The Tide is Turning

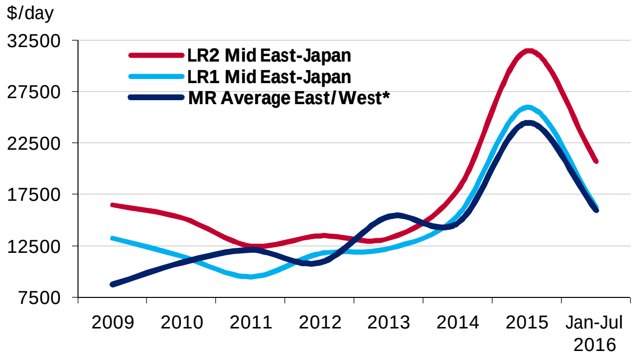
Weekly Tanker Market Report

Back in 2015 the tanker industry witnessed only a modest growth in tanker supply, while there were significant increases in demand for seaborne crude and product transportation. Refiners boosted crude throughputs and cheap oil stimulated strategic and commercial stockpiling. At the same time, strong refining margins, coupled with price volatility, supported products trade. As such, crude and clean tanker earnings surged last year to the highest level since 2007/08.

At present, conditions in the tanker market are very different from a year ago. The industry has long braced itself for rapid growth in the crude and product tanker fleet, following heavy ordering witnessed between 2013 and 2015. Except Handy/MRs, more deliveries were seen in all tanker sectors during the 1st half of this year than for the whole of 2015. Even more new tankers are scheduled to start trading in the 2nd half the year. On the other hand, demand side developments are progressively less encouraging as days go by.

Annual Average Spot Product Tanker Earnings

Earnings on Round Voyage Basis at Market Speed

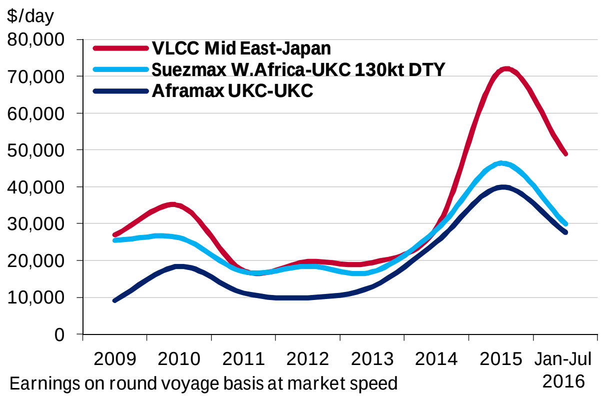


The downward trend was first observed in the product tanker market. Although the year started strongly, spot earnings across all product tanker categories weakened significantly during the 2nd quarter of 2016, reaching in recent weeks their lowest level in two years, close to fixed operating expenses. Apart from growing fleet numbers, the downturn in the market has been driven by the renewed weakness in global refining margins, combined with the elevated land based products stocks. Bulging inventories are limiting short haul trading opportunities in intra-regional North West European and Mediterranean markets, as well as transatlantic arbitrage movements for gasoline to the US Atlantic Coast and for distillates into the European market. Furthermore, long haul trade has been negatively impacted by the decline in West – East arbitrage naphtha movements. Similarly, high stocks in Europe are restricting shipments from the Middle East. Although of late there has been some strength in the LR2 segment, with earnings on the key trade from the Middle East to Japan firming to $21,750/day, nonetheless, the overall state of the product tanker market is weak to very weak.

Trading conditions in the crude tanker market have also deteriorated dramatically over the past couple of months, with spot earnings across all size groups falling in late July to multi-year lows. The seasonal weakness in the crude tanker market has been compounded by ongoing rebalancing in world oil markets, which is starting to drag operational and "forced" floating storage to lower levels. The decline in Nigerian crude production has primarily reduced Suezmax demand but the same also has had negative implications for long haul trade to the East. Across the Atlantic, persistently low oil prices are hurting Venezuela's crude output, with production down by nearly 200,000 b/d in June 2016 versus December 2015. The downward trend could intensify going forward, with well reported financial difficulties the country is facing, which could make it very challenging to prevent further production falls.

Annual Average Spot Crude Tanker Earnings

Earnings on round voyage basis at market speed



Earnings on round voyage basis at market speed

Such a dramatic change of fortunes in the tanker market is clearly a concern. In part, the current weakness is seasonal, particularly in the crude tanker market. As the year progresses, there is likely to be seasonal pick-up in demand. However, the tanker market is also facing structural changes, which are not going away anytime soon. The pace of deliveries is also expected to accelerate, although slippage and delays are likely. It will be interesting to see how the industry fares during the remainder of the year. However, one thing appears to be certain: tanker earnings are unlikely to return to spectacular levels seen back in 2015.

Crude Oil

Middle East

The summer slump continued and VLCC Owners spent the week merely repeating 'last done' bottom hugging markers that return down to mid 'teens' earnings. A very belated late week shopping spree gives a straw of hope that perhaps a small gain maybe engineered next week, but there won't be much ambition behind the potential. Currently rates stand in the low/mid ws 30s to the East, and in the low ws 20s West. Suezmaxes were gently trimmed on earlier positions, but light volumes never noticeably impacted, and there's another wave of tonnage to come ready and willing for the next fixing window. Rates operate at around ws 45 to the East and to ws 25 to the West with little early change forecast. Aframaxes managed to hold ground despite a rather lacklustre market backdrop. Owners should be able to just about hold onto recent average 80,000 by ws 85 levels to Singapore into next week.

West Africa

Grim got even grimmer for sub OPEX Suezmaxes. Just far too many ships for even moderate enquiry to satisfy...and the drip feed of enquiry can't even be termed as that. Rates crumpled further to as low as 130,000 by ws 37.5 to the USGulf, and to under ws 40 also for Europe. This looks set for a re-run next week unfortunately. VLCCs were only occasionally picked off and rates had to yield to AGulf pressure. Under ws 40 now to the Far East, and close to $2 million only for West Coast India.

Mediterranean

Aframaxes were at least just a little busier than of late but the net effect was for only the slightest of rate gains to a top 80,000 by ws 75 cross Med. Perhaps there may be further improvement next week, but the upside looks very limited. Suezmaxes couldn't find any spark. Part cargoes will play a lifesaving role if the Afras do tick higher, but full-stem local interest is needed to counter the West African malaise that prevents emigration.

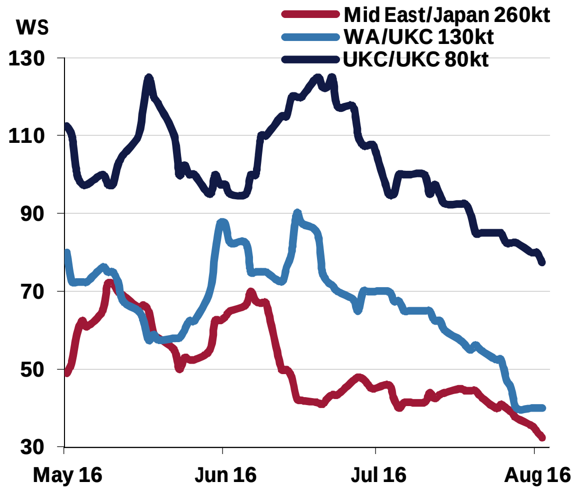
Caribbean

Steady is the best that can be said for Aframaxes ...the rate remains poor at 70,000 by ws 75 upcoast though. Unless weather disruption intervenes, the short term prognosis is for more of the same next week. VLCCs almost gave up waving for attention - very slow, and rate demands lessened to $2.9 million to Singapore, and to $2.1 million to West Coast India...perhaps even lower if pushed. No relief in early sight.

North Sea

As in the Med, a touch more late week Aframax interest that pulled rates just off the bottom to 80,000 by ws 77.5 cross Med and to 100,000 by ws 55 from the Baltic, but a 'recovery' would be a premature description of it. At least some degree of positivity though. VLCC 'arb' economics to the East evaporated with even discounted rate demands of $2.6 million for fuel oil to Singapore not being enough for traders to make work. To be continued in all likelihood.

Crude Tanker Spot Rates



Clean Products

East

This week the LR1s have dominated the action in the AG, with the LR2s ticking over at a firm but flat rate. As predicted last week, the LR1s presented the biggest deals for Charterers at the beginning of the week. It was unsurprising, therefore, that an avalanche of cargoes entered the market. Rates have taken an inevitable hike as tonnage his thinned, and $1.6 million sets the new rate for AG/UKC, and ws 112.5 for naphtha runs. The arrival on fresh tonnage next week is not excessive, and with rumours of late runners and port delays, we may see further firming on rates. The LR2s have seen slightly less action this week. The list of cargoes present at the beginning of the week haven't seen many additions. Owners will be hoping that the new week brings with it new cargoes. Rates have remained flat, with west runs flat at $2.15 million - with the West market in a desperate situation, Owners are bullish with their West rates in order to make sense of the round-voyage economics. Ws 105 has been the rocksteady rate for TC1, and will inevitably continue to do so, if we see an ample supply of fresh stems next week. It has been a fantastically busy week for the MRs within the AG and off WCI. With an abundance of cargoes reaching the market and being taken on subjects, the tonnage list tightened very quickly. The wind was certainly gusting in the sails for the Owners. Rates across the board were unsurprisingly positively tested, AG/UKC sits at $1.3 million and AG/EAfr took a sharp rise and floats around the 35x ws 172.5 mark (although higher was seeN midweek). Shorter voyages also came up in levels and AG/RSea closes the week at $600k and X-AG at the $250k level. Eastern naphtha voyages saw less action, as Charterers decided to move naphtha on the larger sizes. East rates finish the week at ws 102.5. After the midweek madness, the MRs have finished the week slightly less busy. It will be interesting to see how many fresh cargoes emerge on Monday/Tuesday. Many more will put some real wind in the sail of these rates.

Mediterranean

As week 31 draws to an end, the Mediterranean corner shop shelves remain well stacked with Handy tonnage meaning there was no need for rationing throughout the week as Charterers were able to have their slice. With inquiry being continually drip-fed into the market and prompt tonnage in ample supply Charterers were able to keep rates suppressed. Rates for X-Med runs remained flat at 30 x ws 13115 and for ex Black Sea rates remained the same at 30 x ws 125. Heading into next week, expect more the of the same to be on the cards as we push through the slow summer months. MRs plying their trade in the Mediterranean have seen another week of doom and gloom pass. Tonnage has been in ample supply leaving Charterers with a number of options to cover their exposure. As a result freight rates have continued to suffer. Numbers for TA have slipped to 37 x ws 80 and for Red Sea runs basis Sarroch/Jeddah have been pushed down to $525k.

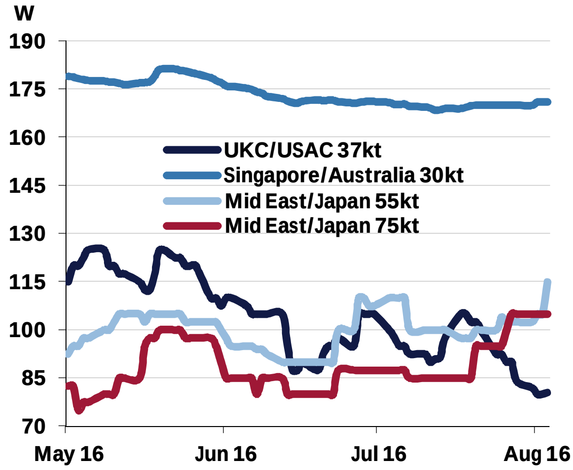
UK Continent

A fairly uneventful week 31 comes to a close with Owners in the Continent ducking for cover as rates have been under pressure throughout. MR owners have seen rates tick down to 37 x ws 80 and then settle here for the duration, with ballast tonnage continually filling gaps in tonnage lists. Looking ahead, tonnage still is available and as ballasters commit to the journey, it seems hard to see where this market will pick up from. Handies reach the bottom of the barrel trading at 30 x ws 110 this week. Despite good levels of tonnage available, we see rates manage to hold out as Charterers keep the pressure on. Opportunities continually present themselves for Charterers to push further and we await to see how well ships hold out in temptation. Flexis similarly to the Handies fall with rates being fixed between the 30 x ws 140-150 mark throughout. Some smaller players in the Owning market take the hit with rates to keep their ships moving, and others dig their heels in for the higher part of the 140s. Expect pressure to continue ahead with little change on the horizon.

LRs

It has been without doubt the quietest week of LR activity in the West so far during 2016, with inquiry grinding to a halt. The LR1s began the week holding the line at 60 x ws 92.5 for ARA/WAF. However, as we conclude the week, rates are now under immense pressure as ballasters from USAC and WAF join the queue on the Continent. It will be interesting to see how aggressive Charterers are when the next opportunity to test levels derives. On the other hand, although inquiry is minimal, the list of LR2s is looking thin in the West and with that rates should remain steady at least. So the question is where can Owners find employment…vessels are either being used for own programme business or by ballasting to the East where prospects are more positive. Fresh tests are required across the majority of routes to determine the true strength of the market. On paper, LR1 rates will go under the Charterers knife next week, but LR2 rates will remain steady or could even improve if fresh cargoes are added to the couple currently outstanding.

Clean Product Tanker Spot Rates



Dirty Products

Handy

In all honesty we don't remember ever having so little to discuss in the continent, cargoes are noticeably low and vessels are queuing up like travellers anxiously waiting for their flight. What has been interesting this week is the fact that Charterers have respected the waving white flag from Owners and not tried to test the market further than it needed to go. We have reached the depth of the market and the only way is up. The big question is, how long will it take for rates to come back up for air....

Owners have been drip fed cargoes in the Mediterranean this week barely making an impact on the position list. Like the continent there is a mutual understanding that things can't go much further and last done is simply quite alright. Looking into next week we expect similar flat trading conditions as the holiday and quiet season continues. There is currently a sense of boredom with little to talk about with Owners and Charterers tired of hearing the same old stories. That said, every now and again there are flashes of interest which causes huge excitement but nothing substantial that will clear the number of units available or change the current market benchmark.

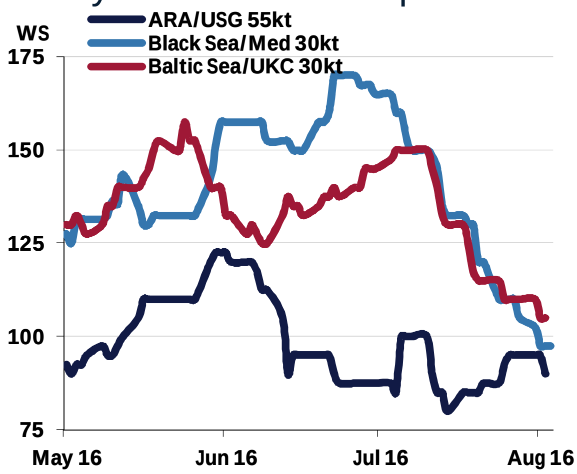
MR

The problem with the continent at the moment, unfortunately for Owners, is the dollar per tonne isn't making sense for traders on this size vessel. That said there is very limited natural available tonnage for Charterers to utilise and despite the soft surrounding markets, this size and region is an anomaly. Owners in the Mediterranean have managed to make the most of difficult circumstances with a number of vessels fixing around the prompt Handies without this business necessarily being full size stems. Again with surrounding markets feeling the squeeze, this size has had to be readjusted accordingly. As the current style of trading is so secretive some Owners will be heading into the weekend feeling slightly 'cheesed off' they were not picked off, but come Monday they will be top of the menu for Charterers.

Panamax

A lack of activity and adverse pressure from surrounding markets have taken their toll on this sector. The previous week finished with a little light flickering at the end of the tunnel promising so much but once again the candle has been blowN out with ws 85 levels being repeated a couple of times from the Med. Looking ahead towards next week we could well see much of the same in the way rates are being traded due to the low daily earnings Owners are achieving.

Dirty Product Tanker Spot Rates



GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 4th	Jul 28th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-4**	33	36	42	38
TD20	Suezmax	WAF-UKC	**-5**	40	45	67	48
TD7	Aframax	N.Sea-UKC	**-4**	78	81	100	89

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

			wk on wk change	Aug 4th	Jul 28th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-3,500**	14,750	18,250	22,000	20,500
TD20	Suezmax	WAF-UKC	**-2,250**	8,500	10,750	21,000	12,250
TD7	Aframax	N.Sea-UKC	**-2,750**	4,750	7,500	21,750	14,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 4th	Jul 28th	Last 7th	FFA Q3
TC1	LR2	AG-Japan	**+1**	105	104	88	
TC2	MR - west	UKC-USAC	**-10**	81	91	92	94
TC5	LR1	AG-Japan	**+9**	112	103	102	108
TC7	MR - east	Singapore-EC Aus	**+1**	172	171	170	

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

			wk on wk change	Aug 4th	Jul 28th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+500**	21,750	21,250	14,250	
TC2	MR - west	UKC-USAC	**-1,750**	5,750	7,500	7,000	8,250
TC5	LR1	AG-Japan	**+2,250**	16,250	14,000	12,500	15,750
TC7	MR - east	Singapore-EC Aus	**+3,250**	17,750	14,500	13,500	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**-5**	215	220	244
ClearView Bunker Price (Fujairah 380 HSFO)	**-6**	221	227	265
ClearView Bunker Price (Singapore 380 HSFO)	**-3**	220	223	256
ClearView Bunker Price (Rotterdam 0.1% LSFO)	**-10**	360	370	423

GIBSON SHIPBROKERS

www.gibson.co.uk

London
Audrey House
16-20 Ely Place
London EC1N 6SN

T +44 (0) 20 7667 1234
F +44 (0) 20 7430 1253
E research@eagibson.co.uk

Hong Kong
Room 1404, 14/f,
Allied Kajima Building
No. 138 Gloucester Road
Wan Chai, Hong Kong

T (852) 2511 8919
F (852) 2511 8910

Singapore
8 Eu Tong Sen Street
12-89 The Central
Singapore 059818

T (65) 6590 0220
F (65) 6222 2705

Houston
770 South Post Oak Lane
Suite 610, Houston
TX77056 United States