Tankers

2008 First Quarter Demand Analysis

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In our Weekly Note No. 14 we attributed the strength of the present tanker market to the disruptions in the short term supply factors that constrained tanker tonnage and caused the rates to surge. While that still remains the case, we have recently received the latest tanker demand data for the first quarter of 2008 which was not available earlier in the year. Having the data in hand allows us to take a closer look at the demand side of the equation and evaluate whether there was an increase in dirty tanker demand that may have materially contributed to the market surge; or is the market strength indeed caused primarily by the supply constrains specified in our Note No. 14?

Table 1: Dirty Tanker Demand Comparison

	2008 1st Quarter	2007 1st Quarter	Δ
VLCC	1,464	1,483	-1.3%
Suezmax	397	373	6.6%
Aframax	323	319	1.3%
Panamax	60	65	-6.3%
Total	2,245	2,239	0.3%
			billion ton miles

In the context of global oil market, we have observed a drop in oil supply and demand from January, 2008 EIA projections. While the supply of oil was 210,000 barrels / day less in April 2008 than expected in January 2008, the demand was down by 900,000 barrels / day from the January 2008 projections. However, interaction of global oil supply and demand does not automatically imply the behavior of tanker demand. Tanker demand is influenced by the length of laden leg as well as the volume of cargo transported. Our summary of dirty tanker demand matrix for the first quarter 2008 is illustrated in Table 1.

Table 1 illustrates overall dirty tanker demand growth of 0.3% in the first quarter of 2008 as compared to the first quarter of 2007, which is almost flat. By looking deeper into the dataset we found that it was the Suezmax demand growth of 6.6% (around 24.5 billion ton miles), especially barrels lifted out of West Africa, Middle East and North Africa that offset the overall drop in dirty tanker demand. That growth was countered by a 1.3% drop in the VLCC demand (around 19 billion ton miles) in the same time period. The decline in dirty Panamax demand of 6.3% (around 3 billion ton miles) was offset by dirty Aframax demand growth of 1.3% (around 4 billion ton miles) for the same time period.

Therefore, an average dirty demand growth of 0.3% across five tanker sectors in the first quarter of 2008 masks robust growth measured in the Suezmax sector. While some sectors were being poached by the others, we also recorded a change in volume from traditional exporting regions caused by regional lack of demand for oil. This supports our theory that the tanker market ought to be broken down into sectors and analyzed individually.

For instance, the drop in the VLCC demand on the Baltic and North Sea loadings destined to the US Gulf / Caribbean region was poached by the Suezmax sector (Table 2). The drop in the VLCC loadings from the Med and West Africa region destined to the South East Asia / Australia region was also poached by the Suezmax sector. Therefore, two biggest decreases in demand that contribute to the overall 1.3% drop in demand of the VLCC sector quarter-on-quarter comparison, are part of the same trades that boosted the Suezmax demand growth of 6.6% in the same time period. (Con't)

Table 2: Quarter-to-Quarter Dirty Tanker Demand

Discharge	SEAsia/Australia				US Gulf/Carribean					
million ton miles	VLCC	VLCC	Suezmax	Suezmax	VLCC	VLCC	Aframax	Aframax	Panamax	Panamax
Load	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
N Africa, E Med & Black Sea	0.0	1.0	12.5	6.5						
West Africa	0.0	6.4	2.1	1.0						
Baltic					0.0	2.5	9.3	2.2	2.4	2.3
North Sea					0.0	3.7	0.0	0.0	0.0	0.0

In the smaller dirty sectors the picture looks somewhat different. For instance, dirty Aframax demand from the Baltic region destined to the US Gulf in the first quarter of 2008, as compared to the first quarter of 2007, resulted in a three fold increase. However, in spite of expectations of poaching, dirty Panamax demand did not drop in the same time period but remained rather stagnant (Table 2).

Therefore, part of demand drop in one tanker sector and growth in the other can be directly attributed to the inter-sector poaching and stem breaking or doubling. Other changes in demand are caused by a simple increase or decrease in demand for oil dictated by regional economies or seasonal factors. Overall, however, a dirty tanker demand increase of 0.3% in quarter-to-quarter comparison is quite marginal, except for the Suezmax sector where rates have been boosted by both robust demand and the impact of supply factors. Therefore, we conclude that market behavior continues to be tonnage supply driven.