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Impending interest rate hikes and easing oil prices are expected to push OPEC+ towards another production cut in June

Economy

- Japan's economy experienced growth for the first time in three consecutive quarters, primarily due to a resurgence in household spending. Japan's GDP expanded at an annualised rate of 1.6% in the January–March period, surpassing economists' projections of a 0.7% increase. This translates to a quarterly growth rate of 0.4%. However, despite the stronger-than-expected growth, uncertainties loom over Japan's economic outlook, primarily due to apprehensions about a slowdown in the US and Europe, which are key trading partners for the country.
- In April 2023, Japan's Au Jibun Bank Manufacturing PMI held steady at a six-month high of 49.5, matching the preliminary reading indicating a sustained recovery in the economy. Although factory activity contracted for the sixth consecutive month, the decline was the least severe in the ongoing sequence.

Oil and Tankers

- With the expected rise in interest rates by major central banks globally, the slower-than-expected growth of the Chinese economy, and the decline in oil prices, it is highly likely that OPEC+ will announce further production cuts to support oil prices during their upcoming monthly meeting on 3-4 June, another factor influencing the supply dynamics is the consistent supply of Russian oil. If Russia continues to supply the Asian market without adhering to the announced cuts, there is a likelihood that the group will propose even greater reductions. Based on our latest quarterly tanker market report, it is projected that there will be a deficit of 0.6 million b/d in 2023. This deficit is a result of OPEC+ crude oil production being reduced by 3.66 million b/d. However, assuming OPEC+ announces an additional 1 million b/d cut in production, the deficit is expected to increase close to 2 million b/d in the second half of the year. If oil demand growth remains steady, this surge in the deficit is likely to drive prices above \$90/bbl during the second half of the year.
- India has become the second-largest supplier of diesel to the EU since its ban on Russian imports. Around 194,000 b/d of diesel/gasoil have been imported from India into the EU, comprising approximately 20% of all EU imports. This is a significant increase compared to the previous year when the EU received only 60,000 b/d of diesel, accounting for a mere 5% of imports. According to the reported fixtures, India exported 1.7 million tonnes into the Europe in March and April.
- India's demand for cheaper Russian crude, particularly the ESPO Blend, continues to grow and has impacted Nigerian crude exports. During May, three Aframax tankers transported ESPO Blend, with a combined capacity of approximately 150,000 b/d, from Kozmino to various destinations in India. Despite a slight rise in Nigerian crude exports to India in April, averaging 66,000 b/d compared to

45,000 b/d in March, these figures remain considerably lower than the 290,000 b/d exported to India in April 2022.

- The Biden administration is making arrangements to replenish the US SPR by acquiring around 3 million bbls of sour crude for delivery in August. This purchase is the initial step in their plan to increase the SPR, which currently stands at its lowest level in over 40 years, just under 360 million bbls. Furthermore, they intend to acquire additional crude later this year as part of their efforts to replenish the reserve.
- According to the EIA, commercial crude stocks in the US firmed slightly to 467.6 million bbls in the week ending 12 May from 462.5 million bbls the previous week. Distillate inventories remained high at 106 million bbls, the same as the previous week. However, gasoline stocks eased by 1.3 million barrels, averaging around 218.3 million bbls in the week ending 12 May.

Tanker Freight Rates on Key Routes

Route No.	TC2_37	TC6	TC8	TC20	TC14	TD1	TD6	TD18	TD20	TD3C
Description	37 kt Cont to USAC	30 kt Clean Algeria to Euro Med	65 kt Clean MEG to UKC	90 kt MEG to UKC	38 kt USG to Cont	280 kt MEG to USG	135 kt BSea to Med	30 kt Baltic to UKC	130 kt WAF to Cont	270 kt Ras Tanura to China
Size mt	37000	30000	65000	90000	38000	280000	135000	30000	130000	270000
Route	Rdam to New York	Skikda to Lavera	Jubail to Rdam	Jubail to Rdam	USG to Cont	Ras Tanura to LOOP	Novo to Augusta	Baltic to UKC	Offshore Bonny to Rdam	Ras Tanura to Ningbo
	WS	WS	WS	\$	WS	WS	WS	WS	WS	WS
15/05/2023	127.22	148.56	50.00	3550000	84.17	32.94	130.72	255.00	121.75	43.50
16/05/2023	125.83	145.63	48.97	3542857	82.92	34.67	132.00	255.00	123.25	47.32
17/05/2023	125.56	144.56	49.87	3592857	81.67	35.00	133.94	254.58	133.25	49.55
18/05/2023	125.56	141.56	49.23	3557143	82.08	34.78	133.17	254.58	129.75	49.73
19/05/2023	125.00	140.94	49.10	3417857	83.75	35.78	132.11	254.58	126.00	54.45

Source: Baltic Exchange

LPG

- In order to accommodate rising production and increasing demand internationally, US midstream companies plan to increase the country's NGLs export capacity. At its 700,000 b/d Nederland terminal in Texas on the US Gulf coast, Dallas-based Energy Transfer plans to increase 250,000 b/d of LPG and ethane export capacity by the middle of 2025. Following record exports from Nederland and Energy Transfer's Marcus Hook terminal in Pennsylvania on the east coast during the first quarter, the company said a final investment decision (FID) has been made for the \$1.25 billion project. Marcus Hook can export around 260,000 b/d of LPG but not ethane.
- South Africa's state-owned Transnet National Ports Authority (TNPA) has sought bids to build and operate a new LPG terminal at the Port of Cape Town. In addition to designing and financing the

facility, TNPA wants the selected company to run it for 25 years. In response to the rising demand for LPG, the Port of Cape Town has located undeveloped land for the storage and handling of the LPG.

- Spot freight rates for VLGCs on all three benchmark routes increased over the week amid increasing demand. Rates on the Arabian Gulf to the Far East rose by \$6.5/tonne to reach \$100.86/tonne by the end of the week. Similarly, rates from the US Gulf to Europe and from the US Gulf to the Far East surged by \$3.20/tonne and \$6.21/tonne, respectively, to reach \$86.60/tonne and \$147.00/tonne over the same period.

VLGC Spot Freight Rates

Route No. Description Size mt	BLPG1 AG-East 44000	BLPG2 USG-Cont 44000	BLPG3 USG-Japan 44000 \$/tonne
15/05/2023	94	83	141
16/05/2023	97	84	141
17/05/2023	98	85	142
18/05/2023	99	86	146
19/05/2023	101	87	147

Source: Baltic Exchange

LNG

- Japan's LNG imports fell by roughly 19% in April as a result of warmer weather and increased energy storage. According to preliminary trade data from the Japanese Finance Ministry, the country's LNG imports for April dropped to 4.53 million tonnes, or around 67 cargoes, from 5.57 million tonnes, or 82 cargoes, received in April 2022. Australia, which provides Japan with about 27 million tonnes of LNG annually, shipped 2.49 million tonnes in April. Imports of LNG from Russia during the month also fell by 10.6% to 354,000 tonnes.
- According to China's General Administration of Customs, Chinese LNG imports increased by 10% to 4.77 million tonnes in April 2023 from 4.34 million tonnes in April 2022. The increase was from an already low base as the April 2022 deliveries took place during Covid-19 lockdowns in large cities like Shanghai when economic and industrial activity were curbed along with fuel demand.
- Driven by a spike in demand for sustainable energy sources, Oman has become one of the top 10 global exporters of LNG. In April, the country's LNG exports hit a record high of 1.16 million tonnes, up from 0.08 million tonnes the month before. The top ten LNG exporters worldwide include the US, Qatar, Australia, Russia, Malaysia, Indonesia, Algeria, Nigeria, Oman, and Trinidad and Tobago, according to the GECF's (Gas Exporting Countries Forum) monthly gas report. According to the report, worldwide LNG exports rose significantly by 6% (1.95 million tonnes) year on year to 35.58 million tonnes in April 2023.
- Due to poor demand and excessive stocks, Asian spot LNG prices on Friday fell to their lowest in two years. According to industry sources, the average LNG price for July deliveries to northeast Asia LNG-AS was \$9.8/MMBtu, a decrease of 6.6% from the previous week and the lowest price since May 2021.

LNG Spot Freight Rates

Route No. Description	BLNG1g Aus-Japan	BLNG2g USG-Cont	BLNG3g USG-Japan \$/day
09/05/2023	45070	40216	41789
12/05/2023	43262	38701	39811
16/05/2023	41013	37879	38911
19/05/2023	37114	35134	35558

Source: Baltic Exchange

Chemicals

- Summit Agricultural Group aims to develop the world's largest ethanol-based sustainable aviation fuel facility on the US Gulf Coast, adding 750,000 tonnes/year of capacity to the region starting in 2025, according to the agricultural service company on May 15. The project will use Honeywell's ethanol-to-jet manufacturing method to convert low-carbon ethanol into SAF, increasing demand for low-carbon ethanol producers while providing much-needed SAF supply to the aviation sector. Summit is now working on the project's engineering and design alongside Honeywell and Burns and McDonnell. Ethanol to jet "is a natural next step for the ethanol industry," Summit Ag Investors President Justin Kirchoff said. "The most important factors for the SAF industry are scale, cost of production, and carbon footprint, and we believe ethanol has a material advantage in these areas relative to existing SAF feedstocks."
- Japanese shipping company Mitsui OSK Line (MOL) intends to lease a new methanol-fueled methanol carrier for use by local petrochemical giant Mitsubishi Gas Chemical (MGC) by 2025. The goal of the launch is to minimise greenhouse gas emissions (GHG) during voyages. On May 19, Mol and MGC stated that they had signed a long-term charter deal on 28 April, with South Korean shipbuilder Hyundai Mipo Dockyard building the 47,802-dwt vessel. The ship will have a dual engine that can run on both methanol and regular marine gasoline. MOL and MGC anticipate that methanol usage will reduce sulphur oxide emissions by up to 99% when compared to traditional heavy oil, as well as particulate matter emissions by 95%, nitrogen oxide emissions by 80%, and CO2 emissions by 15%.
- In the medium term, Asia's ethylene supply will grow due to an increase in operating rates on existing facilities (including stream crackers and coal to olefins/methanol to olefins, or CTO/MTO units), as well as additional cross-regional cargoes from the US. With the addition of additional capacity in the United States during the last two years, North America has surpassed Europe as the world's largest ethylene export area. In the first quarter of 2023, the United States exported 304,000 tonnes of ethylene, a 7% increase over the same time in 2022. Ethylene cargoes from the United States will continue to be exported to Asia as domestic demand in the United States remains sluggish in the short term. In Q1 this year, the United States shipped almost 211,000 tonnes of ethylene to Asia, accounting for 69% of total US ethylene exports for the quarter. Meanwhile, the additional capacity that will be introduced in



eastern China will increase domestic supply. In the second half of May, China's Sanjiang Petrochemical in Zhejiang province expects to test its new steam cracker with a capacity of 1 million tonnes of ethylene per year.