Thanksgiving reflections

Contributed by

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For me, there was little to give thanks for on Thanksgiving Day, as OPEC's meeting seemingly asked "Who's the turkey?" or alternatively "Time for long crude investors to get roasted." With oil prices plunging, the old commodity investor adage about not trying to catch a falling carving knife certainly rang true. Yet, stepping back, if the oil price drop really sticks (and I have my doubts- as I have all the way down), there are probably some highly salutary effects just around the corner. As always, I will leave it to the sell side analysts to add some authoritative quantifications and recommendations on particular shares, but presumably lower oil and products prices mean that consumers have more spare change in their pockets. Once they get past the silly shopping season, ongoing spending of their new "windfalls", such as they are, should boost demand for consumer goods at the margins. Owners of that new 19,000 TEU vessel recently launched by China Shipping, and similar vessels, will not instantly hear the $ka-ching sound, but, as a general tendency, more consumer demand means more TEUs moving around.

On the oil side, as noted previously, cheaper oil is a good thing- where can we start? The tanker market remained firm throughout November- with the paper market at the end of the month reflecting the nearby buoyancy and the continued optimism pouring in. At the end of November- with several cold weather months still ahead, all the major sectors were throwing off significant returns- with forward prices (proxied through those FFAs that I recommend that investors watch closely) indicating expectations of ongoing strength throughout the "winter" months. VLCCs, which have seen an active loading program in the AG, were showing a TCE of around $65,000/day on the AG to Far East "TD3" route. Based on settle prices, the TCE's of prices traded for 2015 quarterlies equated back to approximately $43,000/day (Q1), $30,000/day (Q2 and Q3) and $38,000/day (Q4). These imputed hires, up about $6,000/day from a month earlier, are roughly equivalent to estimated one year period rates for modern VLCCs, now thought to be around $32,000 - $33,000/day.

Suezmaxes, represented by the TD 5 (West Africa into U.S. North Atlantic) and a sister route with discharge in Rotterdam, had soared by late November, but backed off during the final week to the still very healthy equivalent of around $43,000/day, with the cross Med run exhibiting similar strength. Month end TCE's for 2015 on the W. African Suezmaxes calculated back to approximately $42,000/day (Q1), $36,000/ day (Q2), $32,000/day (Q3) and $34,000/day (Q4)- showing a premium to estimated period rates on million barrel vessels. The optimism appears to be still building- consider that the Suezmax FFA levels continued to rise during the last week of November. This was a time when spot hire equivalents eased back (from highs in excess of $80,000/day- or, famously, $100,000/day for the lucky ones, as noted by Paddy Rodgers last week), as VLCC's moved over to join the party in West Africa.

Aframaxes were also showing strong returns across multiple segments- where routes were showing TCEs above $30,000/day, and in the case of Black Sea to Med trips, vessel hires had reached above $60,000/day during the month. Looking ahead into 2015's Q1- still a time of cold weather/ ice, the TD17 (Primorsk to N. Continent) was worth around $48,000/day in Q1 2015, a time that even the very tropical Caribs to US Gulf (TD 9) worked back to nearly $30,000/day.

The Atlantic product tanker trades came into their own- as the TC2 (Rotterdam to New York MR vessel) soared to epic heights- around $35,000/ day. The triangulation (which simulates a round voyage with TC2 and TC14- the U.S. products export route) was calculated by the Baltic Exchange at an astounding $39,000/day- with forward daily hire levels fading backwards to $22,300 in Q1 2015, and to the very healthy equivalents of $16,600 (Q2), $15,500 (Q3) and $16,200 (Q4). For more insights into the booming product trades, please tune into Capital Link's interview of D'Amico International Shipping's CEO, Mr. Marco Fiore.

And then, there are the drybulk markets, which have mostly failed, so far, to participate in the excitement still underway in the tanker side of the business. The drop in oil prices- and the resultant decreases in ships' fuel prices, has led to a drop-off in many $/tonne (voyage basis) freight quotes. However, the time charter instruments- indicative of the hire levels (net of fuel prices), have actually declined as well, notably in the Capesize sector towards end November. The month earlier optimism, around for the Halloween / Guy Fawkes timeframe- when freight traders were girding for a repeat of 2013's strong iron-ore chartering frenzied finish- seemed to be evaporating, like a blithe spirit.

Indeed, the Capesizes saw considerable strength in early November, as the five trip composite T/C index climbed up to nearly $28,000/day, before sliding and then attempting a mid month comeback. However, the second half of the month saw a dropoff that left the T/C composite only slightly above $15,000/day as November ended. Traders' ideas for the forward years beyond 2015, as indicated by the swap market, have all dropped down to the upper $14,000's / lower $15,000's per day- off from the beginning of November when hires of around $17,000/day and above were anticipated.

The Panamax positions also saw a beginning of November micro-surge- on spot market strength, but, similarly, backed down again by month-end. The four trip TC composite showed an expectation of hires between $8,000/day and $9,000/day over the next year, with an upward slope towards $10,000/day in the forward "Calendar" positions. Supramaxes, which comprise a small portion of the FFA market, have mirrored the Panamaxes. The five trip Supramax composite was rising, above $10,000/day at the end of the month (up from $9,000/day as the month began)- with the forward curve indicating levels of mainly between $9,000/day and $10,000/day for more distant positions. Similarly to container vessels, common sense would suggest that improved economic conditions would kick up demand for the Supramaxes- a very flexible type of vessel that can take dozens of cargoes. But, noting that the drybulk stock prices have not responded to any optimistic vibes from the changed energy pricing environment, it may take a while for shipping to get around to common sense and more dollars. But, oh, that Thanksgiving turkey tasted good!