

Asia Distillates-Gasoil margins rise in January, breaking two months of declines



SINGAPORE, Jan 31 (Reuters) - Asian refining margins for 10ppm gasoil eased on Thursday, a day after hitting a one-week high, as crude prices firmed, but posted their first month of gains following two straight months of declines.

Refining margins or cracks for gasoil with 10ppm sulphur content were at \$13.89 a barrel over Dubai crude during Asian trade, down from \$14.22 a barrel on Wednesday.

Crude oil prices rose on Thursday, pushed up by lower imports into the United States amid OPEC efforts to tighten the market, and as Venezuela struggles to keep up its crude exports

after Washington imposed sanctions on the nation.

The benchmark gasoil margins have risen about 11 percent in January, the biggest monthly gain since August 2018.

Lacklustre demand amid availability of ample supplies, however, has kept the current refining margins for the industrial fuel about 15 percent lower than this time last year.

Cash discounts for 10ppm gasoil G010-SIN-DIF were at 42 cents a barrel to Singapore quotes on Thursday, compared with a discount of 34 cents per barrel a day earlier.

Meanwhile, cash discounts for jet fuel narrowed to their smallest in over two weeks, buoyed by expectations for a tighter market going forward as some refineries in the region are scheduled to go for spring maintenance.

Jet cash discounts JET-SIN-DIF were at \$1.42 a barrel to Singapore quotes on Thursday, compared with a discount of \$1.55 a barrel on Wednesday.

The February/March time spread for the aviation fuel narrowed for the fourth consecutive session to a discount of 40 cents a barrel on Thursday, their slimmest in three weeks. They were at a discount of 57 cents on Wednesday.

Refining margins for jet, which also determines the profitability of closely-related kerosene, edged higher to \$14.24 a barrel over Dubai crude, 18 cents higher from Wednesday.

SINGAPORE INVENTORIES

- Singapore onshore middle-distillate stocks fell 4.6 percent to 11.8 million barrels in the week to Jan. 30, according to data from Enterprise Singapore released on Thursday.

- The inventories have averaged 11.9 million barrels in the first five weeks of this year, having averaged 9.6 million barrels a week in 2018. In 2017, the weekly average was about 12 million barrels, Reuters calculations showed.

- Overall, onshore middle-distillate inventories were

about 27 percent higher year on year.

- Light distillates stocks dropped 169,000 barrels to a two-week low of 15.7 million barrels in week ended Wednesday, while fuel oil stocks rose 478,000 barrels to a six-week high of 20.3 million barrels.

EIA INVENTORIES

- U.S. crude oil stockpiles rose less than expected last week due to a drop in imports, while gasoline and distillate inventories fell as refiners slowed down production, the Energy Information Administration said on Wednesday.

- Crude inventories rose 919,000 barrels in the week to Jan. 25, compared with analysts' expectations for an increase of 3.2 million barrels.

- Distillate stockpiles, which include diesel and heating oil, fell 1.1 million barrels, versus expectations for a 1.4 million-barrel drop, the EIA data showed.

SINGAPORE CASH DEALS

- No gasoil deals, no jet fuel trades.

Exclusive: PetroChina to drop PDVSA as partner in refinery project – sources



SINGAPORE (Reuters) – PetroChina Co plans to drop Petroleos de Venezuela SA (PDVSA) as a partner in a planned \$10 billion oil refinery and petrochemical project in southern China, said three sources familiar with the matter this week.

The company's decision adds to state-owned PDVSA's woes after the United States imposed sanctions on the company on Jan. 28 to undermine the rule of Venezuelan President Nicolas Maduro.

However, dropping the company was not a reaction to the U.S. sanctions but follows the deteriorating financial status of PDVSA over the past few years, said two of the sources, both executives with China National Petroleum Corp, the parent of PetroChina.

"There will be no role of PDVSA as an equity partner. At least we don't see that possibility in the near future given the situation the country has been through in recent years," said one of the executives, asking to remain unidentified because he is not authorized to speak to the media.

The move illustrates the fading relationship between Venezuela

and China, which has given \$50 billion to the South American country in the form of loans-for-oil agreements. China, the world's largest oil importer, is now the second-biggest buyer of Venezuelan crude in Asia, taking in 16.63 million tonnes, or about 332,000 barrels per day (bpd), in 2018.

That relationship began to fray in 2015 when Venezuela requested a change in the payment terms on the debt to ease the impact of its falling crude output and declining oil prices. Instead of handing out large fresh loans, Beijing has shifted to small investments or granting extensions in the grace periods for the outstanding loans.

The sanctions were imposed at the same time the United States and other nations have backed opposition leader Juan Guaido as legitimate ruler instead of President Nicolas Maduro. During Maduro's rule, oil production has plunged while millions have left amid hyperinflation and as consumer goods have vanished from market shelves.

PDVSA was originally a 40 percent equity partner in the refinery project, located the city of Jieyang in the southern province of Guangdong. PetroChina and PDVSA received environmental approval for the project in 2011.

Initial plans were for the refinery to process 400,000 bpd of strictly Venezuelan crude oil. The plans have now been expanded to focus on petrochemical production including a 1.2-million-tonnes-per-year ethylene plant and a 2.6-million tpy aromatics plant. The plant is expected to be operational by late 2021, Caixin reported on Dec. 5.

Under the revised plan, the refinery will not be restricted to Venezuelan oil but could process other so-called heavy crude grades that could come from Middle Eastern producers such as Saudi Arabia and Iran, said the third official, a PetroChina trading executive.

S Korea to combine world's 2 biggest shipbuilders



Reuters/Seoul

Hyundai Heavy Industries, the world's biggest shipbuilding group, has announced a share swap deal worth 2.1tn won (\$1.98bn) to take over second-ranked Daewoo and create a global heavyweight controlling over 20% of the market.

The move comes as the worldwide shipbuilding sector recovers from a global economic downturn that led to massive losses, widespread job cuts and, in 2017, the \$2.6bn bailout of South Korea's Daewoo Shipbuilding & Marine Engineering Co Ltd.

State-funded Korea Development Bank (KDB) owns 55.7% of Daewoo, and has said it intends to sell the stake and consolidate the country's three biggest shipbuilders – which includes Samsung Heavy Industries Co Ltd – into two.

The combination of two of the giant shipbuilders would ease competition and excess capacity, which have depressed ship

prices, KDB chairman Lee Dong-gull said at a news conference. The deal will "raise the fundamental competitiveness of Daewoo, at a time when the threat from latecomers in China and Singapore is growing," Lee said yesterday.

Hyundai and Daewoo hold a combined market share of 21.2%, followed by Japan's Imabari Shipbuilding with a 6.6%, showed data from Clarksons Research.

Lee said it will take several months to gain approval from antitrust regulators from related countries. He said the size of the resulting entity's market share would not be detrimental to the interests of customers.

Daewoo will also receive liquidity support of 2.5tn won (\$2.25bn) from KDB and Hyundai, Hyundai said in a stock exchange filing.

KDB also said it would approach Samsung Heavy to gauge any interest in taking over Daewoo. A Samsung Heavy spokesman said it has received a proposal from KDB and that it needs to review the matter.

Daewoo shares rose as much as 22% yesterday, before ending up 2.5%.

Those of Hyundai Heavy Industries Holdings Co Ltd and unit Hyundai Heavy Industries Co Ltd fell about 4% on concern about a high purchase price, analysts said. Meanwhile, Samsung Heavy shares ended up 2.5%, as investor concerns of it bidding for Daewoo eased. "Consolidation is good for the industry, but not for the company which buys the stake," said analyst Um Kyung-a at Shinyoung Securities, citing overlapping businesses between Hyundai and Daewoo.

The shipbuilding industry accounts for 7% of both exports and employment in Asia's fourth-biggest economy. Hyundai Heavy's workers' union said it will delay a vote on last year's wage deal in protest of a purchase it says could threaten job security.

It said it would be "angered" if the shipbuilder ploughed money into buying another big firm having released workers after reporting losses and shrinking orders. KDB's Lee ruled out any job cuts after the combination.

Hyundai's holding company is set to raise funds for acquisitions through the sale of part of its stake in refiner Hyundai Oilbank Co Ltd to Saudi Aramco for up to 1.8tn won.

The ghosts of Versailles Treaty still haunt Europe



By Harold James /Princeton

It has now been just over 100 years since the opening of the Paris Peace Conference, which produced the Treaties of Versailles, Saint-Germain-en-Laye, Neuilly-sur-Seine, Trianon, and Sèvres, bringing an end to World War I. To this day, resentment over the Treaty of Trianon fuels Hungarian nationalism and revisionism, particularly under the current government of Prime Minister Viktor Orbán.

Indeed, the Paris peace process is generally remembered as an example of how well-meaning international co-operation and democracy-promotion can go wrong. Now that we are living

through a moment when multilateralism and democracy are again under strain, it is worth asking why efforts to promote the two so often fail.

In 1919, US President Woodrow Wilson's attempt to forge a lasting peace by destroying the world's autocracies proved overly high-minded, even as it inaugurated the interventionist consensus that has dominated US foreign-policy thinking ever since. Though US President Donald Trump claims to have abandoned that tradition, he has nonetheless ordered strikes against government military sites in Syria and recognised Venezuela's opposition leader as the country's legitimate president.

The Paris process failed because it set expectations too high. The victory of democratic powers did not mean that democratic wishes would be fulfilled, particularly when those wishes would require the losers to pay. Throughout WWI, every side simply assumed that an eventual peace settlement should saddle the vanquished with the material – and even the emotional – costs of the war, all but ensuring an unsatisfactory resolution to the conflict.

Likewise, in 2019, the problems resulting from rapid technological change and globalisation might not admit of any widely acceptable solutions. As a result, different countries will produce their own narratives about being cheated by globalisation. And, as in 1919, they will invent "villains" to bear the blame. For example, the Trump administration routinely complains about China's unfair trade practices, Germany's excessive current-account surplus, aid to developing countries, and so forth. Needless to say, compiling a litany of grievances hardly amounts to a solution.

A second explanation for the failure of the Paris process is that some of those involved – French Prime Minister Georges Clemenceau, British Prime Minister David Lloyd George, and Wilson – were uniquely incompetent or otherwise ill-disposed. Clemenceau was a lifelong nationalist, monomaniacally dedicated to the pursuit of French interests, whereas Lloyd George was the opposite, and thus too pliable and unprincipled

for the task at hand. He was prone to attacking others personally, only to forget that he had done so when encountering those people again.

For his part, Wilson's lofty aspirations far exceeded his acumen for political deal-making, both domestically and internationally. And his mounting health problems certainly didn't help. Owing to his stratospherically high blood pressure, which went largely untreated, Wilson suffered a major stroke shortly after the Paris proceedings. One obvious lesson from this episode in history is that it is important to monitor the physical and mental health of world leaders, particularly the president of the United States, during periods of consequential decision-making.

When it comes to leaders' character flaws, 2019 offers just as much fodder as 1919 did. Trump and British Prime Minister Theresa May could not be more different in terms of their personalities, yet both have dispensed with expert advice and done serious damage to their respective countries' political systems. While French President Emmanuel Macron is often criticised for relative inexperience, German Chancellor Angela Merkel is seen as too experienced at preserving an outdated status quo.

The third reason the Paris process failed is perhaps the most important. The conference's overly ambitious goals, and the flawed personalities of those pursuing them, were so obvious as to invite a lethal public rebuke. That rebuke came from the British economist John Maynard Keynes, one of the most brilliant minds of the age, in his 1919 book, *The Economic Consequences of the Peace*.

Keynes's critique of the Paris process and its participants was devastating, and he knew it. In October and November of 1919, he attended meetings, hosted by the Dutch banker Gerard Vissering, where bankers from the US and various neutral powers developed a sophisticated plan for leveraging private US finance for the reconstruction of Europe. The plan showed great promise, but Keynes could not associate himself with it, because his brilliant polemic had alienated the political

leaders who were needed to carry it out. In the end, only a few elements of the plan were adopted, and not until 1924, when it was already too late.

The lesson is that an overwritten critique can be counterproductive. Setting political leaders on the right course of action requires persuasion, not polemics. Hence, when it came time to remake the world in 1944-45, Keynes adopted a very different approach. He elaborated a complex reconstruction plan, but this time he operated behind the scenes. It would not have been difficult to attack British Prime Minister Winston Churchill and US President Franklin D Roosevelt for their past economic policies, but nor would it have accomplished anything.

True, Churchill and Roosevelt were far better leaders than Lloyd George and Wilson. But even if they had been just as flawed, Keynes had learned the costs of focusing too much on the foibles of bad leaders during bad times. Whether it is 1919 or 2019, obsessing over individual leaders can distract us from working toward the solutions that today's most pressing problems demand. – Project Syndicate

* Harold James is Professor of History and International Affairs at Princeton University and a senior fellow at the Center for International Governance Innovation.

U.S. Blocks Venezuela Oil Deals Using Its Financial System



Venezuela's state oil company and its customers will be blocked from using the U.S. financial system by late April, as the Trump administration ratchets up the pressure on President Nicolas Maduro to step aside and allow an opposition leader to take his place.

The U.S. already announced it would effectively prohibit imports of Venezuelan crude and bar companies from selling cargoes of light oil to the Latin American country, which are needed to keep its pipelines flowing. The latest measures posted on the U.S. Treasury's website suggest the sanctions could have an even wider impact on the petroleum exports that constitute the nation's economic lifeline.

Any transactions with Petroleos de Venezuela SA, or any entity in which it has a controlling stake, involving U.S. citizens or passing through the country's financial system must be wound down by April 28, the Treasury said. Americans who work for non-U.S. companies must stop doing any business with PDVSA by March 29.

"Thinking about oil as being a dollar-denominated business, if U.S. banks are jittery and concerned about what they can do, that will cause them to decline all transactions," said Daniel

Martin, a partner at law firm Holman Fenwick Willan. "What is happening is that if you're a non-U.S. entity you'll be restricted as to what you can do with PDVSA, if that involves a U.S. person or nexus."

The U.S. government's decision to impose sweeping sanctions on Venezuela's state-run oil firm already look like a de facto oil embargo on the country. The administration of U.S. President Donald Trump has made clear it believes Maduro's re-election was illegitimate and is applying intense economic pressure after recognizing opposition leader Juan Guaido as interim president.

John Bolton, Trump's national security adviser, tweeted that "bankers, brokers, traders, facilitators, and other businesses" should not deal in any Venezuelan commodities that he alleged were being stolen by the "Maduro mafia."

Some European oil traders had temporarily stopped dealing with PDVSA while their lawyers weighed whether it's possible for non-U.S. entities to continue buying Venezuelan crude without falling foul of American sanctions, people familiar with the matter said earlier this week.

Venezuela pumped 1.2 million barrels a day of crude in December, a decline of almost 50 percent in four years, according to data compiled by Bloomberg. About 500,000 barrels a day of that output was exported to the U.S., but could potentially be diverted to other markets, if buyers are able to find ways to avoid using the American financial system. Some tankers have already turned away from Venezuela without loading crude, Bloomberg data show. Disruption could reach as much as 1 million barrels a day, Citigroup analysts including Ed Morse wrote in a report on Friday.

"The combination of ongoing domestic protests, global political pressure, and concerted economic pressure via sanctions could hasten a transition as well as lift oil

prices,” the analysts said.

Turkey rules out seeking IMF aid; economy strong



Bloomberg/Istanbul

Turkey's top economic body ruled out seeking support from the International Monetary Fund, in an effort to end market speculation that Ankara is in touch with the Washington-based lender to negotiate a rescue package.

Those spreading the rumours are carrying out a propaganda war to "harm the Turkish government, the Turkish economy and Turkish people," the Treasury and Finance Ministry said in an e-mailed statement on Friday. "This sick state of mind has reached a dangerous level."

Market chatter about a possible agreement with the IMF intensified after the lira lost more than a quarter of its value in August last year. The currency crash pushed consumer

inflation to over four times the official target of 5%. Turkish officials have repeatedly said the economy's fundamentals are strong notwithstanding the turmoil in financial markets. The Treasury cited its level of indebtedness, rollover ratios and its fiscal discipline as reasons why "it's out of the question for Turkey's path to cross with that of the IMF."

After last year's market rout, President Recep Tayyip Erdogan said Turkey would never take another loan from the IMF as the lender's conditions make it impossible to pursue an independent foreign policy.

The Treasury's latest intervention is unlikely to silence Turkey watchers who are convinced that the nation will eventually need an IMF anchor to stabilise its economy.

"If Turkey actually went on an IMF programme, it would reduce risk premiums, rally the lira and bring forward" interest rate cuts, said Timothy Ash, a strategist at BlueBay Asset Management in London.

Delphi Economic Forum IV



The Challenge of Inclusive Growth

February 28 - March 3, 2019

Delphi Economic Forum IV will take place between **Thursday,**

February 28 and Sunday, March 3, 2019 aiming to identify the main global trends, assess their implications and review the resulting challenges and policy options confronting decision-makers of the wider Eastern Mediterranean Region. Moreover, it places Greece's need for structural reforms and new leadership strategies under the microscope with the aim to explore a new model of governance. The main theme of Delphi Economic Forum IV is "The Challenge of Inclusive Growth".

Delphi Economic Forum IV Agenda



Delphi Economic Forum IV Speakers List

