IMPACT OF US SANCTIONS ON TANKER MARKETS

Earlier this month, the US re-imposed sanctions on Iran, banning global exports threatening heavy penalties on any country that continues to trade with the middle-eastern nation. According to US secretary of state- Mike Pompeo during an address on November 4, the goal is “depriving the regime of the revenues that it uses to spread death and destruction around the world”. He continued that the ultimate aim is to compel Iran (currently the world’s sixth largest exporter of crude oil) to permanently abandon its well-documented outlaw activities and behave as a normal country.

However, although Iranian exports will be dramatically reduced, they will not cease altogether. Some countries such as India and South Korea have signed a waiver, that will allow them to continue exporting limited volumes of Iranian oil without being shut out of the US financial system. China, who is the world’s largest exporter of Iranian oil is also likely to receive some exemption in a bid to avoid further dispute in the ongoing US-China trade war. Initially Saudi Arabia and other OPEC members upped production, as was the case in similar circumstances in the past, leaving oil importers such as India are seeking to source supply from further afield and replacing Iranian crude with supply from the likes of west Africa, Brazil and the Caribbean. A move that would be positive for tanker tonne mile demand. More recently, and in response to the sanctions, Saudi Energy Minister Khalid al-Falih announced on Monday, a major cut in oil production in a bid to rebalance global markets and to boost oil prices that have fallen by around 20% over the last month as global supply has increased. Trump has criticised this plan and has urged Saudi Arabia and OPEC to keep pumping ahead of their December meeting.

Whilst the new US sanctions could in fact be driving momentum in the short-term tanker markets, the outcome of the upcoming OPEC meeting will no doubt be an important determinant as to the future of oil prices and supply further down the line and consequently the demand for tankers in the longer-term. As we discussed in last week’s article, VLCC rates are currently strong but what remains to be seen is if this upturn is driven by sentiment in the market or if it is merely down to seasonality, as the northern hemisphere prepares for winter. At Alibra we have noted month-on month increases in the crude sector since September with rates continuing their upward trajectory this month. VLCCS are up 27% to $ 32,425/pdpr and suezmaxes up 22% $22,375/pdpr and aframaxes up 15% $17,375/pdpr. Based on this current spike in rates, our short-term estimations for the tanker period market is that crude will remain healthy in to Q1 of next year.

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