POTEN TANKER OPINION

Where Have All The Good Times Gone?

What is happening to Suezmax rates in 2016?

Several years ago, the main market for Suezmax tankers was the West Africa to North America trade. When this market dried up in the period from 2012 to 2014/15, it looked like the Suezmax fleet was in for hard times. However, Suezmax tankers managed to find new markets and 2015 emerged as the best year for Suezmax freight rates since 2008. However, 2016 has developed quite differently (see fig. 1). The question is now: What happened this year that caused the fortunes of Suezmax tonnage to change so drastically?

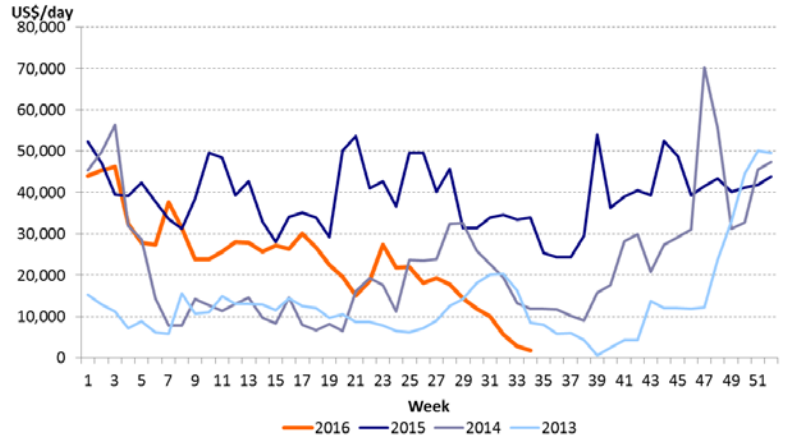
To get a better understanding of the demand side, we used data compiled by Lloyd's List Intelligence Service (APEX) covering the period from January to July of 2015 and 2016 (see Fig. 2). By far the most noticeable Suezmax trade development in 2016 was the comeback of North American imports from West Africa. As the WTI/Brent spread narrowed due to a combination of a) declining shale oil production and reduced logistical constraints and b) the lifting of the U.S. crude export ban, crude oil imports that are priced on Brent (such as West African crudes), became competitive again. During the first 7 months of 2016, Suezmaxes performed 157 voyages from West Africa to North America, 95 more that over the same period in 2015. However, this was offset by a decline of 124 cargoes from West Africa to Europe (from 372 to 248). West African exports were affected by attacks on Nigerian oil infrastructure, which caused production to decline by about 250 thousand barrel per day (Kb/d) in July, compared to a year earlier. Suezmaxes should benefit once this situation is resolved and production returns.

Suezmax voyages from the Persian Gulf to Southern Europe increased by 45 cargoes to 81 voyages over the first 7 months of 2016. The lifting of the Iran sanctions helped Suezmax demand, as 19 of these incremental voyages originated in Iran. India also increased crude oil imports from Iran, resulting in 40 Suezmax shipments in 2016 ytd compared to 16 over the comparable period in 2015. Overall, 163 Suezmax shipments loaded in Iran during the first 7 months of the year, vs. 89 in the same period in 2015.

Over the first 7 months of the year, the total number of Suezmax cargoes increased to 3,501 from 3,452 in 2015. The total number of voyages with discharge 'East of Suez' increased by 5.4%, while the number of voyages with destinations in the Atlantic basin decreased by 0.8%, continuing the diversification of Suezmax trades from the Atlantic Basin to the Pacific. About 38% of the total Suezmax voyages had discharge locations in the Pacific Basin in 2016.

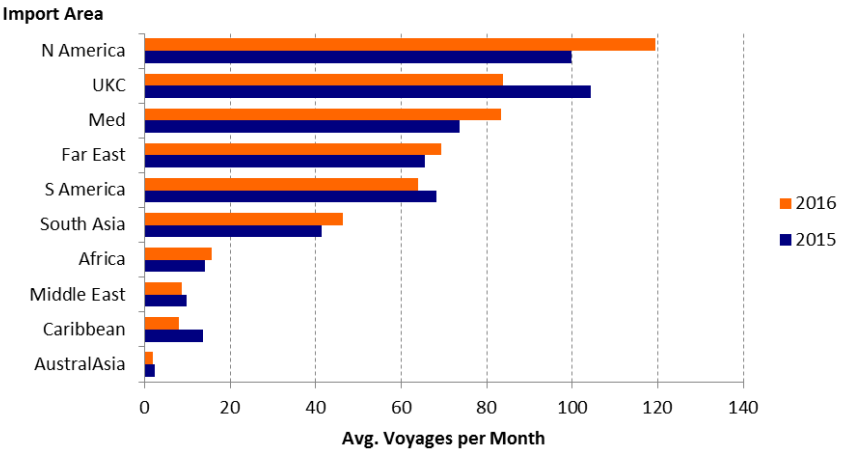
Overall, changes in Suezmax trade flows resulted in an increase in ton-mile demand of about 1.5% during the first 7 months of 2016, compared to the same period in 2015. Growth in Suezmax voyages from South America to the Far East added significantly to ton-mile demand, even though the number of voyages is relatively modest.

Fig. 1: Suezmax Rates (WAF-USG) - 2013 to 2016ytd



Source: Poten

Fig. 2: Average Monthly Suezmax Voyages by Import Area (Jan – Jul)



Source: Lloyd's List Intelligence

As demand does not seem to be the culprit for lower rates, let us take a look at the tanker supply side. On August 1st, 2015, the Suezmax tanker fleet stood at 434 vessels, totalling 68.2 million DWT. By August 1st, 2016, the trading Suezmax fleet had increased to 449 tankers with a total DWT of 70.5 million DWT. This represents a fleet growth of 3.3% over the last 12 months. The majority of the new vessels were delivered earlier this year, which might explain the gradual decline in rates as the year progressed, although the normal summer seasonality has obviously affected rates in recent weeks.

Once the normal winter market returns and when Nigerian production recovers, the Suezmax freight market should improve, but deliveries are expected to continue to add to supply which will make it hard to return to the good times of 2015.