



PORTLAND MARKET REPORT

APRIL
IN VIEW

THE IMPACT ON OIL MARKETS AND THE BROADER IMPLICATIONS OF THE BLOCKAGE OF THE SUEZ CANAL

The blockage of the Suez Canal by the Taiwanese mega vessel *MV Ever Given* (20,000 Containers / 80,000 Horsepower) tells us a number of things. Firstly, that ship owners who pay for the “privilege” of using Suez Canal navigational pilots should probably ask for a refund. Secondly, that no matter how trusty and reliable it is, a 1994 Komatsu earth mover is no real match for a 200,000-tonne container ship. Finally, the event lets us know that in this uber-globalised world, our dependence on shipping and shipping lanes is absolute.

“THE IMPACT ON OIL MARKETS WAS MOST INTERESTING.”

Opened in 1869(!), the Suez Canal is a man-made waterway that links the Red Sea to the Mediterranean. Its value to the maritime world lies in the fact that it cuts off around 4,000 nautical miles for ships travelling East to West (Asia – Europe / Americas) or vice-versa. On any given day, 50 ships travel through the canal and the amount of cargo transported along the 120 mile stretch of water equates to nearly 12% of global trade. 20% of the ships using the canal transport oil – either crude (2m barrels per day = 300m litres) or refined products (1.5m barrels per day = 235m litres).

The impact of the canal closure on oil markets was most interesting to observe. When the news became public, oil prices shot up by \$4-5 per barrel. The next day, prices came back down, again as traders concluded that there would be a swift resolution to the problem. However, when it then became clear that the only salvage equipment on hand was a digger last seen on Alexandria High St, prices began to tick up again. On the shipping markets, there was of course a spectacular spike in prices, with spot charter rates for oil tankers doubling overnight. All this, because the Captain of a giant ship was having a snooze, whilst the Canal Pilots were playing Kerplunk with the First

Mate...

There were also some fascinating oil market movements in the “sub-sections” of the industry. For example, Used Cooking Oil (UCO) traded at 3 times the price of normal diesel. The context behind this is that all European road transport fuel (ie, petrol and diesel) contains circa 10% biofuel and much of that is Used Cooking Oil (UCO) from China. Around 25m litres of UCO is imported into Europe weekly and several cargoes of this product became stuck in the “Suez queue”. We also saw the reversal of (Sweet) Brent Crude values versus (Sour) Arabian Crude (Arab Heavy). Under normal circumstances higher priced Brent goes East (via Suez), whilst European refiners import cheap Arab Heavy (also via Suez). But the blockage meant that Europe became “long” on Brent (and other sweet crudes from North and West Africa) and short of the heavier stuff. This suppressed the price of Brent, whilst putting a premium on the harder to source sour crudes from the Middle East!

As for the ship owners and cargo charterers waiting to access the canal, they had to face up to the ultimate logistical dilemma. Did they “stick” and hope the blockage was cleared or did they “twist” and head for Europe / America via the Cape of Good Hope? If the blockage cleared quickly, then waiting was obviously the best option. But what if it took weeks to clear? Equally, adding 7-10 days of cost and sailing time by heading all the way around Africa is a costly diversion. Besides, going “round the Cape” means navigating the pirate-peppered waters of East Africa, which would normally require armed vessel support and a level of marine insurance that many shippers balk at. As it turned out, most ships waited, putting their faith in the salvage operation and this led to a “queue” of around 400 vessels.

The modern world is defined by global seaborne trade, yet few of us have ever considered what happens when the movement of goods by sea is interrupted. Suez is by no means the only seafaring chokepoint. From an oil perspective, the Straits of Hormuz (Persian Gulf) sees 20% of the world’s oil (20m barrels per day) pass through its waters – that’s 1/3 of all oil on the seas at any given time. The Straits of Malacca (Malaysia / Singapore) is

the busiest shipping lane in the world, with 275 ships plying this seaway every day and 90% of China’s imported oil also coming via this route. Less oil focused, but a bit closer to home, the straits of Gibraltar link the Mediterranean with the Atlantic and are only 7 miles wide at their narrowest point. This makes fitting the 2,300 commercial ships passing through each week a significant logistical challenge.

“THE ULTIMATE LOGISTICAL ‘STICK’ OR ‘TWIST’”

The only real way to refloat a ship (of any size) is to raise the water level, but here the Suez Canal has one major flaw. Unlike other man-made waterways, the Suez Canal has no locks, because the land it bisects is totally flat (in effect, the Suez Canal is actually a man-made river). So, whereas, for example, the Panama Canal can close the lock gates either side of any stricken vessel, and then fill the middle section of water – this option is not available in the Suez. The good news though was that, in the end, the efforts to shift the *Ever Given* by tugboats (the digger went back to the building site) were successful. Now to clear the vessel backlog! For those shippers waiting to access the canal, the delays, complications and re-routings made for an expensive few weeks.

For more pricing information, see page 26

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