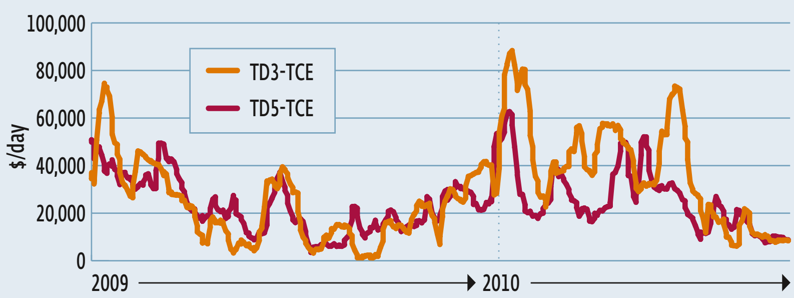
TD3 and TD5 TCE comparisons



$10/bbl

strengthening refining profit margins in the US will help increase refinery oil demand

Owners wait for tanker rate uptick

Seasonal trends have not yet resulted in hoped-for rate improvements

The gap between forward optimism and dismal spot conditions in the tanker trades has widened.

Recent comments from Poten noted an uptick in multi-year tanker timecharters – more deals, at strengthening rates. There were rumours of a possible IPO transaction in the sector, tied to the purchase of a modern Aframax fleet by New York owners. In contrast to this longer-term ebullience, Fearnleys in Oslo described the present large tanker segment as "completely uninteresting", adding that "no rapid change is expected" in the wake of Far Eastern holidays. Oslo neighbour Lorentzen & Stemoco wrote about the temporary shuttering of Idemitsu Kosan's Tokuyama refinery (120,000bpd) due to weak domestic demand.

Implicitly, participants in normally seasonal markets, which include tanker chartering, will compare the present with some historical timeline. Fearnleys, discussing Aframaxes, looks backward for guidance, and fails to see conformity with traditional patterns, offering "Aframaxes in [northwest Europe] are still struggling, and have not yet seen any signs of an end of month spike." It adds that an ample supply of available Aframaxes in the Med/Black Sea "should keep rates at low levels in the near future", but suggests that rates may have bottomed.

Cross-Mediterranean Aframax voyages on the volatile TD11 route are rated at W86.5, which Imarex equates to a TCE of $4,500/day. Mike Reardon at LoneStar RS Platou lays out the stark comparison in the larger vessels: "Since 1990, Week 36 of the year, on average has represented the point when rates turned up for 4Q10. We are currently in week 38, implying that now would be a reasonable time for such an upturn. The current position list makes this unlikely in the near term."

This analysis is borne out by a comparison of the important routes with last year's levels. The TD3 VLCCs, Gulf/Japan, have been pegged at levels below W48 – calculating back to roughly $8,500/day, contrasted with year earlier TCEs as computed by the Baltic Exchange at $13,000/day.

The Suezmax sector, quoted on West Africa into the US Atlantic at W65 (working out to around $8,600/day) is down from hires of approximately $15,400/day in mid/late September of last year. But shipping people have short memories; the lows of 2009 (in late August) actually saw TCEs on the VLCC route TD3 shrink as far as $2,000/day – lower than present hires, albeit preceding an earlier upturn.

Positive picture

Taking a long view, Reardon reminds his clients that present uncertainties are not the same as the massive supply overhangs of decades past, saying: "I am fairly certain this is not an early 1980s market." The Wall Street community agrees; two brokerage reports on Scorpio Tankers, a Feburary 2010 IPO, lay out the positive picture. Following Scorpio's purchase of a modern LR2 (115,000dwt) coated product tanker, Dahlman Rose (DR) and Morgan Stanley (MS) have issued "buy" and "overweight" opinions, respectively. DR says "early signs of recovery are evident" for product tankers.

In providing support for their views, DR analyst Omar Nokta and his team say: "US 321 crack spreads have widened over the past month, moving from below $7.00/bbl to above $10.00/bbl as heating oil season approaches." Strengthening margins will cause refiners to move barrels through their systems. The DR report also says: "We expect US refinery utilisation to return to levels close to the early summer highs above 91%, essentially maximum capacity." It also offers an expectation of increased refined product movements into the US to meet demand beyond what the refineries can produce.

The analysts at MS, led by Ole Slorer, tell investors: "As product tanker spot rates are already higher from last year's lows, the pick-up in refinery demand should have a direct positive impact on product tanker rates." The report emphasises the product sector's very favourable supply/demand fundamentals, noting that "most of the orderbook has already been delivered and newbuilding activity has practically been muted for the last two years." After mentioning the stronger refining situation, it concludes: "We think it's a matter of time to see inventories moving lower." F