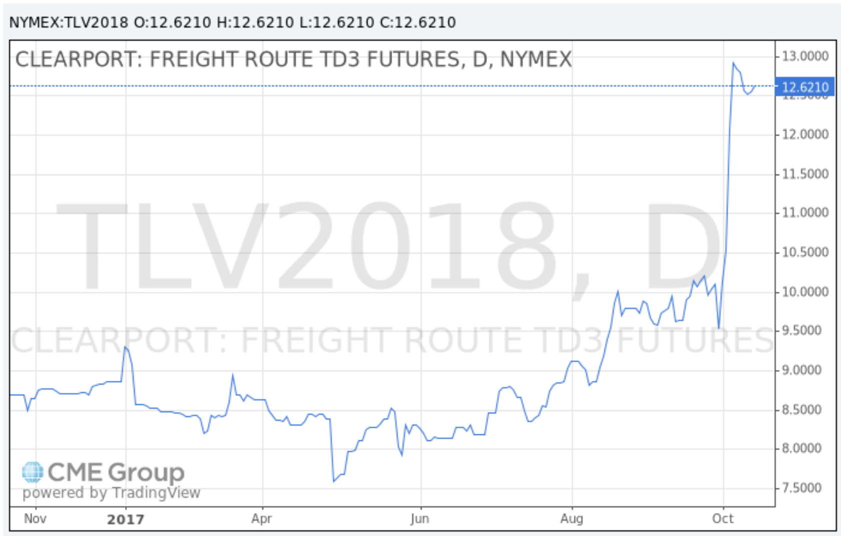
PETROMATRIX

CHART OF THE WEEK

October 16, 2018



CME Contract TL: Freight Route TD3C (Baltic) Futures (270'000 MT VLCC Middle-East to China) in $/MT

- Our chart of the week shows the cost of transportation for crude oil in a VLCC from the Middle-East to China, as priced on the CME contract code TL.
- Freight rates from the AG to China have surged not only to the highest level of 2018 (by far) but also to the highest level since November 2016, when OPEC was maximizing its crude oil exports before the supply-cut agreement.
- The rise in freight rates is due to a combination of factors:
    - Weather delays at discharge ports in Asia
    - Increased crude oil seasonal demand in Asia
    - Higher prices for bunkers
    - Higher volume of oil transported globally
- Saudi Arabia has indicated that it is increasing its supplies to the highest level since November 2016. The AG-China freight rates surging to the highest point since then is an element of confirmation that regionally, the increased exports from the rest of the AG are starting to offset the decline of exports from Iran.
- In January 2020, the sulfur content limit of bunker fuel on a global basis will be lowered to 0.50% from the current 3.50% (IMO 2020). The current freight-price surge has been mostly limited to the front of the curve, translating into a wider backwardation from now to 2020 (the CME TL contract has some Open Interest to the end of 2021). Given that the shipping industry might not be fully prepared for the shift to IMO 2020, there is a risk to see a rise in freight costs in early 2020. The uncertainty created by IMO 2020 will provide increasing trading opportunities in ocean freight contracts.

Olivier Jakob, Petromatrix