Aframax liftings to rise but rates to fall, says DVB

Bank's report says that utilisation rates could drop to as low as 73.6% in 2012

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AFRAMAX time charter rates and asset values will be dragged down from 2009 by a fall in utilisation levels, while a recovery is not expected until 2012, a leading ship finance bank warned.

Aframax tonne-mile demand is being reduced as tankers now operate on shorter voyage distances. This may result in a flattened growth trend next year that will be followed by a slight decline.

DVB Bank said in its aframax tanker market report that utilisation rates could drop to as low as 73.6% in 2012 on the back of increasing newbuilding deliveries and slowing fleet deletions.

The report noted that there were close correlations between ship utilisation and time charter rates.

As such, DVB's research and strategic planning shipping division forecasts that average rates in 2009 would reach $30,200 per day, before they eased to $25,100 by 2012.

Aframax spot rates hit a high of $69,000 per day in May this year and are currently around $44,700, according to DVB.

DVB said that utilisation rates would decline to 81.4% by 2010, down from around 90% in 2008, because aframaxes would be further marginalised into regional pockets with destinations relatively close to oil export hubs, unlike suezmaxes, which operate in niche West African trades, and very large crude carriers, which have the advantage of economies of scale and large tradeable distances.

DVB said that aframax demand would benefit from the lack of financing available for oil imports, despite it being more economical to transport crude oil on larger vessels.

"Thus in a high cost, low demand environment, it makes perfect sense to shorten the length of the supply chain and reduce overall costs," DVB said.

"An aframax tanker therefore potentially stands to benefit from this change and we may see more numbers of aframax liftings compared to previous years."

But while the number of liftings would increase, DVB said the length of voyage was expected to reduce, providing a very modest increase in tonne-mile demand.

The aframax crude oil trades can be divided into 72 possible regional routes, DVB said.

Last year, just 25 trades contributed almost 88%, or 6,574 cargo liftings of 680m tonnes, according to DVB.

"While the market for the suezmax subsector has been moving towards fragmentation, the aframax crude tanker market has been consolidating, especially in strong regional pockets," DVB said.

This trend is expected to continue with the Caribbean, North Africa, southeast Asia and the North Sea the most important export regions employing aframaxes for shorthaul voyages.

But owners could find some relief as the number of reported delivery delays increased, which would provide the much needed "cushion" to falling time charter rates, DVB said.

Owners could also "shift loyalties" to the products trades if rates continued to fall, so long as they had coated aframax tankers, DVB said.

This scenario could give the utilisation rate for uncoated aframax tankers an artificial boost, considering the vessel specifications in the current orderbook.

The orderbook has 29.6m dwt, or 260 tankers, of which 40%, or 105 tankers, is for coated aframaxes.

Meanwhile, around 79% of the total aframax fleet, or 749 tankers, is made up of 593 uncoated tankers, and 21%, or 156 tankers, are coated.

This effect, however, would not be witnessed until 2012, which would coincide with the bottom of the economic cycle and an increase in Middle East export mandated refining capacity, DVB warned.

"Therefore, post 2012, rates and asset values for aframaxes may begin a slow stabilisation process," DVB said.

An increase in scrapping would be the most important factor for improved utilisation rates.

But this trend does not look promising and rates are not expected to stabilise at least until the end next year, or the beginning of 2010, DVB said.

Going rates: Aframax spot rates hit a high of $68,000 per day in May and are currently around $44,700.