

# NOTOS NEWS | TANKER

VLCC rates are poised to be boosted by increasing US crude oil exports, changes in trade patterns and a favorable development of supply-demand growth.

## INCREASING US CRUDE PRODUCTION AND EXPORTS

US crude exports have reached a new all time high in the week of 15 February with 3.6 million barrels per day, accompanied by a record 12 mbpd US oil production.

Looking back, US crude oil production ranged between 4 to 6.5 mbpd in the period 1998 until 2011, as shown by the graph below. Since then, the shale oil boom resulted in a continuous increase in US oil production. Meanwhile, US crude production reached 11.8 mbpd in December 2018, of which 1.8 mbpd were exported by sea.

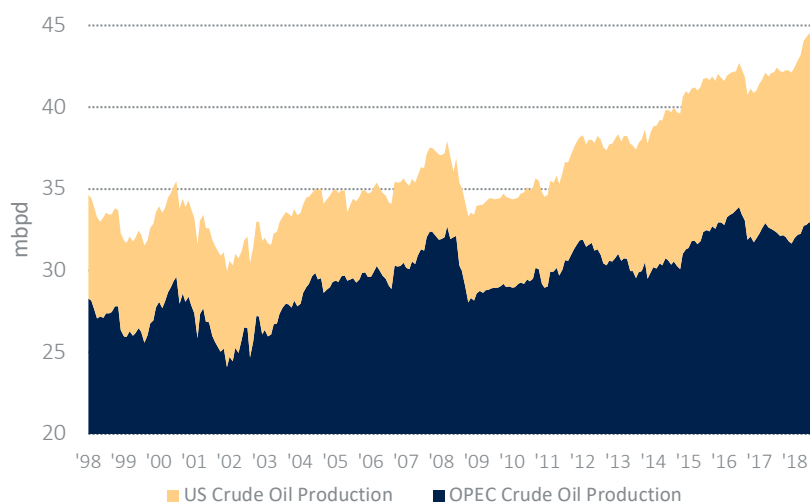
By contrast, following OPEC members' announcement in November 2016 to cut oil production to 32.5 mbpd, OPEC brought down its oil production to 32.2 mbpd in 2018.

In aggregate, the ramping up of US crude production has more than compensated OPEC's production cuts.

## HIGH SPREAD LEADS TO CHANGE IN TRADE

One reason for the strong demand for WTI-based crude from the United States is the discounted price it is traded on the global market compared to similar grades. The Brent-to-WTI spread is around USD 10 per barrel for the time being. Depending on the future development, a lower spread could weaken the demand whereas as higher spread could be bullish for US exports.

## OPEC VS US CRUDE OIL PRODUCTION



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Source: EIA, Clarksons 03/2019

The jump in US seaborne crude exports has boosted the spot rates for VLCCs, especially for long-haul voyages loading on the US Gulf Coast. This trend is expected to continue at least for the next two to three months and will increase tonne-mile demand.

In 2019 so far, there have been 48 VLCC cargos booked out of the USGC, this is five times the amount compared to the first two months of 2018. Back in 2017 during the same period, only two VLCCs were booked.

#### THUMBS UP FOR VLCC EARNINGS

There are good reasons to expect that VLCC earnings stay strong. Charterers have started looking for VLCCs to be used on typical Suezmax and Aframax routes, e.g. across the

#### VLCC EARNINGS ON THE RISE AGAIN



Source: Clarksons 03/2019

Atlantic towards Europe. This, as well as the OPEC-driven production cuts, could start an uptrend for VLCC rates after the lows seen last year (see graph above).

Further, the 2019 demand for VLCCs is projected to grow by 5%, and for 2020 a robust 6% is expected, according to Clarksons. On first sight, for 2019 the total fleet seems to be balanced, as about the same amount of tonnage is anticipated to be delivered from the yards.

For 2020, newbuilding tonnage hitting the water will slow down to approximately two percent of the sailing fleet. Not yet included in this brief comparison is the fact that the available fleet will be limited due to off-time needed for the retrofit with scrubbers.

Overall, the supply-demand balance for the VLCC fleet looks quite favorable. Given the aforementioned development of US crude oil exports and trade patterns, we believe in a strong case for an improvement of the VLCC market in 2019/2020.

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