‘No relief’ predicted for bullish bunkers

The recent bunker price rally in Singapore is expected to offer no major relief until 2009 and the price of 380 cst could touch a high of $950. The port is expected, however, to remain competitive in prices compared to regional Asian bunker markets.

Trading to remain volatile in busy Singapore.

Singapore's bunker fuel prices could reach a high of $950 per metric tonne (pmt) in Q3 and prices would continue their bullish run into Q4 with "no major relief in sight until 2009", an industry consultant has said.

"I'd see Q3 average prices to trade in a range of $625-700 pmt on the low end with prices going as high as $775-950 pmt if market sentiment for oil in general remains very bullish," said Dominick A. Chirichella from the US-based Energy Management Institute.

Chirichella admitted that the oil market is very difficult to predict as many factors are influencing the price environment apart from market fundamentals.

"This thing called an oil market is very complex and impacted by many drivers such as supply/demand, dollar direction, strength or weakness of major economies, direction of global equities markets, inflation, recession etc," Chirichella told Bunkerworld.

Singapore bunker prices are anticipated to continue rising even in the absence of fundamental issues such as supply shortage or big swings in demand that typically affect price movements, Singapore players said.

A majority of Singapore players feedback that 380 centistoke (cst) prices touching $800 pmt will become a reality in Q3, but the likelihood of prices skyrocketing to $950 pmt would be slightly far-fetched.

"$800 pmt price level is still in the radar," a Singapore-based bunker trader said. "A lot of suppliers have become concerned about giving 30 days credit in view of such high bunker prices."

Such concerns, however, have not translated into actual practices of narrowing the 30-day credit window as suppliers continue to operate as per normal albeit higher risks, according to industry players.

The first three weeks of July saw the grade start the month just below $700 before peaking at over $760 then fall back in line with weaker oil numbers. The average monthly price of Singapore 380 cst in June jumped 34% to $629 pmt from January's monthly average of $469 pmt, Bunkerworld data showed. The average price for 380 cst for the first half of 2008 was $527 pmt, a near 65% surge from the same period a year ago.

Singapore to remain competitive

The bullish run in Singapore has seen similar rallies in other Asian bunker market since the republic holds the advantage of being the most competitive in terms of prices.

The average monthly price of 380 cst in the East Asian ports of Busan, Hong Kong and Tokyo Bay had all climbed by about 30% in the first half of 2008, similar to Singapore.

Despite the recent surge in prices globally, Singapore's bunker prices will continue to be competitive regionally, a Singapore-based bunker player said.

International fuel oil trading firms have this year established themselves as bunker suppliers in the island-state, taking advantage of the new onshore storage facilities that have come onstream. Singapore's onshore bulk liquid storage capacity has doubled in capacity since 2006 to 7.72 million cubic metres (m^3).

Big trading firms such as Glencore Singapore and Toyota Tsusho Petroleum have recently been granted accredited bunker suppliers' licences by the Maritime and Port Authority of Singapore (MPA). One more major fuel oil trading house is expected to receive a bunker suppliers' licence from the port authority this year.

The presence of such big trading firms in Singapore would give rise to opportunities of even more attractive prices in the long-run, the bunker player told Bunkerworld.

"There is a lot of interest from traders who are looking for a stable outlet for residual fuel," he said. "They will bring in fuel oil for both the marine market and power stations. Trading will remain volatile (in Singapore) and prices quoted to compete for businesses will be aggressive", thus allowing Singapore to remain competitive.

Crude oil market

The supply and availability of crude oil are less of an issue compared to concerns with price volatility, Chirichella believed.

"Barring any natural disaster or terrorist acts on oil supply I would say the probability of a supply shortfall will diminish going forward," he told Bunkerworld.

"Also, as we head toward the end of the year and into 2009, additional crude oil surplus capacity will be coming on stream from Saudi Arabia and elsewhere. There are new production projects that will begin to add supply to the market beginning 2009," he said.

Crude oil prices are likely to remain firm in the foreseeable future, possibly hitting a high of $175 per barrel, he forecast. The second half of 2008 could see oil prices at $125-130 per barrel on the downside and $160-175 per barrel on the high side, according to Chirichella.

"The market sentiment remains decidedly bullish and as such it has a higher probability of trading more toward the higher end of the range rather than the lower end."

Geopolitical developments have raised concerns for the oil market, spanning from Iran's nuclear power quest, oil production in Nigeria and a weakening US dollar.

Iran, which is the world's fourth largest oil exporter, has insisted its nuclear programme is for entirely peaceful purposes, while the US believes it could be used to develop a nuclear weapon. Moreover, the belligerent attitude displayed by Israel against Iran through exercises simulating a war "is anything but stable" for the oil market, said Chirichella.

Nigeria is the world's eighth biggest oil exporter but violence has reduced output by a fifth since early 2006, helping push oil prices to record highs. Additionally, the US dollar is "absolutely getting hammered again" as financial turmoil continues in the country, he said. The weak US dollar has made oil prices 'cheap', resulting in the seemingly incessant rise in prices.

"The bottom line is we do not expect crude oil prices to enter into a significant downside move anytime soon," said Chirichella. "We certainly believe that prices will exceed the next projected threshold of $150 per barrel and if geopolitical situation does not improve quickly we can expect even higher prices during the second half of 2008." ■

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