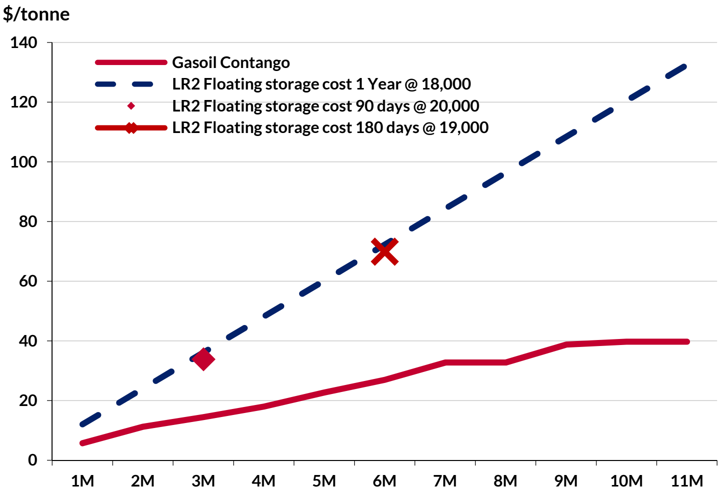
Storage Stalls Despite Stocks

Weekly Tanker Market Report

Clean products storage has been a frequent point of discussion over the past 12 months following stellar refining margins (until this year), which boosted throughput in excess of demand creating the products glut we have today. Amsterdam-Rotterdam-Antwerp (ARA) clean product stocks peaked in March at 5.853 million tonnes before subsequently being drawn down, falling as low as 4.891 million tonnes in June. However, much of the decline was driven by short term factors, predominantly refinery maintenance, and of course strikes in France. At the same time, with land based stocks being drawn down, the number of product carriers engaged in short term operational/forced storage fell, with little activity observed off Northern Europe until last week.

However, with maintenance largely concluded and strikes over, stocks have once again risen, touching 5.583 million tonnes last week in the ARA hub. Interestingly this time it is gasoline stocks which appear to be rising counter to typical seasonal trends in most regions. The US Atlantic Coast is bursting with gasoline where stocks have hit record levels (despite driving season being in full swing). Demand from West Africa has been sporadic due to issues accessing US dollars, and the arbitrage for light distillates to the east largely out of play. As a result, gasoline is struggling to find an outlet. So much so, that traders have been reported looking to place the grade into storage until next summer, or begin blending of winter grades.

Gasoil Contango vs. LR2 Charter Costs



Traders are now starting to enquire over floating storage costs once again with at least two LR2s reported as being chartered for clean storage off the UK Cont. However, despite bulging global stocks the biggest barrier to large scale products floating storage is that the contango in gasoil (and other products) futures, is not sufficient enough to cover the costs of storing the product at sea (see chart). In fact, the contango structure has remained under pressure in recent weeks with the 6 month spread narrowing to approximately \$30.00/tonne vs. LR2 storage costs of in the region \$65.00/tonne over a 6-month period. Furthermore, if LR2s continue to firm, storage costs will continue to rise.

Other evidence suggests logistical issues are brewing in Europe, in recent weeks a number of LR2s have been observed taking cargoes from India and the Middle East to Europe via the longer Cape of Good Hope route. In fact, all ships being fixed now are asked for Cape routing options on Middle East/West voyages. This trend was last prevalent earlier in the year as traders sought to delay arrival into Europe owing to discharging delays in the region. Any level of storage, delays and elongated voyages is of course supportive for tanker demand, however the question of course is whether it would be supportive enough given current market conditions. Back in April up to 1.5 million tonnes of product (mostly middle distillates) sat on tankers at sea, most of which was located off Europe. At the same time a number of ships boosted tonne mile demand by making the longer trip via the Cape. However, despite these supportive factors, rates continued to slide.

Going forward the economics of clean floating storage are likely to remain challenging, even if freight rates ease, the contango in gasoil futures (or other clean products) would need to widen substantially. Furthermore, with a consistent flow of new LR2s, Aframaxes and even Suezmaxes coming over the second half of the year, even if floating storage does take off, the upside for the market may well be limited.

Crude Oil

Middle East

'Summer slump' is the unfortunate theme of the week across all crude sections, and not just here. VLCCs are always the headline act, however, and recently they have failed badly to lead by example. Rates have now crumpled to new lows of the year - to as low as WS 34 to the East and into the very low WS 20's to the West. Second half August fixing is now underway but a weighty overhang of tonnage remains on earlier dates that will serve to continue to pressurise for some time to come. Suezmaxes failed to enthuse on tepid demand, and easy supply. Rates ticked lower to WS 27 to the West but held at close to WS 55 for any stray runs to the East. Aframaxes here may not appreciate it, but they are in the best spot for their class - 80,000 by WS 85 to Singapore isn't remotely satisfying, but it's acceptable in comparison to other zones.

West Africa

Easily the worst week for Suezmaxes for over a year - and actually lot longer than that..130,000 by WS 42.5/45 for anywhere in the Atlantic, and that equates to sub OPEX returns. That can't last forever, but will be the case over the near and medium term at least given the noticeable supply/demand imbalance. VLCCs fared a bit better than the smaller size, but enquiry was very thin on the ground and rates fell off to WS 45 to the Far East and down to $2.5 million to West Coast India. Further compression likely, or until the AGulf turns.

Mediterranean

Aframaxes were already struggling, but had to make do with even lower rates this week - down to 80,000 by WS 70 now Cross Med and no sign of an early turnaround. Worse, Suezmaxes have also been hard pressed to find enough employment even at the recent 140,000 by WS 50 mark from the Black Sea to Europe, and will also now poke their noses into part cargo alternatives.

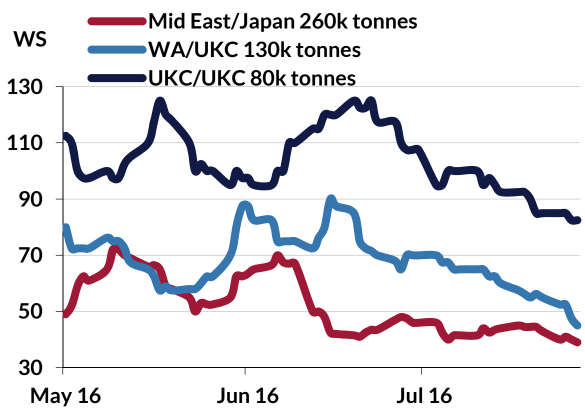
Caribbean

And....the theme continues here too... Aframaxes dodged, and weaved, a bit, but never found enough grip to pull away from a 70,000 by WS 75/80 rate bracket through the week. Only disruption - weather, or ullage - will help it seems. VLCCs occasionally got picked off, but at rates down to $3.1 million to Singapore and $2.3 million to West Coast India. Levels may not go lower, but are equally unlikely to move higher either.

North Sea

Aframaxes limped into the weekend at down to 80,000 by WS 80 Cross UK-Cont and to 100,000 by WS 57.5 from the Baltic. Owners can only hope that next week turns out busier. VLCCs did see a rash of interest to the East late last week, and early this, some deals failed, but a few went through at up to $2.9 million for fuel oil to Singapore, though 'arb' economics died as the week came to a close, and further interest was effectively then squashed.

Crude Tanker Spot Rates



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Clean Products

East

LRs have looked busy this week, and a significant number of cargoes to be handled has put a slight squeeze on rates on both sizes. The LR2s have seen slightly more inflation in freight rates, especially on the naphtha runs East. A market rising WS95 done at the end of last week was quickly surpassed, as we have seen the market level move towards and surpass the WS 100 level. TC1 finishes the week at WS 105, and the increase in market level has inevitably forced sympathetic rises in the West runs. A couple of replacement jobs were taken at $2.15 million, but a tightness of ships has marked this as the current market level.

LR1s have also been busy, experiencing a similar amount of naphtha stems entering the market. TC5 has therefore raised up to WS 105. A disappointing $1.45 million on subs for a AG/UKC was since replaced, and market level has been re-established at $1.5 million. With outstanding cargoes on both the LR2s and the MRs, it is likely that the LR1s will come under pressure next week, and Charterers may start to see more value to be had on the LR1s.

The MRs have seen another busy week, and tonnage has continued to thin, both in the AG and in particular off WCI. East Africa runs have been an interesting route, as rates seen have stretched from a WS 155 midweek, to a WS 175 equivalent at the end of the week. The WS 175 must be taken with a pinch of salt, due to the multiple-grade loading, and the forward fixing laycan date. Runs West to UKC have also seen firming, and a $1.25 million experienced earlier in the week has risen to $1.3 million in the later. Although this was given as an option on a multiple discharge-option cargo. A lack of outstanding West cargoes means that we may have to wait until the new week to see where rates settles after another test. Runs into the Red Sea sit at the $540k levels, and shorthaul in the Gulf at $240k. Due to the amount of naphtha moving on the bigger sizes, the MRs have not seen their fair share of naphtha, but the few cargoes put on subs have done so at the last-done WS 110 levels. With outstanding cargoes remaining, the MRs will enter week 31 in a healthy position.

Mediterranean

As week 30 draws to a close not much seems to have changed freight wise for Handies plying their trade in the Mediterranean. The phrase “as flat as a pancake” springs to mind as 30 x WS 115 was the regular fixing numbers up until Friday morning as a market quote attracted a number of offers and it was inevitable that the flat theme was going to be broken. And so it was, 30 x WS 112.5 was the new market low and with the tonnage list still well heavily stocked expect the bottom of the barrel scraping to continue heading into next week. Black Sea liftings haven’t fared much better either, volumes have been there but not in vast amounts meaning that any fresh stems that did enter the market, a number of units were at Charterers dispense. Levels have continued to trade sideways at 30 x WS 125.

Once again the MR sector continues to plod along with only the odd inquiry seen in the market and tonnage has even ballasted up to the Continent to try and seek employment. Cargoes heading West (basis USG) have slipped down to 37 x WS 90 and for East (basis Sarroch /Jeddah) $650K.

UK Continent

As week 30 comes to a close, the MR market has seen rates tick along with additional fresh tonnage diluting Owners defences. Good levels of inquiry has seen our tonnage lists turning over at a reasonable pace but unfortunately for Owners, just not quick enough. Rates have settled back below the 37 x WS 90 mark with reports of WS 85 now being the point, and with TC14 struggling partnered with WAF business grinding to a halt, fresh ballasters dominate our horizon. Looking ahead, some can take some positives with the LR1 market picking up, but with simply not the supply of stems that are there, it seems hard to see this market move anywhere northbound soon.

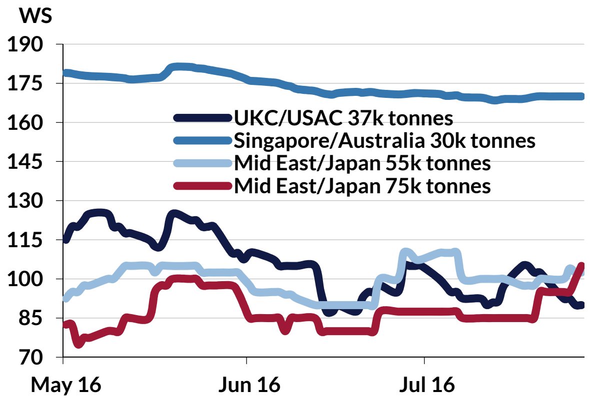
Handies see a very placid week pass with little to lighten up this bottomed market. Rates tread water around the 30 x WS 112.5 mark with a small collection of ships accepting WS 110 also. With good midweek levels of fixing, Owners began to feel an air of positivity appear, but for the time being numbers stay put where they are.

Finally to the Flexis, where week 30 certainly will be one to forget as soon as possible. Little inquiry has been seen which in turn has produced a tonnage list with ample prompt tonnage. Rates flutter between WS 140 - WS 150 with a true market test required to pin this down but with little of these available, the lower end of this range seems the more likely ahead.

LRs

Owners will bow out of week 30 relatively pleased with their work, particularly LR2 Owners who have managed to push rates up. It is important to remember however that LR2 inquiry hasn't dramatically increased with the arbitrage to the East remaining closed. The result has come from the East market continuing a good run of form encouraging ballasters from the Continent, Mediterranean and from West Africa, and subsequently reduced tonnage options in the West with a number of ships still under a cloud of uncertainty. Consequently, Owners have been able to nudge rates up on the handful of cargoes that have entered the frame. LR2s are achieving $1.9 million for a Black sea/Japan naphtha run up from $1.7 million and $2.0 million has been reported on subs for a Ust-Luga/Japan naphtha run, up from $1.8 million respectively. The LR1s began the week showing a lot of promise with the list of options off the Continent looking thin up until the end of the first decade of August. Sadly, for Owners, this week has been slow with minimal inquiry. Although Owners are holding the line with reports of 60 x WS 92.5 on subs for an ARA/WAF run, unless we see an active start to week 31, then rates could fall back under pressure due to the number of vessels arriving and opening on the Continent around the early-mid August window.

Clean Product Tanker Spot Rates



Dirty Products

Handy

This week the Continent market failed to ignite with the positions remaining top heavy throughout. As the week progressed with the odd vessel disappearing, it appeared any business being concluded was being done strictly under the radar with people not prepared to let any details slip. Looking into next week as we enter the quietest month of the year Owners can expect much of the same and will have to move quickly on any opportunity to get their tonnage on the move.

The Mediterranean market this week has been brutal, with a number of prompt vessels in the region throughout fighting it out at any sniff of a cargo. As we close the week out, rumours of numbers heading further south will have Owners keep on feeling the heat, next week Owners will be hoping we've seen rates hit the floor and we do not see any further negative correction.

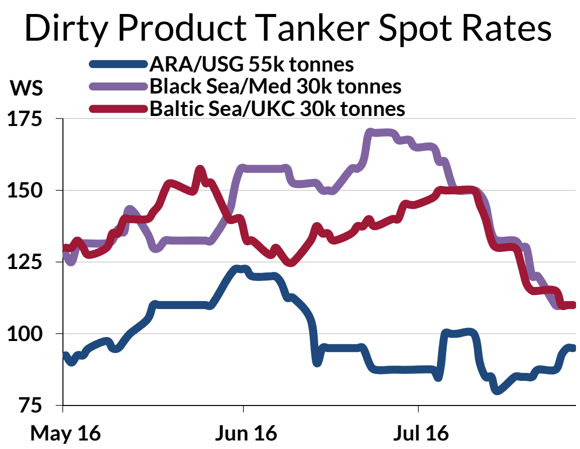
MR

Given the inactivity on Handies in the Continent, MR stems have cleared up all naturally positioned tonnage in the region. As mentioned on the Handies, business has been clipped away quietly to avoid mass upset as well as keeping dealings secret. Fixing ideas in the Continent on Monday may tilt a little in Owners favour off the natural laycan as they will be relying on pulling tonnage from other regions.

We have seen much of the same in Mediterranean with continued off market activity filtered here as well. With rates and activity levels being as low as they are it's likely that this trend will continue moving into next week.

Panamax

This week has been a mix of emotions for Charterers and Panamax Owners. The steady tick over of enquiry has only managed to fix away firm tonnage either in ballast this way or opening naturally this side of the Atlantic. As we come to the end of the week the general feeling is one of balance. Looking into next week, Charterers are reliant on ballasting tonnage in the short term which highlights the date dependence of the market over here. Next week's fresh enquiry could face more pressure from Owners.



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	July 28th	July 21st	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-8**	36	44	47	42
TD20	Suezmax	WAF-UKC	**-10**	45	56	70	55
TD7	Aframax	N.Sea-UKC	**-4**	81	85	108	94

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

			wk on wk change	July 28th	July 21st	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-7,000**	18,250	25,250	28,500	24,500
TD20	Suezmax	WAF-UKC	**-4,750**	10,750	15,500	22,500	16,250
TD7	Aframax	N.Sea-UKC	**-2,500**	7,500	10,000	24,500	18,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	July 28th	July 21st	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+9**	104	95	88	
TC2	MR - west	UKC-USAC	**-12**	91	103	105	98
TC5	LR1	AG-Japan	**+5**	103	98	108	104
TC7	MR - east	Singapore-EC Aus	**+1**	171	170	171	

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

			wk on wk change	July 28th	July 21st	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+5,250**	21,250	16,000	15,250	
TC2	MR - west	UKC-USAC	**-1,750**	7,500	9,250	9,250	8,750
TC5	LR1	AG-Japan	**+1,750**	14,000	12,250	14,000	14,500
TC7	MR - east	Singapore-EC Aus	**+500**	14,500	14,000	13,250	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**-13**	220	233	244
ClearView Bunker Price (Fujairah 380 HSFO)	**-21**	227	248	264
ClearView Bunker Price (Singapore 380 HSFO)	**-19**	223	242	266
ClearView Bunker Price (Rotterdam 0.1% LSFO)	**-28**	370	398	436

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