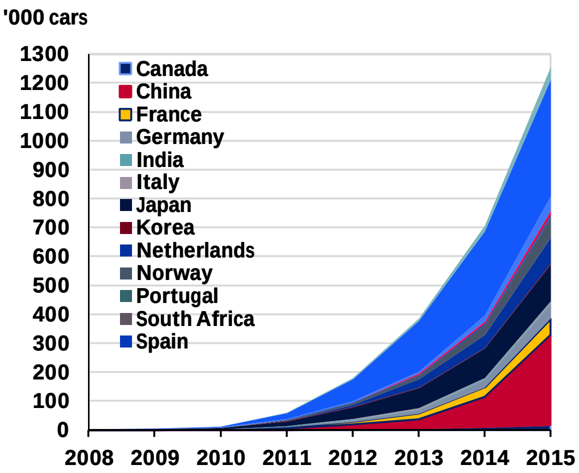
Electrifying Demand
Weekly Tanker Market Report

Twenty years, the investment timeline to consider when ordering a new tanker, is a long time in any industry, not least in the rapidly evolving energy markets and the drive for cleaner fuels. Whilst, the collapse in oil prices in recent years may have taken the shine off many cleaner sources of energy (at least from a cost perspective) other pressures, mainly environmental, are likely to continue to influence energy consumption. In our industry, changes to bunker specifications will influence the type of fuels consumed, whilst more economical designs will see the average fuel consumed per ship fall. The same is true across many sectors, not least automotive where continuous gains in battery technology is seeing electric cars becoming increasingly feasible. The impact of these developments may not be felt over the next 5 years, perhaps even longer. However, if you were to order a tanker today for delivery in 2019 with a 20 year trading life, it would not be inconceivable to feel some impact from hydrocarbon alternatives later on in a vessels life.

Forecasting 25 years forward is problematic, with changing fundamentals, unforeseen events, political shifts and technological advances all having a profound impact. Some sectors are expected to see continued growth over the next 25 years (e.g. chemicals); whereas, some transportation fuels, in particular for the automotive sector, could be threatened by 2040 as electric and hybrid vehicles grow in popularity.

No. of Electric Cars



Estimates for passenger vehicle consumption are hard to substantiate, but range between 18-25 million b/d of oil demand. With less than 1.2 million electric vehicles on the road last year, demand has been largely unaffected. However, a further 850,000 electric cars are expected to be delivered this year. Much of this growth has been driven by subsidies, however many governments, including China, have signaled that subsidies will be scaled back over the coming years, particularly as the number of electric cars being delivered increases. The growth rate in percentage terms may therefore slow down; however, as battery technology improves and production facilities are scaled up, falling costs will continue to make electric vehicles more appealing to consumers, particularly once pricing parity with conventional cars is achieved.

The question therefore comes down to when the tanker market will start to feel the impact. Bloomberg New Energy Finance predicts that by 2040, 35% of new car sales will be electric, displacing 13 million b/d in oil demand. Some have argued it's too aggressive, others not aggressive enough and could be accelerated with just a few technological breakthroughs. In the shorter term, Bloomberg predicts that somewhere between 2023 and 2028, the growth in electric vehicles will displace 2 million b/d of oil demand. However, such forecasts are incredibly sensitive to numerous factors, including political pressures, consumer trends, technological advancement and economic developments. In contrast, the IEA's 2015 World Energy Outlook forecasts that whilst gasoline demand growth might stall by 2030, overall oil demand for transportation fuels (in particular jet fuel which lacks a viable alternative) and petrochemicals would grow by 16 million b/d by 2040, largely offsetting declines elsewhere.

So are electric cars a threat to a 20-year tanker investment timeline? It remains hard to say; however, it seems almost certain that eventually electric cars are likely to become disruptive forces in the oil markets, although many challenges need to be overcome first.

Crude Oil

Middle East

With a continued steady flow of VLCC enquiry throughout the week Owners would have hoped to be in a far stronger position than where they currently are, but they have been hampered by a large number of ships that are either ex dry-dock or new buildings that were always going to be that little bit more competitive. Current levels to the East stand at 270,000mt x ws 33.5 and West levels remain around 280,000mt x ws 24 if combined with other discharge options. After the punchy highs seen for Basrah heavy cargoes the Suezmax market has settled in the mid ws 30's for West for non-premium business. The market remains balanced although flat looking into next week. In light of the previous few months' inactivity the last week has been relatively busy in the East Aframax market. Unfortunately for Owners an abundance of prompt tonnage in the Singapore area, leading to an influx of ballasters to the AG, has seen Charterers able to pick vessels off at will and rates have continued to tumble, with new lows being set daily which currenly stands at around 80,000mt x ws 60 for both TD8 and TD14 runs. With Appec commencing in Singapore we would expect fixtures to continue to take place under the radar and it is very hard to foresee any kind of turnaround in the immediate future.

West Africa

Inevitably we saw VLCC Owners concede a little ground here as rates in the Middle East stayed flat. Returns remain unattractive to convince any ballasters from the US Gulf region but with a build up of prompt tonnage opening on the Continent, Charterers were able to source competitive levels not just from the Eastern ballaster with last done levels of 260,000mt x ws 37.5 concluded. Suezmaxes didn't see similar gains to last week although sentiment is up and it looks like we may see the next Europe run nearing 130,000mt X ws 50 after a busy week off the back of minimal VLCC fixing within the Sep 11-20 window.

Mediterranean

Suezmaxes remain flat and we continue to see 140,000mt x ws 50 repeated for Black Sea to Europe. There is still a slight overhang of tonnage to keep the pressure on although with steady activity and a busier West Africa market, Owners may claw a few more points back next week. Aframax activity in the Med and Black Sea markets has continued into this week. Available tonnage has dwindled further and some Owners are finally drawing a line in the sand. Sadly for those, there do seem to still be some ships which are willing to fix at last-done to keep moving. Consequently sentiment has not been an echo of Aframaxes in the North Sea and Caribbean where significant gains have been made, but there is a much firmer footing and a more solid base on which to build. For the moment though if activity persists as with recent volumes then the call is a sideways one on this side of the weekend; vanilla cross Med voyages are paying mid ws 60s and the same should be there for average Black Sea to Med runs, with shorter ones paying slight premiums.

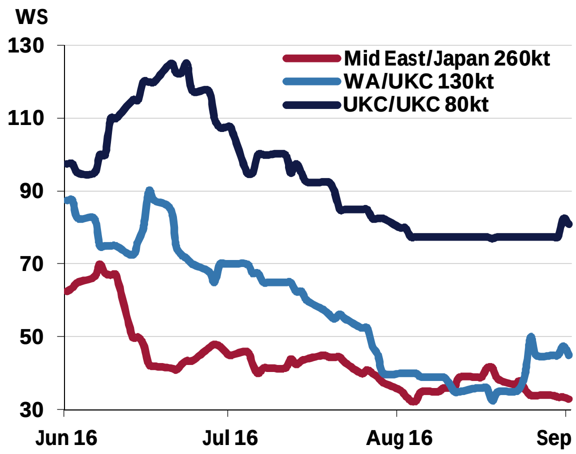
Caribbean

Aframax Owners remain poised here to benefit from some expected weather delays as hurricane Hermine hits the Florida coast. Charterers may well try and beat the rush and cover sooner rather than later although this will just add further fuel to the fire. Last done was 70,000mt x ws 97.5. VLCC interest kept to a minimum over the week as Charterers slowly start to cover their early October positions, Owners will hope to see some strengthening in other areas to push up sentiment here, but as it stands now levels remain to Singapore at around $2.5 million and $2.0 million to West Coast India.

North Sea

North Sea and Baltic Afras had been threatening to firm back end of last week. The long weekend did nothing to disuade sentiment and on opening, the market picked up some 5 to 7.5 ws points. On the back of the Baltic firming cross North Sea also picked up rising from ws 77.5 to ws 82.5/85. Now with the initial bottleneck passed, the market has settled but more cargo is expected next week. Especially when you consider the restriction in force at Primorsk at the moment whilst maintanence is underway. VLCC interest picked up with some early September positions taking the majority of open candidates. Fixing levels remain in the region of $2.2/2.3million for NHFO from Rotterdam to Singapore.

Crude Tanker Spot Rates



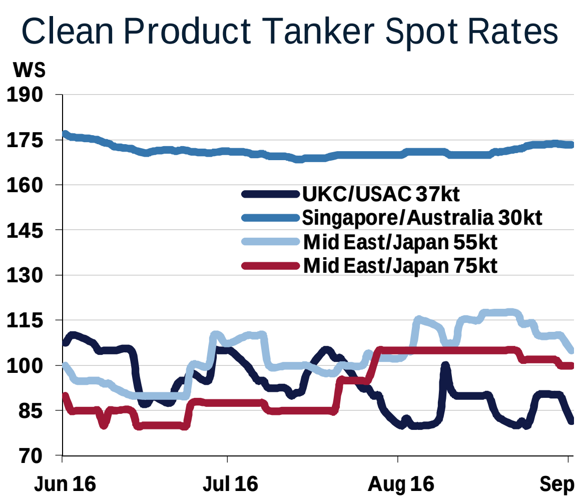
Clean Products

East

A slightly lack lustre performance from the larger sized ships this week in the AG. The LR2s came off the back of a busy couple of weeks, and Owners were fully optimistic that yet more cargoes were imminent. Unfortunately, these have not materialised in significant scale. Those cargoes that have emerged have been either ULSD or jet, and therefore the larger-cubed ships have had the opportunity to secure business. The number of ballasters returning from the West has created distinct competition for these West stems, and rates have therefore softened throughout the week. AG/UKC finishes the week at 2.025 million, but there is every indication that this will soften further in the new week, given the number of offers in for cargoes. TC1 will also face considerable downward pressure, when we do start seeing cargoes quoted off end month dates.
The LR1s have been relatively busy, but have also trailed off towards the back end of the week. The LR1s have been the chosen size to move naphtha East, but a couple of late replacements and unexpected prompt openers dragged down the TC5 rate, which finishes the week at ws 105. West runs have seen considerable softening as well, and a rumoured $1.4 million on subjects now for Sikka/UKC. Cargoes are down to just a few outstanding, and Owners are ever-conscious now that if they do not take the lower rate, then one of their competitors inevitably will. With Appec now underway, they are likely in for a rocky ride next week as well. The MRs have had a troublesome week, starting with a large number of prompt vessels it was always going to struggle to get traction until the list balanced out. As a result we saw rates soften, and soften with haste they did. With AG/UKC voyages at $1.05 million and $950k for last vegs the weaker rates took their grasp. AG/EAfr has also come off during the week and closes at 35x ws 122.5. Shorter voyage followed suit and AG/RSea trades at $400k and with X-AG at the $165k level. Eastern naphtha voyages were also affected by this negative sentiment and finish at 35 x ws 97.5 mark. It's not all doom and gloom for the MRs though, as the Owners have fought their way through a soft market the list closes the week looking much better than it did at the start. There remain a number of outstanding cargoes which will certainly help tighten the list as and when they get covered, however, with Appec getting into full swing there is a possibility that it could be a slow start to next week.

Mediterranean

Week 35 has proven to be another week of doom and gloom for Handy Owners plying their trade in the Mediterranean. With only 4 trading days here in the UK due to Bank Holiday weekend , ships were given another day to firm up itineraries and when fresh tonnage lists were drawn on Tuesday around 13 prompt ships were sitting in the Mediterranean seeking employment. Rates started at 30 x ws 110 for X-Med voyages , but come Wednesday a fresh quote entered the market, which attracted huge interest from several different parties and a new low of 30 x ws 107.5 was achieved. Off the back of this the downward pressure was applied by Charterers and some even managed to achieve 30 x ws 105. Black Sea liftings have been few and far between but have managed to maintain their sideways feel of 30 x ws 117.5-120. Looking ahead, until the volumes increase enough to cater for the amount of prompt units kicking around in the Med, expect rates to remain on the floor. Just like in the Continent , MRs have also struggled to get going this week with new market lows being set across the board. Transatlantic runs have slipped down to 37 x ws 80 (37 x ws 100 for Brazil discharge) and runs to the Red Sea have been pushed down to $500k for Jeddah/$550k for Gizan ex Sarroch load.



UK Continent

The week started on a positive note for the MRs on the back of the activity seen the week before, however the extra day on the weekend allowed tonnage to build so that by the time the market saw any action, Charters had their pick of the tonnage and rate inevitably softened back to 37 x ws 80 on TC2 fairly quickly. WAF has been light throughout the week which has been another factor in keeping tonnage up on the Continent. Baltic/Cont. Runs have offered little in the way of excitement for Owners and continue to be flat whilst the Argentina enquiry heard mid-week has seemingly gone rather quiet, much to Owner's dismay. Next week looks to continue at the same pace. Handies have had a lacklustre week with little to swing the market, rates have been maintained at 30 x ws 105 for the duration although this could come under some pressure going into next week as tonnage is well supplied going into the weekend. A couple of Transatlantic runs have been seen this week but not at volumes that will significantly impact the amount of tonnage available in NWE. Refinery maintenance in the region leaves a potentially bleak outlook for the remainder of September. A quiet week for the Flexis see most activity tied up under COA liftings meaning the spot market has been largely depressed (as has been the case in recent weeks). Despite the inactivity, rates appear to be insulated from wider market forces still hovering around the 22 x ws 140 mark despite the writing on the wall suggesting this could be less. Next week could mark the impending downturn as maintenance in Primorsk leaves only 2 Flexi liftings for the remainder of the month leaving favour in the Charterers hands.

LRs

The shortened week in London has done little to stimulate a quiet LR market in the West. LR1s began the week trading at 60 x ws 82.5 for ARA/WAF, with potential for rates to creep up if fresh enquiry entered the frame. However, just a handful of vessels have found employment. Subsequently, as we roll towards week 36, LR1 rates are beginning to come under pressure again as tonnage options rebuild. This downward pressure on rates is highlighted with latest reports of an LR1 on subjects at 60 x ws 80 for an ARA/WAF run.

LR2s have once again been limited to just the odd cargo loading out of the West. With a number of vessels opening on the Continent, one Charterer reportedly booked a large cubed LR2 for a Mongstad/Singapore run at just $1.45 million. Most vessels however are ballasting East, attempting to pick up business where they can. Those ballasters are competing heavily for West cargoes when they pass Suez, and we have seen rates soften slightly. Last done for a West run was $1.975 million ex-WCI, and there is every sign that downward pressure will intensify on rates loading East of Suez, both on the 1s and the 2s.

Dirty Products

Handy

Akin to domed shape blancmange, the Continent this week had a very wobbly feel to it starting at ws 105 and climbing to ws 112.5, (which in this case would represent the cherry) and on the other side, finishing the week coming back to ws 105, as signalled by a few Owners prompt facing the prospect of having to discount. Alas however, unlike our beloved British dessert, extra time spent in the fridge will only harm this market, ruining Charterers appetites for paying recent levels. The fate of the Med sounded alarm bells from the off this week as they realised that once the date sensitivity that lead to market increment had passed, numbers would be there for testing. Come Friday however it would appear that we are still sat awaiting the results as activity bypasses this sector. Furthermore, such conditions only play into Charterers hands where come Monday tonnage selection is likely to build.

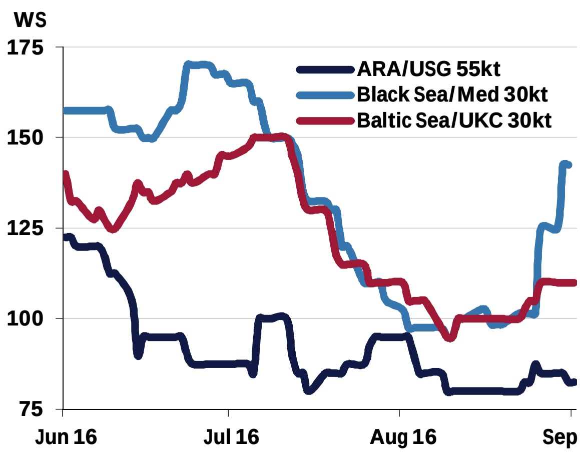
MR

Unfortunately for the author there is very little to write about for 45kt stems in the Continent with only smaller stems to keep Owners busy. Occasionally Charterers have explored this size but once again the lists have only been kept from stagnation through short haul employment. In a short term outlook, Charterers can expect to find value in this sector, which does therefore come as a surprise that there hasn't been more players looking to take advantage. In the Med, the lack of naturally placed tonnage does not help stir enquiry admittedly, but one thing is for sure, with the number of West Mediterranean positioned MR's, this has left Charterers spoilt for choice. Numbers therefore have remained suppressed, with few green shoots of recovery evident on the horizon for now.

Panamax

This week has continued the theme of steady activity with a mix of prompt and ballasting tonnage continuing to find employment this side of the Atlantic. The shortage of naturally placed tonnage in NWE and Mediterranean regions has pushed Owners in finding some traction as deal by deal steadily gains have been seen on last done levels. This said, with the Aframaxes trading in the doldrums, Panamax Owner aspiration has been capped where the larger units continue to provide a much more competitive $/MT and may continue to keep a lid on gains in the near future.

Dirty Product Tanker Spot Rates



GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Sept 1st	Aug 25th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-2**	33	35	33	45
TD20	Suezmax	WAF-UKC	**-1**	46	47	40	55
TD7	Aframax	N.Sea-UKC	**+4**	82	79	78	96

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

			wk on wk change	Sept 1st	Aug 25th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-2,250**	12,750	15,000	14,750	25,750
TD20	Suezmax	WAF-UKC	**-250**	10,250	10,500	8,500	15,000
TD7	Aframax	N.Sea-UKC	**+3,500**	7,250	3,750	4,750	19,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Sept 1st	Aug 25th	Last 7th	FFA Q3
TC1	LR2	AG-Japan	**-2**	100	102	105	
TC2	MR - west	UKC-USAC	**-4**	82	85	81	98
TC5	LR1	AG-Japan	**-4**	107	111	112	98
TC7	MR - east	Singapore-EC Aus	**+0**	173	173	172	

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

			wk on wk change	Sept 1st	Aug 25th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-500**	18,750	19,250	21,750	
TC2	MR - west	UKC-USAC	**-500**	5,250	5,750	5,750	8,250
TC5	LR1	AG-Japan	**-1,000**	14,000	15,000	16,250	11,750
TC7	MR - east	Singapore-EC Aus	**+250**	14,000	13,750	17,750	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**+4**	240	236	215
ClearView Bunker Price (Fujairah 380 HSFO)	**+0**	256	256	221
ClearView Bunker Price (Singapore 380 HSFO)	**-3**	252	255	220
ClearView Bunker Price (Rotterdam 0.1% LSFO)	**-1**	412	413	360

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