Finally, some higher hires

Contributed by

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Much of the recent shipping news is about oil trades- where there seems to be some long-term base building afoot. But, happily, it's been nice to report that Capesize dry cargo has come to life in the past few weeks- more on that later.

On the tanker front, winter expectations gave way to a strengthened tanker market in October. A scan of the swap market reveals an anticipation of stronger hires in the future- certainly due, in part, to the nearby firming. Unlike previous rallies during the past year, the late 2014 run-up has been broad-based, across multiple sectors and geographies. We can let the experts ruminate on it, but common sense suggests that low oil prices may have stimulated activity, if for no other reason than just adding to stockpiles. The barometer AG to Asia run for VLCC's saw a burst of fixing, which moved time charter equivalents (TCEs) up from around $15,000/day at the beginning of October to very healthy levels of nearly $50,000/day as October ended. For "paper" traders, TCE levels for November 2014, December 2014 and January 2015 have moved above $40,000/day - in some cases showing gains of $10,000/day during October's trading. The Q4 2015 position has also revealed increased optimism about the future- moving upward to around $31,000/day equivalent from around $27,000/day a month earlier. Storage- in the form of period charters to ride out oil price contango, has not kicked in, at least not in a major way- suggesting (to me, anyway) that smart money is betting on a quick punch upward in nearly oil prices.

The Suezmax sector, now best proxied by the new West Africa to Rotterdam run (TD20, according to Baltic Exchange nomenclature) was implemented in the face of declining W. African imports into the States. But lowered spreads have made Brent priced oil more attractive, and those imports have resumed- at least partially. For the million barrel ships, the $32,000/day spot TCE has inspired swap traders to bring the November 2014 and December 2014 positions up to a TCE of around $40,000/day- with January 2015 now equating back to around $35,000/day. These represent big gains. Aframaxes have seen a strengthening in multiple loading areas- including the North Sea/ Baltic, cross Med, the AG, and the Caribbean. The TD8 route, crude from the AG to Singapore, has come to life as has its clean products analogue- the TC5 (as a new refinery has opened up, creating demand for all those LR vessels). The normally lackluster TD8 spot equivalent jumped three-fold during October to around $23,000/day In other Aframax trades, the TD9 (Caribbean into US Gulf) and TD 19 (cross Med) routes are both seeing elevated spot equivalencies (around $48,000/day and $36,000/day, respectively), which has led to a strengthening in forward hires. For both routes, the 2015 positions nearly all work back to $20,000/day, or more, after making some informed guesses about the 2015 "Worldscale" flat rates- which reflect a look-back on fuel prices during what proved to be a relatively stable pricing environment.

Ice class tankers may prove to be a good investment if the seasonally influenced TD17 (Aframax size vessels loading in Primorsk for discharge into North Europe) forward pricing curve actually plays out in the coming months, amidst both oil market and political uncertainties. Again, we can leave the latter to the experts, but the spot hire working back to about $30,000/day and an icy $49,000/day equivalent for January 2015 suggest a feeling that the oil will keep flowing (with ice proving to be a bigger impediment than sanctions).

But politics and oil trades cannot be separated. Importantly, on the eve of the U.S. "midterm" elections, the North Atlantic product trades have also come to life. U.S. product exports have continued all year- but demand for MR tankers is tighter than it was. MR tanker hires for the U.S. exports of refined products- mainly "middle distillates" out of the Gulf (the TC14 route), rated in negative territory only several weeks ago, have now moved up to levels that cover operating costs. The "triangulated" time charter earnings (combining TC2- westbound and the eastbound TC14) is now worth in excess of $20,000/day- well above the daily breakeven (where operating costs and financial costs are added together) for such ships. These are exciting times- North Atlantic may see further activity (beyond another big news item- the reopening of an export refinery in St Croix owned at one time by Amerada Hess). Oil exports from the U.S. are likely to be back in the news. Well, they already are.

In response to a question that I asked at the New York Energy Forum meeting last week, a top the U.S. Energy Information Administration (EIA) analyst hinted at a conclusion that was unveiled in a newly released report. The report (with the timing of its release- just before the U.S. elections, not an accident, in my opinion), by the analytical arm of the U.S. Department of Energy, points to world oil markets, and not WTI pricing, as the major determinant in pricing of gasoline sold in the States. Of course, I am over-simplifying, but the implication is that gasoline prices (which are what could get a politician un-elected in a hurry) would not be raised solely by a U.S. program of oil exports. You can spin the EIA report in many ways. With U.S. produced oil now more abundant than it was only a few years ago, some politicians suggest that more oil coming into the world markets could possibly lower the Brent market price- meaning that gasoline prices might actually be lowered, with everything else held constant. Maybe yes, maybe no. But, as a long-time tanker watcher, and sometime political conspiracy theorist, my guess is that news will leak out, shortly after the election, of further easing in the rules that are currently restricting exports of U.S. produced oil liquids. In calculus of tanker trades, the trickle of export cargoes (not a torrent, at least not at the beginning)- if they were to occur, would probably further bolster the LR and Aframax sectors, which are already on a roll. After the elections, writers and commentators on shipping matters will have a lot more to say on this topic.

Drybulk, not to be forgotten, has also seen a rally of sorts in the Capesize segment with a pick-up in ore related chartering. However, it does not get a lot ink here (or bits and bytes) because the market does not seem to be convinced, yet, of the rally's staying power. Like many readers, I would prefer that the entire forward pricing curve move higher, but, so far, the forward prices beyond November 2014 and December 2014 have not begun a meaningful move upward.