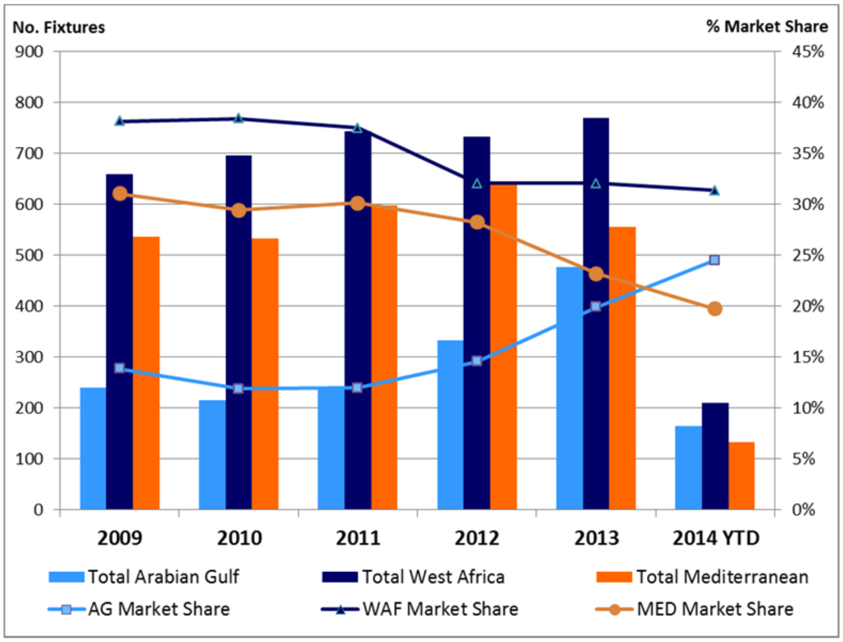
Suezmaxes: Around The World In More Than 80 Days

Trade Growth Where It May Be Least Expected:
The staggering decline in crude oil trade volumes between West Africa and the United States has led many to cursorily dismiss the Suezmax sector on the whole. Diminished light-sweet crude oil import requirements by the United States, and little reason to believe in their near-term return, has rightfully called the relevance of Bonny - Philadelphia as the benchmark trade into question. Afterall, without its beloved TD5, what is a Suezmax to do? With few noteworthy developments elsewhere in the market, it is a time for pause: where have all the Suezmaxes gone?

Although the transatlantic trade has taken a hit, more West African cargoes are being absorbed by Europe. West Africa – US total fixture activity has declined by 686% on an annualized basis over the past year with only 25 reported year-to-date in 2014. This trend puts volumes on track to top barely 60 cargoes for the full year. Total fixture activity has dropped even more starkly over the past five years when a total of 302 were reported for all of 2009. In contrast, West Africa to the UK Continent has increased over that time period. 114 fixtures were reported for the full year in 2009 to the Continent, however this year could yield more than 230 fixtures. While the prognosis for the Suezmax market is often largely linked to the lost volume over TD5, Europe's appetite for Nigerian and Angolan barrels has helpled stave-off West Africa's loss of total market share. West Africa fixtures, as a percent of total reported spot fixture volumes, have declined only modestly from 38% in 2009 to 31% this year. (See fig. 1)

Fig. 1 Suezmax Fixtures by Load Zone



In other interesting developments for the sector, changes in the total market share of fixtures originating in the Arabian Gulf and the Mediterranean have experienced inverse trends. While the Mediterranean has historically accounted for about 30% of the total market, it is set to represent about 20% this year. The suspension of crude oil exports along the Kirkuk-Ceyhan pipeline since the beginning of March has sapped cherished cargoes from the market. It was reported that the pipeline carried about 5.9 million barrels in January 2014, down 24% from January 2013. Crude oil flows were already compromised with a reported 37% reduction in total volumes between 2012 and 2013.

On the other hand the number of Suezmax fixtures reported from the Arabian Gulf has increased, with longer voyages to boot. (See Fig. 2) Representing 24% of the total market this year, fixtures with origins in the Arabian Gulf could surpass 530 in total. This volume represents a near-doubling from that of just five years ago. While the total increase in Suezmax activity in an area that is categorically considered the nexus of the VLCC market is interesting, the destinations of the cargoes may be even more surprising. Suezmaxes have been increasingly employed on long-haul trades to areas like the US Gulf and US West Coast. The steady requirements for Middle Eastern crude oil in the United States have established what could potentially be considered a baseline level of demand for Suezmaxes. So far this year, 13 fixtures have been reported to the US West Coast which is already more than the total of 9 cargoes fixed in 2009. The voyage time and limited backhaul opportunities make any incremental cargo on this length of trade lane carry far more weight from a demand perspective. The total distance from Bonny, Nigeria to LOOP, Lousiana is approximately 12,000 miles round trip whereas Basrah, Iraq to Los Angeles is nearly twice as far. Although Suezmaxes may appear to be reaching out of their comfort zone, they are evidence that available tonnage will move to regions of the world where opportunities exist. This trend should serve as a reminder that segment fleet capacities should not be considered in a vacuum. Tanker sectors will overlap when the economics warrant as there will always be a vessel happily willing to step up and serve.

Fig.2 Arabian Gulf Reported Suezmax Activity

Trade Route	2009	2010	2011	2012	2013	2014 YTD	2014 FY*	2009 - 2014 FY Δ
AG - SOUTH ASIA	122	102	96	125	180	53	172	41%
AG - FE	42	45	23	22	65	27	88	109%
AG - UKC	16	5	5	56	54	22	72	347%
AG - MED	9	14	46	53	54	19	62	586%
AG - SEA	19	22	16	20	32	13	42	122%
AG - USWC	9	6	10	15	29	13	42	369%
AG - USA	7	10	15	17	25	8	26	271%
Other AG	15	11	26	24	38	9	29	95%
Total	239	215	237	332	477	164	533	

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