



RLA Weekly Report – Monday, 15 May 2023

No.47

"Europe's Rising Demand Boosts LR2 Tankers, but Time Charter Rates Remain Volatile"

Tanker daily time charter rates are volatile due to high fleet utilisation, reliance on shipping imports, and a low orderbook for new vessels. Small changes in oil demand can lead to significant rate fluctuations, and the market is expected to remain strong but volatile in the coming years.

Economy

- According to a preliminary estimate, the US economy expanded by 1.1% on an annualised basis in the first quarter of 2023, slower than the previous quarter's 2.6% growth and falling short of the market's anticipated 2% growth.
- China's manufacturing activity contracted unexpectedly in April, according to official data released by the National Bureau of Statistics. The decline in activity puts pressure on policymakers to revive a struggling economy due to weak global demand and a subdued property market following the COVID-19 pandemic. The official PMI fell from 51.9 in March to 49.2 in April, below the threshold of 50 that separates expansion from contraction in activity.

Oil and Tankers

- Europe's increased demand for oil products from the Middle East to replace Russian products has benefited LR2 tankers. According to the latest reports, LR2 tankers accounted for almost 60% of the market share of clean oil flows into Europe, while Panamax and MRs represented 20% and 12% of the market, respectively. The LR2 tankers have witnessed a significant growth in tonne-miles. The growth was driven by Saudi Arabia, which has increased its share of volumes to the West to 35%, while India accounted for 25%.
- According to official sources, China has recently announced the second set of export quotas for oil products (including gasoline, diesel, and jet fuel) in 2023. The quotas have been granted to various companies, namely Sinopec, PetroChina, CNOOC, Sinochem, Zhejiang Petroleum Chemical (ZPC), China National Aviation Fuel Group (CNAF), and NORINCO. The total combined quota for these companies is 9 million tonnes, which brings the total quota for this year to 27.99 million tonnes. Comparatively, the first batch of quotas was approximately 19 million tonnes, indicating that the second batch represents an increase of roughly 50% over the initial allocation.
- The G7 finance ministers met in Japan to discuss how to tighten financial restrictions on Russia's economy while still keeping Russian oil and gas in global supply. The G7 countries are considering the price cap on Russian crude exports as a successful measure for cutting Moscow's fiscal intake while allowing Russian exports to continue. One possible adjustment to the price cap mechanism is to force more Russian exports to use western trading firms and providers of maritime insurance and financial services to ensure compliance with the \$60/bl cap. Sanctions enforcers in the US, UK, and EU aim to prevent circumvention of the price cap regime through ship-to-ship transfers and unauthorised deliveries, with potential penalties for violators.

- Russia may see its crude oil exports through pipelines to non-CIS countries rise for the third consecutive month in May, despite its pledge to cut an additional 500,000 b/d from the February baseline. Pipeline exports are expected to increase by 0.7%, with Rosneft's combined pipeline exports to China set to fall by 4% to 780,000 b/d.
- According to the EIA, commercial crude stocks in the US firmed slightly to 462.5 million bbls in the week ending 05 May from 459.6 million bbls the previous week. Similarly, distillate inventories fell to 106.1 million bbls, a decline of almost 4.1 million bbls in comparison with a week earlier. Furthermore, gasoline stocks eased by 3.1 million bbls to average close to 219.7 million bbls in the week ending 05 May.

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
09/05/2023	135.00	150.00	52.57	3703571	89.17	30.50	121.50	255.83	98.75	40.00
10/05/2023	127.78	149.88	52.31	3792857	85.83	29.83	124.44	256.25	115.00	39.09
11/05/2023	125.83	150.00	52.95	3832143	84.17	31.39	126.11	253.75	116.50	40.45
12/05/2023	127.22	150.00	51.80	3700000	84.17	32.22	127.22	254.58	118.25	42.36

Source: Baltic Exchange

LPG

- According to data from Vortexa, Bangladesh imported about 242,300 tonnes of LPG during the first quarter, down 15% from the same period last year. The drop in imports this year came after more than a decade of rapid growth in the Bangladeshi LPG market. In the fiscal year 2021–22, which ended in June, total imports rose by 5% on the year to 1.4 million tonnes.
- During the fiscal year 2022–23 that ended in March, India's LPG consumption fell for the first time in decades as higher prices upset the market's rising trend. Sales of residential cylinders decreased slightly to 25.4 million tonnes, bringing the demand down by about 1% to 28.5 million tonnes. This was to some extent offset by commercial and industrial sector demand rising by 16% to 2.6 million tonnes and by 5% to 408,900 tonnes, respectively.
- After a month of delays, Chinese private-sector petrochemical company Sanjiang Chemical started up its new 1 million tonne/year ethylene cracker in Zhapu in east China's Zhejiang province on 26 April with on-specification olefins output expected in early May. The cracker can be fed with up to

50% naphtha, and 50% propane and ethane. While propane and ethane will be imported, naphtha will come from Chinese refineries.

- Spot freight rates for VLGCs on all three benchmark routes increased over the week amid increasing demand. Rates on the Arabian Gulf to the Far East rose by \$7.1/tonne to reach \$93.8/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 \$2.8/tonne and \$2.3/tonne, respectively, to reach \$82.6/tonne and \$139.6/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		
09/05/2023	87	80	137
10/05/2023	89	81	139
11/05/2023	90	81	139
12/05/2023	94	83	140

Source: Baltic Exchange

LNG

- Due to problems in its process, Shell has once again halted production at the "Prelude" floating LNG facility offshore of northwest Australia. This problem has previously resulted in long shutdowns for safety inspections. The FLNG vessel, which has a capacity of 3.6 million tonnes/year, is moored 400 km north of the town of Broome on the Kimberley coast of Western Australia. The facility was previously shut down for 11 months after electrical issues. The Australian National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA) had directed Shell to carry out a deeper safety probe and provide NOPSEMA with monthly reports on its progress on safety.
- According to Spanish government data, Russia supplied 14.4% of Spain's LNG imports in March, up from 8.7% a year earlier. In comparison to 3,277 gigawatt-hours (GWh) in March of last year, Spain purchased 5,460 GWh of natural gas from Russia in March. The main gas suppliers to Spain in March were the United States and Algeria, but the data show how heavily Spain still depends on Russia for gas despite the conflict in Ukraine. The United States supplied 26.5% of Spain's gas imports, followed by Algeria at 24.4%.
- PetroVietnam Gas said on Monday that it had received a certificate from local authorities to become Vietnam's first company eligible to import and export LNG. The certificate from the Ministry of Industry and Trade will allow the company to make its first LNG imports this year. PetroVietnam Gas said it had completed the construction of an LNG terminal in the southern province of Ba Ria Vung Tau with an initial capacity of 1 million tonnes/year of LNG. It aims to raise the capacity to 3 million tonnes/year.
- Due to sluggish demand from major regional importers and excessive inventory, Asian spot LNG prices fell for the third consecutive week on Friday to the lowest level in almost two years. According to industry sources, the average LNG price for June deliveries to northeast Asia LNG-AS plunged to

\$10.50/MMBtu, a 4.5% decrease from the previous week and the lowest level since end-May 2021. The average price for July delivery was estimated at \$10.67/MMBtu. High inventory levels at South Korean and Japanese utilities continue to cap demand, despite forecasts of high temperatures in the coming weeks.

LNG Spot Freight Rates

Route No. Description	BLNG1g Aus-Japan	BLNG2g USG-Cont	BLNG3g USG-Japan \$/day
02/05/2023	52048	42085	48032
05/05/2023	50026	41439	44447
09/05/2023	45070	40216	41789
12/05/2023	43262	38701	39811

Source: Baltic Exchange

Chemicals

- Gidara Energy said in the Netherlands that it has obtained a critical environmental licence for its Advanced Methanol Amsterdam (AMA) project. The province of Noord-Holland's environmental licence authorises the company to construct its advanced methanol factory, which will turn local garbage into advanced methanol. The renewable methanol plant, which will be located in the Port of Amsterdam, will employ Gidara Energy's proprietary HTW gasification technology to convert trash into biomethanol, a fuel that may be used in road transport, marine transport, and the production of sustainable aviation fuels. Every year, the facility will transform around 360,000 tonnes of garbage into 90,000 tonnes of sustainable methanol.
- The ethylene market in Northeast Asia is likely to be well-supplied in July due to rising regional supply, steady US exports, and poor downstream demand. Production in the region will increase as crackers restart and additional Chinese capacities come online. As the peak turnaround period in the second quarter draws to a conclusion, several sites in South Korea, China, and Japan are planned to complete their scheduled maintenance by the end of June. In general, ethylene producers across Asia will continue to struggle to scale up downstream operations in the third quarter due to China's uneven recovery.
- According to RLA's January USA Trade Bulletin, total imports in January 2023 were 982,000 tonnes, up 129,000 tonnes (15%) month on month and 215,000 tonnes (28%) year on year. Deep sea imports increased by 76,000 tonnes (17%) and 173,000 tonnes (48%), respectively, from the previous month and January 2022. Total exports, on the other hand, fell to 2.0 million tonnes, a decrease of 73,000 tonnes (4%) month on month and 152,000 tonnes (7%) year on year. Simultaneously, deep sea exports declined by 74,000 tonnes (6%) and 381,000 tonnes (25%), reaching 1.1 million tonnes.