Harrying hurricanes

Hurricanes have discrete impacts on the crude and products trades

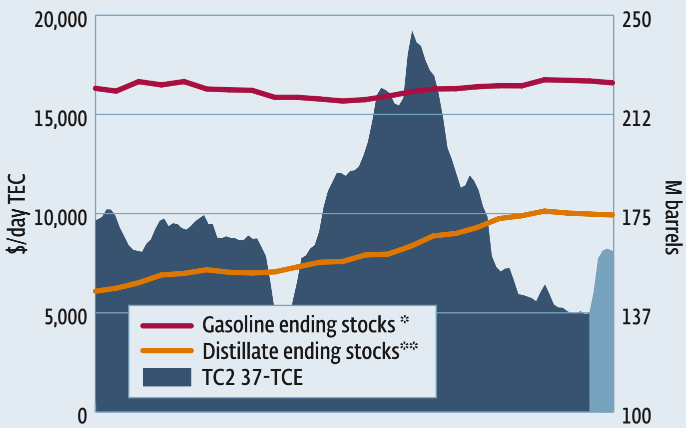
At this time of the year tanker market watchers are liable to have one eye on 'The Weather Channel' and one eye on their trading screens.

Hurricane season, which intensifies in late August and into September, has the potential to disrupt tanker markets in a variety of ways. To date, impact from the 2010 season (which had a very late start before the storms fired up with a vengeance after the beginning of September) has been minimal, because the Atlantic storms have not penetrated the Gulf of Mexico. However, land-side infrastructure issues may have kick-started the markets.

"The impacts from hurricanes will be different for the crude and the products trades," according to Mike Reardon, director of research at Lone Star RS Platou in Houston. Reardon explained that storms, which cause large swells on the ocean, will require vessels to slow down, and sometimes deviate around them. Such logistical effects, which will cause scheduling delays "may have an impact, maybe slowing deliveries by a day or so", according to Reardon.

Depending on the underlying tone of the market, he says that "the deviations and delays could add up, across the product fleet." He contrasts the tighter markets of 2005 from the market of September 2010, where inventories of refined products on hand are well above historical averages. US Department of Energy data shows recent gasoline stocks at 224M barrels (compared with 190M barrels at end August 2005). In late 2005, following Hurricane Katrina and Rita, one-year timecharter rates for MR1 tankers had soared to $30,000/day. Five years on, in mid September 2010, broker CR Weber estimated a similar deal to be worth $13,500/day.

US product stocks versus trans-Atlantic timecharter equivalent rates



*Weekly US totals **37,000tonnes Continent to USAC [Source: US EIA and Baltic Exchange]

224M barrels of US gasoline stocks 31 August, according to the US Department of Energy

> 'Reports of MRs fixed at around W135 for cross-Atlantic trade have given owners renewed hope of a tigher market in the fall season'

Differing impacts

Mike O'Brien, the US East Coast operations manager with Applied Weather Technology (AWT) told *Fairplay*: "Hurricanes like Earl, which recently tracked through the west Atlantic, can block trade routes from the Gulf of Mexico to Europe. Vessels along the typical routes can add 24-36 hours to the voyage while waiting for the hurricane to pass." When the storms do actually veer into the Gulf of Mexico, the impacts could differ. Lone Star Platou's Reardon cited the summer of 2005, when storm damage took out producing capacity of rigs in the Gulf of Mexico and forced refinery closures (notably the Chevron facility at Pascagoula, Mississippi).

In cases like this, "there is a need to import product from overseas, most likely, European refineries." He also suggested that the crude sector could see positive impacts from storms bound for the Gulf of Mexico. "If you have several M bpd crude producing capacity offline, then refiners will need to bring in longer haul barrels – most likely from West Africa, but also from the Middle East." Reardon was quick to add that both clean and crude must be considered together, telling *Fairplay*: "If the refineries are taken out by a bad storm, then there will be less demand for the crude and much higher demand on the product side."

A variation on the hurricane scenario played out over the past few weeks as a result of damage to a crude-carrying pipeline serving the US upper Midwest. The high inventories of gasoline have kept a limit on prices, with analysts counting reduced shipments of gasoline into the States through the end of August. In September, a flurry of gasoline cargoes have been booked by traders hoping for increased US gasoline prices – on the back of diminished supply because of the pipeline and the last hurrah for the US driving season).

Broker Lorentzen & Stemoco, in its daily report, noted the uptick, telling its clients: "reports of MRs fixed at around W135 for cross-Atlantic trade have given owners renewed hope that the fall season may result in a tighter market."

The Oslo-based broker added: "The Baltic Exchange now quotes the TC2 trans-Atlantic route at W146.8. On a timecharter equivalent basis, earnings equate to $ 7,700/day, an improvement of almost 30%" from the previous week" (see graph).

Subsequent strengthening brought TCEs above $8,000/day – still well below the indicative one year timecharter rate. Late in the week, Lorentzen & Stemoco indicated that "an arbitrage window for mogas opened mid-week, but appears now to be closed", as the pipeline mishap became a distant memory. F