FIS

Weekly Oil Report

info@freightinvestor.com | freightinvestorservices.com | (+44) 207 090 1120

2/8/2022

Market Review:

Crude oil market — Short-term neutral to bearish with Brent around $95-$1115/bbl, as pessimism around the world economy depresses market sentiment.

Bunker market — Short-term neutral to bearish, Singapore VLSFO ranges from $841-$903/mt.

Prices movement	25-Jul	1-Aug	Changes %	Sentiment	
Brent Crude	100.19	100.03	-0.16	Neutral to bearish	↘
WTI Crude	96.70	93.89	-2.91	Neutral to bearish	↘
VLSFO (Singapore)	876.65	854.24	-2.56	Neutral to bearish	↘

Crude Oil Market :

Mixed month for both Brent and WTI

Crude oil prices had a mixed month ranging between $95 per bbl to $115 per barrel for both Brent and WTI prices in July. Brent and WTI both ended July with a second straight monthly loss for the first time since 2020 as soaring inflation and higher interest rates raise fears of a recession that would erode fuel demand. Brent crude has reduced by over 10% since the beginning of July and slightly by under 1% in the past week. At the same time, Reuters reported that investors braced for this week's meeting of OPEC and its producer allies on supply.

The Organization of the Petroleum Exporting Countries (OPEC) pumped 28.98 million barrels per day (bpd) of crude last month. Up 310,000 bpd from June's revised total. The survey found that the most significant increase in production, 150,000 bpd, came from the top exporter Saudi Arabia, although the kingdom continued to pump less than its target. Also weighing on prices was a rise in Libyan oil production, which hit 1.2 million bpd, up from 800,000 bpd on July 22, after lifting a blockade on several oil facilities. However, despite repetitive calls from G7 nations to pump oil more while they seek to avoid Russian products, OPEC+ has failed to increase its production output. According to Argus Media, OPEC+ production was 2.84 million b/d lower than its output target for June.

How can OPEC manage this continued failure to reach its output target? Last week we mentioned that Saudi Arabia plans to increase its oil exports by reducing reliance on oil for domestic consumption. It was estimated that 1 million barrels per day (bpd) could be released, increasing its reliance on renewable and natural gas supplies by 2030. As an OPEC founder and leader in oil production, this could be a clever move that other OPEC members could follow. The Organization of the Petroleum Exporting Countries and allies, including Russia, known as OPEC+, meet on Wednesday. Two of eight sources said a modest hike would be discussed, while the rest said a boost was unlikely.

Source: FIS, FT, OilPrice.com, Argus Media

Crude Oil Market (cont)

Russian supply dropped last month as India and China reduced their crude oil imports. Asia's biggest refiner Sinopec of China, cut its purchases of Russian crude this month as it is unwilling to pay higher prices that customers in India were paying. This comes after China had become the biggest importer of Russian crude oil over the past few months.

India's crude oil imports slipped in June, compared to April and May, to 19.21 million tonnes from 21.47 and 19.6 million tonnes, respectively. Russia's crude shipments to these regions fell 30% since they peaked after the invasion of Ukraine. Russian oil exports have been eroding for five weeks straight. According to Bloomberg, Russia's oil exports have declined for a fifth consecutive week. Oil cargo shipments are down by 480,000 b/d or nearly 18% since mid-June. The drop is likely due to fewer oil exports to India and China. Russian oil shipments to both countries have fallen by almost 30% since a recent peak.

European governments have eased back on sanctions in the Russian oil trade as they delay the plan to ban marine insurers from granting policies to Russian ships. This is on the back of mounting inflation and energy risks .

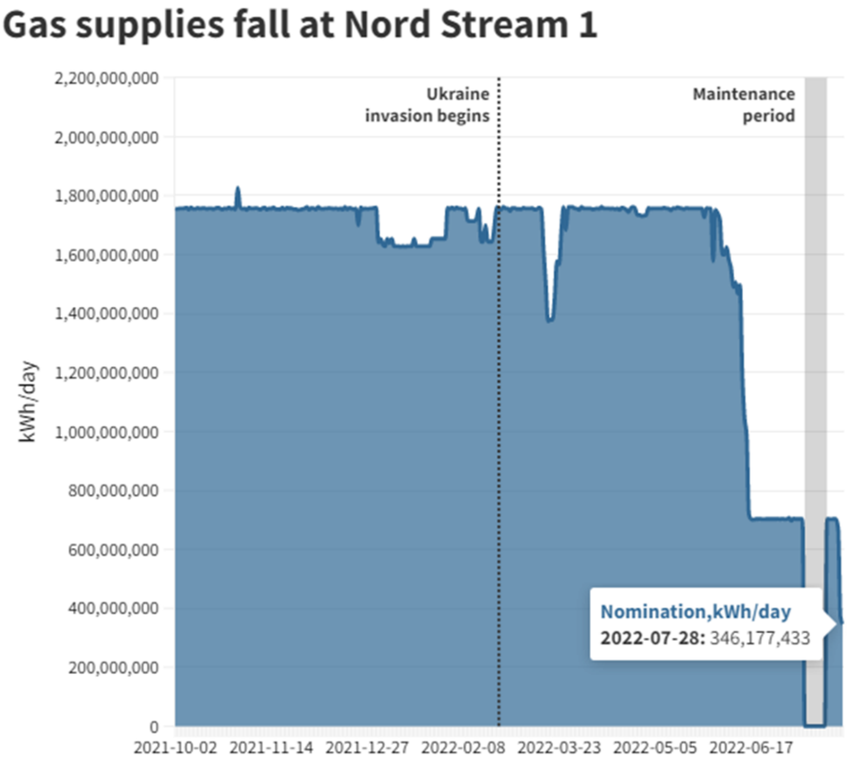
Europe continues to face an unprecedented energy crisis that pushes the economy closer to a recession and poses serious questions about the continent's climate change ambitions.

A few days ago Russian energy giant Gazprom said it suspended gas supplies to Latvia, it became the latest EU country to experience such action amid tensions over Ukraine. Gazprom accused Latvia of violating conditions of purchase but gave no details of that alleged violation. Since Russia's February invasion of Ukraine and the tightening of sanctions, Gazprom has suspended gas deliveries to Bulgaria, Finland, Poland, Denmark, and the Netherlands over non-payment in rubles. Russia has also halted gas sales to Shell Energy Europe in Germany.

The previous week has also seen supplies via Nord Stream 1 reduced to 20% from 40%, with Gazprom citing maintenance issues.

BBC reported that the EU is now striving to boost gas imports from elsewhere, including liquefied natural gas (LNG) from Norway, Qatar, and the US. The commission has asked EU nations to have a minimum storage target of 80% by November. In June, gas filling levels were just over 56%, according to the same institution.

Chart Source: Nord Stream AG



Supplies via Nord Stream 1 were reduced to 20% from 40% with Gazprom citing maintenance issues

Sources: IHS Markit Commodities at Sea Service, Financial Times, CNN, Reuters, FIS, EIA, BBC, CNBC, Nord Stream AG

Bunker Market :

Bunker prices slumped with Brent across major regional ports. Front-month Brent futures collapsed when the September contract, which traded at $109.41/bbl at 09.00 GMT on Friday, was replaced by the October contract at the settlement on Friday evening in London.

Singapore residual fuel oil stocks fell by 9% on the week. ARA stocks fell 2.8% on the week. 0.5% sulphur marine fuel in Asia strengthened on Friday as traders expected a tighter market in the first half of August.

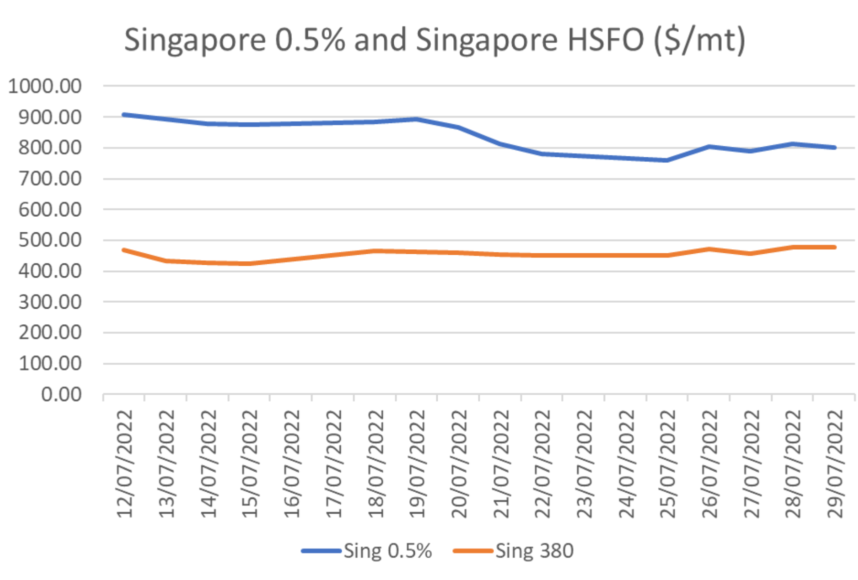
In the East of Suez, Singapore VSLFO spot price decreased slightly by 2.56% w-o-w from $876/mt Monday 25th July to $854/mt Monday 1st August. Busan VSLFO had the most significant price change dropping over 8%, from $944/mt to $862/mt. Monday 25th saw bunker prices start by coming down with Brent values. Singapore VLSFO and Fujairah had the most significant change by slumping $61/mt, while its HSFO price has only shed $4/mt. VLSFO's steeper decline narrowed the port's Hi5 spread to $419/mt, down from $476/mt. Zhoushan's VLSFO price flipped to a $22/mt premium over Singapore and widened its premium over Fujairah to $15/mt. Tuesday 26th saw prices move in mixed directions before reducing on Wednesday 27th as the market awaited a U.S. interest rate announcement. Thursday 28th saw bunker prices rise again in East of Suez ports, and bunker operations were halted in Fujairah amid rough weather conditions. The week in the east finished with mixed bunker prices through Monday 1st August. Harsh weather disrupted bunker operations in Fujairah, and suppliers in Zhoushan braced for an incoming typhoon.

In the Europe and Africa market, VLSFO spot prices decreased slightly w-o-w. From Monday 25th July to Monday 1st August, Rotterdam VSLFO decreased by 2%, Gibraltar by 3%, and Durban just under 3%. Monday 25th saw bunker prices move in mixed directions. Rotterdam VLSFO and Durban LSMGO had the most significant changes with the prompt supply of VSLFO under pressure in Rotterdam. Tuesday 26th saw bunker prices increase in most European and African locations with Brent values. Rotterdam's VLSFO price increased in the past day, while its HSFO price decreased slightly. Wednesday 27th saw bunker prices come down with Brent values. HSFO prices in Rotterdam and Gibraltar dropped in the past day. A steeper fall in Gibraltar's HSFO price narrowed its premium over Rotterdam. Rotterdam's VLSFO price fell, outpacing the fall in the port's HSFO price. Thursday 28th saw bunker prices increase in most European and African locations with Brent values. Friday 29th saw bunker prices in most European and African areas increase with Brent values, with a rise on the broader oil complex.

Oil products in Rotterdam dropped 9.4% to 27.8 million mt in the first half of this year. The port authority has attributed it to a "structural decline" in imports and re-exports of fuel oil as importers are phasing out Russian inflows.

Most bunker prices held steady in the Americas market through the week, but reduced w-o-w from Monday 25th July to 1st August. Houston VSLFO decreased by under 4%, with Balboa and Los Angeles experiencing the most significant changes at 10% and 16%.

The region's VLSFO values drew considerable support from Brent last week as the futures contract surged $7/bbl higher and made it above $110/bbl for the first time in over three weeks. The past week, Los Angeles was pricing VLSFO more than $100/mt above New York and Balboa. Those premiums shrunk to $28-43/mt after Los Angeles' price slumped $68/mt lower. VLSFO values in Zona Comun, Rio Grande and Paranagua have also shown reluctance to follow Brent and the broader market direction. Houston finished the week as the lowest-priced bunker alternative in the Gulf Coast region before Balboa, and Los Angeles VLSFO became more competitive Monday 1s, August .



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

Bunker Market (cont)

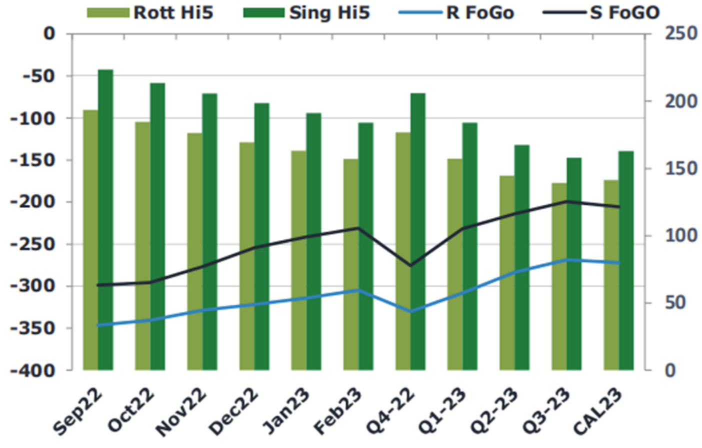
Hi5 and EW Spreads

After the heightened volatility of the previous weeks, it was somewhat more stable on the fuel side of late. However, the market presented challenges in directional movements and longer-term trends as the next round of OPEC meetings resume this week.

This week's critical snapshot was the spread collapse on the VLSFO. The narrowing of the spreads was characterised in the Aug/Sep spreads with the Sing trading around the $41/mt levels, with the current market around $31 and a similar story on the Euro, trading around the $16 level at the end of last week after a collapse during the day’s trading, to print on Tuesday at around $12.

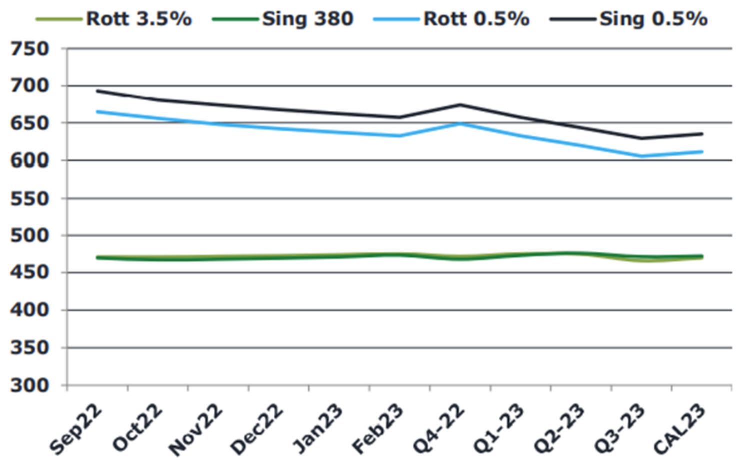
The spread between Singapore marine fuel 0.5%S cargo and FOB Rotterdam 0.5%S barge assessments, or the East-West spread, averaged $71.50/mt at Asian close over July 1-28, down from $80.52/mt in June.

Rotterdam and Singapore Hi5 and FOGOs



Source: FIS

Rotterdam and Singapore FO Futures



Source: FIS

Hi5 Forward Curve Values

	Rott Hi5	Sing Hi5
Sep-22	194	223
Oct-22	185	214
Nov-22	176	206
Dec-22	169	198
Jan-23	163	191
Feb-23	157	184
Q4-22	177	206
Q1-23	157	184
Q2-23	145	168
Q3-23	139	158
CAL23	142	163

Table Sources: FIS

HSFO and 0.5% East-West Spread

	EW380	EW0.5%
Sep-22	-1.50	28.25
Oct-22	-4.00	25.00
Nov-22	-3.75	25.50
Dec-22	-3.50	25.50
Jan-22	-3.00	25.00
Feb-23	-2.00	24.75
Q4-22	-3.75	25.35
Q1-23	-2.00	24.75
Q2-23	1.17	24.17
Q3-23	5.17	23.67
CAL23	2.50	23.69

Tanker Market:

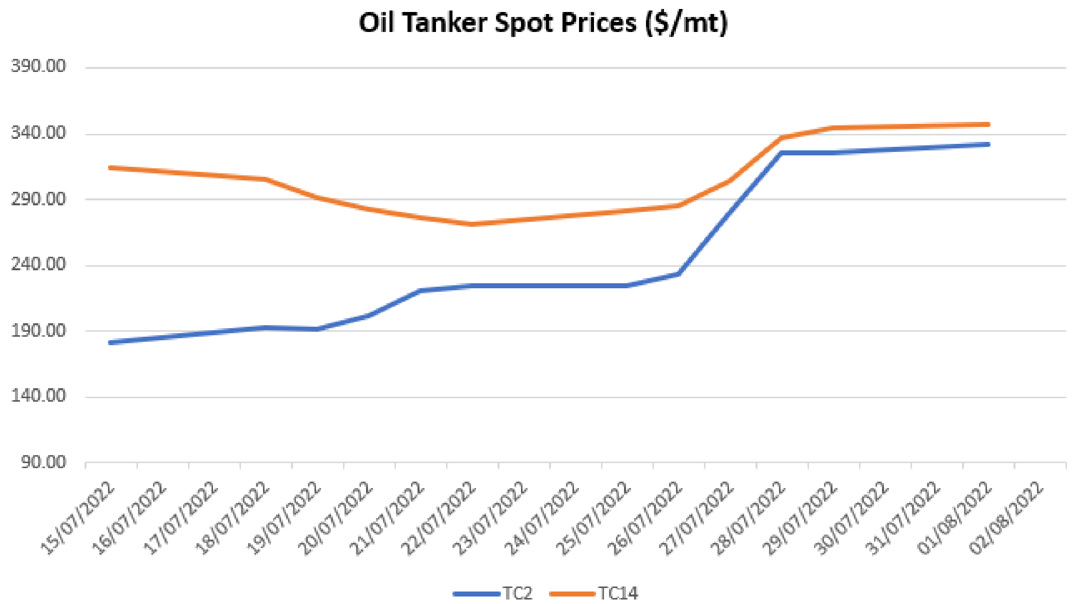
Holiday pause in Clean Tanker FFAs

Tankers in the East have seen a reduction in rates. An oversupply of LR1s has caused TC5 to come down at the front with spot off nearly 40pts from a fortnight ago and TC17 shedding over 75pts in a week.

TC2 has been clawing its way back to previous highs, with the Baltic assessing UKC/NY basis 37kt at ws347 on 1st August, improving from ws270 levels a week ago, dragging with it the USG MR market, improving over 150 points in less than two weeks.

With rates improving, little action has been seen on the Clean FFAs as school holidays start and a public holiday in Geneva contributes to a quiet week – Clean Tanker volumes are down 211 lots.

TD3C peaked on the 20th of July, with the Baltic assessing Middle East Gulf / China basis 270,000mt at 61.86. This has come off over the last seven days, with TD3C now assessed at 58.8 – falling mainly in line with Brent coming off and bunker prices falling, and as a result, the Baltic is now assessing TCE on TD3C to be ($9,100 per day on a round trip). This movement in the market has allowed many in the FFA world to take advantage, resulting in an improvement in volumes on the DPP tankers, increasing by 2,836 lots week on week. With large volumes seen trading in TD3C Q4 & Cal23, particularly.



Oil Tanker Spot Prices ($/mt)

	15/07	18/07	19/07	20/07	21/07	22/07	25/07	26/07	27/07	28/07	26/07	1/8/22
TC2	181.67	193.33	192.08	202.08	220.83	225	225	233.33	280	325	325	331.67
TC14	314.44	305.28	291.39	282.78	275.83	271.67	281.67	285.56	304.17	336.67	345	347.22

Sources: FIS, Baltic Exchange

Written by **Mopani Mkandawire**, **Sam Twyford**, and **Alex Macarthur**

Edited by **Chris Hudson**, **FIS Communications Director**

News@freightinvestor.com, +44 207 090 1120

Sources: FIS, Baltic Exchange