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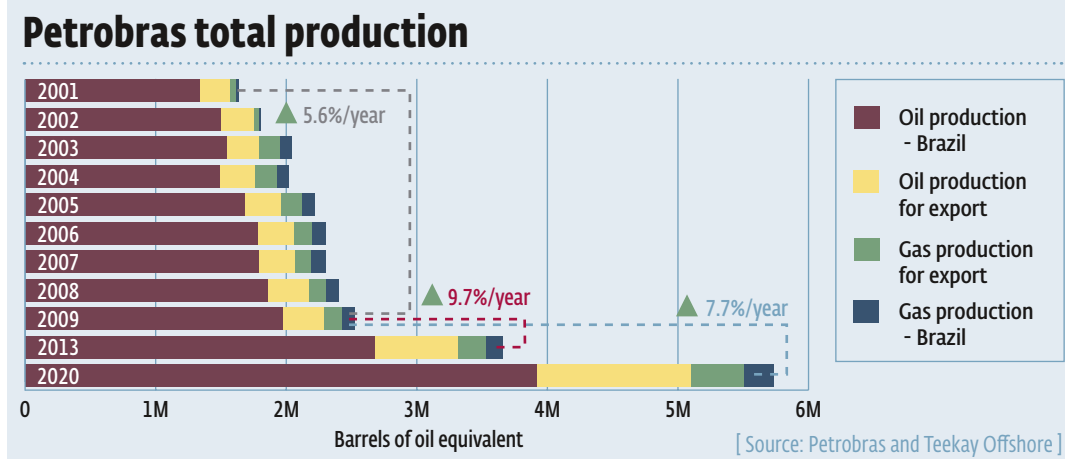
Yard orders remain steady: several recent contracts confirmed by IHS Fairplay ● **Container ship rates moving back in sync:** realignment of container vessel rates has returned a market balance ● **S&P activity:** accelerating

Seizing Brazil's pre-salt opportunities

Pre-salt oil production is facing challenges – and presenting opportunities for shipping. **Barry Parker** reports

The early-November elections in Brazil saw the victory of Dilma Rousseff – the successor of outgoing president Lula da Silva – over José Serra. Brazilian politics has an increasingly profound impact on multiple maritime business sectors, particularly the tanker and offshore arenas. From 2009 production levels of 2.5M barrels of oil equivalent (BOE), Petrobras plans to ramp up production to 3.6M BOE in 2013 and is targeting levels of 5.7M BOE by 2020.

A steady flow of maritime interests from the North Sea and Asia



have been shifting equipment to Brazil, as Petrobras moves forward with its development of offshore oil in the pre-salt fields.

In an October market report, Norwegian intermediary Seabrokers recounted that a trio

of platform supply vessels, *Sea Pollock*, *Sea Pike* and *Sea Turbot*, had been fixed to Petrobras on four-year deals (with options) at around \$21,000/day. DOF has recently announced a series of contracts for Norwegian-built anchor handlers

to be added to its list of vessels on charter to Petrobras. Seabrokers report that three ROV support boats will join this roster. Teekay Offshore Partners has said, "Brazil is our second frontier [after the North Sea]."

Positional strength seen for VLCCs

Some tanker owners in the Gulf finally see rising earnings

Owners of VLCCs that had been positioned in the Gulf are now reaping the fruits of the 4Q10 uptick, which caught owners and

cargo interests by surprise. The strength is positional – charterers with nearby liftings have been caught short.

Braemar Seascope said: "Owners finally threw off the leg-irons and broke free of the third-quarter market, which saw most earning at or below operating costs."

Even though there has been no change in oil market fundamentals, VLCCs on voyages from the Gulf to the East soared to levels providing TCEs in excess of \$40,000/day – owners of modern VLCCs typically face daily operating costs of \$10,000/day. Brokers were far from unanimous on future

rate development in the Gulf.

Fearnleys commented: "The VLCC market in the [Gulf] remains firm with a balanced to tight position list and a continuing strong demand. Everything indicates that the immediate future of the market will continue to be firm." Braemar Seascope was not so sure, telling clients: "Talking to independent owners, there are mixed messages."

A flurry of late-October announcements underline the Brazilian future for oil business. The FPSO *Cidade Angra dos Reis* (ex-*Sunrise IV*) has now begun production testing in 2,100m of water at the Tupi field (with an estimated 5-8Bn BOE), not very far from the BW Offshore unit *FPSO Cidade de São Vicente*, also working at Tupi. After the announcement of the first oil recovery from Tupi, Petrobras announced another huge potential discovery (up to 15Bn BOE) at the nearby Libra field.

The announcements, six weeks after Petrobras's massive share offering, belie the turbulent currents beneath a seemingly calm surface. An IHS Global Insight report said, "Brazil's energy sector became an ideological battleground" during the election, adding that pre-salt oil finds "now posed some of the largest challenges given the capital intensity and complexity... and uncertainty about how foreign investors will react to the new developments."

The Global Insight report details the specific challenges facing the oil and gas sector, identifying political, financial, technological and logistical issues.

The political/legislative concerns stem from the increase role of the state (post-share offering) in Petrobras, and whether the new production sharing schemes will continue to entice foreign

companies to drill for oil in ultra-deepwater environments with challenging geological formations.

Under the newly-proposed regulatory scheme, which is working its way through the legislature, a new Petrobras entity – Pre-Sal Petroleo – will have a share in all pre-salt development.

Financial question

The financial question is: will Brazil be able to continue its massive funding of the infrastructure to support its ambitious targets for oil production?

The issues identified in the report merit close attention from shipping concerns. Global Insight notes: "there are limits as to how much the local market can provide owing to skilled manpower shortages and equipment constraints."

Brazil's policy of building a large fleet of drilling rigs, supply and support craft and tankers with "significant local content" is well known. Players such as Norway's DOF have created Brazilian entities to facilitate participation.

But a number of doubts are on the minds of non-Brazilian providers. Roger Hunt, of ultra-deepwater driller Noble Corp, told analysts enquiring about the role for Noble's rigs: "It's all about whether they proceed with the award for locally-constructed rigs... there's a view that Petrobras will fill the gap with rigs from the existing fleet." ■

Olympic Faith and Vitol's fixture in the Gulf of Mexico of *Aegean Horizon*, at a cheaper W67.5. Aframax fixing in the Mediterranean became more active, with cross-Med liftings going at W87.5.

In the Caribbean and Gulf of Mexico, the Aframax sizes were seeing rates clustering from W112-117, working back to approximately \$6,000/day using Imarex conversions. ■

The Gulf spike is indicative of local positional factors and has not reverberated to other loading areas. Because of the labour disputes in France, Suezmaxes had built up in West Africa, driving the rates down from W90 (TCE of roughly \$24,000/day) towards a bounce at W70 (worth about \$10,000/day TCE).

A spate of fixtures into the US Atlantic included Sun's fixing of

Analysts see positive dry outlook for 2011

Sector forecasts for early 2011 are diverse – but mainly good

The dry markets continued their steady pace, with a slight easing in the Capesizes (down to \$40,000/day on the composite) and Panamaxs (backing down to \$18,000/day).

A cursory look at the paper markets shows a downward sloping curve, indicating traders are substantially discounting in the Capesizes. The calendar 2011 contract has moved down to just over \$26,000/day.

Period timecharter fixtures provide a similar view: a pair of recent 4-6 month fixtures on modern vessels has been done in the range of \$36,000-37,500/day, substantially below spot. The Panamaxs, which never saw a large run-up, show a flat curve – forward rates are closely in line with spot levels.

With the 3Q10 earnings season, equity analysts have been offering views on the overall market, as they evaluate the prospects for individual companies.

Scott Burk, dry bulk analyst at Oppenheimer & Co, reiterated an 'outperform' rating on Genco Shipping & Trading. In his recent report, he described the company management's positive views on Chinese iron ore liftings – a view that a chartering binge would occur prior to the Chinese New Year. Genco is spread across sizes, with Burk reporting a com-

pany view that, "Panamax and Supramax rates are expected to play catch-up, buoyed by Chinese winter coal demand and the Australian wheat harvest."

Focus on dividends

Jefferies & Co's Doug Mavrinac, who follows Baltic Trading (a spot market trader tied closely to the more period-minded Genco), emphasised a likely investor focus on dividends tied to available cash. The Jefferies' report suggested that its 2011 charter expectations are essentially in line with the current one-year timecharter rates.

For chartering strategies, many owners prefer to lock in a portion of revenues, providing the visibility sought by bankers and by dividend-minded investors.

In a Jefferies report on Excel Maritime Carriers, Mavrinac emphasised the importance of recent period charters, which have now increased the contract coverage to 27% for 2011. Excel had put in place more than a dozen charters with Bunge Corp that are now expiring.

Oppenheimer's Scott Burk, also following Excel, described a layering strategy, where new charters on these vessels would be staggered. If the flat contour of the forward curve in the Panamaxs (a close but imperfect proxy for the larger Kamsar-maxes) remains in place, Excel will face little risk from spot rates being significantly below-period timecharter rates. ■

'Panamax and Supramax rates are expected to play catch-up, buoyed by Chinese winter coal demand'