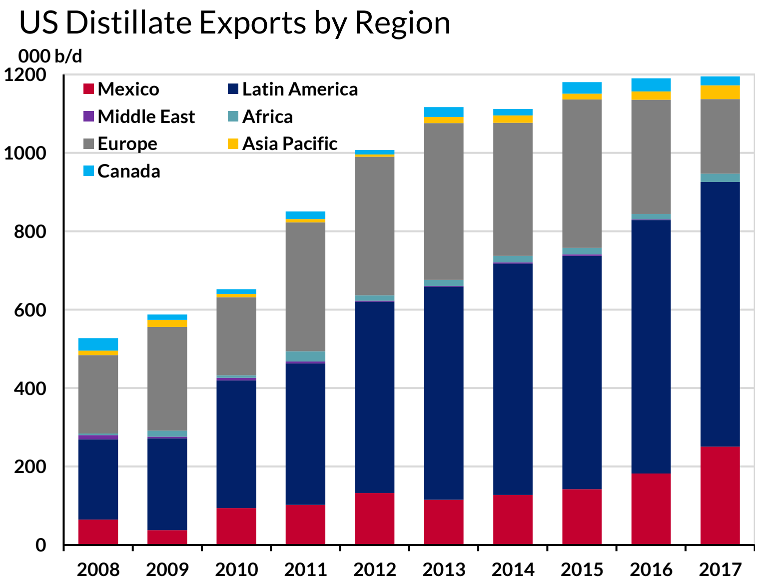
South of the Boarder
Weekly Tanker Market Report

Last week we focused on the world's largest holder of crude oil reserves - Venezuela. This week we keep focus on the Latin American region but instead assess its potential as a source of clean tanker demand.

Despite plentiful supply of crude oil, the region has historically had to rely on imports to supplement its domestic refining output, and despite the promise, has struggled to make progress on the refining front over the past few years. Indeed, much hope rested on Brazil, with several major projects under construction, many of which should have been operational today. Yet the remaining projects have suffered continual setbacks, with all remaining projects on hold as Petrobras tries to reign in its Capex, following an economic and political crisis in the country. Yet it is not just Brazil that has struggled. Elsewhere in the region, refining in Venezuela has been particularly hard hit by a lack of investment and maintenance following the collapse in oil prices. Whilst the country boasts refining capacity of 1.3 million b/d, which should make the country a net exporter, utilisation has been very low in recent months. Mexico has also had its fair share of issues, whilst elsewhere in the region, little progress has been made on the refining front.



Until recently, the regions inability to bring on any major increases in refining capacity had coincided with a period of falling demand, in line with economic contraction in many of the regional powerhouse economies. However, despite the economic instability, product imports have seen growth over the past few years.

In 2016, the US alone exported 2.3 million b/d of refined products to the region, of which over 0.8 million b/d comprised of middle distillate. Whilst this represented growth of just 200,000 b/d over 2015, one must consider that overall oil demand growth was declining over the period. Now with the some of the major regional economies recovering, demand growth in the region is set to return. Over the next five years the IEA projects regional demand to grow nearly 0.6 million b/d. Whilst limited expansions in refining capacity are expected to come online over this period, higher utilisation (which is questionable) could contribute in part towards servicing higher demand. However, regardless of these developments, the region will be forced to import higher volumes of product. Furthermore, BP has opened its first gas station in Mexico, with plans to open 1,500 over the next five years; Exxon has plans to invest $300 million into the country's retail fuel sector, whilst Glencore has announced its own partnership with a domestic player. However, neither Exxon, Glencore or BP have signalled any intent to invest in refining capacity in Mexico, pointing to higher trading activity in the region. From a supply perspective, the US does of course maintain the geographic advantage; however, other regions such as Europe, may play an increasing role. Nevertheless, higher product imports are positive for the clean tanker market, whilst a slower expansion in regional refining capacity also supports crude exports.

Crude Oil

Middle East

Charterers swiftly pressed on with their early VLCC June positions without too much concern. Rates over the week gradually fell as Owners pushed for cover realising the next deal was likely to be lower than the last. Current levels to the East are around 270,000mt x ws 52.5-55 for modern with some discounting for lesser approved units available. A sharp level was concluded to the West at 280,000mt x ws 22.5 for US Gulf via Suez which surprised a few, whether these levels can be repeated remains to be seen. As expected, Suezmax Owners faced an uphill battle this week, with many of them deciding to fix from other load areas. Tonnage availability heavily outstripped demand and in turn rates softened to 130,000mt x ws 75 for East discharge. Those Owners who can trade in Iran have fared better than at 140,000mt x ws 50 to Europe. Non-Iran suitable tonnage has seen rates further eroded to 140,000mt x ws 29.75 for a Basrah/Europe run. With Owners currently fixing below opex costs it seems unlikely that rates will go lower. East Aframaxes in contrast to Med & Black Sea remain very weak. Tonnage stills outweighs the light cargo enquiry. Med rates are, but a distant dream and Owners will struggle to use Med rates as an argument to up the rates in the East where current levels stagnate around 80,000mt x ws 100-105.

West Africa

Suezmaxes have seen moderate enquiry this week, but with so many Eastern ballasters in position and many vessels losing subjects, rates have hardly changed. The week ends with rates no higher than 130,000mt x ws 75 to Europe and ws 85 East. The prognosis for next week is more of the same.

VLCC levels naturally saw some discounting from the previous week as other load areas gave little to no support. Enquiry remained sparse, but with last done levels now at 260,000mt x ws 53 to the Far East this will limit potential availability from Eastern ballasters as they may decide to concentrate on potential AG cargoes with shorter laden voyages. A voyage to West Coast India saw levels come down to $2.5million ex-Nigeria.

Mediterranean

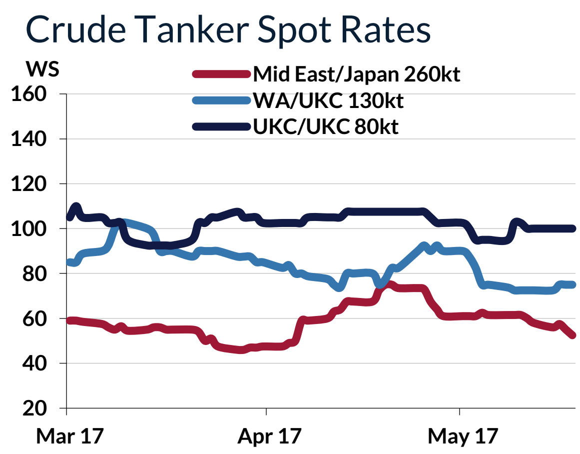
Mediterranean Aframax Owners have enjoyed an eventful week. The writing was already on the wall at the end of the previous week's trading with available tonnage in thin supply; this coupled with Trieste berth maintenance being in full swing meant slower than usual processing of ships and a lot of demand chasing too few Owners. Rates soon rose from ws 105 to ws 122.5 for simple Black Sea voyages and by the close even 80,000mt x ws 140 has been reported on subjects ex-Black Sea. With some further replacement activity present rates can be expected to rise further, only possibly tempered by part cargo Suezmax participation as those vessels are now in play. Suezmax Owners had hoped to gain some benefit from the firmer Aframax market, but the stark reality is very few of them prospered. Black Sea cargoes saw rates climb to 135,000mt x ws 85 for Europe discharge, but with a plentiful tonnage list Owners will do well to maintain last done.

Caribbean

Not such a volatile market for Aframaxes this week, as levels hovered around the 70,000mt x ws 100 level for a generic Caribs/UP run for most part of the week. A slight upturn in fortunes looked to be on the cards for Owners once enough of the slack had been taken up. VLCC availability remains in good supply enabling Charterers to push for some large discounts, expect next done levels for Singapore to be around \$3.7 million and around \$3.1 million to West Coast India.

North Sea

After what has been a couple of weeks of treading water, the Northern markets seem to be showing signs of some movement. The list is starting to tighten up on the back of a busier couple of days, 100,000mt x ws 67.5 has still been the number for Baltic crude, but the feeling is that this is set to move. Similarly, despite X-North Sea fixing at a steady level of 80,000mt x ws 100 a correction in the near future is expected. One aspect which may slow the level of this movement is the upcoming early June maintenance on the Baltic pipeline which will likely reduce loadings from Primorsk and could see an increase in Black Sea Urals stems. This of course remains to be seen. VLCC interest peaked a little here after the latest fixture reported at substantially lower than last at \$2.85million from Rotterdam to Singapore. Tonnage that remains may not be so compliant.



Clean Products

East

LRs generally have have had a horrible week with rates falling off quickly on all fronts. LR2s started the rot with an immediate drop of 16 points in one fixture and 75,000mt naphtha AG/Japan remains at ws 90 for now although it is still under pressure. 90,000mt jet AG/UKCont is slight guesswork with no fixtures done this week, but would assess at $1.45 million. LR1s have seen a moderate decline in TC5 with 55,000mt naphtha AG/Japan probably down 10 points to ws 105 and 65,000mt jet AG/UKCont is settled again at $1.10 million. With Ramadan starting next week there is some doubt anything will get busier and so rates could further come off, but we are almost back to the annual lows and well into single figure returns so there isn't much more for Owners to give.

It's been a tremendously busy week for the MRs in the AG, with these high levels of activities early predictions were that the MRs were going to see rates push forward as the tonnage list tightened. The list did tighten, however, the LRs crashed rather spectacularly. This imbalance between the different sizes meant that Owner's ability to push rates was limited as larger ships sat in the wings waiting to pick short haul stems. Even with a pretty tight tonnage list the rise in rates has not been as impressive as Owners had been hoping at the beginning of the week. AG/EAF steadily improved during the week and finishes at 35 x ws 137.5. UKCont cargoes were in high demand a few weeks back, but the appeal seems to have softened just a touch, this added to lack of available tonnage saw a fair rise and closes at $875k. X-AG has remained pretty steady at the $160k mark partly due to enforced celling set by the larger ships. Red Sea runs have been relativity quiet and sit at around the $375k level however, this certainly needs to be tested next week. The MR market although pretty tight, requires an input of fresh cargoes early next week, but more importantly it desperately requires the sentiment of the larger ships to improve, thus allowing the true potential of this tight tonnage list to be realised.

Mediterranean

The Handies in the Med experienced a little bit more stability this week compared with the definitive slide seen in the previous week of trading. Rates softened from 30 x ws 145 to 30 x ws 135 early in the week, but have managed to hold at those levels from Tuesday onwards. The Black Sea has experienced a similar ride currently trading at the standard +10 points over X-Med. There has been just about enough enquiry to keep rates maintained and with earning already low for the Owners, interested parties will be keen to try and maintain these levels going into and throughout next week.

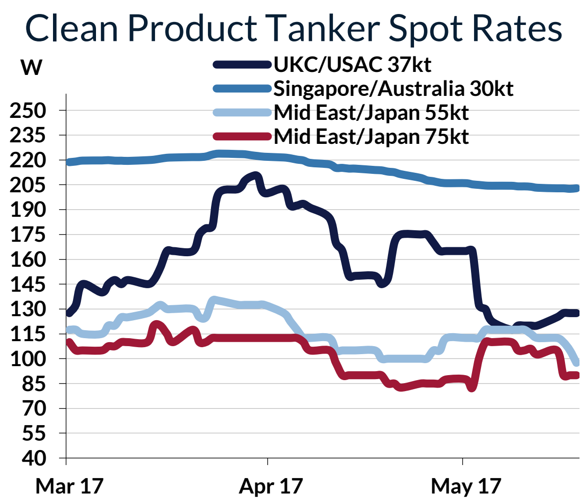
We have seen a relatively flat week of trading for the MRs down in the Med, there has been limited action albeit enough to keep rates in check with 37 x ws 145 done down to Brazil whilst transatlantic rates are mirroring those seen up in NWE 37 x ws 125. There seems to be little on the horizon to shake the rates drastically in either direction although we expect some variation up and down from current levels depending on the Owner and cargo in question.

UK Continent

All in all week 20 has proven to be much busier for MRs plying their trade up on the continent although unfortunately for the owning fraternity they haven't been able to really push freight North. TC2 started trading at 37 x ws 120, but with the front end of the list tightening a couple of replacements achieved punchy numbers Owners become more bullish. However, levels now are trading flat at 37 x ws 125 and West Africa has been fluctuating around 37 x ws 145-150 mark. Looking ahead with only a few end month cargoes left to cover Owners will now be very dependent of a busy first decade June to maintain current levels.

The Handies finally were able to break the mould this week with a slight uptick in levels. With refining margins favouring diesel production in Europe for short haul destinations, good levels of demand has been seen. Cross Continent voyages have ended the week at 30 x ws 125 and Baltic liftings are fixing in a range between 30 x ws 130-132.5. Looking ahead Owners will be hoping for good demand to continue although with Primorsk programme now covered up until end month, many will be reliant on the Continent for employment.

A more positive Handy market is a welcome sign for the Flexi Owners, however with spot action still on the shy side rates have continued to trade flat at around 22 x ws 165. Owners will now be looking to push on off the back of a better Handy market, but if this is achievable is a different story.



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Dirty Products

Handy

Sitting happier where returns reflect more favourably, Owners definitely have cause for jubilation where activity volumes and a tightened tonnage list allow for increment between deals. At time of writing, ws 180 (reported on subs) indicates a large positive swing, where for a change, this trend is likely to continue in the short terms where fixing dates have shifted ahead trimming selection further down the line.

The Mediterranean, however, has not fared so favourably from an Owner's perspective as from being in a comfortable position on Monday morning, where activity volumes were consistent with those seen the week previous, the trading days that subsequently followed actually allowed for tonnage to accrue. Towards the end of the week, numbers are starting to adjust as a reaction to increased availability for Charterers, which combined with delays through the Turkish Straits looking more predictable, slowly brings trend back into Charterers favour.

MR

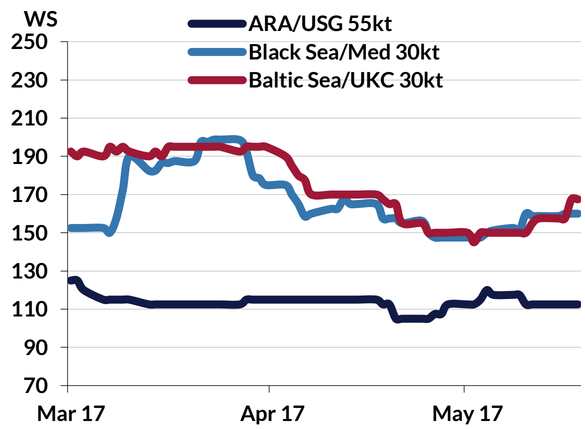
With naturally placed units remaining tight throughout this week, it should not of come a surprise that full sized opportunity for the few Owners in play have been limited. Although with the Handy market continuing to dominate the action, Owners would not of been short of a few phone calls as finding coverage has become extremely date sensitive and Charterers have had to move quickly. Heading into the weekend break Charterers will be hoping to see a few more options come Monday morning as vessels in surrounding regions will continue to be closely monitored.

The Mediterranean proved to be an anti-climax this week as the volume of enquiry we have been recently accustomed to has noticeably started to decrease. We close the week with reports of further vessel failures and Charterers will be sensing beating last done is highly achievable. Come Monday expect Charterers to apply some early pressure as the list continues to replenish.

Panamax

Throughout the week, we have seen Charterers test the market off of an array of laycans with in the first decade of June, with the corresponding results all fetching a routine ws 112.5. An amalgamation of poor earnings and individual Owner agenda has meant that different trade routes have been viewed independently, meaning that some Owners decided not to commit ships to come this way where others had. In short, this has actually helped to keep conditions rather balanced through the week. Looking ahead, signs of stimulus are most likely to come from proceedings in the US, as the delicate dynamics of the markets in Europe could easily be altered by ships moving this way, or alternatively any positive movement in US rates.

Dirty Product Tanker Spot Rates



GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 18th	May 11th	May 4th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-7**	52	60	61	56	55
TD20	Suezmax	WAF-UKC	**+1**	74	73	76	79	75
TD7	Aframax	N.Sea-UKC	**+1**	101	101	96	105	104

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

			wk on wk change	May 18th	May 11th	May 4th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-6,500**	16,500	23,000	24,250	18,500	18,250
TD20	Suezmax	WAF-UKC	**-250**	13,250	13,500	14,750	15,000	14,000
TD7	Aframax	N.Sea-UKC	**+250**	10,750	10,500	7,000	13,750	12,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 18th	May 11th	May 4th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-16**	90	106	110	106	
TC2	MR - west	UKC-USAC	**+3**	125	122	130	194	133
TC5	LR1	AG-Japan	**-12**	103	115	113	114	108
TC7	MR - east	Singapore-EC Aus	**-1**	203	204	205	220	

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

			wk on wk change	May 18th	May 11th	May 4th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-3,750**	6,250	10,000	11,000	10,250	
TC2	MR - west	UKC-USAC	**+250**	6,750	6,500	7,750	16,750	7,750
TC5	LR1	AG-Japan	**-2,250**	6,000	8,250	8,000	7,250	6,750
TC7	MR - east	Singapore-EC Aus	**-250**	9,250	9,500	9,500	11,250	

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

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