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POTEN TANKER OPINION

VLCC Outlook Remains Foggy

VLCC TonMiles increased in the first quarter of 2022

According to Lloyd's List Intelligence vessel movement data, VLCC TonMiles increased by about 4.8% in the first quarter of 2022 compared to 2021 Q4 and by 4.6% compared to the first quarter of last year. The oil market and trade flows during the first quarter were affected by some major events: First of all, by the invasion of Ukraine, which started in February 2022 and second by the resurgence of Covid in China which led to significant lockdowns in a number of major cities. Both of these developments will continue to affect trade flows for at least the coming months. The impact of the invasion of Russia and resulting sanctions could change trade flows for years to come (or permanently). This week we will take a closer look at how and where VLCC trade flows changed in the first quarter.

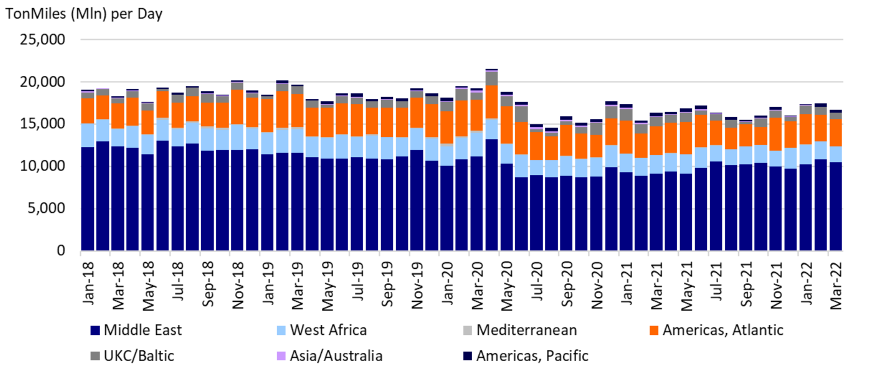
About half of the global VLCC TonMile demand increase came from growing exports from the Middle East, mainly to Asia. The most notable change was increased Iranian loadings, for transshipment off Singapore and Malaysia, as well as for voyages with unknown destinations. Unfortunately, these voyages are not helpful for the vast majority of ship owners who comply with Iran sanctions. Another source of improved VLCC demand was India, as they increased their VLCC imports from the Middle East by four cargoes per month compared to Q4 and by 9 cargoes per month if we look at Q1 2021, when India's Covid infections peaked.

Roughly a quarter of the global TonMile demand increase was driven by exports from the Caribbean and the U.S. Gulf. The U.S. Gulf added two long haul VLCC cargoes per month to Asia, while shifting some of their Q4 Trans-Atlantic VLCC volumes to smaller vessels. Venezuela also exported two more VLCC cargoes per month as the global oil market was desperate for additional volumes to offset the uncertainty around Russian exports.

Mexico, on the other hand, reduced their VLCC exports following President Andres Manuel Lopez Obrador's pledge to improve Mexico's petroleum product independence by increasing local refinery runs and thus reduce crude oil exports in 2022 and stop exporting completely by 2023. However, in March 2022, he expressed the intention to delay the implementation to take advantage of the current high crude oil prices, so exports may improve again in the coming months.

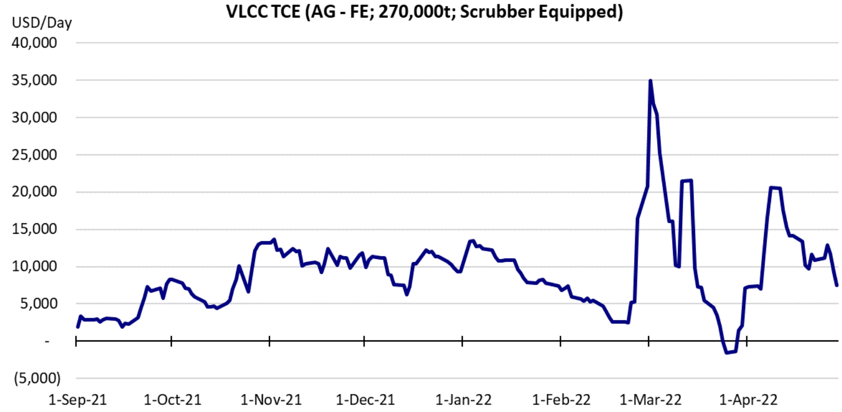
North-West Europe added two VLCC import cargoes per month (from 4.3 to 6.3/month). They took two more cargoes per month from West Africa and one from the Middle East, partially offset by lower VLCC imports from the U.S. Gulf and the Med. Additionally, France imported two West African VLCC cargoes in the quarter, one from Nigeria and one from Angola. West African imports were likely attractive for Europe as these cargoes can be delivered relatively quickly, in contrast to the much longer voyage from the Middle East.

TonMile Demand From VLCC Exports By Load Region



Source: Lloyd's List Intelligence

VLCC TCE (AG - FE; 270,000t; Scrubber Equipped)



Source: Poten & Partners

The VLCC market improved initially when Russia started their invasion of Ukraine, but the recovery was only temporary, and the market has been clearly more volatile since. Despite the geopolitical turmoil, it is important to remember that VLCC TonMile demand is still 12% below pre-Covid levels and that the fleet has grown by 6% since early 2020.

The 'fog of war' hangs over the outlook for freight rates as the fundamentals still have a way to go for a full recovery. There is a potential for ton-mile demand to improve if more Russian barrels are sold into Asia. Such trades are becoming more likely, as press reports indicate that Germany is now more amenable to agree with EU sanctions on Russian oil, after they agreed with the Poles that supplies for the Schwedt refinery can pass through the port of Gdansk. India and China are potential buyers for the Russian volumes that cannot be sold in the Atlantic basin. India will likely focus more on Black Sea barrels that can be moved on Suezmaxes through the Suez Canal, while exports from the Baltic could be reverse-lightered into VLCCs heading to China.

However, for a full recovery of the VLCC market, several other factors would likely be needed: A resolution of the Iran nuclear deal would support the removal of the 'Rogue Fleet' involved in Iranian exports, while global oil demand would benefit from an improvement of the Covid situation in China (or a change in the Chinese zero-Covid policy).

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