CRUDE

CRUDE PRICES			
$/BBL	5 JAN	29 DEC	W-O-W CHANGE
ICE Brent	56.89	56.85	0.04 ▲
Dubai	54.00	53.92	0.08 ▲

Crude prices gyrated over the week, with ICE Brent front-month futures hitting an 18-month high of $58.37/bbl before settling at $56.89/bbl at the end of the week. Oil prices are steady on the back of expected production cuts from Saudi Arabia and its Gulf allies. Saudi Aramco raised February OSPs in line with lower supply outlook and tightened Dubai/Oman forward curve. The Arab Light grade was priced at a $0.15/bbl discount against Dubai/Oman, up by $0.60/bbl m-o-m.

A significant rebound in Libyan output could throw a wrench into OPEC's plan. Libya is currently producing around 700 kb/d of crude, up by 20% m-o-m after reopening two of its largest oil fields. The country recently re-opened its last major export terminal, Zawiya which is set to load 1.9 mmb in January.

PRODUCTS

Asia's naphtha crack strengthened w-o-w, supported by firm demand from North Asian end-users. The firm ethylene-naphtha spread will continue to incentivize steam crackers to run at full capacity. Asia's gasoline crack inched down from last week's two-month high but demand remains firm during the off-peak season. A string of refinery outages in the US has lent a boost to global demand for the fuel.

Asian gasoil cracks fell w-o-w despite spot demand from Indonesia, Sri Lanka and Pakistan. Onshore middle distillates inventories in Singapore saw a draw of 78 kb/d, falling to a 7-month low of 10.3 mmb. However, exports were lower w-o-w which implies that the missing barrels may have moved into floating storage.

Fuel oil cracks in Asia firmed from the previous week, in line with the staggering stock draw of 3.58 mmb. Increased Chinese demand for bunkers ahead of the Lunar New Year has tightened supply in the market. More Western arb volumes are expected to reach Singapore at the end of the month, with January arrivals pegged at 4.5 mmt. Two VLCCs left Rotterdam for Singapore this week.

VLCC

SPOT VLCC RATES			
WS (2017 basis)	5 JAN	29 DEC	W-O-W CHANGE
AG/Japan (265 kt)	97.50	99.50	-2.00 ▼
AG/Singapore (270 kt)	98.50	100.50	-2.00 ▼
AG/USGC (280 kt)	60.00	58.00	2.00 ▲
WAF/Far East (260 kt)	95.00	98.00	-3.00 ▼

VLCC freight rates for the benchmark AG/Japan route softened from the week before by w2 points to w97.5 (basis 2017 Worldscale flat rates). While there has been an influx of fresh cargoes, the availability of newbuilds as well as old vessels has kept rates suppressed. Fixtures heard include Cosmo placing the Asian Progress III on subjects for an AG/Japan run, loading January 23-25, at w79 basis 270 kt and 2016 Worldscale level. When converted to the 2017 Worldscale equivalent, the fixture was done at w102.5. In comparison, GS Caltex fixed newbuild Gener8 Hector at w62.5 for the same journey, loading January 24 at basis 270 kt and 2016 Worldscale level. When converted to the 2017 Worldscale equivalent, the fixture was done at w81. We expect the VLCC segment to face a challenging Q1 as more than 20 new vessels will be delivered over this period, accounting for at least 50% of newbuilds for 2017. OPEC's planned production cut of 1.2 mmb/d starting January will lead to less crude export cargoes, further pressuring freight rates.

Rates for the WAF/Far East route were down w-o-w by w3 points (basis 2017 Worldscale flat rates) on the back of the weaker AG market and lower cargo volumes. There may be some upside for freight rates ex-WAF in Q1 should Asian buyers turn to Atlantic Basin barrels as a substitute, increasing ton-mile demand. The narrowing Brent premium to Dubai swaps will also incentivize the movement of more barrels from the Atlantic Basin to Asia such as medium and heavy Angolan grades. As China adopts the "National V" emissions standard this year, less sophisticated refiners are likely to favor crudes with lower sulfur content.

SUEZMAX/AFRAMAX

SPOT SUEZMAX/AFRAMAX RATES				
WS (2017 basis)	VESSEL	5 JAN	29 DEC	W-O-W CHANGE
AG/East (130 kt)	Suezmax	95.00	124.00	-29.00 ▼
WAF/UKC (130 kt)	Suezmax	109.00	130.00	-21.00 ▼
AG/East (80 kt)	Aframax	90.00	124.00	-34.00 ▼
Indo/Japan (80 kt)	Aframax	110.00	116.00	-6.00 ▼

The Asian Suezmax market weakened significantly on the back of limited activity and ample supply. Rates for the AG/East route plunged by w29 points w-o-w to w95 (basis 2017 Worldscale flat rates. Rates for the key WAF/UKC route dropped as well, down by w2 points on the week to w109 (basis 2017 Worldscale flat rates) due to the delays in Nigeria's Qua Iboe, Usan and Erha crude loadings. The closure of SPDC's Trans Niger Pipeline is expected to delay January Bonny Light loadings as well. Higher Nigerian crude exports in February due to deferred January cargoes may help to absorb some tonnage in the coming weeks.

The Asian Aframax market remained in a slump due to a lengthy position list, with freight rates falling by w6 points w-o-w for the Indo/Japan route and w34 points w-o-w for the AG/East route. Lower ESPO crude exports from Kozmino in Q1 (down by 65 kb/d from the previous quarter) may keep a lid on Aframax rates.

MR/LR

SPOT MR / LR RATES			
$/T	5 JAN	29 DEC	W-O-W CHANGE
AG/Japan (75 kt)	23.58	23.01	0.57 ▲
AG/Japan (55 kt)	22.36	21.93	0.43 ▲
AG/Japan (35 kt)	25.25	23.10	2.15 ▲

Asian LR tanker rates held firm over the year-end holidays, with LR2 and LR1 rates for the key AG/Japan route up by $0.57/T and $0.43/T from the previous week respectively. Prompt availability of LR2 vessels remained tight amidst a steady flow of cargoes. The strength in the LR2 segment may lend some support to LR1 rates, which are uncharacteristically lower than that of LR2s due to more prompt tonnage.

The Asian MR tanker market strengthened on the back of increased Singapore loadings, with rates for the Singapore/Hong Kong basis 30 kt route hitting above $300,000. Rates for the AG/Japan basis 35 kt route grew by $2.15/T to $25.25/T. Chinese product exports are expected to ease in January from December's highs, as domestic demand surges ahead of the Lunar New Year. This may limit any further rally in MR freight rates over the coming weeks.

BUNKERS

BUNKER PRICES			
$/T	5 JAN	29 DEC	W-O-W CHANGE
Singapore 380 cst	351.00	345.50	5.50 ▲
Singapore 180 cst	362.00	358.50	3.50 ▲
Singapore MGO	505.50	494.50	11.00 ▲
Singapore Ex-Wharf Premium 380 cst	5.00	4.47	0.53 ▲

In line with firming crude prices, Singapore 380cst and 180cst bunker fuel prices were up by $5.50/T and $3.50/T from the week before respectively. Bunker demand remained robust as seen from the increase in Singapore ex-wharf premiums from $4.47/T to $5/T.

Singapore's MPA has approved 135 fuel oil bunker tankers with MFMs out of 144. The implementation of MFMs for bunkering marine fuel oil became mandatory in Singapore on January 1.

Visit us at theofe.com
For our consulting services, please reach us at:
Rachel Yew
research@theofe.com