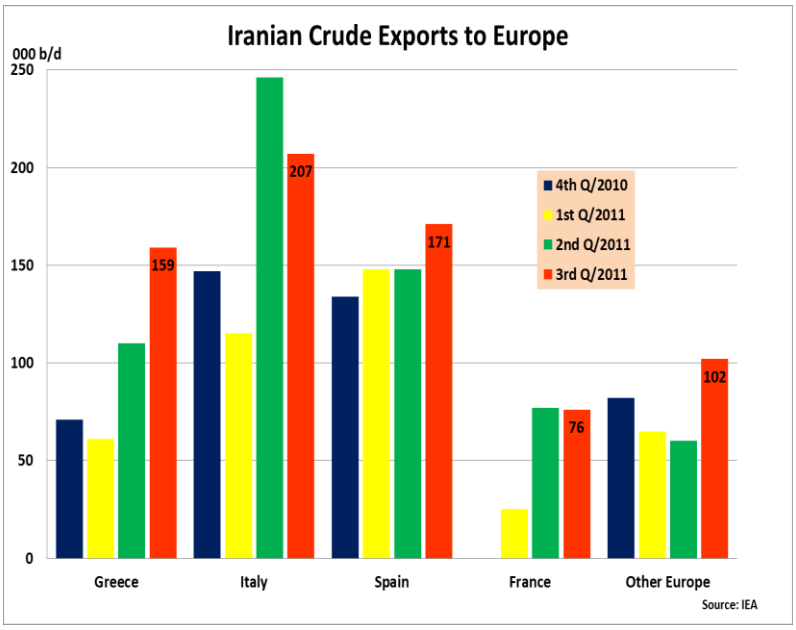
3rd February 2012

IRAN – FULL OF EASTERN PROMISE?

The recently announced European ban on imports of Iranian crude oil due to come into force on 1st July is unlikely to have any influence on Tehran's policy over its nuclear ambitions, however the ban could mean a significant shift in crude oil movements. The chart below clearly shows that exports of Iranian crude into Europe increased during 2nd & 3rd quarters 2011, partly as a direct result of the loss of 1.3 million bbls/day of Libyan crude during the civil war. Iran currently exports around 0.7 million bbls/day into the European refinery system, almost half of the Libyan pre-crisis total. Spain and Italy have been the biggest European importers from Iran in recent times. It is also notable that France has gone from zero imports in the 4th quarter 2010 to average 76,000 bbls/day during the 2nd & 3rd quarters of 2011. With Libyan crude exports now nearing pre-crisis levels, by the time the ban is implemented, Europe will be well placed to switch supplies away from Iran. Europe's economic growth (or lack of it) is also a major factor as demand is unlikely to rise significantly during 2012. Should Europe require to source alternative crude supply, Saudi Arabia is the obvious candidate to make up any shortfall. Saudi Arabia could supply any lost barrels through the Sumed pipeline taking up the capacity vacated by the loss of Iranian crude.

At the same time, Iranian exports to the Far East currently represent about 60% of their crude exports. Tougher sanctions on Europe will simply mean more crude will go east. India and China who will cite economic reasons for their reliance on a continuous supply as these economies continue to grow. As a further inducement, Iran may offer crude at discounted prices in order to ensure that exports continue to their largest customers in Asia. After 1st July, the political focus will turn east as the US and Europe attempt to ramp up more pressure on India, Japan and South Korea to join the ban. In the US, tougher financial sanctions are already on the agenda. The other nation which will come under more pressure will be Turkey, the 5th largest importer of Iranian crude (227,000 bbls/day). Although it is not bound by sanctions it is questionable whether imports will remain at current levels given the country's aspirations to join the EU.



As long as Iran has a market for its oil in the east and is able to increase export volumes, then the impact of these sanctions will remain minimal. However, we can be sure that the politicians both in Europe and the US will be exerting more pressure on these nations to at least reduce their oil purchases.

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CRUDE

A nasty week for VLCC Owners in the Middle East Gulf. Volumes did pick up from the previous weeks' very light activity, but availability remained easily plentiful enough to soak it up, and the market turned sharply downwards to end in the high WS 40's East and WS 32 West. Iran loadings are becoming more problematic for ownership, and the shrinking list of candidates is creating a fledgling two-tier market as premiums are having to be paid on those units that will trade there, and the differential is likely to widen further. Suezmaxes will, similarly, see premiums for Iran trade, but otherwise have settled back to around 130,000 by WS 87.5 to the East, though there is some stability now, and rates could start to creep upwards once again. Aframaxes remain in steady territory with 80,000 by WS 112.5 the mark to Singapore and premiums of 10 worldscale points+ payable for Red Sea loading where disputes continue for Sudanese grades.

Suezmaxes lost the stamina for a fight in West Africa and reacted predictably, when Charterers went quiet - by accepting lower rates, and the market bottomed at 130,000 by WS 72.5 for US Gulf. Equally predictably, bargain hunters were tempted to take advantage, and in just enough numbers to probably lead to a modest upward correction again.
VLCCs found little inter-Atlantic trade, and also had to compete with hungrier ballasters from the East for trips in that direction. Rates fell to 260,000 by WS 55 East and also, theoretically, to WS 55 for US Gulf movements. Runs to West Coast India also suffered with a lower USD 3.8 m the 'last done.'

Aframaxes in the Mediterranean stayed stuck in the same mud that they were stuck in last week. Too many ships, not enough cargoes, and also not enough disruption to allow Owners to achieve any more than 80,000 by WS 85 cross-Mediterranean, and the short term outlook is for more of the same. Suezmaxes also took a hit to as low as 140,000 by WS 72.5 from the Black Sea to European options with WS 70 payable to the US Gulf. The tonnage surplus has now been fairly well pruned, however, and any concentrated enquiry next week will quickly convert into an improvement.

In the Caribbean Owners held their heads up through most of the week to keep rates within a 70,000 by WS 135/140 range upcoast, but fog held some of the responsibility for that, and as it clears, the fundamentals will work against rates once again. VLCCs had a much quieter week of it and sentiment suffered due to the weaker West African scene, so the next deals to be seen will move to under the USD 5 m mark for Singapore with around USD 4.5 m available for West Coast India.

It was a case of no change at all in the North Sea for aframaxes - thin enquiry, and goodly tonnage, kept rates at around 80,000 by WS 95 cross U.K. Continent, and no higher than 100,000 by WS 105 from the Baltic, and little change in the picture forecast for the near term. Suezmaxes saw very little transatlantic, with rates in theory at around 135,000 by WS 70 for the US Gulf, but there was steady interest to the East where rates held at close to USD 4 m for Singapore. VLCCs failed subjects, and then chased the market lower to USD 4.5 m for Singapore with little early upside on the cards.

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PRODUCTS

A contrast in markets this week. The west enjoyed a busy and positive one, whilst the east lagged behind.

LRs have been quiet this week, and rates have slipped back to their base levels. 55 Naphtha AG/Japan is now back to WS 102.5 and 65,000 Jet AG/U.K. Continent is at USD 1.70 m. These levels barely make any money for Owner and so rates cannot drop any further. 75,000 mt Naphtha AG/Japan is running at WS 87.5 but some Owner have fixed at WS 85 in desperation. 80,000 mt Jet AG/U.K. Continent has spent the week trading at USD 2.20 m, but it looks set to show a small improvement with USD 2.30 m on subjects. LRs have little optimism though for the week ahead.

The MR AG market continues to be in the doldrums, with little activity and lengthy tonnage list, combines to create a weak market where rates are at the bottom. Naptha movements to Far East are stuck at 35x108 and UMS into Singapore is 35x142.5. East Africa continues to be covered mainly on the LR's, but MR's continue to be assessed at WS 170 plus the cost of guards. Westbound voyages are still slow and the rates have fallen to USD 1.35 m for deliveries to the U.K. Continent. The prompt position remains hugely over tonnaged and until that clears and positive movement in freights is not possible, so a daunting month awaits for the MR Owners.

The Korean export market has continued to tick over throughout the week with USD 375k being the average for a Korea/Singapore voyage, this looks set to remain the norm into next week with tonnage levels and cargoes remaining steady. Conversely there has been little cargo enquiry for Singapore-Japan and Singapore-Australia movements and tonnage for these movements remains plentiful. Owners are showing a reluctance to ballast towards WCI because fixing Naptha movements at current market levels could well push them into negative earnings further compounding the over tonnage situation in Singapore.

Nothing short of a disaster for owners in the Mediterranean this week, as rates plummeted. A growing pool of prompt tonnage and a dearth of short haul cargoes, tipped the balance and had rates sliding downwards with market fixing 30 at WS 155 and looking vulnerable to further softening. The Black Sea markets, despite suffering some temporary delays due to inclement weather, were similarly quiet and owners remain unable to achieve a premium over cross-Mediterranean trades, despite the ballast in; market also 30 at WS 155. A slow drip of long-haul activity for UMS/Naptha exports loading in the Mediterranean, with the market tracing levels from the Continent; now considered 37 at WS 160 levels. Movements of UMS to the East were limited, but ideas arranged around USD 1.0 m / 1.1 m for Red Sea / AG discharge respectively.

A very busy week on the Continent. The TC2 tonnage list looked healthy from the beginning on the week, and the rush began on Thursday morning with a wide gasoline arb to the U.S. and rates picked up to WS 160 basis 37kt (on subjects at time of writing). Movements to West Africa were quiet but deemed a pro rate of the MR's. Cross Continent also had healthy activity, and the handies rose to WS 195 basis 30kt on subjects at time of writing. The flexi market reached 22 x 235 on subjects at time of writing. LR1's were trading transatlantic and West Africa 60 x 117.5.

Liftings upcoast from the Caribbean were slow this week, 38 x 117.5 was confirmed but market deemed to be WS 120 basis 38kt. US Gulf tonnage was plentiful, but transatlantic rates rose to WS 80 on the back of a stronger TC2 market.

PAT/JCH/TP/DJY/alk

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