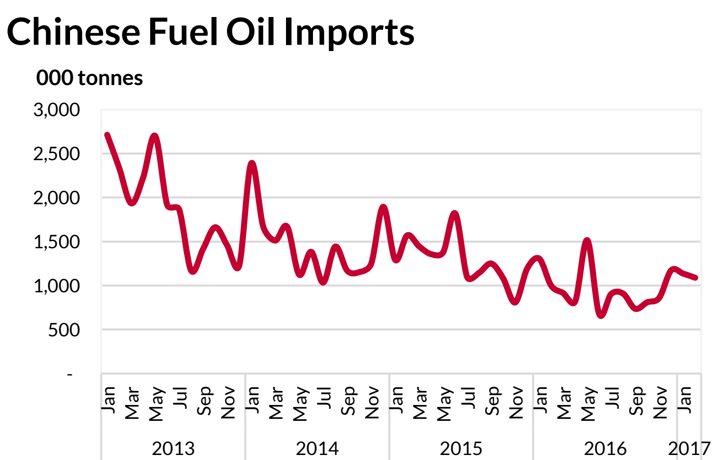
Taxing Times Ahead

Weekly Tanker Market Report

According to data provided by Reuters, China's crude oil imports and refinery processing in Q1 2017 have reached new highs and painted a particularly healthy picture. Overall, despite slowing economic growth, China's continued growth in crude oil imports since 2016 has been attributable to strong demand from independent refiners, commercial and strategic stockpiling and declining domestic production from maturing fields. However, several factors are beginning to emerge which could shake up China's refinery sector and impact on the tanker markets.

Throughout 2016 China's clean petroleum product (CPP) exports were boosted in part by independent or 'teapot' refineries being granted export quotas and competing with state-run refiners to place barrels domestically (hence stronger growth in crude imports). However, in a major shake up to the sector, it was announced in December 2016 that fuel quota export licences for independent refineries will be scrapped. Independent refineries could still export product, although this would now need to be done through state owned energy companies. This should put the CPP export market back into the hands of China's big four state-owned refiners. In addition, favourable export permits have been granted to state oil refiners which allow for an exemption or rebate on import taxes and export taxes for oil and refined products respectively. The permits will only cover a portion of total imports and exports and will most likely affect diesel and gasoline exports equating to roughly 4.65 million tonnes worth of exports.



Source: Reuters

It is important to note that removing export licenses for independent refiners should not affect China's total exports significantly, in part due to the favourable export quotas granted to state refiners. However, something with the potential to have a significant impact on exports is lurking just around the corner.

Chinese authorities are moving closer to imposing a consumption tax on imports of oil by-products; such as mixed aromatics, light cycle oil and bitumen blend. These taxes could have negative effects on product tankers in Asia. Mixed aromatics is the main blending component of gasoline, while light cycle oil (LCO) is the same for gasoil. As both products are currently free of import duty, imports have surged in recent years, supporting record exports. According to data provided by China's General Administration of Customs, imports of mixed aromatics reached 11.7 million tonnes in 2016 and LCO imports of 4.46 million tonnes.
If imports of mixed aromatics decline significantly, then refiners will be forced to boost domestic supply which could lead to less product being available for export.

An example of the impact of a consumption tax can be found in fuel oil imports into China. Imports have been declining for several years after the introduction of the tax and it looks increasingly likely that mixed aromatics and LCO imports would follow a similar trend. As mixed aromatics make up such a large share of China's gasoline market, exporting surplus product would naturally be affected as mixed aromatics become more expensive to import. This has the potential for a double hit on product tanker trade, translating into less imports of blending components and fewer exports of finished products.

However, as is often the way the closing of one door can lead to new opportunities. Potential positives could be that refiners would need to increase imports of lighter crudes (many of which originate from the Atlantic Basin) in order to increase production of gasoline. Furthermore, the decline in product exports out of China will not only reduce the regional excess but could also stimulate longer haul imports.

Crude Oil

Middle East

A holiday shortened week, but an active delayed start for VLCCs allowed for rates to push recent peaks to the high ws 70's East and into the low ws 40's to the West. Thereafter, things did slow down, but Owners retained confidence that momentum will be regained from early next week...Charterers' compliance is not a guarantee, however. Suezmaxes, on the other hand, started slowly, but then became busier and rates started to break away from their recent handcuffs. Now, close to ws 40 to the West and into the mid ws 80's East, with further upside at least possible. Aframaxes kept a steady profile at 80,000 by ws 117.5/120 to Singapore, but again fall short of enough interest to achieve critical mass and little early change seems likely.

West Africa

Suezmaxes found a degree of balance to eventually shrug off repeated attempts by Charterers to chip the market lower. In the end the tables turned somewhat and Owners became the aggressors. No big shift, but rates now stand at a slightly higher ws 75 to the USGulf and towards ws 85 to Europe. Modest gains for now, but there will remain some potential for more noticeable improvement. VLCCs kept steady, rather than busy. Rates averaged ws 72.5 to the Far East which eradicates the previously common premium over AG/East movements revealing some Owners preference for 'locking in' the recently better TCE's over a longer voyage period on doubts over the stamina of the Middle East market going forward. Nothing was seen to West Coast India, but would theoretically move at close to $3.4 million from Angola.

Mediterranean

Aframaxes undulated through the short week within a tight rate range with the latest push being quickly snuffed out again at the week's end. Cross Med rates operate at 80,000 by ws 105/107.5 and it looks to be a similar story being lined up for next week too. Suezmaxes began to gain more faith as West Africa improved and local interest built. Rates rose modestly to 140,000 by ws 85 from the Black Sea to European destinations with around $2.9 million asked for runs to China. further gains will be dependent upon those more favourable conditions continuing.

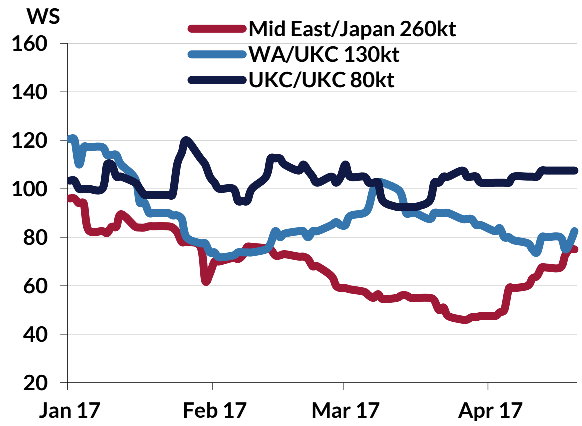
Caribbean

Aframaxes were hopeful of pulling through the 70,000 by ws 120 mark upcoast, but ended in defending ws 105 and looked to be slipping to the next lower mark by the close as availability became easier on the forward fixing position. VLCCs were effectively stripped out on early dates - even mid-term dates too - and rates strengthened towards $4.5 million to Singapore and $3.85 million to West Coast India, accordingly. Charterers will have to be very patient if they are to engineer a reverse.

North Sea

An active end to the week for Aframaxes that allowed rates to inflate to 80,000 by ws 107.5 cross UKCont and to 100,000 by ws 95 from the Baltic. Nothing to shout about perhaps, but sentiment is reinforced and more may yet be posted. VLCC action to the East was more limited than of late, but there was latent interest circulating and $4.95 million was paid for a crude oil movement from SKAW to China with fuel oil from Rotterdam to Singapore attempted at around $3.4 million.

Crude Tanker Spot Rates



Clean Products

East

MRs have not enjoyed a good week in the Gulf. LRs have dominated the action on the clean - unsurprising given the relative cost per ton to move longhaul. For this reason, we have seen much more moved shorthaul on the smaller tonnage. Although we have seen $132.5K on the cross Gulf, this was before a splurge of cargoes which has re-established $150k as the market level. EAF is under constant pressure - although we have seen ws 147.5 on subs, Owners will use the veg history to explain a jeopardised rate. However, given the continued availability of tonnage, Charterers will look to repeat this rate on a CPP traded history. West-runs are unsurprisingly untested due to the cheap freight on LRs - $900k should in theory be the market level, but it would be unsurprising to see Owners do less to equate to cost-effectiveness on larger tonnage. TC12 is an incredibly unpopular route given the state of the MR market in the Far East, although Eastern Owners have done ws 125 to return tonnage close to head Owners. Runs to the Red Sea will be very popular next week, given the amount of product we have seen being moved this week. Given the fact that a lot of the front end has been cleared this week, and the fact that the LRs are looking a lot healthier, it will be interesting to see how the MRs fare next week.

LRs have had a poor week, having seen more cargoes quote, yet rates continue their downward slide. 75,000 mt naphtha AG/Japan is now down at ws 85 and 90,000 mt AG/UKCont is steady at $1.325 million. Rates cannot really drop much further with returns at single figure levels. LR1s have stayed flat all week with 55,000 mt naphtha AG/Japan at ws 100 and 65,000 mt jet AG/UKCont at $1.05 million. Once again there is little more owners can really give and, with the activity seen, rate should now bottom out.

Mediterranean

Owners in the Mediterranean this week managed to keep momentum up from the previous week as numbers improved steadily. High levels of enquiry across the board have seen rates comfortably stabilise into the ws 200's, with West Med trailing behind around ws 220 by Friday and East Med ws 235+. With this in mind, it is not a surprise to see Black Sea rates pushing further into ws 245, with rumours of more on subs floating around. Enquiry still remains strong as the week closes, with much of this being kept under the radar by Charterers in an attempt to keep this market under control. The weekend will provide a useful moment to reassess market conditions and we await till Monday to see any further strength in the Owners' position.

MRs saw enquiry tick over this week and, with a blossoming UKCont sector, fewer ballasters to aid Charterers. With this in mind, rates managed to pick up equally for TA voyages and can expect further enquiry to see a similar tale to TC2. Owners look to make the most of these opportunities to keep momentum in their favour.

UK Continent

A positive end to week 16 for Owners has given the MR sector a boost in rates as a glut on end April stems appeared in front of us. Rates began pushing just above 37 x ws 150 on Monday, but as close of play arrives ws 172.5+ appears on subs, with a handful of stems still to be covered and few ships. The main drive we have seen was midweek where multiple end April TA stems came into the market, with a slender top end tonnage list. Partnered with WAF and Baltic/UKCont stems also developing, Owners have managed to regain some lost ground and looking ahead expect these rates to hold out.

Tonnage will remain in low availability till early May dates and expect this afternoon to show some spiked numbers.

Handies have kept a low profile in comparison to the MRs, with rates doing very little. As ice in the Baltics melts, Charterers have managed to press on the fixing numbers as we see 30 x ws 185 now the going rate. X-UKCont sees a handful of stems scattered across the week, which has given little entertainment for Owners keeping rates flat at 30 x ws 175. Looking ahead many will be eager to see the early May program for Baltic liftings. These stems will be needed to keep rates here, as we begin to see non-ice classed vessels being used. Any stem still to be covered with April dates will be able to test Owners resistance.

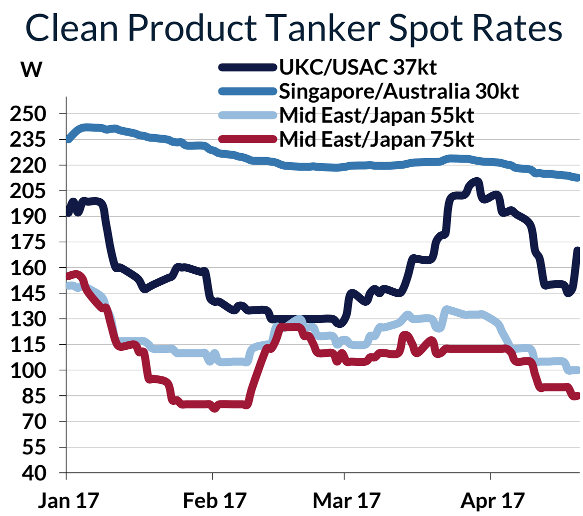
Finally to the Flexis, where a slow turnover of ships under COA program has kept this market in place. Rates still tread water at 22 x ws 215, with little market enquiry to give Charterers opportunities to press here. Expect more of the same ahead in this settled sector.

LRs

The shortened week got off to a slow start with little to suggest there would be any major changes to LRs in the West. However, a sharp improvement on the MRs has seen Charterers look to cover some stems using LR1s. Much will depend on the outcome of the handful of vessels presently on subs, but a positive MR market has seen LR1 rates stabilise and there is every chance LR1 Owners can now try to regain some recently lost worldscale points.

Owners' rate ideas for East runs will subsequently begin to increase again. Having said that, levels will be restricted due to the current state of the LR2 market. LR2 rates are so low that we have seen a few Owners turn to the better paying DPP market over the last couple of weeks.

In terms of rates, TC16 should today sit somewhere between 60 x ws 110-15 whilst MED/AG runs should move back up a touch to $950K. LR2 rates need a few fresh tests due to recent inactivity but $1.65 million is where I continue to hold MED/JAPAN levels. The length of the West LR tonnage list is not actually that long, inquiry is just slow at the moment. Naphtha flows remain minimal to the East and reformate movements have dried up, whilst the market awaits the announcement to tax policy changes from the Chinese government.



Dirty Products

Handy

As we close the door on week 16, it proved to be a forgetful one for Owners in the Continent as the level of enquiry needed to gain some sort of momentum proved to be missing and a correction on rates remained a foregone conclusion. With tonnage continuing to build in the region Owners will be heading into the weekend slightly deflated but hopeful now that a few end month stems have entered the market. Early next week may show more opportunity.

Starting the week fresh from the extended break, activity in the Mediterranean started off reasonably flat with the region looking long on tonnage, in turn the writing was perhaps already on the wall for Owners as a fresh test of strength loomed. This said, entering the second half of the week with a handful end month Black Sea coming into play, Owners have managed bring some stability into the region after a run of setbacks.

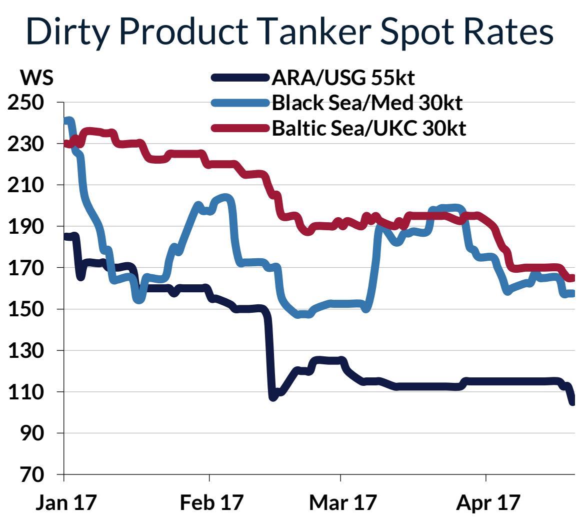
MR

The fresh tonnage lists on Tuesday morning were not exactly short of MR positions in the Mediterranean. Although, much to Owners delight, requirements were shown almost immediately which helped to ease any fears. As the week progressed pockets of strength were even being found off prompt dates ex Black Sea, which led to slight gains reported on last done. The only negative however, is that some units eventually failed subjects which served to level off conditions.

This week, the Continent finally brought us a fresh test on a full sized stem which would of provided a slight sense of relief for Owners in play as we finally found out where the market stood. As the week progressed a couple of Owners did manage to find coverage, but with a few units still left to ponder over the weekend, the early stages of next week could see Charterer's add further pressure to already depleted levels.

Panamax

After a prolonged period of inactivity, the market was finally gifted some requirement, although this only proved to detrimental to market strength. At time of writing, on paper we are sat some 12.5 ws points South of where the week begun, although perhaps here is where Owners can find a silver lining. With a reduction in excess capacity, those remaining in need of employment are likely to draw a line against further reductions. Over in the US markets have fared rather more consistent, although for the most part, numbers haven't moved much, except for unforeseen circumstances where replacement tonnage had been sought.



GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Apr 20th	Apr 13th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+7**	76	69	70	64
TD20	Suezmax	WAF-UKC	**+2**	81	79	81	82
TD7	Aframax	N.Sea-UKC	**+0**	108	108	101	112

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

			wk on wk change	Apr 20th	Apr 13th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+6,250**	36,250	30,000	29,250	26,000
TD20	Suezmax	WAF-UKC	**+1,250**	15,750	14,500	15,500	16,500
TD7	Aframax	N.Sea-UKC	**+1,500**	16,750	15,250	10,500	19,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Apr 20th	Apr 13th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-5**	85	90	115	
TC2	MR - west	UKC-USAC	**+16**	168	152	130	161
TC5	LR1	AG-Japan	**-5**	100	105	126	112
TC7	MR - east	Singapore-EC Aus	**-2**	213	215	219	

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

			wk on wk change	Apr 20th	Apr 13th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-750**	5,250	6,000	11,500	
TC2	MR - west	UKC-USAC	**+3,000**	13,000	10,000	6,750	11,750
TC5	LR1	AG-Japan	**+500**	5,750	5,250	9,000	7,500
TC7	MR - east	Singapore-EC Aus	**+250**	10,500	10,250	10,750	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**-14**	291	305	270
ClearView Bunker Price (Fujairah 380 HSFO)	**-8**	313	321	293
ClearView Bunker Price (Singapore 380 HSFO)	**-16**	313	329	295
ClearView Bunker Price (Rotterdam LSMGO)	**-21**	458	479	435

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