VLCC Market Firing On All Cylinders

Owners reaping the benefits of a strong market

On April 30, Euronav released its results for the first quarter of 2015. A day earlier, DHT did the same. Both companies produced stellar earnings for the first quarter of the year on the back of solid results for their crude oil tankers, in particular the VLCCs, which make up the majority of these companies' fleets. Owners expect that the strong market will continue into the second quarter of the year. The healthy VLCC market is not due to one or two isolated drivers, but the result of a combination of multiple factors that have created a market that we have not seen at this side of the financial crisis.

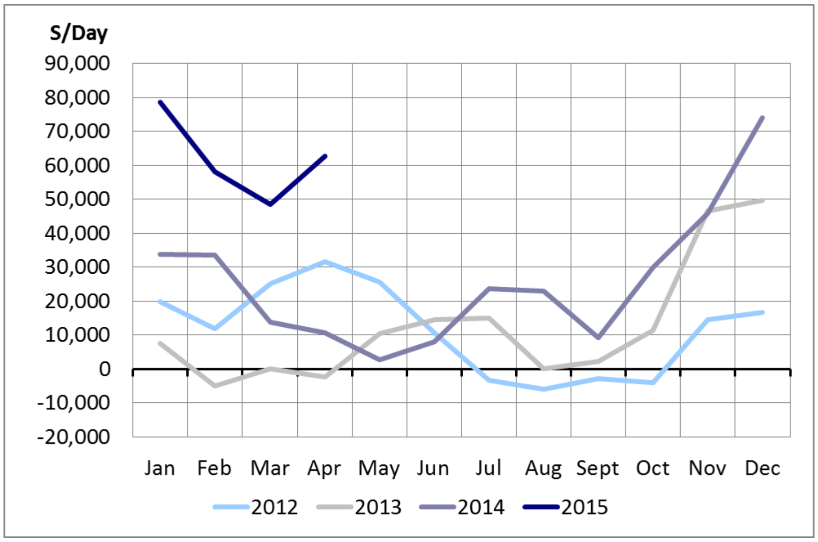
As illustrated by Figure 1, the freight market for VLCCs has been strong. Earnings for 2015 to date on the benchmark AG-East route are significantly higher than during the same period in previous years and most market participants expect rates to remain solid throughout the year, even though there will be seasonal fluctuations.

Despite earlier expectations to the contrary, world oil demand growth has been relatively strong so far this year. This is in part due to unexpected factors, such as a rebound in European product demand as well as increased growth in India and higher demand for transport fuels in the US. Lower oil prices have also contributed to increasing oil demand. The International Energy Agency recently raised its forecast of global oil demand for 2015 by 90 kb/d to 93.6 mb/d, a gain of 1.1 mb/d relative to 2014.

There is no shortage of oil worldwide to satisfy all this demand for crude (Figure 2). Despite sharply lower prices, global oil supply is showing impressive annual gains of 3.5 mb/d, split between OPEC and non-OPEC production. Since announcing during their November 2014 meeting that they would not cut their quotas, OPEC production has been on a tear and shows no sign of letting up. OPEC crude oil output soared by 890 kb/d in March, driven by sharply higher supplies from Saudi Arabia, Iraq and Libya, and production exceeded 31 mb/d. This was the highest monthly increase in OPEC production in nearly four years. Since oil supply growth far exceeds increases in oil demand, crude oil stocks continue to build worldwide, in particular in the United States.

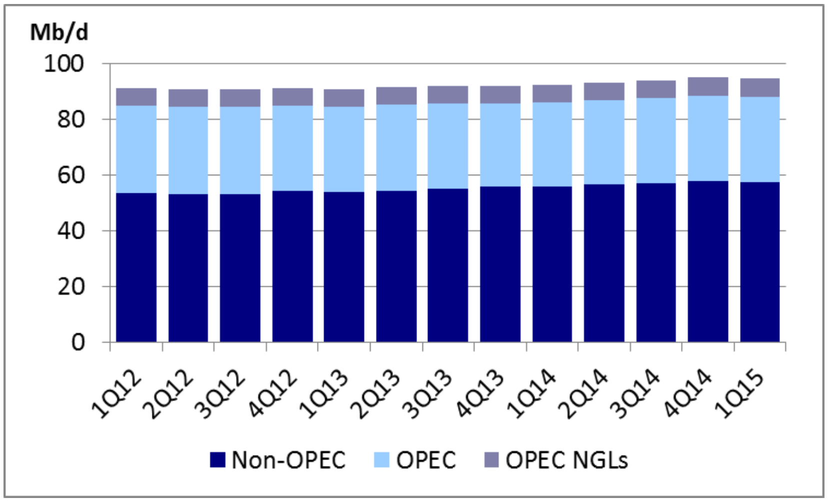
Fleet growth has been fairly limited. Six (6) VLCCs were delivered year to date, with another 28 newbuildings scheduled to enter service during the remainder of the year. While deliveries will pick up in 2016, the overall orderbook remains reasonable and expectations are for only modest fleet growth through 2017.

Fig. 1: AG- East VLCC rates ($/Day)



Source: Poten & Partners

Fig. 2: World Oil Production



Source: IEA

Another positive for VLCC owners is that commercial control has been consolidating in fewer hands. At the end of 2013, Euronav agreed to buy the Maersk VLCC fleet. Shortly thereafter, General Maritime, which also had their eyes on the Maersk vessels, bought the VLCC orderbook of Scorpio tankers. This deal was later followed by the merger of Genmar with Navig8 Crude Tankers in 2014. Earlier in the same year, VLCC Chartering was established, bringing together the VLCC fleets of Frontline and Tankers International. These deals have levelled the playing field somewhat, as it gives owners more information and creates more discipline in the market.

In conclusion, the VLCC market is fairly balanced and as long as the oil keeps flowing the outlook for the large crude tankers remains favorable.