Stormy energy markets- with wind and gales, after calmer times

Contributed by

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The Chief Economist, of BP Group ,Mr. Spencer Dale, gave a presentation on the newly released 2015 edition of its Statistical Review of World Energy to the New York Energy Forum- a group of analysts, academics/students and writers. Most of the time, there is always a shipping contingent- particularly where the subject matter concerns international oil. Mr. Ed Morse, a renowned energy expert who is a Board member of the Forum, served as the Moderator, as well as providing the venue- midtown Manhattan headquarters of Citibank- where he is the bank's lead energy analyst.

In the presentation, Mr. Dale talked about 2014 being a stormy year following several years of calm. According to BP, "The 64th annual edition of the Statistical Review highlights the continuing importance of the US shale revolution, with the US overtaking Saudi Arabia as the world's biggest oil producer and surpassing Russia as the world's largest producer of oil and gas."

Though the slides and discussion did not cover tanker and shipping markets specifically, shipping markets were, and are still being impacted by the key trends identified in the report, which describes 2014 as a year "of tectonic shifts" in worldwide energy production and consumption. The timing of the meeting came (coincidentally) at a time that booming rates in the big tankers are, once again, attracting mainstream media attention. The FT, last Friday, turned its eyes to the VLCC market (doing very well as more oil moves longer distances at cheaper prices) somehow invoking the Koch brothers and fanciful schemes for floating storage. Articles in the media, outside of the shipping trade press, are an important barometer of investor interest (and the ability of stealth PR flacks to get to the writers).

But, back to the Energy Forum event- which drew a crowd of about 100. In between the lines, the BP publication's findings bode well for the product trades- again, not discussed explicitly. Describing developments in the OECD where consumption declined (by 1.2%), the report said: "Light distillates (motor and aviation gasoline, light distillate feedstock) were the fastest-growing refined product category for a second consecutive year."According to BP, "Global crude runs rose by 1.1 million bpd (1.4%) in 2014 – the highest growth since 2010 and more than double the 10-year average. Refinery runs in the US rose by 530,000 barrels/day, the largest increase since 1986." Analysts and market participants alike have noted that long-anticipated refining projects have now come online. BP says: "Global refining capacity expanded by an above average 1.3 million bpd, led by additions in China and the Middle East, with Middle Eastern capacity expanding by a record 740,000 barrels/day."

Not surprisingly, demand from the "developing" countries (which begets longer voyages on vessels) is growing more rapidly than demand in the developed world- which, for the purposes here, means the OECD countries. Still, 2014 saw a fall-off; demand from the emerging economies grew at 2.4%- below the 10 year average of 4.2%. The OECD consumption fell by 0.9% overall- with European Union countries booking a 3.9% decline in demand.

The Statistical Review points to a number of factors (all touched on in Mr. Dale's presentation) that have also given rise to impacts on the drybulk and gas carrier sectors, as well. It notes that the growth of China's coal consumption stalled (indicative of changing energy intensity of Chinese activity) and global natural gas growth was also weak, "held back by a mild European winter triggering a sharp fall in consumption."

The report noted that : "Global natural gas trade registered a rare contraction in 2014, falling by 3.4%." The news is not all bad for shipping- deep within the publication (on page 29, where the font gets really small), it can be seen that seaborne LNG trade actually rose by about 2%, to 333.3 million tonnes, in 2014 (with Japan and S Korea comprising a little over half of the tonnage). This was counteracted, however, by a significant decline in gas moving by pipelines. Consumption of gas in the E.U. (mainly delivered by pipelines) fell by 11.6%- which is described as "…the largest decline on record".

Energy statistics actually comes alive through this publication. Through the years, I've always used the Statistical Review as a handy reference, along with data from the U.S. Department of Energy. Both have come online in a big way- like the U.S. agency, BP now offers an online charting tool. My "favorite" graph, if I am allowed to gush here, depicts the price of crude oil, adjusted in 2014 dollars, going back to 1861- when the first gusher was recorded (in northern Pennsylvania). Looking at the diagram, on Page 15, it seems that oil was a scarce commodity during the Civil War- reaching a 2014 equivalent of $120/barrel as the war raged on (and the war machine provided the first price spikes). In contrast, the Summer 2008 highs- expressed in terms of price adjusted Brent dated- come out just shy of $120/barrel. The craziness of late Spring 1979, which brought on the "second gas crisis", saw a price that works back to $105/barrel in 2014 money.

One of the maddening aspects of energy economics, generally, is the need for continued adjustments and conversions. Though I can perform maritime and commodities number crunching along with the best of them (and once in a while amaze clients with transformation alchemy) the shipping guy in me always likes to see things expressed in tons. So, on the bottom of Page 29, I can see that 333.3 million tons of LNG moved in 2014- that's a number more sensible to me than cubic meters which you then need convert into cubic feet (or millions of them) to figure out how many ships are going on how many voyages. Then we have U.S. crude oil exports- on Page 19, expressed in both barrels/day (around 339,000 in 2014- mostly to Canada I am thinking) but also in tons- around 16.9 million.

Investors can get the information distilled though the works of buy side and sell side analyst. Yet, such information is subject to nuances and creative interpretation; and this publication is a thought provoking reference. The structural changes in China have not yet fully played out- but there's a limit to how much sub $50/barrel oil that they can stockpile. As I keep squinting at the small fonts, I wonder whether the increased oil supplies- in the face of weak demand, certainly a feature in 2014, can continue to find a home. If the front end of the oil curve dips again, maybe this home will be on VLCCs.