



## BILL DISAGREES WITH NOAA'S DOWNGRADED FORECAST

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It would appear Mother Nature was a bit perturbed by the National Oceanic and Atmospheric Administration's (NOAA) downgraded rating for the 2009 hurricane season. Just two weeks after NOAA dropped its already modest "near-normal" forecast for US hurricanes this year to an even lesser expectation of "near-to-below-normal," Hurricane Bill ripped through Bermuda with 165 mile per hour winds before venturing northeast—away from the major tanker hubs in the US Gulf and Atlantic Coast. But while shipping remained unscathed this time, Hurricane Bill should be taken as a reminder of the spontaneity and severity with which the hurricane season threatens trade.

Amidst the increasingly apparent oversupply of tankers, and as freight rates continue to hover near record lows, the market awaits its next shock. As some speculate that today's market has little hope of a near-term recovery, it should not be forgotten that we have entered the later, and typically harsher, part of the 2009 hurricane season in the US Atlantic basin. Until November 30, the threat to US ports remains something to be constantly vigilant of. It was just three years ago that the cumulative impact of hurricanes Katrina and Rita shut in over 100 million barrels of crude. In 2008, Gustav and Ike were category 4 hurricanes that reduced in intensity prior to striking the oil platforms in the US Gulf. Still, they caused over US \$50 billion in damage and resulted in the loss of over 200 lives. As an example of affect on rates, Ike's aftermath saw a WS30-point jump on TC 2 (37 mmt UKC/USAC).

**Figure 1: Historical NOAA Hurricane Season Forecast**

NOAA Atlantic Hurricane Outlook	Updated 2009	2008	2007	2006
Below Normal	40%	10%	5%	5%
Above Normal	10%	65%	75%	80%
Near Normal	50%	25%	20%	15%
Named Storms	7~11	12~16	13~17	13~16
Hurricanes	3 ~ 6	6 ~ 9	7 ~ 10	8 ~ 10
Major Hurricanes	1 ~ 2	2 ~ 5	3 ~ 5	4 ~ 6

The forecast shown in Figure 1 is derived from NOAA's Atlantic Hurricane Season Outlook, published in May of

each year with the August 2009 update for "near-to-below-normal" hurricane activity. The forecast calls for 7 – 11 named storms, including 3 – 6 hurricanes, of which 1 – 2 will be intense or major.



With crude stockpiles setting record highs this year (both on land and aboard tankers on short-term storage contracts), some believe that today's market reaction to even a severe hurricane strike in the US would be quite muffled. The vast amounts of crude in reserve, and awaiting an opportunity to turn a profit should demand spike, would leave tanker rates little room to run when compared to historic hurricane effects. However, while the price of crude in 2009 has been very reactive to "sentiment," it is still very likely that a price increase would result should the US Gulf take a major hit, where platforms produce about 1.5 million barrels of oil daily.

Should oil pass the seemingly milestone US \$75 per barrel mark, one could presume that oil-producing nations will look to profit. And while the long-term goals of OPEC's tempered crude output would ultimately remain, the short-term allure of more cash per barrel of oil would further instigate the already slipping compliance levels. So even amidst the current market, should Hurricane "Claudette" wreak havoc on US Gulf oil production, as her sisters Katrina and Rita did in the past, we maintain it will most certainly affect freight rates--perhaps driving them up to levels yet to be seen in 2009.

Though the effects of the next major hurricane are yet to be seen, Bill has served as a reminder that shipping should not discount the wild card these storms represent on an otherwise uneventful market, particularly as the last months of the 2009 hurricane season blows on.

Sources: NOAA, McQuilling Brokerage Partners