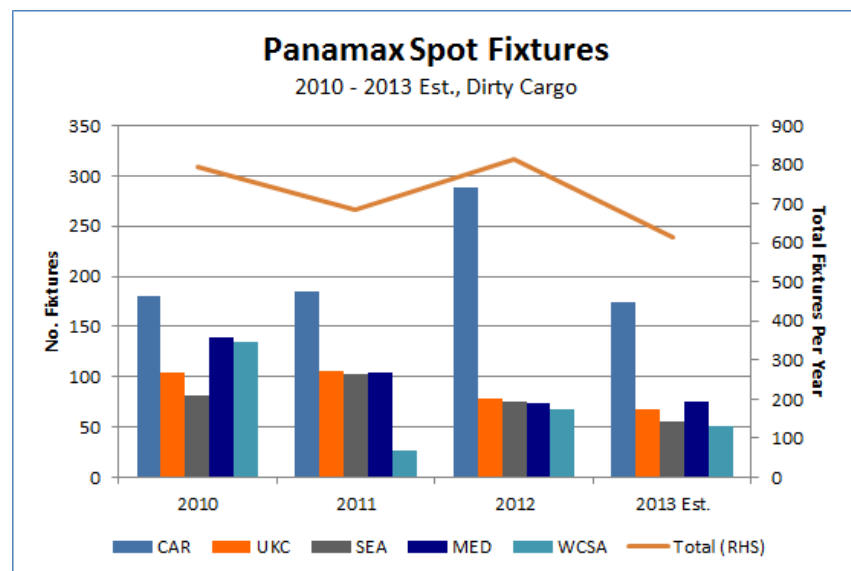


Post-Panamax Stress Disorder

On its 99th birthday, the expansion of the Panama Canal poses an existential question for its namesake tanker sector. Speculation on the obsolescence of the segment is a timely topic of discussion since the commission of a third set of post-Panamax locks is due in late next year, or early 2015. While historically engaged in regional, dirty trading, Panamaxers must now face a different course. The decline of the fuel oil trade in the Caribbean and the much-anticipated emergence of long-haul clean products trades presents a crossroads for the sector.

The chart below shows reported dirty spot fixture volume for the top five trades based on fixture activity. Overall fixture activity is slated to decline by 25% year-on-year largely due to lost trading volumes in the Caribbean. Not unlike their Aframax cousins, the displacement of short-haul trades to the US Gulf has dealt a heavy hand for Panamax utilization on the Caribbean side of the Canal. To add further insult, the emergence of new trades to the Far East sparked demand for larger ships such as VLCCs eroding Panamax marketshare.

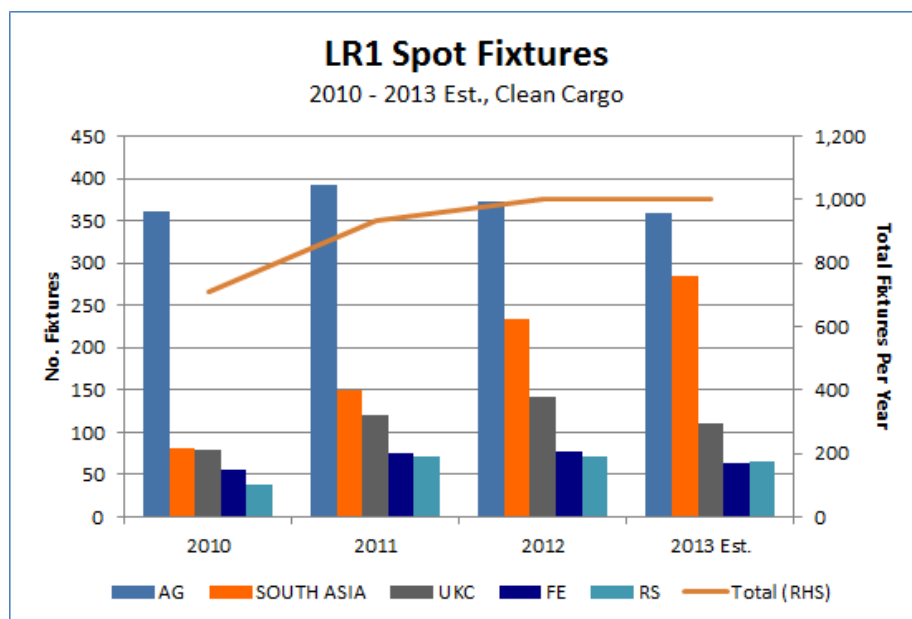


Source: Poten & Partners

The expansion of the Canal will alleviate some logistical constraints for shorter-haul Atlantic to Pacific trading, but the ultimate impact on the tanker market will be dictated by large scale trade agreements between Latin American and Caribbean producers with China, generally favoring VLCCs.

The utilization of Long-Range 1 (LR1) tankers in longer-haul refined product trades has been a much anticipated – and finally relevant – development over the past decade. Total reported spot fixtures, while just a subset of the actual market, indicate positive trends in clean product trading this year. Today we assess 60% of the total Panamax fleet (60,000 – 79,999 DWT) is involved in clean trading. This reflects an increase from 44% in 2010.

The chart below shows reported spot fixtures for LR1s on the top five trades by total activity.



Source: Poten & Partners

Perhaps even more striking are the developments that occurred outside of the top trade lanes, notably new volumes from the US Gulf. While still a small base of cargoes, the total number of LR1 fixtures out of the US Gulf has doubled in the past few years. Some speculate that the expansion of the Canal might encourage further exports from the US Gulf to Far Eastern markets, but shore-side constraints and draft restrictions at loading will likely impede such a development on vessels larger than Panamaxs, unless infrastructure changes are addressed.

While dirty Panamaxs are likely to remain employed in regional trading on the West Coast of the Americas in the near term, a structural shift to the use of larger vessels registers as a potential threat over time. With dirty trading options becoming increasingly niche, the vessels capable of carrying clean petroleum products will migrate accordingly.

Freight rates for the benchmark Arabian Gulf – Far East trade are averaging \$12,000; with slightly higher returns achieved in the Trans-Atlantic trade. The already weak freight environment begs the question of whether the vessel supply in this market has reached a saturation point.

Poten Weekly Tanker Opinions are published by the Commodity Consulting & Analytics department at Poten & Partners. For feedback on this opinion, to receive this via email every week, or for information on our services and research products, please send an email to tankerresearch@poten.com. Please visit our website at www.poten.com to contact our tanker brokers.