FIS

Weekly Oil Report

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

25/10/2022

Market Review:

Crude oil market — Short-term **neutral** with Brent ranging from $91-$98/bbl, as production cuts wrestled with a poor economic outlook and US strategic releases.

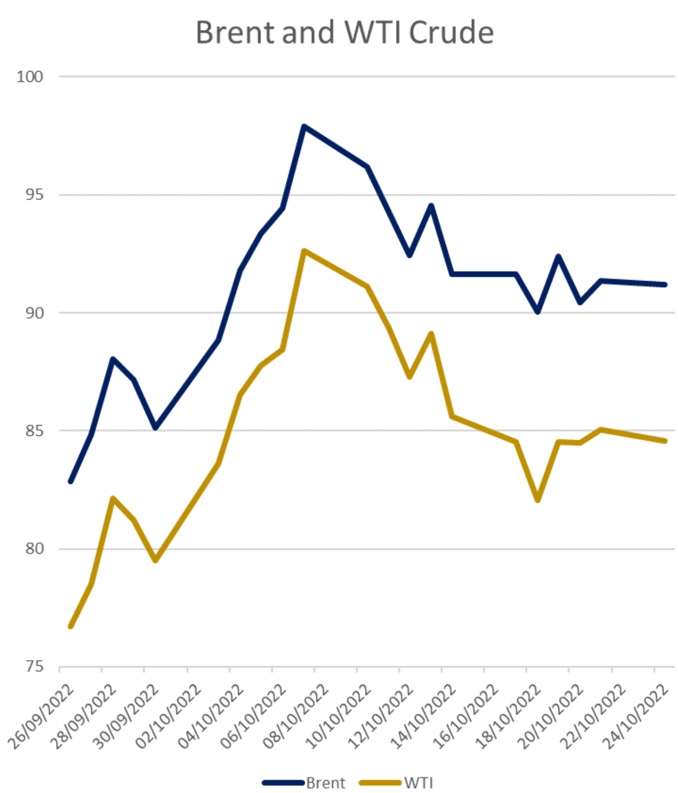
Bunker market — Short-term **neutral** Singapore VLSFO ranges from $630-$670/mt with flat crude levels.

Prices movement	17-Oct	24-Oct	Changes %	Sentiment	
Brent Crude	91.62	91.21	**-0.45**	**neutral**	-
WTI Crude	84.53	84.58	**+0.06**	**neutral**	-
VLSFO (Singapore)	731.84	655.65	**-10.4**	**neutral**	-

Crude Oil Market :

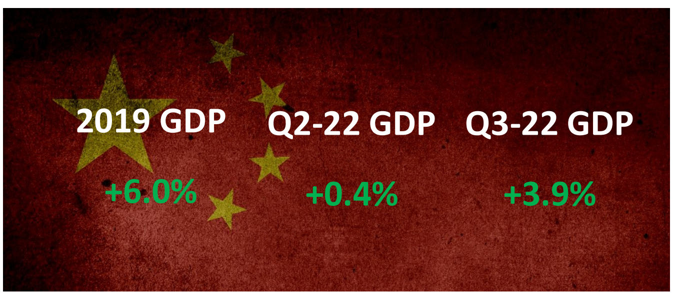
Chinese Problems Weigh on Market

Chinese GDP figures have come in well below target rates. Year-on-year the country's economy grew 3.9%, far lower than the target rate of 5.5%. Chinese Premier Xi Jinping reasserted his commitment to the zero covid policy, something that has had a dramatic effect on the Chinese economy the past year. This coupled with the fragile situation of China's property market is making markets concerned over the economic health of the world's largest oil consumer. Without the considerable growth and consumption of China in the near term things look less bullish for the oil markets even with the OPEC+ production cuts.



The economic headwinds are not only limited to China with many countries still struggling to fight inflation and now faced with increased costs of borrowing.

With little sign that the US Federal Reserve will alter its interest rate policy, and the knock on effects to other economies, the global trend of monetary tightening looks set to continue. The strong moves to curtail inflation have further raised fears of a 'hard landing' for the world' economies. Lower growth and spending would have a negative effect on oil consumption worldwide and be a serious drag on prices.



Source: FIS, ENGINE Online, OilPrice.com, Financial Times, Reuters, World Bank

Freight Investor Services 2022.

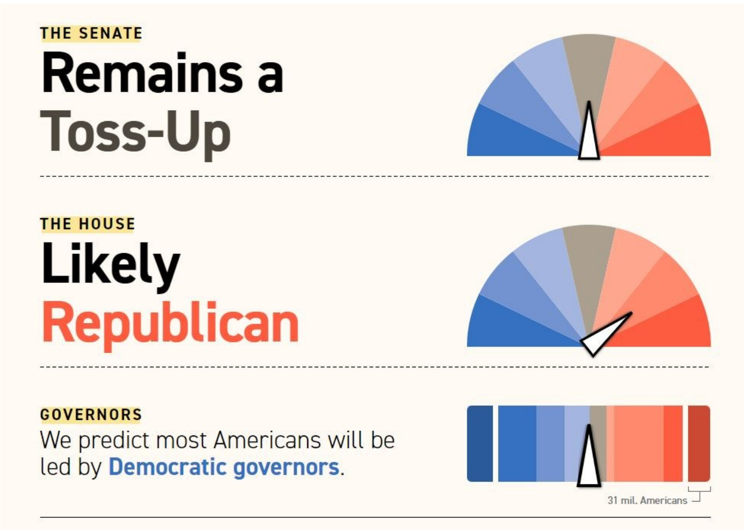
U.S. Midterms and Oil Politics

With the U.S. Midterm elections on the 8th November, the politicisation of the oil markets has begun as President Biden looks to lower oil prices ahead of the national poll. US voters look likely to punish the incumbent administration as the Republican opposition are favourites to take control of the House, and the Senate is not guaranteed to stay Democrat controlled.

According to EIA data, current gasoline prices are on average more than 70% higher than average prices in 2020 when President Biden was elected. The pressure on American's budgets is souring attitudes towards the administration and making the US Government look towards using more of the Strategic Petroleum Reserve to bring down domestic prices.

As reported by the FT. David Goldwyn, a former senior energy official in the administration of Barack Obama "I think we are in a new era of much more nimble and deft use of the SPR as both a market and a geopolitical tool." As President Biden's recent trip to the Middle East did not produce the result he wanted, with OPEC+ subsequently deciding to cut rather than increase production, America has had to look domestically to resolve high prices.

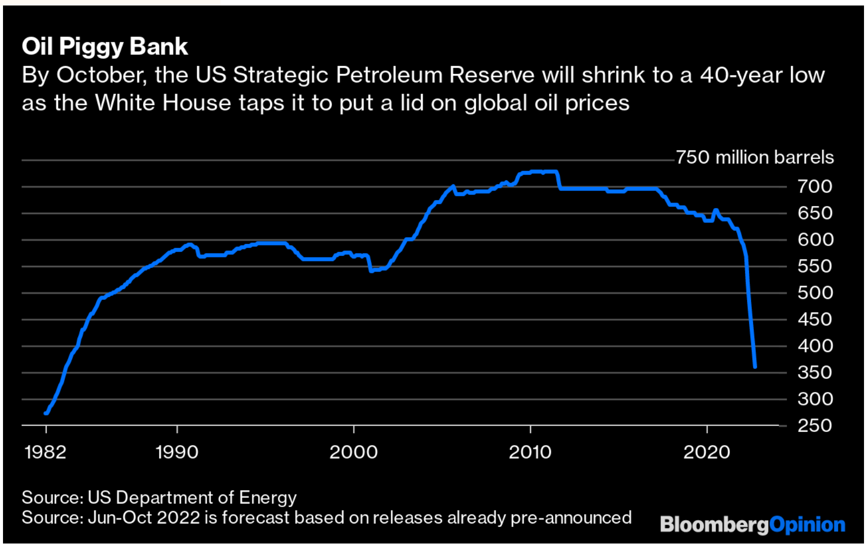
The conflict in Ukraine still looks far from resolving which means that any significant return of Russian oil supplies to Western markets a non starter. Oil supplies have to be made up elsewhere and quickly. With the most obvious source of Iran off the table now that talks over reviving the 2015 nuclear deal are all but dead, countries are looking to their own shores to quickly develop energy resources.



The record drawdown in stocks in March has left stocks at their lowest levels since the 1980s. Dangerously low according to some political opponents and a blatant politically motivated attempt to lower prices in the short term in the lead up to the midterm elections.

A similar attempt by Bill Clinton to lower prices at the pump in advance of the 2000 election, where Al Gore controversially lost to George W Bush was similarly criticised.

Chart sources : Politico.com and Bloomberg



Source: FIS, Politico.com, OilPrice.com, Financial Times, Bloomberg

Bunker Market:

This week Singapore VSLFO prices dropped to their lowest levels for 17 months at under $500, with HSFO prices breaching below the $400 mark. Prices have not been this low since May 2021, before prices rose as countries exited their covid-19 restrictions and crude oil demand and prices skyrocketed. This recent slump fuel prices has been in part due to a drop in global crude values which has dragged down the price of oil products along with it, but it has also been influenced by the prospect of global economic slow down and the resultant lower shipping demand.

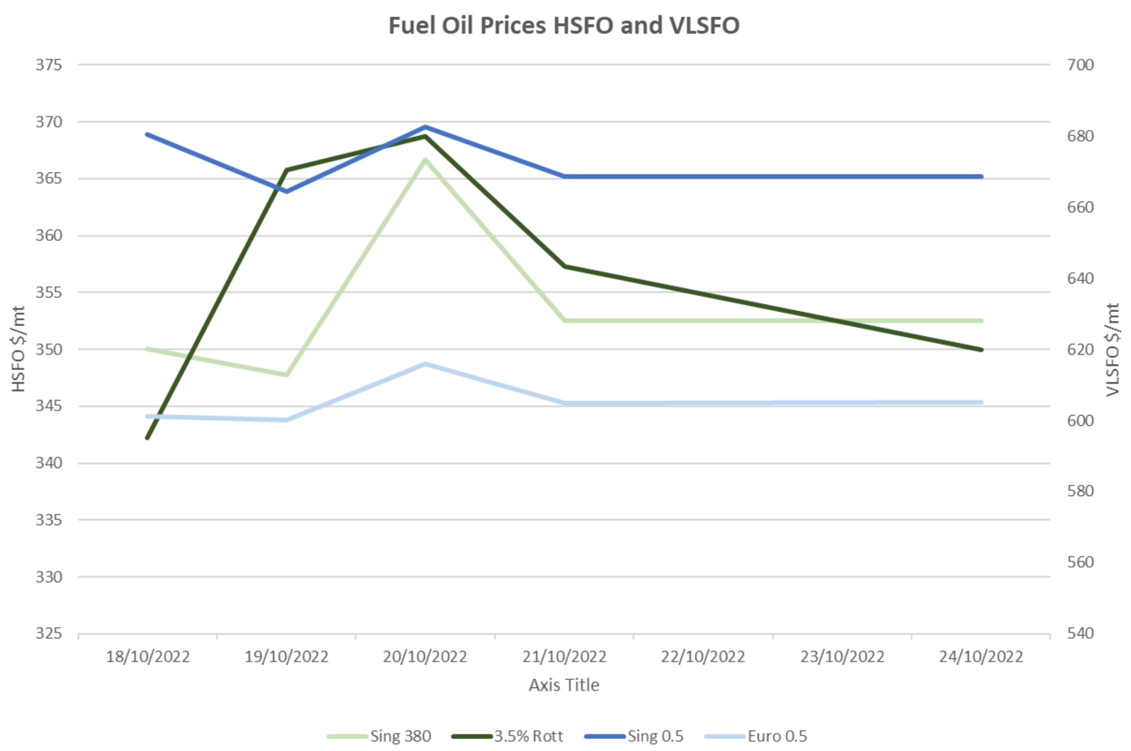
The explosion of demand post lockdown seen in much of the western world at the end of last year seems to have run out of steam, which has also not been helped by the increasingly problematic situation in China with lower economic growth and persistent covid-19 restrictions.

As reported by ENGINE Online there have been some location specific weather disruption in Zhoushan which has caused delays to bunkering, which has not helped lead times for the port as VLSFO supplies remained tight and lead times of 5+ days for fuel. This was also compounded by covid-19 restrictions for container vessels.

With such uncertainty and the drag effect of lower crude oil prices, it is no surprise that fuel oil prices have generally fallen in the reporting week. Combining this with the view on current FFA (Forward Freight Agreements) market which currently show a drawn out slow into the end and the year, the prospect rising bunker demand to drive prices higher seems unlikely.

Lower freight rates may force slower steam steeps to help reduce vessel losses and further compound the issues for bunker fuel prices. Ultimately this may help ship operators deal with other rising costs as high bunker costs were significantly eating into margins earlier in the year, where they accounted for over 50% of costs for Cape vessels, according to FIS research.

Text pricing data: *FIS and ENGINE Online,* ***Chart data:*** *FIS*



Sources: *FIS, ENGINE Online, S&P Global Commodity Insights / IHS Markit Commodities at Sea Service*

Bunker Market (cont)

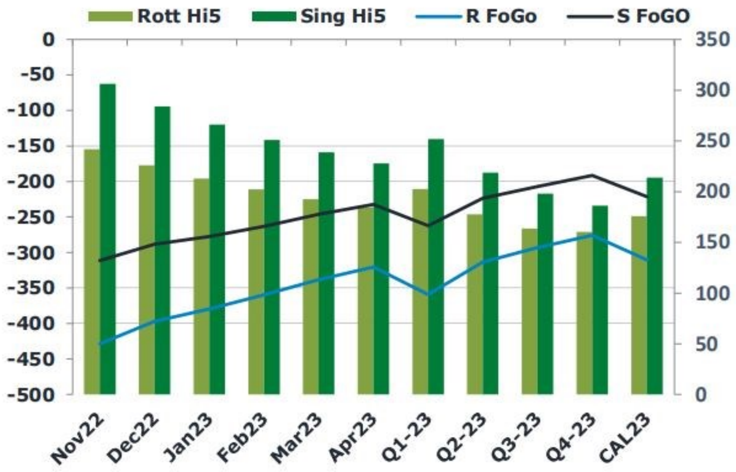
Hi5 and EW Spreads

High sulphur EW front month has traded fairly steadily since last Tuesday. Before today, the intraweek low to high spread was a humble $3.25. This is low for a differential that, in recent months, has experienced big swings of sometimes $10 across the day. Though it has strengthened in today's session – printing a high of -$3.75/mt from last week's low of -$8.75/mt.

Low sulphur fuel oil EW is currently valued around $58.50/mt in the front month – a gradual gain of over $5 from this point last week. The widening of the spread has come from a greater increase in Sing 0.5% marine fuel flat price than its Rotterdam equivalent.

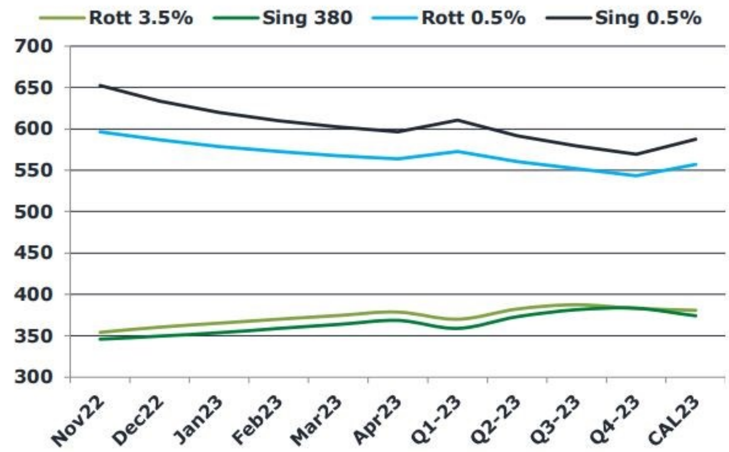
The Singapore Hi5 widened at the end of last week from $297 to $307 and is currently valued just above $308. The low sulphur component of the differential has grown by over $10/mt on the week – compared with a $1 change in the high sulphur grade as demand for low sulphur fuels prevails.

Rotterdam and Singapore Hi5 and FOGOs



Source: FIS

Rotterdam and Singapore FO Futures



Source: FIS

Hi5 Forward Curve Values

	Rott Hi5	Sing Hi5
Nov-22	242	306
Dec-22	226	284
Jan-23	213	266
Feb-23	202	251
Mar-23	193	239
Apr-23	184	228
Q1-23	203	252
Q2-23	178	219
Q3-23	164	198
Q4-23	160	186
CAL23	176	214

Table Sources: FIS

HSFO and 0.5% East-West Spread

	EW380	EW0.5%
Nov-22	-8.00	56.50
Dec-22	-11.00	47.25
Jan-23	-11.50	41.50
Feb-23	-11.25	37.50
Mar-23	-10.75	35.25
Apr-23	-10.25	33.25
Q1-23	-11.15	38.05
Q2-23	-9.42	31.75
Q3-23	-6.08	28.33
Q4-23	0.33	26.50
CAL23	-7.25	31.17

Tanker Market:

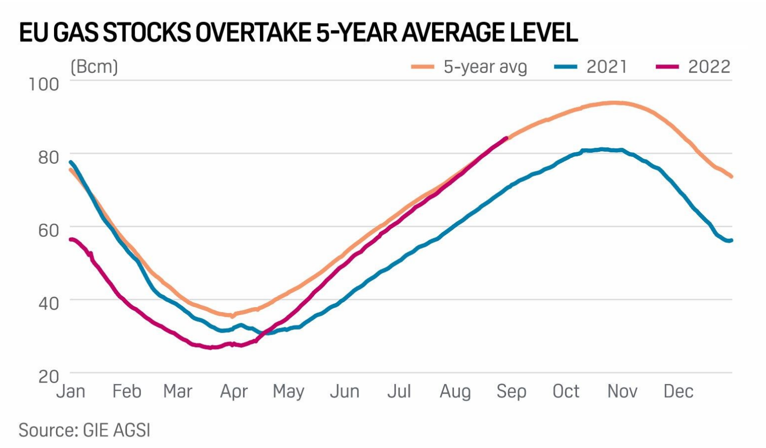
The TC2 spot market crept over ws300 for the first time since September 22nd with a week high of ws302 as the list entering the end of month looked favourable for owners. In a slightly subdued week in the paper market, with the November contract the most active, we saw the market coming off after opening on Monday at ws320 (closing levels the week prior) to ws310 last done, but with a week low of ws300 on Thursday (20/10).

MR spot activity in the US Gulf was a little more subdued as TC14 spot held within a range ws195 – 199.58. Current month MR Atlantic basket finished the week $38,036/day, an increase of $1,143 from Monday's close. TC5 front month (Nov) FFA contract continued to come off, opening at ws275 and with prints in the low ws250s seen midweek and further out the Cal23 with a print around $1 lower than last at $49/mt and around 80kt/m Cal24 trading at $41/mt. The spot market gained, though relatively small (6.07 points) from ws192.86 to ws198.93, with the week's peak a touch higher at ws199.29. In the handy sector, TC6 came 34.13 points softer to ws302.5, a monthly low. Clean tanker volumes were up 2,993 lots to 6,252.

VLCC market continued an upward trend TD22 (USGC/China) gaining $868,750 to $11,593,750 lump sum by close of play Friday and TD3C soared back over the 100 mark, closing on Monday at ws103.64 hitting a week peak and two-a-half-year high at ws111.41. TD3C paper again saw strong volumes, front month (November) trading in a range of 99-108 and further out the Cal23 hitting a top of $13.90/mt (Tuesday 18/10) and a low of $13.10/mt (Thursday 20/10). TD20 spot market bounced, after opening higher at ws167.27 we saw a basement of ws153.41 hit though ended the week at a high of ws168.64. The paper market followed suit, with November FFA trading as low as ws165 midweek to ws175 last seen on Friday. The Aframax market in the US has seen high volatility with huge gains especially made in the Caribbean-USG route, which ended 156.25ws higher at ws380. This was followed, if slightly less impressively, by gains of 65ws for USG-ARA 70,000mt which still finished on ws300, a year high, and gave a TCE daily return of $65,7562 per day round trip.

Also of interest in the tanker market has been the build up of gas carriers in and around Europe. Wood Mackenzie research shows that this month there were 268 LNG ships on the water worldwide, above the one-year average of 241, of which 51 are in Europe. The drive to acquire gas stores in the wake of the invasions of Ukraine and Russian sanctions has culminated in a queue of vessels waiting to discharge in the continent.

Aggregated Gas Storage Inventory data now suggests that European storage levels are at 95% in anticipation of winter where the demand on energy generation is likely to be high and without the prospect of topping up storage with Russian gas supplies via Nord Stream. Warm October weather has helped stores get well above EU target levels, but it will have to be seen whether there will be a cold winter to draw down stocks and concern European governments.



Russian sanctions staying in place and the political plans to divest away from Russian supplies, and oil all together in the long term, will have a profound effect on the tanker trade in the future. With gas carrier freight rates predicted to breach above the 500,000/ day mark, this could still be a profitable business for owners for the short term.

Chart source: S&P Global, with data from GE AGSI

Written by **Chris Hudson**, **Archie Smith**, **and Jack Shilling**

Edited by **Chris Hudson FIS Communications Director**

News@freightinvestor.com, +44 207 090 1120