



RLA Weekly Report – Monday, 08 August 2022

No.8

Economy

- After contracting by 0.5% in the first quarter, Japan's economy, the third largest in the world, is thought to have expanded at an annualised 2.5% rate in the quarter through June. An estimated 1.3% increase in private spending, which makes up more than half of Japan's GDP, was a major driver of the second-quarter expansion.
- In the UK food and energy costs continued to rise, escalating the nation's historic cost-of-living crisis, while inflation increased to 9.4% in June, a new 40-year high. The highest single increase in the base rate in 27 years was made by the Bank of England (BoE), which increased it by 0.5 percentage points. The base rate now stands at 1.75 percent, which is the highest level since 2008. The BoE has also forecast that inflation will peak at 13.3%

Oil and Tankers

- According to Bloomberg, Saudi Arabia's crude exports increased to the highest level since April 2020 in July. Seaborne shipments from Saudi Arabia totaled approximately 7.5 million b/d in July, in comparison with 6.6 million b/d in June. Saudi Arabia has been purchasing Russian fuel oil for summer power generation, freeing up more crude for exports.
- According to the preliminary reports, OPEC-13 crude oil production reportedly increased by 300,000 b/d in July. The overall compliance rate for the group surged to 418% in the month. Saudi Arabia, the top exporter, increased output by 150,000 bpd. The UAE and Kuwait also increased supply in line with their quotas. Nigeria posted the largest decline of 70,000 bpd due to outages and maintenance, while Iran and Venezuela maintained steady output.
- According to the latest reports, Libyan crude oil output more than doubled in the latter half of July, from 589,000 b/d to close to 1.2 million b/d after blockades were lifted on 15 July.
- Reports on a contraction in factory activity in China, signalling a slowdown in the economy, led to a fall in oil prices at the start of the week ending July 5. WTI prices fell by \$4.73/bbl to \$93.89/bbl, while Brent prices fell by nearly \$10/bbl to \$100.03/bbl. Oil prices eked out modest gains on Tuesday as market expectations from the OPEC+ meeting were only for a minuscule increase in output. Following the marginal increase, prices tumbled another 4% on Wednesday after the EIA reported an increase in crude stocks of 4.5 million bbls in the week ending July 29. Soaring recession and demand destruction fears on Thursday resulted in WTI trading below \$90/bbl for the first time since the Russian invasion of Ukraine. WTI dropped \$2.12/bbl to settle at \$88.54/bbl and Brent lost \$2.66/bbl to settle at 94.12/bbl. Over the week, oil prices marked a 10% weekly loss, with prices edging marginally higher on Friday.

- Following a recent rise in their consumption of Russian sour oil, Indian demand for West African crude has reversed. Refiners in India have increased purchases for August and September loading. In the past three weeks, the state-owned IOC has bought 8 million bbls of West African crude.
- Russian crude supplies into India soared between March and July this year, up from 110,000 b/d in 2021 to 855,000 b/d. Loadings of Urals crude actually fell from a June peak of 900,000 b/d to 717,000 b/d in July although this was more that offset by liftings of the grade into China.
- The return of Libyan crude oil output and the increase in W African crudes moving to India should boost demand for Aframaxes and Suezmaxes,
- The past week has seen some firming in trans-Atlantic clean MR rates.

Tanker Freight Rates on Key Routes

Route No.	TC2_37	TC9 22k mt CPP/UNL	TC14	TD1	TD6	TD17	TD18	TD20	TD3C	TD24 100k mt
Description	37k mt Cont to USAC	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	Ras Tanura to China	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	\$
28/07/2022	336.67	502.50	325.00	34.56	206.61	218.44	360.42	137.27	59.00	1,687,500
29/07/2022	345	502.50	325.00	34.44	207.33	216.25	361.25	133.86	58.95	1,687,500
01/08/2023	347.22	503.57	331.67	34.19	209.00	216.88	362.08	133.41	58.80	1,687,500
02/08/2024	349.17	502.50	350.00	34.00	207.22	218.44	362.08	132.05	57.95	1,670,833
03/08/2025	348.33	501.79	375.00	32.67	189.28	219.69	361.67	130.68	57.64	1,662,500
04/08/2026	350.56	500.00	369.17	32.00	181.89	221.25	361.25	129.91	57.50	1,650,000
05/08/2027	358.61	501.43	359.17	31.78	178.00	222.19	360.83	127.73	57.45	1,658,333

Source: Baltic Exchange

LPG

- Even though it was the summer off-season, Northwest European imports of US LPG rose in July as a result of declining regional output. Around 816,000 tonnes were brought in by the region in June, breaking the previous record of 617,000 tonnes, and more than double a year earlier. The recent sharp growth in US arrivals has been partly driven by reduced LPG output in Europe owing to elevated natural gas prices.
- Due to transshipments being prohibited by the state-owned Belarusian Railway, Poland is expected to experience an LPG shortage this month. The company introduced the temporary ban in June to tackle a build-up of up to 3,000 railcars at the Belarus-Poland border caused by widespread railway congestion and a shortage of western-standard railcars.

- Despite low petrochemical margins, slower run rates at the country's propane dehydrogenation (PDH) plants, Covid-19 lockdowns in the second quarter, and negative petrochemical margins overall, China's LPG consumption expanded steadily in the first half of this year. The opening of seven new PDH plants, which increased capacity by 4.2 million tonnes/year since the second half of 2021, was a major factor in the growth. PDH operating rates decreased from 87% to 75% in the first half of this year as margins decreased from \$204/tonne to an average of negative \$99/tonne.
- State-controlled Saudi Aramco cut its propane contract price (CP) for August by \$55/tonne from July to \$670/tonne and butane CP by \$65/tonne to \$660/tonne, the lowest since September 2021 on falling crude values and ample Arabian Gulf supply. The drop in the butane price is more compared to propane owing to more butane-heavy cargoes emerging from Algeria and Australia as well as weaker spot demand in India and from northeast Asian ethylene producers.
- Last week, VLGC rates eased on two out of the three benchmark routes. While rates for vessels trading from the US Gulf into Europe marked a weekly loss of 5.4%, vessels moving out of the Arabian Gulf into the Far East fell by 12.2% versus a week earlier. Rates from the US Gulf into the Far East rose marginally.

VLGC Spot Freight Rates

Route No.	BLPG1	BLPG2	BLPG3
Description	AG-East	USG-Cont	USG-Japan
Size mt	44000	44000	44000
			\$/tonne
28/07/2022	66.29	56.30	92.57
29/07/2022	64.21	56.00	92.14
01/08/2023	61.86	55.20	92.29
02/08/2024	59.36	54.10	91.79
03/08/2025	58.64	54.40	92.57
04/08/2026	58.86	53.90	93.43
05/08/2027	59.29	53.70	94.43

Source: Baltic Exchange

LNG

- The first half of 2022 saw an all-time high in Russian LNG imports into the European Union, highlighting the challenges the continent faces in weaning itself off of Moscow's energy supply. Between January and June, the EU imported 8.8m tonnes of LNG from Russia, up by 36.9% year on year compared with 6.4m tonnes 12 months ago. With a 24% share in the first half of 2022, the EU is now the world's top seaborne importer of LNG. The US on the other hand, is now the world's largest seaborne exporter of LNG, accounting for 21% of global volumes, ahead of Australia on 20% and Qatar on 19%.
- In the first half of 2022, US LNG producer Cheniere Energy delivered over 70% of its export cargoes to Europe as buyers were hit with energy security fears. Cheniere exported 316 LNG cargoes in the first half of this year, up from 272 in the same period of 2021.
- A Consent Agreement was struck by Freeport LNG Development and the US Pipeline Hazardous Materials Safety Administration (PHMSA) to allow for the potential restart of partial operations in

October. The facility was closed, following an 8 June fire and explosion, which occurred at the Texas Freeport LNG's liquefaction plant. The agreement specifies a number of corrective measures that Freeport LNG is required to take in order to obtain PHMSA permission for an initial resumption of LNG production at its liquefaction facility. Many of these actions are already in progress. Three liquefaction trains, two LNG storage tanks, and one LNG loading dock are expected to be in operation at first, allowing the company to deliver about 2 billion cubic feet of LNG daily, equivalent to 14.9 million tonnes per annum (tpa) which is enough to meet its long-term client contracts.

- The 2017-built Tango FLNG floating LNG production unit owned by Belgian shipowner Exmar will be sold to the Italian energy company Eni for more than \$500 million. Exmar claimed to have also reached an agreement on a 10-year charter for a floating storage unit (FSU) which will be based on the conversion of an LNG carrier.

Chemicals

- As a result of lower margins and demand, Asia-Pacific petrochemical producers are expected to reduce output at their ethylene crackers and downstream polymers plants in August and September. Plastics demand in the region has fallen since the beginning of the third quarter, both seasonally and due to global inflationary pressures. Exports are slowing, while domestic consumption is declining, owing in part to currency depreciation against the US dollar in developing countries. As a result, polymer prices fell sharply across Asian markets in the second half of July. Furthermore, weak demand in the key Chinese market is underpinning the bearish sentiment, as the country's strict Covid-19 policies stifle economic growth.
- Shell and Lufthansa have signed a non-binding preliminary agreement to explore the possibility of Shell supplying sustainable aviation fuel (SAF) to the airline from 2024 to 2030. The companies plan to investigate four potential SAF 'pathways,' with the goal of signing an offtake agreement for up to 1.8 million tonnes. A HEFA SPK (Hydroprocessed Esters and Fatty Acids) pathway, which uses biogenic feedstocks such as used in cooking oil (UCO) to produce HEFA SAF, is one path to an agreement. Shell plans to build an 820,000 tpa biorefinery in Rotterdam, with HEFA SAF accounting for half of the capacity. The facility will be located on the Pernis refinery site, and production is set to begin in 2024.
- Shell and Lufthansa also intend to investigate non-biogenic SAF pathways and feedstocks, such as hydrogen, that can be used to generate synthetic SAF via the power-to-liquid (PtL) pathway. The majority of the approximately 230,000 tpa of PtL SAF capacity expected to come online globally by 2028 will be in Europe, with the continent's first synthetic aviation fuel plant already operational in Germany, where a synthetic SAF mandate could be implemented in 2026.