Tankers hold out for a winter rally

A forecast chill in the US could rally weak tanker rates

Tanker market participants have found little to cheer about, as returns in most trades continue to drift horizontally across the charts at rates that fail to cover even operating costs in most instances.

Brokers Fearnley described the drama in stark terms: "Charterers are showing no mercy in this situation and are taking full advantage of the low rate levels prevailing." As the current gloom spreads forward in time, analysts have continued to downgrade many of the listed companies involved in the crude trades.

The rates for VLCCs failed to move above W44 on the TD3 route, equating back to around $3,500/day in Imarex's calculations of the timecharter equivalent, or the Baltic Exchange's *per diem* rating of $3,150.

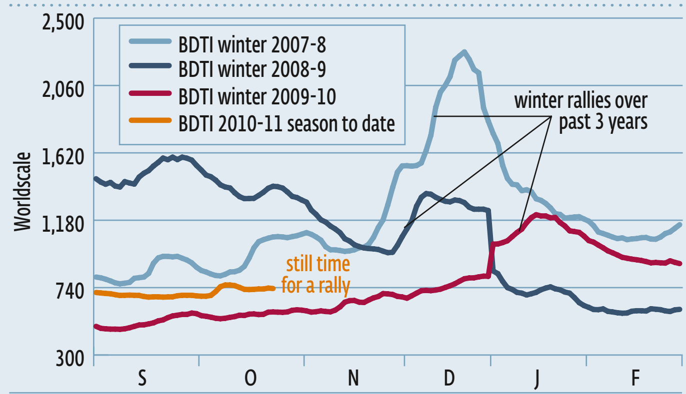
Either way, daily returns after fuel and port costs pale in comparison to daily operating costs of $8,000/day to $10,000/day on VLCCs. In its latest market report, brokers CR Weber infused some optimism regarding the very nearby AG loading area: "We expect to see more activity next week as charterers finish up on their remaining October stems and progress into their November programmes."

The Suezmax sector, where rates are generally compensating owners for operating expenses, has weakened. Earlier in the month, ballasting VLCCs were enticed by stronger rates (several weeks ago) in the West African loading areas for the million-barrel vessels. Imarex was still showing daily Suezmax rates in excess of $16,000/day on voyages from West Africa to the US Atlantic (W81 is quoted for the TD5 route). The Baltic Exchange computations worked back to roughly $15,500/day.

Just about the only bright spots in tanker rates have developed around the shock waves emanating from labour unrest in France, which has led to refinery closures. Brokers Lorentzen & Stemoco (L&S) cited reports of nearly 70 vessels waiting for entry at French ports. L&S says: "The majority of the vessels are crude and product tankers, but there are also several chemical and LPG gas carriers. Suezmax and Aframax markets in the Mediterranean and North Sea are still benefiting."

Aframaxes in the Mediterranean, on the cross-Med (TD11) and Black Sea to Med (TD13), are seeing healthy spot levels, equating to $13,000/day and $11,500/day respectively.

Seasonality salvation



There is still time for a winter rally

Challenging conditions

If labour unrest fails to buoy the market, there is always the weather. Teekay Tankers, in an investor presentation, laid out the case for "challenging conditions in 2011", after suggesting that there is still time for a winter rally in the coming months (see graph). Rates generally showed an upward spike, occurring in mid-December during 2007 and 2008, with a more muted rise in 2009.

A Poten report highlighted a recent speech by a top official at the US Energy Information Administration (EIA), in which a warmer than expected winter was forecast – which could lower the overall demand for fuels.

Deep within the aggregate EIA forecasting barrel, Poten was able to extract some good news. Colder than normal temperatures are expected to prevail in the Northeastern US, the major consuming region for heating oil. Such dirty products optimism might explain the situation in the TD9 route.

The spot TCE is dismal – beneath $2,000/day (contrasted with strike-impacted Mediterranean). FFA assessments for December TD9 (two months out) are nearly $13,000/day, while the January, February and March 2011 positions have been assessed by Imarex at rates exceeding $15,000/day. Happily, traders' memories of market directionality fit nicely with the historical patterns, as detailed in the Teekay presentation.

After cautioning that a very large products inventory overhang could potentially dampen the impact of moderately cold weather, Poten remarks: "While many Americans this winter may be wishing for a white Christmas, those with vested interest in the tanker market should be hoping for a cold one to help endure the storm ahead." F