

Tanker orderbook looms; demand promises growth



Deliveries in 2011 may hold down rates, but non-OECD demand is set to improve prospects

Crude oil trades continue to bedevil forecasters, who are bracing for a rugged intersection of a gently-sloping demand growth curve and a big increase in supply, represented by the orderbook of undelivered vessels.

Yet market expectations beyond 2011 are surprisingly positive, with charter rates likely to cover costs, even in the face of seemingly grim nearby fundamentals. Indeed, in late 2010, brokers were estimating VLCCs to be worth about \$29,000/day on a one-year timecharter, even though timecharter equivalents of Gulf to Japan spot runs have been unable to remain above \$20,000/day for several months. Importantly, owners such as General Maritime and Navios Maritime Acquisition Corp have made big bets on buying VLCC

fleets at what they view as a cyclical bottom.

Yet experts are unsure whether recent improvements in short-term oil demand will hold up, perhaps presaged by the still-disappointing VLCC market. The International Energy Agency (IEA), in its December 2010 *Oil Market Report*, talks about "2010 buoyancy seen easing in 2011", but says medium-term demand (to 2015) will be rising from a higher base.

The fine print reinforces a trend that had already been identified: the growth over the next four years of non-OECD oil consumers, especially China and India. Broker Poten & Partners describes it as "Eastern bulls meet Western bears." The IEA says: "Anticipated OECD weakness is offset by growth of nearly 1.5M bpd annually in the non-OECD, much of it from middle distillates." Even in the face of OECD oil demand falling, the IEA estimates a demand dip of "around 0.3M bpd between now and 2015" in the industrialised countries. Overall, oil demand is expected to

grow by 1.3% annually during the period 2010-15, fuelled by non-OECD economies.

For the tanker trades, short-term concerns are focused on fleet growth. The IHS Fairplay New-buildings Department data lists 90M dwt of crude oil tankers on order, with 38.8M dwt due in 2011 and 30.5M dwt in 2012. The

OECD oil demand is actually falling; the IEA estimates a demand dip of around 0.3M bpd between now and 2015

38.8M

dwt, new crude oil tankers due in 2011

remaining orders are spread over 2013 and 2014, as well as some late-2010 deliveries that have not yet been reported. If the products and chemical fleets are included, this provides a total orderbook of 117.6M dwt. Slippage on the orderbook is estimated in the region of 15% for 2011 and 12% for 2012.

More optimism can be found in the future as the tonnage overhang is met with steadier demand growth beyond 2011. The IEA looks for base growth in oil demand to rise to 93.4M bpd by 2015, compared with 87.4M bpd in 2010, as the rate of GDP growth picks up in 2012.

In the paper market, Imarex estimates VLCC rates for calendar 2011 and calendar 2012 to be worth \$23,000/day and \$27,000/day respectively, implying higher timecharter rates in 2012. The story is consistent for Suezmaxes too, with 2012 assessments on Imarex about \$25,500/day, above the \$19,500/day for 2011. Traders are already awaiting 2012.

Between the lines, impacts in the market that could narrow the chasm between supply and demand include slippage of orders and increased tonne-miles on longer round voyages to the East. In previous years, such imponderables have kept everyone guessing and have pleasantly surprised many owners. ■

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