



# POTEN TANKER OPINION



## Waiting For The Spark

### Geopolitical conflicts ignite the tanker market

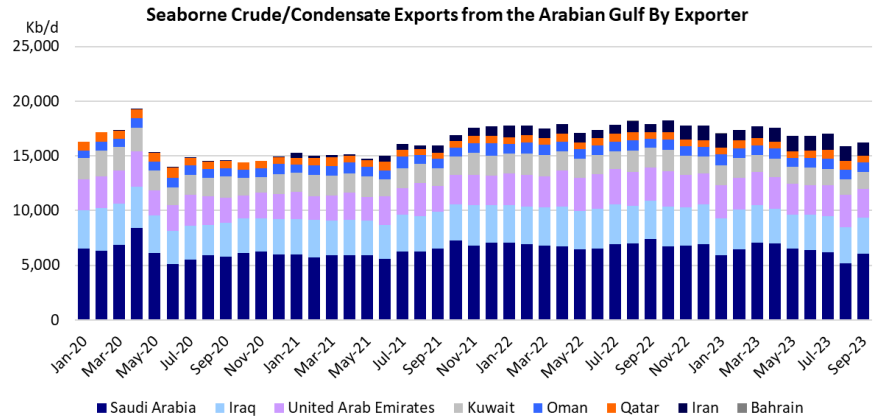
The conflict between Israel and Hamas, with Iran looming in the background has catapulted geopolitical risks and their impact on oil and tanker markets back into the spotlight. The war between Russia and Ukraine and the simmering tension between the United States and China had already raised the temperature, but skirmishes in the oil rich Middle East added a completely new dimension. In this week’s Tanker Opinion, we will add some historical context and discuss how an escalation of the conflict in the Middle East could potentially impact the tanker market.

Geopolitical tension and the tanker market are inextricably linked because there has always been a close relationship between geopolitical events and oil prices. Several of the world’s leading oil producing countries are politically unstable and some are at odds with the West, in particular the U.S. Russia, Iran and – until recently – Venezuela have been subject to sanctions, for example.

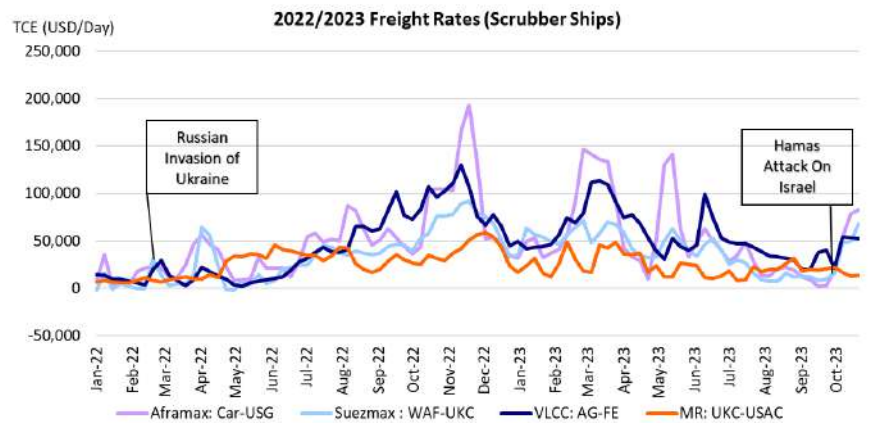
Going back to the 1960s, geopolitical events have been the catalyst for many of the biggest moves in tanker rates and prices. The closing of the Suez Canal on 5 June 1967, at the beginning of the Six Day War is probably the best known and certainly one of most impactful examples. The closure of the Suez Canal was sudden and unforeseen and created an unexpected shock to global trade flows. The closure, which lasted eight years, fast-tracked the growth of the VLCC and ULCC fleet. These vessels were designed to take advantage of their superior economies of scale. Freight rates initially skyrocketed, but in later years dropped due to the significant overbuilding of tanker capacity and the 1970’s oil shock. When the Suez Canal reopened in 1975, it was deemed a non-event for the tanker market, which was already depressed. Another geopolitical event that had a big impact on the oil and tanker markets was the Iranian revolution of 1979, followed in 1980 by Iran-Iraq War which lasted until 1988.

The common denominator for geopolitical events that have a significant impact on the tanker market is that it is a surprise event in a relatively balanced market. When we look back at 2019 – the last time we had escalating tensions in the Middle East – it was the attack on Saudi Arabia’s Abqaiq oil processing facility that put the tanker market on edge. When the U.S. government imposed sanctions on a Chinese tanker owner less than two weeks later, tanker freight rates skyrocketed.

The current geopolitical landscape has some similarities with that of 2019. Oil prices have been volatile and generally elevated since Russia invaded Ukraine in February 2022. Production cuts by OPEC+, primarily Saudi Arabia and Russia,



Source: Vortexa



Source: Poten & Partners

have tightened the oil markets. Global crude oil inventories are relatively low. In the U.S., commercial stock levels at Cushing, Oklahoma are close to the bottom of the five-year (2018-2022) range. After releasing 200+ million barrels of crude oil from the Strategic Petroleum Reserves (SPR) in 2022 in the wake of the Russian invasion, these government reserves are near their lowest levels since 1983. On the shipping side, markets have tightened as well since the Russia – Ukraine war started. Limited tanker deliveries and growing ton-mile demand have made the freight market more volatile and increased the upside potential for tanker rates.

The oil and tanker markets are monitoring the situation in the Middle East closely. While the country is not (yet) directly involved, Iran is stirring the pot using their “axis of resistance”, or network of violent proxies in the region. Iran plays a dangerous game. Any miscalculation carries significant risks of escalation in the region. The countries around the Arabian Gulf export more than 15 million barrels per day of crude oil and even a hint of a potential disruption could send the oil and tanker markets scrambling to secure supplies. It would not be the first time that a conflict in the Middle East creates the spark that will ignite a major rally in both crude oil prices and tanker rates.