Kommentar fra CEO i Frontline, Robert Hvide Macleod (21. april 2020)

What a start to the oil market week!

Despite the headlines this price action generated, only 6 million barrels of futures actually traded in negative numbers (miniscule in futures terms). The oil market for floating storage is anchored off the Brent prices and curves. In turn, the US Gulf Coast exports are using Brent prices for their indications rather than landlocked WTI.

But let's focus on the tanker market;

The simple way to explain how current events are employing the tanker fleet and why we are optimistic that freight will remain supported;

The **oil price is in super-contango, demand is under distress** and the world is **running out of land based storage**.

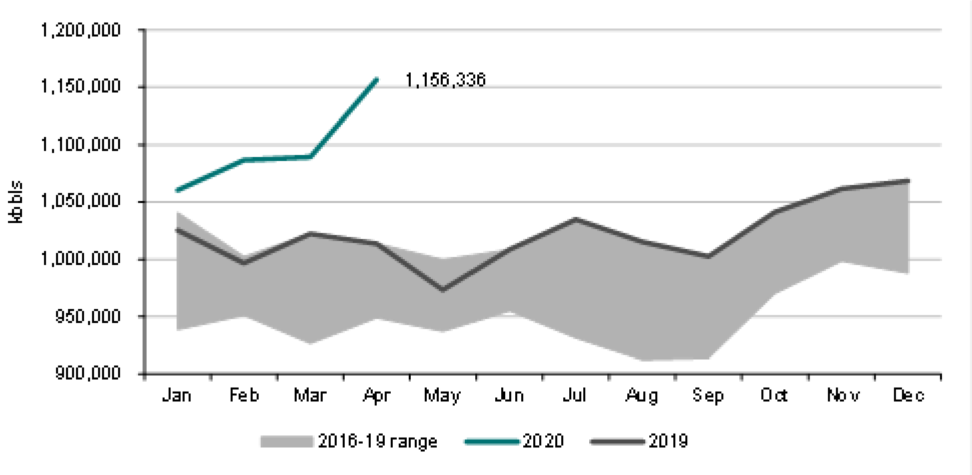
The OPEC cuts are of course still ahead of us, but over-supply of crude is expected to remain substantial given current demand destruction. This will mean that inventory builds will slow but, importantly, remain in place.

The time charter market reflects the current dynamic, and the amount of 6-month time charter deals concluded in recent weeks has been massive. The oil is now starting to '*move in to ships'* and the effect is likely that the spot market will remain tight as we move through the inventory build period. You don't move in the day you sign the contract for a house, same argument as I have mentioned before. As oil is moving in, the minimum periods have increasing slowly but surely to 8 and 10 months and we expect 12 and 24 months activity to pick up over the coming weeks.

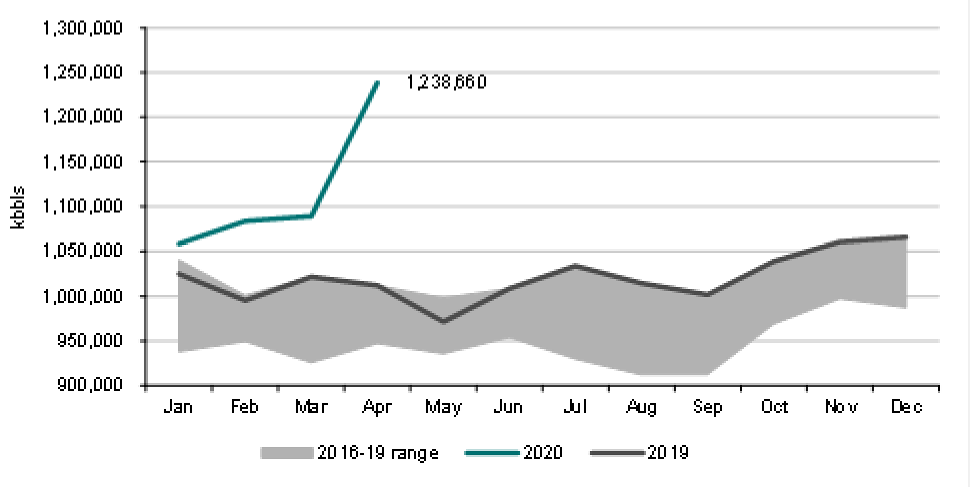
History is repeating itself from the 2015 inventory build cycle, the difference now is that it is happening at a much faster pace and with much stronger tailwinds.

An interesting visual reference is the '**oil on water' charts below,** which captures slow steaming, delays, storage and recent volume hikes.

Oil on Water April 7th 2020



Oil on Water April 20th 2020



In just 13 days the amount of 'oil on water' has increased by just over 7%.

I wouldn't be surprised to see this number continue to rise as inventories are quickly filling up.

It will take some time before demand increases to match supply, during this period we remain in inventory build mode. History shows that inventory build, and inventory draws, take longer than one expects when it kicks off. Having said that, we are in unprecedented times now. But judging from the rates charterers are willing to pay on time charters, the inventory build period (and a supported freight market), does not look short-lived.

As demand sees material improvements, we can expect to enter an inventory draw period where freight rates will ease up. It is then important to also note that the **tanker fleet is better balanced than what we have seen for many years**. At the start of 2021 around 25% of the VLCC fleet will be 15 years+. So, if rates do come down sharply, it is also fair to expect the next wave of ship recycling.

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