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No.17

OPEC+ agrees to an extraordinary oil supply cut of 2 million b/d in November.

Economy

- The world's largest energy consumer, China, may see a decline in oil demand this year for the first time in 20 years as Beijing's zero-COVID policy encourages people to stay at home over the impending holidays and lowers fuel usage. For the first time since 2002, China's consumption of gasoline, diesel, and jet fuel could decline by 380,000 b/d to 8.09 million bpd in 2022.
- Compared to market expectations of 2.8%, China's annual inflation unexpectedly decreased to 2.5% year on year in August 2022 from a 2-year high of 2.7%. Despite stringent COVID restrictions, prices for both food and non-food items decreased.
- In September 2022, the S&P Global US Manufacturing PMI fell to 50.9 from 52.8 in August. Whereas, over the same time period, PMI in China rose to 50.1 from 49.4. Manufacturing PMI in the EU also increased to 48.4 in September from 47.3 the previous month.

Oil and Tankers

- On 5 October, OPEC+ in its monthly meeting agreed to roll out a production cut of 2 million b/d in November. To support oil prices above $90/bbl, the group agreed to make the biggest cut since 2020 against their August baselines. Although the 2 million b/d seems significant, the reality is that many of the OPEC producers have been struggling to meet their existing quotas. Out of the OPEC10 members, only Saudi Arabia, Kuwait and the UAE produced in line with their September targets.
- Prompted by the above, the White House announced that it would work with Congress to potentially enable antitrust action against foreign producers. To lessen OPEC's influence over oil prices, the administration of President Joe Biden said it would engage with Congress "on additional tools and authority." A legislation, allowing US prosecutors to file lawsuits against foreign firms in US courts for engaging in anti-competitive behaviour in the oil markets, has been passed by the judiciary committees of both chambers of Congress. For the past 15 years, the legislation has been discussed in Congress, but it has never made it to the president's desk.
- Prices saw the biggest daily jump on Monday, 3 October on the notion that the OPEC nations may implement the biggest output cut since 2020. Brent crude for November delivery rose $3.72/bbl, to $88.86/bbl, while West Texas Intermediate (WTI) for November delivery was up $4.14/bbl to $83.63/bbl. Oil prices gained further on Tuesday after reports suggested that the cartel was considering a cut of 2 million b/d rather than 1 million b/d reduction in output. Brent and WTI, both gained 3.3% and 3.5% respectively. Brent gained another $1.24/bbl mid-week after the group announced a cut of 2 million b/d in November. The rally continued through the last two days of the week. WTI settled at $92.64/bbl marking a gain of $4.19/bbl while Brent rose $3.5/bbl to $97.92/bbl on Friday. Both the benchmarks reported a weekly increase of 11% and 17% respectively.

- In the wake of OPEC+ cuts, the Biden administration announced another SPR release of 10 million bbls in November.
- Note: the Baltic Exchange has stopped reporting rates for TD24.

Tanker Freight Rates on Key Routes

Route No.	TC2_37	TC9	TC14	TD1	TD6	TD17	TD18	TD20	TD3C
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
Size mt	37000	22000	38000	280000	135000	100000	30000	130000	270000
Route	Rott - NY	Baltic - UKC	USG - Cont	Ras - LOOP	Novo - Augusta	Baltic - UKC	Baltic - UKC	Offshore Bonny to Rotterdam	Ras Tanura to Ningbo
	WS	WS	WS	WS	WS	WS	WS	WS	WS
29/09/2022	267.22	351.43	288.33	47.44	182.39	220.63	385.00	135.91	85.18
30/09/2022	258.89	360.71	290.00	47.50	180.17	219.69	386.25	129.32	84.14
03/10/2022	255.00	367.86	285.83	46.94	179.22	220.25	387.08	128.41	82.59
04/10/2022	250.00	375.71	250.83	44.78	178.89	220.31	389.17	127.73	77.41
05/10/2022	252.22	381.43	221.67	45.00	175.00	222.50	392.08	124.77	78.14
06/10/2022	250.00	382.86	185.83	46.69	175.00	223.13	395.00	124.68	80.95
07/10/2022	248.33	382.14	176.67	46.72	175.00	223.13	395.83	124.68	81.64

Source: Baltic Exchange

LPG

- Unions announced on 4 October that strikes at ExxonMobil's two French refineries would continue unless management agrees to new negotiations and offers new wage proposals. The strike at the 236,000 b/d Port Jerome, Gravenchon, petrochemical plant, and the 133,000 b/d Fos-Sur-Mer refinery were due to enter their third week on 5 October. By 4 October, similar strikes were also keeping TotalEnergies' 246,900 b/d Gonfreville refinery and petrochemical units, as well as its Carling petrochemical facility, closed or operating at a reduced capacity.
- Australian Bureau of Statistics (ABS) figures revealed that butane exports from Australia increased by almost 45% to 89,900 tonnes in July recovering from 16-month low in June. However, they were 47% lower than the 172,000 tonnes a year earlier. Australian butane exports were affected by issues at Shell's 3.6 million tonnes/year Prelude floating LNG facility, which has been offline since 10 June.
- Thailand's LPG imports have risen strongly this year as a result of firmer demand from the autogas sector and for re-exports to regional markets, as well as lower domestic production. During the eight months from January to August, LPG imports to Thailand nearly tripled to 1.22 million tonnes from the same time a year earlier. Mideast Gulf supplies increased to 955,000 tonnes from 369,000 tonnes a year earlier, or nearly 80% of the total, to meet the huge increase in import demand.
- Following nearly an 18% decline in Ice Brent crude prices, robust supplies in the Middle East Gulf, and relatively weak import demand in Asia-Pacific, state-controlled Saudi Aramco cut its monthly LPG

contract pricing (CP) to more than one-year lows for October. Aramco lowered the propane CP for October by $60/tonne on the month to $590/tonne and the butane CP by $70/tonne to $560/tonne.

VLGC Spot Freight Rates

Route No.	BLPG1	BLPG2	BLPG3
Description	AG-East	USG-Cont	USG-Japan
Size mt	44000	44000	44000
			$/tonne
29/09/2022	81.29	70.40	132.00
30/09/2022	81.50	71.60	133.86
03/10/2022	81.07	71.60	134.14
04/10/2022	80.71	71.50	134.14
05/10/2022	80.14	71.20	134.00
06/10/2022	80.00	71.00	134.00
07/10/2022	81.29	72.10	134.71

Source: Baltic Exchange

LNG

- Tokyo Gas, the second-largest Japanese importer, has agreed to sell stakes it holds in four of the five LNG export projects being developed in Australia to the American private equity firm EIG Global Energy Partners. The US company, with headquarters in Washington DC, has agreed to pay about US$2.15 billion for the Tokyo Gas micro-stakes purchased to aid in the development of the projects.

- In a rush to replace Russian energy supplies, the newest US supplier of LNG has agreed to increase exports to Germany. This transaction is only one of numerous sales to Europe made by this supplier. Venture Global announced on Thursday that it would add 500,000 tonnes of LNG annually to a 20-year contract with German utility EnBW, bringing the total to 2 million tonnes. According to Webber Research and Advisory, US corporations have signed around 47 million annual tonnes of sale and buy agreements with other nations this year.

- With healthy inventory levels, Asian spot LNG prices continued to decline, but a force majeure in Malaysia renewed concerns that buyers might need to seek replacement cargoes amid competition with Europe. The average LNG price for November deliveries to North East Asia was $34.00 per million British thermal units (mmBtu), a decrease of $4.50 or 11.7% from the previous week. Due to a leak on the Sabah-Sarawak Gas Pipeline on September 21, Malaysia LNG, which is majorly owned by Petronas, has declared force majeure on LNG supplies to its customers, including Japanese utilities, at a time when Japan and many other countries in Europe are frantically trying to secure gas supply for the peak winter demand season.

- Despite government efforts to increase domestic production, China's reliance on imported gas is growing, posing a growing threat to the country's energy security. According to the National Bureau of Statistics, China's gas production rose by 6% in the first eight months of 2022 compared to the same period in 2021. Over the past ten years, production has grown at a compound annual rate of 7%, doubling between 2011 and 2021 as a result of the government's encouragement of the development of essential areas in Sichuan, Xinjiang, and the Ordos Basin. But as additional homes have been linked to the distribution network, consumption has increased even more fast, at a compound rate of roughly 11% over the same time span. Around 413 million people had access to gas in 2020, up from 286 million in 2015 and 170 million in 2010.

Chemicals

- Biodiesel imports into the United States reached a four-month high in August, surging 69% month on month to 56,000 tonnes from 33,000 tonnes in July. However, they remain low in comparison to the high of 103,000 tonnes in March. If we look at year-to-date figures, biodiesel imports until August are at 440,000 tonnes, up from 372,000 tonnes in January-August 2021, an increase of 18%. Canada and Germany are the leading two importers into the United States, accounting for 44% and 32% of total imports, respectively.

- A.P. Moller - Maersk (Maersk) announced on 5 October that it has ordered six large ocean-going vessels capable of sailing on green methanol. Hyundai Heavy Industries (HHI) will construct the six vessels, which will have a nominal capacity of around 17,000 containers (Twenty Foot Equivalent - TEU). They will supplement the Maersk fleet's existing capacity. Maersk has set a net-zero emissions target for the entire company for 2040, as well as tangible near-term targets for 2030, to assure significant progress. This includes a 50% decrease in emissions per transported container in the Maersk Ocean fleet vs 2020, as well as a policy of only purchasing newbuild boats that can run on green fuels. Maersk has ordered a total of 19 vessels with dual-fuel engines that can run on green methanol. When all 19 vessels on order are deployed and have replaced older vessels, they will save approximately 2.3 million tonnes of CO2 per year.

- Europe is now the most expensive place for making many chemicals, according to James Wilson, an ICIS senior analyst, as energy costs in the region have surged. High prices are lowering operating rates and making imports more appealing, according to Wilson, who spoke at a session held prior to the official start of this year's European Petrochemical Association (EPCA) annual meeting. Wilson demonstrated that Europe's steam crackers had shifted from the middle of the global ethylene cost curve, which monitors the variable cost of producing ethylene plant by plant around the world, to the far right, highest cost end. Plants that produce more natural gas-intensive chemicals are particularly vulnerable to Europe's energy problem.

- While gas prices have doubled in certain parts of the world, they have increased significantly higher in Europe due to supply constraints caused by Russia's war in Ukraine and severe market uncertainty. With petrol prices being high in the coming year, the future is uncertain. The cost of producing chemicals such as methanol, ammonia, and isocyanates is visibly impacted by high natural gas costs, but for chemicals production units in general, including Europe's steam crackers, the increased cost of feedstocks, energy, and raising steam puts pressure on operations. Europe currently has the most expensive cost base for producing polyvinyl chloride (PVC), styrene, monoethylene glycol (MEG), and methanol.

- Cargill Inc aims to increase its use of biofuels in a bunkering trial and to order methanol-fueled ships as part of its emissions-cutting efforts, according to a top official at the global commodities trader last Wednesday. Cargill, one of the world's largest ship charterers, has been evaluating the operating performance of biofuels in its boats since the beginning of the year as part of its attempts to go green. The project seeks to increase vessel biofuel use to 50,000 tonnes by mid- to end-2023, up from 12,000 tonnes since January, according to Olivier Josse, the firm's marine fuels lead. "In the fourth quarter, we're going to bring some Fatty Acid Methyl Ester (FAME) and do some blending in Singapore," he said, referring to the bio-content blended with fossil diesel fuel to generate biodiesel. The decision to blend FAME in Singapore aims to better understand customer demand and hunger for biofuels as bunkering fuel. According to Cargill, the company is also testing and piloting the use of methanol as a transportation fuel. "We are currently tendering for dual fuel methanol ships that will be delivered in a few years."