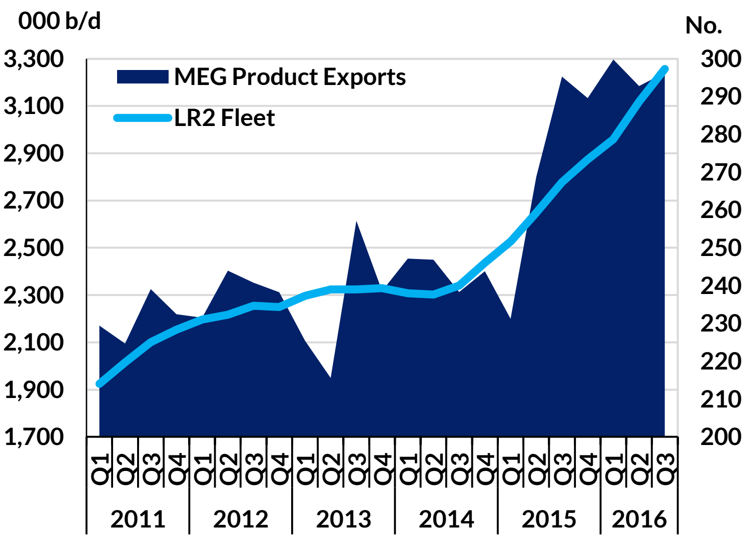
LR Demand Difficulties

Weekly Tanker Market Report

There has always been a compelling story being told about how larger product carriers are the future, in particular the LR2s. However, the sector has had a particularly challenging few months, with little optimism regarding a sustained recovery in earnings. The LR2 story centered around the expansion of refining capacity in the Middle East, capacity reductions in Europe and wider product imbalances driving long haul trade. In some regards that story delivered. Middle East refining capacity expanded and exports surged. Refineries in Europe came under pressure with some capacity being mothballed. However, the story didn't quite deliver on its full promise. The Jazan refinery, which was originally slated for commission in 2016 is not expected to start initial runs until 2018, leaving some of the expected demand growth on the table, whilst the collapse in oil prices saw stronger global refining margins, staving off refinery closures in Europe until later in the decade. With both new and old plants competing with each other, a new and unexpected problem of product overhangs soon emerged, killing many arbitrage opportunities, particularly hurting product loadings in the West.

MEG Product Exports vs. LR2 Fleet Growth



Despite these issues, the main driver behind the LR2 story (Middle East export growth) largely deliveried, supporting a period of strong LR2 earnings. However, the growth was always going to be finite as exports plateaued into 2016, whilst fleet growth started to excelerate. Clearly the initial fleet expansion was manageable. However, as is often the case, it was the extent of previous ordering activity which is being felt today. Demand growth may have taken a hit from the factors described above, but was always expected to ease relative to the past few years. On the immediate horizon with limited new capacity coming online, coupled with the headwinds currently facing the global products markets, a speedy recovery may not be on the cards.

So where will the next surge in demand come from? We've written at length in the past about how stocks need to come down to allow for a return to normal trading conditions. However, beyond these factors some supportive developments are starting to appear just over the horizon. Collectively Saudi Arabia, Kuwait, Oman, Iran, Iraq and the UAE plan to add over 1.5 million b/d of capacity between 2018-2021 which, will start to support export growth from the region once again. Furthermore, this will coincide with a major change in the global bunker specification and shift towards middle distillates. With more export oriented demand coming online and a tighter middle distillates market, larger product carriers could once again be in high demand to move large volumes of compliant gasoil long distances. Furthermore, if ordering activity stays within reasonable limits, and scrapping begins to accelerate driven by regulatory developments, the foundations for a more sustainable market recovery could soon be laid.

Crude Oil

Middle East

VLCC Charterers kept to a brisk pace to conclude the back end of the February programme in readiness for March allocations that should be fully in hand by late next week. Volumes were therefore sufficient to allow Owners to gently raise rates, but were not quite heavy enough for a true breakout and the cross-month interval is likely to stall further potential. Currently rates peak at ws 77.5 to the East and into the low ws 40's West.

Suezmaxes enjoyed a modest pick-up in activity, but only a slight gain in rates that edged higher to 130,000 by ws 77.5 to the East and to ws 42.5 to the West, broadly equalising with VLCC numbers - the differential will open again, but the jury is out as to which size will make the necessary move. Aframaxes trod water over the week at up to 80,000 by ws 115 to Singapore and look set to continue to operate at close to that over the next phase.

West Africa

Suezmaxes started with belief that Charterers would provide enough fuel to fire them away from recent bottom scraping numbers, but the fire was never truly lit and a slow end to the week dampened hopes and rates could only crawl to 130,000 by ws 72.5 USGulf and no better than ws 75 to Europe either. Hopes will again be rekindled for heavier volumes to provide relief next week. VLCCs broadly kept in lock-step with Middle East numbers - starting at just over ws 70 to the Far East and then tipping towards ws 75 later in the week with $3.8 million the last seen for East Coast India. As in the AGulf though, any further upward movement has effectively stalled.

Mediterranean

Aframaxes heated up - warmed really - as the week progressed and enough momentum was created to pull rates up towards 80,000 by ws 105 X-Med, but just as things looked to getting even better, cargoes began to thin once again and the market looks capped for now. Suezmaxes saw reasonable attention on the shortest X-Med runs, but that wasn't enough to get the whole complex moving and rates from the Black Sea to European destinations remained at, or a bit below, 140,000 by ws 80 with around $3 million asked for runs to China.

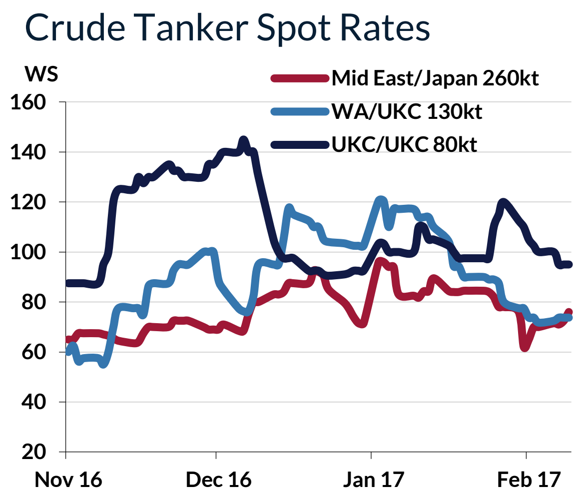
Caribbean

Further painful retreat for Aframaxes - now down to 70,000 by ws 100 upcoast and a lot more fixing needed for rates to turn the corner. VLCCs had another very quiet week of it with ballasting to West Africa becoming more of a feature for those 'left behind'. Rates theoretically operate at around $4.7 million to Singapore and $3.7 million to West Coast India, but still with a nod to the downside threatening.

GIBSON SHIPBROKERS

North Sea

Little material change week on week for Aframaxes. There has been action, but it has all been reasonably easily handled by Charterers who were rarely challenged. Rates remain at no higher than 80,000 by ws 100 X-North Sea, and also 100,000 by ws 100 from the Baltic with little early change likely. VLCCs were asked questions and some even fixed, but Owners had to chip rates a bit lower - to $4.8 million for crude to South Korea and to $3.6 million for fuel from Rotterdam to Singapore - in order to secure solid business.



Clean Products

East

LRs generally have had a very positive week with much more volume quoting and rates seeing definite increases. We are presently seeing a standoff while Charterers feel rates shouldn't move that considerably and Owners are pushing to get rates back to relatively reasonable returns. Today 75,000 mt naphtha AG/Japan is ws 87.5 and 90,000 mt jet/ulsd AG/UKCont is $1.30 million. LR1s are also on the move with 55,000 mt naphtha AG/Japan up 7.5 ws points to ws 112.5 and 65,000 mt jet AG/UKCont up to $1.15 million. These rates should all firm into next week though.

It's been a very busy week for the MRs with high levels of fixing, complemented with high levels of cargoes entering the market. Throughout the week the tonnage list has maintained a relatively tight stance especially out to the next 7-10 days. However, there hasn't been much movement on rates as the week has progressed. There have been slight rises in certain areas, but on the whole last done levels have been consistent, this has been partly due to lack of movement of the larger ships at the commencement of the week. The larger ships have seen a positive end to the week and as such we could see the MRs follow in their wake. The Red Sea continues to remain tight, but as yet Owners have not managed to capitalise on this lack of tonnage. X-AG gained a little over the week and closes at $185k level. Cargoes bound for the Red Sea held firm at $450k. AG/UKCont remained flat and an undesired route at $1.00 million. EAF voyages saw a little movement, but 35 x ws 170 seems to be holding just about. Far East trade softened a little and finishes at 35 x ws 142.5. There remains a decent number of cargoes still to be covered, and there is certainly an air of positive expectation from the Owners as they look towards week 8.

Mediterranean

The Mediterranean has seen little to get excited about for the Handy Owners as cargoes were slowly drip fed to the ever-increasing tonnage list. Rates have remained under pressure throughout the week and we see a few points being chipped off. Black Sea runs have settled for the moment at 30 x ws 162.5 benefiting from some delays in Sea of Mamara to hold fast, but with the rumours of 30 x ws 145 on subs now for a X-Med voyage, we can expect to see pressure grow and rates sliding further. Enquiry will need to pick up or weather to worsen if we are going to see rates stay put for the time being.

MRs have seen adequate enquiry throughout as similarly to the UKCont, voyages to the AG have been available. Rates to Jeddah settle towards the $700 mark by the end of the week, with ballast tonnage keeping pressure on. Expect more of the same heading into next week as Owners continue to scour the market for next employment.

UK Continent

A fairly balanced MR market has passed this week with good levels of fixtures only being neutered out by a healthy tonnage list. With the TC2 arb seemingly well and truly shut, apart from contract barrels, Owners could well have been concerned where the enquiry was going to come from, but with a handful of Reformate stems heading East, and good levels of WAF runs, tonnage has been turning over slowly. Rates for Baltic/UKCont have been consistently tested throughout the week, and by Friday we nestle down at 40 x ws 140. TC2 remains a little untested falling at 37 x ws 135-137.5 and to head to WAF presently 37 x ws 150. With TC14 struggling throughout the week, ballast tonnage has been a constant thorn in Owner's sides, and until this improves expect this sector to remain under pressure.

Handies at the beginning of the week saw some good levels of fixing, and a tightening tonnage list. By Wednesday rates had managed to pick up back to 30 x ws 175, but as we have seen many times before this year, cargo enquiry dried up rapidly. By the time, we reach Friday prompt tonnage slowly builds and opportunities for negative correction appear. X-UKCont voyages have been on the light side throughout the week and a fresh test will be needed to show the markets true strength, as we see only ideas of rates reflected from Baltic runs. Looking ahead, Owners will be hoping for the next round of enquiry to appear early on Monday to be able to clear out some of the prompter ships.

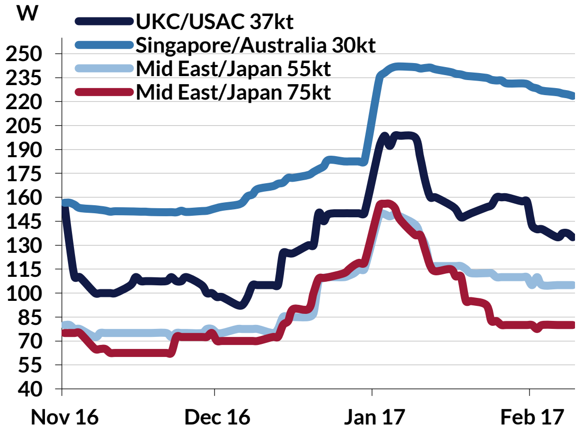
Finally, to the Flexis where apart from a handful of COA activity, market cargoes have been very quiet. Rates have ticked along around the 22 x ws 210 mark throughout the week, and by the time we reach Friday, a small 2.5 point reduction was seen. Next week Owners will be hoping for an improvement on enquiry, otherwise we could see further decline.

LRs

The week began in typical slow fashion. LR1 rates looked doomed given the recent tonnage build up, meanwhile LR2 rates looked steady given the uncertainty surrounding many of the positions in the West. It was little surprise to see a large chunk of Worldscale points quickly cut from last done levels on the ARA/WAF run, with rates falling to 60 x ws 120 and there were fresh tests for runs to the East with the ARA/AG rate slipping to $1.1 million. Thursday saw a large clear out of LR1 tonnage with vessels getting subjects, however this was not enough to prevent one Charterer slicing a further 10 Worldscale points away on the ARA/WAF run with a vessel reported on subs at 60 x ws 110. This has caught many by surprise, but in truth there are plentiful options available to Charterers for February loadings.

As mentioned there has been a lot of uncertainty surrounding LR2 positions in the West recently due to reasons such as strong swells closing the port of Mohammedia. This has enabled Owners with firmer positons to hold levels up. With positions for earlier loadings limited, Charters were seen taking vessels from the East where rates have been on their knees. An LR2 in ballast from the East fixed a MED/Japan run at $2.1 million. However, unless enquiry continues, vessel positions will begin to firm and rates could soften quickly. The window of opportunity for Owners to ballast from the East was very small and it already appears short lived. On top of this, LR1 rates slipping has seen one Charterer turn from an LR2 to the LR1s for an ARA/WAF run which might further limit LR2 employment opportunities.

Clean Product Tanker Spot Rates



Dirty Products

Handy

Tonnage in the Continent has been slowly nibbled away at, much to Charterers disadvantage this week. Pressure on securing the next available unit has been applied and now Charterers need to be looking ahead of the curve or rub shoulders with the right person in order to get the deals secured. All eyes will be on the fresh positions pushed out on Monday as negativity seen this week could well be quickly restored.

In the Mediterranean it's been a downward slope for the market this week with challenged ships doing sharper numbers than some might have called 'the market'. Looking into second/third decade dates of February tonnage is already looking thin on the ground and one would predict a tougher trading platform next week.

MR

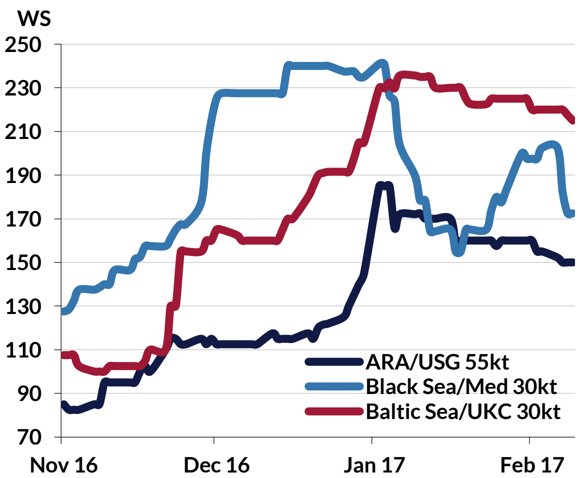
A week where one could only dream of a cargo, quickly changed into an active one with units rapidly disappearing. Fundamentals of the Continent changed very quickly with units showing availability going on subjects. This said, the latter stages of the week did show some failing occur, which leave the market now balanced, albeit slightly tight of availability.

The Mediterranean has not seen as much love as the Continent with the majority of units choosing smaller sized stems to find employment. This however, has tightened the position lists for those looking off prompter dates. Next week replenishment is likely to appear due to some of the short lengths of voyages being concluded.

Panamax

This week the market has had the handbrake firmly applied on this side of the Atlantic due to the little fresh activity. Looking to our cousins in the States for inspiration has unfortunately not managed to deliver either. This is mainly due to Aframaxes in the Caribs trading soft and correcting levels down to around the 70 x ws100 levels. This in turn has only added further competition for the Panamaxes within the region as the larger ships have been more than happy to find coverage on the smaller 50kt stems. The first couple of days trading next week will show where this market really sits.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 9th	Feb 2nd	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+9**	76	67	82	69
TD20	Suezmax	WAF-UKC	**-0**	73	73	112	78
TD7	Aframax	N.Sea-UKC	**-4**	97	101	101	104

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

			wk on wk change	Feb 9th	Feb 2nd	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+8,250**	35,750	27,500	40,250	29,250
TD20	Suezmax	WAF-UKC	**+0**	12,500	12,500	28,750	14,500
TD7	Aframax	N.Sea-UKC	**-3,000**	7,250	10,250	12,500	13,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 9th	Feb 2nd	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+2**	80	78	118	
TC2	MR - west	UKC-USAC	**-8**	137	144	174	138
TC5	LR1	AG-Japan	**-2**	108	110	118	113
TC7	MR - east	Singapore-EC Aus	**-4**	224	228	241	

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

			wk on wk change	Feb 9th	Feb 2nd	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+500**	3,000	2,500	12,250	
TC2	MR - west	UKC-USAC	**-1,000**	7,750	8,750	13,500	8,000
TC5	LR1	AG-Japan	**-500**	6,500	7,000	7,750	7,250
TC7	MR - east	Singapore-EC Aus	**-500**	11,250	11,750	13,000	

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

	wk on wk change	Feb 9th	Feb 2nd	Last Month
ClearView Bunker Price (Rotterdam HSFO 380)	**+1**	303	302	308
ClearView Bunker Price (Fujairah 380 HSFO)	**+6**	328	322	336
ClearView Bunker Price (Singapore 380 HSFO)	**+2**	326	324	340
ClearView Bunker Price (Rotterdam LSMGO)	**-10**	482	491	463

www.gibsons.co.uk

London
Audrey House
16-20 Ely Place
London EC1N 6SN

T +44 (0) 20 7667 1247
F +44 (0) 20 7430 1253
E research@eagibson.co.uk

Hong Kong
Room 1404, 14/f,
Allied Kajima Building
No. 138 Gloucester Road
Wan Chai, Hong Kong

T (852) 2511 8919
F (852) 2511 8910

Singapore
8 Eu Tong Sen Street
12-89 The Central
Singapore 059818

T (65) 6590 0220
F (65) 6222 2705

Houston
770 South Post Oak Lane
Suite 610, Houston
TX77056 United States

Beijing
Room B1616,
Huibin Building,
No 8, Beichen East Road,
Chaoyang District,
Beijing 100101