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No.16

Market anticipates a 500,000 b/d to 1 million b/d production cut from the OPEC+ as an outcome from its scheduled meeting on 5 October.

Economy

- German inflation hit a record high of 10% in September, up from 7.9% in August because of high energy and food prices. Energy prices in September were 43.9% higher versus the same time last year, according to the Federal Statistical Office.
- Inflation in India accelerated in August to 7% - for the first time in four months, from 6.7% in July. Consequently, the Reserve Bank of India raised interest rate by 50 basis points last week in a bid to bring inflation down. With this, the Monetary Policy Committee increased the interest rates to 5.9% from 5.4%. This was the fourth straight hike this year. The central bank has now increased interest rates by 190 basis points since March.
- Unexpectedly, inflation in the UK slid to 9.9% in August from 10.1% in the month of July on the back of easing fuel prices, according to Reuters. However, the marginal fall is not enough as the country struggles with its cost-of-living crisis and increasing food costs.

Oil and Tankers

- According to market expectations, OPEC+ is anticipated to cut oil production by 500,000 b/d to 1 million b/d in its next monthly meeting scheduled for 5 October. The group is focusing on a potential output cut in order to cushion prices after they fell from their multi-year highs in March. Earlier, traders were expecting a nominal cut from the group, but latest reports have indicated that Moscow is all set to propose a production cut of 1 million b/d. In any event, Russian output could be expected to fall once the EU ban on Russian crude oil imports takes effect from 5 December.
- As a result, oil prices marked a rebound of 3% in response to the prospect of the biggest output cut since 2020. However it would appear to some extent that a cut may already have been priced in by the market. Given that OPEC+ produced 3.6 million b/d below target in August, any actual cut may be somewhat less than planned.
- Reports suggest that OPEC production rose in September by 210,000 b/d with Saudi Arabia, the UAE and Kuwait all increasing output to target levels. Other gains came from Nigeria and Libya. This all followed the OPEC+ announcement early in the month of a 100,000 b/d cut in October.
- According to JLC, China's Ministry of Commerce (MOC) recently issued the third batch of non-state crude import quotas for this year, allowing 2.89 million tonnes of imports. The quota was divided among seven independent refiners in Shandong, with Tianhong Chemical receiving 660,000 tonnes, 450,000 tonnes for Landbridge Petrochemical, Yatong Petrochemical receiving 420,000 tonnes, Lianhe Petrochemical receiving 420,000 tonnes, 380,000 tonnes for Kenli Petrochemical, Haike Ruilin Chemical receiving 310,000 tonnes, and Hualian Petrochemical receiving 250,000 tonnes. So far, the

country has set quotas for 164.61 million tonnes (3.3 million b/d over a full year) of crude imports in 2022.

- Prices slid on the first day of the week ending 30 September as increasing interest rates combined with the US dollar trading at a record high spooked traders on Monday. Brent crude for November delivery fell $2.09/bbl, to $84.06/bbl, while West Texas Intermediate (WTI) for November delivery was down $2.03/bbl to $76.71/bbl. Oil prices recovered on Tuesday as Hurricane Ian shut in around 11% of oil production in the US Gulf of Mexico. The Brent price reversed by more than $2.2/bbl to $86.27/bbl and WTI rose $1.79/bbl to $78.5/bbl, respectively. The upward trajectory continued on Wednesday as Brent marked an increase of $3.05/bbl while WTI increased by $3.65/bbl. The rally in oil prices was short lived as prices eased on Thursday on reports that the US Gulf production was expected to return online and despite fears the news that OPEC+ would consider an output cut in its next monthly meeting. Finally, oil prices ended the week with another negative session. Brent fell $2.04/bbl, to settle at $85.14/bbl, while WTI lost $1.74/bbl, to average $79.49/bbl. Friday marked a 25% quarterly drop in oil prices, although there was a gain of 2.5-3% for the week

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	$
22/09/2022	301.67	325.36	245.00	53.72	184.5	181.88	375.83	139.66	103.70	1,510,833
23/09/2022	299.44	325.00	305.83	53.56	184.78	186.25	376.67	139.55	103.82	1,500,000
26/09/2022	292.22	325.71	300.83	52.28	184.78	199.69	378.33	139.55	100.82	1,500,000
27/09/2022	283.89	332.86	290.00	51.06	184.39	207.81	380.00	138.41	97.23	1,500,000
28/09/2022	273.33	340.00	283.33	49.44	182.17	219.38	382.50	137.27	90.36	1,500,000
29/09/2022	267.22	351.43	288.33	47.44	182.39	220.63	385.00	135.91	85.18	1,500,000
30/09/2022	258.89	360.71	290.00	47.5	180.17	219.69	386.25	129.32	84.14	1,500,000

Source: Baltic Exchange

LPG

- After the economy, trade, and industry ministry (Meti) requested a lower budget for disaster resilience measures, Japan's LPG sector is likely to receive less government support in the 2023–24 fiscal year ending in March. For the country's LPG sector in 2023–2024, Meti has sought a budget of ¥3.4 billion ($23.7 million), a decrease of 28% from 2022–2023 including supplementary funding. Meti requested that the budget for the national LPG stockpiling scheme be reduced from ¥26.7 billion in 2022–2023 to ¥22.7 billion in 2023–2024, a 15% reduction. The funds will be put to use to maintain the national strategic storage facilities run by state-owned energy company Jomec.
- According to the country's LPG association POGP, Polish LPG consumption rose by more than 8% on the year to 1.22 million tonnes in the first half of 2022 due to soaring autogas demand. With approximately 2 million tonnes/year of demand and more than 3 million cars, the country has the

largest autogas market in the EU. POGP data shows that imports increased by 23% on the year to 1.18 million tonnes in January–June while domestic production decreased by 21% to 205,000 tonnes.

- According to market participants, Ukraine's LPG imports decreased by almost 50% on the year and by 1% from June to 76,600 tonnes in July. Because of substantial inventories, traders expect that September supplies will fall to 65,000–70,000 tonnes. LPG deliveries by rail continued to grow, accounting for about 40% of total imports in August compared with 37.5% in July. Although shipments from Poland to Ukraine fell by 2,600 tonnes from July to August, Romania, Latvia, and Lithuania all increased their shipments to Ukraine last month.
- Decarbonisation is gaining momentum as the energy transition accelerates, including for low-carbon and clean-burning fuels like LPG. BioLPG has become an increasingly attractive alternative biofuel and is considered a promising route to directly decarbonising parts of the transport, residential, industrial, and petrochemical sectors. The market, however, is limited. By the end of 2021, production from hydroprocessing was about 200,000 tonnes/year, with small additional volumes coming from bioethanol conversion. Volumes are forecast to rise to just under 245,000 tonnes/year by the end of 2022. Based on annual projects, the output of bioLPG is anticipated to more than triple between 2020 and 2025. By 2030, the market will reach more than 2.2 million tonnes/year if it continues to develop at this rate.

VLGC Spot Freight Rates

Route No. Description Size mt	BLPG1 AG-East 44000	BLPG2 USG-Cont 44000	BLPG3 USG-Japan 44000 $/tonne
22/09/2022	77.14	68.80	125.00
23/09/2022	77.79	69.60	127.79
26/09/2022	79.43	70.00	129.07
27/09/2022	80.36	70.00	130.00
28/09/2022	81.14	70.60	131.00
29/09/2022	81.29	70.40	132.00
30/09/2022	81.50	71.60	133.86

Source: Baltic Exchange

LNG

- Following the discovery of three pipeline ruptures last week, natural gas was finally no longer leaking from the Nord Stream 1 and 2 pipelines, the Danish Energy Agency reported yesterday. Political figures in Europe and the United States have speculated that the explosions that caused the ruptures were an act of sabotage, though no cause has been officially determined. Much of the speculation about responsibility has focused on Russia, whose state-controlled energy company, Gazprom, is the primary owner of the pipelines. Although neither pipeline was transporting gas at the time, they still contained methane, the primary component of natural gas and an environmental concern.

- As it outlined its strategy for a potential future without Russia, French oil firm TotalEnergies said it would increase investments and ramp up production of liquefied natural gas (LNG), but it would not completely break ties. Total still has several holdings in Russia and still supplies liquefied natural gas to Europe, in contrast to rivals BP, Shell, and Equinor, who departed after the invasion of Ukraine. TotalEnergies announced that it would expand LNG sales by 3% annually through 2027 and increase LNG output by 40% from 2021 to 2030 as Europe struggles to find alternatives to Russian gas.

- The price of liquefied natural gas (LNG) on the spot market in Asia decreased this week as a result of an adequate supply and muted Chinese demand, which cut off the market from Europe, where gas prices increased as a result of the leaks found on the Nord Stream pipelines. According to industry sources, the average LNG price for November deliveries to North-East Asia LNG-AS was $38.5 per million British thermal units (mmBtu), down $3.50/mmBtu or 8.3% from the prior week.

- In light of the worsening energy crisis in Europe, Chinese shipbuilders have been able to increase their orders for liquefied natural gas (LNG) vessels this year, putting them in the running with South Korea for the title of top LNG tanker builders. As of the end of July this year, Chinese shipbuilders had landed a total of 32 LNG vessel orders, the most annual orders in the country's history. According to Zheng Ping, chief analyst of industry news chineseport.cn, Europe's worsening energy crisis following the outbreak of the Russia-Ukraine conflict is mostly to credit for the surge in demand for LNG vessels. However, it is difficult to predict how long the energy crisis will last. The explosive demand, together with limited availability of LNG tankers, has prompted ship-owners to place new orders. The total number of orders for new LNG vessels rose to a record high of 111 globally in the first eight months of the year.

Chemicals

- According to Shell, global aviation fuel demand is likely to fully rebound to pre-pandemic levels of 300 million tonnes per year during the next one to two years. As per Shell Aviation President Jan Toschka, demand in the United States has returned to 2019 levels, while consumption in Europe has rebounded to more than 80% and is on track for full recovery in the next year. However, with the European Union's sanctions on Russian oil products taking effect on February 5, Europe's jet fuel supplies are tightening, forcing the region to purchase more gasoline from the United States, China, India, and the Middle East. Shell is considering building two more sustainable aviation fuel (SAF) plants in the United States, with the goal of renewable fuel accounting for 10% of its global jet sales by 2030. One of the initiatives will use standard hydroprocessed esters and fatty acids (HEFA) technology, while the second will use modern technology.

- Shell may also make a final investment decision for its Singapore SAF plant by the end of 2022 or early 2023, with a capacity of up to 500,000 tonnes of SAF to be produced in the city state by 2026. Meanwhile, production at its Rotterdam biofuels factory is planned to begin in 2024 or 2025. Korean Air recently signed a memorandum of understanding (MOU) with Shell to purchase their sustainable aviation fuel (SAF). The MOU explores the supply and purchase of SAF from Shell at major airports in the Asia Pacific and the Middle East from 2026 for five years. Aviation is one of the most difficult modes of transportation to decarbonise, accounting for 3% of global carbon emissions. To meet net zero goals by 2050, the industry would have to spend $50 billion a year and build 5,000 SAF plants.

- During the past week, Asia's monoethylene glycol (MEG) market has been under pressure as the downstream polyester industry launched another round of operating cuts to relieve inventory pressure. Even though it is peak manufacturing season, major polyester companies in east China began cutting production by 15-20% last week due to excessive stockpiles. According to market sources, the average operating rate of China's polyester facilities has been around 80% during the last two weeks. The COVID-19 lockdowns in China, combined with high prices in the United States and Europe, have hampered consumption of non-essential goods such as clothing. As a result of the bleak demand expectation for the fourth quarter, most sellers chose to dump cargoes. To make matters worse, the current weak yuan has hampered buying activity for import cargoes, as some purchasers have moved to buying cargoes in local markets due to risk aversion, according to sources. The sustained supply cuts, however, provided some support to MEG pricing, as most MEG suppliers continued to operate their units at reduced rates due to low profitability.

- Europe's petrochemical sector is bracing for a harsh winter, pounded by falling demand, mounting energy prices that are weakening its competitive position, and the prospect of natural gas restrictions. Natural gas prices in Europe have risen to approximately ten times their long-term average since late last year. They have also been isolated from other regions, putting energy-intensive industrial sectors like chemicals and fertilizers at a competitive disadvantage globally. This is due to Russia's determination to reduce natural gas exports to Europe, as well as a cold winter and other supply constraints.

- According to ICIS, while TTF European benchmark gas prices are declining, they are still likely to stay elevated when compared to long-term averages, particularly when compared to US gas prices (Henry Hub). As a result, European petrochemical companies will continue to be at a competitive disadvantage in comparison to other locations. Already, 27.7m tonnes of European petrochemical and fertilizer capacity has been idled or run at reduced operating rates which includes approximately 35% of methanol capacity and 15% of acrylonitrile capacity. In addition, rising gas and energy prices are harming the chemical industry's input costs. The use of natural gas as a feedstock exposes approximately 96% of the variable cost of methanol, 77% of caustic soda's variable cost, 23% of monoethylene glycol's variable cost, and 20% of acrylonitrile's variable cost. Collapsing demand in many end-use sectors has made it harder for manufacturers to justify raising production costs. Margins are under significant pressure as prices plummet.

EU ETS – Shipping Regulations

- The EU ETS (Emissions Trading System) works on the 'cap and trade' principle. The total amount of certain greenhouse gases that the installations covered by the system are allowed to emit is limited. The cap is reduced over time so that total emissions fall. An installation must surrender enough allowances each year to fully cover its emissions, or else severe penalties would be imposed. If an installation lowers its emissions, it can either keep the extra allowances for future use or sell them to another installation that needs them. The EU ETS operates in all EU countries plus Iceland, Liechtenstein and Norway (EEA-EFTA States). To achieve the EU's overall greenhouse gas emissions reduction target, the sectors covered by the EU Emissions Trading System (EU ETS) must reduce their emissions by 43% compared to 2005 levels. To increase the pace of emissions cuts, the overall number of emission allowances will decline at an annual rate of 2.2% from 2021 onwards, compared to 1.74% in 2020.

- EU ETS for shipping could come into force either on 1 January 2023 with a gradual phase-in, or a year later with no phase-in.

- Whatever the eventual form of the legislation, the initial impact of the measure seems enormous considering the cost of carbon credits in the EU, which is currently around EUR 85/tonne of CO_2. Around 3.11 tonnes of carbon dioxide are produced by every tonne of LSFO consumed, hence the whole carbon cost would be EUR 265/mt of fuel (equivalent to around a third of bunker costs at current prices) without any concessions. In accordance with this policy, just 20% of confirmed emissions would require allowances in the first year of implementation (presumably beginning in 2024), increasing to 100% of verified emissions three years later.

- The cost impact at the start of the ETS regulation will be minimal, as just 20% of emission in tonnes is required to be covered. When the EU ETS is fully implemented, the costs are most likely to fall upon the shipowner, who is the easiest party to monitor. Owners will be charged 50% of the carbon costs for a trip from a country outside the EU to a port in Europe, which would amount to a sizeable fraction of the daily hire. It has been estimated that, based on an EU Allowance (EUA) price of €90 ($89/tonne), the impact on an MR product tanker earnings could be equivalent to $3,577/day, and for a VLCC $8,441/day.
- BIMCO has drafted an ETS allowance clause for inclusion in time charter parties.