FIS Weekly Oil Report

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19/7/2022

Market Review:

Crude oil market — Short-term neutral to bearish with Brent around $103-$110/bbl, as pessimism around the world economy depresses market sentiment.

Bunker market — Short-term neutral, Singapore VLSFO ranges from $780-$820/mt, as poor economic outlook drives crude prices down but is offset by increased shipping activities.

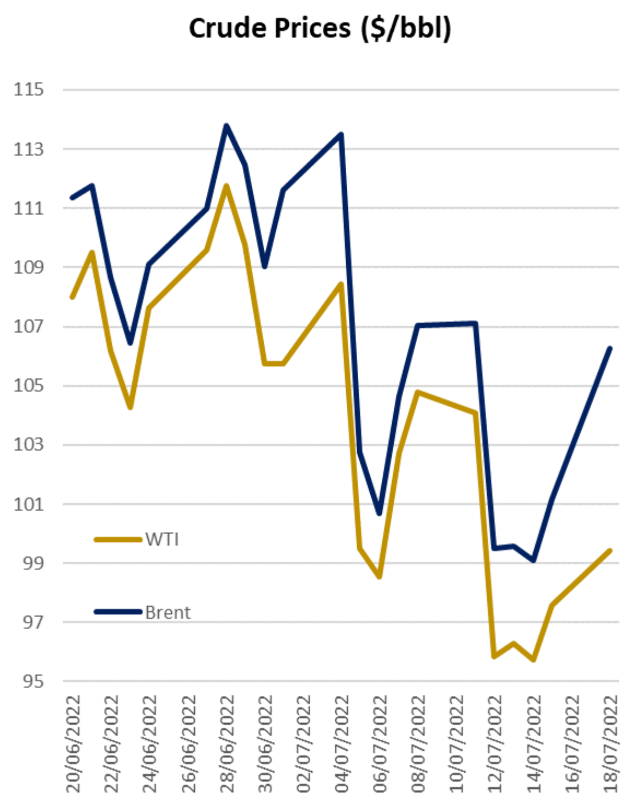
Prices movement	11-Jul	18-Jul	Changes %	Sentiment	
Brent Crude	105.10	106.27	+1.11	Neutral to bearish	↘
WTI Crude	104.09	99.42	-4.49	Neutral to bearish	↘
VLSFO (Singapore)	794.40	885.16	+11.42	Neutral	-

Crude Oil Market :

Recession fears and Biden's headache

European and Asian stocks edged lower in Tuesday morning trading as traders weighted further interest rate rises by central banks in a stance following the aggressive stance of the U.S. Federal Bank. The European Central Bank is expected to raise rates out of negative territory and the U.S. Fed is expected to raise rates by 0.75 basis points next week. With the United States taking such a strong line with interest rates to combat rampant inflation, many other central banks are having to keep pace with these rate hikes or risk further imported inflationary problems.

The FT reported that 41 cities in China are currently under lockdown measures, an area which accounts for some 18.7% of the country's economic activity. With China having missed economic forecasts for Q2 of this year, expanding only 0.4%, these lockdowns are adding further concern to the state of the world economy. With Chinese growth driving a significant portion of the world economy its current predicament leaves many pessimistic about near-term economic prospects.



With inflation in the United States at over 9%, President Joe Biden has few tools at his disposal to deal with this problem whilst concurrently driving on with his plan to transition the country towards a greener future. Although in the run-up to his election there was much talk about investment in green energy production, the U.S. government is now looking to other oil-producing countries around the world, as well as its own oil industry, to cool energy prices and the ultimate issue for midterm elections in November—petrol prices.

The supreme court having neutered EPA's ability to regulate coal -fired power stations coupled with the immediate energy crisis has left much of the lauded green strategy in the U.S. in doubt.

The president has instead started a tour of the Middle East in what was meant to be a more politically focused trip, but one which is overshadowed by Biden's desire for OPEC to help cool global energy markets with increased supply.

Source: FIS, FT, Rystad Energy

Crude Oil Market (cont)

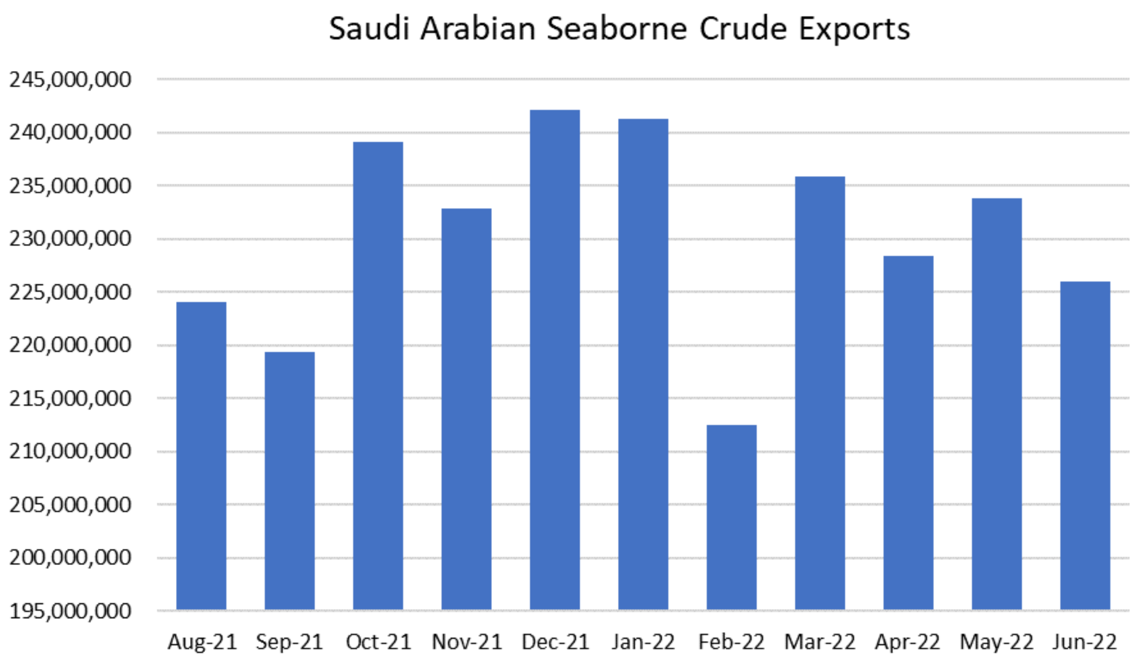
Saudi Arabia, the largest oil producer in OPEC, did not look like it was willing, or able, to significantly increase production. The Crown Prince informed other country heads at a summit this weekend past that the previously pledged 13 million barrels per day (bpd) of capacity by 2027 is a maximum level. As sanctions on Russia have removed a significant proportion of world oil production for Western countries, it was hoped that much of this could be offset by increased production by other OPEC members.

With a panacea for the world's energy problems elusive, citizens in Europe and United States are being asked to reduce their energy usage to help bridge this period of high prices and low supply. The EU is preparing to ask member states to slash their gas use to conserve supplies for the winter after Russia cuts gas pipeline supplies to the continent. The EU is actively engaging with countries like Qatar, Georgia, Israel, and United States to replace Russian supply, but resources need to be conserved before these deals have the time to ramp up to meet needs.

The growing concern about the energy squeeze in Europe can also be seen with increasing shipments of coal into EU ports. 117 Panamax vessels called into ports in June, up from 95 in January with volumes in the first six months of this year up 49.6% year-on-year.

Worse case scenarios run by JP Morgan have predicted a $380 price for oil with an immediate cut to supplies to Western countries. This would also be accompanied by a sharp economic hit as energy rationing would hit businesses and reduce productivity. According to the IMF, gas consumption in Europe has already dropped 9% this year, dropping EU GDP by 0.2%. With many economies making a fragile exit from covid-related recessions, this will be of major concern to heads of European countries.

Chart Source: S&P Global Platts



Despite increased pressure from Western nations, especially the U.S., Saudi Arabia has not increased its oil exports in any significant way. This had analysts worried that increased supply to cool prices might not happen soon

Sources: IHS Markit Commodities at Sea Service, Financial Times, Reuters, FIS, EIA

Technical view of the Crude Oil Market:

September Futures – As noted last week, intraday Elliott wave analysis warned that the USD 98.50 support remined vulnerable. The futures traded USD 14.00 lower over the next three sessions. The futures have produced 5-waves lower on what looks to have been an extended wave wave-3 of a higher timeframe cycle. This would imply that the current upside move should be considered as countertrend, warning there is a potential bearish wave 5 to follow. Upside moves that fail at or below USD 111.60 will leave the technical vulnerable to further tests to the downside, above this level the technical will have a neutral bias. Only above USD 120.41 will the wave cycle have failed. Downside moves (based on the current days high of USD 105.34 18/07) that trade below USD 94.50 have further support at USD 93.63 and USD 90.00, with a potential downside target as low as USD 86.37 using the William's approach.

FIS senior analyst, Edward Hutton

Chart source: Bloomberg

Bunker Market :

Bunker prices fall with crude

Global VSLFO prices have retained their gains more consistently than crude over May and June as oil markets retreated since the initial invasion of Ukraine by Russia, leaving the bunker fuel's premium to Brent near record highs.

Asian and Middle Eastern market demand has been sluggish in recent weeks, but prompt VLSFO is still under pressure in Chinese ports. Some suppliers can accommodate prompt stem sizes less than 700 mt, the ENGINE platform showed. Bunker demand in Singapore was normal last week. VLSFO supply remained tight, with high price premiums incurred for prompt delivery. Going forward, availability could improve as fuel oil imports in its latest week have increased by 24%. Singapore's residual fuel stocks also fell 2.7% week on week to 20.821 million barrels in the week to July 13 according to ENGINE's physical pricing and analysis.

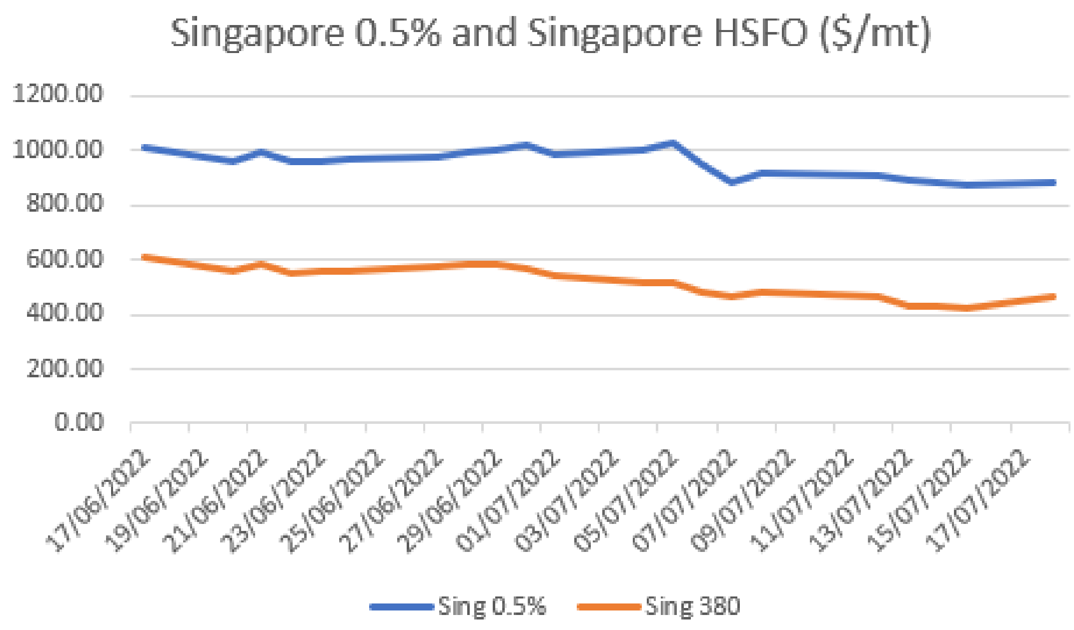
VLSFO demand in Fujairah has been robust in the previous week, but offers for prompt dates are limited, a trader said. Cargo tracker Vortexa estimated that Fujairah has imported a total of 458,000 b/d of fuel oil so far in July, nearly three times as much as the average of 174,000 b/d across June. Almost half of July's imports have come from Russia and Iran. Fujairah's heavy distillate and residual stocks, which include fuel oil, have averaged 25% higher in July than in June, with support from surging fuel oil imports. This further supports the shift in the supply of Russian oil to Asia.

While in the European and African markets ARA's independently held fuel oil stocks dropped for a fourth consecutive week, touching their lowest level in six weeks, Insights Global data shows. The stocks decreased by 110,000 bbls to 6.98 million bbls in the week to 14 July, according to Insights Global.

The workers' strike over salaries that affected cargo operations and vessel movement in German ports last week ended. There are no further planned strikes until late August, as an agreement reached was reached before a labour court in Hamburg, sources say. The ver.di workers union and the Central Association of German Seaport Companies (ZDS) said they will set a date to resume salary negotiations. Meanwhile, bunkering is said to be progressing normally in the key German ports of Hamburg and Bremerhaven, sources say.

The Gibraltar Port Authority reported a small oil spill of 20 litres in the port on Friday. The incident occurred during the bunkering of a vessel. The port authority has detained the vessel to investigate. Meanwhile, bunker operations are said to be running smoothly in Gibraltar, a source says.

In the Americas region, VLSFO values dropped with Brent values across major bunker locations region in the past week. Los Angeles ($130/mt) had a drop much steeper than others including Houston ($40/mt) and New York ($30/mt). Los Angeles' VLSFO premium over Houston blew up to over $300/mt amid tight supply in early June and has remained relatively wide since. After a steep decline in the last week, Los Angeles' premium has more than halved to $115/mt.



Sources: FIS, Lloyds List, ENGINE, Reuters, IHS Markit Commodities at Sea Service

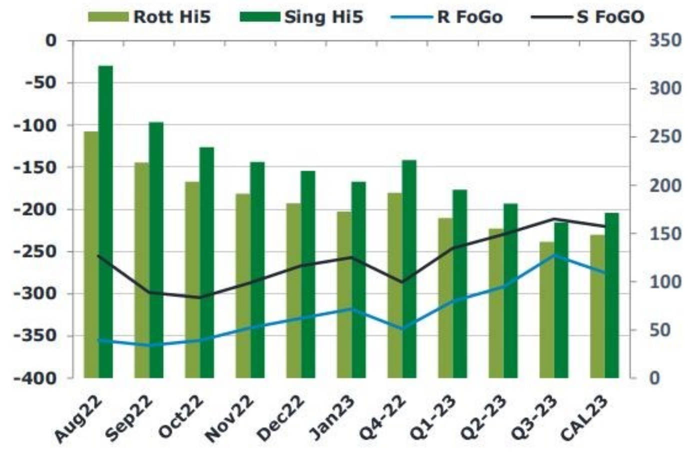
Bunker Market (cont)

Hi5 and EW Spreads

Fresh off the back of last week's highs on the Hi5 levels, we have seen a slight plateau in this week's numbers, but there are still strong levels persisting in the differential. The average front-month hi5 for Singapore week-on-week was $443.92 and the Rotterdam at $306.21. This spread continues to be music to the ears of owners with scrubbed fleets, with the cal23 markets being seen at 180 levels and cal24 around 140-150 levels. Similarly, to the story on the Hi5, the EW has softened slightly through the last week, with the 0.5% EW front month market at around 80 with the HSFO EW remaining steady at the mid-teen level through Monday yet coming off to below sub-10 for the COB on Tuesday.

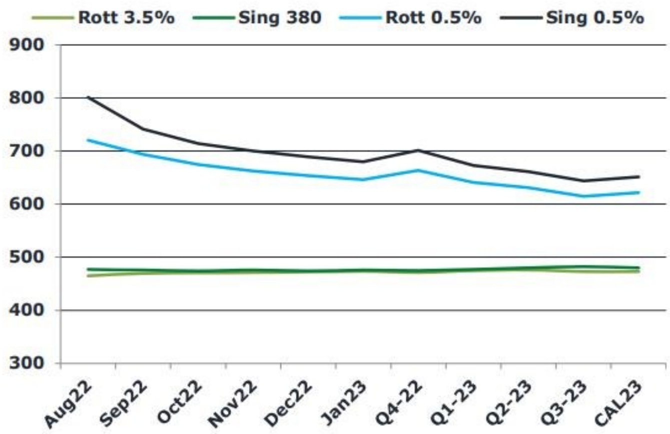
Tightness continued to grip European low sulfur fuel oil markets, sources said on July 18, amid an ongoing supply squeeze in Singapore for 0.5% marine fuel and a pull for 1% fuel oil cargoes in the Mediterranean as utility demand rises.

Rotterdam and Singapore Hi5 and FOGOs



Source: FIS

Rotterdam and Singapore FO Futures



Source: FIS

Hi5 Forward Curve Values

	Rott Hi5	Sing Hi5
Aug-22	256	324
Sep-22	2224	266
Oct-22	204	240
Nov-22	191	224
Dec-22	181	215
Jan23	173	204
Q4-22	192	226
Q1-23	166	196
Q2-23	155	181
Q3-23	142	161
CAL23	149	171

Table Sources: FIS

HSFO and 0.5% East-West Spread

	EW380	EW0.5%
Aug-22	12.50	80.65
Sep-22	6.00	47.90
Oct-22	4.00	39.65
Nov-22	4.75	37.40
Dec-22	2.00	35.40
Jan23	2.00	33.15
Q4-22	3.55	37.50
Q1-23	2.42	31.90
Q2-23	3.83	29.90
Q3-23	8.92	28.73
CAL23	7.25	29.61

Tanker Market:

Waning sentiment in oil tanker market

Positivity appears to be waning for the smaller clean tankers in the West. MRs in the USG came under downward pressure in the spot market, dropping almost 50pts from this time last week before some recovery on Monday. Earnings dropped for owners, to a still rosy (compared to previous years) TCE of 35,500 USD per day.

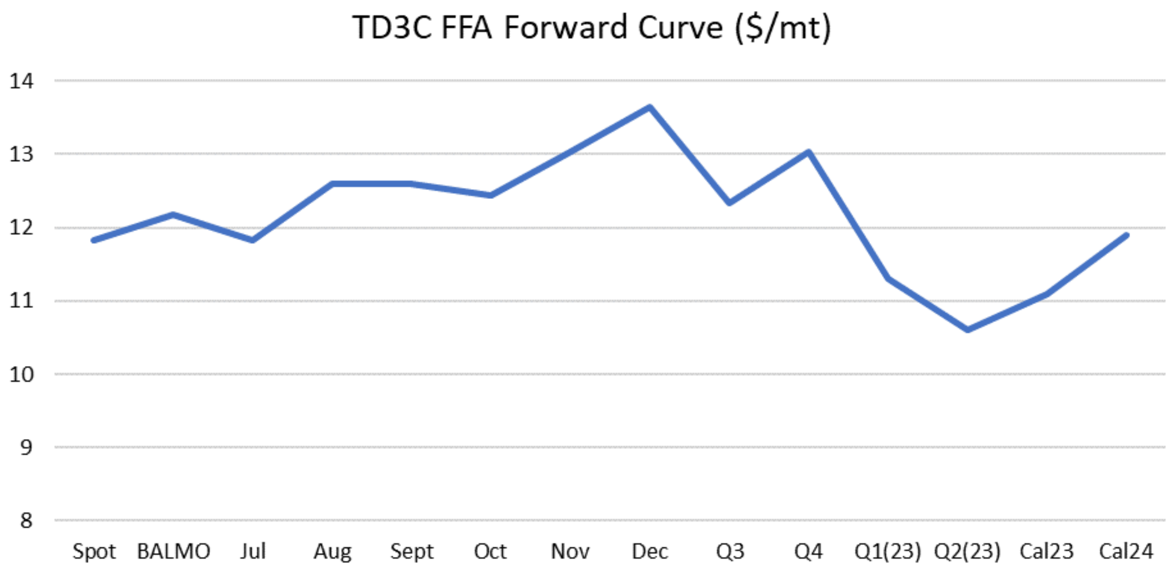
TC6 has now halved in value in the spot market from the end of June (27/06 @ WS505.94) to WS250 on 18/07.

Although some recovery has been seen in the UKC, TC2 has remained relatively flat with surplus tonnage continuing to dampen rates.

In line with a fall in rates, we have seen less volume trading on the FFAs, with the CPP routes reportedly trading 2,427 lots less than the week before.

VLCC rates continue to rise, with the spot market making further gains to $58.68 (as per the Baltic 18/07). As a result, owners now reportedly almost breaking even - with the Baltic currently assessing a TCE on TD3C round trip of just minus $700 per day. Further improvements were seen throughout the curve – with TD3C Cal23 trading up to recent highs of $11.10/mt (from lows seen earlier in the year of $9.60/mt) and Q4 now being assessed at WS65.31 as per the Baltic closing marks on 18/07, a year high!

TD20 (130kt West Africa/UKC route) saw more improvements in the spot market, returning to 138ws levels (a round-trip TCE over $30,000 per day). More volume has been seen trading on TD20 this week, with Cal23 improving week on week with the last trade yesterday up to $16.00/mt.



Sources: FIS, Baltic Exchange

Oil Tanker Future Rates ($/mt)

	Spot	BALMO	Jul	Aug	Sept	Oct	Nov	Dec	Q3	Q4	Q1(23)	Q2(23)	Cal23	Cal24
TD3C	11.82	12.18	11.83	12.59	12.59	12.44	13.04	13.65	12.34	13.04	11.3	10.6	11.1	11.9

Sources: FIS, Baltic Exchange

Technical view of the Tanker Market:

TD3C:

August Futures – technically bullish with downside moves considered as countertrend last week. The futures were starting to look over extended, however the futures have continued to move higher with price trading above our USD 12.0400 upper resistance level. Technically bullish with downside moves considered as countertrend, near-term resistance is now between USD 12.3890 and USD 12.8388. Corrective moves lower that hold at or above USD 10.3478 will support a bull argument, below this level the technical will have a neutral bias.

FIS Senior Analyst, Edward Hutton

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