RLA Weekly Report – Monday, 27 February 2023

No.36

Present-day China Resembles post-property bubble Japan.

Economy

- Japan had to stop deluding itself in 2003 that everything was fine. The 1990s had thrown the nation off the trajectory on which it had once appeared capable of overtaking the US. Its subsequent handling of the mountain of bad loans accrued during its 1980s vain days put an end to the idea that the country could quickly recover. Present-day China "strikingly resembles" post-property bubble Japan.
- China's post-property bubble economy is similar to Japan's, with capital formation accounting for 43% of GDP growth between 2010 and 2020. Commercial banks used indirect financing during Japan's bubble era, while China has created a financial system that relies primarily on indirect financing. Japan's 1987-89 property and stock bubble expanded rapidly due to easing policies, leading to financial speculation becoming more profitable than running a business. China has allowed the real economy and financial system to decouple, leading to a $65 trillion property market by 2020 exceeding that of the US, EU and Japan combined. By 2021, loans and credit related to real estate accounted for 41% of the total assets in China's banking system.

Oil and Tankers

- After taking virtually no Russian crude before the invasion, Indian refiners have increased their imports to more than 1 million b/d and are now selling the same to Europe as refined products (India's crude imports from Russia surging to a record high of 1.4mn b/d in January, up from less than 70,000 b/d in January 2022). The G7 and EU's plan to restrict access to freight insurance and trade financing to agreements made under its price cap has largely been successful. Although Russian oil is still flowing, its profits are being held back by the steep discounts as sellers are forced to give to move cargoes. Russia has already begun to indicate that it cannot export all its crude to Asia or Africa. According to deputy prime minister Alexander Novak, production will be reduced in March by 500,000 b/d to 9.3 million b/d.
- According to the EIA, commercial crude stocks in the US surged to 479 million bbls in the week ending 17 February from 471.4 million bbls the previous week. Similarly, distillate inventories, rose to over 121.9 million bbls, an increase of almost 2.7 million bbls in comparison with a week earlier, while gasoline stocks reported a fall of 1.8 million bbls to average close to 240 million bbls in the week ending 17 February. The US refineries are about to enter the maintenance season which will reduce the demand for crude oil in the near future.
- Flights into and out of mainland China are scarce, prices are still high, and Beijing has been reticent to issue new tourist visas to foreigners despite abandoning its strict zero-Covid policies at the end of last year. It is still common for travellers from China to conduct COVID tests, which discourages people from taking air travel. While it is anticipated that travel in North America and Europe will return to pre-pandemic levels this year, China will take longer. This implies the anticipated recovery in the Chinese jet fuel demand will be slower than initially expected assuming no further restrictions.

- Early Monday trading saw little movement in oil prices as Russia's plans to further reduce oil supply continued to support prices, but rising global inflation risks and US crude inventories weighed. At 01:14 GMT, West Texas Intermediate U.S. crude futures (WTI) were up 4 cents, or 0.05%, at $76.36 /bbl, while Brent crude futures were down 2 cents, or 0.02%, at $83.14/bbl. Russia intends to go beyond its previously announced production cuts of 5% of its output during the month by reducing oil exports from its western ports by up to 25% in March compared to February. Although U.S. oil inventories are at their highest level since May 2021, the U.S. Federal Reserve meeting last week signalled further monetary tightening, and the dollar rose sharply last week, prices for crude oil edged up early on Monday.

Tanker Freight Rates on Key Routes

Route No.	TC2_37	TC6	TC8	TC20	TC14	TD1	TD6	TD18	TD20	TD3C
Description	37k mt Cont to USAC	Clean Algeria to Euro Med	Clean ME Gulf to UK-Cont.	AG/UK Cont	38k mt USG to Cont	280k mt ME Gulf to US Gulf	135k mt Black Sea / Med	30k mt Baltic to UK-Cont	130k mt W Afr to Cont	270k mt Ras Tanura to China
Size mt	37000	30000	65000	90000	38000	280000	135000	30000	130000	270000
Route	Rott - NY	Skikda-Lavera	Jubail-Rott	Jubail-Rott	USG - Cont	Ras - LOOP	Novo - Augusta	Baltic - UKC	Offshore Bonny to Rotterdam	Ras Tanura to Ningbo
	WS	WS	WS	$	WS	WS	WS	WS	WS	WS
17/02/2023	259.44	264.38	61.03	4614286	192.50	41.33	168.28	258.75	126.82	68.27
20/02/2023	242.78	251.88	60.13	4721429	179.17	41.89	167.22	272.92	129.15	69.32
21/02/2023	236.67	248.75	59.74	4764286	170.42	42.56	166.61	278.33	132.27	70.14
22/02/2023	210.56	245.00	59.36	4771429	130.00	41.89	166.50	278.75	134.20	67.09
23/02/2023	193.33	237.13	59.49	4714286	125.83	40.56	167.17	279.58	136.36	64.73
24/02/2023	181.11	231.88	58.85	4664286	133.33	40.56	167.72	279.58	136.93	64.86

Source: Baltic Exchange

LPG

- Due to the Russian invasion in February of last year, which caused an exodus and a steep decline in LPG consumption, Ukraine's LPG imports virtually fell in half last year. According to market participant data, the country's imports decreased by 47% on the year to 857,000 tonnes. The onset of the war shut off LPG imports from Ukraine’s main supplier, Russia, as well as Belarus and Kazakhstan. These provided about 90% of LPG shipments to the country in 2021. These have increasingly been arriving on trucks, rising to 53% of all imports compared with 19% prior to the war.

- LPG imports to Indonesia are increasing since it is still the preferred fuel for home cooking. About 96% of the country's total LPG use is in the residential sector. Indonesia's LPG imports rose by 5.5% on the year to 6.7 million tonnes in 2022. The Middle East Gulf overtook the US to become the largest supplier to Indonesia, with arrivals from the region jumping by 47% to 3.3 million tonnes last year, with deliveries from the US fell by 26% to 2.8 million tonnes.

- For its 810,000 tonnes/year petrochemical plant in Pata, Uttar Pradesh, Indian state-controlled gas company Gail intends to import US ethane. It has sought quotes to charter 80,000-99,000 cbm VLGCs for 20 years starting from mid-2026. The ethane is anticipated to be shipped to India's Dahej, Hazira, and Dabhol ports from US facilities in Marcus Hook, Nederland, Morgan's Point, and Beaumont. In Usar, Maharashtra, Gail also intends to build a 500,000 tonnes/year PDH facility the following year.

- Spot freight rates for VLGCs on all three benchmark routes rose over the week amid decrease in vessel availability and increasing delays at the Panama Canal. Rates on the Arabian Gulf to Far East increased by $6.43/tonne to reach $102.86/tonne by the end of the week. Similarly, rates from the US Gulf to Europe and from the US Gulf to the Far East surged by $12.40/tonne and $6.43/tonne respectively, to reach $91.20/tonne and $159.14/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
17/02/2023	95.14	77.00	136.86
20/02/2023	96.43	78.80	140.00
21/02/2023	101.57	86.00	153.57
22/02/2023	102.57	89.60	160.14
23/02/2023	102.71	91.20	159.57
24/02/2023	102.86	91.20	159.14

Source: Baltic Exchange

LNG

- A new LNG import facility in China will be built at a former Odfjell terminal, according to plans revealed by Yangzijiang Shipbuilding. After acquiring complete control of the Jiangsu Yangzi Jiasheng Terminal in Jiangyin, the Singapore-listed shipbuilder made the announcement. Moreover, according to the shipbuilder, it plans to construct LNG filing and storing facilities on land near the terminal. Although China's shipments of LNG fell off last year due to the government's strict zero-Covid policy, demand is anticipated to pick up as early as 2023 and continue to increase over the next decade.

- With American producer Venture Global, the Chinese gas distributor China Gas Holdings announced on Friday that it had signed two 20-year contracts for the delivery of LNG. Under the terms of the two arrangements, China Gas Holdings will purchase a total of 2 million tonnes/year of LNG from Venture Global through its wholly-owned company China Gas Hongda Energy Trading Co. The agreements will take effect in 2027.

- Despite the Russian invasion, Ukraine intends to expand its natural gas output by more than 5% to 19 billion cbm in 2023. the head of the country's major Naftogaz energy firm was quoted as saying last Monday. Naftogaz is Ukraine's largest gas producer, with output of 12.5 bcm of natural gas in 2022. Despite having sizable natural gas reserves, Ukraine is forced to import gas because of the country's high gas usage.

- As demand from major buyers in northeast Asia remained sluggish, Asian spot LNG prices eased during the week, extending falls to its lowest level since July 2021. According to industry sources, the average LNG price for April deliveries to northeast Asia LNG-AS was $15/mmBtu, down $1 or 6.3% from the previous week.

LNG Spot Freight Rates

Route No. Description	BLNG1g Aus-Japan	BLNG2g USG-Cont	BLNG3g USG-Japan $/day
14/02/2023	63564	53586	65588
17/02/2023	69597	55574	66227
21/02/2023	73190	56015	68195
24/02/2023	75702	56597	68675

Source: Baltic Exchange

Chemicals

- Swiss manufacturer Proman is negotiating a fuel supply agreement for HMM's new methanol-fueled container ship fleet. The company will investigate future bunker options for the world's first such neo-panamax container ships. The South Korean owner ordered nine 9,000-teu dual-fuel boats earlier this month. HMM has struck an agreement to secure methanol with Proman and a number of other manufacturers and fuel suppliers, including PTTEP, European Energy, and Hyundai Corporation. The owner will now perform a feasibility study with each partner with the goal of producing green methanol together.

- BASF said on Friday that it will shut several operations at its main facility in Ludwigshafen, Germany due to rising manufacturing costs. The closure of different assets and reduction in output for other products at BASF's Verbund complex are planned to reduce fixed costs by €200 million per year by the end of 2026. "Overregulation, lengthy and bureaucratic permission processes, and, in particular, excessive costs for most manufacturing input elements are eroding Europe's competitiveness," stated BASF CEO Martin Brudermuller. The measures include:
    - The closure of one ammonia plants and associated facilities
    - Closure of the caprolactam (capro) plant
    - Closure of cyclohexanol and cyclohexanone lines
    - Closure of a soda ash unit
    - Closure of the toluene di-isocyanate (TDI) plant and precursor plants for dinitrotoluene (DNT) and TDA (toluene diamine)
    - Reduction of the adipic acid production capacity

- According to its head of methanol business, Dutch fuel, and chemical maker OCI will directly provide methanol as marine fuel to fulfil demand from the shipping sector, having agreed to a charter project for a dual fuel-barge. The business has teamed up with Unibarge to convert an existing conventional 2,800-dwt barge into Europe's first methanol bunker barge capable of running on both methanol and conventional fuels, which will be deployed in Rotterdam in 2024. According to OCI Methanol's CEO, the barge will carry methanol to the company's existing clients in Europe as well as ocean-going ships via bunkering activities.

- Based on containership requirements alone, OCI forecasts maritime methanol demand to approach 3 million tonnes/year by the mid-2020s, up from the present level of 300,000 tonnes/year. According to the business, the worldwide methanol trade volume was roughly 35 million tonnes/year in 2022. The OCI barge will be deployed in Rotterdam, Europe's biggest container port, where demand for low-carbon fuels is likely to rise owing to forthcoming EU emissions rules.
- In order to tackle global warming, the EU plans to expand its Emissions Trading System to include maritime traffic beginning in 2024 and reduce the greenhouse gas intensity of marine fuels beginning in 2025. According to the Methanol Institute, the life cycle CO2 emissions of green methanol are 65%-90% lower than those of fossil fuels. However, many industry participants anticipate that green methanol prices will stay high until manufacturing is scaled up, thereby impeding the fuel's acceptance. According to industry estimates, green methanol might be at least 2-3 times more costly.
- The disastrous earthquakes that struck southeast Turkey on February 6th is anticipated to impede Asian trade for numerous major petrochemicals in the short term, owing to substantial infrastructure damage, logistical and port delays. Gaziantep is a significant plastics consumer and an industrial hub in the heart of Turkey's textile sector. Soda ash, polyester fibres and polymers, fertilizer, and polyethylene terephthalate are among the chemicals produced in the impacted areas (PET).
- Although the operating state of their facilities was not immediately evident, PET makers Koksan and Indorama Ventures Ltd (IVL) announced force majeure to their feedstock suppliers. At Gaziantep, Koksan has two 216,000 tonnes/year PET facilities, while Indorama Ventures has a 270,000 tonnes/year facility. Because of the interruptions in port operations, PET exports are projected to fall in February. China accounts for 85% of Turkey PET resin imports last year.
- Upstream, Asian purified terephthalic acid (PTA) manufacturers are still examining the effects of the Turkish earthquakes. Around 79% of Turkey's PTA imports for 2022 came from Asia, namely South Korea and China. Because of infrastructure and transportation problems, operating rates at downstream converters, blow moulding industries, and end markets may fall. Some petrochemical products with trading linkages to Asia, on the other hand, are having a limited influence.
- The quakes had no effect on Turkish company Eti Soda's soda ash output or exports. The firm operates a 1.5 million tonne/year soda ash facility in Beypazari, central Turkey, west of the capital Ankara. According to market sources, local plastic product companies would certainly encounter interruptions, which might eventually lead to lower imports of polypropylene (PP). South Korean PP exports may suffer because they accounted for 9.1% of Turkey's PP imports last year. However, its imports from China in 2022 were just 62,000 tonnes, accounting for 2.6% of overall PP imports and 3.7% of total PP exports from China.