They all need oil revenue

Contributed by

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Each week, the news brings fresh developments that leave shipping industry observers scratching their heads and wondering, “How will this affect freight rates and vessel hires?” In the past few days, the head scratching was brought about by a fresh set of developments in the Middle East- the sudden rise of the ISIS movement and the group’s march southward through Iraq.

Where energy markets are involved, hydrocarbon flows and fuel costs then come into the discussion. Shifts in vessels’ top lines (revenue) and costs both flow down to the bottom lines. Such things matter to the stock pickers and pundits who opine on listed company equities. U.S. analysts tend to value companies based on ratios of cash flows over time. At this juncture, we can’t really tell which listed companies might be winners, or losers.

If bumps in earnings (upward, or downward) are perceived to have some permanence, then asset values will also reset; European analysts and investors tend to focus on the relative values of assets in determining whether shares are bargains, or not. Again, from what we’ve seen so far from Kirkuk and Mosul, trying to gauge the impact on particular shares is not possible. In the very short term, I am waxing positive on VLCC spot players, but what do I know?

Shipping markets have a mind of their own, reacting to muddy mélanges of political and economic events, so readers looking for precise crystal ball-like insights will be disappointed. But, so far, it does not look like ISIS’s march will be shaking up the maritime markets in a big way…or maybe not in any way. At this time, ISIS’ delays in marching on Baghdad, and Basra- in the oil-rich south, have allowed the Shiites to re-group- if recruitment of rag-tag militias counts as re-grouping. A pipeline linking northern Iraq with Ceyhan, at the Turkish Mediterranean, has been out of action since earlier in the year; roughly 1.5 million barrels of oil sits in storage tanks at the port- where oil is shipped in Aframaxes, according to reports. News sources have reported that the ISIS insurgents have captured a big refinery, at Baiji. One scenario that may emerge- possibly, is a break-up of Iraq, into three separate states- with a Kurdish area in the northeast, a Sunni area in the present Iraq’s mid-section, and a Shiite area in the South. Iraq’s oil production has seen remarkable gains in the past year, up to 3.3 million barrels/day, from under 3.0 million barrels/day last year. Exports, mainly through Basra, have varied between 2.0 and 2.5 million barrels/ day- moving in big tankers.

Each of the factions in Iraq will need revenue from oil; tanker owners will likely see continued aggregate demand, **though re-alignment of trade flows may provide short term market challenges and brief spurts in tanker demand.** Iraq exported around 3.8 million barrels/day in the 1970s- prior to the “tanker war” of the mid 1980’s. Nevertheless, if the invading forces can make headway south of Baghdad, and shut down Iraq’s outlets on the Arabian Gulf- then maybe, and these things are fraught with maybes, long haul oil shipments out of West Africa might pick up part of the slack on movements to Asia- actually a good thing for LVLCC ton miles. The big unknown is whether Saudi Arabia can pick up the slack and add movements of VLCC’s to the currently over-tonnaged mix. On a separate note, were production in strife-torn Libya to pick up, as some observers suggest might be happening, then export movements, most likely in Aframaxes into Europe, would grow- though not by enough to make up for major shortfalls from Iraq.

The most significant data point on the whole issue, in my opinion, is a statistic announced much closer to home, in Washington, D.C. The U.S. government’s Energy Information (EIA) Administration pointed to 8.4 million barrels/day of U.S. oil production- rivaling levels not seen since the late 1980’s. The burgeoning Eagle Ford region of Texas is now producing 1.4 million barrels/ day. The EIA forecasts that annual U.S. crude production will average 9.3 million barrels/day in 2015 – a 42 year high. The all-time peak production reached as high as 9.6 million barrels/ day in 1970.

U.S. refiners are already swamped in crude oil- they are building additional capacity for processing it. This overhang- a good thing, will dampen the impacts of disruptions in Middle East oil supply- in the aftermath of the ISIS surge, oil prices have risen- but only by several $/barrel. Gasoline (petrol) re-sellers, watching the stream of images from Iraq on CNN (or Fox News, depending on their preference) will try to raise prices at the pump as we throttle along into the “summer driving season.” Hint to gasoline re-sellers- Barry is taking a cruise this year, so don’t even bother…

Increases in gasoline prices will be a big determinant of action in Iraq by the U.S. Presumably, attempts to raise prices won’t stick (irrespective of my vacation plans). Also worth watching are product imports from Europe into the States. Such movements, already underway, might benefit the beleaguered MR sector, as they act as a salve for lowered gasoline inventories after the cold winter (no fault of ISIS, the Kurds or the Shiites). In the absence of a huge conflagration in Iraq, then, don’t look for any new dawns for tankers; in the short term, however, some of the owners, and short term stock traders who own these names, may get lucky if the market gets stressed and trade flows pivot around.