

## NEWS

# Aframaxes face trade pressures

So claims DVB Bank's research team in its latest market outlook.

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Demand for aframax tankers may face a slow but steady decline in crude-oil runs as they are marginalised further into "regional pockets", says a new report.

Increasing numbers are being fixed for loading cargo from sources close to where they will discharge — putting further pressure on tonne-mile demand growth, which has already flattened out in recent years.

German-Dutch bank DVB in its latest aframax-market outlook makes the point that the sector is more geographically constrained than suezmaxes, which operate in niche West African trades, and VLCCs, which have a large trading reach and enjoy economies of scale.

It says there is a definite move toward "localisation" in sourcing aframax cargoes. "In a high-cost, low-demand environment it makes perfect sense to shorten the length of the supply chain and reduce overall costs," the report added.

The number of liftings may rise but the increase in tonne-mile demand is expected to be "very modest". The Caribbean, North Africa, Southeast Asia and the North Sea are now the most important export regions employing aframax tankers for short-haul voyages.

The probable impact of utilisation pressures on aframax, where Teekay Corp, American Eagle Tankers (AET) and Tanker Pacific Management top the ownership table, is lower time-charter rates and subsequently weaker asset values.

And as rates fall, owners with coated aframax "may begin to shift loyalties to products runs",



**MARGINALISATION:** The aframax market is being squeezed into 'regional pockets', according to DVB Bank. Pictured, a loading arm is moved into position for a crude-oil shipment.

Photo: Bloomberg News

says the bank's Rotterdam-based research team.

But this may not happen until 2012, coinciding with the bottom of the economic cycle and an increase in Middle East export "mandated" refining capacity. If correct, rates and asset values for aframax may from that point finally begin what DVB refers to as a "slow stabilisation process".

Simultaneously, newbuilding-contract prices and the value of younger tonnage may improve significantly. Older tonnage will likely settle at lower levels.

However, the bank does not "envisage a bounce back to the levels witnessed in 2008 any time soon". It adds that we are "in the midst of an uncommon crisis witnessed by very few, if any, in this generation".

DVB says time-charter rates historically have had the greatest impact on asset values and the anticipated drop in aframax-period earnings will be more pronounced in prices achieved for vessels of 10 years and older.

Secondhand 15-year-old ton-

nage will fall most drastically with a sharp correction after 2008, especially because of the "deluge" of newbuildings expected in the next few years, regardless of yard slippage, the bank says.

Potential cancellations and yard bankruptcies, it adds, hold the key to "visualising" the aframax-tanker sector post 2009-2010, "when a large number of newbuilding deliveries may (or may not) join the fleet".

Choking of credit facilities to shipyards and owners may "cushion the fall in utilisation rates", DVB continues, although aframax are not likely to benefit substantially from project cancellations. Less than 15% are at vulnerable greenfield and newly established yards.

The aframax-tanker fleet is set to grow rapidly, the bank says. In September, there were 269 vessels of 29.62 million dwt on order, almost 21% of the overall tanker orderbook. This compares with a market share measured in tonne miles of around 13%.

Conversions into dry-bulk ships, floating production, storage and offloading (FPSO) units and floating storage and offloading (FSO) vessels have helped reduce the impact of so many newbuildings. DVB points to 49 aframax of around 5.1 million dwt as confirmed conversion projects, although the "bloodbath" in the dry-cargo markets has made bulker switches no longer viable.

Also, weaker oil prices are having an impact on conversions to FPSOs and FSOs with aframax already at a disadvantage to VLCCs and suezmaxes because of their narrow-beam design. They are the first to suffer from a conversion-investment slowdown.

DVB estimates that the International Maritime Organisation (IMO)'s 13G single-hull phase-out is expected to see 30 aframax of 3.15 million dwt go by 2010. But the credit crisis is hitting shiprecyclers and it is no longer smooth sailing to the beaches of Bangladesh and India, the bank adds.