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Tanker Rates to Gain 43% as China Oil Buoys Frontline (Update2)
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(Updates with Frontline shares in 13th paragraph.)

By Alaric Nightingale

June 14 (Bloomberg) -- Supertanker rates are poised to surge to a two-year high by December as China's demand for oil sends ships the equivalent of 11 extra times around the globe in a month.

The 31 percent jump in China's imports increased return journeys for supertankers to about 1.13 million miles in April, or 284,000 miles more than a year ago, based on customs data and voyage lengths. Daily rates may reach $100,000 by December, said Rikard Vabo, an analyst at Fearnley Fonds ASA, whose November recommendation to buy shares of Frontline Ltd., the biggest supertanker operator, earned 49 percent. His prediction for freight is 43 percent higher than the June 11 price of $70,025.

China, the engine of the global economic recovery, is going further to get oil, with Angola a bigger provider than Saudi Arabia this year. Longer journeys combined with what the International Energy Agency says will be record consumption in 2010 are driving shipping demand even as forward freight agreements show prices will average $44,944 for the third quarter and $45,466 in the fourth.

"China is the U.S. of the 1960s and Japan of the 1970s as its thirst for oil grows," said Charlie Fowle, chairman of London-based shipbroker Galbraith's Ltd. "As China strengthens ties with countries such as Angola and Venezuela, in addition to Middle Eastern suppliers, it increasingly means tighter supply in the tanker market."

Chinese Expansion

The nation's economy will expand 10.1 percent this year, more than three times the pace of the U.S., the world's largest energy consumer, according to as many as 87 economists surveyed by Bloomberg. Fueling that growth will require an extra 669,000 barrels of oil daily, the Paris-based IEA predicts, equal to more than two additional supertanker cargoes a week.

China is already the biggest user of commodities from copper to coal, spurring a rush for raw materials across the globe. Venezuelan President Hugo Chavez said in April that China would lend $20 billion and form a venture to pump crude.

Petroleo Brasileiro SA, Brazil's state-controlled oil company, signed a $10 billion-loan accord and a supply contract last year. China National Petroleum Corp. has operations in 29 countries from Equatorial Guinea to Sudan.

Oil purchases from Angola reached 4.29 million metric tons in April, about 70 percent more than two years earlier, customs data show. Saudi Arabia supplied 3.09 million tons. The average journey from Angola to China takes more than 33 days, compared with 21 days from Saudi Arabia, according to the distances.com website. Venezuela to China takes almost 40 days.

Next Destination

Seven supertankers off Angola on June 11 came from Asia, according to ship-tracking data compiled by Bloomberg. One arrived from the Middle East and another from the Caribbean. Two were signaling China as their next destination, with the rest yet to declare where they would sail.

“China’s craving for energy is by far the biggest contributor to a continued good supertanker market,” said Per Mansson, the managing director of shipbroker Nor Ocean Stockholm AB. “There is an increased interest from Chinese charterers to find transportation much further away from the Persian Gulf.”

Extra days delivering crude, or making the return journey, are sapping tanker supply as deliveries from yards accelerate.
Fifty-four supertankers joined the fleet last year, the most since 1976, and another 79 will be added this year, according to Clarkson Research Services Ltd., a unit of the world’s biggest shipbroker. There are now 527 supertankers, Lloyd’s Register- Fairplay data show.

Oil Demand Slumped

Shipping lines ordered vessels as rates on the Saudi Arabia-to-Japan route, the industry’s benchmark, rose as high as $177,000 a day in July 2008, before plunging as low as $1,246 by September last year as oil demand slumped. Crude oil plunged to $32.40 a barrel in December 2008, after reaching a record
$147.27 five months earlier. Shipping rates were last at $100,000 in July 2008.

Frontline said last month it needs $31,100 a day to break even on vessels known in the industry as very large crude carriers, or VLCCs. The Bermuda-based company had 45 percent of its fleet trading in the spot market last year, with the balance on longer-term charters. Frontline will earn $3.09 a share this year, according to the mean of 20 analyst estimates compiled by Bloomberg. The company reported earnings per share of $1.32 last year and its shares rose 40 percent this year in Oslo trading.

Frontline Shares

Frontline rose to as high as 231.50 kroner, the highest price since Jan. 6, 2009. The shares gained 4.80 kroner to 230.80 kroner as of 10:43 a.m. in Oslo trading, valuing the company at 18 billion kroner ($2.8 billion.) The stock has surged 42 percent this year.

Overseas Shipholding Group, the biggest U.S.-based tanker owner, said in February that it was putting more than 80 percent of its fleet in the spot market. The New York-based company will return to profit in the third quarter, ending five consecutive quarterly losses, analyst estimates compiled by Bloomberg show.
The shares fell 7.8 percent this year in New York trading.

While rates rose 74 percent this year, they fell as low as $22,672 on Feb. 18. Prices averaged $46,454 this quarter, more than the $28,758 predicted by the median estimate in a Bloomberg survey of 13 analysts, traders and shipbrokers in April.

Crude oil traded on the New York Mercantile Exchange more than doubled since the end of 2008 and the World Bank said on June 9 the global economy would expand 3.3 percent this year, up from a January prediction of 2.7 percent.

Global Slowdown

A slowdown in global economic growth may damp tanker prices. International Monetary Fund Deputy Managing Director Naoyuki Shinohara said June 9 the risks to the global economic outlook have “risen significantly” and policy makers have limited room to provide support to growth. The Washington-based World Bank, while raising its forecast, acknowledged that government budgets were strained.

As much as $7.7 trillion was wiped off the value of global equities from mid-April to the end of last month amid mounting concern that Europe’s debt crisis would curb the region’s economic growth. China wants to cool real-estate speculation and the country’s Federation of Logistics and Purchasing reported June 1 that manufacturing expanded at a slower pace in May than economists surveyed by Bloomberg estimated.

“China has been good for the VLCC trade, but these trade surges can’t continue,” said Martin Stopford, managing director of Clarkson Research. “You get a shift in regional trading patterns, then they tend to slow or reverse.”

China cut oil imports to the lowest in four months in May, according to preliminary customs data released June 10.

Rig Explosion

The tanker fleet won’t be counting on China alone to bolster rates. The explosion on a rig in the Gulf of Mexico leased by London-based BP Plc in April caused the worst oil spill in U.S. history. Increased environmental concerns may hasten the withdrawal of single-hulled supertankers, deemed by the European Union in 2003 to be “more accident prone.”

Eleven percent of the global supertanker fleet is fitted with a single hull, according to Lloyd’s Register-Fairplay. A global phase-out started this year and the International Maritime Organization ban takes full effect in 2015.

“Utilization rates are getting to a point where a lot of these ships are effectively out of the market,” said Jeff McGee, an analyst at London-based Simpson, Spence & Young Ltd., the world’s second-largest shipbroker. Fewer single-hulled ships competing for business will offset deliveries of new vessels and the fleet may even shrink this year, he said.

Distance Traveled

Renewed demand for shipping may also bolster orders for new vessels. Shipbuilders led by Hyundai Heavy Industries Co., the world’s biggest, won about $700 million of contracts to build supertankers this year, according to Clarkson Research data.

Shares of the Ulsan, South Korea-based company rose 30 percent in Seoul trading since January, compared with a 0.5 percent advance in the country’s benchmark Kospi Index.

The most important measure of demand for ships is so-called ton-miles, or the amount of cargo multiplied by how far the vessels have to travel, because it aggregates the two main sources of demand, cargoes and distance, according to Nor Ocean’s Mansson.

The calculation for deliveries to China was determined by multiplying imports in tons by the distances traveled from each supplier to the east-coast port of Qingdao. Some countries were excluded because they may also deliver by land. It assumed all voyages were by supertankers on return journeys. Oil is also carried on smaller ships, some vessels may go to other Chinese ports or travel to different regions for their next cargoes and not all carriers will make the return journey empty.

"We see China as very, very important for ton-mile in the future," said Erik Folkeson Jensen, an analyst at Lorentzen & Stemoco AS in Oslo, who expects rates to reach $88,000 before the end of the year. "China is a large part of the reason why the tanker market is as good as it is."

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