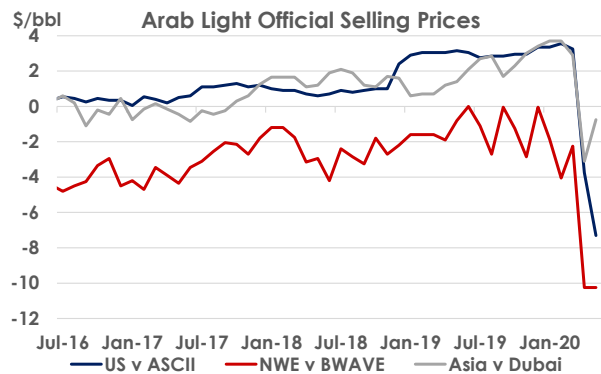
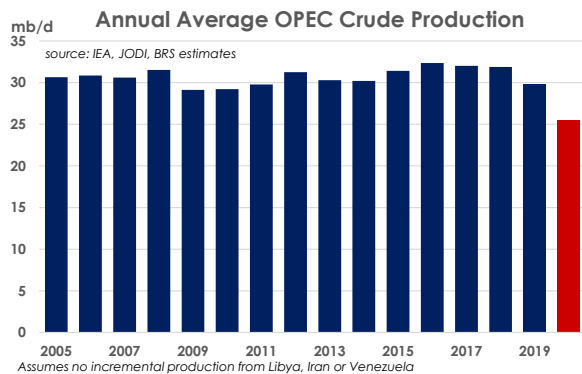




Decoding the biggest ever crude supply cut

After four days of start-stop fractious negotiations, late on Sunday, the OPEC+ Alliance announced that they had agreed to end the oil price war and cut crude oil production by a record 9.7 mb/d. This week we de-code what this means for tanker markets and ask whether it changes our previous expectations, outlined in recent issues of this *Newsletter*, that tanker markets would be facing strong headwinds in the second half of this year.



Long-term cuts. According to OPEC's statement, the OPEC+ group of countries will cut 9.7 mb/d of crude production from 1 May 2020 until 30 June 2020. Thereafter, the alliance will cut 7.7 mb/d for the period 1 July – 31 December 2020. Subsequently the cut will fall to 5.8 mb/d for the period leading up to 30 April 2022. However, this will be reviewed in December 2021. The baseline for all cuts is October 2018 production except for Saudi Arabia and Russia which both have 11 mb/d. In order to end their price war, Saudi Arabia and Russia agreed to each shoulder 2.5 mb/d of the cut until 30 June, falling to 2 mb/d until 31 December.

Mexican standoff. The biggest sticking point was that Mexico balked at being asked to cut 400 kb/d and only agreed to cut 100 kb/d. This risked the whole deal falling apart until the US agreed to cut an extra 300 kb/d to make up for Mexico's 'shortfall'. When OPEC outlined its deal last Thursday, it called upon 'all major producers to contribute to the efforts aimed at stabilising the market'. This was aimed at the G20 countries whose energy ministers were meeting the next day, with OPEC ministers openly declaring that these countries should contribute a combined 5 mb/d. However, the communique delivered following the G20 meeting made no reference to production cuts. Therefore this calls into question whether these countries will cut production. In the case of the US, this seem certain considering that recent US EIA weekly data implied a 600 kb/d drop in production (it should be noted that these data were re-based and so not all of this volume may equate to a fall) while last week, the EIA's Short-Term Energy Outlook (STEO) forecast that US crude production would fall by 500 kb/d on average in 2020.

OPEC+ Voluntary Crude Production Cuts
(million barrels per day)

Country	Reference Production	1 May - 30 Jun 2020		31 Jul - 31 Dec 2020	
		Voluntary Adjustment	Implied Voluntary Production Level	Voluntary Adjustment	Implied Voluntary Production Level
Algeria	1057	241	816	193	864
Angola	1528	348	1180	279	1249
Congo	325	74	251	59	266
Equatorial Guinea	127	29	98	23	104
Gabon	187	43	144	34	153
Iraq	4653	1061	3592	849	3804
Kuwait	2809	641	2168	512	2297
Nigeria	1829	417	1412	334	1495
Saudi Arabia	11000	2508	8492	2007	8993
UAE	3168	722	2446	578	2590
Total OPEC 10*	26683	6084	20599	4868	21815
Azerbaijan	718	164	554	131	587
Bahrain	205	47	158	37	168
Brunei	102	23	79	19	83
Kazakhstan	1709	390	1319	312	1397
Malaysia	595	136	459	109	486
Mexico**	1753	400**	1353	320	1433
Oman	883	201	682	161	722
Russia	11000	2508	8492	2007	8993
Sudan	75	17	58	14	61
South Sudan	130	30	100	24	106
Total Non-OPEC	17170	3916	13254	3134	14036
Total	43853	10000	33853	8002	35851

*Includes Iran, Libya and Venezuela
**Includes 300 kb/d extra cut from US

Too little, Too late? Despite the eye-popping size of the cut, analysis suggests that it will arrive too late to avoid significant short-term pressure being placed on midstream infrastructure as oil markets continue to be demand-driven, rather than supply driven. Recent forecasts have suggested that oil consumption has fallen by over 30% in key economies as Covid-19 has taken hold. For example, as the epicentre of the pandemic has shifted to the US, weekly EIA data suggest that total oil consumption there has plunged by 25% over the past three weeks with...

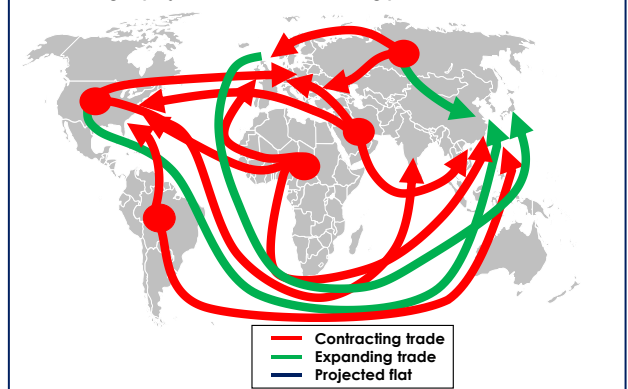


...gasoline demand plummeting by 50%. Such demand destruction has seen refiners slash runs and in some cases shutter entire plants which in turn is seeing onshore crude inventories surge to approach tank tops in key hubs. This is increasing the demand for floating storage which will remain strong for some time to come.

Floating storage to soar to new heights. The vast majority of the storage which we expect to see over the coming months will be for logistical reasons rather than as a 'pure' floating storage play. Considering that the cuts will not take effect until May, this will not avert the impact of the huge volume of incremental Middle Eastern crude on the water when it reaches its destination. In the case of Europe and the US, the bulk of these volumes will arrive from late-April onwards which suggests further downside to oil prices. Considering the difficulty in securing free tankage, we anticipate that many vessels will be forced to wait at anchor close to terminals on demurrage. Moreover, as we have periodically highlighted, the same issue will impact clean tanker markets as traders struggle to find tankage for their seaborne product volumes.

Oil trades being redrawn (again). Considering the record size of the cut, it might easily be imagined that demand for tankers across all major crude trades would contract on an annual average basis. However, *Alphatanker* analysis suggests this not to be the case. Even with a year-on-year drop in US crude production, we project that US crude exports will grow in their importance as a 'release valve' for the US oil market. This has been demonstrated by the Brent – WTI spread blowing out since the OPEC+ deal was announced so that today it stands at \$10/bbl. Even despite the spectre of demand destruction and amid strong freight rates, this spread is enough to make US crudes attractive to refiners across the globe. Moreover, China is obliged to hike its purchases of US crude under the Phase 1 trade deal which could see shipments exceed 500 kb/d by the end of the year. Another route where we forecast annual growth is the North Sea to China, led by the ramp-up of Norway's Johan Sverdrup field, crude from which is highly prized by Chinese refiners. However, away from these chinks of light, the picture is far weaker with significant declines projected for key trades such as the Middle East Gulf to Asia and West Africa to Asia. Furthermore, in view of Saudi Aramco hiking crude prices for US customers, this will likely provide some relief for beleaguered Canadian producers as it should see more of their crude refined in the US.

Main changes projected in crude oil trading patterns in 2020 versus 2019



Boom then bust. Our expectations for tanker markets into next year have not fundamentally changed in view of the OPEC+ cut. We project this year to be boom, driven by tonnage tightness in the wake of soaring floating storage, followed by bust as floating storage is wound down (also releasing tonnage back into markets) thus decreasing oil import demand. Even without the cut, dirty tanker fixtures would have fallen as producers 'organically' reacted to a lack of demand for their crude while clean fixtures would have fallen, reflecting dismal end-user demand. Indeed, this is already being borne out in *Alphatanker* crude export data on Page 4 of this *Newsletter* which show that 18 out of 23 major crude exporters reduced shipments in the week ending 10 April. Arguably data also suggest that Saudi Arabia and Russia discovered that the oil price war was becoming unsustainable as buyers began shunning their crude. In our view, the cut has given the oil market a clear path to rebalancing which in theory should curb some of the volatility which oil markets have experienced of late. As such, it will not materially impact tanker demand compared with would otherwise be expected in view of Covid-19 demand destruction. Furthermore, in the event that global oil demand rebounds at a faster pace than OPEC are expecting, we believe that, as with previous deals, members of the OPEC+ alliance will break rank and produce above their quotas and thus they would again be reacting 'organically' to incremental demand growth. Therefore, in our view, tanker markets will react more to oil demand than oil supply over the coming year.



This week's market pointers

Crude prices have found a degree of stability over the past week as, despite the announcement of the markets largest ever crude supply cut by the OPEC+ Alliance, prices have remained largely flat. As it became clear that Saudi Arabia and Russia would put their differences aside and that OPEC+ would cut substantial volumes from the market, prices held their ground with ICE Brent now having stayed above \$30/bbl for seven consecutive trading days. Nonetheless by the time of writing, bearish sentiment was building amid increasing scepticism that the OPEC+ cut would avert pressure being put on midstream infrastructure and thus that the oil market is heading for a storage capacity 'crunch'. As such ICE Brent had once again slipped below \$30/bbl and was last trading at \$28.50/bbl. On the other hand, prices in the US have remained relatively weak as official data show the size of the demand destruction there and suggest that crude stocks are building at an unprecedented rate. Accordingly, the WTI – Brent spread has doubled over the past week to around \$9-10/bbl with the grade last languishing at \$19.70/bbl.

Refinery update. More information continues to be released indicating the scale of the global refinery pull back. In Germany, the 240 kb/d Schwedt refinery will undergo maintenance at end-April. In the Netherlands, Shell has announced that it will push forward maintenance at the 420 kb/d Pernis refinery (Europe's largest). It is now scheduled to start in mid-April rather than early-May while there is no prospect of the shuttered CDU at Gunvor's Rotterdam refinery restarting in the near future. MOL has confirmed that its plants in Croatia, Hungary and Slovakia are all running at reduced rates. In Portugal, Galp has cut output at its Matosinhos refinery. In France, Ineos has restarted the 240 kb/d CDU at its Lavera plant following maintenance. However, the company has shut the FCC at its Grangemouth (UK) plant. In the US, BP has stated that its three largest refineries are running at 80-85% of capacity. In India, refiners continue to slash output as they react to the ongoing lockdown there. Latest Chinese data from SCI imply that Chinese state-owned refinery utilisation added 3% last week as refiners there reacted to gradually increasing domestic demand while independents hiked throughputs by 2%. Finally, in South Africa, the Natref plant closed last week due to poor margins. Considering maintenance at plants elsewhere in the country scheduled for May, it suggests that the country may soon be without a functioning plant.

NNPC changing its refinery ownership model. Nigerian state-petroleum company NNPC has announced that it will invest in repairing its refineries Warri, Port Harcourt and Kaduna after which it is planning to hand them over to private enterprises to run under joint venture. The plants have already reportedly shut, although they have been sporadically running at well below their capacity over recent years. This model is aimed at reducing Nigeria's costly product imports, much of which are supplied by European refiners. Meanwhile, amid low global prices, NNPC has finally discontinued its gasoline subsidies.

Ecuador declares force majeure on crude exports. State-owned PetroEcuador has declared *force majeure* on crude exports following a landslide along its 360 kb/d SOTE pipeline which delivers crude exports to the Pacific port of Balao. The landslide also hit the 450 kb/d OCP line which ships heavy crude for private producers. Neither line was running at close to capacity before the incident with Ecuador producing around 500 kb/d. Reports suggest that the lines will be out of action for 2-3 weeks but tanker loadings should remain unaffected due to volumes being shipped from storage on the Pacific Coast.

Orders confirmed for two LNG-Propelled VLCCs. France's Total has confirmed that it has signed time charters for two LNG-propelled VLCCs which will be owned by Malaysia's AET. The two vessels will be constructed by South Korean shipbuilder Samsung Heavy Industries with reports suggesting that they will cost a total of \$209.2 million and be delivered in April 2022. The fuel will be supplied by Total's bunkering division Total Marine Fuels Global Solutions which recently took delivery of the world's largest LNG bunker barge which will be stationed in Northwest Europe and will be used to supply CMA CGM's recently delivered LNG-propelled Megamax container ships.

US Coastguard grants ballast water treatment system extensions due to Covid-19. The US Coastguard has announced that in view of 'the impact of public health policies and the importance of a the continued flow of maritime commerce' it will grant a 12 month extension to vessels with ballast water treatment system (BWTS) compliance dates before April 1, 2021. However the Coastguard also noted that 'any vessel that conducts a credit drydock (inspection of the outside of the ships bottom) before April 1, 2021 will still need to have a BWTS installed and commissioned when possible'.



Seaborne Crude Exports¹ for Selected Countries for week ending 10 April 2020

Million barrels per day

	12-month rolling average	4-week rolling average	latest week (10 Apr)	change from previous week
Algeria	0.47	0.46	0.43	-0.02
Angola	1.28	1.38	1.30	-0.18
Gabon	0.18	0.14	0.29	0.15
Iran	0.26	0.02	0.00	-0.08
Iraq	3.37	3.06	3.01	-0.19
Kuwait	1.94	1.79	1.95	-0.25
Libya	0.79	0.07	0.14	0.14
Nigeria	1.96	1.88	1.61	-0.10
Qatar	0.70	0.72	0.62	-0.23
Saudi Arabia	6.92	9.07	9.70	-0.81
UAE	2.25	2.17	2.18	-0.10
Venezuela	0.65	0.47	0.40	-0.11
Azerbaijan ²	0.70	0.82	0.80	-0.10
Kazakhstan ³	1.23	1.36	1.27	-0.02
Russia ⁴	3.39	3.39	3.11	-0.41
Oman	0.78	0.86	0.91	0.06
Sudan	0.12	0.09	0.00	-0.24
Brazil	1.33	1.46	1.18	-0.37
Colombia	0.53	0.54	0.60	0.12
Mexico	1.06	1.22	1.20	-0.03
Canada ⁵	0.31	0.40	0.50	0.18
US	2.90	3.13	3.07	-0.03
North Sea ⁶	1.13	1.20	1.05	-0.17

Source: Alphatanker

¹ does not include pipeline flows

² adjusted for Turkmenistan re-exports

³ does not include volumes exported via the Atasu - Alashankou pipeline, includes volumes exported via Russian ports

⁴ does not include volumes exported via the Druzhiba or Daqing ESPO Spur pipelines

⁵ Does not include volumes re-exported via US ports

⁶ Only includes volumes exported outside of UK or Norway

Oil counted as exported when a vessel exits national territorial waters, includes volumes built on vessels over previous weeks

Data are subject to revision



Latest Crude, Refined Product and Bunker Prices and Freight Rates

