



RLA Weekly Report – Monday, 31 October 2022

No.20

Annual inflation in the Eurozone reached 10.7% in October, the highest since 1997.

Economy

- Amidst a declining trade deficit, the U.S. economy saw robust third-quarter GDP growth. The figures overstated the country's economic health because domestic demand was at its lowest level in two years as a result of the Federal Reserve's aggressive interest rate hikes. After contracting by 0.6% in the second quarter, the gross domestic product rose at an annualised rate of 2.6% last quarter. Final sales to domestic consumers, which do not include trade, inventories, or government expenditure, increased by just 0.1%, indicating that demand was beginning to weaken due to higher borrowing costs. That follows a 0.5% rate of growth in the second quarter and was the slowest increase since the second quarter of 2020.
- Inflation reached a new high in the Eurozone. According to data released by Eurostat, the statistics office of the European Union, annual inflation reached 10.7% in October. This represents an increase from 9.9% in September and is the highest level recorded since figures for the eurozone were first compiled in 1997.

Oil and Tankers

- While a strong backwardation may limit volumes, oil traders were increasing diesel exports from Asia and the Middle East to Europe in October to take advantage of a large price differential between the two regions as weeks-long strikes at French refineries have tightened stockpiles. On Wednesday, the price differential between the ICE low sulphur gasoil futures contract, also known as the exchange of futures for swaps (EFS) LGOAEFSMc1, and front-month Singapore 10 ppm sulphur gasoil swaps, was close to -\$150/tonne, compared to -\$29/tonne a year earlier. Approximately 289,000 tonnes of gasoil has been transported from China and South Korea to northwest Europe in October, up from 137,500 tonnes in September. Northwest European imports from India and the Middle East in October totalled over 480,000 tonnes and 834,000 tonnes, respectively, up from 361,000 tonnes and 511,310 tonnes in September.
- As EU sanctions loom, Russian charterers have been looking for alternative ways to transport their crude, and many have begun to contemplate a shadow fleet of vessels. This global "dark fleet" is made up primarily of older, often uninsured tankers that transport Iranian and Venezuelan oil that has been sanctioned. The name "dark fleet" comes from the fact that these ships frequently turn off their tracking signals when loading or unloading their sanctioned cargo in order to conceal their location. According to shipbroker BRS, the dark fleet over the last five years is thought to have consisted of about 268 ships of 34,000 dwt or more. According to the latest reports, the shadow fleet is expected to increase to 401 tankers, or slightly over 9% of all ships 34,000 dwt and larger in the world's fleet, once the western sanctions come into effect later this year. Furthermore, these vessels will not be impacted by BWTS considerations.



- Chinese oil demand increased in September and is expected to stay high in the fourth quarter. However, the increase in crude intake is being driven by an increase refined products exports due to weak domestic demand. In September versus August, net crude imports climbed by 160,000 b/d while imports of refined goods increased by 220,000 b/d. In September, this increased apparent oil demand (crude output plus net oil imports) by 480,000 b/d. The numbers conceal the strength of the demand comeback, which rose by 1.3 million b/d on a stock-adjusted basis. According to the data from oil analytics firm Kpler, refiners mainly relied on crude reserves in September to fuel a 1.2 million b/d increase in refinery runs. According to Argus surveys, crude runs surged further in October, reaching a 12-month high of 14.5 million b/d, and are expected to stay high in November and December.
- The G7's intention to control the price of Russian oil is starting to cause trade disruptions in the market for sales to China. Typically, trading in Russian ESPO Blend crude for December delivery to China would start around the middle of this month. Of the 30 scheduled to load in December, only one cargo has traded so far. Sinopec and ChinaOil and CNOOC are two examples of state-owned Chinese companies that have largely stopped importing or selling Russian petroleum by ship.
- According to the EIA, US commercial crude oil inventories increased by 2.5 million bbls in the week ending 21 October. However, the SPR stocks fell by over 3.4 million bbls. On the other hand, distillate fuel stocks marked a marginal increase but remained close to 106 million bbls.

Tanker Freight Rates on Key Routes

Route No.	TC2_37	TC6	TC8	TC20	TC9	TC14	TD1	TD6	TD18	TD20	TD3C
Description	Clean Algeria to Europe 37k mt Cont to USAC	Clean Middle East to UK- Cont.	22k mt CPP/UNL m/distillate 38k mt USG to Cont	280k mt ME Gulf to US Gulf Cont	135k mt Black Sea / Med	30k mt Baltic to Cont	130k mt W Afr to Cont	270k mt Ras Tanura to China			
Size mt	37000			22000	38000	280000	135000	30000	130000	270000	
Route	Rott - NY			Baltic - UKC	USG - Cont	Ras - LOOP	Novo - Augusta	Baltic - UKC Offshore Bonny to Rotterdam			
	WS	WS	WS	\$	WS	WS	WS	WS	WS	WS	WS
20/10/2022	301.94	305.31	52.05	4342857	394.29	197.50	57.33	192.56	390.00	154.09	107.45
21/10/2022	300.56	302.50	51.48	4328571	399.29	199.17	56.94	197.61	384.17	168.64	105.95
24/10/2022	297.78	302.50	50.00	4233333	398.57	196.67	57.00	199.33	383.33	172.50	105.30
25/10/2022	291.94	291.56	50.64	4192857	403.93	184.58	56.83	200.50	384.17	174.77	103.14
26/10/2022	283.89	289.00	52.82	4207143	427.14	178.75	55.67	202.11	386.67	179.32	100.68
27/10/2022	282.50	280.00	53.72	4221429	440.71	175.00	55.28	203.61	387.50	184.77	98.82
28/10/2022	280.00	275.00	53.66	4171429	445.71	172.50	55.06	204.78	387.50	189.09	98.59

Source: Baltic Exchange

LPG

- Data from the Japan LPG Association (JLPGA) indicates that, the country's LPG sales to the city gas sector increased to 160,600 tonnes in August from 72,200 tonnes a year earlier as a result of surging city gas use in the commercial and industrial sectors. In Japan, city gas is primarily composed of LNG and 5-6% LPG, which increases the calorific value of the gas. More LPG is being blended with city gas as a result of recent increases in LNG prices, thus increasing LPG demand. But according to Japanese utilities, there is a maximum amount that can be blended.

- According to the EIA, increasing heating and petrochemical sector demand will cause a 2% increase in US propane usage this winter compared to a year ago. The agency has nonetheless increased its prediction for US propane stockpiles by 80,000 tonnes to 5 million tonnes by the end of this year due to the accumulation of inventories in a period of weak crop drying and export demand. Based on an anticipated 6.3% rise in heating-degree days, this winter's heating demand is predicted to be 1.8% higher than the 10-year average.
- According to the International Energy Agency, shipping will need to use ammonia for up to 45% of its energy mix by 2050 to contribute to the world achieving net-zero emissions across all industries. Ammonia is anticipated to consume 45% of marine energy by 2050 in its net-zero emissions scenario, which assumes that the world achieves its 2050 objective. However, some experts believe that using ammonia as a bunker fuel is dangerous. Shipping's GHG emissions under the net-zero scenario decrease from 838 million tonnes of CO2 equivalent in 2021 to 673 million tonnes in 2030, 304 million tonnes in 2040, and 107 million tonnes in 2050.
- China Cosco Shipping, a major shipping company, made its VLGC debut by purchasing an 83,000-cbm Gas Aries built in China (built in 2016). Its subsidiary, Cosco Shipping Investment (Dalian), has acquired the LPG carrier built in Jiangnan from Tianjin Southwest Maritime (TSM), a Chinese company, and will rename the vessel Chang Xing Yuan. A representative from Cosco Shipping Investment confirmed the purchase and stated that the company intends to expand its VLGC fleet. The Chang Xing Yuan will be delivered to Cosco Shipping Investment next month, and the ship will be used for international trade, according to the company. The company declined to disclose if the VLGC will be operating on the spot market or on period charter.

VLGC Spot Freight Rates

Route No.	BLPG1	BLPG2	BLPG3
Description	AG-East	USG-Cont	USG-Japan
Size mt	44000	44000	44000
	\$/tonne		
20/10/2022	94.00	75.40	137.71
21/10/2022	93.43	75.10	136.71
24/10/2022	93.21	74.90	136.36
25/10/2022	92.57	74.70	136.14
26/10/2022	94.00	75.70	138.14
27/10/2022	98.43	79.48	144.86
28/10/2022	103.43	82.68	150.43

Source: Baltic Exchange

LNG

- ExxonMobil and QatarEnergy affiliates have agreed to independently offtake and market the LNG produced by the Golden Pass LNG Export Project in the US for their respective proportionate equity stakes. According to the contract, 70% of the LNG produced by Golden Pass LNG will be offtaken, transported, and traded by QatarEnergy Trading, a fully owned subsidiary of QatarEnergy. First LNG production is anticipated by the end of 2024 at Golden Pass LNG, which has a total annual production capacity of more than 18 million tonnes of LNG.

- With orders for two 175,000 cbm vessels, Yangzijiang Shipbuilding in China has made its much-anticipated entry into the large LNG newbuilding market. According to the Singapore-listed business, the contracts were placed by an unidentified European shipowner, and deliveries are scheduled to take place between 2025 and 2026. Although the price of the newbuildings was not made public, traders estimate it to be at least \$230 million per ship. Yangzijiang hopes to establish a presence in the LNG market as the future for the commodity is anticipated to remain challenging until 2026 as a result of European Union sanctions against Russian gas shipments, which have boosted demand for seaborne imports.
- Oman's consumption of natural gas increased by 16.4% year on year in the first nine months of 2022 as a result of this year's fast economic recovery. During January–September this year, total natural gas consumption grew to 39.19 million cbm, up from 33.66 million cbm during the same time in 2021. Demand from industrial projects, oilfields, and power plants, which has expanded, has been the main factor driving the increase in natural gas usage. Activities in the manufacturing and industrial sectors have grown significantly this year. In the first half of 2022, the value of output from the industrial sector overall increased by 26.2%, while manufacturing increased by more than 65% annually.
- Asian spot LNG prices fell this week, widening drops as high inventory levels and a surplus of year-end cargo supplies slowed demand. According to industry sources, the average LNG price for December deliveries to North East Asia LNG-AS was \$30/mmBtu this week, down by \$1/mmBtu, or 3.2% from the week before. Ahead of the high winter power and gas demand season, Asian importers have been stockpiling supplies of the super-chilled fuel, but unforeseeable supply outages or a cold snap might cause demand to increase.

Chemicals

- Due to the triple burden of slow development, high energy costs, and excessive regulation, BASF said expenditures at its European facilities must be trimmed to a "permanently" smaller size. The head of the German industrial giant also lent his support to a proposed expansion in China. The cost of natural gas increased by nearly 2.2 billion euros (\$2.2 billion) in the first nine months of 2022 at BASF's European facilities, including its largest facility in Ludwigshafen, southwest Germany, where it manufactures everything from vitamins to insecticides. The company also stated that spot gas prices were five to six times higher than in the US. As a result, it is modifying production methods, raising prices, and reducing the number of products that do not sell for higher prices. However, longer-term cost reductions are necessary. Corporate Europe has adopted efficiency efforts as the norm as the Ukraine crisis raises energy prices and results in the highest inflation in decades.
- Pacific Basin Shipping of Hong Kong is choosing green methanol as its preferred fuel for the future. Following the signing of a collaboration agreement in May, the company has been working with Japan's Nihon Shipyard and Mitsui & Co. to build a new generation of zero-emission bulkers and bunkering infrastructure. The bulker owner has now finished researching the commercial viability of new vessels. It examined the properties of the fuel, its accessibility and scalability, the technological benefits and drawbacks, and the lifetime operating and capital expenses. According to the study's conclusion, green methanol is deemed to be "currently the ideal fuel around which to plan our first generation of zero-emission boats." Additionally, Pacific Basin predicts that biofuels will be a part of



the industry's fuel mix and that, if technical and safety issues are resolved, ammonia will play a significant role as a marine fuel in some industries.

- The purchase of palm oil for use in the Venice and Gela biorefineries' production of hydrogenated biofuels has been discontinued by the Italian energy company Eni. In advance of the stated objective to become "palm oil free" by the end of 2022, the final cargoes came in the most recent few weeks. More than 85% of the processes at Eni's biorefineries in Venice and Gela are already fueled by "waste & residue" raw materials, including spent cooking oil and animal fats, as well as other biomass covered by current national and European rules. The first shipment of vegetable oil made in Kenya's Makueni agri-hub will reach the Gela biorefinery, which presses castor, croton, and cotton seeds, in November. These agri-feedstocks, produced by Eni, do not compete with the food chain. They are grown in degraded areas, harvested from wild trees, or are derived from the enhancement of agricultural by-products. Eni's biorefineries produce hydrogenated HVO biofuels which are destined, either purely or in blended form, for diesel engines, biodiesel for the chemical supply chain; and biojet for air transport.