FIS

Weekly Oil Report

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Market Review:

Crude oil market—Short term bullish with Brent crude to range $100-105 per barrel, due to the military conflict in Ukraine.

Bunker market— Short term bullish, ranging $785 -$795/mt, due to strong support from the crude market.

Prices movement	28-Feb	25-Feb	Changes %	Sentiment	
Brent Crude	100.99	97.93	**3.12%**	**Bullish**	↑
WTI Crude	95.72	91.59	**4.51%**	**Bullish**	↑
VLSFO (Singapore)	786.00	768.50	**2.28%**	**Bullish**	↑

Crude Oil Market :

Amidst the fog of war

Crude oil markets took a drastic turn after the Russian invasion of Ukraine late last week, which rattled prices and market fundamentals.

International condemnation for the Russian military action was swift as the US and EU are likely to implement some of their ‘toughest sanctions’ on Russian exports like natural gas and oil, though most of the announced Western sanctions were mostly focused on Russian banks and elites.

Moreover, the West also blocked Russian banks from international payment system, SWIFT, which make buying and selling of Russian oil and gas harder in the global market.

Though, the Russia has developed similar system or the System for Transfer of Financial Messages (SPFS) since 2014, with its first transaction undertaken in Dec 2017. By the end of 2020, the Russian SWIFT equivalent system was linked to 23 foreign banks in countries like Armenia, Belarus, Germany, Kazakhstan, Kyrgyzstan and Switzerland.

However, most market participants were hesitant in dealing with Russian exports for fear of retaliatory measures from the global business community, though Russian crude oil grades accounted for nearly 10% of global oil supplies.

Thus, the possible sanction on Russian energy exports will inevitably result in higher crude oil prices, as OPEC stuck to their output hike of 400,000 bpd per month in February 2022 as planned.

OPEC+	11-Feb-22	18-Feb-22	25-Feb-22	w-o-w %	y-o-y %
Azerbaijan	462	707	550	↓ -22.3%	↑ 14.3%
Bahrain	-	37	140	↑ 279.3%	-
Brunei	21	84	-	↓ -100.0%	-
Kazakhstan	1,559	1,893	2,346	↑ 24.0%	↑ 34.6%
Malaysia	129	34	165	↑ 383.5%	↓ -35.3%
Mexico	662	1,074	776	↓ -27.7%	↓ -26.1%
Oman	988	1,091	1,263	↑ 15.7%	↑ 60.3%
Russia	2,678	2,935	3,785	↑ 28.9%	↑ 21.0%
Sudan/South Sudan	86	86	71	↓ -16.7%	↓ -74.3%
Total OPEC+	6,584	7,942	9,097	↑ 14.6%	↑ 17.8%

Source: IHS Markit Commodities at Sea Service

Russian crude exports indicated an uptick on the brink of the military conflict with Ukraine, but this might change as tougher trade sanctions were to be implemented by the global community.

Crude Oil Market (cont)

US shale output rises on higher crude price

The US shale oil production has increased steadily over the past months under the high crude price environment that make drillings operation more feasible and profitable.

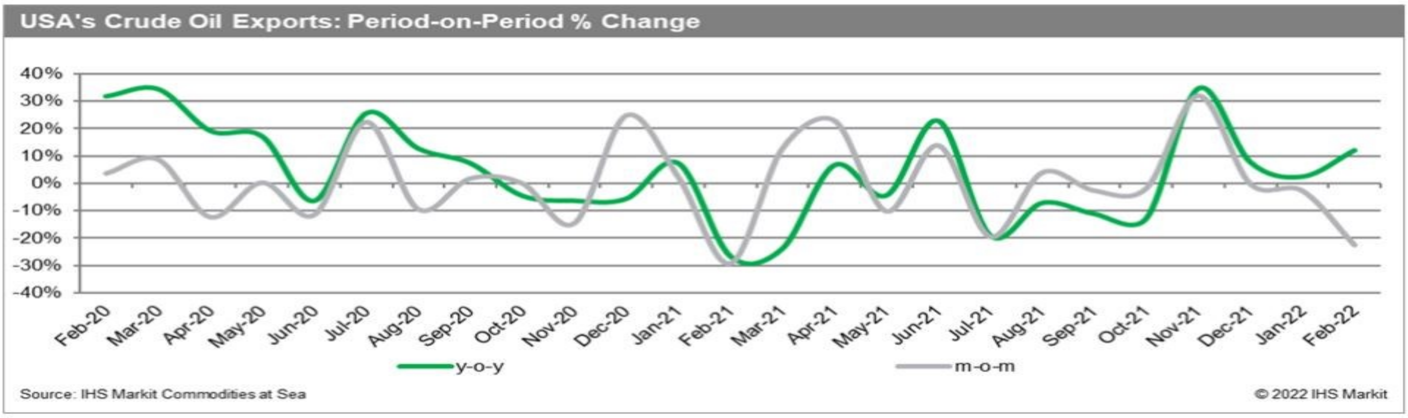
According to Argus media, the breakeven costs for most of big oil firms were estimated at $30-35/mt, and with crude oil prices expecting to stay above $100/bbl due to the Russia-Ukraine military conflict, more shale oil producers are likely to ramp up higher production in near term.

So far, US shale oil grade exports like Bakken and Eagle Ford had risen since the start of the new year, like Bakken grade exports had more than doubled to 49,000 bpd in February and higher than the entire year export volume of 43,000 bpd in 2021.

Similarly, Eagle Ford grade exports saw export uptick since Dec 2021 with high export volume of 76,000 bpd in January 2022, following by 43,000 bpd in February, and these two months exports were much higher than the total exports of 103,000 bpd during H2 2021.

Despite higher shale oil exports, the overall US February seaborne crude export remained low and dropped by 20% to 3.45 million bpd, due to falling export flows to Asia.

However, market participants expected US oil producers to fill in the supply gap left by Russia, as stringent trade sanctions will be imposed on Russian crude oil as their conflict with Ukraine dragged on.



Source: IHS Markit Commodities at Sea Service

US crude exports dropped by 20% month-on-month in February, with fewer exports to the Southeast Asia and the Far East market, though the monthly exports were higher on yearly basis.

by Grade (kb/d)	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 H1	2021 H2	Dec-21	Jan-22	Feb-22	2021 Q4
WTI	770	739	941	624	840	719	991	1,868	1,547	815
WTI Midland	1,389	1,166	1,406	1,299	1,286	1,403	1,500	934	845	1,507
WTI Cactus	153	88	126	160	107	152	142	125	78	143
Cold Lake	78	111	116	99	113	98	127	101	59	96
Bakken	42	29	7	14	18	25	21	20	49	36
Eagle Ford	184	143	141	129	142	103	77	76	43	77
Alaskan North Slope (ANS)	61	25	47	18	36	15	35	-	34	12
Isthmus	-	11	-	37	6	40	65	65	21	43
Mars	45	102	26	8	64	43	133	107	-	78
Access Western Blend (AWB)	65	68	22	29	45	44	112	76	-	60
Others	226	346	378	345	362	372	344	80	-	398
Total	3,012	2,827	3,209	2,762	3,019	3,013	3,548	3,451	2,674	3,264

Source: IHS Markit Commodities at Sea Service

US shale grade exports of Bakken and Eagle Ford had gained significantly since the start of 2022, with volumes almost higher than the entire year export volumes recorded in 2021.

Technical view of the Crude Oil Market:

May futures - We noted last week that it would be hard to justify any form of technical sell due to the approaching conflict.

Although our analysis was less technical (even though it was supported by a bullish Elliott wave cycle) it was however correct.

Oil has traded to a high of USD 105.79 with the Elliott wave cycle remaining bullish, we have a near-term upside target at USD 107.11 with further resistance at USD 111.74.

Price is currently retreating have gapped higher on the open as the U.S and its Allies look at releasing strategic reserves.

However, downside moves that hold at or above USD 95.38 will support a bull argument, below this level the technical will have a neutral bias, only below USD 90.12 will it be bearish.

Technically bullish with the potential to trade to new highs, any oil release could push price lower but if it holds above USD 90.12 then there is a chance it could run again.

FIS senior analyst, Edward Hutton

Chart source: Bloomberg

Bunker Market :

More price rallies due to supply uncertainty

The bunker market was not spared from the recent crude market upheavals, as market expected further supply tightness due to the Russia-Ukraine conflict.

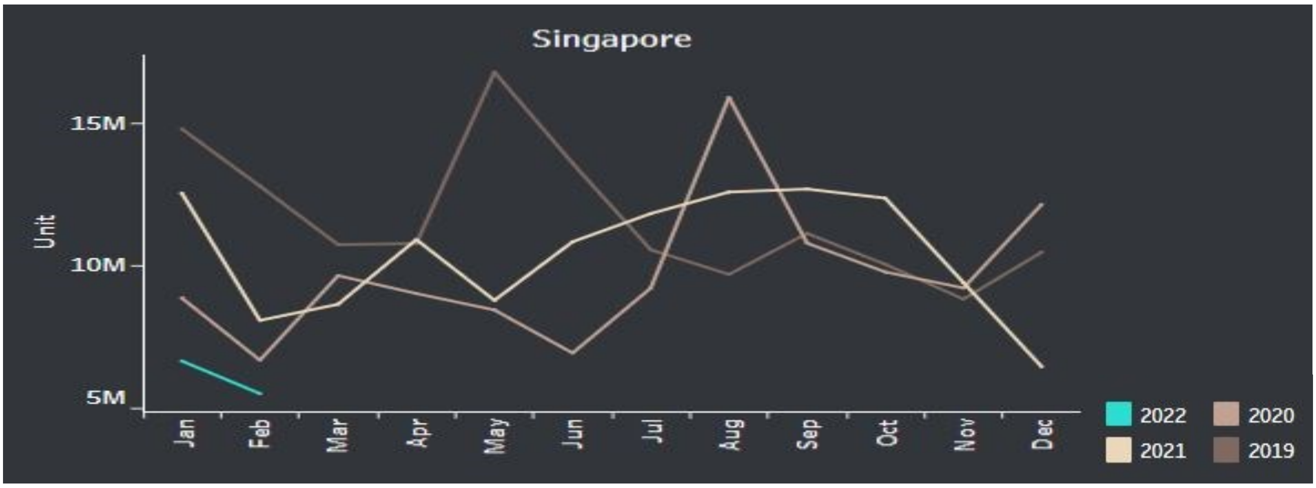
This resulted in a further bunker price rally that was already supported by previous tight inventory among the major bunkering hubs.

However, there was some easing of VLSFO supplies in the port of Singapore that narrowed regional competitors, namely the port of Zhoushan, with its VLSFO discount shrinking to $6/mt instead of the usual $10/mt discount level.

This will result in lower bunker demand in the Chinese ports due to lack of competitive pricing, while the recommended lead time for VLSFO bunkering in Singapore was reduced to 6-8 days as compared to around 10 days previously.

Meanwhile, the military conflict in eastern Europe is likely to affect the supply of Russian M-100 fuel into the US Gulf Coast, as importers will seek for more Canadian heavy crude to offset their dependency on Russian fuel oil to condemn their invasion on Ukraine.

According to Kpler, the US Gulf Coast imported around 4 million bbls of dirty petroleum products from the Black Sea region as feedstocks to refine into products like gasoil.



Source: IHS Markit Commodities at Sea Service

Singapore fuel oil arrivals remained the lowest in four years, though there was some improvement in the availability of VLSFO in its inventory.

Source: IHS Markit Commodities at Sea Service

Almost half of the fuel oil cargoes were still in transition by the end of February, which led to further supply tightness and indicated lower volume in month-on-month comparison.

Bunker Market (cont)

Hi5 and FOGOs

The Singapore Hi5 spread continued to widen over $200/mt range by end-February, benefitting the scrubber fleet on cost savings with their reliance on high sulfur fuel oil products.

However, the recent development of the Russian invasion of Ukraine risked possible trade sanctions on Russia energy exports, like fuel oils, and disruption of trade and bunkering activities in the Black Seas due to naval engagements.

Bunkers supplies were heard to be stacked full among ports of Black Sea and some in the Mediterranean region amid market uncertainty over the sanctions on Russian oil products, while shipping activities were reduced due to Russian occupation of the Ukrainian ports of Odessa and Mariupol.

The market uncertainty extended to the FOGO spreads as well, as some upticks might occur in Q2, affecting by the reduction of Russian supplies, and OPEC's adamant attitude in following their plan of adding 400,000 bpd in combined production per month.

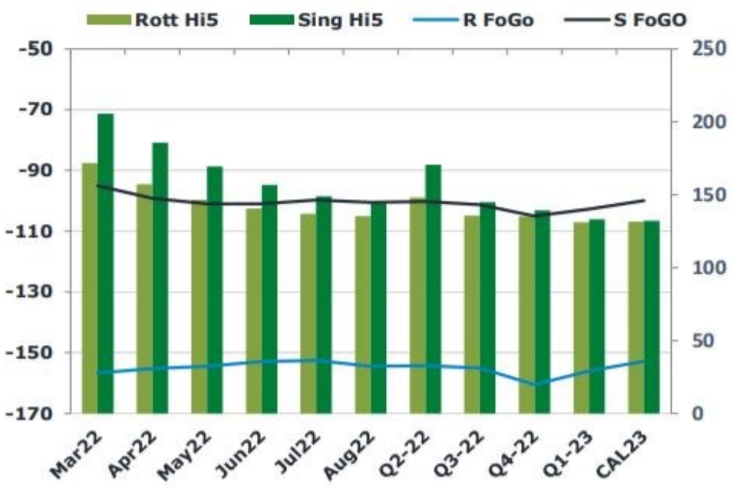
In the meantime, Iranian talks have yet to yield any positive result that might allow the entering of Iranian crude to the international market that might ease supply and prices.

Hi5 Forward Curve Values

	Rott Hi5	Sing Hi5
Mar-22	172	205
Apr-22	157	186
May-22	147	169
Jun-22	141	157
Jul-22	137	149
Aug-22	135	144
Q2-22	148	171
Q3-22	136	145
Q4-22	135	140
Q1-23	131	133
CAL23	132	132

Sources: FIS

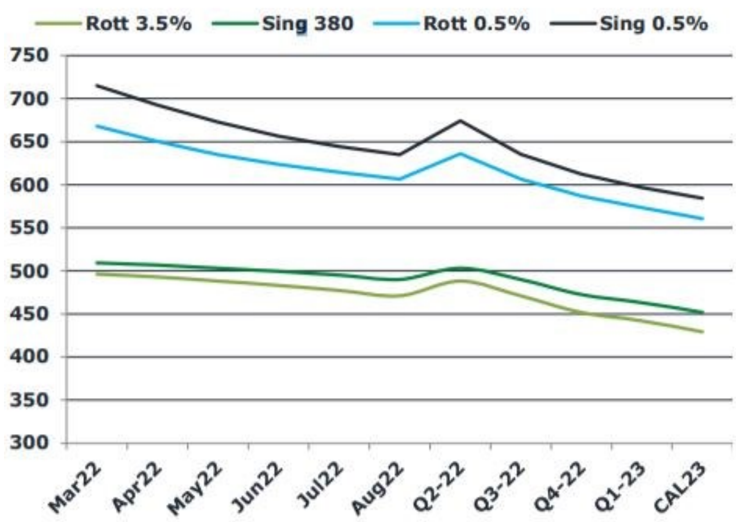
Rotterdam and Singapore Hi5 and FOGOs



Sources: FIS

Prompt Hi5 prices widen further, giving saving boost to scrubber fleet, due to their higher demand for HSFO bunkers products.

Rotterdam and Singapore FO Futures



Sources: FIS

Bunker prices extended a bullish run due to strong crude prices, amid possible Russian energy sanctions and heightening of geo-political tension.

Tanker Market :

Higher tanker rates supported by Russia-Ukraine conflict

Tanker rates headed higher as Russia's invasion of Ukraine dominated news headlines across the globe, with the market fearing a widening of the war and trade sanctions.

The escalating military conflict had pushed spot rates of smaller vessels like Aframaxes and Suezmaxes up, though large vessels like VLCCs pushed little from the military confrontation and earnings remained negatives.

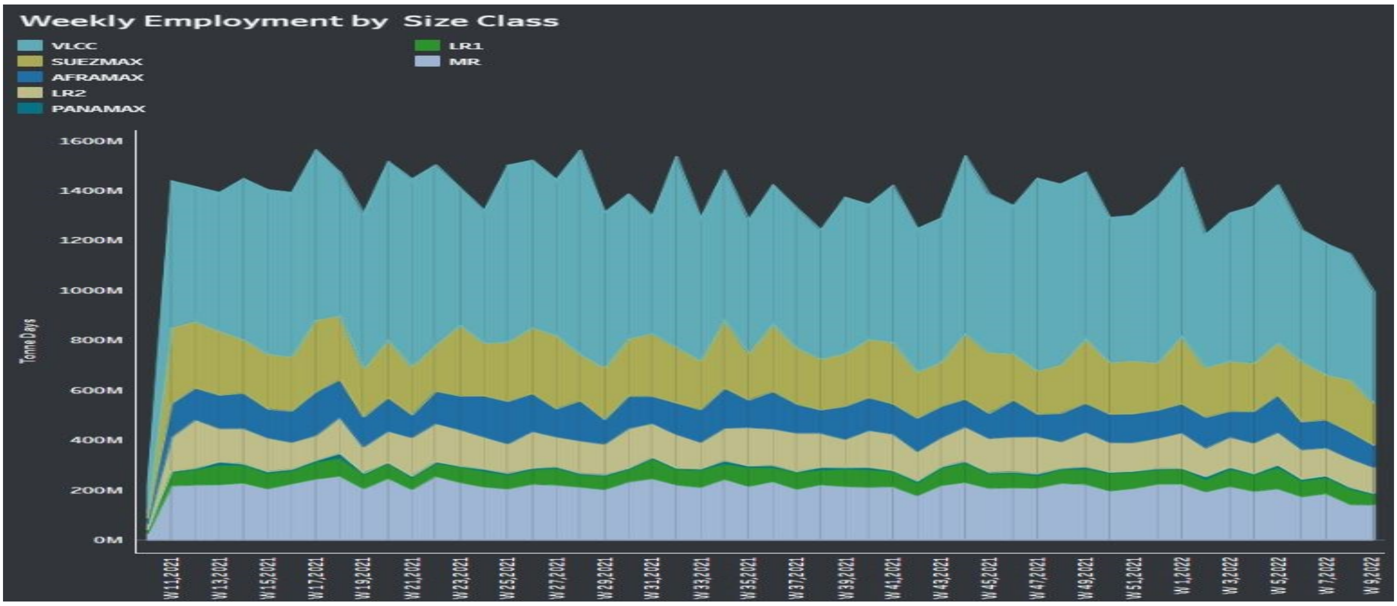
Despite some negotiations between Russia and Ukraine after days of fighting, no clear conclusion came out of the meeting, and it is likely that the conflict is slated to last for a while.

Then, trade participants would have to avoid the Black Sea regions due to the fighting, where at least three commercial vessels were heard to hit by missiles.

So far, the West remained ambiguous in whether to sanction Russian energy exports, but if that happened, it would raise the demand for longer haul imports for European countries in getting crude or natural gas from other regions like the Middle East or the US and increase overall tonne-miles.

Sources: IHS Commodities at Sea Service

The number of tanker shipments remained low as compared to previous years, but the Russia-Ukraine conflict might increase tonne-miles to move crude and natural gas from other oil-producing regions.



Sources: IHS Commodities at Sea Service

VLCC accounted for most of the weekly employment despite of negative rates, though there were some upticks in rates due to the recent Russia-Ukraine conflict.

Technical view of the Tanker Market:

TD3C:

March futures – Last week we highlighted that the futures were not considered a technical sell due to the divergence.

We have obviously seen a large upside move that is driven by the Russian invasion of the Ukraine. The technical warned that we could turn, the outside events have obviously pushed price way higher than it would in a normal market condition.

The technical is now bullish based on the futures making a higher high supported by the RSI that is above 50, downside moves should be considered as countertrend.

Support is at USD 8.2709 and USD 7.9740, corrective moves lower that hold at or above USD 7.5714 will support a bull market, below this level the futures will have a neutral bias. Technically bullish the futures will now target the USD 9.9940 and USD 10.5000 fractal resistance levels

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