Tanker nerds running amok

These are heady times for oil and tanker nerds; energy company credits, U.S. oil and gas exports, the tanker market, and the crude oil markets were all covered in a series of online and live events last week. While the experts (that sounds better than nerds!) were parsing API gravities and Worldscale points- tanker owner Euronav was upping the size of its equity offering, and DryShips was readying a spinout of its tanker fleet. On the sidelines, there are whispers about other groups (from both the shipowner and PE camps) itching to liberate regulatory filings from their word processors and activate those computer links to the SEC. Oh, in the middle of all this, news reports came in reporting the demise of King Abdullah, in Saudi Arabia.

In trying to put developments in the commodity and shipping into perspective, I will point first to the wisdom of Dr. David Knapp, a longtime analyst, with the Energy Intelligence Group. Knapp, a Board member of the New York Energy Forum, was one of two speakers at the group's 2015 World Oil Price Outlook, held in midtown Manhattan. Recognizing that oil markets are cyclical, and that each trip through the cycle will be a little different, Dr. Knapp (the Senior Editor for Global Market Analysis, and Editor on the monthly "Oil Market Intelligence") framed the situation as follows. The first phase of current developments are what he called "The Shale phase", where rapid increases in available crude supply overwhelm the marketplace, and- as Economics 101 dictates, the equilibrium price point slides downward. The second segment of our journey, which Dr. Knapp said is beginning to emerge, is what he called "The Storage phase," germane to shipping people because some of that storage will occur on large tankers that are taken on period time charters. This past week, tanker folks all over the world were reading each day, in the esteemed shipping press, about yet another vessel taken for a storage contract, at rates that were now exceeding $40,000/day. For shorter terms- either on time charters or on the equivalent backed out from a sequence of voyage ($/tonne) charters, numbers of $80,000/day and $90,000/day were being mentioned. After the storage phase, Knapp was looking for the oversold market to move up, but, like other analysts, he could not be precise on the price bottom, the eventual settle, and the timing of the move- more likely to be "U-shaped" (my favorite meme), ie prices might hug the bottom for a while.

Using Dr. Knapp's overview as a jumping off point, let's then consider a well attended lunch held by the Connecticut Maritime Association which featured Jerry Lichtblau, from True North Chartering, a long-time market analyst. Multiple parts of the discussion jumped out at me. First, channeling Dr. Knapp's "shale phase" (not revealed until later that evening), Lichtblau suggested that Private Equity might take a shot a distressed assets in the shale biz. I never heard that suggested anywhere else, but it makes total sense. Lichtblau talked at length about what might happen if oil prices were to stay low (presumably dunked by PE guys continued pressure pumping)- with negative impacts on production and, then seaborne shipments, noting that Venezuela and Nigeria might curtail their production. When pressed about differing consequences for the tanker market if one country turns off the pumps rather than another- Lichtblau stressed something akin to "Barry's Rule #1", which is that disruption of trades, wherever it happens, is good for ship hires because of inefficiencies- more vessels moving around empty. Yes, to repeat, "not exactly an investing thesis" as my analysts buddies are keen to remind me, but that's shipping.

But, actually, consequences may differ, depending which country is doing the blinking. . Consider an article in the FT last week, "Venezula in a bind as Maduro faces dilemma over oil" which offered conjectures about what might happen if Venezuela were to default on debt, asking: "…Another question is whether….Venezuelan oil cargoes could be seized by creditors seeking repayment." The authors noted that debt issued by state oil company PDVSA, lacking "collective action clauses" (which I am not familiar with) might be difficult to restructure. Ouch.

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Then, let's jump to an online seminar nestled among all these events, hosted by Standard & Poors, which pulled viewers in with its attention-grabbing headline about credit downgrades in the energy sector. A take-away from S&P's webcast concerned production in the U.S. oil patch, which will certainly continue through the first half of the year, supported by more liquidity than meets the eye. S&P. whose major concern is credit metrics, does not try to prognosticate unforeseen developments like PE coming into scoop up drillers who need to repair balance sheets. But, to me- trying to synthesize and assimilate all the freely available expertise, their financially driven views help put a timeline on what might happen to prices.

One additional group of experts must be mentioned, which is the Columbia / SIPA 's Center on Global Energy Policy, which hosted a superb seminar called "Navigating the U.S. Crude Oil Debate." The featured speaker was Thomas E. Donilon, former National Security Advisor to President Obama (who has done a great deal to stimulate shale oil production) and a member of the Center on Global Energy Policy's Advisory Board. As described in my columns (and elsewhere), the U.S. is getting more comfortable with exports of condensates- derived from the increasing amounts of light crude being produced from the Eagle Ford fields in Texas. Mr. Donilon's focus was in geo-politics, where he suggests that: "….crude exports will provide diplomatic leverage and a tool to assist our allies and friends…" This newfound economic clout is an addition to numerous likely positive economic benefits from crude exports- which may include lower world benchmark oil prices as more oil is supplied, everything else being equal. If crude export policies are liberalized, each cargo would be one more factor in keeping the U-shaped oil price time-line down for a longer period of time.

As I am running out of space, let's get back to Dr. Knapp's "storage phase" of indeterminate timeframe, and an assertion by Jerry Lichtblau's that many tanker time charters may have storage options. Lower crude oil prices (or less susceptibility to upward-moving sparks) will keep the nearby part of the forward curve lower. For watchers of oil price contango- the major driver of floating storage, a deeper discount in nearby oil prices would continue to support the economic viability of floating storage- which is inefficient transportation at its best. PE guys, way smarter than me, will no doubt be reaching similar conclusions. So look for more tanker investment opportunities to be made available, as PE and owners (sometimes mixed together) begin the inexorable path to liberating their shares. Tanker nerds will be quite busy, it would seem.