FIS

Weekly Oil Report

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Market Review:

Crude oil market—Short term bullish around $120-$125/bbl, with US driving season and increased Chinese demand, risk of increased OPEC production could dampen upside.

Bunker market— Short term bullish, ranging from $1000-$1100/mt, on crude strength.

Prices movement	23-May	6-Jun	Changes %	Sentiment	
Brent Crude	110.78	119.51	**+7.9%**	**Bullish**	↑
WTI Crude	110.29	118.50	**+7.4%**	**Bullish**	↑
VLSFO (Singapore)	894.59	1025.52	**+14.6%**	**Bullish**	↑

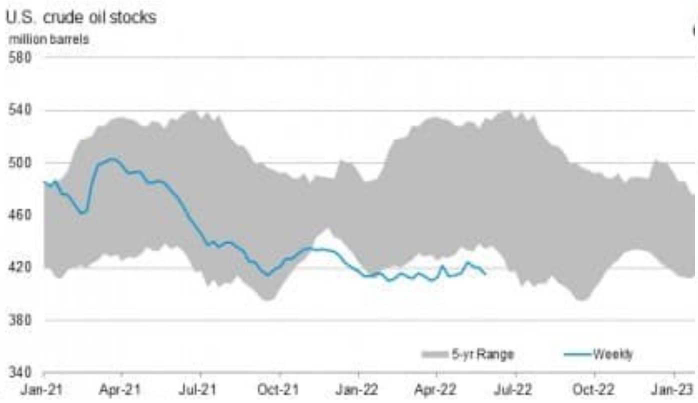
Crude Oil Market :

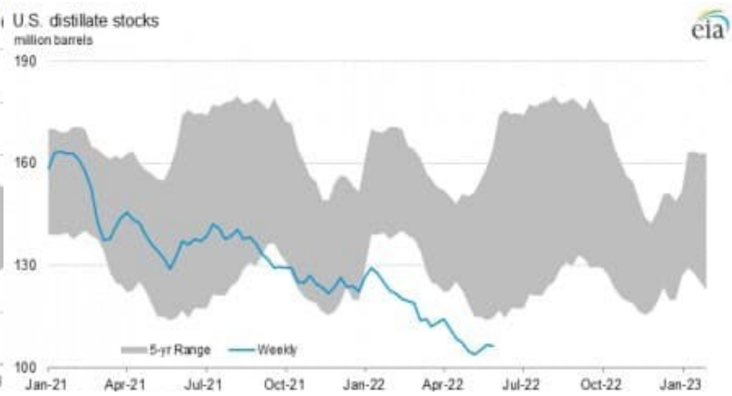
Dropping US stocks and EU Russia ban adds fuel to crude fire

Crude oil prices needed no further excuse to rise further with the increasing restriction of European imports of Russian origin oils. Falling short of an outright ban the EU agreed on a compromise deal that would see all seaborne imports banned, accounting for around two-thirds of all imports, but excluded pipeline oil arrives after opposition from Hungary.

Poland and Germany also pledged to end their own pipeline imports, which when added to the seaborne ban would restrict some 90% of Russian oil exports to the bloc.

Europe is searching for alternative sources of oil and products to make up the shortfall, much of which has fallen to the United States, sending tanker rates rocketing, as well as bringing WTI to almost parity with Brent. Although there was some alleviation on prices with the OPEC+ announcement of a 648,000 b/d increase in July and August, US drawdowns have given more support to prices.





Source: Energy Information Administration (EIA)

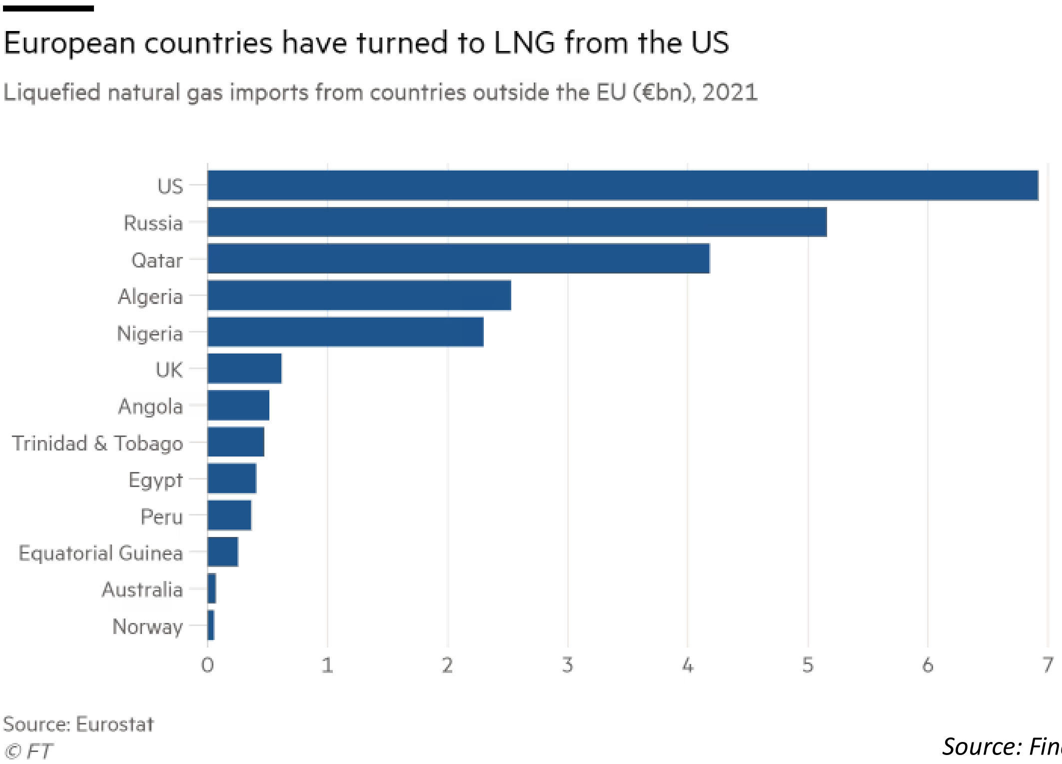
US crude oil and distillate stocks are maintaining their position below the 5 year average range, a position they have held since the start of 2022.

Crude Oil Market (cont)

Germany’s new €1bn liquefied natural gas terminal near the city of Stade will soon be approved for construction as the first of three planned terminals to help Germany cut its dependence on Russian gas.

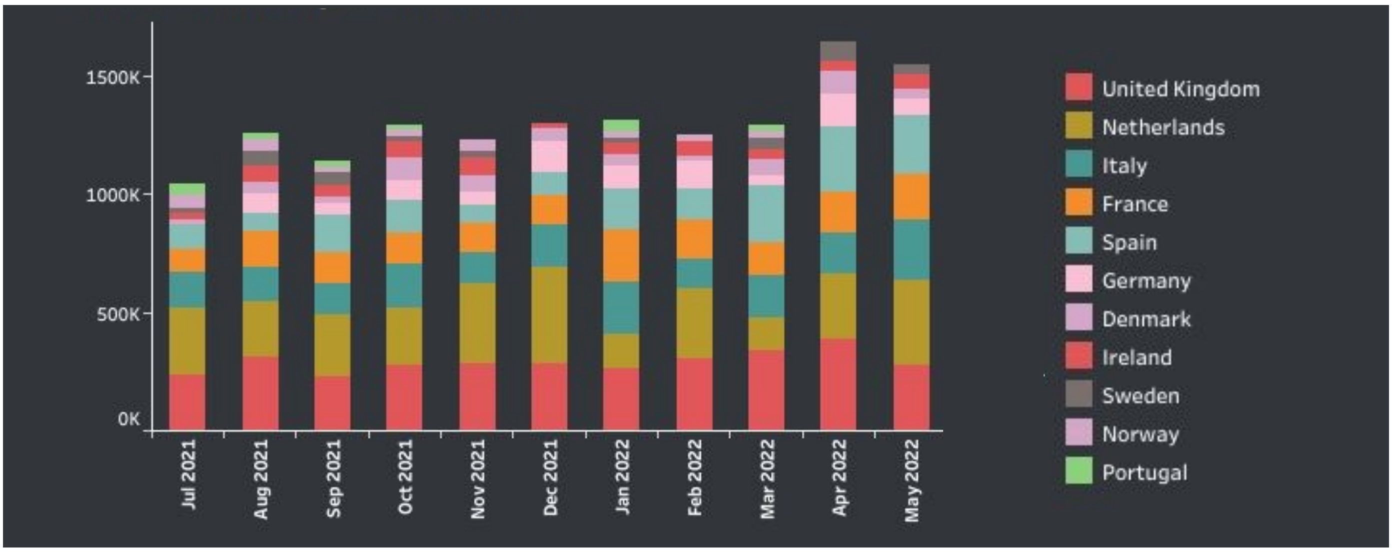
Alongside the U.S., Qatar could be a significant replacement source of LNG for Germany, and its production of the fuel is due to increase 60% by the middle of the decade according to the FT, although 90-95% of its current output has already been sold on long-term contracts.

Although gas prices have receded from their extreme highs, the relatively high levels and political desire to move away from Russia’s gas supplies as soon as possible will give further support to prices, increasing energy costs for longer for households as well as manufacturing. These higher for longer energy prices will be unhelpful for economies trying to break into significant growth territory after the pandemic.



Source: Financial Times

The supply headache for Germany in replacing oil product imports from countries other than Russia.



European countries have seen increased imports of US crude, especially in the last two months, as they looked to diversify their source product away from Russia.

Source: IHS Markit Commodities at Sea Service

Technical view of the Crude Oil Market:

August Futures – Technically bullish on the last report the futures did trade above the USD 115.69 fractal resistance resulting in the USD 123.74 level being broken.

The roll into the August contract resulted in a technical pullback, however price held above the USD 112.36 level supporting a bull argument.

Key support remains unchanged, corrective moves lower that hold at or above USD 112.36 will further support a bull argument, below this level, the futures will have a neutral bias.

Upside moves that trade above the USD 125.28 resistance will target the USD 127.27 and USD 131.30 levels. Note: a new high above USD 125.28 has the potential to create a negative divergence with the RSI, warning we could see a momentum slowdown.

Likewise, a close below USD 118.36 today (06/06) will warn that the USD 112.36 support could be tested, if broken we target the USD 109.89 and USD 105.70 levels. Technically bullish with a near-term upside target at USD 127.27, we are seeing an intraday correction making USD 118.36 and USD 112.36 the key levels to follow.

FIS senior analyst, Edward Hutton

Brent Aug 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 fluctuate on tight supplies and political disruption

As crude values soared to two-month highs as the market anticipated an EU agreement to sanction Russian oil imports, flows of fuel oil and vacuum gasoil from Russia, its primary oil product exports, reduced from 1.3 million b/d in February. Although just from voluntary decisions of companies, this has had a significant impact on Russia's ability to export and has forced it to seek more politically less problematic export destinations.

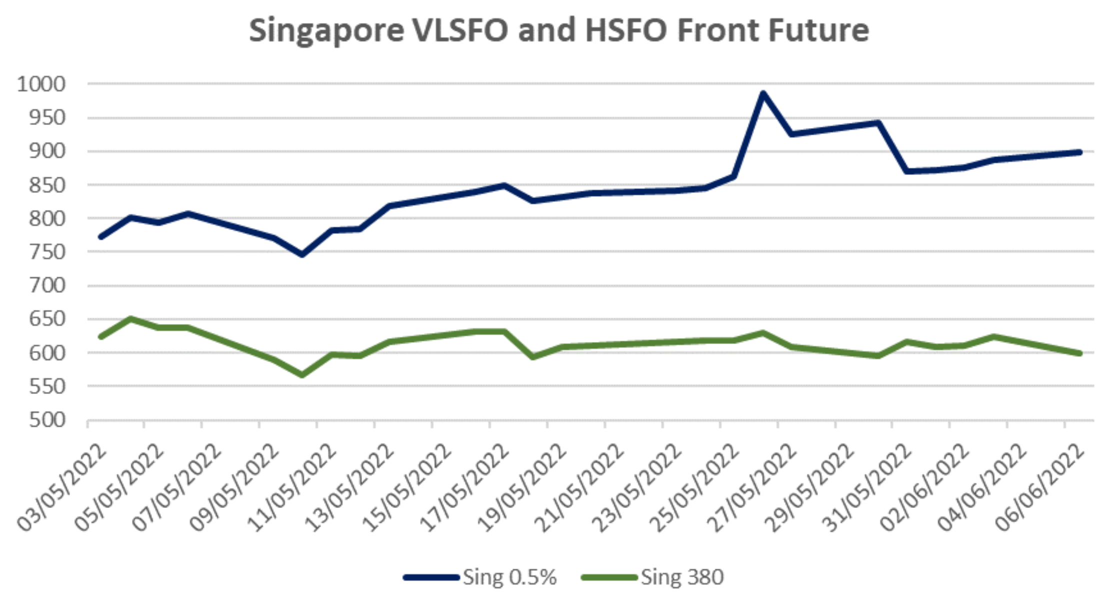
As Germany confirmed its plans to wean itself off Russian gas and oil, we expect to see a continued reduction in Russian exports to Europe. Fuel oil exports to Europe tumbled 34% from April to 343,000 b/d, its lowest level since September 2020. Loadings had averaged 502,000 b/d not too long ago in Q1 of this year, showing the quick drop in volumes.

While fuel oil exports to traditional trade partners deteriorated, trade with the Middle East and Southeast Asia has increased. Russian exports to Southeast Asia jumped 129%, hitting a record level of 145,000 b/d last month, climbing 100,000 b/d from April with flows to Malaysia increasing from 48,000 b/d to 82,000 b/d, a 15-month high. Russian VGO, however, did not experience the same uptick in demand in Asia.

With the situation in the Ukraine-Russian war unlikely to change soon, the current trend of declining Russian exports to Europe and increasing exports to Asia and the Middle East should continue.

Of particular concern to Europe will be levels of HSFO in its ports, of which Russia had been a significant refiner and exporter to the continent. The general concern for refined products in Europe of both fuel oil grades has left the spread between the products fairly stable, avoiding the trend of a widening Hi5 (VLSFO v HSFO) spread that has been observed in Singapore. On the other hand, Singapore HSFO prices have fallen on a forecast of an increasing export volume of Russian products into the region.

Two South Korean refiners that stopped offering fuel to the country's bunker markets last month have now also started offering limited quantities, sources say. While supply has remained tight in the East, especially of VLSFO, we could see improved availability in the second half of June as more replenishment cargoes arrive.



Sources: FIS, ENGINE, IHS Markit Commodities at Sea Service

No oil imports arrived in the port of Zhoushan to alleviate the supply tightness, as shipments were diverted other Chinese ports, due to the lockdown measures.

Bunker Market (cont)

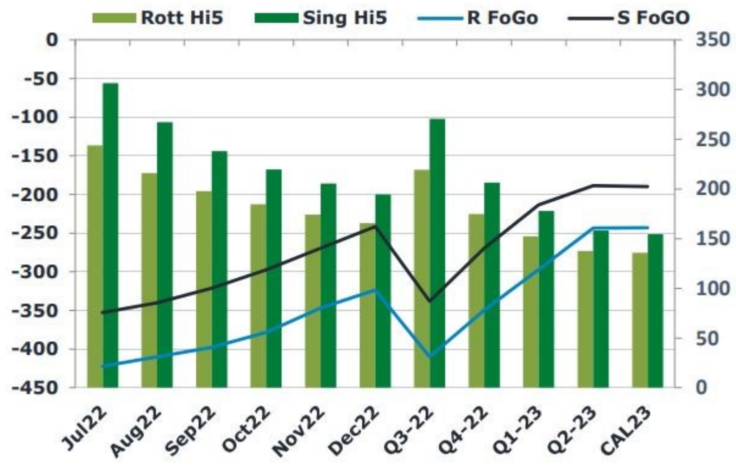
Hi5 and FOGOs

Both the Rotterdam and Singapore FOGO markets continued to widen over the course of last week, with the front months printing at around -400 and -329 respectively midday Monday 6th June, compared to -340.75 and -241 at COB Monday 30th May.

The scrubber fitted fleet will continue to reap the gains as the Hi5 markets in both the East and West widened to record highs of 230 and 293 as of Monday 6th June, a trend which we have seen consistently through the first half of the year. The spike has mainly been attributed to the weakening of the HSFO as surges of cargoes flowed into Singapore in May on the back of Russian oil bans in Europe and the US.

The HSFO EW has also been taking us on a wild goose chase over the past couple of weeks, with the differential turning negative, seeing the Rotterdam HSFO as a premium over the Singapore equivalent. In the past week, this differential has been trading around flat, with lows of -$5, down from around $25 levels 14 days ago. With the restrictions on Russian supplies, it is no surprise that levels have moved in the direction that they have. With the official ban now in place, this spread could move more firmly into negative.

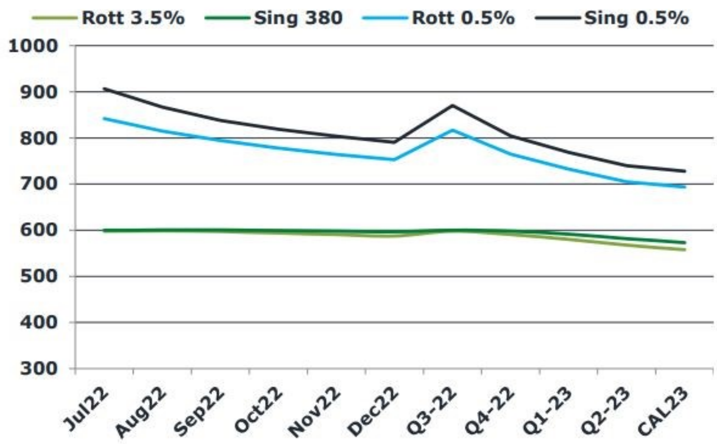
Rotterdam and Singapore Hi5 and FOGOs



Source: FIS

Prompt Hi5 prices widened further amid supply tightness in the port of Singapore.

Rotterdam and Singapore FO Futures



Source: FIS

Bunker prices remained volatile, with futures displaying a narrowing of HSFO and VLSFO prices into Cal 23.

Hi5 Forward Curve Values

	Rott Hi5	Sing Hi5
Jul-22	246.05	314.60
Aug-22	217.80	274.10
Sep-22	199.05	244.85
Oct-22	185.05	225.35
Nov-22	174.55	210.10
Dec-22	166.30	197.85
Q3-22	220.95	277.85
Q4-22	175.30	211.10
Q1-23	152.97	179.27
Q2-23	136.97	158.35
CAL23	133.22	152.83

Table Sources: FIS

HSFO and 0.5% East-West Spread

	EW380	EW0.5%
Jul-22	2.00	64.75
Aug-22	1.50	52.50
Sep-22	3.25	43.50
Oct-22	5.50	40.50
Nov-22	7.50	39.00
Dec-22	9.25	38.00
Q3-22	2.25	53.60
Q4-22	7.42	39.17
Q1-23	11.25	36.75
Q2-23	14.25	34.83
CAL23	15.50	34.10

Narrowing 380 EW illustrates the issues that Rotterdam based fuels are having with prices almost equal to Singapore values.

Tanker Market:

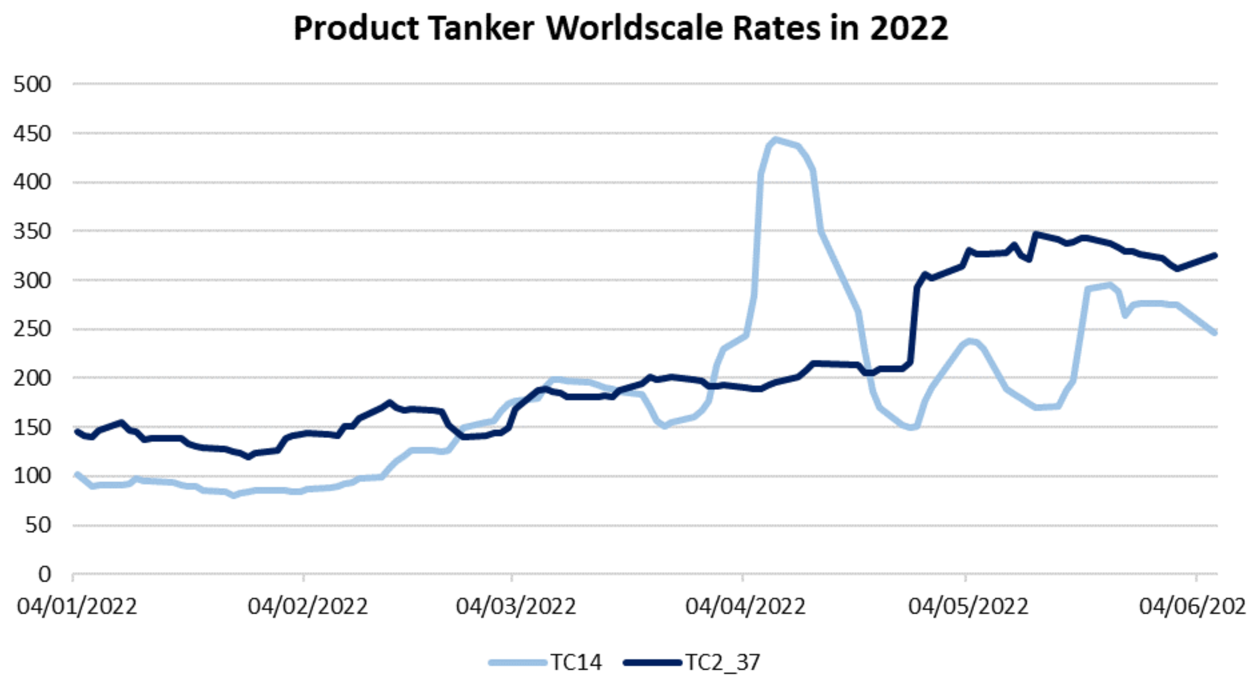
Positivity persists in busy tanker market

A quieter week ahead is expected for the tanker market with a European holiday on Monday and many owners and charterers in Greece for the Posidonia shipping event – likely celebrating a successful start to the year, with a 44% average rise in maritime stocks this year so far (even more significant with such a large drop in general stocks seen elsewhere.)

As trade routes continue to change, oil and bunkers remain high, and the restriction on new tonnage with shipyards hold back on building remains – many are touting this as the beginning of the renowned 'shipping supercycle'.

Owners have enjoyed elevated earnings across the board on both clean and dirty tankers. Aframaxes; which are often favoured for Black Sea and Russian port liftings saw a huge increase in rates at the beginning of the Ukrainian invasion, with these rates remaining elevated since. CPP owners, particularly MR, LR1 & LR2 Tankers have improved significantly during the months of April & May with MR spot earnings averaging circa $36,000 per day. TC2 & TC14 (MR routes between Europe and US) have both seen spot and futures rates double if not triple at times compared to late 2022 – largely driven by these regions having to replace refined products previously bought from Russia, in combination with a recovery in demand as countries continue to drop COVID-19 restrictions.

For now, positivity remains in the tanker market, and it seems that this will not be changing anytime soon.



Product tanker rates have enjoyed much improved returns after a long period of stagnation. The increase in tonne mileage due to the war in Ukraine, as well as the increasing demand has helped lift and sustain rates

Atlantic Product Tanker Future Rates

									$/mt	$/mt	$/mt	$/mt
	June	July	Aug	Sept	Oct	Nov	Q3	Q4	Q1(23)	Q2(23)	Cal23	Cal24
TC2	306.25	275	210.5	202.25	197	200.25	229.25	200.5	24.55	23.9	24.1	24.3
TC14	240	220	191.25	180.5	170.75	173.5	197.25	177.25	25.45	24.65	25.3	25.75

Sources: FIS, Baltic Exchange

Technical view of the Tanker Market:

TD3C:

July Futures – the June futures moved higher resulting in the USD 9.261 fractal resistance being broken, the price has since entered a corrective phase, and the technical is now bullish but with a neutral bias.

The July contract has traded above the USD 9.5040 fractal resistance meaning the technical is bullish based on the higher high, downside moves that hold at or above USD 9.1597 will support a bull argument, below this level, the futures will have a neutral bias.

The RSI and its moving average are now above 50, indicating that momentum is supporting the upside move, suggesting downside support levels should hold if tested (support USD 9.3843, USD 9.2890, USD 9.1597).

Upside moves above USD 9.6930 will target the USD 10.2580 high. Technically bullish with downside moves considered as countertrend, key support is at USD 9.1597.

FIS Senior Analyst, Edward Hutton

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