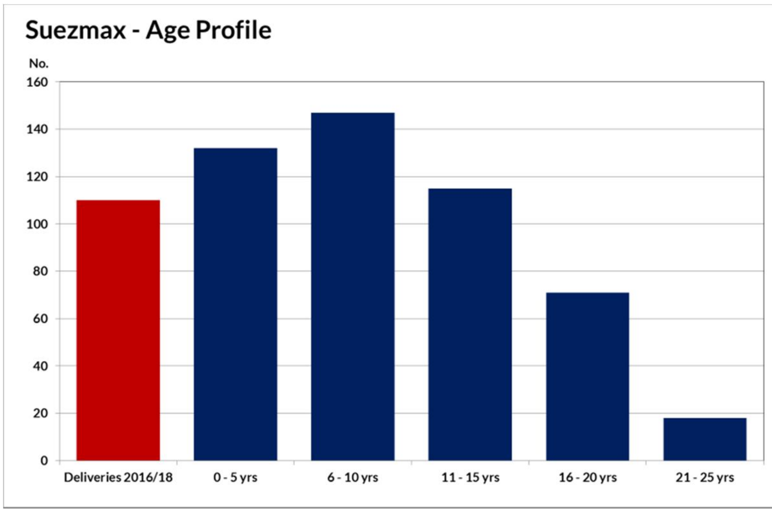
A year is a long time in Tankers

Weekly Tanker Market Report

Our Market Report (6th May) focused on the age profile of the VLCC fleet and the prospects for trading life beyond 15 years of age. Analysis of the Suezmax fleet shows a similar picture, with eighty-nine units over15 years of age (18% of the current fleet) the preferred upper employment limit set by most charterers. However, many of the older units are able to trade in the shuttle markets, where age is not so much of an obstacle. In fact, sixty percent of the current Suezmax shuttle fleet is over 15 years old. Older conventional tankers continue to find employment East of Suez, typically loading Middle East cargoes for India or Singapore.



Between 2014-2015, huge investment in new Suezmax tonnage has taken the orderbook profile as a percentage of the existing fleet to 24%; the highest of all the tanker newbuilding sectors. Almost all of these are scheduled to be delivered over the next 24 months. But how are these newbuilds going to be absorbed as there appears to be little chance of any withdrawals from the fleet? Last May we wrote in our weekly that "supply appears in check, although robust earnings are likely to lead to a slowdown in demolition activity and that the increase in the Suezmax trading fleet is still expected to be limited". We were correct at the time, but the 49 orders placed since last May now paint a different picture.

It appears that geopolitical events have a huge influence on the Suezmax market, more so than other sectors of the tanker market and the short term prospects appear to be very much under treat. The loss of West African barrels to the US (TD5) over recent years (although recently enjoying a renaissance) has been substituted with WAF-UKC (TD20) as the crisis in Libyan production continues. This situation is likely to continue for the foreseeable future, but we should assume that Libya will one day return to pre-crisis levels in the same way as Iraqi production has returned. Iraqi production since 2006 has also supported Suezmax demand, with the largest jump in output from 3.3 million b/d (2014) to 4.0 million b/d recorded last year (including Kurdish exports through Ceyhan). However, there is a view that Iraqi production has reached a plateau and may even decline in the short term. The loss of revenues from the low oil price has limited the government's ability to pay oil companies, who in turn are not investing in Iraq's infrastructure which is needed to expand crude exports.

The recent supply disruptions in Nigeria represent another threat to the Suezmax market and again some industry experts are forecasting the nation's oil output to drop sharply over the next decade. Wood Mackenzie, the energy consultancy, has cut its output forecast for Nigeria by more than a fifth, to 1.5 million b/d on average over the next decade (because of uncertainty over promised reforms to the cash-strapped state oil company) and is not related to the militant activity which is currently disrupting exports. Production here has reached a 20 year low following recent acts of sabotage. Lost Nigerian output destined for India discharge may in future have to be sourced from the Middle East which could support the Suezmax market. However, other areas where growth in cargo volumes was forecast have not materialised as expected such as Kozmino and the Caribbean and have taken their toll on Suezmax demand. The Suezmax market could face some tough challenges over the next few years; not just from the threat of the newbuildings.

Crude Oil

Middle East

VLCCs spent the week toying with the lower regions of the previous rate range but although availability remained well stocked in the fixing window, Charterers failed to really turn the screw and rates seemed to have bottomed out within a ws 52.5/55 range to the East and into the low ws 30s West. Roughly half the June programme is now covered and Owners will attempt to secure the rate-platform whilst keeping an eye out for opportunity to secure a modest premium. Suezmaxes picked up the pace a little and sentiment turned more positive to lead rate demands up to around ws 40 to the West and into the low ws 80s to the East with hopes, at least, of a little more to come. Aframaxes had been on the backfoot, but things then became busier and owners drove rates to 80,000 by ws 100 to Singapore with further gains possible into next week.

West Africa

Suezmaxes had hit 'bottom' late last week and enjoyed more bargain hunting attention as a result this week. Eventually rates made an upward move and threatened something more significant but the week ended in an impasse at 130,000 by ws 62.5 to the USGulf, and ws 70 to Europe, though it merely feels like a postponement. VLCCs began slowly as the AGulf sector sought its mark but once it had, a number of late June enquiries surfaced, and rates synchronized accordingly - plus a small insurance premium for the longer voyage duration. 260,000 by ws 57.5 to China, and around $3.6 million to East Coast India fairly reflect current values.

Mediterranean

The game here was a play between the Aframax and Suezmax sizes. Aframaxes had previously strengthened enough to allow for beleaguered Suezmaxes to take part cargoes and clear much of their excess. In turn, that capped Aframaxes but gave enough of a boost to Suezmaxes for them to jump once full cargoes again hit the market in numbers. Aframax rates operate at up to ws 117.5 cross Med and Suezmaxes currently peak at 140,000 by ws 97.5 from the Black Sea to European destinations with around $3.5 million asked for runs to China.

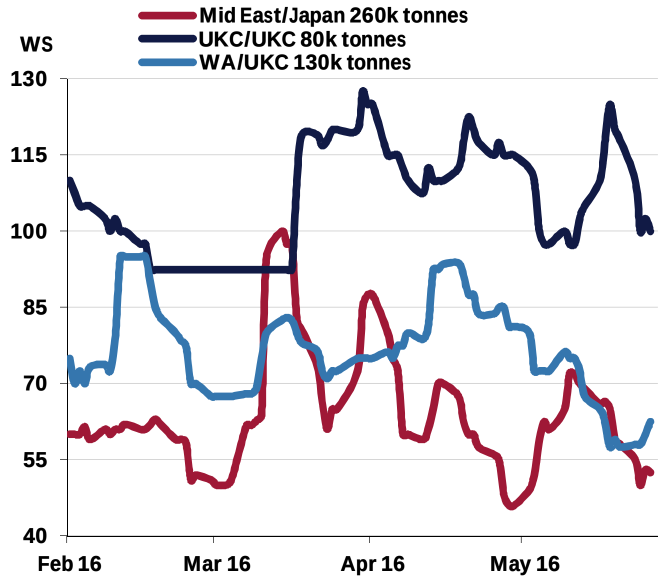
Caribbean

Aframaxes hardly moved through the week with 70,000 by ws 100 almost 'conference' for upcoast movements. Owners were hoping for a last gasp pre-holiday enquiry surge, but as at the time of writing they remain disappointed. VLCCs seemed quiet on the surface but there was enough covert activity on the earlier window to prevent rates from slipping below $4.8 million to Singapore and $3.75 million to West Coast India and little early change anticipated.

North Sea

Aframax Charterers steadily chipped away and succeeded in bringing rates back down to 80,000 by ws 100 cross UKCont and to 100,000 by ws 80 from the Baltic but there was just enough last minute Baltic interest to prevent further falls, and perhaps even a gentle rebound, though the long weekend will likely work against that. VLCCs lowered their rate sights a little, and that proved just enough to entice 'arb' interest from traders at down to $3.75 million for fuel oil from Rotterdam to Singapore, and to $5.25 million for crude oil from Hound Point to South Korea though delays in strike-hit France are making some forward itineraries too uncertain to trade upon.

Crude Tanker Spot Rates



Clean Products

East

LRs have been quieter again this week and rates have declined accordingly. 75,000 mt naphtha AG/Japan is back at ws 95 and 90,000 mt jet AG/UKCont has reverted back to $1.8 million. Lists are not that long but with very few new cargoes, Owners had very few options. LR1 rates have also suffered with 55,000 mt naphtha AG/Japan now at ws 102.5 and 65,000 mt jet AG/UKCont back down to $1.325 million. Once again lists are fairly short but the volume of cargo hasn't quite been enough to push rates on. Next week will likely see a little more business in the first half of June but rates are expected to stay flat. A pretty steady week for the MRs where activity has been decent and the flow of cargoes reasonably generous. However, the rates have struggled to gain traction and remain stemming the current as the week closes. AG/EAfr softened initially but finished at ws 130. UKCont voyages persisted at the $950k mark but, with lack of interest in going West they did grasp a slight rise and closed the week at USD975k. Cross -AG runs held fast at USD180k and cargoes heading East were relatively untested but corrected to 35 x ws 105. The sentiment remains soft for the time being.

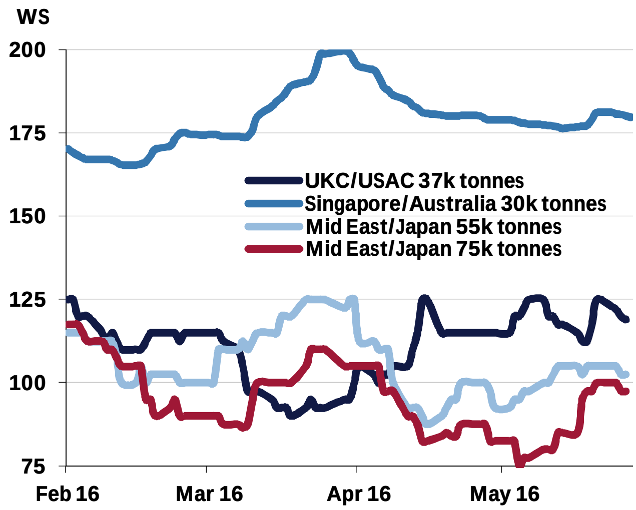
Mediterranean

As week 21 comes to a conclusion, Owners have managed to apply pressure to rates with tonnage being consistently clipped out throughout. With options being limited in comparison to recent weeks, Owners were able to press cross Med runs to 30 x ws 130+ and Black Sea 140+. Further inquiry creeping into next week will give Owners the chance for further progression, but equally if we do not see the demand, rates can just as quick be seen struggling to hold by Charterers. A balanced market has been left at present. On the MRs we have seen little to get excited about for all parties across the board. Red Sea runs tick over at the $750k to Jeddah and Trans-Atlantic runs, when seen continue to follow the trend of the TC2 market equally. For the time being ballast tonnage from WAF continues to sail North to the more active UKCont region.

UK Continent

A fairly placid week has passed on the MRs where we have seen little movement in fixing levels. Owners and Charterers alike have seemed content at repeating last done, and with a quiet WAF market, fresh ballast tonnage has been topping up our tonnage lists consistently, as well as USAC vessels also. Looking forward, we can expect a similar trend to continue as runs to WAF have been limited and reformate stems East almost non-existent. Handies enjoyed a positive start to the week, and by the halfway mark rates had been pressed northwards to 30 x ws 135 levels. The main catalyst for this has been the extended French strikes causing multiple delays on itineraries as well as trading opportunities for tonnage with the appropriate cargo onboard. Replacements have been frequently seen and with this, Owners have found chances to put pressure on last done and a gentle improvement has been seen. The strength in this sector will heavily depend on how much longer we can see delays within French waters, and what to expect when the strikes are lifted; a backlog to keep this market strong for the time being. Similarly to the Handies, the Flexi market has jumped onto the bandwagon and enjoyed the ride being dragged along by the striking French. Tonnage has remained on the thin side, and with good levels of market inquiry Owners have had chances to improve rates consistently. As Friday appears on our radar, numbers have been pushed to 22 x ws 180 and for the time being we expect levels to remain. Tonnage opening up finally in French ports will be in hot demand for future fixing.

Clean Product Tanker Spot Rates



Dirty Products

Handy

The continent market looks like it has reached its peak this week with levels reaching ws 157.5 by the midweek mark. The gravy train was cut off and activity died a death which naturally resupplied tonnage in the region. On the next stem to come into the market, Owners will be conscious not to be too bullish with their offers because you can bet your tanker that Charterers will be looking to correct the market come Monday. The Mediterranean remained buoyant this week as the gap in available tonnage due to a backlog of fixtures and delays caused by strikes in Greece kept tonnage availability limited. Additionally, this combined with a noticeable increase in Black Sea stems and French port strikes created the occurrence of forward fixing which had been the only option for many Charterers in order to cover requirements. Previously we have seen one week of stem activity, followed by a week of limited activity which has kept the market flat. For the first time in a while we have had two consistent back-to-back weeks which has allowed Owners an opportunity to finally get a firm grip on the market and build on rates. This said the bank holiday weekend in the UK could prove a needed breather for Charterers and they will no doubt be eager to see some fresh positions pop up next week.

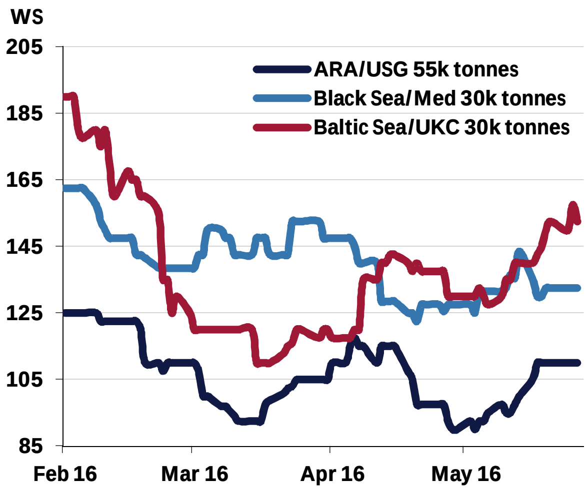
MR

Due to last week's activity clipping away the majority of units in the region, Owners at the start of the week maintained pressure on recent levels and even gained further increment. As the week progressed however, in a similar run of form to the Handies, the volume of enquiry has not been sustained and next week Owners can expect to see Charterer's push for negative correction, as soon as more availability presents.
The Med market has seen enquiry in abundance mainly in the Black Sea/East Med region which has put a draw on tonnage supply into very early July fixing dates. This combined with a buoyant Handy market has provided a rare opportunity for Owners to seize some initiative, although strength could prove limited where Charterers are opting now to build stems where more competitive freight costs are offered.

Panamax

With almost all of the natural ships now gone, Charterers are having to look at ballast units in order to cover for the next round of fixing. Looking ahead, where tonnage availability continues to evade Charterers, tonnage rates look certain to hold until more owners start committing this side of the Atlantic. This said, If rates in the States don't pick up, it is now inevitable that Owners will look this way where returns from Europe look more preferable, in turn this is the key indicator to the strength that follow.

Dirty Product Tanker Spot Rates



GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 26th	May 19th	Last Month	FFA Q2
TD3	VLCC	AG-Japan	**-8**	52	61	60	60
TD20	Suezmax	WAF-UKC	**+2**	62	60	86	67
TD7	Aframax	N.Sea-UKC	**-18**	102	120	120	97

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

			wk on wk change	May 26th	May 19th	Last Month	FFA Q2
TD3	VLCC	AG-Japan	**-9,750**	35,250	45,000	48,500	44,750
TD20	Suezmax	WAF-UKC	**+750**	19,000	18,250	34,500	21,750
TD7	Aframax	N.Sea-UKC	**-16,750**	18,750	35,500	38,250	15,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 26th	May 19th	Last Month	FFA Q2
TC1	LR2	AG-Japan	**+0**	98	98	84	
TC2	MR - west	UKC-USAC	**+3**	119	116	116	118
TC5	LR1	AG-Japan	**-4**	100	105	98	102
TC7	MR - east	Singapore-EC Aus	**-1**	180	181	180	

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

			wk on wk change	May 26th	May 19th	Last Month	FFA Q2
TC1	LR2	AG-Japan	**+250**	18,500	18,250	16,000	
TC2	MR - west	UKC-USAC	**+250**	12,250	12,000	13,250	12,000
TC5	LR1	AG-Japan	**-1,000**	12,750	13,750	14,000	13,000
TC7	MR - east	Singapore-EC Aus	**-250**	15,750	16,000	16,500	

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

LQM Bunker Price (Rotterdam HSFO 380)	**+5**	225	220	189
LQM Bunker Price (Fujairah 380 HSFO)	**+0**	245	245	203
LQM Bunker Price (Singapore 380 HSFO)	**+5**	229	224	204
LQM Bunker Price (Rotterdam 0.1% LSFO)	**+20**	443	423	368

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