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OPEC+ extends Production cuts till end 2024: Saudi Arabia Cuts Production by 1 million b/d in July.

Economy

- China's economic recovery is facing significant challenges, as evidenced by the sharp decline in manufacturing activity, which has reached its lowest level since the relaxation of the zero-COVID policy. This decline has also affected Hong Kong's stock index, which is approaching bear market territory. Contributing to these challenges are a cooling property market and the resurgence of COVID-19, which have led to a dampening of domestic demand and hindered the overall rebound. China's official manufacturing PMI dropped to 48.8 in May, down from 49.2 in April, remaining below the critical 50-mark and signalling a deeper contraction and a continued slowdown in the country's post-pandemic recovery. Multiple factors have influenced this downward trend in the manufacturing sector.

Oil and Tankers

- Saudi Arabia, as part of OPEC+'s ongoing efforts to support oil prices, announced a significant output reduction of 1 million b/d in July. Their production will ease to 9 million b/d from 10 million b/d in May, marking one of the largest reductions in recent years. This move aims to stabilise the market in conjunction with the broader agreement to limit supply through 2024 (by 1.4 million b/d). While a surprise supply cut in April briefly increased Brent crude prices by $9/bbl, concerns about global economic weakness and its impact on demand have since caused prices to fall.
- However, there does not appear to have been total accord at last weekend's OPEC+ meeting. Russia has scarcely cut its' exports – which have actually grown by around 20% since the start of its' invasion of Ukraine - and is desperate to maximise revenue. Abu Dhabi will see a future increase of 200,000 b/d in its production target, as will Nigeria and Angola although these African producers are not currently achieving their targets.
- Due to global economic concerns, Brent prices, which had previously surpassed $85/bbl, have now declined to around $75/bbl. However, if OPEC+ maintains its production cuts, there could be a potential supply shortage in the second half of 2023 due to rising demand, primarily from China. There is a chance that OPEC+ might remove the production curbs if the market remains in deficit for an extended period. Nevertheless, an increase in oil prices would increase the risk of Russian crude prices surpassing the G7 price cap of $60/bbl.
- The absence of any VLCC deliveries next year will significantly boost crude tanker rates. The worldwide emphasis on decarbonization in the economy has created challenges in securing funds for purchasing new tankers. As a result, the VLCC segment is experiencing a scarcity of scheduled deliveries, with no VLCCs expected to be delivered in 2024, only one in 2025, and another in 2026. This stands in stark contrast to the historical average of 35 annual VLCC deliveries since 1970.

- In May, Indian crude imports from Russia exceeded 2 million b/d for the first time as the country continued its strong reliance on discounted Russian oil. According to Vortexa, imports from Russia reached 2.16 million b/d, accounting for nearly 47% of India's total imports of 4.68 million b/d. Much of the Russian crude supplied to India consists of Urals, which is still traded below the G7 price cap of $60/bbl on a FOB basis. As per the OPEC Monthly Oil Market Report for May, Indian crude demand was 5.14 million b/d in 2022 and is projected to increase to 5.39 million b/d in 2023.

Tanker Freight Rates on Key Routes

Route No.	TC2_37	TC6	TC8	TC20	TC14	TD1	TD6	TD18	TD20	TD3C
Description	37 kt Cont to USAC	30 kt Clean Algeria to Euro Med	65 kt Clean MEG to UKC	90 kt MEG to UKC	38 kt USG to Cont	280 kt MEG to USG	135 kt BSea to Med	30 kt Baltic to UKC	130 kt WAF to Cont	270 kt Ras Tanura to China
Size mt	37000	30000	65000	90000	38000	280000	135000	30000	130000	270000
Route	Rdam to New York	Skikda to Lavera	Jubail to Rdam	Jubail to Rdam	USG to Cont	Ras Tanura to LOOP	Novo to Augusta	Baltic to UKC	Offshore Bonny to Rdam	Ras Tanura to Ningbo
	WS	WS	WS	$	WS	WS	WS	WS	WS	WS
30/05/2023	178.72	135.00	50.13	4114286	155.83	30.67	127.28	250.42	111.50	45.45
31/05/2023	180.28	135.00	49.36	4014286	142.08	30.50	123.94	250.83	104.50	44.73
01/06/2023	197.78	135.00	46.28	3942857	124.17	31.28	121.28	247.50	101.75	44.95
02/06/2023	201.67	135.00	46.15	3841667	120.00	31.94	119.33	244.58	99.25	45.80

Source: Baltic Exchange

LPG

- LPG imports to Japan in April, at 841,000 tonnes fell significantly by 30% month on month but were up by 4% year on year. Deliveries from the US were 514,000 tonnes, down from 951,000 tonnes in March, and from Australia, they increased to 102,000 tonnes from 55,000 tonnes over the same period. Supplies from Kuwait stood at 171,000 tonnes, up from 159,000 tonnes in March.

- On 30 May, Saudi Aramco lowered its June Contract Price (CP) for propane and butane to $450/tonne and $440/tonne respectively, down by $105/tonne and $115/tonne from the May CP. Since February 2023, the Saudi CP for propane has fallen by 43%, or $340/tonne. Ample supply coming from the Middle East and the US has been the main driver of the Saudi propane CP's recent downward trend.

- Spot freight rates for VLGCs from the Arabian Gulf to the Far East rose by $5.14/tonne to reach $115.57/tonne by the end of the week, driven mainly by a steady stream of cargoes and a tighter tonnage list going into mid-June. Compared to this time last year, when rates were $25-$35/tonne lower than what we have seen this year, the market is noticeably stronger. However, rates from the US Gulf to Europe and from the US Gulf to the Far East fell marginally by $0.40/tonne and $1.00/tonne, respectively, to reach $95.20/tonne and $156.00/tonne over the same period.

VLGC Spot Freight Rates

Route No. Description Size mt	BLPG1 AG-East 44000	BLPG2 USG-Cont 44000	BLPG3 USG-Japan 44000 $/tonne
30/05/2023	110	96	157
31/05/2023	114	95	157
01/06/2023	115	95	156
02/06/2023	116	95	156

Source: Baltic Exchange

LNG

- In the northern Murmansk area, the Russian energy company Novatek plans to build a new facility that will produce 20.4 million tonnes of LNG. The plant will consist of three production lines with a capacity of 6.8 million tonnes/year. The first two lines are anticipated to begin production by the end of 2027, while the last line is expected to start production in 2029.
- As a result of plant maintenance, the amount of LNG exported by the US in May decreased to 7.66 million tonnes from a record 8.01 million tonnes in April. Last month, US LNG exporters decreased their shipments to Europe while increasing their shipments to Asia and Latin America, somewhat making up for the decline in European demand. While exports to Asia increased to 14% of total shipments last month from 12% in April, exports to Europe decreased from 71% in April to 60.5% in May. Latin American imports of US LNG grew to 11% in May from 6% in April.
- HD Korea Shipbuilding & Offshore Engineering (HD KSOE) has signed a 1.24 trillion won ($937.36 million) contract with Yang Ming Marine Transport Corporation, a Taiwanese container shipping company, to build five 15,500 twenty-foot equivalent unit LNG-powered vessels. They will measure 365 metres (1,200 feet) in length, 51 metres in width, and 29.85 metres in height.

LNG Spot Freight Rates

Route No. Description	BLNG1g Aus-Japan	BLNG2g USG-Cont	BLNG3g USG-Japan $/day
23/05/2023	36420	33203	35697
26/05/2023	37370	32625	36791
30/05/2023	36625	32712	36811
02/06/2023	40351	40236	48531

Source: Baltic Exchange

Chemicals

- As the Chinese economy recovers slowly, ethylene (C2) operators in Northeast Asia are apprehensive about increased regional supply and a dismal downstream forecast for the third quarter. Reduced ethylene cracker operations are expected to be reduced in June as the market nears the conclusion of the peak turnaround season in the second quarter. Three Korean manufacturers are on pace to restore their operations by early July. Hyundai Chemical, for example, is considering reopening its facilities at the end of June or early July. However, due to unfavourable market circumstances, domestic downstream output is projected to slowly revive following the halt. This is projected to boost South Korean exports in July and increase China's domestic supply. China's surplus is also expected to climb due to higher production and low demand.

- Due to macroeconomic headwinds, downstream demand for polyethylene terephthalate (PET) in the Middle East is likely to remain severely low. "In the week ended 01 June, the spot assessment for bottle-grade PET cargoes was lower, week on week, by $30–40/tonne to $910–990/tonne CFR (cost and freight) GCC (Gulf Cooperation Council), with China-origin spot cargoes trading at $910–930/tonne CFR GCC, a fresh fall from the previous week," according to ICIS. Demand is not projected to rebound in June due to vacations, when most locals travel abroad, adding to the rising supply glut. With inflation and recession being major worldwide concerns, converters are cautious when hoisting replenishing cargoes. PET producers anticipate that the demand slump will last until September, when most converters will begin planning for new orders for next year. The continuous collapse in Middle Eastern PET trade has made it more difficult for recycled PET (R-PET) shipments to generate buyer interest.

- EcoCeres, Inc., an Asia-based innovative biorefinery company with strong R&D capability, has announced its first shipment of 100% agricultural waste-derived cellulosic ethanol to European markets, a milestone achieved after the company commissioned a second cellulosic ethanol biorefinery in China. This milestone cargo, according to a press release, identifies EcoCeres as a firm capable of generating a varied spectrum of advanced renewable biofuels, including sustainable aviation fuel (SAF), renewable diesel (called HVO), and cellulosic ethanol.

- This accomplishment is made possible by its in-house-created technology and its own biomass refinery platform, which is positioned to satisfy the increasing market demand and regulatory requirements for sustainable transportation fuels. The shipment includes 850 tonnes of cellulosic ethanol made from agricultural waste, primarily corn cobs, which the company claims reduces greenhouse gas (GHG) emissions by more than 80% compared to conventional fossil fuels and is compliant with the European Union's Renewable Energy Directive (RED) as an advanced biofuel.