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POTEN TANKER OPINION

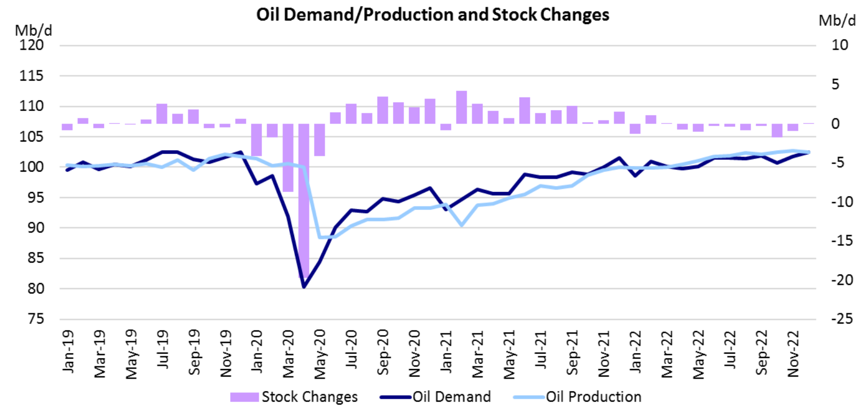
The Future Ain't What It Used To Be

Tanker markets are more uncertain than ever

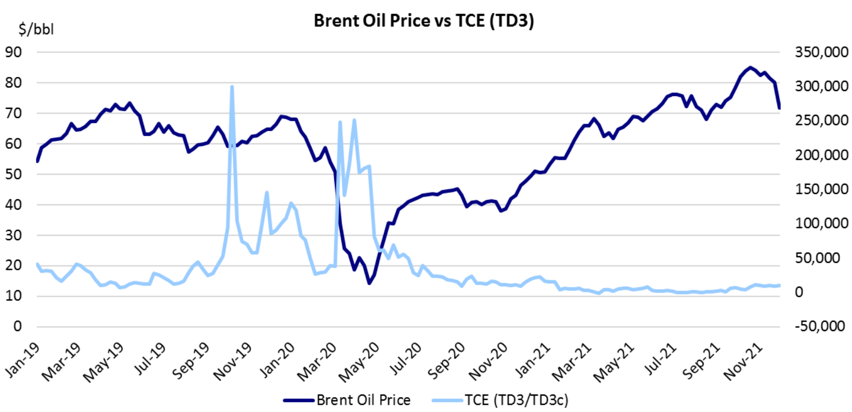
This is not a good time to be a prognosticator. A combination of factors has made forecasting the direction of the tanker market increasingly difficult. Yesterday, OPEC+ decided to raise oil production in January 2022 by 400,000 b/d in line with their long-term plan to unwind last years' production cuts by September 2022. This was a surprise decision. Many analysts expected the oil producing cartel to announce a production freeze against the backdrop of sharply lower oil prices due to the emergence of the new Omicron variant of Covid-19. On the face of it, this appears to be relatively good news for the tanker market, but OPEC has kept the door open to change their mind and reverse the increase or even lower crude oil output if the Omicron variant ends up having a strong negative impact on oil demand. In addition to the vagaries of future oil demand and supply in the context of a continuing global pandemic, the market also must consider government inventory releases and the potential impact of a new Iran Nuclear deal, for which the negotiations have started up again.

Last week, just before the World Health Organization declared Omicron a new variant of concern of Covid-19, a group of large oil consumers, including the United States, the U.K., India, Japan, South Korea and China, announced a coordinated release of oil reserves. Most of the crude (50 million barrels) is scheduled to come from the U.S. Strategic Petroleum Reserve (SPR). The Biden administration has announced that the U.S. will offer long-term loans of up to 32 million barrels of sour crude from its SPR for delivery by 30 April 2022, while separately selling 18 million barrels outright over the next "several months". A release of oil from reserves is obviously a short-term negative for the tanker market. However, reserves will need to be replenished and this could be supportive of tanker rates further down the road. After the announcements were made, U.S. officials indicated that they would continue to monitor the oil markets and if prices fall significantly, they could change the terms of the SPR release.

On Monday, Iran and the remaining parties to the Joint Comprehensive Plan of Action (JCPOA) – China, Russia, France, Germany and the U.K. – restarted negotiations on the possible return of the U.S. to this agreement, which limited Iran's nuclear activities in return for the lifting of sanctions. The U.S. is (indirectly) participating in the negotiations. Getting the JCPOA back on track will be a tall order and how the negotiations progress in the coming weeks will indicate whether a deal is feasible. If no deal is reached, the door could open to other options which will likely create significant geopolitical tensions in the Middle East. The current situation is not beneficial for the tanker market. Iran's exports are restricted by the sanctions and as a result, most of its tanker fleet remains inactive or is used for floating storage. The volumes that are smuggled out of the country are transported on a growing fleet of ageing "rogue" tankers that are widely considered a drag on the already depressed tanker market. If a deal is negotiated and the restrictions on Iran's oil exports are lifted, this could add about 1-1.5 million barrels per day of oil to the market, a boost to the tanker market. This would also render the rogue tanker fleet obsolete and – lacking legitimate other employment opportunities – these tankers may well be retired, providing an additional boost to the market. If the negotiations are not successful (considered the more likely outcome), this would not necessarily mean a return to the status quo. To keep the pressure on the Iranian regime, we expect that the U.S. will step up its enforcement efforts to ensure compliance with the sanctions, making life more difficult for both Iran and the owners of the vessels plying these illegal trades.



Source: EIA



Source: Poten & Partners

In conclusion, the outlook for the tanker market is highly uncertain. Oil supply and demand balances can easily swing from surplus to deficit depending on the impact of the Omicron variant on the global economy. On top of that we must consider the uncertain timing and volumes of OPEC+ production increases and SPR releases. The coming months will probably also decide the fate of the Iran Nuclear deal, the outcome of which will be key for the tanker market. Unfortunately, with so many uncertainties in 2022, it remains very difficult to predict when the tanker market will get on the road to a sustainable recovery.

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