FIS Weekly Oil Report

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Market Review：

Crude oil market—Short term neutral to bearish with Brent crude to range $80-85 per barrel, amid supply woes and market uncertainty over Omicron effect on oil demand.

Bunker market— Short term bullish due to supply tightness with Singapore VLSFO to range $640-650/mt.

Prices movement	10-Jan	7-Jan	Changes %	Sentiment	
Brent Crude	80.87	81.75	-1.08%	Neutral/Bearish	↘
WTI Crude	78.23	78.90	-0.85%	Neutral/Bearish	↘
VLSFO (Singapore)	648.00	640.50	1.17%	Bullish	↑

Crude Oil Market :

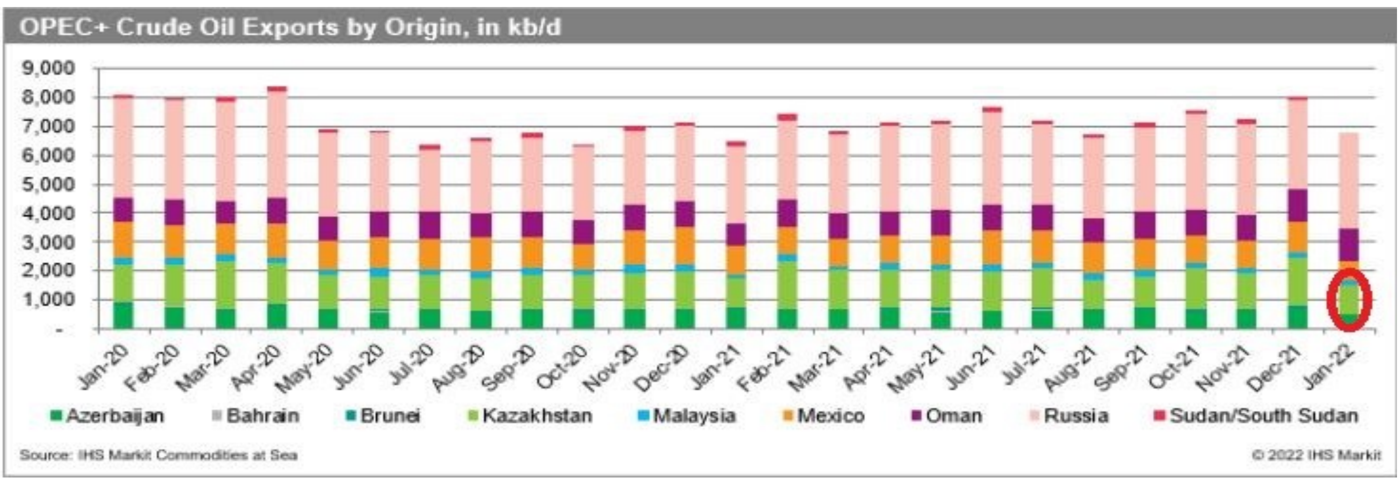
Supply woes amid unrest and logistic disruption

Oil prices endured a rollercoaster ride amid market uncertainty over tightening supplies and market concerns with the spread of Omicron virus that might lead to more stringent lockdown measures.

The media limelight was also focused on Libya and Kazakhstan due to civil unrest that affected oil production and exports. However, Libya had managed to resume production to around 800,000-900,000 bpd in early Jan, but this was down by 350,000 bpd on the previous month.

According to IHS Markit, the country’s January shipments are still under 700,000 bpd, down from 1.03 million bpd in December, after a monthly average of above 1 million bpd pace of exports throughout 2021.

Meanwhile, the ongoing violent protests have affected oil exports from Kazakhstan, which is estimated to ship around 979,000 bpd of CPC Blend exports during the first week of January, as compared with 1.64 million bpd in December, based on data from IHS Commodities at Sea.



Kazakhstan’s crude oil exports had fallen considerably in Jan 2022, due to the civil unrest in the country.

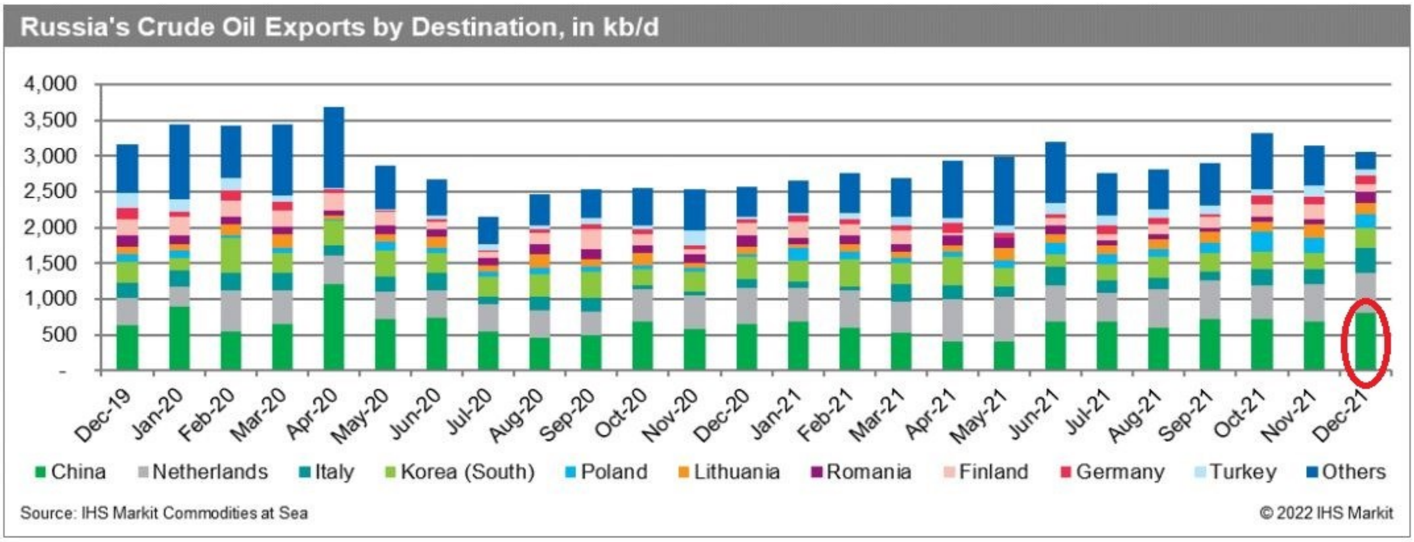
Crude Oil Market (cont)

Russia’s crude shipments to China reach almost 2 year-high

Despite the escalating Omicron panic, Russian seaborne crude exports to China hiked up to a 20-month high in December, as trade participants tried to maximize crude import quotas by year-end.

According to IHS Commodities at Sea, Russia shipped around 814,000 bpd to China during December, up 19% month-on-month. The buying spree of Chinese trade participants during the month of October contributed to the export hike as the cargoes went for loading in December.

Meanwhile, Russian refiners pushed to maximize their production quota for December at 10.018 million bpd under OPEC+ output ceiling. Subsequently, Russian crude production quotas will be increased to 10.122 million bpd in January and 10.227 million bpd in February.



Russia increased its crude oil exports to China in December 2021 to maximize its output quotas by year end.

Russia's Crude Oil Exports by Destination (kb/d)	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 H1	2021 H2	Oct-21	Nov-21	Dec-21	2021 Q4
China	636	604	506	665	555	701	714	683	814	738
Netherlands	477	474	566	499	520	508	479	528	545	517
Italy	79	131	197	146	164	205	230	203	358	264
Korea (South)	275	324	280	267	302	259	233	240	280	251
Poland	48	122	121	127	121	175	285	195	189	223
Lithuania	112	73	121	136	97	151	142	196	165	167
Romania	131	109	135	64	122	81	75	78	142	99
Finland	135	187	40	136	113	148	165	195	118	159
Japan	71	89	96	55	92	87	165	146	47	119
Turkey	99	81	117	123	99	120	102	158	94	118
Others	589	591	984	726	789	683	838	677	405	640
Total	2,553	2,705	3,047	2,821	2,877	2,999	3,326	3,142	3,063	3,177

Source: IHS Markit

China remained the top destination of Russian crude oil shipment in 2021, accounting nearly 27% of Russian total crude oil exports in December 2021.

Technical view of the Crude Oil Market:

Running out of Steam?

Given the market volatility of the recent geopolitics affect on oil market the futures market are entering a corrective phrase with key resistance at USD 83.00.

This was due to the futures failed to trade above USD 83.00 on Friday, that resulted in the creation of doji candlestick, which often was being interpreted as market indecision.

Hence, the key support rested around USD 79.07, and thus any downside moves that hold above this level will support a bullish argument, if broken the technical will target the USD 77.04 support level.

FIS senior analyst, Edward Hutton

Chart source: Bloomberg

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Bunker Market :

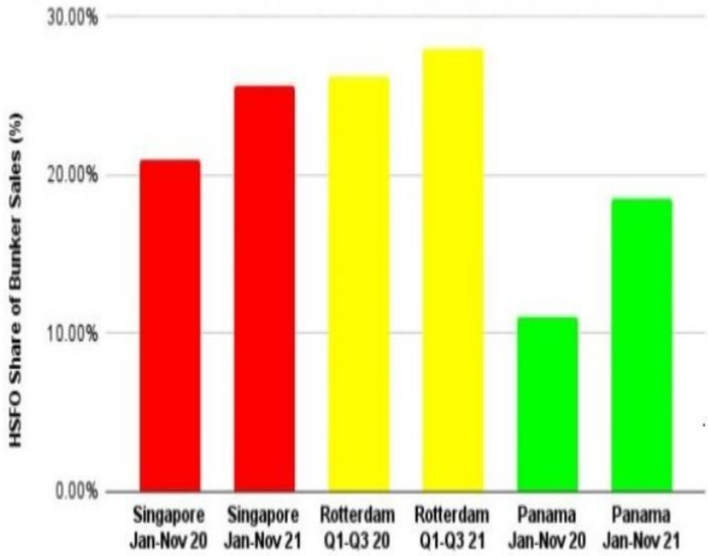
Growing HSFO demand among bunker hubs

The year 2021 proved to be challenging one for the bunkers market with global energy crunch that spiked up oil prices amid tight supplies, with the market having yet to recover to pre-Covid demand level of 2019.

However, HSFO sales had gained much market shares amid the volatile bunker market, with record high sales recorded among major global bunkering hubs.

According to the Maritime Port Authority of Singapore (MPA), the port of Singapore saw a surge of 25.6% on-year in HSFO sales during the Jan-Nov 2021 period. Similarly, HSFO sales also rose in Rotterdam by 26.2% on-year, and Panama's HSFO sales also increased by 18.5% yearly during the first 11 months of 2021.

The sharp increase in HSFO sales were linked to growing fleets of scrubber-equipped ships estimated at 7.52 Mteu out of a total global capacity of 25.34 Mteu by December 2021, or nearly a third of global box ship capacity, according to the data from Alphaliner.



Sources: MPA, AMP, Port of Rotterdam

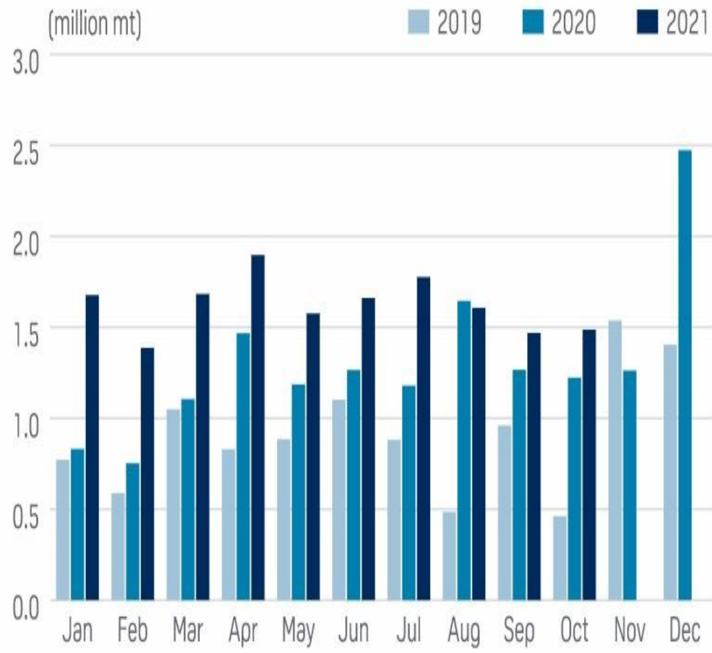
HSFO sales had increased among major global bunker hubs, due to growing scrubber-equipped fleets.

China to increase competition with Singapore over bunkering in 2022

China's ambition to be a significant ship refuelling destination is set to bring stiff competition to world's bunkering hub of Singapore in Asia region.

Market estimations of the Chinese bonded bunker fuel market put it at around 20 million mt in 2021, and this market volume is expected to increase further in 2022. As Beijing policymakers are expected to increase fuel oil export quotas in 2022, probably much higher than the 11.39 million mt of low sulfur fuel oil (LSFO) export quotas in 2021.

Moreover, there was also a cost advantage for bunkering in China, as the Zhoushan-delivered marine fuel 0.5%S bunker prices had traded at an average discount of 50 cents/mt to Singapore in 2021, according to the Platts assessment.



Sources: China General Administration of Customs

China's growing LSFO sales over the past few years, and set to increase over the new year.

Bunker Market :

Hi5 and FOGOs

Singapore Hi5 spread is expected to ease over Q2, as the supply tightness is alleviated by more production from refiners and producers., especially increase Chinese exports into Asia.

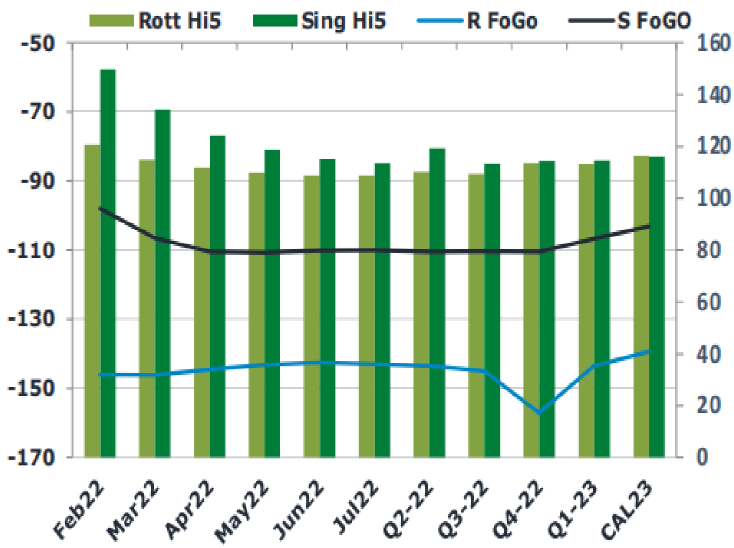
As China is poised to contribute more LSFO into the bunker market with rising sales from the port of Zhoushan, while HSFO sales may see more improvement later in the year with influx of more scrubber-equipped newbuilds set to enter the market.

Meanwhile, FOGOs continued to flatten toward Q2 with less winter heating demand, while oil production recovered gradually with incremental output level increases from OPEC+ , as they tried to stabilise prices.

The higher production was built on OPEC's optimistic demand outlook for Q1 2022 with a first-quarter 2022 demand forecast of 1.11 million bpd.

However, the lack of investment in oil capex might result in similar energy crunch during the Q4 period and a widening of the spread once again. Therefore the flat further dated futures may see increased action as we progress through 2022.

Rotterdam and Singapore Hi5 and FOGOs



Sources: FIS

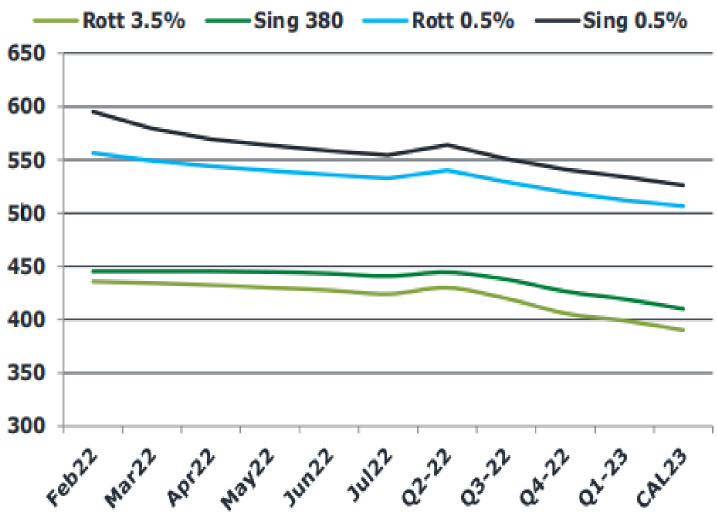
Prompt Hi5 prices remain stronger than deferred, but potential supply crunch could bring volatility.

Hi5 Forward Curve Values

	Rott Hi5	Sing Hi5
Feb-22	121	150
Mar-22	115	134
Apr-22	112	124
May-22	110	119
Jun-22	109	115
Q1-22	109	114
Q2-22	110	119
Q3-22	109	113
Q4-22	114	115
CAL22	113	115
CAL23	116	116

Sources: FIS

Rotterdam and Singapore FO Futures



Sources: FIS

Declining bunker prices as tight supplies ease amid market volatility over virus concerns.

Tanker Market :

Another annus horribilis for 2022?

The tanker market may have had a horrible year in 2021 with falling rates, albeit some improvement by late 2021. This gave some market hope that ‘the worst is over’, and things are set to improve.

Despite the optimism, the tanker market is not out of the woods yet, with struggling freight rates, perhaps only seeing firmer rates in clean tankers in the immediate future.

The rationale for the gloom was linked to growing fleets with an estimated 186 newbuilds to join the market in 2022, up 5% yearly according to Braemar Research.

This was compared to a net addition of 109 vessels introduced in 2021 into the fleet supply, across 5 main tanker classes.

Scrapping and Fleet Growth Balancing Act

With a predicted higher fleet growth, more ship scrapping is needed to help maintain freight rates at good levels, but this is not currently the picture, especially among the larger vessels.

According to trade sources, around 70 over 20-year-old VLCCs were still in the market, while demolitions were estimated at only around 10-15 VLCCs by year-end so far.

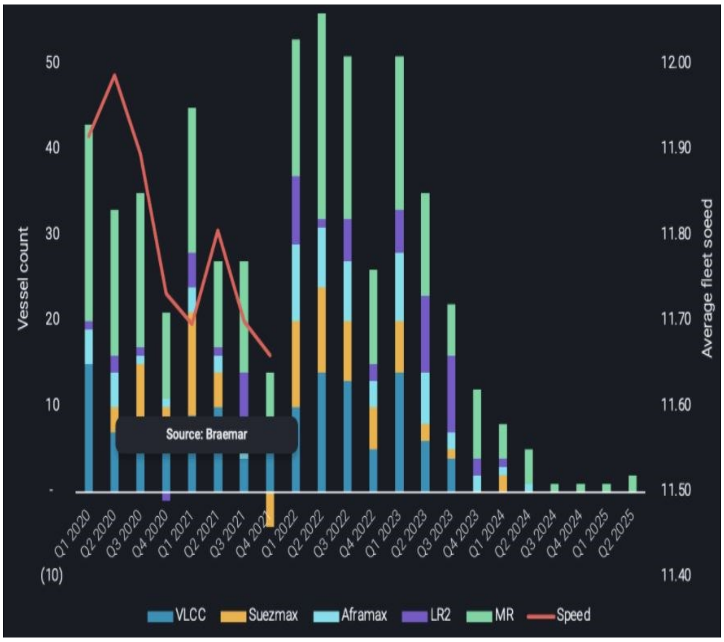
For 2022, it was estimated around 40-45 VLCCs (although some put this figure higher) will be delivered and thus many market participants were sceptical of a recovery in VLCCs freight rates for this year.

Alternatively, clean tankers like LR and MR freight rates are expected to remain firm for 2022, with good balance of newbuild delivery and demolitions.

According to Bancosta's estimates, around four LR1s were delivered in 2021, with three being scrapped, while 33 LR2s were delivered with 10 demolitions, while 82 MRs were delivered with 30 demolitions in 2021.

Sources: Argus, Vortexa

Freight rates recovery toward the end of 2021, due to rising OPEC output and better oil demand in Asia.



Sources: Vortexa, Braemar

Despite the freight rates recovery in late 2021, the newbuilds threatened a return to an already oversupplied market in Q1 2022.

Tanker Market Cont.

Focusing further on the VLCC market with a more long term perspective beyond 2022, it is estimated that the global fleet could lose some 10% of its capacity by the end of 2024 mainly due to age. This coupled with the lack of availability in shipyards could create the scenario of a tonnage squeeze in the market in a few years. Although earnings will be under pressure at the start of this year, the prospect of better market conditions in freight alongside an improved oil demand outlook could both reinforce recoveries in both sectors.

Sources: SSY, Castor Group, FIS

Technical view of the Tanker Market:

TD3C:

February futures - Price entered a bearish trending environment in November, the futures are below all key moving averages supported by the RSI below 50. The recent upside move has failed to trade above the USD 8.1761 resistance leaving the technical vulnerable to further tests to the downside, above this level the technical goes from bearish to neutral/bearish; only above USD 8.8850 will the futures have made a higher high above the last dominant bear wave to take the technical into bullish territory. Downside moves that hold at or above USD 7.1781 we will support a bull argument, below this level the futures will target the USD 6.8000 low. Technically bearish key levels to follow are USD 8.1761 and USD 7.1781.

FIS senior analyst, Edward Hutton

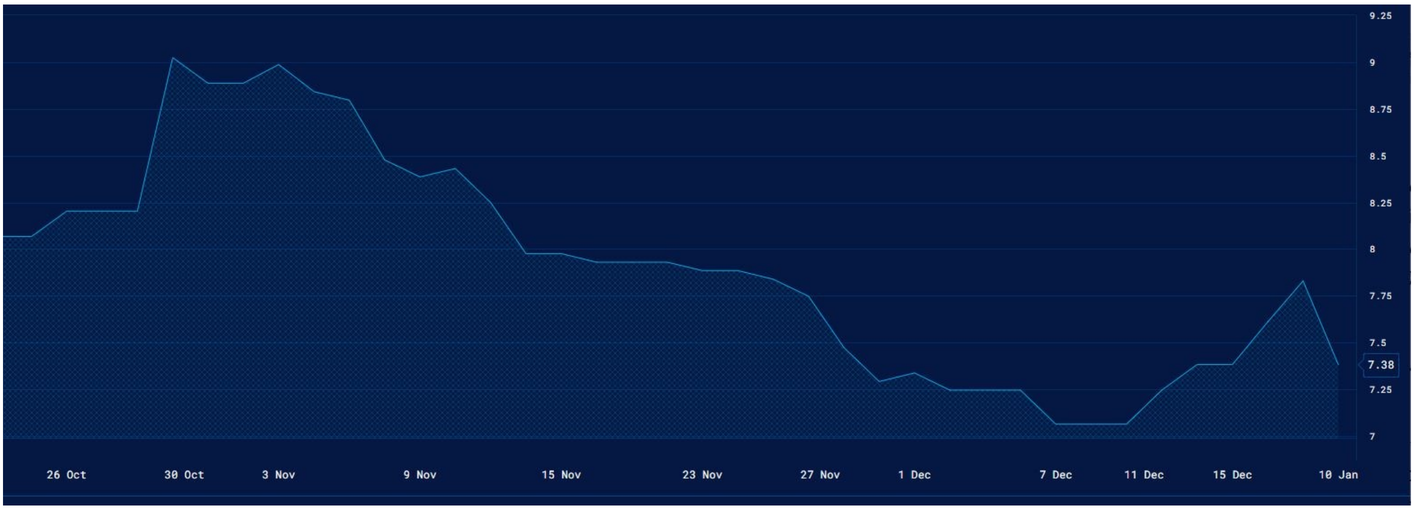
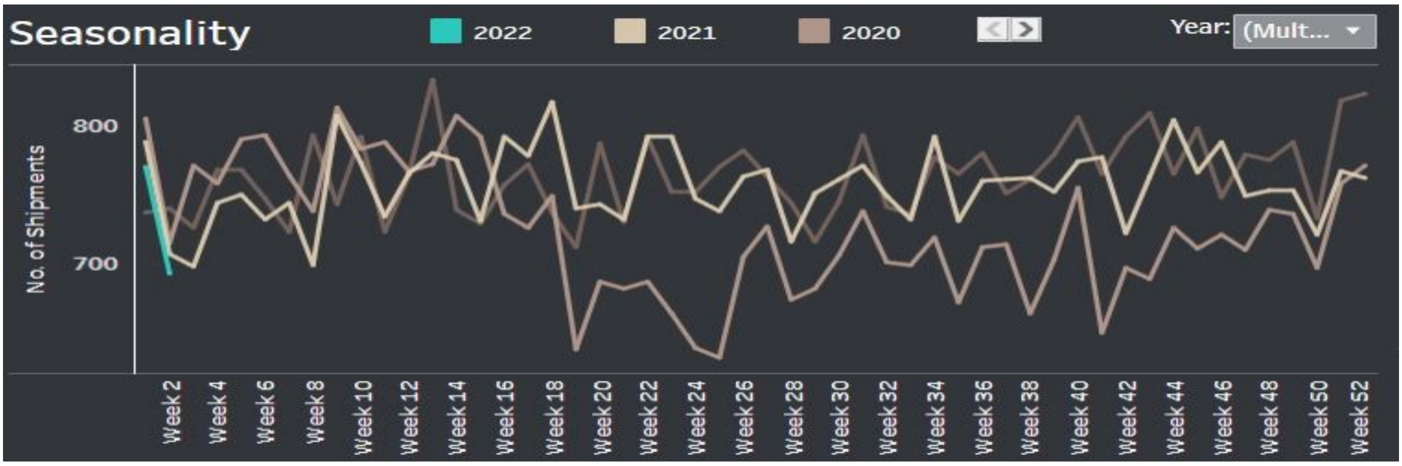


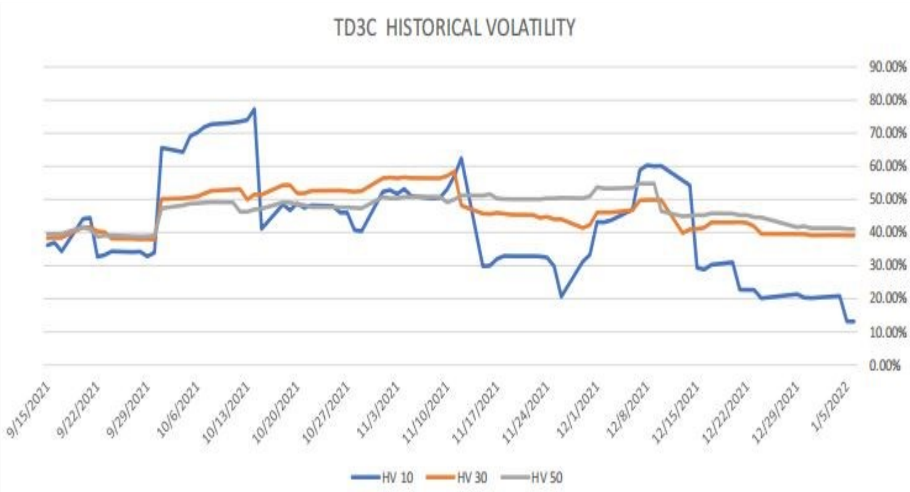
Chart source: FIS

Tanker Market (cont)



Sources: IHS Commodities at Sea

The tanker market had a slow start for 2022 in an oversupplied vessel market and relative weak oil demand as compared to past two years.



TD3C IMPLIED VOLATILITY SURFACE

IO	10% Put	25% Put	ATM	25% Call	10% Call
Jan	65.00	63.00	60.00	64.00	66.00
Feb	60.00	58.00	55.00	59.00	61.00
Mar	57.00	56.00	53.00	57.00	59.00
Apr	53.00	51.00	48.00	52.00	54.00
Q2 2022	49.00	47.33	44.33	48.33	50.33
Q3 2022	45.00	43.00	40.00	44.00	46.00
Q4 2022	42.00	40.00	37.00	41.00	43.00
Q1 2023	39.00	37.00	34.00	38.00	40.00

Sources: FIS

Future prices entered a bearish trending environment in November 2021, despite a short uptick in early December, it returned quickly to bearish territory again by early 2022.

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