



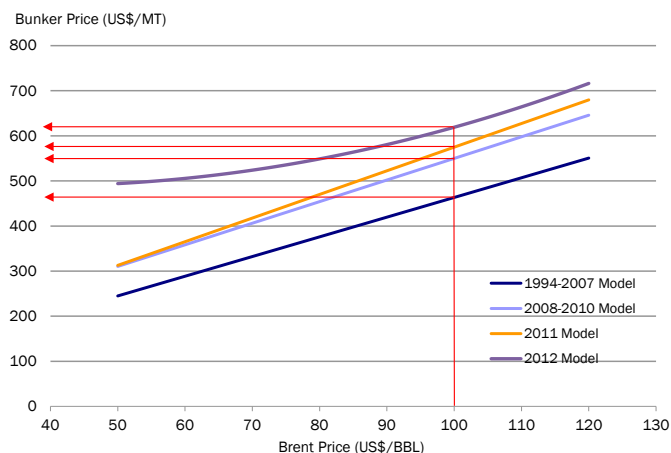
No. 27— BUNKER BOOST OUTPACES BRENT

DECEMBER 20, 2012

Individuals active in the shipping or oil industry are aware that residual fuel and bunker prices have been rising in recent years. In 2012, the basket of bunker prices that we track at major ports reached an all-time high of almost US \$750 per ton in early March. This was influenced by an upward spike in crude oil prices combined with robust demand for power generation from various countries. Although prices have since subsided, bunker prices are anticipated to rise in the coming years. This increase will be in line with higher crude oil prices, but also tighter supplies due to secondary capacity additions and changes to the international crude slate. Tanker earnings will continue to be pressured, which will encourage owners to explore methods to boost fuel efficiency.

In our annual Tanker Market Outlook, McQuilling Services provides a bunker price forecast using the correlation between Dated Brent and the average bunker price. Dated Brent provides a more accurate gauge of international crude oil prices as it is not subject to the local logistical issues that affect the US benchmark WTI and it is considered the global oil price benchmark. In previous editions of the Tanker Market Outlook, we noted the correlation between Dated Brent and international bunker prices has shifted upwards as tighter specifications and refinery upgrades are reducing supplies. Between 1994 and 2007, the slope remained constant but started to steepen in 2008. This trend has continued into this year's forecasting cycle (Figure 1).

Figure 1 – Bunker and Dated Brent Price Correlation



Source: McQuilling Services

In our 2012 Tanker Market Outlook, we forecast that Dated Brent would average US \$105 per barrel and bunker prices US \$650 per ton. Year-to-date Dated Brent has been roughly US \$111 per barrel or 3% above our forecast while bunkers averaged US \$675 per ton, about 4% higher than projected. Going forward we see limited upward support for international crude oil prices as the global economy is expected to remain under pressure while supplies should remain relatively ample (Table 1).

In Table 1 our bunker price correlation to Dated Brent is illustrated in column three and is based on the prior year's data. However, given the previous discussion regarding the shift in the cost of bunkers compared to Dated Brent (Figure 1), this price is adjusted using a gauge of market sentiment. This projected bunker price, located in column four, is then incorporated into our TCE forecast for the 12 trades captured in our Tanker Market Outlook.

Table 1– Brent and Bunker Price Forecast

Year	Brent Forecast US \$/bbl	Correlated Bunker price US \$/mt	Adjusted Bunker Forecast US \$/mt
2013	108	655	690
2014	111	669	700
2015	116	695	710
2016	115	689	740
2017	114	684	760

Source: McQuilling Services

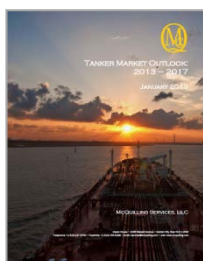
Global crude production should remain supported by the expectation that output in North America will increase throughout the forecast period. Saudi Arabia will continue to be the most influential swing supplier of OPEC nations while Russian production should also continue to hover around 10 million b/d. Political risks that could result in reduced production, especially in the Middle East and North Africa will remain present. Demand growth from non-OECD economies will stay healthy throughout the forecast period which will help absorb displaced barrels, in particular from the Caribbean, as a result of rising North American crude oil production. This will support ton-mile demand in particular for the larger tanker classes.

This year's medium term forecast anticipates that bunker prices will rise slowly over the next three years. This range



bound activity will be influenced by a rising share of natural gas consumption in both industrialized and developing nations that will provide some balance to market fundamentals. The rise in the latter part of the forecast period is the result of tighter bunker fuel specifications combined with the growth in sophistication of the global downstream industry.

### 2013-2017 TANKER MARKET OUTLOOK



#### *The Time-Tested Forecasting Solution For the Tanker Industry*

Valuable to many industry participants, the 2013-2017 Tanker Market Outlook provides an in depth analysis and forecast of the Tanker Market for a five year period. Available 2H January 2013.

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+ 1 516.227.5700/services@mcquilling.com  
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