RLA Weekly Report – Monday, 04 July 2022

No.3

Economy

- In an attempt to control soaring inflation, the European Central Bank is all set to increase interest rates for the first time in 11 years. The ECB is expected to raise interest rates by 0.25% in July. The latest inflation estimate for the eurozone was 8.1% - well above the ECB's target. With current levels of inflation caused by supply side constraints we are far from convinced that raising interest rates aggressively will work and that in so doing central banks increase the risk of recession.

- The Russia-Ukraine war was the centre of G7 talks last week, as leaders discussed new ways of isolating the Russian economy, along with a ban on imports of gold and imposing a price cap on Russian oil supplies.

- The Indian government hiked export duties on oil products. India joined the list of countries that tax the windfall gains of oil companies due to soaring crude prices.

Oil and Tankers

- Oil prices recorded the third consecutive weekly loss in the week ending July 1. June ended with the first monthly decline of 8% since November last year in comparison with May. Similar to the trends seen a week earlier, prices surged on the first two days of the week as political tensions in Libya and Ecuador added to the persistent oil supply tightness. Also reports on China easing Covid-19 restrictions contributed to the price gains seen on Tuesday. Brent prices settled up $2.89/bbl at $117.58/bbl on Tuesday while prices for WTI climbed $2.19/bbl or 2% to $111.76/bbl. Once again, Wednesday witnessed prices tumbling over recession concerns. Reports of the US economy contracting by 1.6% in the first quarter and a reported fall in consumer spending in May pushed the fear of recession to the forefront. Finally, after consecutive daily losses, oil prices eked out modest gains on Friday. Brent gained $2.6/bbl to settle at $111.63/bbl and WTI averaged $108.43/bbl adding $2.67/bbl to the Thursday close. There is some concern over a threatened strike by Norway's crude oil production workers.

- Reports suggest, June saw an increase of roughly 5% in Russian crude oil and condensate production versus the previous month. Oil production rose to 10.7 million b/d last month. However, Russian oil exports fell by 3.3% versus May.

- Russia became India's biggest crude supplier in June. India turned away from its favourite crude – Iraqi Basrah - and replaced it with Russian supplies. Post Russia's invasion of Ukraine, China and

India have emerged to be the top buyers of Russian crude. The two countries currently account for 50% of Russian waterborne exports.

- According to the EIA, US crude stocks registered a fall of around 3 million bbls to 415.6 million bbls in the week ending June 24. Crude stocks surged to 418.7 million bbls in the first full week of June from 416.7 million bbls in the week ending June 3. There was also a marginal increase in the following week. The US SPR also reported a decline of 7 million bbls in the week ending June 24. Contrary to the above, both gasoline and distillate fuel stocks soared from 218.9 million bbls and 109.8 million bbls to 221.6 million bbls and 112.4 million bbls respectively in the week ending June 24.

- Last week, China announced a subsidy for oil companies as crude oil prices hovered close to the ceiling marked for the aid. China will subsidize oil refineries if prices soar above \$130/bbl. The companies producing diesel and gasoline and those importing these products will be subsidised.

Tanker Freight Rates on Key Routes

Route No.	TC2_37	TC9	TC14	TD1	TD6	TD17	TD18	TD20	TD3C	TD24
Description	37k mt Cont to USAC	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	100k mt Baltic to UK-Cont	30k mt Baltic to UK-Cont	130k mt W Afr to Cont	270k mt Ras Tanura to China	100k mt Crude, Kozmino to Ningbo
Size mt	37000	22000	38000	280000	135000	100000	30000	130000	270000	100000
Route	Rott - NY	Baltic - UKC	USG - Cont	Ras - LOOP	Novo - Augusta	Baltic - UKC	Baltic - UKC	Offshore Bonny to Rotterdam	Ras Tanura to Ningbo	Pacific Russia to China
	WS	WS	WS	WS	WS	WS	WS	WS	WS	\$
23/06/2022	357.78	497.86	252.86	28.39	129.72	174.06	340.00	117.95	49.09	1,575,000
24/06/2022	353.06	502.86	246.25	28.72	129.06	175.31	340.00	116.82	49.68	1,600,000
27/06/2022	350.28	502.86	244.58	29.06	129.50	176.56	339.58	115.45	50.36	1,625,000
28/06/2022	346.67	505.00	250.83	30.89	127.83	177.50	340.42	110.91	50.68	1,662,500
29/06/2022	341.67	508.57	259.58	31.89	127.61	185.94	340.42	117.27	52.41	1,666,667
30/06/2022	330.00	511.43	275.00	33.00	128.72	186.56	341.67	119.55	54.73	1,666,667
01/07/2022	329.44	510.71	270.00	33.06	130.50	188.13	341.67	118.91	55.50	1,666,667

Source: Baltic Exchange

LPG

- Japanese LPG importer Eneos Globe has announced a new project to develop synthetic LPG production, backed by the economy, trade and industry ministry (Meti). Synthetic LPG will be produced from hydrogen and CO_2 using the Fischer-Tropsch process. The aim is to start the commercial production by early 2030 with a target output of 1000 tonnes/year of synthetic LPG.

- Colombia's state-controlled oil company Ecopetrol will end a 30% discount on its wholesale supply from August that will result in an increase in LPG prices. The six months' discount has cost the company approximately \$52.6 million. Current LPG prices including the discount stand at Ps 1,577/Kg, which is expected to increase by around 50% after Ecopetrol ends the discount.

- VLGC spot freight rates for vessels trading on all three benchmark routes continued to show some easing in the last week and are expected to see some further downward pressure in the short-term on tighter product differentials and a slight overhang of tonnage.

VLGC Spot Freight Rates

Route No. Description Size mt	BLPG1 AG-East 44000	BLPG2 USG-Cont 44000	BLPG3 USG-Japan 44000 $/tonne
23/06/2022	77.43	67.50	108.57
24/06/2022	76.14	66.60	107.43
27/06/2022	74.00	65.60	105.93
28/06/2022	71.86	64.20	105.00
29/06/2022	70.29	63.80	104.57
30/06/2022	69.00	63.00	104.71
01/07/2022	68.36	63.70	105.93

Source: Baltic Exchange

LNG

- Russian President Vladimir Putin signed a decree on 30th June to take charge of the Sakhalin-2 gas and oil project, a move that could force out Shell and Japanese investors. The order states that a new firm would take over all rights and obligations of Sakhalin Energy Investment. The project is 50% owned and operated by Gazprom, with an annual output of 12 million tonnes (about 4% of the world's LNG market). The five page decree allowed the Russian energy company Gazprom to keep its stake, but other shareholders are required to ask the Russian government for a stake in the new firm within a month.

- LNG prices in Europe rose significantly amid global gas supply decreasing due to technical issues. The July contract, which expires on Wednesday, settled at 139.59 euros a megawatt-hour. The continent is struggling to get LNG supplies after Gazprom announced on June 16 that daily gas shipments to Europe via the Nord Stream line have reduced from 167 million cubic meters to 67 million cubic meters.

- As of end June a total of 108 LNG carriers had been ordered in the first half of this year. This is an all time high figure which significantly exceeds last year's total figure of 86 LNG carriers. Most of the orders went to South Korean shipbuilders. On June 22 alone, Samsung Heavy Industry received orders for 14 LNG carriers. More LNG carrier orders are expected from Qatar Energy's project as they are estimating an increase in LNG demand in the wake of the war in Ukraine. The first phase of Qatar's current project to expand its' LNG liquefaction capacity is scheduled for completion end 2025 and will increase capacity from 77 million tpa to 110 tpa. The second phase provides for a further increase to 126 million tpa from 2027.

Decarbonization

- On 22nd June, MEPs of the EU gathered once more to vote on the overhaul of the EU ETS as part of the broader 'Fit for 55' package of climate policies. This was after the unexpected rejection of the compromise deal after it was watered down by amendments lowering ambitions and prolonging handouts to polluters. However, the actual benefits for the climate over the rejected deal of this new deal are negligible and are substantially weaker than the environment committee (ENVI) proposal that parliament was first offered. For instance, the proposal would see an overall emissions reduction in 2030 that is merely 23 megatonnes lower than the rejected deal, equivalent to the annual emissions of just four steel plants.

- Also, copious amounts of free pollution permits will still go to large polluters until 2030, nearly 5 billion compared with the more ambitious target of just over 4 billion agreed by ENVI. Subsidizing pollution in this way removes the economic incentive for heavy industry to take climate action and improve its resource efficiency. It also deprives state treasuries of the auctioning revenues that should be generated and reinvested in further climate action. While civil society groups have demanded the EU ETS deliver an overall reduction of emissions of over 70% by 2030, environment ministers decided to revive the European Commission's original proposal of implementing a cut of just 61%.

- Proposals to include shipping and road transport in the EU Emissions Trading Scheme (ETS) was also rejected in a surprise move, drawing criticism from green lobbyists who claimed MEPs had watered down the proposals. MEPs have agreed to phase in shipping until 2026, postponing it for another four years before medium-sized ships might be considered for inclusion in the scheme.

Chemicals

- At least five big-name shipowners in Asia and Europe are eyeing dual-fuel methanol propulsion for their next round of container ship newbuildings amid the expectation that some 50 methanol dual-fuelled vessels may be ordered before the end of 2022. According to Tradewinds, 'Cosco Shipping Holdings, Eastern Pacific Shipping and Pacific International Lines (PIL) are among those expressing interest in methanol as a fuel, in addition to AP Moller-Maersk and CMA CGM, which have already ordered tonnage or declared their intentions'. The alternate fuel i.e., ammonia is not that easy to handle. There is still work being done on dealing with ammonia's toxicity and the need to remove nitrous oxide from the exhaust stream. Advocates arguing that methanol should be the future fuel of choice stress that it can be stored and transported as a liquid without the need to cool or keep it under pressure.

- India's government has issued quotas for duty-free soybean oil and sunflower oil for importers with a ceiling of maximum 0.2 million tonnes for each buyer in a bid to check high domestic prices. the sunflower oil supply to India from Ukraine - the erstwhile leading supplier of the commodity remains constrained after the Russia-Ukraine war, with no shipment witnessed in the last few weeks. This has led to a surge in prices of sunflower oil making it an unfavorable purchase among Indian buyers, as the domestic market remains highly price-sensitive. The other popular alternatives are those such as palm and soybean oil. Wholesale prices of soybean oil as well as sunflower oil are still over 23% and 32% respectively higher than last year's levels with a similar surge in retail prices, according to Food Ministry data released June 30.

- The Indian government waived all import taxes on an annual purchase of 2 million mt crude soybean oil and crude sunflower oil. India is the largest buyer of vegetable oils and imports comprise more than half of its annual consumption of 23-24million-24 million tonnes. While about 60% of India's edible oil purchase is palm oil, soybean oil and sunflower oil follow it up at 35%-40%, according to the national trade body, the SEAI.