



Floating Oil

Oil has had a nice recovery this year (see graph for Brent, YTD), up about 18% to over \$48/barrel today. Of course, this is still well below the +\$100/barrel we saw from 2011 through most of 2014, so will oil continue its climb higher?

Brent Crude Future

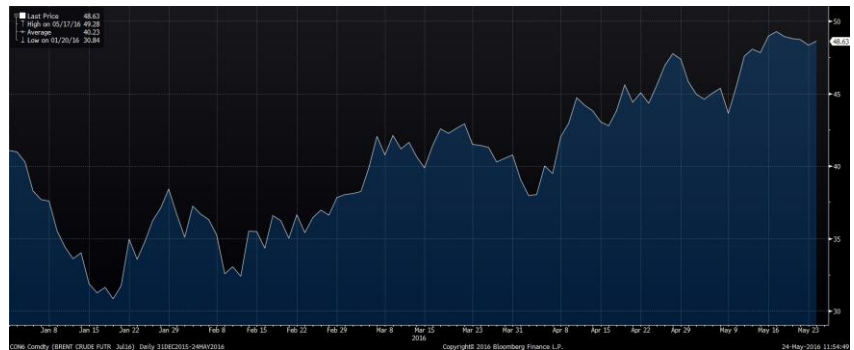


CHART 1

Source: Bloomberg

Um....no. I don't see any oil tankers in Santa Monica Bay today, but if I looked out my window in Singapore, it would be a very different story. Through the Straits of Malacca, between Malaysia and Indonesia, one of the most strategically important shipping lanes in the world, flows more than 15 million barrels of oil every day, about 27% of the entire world oil maritime trade. Today, there are 40 supertankers anchored offshore Singapore (see map below), each holding more than one million barrels of oil. The Straits are more congested than the 405 at 5pm.

Offshore Singapore

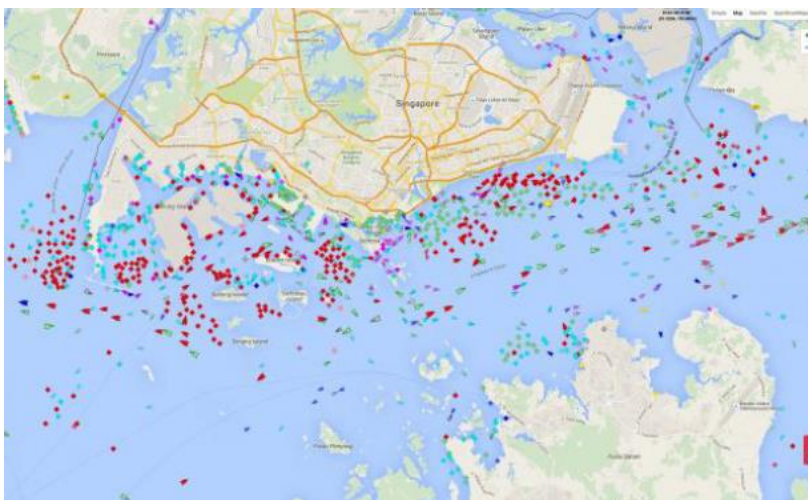


CHART 2

Red dots are ships at anchor or barely moving, oil tankers or Cargo, in Straits of Malacca

Source: Reuters, Zerohedge

A few months ago, traders earned a positive arbitrage by storing oil in these tankers and selling later as the price jumped. But today that arbitrage is negative, anywhere from \$0.48 per barrel for 30 days to more than \$6 per barrel for 12 months. So this oil is not being stored for profit: we've run out of places to hold it.

The more oil that floats, the more the price will sink.