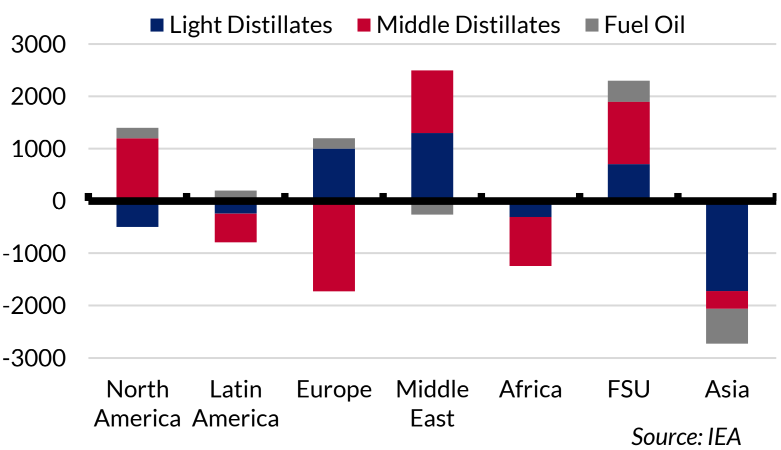
The Long and Short of It
Weekly Tanker Market Report

Last week saw the release of the IEA's medium term oil market report which provides a useful insight into the future development of the oil markets and subsequent trade flows. Most relevant to the product tanker market, was the IEA's analysis of product balances, broken down into light (gasoline/naphtha), middle (gasoil/kerosene) and heavy distillates (fuel oil).

Interestingly, product balances in Europe are expected to see little change between 2016 and 2022. Europe will remain short on middle distillates, and long on lighter distillates. This signals limited prospects for European imports generating increased tonne mile demand, given the product is likely to remain primarily supplied by the US, Former Soviet Union (FSU) and Middle East/India. The good news for Europe is that there are sufficient outlets for its surplus light ends. The US will have a shortage of about 0.5 million b/d of gasoline, similar to the current picture, whilst other regions such as Africa and Latin America post small deficits for the lighter ends. Evidently there is a reasonable selection of export destinations within the Atlantic for European gasoline.

Global Product Balances: 2022 (million b/d)



Source: IEA

On the subject of Africa, closer analysis of the IEA's report reveals some background behind the data. The IEA suggests that Africa's shortage of lighter distillates will be the same in 2022 as it is today, which is surprising considering demand growth in the region. However, there is a significant assumption: the Lekki refinery in Nigeria, which is slated for start up sometime next year. However, the IEA are cautious, and do not factor this refinery as impacting the market until 2022. On the face of it, no change in African import demand is bearish for product tankers, however as this key refinery is not expected until 2022, we can expect African import demand to continue rising until the refinery is brought online. Furthermore, given the track record of refining in Nigeria, one must be cautious as to whether this plant can (a) be built within the next 5 years, and (b) run consistently near design capacity. Any setbacks here will provide upside support for the tanker markets. In terms of middle distillates, Africa and Latin America will see their import requirements shrink marginally to a combined 1.5 million b/d with the primary sources of supply likely to be the US, Middle East (inc. India) and Russia.

Globally, the Middle East will continue to be the primary source of export growth over the forecast period. The regions surplus of gasoil will grow by approximately 70% over the next five years, whilst the light distillates surplus will post growth of 85% over the same period. All of this bodes well for exports from the region. In Asia, 2016 saw a gasoil surplus, forcing traders to push export barrels long haul, primarily driven by the emergence of the teapot refiners in China. However, by 2022, this surplus will flip to a deficit. In one sense, this is bearish as outbound product flows fall away. However, increased import demand will partially offset these declines. Additionally, Asia's shortage of gasoline/naphtha will grow by over 0.5 million b/d by 2022. Whilst this growth is positive, it does mark a significant downwards revision from the IEA's 2016 report which projected light distillates import growth of 1.6 million b/d by 2021. Despite this downwards revision, Asia's growing product deficits will support long haul imports from both the Middle East and Atlantic basin, generating incremental tonne mile demand, in spite of declining exports from the region.

Crude Oil

Middle East

March VLCC fixing closed out and Charterers took an easy start to the new April programme. Overall, volumes were reasonable, but the weight of availability limited rates to within their previous flat range. Lows slid into the high ws 40's to the East with little better than ws 55 for more restricted runs and rates to the West down to ws 27 via Cape. Busy, perhaps, next week, but Owners will find little leverage. Suezmaxes started in reasonable form, but enquiry thinned as the week progressed and rates slid off to 87.5 to the East and ws 42.5 to the West with little early change likely. Aframaxes pushed on as supportive inter Far East action escalated. Rates moved to 80,000 by ws 130 to Singapore and could even add to that next week.

West Africa

Suezmaxes couldn't maintain the peaks of late last week as Charterers began to ease back and allow Owners to do the chasing. Rates fell off to 130,000 by ws 85 USGulf, and to just under ws 90 to Europe, reflecting a 20 ws point drop week on week. Owners will remain on the defensive over the near term. VLCCs enjoyed a rash of enquiry early in the week to maintain a reasonable premium over AG/East numbers - up to 260,000 by ws 63.5 paid to the Far East, but a little less than that became available by the week's end and as the AGulf failed to spark.

Mediterranean

Aframaxes initially dipped towards 80,000 by ws 105 cross Med, but late week conditions and volumes, improved and Owners were pushing to ws 110 and possibly beyond, into the weekend. Further delays in the area may help to secure improvements into next week. Suezmaxes saw less in the second half of the week and with West Africa falling, sentiment also became negatively impacted. Rates slipped to 140,000 by ws 102.5 from the Black Sea to European destinations with around $3.5 million asked for runs to China.

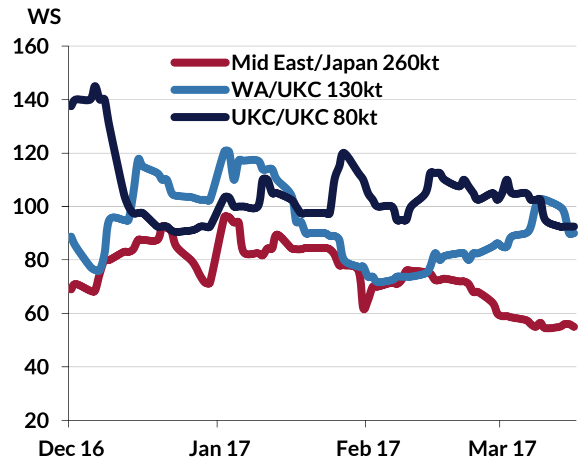
Caribbean

Aframaxes ended last week tentatively at 70,000 by ws 130 upcoast, but then steadily tumbled to end the week at nearer ws 95 and it looks as if it will take an elongated spell of bargain hunting to turn things around once again. VLCCs saw very little - again. Theoretically, rates stand at $4 million to Singapore and $3.1 million to West Coast India, but once tested those marks may well prove over optimistic.

North Sea

Although there was an improvement in Aframax enquiry later in the week, it wasn't enough to rebuild the market and rates couldn't break higher than 80,000 by ws 95 cross UKCont, or 100,000 by ws 90 from the Baltic. If it re-starts busy next week then maybe some modest gains can be posted. VLCC interest picked up and tonnage became quite tight upon the fixing window. Rates, however, didn't respond noticeably and remained capped at $3.6 million for fuel oil to Singapore and $4.5 million for crude oil from Hound Point to South Korea/China.

Crude Tanker Spot Rates



Clean Products

East

The MRs started this week with a similar pace seen last week. A lot of cargoes remained there for the taking, and it seemed as though Owners would again try to push rates. However, Charterers have sat off the MR market somewhat, conscious of the fact that the LR1s have had a lot of cargoes outstanding and they don't want to add more fuel to a busy market. Subsequently, some rates have softened slightly towards the back end of the week. Shorthaul has remained sat around the $200k level, dependant on grade and ports. Runs into the Red Sea have come off slightly from last week's rates, with $450k now the going rate. West runs to the UKCont have also come off to $1.05 million - a result of a slightly disappointing Kuwait loading jet run put on subs last Friday, although this will need a fresh test in the new week. TC12 is an incredibly unpopular route - theoretically ws 140 plus is the last seen done, but again this needs a fresh test going into the new week. EAF has perhaps been the steadiest of routes this week. For ships with clean history, ws 175 is the tried and tested rate, although a ws 177.5 has been seen. Last vegoil ships have given a meaty 10-point discount on the same route, and Charterers will be eager to use this number to cut fat out of this route next week. Given the slower emergence of cargoes towards the back end of this week, it will be interesting to see whether more emerge in the next week, which Charterers have been sitting on thus far.

LRs have had a frustrating week with LR2s only really having any volume in the last 2 days and LR1s with plenty of stems, but a stand-off between Owners and Charterers. 75,000 mt naphtha AG/Japan has settled at ws 112.5 after a brief dalliance at higher levels. 90,000 mt jet AG/UKCont has moved up a touch to $1.60 million. LR1s are a little uncertain with 55,000 mt naphtha AG/Japan edging up to ws 135 and 65,000 mt jet AG/UKCont at $1.20 million, but Owners are pushing for more and Charterers looking for a discount. Some 12 cargoes remain in the market and whichever party wins the initial battle may see a stream of fixtures then repeated.

Mediterranean

This week had brought some much needed and welcome respite for Owners in the Med after a dismal start to the year, the end of the first quarter is bringing rates that are pushing earnings back to good levels. Enquiry has been considerably higher this week than has been the case recently leaving Charterers with more cargo for fewer ships. Poor weather recently had caused a backlog of tonnage in the Black Sea too meaning rates have continued to stay firm despite the worst of the weather moving off. The week finished with X-Med paying 30 x ws 195-200, but could easily be more if anything remotely troubling on the cargo, whilst Black Sea is offering Owners 30 x ws 210-215. This situation looks to persist into next week as a few uncovered cargoes look to take cover from few outstanding ships.

MRs in the Med have enjoyed a better week of trading too mostly driven by the action seen in NWE for cargoes down to WAF. That said, with few ships available in the Med as tonnage is drawn north from WAF and transatlantic rates have firmed as a result with 37 x ws 190 being done ex Lavera. A handful of cargoes loading Skikda have commanded higher than last with 37 x ws 180 to Brazil and with some stems still looking for love, next week looks to kick off from where we finish this week.

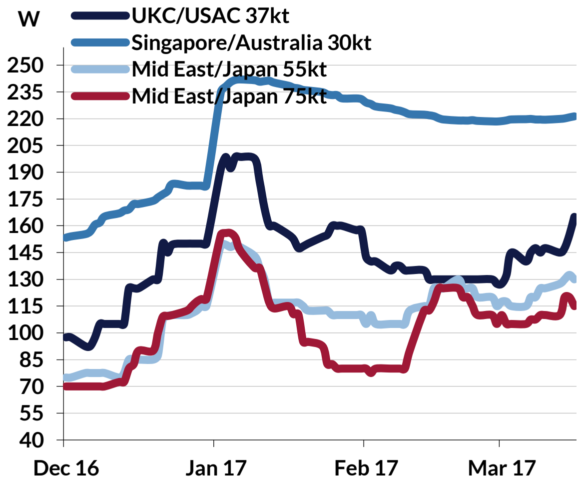
UK Continent

All in all week 11 has proven to be rather active for MRs plying their trade in NWE. The main driver behind a sharp rise in freight rates across the board has been the huge demand for gasoline from WAF, with around an extra 19 cargoes booked before end March which saw WAF rates finish at 37 x ws 185-190. TC2 volumes have been moderate this week and freight levels have corrected to 37 x ws 165 due WAF enquiry. Ice tonnage for March dates is now super tight with 37 x ws 190 on subs transatlantic, some Charterers who have had MR exposure ex Baltic have been looking at Handysize tonnage to try and relieve some pressure.

Handies kicked off the week at a rather slow pace with Baltic cargoes trading at 30 x ws 177.5 and X-UKCont trading flat at 30 x ws 155. By the mid-week stage Handies began to get active off the back of a busy MR market. Some lucrative long haul stems then appeared off the back of MR cargoes downsizing down to WAF with 30 x ws 195 put on subs. Baltic/UKCont also ticked up with Owners now trying to hold for 30 x ws 190 and 30 x ws 170 for X-UKCont.

Then to the Flexi market where the normal practice of contract business keeps tonnage employed. Levels continue to trade sideways at 22 x ws 210.

Clean Product Tanker Spot Rates



Dirty Products

Handy

This week has seen a change in pace of activity in the NWE region compared to recent weeks, where Monday got off with a prompt laden tonnage list and one by one ships were clipped away. This has left rates creeping northwards towards the end of the week and what tonnage is left is now looking much less challenged for competition. The real question left to ponder on is will the weekend break be enough time period for tonnage to replenish back on the lists come Monday opening.

The Med activity this week has been largely driven by heavy delays in the Turkish Straits, which in turn has forced some Charterers heads to look to secure tonnage a little more forward than they would perhaps feel comfortable in covering. The reality of these prolonged delays is not just causing problems on the shipping side, but also on many oil deals, where furthermore, until such delays subside firm tonnage is likely to be able to continue to extract further value.

MR

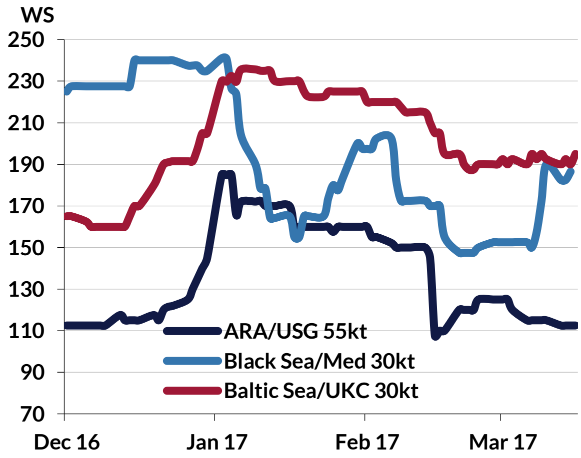
It was a game of patience in the Continent this week for Owners, but as surrounding markets progressively tightened a knock-on effect was seen on the MR tonnage lists where availability started to thin. This said, perhaps availability weighed a little too heavy thus allowing Charterers to inflict negative correction from last done levels. As we draw a close to the week, however, many of the deals concluded may thwart further decline.

Similar to the Continent Owners in the Med had a frustrating start to the week as it seemed handy tonnage was benefiting more from the inflated rates caused by the Turkish Strait delays and MRs were slightly left out in the cold. Again, hitting the second half of the week Charterers were eager to test and a number of natural size stems out of the Black Sea were reported as vessels started to disappear rapidly. Negative correction was perhaps inevitable although here too although Charterers options are again stretched apart from the odd units failing subjects able to make prompt dates.

Panamax

This week has played out pretty much like a carbon copy of last week where Mondays opening, again saw fresh waves of ballast tonnage heading towards our shores. In turn, this prompted enquiry to enter in the days that lay ahead although frustratingly for Owners, a we saw a fairly low strike rate of questioning becoming firm business. This said, the deals that had been concluded showed testament to owners resolve where a market floor was held at ws 112.5. Looking ahead, it seems rather unlikely sentiment will alter much, or at least until US markets see a little upside.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 16th	Mar 9th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-1**	55	56	82	57
TD20	Suezmax	WAF-UKC	**-13**	91	104	112	93
TD7	Aframax	N.Sea-UKC	**-6**	92	98	101	101

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

			wk on wk change	Mar 16th	Mar 9th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+0**	19,250	19,250	40,250	21,000
TD20	Suezmax	WAF-UKC	**-5,000**	21,000	26,000	28,750	21,500
TD7	Aframax	N.Sea-UKC	**-3,750**	5,250	9,000	12,500	11,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 16th	Mar 9th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+5**	115	110	118	
TC2	MR - west	UKC-USAC	**+16**	163	148	174	154
TC5	LR1	AG-Japan	**+8**	132	124	118	124
TC7	MR - east	Singapore-EC Aus	**+2**	221	219	241	

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

			wk on wk change	Mar 16th	Mar 9th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+1,000**	12,250	11,250	12,250	
TC2	MR - west	UKC-USAC	**+3,000**	12,500	9,500	13,500	11,000
TC5	LR1	AG-Japan	**+1,750**	11,000	9,250	7,750	9,750
TC7	MR - east	Singapore-EC Aus	**+0**	11,250	11,250	13,000	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**-12**	281	293	308
ClearView Bunker Price (Fujairah 380 HSFO)	**-18**	298	316	336
ClearView Bunker Price (Singapore 380 HSFO)	**-11**	302	313	340
ClearView Bunker Price (Rotterdam LSMGO)	**-19**	444	463	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

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

Seoul
10F, Dongwha Bldg. (Annex) 60
Sejong-daero 9 –gil,
Jung-gu
Seoul
Korea 100-814

E research@eagibson.co.uk