

2009: bunker prices in review

Bunker prices increased 75% over the course of the year, but the complete picture is a little more complex.

A snapshot of global bunker price trends in 2009 would not be complete without reference to a tumultuous 2008. In the middle of that year, the bubble in crude oil prices had dragged bunker prices up to all time record highs. Bunkerworld's index of IFO380 prices in twenty top bunkering ports – the BW380 – peaked at an average of just over \$720 per metric tonne (pmt) for the month of July.

Then came the crash. In early 2008, bunker prices looked like they might never fall below \$400 pmt for IFO380 (this publication had indeed predicted as such) but by the end of the year the December BW380 index was at just \$240 pmt – a 67% fall.

And this is where 2009 started, with the BW380 at \$237 pmt and IFO380 prices in Rotterdam even lower at \$183 pmt – price levels not seen in the port since early 2005!

Early days

With world economies apparently gripped by global recession in early 2009 and the shipping industry suffering from over-capacity and falling demand, as well as oil prices hovering around the \$35-40 per barrel mark, it looked like the one spot of good news for shipowners would be bunker prices.

During the first quarter of the year (Q1) the BW380 averaged \$266 pmt. There was also a lack of volatility in trading: IFO380 in Singapore was mostly between \$230-280 pmt during the quarter.

But as 2009 entered Q2, prices were starting to firm. There were some early warning signs. Despite the worst global recession since the 1930s, with falling economic growth and consumer demand in many major economies, oil stayed stubbornly above \$30 per barrel. By late March the price of oil was over \$50 per barrel and looked like pushing only higher.

Bunker prices in major ports responded and started to creep higher. Singapore passed \$300 pmt for IFO380 on April 6, with Rotterdam following on May 1 and Houston on May 5. By the end of Q2, oil had passed \$70 per barrel and the BW380 was at \$420 pmt. For the quarter, prices averaged \$350 pmt, an increase of nearly one-third over Q1 levels.

Six months

July opened the second half of the year with prices looking weaker. But this downward trend was short-lived and oil prices hovered around the high-\$60, low-\$70 per barrel level.

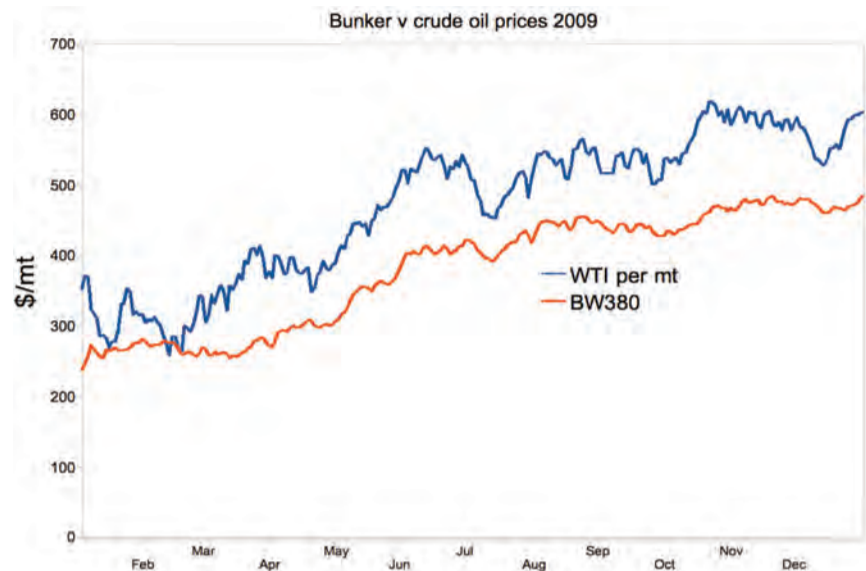
At this time, though, regional fuel oil markets were bullish relative to crude and the gap between oil and bunker prices narrowed. This trend was particularly noticeable in Singapore. Typically, crude oil trades over \$100 higher than IFO380 on a per-metric-tonne basis. In July, the gap was as narrow as \$50 pmt. In July, the BW380 price for bunkers was just \$75 pmt lower than crude, compared to \$120 pmt in June.

This situation started to correct itself in August as the supply situation in fuel oil markets shifted. But it looked like fundamentals in Q3 had created a \$400 pmt floor under bunker prices. Singapore said farewell to sub-\$400 IFO380 on July 14 and would not be below that level for the entire rest of the year. Houston waited until later in the month and Rotterdam until August, although both ports dipped briefly into \$390 pmt territory at the end of September as oil prices temporarily dipped.

Overall, by the end of September, the BW380 index had averaged \$430 pmt for Q3. This was a 23% increase from the Q2 average.

Q4 saw oil prices average \$76 per barrel, higher than the average for the whole of 2007. Despite concerns with product oversupply, markets were seeing early signs of economic recovery in the West and increasing oil demand from China. Financial factors also played a role as money poured into commodities to find a safe haven from exchange rate fluctuations and other risky markets. This was of little reassurance to some analysts who saw oil at above \$80 as a major threat to any economic recovery from the recession.

Oil passed the \$80 per barrel mark on October 21, which lifted bunker prices in Singapore, Rotterdam, Houston and Fujairah over \$450 pmt levels for IFO380, the highest prices seen all year. This effectively took prices back to the same level as late 2007 (at that time the highest prices on



record) as the bubble seen in 2008 was starting to firm.

By the end of Q4, Singapore had posted a yearly record of \$490 pmt for IFO380, although Rotterdam and Houston languished around the mid-\$400 range. Quarterly prices were up again with the BW380 averaging \$466 pmt. This was, however, only an 8% increase in prices from Q3, showing how a relative plateau for crude oil taken some pressure off bunker prices. 2009 may not have matched the tumultuous swings of 2008, but prices did recover from a deep slump and increased 75% over the course of the year (using Q1-Q4 BW380 figures).

Crude

Of ongoing interest to bunker price watchers is the relationship between crude oil markets and bunker prices. As a derivative of crude oil, the two are of course related. But bunker prices in any location are determined by regional fuel oil markets and the behaviour of buyers and sellers. This is where interesting trends emerge.

Over the course of the year, there was a strong statistical correlation between bunker prices (using the BW380 index) and crude oil prices (using the daily closing price for the front-month WTI contract on the NYMEX). This correlation was 0.96.

On a quarterly basis, however, and at a regional level, the relationship was much

weaker. In Q1, for example, there was a negative correlation between crude and IFO380 in Singapore and Rotterdam. Oil and bunkers were effectively doing their own thing – crude dropped briefly below Singapore's prices; and then when crude climbed in March, bunker prices were very slow to follow.

The middle of the year, through Q2 and Q3, saw a strengthening relationship (although monthly correlations remained low) – 0.97 and 0.86 in Rotterdam, respectively – as prices trended higher across the board. In Q4, the relationship weakened again with a statistical correlation of around 0.60. Crude prices pushed higher to new highs for the year but bunker prices were again slow to follow; when crude dived, bunkers moved little; crude again climbed sharply to end the year but it would be 2010 before bunkers would close the gap.

2007 repeat?

Overall, despite the large percentage increase, bunker prices in 2009 did not experience the same volatility as in 2008. In a direct comparison, using Singapore's IFO380 as the reference, price movements in 2009 more closely resembled 2007 than 2008.

Again comparing Singapore prices, the average for 2009 for IFO380 was \$374 pmt; in 2007 it was \$373 pmt. There was, however, a greater price change across 2009 than in 2007.

When looked at graphically, it is easy to see that 2008 had a dramatic price range with a higher peak and a lower trough. The former, though, helped to pull the average for the year in Singapore up to \$505 pmt.

Interestingly, this \$500+ figure is not too far from where prices in the port finished up in 2009. The BW380 index also pushed just past \$500 early in 2010. BW380 prices peaked at \$760 pmt in the middle of 2008. Buyers will likely be hoping that 2010 is a repeat 2009 rather than 2008.

But, if making a prediction is not nowadays a hazardous occupation, sub-\$400 bunkers may again be a rarity – at least in the short term. ■

