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ECB Takes Action: Interest Rates Up, Inflation Climbs, Growth Adjusted

In spite of the recent slowdown in inflation, the ECB has increased its projections for both headline and core inflation for the current and upcoming years. The latest forecasts indicate that the ECB now expects headline inflation to reach 5.4% this year, then drop to 3% in 2024, and 2.2% in 2025.

Economy

- The Eurozone economy has experienced a contraction for two consecutive quarters, resulting in a mild technical recession. This downturn contradicts the previously optimistic outlook, as the eurozone had outperformed expectations amidst energy and cost of living challenges. Eurostat's revised estimates, contrary to earlier indications of growth or stagnation, revealed a contraction of 0.1% in both the fourth quarter of 2022 and the first quarter of 2023.
- The European Central Bank is exploring the option of equalising the "corridor" between its three interest rates, as part of its transition away from a cheap money policy. The change would form part of the ECB's shift from a period of abundant liquidity to one where banks are no longer overflowing with cash and must instead borrow from the central bank. Extensive discussions on this proposal were held during a recent policy meeting. However, the implementation of the policy has been postponed, to avoid any confusion in the ECB's communication regarding its policy stance.
- The ECB has raised key rates by 25 basis points which will result in increased interest rates for main refinancing operations, marginal lending facilities, and deposit facilities. Revised projections show ECB staff now expect headline inflation to average 5.4% in 2023, 3.0% in 2024, and 2.2% in 2025. Economic growth projections for the current and following years have been revised slightly downward.
- According to the latest data available, the HCOB PMI for Germany experienced a decline from 44.5 in April 2023 to 43.2 in May 2023. Similarly, HBOC Italy Manufacturing fell short of market expectations in May 2023, dropping to 45.9 from 46.8 in April 2023. On the other hand, the S&P Global France Manufacturing PMI witnessed a slight increase in May, rising to 45.7 from 45.6 in April.

Oil and Tankers

- Refiners in the Asia-Pacific region are bracing for tighter crude supplies in the coming month as Saudi Arabia plans to further reduce its output. In the recent OPEC+ meeting, Saudi Arabia announced an additional 1 million b/d cut to its crude production in July, on top of the 500,000 b/d reduction previously committed in April. Surprisingly, Saudi Aramco raised the official formula prices for all its July-loading crude exports to the Asia-Pacific region by \$0.45/bbl, despite expectations of price decreases due to lower demand. This unexpected price increase may be a strategic move by Aramco to discourage term buyers from requesting maximum loadings in their contracts and fulfil

its cut obligations. Refiners in the Asia-Pacific region, especially in China, are reconsidering their nominations for July-loading Saudi crude and are likely to request lower volumes due to the price hikes. Chinese refiners had already sought reduced volumes of June-loading crude from Saudi Arabia in May.

- Brazil's imports of diesel from Russia increased significantly in May, exceeding 50% of its total imports. This change in trade patterns can be attributed to the Ukraine invasion. Prior to this, Brazil, along with Turkey, Saudi Arabia, and the United Arab Emirates, had minimal imports of Russian diesel earlier in the year. Most of the tankers delivering diesel to Brazil are MR tankers that are about 15 years old. Typically, MR tankers would not engage in these economically unfavourable voyages and would instead load in the US Gulf after delivering in Latin America. The current situation highlights the inefficiencies in the tanker market, benefiting owners who continue to trade with Russia. This surge in Russian exports to Latin America has led to a diversion of US diesel to other markets, as the US Gulf traditionally met most of the region's diesel import demands. MR tanker time charter equivalent rates on the TC14 route from the US Gulf to Europe rose from \$1,602/day to around \$18,000/day in late May but have since dropped below \$10,000/day.

Tanker Freight Rates on Key Routes

Route No.	TC2_37	TC6	TC8	TC20	TC14	TD1	TD6	TD18	TD20	TD3C
Description	37 kt Cont to USAC	30 kt Clean Algeria to Euro Med	65 kt Clean MEG to UKC	90 kt MEG to UKC	38 kt USG to Cont	280 kt MEG to USG	135 kt BSea to Med	30 kt Baltic to UKC	130 kt WAF to Cont	270 kt Ras Tanura to China
Size mt	37000	30000	65000	90000	38000	280000	135000	30000	130000	270000
Route	Rdam to New York	Skikda to Lavera	Jubail to Rdam	Jubail to Rdam	USG to Cont	Ras Tanura to LOOP	Novo to Augusta	Baltic to UKC	Offshore Bonny to Rdam	Ras Tanura to Ningbo
	WS	WS	WS	\$	WS	WS	WS	WS	WS	WS
05/06/2023	194.44	135.00	42.44	3700000	121.67	32.00	118.11	241.67	92.75	45.77
06/06/2023	184.44	135.00	41.73	3642857	126.25	31.94	115.50	239.58	88.25	45.77
07/06/2023	176.11	134.88	40.26	3271429	121.67	32.11	111.06	238.75	90.00	46.32
08/06/2023	177.78	134.88	39.62	3157143	117.50	32.78	110.28	233.75	90.50	48.36
09/06/2023	167.22	135.00	39.49	3128571	104.17	34.17	110.28	232.08	90.50	53.59

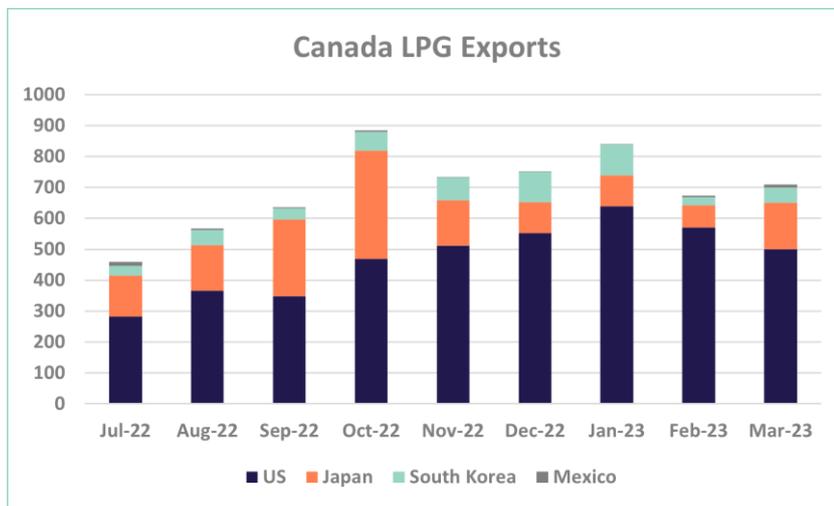
Source: Baltic Exchange

LPG

The following points were extracted from the latest edition of *RLA's Monthly VLGC report*.

- South Korean LPG imports, at 557,000 tonnes in April, fell by 19% year on year and by 28% versus March. The majority of the LPG imported into South Korea – 469,000 tonnes - came from the US. Australia supplied around 53,000 tonnes in April, up from 11,000 tonnes in March.
- Canadian LPG exports in March rose by 5% on the month to 709,000 tonnes, and within this, a significant proportion of 500,000 tonnes (71% of the total) went to the US and 150,000 tonnes (21% of the total) to Japan.

Canada LPG Export by Destination



- Japanese shipping firm Iino Line has started chartering the 91,000 cbm Oceanus Aurora VLGC for Austrian petrochemical company Borealis, which received the vessel on 14 May. The vessel will primarily deliver US-sourced LPG to Borealis' crackers in Europe and its 740,000 tonnes/year PDH plant in Kallo, Belgium, which is scheduled to begin operations in 2024. The VLGC will have a dual-fuel LPG engine as well as be equipped with two rotor sails from Finnish firm Norsepower to provide wind propulsion.

VLGC Spot Freight Rates

Route No.	BLPG1	BLPG2	BLPG3
Description	AG-East	USG-Cont	USG-Japan
Size mt	44000	44000	44000
			\$/tonne
06/06/2023	114	94	155
07/06/2023	112	93	154
08/06/2023	104	90	148
09/06/2023	104	88	145

Source: Baltic Exchange

LNG

- According to Deputy Prime Minister Alexander Novak, Russia has been in talks with Asia-Pacific countries regarding new long-term contracts for LNG supply as well as their potential investment in LNG projects. Due to the wider political fallout and Western sanctions that have been imposed on the country, Russia has been diversifying its trade away from Europe, which has been its traditional largest trading partner. Novak said in his column for the Energy Ministry's in-house magazine that cooperation over LNG projects has been developing with partners from the Asia-Pacific. Without providing a time frame, Novak reaffirmed that Russia would reduce its shipments of oil and oil products to the West from the previous 223 million tonnes to only 87 million tonnes this year.
- According to the official Iraqi news agency, plans have been approved to restart a war-delayed project to construct LNG depots in Iraq's largest governorate. The project to build the gas tanks in the Western Al-Anbar Governorate was launched in 2011, but it was stalled by internal hostilities for many years, the agency said. "We have obtained approval from the Oil Ministry to restart the project to build LNG tanks in the Governorate," it said, quoting Khalaf Tarmooz, an adviser to the Governor. The tanks, according to Tarmooz, would be used to store and deliver gas to factories and public establishments. They would have a storage capacity of 3,000 cbm. He did not specify how many tanks would be constructed, but he did state that in the event of an interruption or emergency, there would be enough reserve to last for one month.
- Asian LNG prices remained constant at a two-year low due to ample spot supplies and limited purchasing activity. The price of LNG for north-east Asia LNG-AS for deliveries in July was \$9/MMBtu, the lowest price since May 2021.

LNG Spot Freight Rates

Route No. Description	BLNG1g Aus-Japan	BLNG2g USG-Cont	BLNG3g USG-Japan \$/day
30/05/2023	36625	32712	36811
02/06/2023	40351	40236	48531
06/06/2023	42564	41646	55384
09/06/2023	49464	48945	62112

Source: Baltic Exchange

Chemicals

- The ICIS Petrochemical Index (IPEX) experienced a 5.9% decrease in May due to softer chemical values worldwide, particularly in northeast Asia and the US Gulf. Northeast Asia witnessed the most significant decline, with prices dropping by 7.9% compared to April, driven by lower values of butadiene, paraxylene, benzene, and styrene. The US Gulf index also fell by 3.1%, led by propylene, polypropylene, and toluene. Paraxylene and polyethylene contract prices have yet to settle in the region due to upstream volatility. In northwest Europe, the index went down by 0.8%, with toluene, paraxylene, and polyethylene contributing to the decline. The downward trend in petrochemical markets in May was primarily influenced by a sharp decrease in crude oil prices and concerns about a possible recession. The global IPEX for May recorded a year-on-year decline of 26.7%.
- Petrobras and Unigel, a Brazilian petrochemical producer, have entered into a two-year agreement to explore joint businesses in fertilisers, green hydrogen, and low-carbon projects. The companies will conduct technical analyses to estimate costs and returns before considering any projects for internal approval.
- ExxonMobil announced that it plans to make a final investment decision (FID) in 2024 regarding a chemical recycling plant and two other projects. The ExxonMobil Baton Rouge division in Louisiana is considering a chemical recycling plant, an ultra-pure isopropyl alcohol (IPA) unit, and a polyolefin thermoset resin plant based on technology acquired from Materia in 2021. The company is currently assessing the scope and economics of each opportunity and competing for global investment. ExxonMobil already operates a commercial-scale chemical recycling plant in Baytown, Texas, using its Extend process technology.
- The global chemical industry is set to make substantial sustainability-related investments, with a projected range of \$60 billion to \$90 billion by 2027, according to a study by Accenture. The investments will focus on areas such as naphtha alternatives (including chemically recycled, bio-based, and mass-balanced options), mechanically and chemically recycled polymers, and bio-based intermediates and polymers. Accenture predicts that sustainability-related sales will account for approximately 30% of the industry's future growth, representing around \$200 billion of the projected \$700 billion in sales growth. However, the successful realisation of these investments will depend on chemical companies obtaining the necessary permits for construction.