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Breakthrough in US Debt Ceiling Negotiations: Temporary Lift and Spending Caps Agreed Upon

As part of the agreement, the debt ceiling of $31.4 trillion will be temporarily lifted until January 2025, extending beyond President Biden's current term.

Economy

- In January, the US government, led by the Democrats, reached its debt ceiling, which represents the maximum amount it can legally borrow for its expenses. With no new funds available, Janet Yellen, the Secretary of the Treasury Department, cautioned that by the first week of June, the government would exhaust its funds, resulting in an inability to meet financial obligations such as salary payments and welfare disbursements.
- After weeks of tense negotiations, the agreement is being regarded as a significant development, although it has not been finalised yet. As part of the agreement, the debt ceiling of $31.4 trillion will be temporarily lifted until January 2025, extending beyond President Biden's current term. During this period, the government will have the ability to continue borrowing funds to support its operations. In exchange, the White House has committed to capping non-defence discretionary spending at 2023 levels in 2024 and then gradually increasing it by 1% in the following year.
- According to the National Association for Business Economics, the US Federal Reserve is expected to have limited success in combating inflation this year. The survey forecasts that the Federal Reserve will maintain its benchmark interest rate at a 16-year high and will average 4.2% for the year, surpassing the Fed's target of 2% and higher than the previous forecast of 3.9% in February. As a result of persistent inflation, the Fed is likely to keep its key rate steady at approximately 5.1%, marking its highest level in 16 years.
- The S&P Global Flash US Manufacturing PMI in May 2023 fell to 48.5 from 50.2 in April, representing the sector's sharpest decrease in three months. This fall was primarily caused by weak demand and decreased inventory holding, which were fuelled by faster delivery times and fewer new order inflows.

Oil and Tankers

- The discharge of oil from ageing tankers in China suggests a strengthening of Russian trade. This change in the composition of the tanker fleet has sparked safety concerns, resulting in an increase in the detention of oil and chemical tankers throughout Asia. An increasing number of Aframax and Suezmax tankers older than 10 years have recently been unloaded in China. In the last 15 months, new entities have acquired a total of 41 vessels that are not operated by the Chinese, European Union, or Russian organisations. They are likely subject to the stricter port inspection regime implemented by Chinese authorities, potentially affecting tonnage supply and rates globally. If penalised during inspections, this could impact the supply of Aframax and Suezmax tankers, prompting operators to seek younger vessels.

- According to the EIA, commercial crude stocks in the US eased to 455.1 million bbls in the week ending 19 May from 467.6 million bbls the previous week. Similarly, distillate inventories fell to 105.6 million bbls, a decline of 0.5 million bbls in comparison with a week earlier. Furthermore, gasoline stocks eased by 2 million bbls averaging around 216.2 million bbls in the week ending 19 May.

- Chinese apparent oil demand continued its upward trajectory in April, although the headline figures fail to reflect the substantial build-up of product stocks. In April, Chinese apparent oil demand, which encompasses both refinery output and net product imports, reached a new record of 17.3 million b/d. While crude runs experienced a slight decline, there was an increase in net product imports due to a drop in transport fuel exports and a rise in deliveries of petrochemical feedstock. In April, oil companies reduced their crude imports to 10.4 million b/d, down from 12.3 million b/d in March, with Russian imports witnessing the most significant decrease from 2.3 million b/d to 1.8 million b/d. The maintenance activities carried out in April resulted in the temporary shutdown of 1.1 million b/d of crude capacity, which had a dampening effect on demand.

Tanker Freight Rates on Key Routes

Route No.	TC2_37	TC6	TC8	TC20	TC14	TD1	TD6	TD18	TD20	TD3C
Description	37 kt Cont to USAC	30 kt Clean Algeria to Euro Med	65 kt Clean MEG to UKC	90 kt MEG to UKC	38 kt USG to Cont	280 kt MEG to USG	135 kt BSea to Med	30 kt Baltic to UKC	130 kt WAF to Cont	270 kt Ras Tanura to China
Size mt	37000	30000	65000	90000	38000	280000	135000	30000	130000	270000
Route	Rdam to New York	Skikda to Lavera	Jubail to Rdam	Jubail to Rdam	USG to Cont	Ras Tanura to LOOP	Novo to Augusta	Baltic to UKC	Offshore Bonny to Rdam	Ras Tanura to Ningbo
	WS	WS	WS	$	WS	WS	WS	WS	WS	WS
22/05/2023	130.00	138.75	49.10	3407143	89.17	35.39	131.44	254.58	123.75	54.36
23/05/2023	186.67	136.25	49.36	3685714	112.50	34.56	129.50	254.58	117.25	53.05
24/05/2023	188.06	135.63	49.74	3771429	124.17	33.78	128.56	252.92	114.75	51.97
25/05/2023	186.39	134.69	50.00	4092857	150.00	32.56	129.83	252.08	114.75	50.14
26/05/2023	182.78	135.00	50.13	4121429	156.67	31.89	129.44	251.25	114.00	47.55

Source: Baltic Exchange

LPG

- China's LPG imports rose by 34% month on month to 2.73 million tonnes in April, of which 2.21 million tonnes was propane and 515,000 tonnes tonnes were butane. The figure for April was also up by 38% year on year. The increase in demand came majorly as a result of increasing feedstock demand from the petrochemical sector in the country.

- According to data from Vortexa, India's LPG imports decreased by 11% year on year to 1.28 million tonnes in April. The decline occurred as demand shrank to 2.15 million tonnes from 2.4 million tonnes in March, while it remained stable from a year earlier. The UAE was India's top supplier, supplying 474,400 tonnes — down 3% year on year, followed by Qatar, delivering 335,300 tonnes, down 10% over the same period. While Kuwaiti cargoes increased by 24% to 152,500 tonnes, Saudi Arabian arrivals plummeted by 40% to 219,900 tonnes.

- Spot freight rates for VLGCs on all three benchmark routes increased over the week amid increasing demand. Rates on the Arabian Gulf to the Far East rose by $4.86/tonne to reach $107.43/tonne by the end of the week. Similarly, rates from the US Gulf to Europe and from the US Gulf to the Far East surged by $4.60/tonne and $8.57/tonne, respectively, to reach $95.60/tonne and $157.14/tonne over the same period.

VLGC Spot Freight Rates

Route No. Description Size mt	BLPG1 AG-East 44000	BLPG2 USG-Cont 44000	BLPG3 USG-Japan 44000 $/tonne
22/05/2023	103	89	149
23/05/2023	103	91	151
24/05/2023	105	93	155
25/05/2023	106	95	157
26/05/2023	107	96	157

Source: Baltic Exchange

LNG

- At a time when gas consumption is increasing and prices are progressively declining from record highs last year, India's imports of LNG increased by 6.5% in April and offset a monthly dip in domestic gas output. According to preliminary data from India's Ministry of Petroleum and Natural Gas, deliveries to regasification terminals totalled 1.64 million tonnes, or 25 cargoes, as opposed to 1.54 million tonnes, or 23 cargoes, in April 2022. India imported 1.65 million tonnes of LNG in March 2023 as compared to 1.95 million tonnes in the same month the previous year, a 15.2% decrease. As of March 23, LNG shipments for the whole fiscal year totalled 19.72 million tonnes, or around 290 cargoes, down from 22.96 million tonnes, or roughly 337 shipments, in the prior fiscal year.

- Sources suggests that Russia produced 235 billion cbm of natural gas in the first four months of this year, a 10% decrease from the same period last year. Kremlin-controlled Gazprom's gas output decreased by around a fifth to roughly 151 billion cbm. Russia produced 55 billion cbm of gas in April, a 10.3% decrease from April 2022.

- Due to high inventories and sluggish demand, Asian spot LNG prices have fallen for the fifth consecutive week, remaining at their lowest level in two years. The average LNG price for July delivery to north-east Asia LNG-AS last week was $9.50/MMBtu, 3% lower than the previous week and the lowest since early May 2021.

LNG Spot Freight Rates

Route No. Description	BLNG1g Aus-Japan	BLNG2g USG-Cont	BLNG3g USG-Japan $/day
16/05/2023	41013	37879	38911
19/05/2023	37114	35134	35558
23/05/2023	36420	33203	35697
26/05/2023	37370	32625	36791

Source: Baltic Exchange

Chemicals

- According to a statement, India's GHCL Ltd. plans to spend Rs40 billion ($483.44 million) in a 500,000 tonnes/year greenfield soda ash facility at Mandvi in the Kutch area of western Gujarat state. According to GHCL, the expanded capacity would assist India in meeting the rising demand from the solar and electric car industries. Production from the new factory is expected to begin in 2025 or 2026, according to a corporate source. According to the source, the business aims to quadruple capacity at the greenfield project in its second phase to 1 million tonnes/year by 2030, which will not only assist the company satisfy domestic demand but will also be utilised for exports. To meet the expected 5% yearly rise in demand, India's overall output of soda ash, which stands at roughly 3.6 million tonnes per year, must expand by around 300,000 tonnes per year, according to GHCL. Soda ash is an important raw material used in the production of solar glass and lithium-ion batteries. GHCL now runs a 1.2 million-tonne-per-year soda ash facility at Sutrapada, Gujarat.

- Freight rates remain a key concern for sulphuric and phosphoric acid players across the globe, especially as ship owners continue to delay investment in newly built chemical tankers, as the market searches for a path to achieve carbon-neutral shipping. Already reeling from outlays required to make ageing tankers compliant with strict International Maritime Organization (IMO) 2020 regulations - which aim to reduce harmful Sulphur oxide emissions from ocean-going vessels - a new wave of regulations is approaching that specifically target vessels' carbon emissions. In the meantime, ship owners are taking what steps they can, including slowing down on long-distance journeys, or burning more biofuels - if their engines can handle them. However, cutting back on the knots results in additional charges for the chartering party, and is at best a temporary solution. This lack of new-build tankers joining the fleet, combined with stable-to-firm bunker fuel costs, has lumbered the global sulphuric and phosphoric acid trade with hefty freight costs that show only a slow decline amid the current weak demand from the key fertiliser industry. However, reducing the knots incurs additional expenses for the chartering party and is just a temporary solution. The absence of new-build tankers joining the fleet, along with stable-to-firm bunker fuel rates, has saddled the worldwide sulfuric and phosphoric acid trade with heavy freight costs that are only slowly declining, notwithstanding current sluggish demand from the important fertiliser industry.

- The rough path of European caustic soda resumed in May, with contract and spot prices decreasing and demand staying low. Although margins per tonne have not plummeted, the prognosis for caustic soda in the remainder of Q2 is not projected to improve. Caustic soda, like other commodities in Europe, has been impacted by the economic slump, with estimates projecting a 15–25% year-on-year decline in demand in 2023. Stock levels have climbed in 2023, climbing by over 34% year on year in Q1. This was attributed to imported caustic soda due to sluggish markets in the United States and Asia, with Eurostat estimates showing a significant year-on-year increase in early 2023. The impact of high import amounts is still felt, with spot and contract prices in the Mediterranean under pressure.