Easter time- the hunt for yield and golden eggs

Contributed by

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Last week, I made the comment that several participants on the Analyst panel at the Capital Link Shipping and Offshore conference were suggesting that tanker equities had seen a small run up, and now, with all this attention, had less upside to offer than other sectors- say, drybulk. The larger context was that yes, the shares had made a positive move, but the magnitude of the move was less than proportional to the gains made in the actual market, where vessel hires stood in excess of $40,000/day (for widely watched VLCCs, representing a double in top line revenue, since 2014 Q3). I still disagree with the premise of buying drybulk simply because things can only get better, but maybe tankers do continue to get way too much attention, as evidenced by a flurry of shipping articles in what I call mainstream financial media. By the way, drybulk has not been immune from coverage- mainly accentuating the negative; perversely, too much negative attention may also be a contra-indicator. So maybe these analysts are on to something!

This is not yet a repeat of the case several years ago where a barber asked me whether the outlook for Frontline was good because of the big containerships (sic) they ordered to move oil. Clearly, when hair stylists start parsing the various shipping names (and showing off their ignorance)- that's probably a time to run for the exits. We are not at that point. But it seems like the major finance media has got the shipping bug lately- which I find a little troubling- though it's hardly a market killer like the barbershop encounter. One well known transportation and freight analyst, based on the U.S. West Coast, told me: "Not sure why now but the follow-the-leader pack behavior of FT, WSJ and NY Times isn't unusual on some industry stories. If the story jumps to TV networks then that will be evidence of the crest of whatever wave drove this coverage." This gent knows of what he speaks- the West Coast port slowdowns made national news in a big way after it was actually settled. Oh well- buy on the rumor, sell on the fact.

Last week, an extremely well written tanker story appeared in the NY Times, filed from London, UK, coincidentally on the very day of the announcements that the U.S. and Iran fixed their Nuclear Deal, on subjects (ask a shipbroker if you don't understand my sarcasm). Featured in the story, titled "Oil Glut is a Boon to Shippers, as Buyers Stock up at Low Prices", was Tankers International, its smart-phone App, and Euronav. - with pictures of TI's CEO Jonathan Lee (who proclaimed: "You are seeing history change in front of your eyes" as he described a TI vessel ballasting into position to load a W Africa cargo to China) and Euronav CEO Paddy Rodgers, pictured standing behind a ship model, talking up the possible return of floating storage (no disagreement here).

Interestingly, the Iran deal was not mentioned in the NYT article- giving new meaning to the cliché "what a difference a day makes." However, the Wall Street Journal had an intriguing Op-Ed piece (anti the Iran agreement) a week earlier, noting various failures of the U.S. to track Iran-controlled tankers hauling crude oil and presumably contravening sanctions. Paraphrasing- "if the U.S government can't track oil tankers, how will they track centrifuges?" In February, at the time of a multi-decade low for Baltic Dry Index and its predecessor, the Baltic Freight Index, the WSJ published a pair of articles highlighting the travails of alternative capital providers who's invested in drybulk, including quotes from an Oaktree conference call where Howard Marks offered that drybulk has not been so kind to investors lately.

The Financial Times has recently stepped up the pace of its coverage of the yin / yang of tankers and drybulk, with the coverage itself mirroring the volatility of the underlying freight and hire markets. Worth mentioning is a piece on shipping and the capital markets. Famously, we get an end March article (three days prior to the NY Times article) by a London- based writer who opens his piece with an excellent exposition on Euronav's ability to tap the capital markets. Seaspan- in containerships, and Scorpio Tankers- each of whom have sourced capital market funding (superseding traditional bank debt) are also mentioned. By the way, sourcing for this well-written article is partially attributed to the PE arm of a well known bank once very active in shipping.

On another upbeat note, FT's John Authers wondered whether shipping might turn out to be "floating real estate"- a high yielding "next asset class." Quoting a notoriously media shy banker at the same well known institution mentioned above, the article pointed out that prices are low and yield are high- possibly a good investment for pension funds, endowments, etc. Yes, the timing is about right for this bank to be exiting a deal (I think in containerships but memory fails me here) it got into a few years back. Interesting!

Next, we have a series of late-March articles written by U.S. based Robert Wright, reprising the Capital Link conference the previous week. In direct contravention to Mr. Authers' article, Mr. Wright's FT article, quoting a number of speakers at Capital Link (rather than asset manager sourced material), talked about PE investors being stuck in shipping- especially drybulk, where a hoped for upturn has not yet materialized.

Then we get to the Iran framework, which is still "on subjects"- to quote commodity analyst Simon Jacques. And when the deal is finally "fixed" , the sanctions do not get lifted on Day 1. Tanker broker Poten & Partners, in a report penned just after the announcement, said: "The impact on the tanker market (once exports resume) is also not easy to assess, as a number of factors will affect the tanker market simultaneously."

Leaving my political views aside, the logistician in me does not see an instant floodgate of oil opening up, in spite of some declarations of an oil market being over-run with 1 million additional barrels/day. Shuttered oil fields take time to bring back up, and India and China are existing customers for Iran; they are already partly exempted from current sanctions. So, if production does come back on, the incremental uptake needs to be from Europe- where demand is anemic, if the "deal" is going to make a big difference. The oil markets disagreed with my shrugging of shoulders- after the "framework" announcement, the price of Brent crude nudged downward. So we come full circle to the New York Times and the FT; a big glut of oil will prove Paddy Rodgers correct- more storage may come, and increased flows of oil, to customers or simply into floating storage, would fill up additional VLCCs, to the benefit of Euronav and others in Tankers International.

And, whatever readers' views are on contango, Iran and hedge funds buying into drybulk- good wishes to all of the readers, whatever Holiday you are celebrating. And to my fellow writers, at mainstream media outlets, well… be wary of gooses and golden eggs.