POTEN TANKER OPINION

Oil on the Move

VLCC voyages increase in line with fleet development

Quite a lot has happened over the last 12-18 months: North American crude oil production has been declining for some time now; Iran has reentered the market and oil production in Iraq and Saudi Arabia has increased. Production growth in Middle East OPEC has been partially offset by outages in Libya and Nigeria. Now that the first half of 2016 is behind us, let's look at how these market developments have affected tanker trade flows.

A part of the analysis is utilizing Apex data from our friends at Lloyds List Intelligence, which combines AIS position data with information from port agents and other market sources to compile a detailed picture of oil trade flows. In this analysis we will focus on the VLCC trades, as this represents the bulk of the crude oil flows.

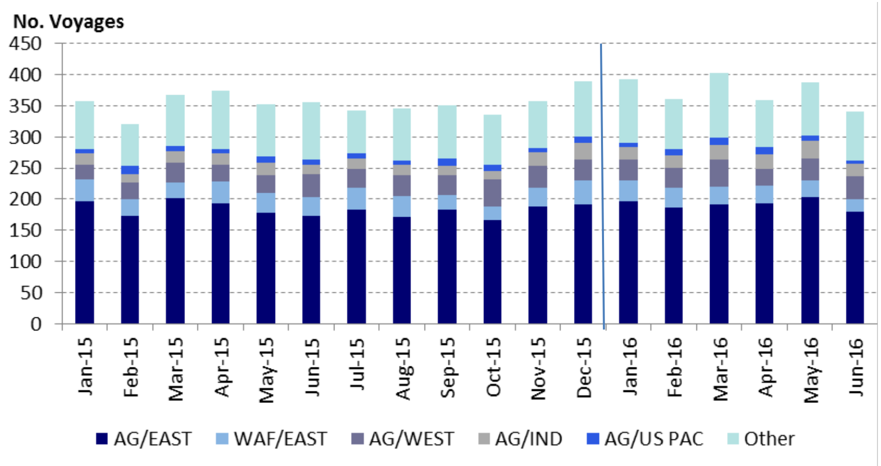
In the first half of 2016, VLCCs performed 2,245 voyages, almost 5.5% more than the 2,128 trips in the same period of 2015. This is an increase of 250 voyages or about 20 voyages per month. These numbers include all cargoes; spot market fixtures as well as movements on oil company controlled tonnage and off market fixtures. As expected, the largest trade route is the AG – East trade, which represents about half of all the voyages; 1,153 in 2016H1 vs 1,117 in 2015 (+3.2%). Saudi Arabia increased their exports to Asia (partially offset by lower volumes to the West) as did Iran and Kuwait, while exports from UAE and Qatar declined. Chinese imports from the AG (+16 voyages) showed the largest gains, followed by Japan (+15) while exports from the AG to Taiwan and Thailand declined.

Another strong growth area, although less important to the tanker market due to its shorter distance, were voyages from the AG to India; predominantly due to increased volumes from Iraq and Iran; the latter a result of increased trade after the lifting of international sanctions.

Exports from West Africa to Asia declined by 16 voyages as more West African crude oil was shipped to North America, where declining production and the narrowing WTI-Brent spread (due to lifting of the export ban) led to increasing imports while production outages in Nigeria reduced the available crude volumes. This had a negative impact on VLCCs as the increased exports to the Atlantic basin were mostly performed on Suezmax tonnage.

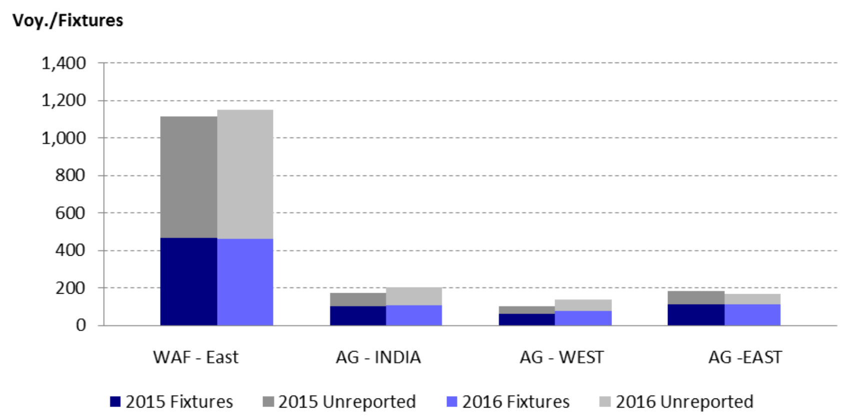
Long haul trade on the AG - West route increased by 32 voyages over the 6 month period, predominantly due to more voyages to the U.S. Gulf from Iraq and several European countries resuming imports from Iran. In contrast, cargoes from the Caribbean to Asia declined, which explains the softening Caribbean VLCC rates.

Fig. 1: VLCC Voyages 1st Half 2015 vs 2016



Source: Apex/Lloyds List Intelligence

Fig. 2: Spot Fixtures vs Unreported Voyages For Selected Routes



Source: Apex, Poten

It is interesting to see how the overall trade data compares to Poten's fixture data. For the first half of 2016, Poten recorded 986 spot market fixtures, 15 more than in the same period in 2015. This is about 41% of the world wide voyages registered in Apex. This means that almost 60% of the worldwide voyages are performed on owned or time chartered in-tonnage or the fixtures are kept private. 462 fixtures were reported for AG – East against 1,153 total voyages, representing about 40%.

However, on the AG – West route, 110 fixtures of the 206 voyages were reported, representing 53% of the total. The spot market is even more prevalent on the WAF – East route, where 67% of the 168 voyages were also reported as spot fixtures.

On July 1, 2016, there were 676 VLCCs trading compared to 644 in July of 2015; a fleet increase of 5%. This increase is in line with the 5.5% increase in the total number of voyages in the first half of the year.