US crude exports, apparent waning of OPEC/non-OPEC marking paradigm shift for Aframaxes?

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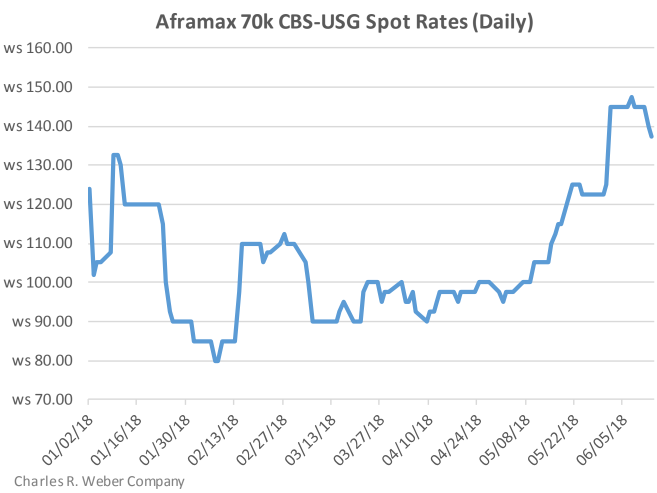
US crude exports drive Caribbean market rates

Rates in the Caribbean Aframax market have experienced considerable upside recently with gross freight rates bouncing off earlier multiple-decade lows.



Improving trade dynamics and demand generation have facilitated the gains, with higher bunker prices affording a small measure of additional support.

US crude export cargo serviced by Aframax tonnage rose 49% y/y between Jan-May. May itself was up 30% m/m, illustrating the directional rise. Europe and other extra-regional destinations make up the majority of the destination profile for these cargoes, which has moderated regional availability by elongating the replenishment of positions.

In addition to stronger Aframax-serviced exports, rising VLCC-serviced exports have boosted US gulf coast area lightering demand, which has drawn units out of spot trades and further improves the supply/demand positioning.

Despite reports to the contrary, we have not observed fresh large-scale delay issues associated with trades of Venezuelan crude oil in either the experience of vessels we have fixed for such cargoes or in our AIS tracking of Aframax vessels. A small number of units delayed for prolonged periods due to commercial issues remain, but no change thereof has been observed over the past month.

Global demand performance equally impressive

Globally, Aframax spot demand posted impressive growth during May with total demand up 38% m/m. This was led by a 59% m/m gain in East-of-Suez markets (with particular strength observed at the Kozmino terminus of the ESPO pipeline). The Mediterranean region followed with a 58% m/m gain. Black Sea demand jumped by 50% m/m while Baltic demand rose by 20% m/m.

The global demand strength appears to be correlated to higher oil prices and tightening oil markets, which has also seen adherence to earlier OPEC/non-OPEC supply curbs waning, though a rebound in purchases on seasonal factors and progression from refinery maintenance programs are also a factor.

In the near-term, we expect that following the recent surge, a pullback will materialize and contribute to seasonal factors that will see rates moderate. Meanwhile, due to the strength of US crude exports – and the timing thereof coming over 1.5 years ahead of the projections of major crude forecasting agencies – our intermediate-term expectations have been upwardly revised. Still, supply-side headwinds will remain a key challenge through at least 3Q19.