



## RLA Weekly Report – Monday, 26 June 2023

No.53

### Surprising Interest Rate Hike and Economic Stagnation; European Central Banks Grapple with Inflationary Pressures

#### Economy

- The Bank of England surprised the market by raising interest rates by 50 basis points to 5%, defying expectations of a smaller increase. This is the 13th consecutive rate hike as policymakers try to tackle high inflation. However, despite their efforts, the bank has struggled to effectively address the persistent inflation in the UK. Over the past two decades, there has been a significant rise in the proportion of mortgages on fixed rates, from 30% to 80%. Factors such as tight labour markets leading to wage growth, businesses safeguarding their profit margins through price increases, and disruptions in supply chains due to Brexit have all contributed to this inflationary pressure.
- In the Eurozone, business growth came to a standstill this month, primarily due to a deepening recession in the manufacturing sector and sluggish growth in the previously resilient services sector. This presents a policy dilemma for the European Central Bank as it continues with rate hikes to address inflation.
- The HCOB Flash Eurozone Composite PMI dropped to a five-month low of 50.3 in June, down from May's 52.8. These figures indicate that the economy of the bloc is stagnating at best, following recessions in the previous two quarters, and a recovery does not appear to be on the horizon. The overall picture suggests that the expected economic recovery in the EU will not happen anytime soon, as anticipated by many.

#### Oil and Tankers

- Saudi Arabia has accumulated approximately 20 million bbls of crude oil in floating storage in the Gulf of Suez, off the coast of Egypt. 10 VLCCs that were loaded in Saudi Arabia have been anchored near Ain Sukhna for at least a week. Most of these vessels were loaded in May, before Saudi Arabia's announcement during the OPEC+ meeting on 04 June to reduce its crude oil production by an additional 1 million b/d, starting from July.
- The research arm of China's state-owned CNPC, known as the ETRI, has made adjustments to its forecast for the country's oil demand this year. It has revised its projection to anticipate a 3.5% growth in Chinese oil demand, reaching 17.2 million b/d. This aligns closely with RLA's estimate of 3.6%. The revision was prompted by a modest year on year increase of 2.3% in Chinese oil demand, which amounted to 17.3 million b/d from January to May.
- The economic outlook for large crude carriers will be enhanced with the end of a temporary tax on Brazil's oil exports. Some oil companies halted their VLCC exports from Brazil due to the 9.2% tax and shifted to West Africa. In June, there was a 50% increase in VLCC fixtures in West Africa to meet China's demand, resulting in improved rates. The tax in Brazil is set to expire in July, allowing

the Brazilian market to resume. Although this may reduce some VLCC trade in West Africa, there will still be significant tonne-miles for VLCCs. As a result, the importance of Atlantic basin trade for VLCCs will continue, benefiting shipowners in the next quarter.

- Due to increasing freight rates and the availability of more enticing supply choices from Russia and Brazil, Chinese interest in West African oil is anticipated to decline over the next few months. China's preference for competing grades is likely to reduce its demand for West African crude during these months. For August delivery, Unipet, for instance, has already reserved 6–8 cargoes of Brazilian crude and 11 VLCCs of Russian light sweet ESPO Blend. Additionally, they have ordered more than five VLCC loads of Brazilian crude for delivery in September. China remains the key beneficiary of discounted Russian crude. Notably, China imported roughly 740,000 b/d of ESPO Blend between January and May, representing an increase of over 100,000 b/d compared to the same period last year.
- The limited availability of newbuilding berths is causing concern among ship owners, leading them to seek more slots for future newbuildings and increase their investment activity. In recent weeks, there has been a steady stream of new orders, especially in the tanker sector. Chinese shipyards remain the preferred choice for constructing tankers, with over 45% of the orders in the past year. Following a significant increase in VLCC spot rates (150%), Belgian owner CMB, along with MOL and Dynacom, has secured two vessels, bringing the total number of VLCC orders in June to six, twice as many as in 2022. To know more, read our upcoming oil tanker market monthly report.

### 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
19/06/2023	125.00	135.31	42.31	3214286	120.00	48.33	121.44	212.92	142.75	85.23
20/06/2023	125.00	145.63	44.23	3235714	115.42	48.33	122.67	209.17	138.50	85.68
21/06/2023	125.00	148.13	44.23	3271429	110.00	44.28	121.83	205.42	129.50	76.09
22/06/2023	125.00	143.13	44.62	3292857	105.83	40.33	120.83	204.58	122.75	66.73
23/06/2023	125.00	144.38	45.13	3325000	107.50	36.22	121.00	204.17	120.50	53.86

Source: Baltic Exchange

## LPG

- Australian Bureau of Statistics figures reveal that LPG exports from Australia increased by 1.1% on the month to 233,900 tonnes in April. While propane shipments decreased by almost a quarter to 94,700 tonnes, butane exports increased by almost a third to 139,200 tonnes. The average butane price for April fell by 23% on the month to around \$514/tonnes. Propane prices dropped by 7.5% on the month to around \$615/tonnes despite firmer Asian demand, with China continuing to expand propylene production capacity.
- Due to a mild winter and falling petrochemical industry use, German LPG demand decreased by over a fifth in the first quarter, failing to reverse a negative trajectory recorded in 2022. According to customs data, German LPG sales dropped by 179,000 tonnes on the year to 723,000 tonnes in January-March, a record-low level. This follows a 10% drop in demand to 3.67 million tonnes in 2022, the latest data from the country's LPG association DVFG show. This came as petrochemical sector use fell by 19% to a five-year low of 1.73 million tonnes, owing to soaring natural gas prices and weaker olefins demand.
- Spot freight rates for VLGCs on all three benchmark routes increased over the week amid increasing demand in Asia. Rates on the Arabian Gulf to the Far East rose by \$3.50/tonne to reach \$117.79/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 \$8.60/tonne and \$27.00/tonne, respectively, to reach \$100.60/tonne and \$181.71/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
19/06/2023	114	92	155
20/06/2023	116	95	160
21/06/2023	115	96	170
22/06/2023	117	100	179
23/06/2023	118	101	182

Source: Baltic Exchange

## LNG

- At prices lower than a year earlier, Indian imports of LNG fell by 24% in May. According to preliminary figures from India's Ministry of Petroleum and Natural Gas, deliveries of LNG for the month of May were 1.65 million tonnes, or 24 cargoes, compared to the same month last year when 2.17 million tonnes, or 32 vessels, were unloaded. Compared to April and May of last year, when imports totalled 3.71 million tonnes, they fell by 5.4% in the first two months of this fiscal year to 3.51 million tonnes
- In the battle to secure gas supplies from Doha's major production expansion project, Asia is clearly in the lead after Qatar on Tuesday signed its second major gas supply contract with a Chinese

state-controlled company in less than a year. In accordance with a 27-year deal agreed by QatarEnergy and China National Petroleum Corporation (CNPC), China will buy 4 million tonnes of LNG annually from the Arabian Gulf nation.

- As shipping spot charter rates rose with increasing LNG demand in Asia and the European Union's gas storage levels continued to rise to records, LNG prices eased during the week. On 23 July, the Dutch TTF pricing for August decreased by about 11.4% from the previous week to \$11.171/MMBtu from \$12.617/MMBtu on 16 June. The price for September also declined from \$13.748/MMBtu to \$11.645/MMBtu. The Japan-Korea Marker for August fell more sharply in North Asian markets, by 12.3%, to \$11.961/MMBtu from \$13.643/MMBtu in the previous week.

### LNG Spot Freight Rates

Route No. Description	BLNG1g Aus-Japan	BLNG2g USG-Cont	BLNG3g USG-Japan \$/day
13/06/2023	49632	51598	68351
16/06/2023	53076	58925	73294
20/06/2023	56588	65169	78293
23/06/2023	62923	69517	80918

Source: Baltic Exchange

## Chemicals

- Provaris Energy and Norwegian Hydrogen will develop a large-scale hydrogen production facility in Orskog, aiming to meet local demand and deliver green energy to Europe. The plant will have a capacity of 270 MW, producing 40,000 tonnes of green hydrogen annually, reducing CO2 emissions by over 500,000 tonnes/year. Provaris also plans to build the H2 Leo floating storage vessel project by 2025.
- The international sulphur market's focus was on the third-quarter contract price set by Abu Dhabi National Oil Company (ADNOC). ADNOC reached a settlement with traders, setting the contract at \$65/tonne Free on Board (FOB), while contract partners OCP and GCT agreed on a price within the \$50s/tonne FOB range. In the second quarter, the contract price was \$100-110/tonne FOB. Qatar's Muntajat tender received bids mostly in the \$60s/tonne FOB range, with an unconfirmed belief that the tender was agreed at \$71/tonne FOB. Market interest outside of term business was minimal. China experienced increased inventories but slow market activity due to the holidays. European contract negotiations were ongoing, with buyers seeking a minimum \$30/tonne reduction. In North America, prices remained stable, and the phosphate market remained bearish. The petrochemical sector continues to suffer globally due to poor demand and wider macroeconomic concerns.
- Donsotank Rederi has returned to Wuhu Shipyard in China to commission two dual-fuel 22,500-dwt chemical tankers, scheduled for delivery in the second and fourth quarters of 2025. These newbuildings follow Donsotank's previous order for two ice-class 1A LNG dual-fuel tankers at the



shipyard in 2018. The new vessels will feature dual-fuel propulsion (LNG-liquefied biogas/diesel), a 500-kWh battery pack, a shore power connection, an SCR catalyzer, and a waste-heat recovery system, ensuring cleaner and more efficient operations.

- Algoma Central Corp, a Canadian shipping company, has placed a \$96 million order for two methanol-ready ice-class product tankers from Hyundai Mipo Dockyard. These tankers, with a capacity of 37,000 deadweight tonnes (dwt), will be chartered to Irving Oil for transporting products from its refinery in Saint John, New Brunswick, to ports on the US East Coast and Canada. Meanwhile, Agalas, a Norwegian company, has placed an order for a methanol-powered subsea construction vessel from Sefine Shipyard. This vessel, scheduled for delivery in 2025, will be the world's first green offshore subsea vessel in its category, using methanol dual-fuel technology and battery propulsion to reduce emissions by up to 70%.
- China's propylene and polypropylene (PP) market experienced a widening price gap, with propylene prices falling more sharply than PP due to increased supply and weaker upstream costs. Propylene prices declined in the second quarter due to falling crude oil prices and increased supply, while PP prices were affected by new production capacity and a slow demand recovery. The average price gap between propylene and PP reached its largest point this year, but although it narrowed afterwards, propylene supply may still face pressure from new capacities and plant restarts.