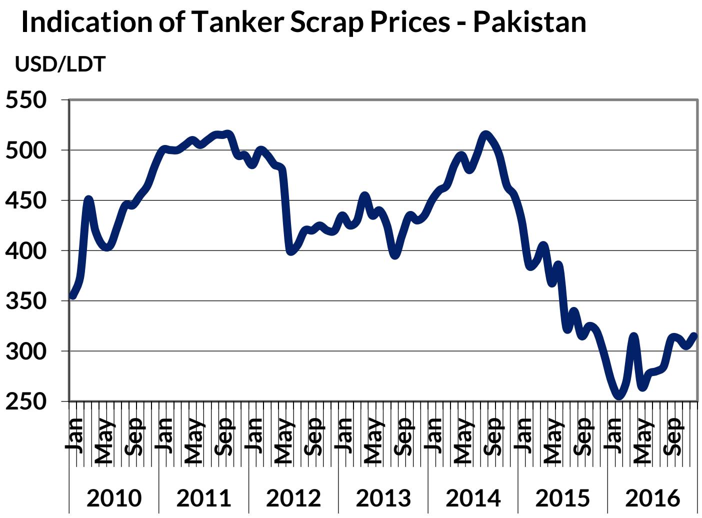
2016 - Just Scraps Again For Tankers

Weekly Tanker Market Report

Without the sale of two VLCCs in the final quarter of last year, tanker deadweight recycling totals would have been only slightly above the 2015 final figure. In deadweight terms tonnage sold for demolition in 2016 amounted to 2.46 million tonnes, just 33 units (25,000 dwt+). Once again healthy earnings across most tanker sectors did little to encourage scrapping. The extremely young age profile of the tanker fleet also discouraged scrap sales and newbuildings entering the market were initially absorbed with minimal impact until the latter half of the year. In contrast, demolition sales of bulk carriers and the container ships contributed around 350 and 200 units respectively, as poor trading conditions continued to dog these markets.



The collapse in scrap prices which started in 2014 continued and by January last year, lightweight prices on offer had fallen to below $300 tonne for tanker tonnage. Over the final few months of 2016 lightweight prices started to recover, but failed to attract an influx of new tanker candidates despite softer tanker earnings. However, scrap values for India/Pakistan are still considerably below the circa $500/tonne range witnessed in September 2014. Of the 33 tankers sold last year, Pakistan breakers took exactly one third, followed by India with 8. The oldest vessel sold for scrap was the Suezmax LEO (built USA 1978), which had been shuttling crude around the US Eastern seaboard for a couple of years. While the youngest, the VLCC XIN PING YANG (built 2001) just made it into 2016 figures, reportedly bound for Chinese breakers. In October, the tanker PROGRESS (built 1994) had the distinction of being the first "trading" VLCC to be sold for scrap for exactly two years. One interesting point is that 10 of last year's sales were for disposal of single-hull tonnage, many of which had been lying idle for some time. In addition to the two VLCC sales, one Suezmax and seven Aframax were sold for disposal.

For 2017 we anticipate tanker markets to be more challenging across most all sectors. The production cutbacks announced by OPEC back in November are due to be implemented from this month onwards. In addition, the influence of the 240 newbuildings which entered the fleet over 2016, and those still to be delivered over the coming months will also impact heavily on the tanker market. We also believe that the recent legislation on Ballast Water Treatment for implementation from September this year and the new lower sulphur limits from 2020 will all influence owners decisions whether to scrap although many owners may hold off to see if there will be exemptions or waivers applied. However, the expense of putting a vessel through 3rd special survey, coupled with the high additional costs associated with the new environmental regulations will provide owners with considerable food for thought over the coming months.

NB: The VLCC VARADA BLESSING (built 1993) originally sold to Pakistan breakers in July 2014 but since detained under arrest in Hong Kong. The vessel has subsequently been re-sold for demolition in China and has not traded in the market since 2014. She has been excluded from our 2016 sales figures.

Crude Oil

Middle East

A sharp VLCC dip before Christmas followed by a mid-holiday rebound that now has turned into a dead-cat bounce with rates sliding to as low as ws 60 to the East and low ws 40's to the West. Owners will be hoping for some late January volume relief, but whether the remaining ammunition will prove sufficient to re-fire the market is open to question. An increase in Far Eastern delays would help. Suezmax interest was dominated by short haul trades, and although there was initially a large amount covered, The 'quality' of the trade kept a lid on rates that then began to ease off to 130,000 by ws 90 to the East and little better than ws 50 to the West. Aframaxes moved through a dull period and rates steadily ticked lower to just under ws 90 to Singapore with little early change likely.

West Africa

Suezmaxes found themselves willing Charterers to take more concerted action and then wished that they hadn't when they did. Strange to say, but once normal service started to resume, rates were driven lower and the market is presently exploring a 'bottom' at around 130,000 by ws 82.5 USGulf and ws 85 to Europe. Recent noise from the North Sea and Med, has calmed nerves and there are renewed hopes of improvement next week. VLCCs started the period solidly, but enquiry thinned and now the AG malaise is negatively impacting here too. Rate demands are now under ws 70 to the Far East with $3.55 million the last seen for West Coast India.

Mediterranean

Aframaxes stumbled through the holiday period, but late this week enjoyed a modest renaissance on improved volume and a degree of rebalancing. Rates head towards 80,000 by ws 107.5 Cross Med and could yet pop higher. Suezmaxes didn't initially move much, but then eased to 140,000 by ws 95 from the Black Sea to European destinations before a busier spell hinted at a degree of rebound into the coming week.

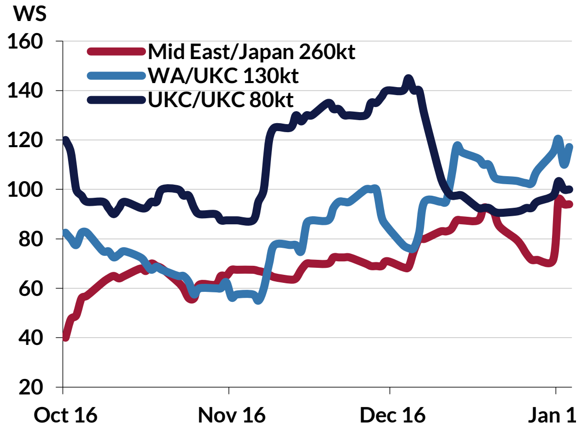
Caribbean

Aframaxes had begun on a super high of 70,000 by ws 200+ upcoast, but as is often the case on short haul trades, a short break from the fixing frenzy and less delay, quickly rebuilt position lists and then dragged the market smartly down to as low as ws 115. Owners will take a little while to regain their composure. VLCCs only saw modest attention, but early dates remained tight enough to support rates at up to $5.3 million to Singapore and to $4.3 million to West Coast India. Forward availability looks much thicker though and there is likely to be some retracement within short.

North Sea

Aframaxes don’t yet have much to shout about at 80,000 by ws 90 cross UKCont and 100,000 by ws 100 from the Baltic, but 'ice' is a coming now and there’s been a lot of noise to the East too and the sentiment of the market is firming. Suezmaxes proved popular for runs to Singapore with the latest reported at $3.45 million for an ice class requirement from the Baltic and regular transatlantic runs at around ws 75. VLCCs were in short early supply, but 'arb' levels to Singapore didn’t stand at much more than $4 million for traders, Though crude oil needs were met at $5.8 million to South Korea.

Crude Tanker Spot Rates



GIBSON SHIPBROKERS

Clean Products

East

The LRs have, for the most part of this week, traded on a relatively firm platform. The LR2s in particular started the week moving at a similar pace to that experienced before the holiday week, and a certain level of firm activity saw West cargoes reach $2.15 million, with TC1 reach ws 120. This pace has now come off, however, as end of month cargoes are scarce, and we have seen 9 offers for one cargo. West runs have today (Friday) dropped off to $2.05 million, with the suggestion that $2.0 million will be next done. Naphtha runs have come off as well, and sit now at ws 112.5. Looking towards the new week, there is every suggestion that the LR2s will start to soften further, back down to the pre-holiday levels. This is bad news for the LR1s, who will get a delayed softening off the back of the LR2s. What is worse news, is that rates on the LR1s have not firmed over the past week - instead sitting steady at last done levels.

TC5 still sits at the ws 115 level, although a ws 114 on subs has highlighted that this route will come under concerted pressure in the new week. Owners are hopeful that a busy Far Eastern market on the LR1s will solidify the market level on the naphtha runs. Unfortunately, they cannot hope for a similar steadiness on Westbound cargoes. $1.375 million fully fixed ex-Kuwait was probably an overly cheap rate at the time, and $1.375 million for a normal AG loading seems fair going into the new week. Although we may see a relatively stable week on the LR1s next week, Owners will be fully aware that Charterers will load longhaul on the softening LR2s, and the LR1s will be utilised for shorthaul UMS and other stems, letting them begin to soften slightly.

Its been a very busy week for the MRs as everyone returned from the Christmas and New Year break; and there was no easing into the new year as everyone hit the ground running, and running at pace. Plenty of ships were going on subs and there was a steady flow of cargoes feeding the market which towards the middle of the week was certainly putting pressure on Charterers. However, by the end of the week things had calmed down and as a result there were signs that levels could soften as we head into week 2. The supply of fresh cargoes has slowed right down and the previously tight tonnage list is starting to look a little healthier. That added to the fact that the LR2s have softened could certainly see the MR rates come under pressure. The Red Sea however, remains tight and has shown that a premium can be achieved given lack of available tonnage. X-AG started strong, but softened over the week and closes at $195k level. Cargoes bound for the Red Sea held firm at $450k. AG/UKCont remained flat also at $1.01 million. EAF voyages are currently not Owners preferred voyage of choice, the current level of 35 x ws 135, and Far East trade remains steady and finishes at 35 x ws 132.5. It is a very difficult market to call as we move into week 2 however, there are signs that we could see rates soften.

Mediterranean

As week 1 of the new year comes to an end, Owners perhaps will be wondering where all the excitement escaped to as we see a fairly lackluster performance come to an end. As we commenced rates were balanced around 30 x ws 210 for XMed and ws 230 for Black Sea loadings basis 2016 rates and this has quietly ticked along. But as enquiry slowed and tonnage lists blossom, pressure has built and we slowly see correction in rates occur. By the time, we have reached Friday rates have been converted to 2017 worldscale and we see rates trading around 30 x ws 215 XMed and ws 230 Black Sea basis 2017. We can hope for further enquiry appearing on the horizon for next week to give Owners further ammunition to keep Charterers at bay.

MRs have seen little demand heading East this Week but thankfully the busy UKCont market and good enquiry to the States has kept rates trading sideways. Demand for Brazil discharge has been positive also and as we come to the end of the week, rates trade parallel with the Continent around 37 x ws 155 (2016). Fresh interest for heading East next week will add another dimension to the market as we see many MRs presently ballasting to the Continent from WAF positions.

UK Continent

The year kicks off with an active week for the MRs in NWE encouraged by the action seen prior to Christmas, Owners have been able to maintain rates as plenty of enquiry has been seen on all routes. Ballasters from the States and Brazil have restricted any room for rate improvement with TC2 finishing the week 37 x ws 155 (2016) mark. The real winners have been ice-class tonnage now commanding a premium for Baltic loads as Charterers are keen not to miss laycans and incur any financial penalties. With sky high gasoline stocks in the States enquiry could slow going into next week and with extra tonnage arriving rates could soften unless bolstered by action on alternative routes.

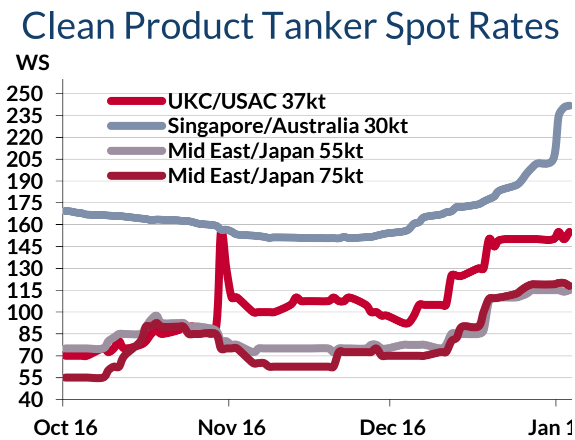
Handy tonnage has ultimately had a rather quiet week of fixing with rates slumping to 30 x ws 222.5 (2016). The ice factor has had less impact than seen on MRs and Charterers have plenty of ships to choose from for both Baltic and UKCont loads, currently giving the impetus to push rates lower. Nonetheless for now rates are just about holding and looks set to be maintained going into next week.

As with the Handies, Flexi enquiry has been noticeably slow at the start of the year, however, with a general lack of tonnage across the Flexis in NWE Owners have been able to more or less keep rates maintained from the inflated rates seen over the festive break. That said 22 x ws 235 looks to come under pressure early next week as prompt tonnage starts to become readily available and the initial Primorsk programme reveals not a single Flexi stem in January (N.B. this is subject to change).

LRs

2017 has started brightly in the West with Owners enjoying an active week of trading on both LR1s and LR2s. Tonnage has been continually clipped away from start to finish enabling Owners to repeatedly nudge rates up. On the LR1s, rates began the week at 60 x ws 110 on the ARA/WAF run. Since then, rates have climbed to 60 x ws 120 basis 2016 flats. Out of the Baltic where Charterers are now looking for ice-class tonnage, rates have climbed to 60 x ws 142.5 for a Baltic/Cont run and we have seen the first rates (basis 2017 flats) as we come to the close of the week with a vessel reported on subs at 60 x ws 172.5. We are also seeing enquiry to move product to the East. One Owner has achieved $1.8 million for a Mellitah/Far East run with condensate. On the LR2s, there has been strong demand to move naphtha, UMS and reformate to the East. Today, a vessel has had their subjects lifted at $2.0 million for an ARA/Spore run and the last remaining workable vessel this side of the weekend has been aiming to push the rate up to $2.2 million for the same run. A couple of vessels opening in the Mediterranean have been on subs for a little while now at $2.125 million for a Black Sea/Japan run, but given limited options, now Owners would be asking for around $2.4-$2.5 million.

Looking ahead to Week 2, Owners will begin the week in bullish fashion assuming vessels are successfully cleared away either side of the weekend.



Dirty Products

Handy

Happy New Year!

This week has begun slowly, but has gradually gained momentum as we draw towards the end of the week. With this in mind Owners, the firm positioned Owners have slowly stood a more bullish stance when offering in on cargoes. The replenishment of tonnage still remains yet to be seen, so all eyes will be on fresh positions next week. One thing to note within this sector is that we still have not seen 2017 worldscale rates being fixed yet.

There is a sharp contrast of trading tactics within the Mediterranean compared to the North, as we have witnessed fixture by fixture rates slide away from Owners. This trend has mainly been driven from the trading from the Black Sea, where a mix of prompt tonnage and fixing and failing have left us at the end of the week wondering where next done will fall. At the time of writing the outlook for next week looks much of the same but, Owners will be holding hopes on the Russians shaking things up again once back from their holiday.

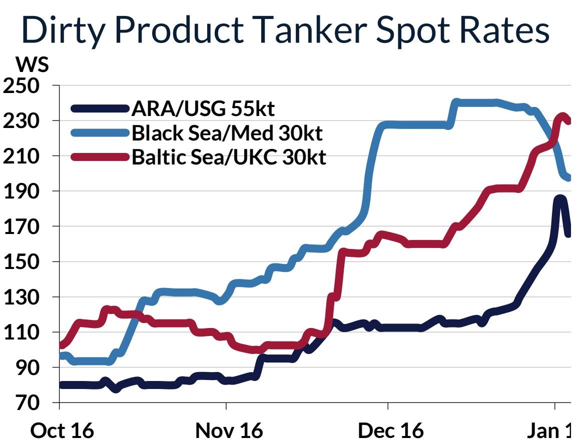
MR

In the Continent this week positions remained limited throughout with only a couple of naturally placed vessels being shown. Charterer's eyes were mainly focused on nearby regions for workable units. We did see a couple of West Med positions being placed on subjects and saw the Baltic market tested with reports of 45 x ws 160, but later failing. With activity busy on the Handies, Owners in play will be looking to force increment next week and Charterers will be hoping the fresh position list Monday morning will provide a few more options.

It was a tough start to 2017 for Owners in the Mediterranean as full size enquiry remained lacking and the Handysize market was unable to prevent negative correction with reports of rates dropping at a rapid pace. We close the week out with tonnage availability highly favourable to Charterers and positions remaining well spread in the region, but with the Russians due back after their new year's celebrations Owners will be hoping to see a few more cargoes start to creep into the market.

Panamax

With 2017 starting with a lack of natural tonnage this side of the pond trading conditions were looking like they would remain relatively flat. However, the Caribbean market had other plans and as activity and rates have softened this week, a new window of opportunity for charterers in the Mediterranean and UKCont to chip away at Owner's aspirations has come. With a full squad back next week, there will undoubtedly be more activity and 'catch up' stems to shift, the question is whether the open arb will fall it all onto bigger sizes.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 5th	Dec 21st	Last Month	FFA Q3
TD3	VLCC	AG-Japan		92	91	71	66
TD20	Suezmax	WAF-UKC		109	107	100	94
TD7	Aframax	N.Sea-UKC		100	93	134	108

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

			wk on wk change	Jan 5th	Dec 21st	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-25,250**	48,000	73,250	53,250	24,750
TD20	Suezmax	WAF-UKC	**-13,500**	27,000	40,500	38,750	20,750
TD7	Aframax	N.Sea-UKC	**-6,250**	11,250	17,500	57,500	17,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 5th	Dec 21st	Last Month	FFA Q3
TC1	LR2	AG-Japan		153	106	72	
TC2	MR - west	UKC-USAC		197	141	108	163
TC5	LR1	AG-Japan		145	108	74	128
TC7	MR - east	Singapore-EC Aus		242	179	151	

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

			wk on wk change	Jan 5th	Dec 21st	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+3,000**	20,250	17,250	9,000	
TC2	MR - west	UKC-USAC	**+2,000**	16,750	14,750	9,500	11,500
TC5	LR1	AG-Japan	**+500**	11,750	11,250	5,750	9,000
TC7	MR - east	Singapore-EC Aus	**+250**	11,250	11,000	8,750	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**+10**	316	306	261
ClearView Bunker Price (Fujairah 380 HSFO)	**+17**	348	331	290
ClearView Bunker Price (Singapore 380 HSFO)	**+13**	356	343	290
ClearView Bunker Price (Rotterdam LSMGO)	**+0**	468	468	418

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