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Fujairah New Silk Road WEEKLY NEWSLETTER

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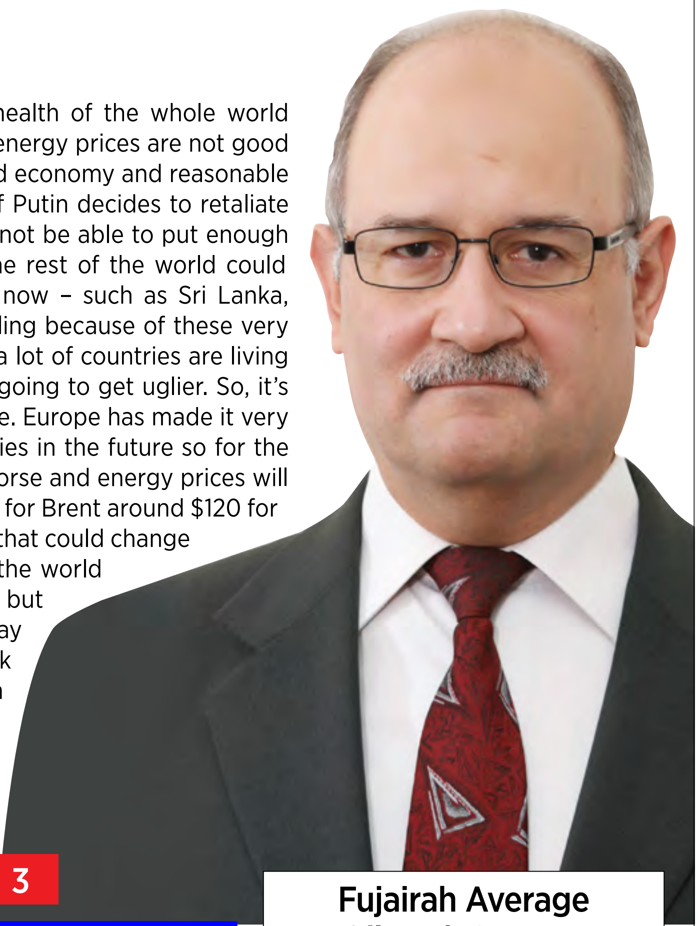
EXCLUSIVE INSIGHTS /// ACTIONABLE INTELLIGENCE /// DATA TRENDS /// LATEST NEWS

"THE NEXT 9 MONTHS WILL BE TOUGH FOR THE GLOBAL ECONOMY!"

HATEM AL-MOSA, CEO, SNOC



I am concerned about the next six to nine months for the health of the whole world economy, not just the energy sector. These very high levels of energy prices are not good for oil and gas producers. What we need is stability in the world economy and reasonable energy prices, and $120 or $150 oil is not good for anybody. If Putin decides to retaliate and completely stop energy flows to Europe, then Europe will not be able to put enough gas in their storage for the next winter and the impact on the rest of the world could be disastrous. We are already seeing several countries right now – such as Sri Lanka, Bangladesh, Pakistan, and many African countries - almost failing because of these very high energy prices. Add to that of course the price of wheat - a lot of countries are living on their strategic reserves and when that runs out, things are going to get uglier. So, it's imperative that this war in the Ukraine stops as soon as possible. Europe has made it very clear that they don't want to depend on Russian energy supplies in the future so for the rest of the year, if anything, I expect things will probably get worse and energy prices will go higher or at least stay where they are, with an average range for Brent around $120 for the second half. For now, oil supply is still meeting demand but that could change as we're pretty much on the edge. The only two countries in the world that have some spare capacity, are the UAE and Saudi Arabia but if we keep pushing them to open 100% of their supply, we may actually see those predictions of $300 oil happen. I don't think it's strategically a wise decision to keep pushing them to open the last drop of oil that's available to the market. We need this little cushion that we still have left to prevent things going out of control. The next nine months into the end of the next winter are going to be tough no matter what anybody does.

CONTINUED ON P 3

Fujairah Weekly Oil Inventory Data

5,437,000 bbl	2,889,000 bbl	11,047,000 bbl
Light Distillates	Middle Distillates	Heavy Distillates & Residues

Source: FEDCom & S&P Global Platts

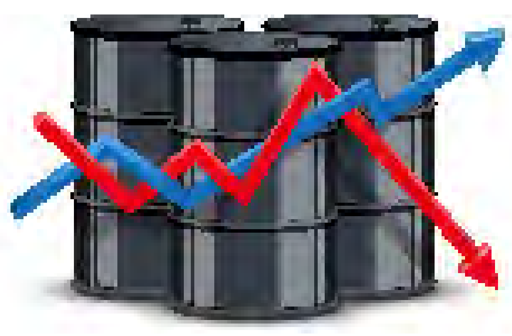
Fujairah Average Oil Tank Storage Leasing Rates*

BLACK OIL PRODUCTS

Average Range
$3.62 - 4.38/m^3

↑ Highest: $4.50/m^3
↓ Lowest: $3.40/m^3

THE WEEK In Numbers



Weekly Average Oil Prices

Brent Crude:	$112.44/bl
WTI Crude:	$109.75/bl
DME Oman:	$110.88/bl
Murban:	$106.61/bl

*Time Period: Week 5, June 2022
Source: IEA, OilPrice.com, GI Research

Fujairah Weekly Bunker Prices

VLSFO

High = $1,150.00/mt

Low = $1,097.50/mt

Average = $1,120.00/mt

Spread = $0.00/mt

MGO

High = $1,563.50/mt

Low = $1,457.00/mt

Average = $1,521.00/mt

Spread = $0.00/mt

IFO380

High = $650.00/mt

Low = $633.00/mt

Average = $641.00/mt

Spread = $17.00/mt

*Source: Ship and Bunker, *Time Period: June 22 – June 29*

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

CONTINUED FROM PAGE 1

HATEM AL-MOSA, CEO, SNOC

How much has the war in Ukraine impacted these market prices?

The recovery from COVID is still the dominant aspect and the Russian invasion of Ukraine just made things much worse. Demand has recovered faster than supply and so we saw a price hike. We also expected US shale to come back much faster than it did. Essentially, it has increased by one million barrels over the last 12 months to 12mbd. Most producers of oil and gas in the world are at their maximum production and we will continue seeing this until we have a destruction of the price when the supply exceeds demand, and I think that's going to happen within a year. There's just so much investment in the sector everywhere. I expect the US rig count will be at pre-Covid levels by August this year, and it's going to continue to rise. Gas is what worries me more. The prices we're seeing today are out of control. Anything above $20 per million BTU is the equivalent to $130 oil and we're seeing $40 per million BTU on the spot market today.

Any reason OPEC+ should continue as a group beyond the current agreement?

OPEC+ is a very important stabilizing entity of the oil market and it needs to remain intact with Russia as part of it. Low prices or high prices are not as bad as an unstable market with unpredictable prices because then, people can't set budgets and those who can also tend to conserve more oil than they need and that creates a shortage in the rest of the world. As for any new OPEC+ agreement, I expect that the quotas will have to be proportionate to the capability of production between the different members and that will have to be continuously adjusted, also keeping in mind that some countries like Iran, Venezuela and Libya are unable to produce their quotas currently for political reasons.

Is the discounted Russian oil presenting a problem for other producers?

Oil being sold at $120 in one place and at $80 in another is not a common market, but we are in a supply shortage, so it doesn't really matter for now. It only becomes a problem when supply exceeds demand, and I don't see that happening in the next nine months. But when it does, OPEC+ will need to agree internally to have a stable model.

How has the energy crunch impacted thinking around the energy transition?

I expect to see an acceleration in the transition because people have seen again how unstable the oil market can be. At the same time, because of the energy shortage, we are seeing very big investments in the oil and gas sector, especially gas, which I think is a very wise decision because we are not ready to do away with fossil fuels yet. We need stability more than anything else. The transition from fossil fuels to renewables is going to take decades.

WATCH FULL INTERVIEW HERE

REMEMBRANCE

YOU'VE INDEED BEEN A WORTHY AMBASSADOR OF OUR COUNTRY, PRESIDENT BUHARI TELLS BARKINDO, OUTGOING OPEC SECRETARY-GENERAL

President Muhammadu Buhari Tuesday in Abuja expressed the nation's gratitude to the outgoing Secretary-General of Organisation of Petroleum Exporting Countries (OPEC), Mohammed Barkindo, describing him as a worthy ambassador of the country.

Receiving Barkindo at State House, the President said posterity will remember him kindly for making the nation and himself proud during his six years of meritorious service at the helm of affairs as the 4th OPEC Secretary-General from Nigeria.

The President directed the Ministry of Petroleum Resources and the Nigerian National Petroleum Company (NNPC) Limited to mobilise the oil and gas industry to organise a befitting welcome reception in honour of Barkindo.

''You have indeed been a worthy ambassador of our country. We are proud of your achievements before and during your appointment at OPEC and the proud legacies you will leave behind.

''Your time in charge of the affairs of OPEC has been a very challenging one for the global oil industry. Oil producers were finding it difficult to come together to address challenges that were crippling the oil market.

''Not long after, the world was faced with the COVID-19 pandemic that sent crude prices spiralling down at an alarming rate. You showed incredible leadership to rally industry players and pushed through the turbulent times.

''There is no doubt about your efforts in putting together the Declaration of Cooperation which is the largest in the history of OPEC and the global oil industry and also the longest in duration in the history of the organization. This was a herculean task,'' the President said.

The Nigerian leader heaped more praises on his compatriot for providing experienced administrative management to OPEC, adding that his efforts have placed the organization in a stronger position to confront the challenges it will face in the coming years.

In his remarks, Barkindo attributed his success to the tremendous guidance, charisma and international gravitas of President Buhari; support from OPEC secretariat in Vienna; and cooperation by members of the organisation.

He recounted how the counsel from President Buhari helped in the birthing of the Declaration of Cooperation of OPEC and non-OPEC oil-producing countries, after he assumed office in Vienna, Austria in 2016 during a downturn in the sector when oil prices plunged to less than 10 U.S dollars per barrel.

''It was very obvious to me that this was beyond OPEC alone to address. We needed to get the support of other leading oil producers around the world.

''I recall that I did consult with you and I drank from your

fountain of wisdom and your deep reservoir of knowledge of OPEC and global affairs.

''With your advice and guidance, I set out to various capitals around the world to try to persuade them to understand the gravity of the situation and the need for them to urgently join hands with OPEC.

''I did explain to them that they do not have to be full members of OPEC but we could work together in a framework of cooperation and on the 10th December, 2016 we signed this historic agreement in Vienna and on the 1st January, we started working together and we were able to assist the oil market restore stability.''

The former OPEC Secretary-General noted that the Declaration of Cooperation, which is now in its sixth year, also helped the organisation to navigate the turbulence in the market occasioned by the COVID-19 pandemic in 2020.

He explained that amidst COVID-19, the organisation took a decision to withdraw 9.6 million barrels per day from the market- the highest ever adjustment in its history- for a duration of two years.

He added that OPEC is now in the final lap of restoring the production figures due to rebound in the global market and economy.

Barkindo stressed that ''throughout the period of my tenure I have continued to benefit from the President's international goodwill and everywhere I visited in the world both within OPEC and outside OPEC, the first person your fellow Presidents, Prime Ministers and Kings, ask me of is; how is my brother, President Muhamamdu Buhari.''

Having survived the major turbulences in 2016 and 2020, Barkindo expressed confidence that the worst is over and the future looks very promising for the organisation.

He, therefore, thanked President Buhari for giving him the opportunity to serve, pledging that Nigeria would continue to play its leadership role in OPEC as well as in the global oil industry.

Energy Markets Views You can Use

Maleeha Bengali
Founder
MB Commodity Corner

Oil has had a good quarter relative to metals and mining which are down 25%.
We see massive demand destruction in copper, aluminum and all asset classes right now. Oil takes time to show up and there is a shortage in supply today. Having said that, the DOE 4-week average outlook is down. Gasoline should be at massive highs given this time of year, and distillate is suffering as well, given the manufacturing slowdown. In our view, this forward-looking demand indicator is what is reflecting oil prices, so the momentum is more on the downside. The key here is refining margins. We know the tightness has come purely from products. But given demand destruction expectations, we think lower refining margins will see lower oil prices going forward in the next few months.

Is Russia's success on the battlefield bullish or bearish for commodities?
It all depends on how much Russian oil is stopped today. The problem is not one year from now; It is in the next three months. We're in a very critical period where supplies are in shortfall, and if we're right on the demand destruction theory, that is what is balancing oil markets today. But if we get a big supply shortage, that three-month window will look very tight. It depends on what the EU does going forward but they don't have much leverage to put very strong sanctions because their economy is in dire straits.

Is the big inflation fight still centre stage for Q3?
The central bank is monitoring the data month to month. We've seen past peak inflation numbers, especially the ones we saw back in May, and we are seeing a lower rate of change in the core CPI, but we're still at very high numbers. The central bank will have no choice but to keep its hawkish stance until inflation comes down to more than 2%. It's on autopilot tightening even though it's also worried about these asset prices. But they have to keep this momentum until asset markets collapse further, something the system snaps or inflation comes down. The only question is what happens in between. There is talk about the housing market being in trouble for example. The whole financial system is like a Jenga tower, and the little pieces are unraveling because we have so much debt in the system. How quickly those pieces come out is going to be a key determinant to what happens to asset markets and how the Fed delicately balances its rate tightening cycle. That's the key for Q3.

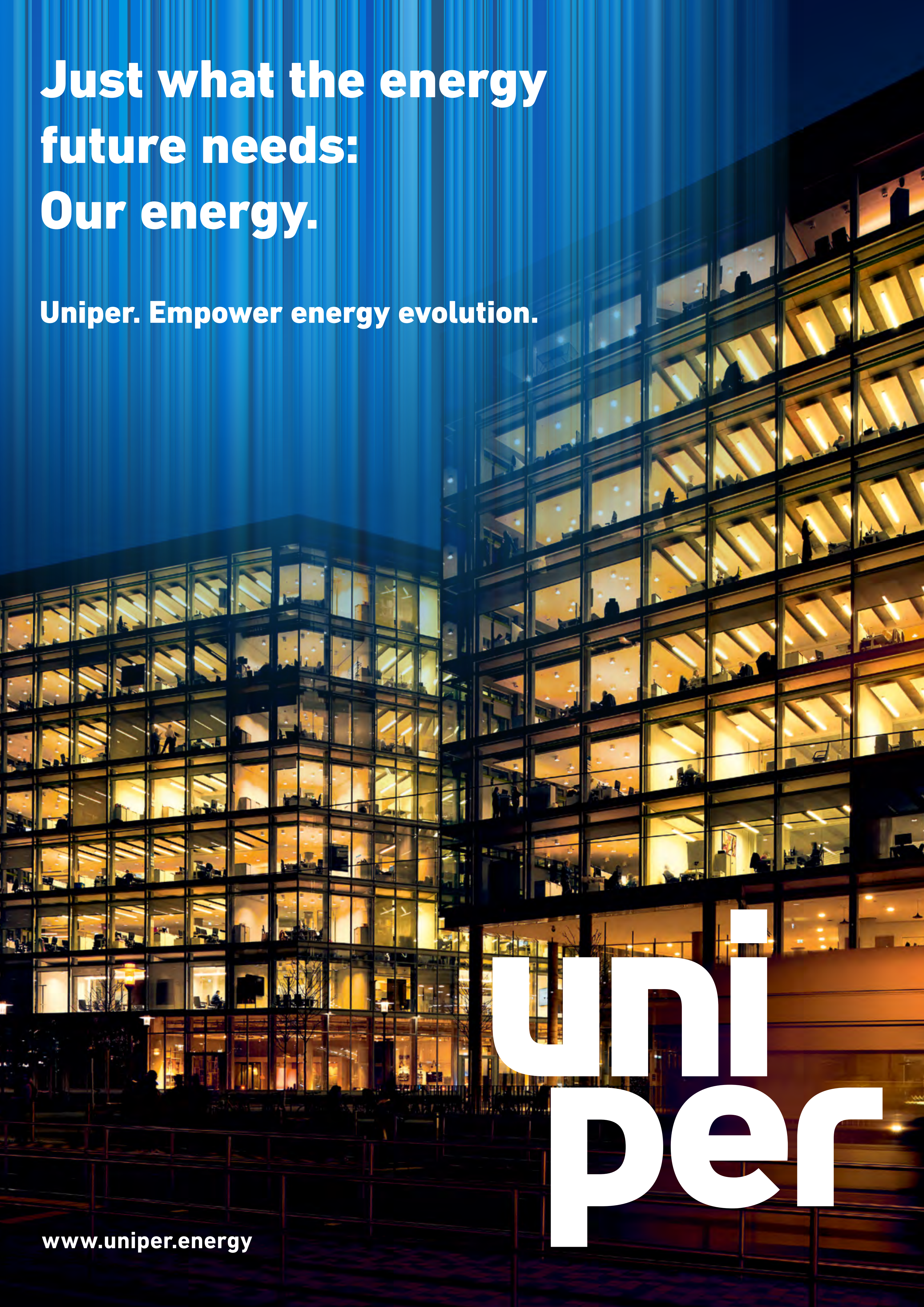
Ole Hansen
Head of Commodity Strategy
Saxo Bank

The markets are generally in a flux right now.
Crude oil has been relatively stable in a $100-120 range, but the surge in distillate fuel products prices clearly indicate that some demand constraint is starting to emerge among consumers. It's turning out to be the most difficult year for traders, investors and consumers to navigate through. We may have seen the peak in oil prices, but it's much too early to call a cessation of this strength because the underlying supply issues remain and could get even worse over the coming months.

Outlook for commodities in general?
Markets started to turn south in early June. The very strong inflation print in the US, followed by the aggressive rate hike from the FOMC, kicked off this whole recession angst that has been driving the markets since, with commodities caught in the middle. Add to that the fact that lockdowns in China have gone on for much longer than the market had anticipated. China's growth is bumping along at very low levels right now and that's the main reason why industrial metals have taken a major hit.

How serious are the challenges in Germany?
The German economy is very driven by commodity intensive exports - chemicals, machinery, cars – and these all take energy to produce, so with gas prices at current levels, we are seeing trouble starting to emerge in Germany with a risk of recession. That's why the euro dollar is at the lowest level in 20 years.

How much spare capacity can OPEC+ provide to the market?
Let's hope that the fact that Saudi Arabia has been flatlined around 10.5mbd for the past couple of months, according to some surveys, is basically just a preparation for the Biden visit to the region, so that they can then ramp up production back to their OPEC quota targets. Whether Saudi can get back up to 12mbd has to be a big question mark. We have only seen that kind of production level I believe, once, so it may be a tall order.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Fujairah Spotlight

Fujairah benefits from uptick in Russian crude transiting to the bunkering, storage hub

The port of Fujairah on the UAE's east coast is benefitting from an uptick in Russian crude transiting through the facility on its way to Asia, the port's managing director said June 30, as Moscow sells more oil to countries, such as India and China. "Russian crude has started to transit at the port because its market has changed," Captain Mousa Murad told S&P Global Commodity Insights in an interview in Fujairah. "Some of the crude is being stored before it goes to the Asian market, India mainly. This is a new development from March. We expect it to increase."

Source: S&P Global Commodity Insights

Brooge Energy forms wholly owned subsidiary to expand services into green energy

Brooge Energy is an infrastructure provider which is currently engaged in clean petroleum products, biofuels, crude oil storage and related services. The company is now intending to focus on renewable energy infrastructure, and will conduct its business and operations through its subsidiary Brooge Petroleum and Gas Investment Company FZE ("BPGIC"). BPGIC is strategically located outside the Strait of Hormuz at the Port of Fujairah in the Emirate of Fujairah in the UAE.

Source: Oil and Gas

Fujairah Ruler pardons 146 prisoners ahead of Eid Al Adha

H.H. Sheikh Hamad bin Mohammed Al Sharqi, Supreme Council Member and Ruler of Fujairah, has ordered the release of 146 prisoners from punitive and correctional institutions in Fujairah, on the occasion of Eid Al Adha. The inmates of various nationalities were selected based on good conduct and behaviour. The gesture is part of His Highness' desire to give prisoners an opportunity to start a new life and bring joy to their families.

Source: Sharjah24 – WAM

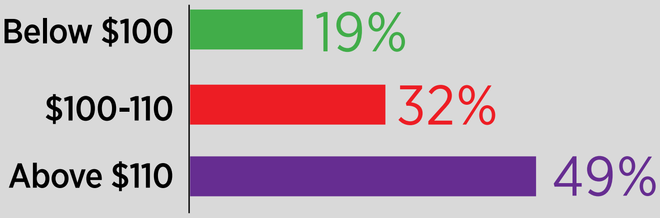
Oil product stocks reach 1-year high with gains across categories

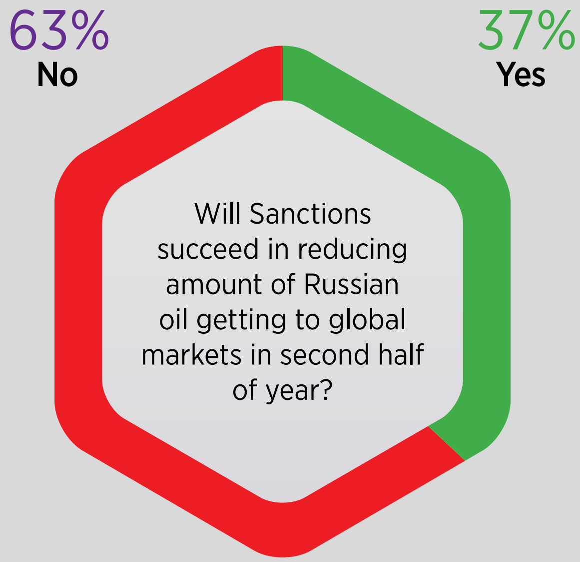
Oil product inventories at the UAE's Port of Fujairah climbed to a one-year high as of July 4 with gains across the board, according to Fujairah Oil Industry Zone data shared exclusively with S&P Global Commodity Insights on July 6. Total stockpiles stood at 22.253 million barrels as of July 4, up 14.9% from a week earlier and the highest since June 28, 2021, according to the data provided to S&P Global since January 2017. Jet fuel and other middle distillates inventories soared 32% to 3.808 million barrels, a nine-month high.

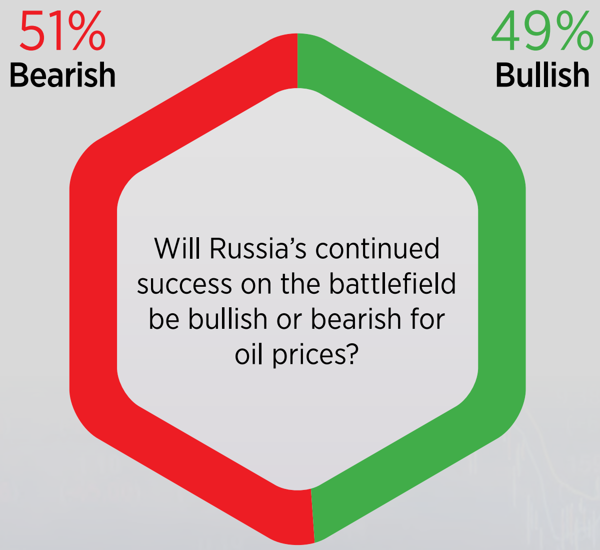
Source: S&P Global Commodity Insights

Weekly Surveys

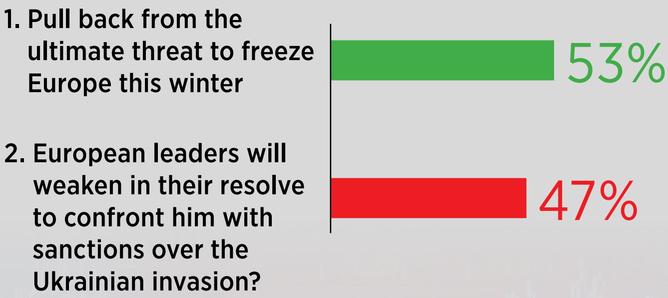
Brent futures averaged around $105 in H1 2022.
H2 average will be:

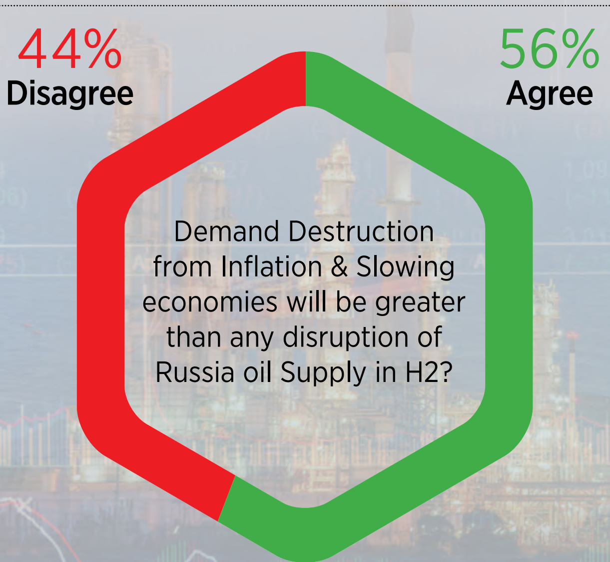






There are fears that Russia will cut off gas supplies altogether to Europe over the coming months and this will test the unity of European countries in their response to the invasion of Ukraine. Putin will:





Source: GI Research March 2022

Energy Markets Views You can Use

Laury Haytayan
MENA Director
Natural Resource Governance Institute

No one is interested in the JCPOA.
Both sides asking for guarantees is making discussions impossible. Iran is more interested in a nuclear weapon than in finding a resolution and with all the discussions that are happening in the region about a potential new security apparatus and rapprochement which could include Saudi Arabia and Israel, Iran would be more interested in having more strength and leverage in such a new setup.

Is that what we should expect from the Biden visit to the region?
The regional actors - Israel, Saudi Arabia, the UAE - are very much interested in the safety of their countries and they want to put security from Iranian drones and the like on the table. Everyone is openly discussing a rapprochement between Israel and Saudi Arabia, and this would be a major milestone because it would change a lot of the dynamics in the region, economically and politically.

What role might Turkey play in a regional rapprochement?
Turkey will see how it can benefit from what is happening and see where it can have leverage or influence, particularly for economic benefit. Since they are a NATO member, they could play a bridging role in the region.

What's the latest on Libyan oil production?
It seems that escalation is the monster in Libya and there is no mediator today looking to broker a resolution and so the Libyans will use the oil and gas sector as a political tool. That's why we are seeing all these fields and exporting options closed today and talk about force majeure. Everybody in the region is focusing on Biden's visit and not paying much attention to Libya, but it's definitely going to have a serious impact on the markets.

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

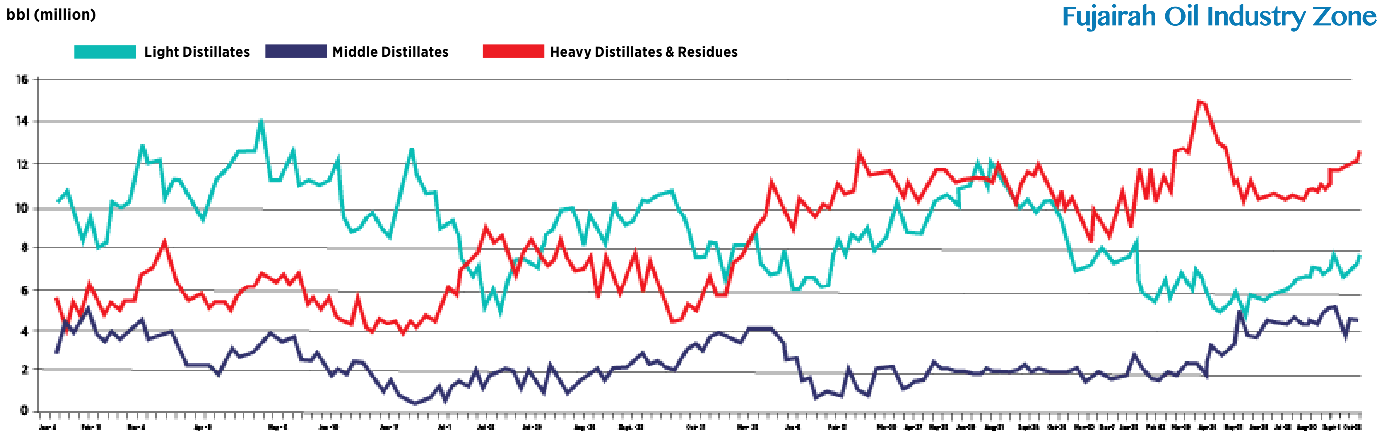
What should we expect from Biden's visit to the region?
The main reason for Biden's visit is to try and improve his domestic political strength by squaring the circle of uniting the Israelis, the Gulf monarchies, and Egypt and Jordan in front of Iran, ultimately as part of his efforts to reshape the US role in the Middle East. I'm not particularly confident he'll be successful. As for the region, that might unleash some type of new arms race but ideally, you would want something which everybody agrees on rather than two big blocs balancing each other out.

What are the chances of the JCPOA being ratified?
It is of no consequence to regional stability if it is, as the major threat these countries perceive in Iran is from non-state actors in the form of missiles, which will continue in large scale, whether the JCPOA is resurrected or not. The reality is that the Israeli lobby in the US remains a very powerful source of political goodwill and the US has made it very clear that it's not interested in being the policeman of the Middle East in any significant way for the foreseeable future. The Israelis have come to accept this and now want to be part of some big coalition which protects their security interests. That's what Biden's offering them.

Will Russia's successes on the battlefield be bearish or bullish for prices?
It depends entirely on the nature of the European and Western response. If they decide to escalate economic sanctions or potentially aid Ukraine in more aggressive military tactics, then energy prices in general will rise. I would say the most likely outcome is that the EU and its allies will back down if Russia continues to make military advances at the rate it's making, and then energy prices will start to go down.onary pressures here but if required, we do stand better posed from a cash position, to be able to accommodate or offset them.


The story of
progress
110 years in the making, this is the story of next generation price assessments and benchmarks.

Fujairah Weekly Oil Inventory Data



TOP TAKEAWAYS

- Total oil product stocks in Fujairah were reported at 22.253 million barrels as they hit their highest level in a year with them last standing higher on June 28 last year when 23.064 million barrels of oil products were stored. Total stocks rose by 2.88 million barrels with overall stocks up 14.9% week-on-week. The stocks movement saw builds across all three stock categories: light distillates, middle distillates and heavy residues.
- Stocks of light distillates, including gasoline and naphtha, rose by 385,000 barrels or 7.1% on the week to 5.822 million barrels. The East of Suez gasoline market was finding support from strong demand despite concerns that higher flat prices were impacting consumer sentiment for the road fuel. This was seen with discussion of higher demand in both China as movement restrictions eased and in the US as the Independence day weekend has just passed. "Earlier this year, we started seeing the demand for travel increasing and it's not tapering off. People are ready for a break and despite things costing more, they are finding ways to still take that much-needed vacation," American Automobile Association senior vice president Paula Twidale said.
- Stocks of middle distillates, including diesel and jet fuel, rose by 919,000 barrels or 31.8% on the week to 3.808 million barrels as they hit their highest level since last October. The middle distillate complex was under some downward pressure as rising supply incentivized by robust gasoil cracks, along with some signs of weakening demand, weighed down sentiment in the market. In Australia recent flooding including in Sydney could impact demand.
- Stocks of heavy residues increased by 1.576 million barrels or 14.3% on the week to 12.623 million barrels as they breached 12 million barrels for the first time since June last year when they were also last higher standing at 12.944 million barrels on June 21. In the port of Fujairah, delivered marine fuel 0.5%S bunker was heard offered on July 5 at around $1,140/mt-$1,179/mt, with most offers for product deliverable from July 14 onwards. Fujairah-delivered marine fuel 0.5%S bunker was assessed $20/mt higher on the day at $1140/mt on July 5. The price in Fujairah represents a $5/mt premium to delivered bunkers in Singapore which were assessed at $1135/mt on July 5.

Source: S&P Global Platts

Commodities

Oil prices extended their losing streak overnight, falling by 2% in the Brent market to USD 100.69/b while WTI was off by 1% to USD 98.53/b. Both contracts are now sub-USD 100/b as markets price in recession fears and a negative demand adjustment. Data from the API showed a build in US crude inventories of 3.8m bbl last week while gasoline and distillate stocks both dropped.

Equities

Major global equity indices in Europe and North America enjoyed some relief yesterday with gains across the board. In the US, the Dow Jones added 0.2% while both the S&P 500 and the NASDAQ gained 0.4%. In Europe, the CAC was the notable gainer as it ended the day 2.0% higher. The FTSE 100 shrugged off political turmoil to add 1.2% and the DAX added 1.6%.

FX

Currency markets continued to flock to the dollar overnight with the broad DXY index up 0.5% to 107.096. EURUSD provided much of the losses, falling to 1.0182, down 0.82% and opening up the way to Dollar/Euro parity seemingly as an inevitability at this stage. GBPUSD fell by about 0.2% to 1.1926 while USDJPY was slightly higher at 135.95.

Source: Emirates NBD

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Energy Markets Views You can Use

Neil Atkinson
Former Head of Oil Markets Division
International Energy Agency

It's inevitable that some Russian oil will be knocked out.
The strength of the resolve of the European Union, the G-7, and NATO to continue to support Ukraine, including by imposing tough sanctions, will remain so Russian exports will start to decline significantly. But so far, the big emphasis on the supply demand balance has been on supply. I think we ought to start looking even more seriously at demand. If we continue with relatively high prices and all the other pressures that consumers are facing on their budgets for food and fuel, we are going to be cutting back our estimates for demand in the later part of 2022 and certainly into 2023, so price pressures will ease to some extent, although crude will stay around $100 a barrel.

Can Europe maintain its resolve on sanctions?
That has not yet been fully tested because we haven't got into the winter period. If we do get a severe winter and it sets in very early, then we're in big, big trouble. European leaders are going to face some tough choices if they're going to continue to support Ukraine, and that will quite likely involve rationing of energy supplies to heavy industrial users and perhaps the imposition of demand management measures to end consumers, such as speed limits.

How viable is the proposal for a price cap on Russian oil?
It would require cooperation from all major producers and consumers so it's really dead on arrival. So far, we've seen China and India not showing any solidarity with Ukraine. India is already limiting product exports by imposing taxes and complaining, with some justice, about high crude prices, set alongside the depreciation of the rupee. If India can continue buying more Russian oil at $35 a barrel below Brent, it's going to do so in its own self-interest.

Outlook for China economic growth for the remainder of 2022?
The reopening of China to normal economic activity is going to be very carefully phased and the government will also want to protect Chinese citizens from higher energy prices. Product exports from China have been drastically cut back in recent months, and I don't think China will do too much to help the global product price crunch that we're seeing out there right now.

Clyde Russell
Asia Commodities & Energy Columnist
Thomson Reuters

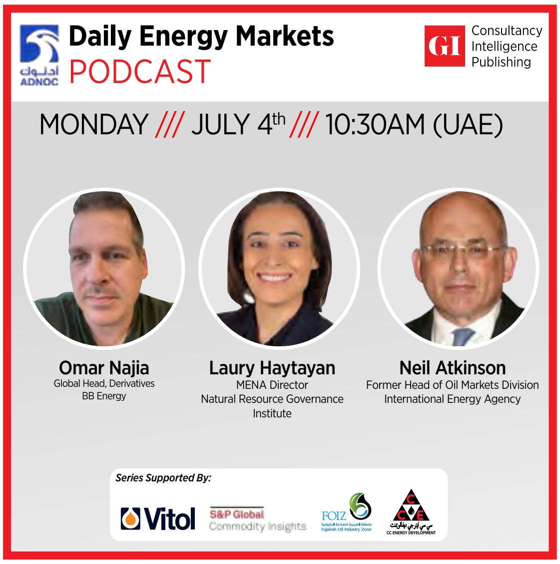
Australia can't get enough of its commodities supply out.
Anything that it can produce is being snapped up. Australia is also now the world's biggest producer of lithium - a commodity in very strong demand. The country's earnings from its minerals and energy exports were at a record high in the fiscal year just ended in June – approximately 405 billion AUD, and government forecasts expect that to reach $419 billion AUD in this coming year. That's mainly on the back of the fact that Australia is the world's largest exporter of LNG, and also the world's largest exporter of coal by energy value. The question however is whether companies will invest in boosting supply and that's where I things get trickier because everyone sees this as a short-term play. Even the most optimistic of coal producers isn't thinking that coal demand is going to be growing into 2030. So, no one's going to invest in new mines. They'll just run their existing assets as hard as they can. And I think that also extends to LNG - there are some projects underway in Australia, but that's more to replace production that will be lost from aging fields.

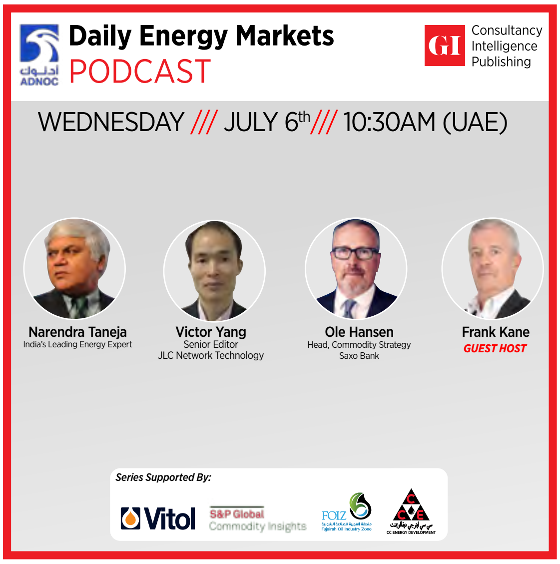
Outlook for Chinese demand in 2H 2022?
Chinese demand looks uncertain, especially if you look at metals as a lead indicator. Everybody was expecting a rapid economic stimulus package from Beijing but that just hasn't been forthcoming. China has made it clear it still wants 5.5% annual growth, but it also wants to balance its stimulus without it resulting in a massive increase in the major commodities that it imports, so I think it's going to be a much slower burn this time around. China's crude demand is down for the year, even though their economy is recovering, and that's mainly because they've stopped exporting products virtually altogether.

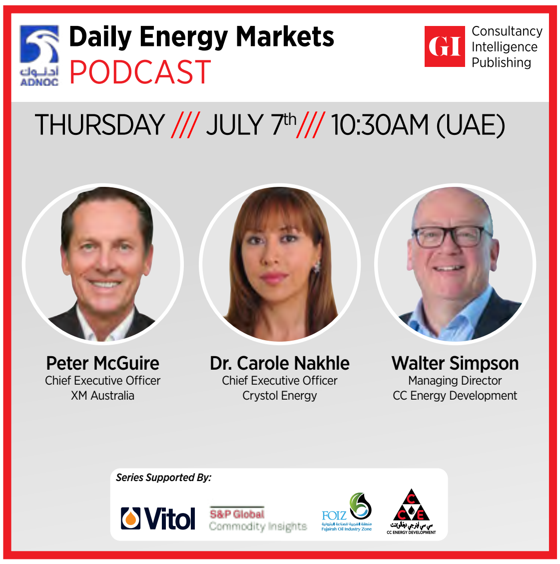
Will weaker Asian demand ease pressure on Europe for its LNG needs?
It's more likely to ease the competition for crude. We will still see a lot of competition for LNG and coal, given their use for power generation and heating oil and transport, and China will keep buying. Interestingly, Russia has increased coal exports in the last few months because it's been selling more to new customers and that has offset what they've lost in Europe and Japan. Turkey's purchases of Russian coal have exploded. Everyone's in a race before winter. Russia wants to win its war, the Europeans want as much energy stored up before winter as possible, and OPEC+ might start pumping more oil. Everything's going to happen within the next six months so what's going to happen is probably extreme volatility.

Energy Markets COMMENTARY

WEEK IN REVIEW







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Energy Markets Views You can Use

Mike Muller
Head, Vitol Asia

Refining margins are at levels that nobody would have predicted.
This is directly a function of two things - underinvestment in downstream and closure of many refineries, coupled with the threat of reduced exports of products from Russia under the sanctions' scenario. These margins being sustained at these extremely high levels is really a function of how stressed the capacity of the market is going to be. If there's a resurgence of Chinese demand and if the Asian economies keep showing the same demand growth that they have shown despite these high prices, then we will have a tightness in the market which needs to be normalized by prices. It's the absence of Chinese exports that is one of the contributing factors towards keeping margins very strong because the spare capacity is present in the Chinese independent refining sector. The consensus out there seems to be that refining margins cannot possibly go higher and that this demand will be destroyed and that refineries are at peak utilization.

What is happening with Russian products being turned away by Europe?
We still don't know because it's only been a short time in trading terms. European sanctions have placed an obligation on buyers to demonstrate why they require Russian product and until December, Europeans can still do this on an exemption basis. In the interim, the biggest challenge the trading world has is how to ship all the Russian crude, and incremental Russian product to Asia. Shipowners need to find insurance and ways of being paid, and the networks whereby that's going to happen are going to be tested.In freight markets, there is already a decided difference between shipping rates of clean or dirty tankers and that's a manifestation of the extra ton miles being required to ship Russian refined products from the Baltic and the Black Sea, in particular through the Suez Canal to Eastern destinations.

Are the sanctions on Russia working?
The total supply of Russian oil is too large for the world to do without and the same with gas. That's the reason that the TTF surged in Europe again, in summer, and because it's going to be a big challenge to replenish stockpiles by winter. Russia's oil exports before the Ukraine invasion were 7.7 million barrels a day – about 8% of global fossil fuel supply. Couple that with sanctioned Venezuelan and Iranian oil and the world would be facing a scenario of about 10% less supply in the market. That's totally unthinkable. The world will have to come to grips with ways of sanctioning the money flows to Russia, if that's their desire, without stopping the oil flows. That's the bottom line they're grappling with.

How do see Chinese oil demand panning out in 2H 2022?
It's a question of whether travel resumes. China is expecting 520 million rail passenger voyages in the month of July. That compares to 462 million in the same period last year so a 12% increase, but still below the pre-COVID number of 760 million. Aviation is showing similar figures so there are signs of green shoots. China is all important for future demand, and if it were not for the Chinese restraints, the supply system would be more strained. That, plus the SPR release, is what has held the market in the low $100s.

Energy Markets Views You can Use

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

I expect oil prices to remain somewhere around $100 in the third quarter.
An expected recession and slowdown in economic growth, plus the lockdown in China, have played a role in bringing oil prices down and there have also been safety valves such as the SPR release and the possibility of Iran and Nigeria producing more. So, I am quite bearish and expect excess supply to dominate over demand. The biggest unknown for 2H 2022 is the impact of continued sanctions on Russian oil production capacity. The intention that Russian crude would suffer has not materialized yet, even though production has declined a little bit. On the other end of the equation, we have much higher product prices than crude oil prices because of refining margins, but based on historical experience, the global refining system is quite flexible and can adjust its configuration over the next 6 to 12 months.

Could the G7 proposed price cap on Russian oil work?
It's a difficult plan because it relies on there being a sizable part of total demand taking part, and if we only have the G7, including the European Union, implementing a price cap, then not much will change. It will just push deliveries into Asia, and if it really were to be executed as planned, the price would be below the current discount, and that's unlikely to be sustainable when demand in Asia goes up. Politically, I also do not see any will from India and China to blatantly participate against the interests of Russia. By contrast, the voluntary sanctions on Russian gas by countries like Denmark and Romania have worked better in Europe than the mandatory centralized oil sanctions. The amount of Russian pipeline gas delivered into the EU has fallen by half of the share compared to before the war.

What does the future agenda look like for OPEC+?
The group has gone quiet because they seem to be caught between their inability to increase output anywhere close to quotas and being the central bank of oil. The key question for them is how to keep Russia in the fold because a group like OPEC+ is the more effective the more members it has. I think that both Russia and the core OPEC members have a huge incentive to stick together and to devise a new scheme for navigating these choppy waters. They may step back a little bit from making big announcements on managing the market for now, but they will become significant again the next time oil prices are significantly down.

ENERGY MARKET NEWS

1. OIL HOLDS LOSSES AS SLOWDOWN CONCERN OVERSHADOWS TIGHT SUPPLIES
2. DOLLAR GAINS, EURO FALLS AS ENERGY DRIVES CURRENCY SWINGS
3. EU FORCED TO PAY EVEN HIGHER PRICES TO FILL GAS STORAGE
4. JOE BIDEN RELEASES 5MN BLS OF OIL FROM US STRATEGIC RESERVES TO COOL PRICES
5. US FUNDS SET SIGHTS ON VENEZUELA OIL INVESTMENT
6. NORWAY GOVERNMENT INTERVENES, ENDING OIL & GAS STRIKE
7. CHINA EXTENDS RECORD IMPORTS OF RUSSIAN OIL
8. UK ECONOMIC OUTLOOK HAS DETERIORATED, BANK OF ENGLAND WARNS
9. EMERGING MARKETS POST LONGEST STREAK OF MONTHLY OUTFLOWS SINCE 2015
10. EU PARLIAMENT SAYS NATURAL GAS PROJECTS CAN BE CONSIDERED 'GREEN' FOR INVESTMENTS

RECOMMENDED VIDEO & REPORTS

- GOOD LUCK MAKING IT TO YOUR VACATION THIS SUMMER
- BRITISH AIRWAYS CANCELS 1,500 MORE FLIGHTS
- OPEC SECRETARY-GENERAL MOHAMMAD BARKINDO DIES AT AGE 63
- CHINA WILLING TO DEEPEN COOPERATION WITH RUSSIA WITHIN MULTILATERAL FRAMEWORKS
- TREASURY SANCTIONS TARGET CHEAP IRANIAN OIL HEADING FOR CHINA

GI Soundings Week in Review

"OIL PRICE FALLS ON FEARS OF DEMAND DESTRUCTION"

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.

- **Victor, Senior Editor, JLC Network Technology**
- **Narendra Taneja, India's Leading Energy Expert**
- **Peter McGuire, Chief Executive Officer, XM Australia**
- **Dr Carole Nakhle, CEO, Crystol Energy**
- **Walter Simpson, MD, CC Energy Development**
- **Omar Najia, Global Head, Derivatives, BB Energy**

Victor, Senior Editor, JLC Network Technology – CHINESE REFINING: "We're not seeing rapid growth in Chinese refinery crude runs yet. Independent refinery operating rates are about 4% below year ago levels but state-owned refiners are operating about 12% below. Independent refiners are benefitting from discounted Russian crude and purchasing more than state-owned refineries now. That has supported run rates quite significantly because if they were to buy regular crude, their margins would be terrible."

Narendra Taneja, India's Leading Energy Expert – MARKET: "After the G7 meeting in Germany, we're probably going to see the emergence of an alternative market for global oil, led by Russia and supported by China. We are very curious to see whether this materializes and if Russia is capable or sophisticated enough to create it. Will China come out openly and support it? Will there be other country beneficiaries? If it does happen, oil prices will come down."

Peter McGuire, Chief Executive Officer, XM Australia – OIL PRICES: "Energy prices have turned into the most important issue in economics. Their trajectory will shape the future behaviour of consumers, central banks, and investors alike. Oil prices have finally started to lose power, joining the ranks of other struggling commodities. If the rout deepens, both inflation and recession nerves could calm down a little, opening the door for relief rallies in FX and equity markets."

Dr Carole Nakhle, CEO, Crystol Energy – DEMAND: "We haven't seen signs of demand destruction or strong evidence to support that. There's this main fear today of a recession, and that by itself is driving prices down. We don't see additional supplies coming onto the market and even though we've seen a price decline recently compared to the last few months, it's still quite high compared to a year or two ago."

Walter Simpson, MD, CC Energy Development – INVESTMENT: "The project cycle for bringing on new production is much longer than the oil price fluctuations. The majority of people will have made their decisions, and those who would have budgeted for lower prices than we're currently seeing, would I think continue at present."

Omar Najia, Global Head, Derivatives, BB Energy – OIL PRICES: "The easy money's been made. The market needs to release the remaining length out and go lower and then start building again. I think we're going to see WTI move to $90 and then move back up again. The market's also watching the maintenance of the Nord Stream One pipeline due July 10-20, where all gas supplies to Europe will be cut. How that comes back is going to be a big determinant to how quickly the market eases or not."

Daily Energy Markets

TOP TAKEAWAYS
MARKET OBSERVATIONS FOR THE WEEK
July 3rd - 7th

1. US dollar is likely to continue to climb through the coming weeks, with Euro declining towards parity.
2. Demand destruction from inflation & slowing economies will likely be greater than any disruption of Russian oil supply in 2H 2022.
3. The oil premium from Russia's War in Ukraine which saw prices jump $30 a barrel may be diluting as battle fatigue settles in across the world after 5 months.
4. G7 countries' oil price cap plan will not work because it would require buy-in from all producers and consumers and will end up pushing deliveries into Asia.
5. The Middle East is awaiting arrival of US President Biden and the possible inauguration of a new regional security pact that could see Saudi Arabia and Israel on the same side of the table.
6. Despite all the noise of sanctions on Putin's regime, it is unlikely to have any material impact on Russian oil exports flowing to global markets.
7. Libya is facing an existential internal crisis that could reverse all the political gains of recent years, and once again keep Libyan oil off international markets.
8. We are seeing massive demand destruction in all commodities, while crude is a laggard that will eventually fall under the weight of recession.
9. Western powers never miss a chance to blame OPEC and others for their economic woes, rather than own up to their own bad energy security planning.
10. I think we have to say that Chinese demand still looks uncertain!

10th Anniversary

3 MONTHS TO GO

ENERGY MARKETS FORUM

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

Port of Fujairah
Port of Fujairah United Arab Emirates

SPECIAL GUESTS

H.H. Sheikh Mohammed bin Hamad bin Mohammed Al Sharqi
Crown Prince of Fujairah

H.H. Sheikh Saleh Bin Mohammed Bin Hamad Al Sharqi
Chairman of Port of Fujairah

Nicke Widyawati
President Director & CEO
PT Pertamina

H.E. Tarek El Molla
Minister
Ministry of Petroleum & Mineral Resources
Arab Republic of Egypt

Dr. Mohammed Y. Al Qahtani
Senior Vice President – Downstream
Saudi Aramco

Russell Hardy
Group CEO
Vitol

Khaled Salmeen
Executive Director - Downstream Industry
Marketing & Trading Directorate, ADNOC

Capt. Mohamed Juma Al Shamsi
Chief Executive Officer
Abu Dhabi Ports

Magid Shenouda
Deputy CEO & Global Head of Trading
Mercuria Energy Group

Saugata Saha
President
S&P Global Commodity Insights

Syed Muhammad Taha
Managing Director & CEO
Pakistan State Oil Company

Mohammed Al-Mulhim
President & CEO
Aramco Trading

Manual Perera
FOTT Manager
Fujairah Oil Tanker Terminal

Thomas Waymel
Presdient, Trading & Shipping
TOTSA TotalEnergies Trading SA

Sara Akbar
Chairperson & CEO, OiLSERV, Kuwait
& Non-Executive Director, Petrofac

Mike Muller
Head
Vitol Asia

ITINERARY

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

Vitol | aramco trading | ADNOC | S&P Global Commodity Insights | MERCURIA | nbf National Bank of Fujairah | KPLER | FOIZ Fujairah Oil Industry Zone | Vopak Horizon Fujairah Limited | GPS CHEMOIL | GI Consultancy Intelligence Publishing

Consultancy
Intelligence
Publishing