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POTEN TANKER OPINION

Back To Normal?

Is the tanker market facing a typical summer lull in 2023?

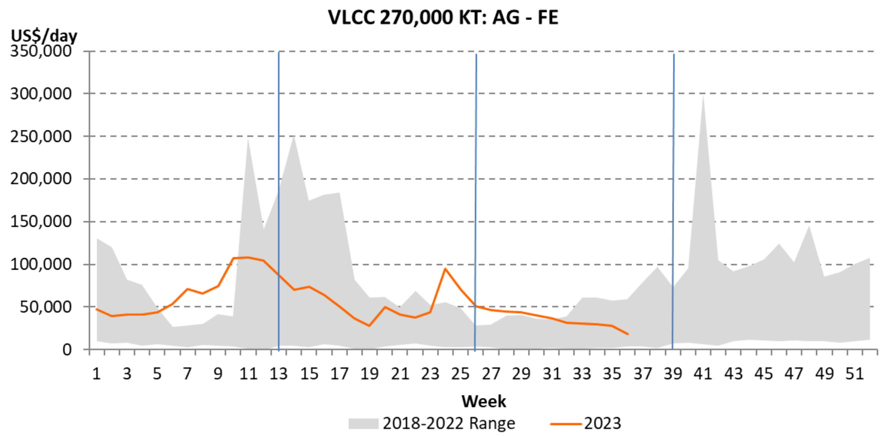
As we have observed in previous Weekly Opinions, tanker rates, both for crude oil and product tankers, are both cyclical and seasonal. However, in many years, external factors, like wars, pandemics and economic shocks create so much rate volatility that they overwhelm the market's seasonal factors, and it appears they are no longer there. In recent years, both the Covid-19 pandemic and the Russian invasion of Ukraine created external shocks to the market that crushed seasonal factors. However, 2023 has been a more "normal" market so far and we have seen rates, especially for the larger crude tankers weaken throughout the summer. Does that mean that we are experiencing the more typical summer doldrums this year and, more importantly, are we at the cusp of a seasonal recovery in tanker demand and rates?

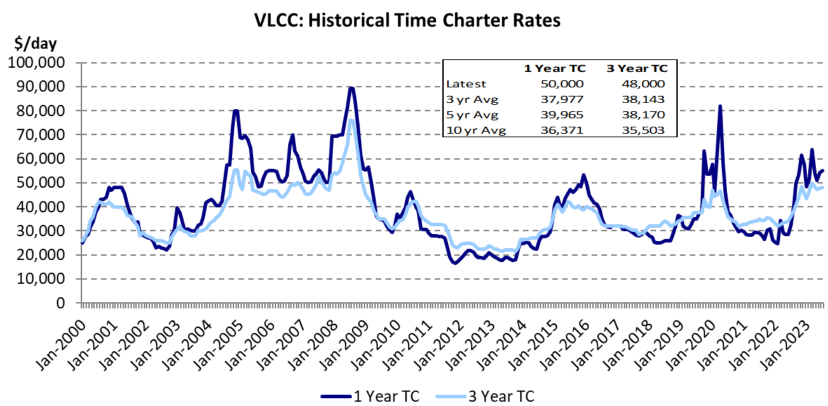
Why do we care about seasonality? For shipowners, it is important to understand the normal seasonal fluctuations in the market because these patterns can influence tactical shipping operations and decision making. One fairly common practice for an owner is to try to time the dry-dockings of his vessels during a period of seasonal weakness, to minimize the loss of earnings.

Over the years, several maritime researchers have investigated the existence and nature of seasonality in shipping (and whether it is deterministic or stochastic). They mostly concluded that there is statistical evidence for deterministic seasonality, i.e. constant seasonal patterns that recur in a predictable way, both in intensity and in periodicity. For example, the tanker market shows rate increases in November and December and declining rates in the January through April period. The reasons for these seasonal patterns include increased oil demand during the winter in the northern hemisphere since colder weather stimulates heating oil demand. At the same time vessel productivity declines in the winter as weather delays are more frequent. However, while these seasonal patterns still exist, one could argue that there have been some changes as global oil demand has shifted from the Atlantic Basin to the Pacific and (relatively speaking) less vessels traverse the northern hemisphere in the winter. The importance of heating oil demand during this period has also diminished over time.

As one would suspect, the seasonality patterns change under different market circumstances. In a rising market with a tighter supply-demand balance, seasonal rate movements are more pronounced than in a falling market.

This year, we are facing a summer market again. Some of the factors that drove down rates were not necessarily seasonal.





Source: Poten & Partners

The production cuts of Saudi Arabia and Russia have directly and indirectly hit the tanker market. Directly through lower transportation volumes and indirectly through higher prices. Higher prices will reduce demand (growth) and in Russia's case, it also meant risking breaching the price cap for western owners. To avoid sanctions, many western owners are now avoiding Russian business, and this has created a (temporary) oversupply of tonnage in other regions, depressing tanker rates.

However, the market seems to be confident of better times ahead. Just this week, it was reported that a modern VLCC was fixed on a 3-year charter to a major oil company for around $50,000/day. While this may have been a one-off fixture, it does show a high level of confidence in the market going forward. In our database, you have to go back to October 2008 to see rates that high for a three-year charter. A publicly listed tanker owner just chartered out a VLCC for two years at $48,000/day. Time charter rate assessments for tankers have remained strong throughout the summer, indicating an underlying bullish sentiment. In the secondhand market, we also see resistance from owners to lower their price ideas despite lower rates.

As we get closer to the fourth quarter and seasonal oil demand picks up, we expect more oil on the water. Global oil demand has recovered from its pandemic lows and inventories are down, ultimately requiring Middle East flows to resume, providing seasonal support to the tanker market.

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