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Fujairah New Silk Road WEEKLY NEWSLETTER

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

"Gulf May Face a Nuclear Arms Race in Wake of Failed Iran Talks"

Karen Young, Senior Fellow & Founding Director
Program on Economics & Energy
Middle East Institute

The renewal of the Iran nuclear agreement, the JCPOA, doesn't look like a very tenable project now that the Iranian government is seeking the removal of the terrorist designation on the Iranian Republican Guard. The consequence of a 'no deal' not only means less Iranian oil on the market, but also it will trigger nuclear proliferation in the region. Even if that starts as for civilian use in terms of building reactors for electricity production, the Pandora's box will have been opened. I think that's the direction we're headed in. Certainly, the Crown Prince of Saudi Arabia has been very, very clear in his assessment. If Iran has a nuclear weapon, Saudi Arabia will too, at any cost, because of the need for self-defense. And so, we get into a bit of an escalatory paradigm. In terms of the availability of Russian oil, with more stringent European sanctions to come by May 15th, I see that the markets are going to change fundamentally. It's going to be more difficult for this product to get to customers and we will possibly then also see some tension within OPEC Plus. Those oil producers with spare capacity, such as Saudi Arabia and the UAE, are going to have an opportunity to try to get into the market share that Russia produced. But even if they do, they can't cover for all of the total 6.5 million barrels a day of Russian supply if it was blocked. The US' expectations on OPEC have been way too high and at the same time, consumers like China or producers in Russia, are maybe not factoring in just how difficult this could become.

CONTINUED ON P 3

Fujairah Weekly Oil Inventory Data

5,326,000 bbl	1,923,000 bbl	11,067,000 bbl
Light Distillates	Middle Distillates	Heavy Distillates & Residues

Source: FEDCom & S&P Global Platts

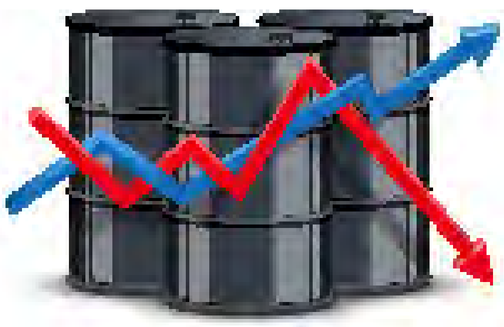
Fujairah Average Oil Tank Storage Leasing Rates*

BLACK OIL PRODUCTS

Average Range
$3.57 - 4.06/m³

↑ Highest: $4.50/m³
↓ Lowest: $3.20/m³

THE WEEK In Numbers



Weekly Average Oil Prices

Brent Crude:	$106.84/bl
WTI Crude:	$104.45/bl
DME Oman:	$103.47/bl
Murban:	$107.04/bl

*Time Period: Week 2, May 2022
Source: IEA, OilPrice.com, GI Research

Fujairah Weekly Bunker Prices

VLSFO

High = $886.50/mt

Low = $855.50/mt

Average = $876.50/mt

Spread = $31.00/mt

MGO

High = $1,374.00/mt

Low = $1,326.50/mt

Average = $1,358.50/mt

Spread = $0.00/mt

IFO380

High = $767.50/mt

Low = $703.50/mt

Average = $747.50/mt

Spread = $64.00/mt

*Source: Ship and Bunker, *Time Period: May 4 – 11, 2022*

Fujairah Bunker Sales Volume (m^3)

369
180cst Low Sulfur Fuel Oil

527,677
380cst Low Sulfur Fuel Oil

129,293
380cst Marine Fuel Oil

1,096
Marine Gasoil

32,706
Low Sulfur Marine Gasoil

5,469
Lubricants

Source: FEDCom & S&P Global Platts

CONTINUED FROM PAGE 1

Karen Young, Senior Fellow & Founding Director, Program on Economics & Energy Middle East Institute

How would you qualify Washington's relations with its Gulf allies today?

Certainly, with the Russian invasion of Ukraine, it's gotten much worse. And this has built upon US domestic politics and confusion there of what energy independence was supposed to mean and how the US will pivot away from the Middle East. The way the US approaches foreign policy has changed a lot in the last two administrations. We are a more divided polity and that's really hard for our partners and allies to navigate. The reality check is that the US still needs strong partnerships in the region with energy suppliers. It was going to be difficult no matter what and now because we are in a very serious energy security crisis, the stakes are higher. That's also why Gulf states have been very open to the idea of maintaining very close ties with Putin and with Russia in general. It's not about Russia's capacity as a source of foreign direct investment, or about its oil or even about security ties. There's a certain understanding within the leadership in the Gulf that when you make an agreement with the Russians or the Chinese, they don't overpromise, and you know what you're going to get. There's a lot of talk about the Gulf states hedging between the east and west but I think it's beyond that. Another way to understand it is that the UAE and I think Saudi Arabia, to a degree, have made a strategic assessment, that the global economy in the future is one that will be bifurcated and there will be a certain amount of power and amount of capital that's amassed in the hands of authoritarian capitalists. And then there will be the rules and the capital flows of the West. They want to sit in between that.

Is the Gulf justified in its view of the US as a diminishing protector?

That is a giant sense of frustration on the part of the UAE after they were attacked by the Houthis and certainly a long standing one of the Saudis. Again, in US domestic politics, the Yemen war is very, very unpopular and we weren't very truthful at home about our engagement and our involvement in that war. And so, there is a movement within US domestic politics that wants to see less boots on the ground, particularly in the Middle East. The US actively engaged on the side of the Saudis in intelligence sharing and targeting in Yemen. It then abruptly disengaged but the problem didn't go away and got worse. And what was a very limited Iranian role in the Yemen war in late 2015 is now quite blatant. This will be a long-term vulnerability to the Saudis, to the Omanis, to the Emiratis.

Is GCC cohesion back with the return of Qatar into the fold?

The GCC is glued back together but I don't think it is very cohesive or very strong as a bargaining unit, or as a security cooperation unit. But there is also a sense that there are bigger issues. There's also this moment of tremendous windfall revenue for oil and gas producers, so when you have a neighbor like Qatar, which is going to be doing well for the foreseeable future in terms of its LNG exports, it's better to be friends. And Qatar on its part, also wants to be part of the greater Gulf economic opportunity and won't hold a grudge, at least on the economic issues.

WATCH FULL INTERVIEW HERE

GI Consultancy Intelligence Publishing

Energy Markets Views You can Use

Dr. Carole Nakhle
Chief Executive Officer
Crystol Energy

Russian oil and gas supplies have not been interrupted despite the war.
This tells you one thing - how important these supplies are for Russia, economically speaking, because it is the primary source of revenue still coming to their coffers. And the sanctions placed on Russia so far have at large, protected oil and gas. Strategically, Russia knows that its oil and gas exports are perhaps the only strong economic card it has left which can influence European behavior. There seems to be agreement in the market that around 2.5 to 3 million barrels a day of Russian oil will eventually be lost but this is not necessarily the net amount globally, because we should factor in additional supplies coming to the market, whether in the form of SPR or from other producers. As far as gas is concerned, Europe is not considering an embargo. It's much more difficult to find an immediate alternative to gas or at least the infrastructure to get supplies from elsewhere. Russia also knows that and that's why they are keen on maintaining those supplies. They have sent some signals and we saw how they cut supplies to Poland and Bulgaria recently, but they chose two countries that rely more on coal and nuclear than natural gas.

How do you interpret the turmoil in financial markets and what's to come?
We will need to see how bad the volatility gets – we are going to see more data, at least coming from the US, on how bad consumer sentiment is. There's jobless claims data coming out and that will have a certain impact on the market, whether it meets or exceeds expectations. I would say that the biggest factor that will continue to shape markets, global economies and geopolitics, is the war in Ukraine and how that develops and you can really expect the unexpected with this war.

Ali Al Riyami
Consultant & Former Director General of Marketing
Ministry of Energy & Minerals, Oman

Oman is enjoying the benefits of both higher crude and product prices.
We are perhaps benefitting less from the latter because of the shortage in our exports at the moment, but these high product prices will continue for the coming few months as long as there are good indications coming from the US and Europe. On the other hand, we won't see as much support from China because of the lockdowns, which are really hurting its economy and Asian economies as well.

Are Gulf refineries ready for the unexpected opportunity for product exports?
Middle East refiners can benefit from current products prices. The faster we can bring the new refineries due to come online in the next year, in Kuwait and Oman for example, the better, because we don't know how long this opportunity will be open. But let's not forget that most of the new refineries in the region are also being built to cater for local consumption – it's not all for export. So, the shortage of products globally might remain even with this new capacity coming onstream.

OPEC Plus supply still seems to be under duress?
On the whole, there's only about 1.5 million barrels out of the committed 35 million barrels, missing, so we are almost there. Countries like Saudi Arabia, Kuwait and the UAE should takeover production from other countries if they can. Their capacity today is looking better than it was two months ago.

Are we going to see a US Iran deal anytime soon?
Iran will have to compromise at some point because it needs the revenue. The Europeans and the US also cannot just keep on having this kind of discussion forever. A deal will happen, but nobody knows when. Iran was ready a one month ago, but the high oil price also now may mean that it's not in as much of a rush anymore.

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Fujairah Spotlight

Adnoc awards key engineering contract for huge Fujairah LNG terminal

Abu Dhabi National Oil Company (Adnoc) has awarded a front-end engineering and design contract to McDermott International of the US for work on a huge liquefied natural gas export terminal in the United Arab Emirates. The emirati state-owned giant confirmed the development in a social media post on Wednesday. "Adnoc's new, carbon-efficient LNG plant in Fujairah is moving to the design stage, with McDermott International Ltd appointed as the design contractor," the company said.

Source: Upstream

GDP of Fujairah reached $6bln: Statistical Yearbook 2021

The GDP of the Emirate of Fujairah reached AED 22 billion while the Consumer Price Index (CPI) stood at 107.03, according to estimates by the Fujairah Statistics Centre (FSC). The Statistical Yearbook of Fujairah 2021, which contains 15 chapters of vital sectors' figures, put the total population of the Emirate of Fujairah at 302,418 people. Foreign direct trade stood at AED3,750 million and amounted to AED6,467 million through the emirate's free zone, the Yearbook said.

Source: Zawya by Refinitiv

Oil product inventories climb to 8-week high after slowdown in April exports

Oil product stockpiles at the UAE's Port of Fujairah rose to an eight-week high as of May 9 after exports slowed for April, according to Fujairah Oil Industry Zone and Kpler data. The total inventory was 18.316 million barrels as of May 9, up 8.5% from a week earlier and the highest since March 14, port data provided exclusively to S&P Global Commodity Insights May 11 showed. Inventories were still 24% below levels seen a year earlier. In April, product exports from Fujairah averaged 459,000 b/d, down from 599,000 b/d in March and the lowest since January, according to Kpler data.

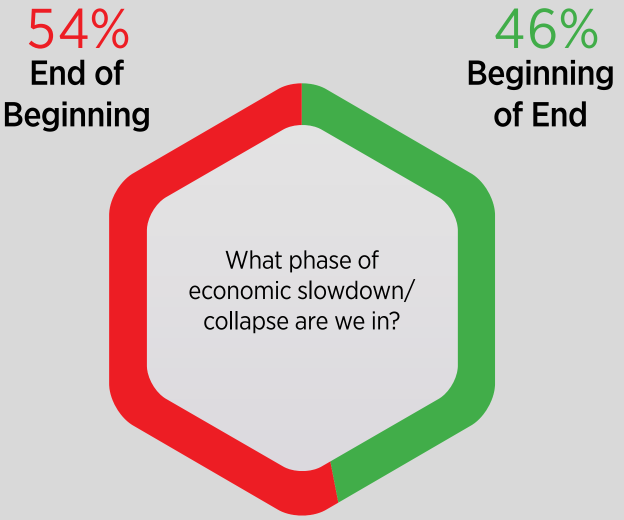
Source: S&P Global Commodity Insights

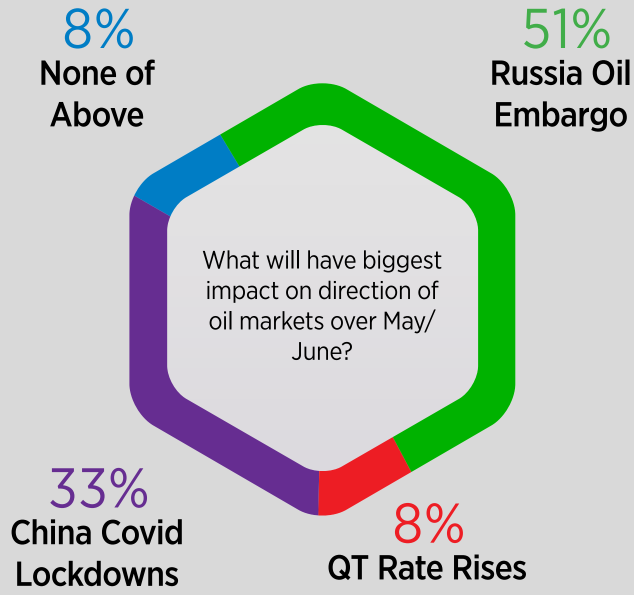
Fujairah Ruler congratulates King Salman on success of medical tests

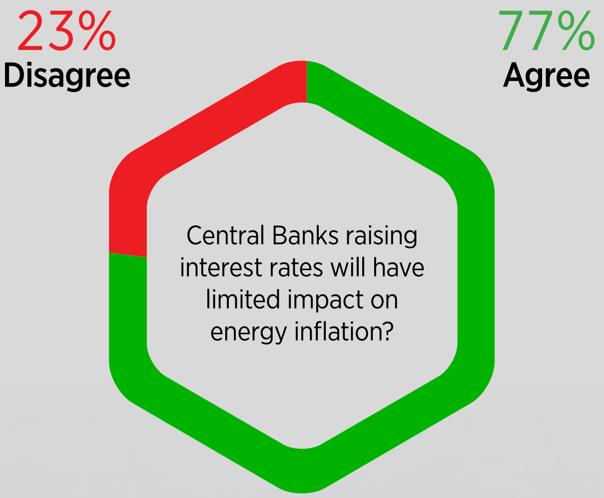
H.H. Sheikh Hamad bin Mohammed Al Sharqi, Supreme Council Member and Ruler of Fujairah, has sent a congratulatory message to the Custodian of the Two Holy Mosques, King Salman bin Abdulaziz of Saudi Arabia, after undergoing successful medical tests at the King Faisal Specialist Hospital in Jeddah. Sheikh Hamad prayed to Allah Almighty to grant King Salman good health and longevity.

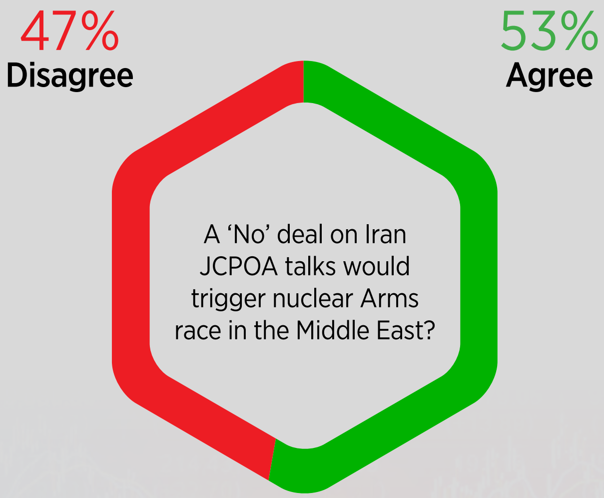
Source: Emirates News

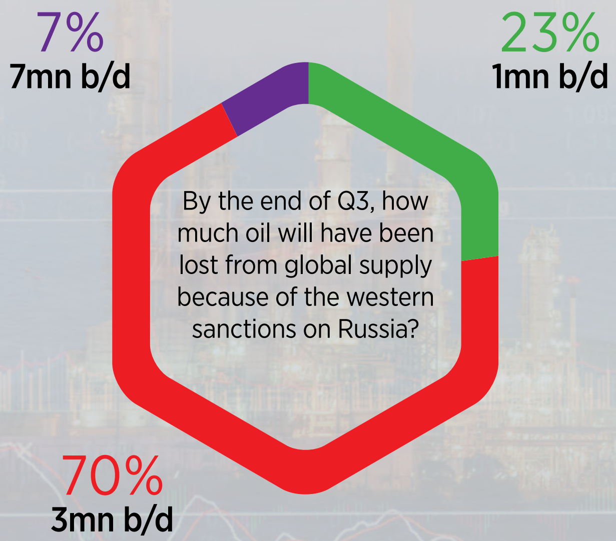
Weekly Surveys











Source: GI Research March 2022

Consultancy Intelligence Publishing

Energy Markets Views You can Use

Jamie Ingram
Senior Editor
Middle East Economic Survey

Middle East refiners can help alleviate the tightness in middle distillates.
Diesel and jet fuel prices are currently insane. Europe has been closing down refineries while this region has been expanding, upgrading, and installing new ones. Middle Eastern middle distillates exports could hit record highs in the coming months, topping two million bd. Saudi Arabia's Jazan refinery, brought on a year or so ago, is currently running at about 200,000 bd and should be ramped up to full capacity by the end of the year. Kuwait's Al-Zor refinery is due to come online by the end of the year. And next year, Oman's Duqm refinery should also help replace some of those Russian products that flow into Europe.

Will we see significant supply disruption of Russian supplies in coming weeks?
The amount of Russian crude hitting global markets hasn't really been reduced so much. It's been displaced. We're seeing huge volumes go to India. But in the coming weeks, we will start to see the Russian government playing hardball with its buyers when it comes to payment in Rubles, so we're going to hit a bit of a defining point soon.

Is Europe's position on sanctions robust and unified?
There's sufficient resolve among the leading partners that if we take the pressure off Russia, then that escape valve would simply cause threats of spilling over into other countries in the years to come, so I see the resilience holding certainly over the next year or two. Anyone thinking a ceasefire might result in a resumption of flows of Russian crude or gas products into Europe, is somewhat of an optimist. The structural change in Europe's energy security is not going to leave us.

Outlook for oil prices?
The oil price is being pulled apart by two diametrically opposed forces. China and its Covid challenges are affecting prices in one direction and then numbers come out on self-sanctioning Russian oil production which makes prices suddenly bounce back the other way. So, we're locked in this dance of $100-$120 on Brent.

Ahmed Mehdi
Research Associate
Oxford Institute for Energy Studies

Will an EU oil embargo on Russian oil consolidate into policy anytime soon?
There's growing political momentum for sanctions but it will be easier for these to take root on crude than on products and that's being reflected in the policy framework that they're putting forward with regards to timelines. But regardless of how EU sanctions talks go this week, we already have the financial sanctions from mid-May and we have to be cognizant of what the Russian marketing has looked like in April. We saw a lot of re-direction of flows, we saw Rosneft come out with more direct tenders, and that's really signaling the buildup of pressure because there was a little bit of a wind down from trading houses taking part in marketing term barrels. That withdrawal of the trading houses will have a big impact. The other issue is related to the insurance complicating the Russian supply chain and increasing costs. Average ton mile demand will go up and a lot of that will be either reflected in even higher differentials discounts or a rethink of how the marketing of those barrels will take place. So, pressure will certainly build up in May.

Outlook for further fuel oil and diesel tightness?
The European refining system is really stretched, and operational costs have gone up significantly since the beginning of the year. We have high gas prices, high hydrogen prices, high electricity prices and if you're going to get alternative grades for example, you may even get higher desulfurization costs. All refiners globally are in a different position today than they were a year or two ago where they had more flexibility to adjust. In this tight environment, any shift of yields becomes the rebalancing tool, and shifts the burden elsewhere, either onto the gasoline side or the jet side as travel and the driving season come back. There's no spare capacity in the refining sector except in China and the Middle East. As for the situation in fuel oil, that's a perfect storm. Ever since the US embargo on Russian fossil fuels, Russian refineries have had to cut their runs because the US market, which has the large coking capacity to take in that product, has closed. That effectively has meant that the US is now competing with Asia for those Middle East fuel oil cargoes. All in all, the situation across products is making supply chains very inefficient and so all costs are going up.

What redirection could we see of Middle East product?
We're seeing Saudi sending more diesel to Europe, particularly Poland. We're seeing players like Total which have equity cargoes in the UAE, redirecting some of those flows to Europe to their refineries. Iraq is looking at sending more Basra Medium, which is a good substitute for Urals, to Europe. If EU sanctions on Russian oil do go ahead, whether Middle East producers think of signing up more term contracts with Europe at the expense of Asia later this year is a genuine question within some of the NOCs. For years, they were just looking at the east of Suez market - now they may consider others.

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Energy Markets Views You can Use

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

Is the US economy facing a potential dramatic slowdown?

We're getting into territory where the Fed has pivoted and we're going to continue to have steep rate rises. The question is whether they can engineer a soft landing, or do they have to go through a recession to bring inflation down? If energy prices stop rising or decline, it will feed into inflation in a positive way and might remove some of the need to raise interest rates, which you would have seen if all the underlying inflationary forces came only from the labor and goods market. But it's clear that inflation has not retreated - not in Europe, not in the UK, not in the US - and that therefore there's a huge gap to be bridged by central banks by way of interest increases if they want to fight it. It's also clear that we have record indebtedness in the global economy - in the private sector, in the public sector and in the financial sector - and these rate increases would be poison for that, so the recession risk has also increased.

We still aren't seeing a big disruption of Russian oil supplies?

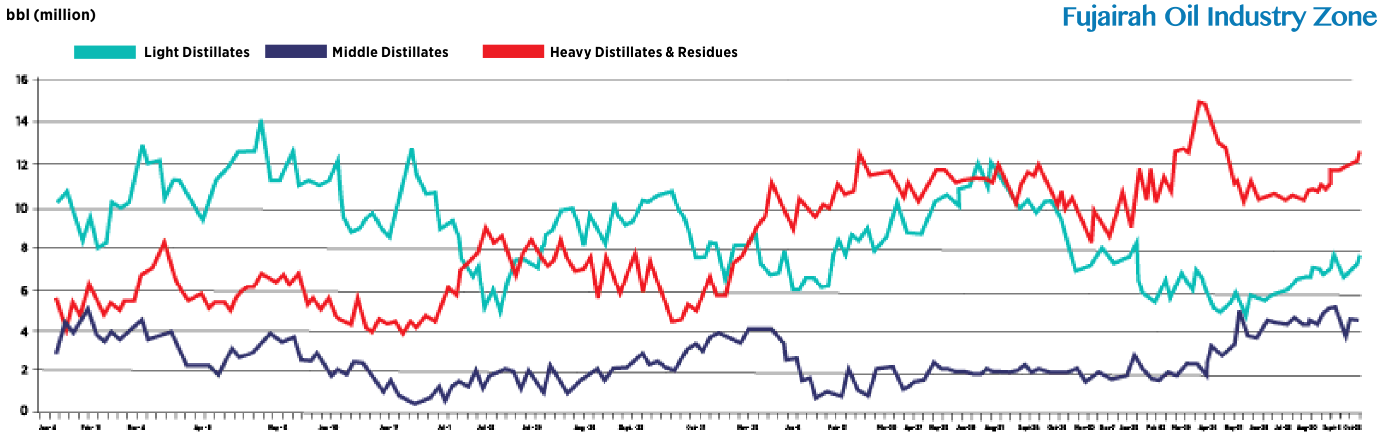
Only the US and Canada have formally sanctioned and imposed a moratorium against importing Russian energy. Everything else is either a real consequence of financial sector sanctions, or non-binding talk of oil sanctions. These sanctions are completely voluntary and decentralized. The question is whether this unilateral decision-making country by country will continue or whether we will see the introduction of a centralized mechanism with secondary sanctions and enforcement, which is what the US seems to favor. In terms of economic warfare, one could say that this is a duel between the G7 countries representing more than 30% of global GDP, and Russia representing more than 11% of global energy production, and if you look at these energy sanctions, the economic risk could end up being more for the sanctioning countries.

How concerned should we be about demand destruction?

The economic outlook is very concerning. One game changer could be the severity of the Covid induced slowdown in China, along with all the problems in its housing and financial sector. I still expect the government to go for a very large fiscal monetary stimulus before the Communist Party Congress in October or November. That could provide an impetus for the resumption of demand, but the consensus is that China is unlikely to return to pre-pandemic growth rates.

Fujairah Weekly Oil Inventory Data

منطقة الفجيرة للصناعة البترولية
Fujairah Oil Industry Zone



TOP TAKEAWAYS

- Total oil product stocks in Fujairah were reported at 18.316 million barrels. Total stocks rose by 1.43 million barrels with overall stocks up 8.5% week-on-week. There were builds in light distillates and middle distillate stocks while heavy residues posted a draw.
- Stocks of light distillates, including gasoline and naphtha, rose by 1.268 million barrels or 31.2% on the week to 5.326 million barrels, with stocks breaching the 5 million barrel level for the first time since the end of March. The East of Suez gasoline market continued to see support with demand in the Middle East firm due to increased travel during the post-Ramadan period, market sources said. In a tender that closes May 12 with validity till May 17, Egypt's EGPC sought five 30,000-33,000 mt 95 RON gasoline cargoes for delivery over June 7-26 to the Alex port and two 33,000-35,000 mt 95 RON gasoline cargoes for delivery over June 13-25 to the Suez port.
- Stocks of middle distillates, including diesel and jet fuel, rose by 363,000 barrels or 23.3% on the week to 1.923 million barrels. The gasoil market was seen easing in the Middle East with cash differentials for 10 ppm sulfur cargoes on a FOB basis in the Arab Gulf coming under pressure from strong freight rates, sources said. "Freight is a nightmare, on all vessel sizes, MR, LR1, LR2 are all expensive," said a Singapore-based gasoil trader. "Mostly been MRs trading, very few LR2s that I have heard of," he added. In recent spot market activity, Pakistan State Oil, or PSO, was heard to have bought two 55,000 mt cargoes of 10 ppm sulfur gasoil from a trader at a premium of around $12/b to MOPAG, CFR, according to market sources. The cargoes are slated for delivery over June 1-15, they said.
- Stocks of heavy residues fell by 201,000 barrels on the week to 11.067 million barrels falling by 1.8% as stocks held above 11 million barrels for the fifth consecutive week. In Fujairah the market for delivered bunker fuel was slower than average amidst a fall in flat prices leaving some buyers on the sidelines. Marine Fuel maximum sulfur 0.5% delivered bunker fuel was assessed on May 10 in Fujairah at $845/mt, reflecting a fall of $35/mt day on day. The premium of Fujairah-delivered marine fuel maximum sulfur 0.5% against the same grade in Singapore was $10/mt with Singapore delivered bunkers assessed at $835/mt on the day.

Source: S&P Global Platts

BY MATT STANLEY
DIRECTOR
STAR FUELS

Brent is trading this morning at $106.25 down $1.26 and WTI is trading down $1.46 at $104.25. I can't quite think of the words to describe not just oil markets, but all markets in general right now. It is that kind of market where you wake up and dread reading the news just in case something else happened that will mean you're in for a day of putting your hands over your eyes and screaming "OH FOR ...." Yep, you get it. How was yesterday I hear you ask? Well, let me give you the range – a low of $101.30 and a high of $108.29. Just the $7.99 swing then. Volatility like this is just kind of accepted at the moment but I'll say this - it is killing markets in general; swings like this will eventually be the downfall of the markets themselves. People simply cannot afford the margin calls that people are asking for and the crunch is being felt in oil markets. It's not just oil markets – let's look at Crypto for a second – Ethereum is down 22.8% today. TODAY. Down 38% in a week. If we just look at this as an asset class then I think it pretty much sums up sentiment in all markets right now, except for oil of course, because Russia have invaded Ukraine and those EU sanctions on banning Russian oil imports are edging ever closer. Imagine - $100 oil in a world going through a recession.

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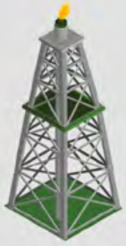
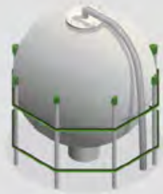
EXPLORATION
& PRODUCTION



PROCESSING
& EXPORTING



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Energy Markets Views You can Use

Mike Muller
Head
Vitol Asia

The market has gone back to $110 pretty decisively.
One reason is that the EU consensus around shedding the need for Russian oil has been more decisive than many expected. Secondly, despite the restrictions on mobility, the Covid situation in China has not snowballed into something really dramatic, so the demand loss projections there have not worsened. Meanwhile, the reality on the ground is that there is increasing backing in of supplies from Russia, because we're now virtually on top of that date where the international banking system cannot make payments to Russian entities work.

Energy demand outlook for China?
There's clearly been a hit on oil consumption in the transportation sector. The Chinese tourist is virtually absent. The Chinese domestic aviation sector had recovered but that's now virtually wiped out. Flights out of Hong Kong are down 88% on pre-Covid numbers. But China seems to have managed to stem the spread of the virus and has reinforced its commitment to its zero Covid policy. The economy has been kept running in certain parts, with companies providing the food and bedding required for people to be able to stay at work to literally keep making manufactured goods and running the financial sector.

Scale of Russian oil supply disruption so far?
Before the Ukraine invasion, Russia was producing at or above its quota of 10.6 million bd and putting 5.7 million bd into its refining system. Market consensus would seem to be that both those numbers are down about a million barrels a day, which is a relative drop in the ocean compared to the intended impact of sanctions on Russia. Also, most countries in Asia – notably China and India – and Africa and Latin America, have no formal sanctions against Russia.

Will the 2H growth outlook put downward pressure on demand and prices?
Outside of China, the consumer wishes to spend and resume normal life. US Henry Hub gas is trading at about $8 per MMBtu – that's something. And nationwide average gasoline prices in the US are hitting $4.30 a gallon, close to record levels. Diesel is above that. The reality is that there are very tight fundamentals in middle distillates and there's very little space in the supply system for delays arising from cargoes running late, which happens when we have backwardation and inventories 35 million barrels below normal levels.

Relevance of OPEC Plus for the remainder of this year?
Most of OPEC Plus production is maxed out. They will continue as is until the end of their agreement in September but in reality, it's only those two or three countries that can still produce extra oil. Unless we see massive demand destruction because of recession or high prices, the spare supply cushion from OPEC will get to a point which will be alarming, and coupled with lower SPRs, is why we will have an upward bias in prices.

Peter McGuire
Chief Executive Officer
XM Australia

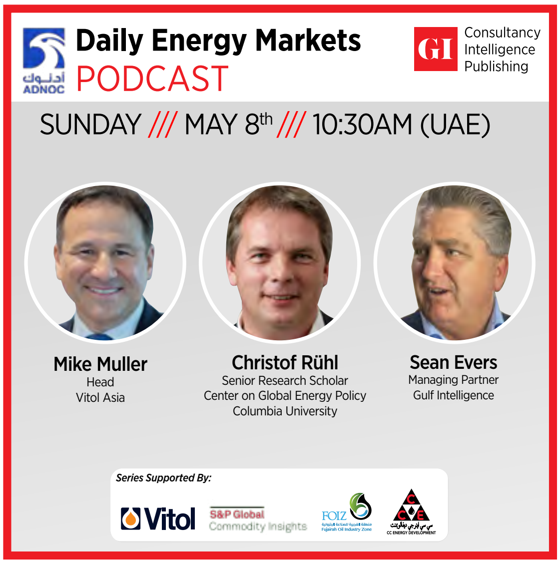
Can commodity prices hold at these levels with the fragile macroeconomic outlook?
We could see recessions kickoff in numerous economies across the globe in Q3 and that will only gallop ahead come Q4 and Q1 of 2023. Inflation is also going to be managed. I think commodities will come back and I think they'll be violent in their descent. We're setting ourselves up for a big short. USD will continue to climb and commodities will get hammered. There's going to be some very dynamic times ahead certainly over the next six to nine months with commodity prices.

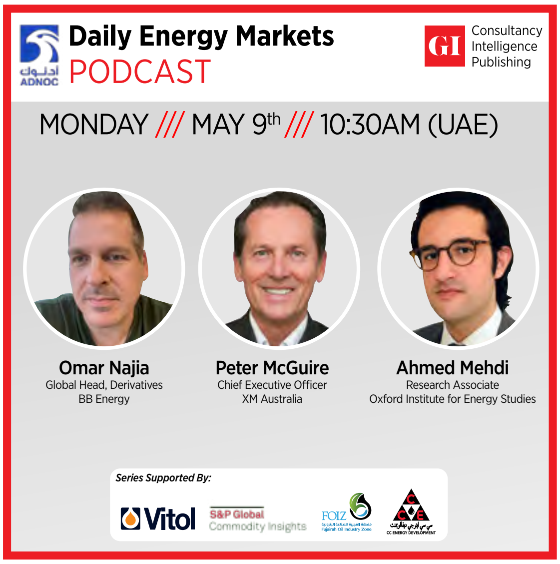
How badly impacted are emerging Asian markets from a strengthening USD?
It's going to be difficult and will only increase over the next matter of months. The USD is back at 20-year highs and it's going to be a very difficult time for a lot of those Asian domestic economies to grow. That return to 'king dollar' is attracting all the traders and the momentum is aggressive. I think we're heading back to stagflationary times and that could be a global situation.

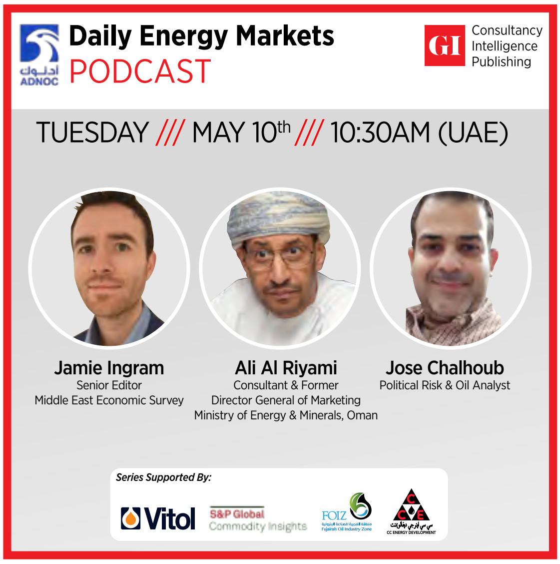
Ramifications of China's economic challenges on the rest of Asia?
The uncertainty for GDP going forward because of China lockdowns is having an impact. The Aussie dollar has cratered, sitting at 70. The Hong Kong market is down 4.3%, Jakarta down 4%. There's plenty of mayhem, given the interconnectedness of markets and logistics and supply chains, but also plenty of time to make money as well. Are we going to see 75 basis points in the next two months or 50? The general theme is one of tightening and we're looking at a lot of structural issues as far as inflation and high energy and high food prices are concerned. All of these impacts are global and are being absorbed by the consumer.

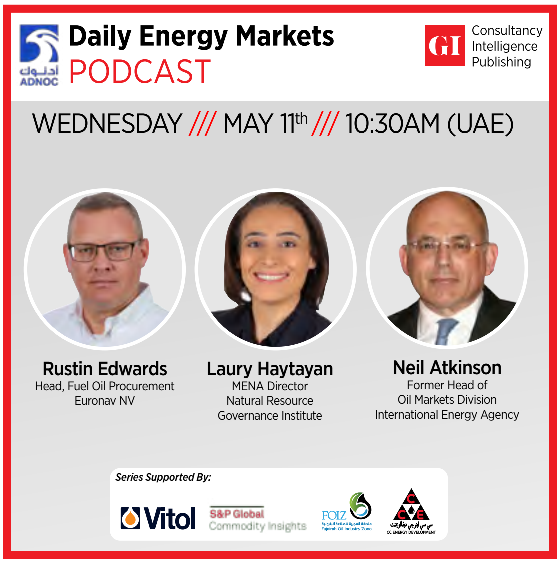
Energy Markets COMMENTARY

WEEK IN REVIEW









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Energy Markets Views You can Use

Rustin Edwards
Head, Fuel Oil Procurement
Euronav NV

Demand destruction is going to be massive.
I wouldn't be surprised if by Q4 we have a dramatically lower crude oil price akin to what happened in 2018. We are seeing unrest in a lot of developing nations because the price of energy, the price of commodities and soon the price of food, putting a lot of people into a distress situation. I don't see how we get out of this inflated asset bubble until we get a retracement down, recession hits, we revalue and then move forward. The EU will probably slowdown in Q3 and Q4 and then the US in Q4 and Q1 2023. It will be a domino effect and it's all predicated on the fact that we've had inflationary pressure since the beginning of 2021.

Is there a clear floor or ceiling to oil prices today?
The market is still in this tug of war and I don't think either side has won yet. But I see the recessionary and inflationary pressures and therefore demand destruction dominating over supply constraints. And it's not just in emerging markets. We have real concerns in the US on the current higher priced gasoline. Diesel demand destruction is also already hitting there and that's part of the reason why we haven't seen production increases in the shale patch. The diesel price is up 40% since December and that impacts drillers' profit margins, truckers, and the suppliers of goods into that industry.

What's pushing the high premium on products?
China made a conscious decision back in Q3 of 2021 to curtail crude imports and curtail refinery runs. China's exports, which were primarily distillates, are down 48% year on year. That's a huge amount of diesel that's not making it back into the market in Asia and that then ripples through to Europe. Couple that with Russian supply self-sanctioning, we now have a very tight product market. Diesel at $1200 per ton is going to hurt global industrial economic activity.

Russian oil supply still flowing overall?
Oil is going to move out of Russia and get exported into the market. I think we'll end up seeing a similar situation to what happens with Iranian crude. It gets washed through and becomes a different crude and makes its way into the commercial marketplace. Europe also has another problem – it has Russian oil companies that own significant refining capacity within the EU and the supply of crude into those refineries. You can't ringfence those and shut them down because you just further starve the finished products that those refineries supply to major industrial areas and end up with an even a worse recessionary impact than your oil embargo is going to have in the first place.

Can EU sanctions realistically be implemented?
EU sanctions are in a bit of a pickle. They've already started to water them down – one example is on shipping regulations for Russian cargoes - they need to have that market moving. The embargo is going to be harder to put together than people are anticipating -you have four countries that rely fully on Russian imports to maintain their energy balance

ENERGY MARKET NEWS

1. OIL SLIPS MORE THAN 1%, DOGGED BY RECESSION FEARS
2. US OIL DEMAND REMAINS WEAK BUT THERE ARE SIGNS OF STABILIZATION
3. INDIA'S FUEL SALES MODERATE IN APRIL, FALL 4%
4. EU HAS A MAJOR PROBLEM WITH SECURING NON-RUSSIAN GAS
5. HUNGARY SAYS ITS BACKING OF EU'S RUSSIA OIL BAN HINGES ON MILLIONS OF DOLLARS
6. SAUDI ARAMCO BECOMES WORLD'S MOST VALUABLE COMPANY AS APPLE SHARES DROP
7. ITALY'S PM SUGGESTS FORMING OIL BUYER CARTEL WITH US
8. RUSSIA SANCTIONS EUROPEAN GAZPROM UNITS IN RETALIATION
9. US INFLATION DATA SHOW STILL-TORRID PRICE PRESSURES
10. MORE OIL PRODUCTION WOULD HURT SHAREHOLDERS, OCCIDENTAL CEO SAYS

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- NORTH KOREA ORDERS NATIONAL LOCKDOWN REPORTS FIRST COVID-19 CASE
- NASDAQ DROPS 3%, DOW LOSES 300 POINTS FOLLOWING HOT INFLATION REPORT
- CHINESE DEVELOPER SUNAC MISSES BOND REPAYMENT, EXPECTS TO MISS MORE
- SHANGHAI MOVES TO IMPOSE TIGHTEST RESTRICTIONS YET
- NYC BILLIONAIRE CATSIMATIDIS WARNS OF LOOMING EAST COAST DIESEL RATIONING
- CHINA'S FACTORY INFLATION DEFIES GLOBAL SURGE, LEAVING ROOM FOR STIMULUS
- SRI LANKAN TROOPS ORDERED TO OPEN FIRE ON LOOTERS AND VANDALS AS PROTESTS CONTINUE

GI Soundings Week in Review

"Supply Concerns vs Demand Destruction Still Locked in Stalemate"

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

- **Omar Najia, Global Head, Derivatives, BB Energy**
- **Jose Chalhoub, Political Risk & Oil Analyst**
- **Edward Bell, Senior Director – Market Economics, Emirates NBD**
- **Neil Atkinson, Former Head of Oil Markets Division, International Energy Agency**
- **Paul Sheldon, Chief Geopolitical Advisor, Analytics, S&P Global Commodity Insights**
- **Danial Rahmat, Senior Energy Security Consultant**

Omar Najia, Global Head, Derivatives, BB Energy: "Since this Ukraine war, the world has changed. We've had massive moves on currencies, massive moves in terms of geopolitics. In terms of commodities, we see an absolute massive boom and the same for energy. The era of 'cheap' oil and gas is done. Green energy and all the investment that's gone into that is done. The oil market is strategically a long term buy. Commodities and oil need to push higher."

Jose Chalhoub, Political Risk & Oil Analyst: "PDVSA is still facing many challenges to lift its oil production, stuck in a range of 600,000 -700,000 bd in recent months. Our refineries are also facing challenges to provide stable gasoline production for domestic consumption. That's why we signed a condensate for oil swap deal with Iran last year."

Edward Bell, Senior Director – Market Economics, Emirates NBD: "Factory price inflation in China in April rose by 8% y/y, slightly slower than March numbers but faster than the market had been expecting. China's near term economic activity remains hampered by the country's Covid-zero policies that are limiting mobility and movement of goods across the country. CPI inflation rose to 2.1%, up from 1.5% a month earlier and again faster than what the market had been looking for." *(Source: Emirates NBD Research)*

Neil Atkinson, Former Head of Oil Markets Division, International Energy Agency: "If Russia is to be ex-communicated from the European market, the US market and other parts of the world for a significant period of time, then we have to do a lot of fresh thinking about new energy security arrangements and tackle this issue of investment in and the upstream oil and gas sector."

Paul Sheldon, Chief Geopolitical Advisor, Analytics, S&P Global Commodity Insights: "By July, just 1.6 million bd of OPEC+ spare capacity will remain, raising the importance of growing supply risks. Most notably, we forecast Russian crude output to fall another 1.9 million b/d in May-August, but our assumed Iran nuclear deal in June appears increasingly tenuous by the day. Talks are stuck over Iran's demand for the US to remove the Iran Revolutionary Guard Corps' terror designation, raising the odds that 1 million bd of assumed Iranian export growth by December could be removed from our forecast."

Danial Rahmat, Senior Energy Security Consultant: "Iranian crude exports to China declined by 34% in April, according to data from Kpler. That means that Iran lost 34% of its market share in China to Russian discounted crude, and it's clear to everybody that this is going to be the beginning of a trend and so Iran might struggle to keep a very limited market share in China."

Daily Energy Markets

TOP TAKEAWAYS
MARKET OBSERVATIONS FOR THE WEEK
May 8th - 12th

1. China's success in keeping Covid at bay is just delaying the inevitable at great cost to the Chinese economy and weakening the world's ability to get supply-chain inflation under control.
2. Russia's oil exports are slowly but surely descending into the murky waters of non-mainstream channels to market, with uncertain insurance and maverick shippers – bon voyage!
3. The big unknown question for the direction of oil markets is on the mettle of the FED Chairman on tackling inflation – is he willing to kill and reverse growth to tame inflation?
4. Asian economic growth will be increasingly difficult given the exposure to the perfect storm of strong dollar, raising rates and China slowdown.
5. The FED's move on rates remains way behind the curve to have any real impact on tackling 40-year high Inflation.
6. Iran nuclear deal may appear in the deep freeze, but none of the parties can afford a no deal outcome.
7. Hungary should not have any real difficulties finding alternative crude oil supplies to Russia, especially through the Croatia pipeline network.
8. EU sanctions will have a material impact on Russia's oil, gas and coal exports and the challenge will then be limited immediate extra capacity from OPEC or US shale.
9. Once China lockdown is over, demand likely to come roaring back along with price resistant demand elsewhere, exacerbating supply uncertainty in the market.
10. Double edged sword of Russia sanctioning and China curtailing refinery runs has kept product market very tight, with $1200 per ton diesel hurting global industrial economic activity.

10th Anniversary ITINERARY

ENERGY MARKETS FORUM

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

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

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