



## RLA Weekly Report – Monday, 20 February 2023

No.35

### Optimism reigns supreme in the market, for how long will it continue?

#### Economy

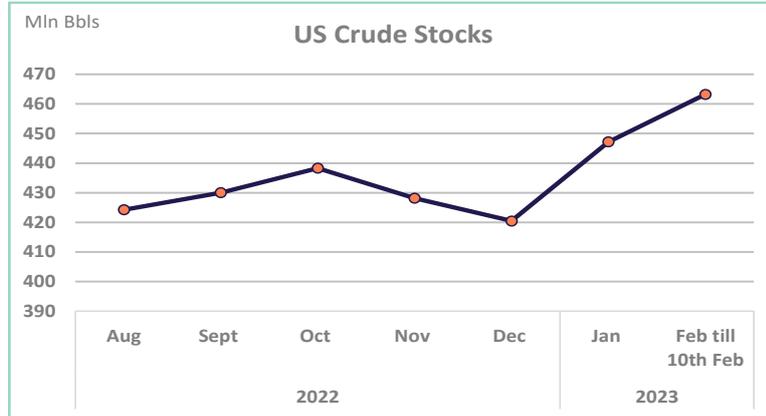
- According to government data released on Tuesday, 14 February, Japan's economy expanded by 0.6% annually in the last three months of 2022, recovering from the previous quarter's contraction due to an increase in inbound tourists that more than offset a decline in capital spending and exports.
- While slowing from a 3.9% growth in the third quarter, the Chinese economy nevertheless grew by 2.9% year on year in the last quarter of 2022, beating market expectations of a 1.8% increase. Though retail sales were poor in December, industrial output improved for the first time in seven months, and the unemployment rate decreased from its 6-month high in November.

#### Oil and Tankers

- To fill the void left by the EU's ban on Russian imports, EU member states have increased their imports of diesel and petrol oil from non-Russian sources. According to Vortexa, EU countries received 1.22 million b/d of diesel and gasoil between 5-14 February. This is a 13% increase over the average for 2022 arrivals but 8% less than the daily average in 2023, before the EU embargo went into effect on 5 February. Russia's supply to Europe has decreased by about 600,000 b/d. Since 5 February, China and India have increased their shipments by approximately 165,000 b/d and 200,000 b/d, respectively, to make up some of the shortfall. The Mideast Gulf, particularly Saudi Arabia, has provided about 373,000 b/d of these imports, down from 403,000 b/d before 5 February but 35% higher than the average for 2022.
- The top US shale basins are expected to increase their crude production by 75,000 b/d to 9.36 million b/d next month, with the Permian basin setting a record. According to the EIA's most recent monthly Drilling Productivity Report, production from the Permian basin in west Texas and east New Mexico is expected to rise by 30,000 b/d to a record 5.68 million b/d. Production from the Bakken formation in North Dakota and Montana is anticipated to increase by 21,000 b/d to 1.2 million b/d, while output from the Eagle Ford formation in south Texas is anticipated to increase by 4,000 b/d to 1.18 million b/d.
- Optimism reigns supreme in the shipping market, despite a bad start to the year. Overall, in January 2023, the BDTI (Baltic Dirty Tanker Index) slid from 2,070 points in December to 1,395 points in January 2023 — a fall of over 674 points versus December — and eased further to 1,224 points in the first two weeks of February. Similarly, the BCTI (Baltic Clean Tanker Index) fell to 847 points in January versus 1,966 points in December last year and has averaged 796 points in February so far.
- *Out of the latest RLA Short Term Tanker Market Report:* Vessel-fixing activity slowed significantly due to the Chinese Lunar New Year celebrations in the second half of January. However, rising Chinese demand is expected to boost VLCC earnings. Demand for VLCCs is also expected to surge given the strong stock build in US inventories, implying longer trades from the US into the international markets.

However, with weakening economic activity this year, for how long this rally can continue remains a question. Despite the overall optimism, we expect tanker market rates to ease gradually in the near term. *RLA update:* The graph attempts to show the huge tick up in US stockbuild in 2023.

### US Commercial Crude Stocks



- According to the EIA, commercial crude stocks in the US surged to 471.4 million bbls in the week ending 10 February from 455.1 million bbls the previous week. Distillate inventories, on the other hand, eased to 119.2 million bbls, a fall of almost 1.3 million bbls in comparison with a week earlier, while gasoline stocks reported an increase of 2.3 million bbls to average close to 241.9 million bbls in the week ending 10 February.

### Tanker Freight Rates on Key Routes

| Route No.   | TC2_37              | TC6                       | TC8                       | TC20        | TC14               | TD1                        | TD6                     | TD18                     | TD20                        | TD3C                        |
|-------------|---------------------|---------------------------|---------------------------|-------------|--------------------|----------------------------|-------------------------|--------------------------|-----------------------------|-----------------------------|
| Description | 37k mt Cont to USAC | Clean Algeria to Euro Med | Clean ME Gulf to UK-Cont. | AG/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       | 38000              | 280000                     | 135000                  | 30000                    | 130000                      | 270000                      |
| Route       | Rott - NY           | Skikda-Lavera             | Jubail-Rott               | Jubail-Rott | 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                          |
| 10/02/2023  | 293.33              | 259.38                    | 50.90                     | 3632143     | 195.83             | 38.50                      | 162.50                  | 242.50                   | 114.09                      | 58.23                       |
| 13/02/2023  | 285.83              | 276.25                    | 51.80                     | 3703571     | 194.17             | 38.89                      | 162.78                  | 240.83                   | 116.59                      | 60.14                       |
| 14/02/2023  | 275.00              | 265.00                    | 54.42                     | 4021429     | 202.92             | 39.33                      | 164.33                  | 240.83                   | 118.64                      | 62.45                       |
| 15/02/2023  | 273.33              | 264.75                    | 57.05                     | 4307143     | 205.00             | 40.28                      | 165.39                  | 246.67                   | 120.23                      | 65.23                       |
| 16/02/2023  | 264.44              | 265.00                    | 59.49                     | 4550000     | 210.83             | 40.94                      | 166.72                  | 253.33                   | 125.34                      | 66.32                       |
| 17/02/2023  | 259.44              | 264.38                    | 61.03                     | 4614286     | 192.50             | 41.33                      | 168.28                  | 258.75                   | 126.82                      | 68.27                       |

Source: Baltic Exchange

### LPG

- According to Brazil's Energy Research Agency EPE, LPG consumption in Brazil is anticipated to be about 7.35 million tonnes in 2022, a 1% decrease from the previous year and a 2% drop from 2020. The small decrease is mostly the result of year on year hikes in international pricing that raised domestic prices as well. In the first half of 2022, Brazil's oil and fuel prices, including LPG, rose significantly, primarily due to the ongoing conflict between Russia and Ukraine. According to the

national oil and gas regulator ANP, prices trended downward in the second half of 2022, translating into an average 10% rise in domestic LPG prices compared to 2021.

- In order to make up for lower domestic output, Turkish LPG imports reached a two-year high in November. Meanwhile, sales fell from the previous month due to weak autogas demand. According to figures from the energy regulator EPDK, the country's LPG arrivals increased by more than a fifth on the month and by 43% on the year to over 353,000 tonnes. Sales fell by 4%, but were 12% higher than a year earlier. Despite the significant increase in November, imports in January - November 2022 were down 1% from the same time in 2021. But, given the increased demand in December, they are projected to surpass those levels for the entire year.
- *RLA update:* We envisage a 3.5% growth trend in LPG consumption this year, which comes to almost 351.6 million tonnes. Despite the slowdown in economic growth, this would be underpinned by the increasing demand for LPG in the Asia Pacific region and China. A further increase of 2.4% is expected in 2024 to around 360.2 million tonnes which will be mostly driven by increasing China's PDH capacity. With this outlook, we can expect the annual growth rate to average 3.1% during the remaining forecast period, which means that total LPG consumption will reach almost 395.5 million tonnes by 2027.
- Korea Shipbuilding & Offshore Engineering (KSOE) has booked orders for two VLGC newbuildings worth \$98.8 million per ship, to be delivered by May 2026. The South Korean company said in a regulatory filing that an "Oceanian" entity had ordered the gas carriers, which will be built by Hyundai Heavy Industries - one of the three shipyards it controls.

### VLGC Spot Freight Rates

| Route No.   | BLPG1   | BLPG2    | BLPG3     |
|-------------|---------|----------|-----------|
| Description | AG-East | USG-Cont | USG-Japan |
| Size mt     | 44000   | 44000    | 44000     |
|             |         |          | \$/tonne  |
| 10/02/2023  | 90.43   | 78.40    | 138.43    |
| 13/02/2023  | 90.71   | 78.20    | 138.14    |
| 14/02/2023  | 91.43   | 77.80    | 137.71    |
| 15/02/2023  | 93.00   | 76.80    | 136.43    |
| 16/02/2023  | 94.14   | 76.80    | 136.29    |
| 17/02/2023  | 95.14   | 77.00    | 136.86    |

Source: Baltic Exchange

### LNG

- According to Japan's Finance Ministry, the country's LNG imports for January 2023 were 6.82 million tonnes (around 100 cargoes), up from 6.78 million tonnes received in January 2022 and 6.06 million tonnes in the previous month. Within this, LNG cargo deliveries from Asian countries like Malaysia and Indonesia increased in January by 17.8% to 1.88 million tonnes while those from the Middle East rose by 24.1% to 787,000 tonnes. LNG imports from the US, on the other hand, fell by 73.9% year on year to 90,000 tonnes as cargoes from American export plants were directed towards Europe, while imports from Russia fell by 9.7% month on month to 704,000 tonnes. The balance of Japan's LNG imports in January came from the country's largest supplier, Australia, some spot cargoes and small volumes from Africa.

- In 2022, Spain expanded its imports of Russian LNG despite Western sanctions over the invasion of Ukraine. The country received 4.24 million tonnes of LNG from Russia last year, which was 54.8% more than in 2021, when it imported 2.80 million tonnes of LNG. As a result, Spain's proportion of LNG supplies from Russia grew in 2022 to 12.6% from 8.9% , a rise of 3.7% year on year. The shipments mostly came from the Yamal LNG export plant in northeast Siberia, which is operated by Russian natural gas company Novatek.
- With dropping cargo costs encouraging industrial buyers in West Asia to buy more gas, Indian imports of LNG got off to a better start in 2023. According to preliminary figures from India's Ministry of Petroleum and Natural Gas, LNG imports for the month of January were around 1.67 million tonnes, or 26 cargoes, which was 7.9% more than in the same month in 2022 when shipments totaled 1.56 million tonnes, or 23 cargoes. Deliveries to India were down 14% during the first ten months of the current fiscal year, from April to January, at 16.77 million tonnes compared to 19.50 million tonnes for the same period the year before.
- Asian LNG spot prices fell for the ninth week in a row as demand remained sluggish, bringing their year to date decline to more than 40%. According to industry sources, the average LNG price for April deliveries to Northeast Asia (LNG-AS) was \$1 (5.9%) less than the previous week, at \$16/mmBtu. Prices are currently down 77% from the record high of \$70.50 that hit in August last year.

### LNG Spot Freight Rates

| Route No.<br>Description | BLNG1g<br>Aus-Japan | BLNG2g<br>USG-Cont | BLNG3g<br>USG-Japan<br>\$/day |
|--------------------------|---------------------|--------------------|-------------------------------|
| 07/02/2023               | 65510               | 53933              | 64948                         |
| 10/02/2023               | 65687               | 54062              | 65589                         |
| 14/02/2023               | 63564               | 53586              | 65588                         |
| 17/02/2023               | 69597               | 55574              | 66227                         |

Source: Baltic Exchange

### Chemicals

- As China's post-Lunar New Year demand rebound fails to meet expectations, polyethylene (PE) dealers in China are taking advantage of an apparent scarcity of Middle East cargoes to re-export to clients in Southeast Asia. These traders are looking for opportunities to profit from a rising disparity between Southeast Asia and China import prices, as domestic demand in China shows symptoms of slowing from post-Lunar New Year highs.
- Middle East suppliers have warned that supply allocations will be restricted owing to a high maintenance schedule at PE facilities in the Middle East during the January-March period. Volumes from the region are typically lower in the first quarter of the year. This has prompted several Southeast Asian consumers to seek cargo from other regions.
- The relaxation of China's zero COVID-19 policy in December last year, as well as the slow passage of the domestic infection peak in January, laid the foundation for widespread hopes that China's demand would rebound significantly after the country's Lunar New Year vacations concluded on 27

January. Although most downstream companies did not reopen until after the Lantern Festival on 5 February, the much-anticipated demand rebound seems to be less than fantastic.

- The unusually delayed rebound in China's post-holiday chemical demand is being felt in many markets, with any increase elsewhere ascribed to supply chain restocking rather than genuine demand recovery. In China, several dealers who vigorously replenished PE before the holidays have found themselves with lower margins.
- Many have turned to Southeast Asia, notably Vietnam, to mitigate the effect of the short-lived upswing. Vietnam is a duty-free export destination for PE from all sources. Nevertheless, demand looks to remain slow in general, with downstream end-use output rates in Southeast Asia showing little increase. It is unknown if these re-export prospects will eventually materialise into firm transactions or become a larger trend.
- Italy's Eni proposes to invest up to \$885 million in a US biorefinery project with partner PBF Energy. On 16 February, the oil conglomerate revealed that its subsidiary, Eni Sustainable Mobility, has formed a partnership with US firm PBF to manage the St Bernard Biorefinery in Louisiana. The facility is currently under development and is scheduled to open in the first half of 2023. It will manufacture hydro-treated vegetable oil, often known as renewable diesel, with a capacity of 1.0 million tonnes/year. Eni will contribute \$835 million, with an extra \$50 million available if project targets are met.
- Container line from South Korea HMM has ordered nine new boxships that can run on methanol bunkers, as well as taken preliminary steps to secure the ships' fuel supply. The company announced in a statement on its website last Tuesday that it had ordered nine dual-fuelled 9,000 TEU containerships from Hyundai Samho Heavy Industries. The order is worth \$1.12 billion in total.
- When the ships arrive in 2025-2026, they will be deployed on the Asia-North/Latin America and Asia-India routes. HMM has also entered into an agreement with five fuel suppliers, including Proman, PTTEP, European Energy, and Hyundai Corporation, to assure methanol supply for the new ships. First, the business will do a feasibility assessment with each partner.
- Algoma Central Corporation and CSL Group have placed orders for four new methanol-ready dry bulk carriers. According to a press statement, Alcoma has bought two of the jointly designed 72,250 DWT bulkers and CSL Group has ordered the other two, with an option for two additional vessels. The delivery date is set for July 2025. The vessels will be marked with a methanol-ready notation, indicating that they are suitable for eventual conversion to methanol propulsion, which usually means that the design allows for bigger fuel tanks.
- MAN Energy Solutions, an engine manufacturer, is experiencing increased interest in methanol as an alternative marine fuel from the dry bulk industry. Last week, the company announced its newest methanol engine order for a 65,700 DWT bulker being constructed by Tsuneishi Shipbuilding. According to MAN, the order is the latest in a trend of dry bulk transport companies adopting methanol propulsion. "In a market that has seen a rapidly increasing demand for decarbonized transport from its major players, interest in methanol as a fuel has surged and now represents more than 30% of all our current, open pipeline projects across a broad range of vessel segments," said Bjarne Foldager, senior vice president at MAN.



- Costa Group, a subsidiary of Carnival Corporation and a prominent European cruise operator with the names Costa Cruises and AIDA Cruises, has signed a Memorandum of Understanding (MOU) with Proman, one of the world's top methanol manufacturers. The Agreement intends to accelerate the cruise industry's adoption of methanol as a marine fuel by increasing the availability of sustainable methanol, opening the road for adapting current vessels to run on clean fuel, and investing in more methanol-fueled newbuilds. The Agreement emphasizes methanol's ability to play a critical role in the cruise industry's and other shipping segments' continued reduction of GHG emissions.