

Product tanker spot market downturn is overplayed, says d'Amico

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Shipowner D'Amico Tankers says that the threat of downturn in the product tanker market has been exaggerated.

Longer voyages point to fundamental long-term health of market

SPOT rates for long range one product tankers are down, but this does not reflect the underlying health of the market which is increasingly moving towards long-haul voyages generating greater tonne miles, according to shipowner d'Amico Tankers.

Spot earnings for LR1 tankers hauling 55,000 tonnes of Middle Eastern petroleum products to Asia are around \$14,000 per day on the Baltic Exchange's index, down from around \$18,000 per day a week ago, and around \$20,000 per day two weeks ago.

Reasons for the downturn, following highs of around \$40,000 per day in August, focus on swelling global stocks of product, which is reducing imports, creating an oversupply of tonnage.

In the Amsterdam-Rotterdam-Antwerp region, stocks of clean petroleum products have surged by over 40% to around 5.6m tonnes from 3.95m tonnes 12 months ago, according to London-based shipbroker Gibson.

Strong product margins have seen European refinery runs climb, and an influx of products from Russia, the US and Middle East has added to what the broker has called "the products hangover".

D'Amico, however, sees the spot downturn as temporary, and highlights the fact that average earnings this year have been in the mid-\$20,000s per day for LR1s. The company has 53% of its roughly 50-strong product tanker feet on spot, and 47% on time charter.

Fundamental changes to the product tanker market will eventually restore the freight market back towards previous levels seen this year, argued d'Amico Tankers chief executive Mr Fiori, as the company prepares for the maiden voyage on October 12 of one of its new product tankers, built by Hyundai-Vinashin Shipyard in Vietnam.

“Longer routes are being established,” he said, a development that spurred the company to order its first LR1 product tankers in April this year, which has grown to six LR1s being built by the yard for delivery in 2017 and 2018.

The newbuilding delivered for its maiden voyage in a week will see it carry a cargo of palm oil long-haul from south-east Asia all the way to Rotterdam in Northern Europe.

“The areas of production are further away from the demand,” said d'Amico Group chief financial officer Giovanni Barberis.

Indeed, shipbroker Gibson concedes that long-haul routes are ultimately going to be the saviour of the market.

“It remains likely that European refining margins will come under increased pressure as more competitive producers compete for a slice of the European market,” said the broker. “This by its very nature points to positive increases in long haul products trade – a key support factor for the long term health of the tanker market.”

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