST NARROWING OF THE BRENT/WTI SPREAD?

Stronger WTI is an indication of US demand, whereas Brent reflects the rest of the international market. The narrowing is a sign that internal demand in the US is moving up, which is a healthy sign for the market overall. Gasoline demand in the states has already overtaken last year. Also, if all grades are generally moving higher, as they are today, it's a bullish indication, whereas if that spread widens, it's bearish in general.

HOW IS THE FED STATEMENT ON MONETARY TIGHTENING IMPACTING OIL FUTURES?

The real question is if the Fed does increase interest rates, how exactly are they going to finance it? The Fed has no choice but to keep providing liquidity, otherwise everything implodes with the higher interest on debt, both in the US and elsewhere. If it keeps liquidity going, then inflation comes. It's not clear how they resolve this.

OUTLOOK FOR MARKETS FOR THE REMAINDER OF THIS WEEK?

Basically, no change. Medium term, I still don't see any movement on shale. They can't even benefit from these rising prices until 2022 as they have already hedged or locked into a lower level. The point is that OPEC can control the market because there is nobody outside the alliance that can add substantial amounts of oil. That's what's changed. What's facing oil markets going forward is two things – a negative impact from new Covid variants and an Iran deal happening - and neither seem extremely likely.

Dr. Sara Vakhshouri
Founder & President
SVB Energy International

HOW DOES THE IRANIAN ELECTION RESULT IMPACT ENERGY MARKETS?

The result was expected. In terms of the negotiations with the US on sanctions, as long as there are no serious pressures on Iran's missile program or expectations that it should backtrack from supporting its proxies, they should continue under the new leadership. But obviously the hard liners have less incentive than President Rouhani had, to negotiate. They are the ones who formed the massive 25-year investment agreement with China and part of that is China's commitment to purchase Iranian oil. Even if the negotiations with the US move forward, China will have a stronger presence in the country going forward.

IRANIAN OIL EXPORTS SEEM TO HAVE PLATEAUED RECENTLY?

Global demand is continuing to increase. The market has been in a deficit since February and inventories are now back at five-year averages. By the end of this year, the market will have 1 to 1.5 million barrels per day of deficit so Iranian oil can be absorbed during the second half of 2021.

HOW DO YOU ASSESS THE REACTION OF GULF ARAB STATES TO THE NEW GOVERNMENT?

While the UAE does have issues with Iran, it was quick to congratulate the President. On the other hand, there's a significant lack of trust between Iran and Saudi Arabia and this won't change unless there are strong gestures of trust building from both. There have been direct talks and negotiations between the two, but we would not expect them to go beyond national security issues over the conflict in Yemen and preventing another tanker war in the Gulf. Even under the Rouhani administration, there was a serious lack of trust by other countries in the region on the intention of Iran's missile program and support for its proxies.

ENERGY MARKETS FORUM
NEW SILK ROAD LIVE

Consultancy Intelligence Publishing

TOP 10

JUNE 20th- 24th

MARKET OBSERVATIONS FOR THE WEEK

1. The FED announcement to consider talking about talking is unlikley to derail oil price rally.

2. Iran hardliners return to Presidential power may drag out nuclear talks for longer - they also like to talk about talking.

3. Shale oil production is unlikely to offer any threat to OPEC+ market share in 2021.

4. OPEC+ meeting on July 1st will need to provide insights for future supply increases in the second-half of the year.

5. Brent-WTI spreads are likely to tighten towards \$1/bl in H2 2021 as US economic recovery and oil demand sprints ahead of the pack.

6. OPEC+ is likely to maintain a very cautious approach to adding more oil supply when they meet next week.

7. The market reaction to the Fed's announcement last week on possible start of tightening cycle was too extreme, and Powell may move to calm nerves this week.

8. Oil markets to remain supported through the summer travel season and could trend higher towards \$80/bl if the dollar weakens.

9. Dichotomy of rising demand and continued Asia Covid impact to keep OPEC+ output increase moderate come August

10. Backwardated crude coupled with flat to contango products prices creating a dual market. Refinery margins under duress, even in relatively buoyant US with restricted exports to South America

VLSFO Time Spread Slips Back to Narrow Contango

Worries over plentiful supplies and limited bunkering demand in the Singapore hub tipped the front-month 0.5% very low-sulphur fuel oil (VLSFO) time spread back into a narrow contango on Wednesday. The July VLSFO time spread slipped to minus 25 cents a tonne, down from a 25 cent premium in the previous session, Refinitiv data in Eikon showed. T Fuel oil inventories in the Fujairah bunkering and storage hub climbed 5% to a two-week high in the week ended June 21, data released on Wednesday showed. The higher inventories came amid rising export volumes and weaker bunkering demand in the Fujairah hub on rising crude oil prices, trade sources said.

Source: Business Recorder

Asia Residual Fuels: Key Market Indicators for June 21-25

Prompt supply remains tight in Singapore and Fujairah, while easing of quarantine restrictions in Hong Kong set to bring back demand. Singapore's fuel oil inventories rose to five-week highs last week, according to Enterprise Singapore data. Fujairah's heavy distillate and residual fuel oil inventories fell by 5% to 13.87 million bbls last week, after rising sharply in the preceding week, data from S&P Global Platts and the Fujairah Oil Industry Zone showed. Meanwhile, in the high sulfur fuel oil market, the increase in demand for straight-run fuel oil as a refinery feedstock in East Asia has also seen competing demand for the grade as a blending component for cargoes destined for the power generation market in Kuwait and Pakistan, according to market traders based in Fujairah.

Source: S&P Global Platts

Fujairah Bunker Demand Loses 1% on Month

Marine fuel sales at Fujairah, the world's third-largest bunkering hub after Singapore and Rotterdam, slipped by 1% from the previous month in May. Total sales excluding lubricants lost 1% from April level to 6667,818 m3 in May, according to the latest data from FOIZ. Marine Lubricants sales advanced by 2.6% on the month to 5,173 m3. Converted to metric tonnes, June total excluding lubricants comes to about 638,000m3, 19.6% higher than the average 533,000 mt/month across the second quarter of 2020.

Source: Ship and Bunker

Fujairah Building Industries has Compensated Shareholders With a Respectable 88% Return on Investment

There's no doubt that investing in the stock market is a truly brilliant way to build wealth. But if when you choose to buy stocks, some of them will be below average performers. While markets are a powerful pricing mechanism, share prices reflect investor sentiment, not just underlying business performance. One imperfect but simple way to consider how the market perception of a company has shifted is to compare the change in the earnings per share (EPS) with the share price movement. During the last year, Fujairah Building Industries P.J.S.C actually saw its earnings per share drop 22%. So we don't think that investors are paying too much attention to EPS. Therefore, it seems likely that investors are putting more weight on metrics other than EPS, at the moment.

Source: Simply Wall St

ENERGY MARKETS VIEWS YOU CAN USE

Christof Rühl
Senior Research Scholar - Center on Global Energy Policy
Columbia University

IS THE US FED POSITION ON AN INTEREST RATE RISE BY 2023 A SURPRISE?

The statement last week was the beginning of a tighter approach, not the end of it. So far, the messaging that everything is under control has worked. Now, they have to backpedal a bit and that's a good way to prepare for the long term. I would expect to see more of this with the way the global economy is recovering, as bottlenecks emerge, and also taking into account the damage higher rates of inflation can ultimately do to emerging markets.

IS A RATE INCREASE MORE DAMAGING BECAUSE OF THESE UNPRECEDENTED DEBT LEVELS?

We have had a systemic extreme monetary policy that has created an environment of low interest rates for an unprecedented length of time. That's like a bonfire for inflation. We have also had loose fiscal policy. As far as structural policy is concerned, the hard stuff like dealing with the minimum wage and companies regulation, that hasn't even been touched. In my eyes, the latter, especially in Europe, is what will unleash growth and inflation in the sense that the government will spend more than it earns. At some point, it starts to finance that with the very money created by the central bank and that would go into assets first and then prices. All of this would happen amidst unprecedented debt levels. In the group of developed economies, we are now at about 300% of GDP - a record level for the government, the private sector and households. When interest rates rise, the weakest of these three will be the first to default. What's most worrisome is that it's completely unclear today how this debt will ever be repaid. All of these factors are fertile ground for politicians to come out and say that we need to have 4-6% inflation.

THE US DOLLAR STRENGTHENED LAST WEEK AFTER THE FED STATEMENT?

I never understood the opinion that the dollar would weaken. The Fed's signals that they would go ahead to raise interest rates will make the dollar more attractive, as will the risk of volatility. The dollar has weakened considerably already so I see it strengthening.

Albert Stromquist
Principal
Lanstrom Advisors

ANY SURPRISE AT THE FED'S SLIGHT RETRACTION THIS WEEK ON INTEREST RATE PLANS?

Any effort to introduce an interest rate increase is going to make US debt unmanageable so the Fed has maybe rethought the strategic consequences of that and has thrown a note of caution, saying they will watch the inflationary volatility. They still believe it may be transitory and are not locking in a decision today. The recent consumer price increases are being attributed mostly to a mismatch between manufacturing capacity coming out of the recovery and pent-up consumer demand and consumers are prepared to pay much higher prices today for a leaner manufacturing output.

IS THE CHINESE GOVERNMENT IMPORT CLAMP DOWN ON CERTAIN REFINERS JUSTIFIED?

The tax avoidance was unsustainable. Unregulated blended stock products were coming into China at a rate of about 250,000 bd, mostly from Japan and South Korea. This led to a huge overhang in motor fuels, which began to choke the system and led to an increase in Chinese motor fuels exports, to start to clear inventories. So, there is a rebalancing going on there.

OUTLOOK FOR JET FUEL RECOVERY?

One negative consequence will come from China, which this week announced that international travel on its borders will evidently remain closed for another year. The total fuel budget here in China is about one million barrels a day, of which 800,000 bd fuels the domestic travel market, which is going strong. But that leaves another 200,000 bd budget for international jet fuel - a large piece of value - which is now the subject of some uncertainty.

"We also have a role in taming and containing inflation, by making sure that this market doesn't get out of hand. We have to be cautious. But caution doesn't mean we don't have to do something. It means we have to ensure that we don't make any missteps here or there."

H.R.H. Prince Abdulaziz Bin Salman,
Saudi Arabia's Minister of Energy and Chairman of the OPEC and non-OPEC Ministerial Meeting

ENERGY MARKET NEWS

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