Weekly Tanker Opinion

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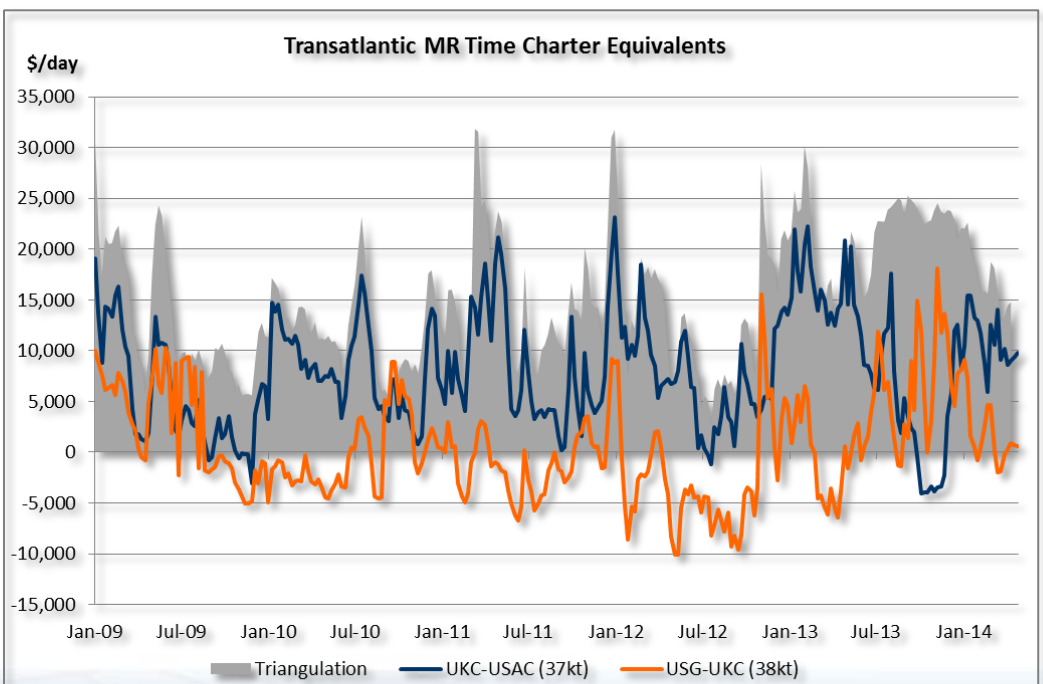
Thinking Outside the Triangle

Although US refined products exports largely underpin medium-range (MR) product tanker demand in the Atlantic Basin, there is little evidence of similar stability in US Gulf – UK Continent (TC14) freight rates. In many of the crude oil trades, high demand for crude oil in a particular market leads to high demand for ships and, often, robust freight rates. Because the Atlantic Basin refined product market is short-haul in nature and driven by traders' arbitrage activities, it is far more fickle. Teasing out trends in the to and fro trades between the US and Europe can be quite challenging, as product prices, freight rates and where the cargo ultimately ends up are highly interdependent. For shipowners, the ability to secure cargoes and get paid roundtrip freight in both directions is an attractive proposition, yet one that is without guarantee. Furthermore, the seemingly inverse relationship in freight rates between the two benchmark transatlantic trades may highlight just how savvy charterers have become.

The chart below shows the historical round-trip time charter equivalents (TCEs) for both transatlantic voyages TC2 and TC14, respectively: UK Continent to the US Atlantic Coast, basis Fawley – New York, and US Gulf to UK Continent, basis Houston – Amsterdam. The relationship between earnings on these two trades is somewhat inversely related.



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Source: Poten

The triangulation calculation is based on the assumption that the vessel is laden for both transits across the Atlantic. On this basis, the total ballast time is reduced to the leg between New York and Houston. On average since the start of 2009, TC2 has returned $8,342 per day to shipowners, while TC14 has eked out a mere $655 per day. The triangulation voyage, however, has yielded a TCE of $15,200 per day; more in line with the 1-year time charter rate which a averaged a daily rate of $13,700 over the same period.

As of this week, earnings on TC14 and the triangulated voyage are nearly half of the levels reached at the start of the year. While some of the decline in rates can be explained by early-spring seasonal weakness in refined product consumption in the United States and Europe, there is reason to believe that a further de-coupling of the TC2/TC14 trade, and its triangulated offspring, will occur over time.

The number of total reported MR spot fixtures for the trades of interest are shown in the chart below. US exports are increasingly headed to areas like East Coast South America, the Caribbean or to optional discharge locations. Conversely, the trend in the number of cargoes moving to the UK Continent is 13% fewer than last year.

Reported Spot MR Fixtures

	2009	2010	2011	2012	2013	2014 YTD	2014 Annualized
USA - UKC	222	95	189	238	124	33	107
USA - ECSA	9	52	88	92	84	54	176
USA - CAR	74	130	181	164	196	88	286
USA - OPTS	37	67	52	54	205	45	146
UKC - USA	451	420	446	357	129	105	341

Source: Poten

That said, on an annualized basis, the number of cargoes moving from Europe to the United States appears to be on the rise. There have already been 105 fixtures reported this year, suggesting that 2014 volumes could more in line with previous years.

With incremental cargoes moving from the US Gulf to the Caribbean and Latin America, the near-perfect vessel utilization opportunity historically achieved on the transatlantic trade begins to break down. Instead of ships becoming available in Europe and the US Gulf, the disclocation of supply to places farther south, reduces overall asset utilization on a ship-by-ship basis. If this trend continues, each MR would be capable of carrying fewer cargoes per year. This is a double-edged sword for shipowners in the MR space, however. Although a vessel may have less of an opportunity to increase days for which it is paid double hire, the general increase in trade length is positive for ton-mile demand. Again, all positive demand indications should be taken with extreme caution; the 300+ MR orderbook is still a scary prospect.