



RLA Weekly Report – Monday, 14 November 2022

No.22

China eases COVID-19 restrictions but slightly!

Economy

- Even though the number of COVID cases is at its highest point in months, China has slightly loosened some of its restrictions. The seven-day state-mandated quarantine period for close contacts has been reduced to five days in a facility and three days at home. The changes were well received by the markets. The benchmark Shanghai Composite Index in mainland China increased 2.5%, while Hong Kong's Hang Seng Index surged 7%.
- Unemployment rates in the US increased to 3.7% in October from 3.5% in September, indicating some loosening in labour market conditions. The Federal Reserve will now be able to switch to smaller interest rate increases beginning in December. Nonfarm payrolls rose by 261,000 last month, which was the smallest gain since December 2020. The data for September was updated to reflect 315,000 new jobs rather than the previously reported 263,000.
- Britain's economy contracted in the three months to September, signalling the beginning of what is likely to be a protracted recession. The third quarter saw a 0.2% decline in economic output.
- The gross domestic product (GDP) of China increased by 3.9% year on year in the July–September quarter, up from a meagre 0.4% growth in Q2, 2022. According to the data from the National Bureau of Statistics, the country's GDP increased by 3% year over year in the first three quarters of the year, which is 0.5 percentage points more than it did in the first half of 2022.

Oil and Tankers

- The market for ESPO Blend cargoes arriving in China in December is weakening due to uncertainty over trade terms after EU sanctions come into effect on 5 December. In the delivered market in the northeast Chinese province of Shandong, the price of Russia's ESPO Blend has started to decline in comparison to the benchmark Ice Brent futures. From the programme of about 30 cargoes, whose loading dates follow the start of the EU sanctions, it is likely that no more than seven cargoes have traded. The grade fell to a \$2.2/bbl premium to February Brent on 9 November, down by \$0.3/bbl from 3 November.
- Scrapping activity plunged further from 0.5 million dwt in September to 0.3 million dwt in October. Soaring freight rates, owners' dilemmas over newbuilding decisions, astronomical newbuilding prices and a lack of spare capacity at newbuilding yards have all contributed to lower scrapping activity lately. To know more about the prospects of scrapping activity in the near term, please subscribe to RLA's latest Monthly Oil Tanker Market Report.
- According to Bank of China International Limited, lockdowns because of the stringent COVID-19 policies in China have caused demand to fall by 400,000 b/d in 2022.



- The tanker market has recently seen two incidents that have brought to light once again the potential dangers of using outdated, subpar tonnage to transport crude oil and petroleum products. A 20-year-old Aframax carrying Russian crude was briefly adrift last week off the coast of Spain. The ship, which was travelling from Primorsk to Turkey, required repairs and was only permitted to continue its journey after a number of issues were resolved. Another loaded VLCC, this one 21 years old, grounded off Indonesia last week. According to reports, the VLCC was transporting crude oil from Malaysia to China. Neither incident was associated with any spills. However, there were some commonalities, though, that raised alarm. Both vessels were old and had a number of issues within the previous 12 months. The VLCC was recently placed on a "blacklist" by the US Treasury's Office of Foreign Asset Control due to its involvement in the so-called "dark fleet" that transported Iranian oil illegally.
- Furthermore, when the free flow of Russian oil is further constrained by the implementation of the EU import ban and the G7 oil price cap, this dark fleet may expand significantly, especially given that President Putin has stated he will not sell oil under the price cap mechanism. Sales of second-hand tankers have been brisk this year, despite the fact that the cost of older ships has sharply increased over time, seemingly in anticipation of the requirement for a larger dark fleet. At least 60 VLCCs, 42 Suezmaxes, and 93 Aframaxes with an average age of more than 15 years have been sold this year.
- According to project manager Kipic, commercial operations have begun at the first phase of Kuwait's 615,000 b/d Al-Zour refinery. The refinery will provide refined products for export to international markets with standard specifications and serve as a crucial outlet for the disposal of heavy Kuwaiti oil. When Al-Zour reaches capacity in 2023, it will increase Kuwait's refining capacity from roughly 800,000 b/d to 1.415 million b/d.
- For the eighth consecutive month, onshore commercial inventories of crude and products in the US, EU 16, and Japan increased in October by 11 million bbls. Over that time, stocks increased by nearly 90 million bbls, a 4% increase from their February low.

Tanker Freight Rates on Key Routes

Route No.	TC2_37	TC6	TC8	TC20	TC9	TC14	TD1	TD6	TD18	TD20	TD3C
Description	37k mt Cont to USAC	Clean Algeria to European Mediterranean	Clean Middle East Gulf to UK-Cont.	AG/UK Cont	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	30k mt Baltic to UK Cont	130k mt W Afr to Cont	270k mt Ras Tanura to China
Size mt	37000	30000	65000	90000	22000	38000	280000	135000	30000	130000	270000
Route	Rott - NY	Skikda-Lavera	Jubail-Rott	Jubail-Rott	Baltic - UKC	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	WS
07/11/2022	316.67	238.13	53.72	3,911,429	436.43	167.50	60.22	199.67	389.58	181.36	107.95
08/11/2022	315.56	253.13	54.23	3,882,143	476.43	160.83	61.50	206.98	388.33	182.73	109.95
09/11/2022	313.33	300.00	54.17	3,814,286	490.71	159.17	62.11	212.89	388.33	187.95	113.73
10/11/2022	306.11	350.00	54.17	3,800,000	494.29	158.75	62.06	215.11	390.00	191.18	113.27
11/11/2022	308.89	358.13	54.11	3,871,429	496.43	157.08	62.17	215.67	390.42	195.23	112.77

Source: Baltic Exchange

LPG

- A record amount of LPG was imported into China in September as a result of stockpiling for the upcoming winter and recovering petrochemical sector demand. In September, the country imported 2.8 million tonnes of LPG, an increase of almost 31% year on year and 30% month on month. Imports into India in September fell to 1.45 million tonnes from 1.55 million tonnes in August this year. This represented a fall of 7.3% compared with the 1.57 million tonnes recorded in September last year. Please refer to our latest monthly VLGC report for detailed analysis on LPG trade developments.
- The output of ngl's in Norway declined significantly in September and hit a 14-month low. Data from the Norwegian Petroleum Directorate (NPD) show that output decreased to 190,000 b/d in October, down 13% on the month and 28% on the year. The decrease is most likely the result of technical difficulties and upstream site maintenance, as well as a decrease in the conversion of gas into ngl's amid high gas prices.
- By October 2023, all ships wider than 109 ft (33 metres) must have a fixed computer-based piloting unit installed in order to pass through the Neopanamax lock in the Panama Canal, as stated by the Panama Canal Authority (PCA). A modern VLGC is 36-36.6 metres wide. The vessel inspection upon arrival will include a check of the units' compliance. The PCA anticipates that the regulations will reduce canal congestion, which has significantly pushed up freight costs across the board, including on the VLGC market. Current waiting times through the Neopanamax locks are around 14 days but this is expected to ease in the following week.

VLGC Spot Freight Rates

Route No.	BLPG1	BLPG2	BLPG3
Description	AG-East	USG-Cont	USG-Japan
Size mt	44000	44000	44000
			\$/tonne
07/11/2022	118.07	101.20	182.57
08/11/2022	119.00	99.84	180.37
09/11/2022	120.29	99.84	183.64
10/11/2022	129.29	104.60	189.29
11/11/2022	134.29	107.00	192.71

Source: Baltic Exchange

LNG

- In December, Finland will welcome the first floating storage and regasification unit operated by the US-listed Excelebrate Energy. According to the business, the vessel is presently undergoing winterisation work in Spain and will begin regasification services at the port of Inkoo in December. A FSRU newbuilding at Hyundai Heavy Industries that will be delivered in 2026 has also been signed up by Excelebrate. Additionally, it signed a charter deal for the 138,000 cbm regas vessel Excelsior, which was built in 2005; the hire period will begin in January 2023. In Germany's Wilhelmshaven, the FSRU will be deployed there from the winter of 2023 to 2024.
- On Tuesday morning, gas supplies from Germany to Poland via the Yamal-Europe pipeline dropped but flows via Ukraine from Russia to Europe stayed unchanged. According to statistics from the

Ukrainian transmission system, nominations for Russian gas entering Slovakia from Ukraine through the Velke Kapusany border point remained at 36.7 million cubic metres (mcm), nearly unchanged from the day before.

- The market for LNG carriers, which has traditionally been dominated by South Korean shipbuilders, is seeing an increase in orders won by Chinese shipbuilders. Some claim that this is a temporary phenomenon brought on by the South Korean dockyards being fully booked. A recent order for four LNG carriers from CSSC of China was made by CMG, a state-run company in China. The vessels will be built by Dalian Shipbuilding, a shipyard affiliated with CSSC. Dalian Shipbuilding has mostly concentrated on building container ships and bulk carriers but has future plans to diversify into high-value-added ships like LNG carriers. The Russian-Ukrainian war and the worldwide drive toward decarbonisation are focusing China's attention on LNG carriers. Due to these two factors, more shipowners are looking for LNG carriers to meet the growing demand for the relatively eco-friendly energy.
- Due to the seasonally warmer weather and high storage levels across the EU, LNG cargo deliveries to Europe surged this week as the price gap between the benchmark European Union LNG price and spot cargoes for Asia narrowed. European gas markets still had prices at historically high levels because of the cut-offs of pipeline gas from Russia and replacement supplies are seen taking a couple of years to organise, leaving the EU and the UK winter weather dependent. According to shipping statistics, there were 102 total LNG shipments lifted from international export facilities in the week through 13 November compared to 99 cargoes the previous week. The wholesale Dutch Title Transfer Facility (TTF) December price fell 6.8% week over week to the equivalent of \$33.485 per MMBtu from \$35.925/MMBtu the previous week.
- LNG carrier spot freight rates continue at stratospheric levels as queues of vessels awaiting discharge in Europe have built up and older ships are in demand for conversion to FSRUs around Europe.

LNG Spot Freight Rates

Route No.	BLNG1g	BLNG2g	BLNG3g
Description	Aus-Japan	USG-Cont	USG-Japan \$/day
28/10/2022	439,313	493,755	501,370
01/11/2022	438,594	492,983	493,541
04/11/2022	444,649	501,569	497,937
08/11/2022	446,082	497,720	480,885
11/11/2022	452,686	509,908	485,476

Source: Baltic Exchange

Chemicals

- According to classification organization DNV, methanol-fueled ship orders surpassed LNG-powered ship orders for the first time in the past month. Only eight LNG-fueled ships in total were added to the order book in October. Comparing the total to the six net additions to the orderbook in September, 18 ships in all, powered by methanol, were ordered in October. As a result of this year's rising LNG costs since the invasion of Ukraine, orders for LNG-fuelled ships have decreased significantly. However,

after peaking towards the end of the summer, prices have dramatically decreased during the last two months.

- China's economy is slowing down and its strict zero COVID-19 policy is reducing consumption, which has a negative impact on the region's petrochemical markets. High inflation, which poses a threat of sending major world economies into a recession, is making the problem worse. Supply still outpaced demand in the liquid caustic soda spot market, with Chinese producers concentrating on exports in the face of weak local demand. The weakening of the yuan against the US dollar also encouraged Chinese manufacturers to increase their exports. Europe's continued lack of arbitrage demand left sellers with little choice but to drop their price suggestions to boost buying activity. Despite the fluctuation in local market feedstock benzene prices, China's export prices kept falling. The lack of immediate demand for cargoes coming from other markets is reducing the pressure on prices brought on by increased costs. In contrast, a supply reduction brought on by a combination of operating rate cuts and planned plant shutdowns supports the paraxylene (PX) market in Asia. Regional producers have chosen to sell their feedstock rather than produce PX at unprofitable production margins because of the feedstock's relatively stiffer prices for isomer grade mixed xylenes (MX). Asia's immediate PX supply has become more constrained due to decreased PX production, and the lack of shutdown plans at downstream purified terephthalic acid (PTA) facilities in China. It is expected that once new PX facilities start operating for profit between year's end and early Q1 2023, the market for PX products will progressively loosen up.
- According to senior officials, Saudi Arabia intends to expand its phosphate fertiliser manufacturing to capture a quarter of the global export market as it seeks to expand its mining sector and become less reliant on oil revenues. The kingdom, which already ranks among the world's top phosphate exporters alongside China, the United States, Russia, and Morocco, plans to double capacity to 9 million tonnes of phosphate fertiliser per year, according to Robert Wilt, chief executive of the Saudi Ma'aden mining firm. Phosphate is commonly used in fertilisers, and global demand is expected to rise as the population grows, as will food demand. The new venture will serve 24% of the global export market for diammonium and monoammonium phosphate products. Saudi Arabia is the world's largest oil exporter, and its economy has traditionally risen and fallen in response to oil prices. According to RLA's in-house plant database, the kingdom continues to diversify its economic system away from oil and is developing numerous downstream chemicals projects.
- Supply of methyl tertiary butyl ether (MTBE) tightened in Southeast Asia due to low production and plant issues, keeping China's export window to the region wide open. Regional MTBE units running on cracker C4 raffinate feedstock have been operating at lower rates as Asian naphtha crackers generally reduce operating rates or undergo extended planned turnarounds in the fourth quarter. In late October, a fire broke out at Malaysia's Pengerang Integrated Complex (PIC) causing its naphtha cracker to shut. The complex also houses a 750,000/tonne capacity unit producing MTBE and other ethers. Spot trading of cargoes ex-Middle East into Asia were restricted, as they were mainly sold off within the Middle East or to Europe for better netbacks. In Southeast Asia, gasoline blenders experiencing a shortage of MTBE are turning to Chinese suppliers which are willing to export volumes amid poor domestic demand. Southeast Asian gasoline blenders in need of MTBE are turning to Chinese suppliers because of their willingness to export large quantities due to weak domestic demand. In contrast to 38,000 tonnes in 2021, China has exported around 1.2 million tonnes of MTBE



so far this year, according to RLA's most recent monthly chemical trade bulletin on China. To date this year more than 0.9 million tonnes of this were exported to Southeast Asia. The China monthly commodity chemical trade bulletin in just one of a number of similar reports on imports and exports provided as part of RLA's Chemical Carrier World Service.