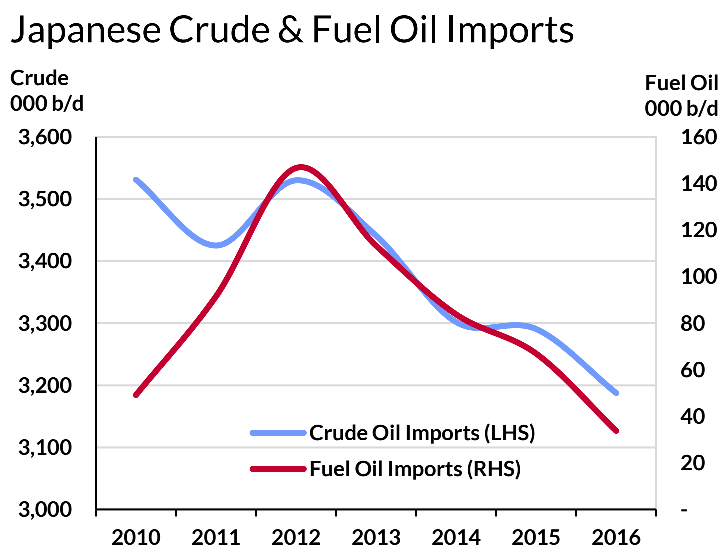
Sun sets on Japanese dirty imports

Weekly Tanker Market Report

The Japanese refining industry has been experiencing challenging circumstances for a number of years, with significant rationalisation of refining capacity. Reform in the Japanese refining sector is not a particularly new story; however, in March 2017, a government directive will come into effect, forcing refiners to further boost efficiency, whilst enhancing output of higher value clean products such as diesel and jet fuel. The latest directive is not the first introduced by the government and nor would it appear to be the final phase of the industry restructuring, with further directives potentially announced later this year.



Domestic consumption of petroleum products has been falling in recent years, in part due to a contraction of industrial output, more fuel-efficient vehicles and the introduction of a mandatory blending of ethanol into transportation fuels. The Petroleum Association of Japan pegged crude oil refining capacity at 3.8 million b/d at the end of 2016, with production spread across 22 facilities. However, over the coming years it can be expected that this figure will come under increasing negative pressure.

In an attempt to streamline the industry, a merger between JX Holdings and TonenGeneral, Japan's largest and third-ranked refiners respectively has been approved for April 2017, creating the new company JXTG Holdings. TonenGeneral has also announced there will be reductions at four refineries in 2017 totalling 71,500 b/d, with capacity already reduced at the companies Kawasaki plant. In addition to this, Idemitsu Kosan Co, the country's second-biggest refiner, had been in discussions with Showa Shell on the potential of a merger, however, this deal appears to be off the table as it has not won approval from the Idemitsu founding family.

Overall, the March directive is expected to reduce refining capacity to close to 3.57 million b/d, according to Reuters data. The introduction of a third directive, potentially later this year, will further reduce refining capacity and could also aim at reducing the number of major refiners in the country from 5 to 4 by 2020 or 2021, although this has not been confirmed.

Japan's shrinking refinery capacity has had implications for the crude tanker market. According to IEA data, crude imports into the country have been falling over the past five years, down by 300,000 b/d since 2012. Although it represents a notable drop in trade volumes, this had been more than offset by increases in China's crude buying. Some support to crude tanker demand was also found in a temporary surge in fuel oil imports (on the back of the Fukushima Nuclear disaster in 2011).

With further restructuring directives expected later this year, it would appear that Japan is braced for further reductions in crude oil imports. However, as it was the case in the past, oil demand in other parts of Asia continues to grow, most notably in non-OECD countries. As such, Japan's falling demand will most likely will be absorbed by gains in other markets. What this highlights though is the declining importance of Japan in the regional crude tanker market and a growing involvement of a large Japanese fleet in international trade.

Crude Oil

Middle East

Despite receiving final March programmes, VLCC Charterers kept to a slow pace, encouraged by easy looking availability through the current and medium term fixing windows. Rates just about held up at the bottom end of the recent range, but there has certainly been damage done and a busier phase is likely to now accelerate the softening trend. Rates operate at down to the very low ws 30's West and at no higher than ws 70 to the East. Suezmaxes enjoyed better early attention and rates did pick up a little to ws 85 to the East and into the high ws 40's West, but things quietened later. Aframaxes tightened further to allow rates to edge over 80,000 by ws 115 to Singapore, but Charterers moved onto more populous forward positions in response and to limit onward potential.

West Africa

Suezmax Owners spent the whole week convinced that Charterers would push enquiry harder into the marketplace and provide a catalyst for better times. Unfortunately for them, that never happened and rates barely improved over last week's ws 75 USGulf and ws 80 to Europe. Perhaps next week? Perhaps.

VLCCs stayed largely in 'conference' territory in the low ws 70's to the Far East, but a late week run to West Coast India took a hit to $2.78 million and although it was upon an elderly unit, sentiment has been punctured and any lower values seen in the AGulf will quickly become mirrored here too.

Mediterranean

Aframaxes had built a platform last week and improved enquiry this week shortened lists and allowed rates to push up to 80,000 by ws 122.5 cross Med - nothing spectacular, but Owners will remain keen to push their advantage further into next week. Suezmaxes on the other hand, found far less excitement to merely keep rates flatline at an average 140,000 by ws 80 from the Black Sea to European destinations with $3 million achievable for runs to China.

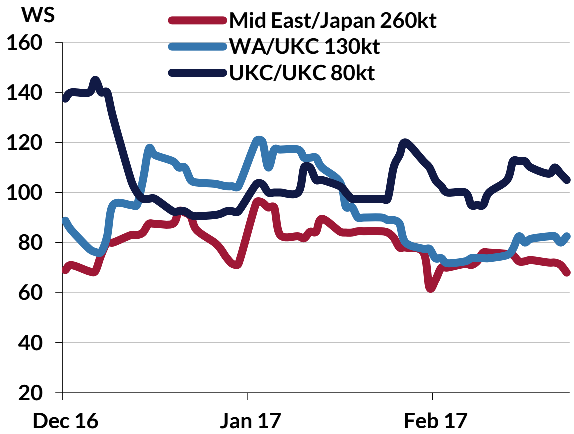
Caribbean

A bright start for Aframaxes here with rates at up to 70,000 by ws 155 upcoast, but a little gloss was rubbed off as the week progressed and Owners were a little more on the defensive by the week's end and rates had slipped towards ws 140 – they'll be hoping for a busy start in the week to come to reinforce their position. VLCCs were kept on thin rations, but the lack of activity also meant that rates weren't severely tested and asking levels were only reduced slightly to around $4.4 million to Singapore and to $3.4 million to West Coast India. It should begin to get a little more active next week.

North Sea

Aframaxes ticked lower through a slow-ish week, but eventually hit a more solid bottom at 80,000 by ws 97.5 cross UKCont and 100,000 by ws 95 from the Baltic as Charterers moved to bargain hunt. 'Arb' economics for would-be VLCC traders reduced to below the already reduced $3.6 million that Owners had indicated interest at for fuel oil movements to Singapore. Consequently little/no fixing was seen.

Crude Tanker Spot Rates



Clean Products

East

After a relatively active start to the week, the LRs have quietened down towards the tail end and are starting to soften slightly going into the new week. The LR2s, which last week were very busy moving naphtha, have experienced a sense of readjustment in terms of activity. TC1 is now trading 75 x ws 115 although most Charterers are now pushing for Platts - evidently their confidence in the legs of the LR2s is minimal. West runs have been defined perhaps unjustly by a $1.3 million on subs - although it is important to note that this was a ship coming out of drydock post-collision and without a sire - far from market representative. Market level is perceived at the $1.55 million, but outstanding westbound cargoes are being rolled until Monday, allowing settling in the market before further trading.

The LR1s have been slightly more active, although much of this has been replacements and switches around, so has actually given a slightly warped sense of activity on the market. 55 x ws 120 is still going on subs for TC5, which has stayed reasonably stable throughout the week. This is a slight drop from the rates seen last week, but with Platts being pushed for (similar to the LR2s) it reflects a weakening sentiment in the market and could be worse. Westbound has been relatively untested - $1.225 million equivalent for an AGulf load remains last done, although Charterers will be trying to test this next week.

The MRs have been fairly busy this week, and again we have seen a fair amount of tonnage cleared off the list. Again, Owners have felt confident enough to at least repeat last done, if not push rates a little. EAF is up 5 points and has sat pretty solid at ws 165 - multigrade lifts demanding slightly more, but not being market representative. West bound again has sat at the $1.025 million, but have been untested for the back half of the week. Shorthaul has bounced around the $170k level, but date dependent may be pushed, particularly for jet stems. Naphtha runs East have been traded at ws 132.5, but a ws 180 X-Iran and a ws 137.5 fully fixed early this week may give an inflated representation of the market level. Red Sea runs have crept up slowly from $415k and now sit at $450k - ppt liftings evidently demanding a slight premium. The list is looking healthy going into the new week, and with IP now over there may be a little more structure to trading going into week 9.

Mediterranean

IP week has bought some rather unexpected positivity to the Med Handies and enquiry was solid from the word go. As tonnage was steadily clipped away Charterers were left with less choice and Owners were able to inch up rates as a result. The back end of the week has seen an uptick in enquiry X-Black Sea with rates now firming to 30 x ws 162.5. East Med rates are beginning to increase as well on the back of the action which is now pushing beyond 30 x ws 142.5. West Med rates are still stuck at 30 x ws 140 as tonnage is better supplied and cargo enquiry is lacklustre meaning Owners are struggling to make and gains despite the more positive outlook going into next week.

The MR market has been a little more subdued than the Handies this week, although there has been enough volume both Westbound and Eastbound to keep rates holding. Med/Jeddah is stable at $700k, whilst transatlantic and Brazil runs are paying 37 x ws 130 and 37 x ws 140 respectively. A more positive Cont market next week may have some trickle-down effect for the Med MRs. The extent to which this may happen remains to be seen.

UK Continent

As week 8 comes to a close a final strong push on demand for MRs has seen us leave today with a stable market. Demand for TC2 runs have been slow throughout, but with good enquiry for Baltic/UKCont and UKCont/WAF runs have been good keeping the tonnage list constantly turning over. The extra benefit for Owners has also come from a boosted States market where we see TC14 above the ws 100 mark now. This has killed off some of the ballasters from the USAC which we have been plagued with over the past few weeks, leaving a few less vessel options and holding numbers. Looking ahead we can expect good levels of Baltic liftings to continue and with reports today of stock levels in the US for gasoline down for the first time in a while perhaps TC2 runs will begin to appear. Renewed interest from Charterers in this run could see potential for rates to strengthen, but we have to wait and see if this will happen first.

Handies have seen a placid market pass this week, with the slow stream of enquiry being quickly clipped away by tonnage. Rates have held throughout the week at 30 x ws 180 for ice Baltic liftings with many deals also being concluded directly, keeping the seemingly slower levels of enquiry occupying available tonnage. Moving on from here we can expect more of the same next week and as we head into March dates, eyes peeled for Baltic programmes to be released to see demand.

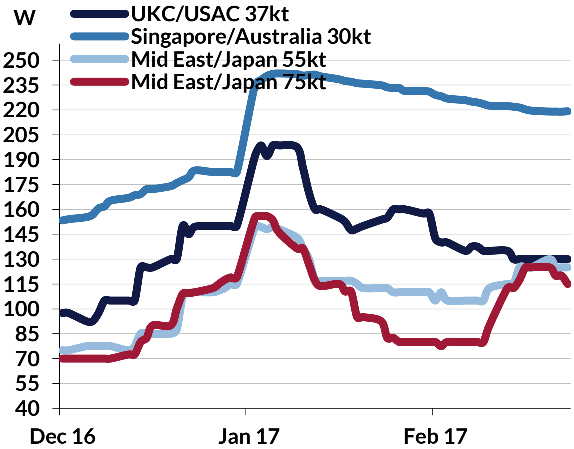
Finally, to the Flexis where the trend continues with little market enquiry and mostly COA demand keeping vessels moving. Rates hold for now at 22 x ws 210 although with a few prompt units on offer, rates may have a fresh negative test.

LRs

After a big clear out of tonnage during week 7, workable options particularly on the LR1s were visibly thin as week 8 began. Subsequently, Owners started out on Monday with a bullish outlook. However, with many travelling for IP week Owners worst fears were realised with enquiry never really getting off the ground. Rates on both LR sizes have remained pretty steady with ARA/WAF holding at 60 x ws 120 and $1.2 million for ARA/AG. On the LR2s, there have been a few fixtures concluded. Rates sitting at $1.95 million for ARA/Singapore and couple of vessels fixed away for STS Kalundborg/Japan runs due to the lack of ice classed LR2 vessels available to Charterers with load ports up in the ice affected regions of the Baltic. TC15 is sitting flat at $2.05 million.

Looking towards next week, Owners will try to push rates up again which might be possible on the LR2s, however Charterers are likely to use the MRs which are looking steady as a way to prevent the ARA/WAF run from rocketing.

Clean Product Tanker Spot Rates



Dirty Products

Handy

Due to the disruption of IP week the Continent region has continued to tick over somewhat un-noticed due to off market enquiry and many absent from their desks. With this in mind, rates dipped slightly, however as we move towards the closing stages of the week, adjustment has again been made, creating a conference level at the 30 x ws 190 mark. Heading into next week Charterer's will hoping a few more units appear on the fresh position list come Monday, as we close the week with workable tonnage looking tighter compared with recent weeks, particularly for ice classed vessels.

The Mediterranean has also experienced very similar conditions where steady enquiry has managed to prevent tonnage from being allowed to accrue. A little like the NWE region rates did suffer an initial setback and subsequently recovering towards the back end of the week. Fixing dates progressing ahead, Owners remain conscious to the fact that volumes will need to be maintained if the recovery is to last, although with the Russians back from holiday on Monday optimism for this happening prevails.

MR

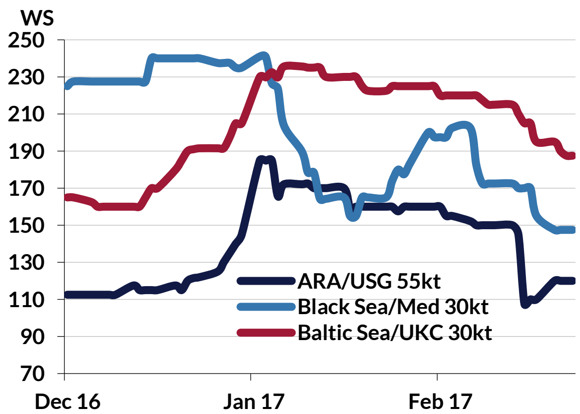
A noticeably quiet week for the Continent region with full stem enquiry somewhat missing, but this was to be expected with positions looking sparse. Apart from the couple of naturally placed units due to open up around end/early dates, we have seen Charterer's come out slightly earlier than expected in search for coverage, but despite the overall inactivity Owners will be looking slightly relaxed when the next test does arrive where Charterers options are still relatively limited.

Owners in the Mediterranean have mainly had to compete for part cargo stems this week as full sized cargoes are turning into a distant memory. As we await the next test tonnage remains well spread throughout the region and with offices back to full capacity next week Owners will be hoping to see some full-sized enquiry entering the market, but with the negative pressure still mounting levels on the next done could raise a few eyebrows.

Panamax

This week has been one of gradual progression as we have seen rates slowly creeping up albeit only by a couple of points fixture by fixture. The real factor for this is we started the week with little approved tonnage in play thus leaving Charterers having to look towards the other side of the pond to cover requirement. Looking towards next week this trend is likely to continue due to little tonnage committing to ballast this way. The US markets have been ticking over steadily and have done a good job of keeping tonnage employed, which could yet have bearing on our next done.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 23rd	Feb 16th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-5**	70	74	82	65
TD20	Suezmax	WAF-UKC	**+0**	81	81	112	80
TD7	Aframax	N.Sea-UKC	**-10**	101	111	101	105

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

			wk on wk change	Feb 23rd	Feb 16th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-3,750**	29,250	33,000	40,250	24,500
TD20	Suezmax	WAF-UKC	**+250**	15,500	15,250	28,750	15,000
TD7	Aframax	N.Sea-UKC	**-7,500**	10,500	18,000	12,500	13,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 23rd	Feb 16th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-10**	115	125	118	
TC2	MR - west	UKC-USAC	**+0**	130	130	174	138
TC5	LR1	AG-Japan	**+4**	126	122	118	117
TC7	MR - east	Singapore-EC Aus	**-1**	219	220	241	

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

			wk on wk change	Feb 23rd	Feb 16th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-2,500**	11,500	14,000	12,250	
TC2	MR - west	UKC-USAC	**+0**	6,750	6,750	13,500	7,750
TC5	LR1	AG-Japan	**+500**	9,000	8,500	7,750	7,500
TC7	MR - east	Singapore-EC Aus	**-250**	10,750	11,000	13,000	

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

ClearView Bunker Price (Rotterdam HSFO 380)	-5	306	311	308
ClearView Bunker Price (Fujairah 380 HSFO)	-2	334	336	336
ClearView Bunker Price (Singapore 380 HSFO)	+1	330	329	340
ClearView Bunker Price (Rotterdam LSMGO)	+2	483	481	463

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