

Taking the lid off the teapot refineries

Weekly Tanker Market Report

I think it is fair to say that most of us knew very little (if anything) about the so called Chinese “teapot” refineries until last autumn. However, last year, China allowed these relatively small privately owned teapot refineries (typically ranging between 20,000-100,000 b/d with some exceptions) to import crude oil purchased on the international market as an alternative feedstock to the more expensive domestic grades, including fuel oil. Earlier this year sixteen companies led by China’s largest private refiner Dongming Petrochemical have formed an alliance “China Petroleum Purchase Federation of Independent Refiners” in an attempt to improve their negotiating position with suppliers and ease any credit risk concerns for companies previously unable to deal in international trade. This move comes on the back of two deals last year which failed because the refineries could not obtain letters of credit for crude purchases from traders. Two crude cargoes worth \$50 million arrived on China’s east coast but had to be diverted, following concerns about dealing with the “new entrants”. The newly formed pool of refiners aims to get around these sorts of problems and has the potential to purchase up to a fifth of China’s 2016 crude import requirements.

Shandong's Teapot Refinery Hubs



Source: Platts

Most of the teapots are based in the Shandong Province (north China) and prior to the relaxation of purchasing restrictions, struggled to operate at 30-40 per cent capacity due to poor margins and the inability to import crude. Beijing started granting quotas last July 2015 and by January twelve teapot refiners had been granted permission to import 51.4 million tons of crude. Applications from a further six refiners totaling 24.5

million tons are currently being processed, with a further five applications for unknown quotas currently under examination. Total imports for the teapot refineries this year could reach 57 million tons (equal to a VLCC every other day) if they utilise their full allocation. Further demand increases in 2017 are expected. Dongming Petrochemical has set up a company in Singapore called Pacific Commerce to pool together sixteen refineries to increase buying power and also consolidate chartering; it is believed that at least one oil major has signed contracts with the new company. Of course larger shipments to these refineries lead to logistical problems particularly as the teapots are spread around the Shandong Province, many with very limited storage capacity. A lack of pipeline facilities to some of the more remote refineries means that a great deal of the crude has to be trucked. Several projects to improve terminal and port handling are currently underway; however the issue how to offload a fully laden VLCC remains a headache. Qingdao and Rizhao are the two main VLCC ports servicing the teapots and the recent surge in imports has created widespread congestion, particularly at Qingdao, with many cargoes scheduled to be delivered last month. The impact of these delays will slow down the appetite for further crude purchases in the short term, however a pipeline from the new port of Yantai is due to come into operation in June which should ease the congestion. China may have stopped buying many commodities, but there is no slowdown in their thirst for crude at least for the moment.

Crude Oil

Middle East

The VLCC rollercoaster continues...up, down, up...and now down again. Charterers moved cautiously away from the tight positions that had provoked the latest spike, and the initially slow market, combined with increased competition, drove rates quickly back down some 30+ Wspots to the East. Current levels stand at around ws 60 East, and high ws 30's to the West and Owners will now hope that enough bargain hunting ensues to allow for some degree of momentum to rebuild, though the odds aren't looking particularly attractive. Suezmaxes also started to find less favourable conditions, but fought resolutely to keep rates at a minimum ws 95 East and ws 57.5 to the West with premiums still payable on more restricted Basrah heavy lifts. Further settling looks on the cards into next week. Aframaxes had threatened to ease off a little, but Owners just managed to hold the line at 80,000 by ws 125 to Singapore, though they may find it harder to dig in similarly next week.

West Africa

Both Suezmax Owners and Charterers cheer-led each and every tidbit of information/gossip to support their respective corners but for most of the week the end result was for no change. By the week's end, however, it looked as if Owners had secured a slight advantage, and rates crept up marginally towards ws 80 to Europe and ws 75 to the US Gulf. May fixing will soon get underway, and there is a feel that busier times lie ahead. VLCCs maintained a slow beat and rates were soon pressured lower to fall in line with softening AG/East numbers...plus a small 'insurance' premium to compensate for the longer voyage commitment. Currently 260,000 by ws 64 is achievable for runs to China with USD3.58 million paid for East Coast India discharge. Future direction will be handcuffed to wherever the Middle East tracks.

Mediterranean

Treading water is the best that can be said for the Aframax market here. Too many mouths to feed, and Charterers will remain content to keep Owners upon short rations - and 80,000 by ws 85 Cross Med - for a while yet. Suezmaxes moved in the opposite direction on a pick-up in activity, and more balanced supply than of late. Rates didn't

move significantly, but did nudge up to 140,000 by ws 80 from the Black Sea to European destinations, and close to USD4 million to China, with further improvement possible.

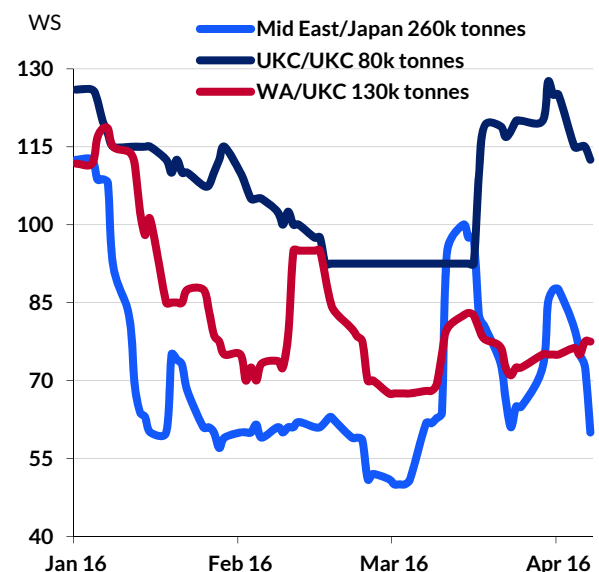
Caribbean

Aframaxes had remained broadly rangebound through the week within a 70,000 by ws 87.5/92.5 bracket upcoast but heavier late week fixing led to sufficient tightening to allow rates to jump back towards ws 100 with further gains possible in the near term, at least. VLCCs had to try harder to persuade Charterers to trade, and the upshot was that rates fell off noticeably to USD 5.25 million to Singapore and USD 4.3 million to West Coast India with fat looking forward positions also looming.

North Sea

Owners found it difficult to maintain recent higher Aframax numbers as the cargo flow began to slow. Rates eased off to 80,000 by ws 112.5 Cross UK Cont, and to 100,000 by ws 87.5 from the Baltic accordingly, and the trend looks to be progressive. Suezmaxes had a rare busy week although rates remained rather unspectacular at 135,000 by ws 65 -ish transatlantic with USD 3.375 million paid for fuel oil to Singapore. VLCCs saw a little interest at up to USD 4.75 million to Singapore, but the 'arb' economics were moving away from the market by the close.

Crude Tanker Spot Rates



Clean Products

East

MR rates have really softened this week, on both long and short haul routes. Although AG/UKC finishes the week at the USD 1.0m mark, Charterers will feel confident that there is a little more fat to be stripped off this rate in the new week. Despite eventually failing; a Karachi/Japan run put on subs midweek at ws 115 sets the tone for ships heading East. Short haul has also failed to avoid negative testing, and X-AG finishes the week at USD 200K, with runs into the Red Sea continuing to hover around the USD 400k level. Gasoil runs headed down to East Africa have sympathetically softened in line with other routes, and quickly dropped midweek off the ws 140 step, down to ws 132.5. With the LRs continuing to struggle, the MRs will not be afforded any respite in the new week. LRs have had a pretty horrible week with activity levels dropping off a cliff and rates starting to see serious drops. 90,000 mt Jet AG/UKC has lost some USD375k in a week down to USD 1.80 million. 75,000 mt Naphtha AG/Japan has dropped 7.5 points and is fixing at ws 97.5 today but will likely see further declines next week. LR1s are on uncertain ground with too few cargoes to really test where we stand. Most would agree 55,000 mt Naphtha AG/Japan is hovering around ws 100 but may well dip below. 65,000 mt Jet AG/UKC is down to USD 1.40 million and should settle there for now.

Mediterranean

Week 14 has been a positive week for those Handies plying their trade in the Mediterranean

and the Black Sea. On Monday we saw a flurry of activity which saw the tonnage list trimmed and even though rates didn't move from 30 x ws 125 for X-Med, it stood Owners in good stead for the week ahead. The game changing catalyst was the Black Sea, as a number Charterers flooded the market to cover their exposure and Owners were able to drive Black Sea loading up to 30 x ws 160. East Med was also active with a number of stems seen throughout the week which are now achieving 30 x ws 145 mark. The West Med has not been as tight as more options have been available to Charterers but rates have also ticked up to 30 x ws 135.

Looking ahead off natural fixing dates the Black Sea & East Med remain tight and those looking to cover any stems in that window may find themselves in a sticky situation which could result in rates continuing to move Northbound.

Tighter conditions prevail for MRs in the Mediterranean with rates for Red Sea discharge holding firm at USD\$800k and USD\$900k for the AG.

UK Continent

As Week 14 comes to a close, we see rates moving and for once it is positive. With demand for WAF runs exploding into the week, a good number of tonnage was quickly clipped out. Once we saw the slack removed, Owners were in a position to press on rates, and as we come to the close of the play, we see 37 x ws 160 being achieved. This in turn gave ammunition to Owners for a press on TC2 runs also, and here we saw the market creep up 5 points to ws 105. Despite a few moments of Charterers being left with little options and rates being paid above the market, the general fixing has managed to keep a lid on Owners excitement. Looking ahead if we continue to see this WAF demand, we can expect to see rates continue their gradual climb. For how long this interest continues will be the defining factor here.

The Handy market saw a very dull week pass, with a sprinkling of enquiry being spread across the working week. Rates remain placid at the 30 x ws 115 mark but with tonnage gradually building once again, fresh stems will need to be plentiful or the fear of further rate correction could grow. The hope of spill over from the MR sector may keep Owners hopeful for the time being.

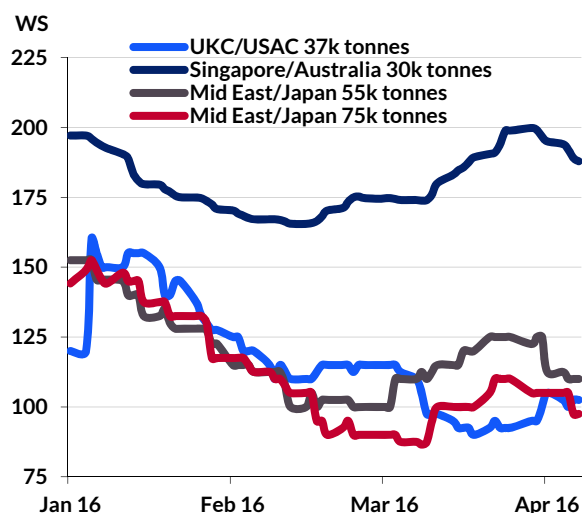
Finally to the Flexi market where similarly to the Handies, limited market inquiry has kept this sector on the back burner. With rates seeming to stick around the 22 x ws 140 mark, tonnage was thankful of good COA activity and a handful of market stems in order keep the stakes where they are. Looking ahead the potential for movement in the market is low, and many can expect the present sentiment to continue.

LRs

A steady week of activity has entailed for all stakeholders of LRs in the West. ARA/WAF runs and a few trips to the East have provided LR1 employment opportunities. Subsequently, ARA/WAF has nudged up a touch from 60 x ws 87.5, which we saw towards the back end of week 13 to around 60 x ws 95. A fresh test is required to determine where we now stand, given the fact there are a handful of workable LR1s for Charterers, looking to take cover off prompt dates. ARA/Singapore runs have picked up \$1.35M this week and MED/AG fixtures are achieving just below the one million mark. Looking ahead, a continued supply of vessels should keep this market relatively subdued unless we see another big influx of gasoline inquiry to WAF.

LR2 Owners have endured a week of mixed fortunes. A number of vessels have been cleared from the list, but at the same time we have seen many vessels fail to get their subjects. Fresh tests have shown levels for Baltic to Japan are around \$2.1M and \$1.85M is what an LR2 can collect for a MED/Japan run respectively. Naphtha and reformat demand still provides some activity, but on hearing the arbitrage to the East is closed, it is unlikely we will see demand pick up right now. Fortunately for Owners, the list of LR2s in the West is beginning to subside.

Clean Product Tanker Spot Rates



Dirty Products

Handy

Where tonnage in the region had been progressively drawn upon, the activity that followed placed Owners in the driving seat passing the mid-week stage with levels being elevated as a result. Still showing positive momentum, Owners will now need to see enquiry at the early stages of next week in order to fully capitalise as repositioning units still have the potential to take the heat out of current momentum.

In the Med Owners will be swiftly moving past events concluded this week and hoping future trading takes a similar turn as seen in the Continent. Excess availability and limited enquiry saw Charterers take advantage and in doing so managed to discount the Med to around 30 x ws 125. The Black Sea also saw value lost although perhaps with last decrease fixing windows in sight, Owners will be hopeful that the regain may now have found its floor.

MR

With handy availability in the North steadily shrinking Owners in play slowly witnessed their position strengthen as momentum trickled through. Come the end of the week, and with fixing dates taking a jump forward it is fair to say that this sector sits on the cusp of positive correction.

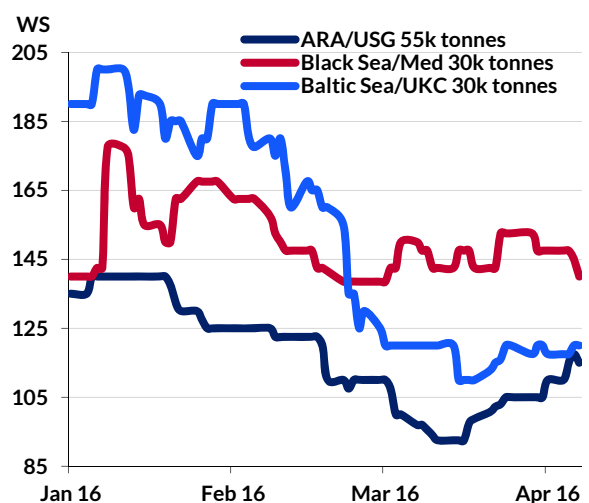
In keeping with the handy market, activity here too has been lacking where facing the weekend, signs are apparent that we still see Owners growing impatient at the lack of employment.

Charterers will be sensing that an opportunity perhaps awaits for sharper freight levels.

Panamax

Early week activity reaffirmed Owners ideas that rates could be built upon as natural tonnage in the area sat too uncertain for Charterers to book. Turning to ballast units Charterers have been forced to pay numbers in the higher echelons of Owners ideas, although with US numbers taking a turn for the worse, Owners will be somewhat nervous for what lays ahead. Greater numbers of ballast units could now look to exit local US markets, and in the process soften conditions the European Charterers now face.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Apr 7th	Mar 31st	Last Month	FFA Q2
TD3	VLCC	AG-Japan	-25	62	87	50	60
TD20	Suezmax	WAF-UKC	-0	77	77	68	80
TD7	Aframax	N.Sea-UKC	-11	114	125	93	115

Dirty Tanker Spot Market Developments - \$/day tce (a)

			wk on wk change	Apr 7th	Mar 31st	Last Month	FFA Q2
TD3	VLCC	AG-Japan	-29,750	53,000	82,750	40,750	50,250
TD20	Suezmax	WAF-UKC	-500	31,000	31,500	26,750	32,500
TD7	Aframax	N.Sea-UKC	-7,000	35,750	42,750	20,000	36,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Apr 7th	Mar 31st	Last Month	FFA Q2
TC1	LR2	AG-Japan	-8	98	105	90	
TC2	MR - west	UKC-USAC	+5	104	99	114	124
TC5	LR1	AG-Japan	-14	105	119	106	102
TC7	MR - east	Singapore-EC Aus	-7	188	195	174	

Clean Tanker Spot Market Developments - \$/day tce (a)

			wk on wk change	Apr 7th	Mar 31st	Last Month	FFA Q2
TC1	LR2	AG-Japan	-2,750	21,250	24,000	20,000	
TC2	MR - west	UKC-USAC	+750	11,750	11,000	14,250	15,750
TC5	LR1	AG-Japan	-3,500	16,500	20,000	17,500	15,500
TC7	MR - east	Singapore-EC Aus	-1,000	18,500	19,500	17,000	

(a) based on round voyage economics at 'market' speed

LQM Bunker Price (Rotterdam HSFO 380)	+0	158	158	146
LQM Bunker Price (Fujairah 380 HSFO)	+6	181	175	158
LQM Bunker Price (Singapore 380 HSFO)	+4	183	179	163
LQM Bunker Price (Rotterdam 0.1% LSFO)	+2	327	325	308

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