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Another Week of Mixed Signals

Economy

- As central banks continue to raise their policy interest rates in their fight against inflation, a number of global economic indicators for October and November point to slower growth or decline. The tightening of policy, inflation, Russia's invasion of Ukraine, and persistent interruptions caused by the COVID-19 epidemic continue to be cited by forecasting institutes as grounds for lowering economic estimates.
- Last week central banks in the USA, the EU, the UK and Switzerland, among others all announced increases in interest rates with hints of more to come. This has raised further concerns about global economic growth next year.
- Another cause for concern is the rising number of COVID-19 cases in China as easing of the restrictions exposes the relatively low levels of vaccination, efficacy of vaccines available and a system seemingly unable to cope with the current spread of the pandemic.
- India's merchandise exports reached $31.99 billion In November, a 0.59% year on year increase which was seen as a sign of sluggish external demand amid concerns about a recession in developed nations. However, exports increased 7% compared to the previous month, despite the fact that export growth began to slow in July.

Oil Demand Supply and Trade

- According to its most recent monthly Oil Market Report (OMR) form the International Energy Agency (IEA), which was published on December 14, oil demand this quarter is likely to be 110,000 b/d lower than a year earlier, at 100.8 million b/d. This still represents an upward revision of 130,000 b/d from its' last estimate. Strong gas oil consumption is outweighing weak demand in the European and Asian petrochemicals sectors. However, if it were not for some considerable gas-to-oil switching, declining demand in developed economies would have lowered its fourth-quarter prediction.
- Despite the economic gloom, the IEA increased its prediction for demand growth this year by 140,000 b/d in conjunction with an upward revision to its third-quarter consumption estimate, resulting in a year on year increase of 2.3 million b/d to 99.9 million b/d. The IEA has revised its demand prediction for 2023 upward by 100,000 b/d to 101.6 million b/d.
- In an early indication that Russia is not cutting off crude supply that complies with the G7 price cap of $60/bbl, Russia is sending crude oil to India on tankers insured by Western corporations.
- The EU, G7, and Australia's price restriction on Russian crude went into force on December 5. Under its terms, buyers of Russian crude who pay $60/bbl or less will have complete access to all EU and G7 insurance and financial services related to shipping Russian crude to non-EU nations. In an effort to challenge the $60/bbl limitation set by the West, Russia had said it would forbid the sale of Russian

crude oil to buyers that are a part of the Price Cap Coalition or whose purchasing is constrained by the G7/EU price cap.

- West African crude is now again in demand, following a decline in interest from buyers in November. The comparatively cheap prices for some of the sweet west African cargoes that were diverted from an oversupplied European market may have rekindled demand. Along with the beginning of a new phase in China's approach to COVID-19, which involves easing travel restrictions and testing requirements, there has also been a stronger buying interest. The building industry is getting ready to expand operations as Chinese mobility increases.

- West African crude exports to Asia are anticipated to increase over the next few months as a result of improving long-haul economics and revived Chinese demand. With at least 16.4 million bbl of crude oil changing hands between December 1 and 7, Chinese oil companies have increased their purchases of oil generally. At least four cargoes of Djeno from the Congo and one each of Cabinda, Nemba, and Sangos from Angola had been purchased by Chinese purchasers for shipment in January.

Tankers

- Oil exports from Russian Black Sea ports had been halted by an insurance disagreement brought on by sanctions; however, the dispute has been settled, according to maritime officials, and 19 tankers have already sailed through the Turkish Straits after submitting adequate documents. In reaction to western restrictions on Russian oil, Turkey sought fresh proof of insurance, forcing tankers to anchor close to the Bosphorus and Dardanelles while the situation was resolved.

- After the introduction of EU sanctions last week, Washington had hoped that a new price cap on Russian crude would ensure that Russian shipments to third countries could continue. However, Turkey had prevented the ships from passing through the Straits for more than a week after western insurers said they were unable to offer the requested blanket guarantees. This prompted US and UK officials to mediate with their Turkish counterparts. The Turkish Straits is one of the most active shipping lanes in the world and one of the key export routes for crude oil from Kazakhstan and Russia.

- While spot rates for Suezmaxes and Aframaxes continue to ease, those for VLCCs rebounded last week.

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
09/12/2022	403.61	416.56	80.51	6042857	647.14	290.00	55.11	300.00	531.67	180.91	81.32
12/12/2022	393.89	417.19	81.28	5892857	842.86	285.83	56.11	300.00	530.42	179.77	82.50
13/12/2022	390.56	427.63	81.67	5892857	865.00	278.33	56.17	299.44	529.58	174.55	82.68
14/12/2022	385.00	449.38	84.24	6071429	879.29	253.33	56.22	294.44	532.08	171.36	82.75
15/12/2022	380.28	459.38	84.36	6129286	882.14	237.50	56.28	293.44	533.33	170.00	82.86
16/12/2022	348.89	465.00	84.75	6214286	887.14	193.33	56.39	292.28	535.00	169.55	83.32

Source: Baltic Exchange

LPG

- At its Tuticorin terminal in Southeast India, LPG retailer Supergas, a division of Dutch distributor SHV Energy, plans to increase storage capacity by 30,000 tonnes. The $60 million investment will increase capacity to 38,500 tonnes, and the facility's supply will be managed by SHV's trading arm in Singapore. Supergas mainly sells to industrial and commercial users in India, with household supplies, which represent about 94% of the market of close to 30 million tonnes/year, controlled by state-run refiners. IOC, a state-owned refiner in India, is also making investments to upgrade its infrastructure for supplying LPG. It intends to increase capacity at its west coast Kandla import terminal from 600,000 tonnes/year to 2.5 million tonnes/year. The terminal will feed a 2,760km LPG pipeline to Gorakhpur in the north Indian state of Uttar Pradesh, which when completed will be able to transport 8.5mn tonne/year.
- Canada LPG exports in September increased by 12.2% on the month to 636,000 tonnes, and within this, 349,000 tonnes (54.9% of the total) went to the US and 247,000 tonnes (38.8% of the total) to Japan. Total exports in the first nine months of this year totalled 5.8 million tonnes where the US accounts for 3.8 million tonnes and Japan accounts for 1.3 million tonnes.
- A long-term time charter contract for two 99,000 cbm VLECs has been inked by Japanese shipping company Iino Lines and UK petrochemical giant Ineos. Ineos will receive the ships in 2025 and 2026, raising the total number of ethane-carrying vessels in its fleet to eighteen - ten VLECs and eight 27,500 cbm Dragon Class ships that can also transport LNG and LPG. The charter deal follows a similar one Ineos made with Hong Kong's Pacific Gas for four VLEC's on 3 November.
- As the market looks to move away from Russian rail supply this year, seaborne LPG imports to Poland have increased dramatically. According to Vortexa data, the three Baltic Sea terminals in the country—Gdansk, Gdynia, and Szczecin—received 803,000 tonnes in January to October, up more than two-thirds from the same period last year. Seaborne arrivals reached a monthly high of 118,000 tonnes in October and 114,200 tonnes in November. Despite recent efforts to diversify, Poland is still reliant on Russian LPG, with imports growing by 44% on the year to 909,256 tonnes in January to October due to high domestic and export demand to Ukraine and other European countries.

VLGC Spot Freight Rates

Route No. Description Size mt	BLPG1 AG-East 44000	BLPG2 USG-Cont 44000	BLPG3 USG-Japan 44000 $/tonne
09/12/2022	139.86	128.80	202.57
12/12/2022	139.29	128.80	201.86
13/12/2022	138.57	128.20	201.00
14/12/2022	138.57	128.40	201.14
15/12/2022	138.29	128.20	199.86
16/12/2022	138.29	127.80	198.57

Source: Baltic Exchange

LNG

- Monthly LNG imports into Japan declined by 5.4% year on year as costs increased by more than 50% and the amount of shipments from Asia and Australia rose as supplies from other regions declined. According to preliminary trade data from the Finance Ministry, the November 2022 LNG exports to Japan's network of 37 terminals were 5.55 million tonnes, or 82 cargoes, down from 5.86 million tonnes, or 87 shipments, in November 2021. The deliveries last month were, however, higher than those in the previous month of October when they were 5.08 million tonnes. Deliveries from the US fell by 52.2% compared to November 2021 to 191,000 tonnes, while shipments from Russia's Sakhalin Island facility in the Far East decreased by 14.4% to 446,000 tonnes.

- The UK energy consultants Wood Mackenzie reported that colder weather throughout Europe had raised heating demand month on month in December by 20% and anticipated a lowering of LNG prices in 2023. The firm said that the amount of gas consumed in residences and services was 16% less than prior average consumption patterns for similar temperatures due to changes in consumer behaviour. Despite the current cold weather, Europe is still on track to finish this winter with gas storage levels at 38% and appears to be on track to fulfil the 2023 European Union goal of having stocks up to 90% by November. Penny Leake, Wood Mackenzie research analyst for European gas said: “Gas demand has decreased by 10% in 2022, equivalent to 50 billion cbm. In 2023, gas demand will continue falling, albeit at a slower rate year on year, under normal weather conditions.”

- In the coming months, three FSRU projects—two supported by the German government in Wilhelmshaven and Brunsbuttel— and one supported by the private sector in Lubmin—are due to come online. This might bring more than 12 billion cbm of import capacity to the German market. The two government-backed projects do not, however, have any associated contracted cargo volumes, and it is probable that the import volume will come from both spot cargoes and already-existing portfolio volumes. Uniper and RWE will each take 35% of the terminals’ regasification capacity while German energy firm EnBW will take the remaining 30%.

- China is gaining ground quickly in the market for LNG carriers, which is currently dominated by Korean shipbuilders. Chinese shipbuilders are taking orders that Korean shipbuilders are unable to fill since their dockyards are fully booked. During the first 11 months of this year, Chinese shipbuilders received orders for 45 LNG carriers, while during the same period a total of 163 LNG carriers were ordered globally. Chinese shipyards are also engaging the pricing conflict. Chinese shipbuilders apparently offer a lower price (US$30 million less) for an LNG carrier than the prime Korean shipbuilders, at roughly US$200 million. The ability of Chinese shipyards to construct LNG carriers is also advancing. Only Hudong Shipbuilding was able to construct huge LNG carriers last year. However, this year Jiangnan Shipbuilding and Dalian Shipbuilding also entered a competition to win orders for LNG carriers.

LNG Spot Freight Rates

Route No. Description	BLNG1g Aus-Japan	BLNG2g USG-Cont	BLNG3g USG-Japan $/day
06/12/2022	190084	192880	206752
09/12/2022	173296	178800	196996
13/12/2022	167000	171320	192977
16/12/2022	160183	162389	185050

Source: Baltic Exchange

Chemicals

- Container line AP Moller-Maersk has struck its ninth agreement to secure green methanol supplies for its ships. Maersk has signed a memorandum of intent with SunGas Renewables in the United States outlining intentions to purchase methanol from several of the company's plants, according to a statement on the container line's website on Thursday. The first facility, with an annual production capacity of about 390,000 tonnes of bio-methanol, is scheduled to open in 2026. "Securing green marine fuels on a worldwide scale within this decade will necessitate quick scaling up of green methanol production capacity utilising a range of technology and feedstock paths," said Emma Mazhari, Maersk's head of green sourcing and portfolio management, in a statement. Maersk has placed an order for 19 methanol-fueled container ships, the first of which will begin service in the middle of next year. The container line has stated that it will require around 6 million tonnes/year of green methanol for its new carbon-neutral ships by 2030.

- Waterfront Shipping, a subsidiary of Methanex, the world's largest methanol producer and supplier, signed a time-charter arrangement with Trafigura, one of the world's major physical commodities trading organisations. Under the terms of the agreement, Trafigura will operate the co-owned Waterfront Shipping and Clean Sea Transport medium-range product tanker, Mari Innovator, as part of its worldwide network of vessels employed in clean products trading routes. This agreement supports the parties' efforts to assist in the transformation of the maritime shipping sector to a low-carbon future. Waterfront Shipping is the world's largest operator of methanol dual-fuel boats, with over 123,000 operational hours showing the ease and safety of methanol as a cleaner-burning marine fuel. Waterfront Shipping has 18 methanol dual-fuel boats, with one more arriving in Q2 2023, accounting for over 60% of its 30-vessel fleet.

- During a two-day hearing last week, the Surface Transportation Board (STB), the US regulatory agency that supervises railways, heard testimony from chemical businesses reporting a shortage of railcar availability and growing usage of embargoes despite persistent service concerns. Embargoes are a tactic employed by freight railways to aid in the control of congestion at rail terminals. The STB stated that data shows that embargoes by major railroad Union Pacific (UP) have increased from five in 2017 to more than 1,000 in 2022, and that the two-day hearing was called after receiving numerous reports that shippers are experiencing supply chain problems as a result, causing operations to suffer. In terms of volume and revenue, the chemical sector is one of the most important users of freight rail. Freight railways transported 2.2 million carloads of polymers, fertilisers, and other chemicals in 2021. Ethanol is the most often transported chemical by US railways. Various industrial chemicals, such as soda ash, caustic soda, urea, sulfuric acid, and anhydrous ammonia, account for more than half of all rail chemical carloads. Chemical railcar loadings account for around 20% of chemical transportation by tonnage to ships in the United States, with trucks, barges, and pipelines handling the remainder.

Emissions and Regulations

- The Carbon Intensity Indicator (CII), which goes into effect in January 2023, is generating issues for the chemical tanker segment and may even be counter-productive in terms of decreasing carbon emissions, according to Stolt Tankers. The CII requirements provide two major issues for chemical tanker operators. To begin with, because of their complexity, chemical parcel tankers may spend up to 55% of their time in port (on average, more sophisticated ships can carry 10 to 12 distinct cargoes), travelling from terminal to terminal to load and discharge the various goods. Standard oil or product tankers typically discharge or load cargo during a single port visit that lasts only a few days. The second problem with the CII laws is that, in their current form, they do not account for data modifications in situations beyond an owner's control, such as severe weather or a force majeure. Even though the laws will go into effect in less than a month, Stolt believes that the alternatives for attaining compliance in the chemical tanker sector will remain restricted. "We may produce unneeded extra greenhouse gas emissions by changing out our B- and D-rated ships annually and adding a ballast leg, or we can use newer, more energy-efficient ships in trades with long port stays and older ones in trades with long voyages and ballast legs. We do the opposite now to reduce emissions " says Stolt Tankers MD Maren Schroeder.

- Stolt has come up with recommendations to improve the accuracy of the CII regulations -

  - Clearly define if biofuels can be used and how their emissions should be measured, for example, using a well-to-wake approach. Retrofitting ships to run using alternative fuels is a significant undertaking and not realistic with current technology.

  - For ships with a low rating, such as chemical tankers, give more consideration to corrective actions per market segment because one size most certainly does not fit all. Allowing the Flag States some degree of discretion to apply real-world solutions that makes sense in their segment and offers the most benefit to the environment – rather than merely following a predetermined, untested set of regulations – will help to move the whole industry towards our collective aim of reducing global emissions as soon as possible.

  - Agree a definition of force majeure and other events that are outside the control of operators and define a process for any ship affected to submit a request for an element of its reporting period to be omitted from its CII rating.

- Oldendorff Carriers, a dry bulk shipping company, has also compiled data outlining potential faults and perverse incentives in the planned carbon intensity indicator regulation. "The CII formulas in the regulation are not comprehensive, may be gamed, and there are numerous real-world scenarios where rigid adherence and attention to the CII rating letter grades would cause more harm than good," the business wrote in a note accompanying the research on its website. "For example, ship owners and operators are already attempting to boost fleet productivity by minimising empty legs, allowing them to transport more cargoes each year". "However, such improved efficiency is being penalised with a bad CII rating, whereas if an identical sister ship engages in inefficient trading and lower productivity, this leads to higher emissions per tonne carried, but this vessel is rewarded and encouraged by a good rating". The report examines six dry bulk transportation scenarios with varied environmental parameters, demonstrating that some with lower overall CO2 emissions per unit of cargo can result in poorer CII ratings. "A ship rated D or E may simply halt trade and merely ballast around to fix its CII rating at the end of each calendar year," the business stated in the study.

- A major step toward cleaner air in the entire region was taken when the IMO voted to designate the Mediterranean as a Sulphur Emission Control Area (SECA) during MEPC 79. With significant advantages for both human health and the environment, the Mediterranean Sea has been designated as an Emission Control Area for Sulphur Oxides (SECA), which will eventually reduce emissions of these gases by over 80% and dangerous fine dust (PM2.5) by about a fourth. The amendment is expected to enter into force on 1 May 2024, with the new limit taking effect from 1 May 2025.