McQuilling Services, LLC
Marine Transport Advisors

Tankers

No. 23 – 1H2009 Tanker Demand Analysis

September 24, 2009

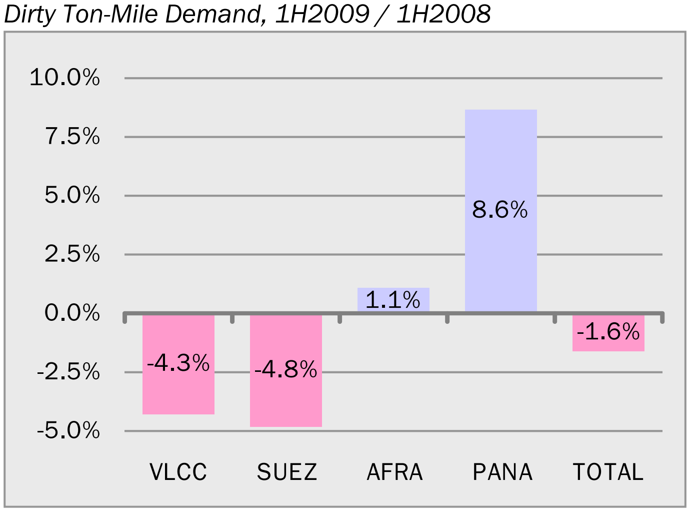
Tanker demand is typically measured in ton-mile units, taking into account not only the cargo being moved, but also the distance it travels. Specific data is available some time after actual cargo movements, which while allowing for a higher accuracy, causes some delay in data analysis. Having updated our records with the complete first half of 2009, we can now decipher the gains/losses across the dirty tanker sectors by import/export region. It is of no surprise that demand for tankers is down on a macro level, but the full picture can only be gained by "peeling back the onion."

We blamed the unseasonable spikes of 2008 on supply constraints, which absorbed significant tonnage and drove the spot market to impressively high second quarter levels despite tanker demand exhibiting the beginning of its decline. However, the picture in 2009 is quite different. Net fleet growth continues across the sectors, un-checked by 2007-8's surge in dry bulk and heavy-lift conversions.

Table 1 illustrates the year-on-year change in ton-mile demand across most tanker sectors, having dropped nearly 1.6% overall versus 1H2008. This is hardly a surprise, and easily attributed to the demand destruction for crude oil since last year. Furthermore, that the fleet has expanded by 120 newbuilds this year yields insult to injury when observing the tumbling act freight rates have undergone.

Table 1: Year-on-Year Comparison

Dirty Ton-Mile Demand, 1H2009 / 1H2008

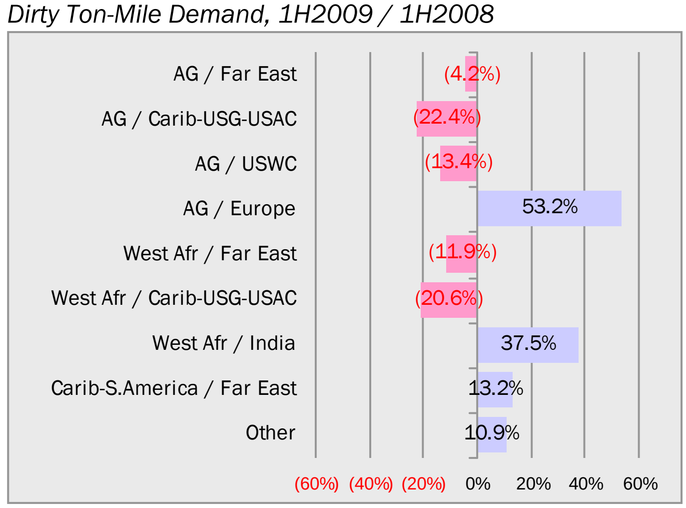


Year-on-year demand for VLCCs is down 4.3% overall. Referring to Table 2, this is largely driven by huge drops in ton-mile demand from the Caribs & US out of the Arab Gulf and West Africa. This was largely expected given the US's decreased consumption of crude after last year's record price tag of US $147 per barrel, and would certainly explain why rates have on TD1 (280 mmt - AG/US Gulf) averaged a dismal WS 30.7 during 1H2009.

Increased demand for VLCCs was seen from Europe and India, largely attributed to declining production output in the North Sea for the former, and increased refinery capacity for the later; however, these imports commanded only a 4% share of the fleet, whereas nearly a 50% share of VLCCs were needed for the AG / Far East trades.

Table 2: Year-on-Year VLCC Comparison

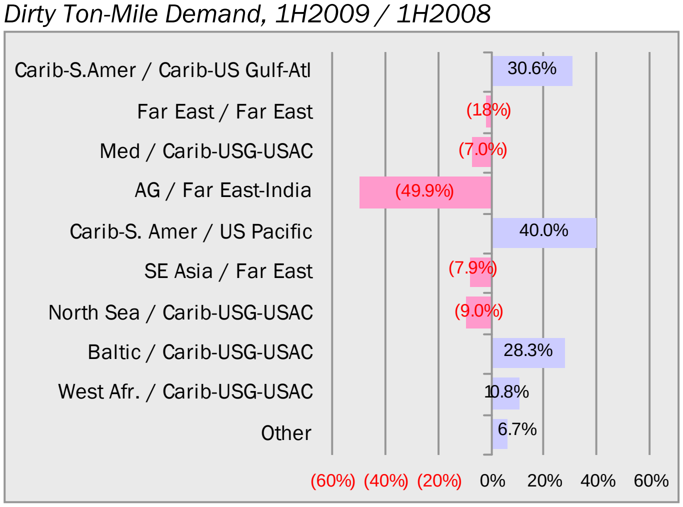
Dirty Ton-Mile Demand, 1H2009 / 1H2008



One unexpected rise in demand has been the 8.6% growth for dirty Panamax tankers over 1H2008. We note that this fleet has seen a slightly negative net supply growth, leaving 123 trading vessels; however, we are reminded of the ambiguity of this tally owing to LR1 (coated Panamax) owners' option to "dirty up." Furthermore, that our database shows spot fixtures for this sector down roughly 20% on a global basis leaves this growth in ton-mile demand a bit puzzling.

Referring to Table 3, the largest increases in demand for Panamax tankers came from the Caribbean & US (which coincidentally experienced the largest drop in VLCC demand as discussed above). This was largely answered by short-haul exports from the Caribs, Central and South Americas, though at the expense of long-haul cargoes from the North Sea. The largest decrease in ton-mile demand was seen ex-Arab Gulf to the Far East and India, though these trades only make up a small share of Panamax business. With all of these positive notes on the Panamax sector, one begins to wonder why spot earnings are down 59% year-on-year on TD 10 (50mmt – Caribs / US Atlantic). We believe the answer may lie with an increasing availability of tonnage in this region.

Table 3: Year-on-Year Panamax Comparison
Dirty Ton-Mile Demand, 1H2009 / 1H2008



The Panamax trade within the Americas already commanded a whopping 23% share of the fleet's business in 2008. Increased ton-mile demand from this region in 2009 saw this rise to over 28%. With so many ships trading within this short-haul region, spot tonnage availability has increased significantly, leaving Charterers with a large fleet list to work from when coming into the market. We believe that this phenomenon has contributed to the depressed rates experienced in this sector despite its increased demand.

The International Energy Agency (IEA) has been pointing to decreasing oil demand since the beginning of 2008. Given that the dirty tanker demand is correlated to the overall world oil demand, their lead could have easily pointed to the downfall in tanker rates since last year. Accordingly, the first half of 2009 suffered a 1.59% decline in ton-mile demand atop a swelling supply of ships as well a declining demand for crude. This combination has left spot earnings about 63% down since last year.

What's Next?

The latest forecast by the IEA calls for oil demand to end 2009 averaging 83.2 million barrels per day (Mbpd), down 3% from 85.8 Mbpd in 2008. But as the global outlook improves amidst signs of economic recovery, their forecast for 2010 is an increase to world oil demand up to 86.3 Mbpd. Additionally, changing distances between oil producers and refiners, various supply reduction factors (such as the impeding single-hull phase out), possible pipeline closures, among many other factors could contribute to significant fluctuations in the demand for tankers moving forward. While we can confidently predict that ton-mile demand data for Q3 will show a further fall from 1H2009, there remains a number of factors that could reverse this trend into 2010. Regardless the result, we look forward to the opportunity to decipher our next batch of tanker demand data, peeling back the next proverbial layer of onion.

Sources: McQuilling Brokerage Partners, IEA, and LMIU

Ocean House ~ 1035 Stewart Avenue ~ Garden City, New York 11530
Tel: +1.516.227.5700 ~ Fax: +1.516.745.6198 ~ Email: services@mcquilling.com