Daily Energy Markets BULLETIN

MONDAY /// FEB 7th

Consultancy Intelligence Publishing

TOP 10 DAILY NEWS DIGEST

1. SAUDI INCREASES OIL PRICES FOR ASIA, US AND EU CUSTOMERS
2. OIL COMPLEX EYES POTENTIAL CONCLUSION OF US-IRAN NUCLEAR TALKS
3. INDIA TO DOUBLE DOWN ON OIL, GAS EXPLORATION
4. MENA REGION SET TO OUTPACE GLOBAL ECONOMIC GROWTH IN 2022
5. JANUARY JOBS GAIN, JUMP IN YIELDS
6. TOP BIDEN AIDE SAYS UKRAINE INVASION COULD COME 'ANY DAY'
7. GERMAN LEADER'S STANCE ON RUSSIA LOOMS OVER 1ST VISIT TO US
8. GREEK FARMERS STAGE TRACTOR PROTEST AGAINST SOARING ENERGY COSTS
9. ASIA SHARES SLIP AS US JOBS STUNNER HAMMERS BONDS
10. ECB'S KNOT SEES FIRST INTEREST RATE HIKE IN FOURTH QUARTER OF 2022

RECOMMENDED REPORTS

- CHINA NOT TO ADJUST DYNAMIC ZERO-COVID POLICY FOR THE TIME BEING
- GERMANY'S FORMER CHANCELLOR GERHARD SCHRÖDER TO JOIN GAZPROM BOARD
- OTTAWA DECLARES EMERGENCY OVER TRUCKER COVID RULES PROTESTS
- UKRAINE CRISIS: THE TROUBLE FOR CHINA IN STAYING FRIENDS WITH 2 FOES
- CHINA'S DOWNBEAT STOCKS NEED A TONIC FROM CREDIT GROWTH, US FUND SAYS
- POWER RESTORED IN TEXAS CITY AFTER OUTAGE CAUSES FLARING

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Daily Energy Markets PODCAST

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Omar Najia
Global Head, Derivatives
BB Energy

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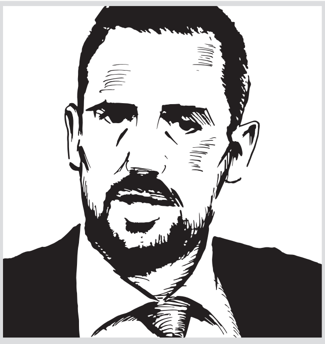
David Rundell
Former Chief of Mission, American Embassy in Riyadh & Author, "Vision or Mirage, Saudi Arabia at the Crossroads"



BY MATT STANLEY
DIRECTOR
STAR FUELS

Hellllooooo Monday. Brent is trading this morning up 0.18 at $93.45/bl and March WTI is trading down 0.32 at $92.00/bl. "The world of reality has its limits; the world of imagination is boundless". Do you know who said that? Me neither. Some famous French bloke I think, wearing one of those white wigs. Anyway, it struck me as apt because I thought yes, this is what 2022 has shown us so far. A division of worlds. One of reality and one of hope. For the oil markets at least. If you're a Kidderminster Harriers fan then you certainly went through both of those worlds on Saturday, eeshh. But then I got thinking, and yes I do that, sometimes. Sitting round a table last night during a very pleasant dinner, talking about hydro power generation in Latin America. As you do. My dinners are always fun. Hydropower is the main source for electricity generation in Latin America, accounting for 45% of the total electricity supply in the region. Now, owing to La Nina last year's weather was a lot dryer than usual. Brazil's hydroelectric reservoirs fell to 17% last year, the worst drought in 91 years. OK so less hydro power generation. What's the alternative? Ah ha, fear not because plan b will kick in to action sir! Gas. Yes gas, that is what will replace what Nina has taken away. Ermm. No, it won't. Not when it's about a trillion dollars a ton it won't (check me on pricing there). OK so no hydro and gas is far too expensive to use as an alternative power generation feedstock. What else? Ah ha! Fear not Mr Mainwaring! Diesel. Yep, a few ships of your finest middle distillate please. And this is where we are. It is impossible to boil all this back down to one single contributing factor as to why gasoil, and hence Brent, are on a runaway train to $100/bl. Do we blame the weather? I mean it's a factor, but I certainly wouldn't blame it lest you receive a very strongly worded telegram via pigeon from Greta. Do we blame the lack of planning on gas stocks in the EU? Again, The Hague awaits with a very professionally worded cease and desist for you. Do we blame OPEC+? Let's not do that, at all. Do we blame a lack of investment in fossil fuels and just general poor governance here? Hmm. No comment. But all these are issues the oil market is faced with. People still need oil to live their daily lives and right now, things are tight. Throw in a geopolitical issue? Yep, that'll do it. $100/bl oil is no longer a discussion, it is inevitable. It is how the end user is managed with ever rising costs that is going to be the key answer to all of this. Good day, and week to all.

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Daily Energy Markets LIVE VIDEO PODCAST

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TUESDAY /// FEB 8th /// 10:30AM (UAE)

US

Mike McGlone
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AUSTRALIA

Peter McGuire
Chief Executive Officer
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KSA

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Senior Business Editor &
Head of Business Section
Arab News

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Daily Energy Markets INDUSTRY SURVEY

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58% Yes

42% No

Source: GI Research Feb 6, 2022

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Daily Energy Markets
VIEWS YOU CAN USE

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Mike Muller
Head
Vitol Asia

Does the market keep moving upwards from here?
It's not an unrestrained rally but yes, markets have very high implied volatility at these levels, and we've moved from a market that at the end of 2021 seemed to be in risk off mode, to now greater interest in the energy complex. My view is that fundamentals are a very resolute positive. The market is saying don't be short because we are one disruption, one refinery wobble away from markets getting even stronger. Jet fuel is trading at or above gasoil, there's backwardation in crude and distillates - these are all a manifestation of tightness at the front where there's a perceived scarcity of supply. Refining margins are telling us that they should be running flat out because product cracks are at levels we haven't seen for many months, and that should be pulling very hard on crude markets. Meanwhile, inventories continue to sit at levels that are worrisome.

Where are we with spare capacity?
The pace and rate of investment in the US is not quite what it was before. We are still nowhere near the peaks of pre-pandemic US production capacity. The spare capacity in OPEC Plus is down to two or three members, and month after month, the 400,000 barrels a day that's being put on the market is in effect, a much smaller number. That leads us to a point in time where we can debate whether the second half of this year or sometime next year, OPEC spare capacity reaches levels that are considered alarming.

Will 2022 be a year of two halves in terms supply easing?
I don't subscribe to the view where the market is weak in 2H, except that everybody is building into their balances that Iranian crude will return. It's really a question of when. Administratively, even if there were to be an agreement to drop sanctions, we won't see Iranian crude in Q2. But the fact is that it is in people's balances already. Without exception - every investment bank, advisory consultant, and oil major - has a view that Iranian oil will back later this year and that tells you that the world needs that oil.

What is China's crude import appetite at these prices?
It's fair to say that China is at bare minimum operating level in terms of the prescribed levels of mandatory stockholding that the state-owned enterprises (SOEs) are meant to hold. All eyes are now on what happens after Chinese New Year, because there is a feeling that some restocking will be required. Up until the very last day before the New Year, the Chinese SOEs seemed interested in buying crude at these prices. And I don't think China is as price sensitive as South Asian nations are. When LNG prices went to unprecedented levels in December, South Asia went on a buying strike but not China. It also has the ability, by policy, to force the coal sector to ramp up dramatically. And unlike in 2020 and 2021, there's relative freedom to travel around China today and we have extra refineries coming on stream, so China has to and will, run more crude and build inventory. ■

**Paraphrased comments*

Daily Energy Markets
Mashreq 60-SECOND SOUNDBITE

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David Rundell
Former Chief of Mission, American Embassy in Riyadh & Author, "Vision or Mirage, Saudi Arabia at the Crossroads"

"Ukraine crisis is an own goal for US and Western alliance"

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Laury Haytayan
MENA Director
Natural Resource Governance Institute

"How vulnerable is Libyan oil production in political stalemate?"

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