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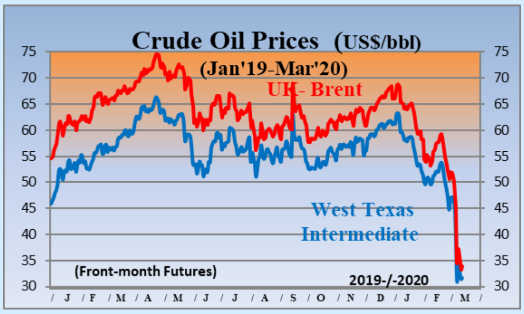
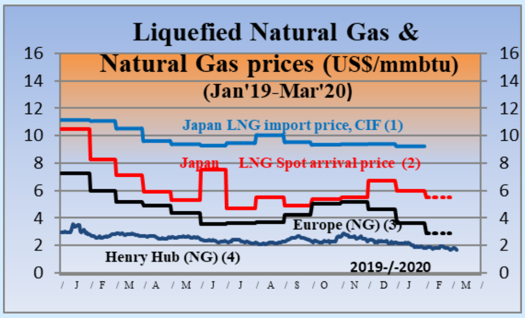
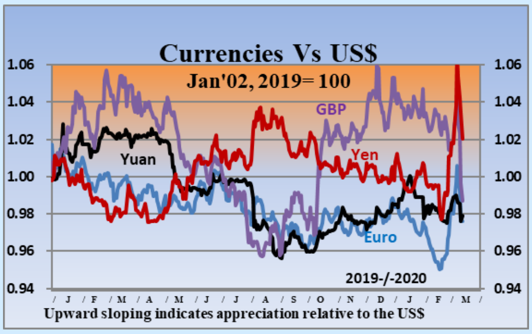


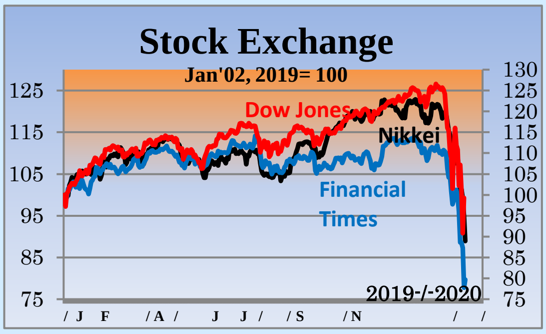

Source: DOE-EIA, Financial Times, NASDAQ




Sources:
(1) Ministry of Finance "Japan Trade Statistics"
(2) Ministry of Economy, Trade and Industry (arrival month basis)
(3) Estimated by World Bank (Netherland Title Transfer Facility)
(4) DOE-EIA, NYMEX (Front-month Futures)
(5) Investing.com




Source: x-rates.com




Source: Financial Times

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# 1. US: Policies of Candidates Heading toward the Presidential Election

**Ayako SUGINO,** Senior Researcher
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As expected, the impeachment trial of President Trump failed because it could not win a two-thirds majority in the Senate. Paradoxically, the President’s popularity increased slightly during the trial proceedings, with a higher approval than disapproval rating in the areas of the economy and employment. His approval rating is relatively high also for policies on trade, taxes, immigration, and Iran. The President is stressing his achievements in these areas in the re-election campaign and promising additional tax cuts, a tough stance in trade negotiations, and going ahead with the border wall. However, might the administration’s policies be adjusted in the second term if re-elected?

For example, a group of Republican lawmakers including the Senate Armed Services Committee Chair visited Africa in mid-February and expressed concern over the government’s policy, raising concern over the serious negative effects of scaling back the US military presence in West Africa just as China and Russia are expanding their influence on the African continent. State Secretary Mike Pompeo has also visited Africa and announced a policy to encourage US firms to invest in Africa to counter China’s smart power. It is unclear whether the President will readjust the US’ relationship with other countries, including its allies, by transforming from an anti-elite president with no experience in politics into a sitting president facing stiff competition from China and Russia. It is also notable that the administration has fine-tuned its immigration policies, changing from calling for tougher immigration controls to exploring ways to let more foreign workers in to meet industry’s calls for inexpensive labor.

For the Democratic Party, the spotlight is on the caucuses and primaries in Iowa, New Hampshire, Nevada, and South Carolina ahead of Super Tuesday on March 3. At the time of writing, Pete Buttigieg and Bernie Sanders had won the largest number of delegates for Iowa while Sanders had won New Hampshire and Nevada. Joe Biden, who initially seemed the most promising, has a 2- to 5-point lead over Sanders ahead of the South Carolina primary, but after doing poorly in three states he may be unable to stop Sanders from pulling away. While the media often refer to Biden, Bloomberg, Buttigieg, and Klobuchar (the “3B&K”) as middle-of-the-roaders, in reality the Democratic primaries are a battle between the radical left and the relatively moderate left. Take taxes for example. 3B&K are calling for abolition of Trump’s tax cuts (by raising the maximum tax rate) as well as introducing a capital gains tax (already proposed by the liberal Obama Administration), while Sanders and Warren are calling for higher taxes on the wealthy and their assets, as well as on large corporations.

At the far left of the group is the current leading runner Senator Sanders. He advocates even harsher carbon emissions restrictions than the Obama Administration and has stated that he will rapidly increase renewable power generation through federal corporate agencies operators like the Tennessee Valley, and wholesale the electricity to public and private power companies to replace fossil fuels as well as nuclear power plants which will be retiring. These “socialist” initiatives may ultimately require budgetary action in Congress, but recent polls suggest that Democrats may gain seats in the House of Representatives and that 40% of voters, mainly the young, support socialism rather than capitalism. Incidentally, Bernie Sanders opposes market-based regulations that put a price on carbon, including any domestic carbon tax and border adjustment tax. On the other hand, Klobuchar, Bloomberg, Buttigieg, Biden, and Warren back such taxes and Tom Steyer also supports the border adjustment tax in principle. However, introduction of a border adjustment tax would require some kind of legislation, and as Congress proceedings take time, it would be a challenge to maintain the momentum of climate actions that involve accepting a tax burden.
(as of 02/28/2020)

## 2. EU: UK's Greenhouse Gas Reduction Target

**Kei SHIMOGORI**, Senior Researcher
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Strategy Research Unit

On January 31, the United Kingdom left the European Union after being a member for 47 years. The EU-UK relationship will not change significantly during the transition period which lasts until the end of 2020 during which the parties will negotiate the terms for trade, but whether they can wrap up the negotiations in less than a year awaits to be seen.

The UK is now under the spotlight for Brexit but the country is also the chair of COP26. On February 4, Prime Minister Boris Johnson spoke about hosting the next UN Climate Change Conference COP26, positioned the UK as a world leader in tackling climate change, and called for international action to achieve net zero emissions for the world as a whole. Another highlight of his speech was that the UK will end the sale of new gasoline and diesel cars, including hybrids, in 2035. The target year for the ban was previously 2040 but it was brought forward by five years. The government said that, subject to consultation, the ban could be rolled out earlier than 2035 if feasible. It also said that it will steadily work with industry to support the creation of new green jobs and accelerate the spread of zero-emission vehicles.

In addition to decarbonizing automobiles, a fossil fuel company has set ambitious GHG reduction targets in the UK. On February 12, BP announced that it will reduce the company's net GHG emissions to zero by 2050. BP aims to do this by achieving net zero carbon emissions in its oil and gas production on an absolute basis by 2050 or sooner, a 50% cut in the carbon intensity of products that it sells by 2050 or sooner, installation of methane measuring equipment at all its major oil and gas processing sites by 2023, thus reducing methane intensity of operations by 50%, and an increase in the proportion of investment into non-oil and gas businesses over time. We must wait till September for the details, but this announcement is a major step forward from the climate actions taken so far by fossil fuel companies. Details of the measures to be taken are keenly awaited.

As climate action for the oil and gas industries, the European Commission is reportedly preparing a strategy for reducing methane emissions from those industries. One of the priority policies of the European Commissioner in charge of energy, Kadri Simson, is strategies for reducing methane emissions. It has not been announced when the strategy will be unveiled, and EU officials are currently gathering reliable data to serve as the basis for the policy. Data is being collected reportedly on the volume of methane emitted from coal mines, as well as from the energy sector including the production and transportation of oil and gas. Methane emissions are likely to face even greater pressure as the EU marches toward its ambitious goal of becoming climate-neutral by 2050. Its policies warrant close scrutiny.
(as of 02/28/2020)

## 3. China: Test of Country's Real Strength and Leaders' Ability to Manage a Country

**Li ZHIDONG**, Visiting Researcher
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The new coronavirus-induced pneumonia that erupted in Wuhan City, Hubei Province in December 2019 raged through China and is now spreading to the rest of the world. As of February 20, the virus has spread to over 20 countries and regions, while the number of people infected is roughly 80,000, of which 75,000 are in China. The world is watching whether China can overcome the new virus, as well as its impact on the country's economic growth and the implementation of the US-China trade agreement.

The Xi Jinping leadership declared the effort against this epidemic a "people's war" and is fighting hard to overpower the disease. For example, Wuhan City shut down public transportation on January 23 and locked down the city from the 26th, strictly limiting the entry and exit of people. The central government even built two hospitals to combat the disease in Wuhan in a matter of days, and has poured enormous amounts of medical staff and other resources into the mission. The Lunar Year holidays were extended, the start of the new school semester was pushed back, and voluntary curfews were practiced nationwide. Furthermore, latest technologies such as big data are being used to determine the routes of infection and identify high-risk individuals who have had close contact with a carrier, though there is a risk of leakage of personal information. Thanks to these emergency measures, the number of new cases peaked on February 4 and is declining throughout the country except Hubei Province. It is impossible to be absolutely certain about the situation, but President Xi Jinping has had phone calls with the leaders of the UK, France and others since February 18 and has stated that there have been positive changes in containing the disease.

China has promised its people to double its GDP from 2010 levels and realize a "moderately prosperous society" by the 100th anniversary of the foundation of the Chinese Communist Party. This year is the final year of that mission. Latest statistics based on the fourth national economic census show that economic growth of at least 5.6% is necessary to keep the promise. The virus has seriously affected the service industry such as retailing, restaurants, tourism and the passenger transportation business, as well as the manufacturing industry mainly in Hubei Province and the Southeast Coast, but the Xi leadership has reiterated that it will "keep the impact of the virus to a minimum, maintain economic stability, and achieve the goals." As specific measures, on February 18, the standing committee of the State Council led by Prime Minister Li Keqiang decided to reduce the corporate burden of social insurance premiums such as pensions by 500 billion yuan (approx. 8 trillion yen). On the 20th, the People's Bank of China (the central bank) lowered the loan prime rate, which is the policy interest rate, by 0.1 point to 4.05% for one-year loans and by 0.05 points to 4.75% for five-year loans. A low-interest (annual 1.6%) loan facility of 300 billion yuan (approx. 4.8 trillion yen) has been prepared to help specified firms such as supermarkets whose business is struggling as well as face-mask makers.

Regarding US-China relations, the current focus is the implementation of the phase-one Economic and Trade Agreement signed on January 15. In time for February 14 when the Agreement becomes effective, the US halved the fourth round of additional tariffs imposed on 120 billion dollars of Chinese products on September 2019 to 7.5% from 15%, while China halved the fourth round of its additional tariffs on 75 billion dollars of US products from 10% and 5%, respectively. Although the impact of the new coronavirus cannot be ignored, China is still working to meet the numerical goal of buying 76.7 billion dollars more in U.S. goods and services compared to 2017 levels.

The Xi leadership is aiming to simultaneously beat the new coronavirus, realize a moderately prosperous society, and meet the target for imports from the US. Will they succeed? The country's real strength and the leaders' ability to manage the country are being put to the test.

# 4. ME: US' New Middle East Peace Plan and Iran Parliamentary Elections

**Shuji HOSAKA,** Senior Research Fellow
President of JIME Center

In Iran, the campaigns for the parliamentary election began in January. To be able to run in the election, a would-be candidate must gain approval of the Guardian Council of the Constitution. This resulted in most moderates and reformists being screened out, leading to a sweeping victory by conservatives who won most of the parliamentary seats.

On January 28, the US Trump Administration unveiled a new Middle East Peace plan. President Trump was accompanied by Israeli Prime Minister Binyamin Netanyahu and the ambassadors of Oman, Bahrain, and the UAE when he announced the plan, meaning that these countries have effectively endorsed it. The new plan calls for a "realistic two-state solution" but accepts most of Israel's demands and is therefore unacceptable to the Palestinian side. Palestinians oppose the plan, which is unlikely to move forward smoothly.

Meanwhile, Israel and Sudan held a summit and agreed to start talks on normalizing diplomatic relations. The summit was held at the UAE's initiative and reportedly, Saudi Arabia and Egypt were informed in advance. In Syria, the Assad Administration is intensifying attacks on Idlib, the last remaining stronghold of the anti-government forces, stepping up the confrontation with Turkey which backs the anti-government forces. Furthermore, Libya peace talks were under way in Berlin but the situation did not improve as armed conflicts in the country continued.

Regarding energy, on February 3, the UAE announced the discovery of shallow gas resources between Dubai and Abu Dhabi, with an estimated 80 trillion cubic feet of oil. Furthermore, on February 16, Kuwait announced that it will restart the Khafji and Wafra oil fields in the neutral zone with Saudi Arabia in February. On February 17, the UAE's Federal Authority for Nuclear Regulation announced it has issued an operating license for Barakah Unit 1, which was constructed by South Korean companies, to the operator NAWAH Energy Company. The license will be valid for 60 years.

The spread of the new coronavirus is having an effect in the Middle East as well. At the end of January, cases were found in several countries following confirmation of the first case in the UAE at the end of January. Accordingly, Middle Eastern countries have begun to take measures such as suspending flights to and from China, banning travelers from China, and issuing an advisory to refrain from traveling to any country where cases have been confirmed. Iran is being hit particularly hard, with dozens of cases confirmed mainly in the religious city of Qom and with over 10 deaths so far. Cases have been confirmed in the Gulf Arab countries among returnees from Iran, and concern is rising over the spread of the infection.

Further, with growing fear of a slowdown of the Chinese economy as the virus spreads, the Wall Street Journal reported on February 3 that Saudi Arabia is considering a drastic short-term production cut to respond to an anticipated fall in oil demand due to the virus. There is also speculation that S&P will downgrade the sovereign ratings of Oman and Bahrain.
(as of 02/28/2020)

# 5. Russia: Course of Arctic Development to Determine the LNG Export Strategy

**Shoichi ITOH**, Manager, Senior Analyst
Global Energy Group 2, Strategy Research Unit

At the end of January, the Ministry for the Development of the Russian Far East and Arctic and the Presidential Plenipotentiary Envoy to the Far Eastern Federal District submitted the draft strategy for development of the Arctic zone through 2035 to the Cabinet. The draft strategy estimates that LNG exports will reach 120 million tonnes/year in 2035. The Yamal LNG Project (maximum projected output of 16.5 million tonnes/year) of non-state gas company Novatek has shipped 30 million tonnes in total (announced in February 2020) since starting operation in December 2017, and its fourth train (maximum projected output of 900,000 tonnes/year) is currently being constructed. Moreover, Novatek is planning the Arctic LNG 3 Project (12.2 million tonnes/year), in addition to the Arctic LNG 2 Project (19.8 million tonnes/year, to start production in 2023), in which Japanese companies have a 10% interest. Projects in non-Arctic regions include the plan to expand Train-3 for Sakhalin Energy's Sakhalin 2 Project, the Baltic LNG Project initiative by Gazprom, and the Far Eastern LNG Project initiative by Rosneft and Exxon Mobil.

Regarding Russia's future LNG export volume, views are divided even within the country. In October 2019, Energy Minister Alexander Novak said that Russia's exports of LNG would reach 120–140 million tonnes/year in 2035. Meanwhile, the draft Energy Strategy of Russia, which is currently being revised, has revised its estimate downward from 100–120 million tonnes/year (September 2019) to 70–82 million tonnes/year (December 2019).

Gas production projects currently under way or scheduled for commercial production in the Arctic Sea area are effectively concentrated onshore. The draft Energy Strategy above set a clear 2035 LNG export target on the grounds that offshore development in the Arctic Sea would make progress, and the amount that can be covered by onshore development remains unknown. The vast offshore reserves (estimated at approx. 95.5 trillion $m^3$) remain almost untouched, with only about 10% considered to be proven reserves (estimated by the Federal Agency for Mineral Resources as of the end of 2018). In September 2019, Minister of Natural Resources Dmitry Kobylkin said that the oil price needs to be at least $100/bbl for Arctic offshore development to move forward. Oil and gas companies, the Energy Ministry, and the Ministry for the Development of the Russian Far East and Arctic are demanding significant tax incentives for Arctic offshore development. Meanwhile, the Ministry of Finance doubts the profitability of offshore Arctic development considering the extremely harsh climate conditions and technical issues, the investment environment including high investment costs, and so on, and therefore is reluctant to give special treatment only to the oil industry while the Russian economy continues to struggle amid falling oil prices and the West's economic sanctions. The fall in federal income resulting from giving tax breaks to the oil industry at least doubled in 2019 from 2013 levels (to approx. 18.5 billion dollars).

The Russian government admits that more foreign funds are needed to accelerate Arctic resource development. However, uncertainty remains for foreign investors, including the course of the tax systems described above, the government's ambiguous decision on issuing underground resource development licenses (including the existence of approval by the Ministry of Defense and the Federal Security Service), and prospects for producing and trading at internationally-competitive prices (including transportation costs to export destinations). (as of 02/28/2020)

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