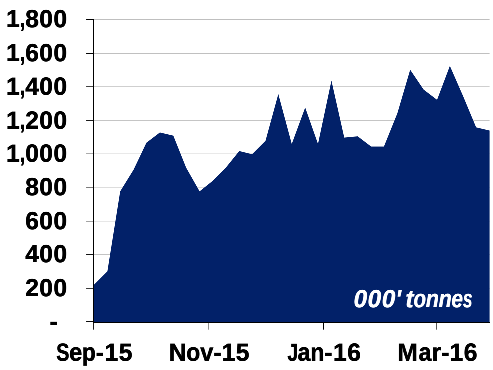
Floating Products Storage in Focus

Weekly Tanker Market Report

For much of 2015, talk of floating storage was dominated by speculation that the contango in crude futures might support crude floating storage. However, at the same time, much of the oil surplus was being absorbed by refiners chasing some of the best margins seen since the financial crisis, pushing much downstream into product stocks. It was therefore little surprise to see product stocks swell and floating products storage emerging in the latter stages of 2015, despite product contango structures not necessarily being supportive of a play.

Clean Products Floating Storage

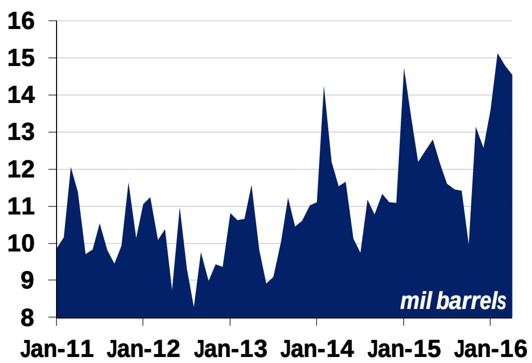


Initially, clean floating storage was centered on Europe and the Mediterranean, as the US, Russia and the new Middle East refiners flooded Europe with middle distillates, whilst at the same time European refiners maximized runs. These factors pushed land based distillate stocks in ARA to record levels, forcing the need for floating storage. In recent weeks the diesel glut may have eased off marginally in the region, with the number of product tankers engaged in storage easing as higher inland demand and refinery maintenance draw down supplies. However, with seasonal maintenance starting to subside, and heavy inbound diesel flows from all directions, including a VLCC from Asia, this respite is likely to be short lived.

Outside of Europe, a noticeable increase in product storage activity has picked up in recent weeks, with 4-5 LR2s sitting laden off Singapore as light distillate stocks are just below the record level of 15 million barrels. However, with peak Asian gasoline demand season approaching, such stocks may soon be drawn upon - if demand seasonality follows typical trends. Nevertheless, with increased interregional flows and ample supplies in the West waiting for the right economics to ship to the Far East, the region is set to remain well supplied for much of the year.

However, longer term, pressure on global refining margins will prompt capacity reductions. Many refining analysts expect margins to fall to lower levels over the course of the year, bringing back expectations that the familiar story of capacity reductions in ageing refining centers (Europe, Japan, Australia) will once again begin to play out, albeit a few years later than originally anticipated. However, to force this story, persistently weak margins will need to emerge, prompting run cuts and shuttered capacity by the weakest links. However, with gasoline cracks expected to outperform diesel, gasoline orientated refiners may be in a position to hold on longer than what might have been envisaged a few years ago.

Singapore Light Distillate Stocks



Yet until this story unfolds, floating products storage could remain a feature of the market, even if the absolute volumes are limited. In the short term, whether floating storage is positive or negative for the tanker market is debatable. On one hand it creates inefficiencies and delays, which constricts the supply of tonnage, supporting freight. However, on the other, it can limit trading opportunities, which has been evident in recent months. However, one or more catalysts could soon see this change.

Crude Oil

Middle East

A continuation of the previously deteriorating trend for VLCCs. The fixing pace may have picked up a little mid-week, but volumes were never sufficient to allow for any pinch points to develop, and rates continued to backtrack to a low of ws 45 to the East, and into the very low ws 30s West. Bottom may now have been touched, however, and Owners will be hoping for some momentum to be recreated after the Holidays as/when Charterers come out to bargain hunt in numbers. Suezmaxes also suffered as availability swelled, and enquiry thinned… rates shrunk towards ws 80 East and to around ws 40 to the West accordingly. Improved near East activity, and some ballasting to West Africa will add a degree of break to further falls, however. Aframaxes weren't expected to regain any impetus, and the forecast proved correct. Rates fell off to 80,000 by ws 100 to Singapore - theoretically - but there hasn't been any late week enquiry to test.

West Africa

Suezmax market direction was a little uncertain at the start of the week, but by the weeks end it was Charterers in the driving seat and rates had settled back to ws 75 US Gulf, and little better than ws 80 to Europe with more testing times ahead for Owners to face. VLCCs were occasionally picked off but at rates that were necessarily handicapped by the AGulf malaise, though premiums were still retained over that zone for the longer voyage-time commitment. Currently 260,000 by ws 56 to China and $3.25 million to West Coast India are fair reflections of the state of play.

Mediterranean

Aframaxes bubbled quietly along but never nearly got up to boiling over and Owners will be disappointed that rates couldn't get out of an 80,000 by ws 85/90 bracket over the period. With a long break upon us, it'll be a sideways move over the near term, at least. Suezmaxes ran steadily out of ideas and with West African malaise removing a helpful support post, meagre local enquiry, and thickening tonnage lists, set things up for another weak patch. Rates hover at around 140,000 by ws 80 from the Black Sea to European destinations with around $3.3 million asked for China runs.

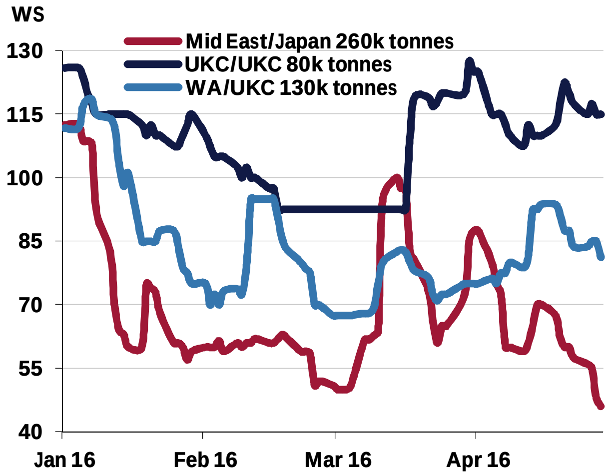
Caribbean

Aframaxes moved through a rare purple patch that spiralled rates up towards 70,000 by ws 150 upcoast but quite quickly the feeding frenzy died down and levels eased back to ws 140 with the southerly trend looking ominously progressive into next week. VLCCs struggled to retain grip as supply easily outweighed thin demand. Rates fell to $5 million to Singapore, and to $4 million to West Coast India and that may not yet be the end of the weakening story.

North Sea

'Up' last week, and then down again this week - but Aframaxes didn't collapse nonetheless as enquiry remained reasonably solid. Rates presently hold at 80,000 by ws 112.5 cross UKCont, and 100,000 by ws 90 from the Baltic but could come under more scrutiny as the holiday slowdown impacts. as VLCC rates have generally declined, there are a few more openings developing for fuel oil 'arb' runs to Singapore at, or just under, $4 million but so far little has actually been concluded. On the crude side $5.85 million was reported for a Houndpoint to China movement which is fairly reflective of what will be asked upon any upcoming interest.

Crude Tanker Spot Rates



Clean Products

East

The larger vessels have not fared well this week in the AG, with rates softening on both sizes. The LR2s have suffered from a lack of cargoes off early-mid May dates. West runs have lost $150k, with $1.6 million now on subs off mid-May dates. Naphtha runs have also felt the effects of a lengthening tonnage list, and have fallen to ws 82.5. With Charterers continuing to load OP where possible, and holding back cargoes where possible, next week is unlikely to bring a change in the fortune for the LR2 market. Although they started the week fairly quiet, the LR1s had an action-packed finished, and go into the new week looking fairly tight. $1.3 million on subs for an AG/UKC is very low, and suggests that an outstanding Sikka/UKC cargo should take $1.25 million. However, LR1 Owners may look to take a firmer stand in the new week in lieu of the frenzied activity late in the week. Although naphtha runs dropped below the ws 100 mark, Owners will be eager to drag them back over that threshold in the coming week. The odd situation midweek whereby the freight needed to move an LR2 cross the Gulf was less than that needed to move an MR suggests that some rate sympathising is in order. It was a fantastically busy week for the MRs in the AG. With a strong flow of cargoes entering the market and the tonnage gradually getting tighter it was inevitable that rates would positively adjust to reflect this. A few big fixtures heading to SAFR meant that EAfr rates were tested and currently sit at the 35 x ws 160 mark. X-AG saw an increase and trades at the $240k level and AG/Rsea improved to $470k. Although AG/UKC has not been the busiest route, it also saw a rise and closes the week at $1.05 million. With the tonnage list looking tight going into week 18 Owners' expectations are high, with the prospect of another strong week. That said, due care must be observed to the soft LR rates as we could see some cargoes going on larger more competitively priced vessels.

Mediterranean

Another active week passes in the Mediterranean, as Owners manage to dig their heels in at their good work from previous efforts. Tonnage has been consistently clipped away, with demand for Black Sea and East Med keeping momentum going. Owners have managed to squeeze another few points out of this market as we see 30 x ws 195 plus for Cross Med runs and 205+ for Black Sea. But as the week comes to a conclusion, Thursday and Friday slow down with demand and the feeling that Charterers begin to amount a rebuke increases. Partnered with a comparatively quiet West Med market also, we await to see what is next fixed. MRs have ticked over throughout the week. Med / TA runs have adopted the policy of the hold line at 37 x ws 115. Gasoline demand to Red Sea has remained limited and off the back of this rates have slipped down to $705k basis central Med load.

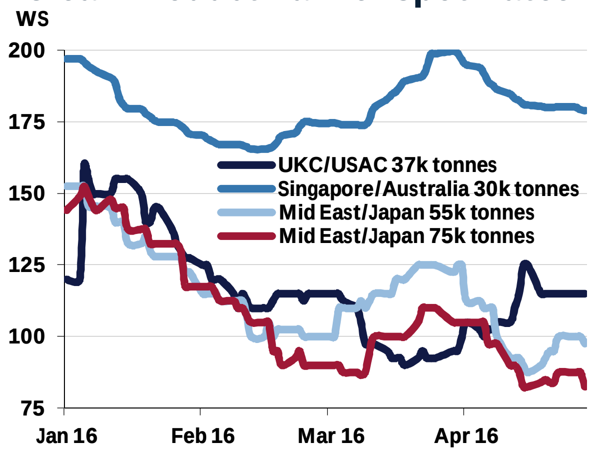
UK Continent

As Week 17 comes to a close and the Bank Holiday Weekend for many arrives, we see Owners managing to push rates gradually Northbound, but perhaps not as much as they would have hoped. With TC2 runs being clipped out around the 37 x ws 117.5 mark, activity levels have been consistent and pressure on the tonnage lists felt. Whether this is the beginning of something exciting ahead, or purely some pre Bank Holiday fixing we will have to wait and see, but tonnage remains on the thin side, with inquiry remaining. Across the pond rates have remained restricted with tonnage opening on the USAC looking at the ballast over. With this is mind as well as options ballasting from WAF, Charterers have managed to keep a lid on a potential spike. Fresh inquiry levels next Week will be the key factor here with reformate East and WAF runs seemingly quiet. On the Handies we have seen a placid week pass, with inquiry levels remaining minimal. Thankfully for Owners demand in the Mediterranean has kept tonnage lists slender as Charterers there clip out Northern positions, which in tail kept options limited for UKCont liftings. Pushing ahead, with delays continuing in the ARA region, tonnage remains balanced as rates continue to tread water at 30 x ws 135 mark. Finally to the Flexis where low levels of market inquiry has kept this sector very slow. COA movements have created some demand, but limited options for rate movement. Despite a tonnage list which one could feel there are options to push, opportunities have been seldom and expect this market to continue presently at this pace.

LRs

The big surprise during week 17 is that LR1 rates for ARA/WAF have fallen. Levels began the week at 60 x ws 102.5 and with the list of workable tonnage looking thin at the top; some Owners saw potential for rates to improve. However, like the MRs this week, gasoline demand to WAF has dried up meaning just a couple of stems have entered the market. With this and the Bank holiday weekend playing on some Owners minds, Charterers have been able to push rates down to 60 x ws 95. Furthermore, we have seen little reformate movement East this week. Reports of a ballaster from WAF being put on subs today for a MED/Red Sea-AG run at $825k - 925k highlights the lack of activity. One positive and perhaps a reason to agree a cheap trip East is that the LR1s on that side of the Suez are looking tight. Next week, Owners will hope to see gasoline demand pick up and a few more stems to the East enter the market to keep tonnage ticking over. It has been a slow week for both LR2 Owners and Charterers in the West as the naphtha arbitrage remains firmly shut. However, a couple of reformate stems off the Continent have cleared two vessels from the list. This also helped to provide a fresh test for ARA-Spore with $1.675 million achieved. Charterers have tried to squeeze Owners further given the handful of LR2s hunting for employment on the Continent at present. However, with the build-up of naphtha in Europe, Owners are holding out in anticipation of increased inquiry around the corner.

Clean Product Tanker Spot Rates



Dirty Products

Handy

This week never seemed to get off the ground despite May programs creeping into play. Instead, we all spent the week watching in anticipation, waiting for some new wave of activity to get prompt tonnage moving. As a result, rates took a tumble and Charterers midweek were receiving numerous offers for early May dates. Those owners that are still yet to get their positions moving will be straight out the blocks next week pushing ships before the next round of Handies to come open again. In the Med activity was rather more consistent where although Charterers will dismiss recent gains as being undramatic, gains are still gains and owners will be sat slightly more upbeat from the week's trading. Looking ahead this market could yet hold surprise as with May programs having barely started. There is potential in this sector to prosper.

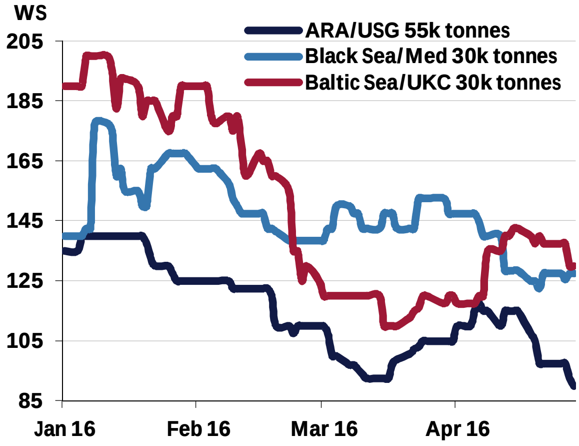
MR

Trending with the neighboring Handy markets, the continent suffered a slow week of trading where the Med did enough to get by. Levels are currently trading at bottom rung numbers although from this week's activity, even that hasn't been enough to entice Charterers into moving oil on a natural quantity for this sector.

Panamax

In spite of gains seen in the Caribbean, European markets were left feeling the effects of tonnage being allowed to accrue through a combination of ballast units and vessel opening naturally. Drip fed enquiry from Charterers was set at just such a pace where the market was constantly being evaluated, albeit to the detriment of fixing levels as reductions were seen between fixtures.

Dirty Product Tanker Spot Rates



GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Apr 28th	Apr 21st	Last Month	FFA Q2
TD3	VLCC	AG-Japan	**-12**	48	60	87	57
TD20	Suezmax	WAF-UKC	**-3**	83	86	77	80
TD7	Aframax	N.Sea-UKC	**-4**	115	120	125	124

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

			wk on wk change	Apr 28th	Apr 21st	Last Month	FFA Q2
TD3	VLCC	AG-Japan	**-15,750**	32,750	48,500	82,750	42,500
TD20	Suezmax	WAF-UKC	**-1,750**	32,750	34,500	31,500	30,750
TD7	Aframax	N.Sea-UKC	**-4,500**	33,750	38,250	42,750	39,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Apr 28th	Apr 21st	Last Month	FFA Q2
TC1	LR2	AG-Japan	**-2**	83	84	105	
TC2	MR - west	UKC-USAC	**+1**	117	116	99	122
TC5	LR1	AG-Japan	**+1**	99	98	119	101
TC7	MR - east	Singapore-EC Aus	**-1**	179	180	195	

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

			wk on wk change	Apr 28th	Apr 21st	Last Month	FFA Q2
TC1	LR2	AG-Japan	**-1,250**	14,750	16,000	24,000	
TC2	MR - west	UKC-USAC	**-250**	13,000	13,250	11,000	14,000
TC5	LR1	AG-Japan	**-500**	13,500	14,000	20,000	13,750
TC7	MR - east	Singapore-EC Aus	**-500**	16,000	16,500	19,500	

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

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LQM Bunker Price (Rotterdam 0.1% LSFO)	**+37**	405	368	325

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