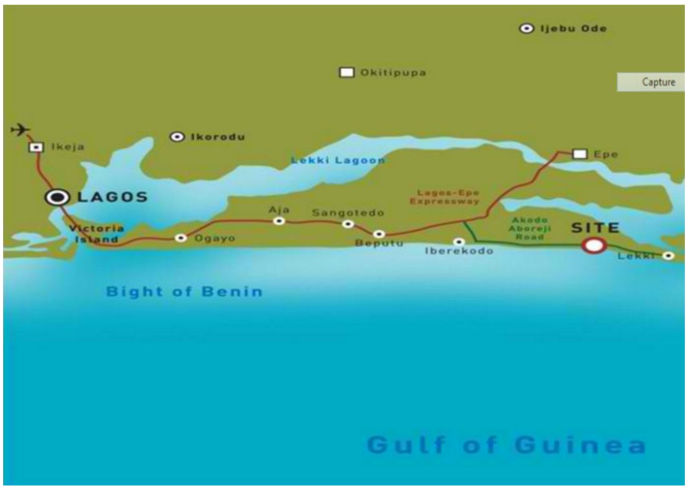
Nigeria's refining project – a dream or reality?

Weekly Tanker Market Report

The importance of Nigeria for the tanker market should not be understated. The country's crude exports are a big contributor to Suezmax demand in the Atlantic Basin, while shipments to Asia Pacific, largely on VLCCs, boost tonne mile demand. Despite being a major crude oil exporter, Nigeria imports around 80% of its products consumption as its four existing refineries operate significantly below their operational capacity, with throughput at just 5% due to poor maintenance and mismanagement. To satisfy domestic demand, the country sources most of its products from Europe, although imports from US are also on a rise. Product shipments into Nigeria are largely carried on MR tonnage, although over the past couple of years there has been a growing involvement of LR1s.

This picture could change dramatically in the medium term. The Dangote group, a Nigerian multinational industrial conglomerate aims to build a 650,000 b/d refinery, which is expected to cost around $14 billion and will include a fertiliser unit. The plant will be located along the Atlantic coast within the Lekki Free Trade Zone, in close proximity to Lagos. The latest plans are to begin commercial operations in 2019, although initially the start date was planned for 2018. The geographical location of the refinery offers several advantages, such as ability to source crude from offshore, as opposed to relying on vulnerable onshore pipelines. Being on the coastline also means that the refinery could have an independent crude supply, with Lekki Deep Sea port also slated for completion in 2019. The project will be funded through loans from local and international banks, export agencies as well as Dangote Group equity. A number of institutions have already confirmed their involvement; while the Central Bank of Nigeria assured in early 2016 that it will assist the Dagnote Group to access the foreign exchange it needs to facilitate the project.



Some skepticism remains whether the refinery will be built, not least due to Nigerian "success" with its existing refineries. However, some progress has already been made. Last year the US Trade and Development Agency signed a grant worth nearly $1 million to develop and train human resources for the refinery. More importantly, CNN video coverage produced last month shows that the construction at the site has already commenced. Pipes have been laid and a massive dredging operation has started, although specific plans of the refinery are yet to emerge. Finally, Aliko Dangote, the man behind Dangote Group, has an impressive record of achieving his goals, completing several major projects in Africa, including the world's largest sugar refinery and cement factory.

Construction of the refinery appears to be in the very early stages and a lot of challenges lie ahead, not least the instability in Nigeria, devaluation of Nigerian currency and low oil prices. However, if the refinery is successfully built, it will have a double negative impact for the tanker market. Firstly, it will reduce crude exports out of the country, both short haul and long haul. Secondly, as Nigeria becomes increasingly self-sufficient in terms of products, the country's imports will dry up, with a knock on effect on MR and LR1 demand. The only upside to this scenario is that following the completion of the refinery, Nigeria could become a products exporter, supplying gasoline and other products to other countries in the region.

Crude Oil

Middle East

A moderate VLCC volume served to at least stop any further rot, but fell way short of soaking up the persistent excess supply. July fixing has now effectively been closed out and August has only been tentatively probed. Early next week full programmes will be in hand, and Owners will be hoping that they will then benefit from some degree of momentum led advantage. Hope rather than certainty though. For now, rates hold in the low ws 40s to the East, and at up to ws 27 to the West, via Cape. Suezmaxes quietened further, and rates slipped further also. Ws 37.5 now to the West, and low ws 70s to the East, with again hopes here of a busier spell to come and save the day/month. Aframaxes failed to buck the overall trend and eased off to just under ws 90 to Singapore on light attention with no sign of an early turnaround.

West Africa

Awful for Suezmaxes - little more to say than the awfulness is down to too many ships, and not enough cargoes. Rates fell to as low as 130,000 by ws 55 to the USGulf and to under ws 60 to Europe. Surely it can't get worse? But lots of work to do before Owners will regain any grip. VLCCs found occasional employment, and retained premiums over AG/East numbers, but will also remain handcuffed to that zone over the coming period. Rates held at, or a little above, ws 47.5 to the Far East with Angola/West Coast India runs asking around $2.6 million.

Mediterranean

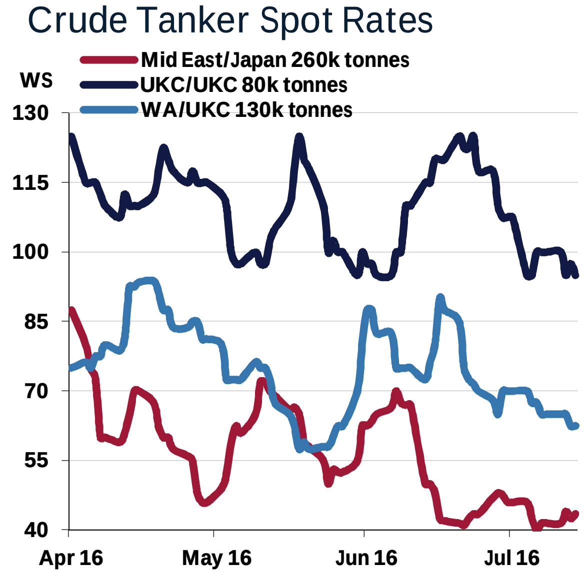
Down, down...and then down again for Aframaxes here. 80,000 by ws 77.5 now for cross Med, and perhaps the bottom has now been reached. a quick snap-back looks doubtful. Suezmax July enquiry bled out, and the market went very quiet as August programmes were awaited. Rates softened to 140,000 by ws 67.5 from the Black Sea to European destinations with a theoretical $2.8 million payable to China.

Caribbean

A weak start for Aframaxes and even a flurry of fixing mid-week failed to change the challenging fundamentals for Owners. Rates consequently moved further south to 70,000 by ws 75 up coast, and it will take a more sustained period of activity for the market to meaningfully climb back. VLCCs were slowly, and easily, picked off at lower numbers - $2.5 million to West Coast India was seen, and is probably repeatable with $3.4 million payable to Singapore.

North Sea

Better rates than in the Med for Aframaxes, but weak nonetheless. 80,000 moves at little better than ws 95 cross UKCont and 100,000 by ws 65 from the Baltic and Owners will need more than the recent drip feed of enquiry to crawl higher. VLCC 'arb' runs to the East became slightly more workable for traders at up to $3 million for fuel oil to Singapore and to $4.30 million for crude opportunities to South Korea. Some vessels went on subjects accordingly, but some may also fail before next week.



Clean Products

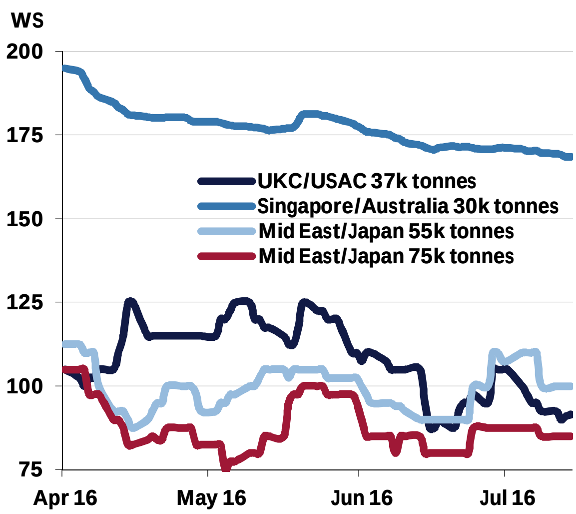
East

The LR2s have had a steady week, with plenty of cargoes being quoted to the market; but with a decent supply of tonnage to absorb the cargoes there was little room for rates to be tested at the beginning of the week. As the week progressed the LR2s continued to fix and there was an air of optimisms that if this activity continues there is a potential for a rate rise. AG/UKCont finishes the week at $1.90 million. Naphtha runs saw slight fluctuations but sits contently at ws 85. The LR1s have seen decent activity, but with regard to the rates it was a relatively flat week. Owners could only sit and watch as rates on the MRs sailed past them. However, as the MR tonnage list grew tighter the LR1s offered a more competitive option for the Charterers. Naphtha runs have remained steady at ws 100 and there was a slight dip with AG/UKCont returns which close the week at $1.45 million. Owners will be keen to clear the tonnage list quickly in order to get some momentum back into LR1 the market. The wind has been in the sails for the Owners of MRs in the AG this week. Following on from the tight list that week 27 closed on, week 28 commenced with gusto. A lot of activity was seen and the tight tonnage list became even tighter as the week progressed. As some ships ran late and prompt cargoes needed to be replaced impressive rates were achieved. However, it was accepted that these were replacement rates and not where the market was sitting. West voyages still command a premium due un-desired end destination and it comes as no surprise that this witnessed a strong rise to close the week at $1.25 million. The shorter voyages also have enjoyed a week of positive corrections, AG/RSea sitting at $575k level and cross-AG at the $250k mark. Gas oil stems heading to EAfr have jumped around a bit and replacement vessels have achieved some huge numbers however, off the natural fixing window it sit at the 35 x ws 165 level. A very strong week for the MRs where Owners are looking to march even further forward, however, they will need to take notice of the LR1s which are not in as strong a position and therefore can be competitive on the MR stems. Certainly not a cause for concern just yet, but this is one to monitor closely.

Mediterranean

Large volumes of tonnage and drip fed cargoes have kept this Mediterranean market kicking the can down the street with numbers holding fast presently. 30 x ws 120 for cross Med runs partnering with 30 x ws 130 for Black Sea, have seen Owners tapping away trying to break even and ballast and idle days killing much potential. Owners will be hoping to see increased levels of Black Sea runs appear soon but the feeling of summer conditions is well and truly set in, and can expect this present trend to continue ahead. MRs in the Med continue on their soft flat trend with little light at the end of the tunnel. Transatlantic ticks along with the Cont runs at 37 x ws 95 and East runs require a fresh test for the $750k Sarroch-Jeddah level.

Clean Product Tanker Spot Rates



UK Continent

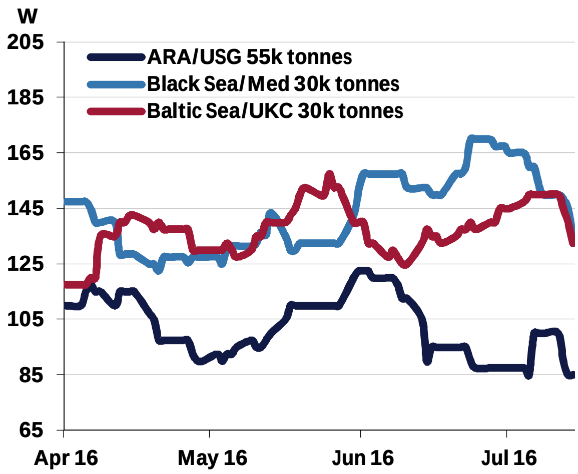
As Week 28 comes to a close, Owners in the MR market build on optimism slowly with rates mirroring this. We started with some good levels of inquiry partnered with a healthy tonnage list, which ensured 37 x ws 90 was kept in place. As the Week developed hungry charterers managed to take good levels of tonnage and options became narrowed. With this in mind Friday has produced a handful of outstanding stems with Owners wanting to press this market above the 37 x ws 95 mark. This minor improvement could also be the failing of the market, with rates kicking US tonnage into potential ballast over the weekend. Fresh tonnage lists on Monday will show how many options we really have. After a quiet start on Monday for Handy Owners where we were expecting to stare at another week of 30 x ws 110, a large cluster of inquiry hit our books and things started to heat up. We saw 6-7 stems clip out the loose tonnage and rates were able to gain some ground pushing up to 30 x ws 115. A small number of cargoes continued to flow throughout the week, and as we arrive at Friday, Owners will be wanting to solidify the present state perhaps before trying to climb higher. Consistent levels of fresh enquiry as per usual is needed here to give a chance of this hype sticking. Finally to the Flexis where a very placid week has passed. Owners and Charterers alike seem content with the 22 x ws 150 fixing throughout and it seems very hard to see where any upturn will come from in the immediate future. COA activity is the key holder here in keeping rates where they are for the time being.

Dirty Products

Handy

The performance of the Handy market this week has lacked any talking points across the board, with minimal enquiry in both Continent and Mediterranean sectors that allows tonnage stocks to build. It seems the summer slump has kicked in early, and on the rare occasion the market has been tested this has only led to a deterioration in freight rates. Heading into next week Owners will be hoping Charterers have been sitting on stems as only to serve as offering hope that the floor has been found.

Dirty Product Tanker Spot Rates



MR

The Continent this week presented minimal natural sized opportunity and despite units presenting in short supply, the region suffered as a result of surrounding sectors failing to perform. Looking ahead Charterers are likely to be presented with opportunity to extract value, or at least until greater cargo volume comes to fruition. In the Med, Owners have done what they could to survive this week, where in general last done benchmarks held a very short shelf life between deals, as here too negative correction took a hold.

Panamax

The gains seen last week within this sector managed to be short lived as inactivity at the front end of the week has resulted in adjusting rates back down. Where reports of mid ws 80s being concluded from this side of the Atlantic at the end of the week has shown signs of some kind of revival from where rates were heading earlier in the week. Now with some of the naturally positioned tonnage dealt with, next week's activity will dictate which direction this market continues.

GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	July 14th	July 7th	Last Month	FFA Q2
TD3	VLCC	AG-Japan	**-4**	44	47	67	45
TD20	Suezmax	WAF-UKC	**-9**	61	70	75	63
TD7	Aframax	N.Sea-UKC	**-14**	94	108	109	99

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

			wk on wk change	July 14th	July 7th	Last Month	FFA Q2
TD3	VLCC	AG-Japan	**-3,750**	24,750	28,500	51,750	26,250
TD20	Suezmax	WAF-UKC	**-4,250**	18,250	22,500	25,500	19,500
TD7	Aframax	N.Sea-UKC	**-7,000**	17,500	24,500	24,750	21,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	July 14th	July 7th	Last Month	FFA Q2
TC1	LR2	AG-Japan	**-3**	85	88	85	
TC2	MR - west	UKC-USAC	**-14**	92	105	105	102
TC5	LR1	AG-Japan	**-8**	100	108	94	100
TC7	MR - east	Singapore-EC Aus	**-2**	169	171	174	

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

			wk on wk change	July 14th	July 7th	Last Month	FFA Q2
TC1	LR2	AG-Japan	**-1,000**	14,250	15,250	14,000	
TC2	MR - west	UKC-USAC	**-2,250**	7,000	9,250	9,250	9,000
TC5	LR1	AG-Japan	**-1,500**	12,500	14,000	11,000	12,500
TC7	MR - east	Singapore-EC Aus	**+250**	13,500	13,250	14,250	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**-10**	234	244	238
ClearView Bunker Price (Fujairah 380 HSFO)	**-14**	250	264	253
ClearView Bunker Price (Singapore 380 HSFO)	**-19**	248	266	252
ClearView Bunker Price (Rotterdam 0.1% LSFO)	**-28**	408	436	458

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