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POTEN TANKER OPINION

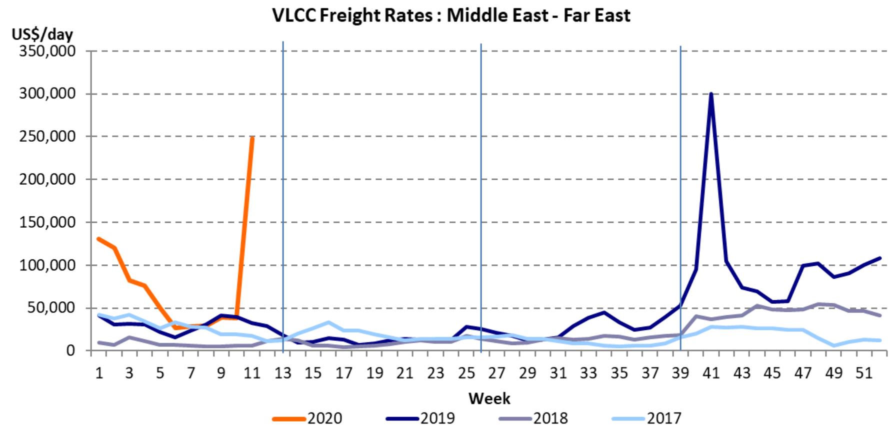
March Madness

Tanker fixtures jump as producers prime the pump

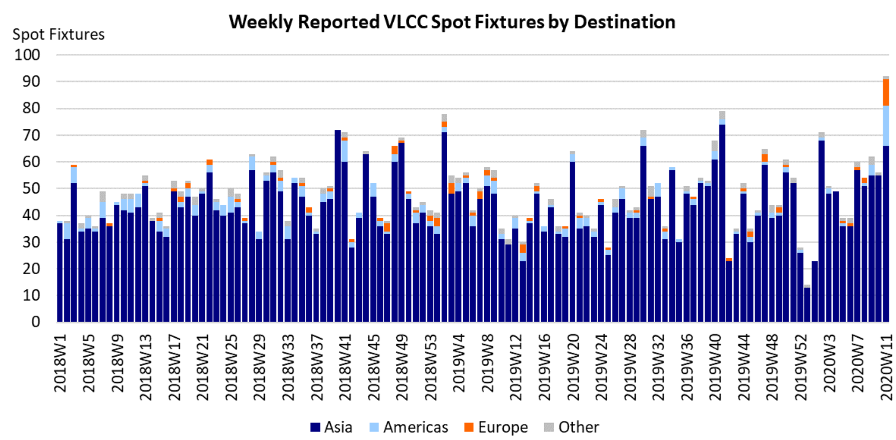
We are near the end of another week of almost unprecedented volatility in the oil and tanker markets. It seems that the COVID-19 outbreak has put people and markets on edge and any change in outlook or unexpected event has an outsized impact on the markets. After the OPEC+ meeting concluded without an agreement one week ago, a quick succession of events in the oil market turned the crude oil tanker market upside down. Saudi Arabia significantly lowered its oil prices and announced their intention to increase production and exports. Global oil prices collapsed as a result. The price for West Texas Intermediate (WTI) went from $45.90 per barrel on Wednesday, March 5, the day before the fateful OPEC+ meeting, to $31.13 per barrel on Monday, March 9. This was a drop of more than 30% and the oil market switched to contango. The events also ignited interest in floating storage and tanker markets started to percolate. A dramatic fixing binge by Saudi Arabia's national shipping company, Bahri accelerated the rise in tanker rates. Within a little more than a week, VLCC rates on the benchmark AG-Far East route went from $30,000/day to $210,000/day, a 600% increase. Why did rates go up so fast and where do we go from here?

The Bahri swoop on spot VLCCs in the market was definitely an important driver of the rate spike. On Monday, within a span of 10 hours, the Saudi tanker giant put 18 VLCCs on subjects, at rapidly increasing freight levels. Later in the week, Bahri added another 7 vessels, so the total for the week is 25. This level of activity is unprecedented. Bahri is one off the largest VLCC owners in the world but it rarely enters the spot market to charter third party tonnage. With 41 owned VLCCs, Bahri usually does not need to. They have a very experienced and efficient chartering team that typically handles all Saudi crude oil movements with their controlled tonnage. In the period 2017-2019, on average Bahri fixed less than one spot vessel per week. The most recent period that Bahri was relatively active in the spot market was 2015-2016, but even then, spot fixture activity did not exceed 6 vessels per week. At the moment, it is likely that the number of vessels that Bahri needs for Saudi Arabia's exports exceeds the tonnage that they have available, hence their decisive action in the spot market.

In addition to the sheer number of fixtures, the intended destination of the vessels also catches the eye. According to our data, 10 of the 25 VLCCs are destined for the U.S. Gulf, while 4 are going "West" (most likely Europe). Another 10 VLCC are fixed to discharge at Ain Sukhna, the entry point of the Sumed pipeline, which transports crude oil through Egypt from the Red Sea to the Mediterranean. This crude will most likely end up in Europe. None of the spot VLCCs have been fixed to Eastern destinations. This is a clear sign that the Saudi's are targeting Western clients with additional volumes, in direct competition with Russia. So far, our sources indicate that 11 of the 25 vessels have been confirmed, while the other 14 remain on subjects.



Source: Poten & Partners



Source: Poten & Partners

It is not only the Saudi's who have increased fixing activity. Other charterers have also taken in more VLCCs. Our records indicate 92 fixtures this week, a steep increase from the 56 fixtures of last week. The average number of VLCC fixtures per week for 2020 year-to-date is about 50, which is similar to the weekly averages in recent years. It is unlikely that this high level of fixing will be maintained in the coming weeks, because global oil demand remains still quite dire.

Where the VLCC market will go from here depends on several factors: how long will the Saudi surge last? Will they come to an agreement with Russia after all? How many vessels will be employed for floating storage and how much and how quickly will U.S. shale cut back? In the meantime, tanker owners are enjoying an unexpectedly strong market.

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