WS100 to Fall Again

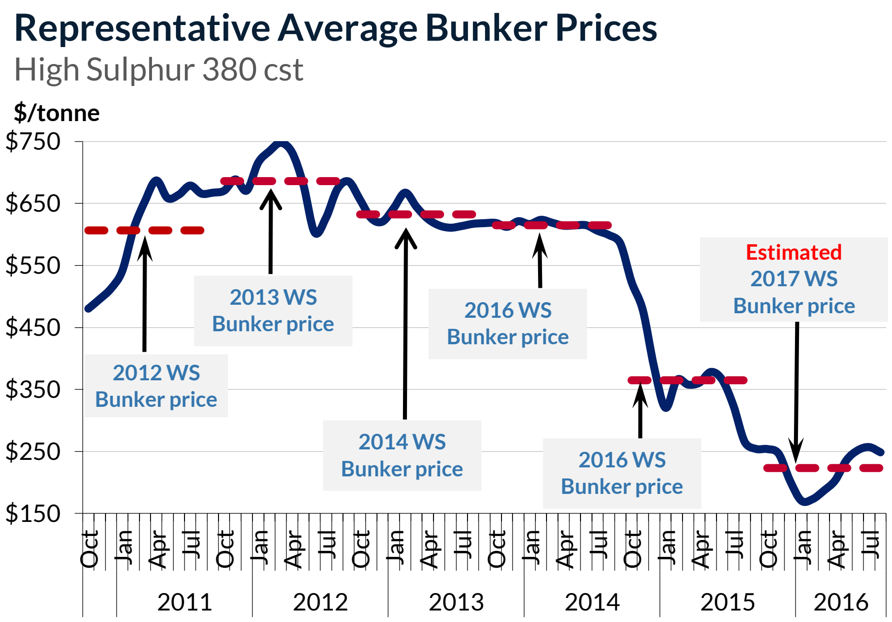
Weekly Tanker Market Report

The concept of Worldscale is not an easy principle to grasp, particularly for those outside the tanker industry. The task gets even more complicated as Worldscale flat rates are reset at the start of each year due to fluctuations in international bunker prices, exchange rates and port costs.

On long haul routes, bunkers form the most significant component of all voyage costs and as such, major fluctuations in bunker prices could lead to a sizable change in WS flat rates (WS100). The picture is somewhat different for the short haul voyages. The shorter the distance, the less important the volatility in oil and bunker prices is; equally, this also means increased significance of changes in exchange rates. One of the most extreme examples of that is the benchmark Aframax trade from Sullom Voe to Wilhelmshaven (TD7). On this very short haul route port expenses account for approximately 75% of total voyage expenditure

OPEC's current strategy to defend and build on its market share has led to extreme volatility in oil and bunker prices in recent years. The decline commenced in summer 2014, with international bunker prices at the time averaging around $615/tonne for high sulphur fuel. In the 2nd half of 2014 bunker values crashed, stabilizing around $325/ton to $375/tonne range in January to July 2015. This weakness in prices was primarily driven by surplus crude oil production over demand and was reflected in 2016 flat rates, with WS100 on long haul routes in non ECA areas falling by around 27-28%.

The downward trend in oil and bunker prices resumed during the last few months of 2015, with values for high sulphur fuel falling to multi-year lows in January/February 2016 to around $170-175/tonne. Thereafter, prices started to move up being supported by incremental growth in oil demand, declining US crude oil production and supply disruptions elsewhere; however, increases have been fairly modest due to gains in Iranian crude oil production and exports. To put this into perspective, prices now are close to levels seen in August last year but still notably below the average level seen during the 1st half of 2015.



The weakness in oil and bunker prices observed over the past 11 months relative to the previous year will be reflected in 2017 Worldscale flat rates. The bunker component that goes into the flat rate formula is based on prices between October 2015 and September 2016. As such, we already have nearly all the data that will go into the 2017 calculations. Taking into account the actual bunker assessments since October 2015 and the latest bunker forward curve, international bunker prices (that will be used to set 2017 Worldscale flat rates) are expected to be around 40% lower compared to the corresponding period a year earlier. This suggests that WS100 in 2017 will fall by around 21-24% on long haul routes and by 10-15% on short haul trades.

Crude Oil

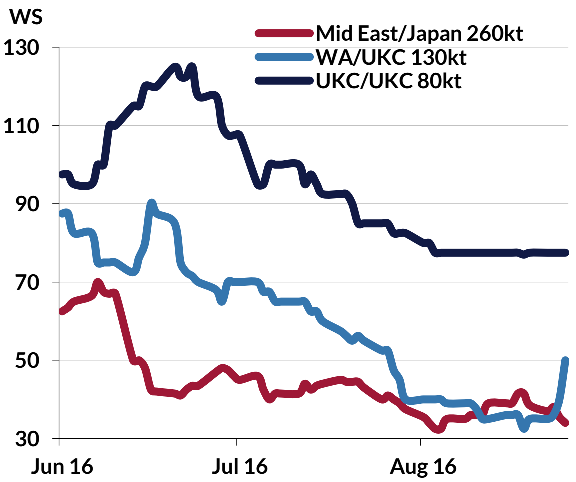
Middle East

VLCC Owners struggled through the week to maintain the top end of the recent rate-range, and although volumes were reasonable, supply was always easily sufficient to act as a drag anchor. Rates end at little better than ws 35 to the East and ws 25 to the West and no good reason to call for any meaningful change over the near term. Suezmaxes moved through a busier phase with previously flagged extra Basrah barrels the lead interest. Rates pushed to ws 40 West and to ws 60 to the East - nothing spectacular, but welcome relief for Owners nonetheless. Aframaxes lost even more steam and limped into the weekend at little better than 80,000 by ws 70 to Singapore and a flat prognosis for next week too.

West Africa

A period of sustained Suezmax bargain hunting eventually brought earlier positions into a finer balance and rates bobbed up from their recent absolute bottom markers to around 130,000 by ws 45 to the US Gulf, and towards ws 50 to Europe. A slower close to the week and the UK holiday on Monday will compromise any momentum somewhat, and Owners will probably become more defensive rather than offensive, over the next fixing phase. Only occasional VLCC fixing and pressure to show lower rates was ever present. Ws 40 to the Far East is the new 'conference' level with down to $2.12 million paid for a run to West Coast India on heavy competition. No positives for Owners unless the AGulf makes an unexpected turnaround.

Crude Tanker Spot Rates



Mediterranean

Every day the same low rate band for Aframaxes - ws 62.5/67.5 cross Med and volumes will need to find a higher gear to ease Owners up to a higher bracket. Suezmaxes found a finer balance than of late and that helped raise rates a touch to 140,000 by ws 50 from the Black Sea to European destinations with runs to China largely theoretical but unlikely to yield more than $2.5 million.

Caribbean

Aframaxes started slowly, but interest quickly picked up, and Owners staged a modest break-out towards 70,000 by ws 100 upcoast. Consistency of demand is lacking though, and Owners will do well to maintain the gain into next week. VLCCs were cherry-picked up to early October positions at rates at, or close to, $2 million to West Coast India and $2.5 million to Singapore with little early upside likely.

North Sea

As in the Med, very little rate variant on show for only modestly courted Aframaxes. 80,000 by ws 77.5 cross UK Continent, and 100,000 to ws 45 from the Baltic are fairly reflective and the long weekend will serve to prevent any early momentum building for next week. VLCCs were occasionally placed 'on subjects' for the keener fuel oil traders to try their hand on Rotterdam/Singapore runs, but even at down to sub $2.5 million it was hard to confirm. Crude oil was even less on show, but $3.5 million was reported for a movement from Hound Point to China.

Clean Products

East

An incredibly disappointing week for Owners of MRs in the AG. Those with ppt ships have had little joy - they seem to have 'missed' their natural fixing window, and saw little love as a result. Those with later arriving ships saw enough cargoes to keep them moving, but the constant pressure of a heavy ppt tonnage list inevitably forced rates downwards. AG/UKC has come off, moving swiftly towards the $1.1 million level. It would make no sense to drop further than this benchmark, with LR2s now pushing up to the $2.2 million level, and the option of splitting stems coming as a more inspired option for Charterers. AG/Red Sea has also taken a hit - $400k on subs currently, and potentially more stripping next week. Shorthaul lies at the $165k level, but again, Charterers are afforded ample choice of ppt tonnage to further sharpen this number. Naphtha runs have been the only route not to come under pressure, and have sat anchored at the ws 105 level. More cargoes are needed to clear out ppt tonnage before any glimmer of hope can be seen through the mass of competing tonnage.

Another busy week on the larger ships - both on the 1s and the 2s. The 1s were due a slightly quieter week, after the volume of action seen in week 33, but were given an unexpected boost by four tc5 cargoes entering the market at once. All were snapped up at the ws 104 level, a slight discount given in order to secure business. West runs have seen a slight dip to the $1.5 million for Sikka/UKC, repeated twice now. With a lot of cargoes still in the market, the 1s are looking fairly healthy going into the new week. The 2s have seen a lot of action this week, being the chosen size to shift naphtha east. Some charterers have pushed to fix at Platts rate, but haven't necessarily achieved it - ws 102.5 is where the market finishes the week. West runs have moved slowly up to the $2.2 million barrier, but will be capped there by the underperforming MR market. Cargoes seem to have run out for now, but Owners are optimistic that this week has be the pre-ample to a busy period for the 2s.

Mediterranean

As we see the Mediterranean market coming to a close for the Week, the pressure of ample tonnage has taken its toll, with rates gently sliding. With cross med runs peaking at the dizzying heights of 30x115, Charterers have managed to turn the screw gently and we see ws 110 being the number for now. A small handful of Israel runs have spiced up market rates but looking ahead the horizon is very placid and we can expect similar ahead. Black Sea runs continue to take their small premium, trading at 30x120. As with Med runs, little optimist can be seen ahead for the time being.

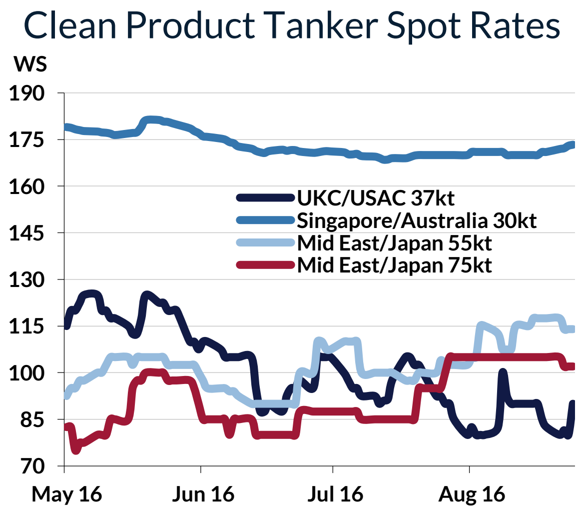
MR activity has been limited in the Southern sector with a light dusting of TA inquiry shown. Rates traded level against TC2 runs, and with this market picking up in the Continent, the possibility of ballasters grows. Runs to the Red Sea have been few and far between and we see the market settle at $575k for Jizan and $525 Jeddah.

UK Continent

Week 34 sees some respite for the MR Owners as the anticipation of a long weekend in the UK coincides with the end of the month meaning enquiry ramped up as the week progressed. As Charterers were faced with a shrinking tonnage list rates steadily rose with Owners now talking 15 points above where we started the week for 37 x 95. West Africa enquiry seems to have picked up this week and, with the activity seen on TC2 runs, West Africa rates have firmed up to 37 x 110. Baltic rates have inevitably tracked the busier market, although Baltic/UKC enquiry is still somewhat light. With a handful of cargoes left to fix going into next week, rates look set to stay firm provided the tonnage list doesn't grow too much, and, with the switch to winter grade gasoline the market looks set to be supported by good levels of enquiry as space is made in storage.

Activity on the Handies gradually slowed as the week progressed, with noticeably fewer fresh cargoes being quoted than last week. Despite this, rates have managed to hold for the most part at 30 x 107.5, although this rate has potential to soften unless activity picks up.

Finally to the Flexis, where low levels of market inquiry have kept this sector very subdued. COA movements have created some demand, but limited options have meant levels have also been under pressure. 22 x 140 was the market until a fresh spot cargo appeared late in the week which saw a number of offers and 30 x 135 was put on subjects. Looking ahead, expect rates to continue to hug the bottom of the floor.



Dirty Products

Handy

A shift in trend saw the market gaining 10 ws points week on week, where a tightened position list and steady requirement saw Owner confidence build between deals. As positivity has been lacking in recent weeks, this increment marks a real turn of events as we move off from market floors.

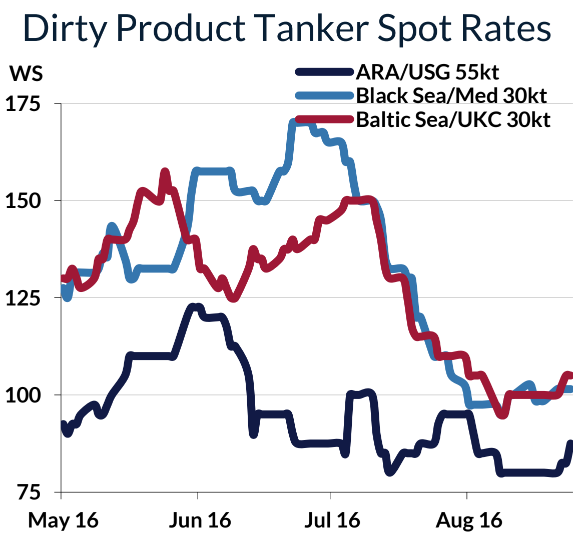
In the Med sentiment also appears to have taken a turn, driven by late running vessels and slow port turnarounds, with logistical challenges playing into Owner's hands. Increment being seen here too, Charterers face a battle going into next week in calming Owner’s aspiration. Early September dates do look firmer, but there is a question mark as to whether this will carry forward.

MR

Although strength on its own merit is still lacking, the MRs this week (Med and Cont alike) have been bolstered by a Handy market rising in value. Benefitting from this, the overhang of availability has been alleviated which tends to bode well in order for the next steps of recovery to follow. For now rates continue to trade at rock bottom levels, but if surrounding markets continue to perform, then sooner or later MRs will begin to show good value.

Panamax

Here too we see increment week on week as the markets Stateside saw a run on prompt date fixing, creating a shortage of tonnage able to meet early September laycans. Those who had started to ballast, or who sat naturally over here have manage to benefit where numbers touched ws 85 levels. This said, Charterers do find relief through a soft Aframax sector, and where Owner aspiration rose excessively, Panamax requirement has been lost to surrounding markets offering a better $/MT.



GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 25th	Aug 11th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-2**	35	37	44	38
TD20	Suezmax	WAF-UKC	**+11**	47	35	56	43
TD7	Aframax	N.Sea-UKC	**+1**	79	78	85	82

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

			wk on wk change	Aug 25th	Aug 11th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-2,750**	15,000	17,750	25,250	17,500
TD20	Suezmax	WAF-UKC	**+4,500**	10,500	6,000	15,500	8,750
TD7	Aframax	N.Sea-UKC	**-750**	3,750	4,500	10,000	6,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 25th	Aug 11th	Last 7th	FFA Q3
TC1	LR2	AG-Japan	**-2**	102	104	95	
TC2	MR - west	UKC-USAC	**-8**	85	93	103	89
TC5	LR1	AG-Japan	**+4**	111	108	98	107
TC7	MR - east	Singapore-EC Aus	**+3**	173	170	170	

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

			wk on wk change	Aug 25th	Aug 11th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-1,750**	19,250	21,000	16,000	
TC2	MR - west	UKC-USAC	**-2,250**	5,750	8,000	9,250	6,500
TC5	LR1	AG-Japan	**+0**	15,000	15,000	12,250	14,000
TC7	MR - east	Singapore-EC Aus	**-750**	13,750	14,500	14,000	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**+20**	236	216	233
ClearView Bunker Price (Fujairah 380 HSFO)	**+30**	256	226	248
ClearView Bunker Price (Singapore 380 HSFO)	**+34**	255	221	242
ClearView Bunker Price (Rotterdam 0.1% LSFO)	**+47**	413	366	398

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