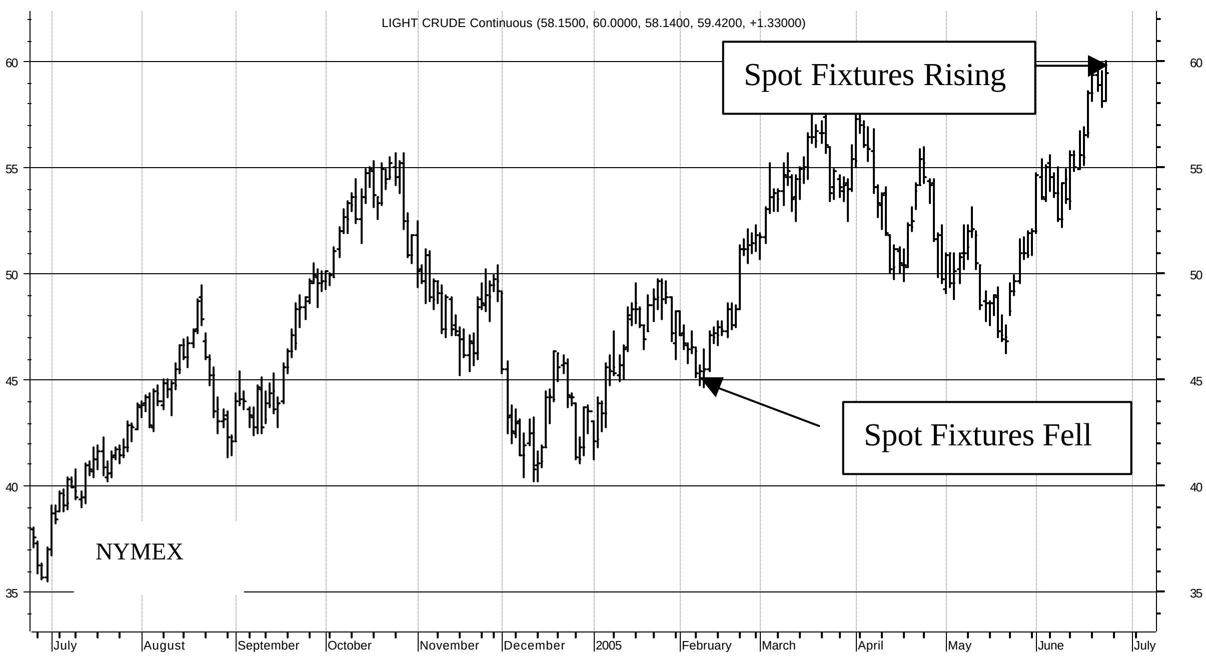
POTEN & PARTNERS

Is Tanker Activity Telling Us Anything About Oil Exports?

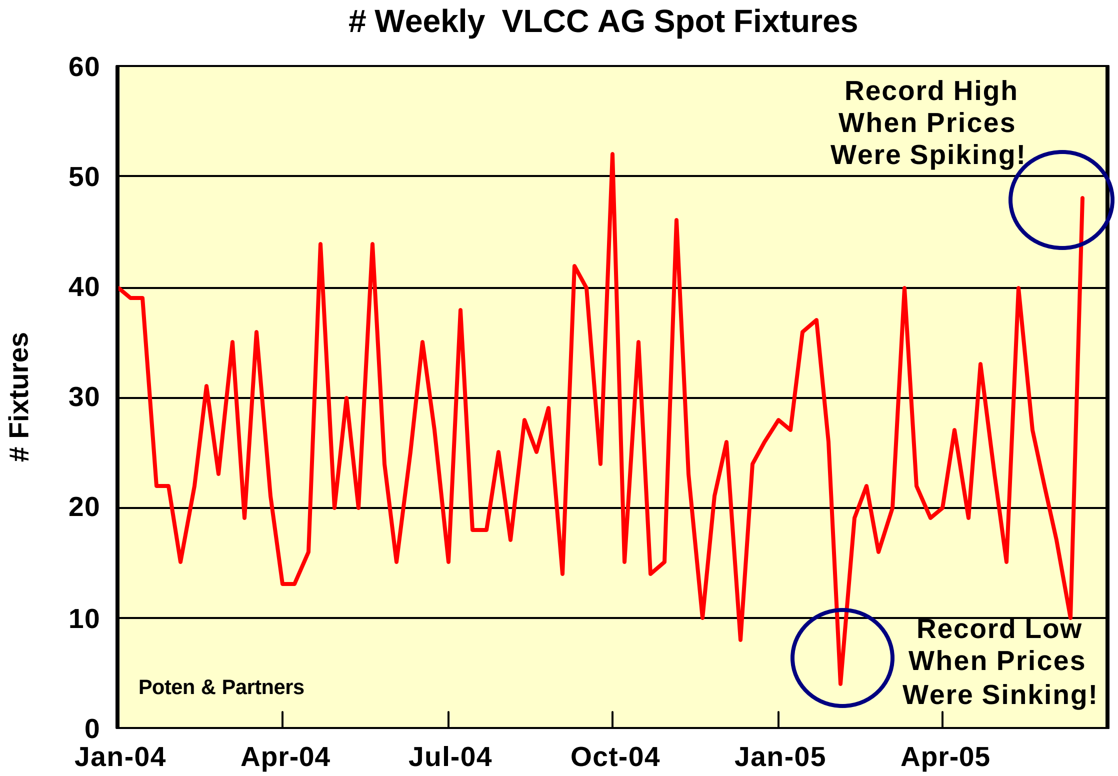
June 24, 2005

Crude oil prices are hovering around $60 a barrel and the expectation is that $70 a barrel will be the next plateau. Below is the NYMEX trading of West Texas Intermediate (WTI) over the past year. Two points are of interest.



The climb from under $40 per barrel to $60 per barrel was not one continuous upward sweeping trend– there were plenty of opportunities to lose money buying crude oil futures.

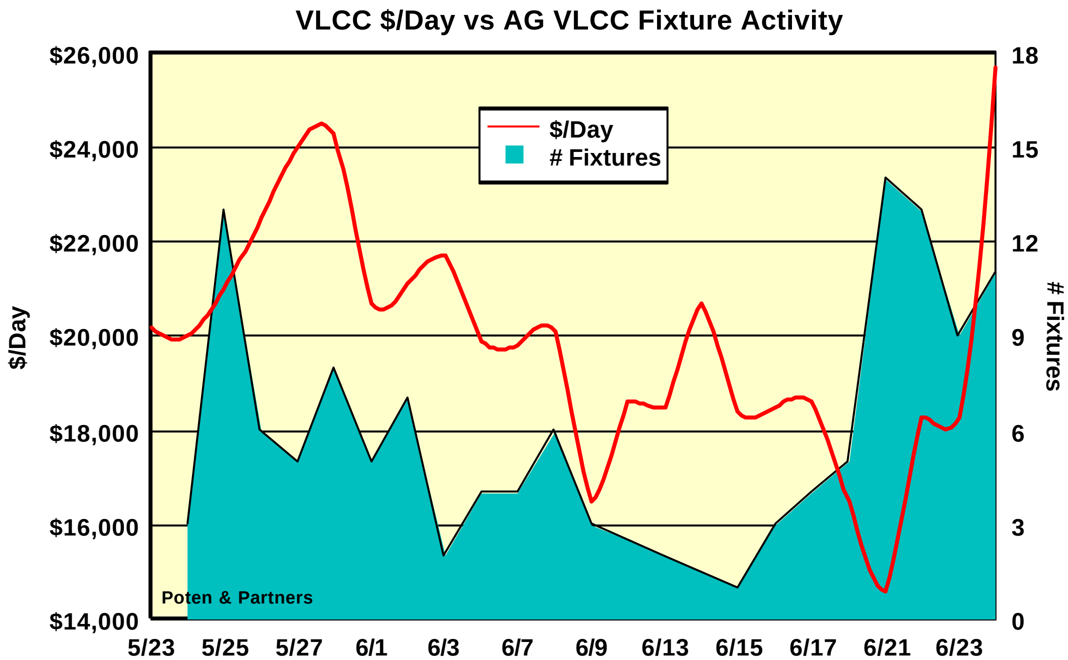
The following chart shows weekly VLCC AG spot fixture activity. The two points of interest are of the record low number of fixtures in February of this year and the recent near-record high that occurred this week.



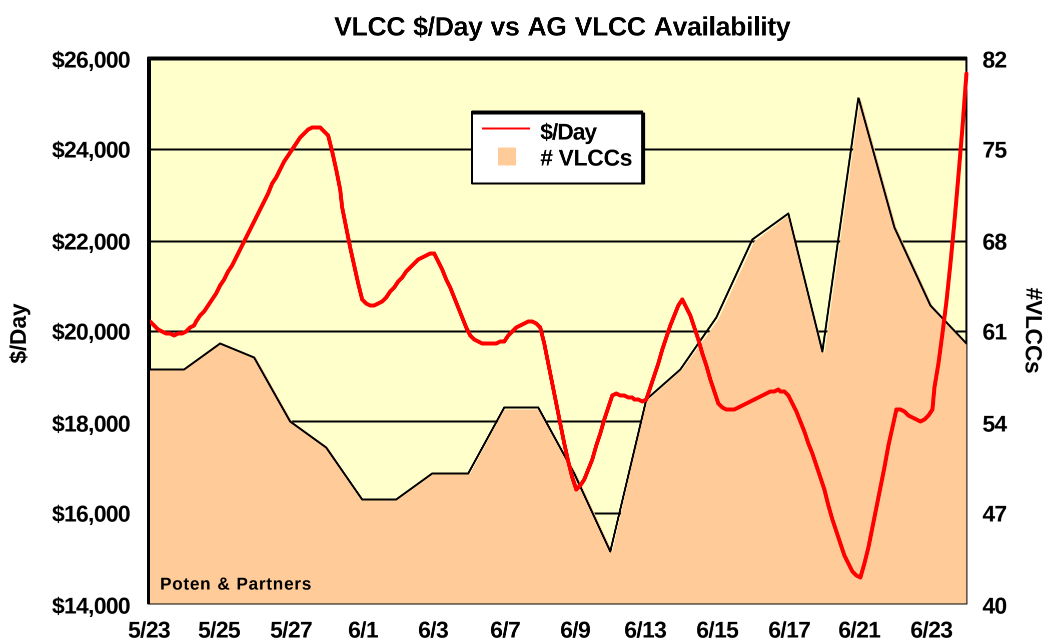
The drop in fixture activity in February of this year was severe with one week having only four fixtures compared to the weekly average of 25 per week so far this year. This drop meant far less liftings in March. Comparing the low in fixture activity in February with oil prices, one can conclude that the oil exporters were anxious to stop the fall in prices. Reduced shipments in effect cut production. Oil prices reversed in March and resumed climbing.

This week we had a near-record high of 48 fixtures, double the average of 24.7 fixtures per week so far this year and 8 higher than any other week in 2005. This level of fixture activity was only exceeded by 52 fixtures in the beginning of October last year.

On the next page we can see the positive influence of heightened spot fixture activity over the last 30 days on VLCC rates.



The next chart shows that vessel availability in the Arabian Gulf, which had peaked in March as a consequence of low fixture activity over the last 30 days, is declining somewhat.



Previous analysis has shown that VLCC rates tend to get much stronger when the number of available vessels falls below 30.

So What Can We Conclude?

Just as the oil exporters cut back on fixture activity when oil prices appeared to be weakening, it appears now that they are expanding fixture activity to combat higher oil prices. As much as OPEC members profit from high priced crude oil, high prices carry the risk of setting off a world recession that occurred during the last price spike triggered by the 1979 Iranian Revolution. OPEC members recognize the risk of high oil prices on oil demand and have made a series of announcements that they plan to expand production to calm the oil markets.

If this is true, then tanker owners may be facing a stronger market at least for the time it takes for the OPEC members to prevent oil prices from rising further.