



# POTEN TANKER OPINION

## Whatever Floats Your Boat

### Floating storage appears to be picking up

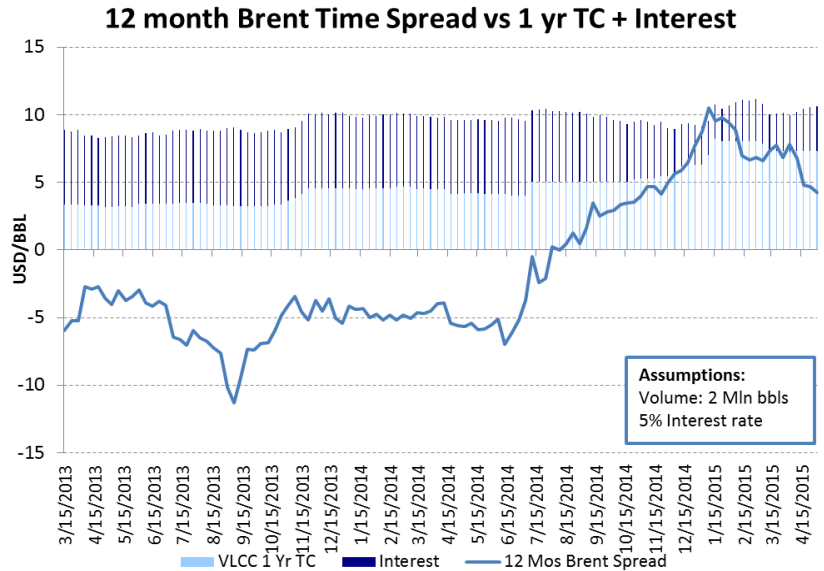
Ever since the dramatic decline in oil prices, which started in the second half of 2014, charterers and ship owners alike have been eying the forward oil market. The goal was to determine at what point the contango in the oil market was going to be high enough to make storing crude on tankers commercially viable. This happened at the end of 2014 and in short succession (first) traders and (later) oil companies took some 30 VLCCs on time charter for periods up to 12 months. However, as oil prices bounced back the forward curve flattened. At the same time tanker rates strengthened and it appears that storage economics quickly deteriorated. As a result very few vessels were actually utilized for floating storage. Most vessels ended up being actively traded in the spot market. That situation seems to have changed in the last 4-6 weeks though as more vessels are again being used to store crude oil, even though the traditional economics do not seem to support it. Is there something else going on?

Since early April, crude oil prices have rebounded from their multi-year lows reached earlier this year (Brent is currently priced at around \$65-\$67/bbl, almost 50% higher than the price of \$45/bbl in mid-January). At the same time, as can be seen in Figure 1, the twelve month Brent spread (the difference between today's spot price and the forward price 12 months from now) has been on a declining trend since reaching a high of \$10.48 during the week of January 9<sup>th</sup> 2015. Last week, this spread was down to \$4.27. Using this metric, floating storage is getting less economical by the day.

Surprisingly enough though, it appears that the utilization of VLCCs for floating storage has increased in recent weeks. Information from Bloomberg seems to indicate a fairly substantial increase in floating storage during the month of April (Figure 2). However, further analysis shows that a significant number of the VLCCs anchored in the Arabian Gulf for the last several weeks were not storing crude but waiting to load at Basra oil terminal in Iraq. Weather delays, strong winds and storms caused a huge build-up of up to 33 tankers, 22 of which were VLCCs. The situation at Basra, the only Iraqi loading terminal in the Arabian Gulf, seems to have improved and the queue is now reducing. It may take another few weeks before the situation is back to normal.

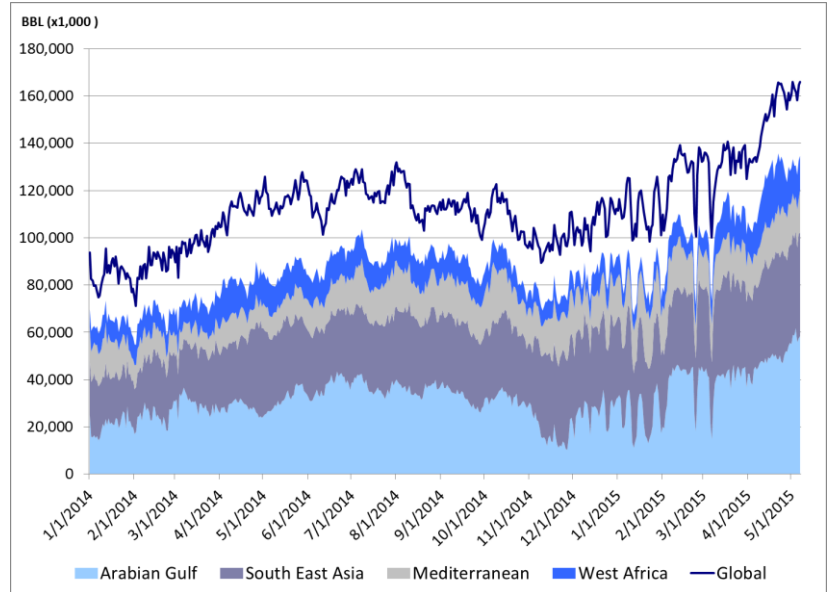
However, outside the Iraqi situation, more vessels are being utilized for floating storage (not counting regular FSO's and

Fig. 1: AG- East VLCC rates (\$/Day)



Source: Bloomberg / Poten & Partners

Fig. 2: Floating Storage



Source: Bloomberg

vessels from the National Iranian Tanker Company). Vessel tracking information reveals that about a third of the vessels taken on time charter earlier in the year are now used for floating storage. Most of them are stationed in the Arabian Gulf, while several others are anchored outside Singapore, in West Africa and the Mediterranean.

It is difficult to speculate why certain charterers engage in floating storage at this point, but it is clear that it does provide additional support for the large tanker market.