JUNE 4th 2020
VOL. 32

Fujairah New Silk Road WEEKLY NEWSLETTER

EXCLUSIVE INSIDE
GLOBAL OIL EXPERTS SHARE THEIR INSIGHTS PAGE 8

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

AN EXCLUSIVE GULF INTELLIGENCE INTERVIEW

"$40/BL OIL PRICE IS UNJUSTIFIED"

Martin Houston, Vice Chairman, Tellurian & Member of the Boards of CCED & BUPA

The economic exit from Covid-19 across the globe seems rather disjointed. Going into this was a little chaotic and abrupt at first but was relatively easy and if you go back to March, we had this surreal calm globally. Getting out on the other hand, has been a Herculean task and not homogenous – it's going to be multispeed and also fiercely political.

We had a solid economic outlook of the world going into this crisis. Coming out of it, we are looking at the stress of economic collapse which seems to be overwhelming everything.The global tab is reaching $10 trillion but we haven't even started to answer how we are going to pay for this or how it will impact personal and corporate taxation or pensions. It feels like the other shoe hasn't dropped yet, as if we are waiting to face reality. One thing is for sure – once we do emerge, the exit will differ in different places; people are going to make their own choices in how they manage their risk and how and when they get back to work.

CONTINUED ON PAGE 3

Fujairah Weekly Oil Inventory Data

8,549,000 bbl	5,997,000 bbl	16,164,000 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
$3.61 – $4.38/m³

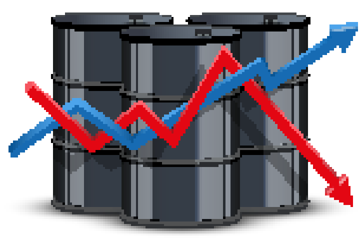
↑ Highest: $4.50/m³
↓ Lowest: $3.50/m³

*Time period: Weekly

Source: GI Research

Insights brought to you by: 2010 GI 2019 Publishing
Thegulfintelligence.com

THE WEEK In Numbers



Weekly Average Oil Prices

Brent Crude: $38.75/bl

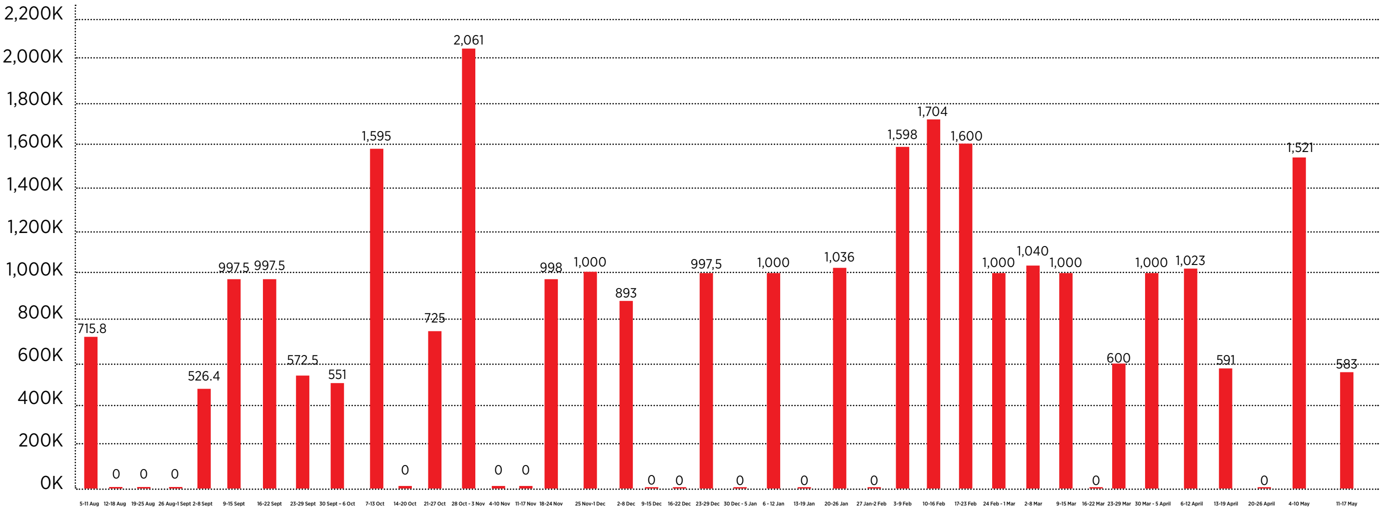
WTI Crude: $36.13/bl

DME Oman: $39.44/bl

Murban: $37.69/bl

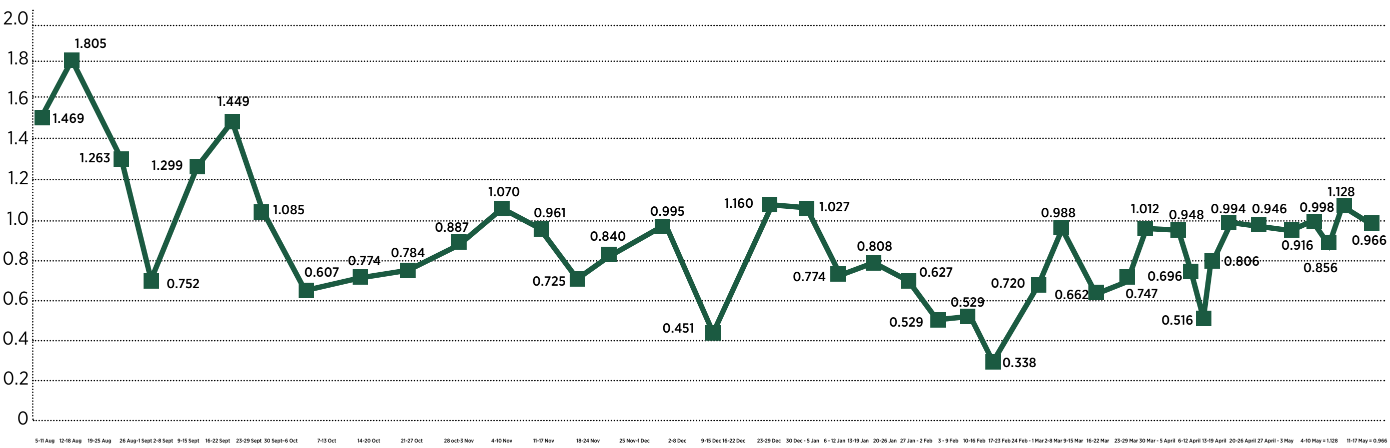
Time Period: Week 1, June 2020
Source: IEA, OilPrice.com, GI Research

Weekly Imports of Heavy Sweet Crude into Fujairah



Source: Kpler

Total Refined Product Exports from the GCC to Asia-Pacific



Source: Kpler

CONTINUED FROM PAGE 1

"PREVIOUS CAPITAL INJECTIONS PROBABLY GAVE SOME SHALE COMPANIES TOO MUCH LEEWAY AND MY SENSE IS THAT THE CAPITAL WILL RETURN FOR THE STRONGER SHALE PLAYERS BUT MORE SLOWLY."

What has been the impact of the Covid crisis on the energy industry?

Martin Houston: I've been bearish during this crisis and I don't see demand catching up at the speed which is being indicated by the oil price we see today. There are still questions about what the OPEC group will do and questions around inventories.

Do you not draw any confidence for the oil price from the scale and speed in which shale has been shut down?

Martin Houston: Cuts in volumes provide some comfort but I don't get the same reassurance from the number of companies that have been filing for Chapter 11. There is an optimism today which belies the demand supply situation and whether it's sustainable is questionable. False optimism is also not good for making decisions. What we need is a stable set of prices which balance the fundamentals in a way that we can logically track them and make decisions accordingly.

China is just one demand centre. Whether global demand is 80, 90 or 95 million by the end of the year, it will still be a big gap compared to the barrels being produced. An equilibrium oil price could be around $50-70/bl – that would stimulate new demand and also satisfy the supply side in terms of the cost of production of certain barrels.

What's your outlook for the recovery of Shale oil and gas producers in the US?

Martin Houston: Not all shale is created equal and you also have gas and associated gas which all compound the economics, in addition to infrastructure considerations. Previous capital injections probably gave some shale companies too much leeway and my sense is that the capital will return for the stronger shale players but more slowly and that the supply response is also going to come back slower than it did after the last downturn in 2015-2016.

In terms of gas, we have seen LNG demand in China increasing year on year and low prices have stimulated that demand of course. On a macroeconomic basis, the LNG industry is going to pull back and at some point, FIDs will be required to produce the LNG from 2024 onwards that the world will need to move towards its low carbon economy. The US is going to be a very important part of that because of its favorable policies towards the industry, its geography and the access it provides to high quality, low cost supply.

What impact do you think the massive government stimulus is having on markets?

Martin Houston: We have 40 million people out of work in the US with a short to medium term prospect of 20% unemployment and yet, equity markets are attracting capital. It's hard to understand this idiosyncratic situation. Is there a big correction to expect or not? I think once the realities of the second quarter numbers land, we may get out of what feels like an economic twilight zone. There will be debt to repay, a potential second wave of the virus, new working norms and so much more to consider. Institutions like the IMF and the WHO will have to drive this. They will be very necessary and relevant and will also have to modernize somewhat as a result of this crisis and get on track with the future world.

What is your outlook for the global economy in the second half of this year?

Martin Houston: One thing is certain – the world is not going to be the same as it was at the beginning of March. As we look forward, so many questions will be raised. Where will capital be deployed by governments? How will we use technology and how will people work and travel? What's going to happen to supply chains? As for climate change, does the fact that this crisis has demonstrated what it's like to have clean air, trigger a societal and political response to where future investments flow? These are some of the questions facing today's decision makers.

WATCH FULL INTERVIEW HERE

ENERGY MARKET NEWS

RECOMMENDED READING & VIEWING

1. CHINA LEADS THE GLOBAL OIL DEMAND RECOVERY

2. SAUDI, RUSSIA REACH OIL OUTPUT DEAL AND URGE OTHERS TO KEEP PROMISES

3. FUJAIRAH: OIL PRODUCT STOCKS REBOUND TO RECORD LED BY MARINE, POWER FUELS

4. EIA: US CRUDE STOCKS DROP, DIESEL INVENTORIES SURGE

5. US TO BAN PASSENGER FLIGHTS FROM CHINA

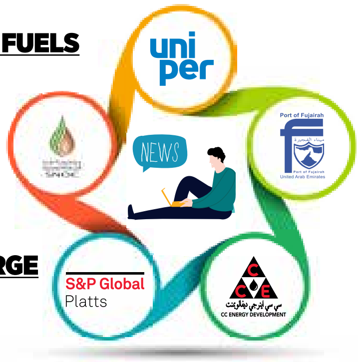
6.CHINA CANCELS SOME US FARM SHIPMENTS

7. FEARS LATIN AMERICA REOPENING TOO FAST AS BRAZIL'S COVID-19 DEATHS SURGE

8. US ROLE REJECTED AS INDIA AND CHINA VOW TO RESOLVE BORDER DISPUTE

9. CHINA'S ZEALOUS 'WOLF WARRIOR' DIPLOMACY HIGHLIGHTS BOTH BEIJING'S POWER AND INSECURITY

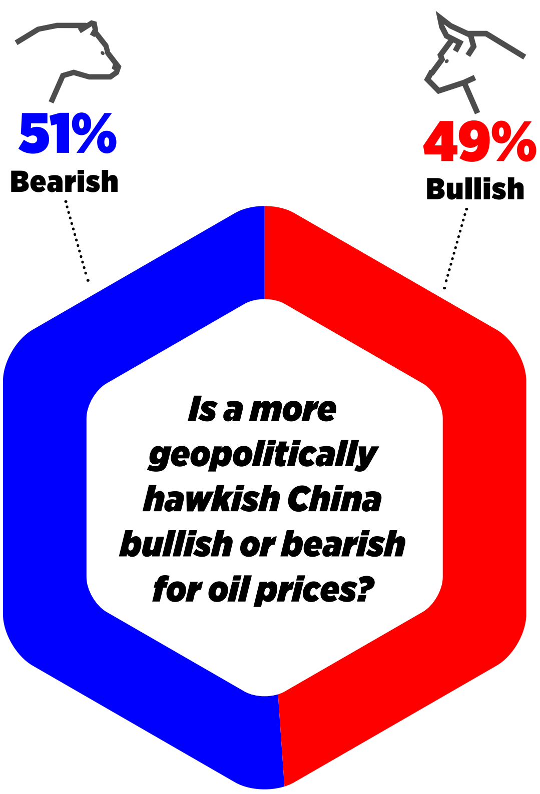
10. RESHORING POSSIBLE AS US FIRMS LOOK TO SHORTER, FASTER SUPPLY CHAINS



DAILY RECOMMENDED VIDEOS

- OPEC+ MEETING IN DOUBT OVER OIL-QUOTA CHEATING DISPUTE
- VICE CHAIRMAN, TELLURIAN: "$40/BL OIL PRICE UNJUSTIFIED."

Weekly Survey



GIQ EXCLUSIVE INTERVIEW

Vera Blei
Global Director of Oil Market Pricing
S&P Global Platts

GIQ: What spurred some Gulf producers to raise their OSPs in June from May and what signal does that send?

Vera Blei: The rise in the OSPs from May to June can be seen as signal that Gulf producers are committed to tightening supply in order to support higher prices. While the rises surprised some refiners, they were not completely unexpected following two months of significant cuts, above expectations at the time. Furthermore, strength in fuel oil cracks and an easing of the contango structure towards the end of last month may have been interpreted as a turning of the market from the lows seen in April, with the OSPs a reflecting that sentiment from Gulf producers.

GIQ: With gasoline and jet fuel demand in a firm slump due to stymied car and airline travel, what will happen to light and heavy product differentials going forward?

Vera Blei: Global car and airline travel remain curtailed. Global air traffic is down 45% vs. pre-crisis norms, but up from 55% seen a couple of weeks ago, with non-commercial travel picking up in recent weeks. For cars, mobility metrics continue to improve in the US, which has led to a recovery in gasoline demand in recent weeks. Platts analytics forecasts that while light product differentials will increase in the months ahead, the current strength in heavy product differentials seen in fuel oil will decrease going into the second half of this year.

GIQ: Have OSPs lost their importance in the current environment?

Vera Blei: OSPs are a way that sovereign producers of crude oil set the price for the crude that they sell. OSP differentials are currently at a relatively high proportion of the total price of a barrel due to the recent low flat price for crude oil benchmarks globally. As such, the importance of OSPs and the sensitivity to price moves from oil consumers have arguably never been higher.

"RIGHT NOW, THE MARKET IS TAKING EACH DAY AS IT COMES."

GIQ: Will crude buyers be unhappy about increased OSP prices for June? Will they possibly not take up their maximum allocation? If they do, does that mean that the allocation was correct?

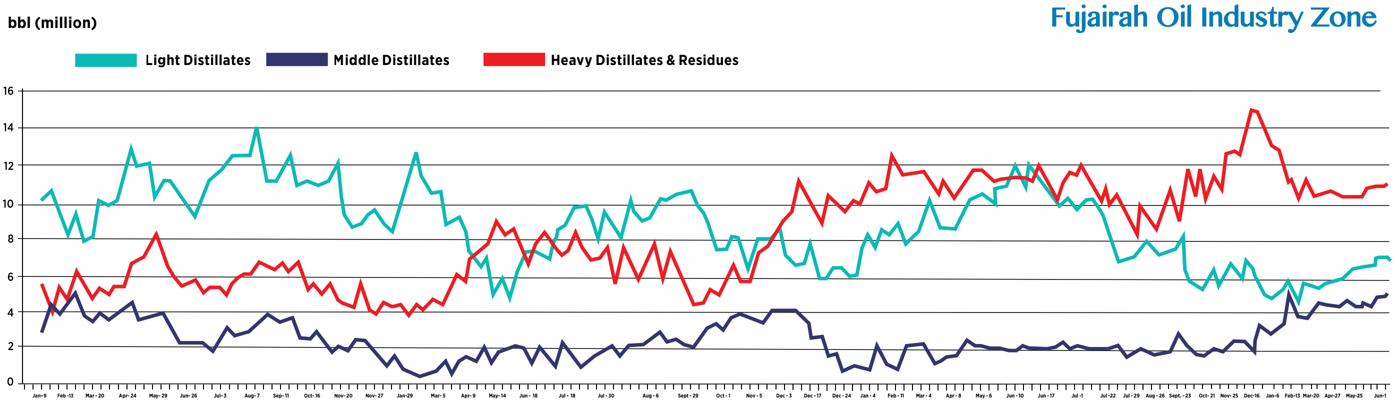
Vera Blei: Crude buyers were hoping for a cut to the OSP prices for June, particularly in the environment of weak product demand. When it comes to allocations, Saudi Aramco has informed some term lifters of its crudes that June-loading crude allocations are being reduced by 20-40%. As a result, they will be unable to take up their maximum allocation, whether they wanted to or not. Furthermore, we understand that a surplus of crude has led to refiners cutting back on term supply commitments where they can, as well as scaling back spot crude procurement where there may be more flexibility.

GIQ: Should Asian crude buyers expect an increase or cut in Gulf crude OSPs in the third quarter?

Vera Blei: Right now the market is taking each day as it comes, looking to the third quarter there are many variables. These include how global lockdowns develop, if they are eased or if there are further restrictions in movement should a second wave in the Covid-19 pandemic be seen, factors that will impact end-user product demand. From the supply side, the market will be looking closely at the compliance levels in the production cuts that crude producers have agreed to. It will also be looking at how resilient the shale oil industry in the US is in a low price environment.

Fujariah Weekly Oil Inventory Data

FOIZ
منطقة الفجيرة للصناعة البترولية
Fujairah Oil Industry Zone



TOP TAKEAWAYS

- **Total oil product stocks in Fujairah were reported at 30.710mn barrels, hitting a fresh record high, breaching the previous record high seen two weeks ago. Overall stocks built by 1.879mn barrels rising 6.5% week on week, with all three stock categories posting weekly rises.**

- **Stocks of light distillates rose by 588,000 barrels or 7.4% week on week. Total volumes stood at 8.549mn barrels, their highest level since June 17 last year when they stood at 9.053mn barrels. The East of Suez gasoline market was seeing a turn in sentiment with support seen from a demand-side recovery easing the regional overhang of product. Regionally restrictions on movement were seen to be easing with Vietnam, The Phillipines, Thailand and Singapore all allowing greater movement recently. Gasoline cracks remained in negative territory however with the 92 RON physical gasoline crack to front month ICE Brent futures standing at a $1.48/bl discount on Tuesday, reflecting a fall of 16 cents/bl week on week.**

- **Stocks of middle distillates set a new record high of 5.997mn barrels as they rose by 2.2% or 128,000 barrels at the start of the week, posting the 10th consecutive week of stock builds. The previous record high was seen last week. As with gasoline, the gasoil market East of Suez was seeing a turn in sentiment as supply cuts, as well as improved demand, were combining to have an upward effect on prices. "There's more demand [for gasoil] which has been supportive, and also there were a lot of run-cuts from before so the excess supplies in the market have been removed, so sentiment is much better and things have improved," a trader said.**

- **Stocks of heavy distillates rose by 7.8%, building by 1.163mn barrels on the week to stand at 16.164mn barrels. The market for bunkers in Fujairah was seeing a slight stand-off between buyers and sellers amidst a well supplied market. While buyers sought discounts, sellers were in no rush to sell, with a contango market structure persisting. Values for Marine Fuel 0.5% delivered bunkers in Fujairah fell again to discounts to Singapore with the grade assessed in Fujairah at $285/mt on Tuesday, reflecting a discount of $6/mt to Singapore.**

Source: S&P Global Platts

What else is there to talk about if you're in the oil market?

BY MATT STANLEY
DIRECTOR
STAR FUELS

Brent is trading this morning at $39.09/bl, down 0.70/bl. WTI is down 0.82/bl, trading at $36.47/bl. Like being married to Katie Price, I'll keep this short. I mean what else is there to talk about if you're in the oil market? The OPEC+ meeting, of course. The market is not sure what exactly will happen, but we have heard that unless Iraq and Nigeria pull their socks up, then OPEC+ will jolly well write to The Daily Telegraph about it. Naughty boys. Imagine that article "Dear Sirs, Iraq and Nigeria are not complying, and we will not do it for them! Please tell them. Yours, MB". The thing is that the rally is all about supply being curtailed, not demand coming back. If it were about demand coming back, then $10/bl oil would be looking expensive. And I will not listen to the argument that demand is coming back as restrictions are being eased. Because if the Energy Information Administration (EIA) data is anything to go by, then nobody is going anywhere. For those who don't have their noses glued to a screen at 1530GMT on a Wednesday, EIA figures showed a marginal draw on crude and huge builds on products. No Bueno. The worrying thing is that US oil production is not really dropping significantly either; last week it was 11.2mn b/d. That's about where we were in October 2018. With the flat price returning to levels that producers are happy with, I imagine it won't be too long before we see this figure creep up again. At the end of the day, there is still a lot of oil being produced and, as we all know, not a lot of places to put it. Hellooooo contangoooo. Keep your eyes on the headlines. Good day.

4th June 2020

Fujairah Spotlight

Combating Covid-19: 26 outlets shut for flouting anti-Covid measures in Fujairah

Dibba Al Fujairah Municipality (DFM) shut down 26 outlets, including hairdressing salons, beauty centres, shops, and pharmacies, across the city and suburbs in May for flouting precautionary measures to prevent the spread of Covid-19. "Some of the erring outlets had unreasonably hiked prices of products, failed to show staff health cards, and did not observe the facemasks, gloves, and social distancing rules.

Source: Khaleej Times

Emirati woman survives gruesome traffic accident in Fujairah

A heavy-duty truck heading to the Fujairah Port overturned and hit the Emirati woman's vehicle, he said, adding that both the Emirati woman and the truck driver sustained moderate injuries and were admitted to Fujairah Hospital for medical treatment. Both drivers are in a stable condition.

Source: Gulf Today

UAE mountain rescue groups issue summer heat warning

Mountain rescue groups have warned hikers of the dangers of organising trips during the UAE's extreme summer heat. Some companies work with the Fujairah government to create local adventure guide standards. "Training courses, seminars and workshops will be available to companies and individuals who wish to work in the outdoors within Fujairah emirate.

Source: The National

FUJAIRAH DATA: Oil product stocks rebound to record led by marine, power fuels

Oil product stockpiles rebounded to a record high at the Port of Fujairah as of June 1, led by gains in heavy fuels used in marine and power industries. The total has hit four all-time highs in the last five weeks, signaling the slump in gasoline demand to jet fuel and marine bunkers because of the coronavirus pandemic

Source: S&P Global Platts

GIQ EXCLUSIVE SOUNDINGS

"A more hawkish China is completely bearish for oil prices..."

Over the last week, Gulf Intelligence has Interviewed energy market experts in Asia, the Middle East, Europe and the US – the intelligence below is harvested from these exclusive briefings

- **Robin Mills, Chief Executive Officer, Qamar Energy**
- **Randall Mohammed, VP Energy Solutions, Ahart Solutions International**
- **Dr. Kamel Ben-Naceur, Chief Executive Officer, Nomadia Energy Consulting**
- **Omar Najia, Global Head, Derivatives, BB Energy**
- **James McCallum, Executive Chairman, Xergy & Professor of Energy, Strathclyde University**
- **Paul Young, Head of Energy Products, Dubai Mercantile Exchange**
- **Andy Laven, Chief Operating Officer, Sahara Energy Resources**
- **Dr. Jonathan Fulton, Assistant Professor- Political Science, Zayed University**
- **Dr. Zhen Wang, Deputy Director General- Policy Research, CNPC**
- **Amena Bakr, Deputy Bureau Chief, Energy Intelligence**
- **Mriganka Jaipuriyar, Head of News-Asia, S&P Global Platts**
- **Tony Quinn, Operating Partner-Prostar Capital & CEO, Tankbank International**

Robin Mills, Chief Executive Officer, Qamar Energy
"A more hawkish China is completely bearish for oil prices. The US-China confrontation or a more confrontational China is bad for the world economy, recovery from Covid-19 and international cooperation."

Randall Mohammed, VP Energy Solutions, Ahart Solutions International
"The magic number is $50/bl which is the breakeven price for shale and until WTI gets to that point, we should expect more chapter 7 and chapter 11 bankruptcies."

Omar Najia, Global Head of Derivatives, BB Energy
"China is investing billions of dollars into its Belt and Road Initiative and if countries want to be part of that, they need better political and economic relations with China. If they want better relations with the west (US and Europe) then they should do so. But in the past few decades, the west has been losing its economic superiority."

Dr. Kamel Ben-Naceur, Chief Executive Officer, Nomadia Energy Consulting
"The expectations from oil prices are now in positive territory. The compliance levels for countries like Saudi Arabia, Kuwait and UAE have been 100% which is reassuring the markets and driving China to buy more crude. The three-way dialogue between Russia, Saudi and the US is a good sign that we will have a positive outcome from the OPEC meeting and an extension of oil supply cuts."

James McCallum, Executive Chairman, Xergy & Professor of Energy, Strathclyde University
"The markets are holding steady but at very limited volumes of trade and that needs to be watched. There is no doubt that everybody is holding their breath right now, waiting to see whether or not there is a second wave of Covid-19 but for now the world is prepared to gently allow things to go back to normal ."

Paul Young, Head of Energy Products, Dubai Mercantile Exchange
"There are indications that storage that had so much downward pressure on oil prices, seems to have removed itself. China's refining levels are back to where they were and markets in Asia have tipped back to backwardation as of last week. But we have to keep in mind that refining margins are not high and refineries are likely to remain at lower runs for a while."

Andy Laven, Chief Operating Officer, Sahara Energy Resources
"The market is driven by sentiment and the signs are positive in the oil market, but we have to wait and see what actually happens. I think we will definitely see different demand requirements in the future than we had in the past, certainly for the next six months or so."

Dr. Jonathan Fulton, Assistant Professor- Political Science, Zayed University
"The US doesn't have the same need to be in the [Middle East] region as it did before, partially thanks to the Shale revolution. But certainly, the region is going to look a lot different and countries like India, China, Russia and the EU that have some kind of interest, will have a much bigger political and security role."

Dr. Zhen Wang, Deputy Director General- Policy Research, CNPC
"Oil imports and refinery runs in China are currently strong but export of oil products are still in recovery and while domestic consumption has improved, the recovery is still not the same in different areas of the country."

Amena Bakr, Deputy Bureau Chief, Energy Intelligence
"Saudi Arabia and Russia are leading an effort to reassure and recommit OPEC+ members that haven't been compliant with their quotas for the month of May. They are also working on a plan to identify members that haven't been compliant and have them make up for the shortfalls in the coming months and once this is complete, they can set a date for the meeting."

Mriganka Jaipuriyar, Head of News-Asia, S&P Global Platts
"In China, we have seen record crude imports recently. Refinery throughputs have gone up from the low levels we saw in February, partly because domestic margins are very strong at the moment. However, stocks are filling up and we do expect the Chinese to curb their imports moving forward."

Tony Quinn, Operating Partner-Prostar Capital & CEO, Tankbank International
"When the contango came along, storage capacity in Fujairah was filled with IMO compliant products so it really didn't have an impact on Fujairah or even Singapore. Unless you can sublease, storage companies don't take the risk because you can't run your business on contango; it has to be run on a strategic business that carries on day after day."

ENERGY MARKETS COMMENTARY WEEK IN REVIEW

CLICK HERE TO LISTEN

Daily Energy Markets Commentary

NEW SILK ROAD "LIVE"

May 31st - June 4th

GIQ EXCLUSIVE

TOP 12 MARKET OBSERVATIONS FOR THE WEEK

1. Saudi Arabia and Russia will eventually succeed to shepherd OPEC+ stragglers towards agreement on maintaining deeper cuts for longer.

2. China crude oil imports may taper off in Q3 as all strategic storage caverns fill up.

3. US oil production recovery may start as soon as July if prices continue on current run.

4. OPEC+ likely to find unanimous support for extending oil supply cuts as "Mission Accomplished" to get prices back towards $40/bl.

5. Markets are trading sideways in search of outlook signals for health of the world in Q4.

6. How will Trump hold up in a real crisis? – "It's 3am. Who do you want answering the phone?" – Now we know!

7. OPEC+ likely to maintain higher oil output cuts (9.7mn b/d) through Q3, even though compliance remains well below 100%.

8. Oil prices likely to test $40/bl as technical resistance markers are breached.

9. China-US face-off has been bearish for markets, but Trump showing colors as a paper tiger despite fighting rhetoric.

10. Markets may struggle to hold on to gains as scientists and politicians diverge on timing for unlocking economies.

11. OPEC+ needs to be careful not to muddy the waters as opinions diverge on Q3 oil output policy.

12. A more hawkish China will test an EU-US relationship which is battered & bruised after 3+ years of Trumpism.

Gulf Intelligence
~ Presents ~
THE ARAMCO TRADING
NEW SILK ROAD
CEO
– OF THE YEAR –
AWARDS 2020
FUJAIRAH
SEPT. 28th 2020
aramco
trading

International Selection Committee 2020

CHAIRMAN
Ibrahim Al-Buainain
President & CEO
Aramco Trading

Capt. Mousa Morad
Managing Director
Port of Fujairah

Mike Muller
Director – Oil Business Development
& Head of Trading
Vitol Asia

Martin Fraenkel
President
S&P Global Platts

Datuk Md Arif Mahmood
Executive Vice President &
CEO of Downstream
PETRONAS

Thomas Waymel
President Trading & Shipping
Total Oil Trading SA

Roger Chia Kim Piow
Chairman & Managing Director
Rotary Group of Companies

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