Analysis

Middle East Update: VLCC "Perfect Storm"...

Developments in the Middle East have again been hugely volatile this week, with an escalation in vessel attacks, oil prices pushing through $100/bbl (despite good crude flows departing the Gulf region) and now building geo-political risk in the Red Sea. Tanker markets continue to sit at hugely elevated levels, with the disruption helping VLCC rates surge further to fresh record highs.

Attacks & Transits

In an escalation in tensions this week, a further 8 ships were reported damaged in the Gulf (bringing total ships reported damaged / arrested to >100 – see *WFR*). "Visible" (AIS-on) transits via Hormuz remain highly limited but the good flow of VLCCs "shuttling" crude through Hormuz for STS transfer in the Gulf of Oman seems to be continuing for now. Other ship types / commodities seem more constrained (the first LNG carrier left the Gulf in nearly a month this week, 2 VLGCs crossed Hormuz "visibly" this week vs 33 typically). Red Sea traffic also remains disrupted, with Yemen's Houthi group seizing cities close to the Bab-El-Mandeb. The disruption focus here is VLCC traffic through the Bab-El-Mandeb, now 80% below Q2 (and attacks on Saudi's East-West pipeline are still a risk). Houthi advances may also threaten the revival in container Gulf of Aden transits (now >2x Q2, if 59% below the 2023 "normal").

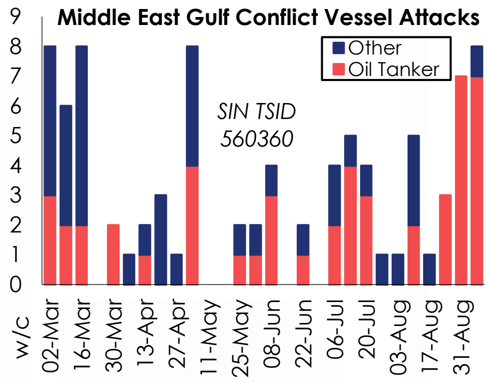
Energy Markets

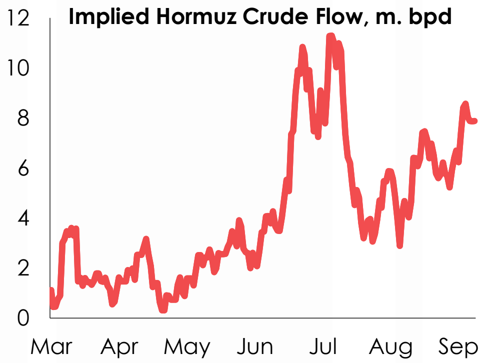
Despite major disruption, energy markets, supported by the logistical flexibility shipping markets provide, continue to show resilience in getting oil "to market". We estimate ~8m bpd of crude is now passing via Hormuz (down "only" 7m bpd vs pre-conflict), alongside 2.5m bpd from Fujairah / Oman pipeline (+0.5m bpd) and 3m bpd from Yanbu (+2m bpd) boosting overall Middle Eastern crude outflows to 13.5m bpd (18m bpd pre-conflict). An extra ~0.75m bpd of underlying export growth (e.g. from Brazil) has supported (albeit US Gulf exports are down on their May peak). However, while a drop in Chinese imports (which were running 3-4m bpd below pre-conflict in Q2) kept oil prices "in check" for much of the summer, Chinese demand now seems to be firming, and alongside increased attacks and indications from the US administration that the conflict may be more prolonged, Brent has risen to $104/bbl. With Atlantic diesel prices at record highs, macro-economic indicators (e.g. upcoming central bank rate meetings, inflation rising, US 10-year treasuries at ~5%) need careful review.

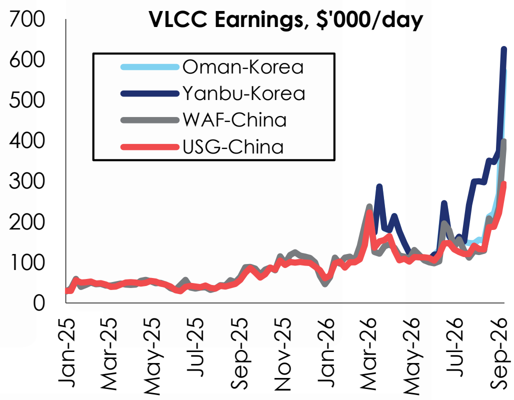
Shipping Markets

The crude tanker market is again at extraordinary rate levels. The combination of both "enough" volume (Mid. East crude flows are "only" 4.5m bpd down) and major inefficiencies as the tanker market provides the logistical flexibility needed has developed. With voyages lengthening further (e.g. ~50% of Red Sea oil now heading to Asia via the SUMED pipeline (or Suez) and then the Cape of Good Hope to bypass the Houthi threat) and inefficiencies related to STS transfers building (e.g. ~15% of the VLCC fleet is now off Oman, start-July: 10%), global VLCC earnings rose by 68% to a fresh high of $451,000/day amid records in the West (USG-China freight: $37.5m, $19/bbl) and East (Oman–Korea: $572,000/day). Gains have filtered down through the sizes, with global Suezmax earnings up 94% w-o-w to a record $343,000/day. Across other energy shipping segments, VLGC rates remain elevated at $163,000/day amid continued disruption at Panama (5% of VLGC fleet waiting to transit Panama earlier this week, 2% in August), but LNG carrier spot rates are now soft ($27,000/day) with more US LNG being shipped shorter-haul to Europe (stocks are at a >10-yr seasonal low). So, with energy markets increasingly factoring in a prolonged conflict and while building macro-economic risks need close attention, for now crude tanker markets seem to be benefiting from an economic "sweet spot" of "just enough" volume and plenty of disruption (see *SIN* for full weekly recap).

Graphs of the Week







Source: Clarksons Research

The author of this Analysis is Steve Gordon. Any views or opinions presented are solely those of the author and do not necessarily represent those of the Clarksons group.

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