# Waiting out the markets

Contributed by

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Looking around at the tanker and drybulk markets, we once again see a paradox- if that's the right word, where week to week zigging and zagging is out of step with longer term sentiments. In a bigger context, Clarksons Research offered a great blog recently, titled "Shipping Cycles- A Chess Game You Don't Want to Lose", looking at efforts to wait out the inevitable in terms of "The Seventh Seal". Ingrid Bergman aficionados of a certain age would explain to the rest of us that the protagonist in "The Seventh Seal" was a knight who challenged Death to a game of chess, hoping to forestall the grim end by continuing to move pieces around the board. To quote Clarkons, "This grim epic could be seen as a metaphor for the daunting progress through long shipping cycles, as one risk-laden move in the toxic chess game follows another." A waiting game.

Let's start off with drybulk, where I keep a close eye on the forward paper markets. July saw a big upward swing across the sizes. In the swaps market, Capesize open interest (outstanding FFA positions) rose during the month- it's now approaching the all-time high of 170,000 lots set in late 2014. Weekly turnovers were also healthy, averaging more than 30,000 lots each week.

The Capesize composite of five voyages reached its highest levels of the year, at end July, as it exceeded $17,200/day. Though the rise, up from around $9,200/day as the month began, has been dramatic, traders were cautious. As Clarksons has opined: "But the game isn't over yet. They still need a strong world economy and continued Chinese import growth." The all-important Q4 2015 FFA position managed to pull upwards by more than $2,000/day during July- still finished the month, as assessed by the Baltic Exchange, at $16,609/day- actually slightly below the spot composite. For 2016's Q1 (a time of a likely seasonal drop-off in activity) the forward position was assessed at around $9,100/day. For other 2016 quarterlies, they slowly rise from $10,100/day (Q2), $14,200/day (Q3) up to $17,300/day (Q4), with the latter gaining $1,000/day during the month. Thus, the Q4 2016 finished July effectively at parity with the spot composite. This price structure indicates that, as of end July, traders did not see Capesizes making a meaningful move up above present levels, even going seven years out (where "Calendar" positions out to 2022, not heavily traded, have been assessed underneath $17,000/day).

Panamaxes saw an improvement, but forward levels have failed to reach up to breakevens (operating cost plus notional finance component). July's Panamax composite had climbed as high as $9,200/day but by end July had back down to $8,200/day. With monthlies all lining up around $8,000/day, the Q4 Panamax composite finished July just shy of $8,100/day. The Calendar 2016 position showed a disappointing $7,200/day- buoyed by the Q4 2016 component up at $7,900/day. The more distant positions, the strip of "Calendars" work upwards towards $9,400/day for 2022. Not worth waiting for, it seems.

Supramaxes see nearby strength has pushing the spot composite up modestly above forward expectations. At end July, as the six voyage composite reached up to $9,400/day, forward positions for the remainder of 2015 all settled between $8,500/day and $9,000/day, with the Calendar 2016 rated at slightly above $7,500/day

Tankers, conversely, saw nearby dips, but general forward strength. A pullback by charterers late in late July caused a slide in time charter equivalents (TCE), at the same time that OPEC is reportedly pumping more, and more oil. The barometer VLCC trade- AG to Japan (TD3) was hit hard- with the daily earning dropping to around $59,000/day. The daily TCE on the route (as computed by the Baltic Exchange) had peaked on July 20 at nearly $95,000/day- a steady climb from the $63,000/day equivalency at the beginning of the month. On July 20, forward assessments from the Baltic Exchange for Nov, Dec and Q 1(2016) had worked out to $70,400/day, $74,800/day, and $60,600/day for the Q1- all below that day's over-heated spot TCE. At this time, time charter period rates were also up, with brokers suggesting (to their clients, and to dinner buddies) that two year charters on VLCCs were worth around $43,000/day.

The forward market, through per diem equivalencies on assessments, showed that sentiment was only moderately perturbed by the nearby weakness. At end July, these same upcoming Nov, Dec and Q 1(2016) positions worked back to $64,500/day and $67,600/day, and $57,900/day (based on estimated fuel prices- it's complicated), respectively- - all above the weakened nearby TCE. Farther out into the future, the end July line-up of "quarterly" settles were discounted,ie below the spot, (at $59,000/day) working back to $47,500/day (Q2-2016), $40,500/day (Q3), and $44,700/day (Q4) per Marex Spectron calculations-roughly in line with TCEs at beginning July. Importantly, the forward TCEs were in line with hires reported for period TC's

Suezmaxes, which had peaked earlier in the year and then eased downward to around $40,000/day at the beginning of July, ended the month with the TD20 (Bonny to Rotterdam) spot at the equivalent of around $32,000/day. TCE's of forward levels rose- with Nov and Dec ending July well above the spot, at $39,600/day and $43,800/day, respectively. Both were actually up roughly $3,000/day from beginning month levels.

Aframaxes also calmed down- with one barometer, the Venezuela to Corpus Christi, Texas route (known fondly as "TD9") spot equivalent was off, from $49,000/day (at the start of July) to $32,000/day (at month end). Forward hire equivalents were steady, and actually rose during the month-with Q4 2015 assessment (as July ended) on the route at a bit below $32,000/day- in line with spot. The Q1 and Q2 2016 finished at around $26,000/day and $20,000/day respectively- both up by almost $2,000/day during the month (in spite of the $17,000/day drop in the spot equivalent.

Product tankers also saw a stronger forward paper market (in line with reports of a firming period timecharter market). Strength for MR tankers was evidenced by the basket of TC 2 (Rotterdam / New York) and TC 14 (Houston / Amsterdam). While the spot hire (based on a calculation of the two routes plus a ballast leg) dropped slightly to around $27,800/day, the forward equivalents moved up slightly. At end July, the Q4 2015 and Q1 2016 had both gained roughly $3,000/day in TCE- to $33,400/day and $29,500/day.

New York has seen glorious weather; if we get a rainy day, I will try to download "The Seventh Seal" and will report on what further inferences might apply to shipping hires.