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China tanker shipping

The curious case of easing congestion and rising tanker rates

Infrastructure, Industrials & Transport

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We reiterate our Overweight rating on COSCO Shipping Energy ("CSET"; 1138 HK/600026.SS) and would buy on dips. VLCC freight softened through most of last week as September's extreme logistics bottlenecks began to unwind, before rebounding into Thursday. **We think the rebound points to strengthening underlying cargo demand, rather than simply a return of congestion.** We see three positive signals: **(1)** the earlier correction reflected improving logistics, as Yanbu reopened, ship-to-ship transfers shifted away from congested Oman and more Indian refiners began sailing directly into Hormuz, releasing some vessel capacity; **(2)** freight then turned higher on Thursday across West Africa–China, US Gulf–China, Oman–China and Hormuz even as those logistics improvements remained in place, suggesting newly available ships were quickly taken up by cargoes, while repeated tanker attacks should keep Hormuz freight elevated as owners continue to demand a risk premium; and **(3)** strength is broadening beyond VLCCs into Suezmax and Aframax tankers. With Middle East crude exports still below pre-war levels and six-month/one-year VLCC charter rates at ~US$341k/~US$269k per day versus our 2026E/2027E assumptions of US$135k/US$100k per day, we see meaningful upside risk to CSET earnings.

- **Freight softened first as logistics improved:** September's VLCC spike reflected both recovering cargo flows and a highly inefficient transport chain. Large volumes of Middle East crude were being carried through Hormuz by one tanker and then transferred ship-to-ship outside the Strait onto another tanker for the longer voyage to Asia. Transfer capacity off Oman became saturated, with some operations taking up to ~10 days versus ~5–7 days previously, tying up ships and reducing the number available for new cargoes. Last week, this began to ease as (1) Saudi Arabia restarted the East–West Pipeline and resumed Yanbu exports, allowing more crude to bypass Hormuz; (2) crude buyers moved some ship-to-ship transfers toward India and Malaysia; and (3) more Indian refiners began chartering vessels directly into Hormuz. With fewer ships stuck in transfer queues, Oman and Atlantic VLCC rates corrected 5–6%.
- **Hormuz also moderated, but attacks should keep the risk premium elevated:** Hormuz–Asia VLCC TCE eased from a peak of ~US$1.27mn/day to ~US$1.20–1.21mn/day, before recovering to ~US$1.22mn/day. The correction was modest because Hormuz freight includes more than a congestion premium — owners are also being paid for physical security risk. Recent attacks included Mersin Prosperity, a VLCC that had previously carried ~2mn barrels of Iraqi Basrah crude and transferred the cargo ship-to-ship off Sohar, Oman, before subsequently being struck while transiting Hormuz. Iranian media has since claimed at least seven tankers were targeted over five days. Repeated attacks remind owners that a direct Hormuz transit is not a normal voyage, and those willing to take the risk should continue to demand substantial compensation. We therefore expect Hormuz TCE to remain elevated in the near term even as some operational bottlenecks ease.
- **Thursday's rebound points to strengthening cargo demand:** Freight rebounded across major VLCC routes even though logistics were improving.

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West Africa–China VLCC TCE rose 6% DoD to ~US$515k/day, around 10x its ~US $51k/day pre-war average. US Gulf–China rose 1% to ~US$400k/day, more than 8x its ~US$49k/day pre-war average. Oman–China rose 2% to ~US$822k/day, while Hormuz–Asia recovered to ~US$1.22mn/day. If September's spike had mainly been caused by ships waiting for transfers off Oman, rates should have continued falling as those queues shortened. Instead, the ships released by better logistics appear to have been absorbed quickly by new cargoes. That points to a stronger underlying tanker demand/ higher oil cargo volumes than congestion alone would imply.

- **Cargo volumes recovered sharply in September, with further upside still possible:** Middle East crude exports rose to ~16.3mn bpd in September, the highest since the war began, but remained around 3.2mn bpd below February's ~19.5mn bpd, or just under 80% of pre-war volumes. Saudi Arabia drove much of the recovery, with crude exports rising to ~5.4mn bpd from ~2.45mn bpd in August, while Ras Tanura shipments increased to ~3.25mn bpd from ~0.93mn bpd. Tanker rates are therefore already multiples of normal levels before regional crude exports have fully recovered. If volumes continue normalizing while the transport system still requires more ships per barrel than before the war, vessel demand can tighten further.
- **The recovery remains vessel-intensive:** Higher cargo volumes still require more ships than under the pre-war model. Many Gulf barrels use one tanker to cross Hormuz and then a second tanker after a ship-to-ship transfer outside the Strait. Earlier estimates suggested the Saudi flow increase alone required 36–40 additional VLCCs, including around 15 VLCCs purely for shuttle voyages. Yanbu's reopening and alternative transfer points are now releasing some of that capacity, but Thursday's freight rebound suggests those vessels are being redeployed quickly rather than creating spare tonnage. The key point is that the current transport chain still uses more vessel-days per barrel than the pre-war model, when one ship could carry the cargo directly from the Gulf to the buyer.
- **Iraq's discount shows freight has become part of the crude-clearing price:** Iraq has cut October Basrah Medium and Heavy crude prices to discounts of US$34.5/bbl and US$37/bbl, respectively, versus discounts below US$30/bbl in August and September. Indian refiners are now buying some Iraqi crude FOB, meaning they charter the tanker themselves and assume responsibility for moving the crude through Hormuz. The deeper crude discount helps compensate buyers for extraordinary freight costs and security risk. Rather than high freight shutting down the trade, part of the transportation bill is being absorbed through a lower crude price. That keeps barrels competitive and supports tanker demand.
- **Repeated attacks keep part of the trade dependent on two vessels:** Direct Hormuz voyages are more efficient because one tanker can load inside the Gulf and sail directly to the buyer. But owners taking that route face materially higher risk. Many cargoes are therefore likely to continue using two vessels instead of one — a shuttle tanker through Hormuz followed by a second tanker for the long-haul voyage to Asia. This is why Oman transfer queues can shorten from last week's extreme levels without tanker demand collapsing: the system can become somewhat more efficient while still remaining more vessel-intensive than before the war.
- **Strength is broadening beyond VLCCs:** Freight strength is increasingly visible across small- and mid-sized tanker classes. West Africa–Continent Suezmax TCE jumped 58% DoD to ~US$408k/day, versus a pre-war average of ~US$43k/day, or more than 9x pre-war levels. Novorossiysk–Augusta Aframax TCE rose 29% DoD to ~US$488k/day, versus ~US$53k/day pre-war, also around 9x normal levels. US Gulf–UK Continent Aframax TCE is ~US$243k/day versus ~US$42k/day pre-war, while Ceyhan–Lavera is ~US$282k/day versus ~US$45k/day pre-war, both around 6x pre-war averages. This broadening matters for CSET because its tanker exposure extends well beyond VLCCs, and management can flex some vessels between clean and dirty trades depending on economics. The more freight strength spreads across tanker sizes, the more of CSET's

fleet can participate in the upcycle.

- **Rising time-charter rates show the market expects tightness to persist:** Six-month VLCC time-charter rates increased to ~US$341k/day from US$266k/day on Sep 25, while one-year rates rose to ~US$269k/day from US$216k/day and two-year rates to ~US$139k/day from US$129k/day. The direction matters. If owners expected spot freight to collapse shortly, locking ships away at a lower fixed rate would protect them from that downside. Instead, owners are demanding increasingly high rates to give up future spot exposure, while charterers are still willing to pay those levels to secure tonnage. The market is therefore clearing at progressively higher forward rates, implying expectations of sustained vessel tightness rather than a short-lived spot spike. Six-month and one-year rates are now around 6x pre-war averages.
- **Forward rates remain far above our assumptions:** Our VLCC TCE forecasts are average~US$135k/day for 2026E and average US$100k/day for 2027E. The current one-year charter rate of ~US$269k/day is roughly 2x our 2026E assumption and 2.7x our 2027E assumption, while six-month rates are even higher at ~US$341k/day. Spot freight therefore does not need to remain anywhere near US$1mn/day for CSET earnings to exceed our assumptions materially.
- **Investment view — buy CSET on dips:** The tanker setup remains constructive even after last week's partial freight correction. Logistics improved and released some vessels, but rates rebounded as those ships were absorbed; Middle East crude exports remain below pre-war levels, leaving room for further cargo recovery; repeated vessel attacks should preserve a sizable Hormuz risk premium and keep part of the trade dependent on two-vessel shuttle-and-transfer structures; Iraq is discounting crude enough to keep high-freight trades economic; freight strength is spreading into Suezmax and Aframax; and forward VLCC rates continue to rise rather than roll over. With six-month/one-year charter rates around 6x pre-war averages and far above our earnings assumptions, we see substantial upside risk to CSET earnings and would use share-price weakness to buy on dips.

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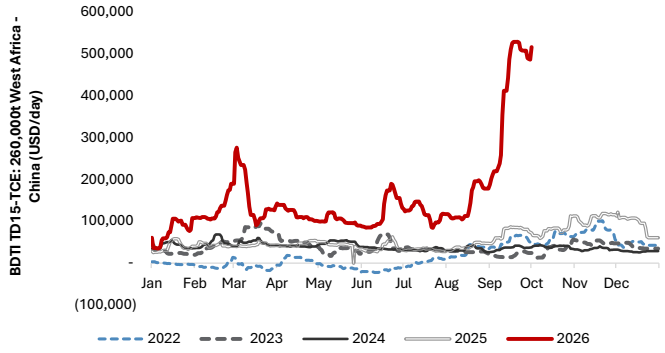
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- China tanker shipping: Cargo flows remain intact, shipping stays inefficient, buy CSET on dips (24 Sep)
- China Tanker Shipping: Cargoes survive renewed fighting; upside risk to VLCC TCE assumptions (17 Sep)
- COSCO Shipping Energy Transport (1138.HK/600026.SH): 2Q26 earnings review and briefing takeaways – Management validates the tanker bull case; raising TCE forecasts and PTs (28 Aug)
- China Tanker Shipping: The chicken-and-egg flips: More barrels, more ships; turning slightly more constructive on tankers, stay OW on CSET (24 Aug)

Figure 1: West Africa–China VLCC freight rebounds

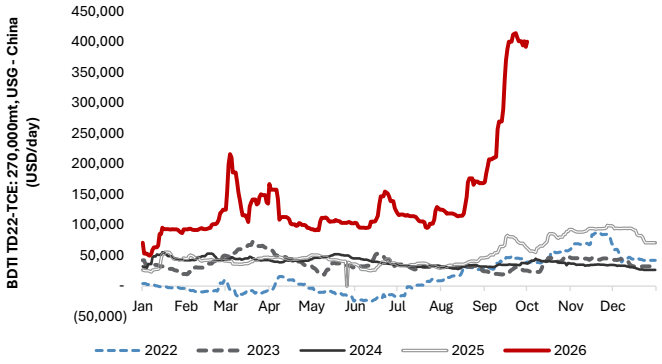
TD15 West Africa–China VLCC TCE, 2022–2026 (US$/day)



Source: Clarksons Research

Figure 2: US Gulf–China shows same uptick

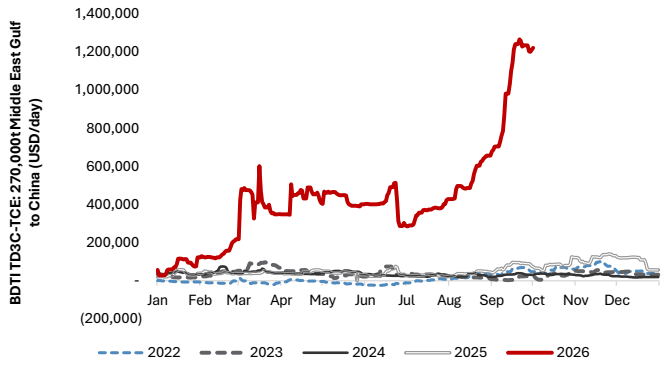
TD22 US Gulf–China VLCC TCE, 2022–2026 (US$/day)



Source: Clarksons Research

Figure 3: Hormuz freight remains elevated as attacks sustain the risk premium

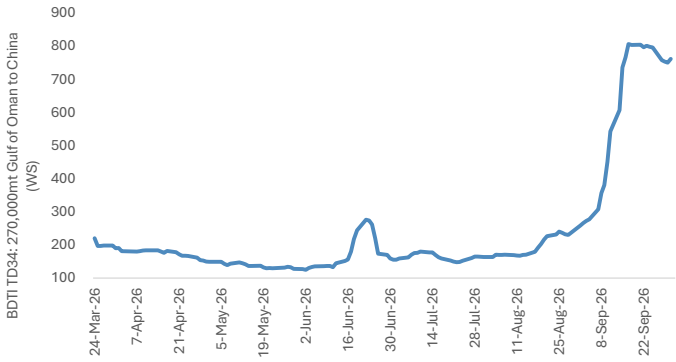
TD3C Middle East Gulf–China VLCC TCE, 2022–2026 (US$/day)



Source: Clarksons Research

Figure 4: Oman–China rebounds even as transfer congestion starts to ease

TD34 Oman–China VLCC TCE, 2022–2026 (WS/day)



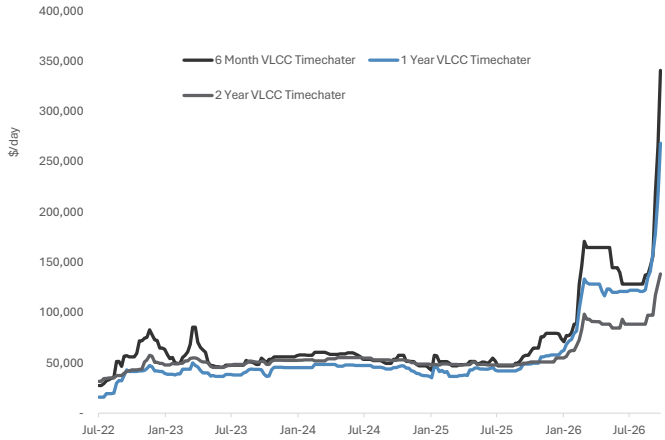
Source: Clarksons Research

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Figure 5: VLCC time-charter rates keep rising as the market prices sustained tightness

6-month, 1-year and 2-year VLCC time-charter rates (US$/day)



Source: Clarksons Research

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COSCO Shipping Energy Transport - A(600026.SS/Rmb20.56[30 September 2026]/OW), COSCO Shipping Energy Transport - H(1138.HK/HK$19.15/OW)

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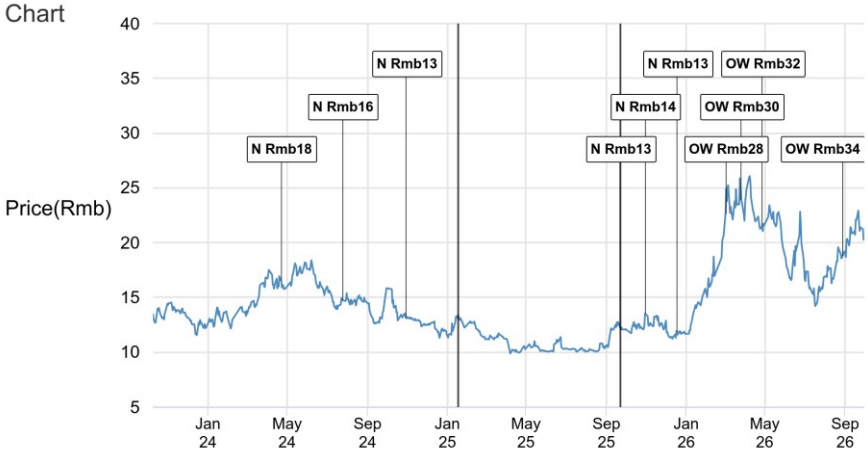
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COSCO Shipping Energy Transport - A (600026.SS, 600026 CH) Price Chart



Date	Rating	Price (Rmb)	Price Target (Rmb)
23-Apr-24	N	16.51	18
26-Jul-24	N	14.76	16
31-Oct-24	N	13.19	13
23-Sep-25	N	12.23	13
31-Oct-25	N	13.53	14
19-Dec-25	N	11.85	13
03-Mar-26	OW	22.64	28
27-Mar-26	OW	23.90	30
28-Apr-26	OW	21.50	32
29-Aug-26	OW	18.81	34

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Apr 23, 2024. All share prices are as of market close on the previous business day.
Break in coverage Jan 17, 2025 - Sep 22, 2025.

COSCO Shipping Energy Transport - H (1138.HK, 1138 HK) Price Chart



Date	Rating	Price (HK$)	Price Target (HK$)
23-Apr-24	OW	8.70	12
31-Oct-24	OW	7.57	10
23-Sep-25	OW	9.20	12
31-Oct-25	OW	11.22	13
19-Dec-25	OW	9.92	12
03-Mar-26	OW	20.50	24
27-Mar-26	OW	19.42	26
28-Apr-26	OW	17.73	27
29-Aug-26	OW	16.34	29

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Apr 23, 2024. All share prices are as of market close on the previous business day.
Break in coverage Jan 17, 2025 - Sep 22, 2025.

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