Dan-Bunkering
Ride the Next Wave

Weekly Market Report

Week 23
June 4, 2024

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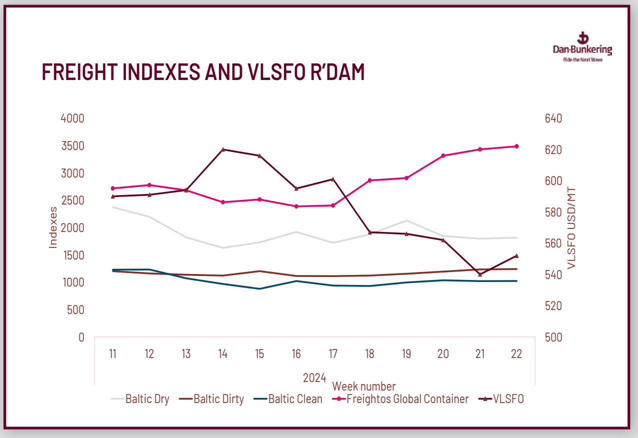
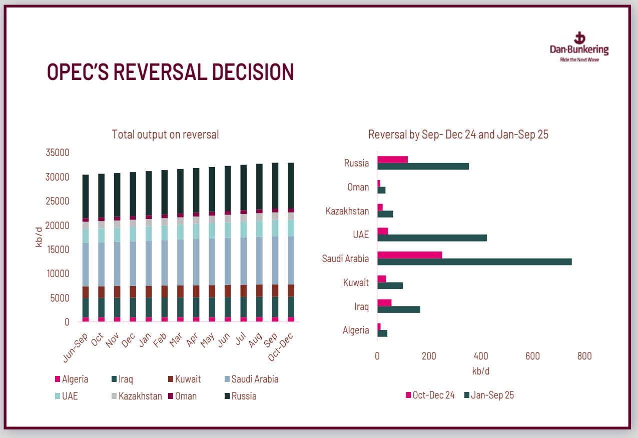
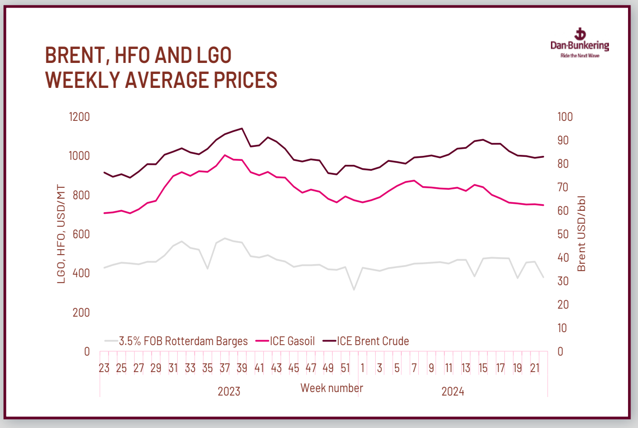
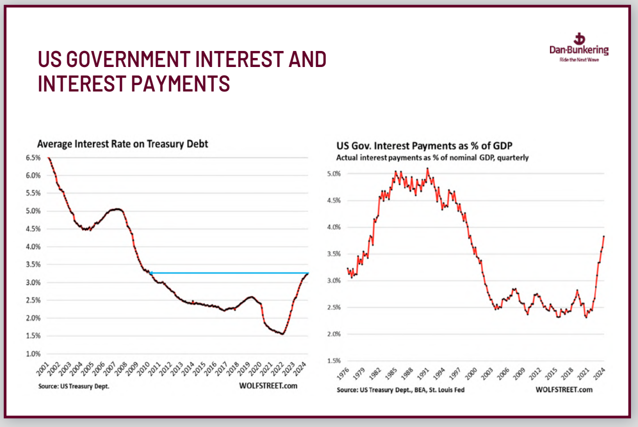








Sources: EIA.gov, ECB, investing.com, Baltic Exchange, Freightos Baltic Index, Refinitiv, Clarksons Research, U.S. Bureau of Economic Analysis, fred.stlouisfed.org, AtlantaFed, OPEC, OECD, Wolfstreet.com, Eurostat, IEA, Dan Bunkering analysis

01. ECONOMIC DATA CALENDAR

Date	Area	Topic	Expect	Prev.	Impact
04/06 16:00	USA	Factory orders April (MoM)	0.7%	1.6%	Economic activity
22:30	USA	API Crude oil stock change		-6.5 mb	Oil market balance
05/06 01:00	Korea	GDP growth rate Q1 final (YoY)	2.6%	2.2%	Economic activity
08:45	France	Industrial production April (MoM)	-0.1%	-0.3%	Economic activity
10:00	Euro area	HCOB composite PMI May	52.3	51.7	Economic health
10:30	UK	S&P Global composite PMI May	52.8	54.1	Economic health
12:00	S. Africa	Business confidence (Q2)	27	30	Economic health
14:00	Brazil	Industrial production April (YoY)	8.1%	-2.8%	Economic activity
16:00	USA	ISM services PMI (May)	51	49.3	Economic health
21:00	Argentina	Industrial production April (YoY)	-15%	-21.2%	Economic activity
06/06 08:00	Germany	Factory orders April (MoM)	0.4%	-0.4%	Economic activity
09:30	Euro Area	HCOB construction PMI (May)	43	41.9	Economic health
10:30	UK	S&P Global construction PMI (May)	52.4	53	Economic health
11:00	Euro Area	Retail sales April (YoY)	0.9%	0.7%	Economic activity
14:15	Euro Area USA	ECB interest rate decision	4.25%	4.5%	Economic health
14:30	USA	Balance of trade (Apr)	-$71 bn	-$69.4 bn	Economic health
16:30	USA	EIA Crude oil stocks		-4.1 mb	Oil market balance
16:30	EU	EIA Distillate stocks		2.5 mb	Oil market balance
	Global	European Parliament elections			
		Global Supply Chain Pressure Index (May)		-0.85	Economic activity
07/06 05:00	China	Balance of trade (May)	$72 bn	$72.3 bn	Economic health
08:00	Germany	Balance of trade (April)	€25.6 bn	€ 22.3 bn	Economic health
08:00	Germany	Industrial production April (MoM)	0.3%	-0.4%	Economic activity
08:45	France	Balance of trade (April)	-€5.1 bn	-€5.5 bn	Economic health
11:00	Euro area	GDP growth rate Q1, 3rd estimate (YoY)	0.4%	0.1%	Economic activity
19:00	USA	Baker Hughes oil rig count			Oil market balance
10/06 01:50	Japan	GDP growth rate Q1 (YoY)	0.3%	0.4%	Economic activity
10:00	S. Arabia	Industrial production April (YoY)	-7%	-8.7%	Economic activity

Sources: Economic Calendar (tradingeconomics.com) selection of topics based on main market movers for the week, times CET (UTC+2); definitions can be found here

02. WHAT IS HAPPENING IN THE ECONOMY

AHEAD

Industrial production data and trade balances will be **released** this week. However, the most significant event will be the European Central Bank's decision on interest rates. The market is anticipating a 0.25% rate cut, making it the first major Western central bank to do so. This decision could weaken the Euro until the US Fed decides to lower its rates.

In Germany, factory orders are expected to have increased by 0.4% in April compared to March, reversing the previous month's decline. On the other hand, in the USA, the same indicator is projected to have slowed to 0.7% expansion from 1.6% the month before. In France, industrial production is expected to fall by 0.1% in April, while in Brazil, industrial production is expected to grow by over 8%, following a nearly 3% contraction year on year in March. In Argentina, industrial production is projected to have slowed from a 21% decline in March to a 15% year-on-year decline in April. Meanwhile, in Saudi Arabia, industrial production is down 7% year on year in April, following a nearly 9% decline in March. Additionally, Saudi Arabia's plate_number_1 is forecast at a negative 1.8% year on year after a 4.3% contraction in Q4. It's worth noting that in the case of Saudi Arabia and other oil-producing countries where the oil sector plays a significant role in the economy, this kind of progression of numbers may be considered more as a cyclical phenomenon or an economic policy choice.

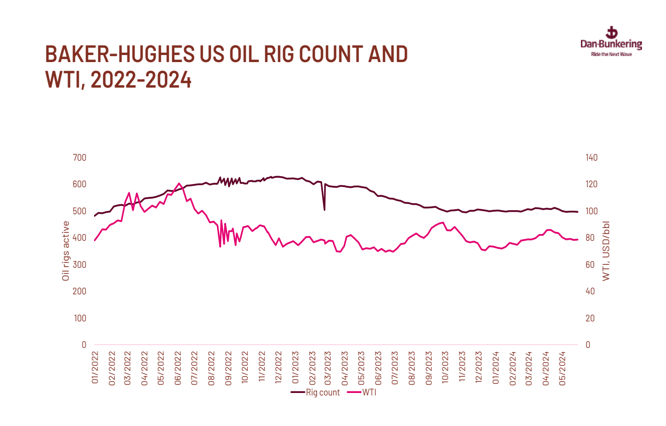
Turning to construction PMIs, the index is rising in the Euro Area but still at contraction levels. A slight slowdown is expected in the UK, but the index is still at expansion levels.

Business confidence in South Africa for Q2 will be published on Wednesday, which could be significant given the election results.

The April trade balance in the USA is expected to have deteriorated to -$71 billion, while the Chinese equivalent for May is projected to show a surplus of $72 billion. Germany's trade balance is expected to have improved to over €25 billion, with France's balance moderately improving to a deficit of just above €5 billion. Notably, France has been experiencing perpetual trade deficits for the past 20 years, primarily due to energy.

OIL MARKET

The Baker Hughes oil rig count was down one rig to 496 last week. The weekly average of WTI was $78.5, up $0.3. The natural gas price at Henry Hub rose to an average of $2.56/mmbtu, down 12 dollar cents from the previous week.



The OPEC+ ministerial meeting decided to extend the voluntary cuts for another three months and then gradually reverse those 2.2 mb/d production cuts. The roll-back of these voluntary cuts will be done over 12 months from October onwards. The collective reductions of around 3.6 mb/d will remain in place through end-2025. OPEC's decision to slowly roll back cuts is partly consistent with the organisation's bullish demand forecast. At 2.2 mb/d growth, it is the highest among the agencies, suggesting strong stock draws. By January, around 0.7-0.8 mb/d should return to the market. This will also increase liftings from the Middle East, rising by around 1.5 mb/d by September 2025 from the voluntary cutbacks reversal alone.

The "market", exemplified by the investment banks and analysts, made their remarks about the potential impact. JP Morgan considers the consequences "neutral" for both the prices and the market balances. UBS believes the decision will support prices towards the mid to high $80's on a supply deficit of 1.2 mb/d. Barclays sees the decision as mildly negative, with a slightly tighter balance in the second half of 2024 and a somewhat slacker balance in 2025. Goldman Sachs considers the decision bearish for the market, adding downside risk to the $75-90/bbl price band. They add, «A surprisingly detailed default plan to unwind extra cuts makes it harder to maintain low production if the market turns out softer than bullish OPEC expectations (...)».

However, it is not just the decision itself to reverse that is of interest. The Saudi minister for energy **said**, regarding one of the reasons for the gradual rollback: "*We are waiting for interest rates to come down and a better trajectory when it comes to economic growth ... not pockets of growth here and there (...).*" That remark raises a further question about the organisation's demand growth projection: does OPEC think demand growth would have been even more robust than they already estimated? If rates must come down to boost economic growth, then oil demand will rise faster.

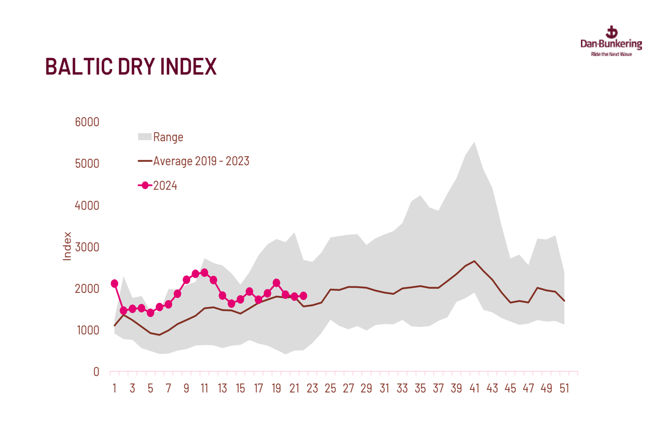
Separately, an assessment process is underway to establish member countries' production capacity to reset the baseline production levels and measure the cuts in 2025. However, the process has been delayed to late 2026. This is a prickly issue, as OPEC production capacity has been shrouded in "secrecy" for decades. Spare production capacity remains a rough estimate, as the primary capacity data is unclear to outsiders. Furthermore, the data on reserves remains secret as well. Only for several countries was it reasonably possible to assess capacity, for instance, now former member Angola, as all the fields were offshore and readily reported on by the oil companies operating the fields. Effectively, everything needs to be estimated or guesstimated.

ECONOMY

In the Euro area, inflation in May rose by 2.6%, according to the Eurostat's **flash estimate**. It is higher than the ECB target. Energy showed only 0.3% inflation, but services inflation, which accounts for nearly half the index, rose by 4.1%. As has been observed for US service inflation, this type tends to be "sticky". The price increases don't reverse and eat into the budget permanently. The market counts on the ECB cutting interest rates by 0.25%, the first cut since 2019, but reducing more slowly from July onwards. The market has been revising its view constantly this year, continuously pushing back the cuts as the bank waits and sees. In the USA, the US Fed also faces an increase in the "guiding" inflation index, the core PCE price index, which excludes energy and food. The index **rose** 3% in April (annualised). The core services index rose 3.6% annualised. On a 6-month rolling average basis, the core indexes have been increasing throughout the year, opposite to what the US Fed targets. With such a development, the wait-and-see approach is likely to continue. The Bureau of Economic Analysis also **released** its second US Q1 GDP growth estimate. The bureau revised GDP growth to 1.3% annualised, from the earlier estimate of 1.6%. It is down from 3.4% growth in Q4. The downward revision is due to decelerations in consumer spending, exports, and government spending, while imports accelerated. The slowdown in government spending is likely to continue. The Wolfstreet website **discusses** the impact of the spiking interest payments on the US debt on the government's spending and the availability of funds for regular government expenditures. In Q1, interest payments rose by $46 bln year over year to $264 bln. The payments have rapidly risen over the past few years as the Fed hiked rates. The average interest rate on the $34.6 trillion US Treasury debt has risen to over 3.2%, the highest since 2010. As a share of tax receipts, interest payments have risen to over 34%, although slightly below Q3 2023, which is the highest level since 1997. As a share of GDP, interest payments have risen to 3.8%, the highest since 1998. And the increase in the share is spiking, not gradually increasing. As existing debt is rolled over and additional debt is issued, the share of interest payments will increase. This is because the interest on the new and replaced debt is higher than the existing debt. There are several solutions. One is to borrow more, further driving up debt and interest payments. Another is to cut spending, or at least freeze spending and let inflation devalue the debt. It means that once the debt burden becomes too high, the government spending will be a much smaller part of GDP growth, simply because the government will spend less. At some point, the US economy, too, will slow down. In the meantime, US debt is increasing by $1 tln every 100 days.

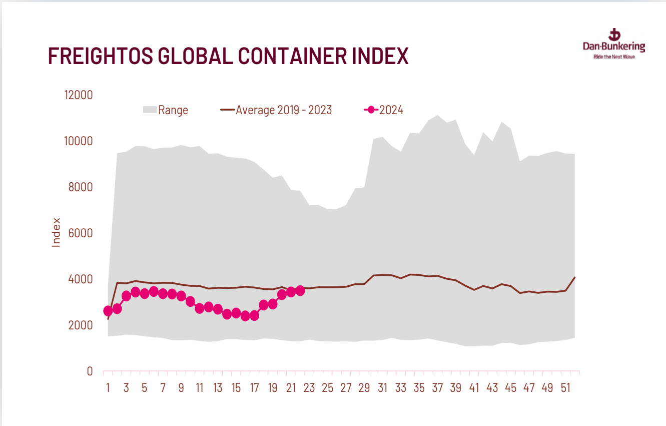
VESSEL RATES

Crude oil tanker rates on the Baltic Exchange TD3 route were down 25% after last week's 10% decrease. The t/c rates were at $35.2k/day compared to $47.2k/day a week before. Voyage rates were reported at just above $9.1/mt on the route on the 31st of May, down $1.1 compared to the week of the 24th. The Baltic dirty index was up less than 1%, or 7 points, to 1241. The level is 50% above the previous 5-year average. The clean index was marginally up from last week's level at 1023. The index is 36% above the previous 5-year average. Dry bulk rates rose 1% or 18 points to 1815 per the Baltic Dry Index. The index is 16% above the five-year average level seen in 2019-2023 for the week. The weekly



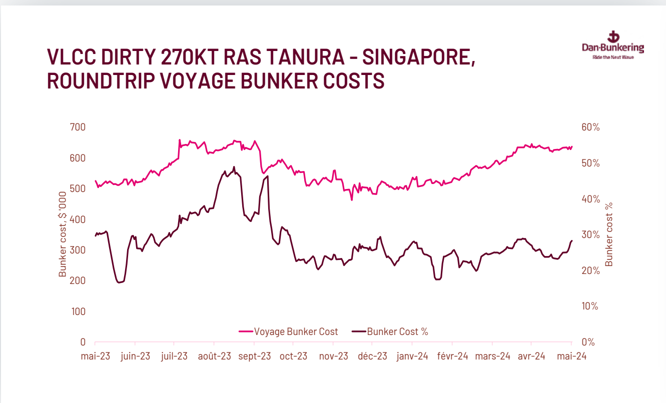
swings in the indexes are strong, and so are the movements seen in relation to the 5-year range, as the weekly swings in the past were also strong.

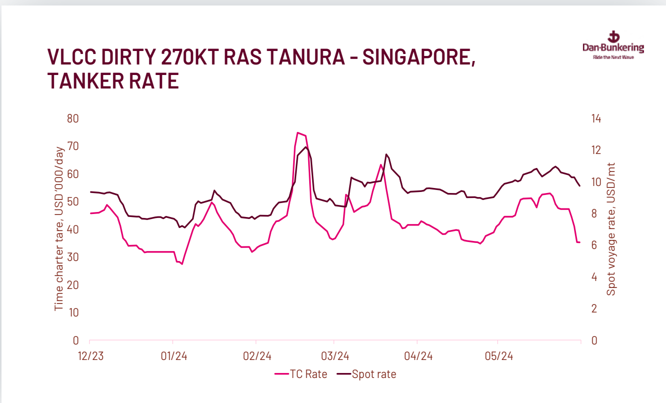
The container market rose nearly 2% over the last week compared to the 24th of May to $3487, as measured by the overall **Freightos Global Index**. The China to Europe rate rose nearly 3% to $5022 over the same period. The China to US West Coast rose more than 2% from $4915 to $5030. The overall Freightos index is back to the average of the 5-year average, as is the China-Europe index. The China to US West Coast continues to be 10% above that same period average. Congestion, measured by the last 7-day moving average of containerships in port, was reported at 30.5%, up 0.5% points compared to the previous week. The congestion share represents some 8.9 mln TEU, up 0.1 mln TEU from last week. The idle fleet stood at 260, up 3 from last week, which saw a 1-vessel downward revision in the data. Some 2.4% of the fleet is reported idle (including those vessels retrofitted with scrubbers and those laid up and calculated in terms of TEU capacity rather than vessel numbers). That is just above the low end of the 5-year range. The reported average voyage duration between China and the US West Coast is 20.0 days, down 0.1 days from last week.



FREIGHT AND BUNKERS

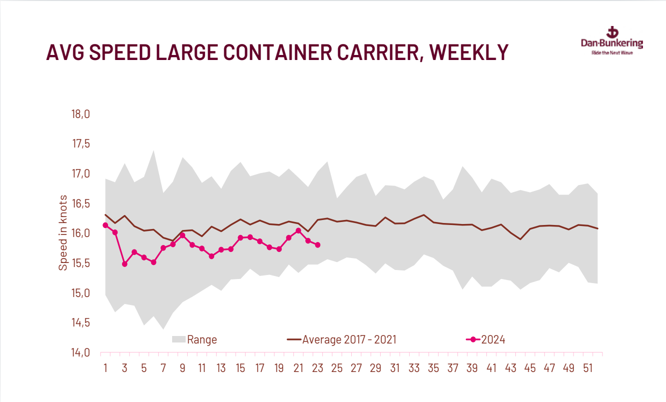
Reported tanker voyage charter rates were down at $9.1/mt on the Ras Tanura – Singapore route. Heavy fuel oil prices were up less than 1% in Fujairah and almost 2% in Singapore over the week through May 31st. Bunker costs are some 28% of the total voyage. If the voyage is calculated on VLSFO, bunker costs are 32%. The VLSFO prices were down less than 1% in Fujairah and Singapore. The calculations provided are intended to be directional indications, not the actual ones that each tanker owner is experiencing.

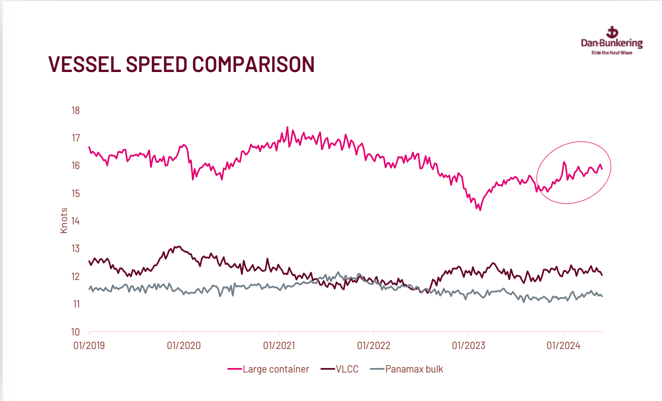




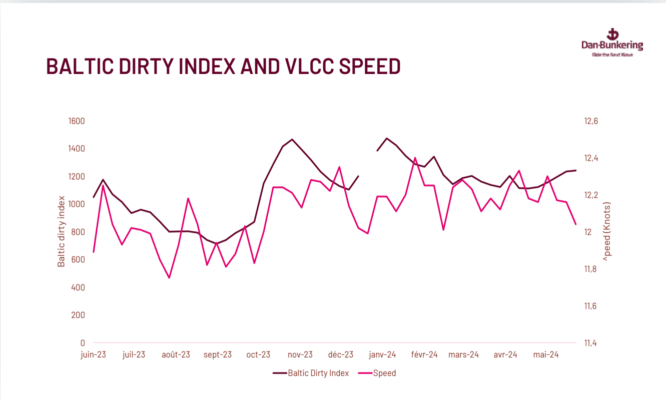
VESSEL SPEEDS

The container vessel's latest data point of 15.9 knots is down 0.1 compared to last week. The weekly movements in the measurements appear to be within calculation noise, which may be revised.



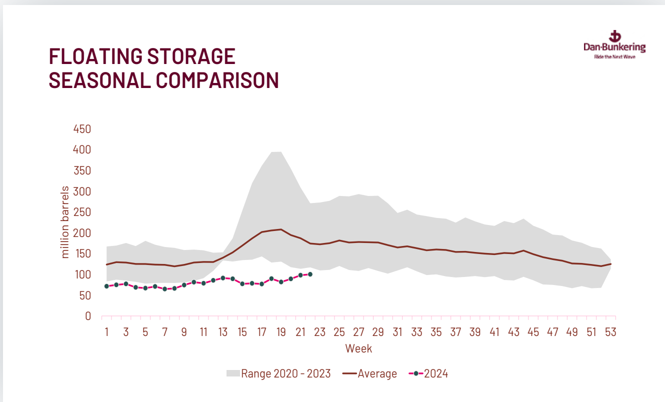


VLCC tanker speeds are down 0.2 knots to 12 knots. The current speed reading is on par with the average of the range seen for the period of the year. Still, the movements in the speeds are occurring in a tiny band around that average. The idle share of the fleet was at 5.8% in deadweight terms, up 0.1% points compared to the previous report (last week's data was revised down by 0.1% point). The share remains exceptionally high, not just for the period of the year but in a longer perspective as well. The idle share was almost unchanged at over 36 mln DWT in deadweight terms.

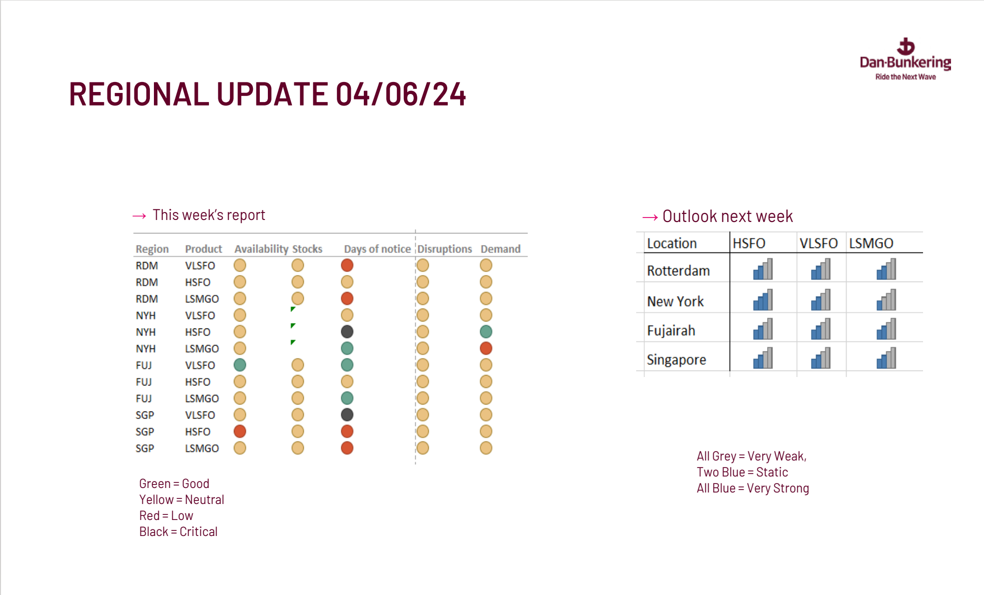


The current level is 40% higher than the "normal" average. The current number of idle vessels rose by 7 to 280 compared to last week (which was increased by a very substantial 16 vessels). While the current share of the fleet has been seen before, 5.6% in June 2019, 5.3% in June 2017, and 6.3% in June 2016, current deadweight levels are considerably higher than before.

The floating storage (excluding the dedicated storage) stands at 130 vessels, up 5 vessels from last week's number, which was revised by 1 vessel. These numbers cover all tankers over 10,000 DWT, both products and crude. In capacity terms, the storage is above 100 million barrels, up 2 mb compared to last week. 75 product tankers are reported functioning as storage, accounting for 28 mb. On last report, 54 crude tankers vessels accounted for nearly 72 mb of stored oil, up nearly 2 mb. The number of crude oil tankers as storage is slowly creeping up. The number of product tankers used as storage remains elevated.



03. REGIONAL REMARKS



NEW YORK

Demand is static up and down USEC. Liners tendering out on Q3 biz.

FUJAIRAH

As of Monday, May 27 total oil product stocks in Fujairah were reported at 20.363 million barrels with a build of 858,000 barrels or rise of 4.4% week-on-week. The stocks movement saw builds in light distillates and heavy residues while middle distillates showed a draw.

Across all grades avails are good in the ports of Fujairah and Khor Fakkan.

VLSFO continues to see weakening demand which is causing pressure on delivered prices with an oversupply of barge capacity still hanging in the market.

HSFO tightness has eased, and barge avails are ok with lead time down to 5-6 days from 8-9 past weeks.

ARA

It appears that VLSFO and HSFO will get tighter in the near future, but currently the market remains well supplied. MGO continues to see problems.

SINGAPORE

VLSFO:

The Asian LSFO market would likely remain under pressure through June as higher arbitrage inflows from the West are expected to add to the already adequate regional stockpiles. Meanwhile, sluggish downstream Singapore shows no signs of sizeable strength in the coming days. LSFO stockpiles were likely to remain ample for the end-user's refuelling requirements throughout early June in Singapore, where barging slots for prompt stems should remain adequate in the week started June 3.

HSFO:

Sentiment for HSFO remains healthy for early June in Singapore, as the stable volume of term nominations and spot inquiries might buoy delivered premiums, along with the strength in upstream cash valuations. Meanwhile, HSFO stockpiles in Singapore were expected to stay adequate for downstream deliveries in H1 June, while barge availabilities should stay mainly sufficient to meet shipowners' prompt requirements. The Asian HSFO market has recently strengthened, buoyed by tighter supplies and healthy downstream bunker demand. Meanwhile, steady imports from South Asian markets such as Bangladesh and Sri Lanka, led by summer power generation demand, were also providing seasonal strength to the HSFO market fundamentals.

Gasoil:

Weakness in the Asian gasoil complex is expected to persist through June 3-7 amid the monsoon season in India, while production cuts remain out of the picture. Singapore's onshore commercial stocks of middle distillates edged down 1.23% on the week to 10.8 million barrels over May 23-29, remaining above the 10-million-barrel mark for the twelfth straight week.

Regional indicators : prices in USD to benchmarks (week to 29/05)

	ARA		FUJ		NYH		SGP	
	USD/MT	BM	USD/MT	BM	USD/MT	BM	USD/MT	BM
HSFO	8	FOB Rdam Barges 3.5%	-3	MOPS380	0	MOPD380	17-20	MOPS380
VLSFO	8	FOB Rdam Barges 0.5%	6	MOPS 0.5%	10	MOPS 0.5%	9-11	MOPS 0.5%
LSMGO	-7	ICE Gasoil	120	MOPS GO 10ppm	0.03	HO	-2 to +9	MOPS GO 10ppm

NYH HSFO barrel to MT : 6.36 and NYH VLSFO to MT : 6.9, NYH LSMGO versus Heating oil in $/gallon.

Regional indicators : Day's notice

Product	ARA	FUJ	Nyh	SGP
HSFO	4-6	6	7	10
VLSFO	4-6	3	4	12
LSMGO	4-6	3	1	5

04. FORWARD CURVES, NON DELIVERED

On our weekly review, the ICE Gasoil curve fell $7.3/mt at the front compared to last week in absolute terms (May 31st compared to May 24th). The six-month fell by $4/mt. The curve is in contango but falls between the 5th and 6th-month contract. The time spread for the 6-month period increased $3.3/mt to plus $9.5/mt. The 3.5% barges' curve is in contango for the first three months of the curve (one less than last week) and shows a $14.8 backwardation on the 6-month contract (front month minus the six-month contract). Contango is $3.3/mt at the two-month horizon and $3.3/mt at the three-month horizon. The front rose $4.5/mt while the six-month fell $0.8/mt. The VLSFO 0.5% backwardation increased $2.3/mt to -$13.5/mt compared to a week prior. Comparing the front month to the second month shows only a $1.2/mt in backwardation.

The relative value of VLSFO compared to LGO at 6 months is flat at 70% and, in absolute terms, down $3 at -$222/mt compared to 73% or $199/mt below LGO at the front. That $199/mt is down $9/mt on last week's reading when the front was 72% of LGO.

Monday the 27th saw the ICE gasoil front move down $23.25/mt on Friday's $731.75/mt close to reach $708.5/mt. On Tuesday end morning, the ICE Gasoil curve saw the 6-month structure increase by around $2/mt compared to the Friday level. The front was down $8/mt on Monday's level and the 6-month was down by over $7/mt on Monday's level. At the 12-month horizon, the curve is now also in contango. The front is down just over 4% compared to Friday the 31st.

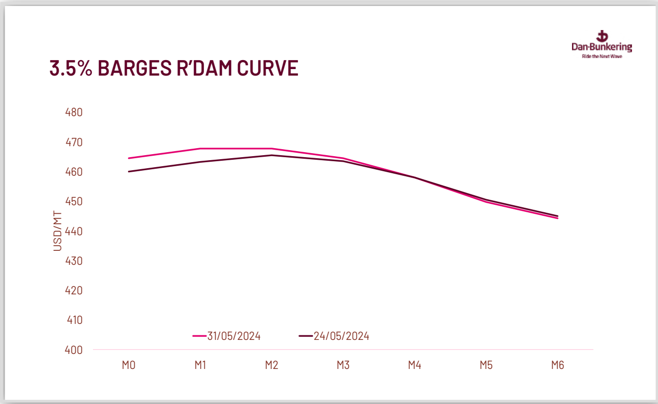
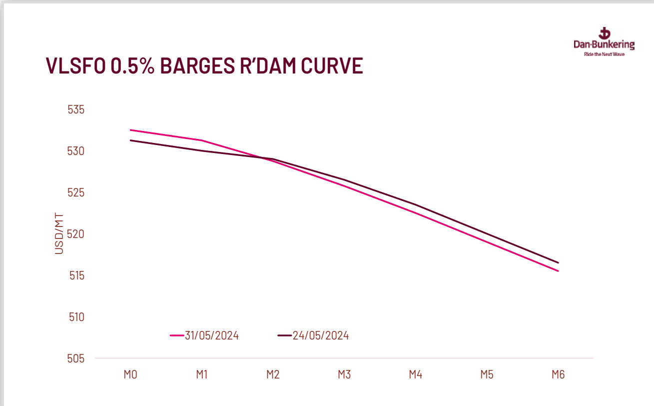
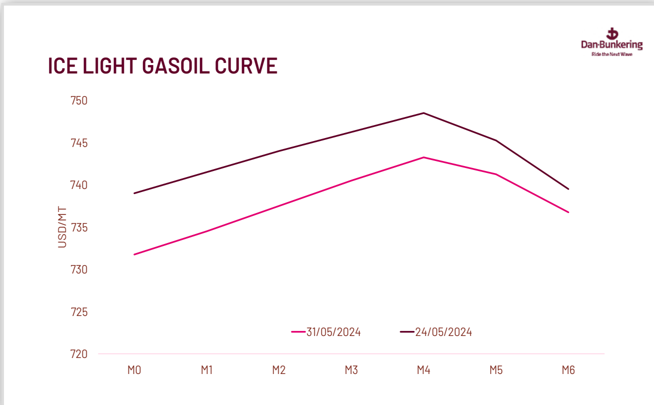
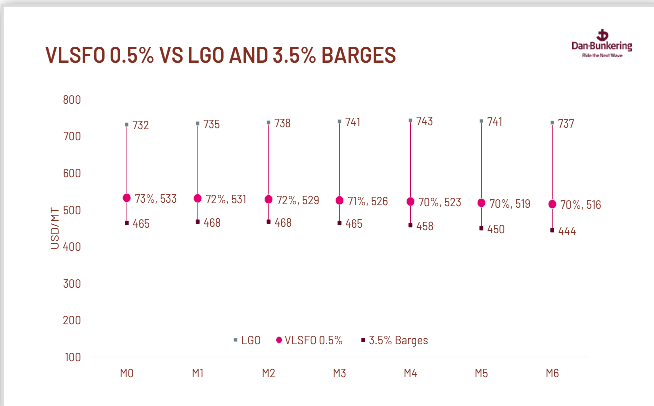


Figure 1 ARA Curve







M0 is July 2024

05. CHANGES FROM LAST WEEK

The forward complex for LGO saw the front fall by 1%, while the sixth-month level fell by 0.5%. The curve trajectory is in contango. The sixth month, minus the front month, is at 1.3% contango, up from 0.8% last week. The Fuel Oil Rotterdam front month rose 1%, and the 6-month fell 0.2%. The curve is 3.2% in backwardation on the six-month horizon but in contango through the third month. The VLSFO curve saw its backwardation increase to 2.5% as the front rose 0.2% while the back fell 0.2%.

Brent Ref:	-0.5	July

	Singapore		US Gulf		North West Europe		
Data in USD	LSFO 0.5%	380 CST Cargoes	LSFO 0.5%	HSFO	VLSFO 0.5%	3.5% Fob Barges	LSGO
Yesterday's Price	4.8	11.0	0.5	0.0	1.3	9.8	-7.3
Jun-24	7.8	15.8	-0.3	-0.1	1.3	4.5	-7.3
Jul-24	7.0	13.8	-0.6	-0.3	1.3	4.5	-7.0
Aug-24	6.0	12.0	-0.5	-0.1	-0.3	2.3	-6.5
Sep-24	5.8	11.3	-0.4	0.0	-0.8	1.0	-5.8

06. OUR VIEW

Brent dropped 3.5% on Monday after the market absorbed the OPEC+ reversal decision. On Tuesday another 1.7% was taken off the price. For the first time in many months, the market has reacted to an OPEC decision. Even though the reversal will take time to show up in the physical balances, the mood is bearish. That is despite the many reassuring words from the investment banks that the balances are hardly impacted. Well, the oil market says otherwise for now. And the same oil market is putting its bets that oil demand growth is much weaker than the OPEC Secretariat projects. So, for now, the price is down, and will likely move a bit further down until some physical floor is found and the numbers have been crushed. The EIA will publish its assessment of the new market balance next Tuesday. As the market is finely balanced, the additional barrels are likely to drive the average price down, as much as the price was driven up by tightening balances over the first few months. But still, the market appears to be taking an advance cut to the price because it will still take some time before the barrels arrive at the shores of the receivers.

07. ABBREVIATIONS

API	**American Petroleum Institute**
CPI	**Consumer Price Index**
EIA	**Energy Information Administration**
Freightos Global Index	**This is a global index for a 40′ container and covers all freight components, where applicable; it shows the income capacity for the container vessels.**
GDP	**Gross Domestic Product**
Mb/d	**Million barrels per day**
Mboe/d	**Million barrels of oil equivalent per day (gas and oil combined to same term)**
Mmbtu	**Million British thermal units, gas is priced in these units**
PMI	**Purchasing Managers' Index**
PPI	**Producer price index**
Usd/mmbtu	**US$ per1 million British Thermal Units (measurement for natural gas)**