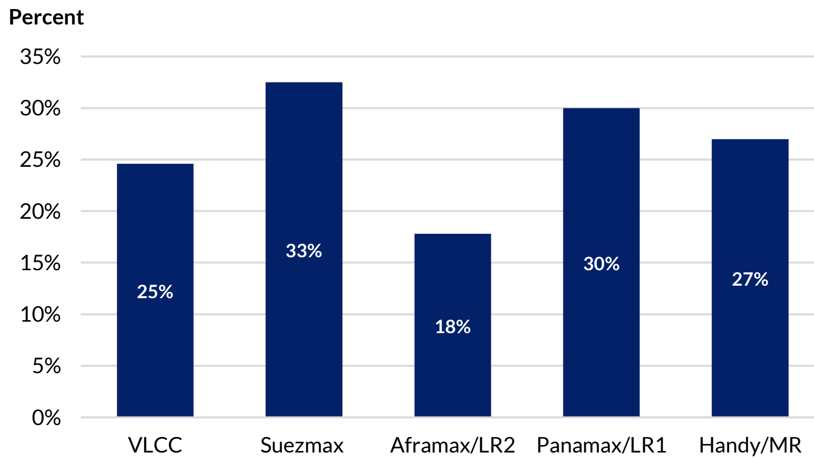
Slip 'N Slide

Weekly Tanker Market Report

Newbuilding delays are a common in shipping. Slippage can often be prompted by the owner who wants to delay the entry into a weak market, with depressed earnings. In the recent past, delays initiated by the tanker owner were most visible during the previous industry downturn between 2011 and 2013. Alternatively, shipyards themselves could be behind the delays. Shipbuilders may fail to meet their construction schedule for several reasons: technical, financial, labour or supply related issues. The fact that the shipbuilding industry has been going through a major crisis, with ongoing restructuring, consolidation and cost cutting even at most reputable shipbuilders, only increases the likelihood of delays caused by the yard. The most notable example of that is tonnage ordered at STX Shipbuilding, which filed for a court led restructuring last year.

A few months ago we expressed an opinion that tanker slippage is likely to be substantial in 2016 – at over 15% of tonnage scheduled for delivery within that period. As the year came to an end, the final results show that the slippage was even bigger than initially thought. The actual delays in 2016 are around 25% of what was scheduled for delivery within the year. In percentage terms, delays are the highest in the Suezmax segment - at 33%, with 13 out the 40 units which were scheduled for delivery in 2016 are yet to hit the water. Panamax/LR1s are next, with slippage at 30%; while delays in the Handy/MR fleet account for 27% of tonnage scheduled for delivery. Finally, delays in the VLCC segment are at 25% and in the Aframax/LR2 size group at 18%.



Although the crude tanker markets benefited from these developments, with TCE returns across all segments remaining at healthy levels for most of the year; slippage failed to prevent the progressive weakness in the clean tanker market. In addition, those tankers that were not delivered in 2016 only make the 2017 delivery profile look higher.

Going forward, it does not look like the problems in the shipbuilding industry will go away anytime soon. Ordering in many sectors remains at minimal levels, including the tanker market despite substantial falls in newbuilding prices. On the other hand, demand conditions for tankers are also likely to deteriorate, particularly if OPEC and a number of non-OPEC countries act on their promise to cut crude oil production by nearly 1.8 million b/d.

All of this suggests that 2017 could be another year with widespread delays, both owner and shipbuilder led. Yet, the same also means that actual deliveries in 2018 are likely to be notably higher than currently scheduled. In this case, the industry hopes will be for strong increases in trading demand to offset rapid growth in tanker supply.

Crude Oil

Middle East

Busier for VLCCs but the previously hard rate-hit had taken its toll on Owners' ambition and the market could only modestly rebound to a peak ws 67.5 to the East and low ws 40 level to the West. Full February programmes will soon be in hand and the next phase of the 'game' will be dictated by how Charterers handle those... a quick pace could lead to further gain, but a disciplined slow-step would compromise. A continuation of the recent West African activity would also aid Owners' cause.

Suezmaxes showed no real spark through a dull week of fixing. Rates slip just a little below ws 90 to the East and remain flatline at around ws 50 to the West. February Basrah liftings look heavy, however, and Owners will hope for better attention within short. Aframaxes became busier, but rates haven't yet made a move from 80,000 by ws 110(17) to Singapore. If volumes do maintain for next week then there will be improvement.

West Africa

Suezmaxes spent the week convinced that a swathe of cargo would enter the marketplace to give them leverage to new highs. The reality, however, was that Charterers merely drip fed their interest and cracks opened to allow rates to slip towards ws 80 to the USGulf and ws 85 to Europe with more frustration likely into next week. VLCCs moved through a much busier patch that certainly tightened early availability, but didn't make any significant contribution to rates. A slightly higher ws 64/65 now to the Far East with around $3.8 million payable to West Coast India, but unless the AG does grow extra legs, further gains here will also be limited.

Mediterranean

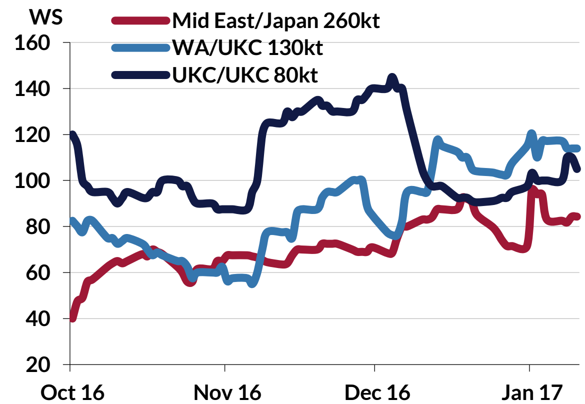
Solid action on the Aframax front brought about a noticeably higher rate range that spanned the full week. 80,000 by ws 180(17) cross Med now and things should remain in Owners' favour for the first part of next week, at least. Suezmaxes didn't enjoy such activity and early availability remained in sufficient supply to weigh rates down to 140,000 by ws 92.5 from the Black Sea to European destinations with West African stalling further undermining confidence. No early change likely.

Caribbean

Aframaxes, after last week's hit, held a steady line and were always alert for opportunities to rebuild, but no positive catalysts developed and the market trod water at 70,000 by ws 145(17) upcoast into the weekend. Eyes will remain peeled for next week. VLCCs are in very few hands now and Charterers are having to accept a market bottom of $4 million to West Coast India and $5.2 million to Singapore with premiums payable upon the earliest needs.

North Sea

Unlike the Med, Aframaxes here found only modest demand so that rates remained stuck at 80,000 by ws 110/115 cross UKCont and 100,000 by ws 102.5/107.5 from the Baltic. It will probably need a sustained bout of hard winter weather to shake things up. 'Arb' demand to the East on the larger sizes was more robust with nearly $4 million payable to China on Suezmaxes and VLCCs taken at up to $5.85 million to South Korea on crude oil lifts with $4.3 million paid for a Rotterdam/Singapore fuel oil run. With relatively thin forward availability, rates should remain steady, at least.



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Clean Products

East

LRs have had a disastrous week with rates tumbling. LR1s started with 55,000 mt naphtha AG/Japan at ws 114 (2016 ws) and have ended with ws 90 on subjects. 65,000 mt jet AG/UKCont also saw similar fall with today's rate now at $1.25 million. LR2s have been quiet, but rates are coming off in line with the smaller size leaving 75,000 mt naphtha AG/Japan probably no higher than ws 87.5, but untested so far. 90,000 mt jet AG/UKCont is around $1.85 million, but is likely to slip further next week. These falls will only be arrested if a fair bit more business appears, but with MRs tight, LR1s can take advantage for short hauls and maybe slow down their descent.

This week the MRs firmed considerably across early dates, which has resulted in firming for earlier stems. EAF increased to ws 155 on a replacement fixture, but has settled to ws 145. What is interesting to note here is that the differential to SAF has been agreed at 5 points as opposed to the usual 10 - highlighting that persistence from Owners to alter what they felt was a unfair differential may finally be taking effect. Naphtha runs have come off from the tried and tested ws 132.5 and go into the new week at ws 127.5. West runs started the week at $1.01 million, but Owners with ships off earlier dates have moved to increase these levels where they can - looking to fix at closer to the $1.05 million level. However, with LRs softening as much as they have this week, this will inevitably come under pressure. Red Sea runs have sat at $450k but, Owners again have looked to firm these rates where possible. An LR1 has now done a Djibouti run at $385k, which suggests that MRs no longer provide good value in terms of dollar/ton of cargo. As LR1s continue to soften, we have already seen them compete and go on subs for MR stems, which is going to put considerable downward pressure on MRs going into the new week. With the Chinese New Year just over the horizon, Owners will be keen to tidy tonnage away before what has historically been a quiet period in the market.

Mediterranean

As the sun sets on the Mediterranean for the final time this working week rates continue to remain under pressure. Monday morning gave us a healthy tonnage list with limited stems and since then Owners have been backpedaling to keep their ships moving. A generally slow week for the Black Sea liftings has seen pressure building on Owners ideas as XMed runs where we started the week in the ws 200s and ended with a low of 30 x ws 175. Black Sea managed to hold onto rates for a little longer during the week, but the pressure finally showed and we creep below 200 once again. Looking ahead, poor weather will aid Owners defense, but at the moment we see too many ships and too few cargoes.

The MRs see a fairly slow week pass with a handful on transatlantic runs appearing and even less East runs. Transatlantic voyages have mirrored the falling TC2 market with a handful of Brazil runs keeping a premium. East runs settle towards $800k for Jeddah and further enquiry will show the true strength ahead.

UK Continent

MRs kicked off the week in steady fashion with good levels of enquiry for, WAF and Baltic cargoes. TC2 volumes were much more subdued and a main factor behind this was gasoline stocks on the East Coast jumping by 2.1m barrels. With a number of ballasters already setting sail for European shores towards the back end of last week it was clear by the mid-week stage that supply clearly outweighed demand. Charterers were able to continually shave points of last done levels and by COB today transatlantic levels are at

37 x ws 160-165 (17) , 37 x ws 180 for WAF and 40 x ws 185 for Baltic / UKCont. Expect further pressure to be applied on rates in week 3.

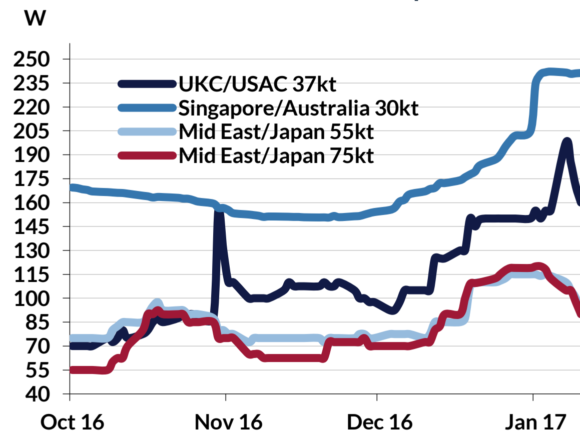
Handy charterers have held the upper hand for the duration of the week whilst tonnage has been over supplied for the rate of enquiry rates have buckled under the mounting pressure. Ice conditions in the Baltic offers little respite for suitable tonnage now fixing 30 x ws 180 and 5-10 points discount for non-ice business. The same situation looks to persist into early next week as we still wait to see the bottom of the market.

The Flexi market continues to suffer as a lack of enquiry and prompt tonnage continues to weigh like an anchor on freight rates. Last fixed in the market was 22 x ws 247.5 (17) at the start of the week but with no outstanding Primorsk cargoes for the entire month of January and XUKCont still very light, expect rates to continue to soften.

LRs

LR Owners enjoyed a decent level of activity during the first half of the week in the West, but a few uncertainties have started to creep in. Owners began the week in bullish fashion as workable tonnage options were looking thin particularly on the LR2s, rating ARA/Singapore runs at $2.2 million and LR1 Owners were pushing for 60 x ws 155(17) on the ARA/WAF run. However, a handful of vessels failed to get their subjects and doubt over which enquiries were firm prevented Owners from building momentum. In fact, Charterers played their cards well snapping up LR1s at 60 x ws 142.5-150(17) for ARA/WAF runs and the most interesting moment was seeing an LR2 achieve just $1.95 million on an LR2 ARA/SPORE run, on a vessel ballasting up from the Mediterranean.

By the end of play on Wednesday sentiment was beginning to turn as Owners had pushed a handful of new positions and as MR rates were coming off fast. Petrobras did enter the game with a rare cameo appearance, but options were scarce to meet the 20-22/Jan Skikda/Brazil laycan enabling Owners to inflate their rates. Reported offers were 60 x ws 190 on a late runner and 60 x ws 250 for an ice classed vessel. Nothing materialised and the cargo was broken up and requoted this morning. LR1 Owners are now rating a Med/Brazil run at around 60 x ws 175(17) for end/early dates. We continue to see LR1s fixed for trips carrying UMS to the East at around the $1.35 million mark to the AG and $1.7 million to Singapore, but Owners are beginning to ease up a bit rating ARA/WAF at 60 x ws 147.50. As we close the week, there are a few outstanding cargoes, but the combined factors above plus smaller factors such as Charterers being unable to employ LR2s in the Black Sea at the moment due to bad weather, has slightly dented my positive outlook for Owners as we head towards the Chinese New Year.



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Dirty Products

Handy

Upon closure of a week's trading activity Owners on the Continent will be sat rather more comfortable having come through a few tests with conditions proving more favourable than Charterers would have anticipated. In the background, West Mediterranean tonnage has been a threat to continent values as the Mediterranean traded with a large negative disparity. Weather delays and Baltic demand however, where ice class tonnage is now preferable (if not a necessity) has acted as a leveler in keeping any negativity at bay. With this in mind, we can expect this market to remain firm next week.

The Mediterranean however, traded exceptionally negative, where even some of the most bearish were left surprised at the magnitude of decline. Coming into the week, where values had already started to slide from the last trading day of the week previous, Owners were hoping to capture any negativity and re build. Activity however, failed to present in sufficient volumes for this to take effect, and confidence took a further bruising where supply problems from the Black Sea caused stems to delay and fixtures to lose their subjects.

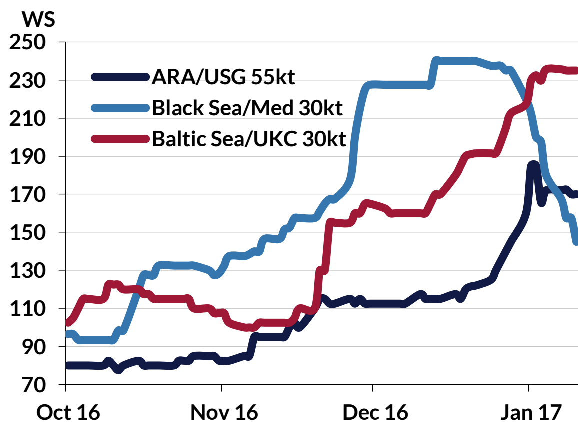
MR

Writing about conditions on the Continent, one really does have to pause and reflect on extensive periods of 2016 when operators didn't want to go near the Continent. Now it is the Continent that dwarfs the Mediterranean in comparative TCE's. Much of the reason for this is that limited tonnage availability has meant that Charterers have needed to look forward, and had to pay large numbers unless they can offer ballast tonnage voyage lengths that offset the time taken to be brought into position. In the short term, this trend doesn't look like it's about to change.

The Mediterranean however, mirrors what is happening on the surrounding handy market, where competition and inactivity has forced Owners discount; being the only option at their disposal if they are to secure employment. As such this sector, has also seen a large percentage decline from previous ws values.

Panamax

Starting the week fresh from negative correction, Owners managed to prevent any further decline where repetition prevailed upon further tests. Aided somewhat through a more stable Caribs market, both Owners and Charterers would consider conditions fair as there appears to be just enough availability to match cargo supply. This said weather delays are a constant factor needing close attention on both sides of the Atlantic, this attribute of a winter market alone has the power to shake conditions up.



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 12th	Jan 5th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-10**	82	92	71	68
TD20	Suezmax	WAF-UKC	**+3**	112	109	100	94
TD7	Aframax	N.Sea-UKC	**+1**	101	100	134	107

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

			wk on wk change	Jan 12th	Jan 5th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-7,750**	40,250	48,000	53,250	27,250
TD20	Suezmax	WAF-UKC	**+1,750**	28,750	27,000	38,750	21,000
TD7	Aframax	N.Sea-UKC	**+1,250**	12,500	11,250	57,500	16,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 12th	Jan 5th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-63**	90	153	72	
TC2	MR - west	UKC-USAC	**-24**	174	197	108	155
TC5	LR1	AG-Japan	**-27**	118	145	74	115
TC7	MR - east	Singapore-EC Aus	**-1**	241	242	151	

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

			wk on wk change	Jan 12th	Jan 5th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-4,259**	15,991	20,250	9,000	
TC2	MR - west	UKC-USAC	**-3,250**	13,500	16,750	9,500	10,500
TC5	LR1	AG-Japan	**-4,000**	7,750	11,750	5,750	7,250
TC7	MR - east	Singapore-EC Aus	**-12**	11,238	11,250	8,750	

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

	wk on wk change	Jan 12th	Jan 5th	Last Month
ClearView Bunker Price (Rotterdam HSFO 380)	**-8**	308	316	261
ClearView Bunker Price (Fujairah 380 HSFO)	**-12**	336	348	290
ClearView Bunker Price (Singapore 380 HSFO)	**-16**	340	356	290
ClearView Bunker Price (Rotterdam LSMGO)	**-5**	463	468	418

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