Oil Market Update

January 2020

A Look-back at events

HIGHLIGHTS	COMMENTS	TREND
FEARS OF POTENTIAL SUPPLY DISRUPTIONS IN MIDDLE EAST	On January 08, oil prices rose almost 1 percent as investors and market players reconsidered the likelihood of immediate supply disruptions in the Middle East after the United States killed a top Iranian military commander. Prices surged then on fears of escalating conflict and potential oil supply disruptions after a Baghdad drone strike killed Qassem Soleimani, head of Iran's elite Quds Force, to which Iran vowed revenge.	BULLISH
CORONAVIRUS: A GLOBAL EMERGENCY	On January 23, oil prices fell 10 percent on fears that the coronavirus outbreak will destroy demand in China, the world's largest crude importer. The virus had spread rapidly leading the Chinese government to impose restrictions on transportation. Full or partial lockdowns are in effect in 15 Chinese cities, covering 60 million people. On January 30, the World Health Organization declared the outbreak a "public-health emergency of international concern", an alarm it reserves for events that pose a risk to multiple countries.	BEARISH
CHINESE ECONOMY OFFSETS GLOBAL DEMAND GROWTH	On January 18, oil prices fell as sluggish economy growth in China, the world's biggest crude importer, raise concerns over fuel demand and countered optimism from the signing of a China-US trade deal. According to the government data, China's economy, the world's second largest, grew by 6.1 percent in 2019, its slowest expansion in 29 years. Moreover, the coronavirus outbreak later has even more worsened the outlook for 2020.	BEARISH
EASE OF RISK PREMIUMS	The risk to shipping is one of the world's key factor determining the trend of the oil prices. Oil prices fell below $65 on January 10 in its first week as geopolitical tension in the Middle East eased. The threat of an outright war had receded since Tehran fired missiles at US-Iraqi bases in retaliation for Washington's assassination of its top general. The lack of a geopolitical risk premium is partly due to plentiful supplies of US shale. On the demand side, the US and China were set to sign their limited trade deal, which improved sentiment.	BEARISH
INCREASING US CRUDE OIL INVENTORIES	According to the US Energy Information Administration's reports, US commercial crude oil inventories increased in two out of four weeks of the month January 2020. The increase in crude implies weaker demand and is bearish for crude prices.	BEARISH

OIL MARKET OUTLOOK - BEARISH

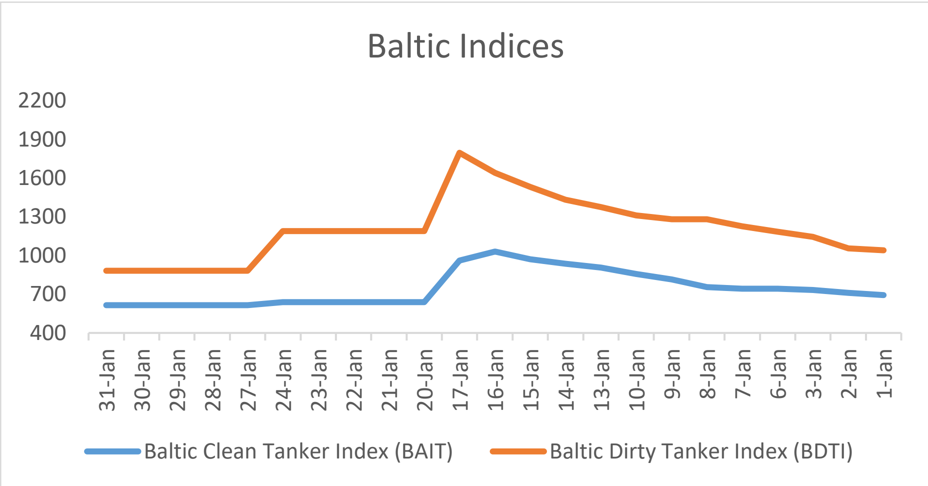
In January 2020, oil prices saw its biggest weekly decline in more than a year as concerns that the coronavirus will spread further in China, curbing oil demand. The price of crude oil is forecast to fall in the first half of this year. The Energy Information Administration forecasts Brent crude oil spot price will average $65 per barrel in 2020 and $68 per barrel in 2021.

Mounting worries have also been in place about economic damage from the coronavirus that has spread from China to around 20 countries. The coronavirus-triggered fall in crude oil prices over the last few weeks has shaken some OPEC countries, including Saudi Arabia, to the realization that waiting until March 5-6, as scheduled, to potentially announce deeper production cuts may be too late. Until the impact of the Wuhan virus on the Chinese economy and oil demand becomes clearer, the market will continue to be disturbed by the fears of global oil demand weakening.

The Phase One trade deal between the US and China may also fail to bring in optimism for oil. Analysts concur that the Chinese promise to buy an additional $52.4 billion worth of US energy products in 2020 and 2021 on top of the 2017 levels is most likely unachievable with the coronavirus epidemic leaving a large share of Chinese industry, retail, and non-essential transportation shut down for an indefinite period.

Fears of geopolitical instability remains as well. Libya's oil production fell to less than 300,000 barrels per day following a blockade of its main oil export terminals, which in turn prompted the shutdown of several large fields.

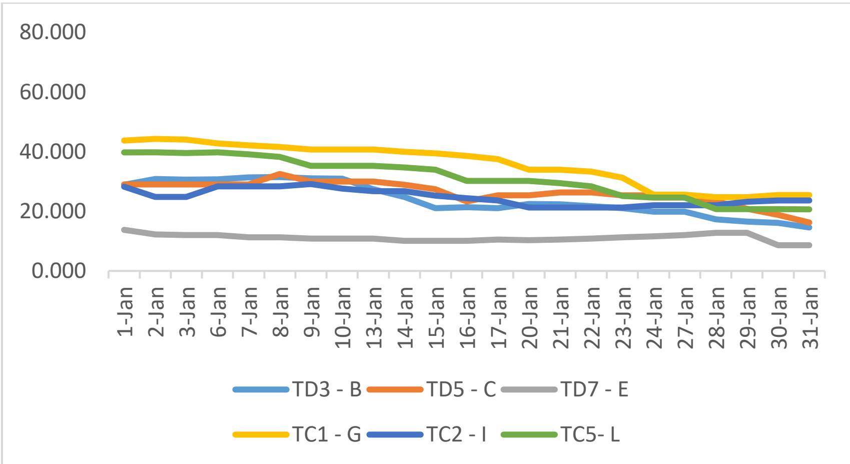
SHIPPING DATA



A clean tanker ships refined products without heavy residual components, while a dirty tanker ships crude oil, vacuum gas oil, heavy fuel oil, unrefined condensates or other products with heavy, sour, "dirty" components. Subgroups of the BCTI consider 7 main shipping routes and collect the cost of time charter of product and chemical tankers. Subgroups of the BDTI consists of 17 main shipping routes and collect the cost of time charter for four classes of ships - VLCC, Suezmax, Aframax and Panamax.

Source: Lloyd's List Intelligence

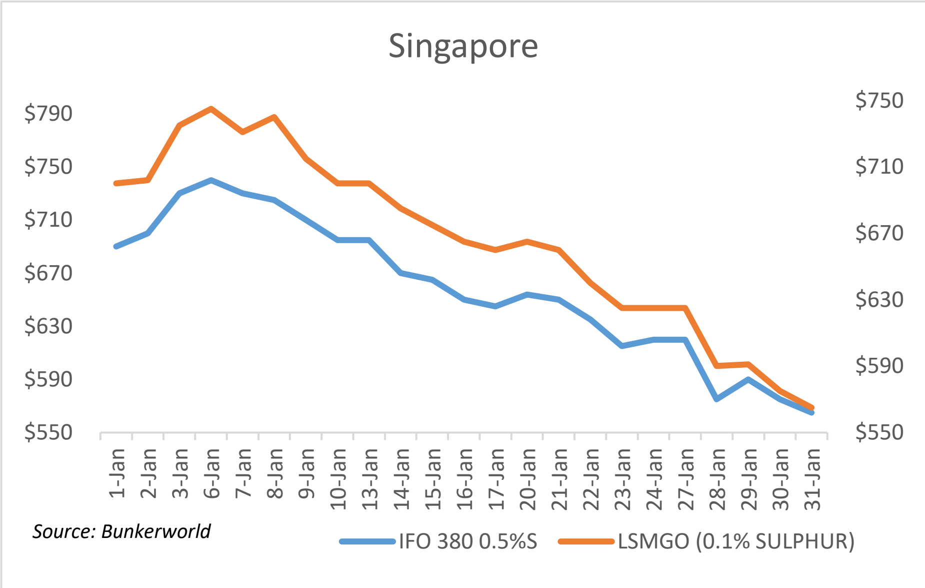
Main Shipping Routes (Dirty and Clean Tanker)	
TD3	**Arabian Gulf - Japan**
TD5	**West Africa to U.S. Atlantic Coast**
TD7	**UK North Sea to Continent**
TC1	**Ras Tanura, Saudi Arabia, to Yokohama, Japan**
TC2	**Europe to US Atlantic Coast**
TC5	**Arabian Gulf to Japan**



Source: Reuters

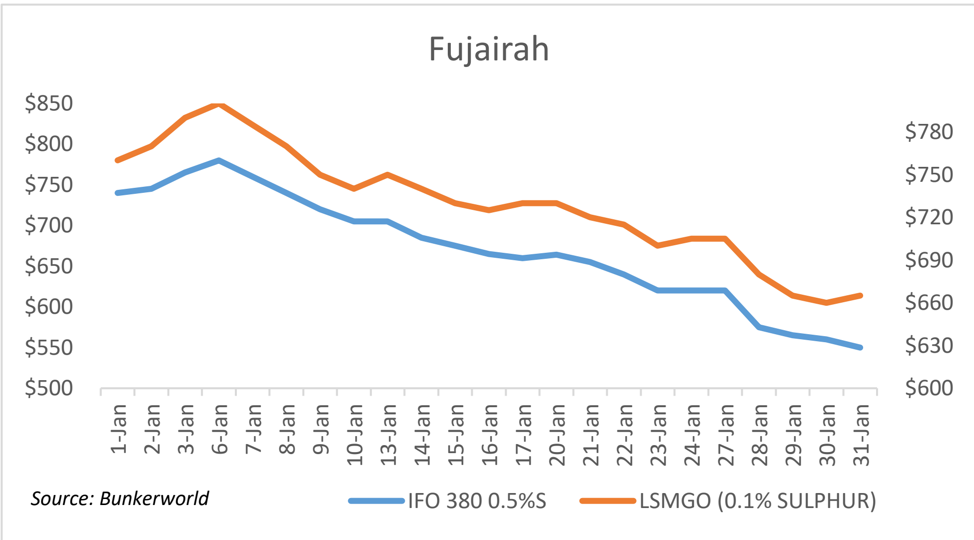
PORT UPDATES

ASIA



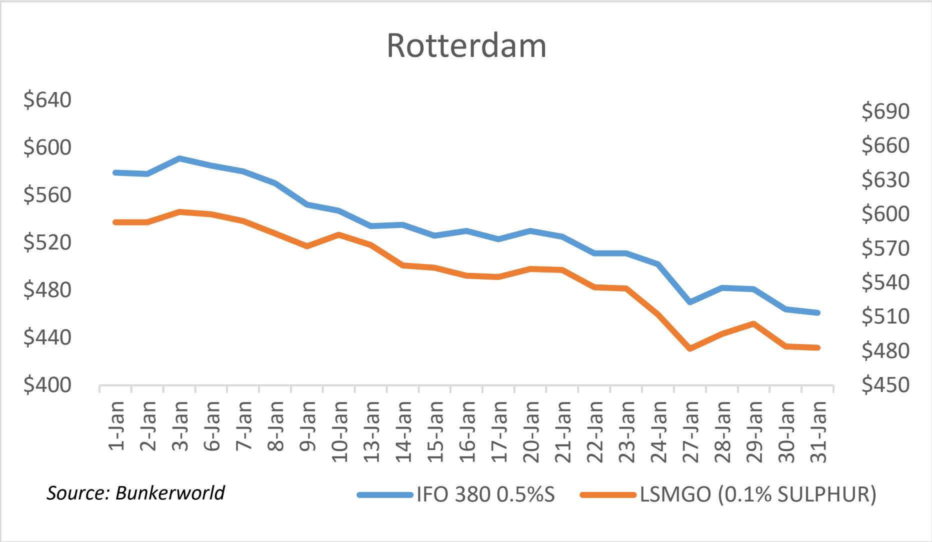
Bunker demand for low sulphur 380 CST bunker fuel was quiet on the last working day of the January. It was hard to tell if market was affected by the coronavirus outbreak because demand was reduced to its lowest. Singapore's ex-wharf term price indications for February-loading 0.5% sulfur marine fuel decreased to a premium of $30-$35/mt to Singapore 10 ppm gasoil. In the week ended January 24, indications were at a premium of $45-$50/mt. There are still no deals heard in the market. Shipowners are very cautious because they are not sure how the global economy will be impacted by the coronavirus outbreak in February. Meanwhile, demand for LSFO has grown and supply was seen to be tight. For Singapore-delivered marine fuel 0.5%, indications were heard at $575-$585/mt. The grade was assessed at $575/mt, down $15/mt day on day.

MIDDLE EAST:



Bunker demand for low sulphur 380 CST bunker fuel was quiet on the last trading day of the month January. Bunker fuel was mainly affected by the ongoing geopolitical tensions in the region. Also, the Port Authority of Fujairah had requested that ships calling directly or transiting from China provide a statement declaring if any crew on board has a high temperature, sore throat, cough or breathing difficulties in light of the outbreak of Coronavirus. Ships calling directly or transiting from China with crew exhibiting these symptoms were not permitted to enter Fujairah Offshore Anchorage or the Port of Fujairah until they obtain approval from the harbour master. For Fujairah-delivered 380 CST bunker fuel, there were no firm bids or offers located. The grade was assessed at $285/mt, down $5/mt day on day. For Fujairah-delivered marine fuel 0.5%, there were no firm bids or offers located. The grade was assessed at $560/mt, down $5/mt day on day.

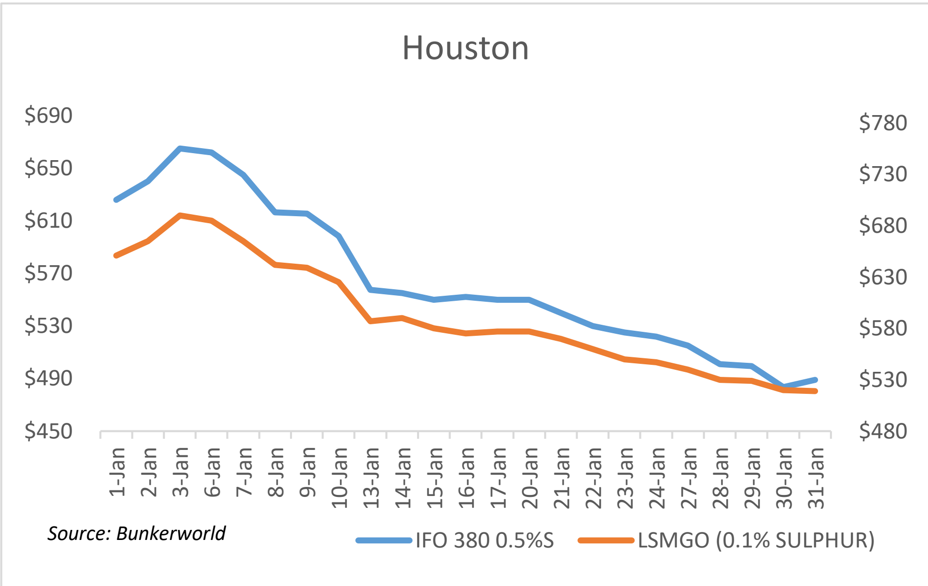
EUROPE:



The spread in differential had softened 35 percent since the implementation of the low sulphur cap on softening demand for 0.5% sulphur while HSFO demand persists. Bunker demand was steady on the last trading day of the month January and availability was also reasonable. Overall buying appetite in the bunkers market had varied in the last week of the month with some suppliers describing it as weak and others as moderate. Market sources have noted reduced refinery outputs of high sulfur fuel oil ahead of the regulation change next year, raising questions around availability of prevailing demand for the cheaper bunker fuel. Rotterdam IFO 380 CST delivered bunker fuel pricing was assessed at $455/mt on down by $3/mt from a day before.

AMERICAS:

Spot 0.5%S marine fuel bunkers pricing shed $23 day on the last trading day of the month of January. Bunker demand for 380 CST bunker fuel remained weak. There was no activity in the Platts Market on Close assessment process. Along the West Coast, spot availability of 0.5%S fuel was talked tight in Los Angeles to prop up prices, with the assessment rising $10 to $620/mt delivered. Along the US Gulf Coast, 0.5%S marine fuel fell steeply, also influenced by the energy complex. On a delivered basis, it was set at $508.50/mt, a higher value as it considers barging prices. In New Orleans, ex-wharf 0.5%S fuel was assessed at $493.50/mt, a $10 premium to Houston. Ex-wharf marine gasoil 0.1%S in Houston was assessed down $9/mt at $520/mt. Contrary to the downward trend seen on the rest of the North American markets, IFO 380 bunker fuel moved up $14 day on day in New Orleans to $400.50/mt.



FEARS OF POTENTIAL SUPPLY DISRUPTIONS IN MIDDLE EAST

On January 08, oil prices rose almost 1 percent as investors and market players reconsidered the likelihood of immediate supply disruptions in the Middle East after the United States killed a top Iranian military commander. Prices surged then on fears of escalating conflict and potential oil supply disruptions after a Baghdad drone strike killed Qassem Soleimani, head of Iran's elite Quds Force, and Iran vowed revenge. The US state department warned of heightened risks of attacks around oil facilities in Saudi Arabia's Eastern Province, and Iraq's parliament voted to expel US forces from Iran.

State urged US citizens in Saudi Arabia to immediately review precautions to take in the event of attack. Iran had promised to retaliate against the US or its interest, after a US strike in Bagdad killed Iranian general Qassem Soleimani. Oil prices had immediately spiked up to 5 percent after the United States confirmed it had killed Soleimani. Meanwhile the Iraqi parliament voted to expel the US military from the country. However, any law would not take effect until after ratification and one-year notice. Additionally, Iraq will aim to keep crude production flowing with or without a US military presence. Iraq's is OPEC's second largest producer after Saudi Arabia.

Escalation started when US President Donald Trump threatened to target 52 Iranian sites if Tehran retaliates for the Soleimani strike. He tweeted, " Let this serve as a WARNING that if Iran strikes any Americans, or American assets, we have targeted 52 Iranian sites (representing the 52 American hostages taken by Iran many years ago), some at a very high level & important to Iran & the Iranian culture, and those targets, and Iran itself, WILL BE HIT VERY FAST AND VERY HARD, The USA wants no more threats!". The threats between the US and Iran come after major attacks in September on Saudi oil infrastructure and several tanker-related incidents in the Strait of Hormuz chokepoint last year, which have raised geopolitical risks in the world's biggest oil-producing basin. The United Kingdom had also stepped up its naval presence to protect shipping passing through Hormuz in the wake of Soleimani's death amid growing concerns of a regional escalation hitting oil. Most crude exports from the Persian Gulf, including shipments from Saudi Arabia, Iran and Iraq, go through the Strait of Hormuz, a narrow waterway that Iran has repeatedly threatened to shut down if there's a war. Saudi Arabia, which is currently producing at 9.75 million barrels per day (bpd), has 1.5 million bpd of spare capacity.

On January 26, according to a regional security official, attack on the US Embassy in Baghdad, which wounded an employee, is part of an alarming pattern of accurate attacks by Iran or its allies on US interests in the Middle East. Bombardment saw at least five mortar rounds fired at the sprawling but well-guarded US Embassy compound in central Baghdad. At least one struck a military dining facility, known as a DFAC. Although casualties were minimal, it was the fourth recent attack in which Iran, or its delegates have demonstrated a strange accuracy that maintains a level of avoidance for Iran's regional rivals. Iran's response to the US assassination of Iran's Major General Qasem Soleimani was initially welcomed as a de-escalation by US President Donald Trump, because no one was killed. But the attack contained a second, less obvious message, which has emerged over time, even though the attack was non-lethal, it still shows we have the capability of hitting you with accuracy.

Overall, Iran had clearly decided its major revenge for Soleimani killing will be to force the United States out from Iraq. The current state of affairs in the Middle East suggest that oil trade will be volatile. The United States Maritime Administration website renewed its warning about threats to U.S. commercial vessels from Iran and its proxies in the Gulf and surrounding area.

CORONAVIRUS: A GLOBAL EMERGENCY

On January 23, oil prices fell 10 percent on fears that the coronavirus outbreak will destroy demand in China, the world's largest crude importer. The virus had spread rapidly leading the Chinese government to impose restrictions on transportation. Full or partial lockdowns are in effect in 15 Chinese cities, covering 60 million people. Goldman Sachs said that the global oil market expects the coronavirus outbreak to create a large demand shock and keep volatility in spot prices elevated.

The price of Brent, the global benchmark, had tumbled by about 10 percent since January 17, when Chinese authorities confirmed the death of a second person infected with the virus. On January 30, the World Health Organization (WHO) declared the outbreak a "public-health emergency of international concern", an alarm it reserves for events that pose a risk to multiple countries and which requires a coordinated international response. Thousands of people have already contracted the new coronavirus, which causes respiratory illness. The death toll was at 213 as of January 31. The virus, which started in the Chinese city of Wuhan, has spread to other major cities such as Beijing, Shanghai, Macao and Hong Kong. China has warned the ability of coronavirus to spread getting stronger, spooking financial markets and prompting a sharp fall in oil prices.

The biggest concern of the investors is growing concern that China's deadly coronavirus will hurt the global economy by reducing demand for gasoline, diesel and jet fuel in an already well-supplied market. The prospect of cancelled flights, closed international borders, locked-down cities and idled factories in China, which is the world's biggest oil importer, have rattled financial markets around the world. Saudi Arabia's push for further production cuts among members of the Organization of the Petroleum Exporting Countries (OPEC) also came in the light of the fast spreading virus. Representatives of OPEC and its allies were set to meet Feb 04 and Feb 05 to debate possible action following the outbreak that originated in China. The group could then decide to reduce output at a possible meeting next week. OPEC had already started analysing what options could work. One of them were if Saudi Arabia would lead a collective reduction of 500,000 barrels a day that would stand until the crisis is over. Another option under consideration would involve a temporary cut of 1 million barrels a day by the Saudis, aimed at creating a shock in oil markets. The kingdom currently produces around 9.7 million barrels a day.

Vienna-based energy consulting firm JBC cut its forecasts Monday for China's oil consumption by one million barrels a day in February and March, amid signs refiners in the country have reduced their oil intake. Prospects of weakening demand contributed to a 15 percent decline in oil prices in January. Saudi officials fear that mounting oil revenue losses threaten their efforts to diversify their economy. The kingdom, whose largest oil buyer is China, relies on high oil prices to fund new projects in tourism, real estate or petrochemicals. In January, the International Monetary Fund downgraded Saudi Arabia's economic growth forecast for 2020 by 0.3 percentage points to 1.9 percent, amid concerns that OPEC's previously agreed-upon production cuts would have little impact on oil prices.

Meanwhile the virus continues to spread around the world. The US has confirmed cases in Washington state, Chicago, California and Arizona, while Australia has reported five cases, South Korea four and Hong Kong five. Taiwan, Thailand, Vietnam, Singapore, Malaysia, Nepal, Cambodia, Sri Lanka and Canada have also reported cases. Lower demand from end users means lower demand from refiners. Major state-owned Chinese refiners may cut run rates below 70 percent to cope with falling demand. Overall, its hard to say as this is a current event. For now, the biggest fear is how far the virus might spread beyond Wuhan. Traders are right to be cautious.

CHINESE ECONOMY OFFSETS GLOBAL OIL DEMAND GROWTH

On January 18, oil prices fell as sluggish economy growth in China, the world's biggest crude importer, raise concerns over fuel demand and countered optimism from the signing of a China-US trade deal. According to the government data, China's economy, the world's second largest, grew by 6.1 percent in 2019, its slowest expansion in 29 years. Moreover, the coronavirus outbreak later has even more worsened the outlook for 2020.

Before the outbreak of virus, a Reuters poll showed that, China is expected to post its slowest economic growth in 30 years in 2020 as domestic and global demand remain sluggish. This marks the weakest clip since 1990 and a further easing from an expected 6.1 percent in 2019. The United States and China have signed the Phase 1 trade deal, de-escalating a prolonged confrontation that has disrupted global supply chains and rattled financial markets. The negative impact (on the economy) from US tariffs will start to fade in the second quarter, but given the global economy is slowing, exports could still face some downward pressure. China's economy was already slowing before the trade war erupted 18 months ago, as a regulatory crackdown on debt and riskier types of lending and led to a sharp slowdown in investment. Since the trade dispute escalated, business and consumer confidence have softened.

Many analysts and economists are downgrading China's GDP growth forecast further even more for 2020 as the coronavirus outbreak hits the world's second largest economy. The economy activity in many cities halted as factories closed for almost a week-long Lunar New Year holidays. The holidays were extended in some places, a move that will hit global supply chains. Meanwhile, the service sector has also been hit as people are encouraged to stay at home. In 2019, China's full-year GDP growth was 6.1 percent, down from 6.6 percent the year before. Reuters reported that a Chinese government economist said that the country's first-quarter economic growth may drop to 5 percent or even lower due to the virus outbreak.

As of Feb. 01, Chinese oil demand has dropped by about three million barrels a day, or 20 percent of total consumption, as the coronavirus squeezes the economy. The drop is probably the largest demand shock the oil market has suffered since the global financial crisis of 2008 to 2009, and the most sudden since the Sept 11 Saudi attacks. China is the world's largest oil importer, after surpassing the US in 2016, so any change in consumption has an outsize impact on the global energy market. The country consumes about 14 million barrels a day, equivalent to the combined needs of France, Germany, Italy, Spain, the UK, Japan and South Korea.

The collapse in Chinese oil consumption has started to get affected across the global energy market, with sales of crude slowing down and benchmark prices to fall. Sales of Latin American oil cargoes to China came to a halt, while sales of West African crude, a traditional source for Chinese refineries, are also slower than usual.

Overall, the halt in Chinese economy has already started to affect the global oil demand as China is the world's largest oil importer and therefore the global demand for oil has been significantly affected.

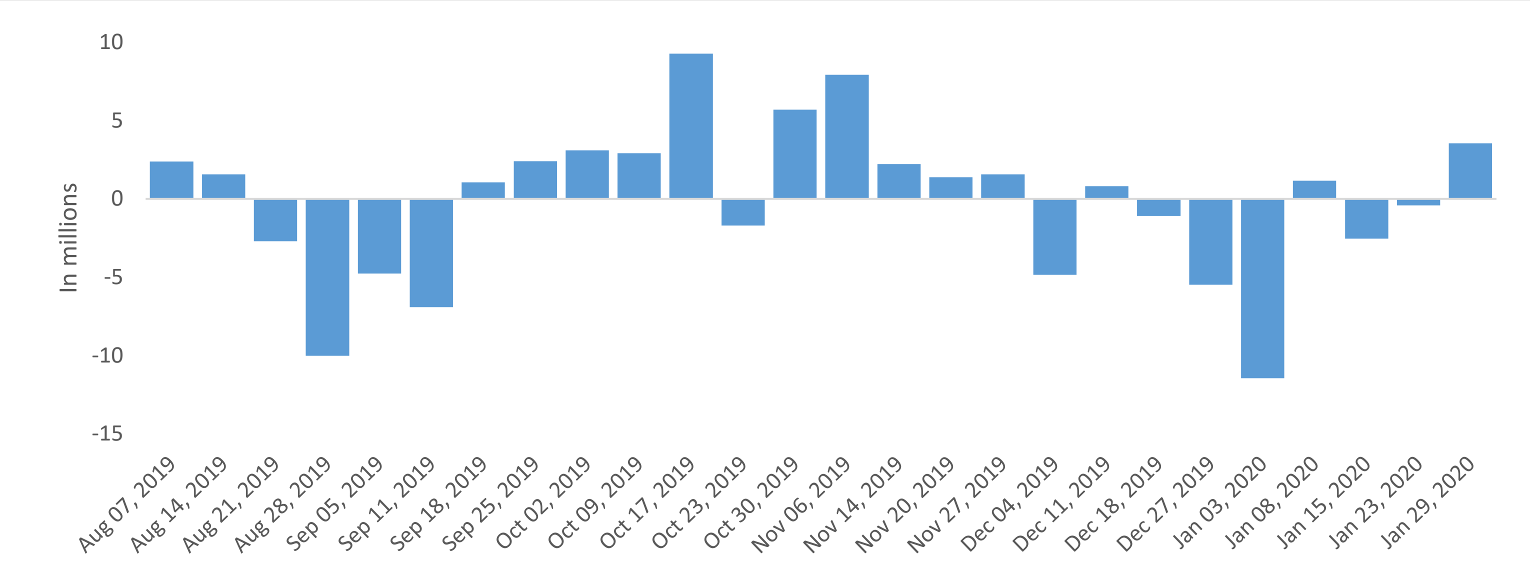
EASE OF RISK PREMIUMS

The risk to shipping is one of the world's key factor determining the trend of the oil prices. Oil prices fell below $65 on January 10 in its first week as geopolitical tension in the Middle East eased. The threat of an outright war had receded since Tehran fired missiles at US-Iraqi bases in retaliation for Washington's assassination of its top general. The lack of a geopolitical risk premium is partly due to plentiful supplies of US shale. On the demand side, the US and China were set to sign their limited trade deal, which improved sentiment. While the chance of looming war had lessened, relations between the US and Iran remained combustible. Tehran had said that it will stop abiding by limits on uranium enrichment, while the US imposed new sanctions on the Islamic Republic. Head of the Centre on Global Energy Policy at Columbia University in New York said that the oil markets are underestimating the risks in the Middle East and may be wrong in assuming Iran's retaliation is over. Meanwhile, Brazil and Guyana are set to add more than 400,000 barrels of combined daily supplies to the market this year, a volume that would offset most of the auxiliary cuts agreed to by OPEC and its allies in late 2019.

The US had killed a key Iranian General as a result of attacks on the US Embassy in Baghdad, Iraq. Here, a risk premium is being priced into assets such as oil. Therefore, we understand that the lower the risk to the oil, the lower the prices will be and hence the higher the risk due to geopolitical issues in Middle East, higher the prices of the oil. However, markets were still eyeing the longer-term risks of conflict, and prices were briefly supported by new US sanctions on Iran in retaliation for its missile attack on US forces in Iraq. Iran responded to the US drone strike on January 8 with a missile attack on Iraqi air bases hosting US forces that left no casualties. But a Revolutionary Guards commander said Iran would take "harsher revenge" soon. Still, there has been no disruption to Middle East oil production as a result of the flare-up in tensions and other indications which suggested ample supply.

Before the US became the global crude oil market buffer producer namely, of its shale revolution, Wall street routinely factored in $5-$10 per barrel risk or geopolitical premiums. This was predicated on an extreme and sudden overturning of the supply-demand equilibrium in a world with little spare capacity. However, this was then, today US is the world's largest oil producer pumping 11 million barrels per day (bpd), a shift that is unlikely to end anytime soon. The crude world is not necessarily any less hostile than it was at the turn of this decade. To Nigeria and Libya's troubles, add a rapidly shrinking Venezuela, and perhaps take out an improvement in Iraq. Yet US oil keeps the market in check, more so because the world's largest producer is gradually becoming less dependent on global supply. And therefore, high magnitude geopolitical disruptions such as a massive attack on Saudi Arabia's infrastructure, do have the potential to bring crude risk premiums back with a retaliation.

INCREASING US CRUDE OIL INVENTORIES



Source: Investing.com

According to the EIA's (US Energy Information Administration) report on January 08, 2020, US crude oil refinery inputs averaged over 16.9 million barrels per day during the week ending January 03, 2020, which was 386,000 barrels per day less than the previous week's average. Refineries operated at 93.0 percent of their operable capacity during the period. US commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) increased by 1.2 million barrels from the previous week. At 431.1 million barrels, U.S. crude oil inventories are at the five-year average for this time of year.

The weekly petroleum status report released by the EIA on Jan.15, 2020, U.S. commercial crude oil inventories decreased by 2.5 million barrels from the previous week. At 428.5 million barrels, US crude oil inventories are at the five-year average for this time of year.

Release Date	Actual	Forecast	Previous
Jan 29, 2020	3.548M	0.482M	-0.405M
Jan 23, 2020	-0.405M	-1.009M	-2.549M
Jan 15, 2020	-2.549M	-0.474M	1.164M
Jan 08, 2020	1.164M	-3.572M	-11.463M
Jan 03, 2020	-11.463M	-3.288M	-5.474M
Dec 27, 2019	-5.474M	-1.724M	-1.085M
Dec 18, 2019	-1.085M	-1.288M	0.822M
Dec 11, 2019	0.822M	-2.763M	-4.856M

Source: Investing.com

According to the EIA's report on Jan 23, 2020, US crude oil refinery inputs averaged about 16.9 million barrels per day during the week ending Jan. 17, 2020, which was 116,000 barrels per day less than the previous week's average. Refineries operated at 90.5 percent of their operable capacity during the period. US commercial crude oil inventories decreased by 0.4 million barrels from the previous week.

The weekly petroleum status report released by the EIA on Jan. 29, 2020, showed US commercial crude oil inventories increased by 3.5 million barrels from the previous week. At 431.7 million barrels, US. crude oil inventories are about 2 percent below the five-year average for this time of year.

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