Blips and more blips – connecting the dots

Contributed by

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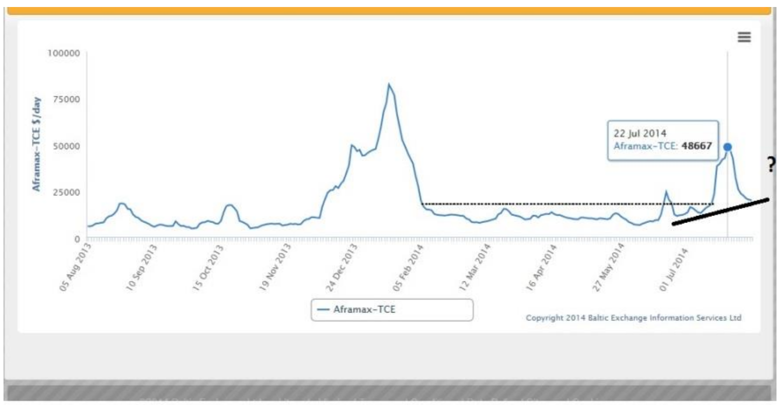
Every so often, a particular sector of the market exhibits surprising behavior, and reminds me of that famous shipping market proverb, coined by me back in my brokering days, that says "Every market run-up starts with a series of blips.". In looking at tanker markets, there is always the macro picture- one of fundamental oversupply (however measured) for nine out of every ten years- another shipping proverb (coined by some other pundit).

In looking at tanker sectors, the surprising star has been the Aframax sector. During July, a composite of six Aframax routes compiled by the Baltic Exchange, in London, soared, reaching a very impressive $48,000+ /day time charter equivalent (TCE). Financial breakevens (capital component plus daily opex.) for such vessels can vary- but many analysts would peg the number at somewhere around $12,000/day to $14,000/day- depending on whether the ship was purchased at an attractive price, or not. So, clearly, this type of vessel has been in the money.



The chart here is not a prediction; rather it offers food for thought. Will the rates in the sector continue to trend upward, especially on the dips? Will we see successive "lows" that bounce off higher floors? And will the floors move above the ceilings- which seem to have been around $12,000/day to $14,000/day- representing a reversion to the breakeven? Commodity analysts inform that these types of blips, from a new floor (representing a previous ceiling) are one aspect of a strengthening market.

One component of this time series, the Primorsk to North Continent run, affectionately known to freight traders as "TD 17", went ballistic during the month- rising to $97,000/day. This route is known to be volatile, but it tends to be more of a winter time thing- brought about by icy conditions in the Baltic Sea, effectively shrinking brokers' lists of tonnage. Not all vessels are able to traverse the thick ice prevalent in the region during Q1, and even in cold weather, "Urals" blend moves out of Primorsk- near St. Petersburg. But we are getting off topic, or at least in the wrong month, because we are talking about July and not January.

Market aberrations have also been occurring in the Caribbean, where another component of the Aframax market, the Venezuela to U.S. Gulf route (known to traders as "TD9", and mirroring hires on shipments going further up the coast) has also taken on a life of its own, with the TCE remaining above $40,000/day for the last two weeks of July, and into early August. To repeat, this is July and not January- when this route actually exceeded $100,000/day for a week around the time that the Northeastern U.S. was experiencing the worst of the cold snap. What has happened to summer doldrums, anyway?

The supply / demand prospects for this sector are working their way towards positive, but developments in this sector underscore the impacts of deliverability and efficiency (or lack thereof) in impacting the rates. The market analysts at C.R. Weber, who stay closely in touch with such things, have pointed out in a recent report that, year to date, the fleet of Aframaxes has actually contracted 1.2% and that where there is growth, it has been in the "coated" sector- for vessels that are going to be hauling products, rather than crude.

At the micro level, which creates the fuel for each blip, the situation really gets interesting. In the Weber commentary, they point to stronger utilization of Suezmaxes in West Africa, which, in turn, has drawn these million barrel vessels out of the Caribbean loading area. This deficit of the bigger ships has exerted supply pressure on the Aframaxes, which typically take loads of 700,000-800,000 barrels, as an explanation for the recent surge on the TD-9. Looking back earlier in July, delays in Rotterdam- a destination for a good portion of the crude loaded at Primorsk, had tied up vessels, reducing the available capacity. With a finite tankage capacity at loadport, scheduling considerations (rather than ice thickness) are a factor in determining how high, exactly, that the rates, with their resultant TCEs, will be bid up.

So, will we keep seeing blips upward in this sector? And are these blips somehow connected? Hard to say, but please keep watching this space.