One picture is worth two dozen tankers

Contributed by

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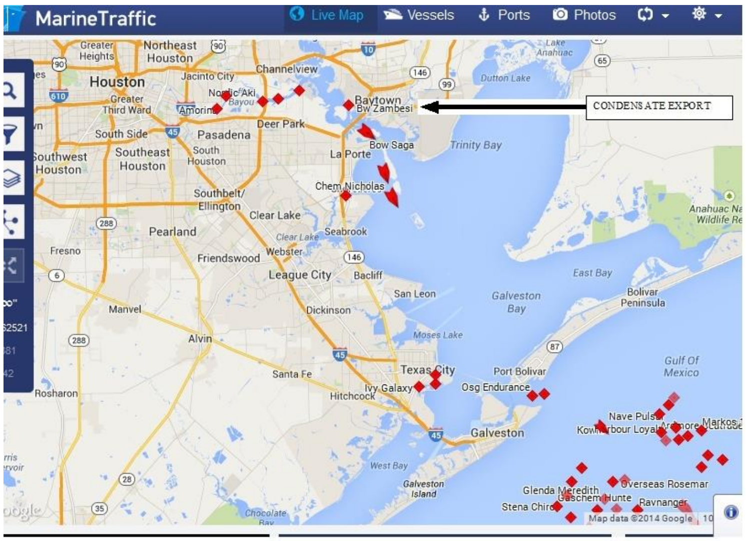
Once in a while, as a writer, I can get away with saying “One picture is worth a thousand words” and then just go out to PJ’s or Bobby Vans and celebrate another insightful article. If it were only that easy. The graphic shown here, from the online provider of vessel positions, MarineTraffic.com, conveys a great deal…and excites me enough to keep writing. The regulars will just have to save a seat for me.



The geography, showing the loading areas around Houston and Galveston Bay, is recognizable to even the most casual student of the tanker trades. In recent weeks, there have been sparks of a U.S. products export revival but they’ve failed to ignite a real fire. The Baltic Exchange’s triangulated MR tanker in the Atlantic trades is worth $18,500/day, which pays the bills- but it’s not terrific. Swap traders are looking for a similar level in the seasonably strong December 2014, but are still contemplating very unexciting levels around $14,000/day in the Atlantic during 2015. Again, hardly the stuff of big bull markets. But, for now, the map shows a huge queue of ships anchored and waiting to load cargo. In the past, when the map has filled up with red diamond shape icons, it has presaged a burst of export activity. However, a “burst” is not the same as a long term trend, and the map is sometimes simply bright blue- as in lots of water without ships anchored. This screen grab omits about a dozen or so additional MR and LR sized tankers seemingly waiting for more cargo.

The most important vessel on the map is the Aframax *BW Zambesi*, which has been reported to be one of the first vessels fixed to load “condensate” for export. In this case, a Japanese trader has been reported to be chartering the vessel which was seen docked at Baytown, Texas- the site of the big Exxon Mobil refinery. There are rumblings of other export cargoes going to Japan in the coming months, and one source had mentioned that a commodity trading fund linked to Paul Tudor Jones and others, was going to be loading a Suez-max size cargo of “light naptha” next week, destined for Singapore. The same source has mentioned that a similar cargo is commanding a hefty $3.6 million. Such numbers reflect the considerable strength that Suezmaxes in the Atlantic Basin have seen during July.

Exports of condensate, and crude oil were discussed at a conference last week hosted by the Energy Information Administration (EIA), part of the U.S. Department of Energy. A group of well known energy analysts talked about the dynamics of exporting “crude” oil- which can be considered a “product” if it’s passed through a distillation tower. As reported from the event by energy media, oil refiners are already investing in hydro-skimmers that will enable them to process crude oil from the Eagle Ford and Permian basins, in Texas, allowing it to be granted export licenses from the Department of Commerce. One concern among the energy economists is that an overall surplus of U.S. produced “light” crude oil may overwhelm the system a year or two from now, forcing prices down to a point where production would begin to be lowered- reversing the growth trend that’s seen as a positive for the U.S. economy, with the political benefits of energy independence.

There are lessons from all these dichotomous discussions surrounding the tanker market, where the big picture, for example- an energy export boom, is sometimes at variance with day to day happenings seen in the ship-fixing trenches- ships waiting but not a big move up in hires. I’ve found that “hindsight is 20-20,” meaning that trends and implications are all obvious after the fact. But it is worth scanning the horizon of the many good ideas voiced by shipping observers, and comparing each one with the actual chartering action. One such idea that might creep up is idea of contango in the oil markets- which the analysts at Poten & Partners have been reminding us about. This is big, or let’s say- it could be big, if oil production (not just in Eagle Ford, Texas- but all over the world), well in excess of short run demand, pushes prices lower. In 2009- 2010, on the heels of the big financial crisis of late 2008, the last big instance of a big upward sloping forward oil curve, tankers were used for storage. It’s premature to say that we are going to have a repeat (especially with tensions flaring in the Ukraine and Middle East), which would benefit the VLCCs. Nevertheless, tanker watchers should be keeping an eye on this and many other possible market developments.