RLA Weekly Report – Monday, 25 July 2022

No.6

Economy

- On July 20, the European Union (EU) warned its member nations to prepare to ration energy demand this winter with emergency plans to cut gas use by 15% each in an attempt to shield itself from the effects of ongoing conflict with Russia. The European Commission said that the measures should be adopted to reduce consumption by 15% below five-year average across the bloc starting 1 August 2022. The Commission is of the view that a complete cut off of gas supplies from Russia would result in the EU GDP contracting by 1.5% this year.
- The IEA estimates that the bloc needs to save at least 12 billion cubic metres of gas over the third quarter to avoid shortages. Russian supplies about 37% of gas supplies into the EU
- On July 21, the European Central Bank raised interest rates by 50 basis points - the ECB's first hike in over a decade - as increasing concerns over inflation trumped worries about growth.

Oil and Tankers

- The week ending July 22 started with a rally in oil prices. On Tuesday, Brent marked an increase of \$1.08/bbl to settle at \$107.35/bbl while prices for WTI surged \$1.62/bbl to \$104.22/bbl. However, oil prices eased slightly on Wednesday after it was reported that US gasoline stocks surged by 3.5 million bbls in the week earlier. A fall in traffic on roads in the US amidst peak driving season was seen as one of the first signs of demand destruction. Increasing demand concerns took over the market as China reported a surge in Covid-19 cases on Thursday and oil prices lost over \$3/bbl in a day. The week ended with another loss on Friday on account of increasing recessionary concerns especially in Europe. WTI settled 1.7% lower at \$94.7/bbl while the price for Brent averaged \$103.2/bbl marking a fall of 0.6% on the last day of the week.
- According to the latest reports, flows from Saudi Arabia and Iraq into Europe soared in the first three weeks of July. Over 1 million b/d of crude reached Europe from the Middle East via the SUMED pipeline that crosses Egypt. Additionally, around 1.2 million b/d of crude was shipped from the Arabian Gulf into Europe in the first three weeks of July.
- Reports suggest, crude output is set to recover over 700,000 b/d in Libya after restrictions on exports were lifted. Production is expected to reach to 1.2 million b/d in the next ten days.
- Chinese refiners are expected to increase product exports sharply on account of weak domestic demand and the release of the third batch of export quotas this year. Exports are envisaged to soar by 68% to 1.16 million tonnes next month versus July while they are expected to mark an increase of 113% year on year.

- Spot tanker charter rates have remained broadly unchanged.

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	$
14/07/2022	315.28	508.57	185.00	33.78	133.83	241.56	339.58	128.86	58.32	1,637,500
15/07/2022	314.44	508.93	181.67	34.02	161.50	239.38	341.25	134.55	58.55	1,637,500
18/07/2022	305.28	506.43	193.33	34.33	188.17	237.81	343.75	138.86	58.68	1,645,833
19/07/2022	291.39	504.29	192.08	35.22	196.94	234.38	346.67	140.45	61.55	1,650,000
20/07/2022	282.78	504.29	202.08	35.33	199.28	232.19	350.58	140.45	61.86	1,650,000
21/07/2022	275.83	505.00	220.83	35.56	202.06	231.25	352.92	140.68	61.55	1,650,000
22/07/2022	271.67	504.29	225.00	35.56	208.28	230.00	352.92	140.80	61.55	1,658,333

Source: Baltic Exchange

LPG

- Asia-Pacific LPG imports rose by 4.1% to 33.3 million tonnes in the first half of this year despite a decline in deliveries to China. As the region's largest importer, China's intake fell to 11.1 million tonnes from just under 11.4 million tonnes. Weaker demand from the propane dehydrogenation sector due to negative margins has led to this drop. Higher imports into South Korea and Japan during the same period have offset this fall. South Korean and Japanese imports rose to 4.7 million tonnes and 5.5 million tonnes respectively from 3.7 million tonnes and 5.4 million tonnes a year earlier.

- LPG imports in India in July are expected to reach 1.94 million tonnes, the highest since 2014, according to Kpler shipping data. The increase in imports came as the FOB Middle East propane and butane averages fell to $722.8/tonne and $735.55/tonne respectively in June and, $700.3/tonne and $695/tonne this month as of 20th July. The Middle East Gulf, the largest LPG supplier of India, will ship approximately 1.86 million tonnes in July alone.

- Poland's seaborne LPG imports rose significantly in the second quarter as buyers looked to replace lost flows from Russia. The country received 242,500 tonnes of LPG at its three sea terminals in three months, representing an increase of 140% on the year.

- Canadian midstream firm Alta Gas Ltd. has completely acquired Petrogas Energy Corp. after buying the remaining 26% stake from the Canadian subsidiary of Idemitsu Kosan Co. Ltd. for C$ 285 million. Petrogas operates the 1.6 million tonne/year Ferndale LPG terminal in Washington state, US, thereby increasing Alta Gas' West Coast export capacity.

VLGC Spot Freight Rates

Route No.	BLPG1	BLPG2	BLPG3
Description	AG-East	USG-Cont	USG-Japan
Size mt	44000	44000	44000
			$/tonne
14/07/2022	68.64	61.90	104.14
15/07/2022	68.21	61.20	103.36
18/07/2022	68.57	60.70	103.14
19/07/2022	68.86	60.30	102.36
20/07/2022	72.43	60.20	101.93
21/07/2022	73.07	60.20	100.86
22/07/2022	73.07	59.90	99.71

Source: Baltic Exchange

LNG

- Russia's retaliation against Germany's takeover of Russian gas major Gazprom's investment and holding subsidiary Gazprom Germania has hit LNG shipments to Indian state-run natural gas producer GAIL. Gazprom Marketing & Trading Ltd (GM&T) Singapore, a subsidiary of Gazprom's trading arm cancelled five scheduled LNG shipments to GAIL in the past two months because of Moscow's resulting actions to block the lifting and trading of cargoes from Russia's Yamal LNG project, where GM&T has an agreement to supply 2.9 million tonnes of LNG annually under a 20-year contract.
- EIA in its latest short term energy outlook has revised down its estimates of US LNG exports owing to an outage at the Freeport LNG facility in Texas. US exports will average over 215,000 tonnes per day during the second half of 2022, representing a 6% drop from the first half of the year.
- Gazprom on Thursday completed the 10-day scheduled maintenance of Nord Stream 1 and resumed gas shipments with 40% of its full capacity. However, Russian President Vladimir Putin warned that deliveries could drop to 20% next week if it does not receive a turbine. The gas turbine has been shipped from Canada after its maintenance, but currently it is at an undisclosed location in Germany because Russia has not provided the required documentation to enable the shipment.

Chemicals

- The markets and the larger economy have been rattled by the Indian rupee's persistent decline against the US dollar. A weak rupee traditionally benefits export-oriented industries like information technology and pharmaceuticals, but this time around, there is another industry that has investors' attention. Analysts and investors are placing their bets on India's speciality chemical industry, which is anticipated to greatly profit from the current international circumstances. The market for speciality chemicals is migrating to India as a result of the Russia-Ukraine crisis and its effects, and Indian businesses are well-positioned to benefit from this development. India's speciality chemicals sector is well poised to capitalise on global tailwinds and expand its global market share to 7-8% in the next few years from 4% currently. This is mainly due to the 'China Plus One' strategy, which is the business strategy to avoid investing only in China and diversify business into other countries. Thus, clients of Chinese companies are shifting their businesses to Indian markets. Since China constitutes about

20% of the global speciality chemical industry ($800 billion), even a 5% shift in market share from China to India can translate to an $8-billion opportunity for the Indian speciality chemical companies.

- While there should be lessening supply issues for US toluene and mixed xylenes (MX) in the second half of the year, demand may also return to normal following the early summer months, when strong demand drove spot prices for toluene and MX to record high levels. Early in the summer, there was an extremely high demand for toluene and MX and record-high spreads over RBOB gasoline futures due to a shortage of high octane/low Reid Vapour Pressure (RVP) gasoline blendstocks. Supplies to the chemical sector became scarcer as refiners decided that toluene, MX, and reformate were more valuable as gasoline blendstocks than as chemical feedstocks, leaving the majority of these products in the gasoline pool. Given that recessionary concerns and historically high retail gasoline prices have caused some demand destruction throughout the summer, premiums for high octane blendstocks should begin to decline in the second half. In September, when the peak period for driving and fuel use ends, there should be a decrease in demand for gasoline. The RVP transition, which takes place on September 15th, sees the RVP rules loosened and higher octane/high RVP blendstocks allowed into the gasoline pool. Additionally, this should reduce the need for MX and toluene from gasoline blenders. Fears of a recession and the potential disruption of the demand for transportation fuels will also exert downward pressure on the price of the energy complex, toluene, and MX.

Decarbonization

- To achieve the set target of reducing green-house gas emissions by 40% by 2030, the IMO at MEPC76 in June 2021, adopted new requirements for EEXI, CII and SEEMP III (Ship Energy Efficiency Management Plan) effective from January 1, 2023. The SEEMP Part III or Ship Operation Carbon Intensity Plan, will act as a roadmap in order to achieve the required CII. The SEEMP III will be subject to company audits and verification. It is applicable on vessels of 5000 Gross Tonnage and above and is compulsory to be retained on board. The SEEMP III must include the following:

- Methodology used for calculating the CII:

  - The Carbon Intensity Indicator (CII) is calculated as follows:

$$\text{CII} = \frac{\text{Annual fuel consumption}}{\text{Annual distance travelled}} \ast \frac{\text{CO2 factor}}{\text{DWT or GT}} \ast \text{Conversion Factor}$$

  - The derived CII is the CO_2 (in grams) emitted per cargo-carrying capacity and nautical mile. For some special ship types and operations, the obtained CII will be adjusted using conversion factors, which the MEPC 78, held in June this year, has approved; but some other correction factors would be discussed in MEPC 79. Every year the vessel will be rated from A to E, with “A” being the maximum and “C” being considered an acceptable rating.

  - Most importantly, a ship’s SEEMP Part III needs to be approved and on board by **1 January 2023**. The first reporting of the CII based on 2023 data is due no later than 31 March 2024.

- This will establish the required CII for the next three years.

- It will include an implementation plan elaborating on how the targeted CII will be achieved over the next three years
- Improvement and self-evaluation procedures will be established together with an action plan to correct bad rating.