



RLA Weekly Report – Monday, 07 November 2022

No.21

As anticipated, the US Federal Reserve increased interest rates by 75 basis points.

Economy

- The US Federal Reserve increased benchmark interest rates for the fourth time in a row by 75 basis points, setting a new target range of 3.75% to 4.00%. Interest rates hovered around zero in March this year. In line with the European Central Bank's decision to implement a huge interest rate increase, the Bank of England increased interest rates by 75 basis points on Thursday last week.
- Barclays revised down its growth estimate for the Chinese economy for the coming year, anticipating a fall in global demand for Chinese products. The firm expects a recession for the US and European economies next year. Barclays' new 2023 China GDP forecast of 3.8% follows a reduction to 4.5% in September due to a decline in real estate investment.

Oil and Tankers

- Russian crude shipments to Asia-Pacific buyers other than China and India have nearly ceased in advance of new export restrictions in December. According to Vortexa, Asia-Pacific took 2 million b/d of seaborne Russian crude in October. However, 99% of this was imported by China and India, around 1.04 million b/d and 935,000 b/d, respectively. Last month, only one cargo of Russian crude was shipped elsewhere in Asia-Pacific.
- Negotiations for 2023 term diesel contracts from east of Suez suppliers begin this month, with demand in Europe expected to be significantly higher than in the past. European buyers are used to receiving diesel under long-term contracts from Russian suppliers, but these shipments will be prohibited when EU sanctions take effect on 5 February. Saudi Aramco of Saudi Arabia, Adnoc of the United Arab Emirates, and India's reliance are the leading contenders to fill the void.
- China's enormous reserve of refining capacity has been made available thanks to the issuance of new product export quotas. Finally, the production and exports of diesel are rising. Production increased due to the dramatic increase in crude oil runs from August to September, which are expected to continue to increase in October.
- According to the latest reports from JLC, the non-state crude import cap for 2023 has been set by the Chinese Ministry of Commerce at 243 million tonnes (4.86 million b/d), which the ministry announced on its website on November 1.
- ARA stocks in October slid marginally to 5.18 million tonnes (1.28 million b/d) from 5.21 million tonnes (1.29 million b/d) in September. Gasoil inventories in the region fell to 1.7 million tonnes (420,000 b/d) from 1.8 million tonnes (446,000 b/d) over the same time period.

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
28/10/2022	280.00	275.00	53.66	4171429	445.71	172.50	55.06	204.78	387.50	189.09	98.59
31/10/2022	275.56	265.94	55	4114286	443.57	171.67	55.28	205.06	387.5	193.3	97.95
01/11/2022	272.22	256.25	54.75	4171429	433.21	170	55.61	204.78	383.33	192.5	98.14
02/11/2022	273.33	250	54.87	4135714	431.07	169.17	57.78	203.89	382.92	189.77	103.95
03/11/2022	275	241.88	54.36	3990000	431.07	169.58	59.33	202.61	385.83	185.91	106.5
04/11/2022	312.78	238.75	54.23	3932143	431.07	170	59.67	200.44	389.58	183.86	107.27

Source: Baltic Exchange

LPG

- Canada's LPG exports in August increased by 15.7% to 567,000 tonnes, and within this, 366,000 tonnes (64.5% of the total) went to the US and 148,000 tonnes (26.1% of the total) went to Japan. Total exports in the first eight months of this year totaled 5.1 million tonnes of which the US accounted for 3.4 million tonnes and Japan accounted for 1.1 million tonnes.
- Poland's seaborne imports of LPG increased significantly in the third quarter compared to the same period last year as the country lowered its reliance on Russian rail supplies. At its Baltic Sea terminals in Gdansk, Gdynia, and Szczecin, Poland received 239,000 tonnes of LPG in July–September, a drop of 1.5% from the previous quarter but an increase of 38% from the previous year. Over the first nine months of this year, seaborne imports increased by 50% to 678,800 tonnes. Half of Poland's LPG imports in January-June came from Russian cargoes, down from 63% a year earlier.
- LPG prices increased in Ukraine throughout the course of the previous month as demand increased and terminal inventories decreased, prompting some businesses to halt deliveries. A seller said on October 26 that several storage facilities in central and eastern Ukraine are vacant. Prices for LPG trucks from local facilities climbed from the previous week's HRN 43,000/tonne-47,500/tonne to HRN 44,000/tonne-48,200/tonne (\$1,203/tonne-\$1,318/tonne) on a fot (Free on Truck) basis. The increase in demand was mostly driven by increased industrial sector use, however, autogas sales also grew somewhat.
- VLGC rates on all three benchmark routes firmed as vessel availability tightened. Rates from the US Gulf to the Far East showed the most significant increase, from \$150.43/tonne on 28 October to \$185.21/tonnes on 4 November.

VLGC Spot Freight Rates

Route No.	BLPG1	BLPG2	BLPG3
Description	AG-East	USG-Cont	USG-Japan
Size mt	44000	44000	44000
	\$/tonne		
28/10/2022	103.43	82.68	150.43
31/10/2022	106.57	89.40	164.29
01/11/2022	109.14	99.40	177.29
02/11/2022	113.43	103.00	185.71
03/11/2022	115.86	104.20	187.00
04/11/2022	116.14	102.80	185.21

Source: Baltic Exchange

LNG

- According to the IEA, Europe might run out of natural gas during the crucial summer season for refuelling its gas storage facilities. This scenario emphasises the urgency of government action to curb gas use amid the global energy crisis. The European Union's gas storage facilities are currently 95% filled, which is 5% more than the 5-year average fill level, according to Europe's gas balance for 2023–2024. This year's filling of EU gas storage facilities benefited from a number of key factors that may not exist in 2023. Among these are Russian pipeline gas deliveries, which, despite being drastically reduced in 2022, were mostly at "normal" levels in the first half of the year. There will probably be a total of 60 billion cbm of pipeline gas sent from Russia to the EU in 2022, but it is extremely unlikely that Russia will send another 60 billion cbm of pipeline gas in 2023, and Russian exports to Europe may stop altogether.
- Due to the weak economy, China's natural gas consumption in 2022 may see its first decrease in two decades, state energy authorities said on Thursday. This winter, demand is expected to increase more modestly than in prior years. This year, total gas demand is predicted to reduce by 1% to 363.6 billion cbm, which would be the first yearly decline since at least 2002. Companies are set to ramp up domestic production, fill gas storage facilities, and import more affordable pipeline gas from Russia and Central Asia while reducing expensive LNG imports. Lower LNG imports from China have been a major factor in increasing Europe's access to LNG, which has helped to make up for the decline in Russian gas shipments.
- The head of the country's network regulator warned on Friday that if this winter becomes extremely cold, Germany's gas storage facilities could be quickly depleted. "Just a few freezing cold days are enough for a dramatic increase in gas consumption," Klaus Mueller said. Gas rationing, which Mueller's Bundesnetzagentur would be in charge of if it came to that, is a situation Germany actively works to prevent by pleading with consumers to reduce use by at least 20%. According to Mueller, Germany's top economy could survive for around 9 to 10 weeks if it relied only on its gas storage levels, which as of 2 November were at 99.3%, assuming a mild winter like the one that occurred in 2021–2022.
- More than 30 LNG ships are currently lying just off the coast of Europe as energy speculators anticipate that the price respite brought on by plentiful supply and favourable weather this fall will only

last a short time. According to shipping analytics firm Vortexa, the ships are idling or moving slowly across north-west Europe and the Iberian Peninsula while carrying \$2 billion worth of LNG in total. Another 30 vessels are on their way, currently crossing the Atlantic and expected to join the queue ahead of the winter. It reminds of a similar circumstance that occurred in the oil sector at the height of the coronavirus crisis, when a surplus of crude had forced dealers to store their stock on ships as floating storage while they waited for prices to recover.

Chemicals

- The largest container ships in the world will be ordered by China's COSCO Shipping Holdings and will run on methanol. The company said last week that it had placed an order for 12 dual-fuel box ships with a capacity of 24,000 TEU and the ability to run on methanol. The shareholders must approve the order. The order cost \$2.88 billion in total. The ships are scheduled to be delivered between the third quarters of 2026 and 2028. The ships will be much larger than the 16,000 and 17,000 TEU ships bought by AP Moller-Maersk and the 15,000 TEU ships ordered by CMA CGM, making them the largest methanol-powered vessels in the world. Securing fuel supplies for the new vessels will be the next crucial step for COSCO. In the absence of concrete contracts from shipping companies, like Maersk has arranged for its methanol-fueled tonnage, the market is unlikely to offer a consistent supply of green methanol.
- Global Energy Trading, a supplier of marine fuel in Singapore, has placed an order for the nation's first methanol delivery vessel. The 4,000 DWT vessel will be built by the company in collaboration with sister company Stellar Ship Management Services and classification society Bureau Veritas, according to a statement sent by the latter on Thursday. The ship will be constructed, at the Sasaki Shipbuilding Co. plant in Hiroshima. The spectrum of maritime fuels offered by Global Energy Trading will soon include biofuel mixes, and methanol will be made available starting in 2024. By the end of 2023, the new delivery ship will be part of the fleet.
- President Xi Jinping stated that China wants to change its economy from one of "high-speed" growth to one of "high quality" growth during the opening session of the 20th National Congress of the Communist Party of China on October 16. The upgrading of China's petrochemical industry with investments that concentrate on providing cost savings and greater profitability, as well as an enhanced movement towards green advances through eco-innovation, are strategies that will catch the attention of players in the chemical industry. According to Xi, it is necessary to increase the use of coal in a clean and effective manner while also taking energy security into account. It is anticipated that coal petrochemical development will thus continue, but in a more sophisticated manner. A modern coal chemical industry, which includes coal-to-methanol, coal-to-olefins (CTO), and coal-to-mono ethylene glycol, is an efficient means to realise this goal (MEG). Currently, the energy efficiency of China's coal-based industries varies, with CTO plants generally meeting regulations while the coal-based methanol and MEG industry falls short of the requirements. According to a report released by China's National Development and Reform Commission in November 2021, about 25% of coal-based methanol facilities and 40% of coal-based MEG plants operate below the benchmark level. However, several businesses find it challenging to invest in updating their technology in order to comply with the standards given the present low MEG and methanol margins. It is expected that as a result, some ineffective coal-based methanol and MEG production will be shut down by 2025.