



## RLA Weekly Report – Tuesday, 09 January 2023

No.29

### China Reopens!

#### Economy

- Due to weaker demand, the US services industry experienced its first monthly contraction in more than two and a half years in December. The Institute for Supply Management (ISM) reported that its non-manufacturing PMI fell from 56.5 in November to 49.6 last month. The services PMI fell below the 50 mark for the first time since May 2020, indicating contraction in the industry that generates more than two-thirds of all economic activity in the US.
- In contrast, according to a report by S&P Global, the manufacturing downturn in the Eurozone eased further as the sector's Purchasing Managers' Index (PMI) hit a three-month high of 47.8 in December 2022. In November 2022, the region's PMI was 47.1. Germany's seasonally adjusted manufacturing PMI increased from 46.2 in November to a 3-month high of 47.1 in December 2022 due to a slower decline in output.

#### Oil and Tankers

- China has increased this year's first-batch quotas for low-sulphur fuel oil (LSFO, with a maximum sulphur content of 0.5%) exports, driving up domestic LSFO production even more. According to JLC, the country set the quotas at 8.0 million tonnes, a 23.08% increase year on year. Sinopec, PetroChina, and CNOOC all received additional quotas because they made good use of their 2022 quotas. Sinochem and Zhejiang Petroleum and Chemical (ZPC) received very small quotas due to their lack of interest in LSFO production.
- The second batch of non-state crude import quotas for 2023 has been released by China's Ministry of Commerce (MOC), allowing 111.82 million tonnes of imports, an increase of 112% over the same batch for 2022.
- According to Bloomberg, Saudi Arabia reduced oil prices for its two main markets of Asia and Europe as a sign that demand is still weak due to slowing economies and an increase in coronavirus cases in China. Businesses in the US, Europe, and China have reduced their energy consumption due to high interest rates and a strong dollar. For all varieties of crude that will be shipped to Asia in February, Saudi Aramco lowered prices. The price for the company's premium Arab Light grade was decreased by \$1.45 to \$1.80 a barrel over the regional benchmark. The current level is the lowest since November 2021.
- According to the EIA, commercial crude stocks in the US edged up to 420.6 million bbls in the week ending 30 December from 418.9 million bbls the previous week. In contrast, US SPR inventories fell by 2.7 million bbls over the same period. Distillate inventories eased marginally to 118.7 million bbls, a fall of 1.4 million bbls in comparison with a week earlier, while gasoline stocks reported a miniscule decrease to remain close to 223 million bbls in the week ending 30 December.

- According to Vortexa, Indian imports of Russian crude reached a record high in December, with shipments from Russian ports reaching 1.23 million b/d, up from 1.09 million b/d in November. This includes the CPC Blend of Kazakh origin. In December, India for the first time received 59,000 b/d of light sour Arctic Varandey Blend from the Barents Sea port of Murmansk. Varandey Blend imports are expected to almost double, reaching 114,000 b/d in January. In January, Indian ports are expected to receive about 867,000 b/d of Russian crude and condensate, according to the latest reports from Vortexa.
- Opec crude liftings increased to 22.1mn b/d in December, an increase of 670,000 b/d from November. Opec crude loadings increased by 840,000 b/d on the year, primarily due to an increase in liftings by members of the Mideast Gulf. Nigerian crude exports by sea increased by about 300,000 b/d to 1.38 million b/d in December, the highest level since June 2021, as the nation's capacity to produce crude gradually recovered in the final quarter of 2022.
- In the first half of 2022, China's diesel exports averaged less than 80,000 b/d, down from over 400,000 b/d prior to the pandemic in 2019. Due to tight domestic margins and low export quotas that prevented products from reaching more expensive international markets, refinery runs were drastically reduced. Beijing eventually eased restrictions, issuing higher export quotas for goods in September in response to complaints from significant state-owned refiners. Since September, crude runs have increased once more, and diesel exports have stabilised. Between September and November, diesel exports averaged 400,000 b/d and refineries were running at 91%. Beijing also increased its export quotas by 46% from a year ago in order to further promote the export of oil products. Additionally, two significant new coastal refineries are opening, increasing China's export potential. If the recovery continues, we expect an increase in diesel trade from China into Europe.

### 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
22/12/2022	310.00	447.81	85.13	6400000	1048.57	167.08	53.50	248.33	533.33	141.25	73.27
23/12/2022	287.22	443.13	85.19	6414286	1062.86	167.08	53.00	244.94	533.33	139.09	72.55
03/01/2023	198.83	291.88	83.59	6028571	-	124.83	41.81	188.53	435.83	108.80	56.41
04/01/2023	198.78	269.38	83.34	5921429	-	116.83	40.50	181.50	430.83	107.95	55.16
05/01/2023	199.44	234.06	81.67	5714286	-	112.33	39.67	173.44	427.50	93.50	53.27
06/01/2023	194.44	213.75	78.20	5557143	-	108.75	38.67	169.61	425.08	92.05	52.91

Source: Baltic Exchange

## LPG

- According to government data, a maintenance closure at the Sines ethylene cracker owned by the Spanish oil company Repsol resulted in a 44% monthly and 42% annual decline in Portugal's LPG consumption to about 29,000 tonnes. The second week of January is expected to see the unit resume. Sales were at an eight-month low in August, but they increased by 80% to 52,100 tonnes in September, perhaps supported by stockpiling before the cracker stoppage.
- Australian Bureau of Statistics (ABS) data reveal that butane exports from Australia decreased by over 45% on a monthly basis in October, to about 86,000 tonnes. As a result of the monthly decline, the country's butane exports fell to 1.08 million tonnes in January-October, about a quarter less than during the same time last year. Problems at the Prelude LNG project, which has been down since 10 June due to industrial action after returning to operations in April following a shutdown in December 2021, have had an impact on butane production in Australia.
- Danish LPG wholesaler Viking Energi has been purchased by European LPG distributor UGI International's Nordic retail arm, Kosan Gas, for an unknown value. Businesses in Denmark, as well as a number of dealers and retailers, are supplied with LPG in cylinders and tanks by Viking Energi. The deal is part of Kosan's plan to strengthen its Danish business and will allow it to utilise the economies of scale, experience, and dealer-ship network of Viking Energy. Kosan supplies more than 1,600 retailers in Denmark and has more than 5,000 customers across Denmark, Finland, Norway and Sweden.
- In December 2022, Saudi Arabia's Advanced Petrochemical company completed two important acquisitions vital to its \$1.7 billion Jubail expansion project. On 4 December, the company reported that it had received clearance from the Ministry of Energy to build propane-feedstock pipelines, and the following day it verified financial closure for under-construction chemical facilities. Through their Advanced Polyolefins joint venture, Advanced Petrochemical (85%) and Korea's SK Gas (15%) are establishing an 800,000 tonne/year propane dehydrogenation/polypropylene (PDH/PP) complex at Jubail. This will feature an 843,000 tonne/year PDH facility that will supply feedstock for two 400,000 tonne/year polypropylene facilities, as well as a 70,000 tonne/year isopropanol (IPA) unit.

### VLGC Spot Freight Rates

Route No.	BLPG1	BLPG2	BLPG3
Description	AG-East	USG-Cont	USG-Japan
Size mt	44000	44000	44000
			\$/tonne
22/12/2022	122.71	112.00	185.57
23/12/2022	119.00	105.40	176.43
03/01/2023	92.43	78.20	139.43
04/01/2023	85.21	70.40	128.29
05/01/2023	79.00	68.40	123.43
06/01/2023	77.86	69.60	125.43

Source: Baltic Exchange

## LNG

- Norway's minister of petroleum and energy, Terje Aasland stated that the country intends to export around 122 billion cbm of natural gas in 2023, almost on par with last year's level, and to sustain this amount for the next four to five years. The output for 2022, increased by 8% from 2021, in line with a previous government forecast, and was equivalent to the all time high of 122.37 billion cbm reached in 2017. The main recipients of Norway's gas in Europe are Britain, Germany, France, and Belgium. In the latter half of 2022, a new pipeline to Poland via Denmark was also opened.
- In 2023, it is anticipated that China's LNG demand will increase as it frees itself from COVID-19 restrictions and takes the lead in Asia's super-chilled fuel consumption. According to experts at Rystad Energy, Wood Mackenzie, and ICIS, China's consumption is expected to increase to between 70 million and 72 million tonnes in 2023, 9% to 14% more than in 2022. However, because prices would remain high and the pandemic's aftereffects would limit demand, imports to China, would probably fall short of record levels set in 2021, they noted.
- Australian LNG exports set a new record in 2022 with 81.4 million tonnes, and due to much higher prices, export revenue increased by 86% year on year to Aus\$92.8 billion (US\$63.4 billion) last year. Australia also appeared to tie with the US and Qatar in terms of volume as the world's top exporter. According to the latest data made public by Adelaide-based consultants EnergyQuest, shipments, which were mostly sent to the Asia-Pacific region, were substantially higher than the 81.1 million tonnes reported in the previous year. Despite EnergyQuest's assertion that Australia, Qatar, and the United States almost tied for the title of largest LNG exporter, Australia remained the world's top exporter of the gas in 2022. Other data published suggested that Qatar and the US also exported around 81.2 million tonnes of cargoes in 2022, marginally less than Australia.

### LNG Spot Freight Rates

Route No. Description	BLNG1g Aus-Japan	BLNG2g USG-Cont	BLNG3g USG-Japan \$/day
20/12/2022	161429	161110	175234
23/12/2022	160808	158983	174279
03/01/2023	149625	145283	161580
06/01/2023	129779	120160	132786

Source: Baltic Exchange

## Chemicals

- Both Brazilian and Mexican economists predict that GDP growth will decelerate dramatically in 2023, with Brazil losing the benefits of a commodities rally and Mexico suffering from weaker growth in the United States. Brazilian analysts forecast 0.80% growth in 2023, down from 3.04% in 2022. Economists in Mexico predict that GDP will expand by 0.90% in 2023, down from 3.00% in 2022. Inflation will surpass both nations' central banks' objectives, forcing them to maintain high interest rates, slowing their economies. Brazil's commodity-heavy economy is unlikely to gain from the similar price surge that occurred during the global economy's re-opening and following Russia's invasion of Ukraine in 2023. Brazil is the world's largest exporter of soybeans, and futures prices will not return to the highs of the first half of 2022, according to Trading Economics and the CME Group. The chemical

projects that are already in the works are as follows: Braskem is increasing its ethanol-based ethylene production capacity in Triunfo, Rio Grande do Sul state, by 60,000 tonnes/year, bringing the company's total capacity to 260,000 tonnes/year. Braskem anticipates completing the project in February 2023. Unipar Carbocloro plans to build a new chlor-alkali plant in Camacari, Bahia state, which will be capable of generating 10,000 tonnes of chlorine and an equal amount of caustic soda every year. Construction is expected to begin in the second half of 2023 and last 24 months.

- Mexico's economy is intimately linked to the US economy, and many experts predict that the US will face a recession in 2023. A slump in the United States would limit growth in Mexico. Even if Mexico's economy outperforms projections, the country's chemical sector lacks the feedstock to fulfil any growth in demand. All of Mexico's crackers use ethane as a feedstock, and most of the country's ethane originates from associated gas generated from its oil wells. Mexican oil output has been declining for a long time. Pemex, the state energy company, had hoped that its new oilfields programme would reverse the downturn. So far, this has not been the case. Mexico currently relies on imported ethane to keep its crackers going, but even this is insufficient to compensate for the reduction in domestic output. Because of a scarcity of feedstock, Mexico has limited growth initiatives. Braskem Idesa has begun work on an ethane terminal capable of importing 80,000 bbls/day. Braskem Idesa will get 120% of its ethane requirements through the terminal. As a result, the joint venture may be able to increase polyethylene (PE) production at Ethylene XXI by roughly 15%. The terminal is expected to open in the second part of 2024.
- In the quota year 2021, palm oil was the most significant vegetable oil raw material for the manufacturing of biodiesel and hydrogenated vegetable oil (HVO) to offset the GHG quota requirement. According to the Federal Agency for Agriculture and Food (BLE) evaluation report 2021, released in December 2022, 1.318 million tonnes of raw materials recognised under EU regulation (RED II) come from Asia. Palm oil led the pack with 0.992 million tonnes. According to the Union for the Promotion of Oil and Protein Plants (UFOP), the percentage of palm oil in the completed quota year 2022 would be cut in half. Total sales are expected to be around 2.5 million tonnes. This projection is based on Germany's statutory limit of 0.9% of final energy consumption in transportation for mitigating the GHG quota requirement. According to UFOP, rapeseed oil from European farming will be principally responsible for closing the demand gap. This is especially true for the years 2023 to 2030. Palm oil-based biofuels have been removed from offsetting as of 1 January, long ahead of the EU-mandated phase-out date of 2030. This exclusion has previously been established in several EU member states (France, Sweden, Belgium, and Austria).
- On 15 December, Saudi Aramco, Sabic, and Sinopec signed a Memorandum of Understanding (MoU) to examine the economic and technical feasibility of establishing a new petrochemical complex in Yanbu, Saudi Arabia, to be integrated with an existing refinery, Aramco stated. No other information was offered; however, Sinopec owns a 37.5% ownership in the 430,000 b/d Yasref refinery in Yanbu, which would probably house the facility. On 20 December, Aramco and Total Energies of France announced that the \$11 billion, 1.65 million tonne/year Amiral petrochemicals complex will be incorporated into their 460,000 b/d Satorp refinery (Aramco 62.5%, Total Energies 37.5%). According to the Satorp partners, building will commence in the first quarter of 2023, with commercial activities beginning in 2027.





- Other Middle Eastern nations also provided updates, such as Oman state business OQ signing a project development deal on 28 December with regional peers Sabic of Saudi Arabia and Kuwait Petroleum International (KPI) for a petrochemical facility in the Special Economic Zone at Duqm (Sezad). A steam cracker, derivative units, and a natural gas liquid extraction plant will be part of the complex. Qatar Energy has reached a final investment decision (FID) with partner Chevron Phillips Chemical to develop the \$6 billion Ras Laffan petrochemicals facility (CPCChem). The Ras Laffan Petrochemicals complex, which is set to start production in 2026, will include an ethane cracker with a capacity of 2.1 million tonnes/year of ethylene, making it the largest in the Middle East and one of the largest in the world, according to a statement. It will also contain two polyethylene (PE) trains with a combined output of 1.7 million tonnes/year of high-density polyethylene (HDPE), bringing Qatar's total petrochemical production capacity to about 14 million tonnes/year. According to CPCChem, the plant's output will mostly be exported.