Cash finds clean tanker opportunities

Seizing acquisition opportunities and rates in the clean tanker markets requires good cashflow say experts

$6,500/day Torm Tankers' estimate for MR tanker operating costs [Photo: Fotoflite]

'...the fact that rates were not completely demolished tells me that the differential between supply and demand is narrowing'

"Cash is king, and bankers are fed up giving waivers," according to Scorpio Tankers' president Robert Bugbee, a speaker at the Product Tanker Forum hosted by Pareto Securities and tanker intermediary Odin Marine, in New York.

Bugbee's remarks followed a group of informative, though more analytical, presentations by the two hosts – spearheaded by Pareto analyst Martin Korsvold – and a handful of listed companies.

In a nutshell, the sector's fundamental picture shows a continued supply overhang, with erratic demand patterns heavily influenced by seasonality and shifting regional price differentials between products.

An example, said Sune Mikkelson of Torm Tankers, is trans-Atlantic arbitrage trades where gasoline flows westbound from Europe and diesel moves eastbound out of the States. Mikkelsen showed that arbitrages opened up during late June and early July 2010 and briefly moved the time charter equivalent of spot rates on MR vessels up to $19,000/day (WS 225 on Rotterdam-New York). Such levels neared the 10-year average.

Before their present rebound, climbing up again through these levels, these rates had plunged to $3,000/day (WS 125), well below operating costs for which Torm budgets $6,500/day in the MRs.

Another vagary, pointed to by Mikkelsen, has been floating storage of refined products, which bolstered markets throughout 2009 into early 2010 but has slackened off dramatically. The newly released IEA report pegged floating storage of refined products at 26.8M barrels in November 2010, compared with 96M barrels at end 2009.

Looking to the future, speakers noted that new export refineries in the Middle East, India and China are set to provide products cargoes destined for Western markets.

For example, an Indian Oil Company refinery at Paradip, slated to come online in 2012, is set to produce distillates meeting European standards. However, these newer trades are slow to emerge. An expansion of the company's Haldia refinery was put on hold during the disastrous pullback in trade flows in 2009. This much-needed salve has not yet been imbued into present fundamentals.

Bugbee's assessment of market dynamics and the psychology of the traders was provided as background and the news was not all bad. Focusing on stresses in the market, he predicted that two unnamed owners in the products sector could be forced into bankruptcy in the next few months, as they take delivery of high-priced ships ordered in boom times without sufficient cash flows to support repayment.

In his view, backed by an example of a Scorpio vessel purchase with options earlier in the year, the buyer with cash will be able to procure attractively priced tonnage.

Bugbee identified October 2009 as a technical bottom in the products market, as it went through a 'de-consolidation' phase. He described the tug of war between owners and charterers and cited traders with fewer in-house cargoes having redelivered ships, causing the supply to become fragmented.

Noting the recent charters and higher prices of vessel going to all cash buyers, he sees the pendulum shifting back in the owners' direction as traders now gently ease back into the market and tie-up capacity. For investors he pointed to a different arbitrage strategy, buying the product sector against a short position in the crude sector.

Paradoxically, Bugbee offered a bullish take on the relative demise of the 'carry trades', where refined products are stored aboard ships and delivered several months out, at higher prices. He said: "We expected a weak 3Q and 4Q, but we did not expect the carry trades to completely unravel." The Scorpio executive quickly added: "The fact that rates were not completely demolished tells me that the differential between supply and demand is narrowing." F