RLA Weekly Report – Tuesday, 20 September 2022

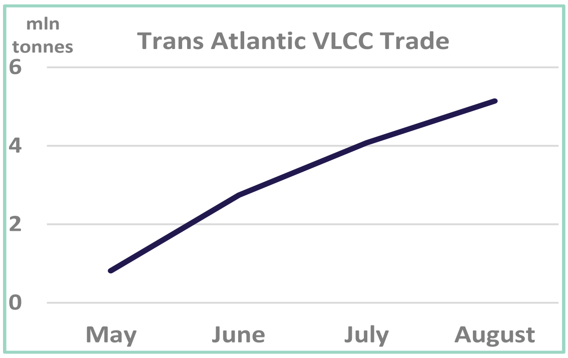
No.14

Economy

- According to Reuters, Japan probably reported its biggest trade deficit in over nine years in August, prompted by the rapid decline in the yen to its 24-year low. The August trade balance likely resulted in a deficit of 2.398 trillion yen ($16.80 billion) as a 46.7% increase in imports exceeded a 23.6%increase in exports. The anticipated deficit will set a new monthly record for size since the deficit of 2.790 trillion yen in January 2014. The devaluation of the yen might cause Japan's core inflation to reach 3% by year's end, reducing the purchasing power of families.
- The Consumer Price Index in the US rose by 0.1% in August from 8.5% in July and was 8.3% higher than a year earlier. This is expected to add pressure on the US Federal Reserve to increase interest rates more aggressively, with the next increase likely to be 0.75%.
- According to the latest reports, China has ended Covid-19 restrictions in Chengdu, a city of 21 million people. The citizens are now allowed to leave their houses and resume the majority of their daily lives for the first time since September 1 — but only if they undergo routine Covid-19 testing. Many other cities remain in lockdown.

Oil and Tankers

- Market sentiment once again oscillated from recessionary concerns to traders being bullish on increasing oil demand on the first day of the week ending 16 September. WTI and Brent prices increased by more than 1% to $87.8/bbl and $94/bbl, respectively. However, it did not take too long for traders to again be spooked by increasing inflation. Consequently, oil prices reversed by nearly1% on Tuesday. Brent for November delivery lost $0.83/bbl to settle at $93.17/bbl, while WTI declined$0.47/bbl to average $87.31/bbl. The seesaw continued on Wednesday, as oil gained on the news that the US administration is seeking to refill its SPR at $80/bbl and China has started to ease Covid-19 restrictions in Chengdu. WTI was trading at $88.95/bbl, up from the previous close of $87.31/bbl. Reports on China considering to increase fuel exports led to a significant fall in crude oil prices on Thursday. WTI eased $3.38/bbl to $85.1/bbl while Brent fell by $3.26/bbl to $90.84/bbl. Oil prices eked out modest gains on Friday, as Brent gained $0.7/bbl to settle at $91.54/bbl and WTI climbed $0.3/bbl to $85.4/bbl.
- The US Gulf has benefited the most from Russia's invasion of Ukraine as trans-Atlantic crude oil trade soared through the third quarter, starting June this year. In the wake of the above, VLCC fixtures have increased significantly through this quarter and are expected to strengthen even further owing to the European sanctions on Russian crude supplies, effective 5 December this



year. Daily fixtures data, show an astronomical increase in trade from the US Gulf into Europe from only 0.8 million tonnes (0.19 million b/d) in May to 2.7 million tonnes tonnes (0.66 million b/d) in June. The volume increased further to over 4 million tonnes (0.94 million b/d) in July and the August average reached 5.1 million tonnes (1.2 million b/d).

- Reports suggest there will be the issuance of another batch of products' export quotas for the Chinese refiners as domestic demand eased due to recent restrictions. The fifth batch is expected to be as large as 10 million tonnes or even 15 million tonnes. Given the above, the total quota for gasoline, diesel, and jet fuel exports in 2022 would be 34.0 million tonnes or as much as 39.0 million tonnes, up from 37.61 million tonnes in 2021.

- Last week, the IEA lowered its oil demand outlook for the year by 110,000 b/d as it anticipates a fall in China's oil demand for the first time in over three decade. In August, the IEA raised its growth estimates for 2022 by 380,000 b/d to 2.1 million b/d. However, the recent Covid-19 flare up in China has led to severe restrictions in the provinces of Chengdu and Shenzhen, which are expected to have a significant impact on the country's oil demand growth.

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	$
07/09/2022	228.33	351.43	170.83	39.94	185.44	185.00	370.00	125.91	67.05	16,08,333
08/09/2022	231.94	347.14	183.33	40.72	181.56	181.56	371.25	125.00	70.64	16,08,333
09/09/2022	233.33	341.43	190.83	44.67	176.11	181.25	371.25	126.45	79.59	16,08,333
12/09/2022	234.44	336.43	220.83	46.94	177.61	179.69	375.00	127.50	83.59	15,79,167
13/09/2022	258.62	332.50	305.83	47.44	179.83	180.81	375.00	131.82	85.23	15,45,833
14/09/2022	270.00	328.21	308.33	48.00	182.33	179.69	375.00	135.34	86.32	15,41,667
15/09/2022	284.44	326.79	287.50	49.00	182.83	178.75	375.42	135.34	88.00	15,29,167
16/09/2022	286.94	326.79	232.50	52.67	183.94	179.06	375.00	136.25	99.23	15,25,000

Source: Baltic Exchange

LPG

- The ethylene market is currently experiencing a short-term supply crunch due to planned turn arounds, but an increase in ethylene demand has not persuaded naphtha-fed steam crackers to increase run rates in September. Instead, unhealthy margins to produce downstream derivative products have continued to hurt overall economics. Given that current cracker run rates in Asia are forecast to be between 75% and 80% of capacity, ethylene supply is expected to be tight with a number of turnarounds planned at naphtha-fed steam crackers set to start in September and October. "Downstream plants have not been keeping high inventories due to poor margins, so when ethylene supply is cut, several crackers will be short and either have to buy additional spot cargo or reduce operating rates," a trader in China said.

- Asia LPG prices have fallen from 18-year highs in March, due to rising Middle East supplies since May and consistent exports from the US and Africa ahead of winter. As OPEC crude production has increased, LPG inventories of Middle Eastern producers have been rising. However, this situation may change now that OPEC and its allies have opted to reduce output quotas by 100,000 b/d for October at the meeting on 5 September. Sources suggest that total exports from Kuwait, Saudi Arabia, Qatar, the United Arab Emirates, and Iran would increase to 38.9 million tonnes in 2022 from 36.5 million tonnes in 2021.

- Australia's upstream LPG output reached a record high in the fiscal year 2021–22 that ended in June as more supply continued to flow from the nation's new LNG plants in the northwest. Data from Australian Petroleum Statistics (APS) show that upstream output grew by more than a fifth on the year to 3.18 million tonnes in 2021–22, surpassing the previous high of slightly over 3 million tonnes in 2019–20 and more than doubling the 1.53 million tonnes in 2018–19. Australia exported 2.82 million tonnes of LPG in 2021-22, APS data show.

- As the US floods northern Europe with LPG exports, VLGC earnings are rising. According to reports, US LPG cargoes are pouring into north-west Europe as North Sea output has decreased due to maintenance and rising LNG prices which encourages producers to substitute LPG where possible. North-western European LPG imports reached 600,000 tonnes in June, up from an average of 215,000 tonnes per month in 2021, according to Oil Price Information Service (OPIS).

VLGC Spot Freight Rates

Route No. Description Size mt	BLPG1 AG-East 44000	BLPG2 USG-Cont 44000	BLPG3 USG-Japan 44000 $/tonne
08/09/2022	63.71	60.60	112.14
09/09/2022	64.79	61.20	112.71
12/09/2022	65.14	61.60	113.50
13/09/2022	66.71	62.40	115.29
14/09/2022	67.57	63.20	116.57
15/09/2022	68.64	64.20	118.43
16/09/2022	69.07	64.20	118.71

Source: Baltic Exchange

LNG

- On Monday, two Canadian natural gas producers announced that they had temporarily reduced their output due to pipeline constraints that caused western Canadian gas prices to collapse in the second half of August. Although its full-year production projection remains intact at 507,000 boe/day, Tourmaline Oil, Canada's largest gas producer, reduced its third-quarter output by 1.5%, or 7,500 barrels of oil equivalent per day (boe/day). Kelt Exploration Ltd reduced its full-year 2022 production forecast by 1,500 boe/day to around 29,000 boe/day.

- The EIA in its September Short-Term Energy Outlook forecasts record US natural gas consumption in 2022. The country's natural gas consumption is expected to increase by 102 million cubic metres per day (MMcm/day) this year to average 2.45 Bcm/day for the year. Natural gas consumption is estimated to increase in all end-use sectors this year.

- Russian gas producer Gazprom reported a 15.9% decrease in production from January through September, producing 300.8 Bcm of gas, and predicting a 50 Bcm decrease in exports to the European Union by year's end. Exports to nations outside the Former Soviet Union (FSU), which include the European Union, Turkey, China, and other countries, were 84.8 Bcm, a 38.8% drop from the figure for the same period in 2021.
- With the European Union benchmark being 150% higher than where it was a year ago, five months before the conflict in Ukraine, and while Nord Stream II was apparently still a possibility, European and Asian wholesale gas markets and LNG values decreased for a third week. The Dutch Title Transfer Facility (TTF) price declined on the week by 2.9 percent to the equivalent of $62.70/MMBtu on September 16 from $64.55/MMBtu on September 9. This is just over 1.5 times higher than where
- Denmark's Celsius Tankers is actively expanding its fleet of LNG carriers and has resorted to Chinese shipyards for newbuildings as South Korean berth slots dry up. According to sources, the company is planning to order 10 to 12 LNG carriers at Chinese yards. For its new builds, Celsius has contacted every Chinese yard that is able to construct LNG carriers. However, only two shipbuilding firms— Yangzijiang Shipbuilding and China Merchants Heavy Industry — have seen progress in the negotiations for the vessels yet. South Korea’s big LNG shipbuilders have almost no slots remaining for 2026 delivery dates and have yet to release any of their remaining 2027 berths.

Chemicals

- Players across the European chemicals chain are grappling with oversupply and a lack of physical storage as consumption has been weaker than expected. Market participants in Europe typically return from their summer vacations ready to place new orders as stocks dwindle in August, while downstream activity increases in September. This year is unique on many levels. Players throughout Europe's chemical chain are currently trying to handle large stocks. Furthermore, companies are suffering unexpectedly poor demand and high cancellation rates, while imports and market shifts toward contracts contribute to oversupply. Demand forecasts are bleak, owing to persistent tensions with Russia and the looming risk of a recession.
- Weak demand is a global issue, and vendors in countries with favourable production economics are eager to move material into Northwest Europe (NWE), which is exacerbating the region's surplus. Unpredictable cancellations, market moves toward contracts, and the loss of trade with Russia and Ukraine makes inventory management in some markets even more challenging. Oversupply and a shortage of physical storage are concerns that affect the entire value chain of chemicals. In the market, sellers encounter not only competitively priced imports of chemicals from northeast Asia, but also imports of derivatives and products farther down the value chain. According to the most recent Purchasing Managers' Index (PMI) data of Europe, post-production inventories increased at a record pace in August for the second month in a row.
- Petrochemical prices in China fell in August as consumption decreased and crude prices fell. Demand began to rise in September, although the rebound has been slower than predicted thus far. The China

Petrochemical Price Index, which analyses the market movement of 17 products, declined 2.2% in August compared to July. For the period, gasoline and gas oil prices grew, raising the value of oil blenders such as mixed aromatics. Power outages in portions of China hampered the overall petrochemical demand recovery. High temperatures in many provinces, particularly in the Southwest, resulted in lower consumption and lower operating rates at downstream plants. In September, demand for ethylene glycol (MEG) from the downstream textile industry improved slightly, with port inventories decreasing. Nonetheless, demand has yet to recover to pre-COVID levels in 2019, according to market sources, while raw material stocks at downstream weaving mills remain high.

- On Wednesday, September 14, the European Parliament voted in favour of a 45% target for renewable energy in the EU's energy mix by 2030 as part of the Renewable Energy Directive (REDIII), paving the way for negotiations with member states to finalise the text before the end of the year. During the debate, MEPs focused on current energy challenges, including Russia's invasion of Ukraine and REPowerEU's subsequent efforts to reduce reliance on Russian gas, this summer's high temperatures, and the ongoing challenge of fulfilling climate targets by 2030. These events contributed to highlight the significance of RED III and the renewable energy sector before the vote the next day. In addition to the 45% renewables target, the text and modifications accepted set sub-targets for sectors such as transportation, buildings, and district heating and cooling. RED III also contains an increase in the greenhouse gas emission reduction objective for transportation from 13% to 16%, as well as a 5.7% share of renewable fuels of non-biological origin (RFNBO) in the fuel market by 2030,as outlined in the Commission's REPowerEU programme. Furthermore, this 45% capacity includes an indicated target of 5% of new renewable energy capacity deployed in each member state involving an innovative technology.