Shale oil, contango, floating storage, with stalactites and stalagmites

Jerry Lichtblau
Photo: Gail Karlshoej

By Barry Parker from New York

Late last week, multiple events brought together professionals from the shipping and the underlying commodity businesses around New York. The Connecticut Maritime Association's monthly luncheon, in nearby Stamford, featured long time market analyst Jerry Lichtblau, from True North Chartering.

Lichtblau, a maritime graduate who has logged stints at SeaLand, OSG and then MJLF, covered a range of issues impacting the currently booming tanker markets. He suggested that, potentially Venezuela, Nigeria, or even Russia, might be the first to "blink" in response to revenue shortfalls, and shut down their oil production. Importantly, Lichtblau noted: "Saudi Arabia does not care who stops production." The proximate impact on tanker markets would be disruption of the trades, which would lead to inefficiencies as vessels were not positioned properly and would need to shift, in ballast, to different loading areas.

Lichtblau then offered comments on US shale oil production - also a possible candidate for blinking first, albeit an unlikely one in his view - which has added an additional 2m barrels per day into the market. He pondered the question of what might happen in mid 2015 when presently contracted shale wells begin to run dry.

Unlike many other analysts, who look for a price uptick, as production of shale oil is throttled back, Lichtblau pointed to the Private Equity (PE) community as possible buyers of distressed shale oil producers. Just as shipping investments border on "asset plays", it's easy to construct a case for what are effectively "commodity plays" by erstwhile repairers of balance sheets, which is how PE likes to position itself. Higher crude production (from shale or other sources), in the face of weak economic growth, would keep nearby prices lower- everything else being equal.

The conversation also turned to floating storage, in the news recently as fleets of VLCCs and suezmaxes have been reported chartered for storage duty. He explained that the shape of the forward curve for crude oil determines whether oil storage is economical. Continued oversupply in crude oil, and weak spot and nearby prices, would create incentives for traders to store oil.

Later the same day, David Knapp, with the Energy Intelligence Group, who was one of two speakers at the New York Energy Forum's 2015 World Oil Price Outlook, added additional context. Knapp framed the present situation as beginning with "The Shale phase", where rapid increases in available crude supply overwhelmed the marketplace, followed by the now emergent "Storage phase," of obvious interest to shipping people when the storage occurs on the water.

Knapp, like Lichtblau, was looking for the oversold market to move up, did not attempt to precisely predict a price bottom, the eventual settle, and the timing of what was likely to be "U-shaped" price path. US oil exports, always mentioned in discussions of these types would be a big positive for aframax tankers, in Lichtblau's view.

The bigger picture, and implications for shipping people, are what Mr. Lichtblau termed a "compressed shipping cycle….with stalactites and stalagmites" ie pronounced and rapid rises and falls, with the laden legs optimized for slow steaming, which is not the case for the ballast legs. He suggested that Chinese oil buying might peak in Q2 of 2015, fuelling more floating storage and "stretching the [strong] tanker market out" out at least into Q3.

Published in Americas, Asia, Europe, Middle East & Africa, Tankers, Offshore, Dispatches

Monday, 02 February 2015 06:37

Headlines - Americas

- Container line reliability tumbles in 2014 as port congestion bites
- Clarksons completes Platou acquisition
- Shale oil, contango, floating storage, with stalactites and stalagmites
- K Line exec jailed for price fixing in the US
- Hantong Ship Heavy Industry bags order for two panamax bulkers
- ICTSI Oregon hits out at ILWU over dockworker dispute
- Boskalis and Van Oord to build artificial island off Jakarta, Indonesia
- ClassNK adds over 20m gt of new tonnage in 2014
- The full $229m for Euronav IPO
- GAC inks global agency deal with BG Group