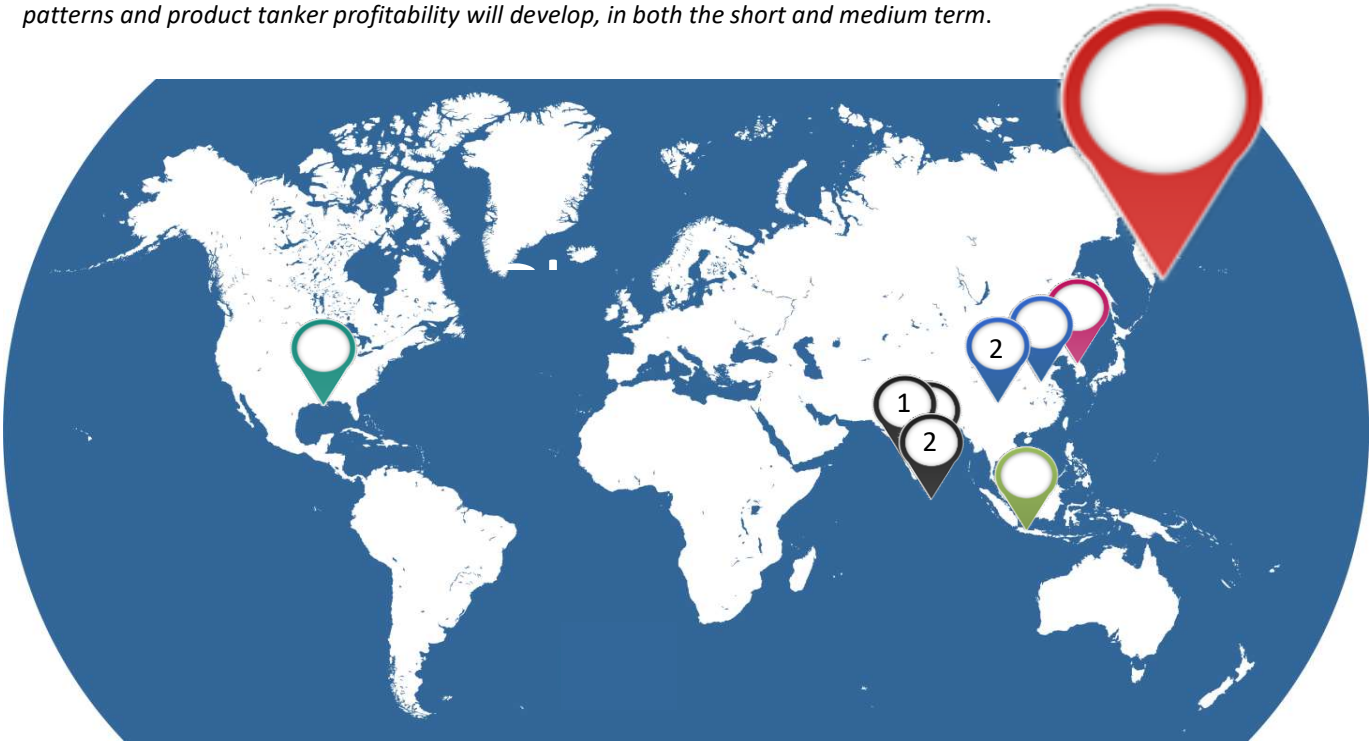
Weber Refinery Report

June 2020

In this month's Charles R. Weber refinery report, we provide readers with the latest developments in the refinery sector as they relate to the seaborne refined product trade and refined product tanker shipping. The report mixes up-to-data news with detailed information about global refinery capacity and seaborne trade in order to understand how seaborne trade patterns and product tanker profitability will develop, in both the short and medium term.



1Q20 trade data provides an early indication of the deterioration in seaborne trade caused by Covid-19 - *Jun 2020* - After contracting by 2.3% in 2019, early estimates for product seaborne trade indicate a further 1.3% contraction in 2020. Of course, this does does not factor in the peak of the pandemic in 2Q20, so a futher downward revision in trade may be expected when the next quarterly figures are available.

In 1Q20, Jet Fuel/Kerosene was the worst casualty down 6.3% Yoy, as the airline industry started a process of enforced virtual hibernation. Gasoline was another major casualty down 2.7% as stay at home orders around the world caused road traffic to thin out dramatically.

Although also in negative territory, seaborne Fuel Oil and Gasoil/Diesel trade were less badly hit, each contracting by less than 1% respectively in 1Q20 Yoy.

There was a very mixed picture for exporters around the world. United States exports actually held up quite well (+4.8% 1Q20 Yoy), as did those for Russia (+7.4% Yoy) and China (+8% Yoy), while Middle Eastern exporters were hit hard e.g. Saudi Arabia -11.6% Yoy and UAE -13% Yoy.

The picture for importers was similarly mixed. Singapore imports surged by almost 20% Yoy in 1Q20 with Fuel Oil from Brazil and Gasoil/Diesel from South Korea to the fore. Meanwhile, US product imports were down 18% Yoy.

Exxon Mobil may delay Beaumont refinery expansion by a year - *Jun 2020* - Exxon Mobil is considering delaying the completion of an expansion of its Beaumont refinery in Texas by up to a year, into 2023, as it attempts to significantly reduce capital and operating expenses in the near term due to the impact of the COVID-19 pandemic on oil demand.

HPCL delays Vizag refinery expansion - *Jun 2020* - Hindustan Petroleum (HPCL) has pushed back the completion of the project at its Vizag refinery to expand capacity to 300kbd (15Mnta) to at least October-November due to a labour shortage and the onset of the monsoon season.

Due to the lockdown the planned pre-monsoon work was not conducted and will now be delayed, and as an assessment has yet to be concluded completion of the project could be pushed back even further.

Latest

If you have questions or comments, please contact Charles R. Weber Research.
John M Kulukundis at: jmk@crweber.com
www.crweber.com

SK Energy's oil refineries running out of storage space - *Jun 2020* - SK Energy said 90% of its storage capacity for crude oil was used up last month due to low demand and now must look to storing oil in crude oil tankers.

This situation is not helped by the fact that major maintenance is due sometime in May or June and its 20MnBbls storage capacity falls to 12MnBbls ahead of periodical checkups.

Other Korean refiners such as GS Caltex and Hyundai Oilbank were able to mitigate the demand shock, due to their regular maintenance being scheduled in April.

1 **IOC refinery operations back up to 80%** - *Jun 2020* - IndianOil (IOC) has ramped up its refinery operations back up to 83% capacity as fuel demand more than doubled following the easing of the coronavirus lockdown, allowing economic activities to resume.

The capacity utilisation of IOC refineries had fallen to 39% as demand crashed 70% in April following the imposed lockdown.

China to cut teapot refining capacity as plans Yulong mega complex - *Jun 2020* - China's oil hub Shandong has embarked on a plan to shut down 20% of capacity – 500kbd (25Mnta), shared among (60) small, independent refiners to make way for the 400kbd (20Mnta) Yulong Petrochemical complex in Yantai; a strategy that it is hoped will spur economic recovery from the coronavirus crisis.

It is directed that all small independent refineries with less than 60kbd (3Mnta) will be shut by 2022. Kinshi Bitumen, a small independent in Rizhao, which has 60kbd (3Mnta) of CDU capacity, has become the first such independent to permanently shut capacity in return for government compensation under a government project to replace older capacity with a new, large integrated project.

Two other Shandong teapots, the Kelida and Befar Binyang plants with combined capacity of around 100kbd (5Mnta), may also permanently close under the plan. However, many others are reluctant to follow suit, in part because refineries do not appear to be compensated for the full value of their plants.

Pertamina seeking new investors for refinery projects - *Jun 2020* - Pertamina is scouting for new partners to develop Indonesian oil refineries, in a bid to double the nation's fuel output after, its previous partners, which included Saudi Aramco and Oman's Overseas Oil and Gas (OOG), pulled out.

The refiner recently signed deals with Taiwan's CPC and a South Korean consortium to develop the Balongan and Tuban refineries respectively.

2 **Plans advance for new grassroots refinery for Tamilnadu, India** - Jun 2020 - Chennai Petroleum Corp. Ltd has revised its cost estimate and is now seeking to form a joint venture for setting up its previously proposed Cauvery Basin grassroots refinery at Nagapattinam in Tamilnadu, India.

No completion date has been set for the proposed 180Kbd (9Mta) refinery, which would be in addition to Chennai Petroleum's existing 20Kbd (1Mta) refinery in the area.

1 **China to expand crude storage capacity by 15.1MnCum in 2020** - *Jun 2020* - China is set to expand its commercial crude storage capacity by at least 15.1MnCum (95MnBbls) by the end of 2020, which will create more space to stockpile imports.

Among the new storage facilities, Hengli Petrochemical (Dalian), on Changxing Island in Northeast China, will have the largest capacity at 22.6MnBbls. Six of 24 new crude storage tanks are due to be completed by July, with the remainder gradually commissioned through 2H20.

Sinopec has started operations at its new Baisha Bay Phase II storage facility in Shanghai, which brings the facility's total capacity to 1.4MnCum. It has also completed construction of a 800kCum storage facility in Luoyang city that is expected to be online from 2H20, A further 800kCum of storage capacity will be added to the Luoyang site by June 2021.

The Luoyang storage facility will support Sinopec Luoyang Petrochemical's requirements as it expands refining capacity from the current 160kbd (8Mnta) to 200kbd (10Mnta) in 2021.

Sinopec also started operating its 1.6MnCum storage tanks at Dongjiakou port in east China's Shandong province in March, and with all the new additions the refiner's total commercial crude storage capacity is set to increase by at least 2.85MnCum (17.93MnBbls) in 2020.

2 **New units at Luoyang refinery ready for commissioning** - *Jun 2020* - Sinopec is looking to start commercial operation of four newly built units at its Luoyang refinery and petrochemical plant in August, but the start-up of the 40kbd (2Mnta) CDU expansion would be delayed to 1H21.

Construction of a new residual hydrotreater, continuous reformer, aromatics extraction unit and hydrogen concentration unit have been completed and were delivered 30 May ready to start commissioning.

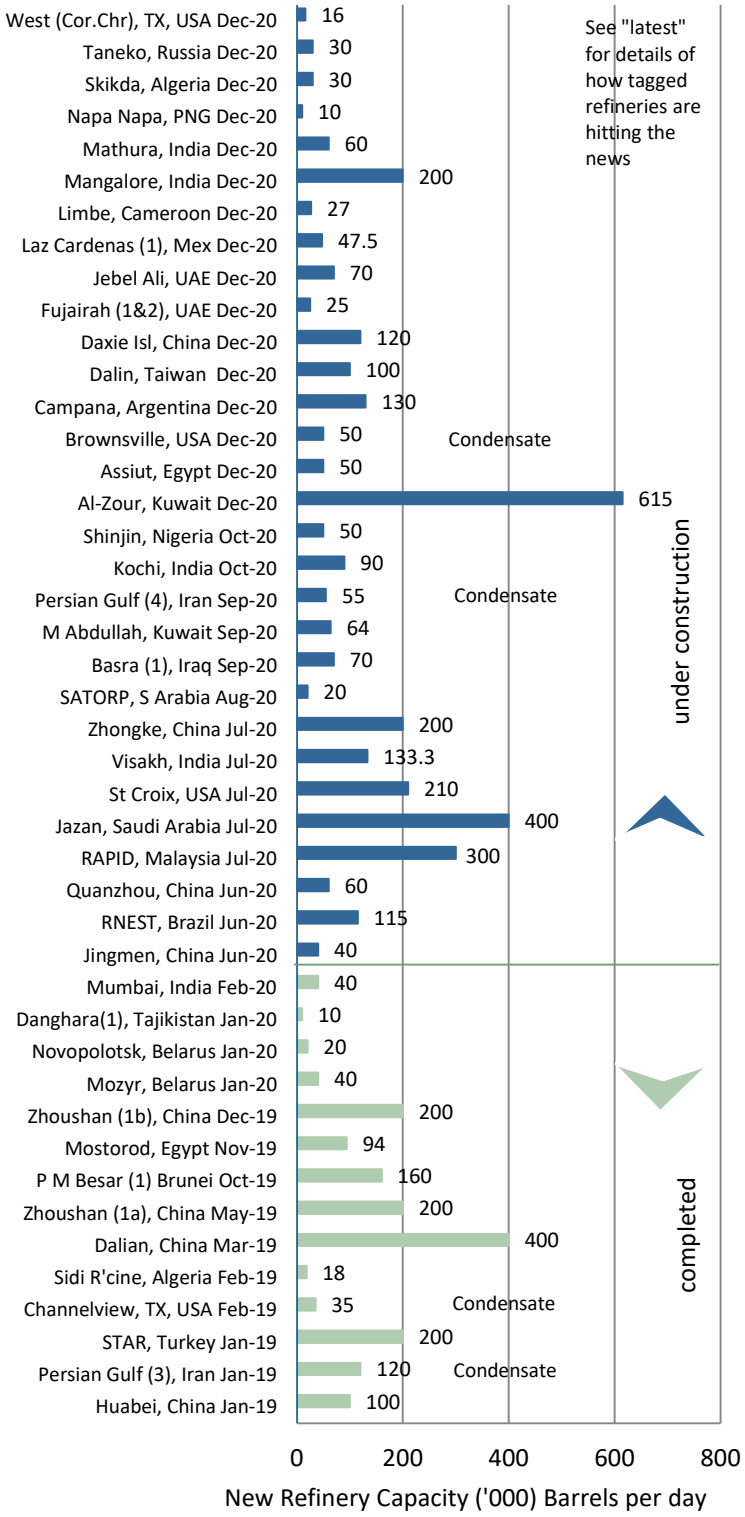
Notes: *Mnta = million tonnes per annum, Kbd - '000 barrels per day*

Latest continued...

If you have questions or comments, please contact Charles R. Weber Research.
John M Kulukundis at: jmk@crweber.com
www.crweber.com

Timeline

Recent and Planned Refinery Additions



We estimate that net global refinery capacity increased by 1.5Mnbd in 2019. This built on increases of 0.8Mnbd in 2018, 0.7Mnbd in 2017, 0.8Mnbd in 2016, 1.1Mnbd in 2015, 0.9Mnbd in 2014, 1.3Mnbd in 2013 and 1.1Mnbd in 2012 (the latter two numbers are based on BP data).

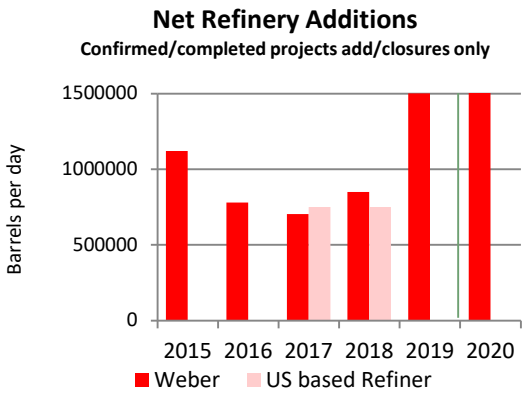
In 2020, almost 4Mnbd of new capacity (50 refineries) is currently under construction, although we anticipate capacity additions of between 1.8-2.0Mnbd. Kuwait (0.7Mnbd) and China (0.6Mnbd) are expected to lead the way, with a further 11 countries having >100Kbd under construction.

16 new refinery additions (each adding >=10Kbd) in 2014, 24 in 2015, 20 in 2016, 15 in 2017, 17 in 2018 and 10 in 2019.

In 2014-15, closures accounted for more than 1Mnbd of capacity. The rate of closures declined to 0.5Mnbd in 2016, 0.9Mnbd in 2017 and 0.2Mnbd in 2018.

Further expansion in domestic crude oil production will mean that the US remains a major driver of seaborne product trade in 2020. However, it can expect ever-intensifying competition from China, which returned product export gains of 8.3% in 2019 compared with a contraction of 3.6% in US exports.

The refinery timeline chart (left) is derived from Weber's own detailed tracking of new refinery projects. The chart below compares our summary forecast for refinery additons 2015-2020 with that provided by a large US based refiner. This comparative forecast factors in project delays beyond those reported by the refiners themselves.



If you have questions or comments, please contact Charles R. Weber Research.
John M Kulukundis at: jmk@crweber.com
www.crweber.com