Tankers

Single vs. Double Hull Rates

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Despite recent exits for demolition and conversion projects, single hull tankers still represent about 30% of the VLCC fleet and a significant carrying capacity. Single hull tonnage has been trading at a discounted rate to the double hull vessels for quite some time. By constantly measuring the size of the spread between single and double hull freight rates, as well as the magnitude of fixing activity of each, we track the changes in the spot rates and analyze their behavior.

Since January, 2007 the gap between single and double hull rates averaged in about WS 20 points on the AG / East trades. In December 2007 and for most of the first quarter of 2008 the spread has averaged above WS 30 points. As the spot market rates increased, so did the spread between single and double hull rates. Figure 1 illustrates.

Figure 1: VLCC Single & Double Hull Rates

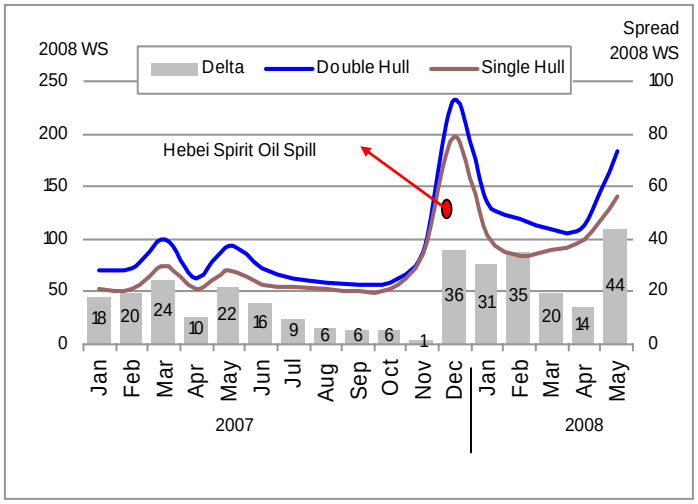
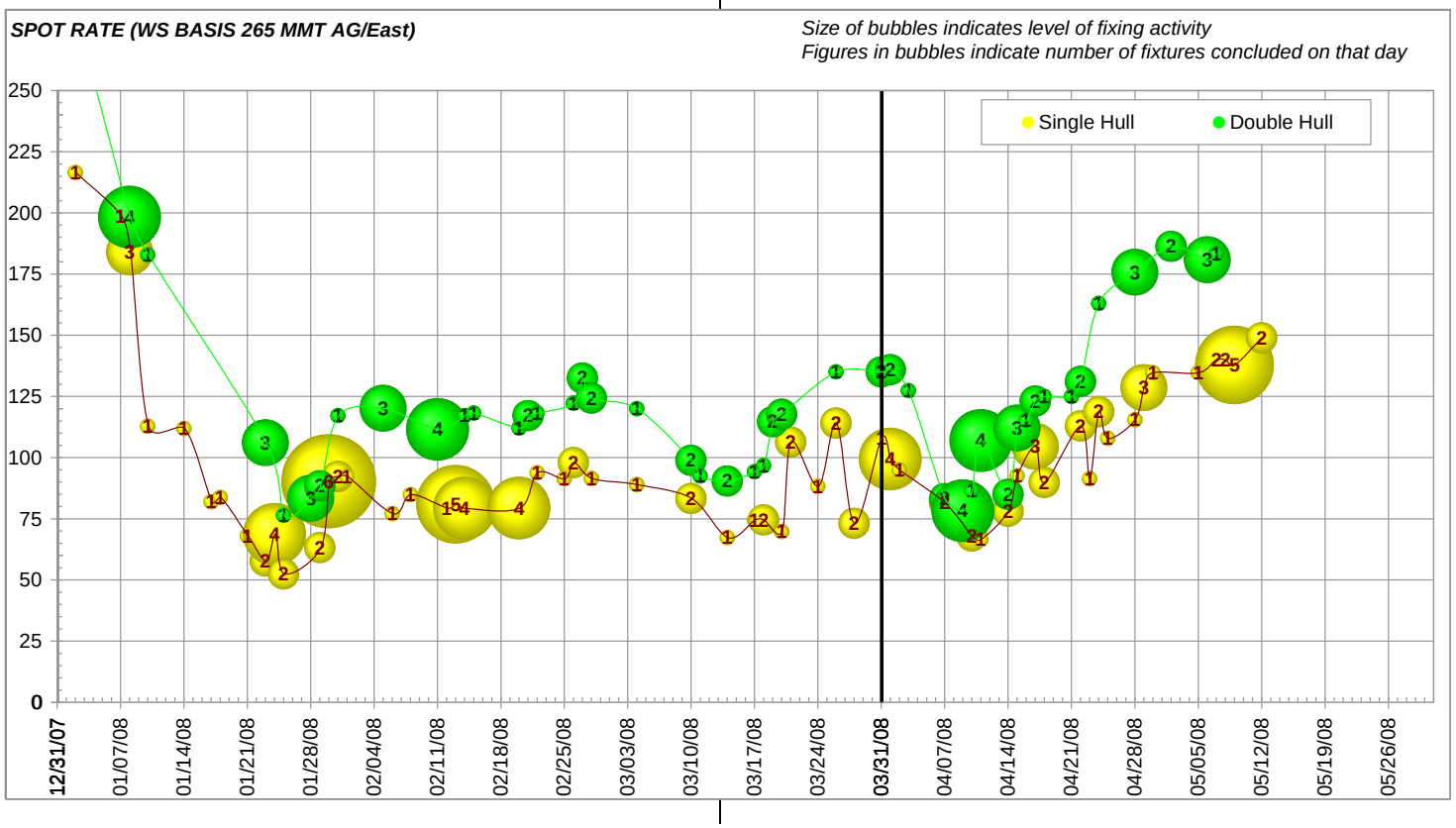


Figure 2: VLCC Spot Rates & Fixing Activity



The question is whether the spread is high because of the "Hebei Spirit effect" or because the underlying rates are high. While we receognize that the spread is a function of the rate level, we hypothesize that the spread is also increasing in the wake of the Hebei Spirit spill. Anecdotal evidence points to an increasing reluctance on the part of charterers to accept singles with the willingness shown in the past.

As each month goes by we are attempting to demonstrate this with data however, the uncharacteristically high rates since the beginning of April are making this difficult. In April we noted a WS 14 point spread, even at elevated levels, an observation that would tend to disprove our hypothesis but more data is needed for this finding to be conclusive.

Figure 2 illustrates VLCC spot market fixing activity in 2008. The size of the bubble and number in the middle represent the number of fixtures reported on a given day. This display reveals additional information about the short-term behavior of the spot marketplace. It illustrates that the market responsiveness caused by excessive single hull activity is much lower than the influence of excessive double hull activity.

For instance, despite substantial single hull fixing observed in February, 2008 (represented by the size of yellow bubbles), there was really little market responsiveness in terms of rates. However, the high double hull fixing activity that took place at the beginning of April, 2008 (shown by the size of green bubbles) seems to have had an immediate impact on the marketplace causing the rates to surge.

We believe that each fixture ought to be looked at separately, with consideration to the time of fixing, supply and demand interaction among other short term market fundamentals. However, by simply comparing the rates and magnitude of activity since the beginning of the year, we observe that thus far in 2008 the double hulls are certainly driving the VLCC spot rates, while the single hulls are reducing in number and in their ability to drive any significant upswing in the spot market. Whether this leads to a permanent decoupling of the single and double hull fleets with regard to rates remains to be seen.