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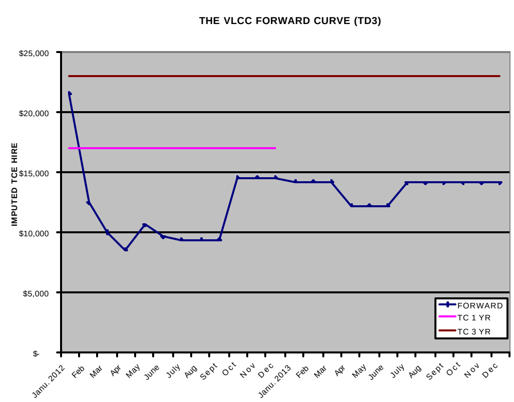
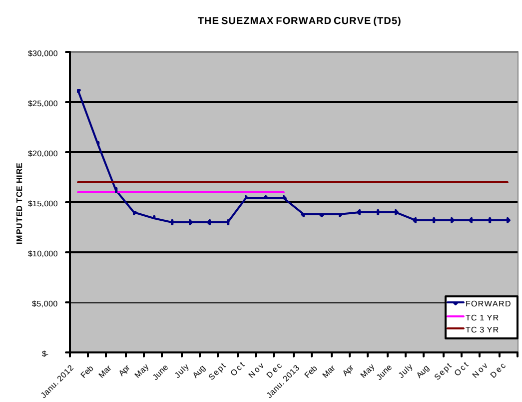
Jan. 2012 Tanker Market FFAs: Dickens Would Not Like These Expectations

A peculiar structure in the forward curves for the larger (VLCC) tanker sizes was brought about by the spot tanker rally during January, where the barometer TD3 route (AG/ Japan) averaged WS 57 (or a TCE of about $22,000/day). The sharp spike in the nearby position, caused by a mid January chartering rush in advance of Asian holidays, was counterbalanced by the dismal, outlook moving forward - an outlook that was improved compared to year end 2011. In the forward curves, the TCE's, imputed from WS rates, worked back to hires in the region of $12,000/day to nearly $14,000/day out through 2013. Expectations for the traditionally strong Winter season, in 2012- 2013, show a small upward blip, to imputed TCE's exceeding $14,000/day.

Confirmation over a multi-month time span will be required, in order to properly label any truly positive change in sentiment. Such a nascent change- if real, can be seen from a comparison of month end with the beginning of January, when the Calendar 2013 Imarex assessment was WS 40, or $10,900/day. After Asian traders returned to their desks, the Calendar 2013 rate was assessed by Imarex at WS 41.8, or around $13,800/day (based on likely fuel prices). Even with the improvement, a daily hire at this level is not sustainable; operating costs alone on a VLCC are roughly $10,000/day. Daily TC breakevens of between $25,000/day and $30,000/day are derived by adding a component that reflects the capital costs, typically $15,000/day to $20,000.day, which would be added to the tanker operating costs.

Brokers have estimated one year timecharters for modern VLCCs at around $17,000/day (one year duration) - $23,000/day (three years), indicative of hires that might be agreed by the lowest marginal cost operator, one of benefits from a low capital cost component. The Imarex computation of 2012 "calendar" hire, at $12,100/day TCE, really more of an averaging of non bids and offers reflecting cost recovery, is at a very substantial discount to the one year TC estimate.





The million barrel (Suezmax) tanker segment, in contrast, has remained steady throughout January; the end month TCE of the West Africa to Northeastern US route (TD5) saw a monthly average hire above $26,000/day, with hire equivalents tailing off to below $23,000/day, at month end. The forward curve reflects perceptions of future oversupply, much like the larger tankers. Where the period rates for a Suezmax in the physical market is approximately $16,000/day- $17,000/day, the forward rates are discounted slightly- with Calendar 2012 and 2013 finishing January with assessments working back to $15,800/day and $13,600/day. While giving more credence to FFA's as a predictor, these are hardly great expectations.

Two Aframax runs, TD 9 (Venezuela/ US Gulf) and TD 17 (Primorsk to Wilhelmshaven), both heavily influenced by seasonality, are now deviating from historical norms. The TD 9 rate saw the spot elevated above the forward based on winter weather and increased demand for lightering; the TD 17 run was soft, on less ice than normal in the Baltic loading areas. These impacts brought the TCE from the TD 9, with a spot equivalent of $21,000/day, above the Calendar 2013 imputed TCE of $18,700. In the highly volatile ice class run (TD 17), the opposite was the case; the depressed spot, at a month end TCE of $11,500 was below the January average of $19,000/day; it was way below the 2013 Calendar computation equating to above $23,000/day (computed using an imputation of the fuel price).