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26 Mile Long Glut of Idled Oil Tankers

Posted by Gail the Actuary on December 31, 2009 - 10:28am
Topic: Economics/Finance

This is a guest post by Mike (Mish) Shedlock. The article was previously posted on his blog Mish's Global Economic Trend Analysis.

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> Traders booked a record number of ships for storage this year, seeking to profit from longer-dated energy futures trading at a premium to contracts for immediate delivery,

according to SSY Consultancy & Research Ltd., a unit of the world's second- largest shipbroker. Ships taken out of that trade would return to compete for cargoes just as deliveries from shipyards' largest-ever order book swell the global fleet.

"The tanker market has been defying gravity," said Martin Stopford, a London-based director at Clarkson Plc, the world's largest shipbroker. Stopford has covered shipping since 1971.

More than half of the ships are in European waters, with the rest spread out across Asia, the U.S. and West Africa. Lined up end to end, they would stretch for about 26 miles.

Storing Crude

Traders are storing enough crude at sea to supply the 27- nation European Union for more than three days. Royal Dutch Shell Plc, Europe's biggest oil company; London-based BP Plc; JPMorgan Chase & Co.; and Morgan Stanley were among those that sought vessels for storage.

The storage trade is profitable so long as the spread between energy contracts exceeds ship rental, insurance and financing costs. A year ago, the spread between the first and sixth Brent crude-oil contracts traded on the London-based ICE Futures Europe exchange was 23 percent. Now, it's 4 percent.

Speculation is one of the things propping up energy prices. Belief in a sustainable recovery is another, and rampant money supply growth in China is a third.

Regardless, with contango spreads tightening, demand for 26 miles of oil tankers will collapse.

Crude Prices

Contract	Last	Change	Open	High	Low
Cash (CLY00)	77.05	+1.31	0.00	77.05	77.05
February '10 (CLG10)	78.77	+0.72	77.92	79.12	77.76
March '10 (CLH10)	79.45	+0.79	78.60	79.74	78.43
April '10 (CLJ10)	80.17	+0.85	79.50	80.43	79.22
May '10 (CLK10)	80.74	+0.88	79.88	80.98	79.88
June '10 (CLM10)	81.26	+0.89	80.66	81.51	80.31
July '10 (CLN10)	81.81	+0.88	80.67	82.03	80.67
August '10 (CLQ10)	82.26	+0.86	82.24	82.36	81.97
September '10 (CLU10)	82.68	+0.83	82.66	82.68	82.66
October '10 (CLV10)	83.10	+0.80	82.81	83.10	82.81
November '10 (CLX10)	83.55	+0.78	83.04	83.55	83.04
December '10 (CLZ10)	84.05	+0.78	83.53	84.23	83.14
January '11 (CLF11)	84.40	+0.77	0.00	84.40	84.40

Click on chart for sharper image.

The floating storage trade is becoming riskier and riskier. The spread all the way out to January 2011 is only $7 and there is certainly no guarantee or even likelihood oil prices will be that high then. One also has to factor in lease and crew costs.

It was one thing to store oil when crude was below $40 and future months were much higher. Risk factors are much higher now and the floating tanker trade will soon be unwound.

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