FIS

Weekly Oil Report

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Market Review:

Crude oil market—Short term bullish around $115-$117/bbl, due to market expectation of more relaxed Covid restrictions in China, following a decline of Covid cases recently.

Bunker market— Short term bullish, ranging $875 -$885/mt, due to prolonged supply tightness in the port of Singapore.

Prices movement	16-May	13-May	Changes %	Sentiment	
Brent Crude	114.24	111.55	**2.41%**	**Bullish**	↑
WTI Crude	114.20	110.49	**3.36%**	**Bullish**	↑
VLSFO (Singapore)	874.50	867.00	**0.87%**	**Bullish**	↑

Crude Oil Market :

Oil demand to rise with Shanghai reopening

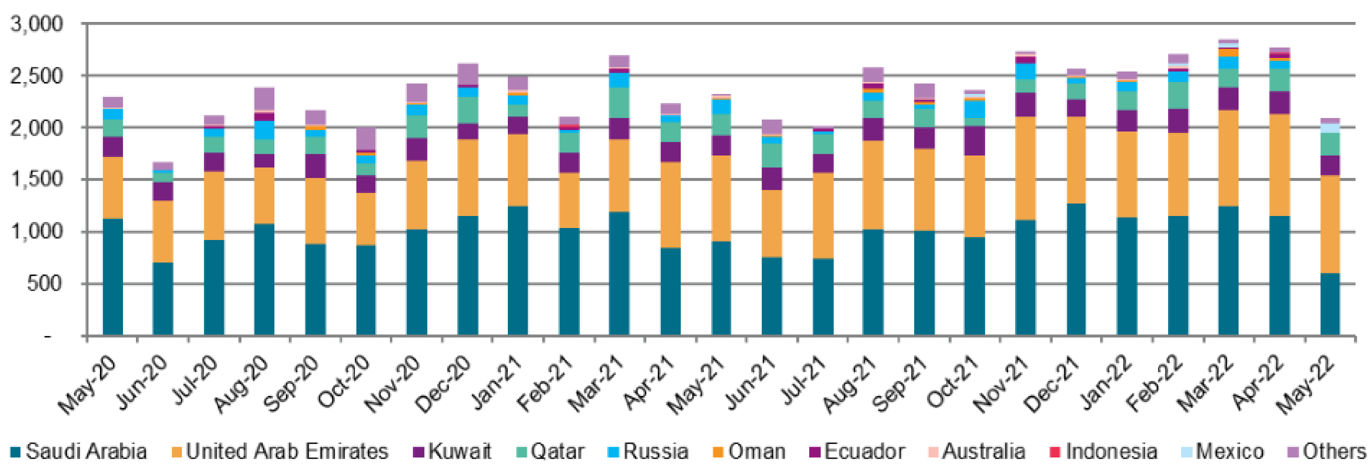
Crude oil prices rose on market optimism over the approaching driving season and possible support due to the relaxation of Covid lockdown measures in Shanghai in June, as cases continue to fall.

According to Reuters, the city of Shanghai plans to reopen and resume normal social gatherings and with a possible increase of more domestic flights from 1st June onwards.

15 of Shanghai's 16 districts had reportedly eliminated cases outside of the quarantine areas, though China is believed to still have around 46 cities under lockdown, which has resulted in the country's industrial production dropping by 2.9% year on year in April.

The market optimism did not stop there, as the US driving season is expected to kick off soon, driving up demand, despite high gasoline prices.

Japan's Crude Oil Seaborne Imports by Origin, in kb/d



Japan's crude oil seaborne imports declined in early May, following the slow economic recovery from Covid pandemic and refinery maintenance season.

Source: IHS Markit Commodities at Sea Service

Crude Oil Market (cont)

The US Strategic Petroleum Reserve is now down to 538 million barrels as seasonal oil demand and recent releases to curb high oil prices have resulted in a significant drawdown, putting it at a three-decade low or its lowest level since 1987.

Meanwhile, Japan’s crude import volumes dropped in early May, to almost a one year low, due to the refinery maintenance season and lower economic activity due to the effect of rising Covid cases.

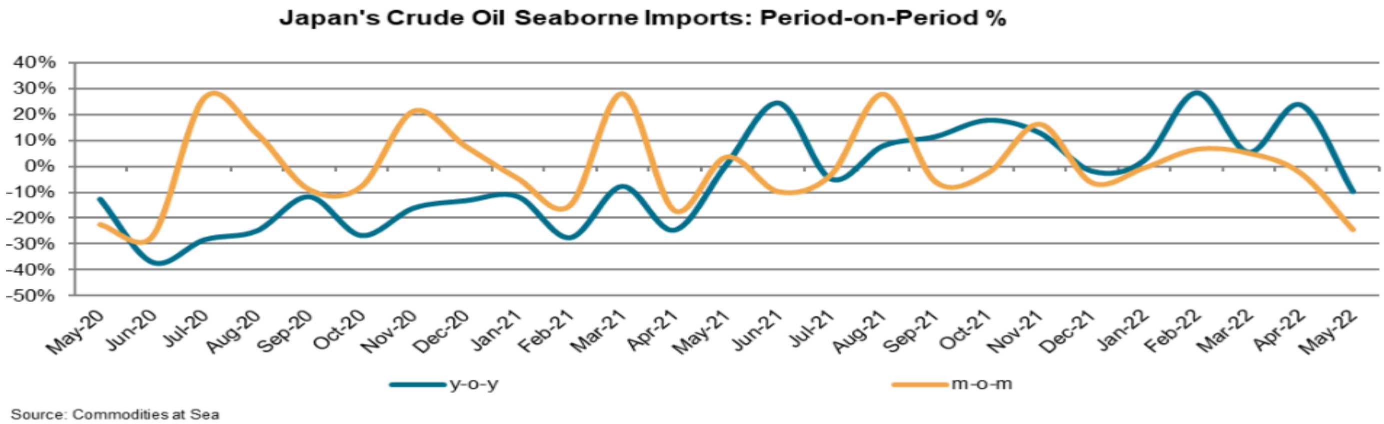
According to IHS Markit Commodities at Sea Service, the country’s crude oil imports dipped to below 2.1 million bpd in early May, after import volumes had risen for the previous two months to above 2.7 million bpd.

In the meantime, the EU’s pressure for a Russian oil embargo continued to strengthen as Germany seemed adamant to end Russian oil imports by the end of the year, with or without an EU agreement.

According to Bloomberg, Germany planned to replace Russian energy products over the next 6-7 months with new suppliers and logistics, though it did not name the suppliers yet.

So far, Germany’s total imports of Russian oil have reduced to just 12% as compared to 35% before the Russia-Ukraine war began, based on the data from the country’s Ministry of Economy.

The other EU members were given a grace period of 6-8 months to reduce their dependence on Russian oil and gas, though Hungary, Czechia, Slovakia, and Bulgaria are opposed to the ban and requested exemptions.



The recent spike in Covid cases resulted in a drop in Japanese seaborne crude imports in May to almost similar levels in 2020.

Source: IHS Markit Commodities at Sea Service

Japan's Crude Oil Seaborne Imports by Origin (kb/d)	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2021 H1	2021 H2	Mar-22	Apr-22	May-22	2022 Q1
Saudi Arabia	1,165	841	932	1,114	1,002	1,023	1,245	1,157	610	1,183
United Arab Emirates	642	761	813	864	702	839	920	971	934	847
Kuwait	187	200	201	232	194	216	217	222	196	215
Qatar	199	210	182	117	204	149	190	215	209	206
Russia	89	96	47	119	92	83	118	73	-	105
Oman	9	10	24	14	9	19	65	33	-	31
Ecuador	21	-	35	24	10	30	25	33	-	17
Australia	16	10	4	17	13	10	-	9	-	8
Indonesia	5	-	-	1	2	0	-	4	-	-
Mexico	-	-	-	8	-	4	32	-	91	22
Others	112	87	102	41	100	71	35	51	49	66
Total	**2,444**	**2,215**	**2,338**	**2,551**	**2,329**	**2,445**	**2,847**	**2,770**	**2,089**	**2,700**

Japan’s crude oil seaborne imports followed a downtrend since March 2022 as the country planned to phase out Russian oil imports as part of a G7 agreement.

Source: IHS Markit Commodities at Sea Service

Technical view of the Crude Oil Market:

July Futures – the USD 114.00 resistance level held last week, resulting in the futures producing a technical pullback.

We noted that there is a lack of trend based on the daily EMA support band (support band last week was USD 107.67 – USD 104.61), making this a dangerous area to enter a short position.

The futures did trade through the band to a low of USD 101.30, however, the downside move failed to hold, resulting in the futures moving aggressively higher, to USD 112.70.

The technical continues to have a neutral bias, upside moves above USD 114.84 will target the USD 123.74 fractal resistance; likewise, downside moves below USD 101.30 will target the USD 99.48, USD 97.57, and USD 96.93 fractal support levels.

FIS senior analyst, Edward Hutton

Brent July 22 Morning Technical Comment – 60 Min

Chart source: Bloomberg

Daily technical reports are available from FIS. You can sign up for these on our website.

Bunker Market :

Bunker prices continue to rise on tight supplies

Bunker prices rose on prolonged supply tightness among Asian bunkering hubs with support from the strong crude market.

The supply tightness of fuel oil remained in the port of Singapore, the world bunkering hub, though bunker demand had declined in April, due to the fuel contamination issues that lowered buyers' confidence.

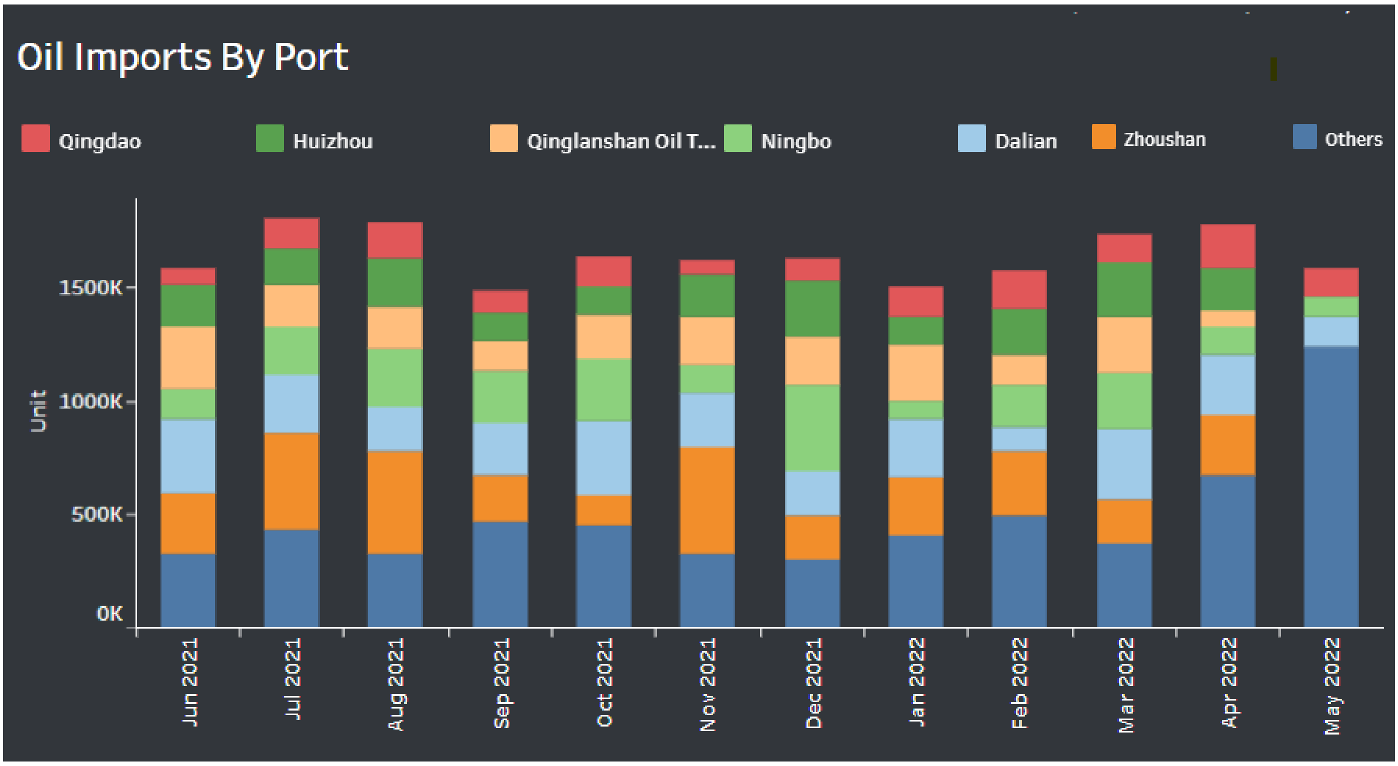
According to the country's Maritime and Port Authority (MPA), the bunker sales volume dropped by 0.7% month-on-month and 12.1% on yearly basis to 3.74 million mt in April 2022.

During the month, the sales of VLSFO continued to grow, after gaining 3.3% monthly to 2.5 million mt, while the sales of HSFO fell by 13.4% month-on-month to 941,700 mt.

Some of the city-state's bunker sales were lost to other regional ports like Zhoushan, which offered cheaper bunkers sales, especially with competitive pricing for HSFO.

However, the port of Zhoushan also faced supply tightness issues, which are expected to last until early June, though some restocking was expected by late May.

Therefore, the price of VLSFO and HSFO were unusually trading at a premium in Zhoushan, higher than in the port of Singapore, especially for HSFO.



Source: IHS Markit Commodities at Sea Service

The port of Zhoushan still did not receive any significant oil imports to alleviate its supply tightness, though the port is expected to receive some shipments later this month.

Bunker Market (cont)

Hi5 and FOGOs

The Singapore Hi5 spread widened towards the $200/mt mark, after more than doubling since the start of May.

This was probably due to the off-specification issues in Singapore that affected around 80 vessels between February and April 2022, depressing sales of HSFO.

Regional ports competed for the sales of HSFO, even though they had low availability of the high sulphur fuel.

The widening Hi5 spread continued to favour scrubber adoption by dry bulk vessels, offering significant cost savings in a volatile bunker market.

Meanwhile, the FOGO spreads continued to follow a downtrend, with expectations of supplies easing by year-end.

The International Energy Agency (IEA) changed its view on the oil market, highlighting that it will swing into deficit with the imminent ban on Russian oil.

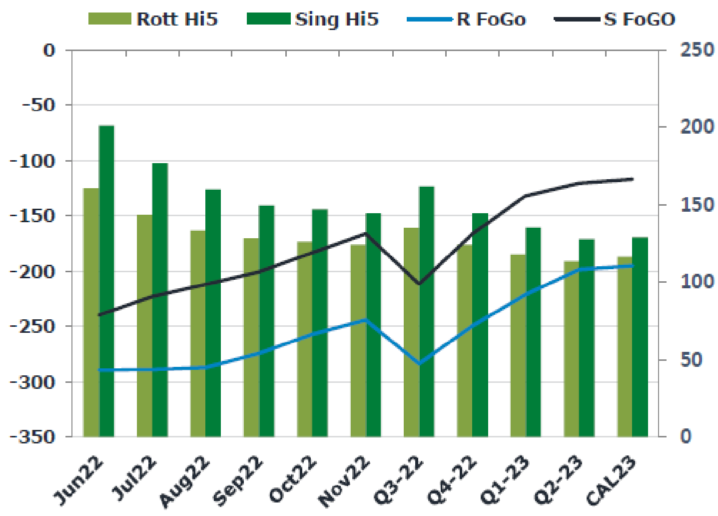
The agency revised its earlier positions and predicted that the slowing demand growth and growing production from other major oil economies will offset the shortfall in the possible sanctions on Russian energy products.

Hi5 Forward Curve Values

	Rott Hi5	Sing Hi5
Jun-22	161	201
Jul-22	144	177
Aug-22	133	160
Sep-22	128	150
Oct-22	126	147
Nov-22	124	145
Q3-22	135	162
Q4-22	124	145
Q1-23	118	135
Q2-23	113	128
CAL23	116	129

Sources: FIS

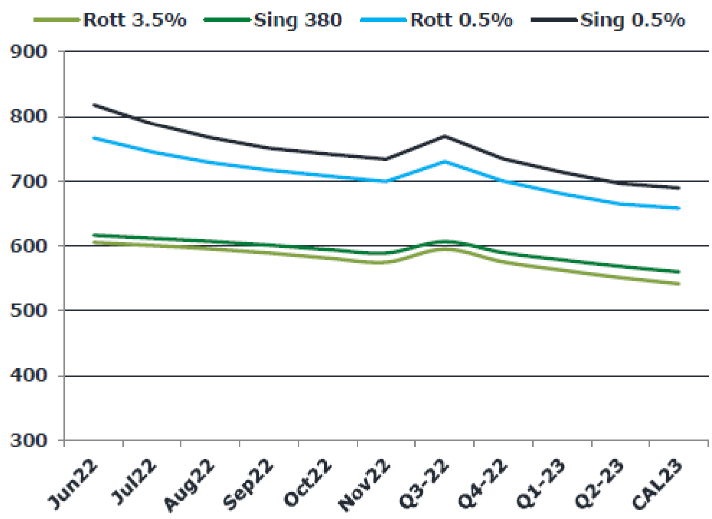
Rotterdam and Singapore Hi5 and FOGOs



Sources: FIS

Prompt Hi5 prices continued to widen with plunging HSFO sales in the port of Singapore, due to the fuel oil off specification issue.

Rotterdam and Singapore FO Futures



Sources: FIS

Bunker prices remained volatile, though slowing oil demand and ramp up of major oil production may ease the supply gap left by Russia following the possible embargo.

Tanker Market:

Freight market prefers bottom-up approach to growth

Tanker freight rates continued to favour the smaller vessels, while VLCCs struggled for profitability, despite the recovering global oil demand as pandemic restrictions eased.

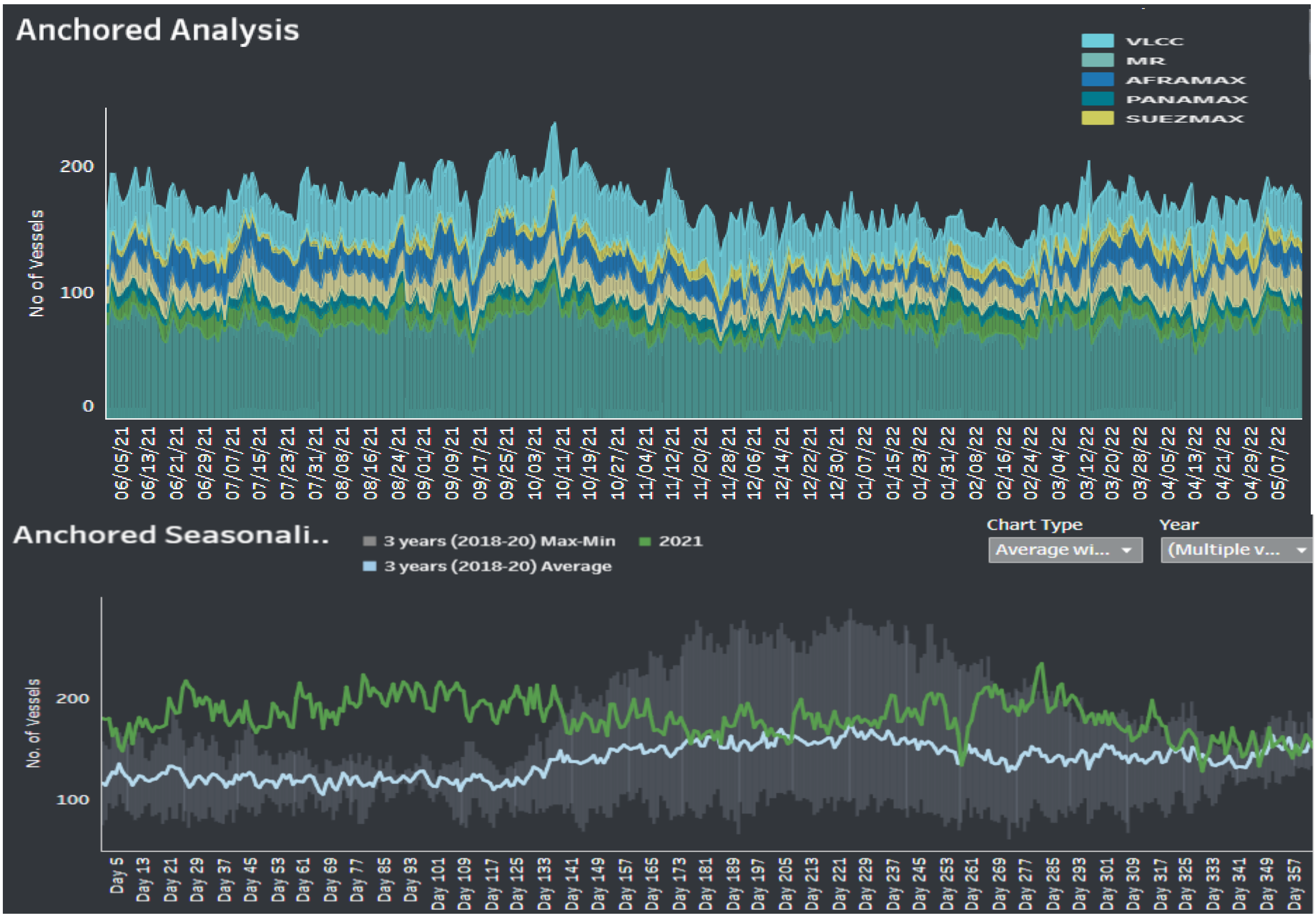
The VLCCs freight rates were also affected by China's strict lockdown of major cities, as 80% of the country's seaborne crude imports are brought using VLCCs.

There was some expectation of a relaxation of covid restrictions in Shanghai, the country's economic centre, however Chinese refinery output has already dropped by 6% month-on-month in April, sending a signal to the market of slower oil demand growth than has been expected.

In the demise of VLCCs, smaller vessels like Suezmax and Aframax continue to thrive after massive monthly rate gains of 61% and 28% respectively during April.

For instance, the rate hike of Aframaxes was linked to better demand of moving Indonesian energy products to other East Asian countries that saw the freight rate increase by 16% month-on-month in April, based on Argus and OPEC data.

Similarly, the increase in Suezmax rates was due to market dislocation and security concerns in the Black Sea region, amid the ongoing conflict between Russia and Ukraine. Since the Russia-Ukraine conflict, more trade participants favoured longer haul voyages, increasing tonne mileage for smaller sized vessels.



Port congestion remained an issue in China, though the market expected future easing with the possible relaxation of lockdown in Shanghai in June.

Sources: IHS Markit Commodities at Sea Service

Technical view of the Tanker Market:

TD3C:

June Futures – Technically neutral last week based on the deep pullback in the futures. Price failed to trade above the 8-21 period EMA's resulting in the USD 9.0323 support being broken, warning the USD 8.2730 level is now vulnerable.

Upside moves that fail at or below USD 10.7983 will remain vulnerable to further tests to the downside, above this level the futures target the USD 11.8210 high.

Both the RSI and its moving average are below 50, warning that momentum continues to weaken, suggesting upside resistance levels (USD 9.9621, USD 10.3170, and USD 10.7983) should hold if tested. Technically neutral, with momentum weakening, downside moves below USD 8.2730 will be bearish.

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