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SUB: LIQUID/DRY COMMODITIES SCENARIO/PORT AND OTHER DEVELOPMENTS–INDIA

We give below our report on the subject for your kind info and record:

A) LIQUID COMMODITIES SCENARIO

1) BIG CRUDE OIL SUPPLY DEAL EXPECTED DURING TRUMP VISIT

India and US may seal a large crude oil supply deal during the visit of President Donald Trump later this month, with diplomatic sources indicating that American oil companies are coming with offers to make it attractive for Indian firms to increase oil imports from US despite long distance and high freight. According to sources, big oil producers from the US are willing to step up shale oil supplies to India by offering importing companies a discount of up to $5 per barrel over global benchmarks. This is expected to make US oil attractive even over Dubai crude that makes up for most of Indian oil imports now. Also on the table would be freight discounts and a higher credit period of 60-90 days to Indian importers on the lines of what Iran used to offer India before sanctions squeezed oil supplies from the gulf nation. "We expect to increase oil imports from the US in the next fiscal and sweetened deals would help us increase the quantum of buys. The hope is that few contracts may be signed during the visit of the US President or later next month," said an executive of PSU oil company, asking not to be named. Another government official said that the idea is to more than double the country's oil imports from the United States next year and contracts would be facilitated if better concessional terms are offered. "The shipment of US oil to India has already increased over the past two years and we may end up importing close to 10 million tonnes (mt) in the current fiscal. This would be doubled in FY21 if official and company level negotiations taking place for some time yield positive results," said the official. If this level of oil imports is doubled in FY21, the US will reach close to meeting India's 10 per cent oil import needs, the same as Iran was meeting prior to the supply squeeze post the sanctions. In the current fiscal (FY20), oil imports from Iran have dipped to 1.97 mt, down from 23.9 mt in FY19.Iran used to account for more than 10 per cent of country's total oil imports. However, since the last fiscal, the Iran oil squeeze is being compensated through higher supplies by Iraq, UAE and Saudi Arabia. During the period, imports of US oil have also increased to 6.2 mt in FY19 from a level of mere 1.9 mt in the previous year. In the April-December period of this fiscal, import of US oil has already crossed last year's import figures.

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1) BIG CRUDE OIL SUPPLY DEAL EXPECTED DURING TRUMP VISIT (Contd)

Diplomatic sources said the talks between Indian and US officials on increased oil support by US has progressed smoothly since last year during Prime Minister Narendra Modi's US visit. In fact, the 'Howdy Modi!' event was also used to negotiate possible deals with US oil companies to meet the growing needs of the world's third biggest oil importer. That time too, the US had indicated its intent of supplying increased quantities of oil and gas to India on a short notice to prevent the country from facing any shortages. Though Indian oil companies have started importing oil from the US for past couple of years, the quantity remains miniscule and forms just about 3 per cent of country's total oil imports. But the quantity can now grow with US shale oil market becoming relevant again at current crude levels and an increase in total rig count again in December-January period in the world's largest oil-guzzling nation. "The rig count in US had slowed in the second half of FY20 but has again picked up in last few weeks. The domestic rig count will be largely stable, at least through the first six months of the year, as companies spend their drilling budgets for the year and prepare the field to quickly execute on their budgets for the first half of the new year. This would ensure production of larger quantities of US oil for exports," said an oil sector analyst who did not wish to be named. India's shift to US would not be sudden as gas transportation company GAIL, oil marketing firm Bharat Petroleum Corporation Ltd (BPCL) and country's largest oil refiner Indian Oil Corporation have sealed deals for supplies of the US crude earlier as well. The shale oil price there has also become very competitive in comparison to Middle-East and Gulf crude.

2) RELIANCE, ARAMCO ACCELERATE REFINERY STAKE SALE TALKS

Reliance Industries Ltd.’s talks to sell a minority stake in its oil-to-chemical division to Saudi Aramco have been gathering pace in recent weeks, according to people familiar with the matter. Aramco officials and bankers on the deal have been working at Reliance’s offices in Mumbai for due diligence this month, according to the people, who asked not to be identified as the information isn’t public. Both parties are trying to overcome differences over the deal’s structure, which had stalled the process last year, Bloomberg News previously reported. Indian billionaire Mukesh Ambani’s Reliance is keen to sign a binding agreement before the next annual shareholders meeting, which is due to take place before the end of September, one of the people said.Reliance in August valued its oil-to-chemicals division at $75 billion including debt, implying a $15 billion valuation for the 20 per cent stake. If the deal closes at this value, it will be the largest transaction in India since Walmart Inc.’s $16 billion acquisition of a majority stake in Flipkart Online Services Pvt. For Aramco, the deal could be its biggest since agreeing to buy a majority stake in Saudi Basic Chemicals for $69 billion last year.

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2) RELIANCE, ARAMCO ACCELERATE REFINERY STAKE SALE TALKS (Contd)

Ambani in August told shareholders that Reliance and Aramco had agreed to a non-binding deal for a 20 per cent stake in the oil-to-chemical operations. But in December, the Indian government requested a court to stop the proposed sale to help ensure the Mumbai-based company has enough assets to pay arbitration claims in an unrelated case. A month later, Reliance's joint chief financial officer V. Srikanth told reporters that the transaction isn't expected to be completed by March. Shares of Reliance have fallen about 3 per cent this year, while the country's benchmark S&P BSE Sensex Index slipped 0.9 per cent. Reliance has been selling assets from mobile-phone towers to a 49 per cent stake in its fuel retail business to reduce leverage that's risen over the past few years as it poured money into new sectors such as telecommunications. The Indian conglomerate's debt stood at $43 billion at the end of December, according to its latest earnings statement. Deliberations between Reliance and Aramco are ongoing and talks could still fall apart, the people said. A representative for Reliance declined to comment, while a representative for Aramco, formally known as Saudi Arabian Oil Co., didn't immediately respond to requests for comment.

3) INDIA SET TO IMPORT RECORD LNG VOLUMES AS SPOT PRICES SLUMP ON VIRUS IMPACT

India is set to import record volumes of liquefied natural gas (LNG) this month, data shows, taking advantage of the super-chilled fuel's price hitting all-time lows due to the coronavirus outbreak dampening demand in China. The South Asian nation is estimated to import about 2.36 million tonnes in February, shiptracking data from Refinitiv Eikon showed. That would exceed India's LNG imports in October of about 2.3 million tonnes, the previous highest monthly total. The country's annual LNG imports is expected to rise by 10 per cent-15 per cent this year, said Poorna Rajendran of consultancy firm FGE."The low spot prices are creating some downstream demand especially from the city-gas sector," a source familiar with LNG imports into India told Reuters. India regasifies LNG and uses it primarily in the city-gas distribution, fertilizer, power and industrial sectors. Asian spot LNG prices fell to a record low this month after China's top LNG buyer declared force majeure on some LNG deliveries following the coronavirus outbreak. That prompted some of the cargoes bound for China to be diverted to India and also some Indian buyers to issue tenders seeking spot cargoes, traders said. Some of them are even seeking cargoes for several months, they added.

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3) INDIA SET TO IMPORT RECORD LNG VOLUMES AS SPOT PRICES SLUMP ON VIRUS IMPACT (Contd)

For instance, Reliance Industries issued a tender seeking five cargoes for April to June delivery while Gujarat State Petroleum Corp (GSPC) sought nine cargoes for February to April, traders said. GSPC likely did not award the tender, however, and may have re-issued it, the traders said.The potential uptick in demand also likely prompted Emirates National Oil Company (ENOC) to issue a tender seeking eight cargoes for delivery into India over April to November, the traders said. Infrastructure constraints, however, will limit LNG purchases by buyers in India, FGE's Rajendran said. "While weakness in Asian spot LNG prices will increase India's appetite for prompt LNG imports, infrastructure constraints will limit LNG demand growth," he said. "This remained a key bottleneck in 2019 when low spot prices struggled to boost India's LNG demand significantly. The start-up of Mundra LNG terminal and H-Energy's Jaigarh terminal and the completion of GAIL's Kochi-Mangaluru pipeline will determine Indian LNG demand growth in 2020." India wants to raise the share of gas in its energy mix as it battles high levels of pollution in many big cities and is working to expand its pipeline network and build new terminals.

B) DRY COMMODITIES SCENARIO

1) INDIA TO STOP IMPORTING COAL FROM FISCAL 2023-2024

India is aiming become self-sufficient in thermal coal from financial year 2023-2024, said Pralhad Joshi, the Union Minister of Coal and Mines Tuesday while chairing a brainstorming session organized to find a way forward for the coal sector in the western Indian state of Gujarat. “India will soon become self-sufficient in mining coal for thermal power plants as Ministry of Coal coordinates with Indian Railways and Shipping Ministry,” said Joshi. “They discussed means to achieve 1 billion mt coal production target by Coal India Limited by Financial Year 2023-2024 in the session,” said a source close to the matter. India’s financial year runs from April 1 to March 31. The minister also proposed that Coal India could generate 5 GW of solar power by financial year 2023-2024, which could potentially diversify a total of 50 million mt coal by 2030 enabling a sustainable energy mix for the country. However, the reaction from market participants were mild and said bottleneck for coal self-sufficiency lies with logistics constraints. “It is an ambitious political statement as it is more expensive to move Indian domestic coal due to limited railway availability in inland India as compared to importing seaborne coal,” an India-based trader said.

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1) INDIA TO STOP IMPORTING COAL FROM FISCAL 2023-2024 (Contd)

Most investment projects on coal railway were said to be in the form of joint venture partnerships with Indian companies with the absent of major international miners, the trader said. Another Singapore-based trader said that self-sufficiency of Indian domestic coal is only possible if the Indian government invests heavily on new logistics infrastructure.“Production is never a big issue in India,” he added. As of January 31, 2020, Coal India produced 451 million mt coal in FY 2019-2020, data from trading house Iman Resources showed last Wednesday. Total thermal coal import in 2019 in India was 181.93 million mt while coking coal import was 48.84 million mt, it added. However, for metallurgical coal, India still have to rely heavily on imports as domestic India coking coal “quality and quantity” is not ideal, an Indian buyer of seaborne metallurgical coking coal said. “This is merely a policy and the government will not restrict imports of thermal coal in my opinion,” he said, adding that such policy is “never” likely to be implemented for coking coal. Indian users have increasingly over the years look towards metallurgical coal diversification to obtaining coals from Australia to US, Canada, Mozambique and Russia. S&P Global Platts assessed 5,000 kcal/kg GAR Indonesian coal and 4,200 kcal/kg GAR Indonesian coal at $59.70/mt CFR West India and 43.80/mt CFR West India, respectively,

C) CONTAINER SERVICES-NIL

D) PORT DEVELOPMENTS

1) APM TERMINALS PIPAVAV SHOWCASES SPICES HANDLING CAPABILITIES

APM Terminals Pipavav (Gujarat Pipavav Port) hosted spices and Psyllium [Isabgol] customers in Unjha in January for a trade meeting. The APM Terminals Pipavav team welcomed the briefed customers how the Port can facilitate the Spice trade. The team elaborated on the port infrastructure and service competencies like the recently introduced ‘drive through container scanning facility’ and Web-Based Terminal Alert System, Form-13 (gate-in permits issued by terminal). The customers and the Pipavav team discussed trade issues and to share queries which were addressed through mutual discussion. Unjha located in Mehsana district of Gujarat and is known for its Cumin, Fennel, and Isabgol seed exports.

2) JNPT ACHIEVES RECORD PER DAY DISCHARGE OF BULK CEMENT AT SHALLOW WATER BERTH

Jawaharlal Nehru Port (JN Port) has achieved a new milestone in the handling of cement by registering a record high 9,185 MT in a day on February 8, 2020 on the vessel MV Apinya Naree, surpassing the earlier record of 9,008 MT achieved on January 16, 2019 on MV Boonya Naree. The vessel was berthed at 23:18 hours on February 6, 2020 at the Shallow Water Berth No. 3 with total quantity of 20,743 MT of cement. It completed its operations at 13:30 hours on February 9 and sailed at 17:30 hours on the same day, with the turnaround time being 2.59 days. The consignment was part of UltraTech Cement Ltd and is being regularly handled at the Shallow Water Berth through its specialised cement carriers having capacity to discharge at the rate of 400 MT per hour. JNPT has systemically invested in enhancing its operational efficiency and handling capacity over the decades to enable seamless trade, emphasised a release.

E) OTHER DEVELOPMENTS

1) 24×7 CUSTOMS CLEARANCES TO DEAL WITH SUPPLY ISSUES

The government on Thursday ordered all customs authorities at ports, airports and inland container depots (ICDs) to operate 24×7 to ensure that cargo is cleared expeditiously and there are no supply constraints due to the coronavirus outbreak. In addition, customs labs will also operate through the day to help clear consignments. “Due to the ongoing shutdown in China on account of coronavirus outbreak, there is an apprehension of disruption in supply of raw materials/ inputs to our industrial units, which were dependent on these raw materials. There could also be a dip in off take in exports to China. On the contrary, there is a strong likelihood of an immediate surge in the imports from and exports to China once the spread of the virus is brought fully under control,” Central Board of Indirect Taxes and Customs said in a late evening circular on Thursday.

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2) LNG IMPORT UNIT AT KARAIKAL TO START COMMERCIAL OPERATIONS FROM Q4 FY21

The LNG import facility at Karaikal port in Puducherry is expected to commence commercial operations by the fourth quarter of 2021. The ground-breaking ceremony was conducted today for the facility, which is owned and operated by Singapore-based Atlantic Gulf and Pacific (AG&P), a global leader in LNG and gas logistics and distribution solutions. Puducherry Chief Minister V Narayanaswamy conducted the ground-breaking in the presence of JM Sigelman, CEO of AG&P, at a function in Chennai. Karaikal LNG will serve the city gas networks of AG&P, and other city gas companies. AG&P has city gas distribution (CGD) license for Kanchipuram and Ramanathapuram districts of Tamil Nadu. Speaking at the ceremony, Sigelman said Karaikal LNG is a cornerstone project for Puducherry, Tamil Nadu and Karnataka that will provide clean and affordable fuel. LNG will be exported from countries like the US, Oman and Qatar.

F) WEATHER/STRIKE- NIL

G) INTERNATIONAL HIGHLIGHTS

1) THE IMPACT OF U.S. SANCTIONS ON OIL MARKET AND ROSNEFT

The United States on Tuesday ramped up pressure on Venezuela by blacklisting a subsidiary of Russian state oil major Rosneft that Washington said provides a financial lifeline to President Nicolas Maduro’s government. The U.S. sanctions threaten Venezuela’s ability to export oil but pose only a limited risk to Rosneft’s broader business. Below are details of the decision’s likely impact. U.S. sanctions will make it more difficult for Venezuela to export oil, particularly to countries such as China and India, where Rosneft part owns an oil refiner, Nayara Energy. Benchmark Brent oil prices rose for a seventh consecutive day on Wednesday, partly due to the U.S. move to cut more Venezuelan crude from the market. Rosneft Trading, the focus of the sanctions, was created in 2011 to facilitate trades on behalf of the parent company. Rosneft supplied Rosneft Trading S.A. with an average of 3.7 million tonnes of crude and refined products per month in January-November 2019, equivalent to about 20% of Rosneft’s total exports, data from customs’ brokers showed. For sales to Asia, Rosneft has had another trading arm – in Singapore – since 2019. Switzerland-based Rosneft Trading S.A. has been mainly focused on supplying Rosneft’s refineries in Germany recently, trade sources told Reuters. Rosneft is the third biggest player in the German oil refining market.

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1) THE IMPACT OF U.S. SANCTIONS ON OIL MARKET AND ROSNEFT (Contd)

The unit supplies crude oil to refineries from Rosneft as well as from other – mainly European – firms, they said, adding that Rosneft Trading is also one of the sellers of Rosneft's CPC Blend and Sokol grades. Rosneft Trading S.A. also acts as a counterparty on behalf of Rosneft in some global deals and plays a role in an informal oil trading alliance Rosneft has with Swiss commodities giant Trafigura, traders said. It is unclear what impact the sanctions will have on that alliance. A spokeswoman for Trafigura said it would comply with the sanctions. Rosneft Trading S.A has been assisting Rosneft with foreign projects and supplies of crude oil to Rosneft's refineries in Europe since 2011. Washington blacklisted it on Tuesday saying that Rosneft's unit had engaged in ship-to-ship oil transfers, in a direct effort to hide the identity of Venezuelan oil. It gave the counterparties 90 days to wind down their business with the unit. Rosneft said it considered the sanctions as arbitrary and that it was trading oil with Venezuela to recover previous investments, made long before Washington imposed sanctions on the country.

Thanks and Regards

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