RLA Weekly Report – Monday, 24 October 2022

No.19

The consumer price index in the UK hit a 40-year high of 10.1%.

Economy

- Uncertainty is increased by Prime Minister Liz Truss' departure in a nation looking for solutions to its high inflation and slow economic growth. Last month saw the fastest increase in food costs in more than 40 years, pushing annual inflation above the 10% mark. A cost-of-living issue and labour unrest have resulted from wages that haven't kept pace with rising prices. Consumer spending is declining further, as seen by figures released on Friday showing that purchases were down from pre-pandemic levels.
- According to the latest reports, the consumer price index in the UK hit a 40-year high of 10.1% in September from 9.9% in July.
- In August, the euro zone's current account deficit increased as rising energy prices increased the cost of imports for the region. The 19-member currency bloc, which had a current account surplus for years before Russia's invasion of Ukraine, had an adjusted deficit of 26.32 billion euros in August, up from a deficit of 19.96 billion euros in July. The euro zone's current account deficit for the year ending in August was equivalent to 0.1% of GDP, down from a surplus of 2.8% the year before.

Oil and Tankers

- The massive Sakhalin-1 Russian Pacific project, led by Exxon, saw a fall in oil production as a result of the US major's refusal to accept local insurance for tankers after Western insurers withdrew due to sanctions. Following Moscow's invasion of Ukraine, Western insurers stopped providing coverage for tankers controlled by state-owned Sovcomflot, the largest shipping company in Russia. The Sakhalin-1 facility, which used to produce 220,000 b/d, now only produces around 10,000 b/d.
- Positive signals from the Chinese economy outweighed increasing concerns over higher inflation and economic deterioration. Oil prices remained steady on Monday as Brent was only down by $0.01/bbl or 0.01% to settle at $91.62/bbl while WTI crude eased about $0.15/bbl or 0.2% to $85.46/bbl. News of the Biden Administration's considering releasing 10-15 million bbls of oil from the reserves resulted in prices dropping by another 2% on Tuesday. WTI for November delivery settled at $82.82/bbl while Brent for December delivery closed at $90.03/bbl. Prices reversed mid-weak, with WTI and Brent prices rising 2.7% and 2.6%, respectively, on Wednesday. Prices on Thursday once again remained more or less steady as mixed signals regarding the Chinese economy puzzled traders. Rumours of China soon easing restrictions, along with reports indicating the declining economic health of the nation ended up having little to no impact on oil prices on Thursday. Oil prices ended the week with a negative session as traders feared major demand destruction as hopes for a gradual recovery of the Chinese economy have started to dissipate.
- A 15 million bbl SPR release has been announced by the Biden administration for December. Furthermore, the latest reports suggest that officials are eyeing more releases from the reserve in the

near future if required. Also, the White House has issued a fact sheet outlining its intention to refill the Strategic Petroleum Reserve when oil prices are between $67 and $72. The US government intends to control surging oil prices and has clearly managed to do so to some extent. However, given that out of all the OPEC members, Saudi Arabia, the UAE and Kuwait can decrease production by a total of around 0.8 million b/d, or 24 million bbl in a month, plus the anticipated fall in Russian oil production in December, it is expected to more than offset the effect of the above mentioned SPR release.

- According to the EIA, US commercial crude oil inventories eased by 1.8 million bbls in the week ending 14 October. The SPR stocks also fell by over 3.5 million bbls. On the other hand, distillate fuel stocks remained flat at 106 million bbls.

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
13/10/2022	270.00	382.86	201.67	48.67	185.17	224.06	396.25	146.36	87.41
14/10/2022	278.89	382.14	194.17	51.83	188.94	224.69	394.17	156.25	93.86
17/10/2022	285.00	382.50	195.00	55.44	193.22	226.88	393.75	167.27	103.64
18/10/2022	299.44	385.36	199.58	58.28	192.61	232.19	393.33	158.75	111.41
19/10/2022	301.67	390.00	198.33	57.83	190.94	233.75	390.58	153.41	110.41
20/10/2022	301.94	394.29	197.50	57.33	192.56	233.75	390.00	154.09	107.45

Source: Baltic Exchange

LPG

- Due to better margins, Chinese propane dehydrogenation (PDH) operating rates have increased significantly recently, which could result in an increase in propane demand of 150,000–200,000 tonnes per month. But due to the excess supply of propylene and the high demand for propane over the winter, margins could decline again. The latest Argus data shows that Chinese PDH cash margins returned to positive territory at $2/tonne on 27 September for the first time in a year. They then firmed to $10/tonne by 4 October before declining to -$1/tonne by 11 October. In line with improving margins, PDH run rates increased to 80% on October 5 from 66% on September 21.

- As Poland lessens its reliance on Russian rail exports, seaborne LPG imports increased significantly in the third quarter compared to a year earlier. Between July and September, Poland's Baltic Sea terminals in Gdansk, Gdynia, and Szczcin received 239,000 tonnes of LPG, a 1.5% decrease from the previous quarter but a 38% increase from the previous year. Over the first nine months of this year, seaborne imports increased by 50% to 676,800 tonnes. With strong domestic demand and reexport demand to Ukraine, Poland continues to import LPG by rail, but arrivals are drastically down from a year ago. According to the latest data from the Polish LPG association POGP, Russian shipments made up 50% of Poland's LPG imports in January - June, down from 63% in the same period last year.

- With an order for two dual-fuel ships, Samsung Heavy Industries has obtained its first-ever VLGC newbuilding contract and entered into the red-hot segment. The vessels were ordered for KRW 271 billion ($191 million) by an unidentified client, according to Samsung's regulatory filing. The shipyard stated it would deliver the ships by the end of 2025 but did not specify what size they would be.
- The Athens-based bulker SwissMarine Inc.'s LPG trading unit, SwissChemGas, is making its biggest market move in years. The company is in the process of becoming a shipowner with the purchase of its first ship, a six-year-old VLGC that it will take delivery of in about seven months, according to brokers in Athens and London. The 82,500-cbm Gas Tigers (built 2016) is the ship in question; it is presently owned by KSS Line and is believed to be changing hands for roughly $63 million.

VLGC Spot Freight Rates

Route No.	BLPG1	BLPG2	BLPG3
Description	AG-East	USG-Cont	USG-Japan
Size mt	44000	44000	44000
			$/tonne
13/10/2022	88.43	75.40	137.86
14/10/2022	89.43	75.40	138.57
17/10/2022	91.00	75.40	138.86
18/10/2022	93.57	75.70	138.86
19/10/2022	94.00	75.60	138.71
20/10/2022	94.00	75.40	137.71

Source: Baltic Exchange

LNG

- Saipem, an Italian LNG and energy engineering company, has been given a contract worth around $4.5 billion by Qatargas for the North Field Production Sustainability (NFPS) offshore compression project, which will support the two upcoming expansions of the Arabian Gulf nation. As Qatar gets ready for its first significant gas expansion since the construction of Ras Laffan, the NFPS project will aid in maintaining gas flow from the Qatari North Field. The North Field is run by state-owned QatarEnergy, which is also Qatargas's largest stakeholder.
- For the first half of the current fiscal year, Japan's imports of LNG increased by 4%, with shipments from the Sakhalin liquefaction plant in the Russian Far East increasing year on year and costing 90% more than in the prior year due to more shipments from the Atlantic Basin destined for Europe. According to preliminary figures from the Ministry of Finance, Japan imported 34.9 million tonnes of LNG in April - September. From April to September, Japan imported 3.16 million tonnes of LNG from Russia, which was 2.2% more than the previous fiscal-year period. In contrast, US exports to Japan fell 31% year on year for the same six months, to 2.04 million tonnes.

- The 27 member states of the European Union met on Thursday for the second time in two weeks to discuss efforts to lower energy prices, but for the time being, the bloc's ability to set a gas price cap is unlikely due to ongoing tensions within it. After previously deciding to fill gas storage and claw back revenues from energy companies to use for aiding consumers with exorbitant bills, the 27 are expected to support portions of a package of EU energy proposals made this week, including an alternative price benchmark for LNG and joint gas buying. While 15 countries, including France and Poland, are pressing for some kind of cap, Germany and the Netherlands— the largest European economies and top gas consumers, respectively—are strongly opposed, warning that a restriction on gas prices could jeopardise supply stability.

- New orders for LNG carriers have significantly increased recently as a result of the growing demand for LNG. The order book for LNG carriers reached a record high of 128 at the beginning of October. The trading volume of new LNG carriers worldwide reached 77, 60, 53, and 86, respectively, between 2018 and 2021. The demand for LNG carriers will continue to outpace supply for some time as the delivery dates of LNG carriers from major global shipbuilders have been set for 2027. The price of LNG carriers has increased as a result of the tight market. A new LNG carrier was priced at $245 million in early October, the highest level since 2014 and up 14.5% from the early this year, according to the economic research center of China State Shipbuilding Corp Ltd.

Chemicals

- MAN Energy Solutions, an engineering group, anticipates that methanol propulsion will account for up to 30% of dual-fuel engine orders within a few years. The company is slated to supply the engines for AP Moller-new Maersk's order of methanol-fueled tonnage. Maersk said earlier this month that it had ordered six new 17,000 TEU dual-fuel boxships capable of running on methanol. MAN will supply the primary engines for the vessels to Hyundai's shipbuilding division in South Korea, according to an emailed statement from the company on Tuesday. The engines are based on the MAN ME series, which has around 5,000 engines in operation.

- As the world's top supplier of dirty coal attempts to lower emissions and reduce fuel imports, Indonesia wants to offer biofuels manufactured from a blend of sugarcane extract and oil beginning next year. According to its Chief Executive Officer, Nicke Widyawati, the state-owned oil and gas corporation PT Pertamina Persero will begin selling A20 fuel, which is a blend of 80% gasoline, 15% methanol obtained from natural gas, and 5% ethanol derived from sugarcane. It intends to obtain the bioethanol from the state plantation holding company PT Perkebunan Nusantara III. While Pertamina's sugar-based fuel proposal has been discussed for some time, the current rise in crude prices and Indonesia's reinvigorated desire to achieve net-zero emissions by 2060 has accelerated the move. Furthermore, the change to biofuel will assist Southeast Asia's largest economy in reducing fuel imports, which account for roughly half of national demand. According to her, Pertamina will be able to generate 36 million kiloliters of A20 utilising existing gasoline refining facilities. To increase production, the business intends to construct a methanol facility in gas-rich Bojonegoro, East Java province. She also stated that the company is exploring producing ethanol from corn, cassava, and palm oil husks in order to lessen rivalry with sugar producers.