



RLA Weekly Report – Monday, 12 December 2022

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Oil prices slide again as recessionary concerns outweigh supply uncertainties.

Economy

- In the USA concerns there are rising concerns that higher inflation is becoming imbedded. While energy and food prices are falling, at least for now, wage settlements are increasing due to labour shortages, an inflationary driver which is likely to endure. A recent Business Roundtable in the US concluded that, preparing for a mild recession next year, overall the US economy would grow by 1.2%.
- In a further sign of the Chinese government lifting restrictions imposed as the result of its zero-COVID policy, Beijing has now removed them from transport workers in order to speed up the flow of freight in the country and boost the economy,
- Despite UK GDP increasing by 0.5% in October, almost reversing September's decline, in the three months to October the economy shrank by 0.3% versus the previous three months.

Oil Prices

- At the time of writing this morning the price of Brent crude oil had fallen below \$76/bbl. Last week crude oil prices suffered their biggest weekly loss since April. Notwithstanding ongoing concerns over the global economy and China's ability to handle COVID unless effective vaccines are available, the most recent softening in the market has been put down to the re-opening of the Keystone pipeline following a spill. So far, the market does not seem to have reacted to the growing queue of tankers waiting to transit the Turkish Straits which as of two days ago had reached 28 (see below).

Oil Supply and Trade

- In November, OPEC+ crude oil production decreased as cuts by Saudi Arabia and other Mideast Gulf members of OPEC more than offset an increase in supply from Russia and Kazakhstan. The 19 OPEC+ members subject to quotas had a 310,000 b/d decline in production, bringing it to 38.29 million b/d. The reduction was far short of the headline figure of 2mn b/d of cuts to quotas that OPEC+ agreed in early October owing to concerns about Chinese oil demand and worries of a global recession. The group's non-OPEC members increased their total output by 460,000 b/d, reaching an eight-month high.
- The EU has become a major destination during the first 11 months of 2022, despite the fact that China and India are the biggest destinations for crude oil sea loadings from Iraq. Iraq delivered 47.2 million tonnes to India, an increase of 3.1% year on year from 45.8 million tonnes in January to November 2021. Also, Iraq has supplied 46.1 million tonnes to mainland China so far this year, up 7.1% year on year from 43.1 million tonnes during the same time in 2021. With 21.4 million tonnes, or 13.9% of all exports from Iraq in the period from January to November 2022, the EU comes in third place. Shipments from Iraq to the EU surged by 67.8% year on year from 12.7 million tonnes in January-November 2021.

- Exxon Mobil Corp. and Chevron Corp., the two biggest U.S. oil firms, announced plans to expand spending on energy projects in 2023 due to the high price and demand of oil. Exxon announced that it will raise project investments from the expected \$22 billion this year to between \$23 and \$25 billion next year. Chevron reported that it will spend \$17 billion, an increase from around \$15 billion this year. Increases include new monies for emissions reduction projects and the impact of inflation. The increased spending will not result in extra output immediately. Exxon has predicted that production will remain steady at roughly 3.7 million barrels of equivalent oil per day (boe/d) next year, while Chevron forecasts it to rise by more than 3% compound average annual increase through 2026.

Tankers

- As of two days ago, the number of tankers in the queue to transit the Turkish Straits had reached 28. These are thought to comprise largely Suezmax tankers loading Kazakhstan and Russian crude oil at Novorossiysk. All ships transiting or entering Turkish waters as of this month must provide letters of confirmation from a P&I club stating that cover will remain in place "under any circumstances," according to a notice issued by the Turkish authorities. It is reported that the International Group of P&I Clubs will not provide such letters. Meanwhile, ironically. It seems that vessels carrying Russian oil could transit the Straits as they would have P&I cover provided by Russian insurer Ingosstrakh.
- In the latest news, it has been reported today that four tankers have been permitted to transit. Apparently one member of the International Group has found a form of wording which is acceptable and also a Turkish flag vessel has been permitted through.
- In the Special Topic contained in our latest Quarterly Tanker Report we discussed the availability of newbuilding shipyard capacity amid concerns that space was rapidly running out. After an analysis of major yards in China, Japan and S Korea we concluded that, yes, availability was tight but improvements in productivity could ease the situation.
- Last week it was reported that TMS Tankers had signed a letter of intent for the construction of four Suezmax tankers at the New Times Shipbuilding yard at Jiangsu for delivery end 2024/early 2025. Word is that the yard has improved its productivity and has re-organised its production schedule to be able to provide these early slots.

Tanker Freight Rates on Key Routes

Route No.	TC2_37	TC6	TC8	TC20	TC9	TC14	TD1	TD6	TD18	TD20	TD3C
Description	37k mt Cont to USAC	Clean Algeria to European Mediterranean	Clean Middle East Gulf to UK-Cont.	AG/UK Cont	22k mt CPP/UNL m/distillate Baltic to UK/Cont.	38k mt USG to Cont	280k mt ME Gulf to US Gulf	135k mt Black Sea / Med	30k mt Baltic to UK Cont	130k mt W Afr to Cont	270k mt Ras Tanura to China
Size mt	37000	30000	65000	90000	22000	38000	280000	135000	30000	130000	270000
Route	Rott - NY	Skikda-Lavera	Jubail-Rott	Jubail-Rott	Baltic - UKC	USG - Cont	Ras - LOOP	Novo - Augusta	Baltic - UKC	Offshore Bonny to Rotterdam	Ras Tanura to Ningbo
	WS	WS	WS	\$	WS	WS	WS	WS	WS	WS	WS
02/12/2022	405.56	434.69	75.51	6100000	600.00	320.83	57.33	274.67	510.42	187.50	77.68
05/12/2022	407.22	433.75	74.87	6042857	606.43	340.83	54.72	281.11	522.50	187.50	75.18
06/12/2022	407.78	430.63	75.51	6042857	610.71	321.67	53.33	295.56	528.75	188.86	74.14
07/12/2022	406.67	417.50	78.20	6057143	613.93	315.00	51.78	298.11	531.25	187.50	73.45
08/12/2022	406.94	415.00	80.26	6057143	630.36	307.50	51.78	299.22	531.67	182.95	73.82
09/12/2022	403.61	416.56	80.51	6042857	647.14	290.00	55.11	300.00	531.67	180.91	81.32

Source: Baltic Exchange

LPG

- Due to increased local demand, decreased production, and the disruption of regular supply channels caused by the conflict in Ukraine, Kazakhstan's LPG exports fell by over a third on the year during the first ten months of 2022. According to data from rail forwarders, Kazakhstan's LPG exports decreased by 32% to 963,000 tonnes in January to October. Traders predict that this year's shipments will barely surpass 1 million tonnes, down from 1.7 million tonnes in 2021.
- As Indonesia's large residential market continues to grow, LPG imports have grown once more this year. According to customs data, the country's LPG imports increased by 5.9% to 5.6 million tonnes in the first ten months of this year after remaining mostly stable at 6.34 million tonnes and 6.38 million tonnes in 2020 and 2021, respectively.
- In Panjin city, Liaoning province, northeast China, the new 600,000 tonnes/year PDH facility of the Chinese petrochemical company Liaoning Kingfa was put into operation. The PDH plant was operating at reduced rates of no more than 70% following start-up, according to sources close to the firm. Imports into the nearby Liaoning ports will provide the facility's feedstock of propane, which it will need to use up to 720,000 tonnes/year.
- The Hyundai Shipbuilding Group of South Korea will build a ship-type floating facility that can store and vaporise liquid ammonia offshore before transferring it to onshore pipelines. Although floating storage and regasification facilities for ammonia at sea have not yet been built globally, ammonia is recognised as a next-generation fuel since it doesn't release any carbon dioxide during combustion. The Hyundai Heavy Industries Group will create an ammonia regasification system for a floating storage regasification unit, a unique kind of tanker fitted with equipment to gently warm liquefied ammonia back into a gaseous state so it can be piped to customers on land, as part of a joint project with the Korea National Oil Corporation (KNOC) and Lloyd's Register, a London-based classification society.

VLGC Spot Freight Rates

Route No.	BLPG1	BLPG2	BLPG3
Description	AG-East	USG-Cont	USG-Japan
Size mt	44000	44000	44000
			\$/tonne
02/12/2022	142.14	128.40	206.14
05/12/2022	142.57	131.40	206.71
06/12/2022	142.71	131.80	206.14
07/12/2022	141.29	130.80	204.29
08/12/2022	140.57	129.60	203.00
09/12/2022	139.86	128.80	202.57

Source: Baltic Exchange

LNG

- As part of a new "energy partnership" that seeks to lessen reliance on Russia and quicken the transition to net zero, the UK and the US have agreed to maintain high levels of LNG trading between the two countries. The initiative was announced on Wednesday by the US President Joe Biden and the UK Prime Minister Rishi Sunak. It aimed to double the amount of LNG the US sends to the UK compared to 2021 levels, a goal that was already achieved this year as European countries rushed to find alternatives to Russian gas supplies after the invasion of Ukraine. According to shipping tracker

Kpler, just over two-thirds of the 71 million tonnes of LNG exported from the US this year have gone to Europe as utilities outbid Asian buyers for spare cargoes as they scrambled to make up for Russia lowering supplies.

- After China relaxed COVID-19 restrictions and several big players made spot purchases, the price of spot LNG in Asia increased this week due to optimism, while LNG prices in Europe stayed at a 10-week high. According to industry sources, the average LNG price for January delivery to northeast Asia LNG-AS was \$37/mmBtu, an increase of \$2 or 5.7% over the previous week. For cargoes delivered in January on an ex-ship (DES) basis, S&P Global Commodity Insights (SPGCI) estimated its daily Northwest Europe LNG Marker (NWM) price benchmark on 8 December at \$33.588/mmBtu, a discount of \$8.05/mmBtu from the January gas price at the Dutch gas TTF hub.
- The development of LNG in Mozambique has resumed, and contracts with Hyundai Samho Heavy Industries and Samsung Heavy Industries are anticipated to be signed there shortly. The two South Korean shipbuilders are required by the contracts to deliver nine and eight LNG carriers by 2027 and 2028, respectively. The ships are thought to be worth an average of US\$260 million.

LNG Spot Freight Rates

Route No. Description	BLNG1g Aus-Japan	BLNG2g USG-Cont	BLNG3g USG-Japan \$/day
29/11/2022	282626	303353	287119
02/12/2022	227951	236351	234814
06/12/2022	190084	192880	206752
09/12/2022	173296	178800	196996

Source: Baltic Exchange

Chemicals

- CMA CGM, the French container line, may treble the number of methanol-fueled boxships it ordered earlier this year. In July, the company announced an order for six 15,000 TEU dual-fuel ships powered by methanol, with delivery scheduled for the end of 2025. According to Alphaliner, a container shipping intelligence agency, the company is now 'very close' to buying another six of the ships from Dalian Shipbuilding Industry Company. If confirmed, the purchase would bring the French company's total methanol-fueled ordered capacity to 180,000 TEU over 12 ships, more than half the 296,100 TEU capacity ordered by AP Moller-Maersk across 19 ships. However, although Maersk has already announced multiple agreements ensuring green methanol supply upon delivery of these ships, CMA CGM has yet to do so. Increasing the company's supply of this fuel will be a major task over the next two years.
- Spot ethylene import prices in Northeast Asia remained stable, with a statewide strike by South Korean truckers and falling feedstock naphtha costs offset by restocking activities in China. The Korean labour dispute, now in its third week, has resulted in a broad reduction in downstream polyethylene (PE)

operations, including plant shutdowns as a result of a lengthy interruption in logistics. The impacted firms reduced their cracker operating rates from 75%-90% to 65%-85% of capacity.

- If present trends continue, biodiesel, renewable diesel, and sustainable aviation fuel (SAF) manufacturers will face a feedstock supply bottleneck between 2022 and 2027, according to the International Energy Agency (IEA). Demand for vegetable oil, waste and leftover oils and fats rises 56% to 79 million tonnes over the projection period. According to the IEA, waste and residual fuels are in great demand because they meet GHG and feedstock policy objectives in the United States and Europe. Waste and residues are predicted to account for 13% of biofuel production in 2027, up from 9% in 2021. In its most recent research, however, demand is reaching the supply limitations of the most often used wastes and leftovers. Markets, however, are dynamic, it noted. High prices highlight the need for new sources, driving the creation of government programmes and corporate innovation to assist avert the supply constraint. Sugars and starches used to create ethanol are under less pressure than wastes and residues. Although biofuel demand for these feedstocks is increasing, sugar cane and maize output are also increasing, keeping the percentage of biofuel production roughly unchanged over the projected. Vegetable oil consumption for biofuel production is predicted to rise 46% to 54 million tonnes between 2022 and 2027, increasing the percentage of vegetable oil output devoted to satisfying rising biofuel demand from 17% to 23%. This rise in demand is already decreasing soybean oil export projections and supporting higher prices in the United States.
- Methanol spot prices in China's domestic market fell as the commodity's futures fell. Lower feedstock prices are projected to help ethylene plants improve their economic viability even further, with methanol-to-olefins (MTO) margins lately returning to positive territory. Buyers in China have not slowed their spot procurements as a result of the unfavourable feedstock patterns. Following delays in negotiations over next year's term supply, buyers were eager to acquire spot cargoes for January and February arrival cargoes. Due to the holiday-shortened month of January, buyers are likely to forward spot orders for February-arrival cargoes to December. The Lunar New Year holiday is observed from 21 January to 27 January. Despite uncertainties in regional term shipments, ongoing robust supply from the US will assist fulfil Chinese buyers' import appetite. The news of a statewide easing of COVID restrictions was tempered by a drop in petroleum futures and a seasonal dip in demand. Prior to the Lunar New Year vacation, the downstream picture is projected to remain dismal. End-use factory activity will decelerate in the run-up to the vacation, but domestic ethylene derivative capacity will rise. Shenghong Refining and Chemical has started up its monoethylene glycol (MEG) facility immediately after its cracker began up. Sinopec Hainan Refining & Chemical and PetroChina Guangdong Petrochemical are both expected to start up crackers in the second part of December. Players are keeping a watch on falling methanol prices, hoping that domestic MTO units would resume operations after the lengthy vacation. This might lower spot demand from purchasers with MTO facilities that are now closed or operating at reduced rates.
- Exports into USA increased by 18% to 15.9 million tonnes from 13.5 million tonnes between first eight months of 2022 and 2021. In this, Deep-sea shipments increased by 18% to 11 million tonnes from 9.3 million tonnes. In terms of monthly trends, total exports in August, at 1.9 million tonnes, were marginally up from July while, decreased by 5% from August 2021. Within this, deep sea shipments at 1.3 million tonnes up by 88,000 tonnes (7%) month on month and by 125,000 tonnes (10%) year on year. In terms of year-to-date figures for individual commodities deep sea export shipments



between 2022 and 2021, the leading commodity caustic soda solution remained stable at around 3 million tonnes, while commodities such as methanol increased by 63%, ethanol by 21%, ethylene glycol by 89%, and MTBE by 34%, respectively.

- The excerpt above is from RLA's most current Chemical Carrier Trade Bulletin for the USA. The Trade Bulletin for USA is one of six chemical market bulletins provided as part of RLA's Chemical Carrier World Service, which also includes monthly trade bulletins covering China, North East Asia, India, Europe, and the Middle East.