No pain no gain

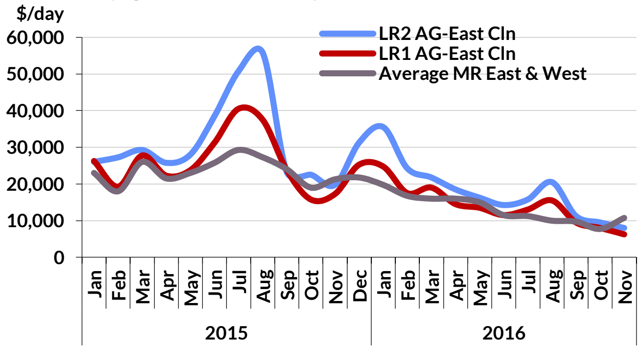
Weekly Tanker Market Report

It's safe to say 2016 has been a challenging year for product tanker owners. 2015 benefited from new refineries firing up in the Middle East, strong margins boosting refinery runs and exports, frequent arbitrage opportunities, manageable fleet growth, and at times, the added volatility from refinery outages and weather delays.

2016 saw a substantial turnaround. Fleet growth accelerated, new export orientated capacity additions almost ground to a halt, demand growth eased back, and refiners implemented heavy maintenance programmes (many deferred from 2015). Not least, global product stocks have remained a barrier to trade. With all regions high on stocks, pricing differentials, and hence arbitrage opportunities have been limited; even with some major infrastructure issues in the US. Newbuild crude tankers have regularly 'eaten into' product tanker market share by loading clean barrels on their maiden voyages. Additionally, higher exports from China have competed with seaborne barrels from the Middle East and the West, supporting smaller tankers in the region disproportionately to the global picture.

Average Clean Tanker Earnings

Round voyage basis at market speed



With 2016 effectively behind us, the focus now shifts to what we can expect for 2017. With some certainty we know deliveries across the tanker market will remain at elevated levels. In terms of scheduled deliveries, we expect 76 vessels in the LR2/Aframax class, 28 in the LR1 class and 75 in the MR/Handy sector. It's also important not to ignore the 69 Suezmaxes, which could compete for gasoil barrels, perhaps even the odd VLCC out of the 51 to be delivered next year. Some delays will of course take place, however, with such a large orderbook deliveries will remain substantial, even with some slippage.

Whilst fleet expansion may seem relatively clear cut, it is the demand side where the degree of uncertainty is much higher. Whilst we know that there will be limited support from expanding export refining capacity in 2017, the main issue to resolve in the short term is the stock levels. Overall, product inventories appear to be falling, however the picture is not clear cut. In the US, clean product stocks, particularly in the key Atlantic Coast region have generally trended upwards following the restart of the Colonial pipeline and sit close to record highs. Stocks in Europe have trended downwards following heavy maintenance and lower seaborne imports, notably from the US and Middle East; yet we could see this trend reverse as refiners exit maintenance and flows from the East pick up. In Asia, stocks in Singapore have come off their summer highs but could once again edge higher following stronger flows from the West and Middle East. Nevertheless, stock levels should start to ease over the course of 2017 as rising demand, slower growth in refining capacity and weaker margins lead to draw downs. However much of this 'rebalancing' depends on the action of OPEC and its allies. If meaningful cuts are made and sustained for long enough, oil and product prices could move into backwardation, supporting drawdowns, whilst rising crude prices could weaken refining margins, prompting run cuts in some of the less competitive regions, principally Europe. Initially drawing down stocks might be painful for owners if these barrels compete with imports. However, such action is a necessary evil that must be completed for the market to find a sustainable footing once again, where global product imbalances drive tonne mile demand forward.

We do however have to be mindful that many analysts expected the market to rebalance over 2016, which proved premature. Could the collective action by OPEC and its allies fall apart? Would this prompt a renewed fight for market share, higher refining margins, higher runs, a stronger contango and rising stocks? It remains to be seen but the risk has to be factored into any decision.

Crude Oil

Middle East

A more cautious week from VLCC Charterers as December needs became closed out and January confirmations awaited. Despite that, Owners maintained, and slightly built upon, their previously solid position so that rates held at up to ws 87.5 to the East and into the low ws 50's now to the West. Upcoming holidays will compact the next fixing window into a shorter time-frame, and busier times are forecast. Owners will be alert to securing another step higher if Charterers do indeed come shopping in concentrated numbers. Suezmaxes started slowly, but once West Africa sparked, ballasting away became attractive and a finer balance then moved rates higher to close to ws 100 East, and ws 60 to the West with big premiums still payable for Iran liftings.

West Africa

Suezmaxes took increasing heart as Charterers started to chase even harder. Rate demands popped towards ws 120 to Europe, and ws 115 to the US Gulf accordingly, and the game still has some way to run. VLCCs maintained a solid front on steady interest with rates operating all week within a ws 80/85 bracket to the Far East and at $5.0/5.2 million to East Coast India, and will be at least in the same zone next week - or higher if the AGulf really takes off. Aframaxes failed to maintain last week's upward momentum and had to accept some re-settling. Rates eased to 80,000 by ws 115 to Singapore, but further damage should be limited over the near term.

Mediterranean

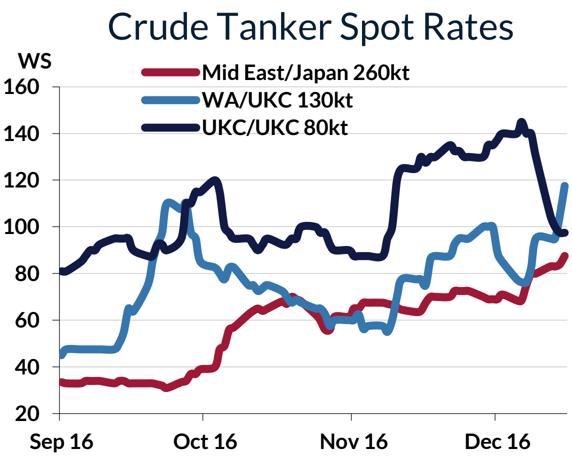
Groundhog day -days - for Aframaxes here as delays reduced, along with general activity. Rates bumped to 80,000 by ws 112.5 Cross Med and may slip a little lower before stabilising. Suezmaxes, on the other hand, heard the drums beating in West Africa, and were then kept busier by the introduction of the new Black Sea programme. Owners pushed the rate ceiling higher to 140,000 by ws 120 for European destinations, and are probably not 'done' yet.

Caribbean

Aframaxes had already turned the corner but Owners' upward attempts remained rather modest and rates could only tickle 70,000 by ws 110 upcoast by the week's end. Maybe another attempt for next week VLCCs, that had been very slow, began to see more, and then grew legs to force rates up to $5.3 million+ to Singapore, and to $4.4 million to West Coast India with consolidation, at least, now likely.

North Sea

As in the Med, Aframaxes moved through a weaker phase with only minimal fresh interest steadily working against Owners' sentiment. Rates fell off to 80,000 by ws 92.5 Cross UK Cont, and to 100,000 by ws 95 from the Baltic too. Similar values will hold into early next week. VLCCs found the odd partner and rates were positively influenced by what was happening elsewhere. Around $4.7 million asked for fuel oil from Rotterdam to Singapore, and $5.8 million for crude oil from Hound Point to South Korea.


Crude Tanker Spot Rates
WS
Mid East/Japan 260kt
WA/UKC 130kt
UKC/UKC 80kt
160
140
120
100
80
60
40
20
Sep 16
Oct 16
Nov 16
Dec 16

Clean Products

East

An interesting week on the LRs, which have seen the LR2s firm to the point where Owners now have the upper hand in negotiations going into the new week. TC1 has last been put on subs at ws 82.5, but Owners are now talking over the ws 100 levels for next done. Westbound has also taken a hike in terms of next-done discussions, and Owners are now asking for $2 million levels to tidy their ships away before the holiday season. Inevitably we are therefore seeing LR2 stems split into the LR1 size, which although busy is yet to see significant movement.

LR1s have also been busy, but are held back by Owners who are willing to tuck ships away with MR stems doing MR numbers. $170k on subs for shorthaul is not very progressive in terms of the movement of rates. Westbound has come up very slightly to $1.175 million, but Owners are hoping that the movement of the LR2s will give the impetus to those with remaining LR1s to push rates above the $1.2 million next done. TC5 has sat fairly flat all week at the ws 85 level, but with 60 x ws 95 on subs to Singapore, Owners will be trying to find more value out of naphtha runs.

As personnel return home for the holiday season, there is high chance that Owners will try and do something cheap next week to avoid the pain and strife from other-halves which comes from trying to work ships over the holiday season.

A very busy and slightly confusing week for the MRs, the tonnage list commenced the week looking pretty tight and with high levels of activity Owners expectations were high to see rates being positively tested.

However, as the week progressed expectations weren't realised, certainly not across the board anyway. Both in the AG and the Red Sea have remained pretty steady although a slight push was seen toward the end of the week on X-AG and it closes the week at the $175k level. Cargoes bound for the Red Sea held firm at $400k. AG/UKC remained flat also at $950k as did East Africa voyages at 35 x ws 130. The Far East trade saw a decent push towards the end of the week and finishes at 35 x ws 107.5. With next week looking to be quiet as may people head out of the office for the Christmas period added to the fact that there are a few prompt ships opening in the AG, Charterers will be looking to cover any open stems at competitive rates.

Mediterranean

Handies see a similar trend of Charterers clearing out their books ahead of the foreseen break. Kicking the Week off from a fairly lacklustre 30 x 135 for X-Med movements, good levels of inquiry helped Owners press this market. An end of week flurry partnered with this mindset has produced rates 30 x 155, with further progress also achievable. Black Sea has also been helped here, with good stock of fresh inquiry giving rates of 30 x 180+ to be reachable. With outstanding stems still to be covered, we await to next week to see who manages to push again.

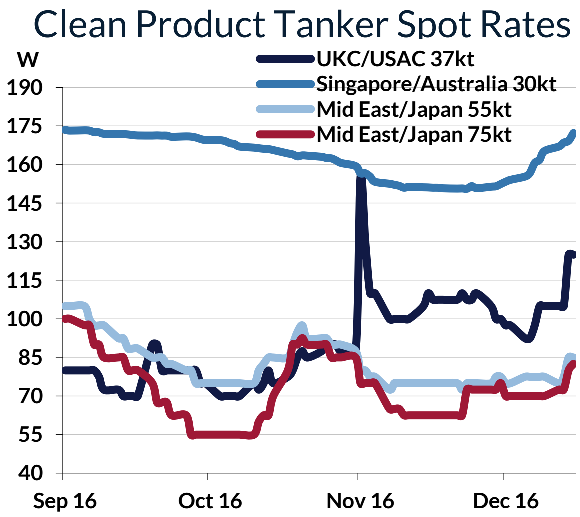
MRs in the Mediterranean, as so their Northern cousins, saw good interest for runs to Brazil. This in turn has given platforms for the market to press, as we see Jeddah runs reaching L/S $775k. With inquiry remaining and an equally positive UKC sector, expect further gains to be made by Owners.

UK Continent

Across the board, we have seen this region pick up from a relatively flat Monday to a market where every ship is being grabbed by the close of play on Friday. Brazil runs were the catalyst to begin with, as we saw 4-5 stems appear and clip out tonnage. Following the back of this, TA inquiry also began to warm and from a healthy optioned tonnage list on Monday, limited options were left. Pushing ahead, as many Charterers clear their books out for the Christmas period, rates creep up to 37 x 125, with the potential to push further ever prevalent.
Handies similarly were slow to start, with rates tracking just below 30 x 115 to begin with. Then we saw good levels of inquiry ex Baltic up to end month dates and rates grabbed hold and progress north. As we arrive to the final trading day of the Week, we encounter near on 10 stems still to be covered, with a limited supply of ships. With 30 x 135 being done and much more being spoken about in the market, we can expect further rise for the end of the Week. Monday morning could provide an interesting platform for our final week of trading.
Finally, to the Flexis where grabbing onto the coattails of the larger market, we see progress on rates from the beginning of 22 x 150. With some 30kt stems being broken down to fit with the options of smaller tonnage, inquiry has proved plentiful and opportunities improve to a market at a positive 22 x 165.

LRs

Week 50 began quietly on the LRs in the West and, although the list of LR2s was looking very thin, there were plentiful LR1 tonnage options for Charterers building up on the Continent. With that, rates were beginning to look soft, with murmurs that Charterers might be able to get 60 x 80 or even less for an ARA/WAF run.
However, as the week ticked towards the half way stage, the outlook was quickly beginning to change. Charterers were quietly chipping away at the last remaining LR2 options in the West and once again we saw an LR2 switch to DPP. On top of this, there was a real surge in Flexi, Handy and MR activity, with rates begging to rise. The combination of factors has resulted in a real scramble by Charterers to take cover before the festive period and Owners have seized the opportunity to drive rates up. As we come to the close of the week, the vast majority of workable LRs in the West are now on subs.
LR2 Owners are now rating UKC/Japan runs at $2.1 million and Med/Japan runs at $2.0 million, however, assuming vessels on subs are cleared away, then there are very few options left if any, able to load December dates. Although LR1 rates have remained pretty flat for the best part of the week, a final flurry of activity has seen rates jump with a vessel on subs now at 60 x 97.5 for ARA/WAF and Owners are expecting rates to break the three-digit mark before the weekend. If this level of activity continues early next week, then rates will rocket on both sizes, but many expect things to cool off quickly.



Dirty Products

Handy

Coming into the Continent this week expectation preluded that some volatility could be on the cards, as given the fixing melee which usually happens in the fortnight before Christmas Charterers would look to clear down their programs. Throw into the mix some uncertain itineraries and Ice class units not wanting to leave the region increment was established where closing the week we sit some +15 points from where levels began Monday morning.

Conditions in the Med were equally pleasing from an Owner's perspective where the value of firm tonnage could be realised as Charterers queued up for a chance to book these units. Furthermore, with activity a plenty tonnage stocks continue to give Charterers cause for concern. Next week however Charterers may finally earn a reprieve from current conditions, as based upon current outlook a number of units awaiting orders will start to come into play. Additionally, given the expected shift in mentality leading into the final days of next week, Owners will be equally anxious not to risk vessels being unemployed over Christmas.

MR

The Continent finally witnessed a well needed test as naturally placed vessels in the region got snapped up as predicted. With 45 x ws 140 indicating new peaks for this market, Charterers face an ongoing problem of trying to find when the next availability presents. Further volatility could be in store where a noticeable disparity between Med and Continent values present.

The Mediterranean continued to trade firm spurred on by ongoing requirement for full 45 kt stems and odd sized larger handy requirement. Looking ahead, reports of more bad weather on its way could see replacement business next week providing Owners with all the bargaining chips needed to keep conditions favorable right up until we depart for a well earned Christmas break.

Panamax

Charterers progressively tested this market throughout the week and depending on the position on which it was being worked, prevailing strength differed noticeably. That said, the Aframax sector now presents a cut off cap at which natural units cannot stray beyond, and with fixing dates now moving well into January, next week Owners may do well to take what is on offer in view of holiday disruption that follows.

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Dec 15th	Dec 8th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+7**	86	79	69	52
TD20	Suezmax	WAF-UKC	**+21**	102	80	87	74
TD7	Aframax	N.Sea-UKC	**-42**	99	141	132	96

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

			wk on wk change	Dec 15th	Dec 8th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+7,500**	67,750	60,250	52,000	27,250
TD20	Suezmax	WAF-UKC	**+11,250**	37,750	26,500	32,250	21,750
TD7	Aframax	N.Sea-UKC	**-39,750**	22,500	62,250	56,250	18,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Dec 15th	Dec 8th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+13**	83	70	63	
TC2	MR - west	UKC-USAC	**+20**	119	99	107	118
TC5	LR1	AG-Japan	**+8**	83	76	75	96
TC7	MR - east	Singapore-EC Aus	**+10**	172	162	151	

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

			wk on wk change	Dec 15th	Dec 8th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+4,250**	10,750	6,500	6,500	
TC2	MR - west	UKC-USAC	**+3,250**	10,500	7,250	9,500	10,000
TC5	LR1	AG-Japan	**+1,250**	6,500	5,250	6,250	9,000
TC7	MR - east	Singapore-EC Aus	**+1,250**	10,500	9,250	9,000	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**+10**	300	290	251
ClearView Bunker Price (Fujairah 380 HSFO)	**+7**	324	317	279
ClearView Bunker Price (Singapore 380 HSFO)	**+9**	331	322	281
ClearView Bunker Price (Rotterdam LSMGO)	**+17**	458	441	409

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