An Analysis of an Oil Contango on the Tanker Market

Abstract

The purpose of this study is to examine the potential impacts of an oil contango on the tanker market (an oil contango is when the future spot oil price is below the current price and people are willing to pay more for oil in the future). The oversupply of oil has caused a large portion of the tanker market to be locked into long-term contracts for storage in hope of the price recovering. On the other hand this crash of oil prices has brought about an opportunity for oil tankers as investors are storing oil in hopes of a recovering price. Tankers are being chartered for long terms to recent work by Trade Winds News shows the charter rate for Very Large Cargo Carriers (VLCC) has reached a 5-year high and Aframax spot rates are increasing as well. This project examines whether floating storage of the VLCC ships also increase the charter rate of Aframax ships, which are the second largest tankers. The report will also include an exert on how floating storage by prestigious trading companies can be a signal a recover of oil prices. Expected results will determine if the rise in VLCC spot rates will translate into more stable and long term growth in Aframax rates, as the supply for VLCC’s diminishes oil traders will be forced to turn to Aframax. This research will focus on charter rates for Aframax and VLCC tankers and how they will be affected by the sudden crash in oil prices.