Tanker rates holding up

THE TANKER market continued to hold its own this week, providing respectable returns to owners. But the factors that had buttressed the market in early December are now easing. Floating storage may have buoyed the larger vessels, while the impacts of refinery margins had supported activity in the smaller sizes. But the apparent brightening in the commodity markets generally was fading on new recessionary worries. Indeed, a sign of pervading bearishness came from analysts at Goldman Sachs, who are now predicting that WTI (a marker grade of crude oil) would be priced at $45/barrel throughout 2009.

Other specific factors also led to easing of tanker rates in most segments – the US built up its inventories, congestion at the Bosporus was reportedly subsiding, while the Med market began to adjust to the two week old strike in Fos Lavera (which had initially led to queues of vessels at the port). The impacts were seen in lower rates on reported transactions from Persian Gulf/East. Fixtures in the double-hulled segment included ExxonMobil's booking for a 265,000 tonne lifting on the Korean-owned *Universal Crown* (built 2005) at W85 and Glasford's fixture of NCSA's 2007-built *Layla* fixed a 270,000 cargo to China at W83. Shell paid W85 for the same sized load, PG/Singapore, on Gulf Marine's *Pluto Glory*. Single-hull tonnage was heavily discounted: CPC paid W51 for a 260,000 tonne stem on the 1994-built *Spartan Warrior*, while Bluelight paid W52 for a 250,000 tonne cargo on the 1989-built *Protaras*.

In the refined products markets, crack spreads were lowered in the North Atlantic and in Asia compared to earlier in the month. Imarex researcher Mike Reardon explained: "The arb is closed and optimism for a fixing surge in the near term is waning. Healthy inventories don't help. In the East, the pattern is the same." From East Coast Mexico, Morgan Stanley booked two 38,000 tonne cargoes to UKC/Med, on *Bow Power* and *High Venture*, at W115 and W100, respectively. Vitol fixed *Minerva Julie* for a 38,000 tonne clean cargo from US Atlantic to UK-Med at W105, with Koch paying W110 on *Navig8 Stealth II* for the same size, Gulf of Mexico to UKC.

The waffling arbitrages also supported westbound Atlantic cargo – with Statoil paying W195 to move a 37,000 tonne cargo from Norway into the US Atlantic on *SCF Yenisei*. Shell fixed a pair of clean cargoes loading Sines, into the US Atlantic/Gulf of Mexico at W190, on *Patagonia Mystic* (33,000 tonnes) and *Cielo Di Milano* (37,000 tonnes) – equating to roughly $18,000-$20,000/day TC. Typical of the activity in the East was Trafigura's fixture at W170 on NYK's *Challenge Pearl* for 30,000 tonnes of clean products from Singapore/Japan – worth $15,000/day to the vessel's owners.

The underlying crude oil market, which fuels tanker demand, is still contracting. Revised forecasts from the International Energy Association (IEA) showed lowered oil demand for 2008 (the first time since 1983 for a year on year reduction), before a slight rebound kicked in for 2009. The US Department of Energy took a more bearish stance, projecting a further absolute decline in overall 2009 demand. The IEA puts December 2008 demand at 85.8M bpd. In the short term, OPEC was expected to cut its output further at its forthcoming meeting, in efforts to move the market toward a better balance in the face of the weak demand. Estimates of likely production cuts ranged from 2M bpd to 2.5M bpd. Morgan Stanley's Ole Slorer commented: "The widely anticipated OPEC cut in December could cool off rates, but the effect of another cut would not impact the tanker market until early January, or

Bunker prices

Latest mid-range prices listed in $ as at Monday 15 December 2008.
d = delivered, w = ex-wharf. Ports listed regionally clockwise from NE
Information supplied by Cockett Marine Oil. Tel: +44 1689 883400

REGION		380CST	180 CST	MDO	MGO
EUROPE					
d	ST PETERSBURG	132.50	142.50	435.00	472.50
d	GREAT BELT	227.50	257.50	462.50	512.50
d	HAMBURG	215.00	246.50	415.00	475.00
d	ROTTERDAM	226.50	267.50	462.50	499.50
d	ANTWERP	228.00	267.50	457.50	486.50
d	LE HAVRE	200.00	225.00	n/a	486.00
d	FALMOUTH	278.00	330.50	573.00	573.00
MEDITERRANEAN					
d	ISTANBUL	237.50	257.50	n/a	595.00
d	PIRAEUS	194.50	216.50	n/a	434.00
d	VALLETTA	247.00	266.00	n/a	513.50
d	AUGUSTA	235.50	261.50	n/a	539.00
d	FOS/LAVERA	181.00	206.00	n/a	445.50
d	GIBRALTAR	220.00	240.00	450.00	480.00
AFRICA					
d	ARZEW	328.00	719.00	n/a	497.00
d	DURBAN	n/a	292.50	525.00	535.00
d	LAGOS	292.50	340.00	n/a	595.00
d	DAKAR	352.50	410.00	n/a	590.00
d	LAS PALMAS	225.50	272.50	470.50	492.50
MIDDLE EAST					
d	KHOR FAKKAN	246.00	274.00	n/a	687.50
d	ADEN	275.00	285.00	n/a	785.00
d	JEDDAH	219.50	239.50	n/a	743.00
d	SUEZ	277.50	277.50	n/a	1,005.00
d	DAMMAM	216.50	230.25	n/a	690.00
ASIA					
d	TOKYO	258.50	278.50	540.00	n/a
d	SYDNEY	n/a	360.00	n/a	625.00
d	COLOMBO	310.00	315.00	n/a	707.50
d	SINGAPORE	256.00	276.00	462.50	466.00
d	HONG KONG	270.00	282.50	507.50	525.50
d	KAOHSIUNG	260.00	272.00	525.00	540.00
d	SOUTH KOREA	285.50	297.50	542.50	550.00
AMERICAS					
w	NEW YORK	228.00	272.50	547.50	n/a
w	HOUSTON	233.50	256.50	507.50	n/a
w	CRISTOBAL	288.00	317.50	817.50	n/a
w	VENEZUELAN PORTS	262.00	309.00	789.00	797.00
d	RIO DE JANEIRO	248.00	266.50	n/a	503.00
d	BUENOS AIRES	254.50	285.50	667.50	667.50
d	LA LIBERTAD	268.00	333.00	n/a	1,145.00
w	LOS ANGELES	236.00	287.50	487.50	n/a
w	SEATTLE	243.50	274.00	494.00	n/a
w	VANCOUVER BC	223.50	251.50	602.50	610.00

ExxonMobil booked a 265,000 tonne lifting on the double-hulled Korean-owned *Universal Crown* (built 2005) at W85

Photo: Peter Schneckenburger

even later given that December allocations have already been made."

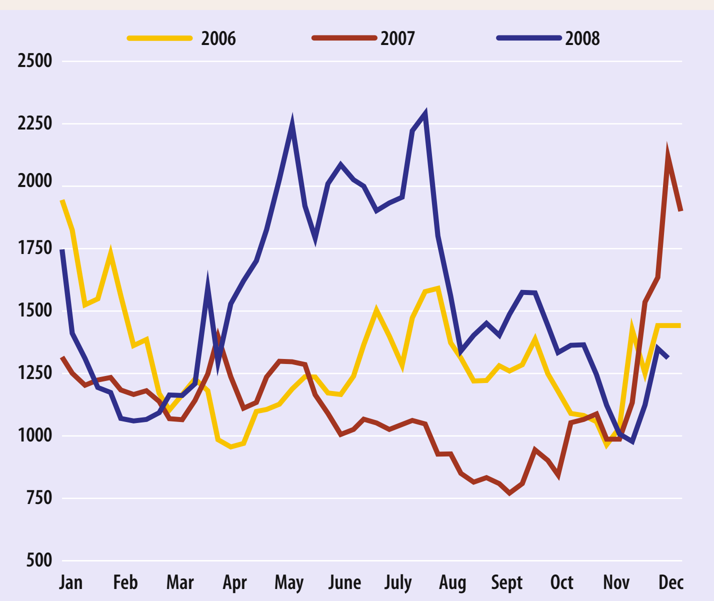
A recent report by Poten & Partners highlights the interaction of the oil prices with the demand for vessels. After discussing the rising forward price curve for oil, Poten's researchers suggest that storing (or 'carrying') the underlying commodity can be a profitable trade. They note: "While shoreside storage tanks are one alternative, the freight environment has also been conducive to using VLCCs for floating storage."

Poten suggests that vessel storage has led to a spate of short period time charters, typically of three to six months duration, with rates in the range of $55,000/day. This rate is discounted slightly from the approximate TCE of current VLCC fixtures – but in line with FFA traders estimation of a nearby market at W80, and with the projected TCEs implied by Jan/Feb 2009 FFAs.

But the 'carry market' – a delicate alignment of oil prices, financing costs and storage costs (including those for vessel charter and operation) – does not last indefinitely. Poten says "it is difficult to see the window staying open too long as people pile into the game." This may explain the apparent easing in the VLCC segment, Slorer's views on market timing notwithstanding.

Baltic Spot Rates — Crude Oil

The recent spike in crude freight rates proved to be temporary, despite a rise in global oil demand, with rates heading downwards last week. In contrast to the dry market, tanker rates still provided respectable returns for ship owners.



Baltic Clean Rates

A weakening trend is also apparent in most of the key product routes, with rates in some cases reaching an eight-month low. Crack spreads for referred product markets narrowed in the North Atlantic and in Asia compared with earlier in the month.