



RLA Weekly Report – Tuesday, 23 January 2023

No.31

Despite easing inflation, central banks to continue to raise interest rates.

Economy

- Investors have been warned that central banks will make bigger increases in interest rates i.e. "stay the course" in their efforts to cool down their economies and control high inflation on both sides of the Atlantic. The vice chair of the Federal Reserve, Lael Brainard, indicated that despite indications that consumer spending is beginning to slow, the labour market is cooling, and price pressures have subsided, the US central bank still had work to do to bring inflation closer to its 2% target.
- Following a rise in the fourth quarter of 2022, British consumer confidence declined this month as rising energy costs and inflation continued to depress household incomes. Monthly consumer confidence index, which gauges how people feel about their own financial situations and broader economic prospects, dropped three points from the previous month to minus 45.
- Last month, a weaker yen and a significant exposure to the rising cost of imported goods drove Japan's core inflation rate to a new 41-year high of 4%.

Oil and Tankers

- When it goes into effect on 5 February, the EU import ban on Russian goods and the restrictions that Brussels and other G7 authorities will impose on brokering, insurance, and shipping services will have a significant impact on a sizeable portion of the global diesel market. Currently, Russia exports 1.2 million b/d of diesel, or about one out of every eight barrels of the fuel that is traded internationally. In advance of the price cap's implementation, exports are soaring.
- Only 10,000 b/d of crude was received at the Shell-operated Bonny terminal in Nigeria in the first 16 days of January, with levels possibly impacted by a pipeline failure. The terminal was placed under a state of force majeure in March 2022, and it wasn't until 21 November 2022, that a "limited export programme" was resumed. This is anticipated to impact the trade on TD20.
- Sinopec, a state-owned company in China, has significantly increased the amount of crude it has ordered for delivery in the first quarter, indicating a renewed optimism about the outlook for domestic oil demand. When compared to October-December, Sinopec's crude oil receipts are expected to increase by about 15% in the first quarter. The majority of the increase is attributable to an increase in crude imports from Brazil and Saudi Arabia, with Sinopec taking up to 840,000 b/d from each nation for arrival in March.
- According to the latest reports, President Xi Jinping's "zero-covid" policy slowed economic growth to 3% last year and reduced oil demand by 700,000 b/d.
- Higher costs, persistent supply-chain bottlenecks, and limited rock resources will slow Permian oil output growth this year and next. According to the EIA's latest Short-Term Energy Outlook (STEO), US crude production will increase by 540,000 b/d in 2023. The majority of the increase is in the

Permian basin in west Texas and east New Mexico, where output has increased by 440,000 b/d. However, Permian growth is slowing. The basin's production increased by 580,000 b/d last year, but the EIA expects growth to slow to 270,000 b/d in 2024.

- The IEA increased its estimate of oil demand for this year by 0.16 million b/d from its previous prediction in its most recent monthly outlook. In contrast, the EIA reduced its 2023 oil consumption projections by 0.34 million b/d.
- In an effort to increase its market share in the area, Saudi Aramco has further reduced the prices of its official formula for customers in Europe. For its customers in the northwest European and Mediterranean region, Aramco reduced the price of Arab Medium in February by \$1/bbl on a monthly basis, while Iraqi oil marketer Somo raised the price of Basrah Medium by \$0.95/bbl on a monthly basis.
- The age restrictions for port calls and ship purchases are about to transform Indian shipping. The Directorate General of Shipping has provided a draft order that would restrict the age of secondhand purchases and bar certain vessels from terminals if they are older than 25 years. The goal is to reduce emissions, fight pollution, and improve the Indian flag's quality. No matter the country of the charterer, all tankers, bulkers, general cargo ships, and anchor-handling tug supply vessels are subject to the port ban. The maximum age for gas carriers, container ships, other offshore vessels, and tugs will be 30. The Indian government is also planning to prohibit the secondhand purchase of ships older than 20 years from being registered under its flag.

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 European Mediterranean | Clean Middle East 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 |
| 12/01/2023 | 178.89 | 180.00 | 57.18 | 4342857.00 | 91.67 | 35.08 | 200.67 | 373.75 | 116.59 | 44.68 |
| 13/01/2023 | 184.72 | 179.38 | 53.72 | 4285714.00 | 91.04 | 34.50 | 204.00 | 355.42 | 132.50 | 44.45 |
| 16/01/2023 | 196.11 | 180.00 | 49.49 | 3907143.00 | 90.83 | 34.39 | 207.61 | 333.75 | 147.73 | 44.95 |
| 17/01/2023 | 207.78 | 180.63 | 47.05 | 3792857.00 | 90.83 | 34.39 | 207.33 | 309.58 | 146.36 | 45.32 |
| 18/01/2023 | 218.61 | 187.81 | 45.77 | 3685714.00 | 90.83 | 34.44 | 205.28 | 306.25 | 137.05 | 45.64 |
| 19/01/2023 | 205.28 | 191.25 | 44.30 | 3614286.00 | 80.83 | 35.00 | 203.72 | 302.92 | 125.00 | 46.73 |
| 20/01/2023 | 199.72 | 193.75 | 44.23 | 3514286.00 | 80.00 | 34.78 | 202.78 | 299.58 | 124.57 | 46.82 |

Source: Baltic Exchange

LPG

- In 2022, the amount of seaborne LPG imported into Poland reached a record high of over 1 million tonnes as the market tried to reroute its supply channels away from Russia in response to that country's invasion of Ukraine. However, due to a lack of infrastructure and the continued reliance of many market players on eastern rail imports, there was an excess of inventory and pricing pressure in the fourth quarter. At its ports in Gdansk, Gdynia, and Szczecin on the Baltic Sea, the country received 1.03 million tonnes of LPG in 2022, up from 609,000 tonnes in 2021. In October, seaborne

imports reached a monthly high of 118,000 tonnes, but in December, they decreased slightly to 115,500 tonnes as a result of terminal delays. Nearly 350,000 tonnes, or more than one-third of the yearly total, arrived at Polish ports in the fourth quarter.

- With the announcement of the third shipbuilding deal last week, South Korean shipbuilding giant Korea Shipbuilding & Offshore Engineering (KSOE) is off to a great start to the year. The business said in a stock exchange filing that it had been given the contract for the building of two VLGCs. The transaction is valued at KRW 240.8 billion (\$195.4 million). According to KSOE, delivery of the two LPG carriers is scheduled for 2026. The shipowner behind the order is an undisclosed shipping company from Africa. The deal was made public following the contract for the building of two LNG carriers that the shipbuilder announced on 19 January. Also, KSOE disclosed a \$748 million agreement for the building of three LNG carriers at the beginning of last week.
- According to data from two industry sources, Russia intends to increase seaborne exports of LPG in February by almost 62.5% from January to 234,000 tonnes since the profit from shipments is larger than those transported by rail. As LPG prices climb in northwest Europe and the Mediterranean, traders claim that export shipments of LPG from Russia's Black Sea ports of Taman and Temryuk and the Baltic Sea port of Ust-Luga are more profitable than direct rail exports to Poland. At the same time, prices have dropped significantly, reaching their lowest point since the summer of 2021 in the city of Brest, on the Belarus-Poland border. In the ARA area and the Mediterranean, the cost of propane-butane is at least \$150/tonne higher than it is in Brest, where it is around \$400/tonne.
- PDH margins in China averaged -\$112/tonne in 2022, while utilisation stood at 75%, down from \$57/tonne and 87% in 2021, respectively. Due to China's rigorous COVID-19 policy and the global economic crisis, which also affected the demand for LPG in the commercial and industrial sectors, the PDH sector was negatively impacted by a deterioration in downstream polymer demand. Despite Beijing relaxing its COVID-19 restrictions in December, the uncertain economic outlook this year has manufacturers of propylene on edge, not least since another 12 PDH plants are expected to begin operations in 2023.
- Spot freight rates for VLGCs on all three benchmark routes fell over the week owing to an increase in vessel availability and fewer delays at the Panama Canal. Rates on the Arabian Gulf to Far East dropped significantly by \$22.14/tonne to reach \$58.57/tonne by the end of the week. Similarly, rates from the US Gulf to Europe and from the US Gulf to the Far East fell by \$10.40/tonne and \$13.86/tonne respectively, to reach \$60.00/tonne and \$110.86/tonne over the same period.

VLGC Spot Freight Rates

| Route No. | BLPG1 | BLPG2 | BLPG3 |
|-------------|---------|----------|-----------|
| Description | AG-East | USG-Cont | USG-Japan |
| Size mt | 44000 | 44000 | 44000 |
| | | | \$/tonne |
| 12/01/2023 | 82.29 | 74.20 | 127.86 |
| 13/01/2023 | 81.71 | 71.60 | 125.00 |
| 16/01/2023 | 80.71 | 70.40 | 124.71 |
| 17/01/2023 | 77.71 | 69.00 | 123.57 |
| 18/01/2023 | 63.86 | 66.20 | 121.14 |
| 19/01/2023 | 59.71 | 62.80 | 115.14 |
| 20/01/2023 | 58.57 | 60.00 | 110.86 |

Source: Baltic Exchange

LNG

- Due to high pricing and competition from the European market, India's imports of LNG continued to fall in 2022, while local natural gas production increased with a reduction in the country's gas consumption. According to preliminary data from the Ministry of Petroleum and Natural Gas, the volumes of LNG delivered to India's network of six import terminals for the month of December totalled 1.67 million tonnes, or 24 cargoes, which was 11.5% less than the 1.89 million tonnes, or 28 cargoes, recorded in December 2021. The total quantity of imports in the first nine months of the fiscal year, from April to December, was 15.09 million tonnes, which was a drop of 15.1% from the 17.78 million tonnes of cargoes discharged in the same period to December 2021. The majority of LNG shipments to Indian ports over the last year have come from Qatar, which supplies approximately a third of volumes, as well as West Africa, the US, Asian countries, and Australia.
- With increased volumes arriving from Australia, Russia, and its Asian neighbours, Japan has formally reclaimed the top spot for LNG imports in the world from China, even though total supplies to Japanese terminals decreased in 2022 and slumped in December. According to preliminary trade data from Japan's Finance Ministry, official Japanese LNG import volumes for 2022 came to 71.99 million tonnes compared with 74.31 million tonnes in 2021, suggesting a reduction of 3.1%. In contrast, China's anticipated LNG imports are expected to have decreased by 18.8% to 64.15 million tonnes during the same period. With 78.93 million tonnes of LNG imports in 2021, China had surpassed Japan to take the top spot, but it has since reverted to second place as a result of the global economic slowdown and COVID-19 limits that are impacting energy consumption.
- The amended budget of Italy's Societa Nazionale Metanodotti (National Pipeline Company), also known as SNAM, calls for investments in LNG facilities and natural gas pipelines totaling €10 billion (\$10.8 billion). SNAM said €6.3Bn would go on pipelines, including upgrading the Adriatic Line. An additional €1.4 billion would be spent on two LNG floating storage and regasification units (FSRUs), and €1.3 billion would be allocated for the development and improvement of gas storage facilities.
- Due to high stocks and weak demand ahead of the Lunar New Year vacation, Asian spot LNG prices declined for the fifth week in a row. Low gas prices in Europe, where storage levels are above the five-year average, also contributed to the decline. The average LNG price for March delivery into northeast Asia was \$22/mmBtu, down \$1, or 4.3%, from the previous week. Since the beginning of 2023, prices have decreased by more than 21%. Some southern Asian countries, notably India's Gail and Thailand's PTT, have returned to the market as a result of the lower prices. We expect the upward price trend will be limited given that storage is over 80% filled and on course to conclude the withdrawal season at 16% over the five-year average.

LNG Spot Freight Rates

| Route No. Description | BLNG1g Aus-Japan | BLNG2g USG-Cont | BLNG3g USG-Japan \$/day |
|--------------------------|---------------------|--------------------|-------------------------------|
| 10/01/2023 | 119763 | 105483 | 121750 |
| 13/01/2023 | 106051 | 85299 | 103421 |
| 17/01/2023 | 96126 | 69440 | 86225 |
| 20/01/2023 | 79517 | 59075 | 73742 |

Source: Baltic Exchange

Chemicals

- Already under strain from decreased output in Southeast Asia and Latin America, the world's vegetable oil supplies are projected to be further squeezed by an Indonesian plan to restrict palm oil imports and encourage local biodiesel usage. Furthermore, edible oil consumers—particularly price-conscious customers in South Asia and Africa—would face the brunt of supply-side constraints that arise precisely as demand is expected to surge as China relaxes COVID-19 limitations and India increases imports. This year, Indonesia, which supplies more than half of the world's palm oil, tightened trade laws. Exporters can currently transport just six times as much palm oil as they can sell domestically, down from an estimated ratio of eight times in the fourth quarter of 2022. As local demand grows and output declines, Indonesian palm oil exports will surely fall. According to the most current market research, Indonesia produced 51 million tonnes of palm oil in 2022, 34 million tonnes of which were exported. Palm oil exports of 26 million tonnes and output of 50.5 million tonnes are expected in 2023. Furthermore, Malaysia has said that it may stop exporting palm oil to the European Union in response to new EU legislation that strictly limits the sale of the product in order to protect forests.
- India aims to begin a gradual rollout of 20% ethanol-blended car gasoline on 1 April, with the fuel first accessible at select locations. The projected roll-out will provide further momentum to the government's goals to achieve 20% ethanol blending in vehicle gasoline across the nation by 2025-2026, according to India's petroleum and natural gas minister, Hardeep Singh Puri, who spoke on 13 January at the Auto Expo 2023. "We boosted ethanol blending in gasoline from 1.53% in 2013-14 to 10.17% in June 2022, meeting the November 2022 goal," Puri added. He predicted that the government will attain 12% ethanol blending by 2023. To attain 20% ethanol blending by 2025, India would need a production capacity of around 14.5 billion litres/year. To boost the country's ethanol supply, the government is offering different incentives to producers, such as financing and quicker approval for new projects, Puri said, adding that India also aims to create a global biofuels alliance with the United States and Brazil. The Indian government was also considering establishing ethanol-blended petrol stations around the country by 2025 to enable easy access to the fuel.
- Rising demand for cost-effective biofuel, as well as pressure on the US government to reduce its reliance on petroleum-based fuel, has led to an increase in Biodiesel market prices in the regional market. USD Clean Fuels LLC (USDCF) announced intentions to build a new biofuel terminal in California with the potential to translate renewable diesel (Biodiesel and ethanol mixed biofuel) to follow suit and improve Biodiesel capacity. BNSF Railway, one of the largest freight carriers in the US, will enable an effective supply of clean fuels to the area from the Midwest and the US Gulf Coast, as well as serve the terminal. The operating pace is planned to commence in the US market by 2024. It is the second terminal in a network of clean fuel terminals that USD Cleans will construct. The routes include terminals in California, Oregon, Washington, Canada, and the Texas Gulf Coast, based on considerable customer and railroad demand. According to USD Clean Fuels' senior vice president, these terminals will offer the required infrastructure to increase the efficiency of downstream logistics for generating Biodiesel and feedstocks.
- 2022 was a difficult year for mixed xylenes (MX) in Europe, owing mostly to gasoline concerns and global events affecting chemical demand, with no meaningful rebound prior to pre-pandemic levels.



Global demand for MX dropped back in 2022, following the surge witnessed in 2021, which was fueled in part by a return in economic activity following coronavirus lockdowns in 2020. For the past decade, European MX use in chemical and solvent applications has been declining as paraxylene (PX) and orthoxylene (OX) output has decreased. In the last three years, the downturn has been considerably more significant. PX continues to account for around 70% of European MX demand, followed by OX and solvents. With adverse economic circumstances and high downstream manufacturing costs persisting, European demand is expected to be muted until early 2023. Based on higher downstream demand for PX and OX from the polyester and plasticizer industries, no change in fortunes is expected before Q2 2023. There will be some rebound from 2022 demand levels in 2023, with growth anticipated at well over 10% year on year, but this would still leave European demand far below 2019 levels owing to lost business in the PX and OX markets in recent years. Despite low demand, Europe remained a net exporter in 2022, as it has done for some years. Most material was shipped to the US, considered for either gasoline blending or to replace US material bound for the gasoline pool.