Don’t Believe the Pipe
Weekly Tanker Market Report

Earlier this month the long-awaited and at times controversial, Dakota Access Pipeline (DAPL) came into commercial service. At 1,172 miles in length, crossing four states and with a throughput of 520,000 bpd, the pipeline could have significant implications for crude trade in North America. Primarily transporting crude oil from the Bakken and Three Forks fields in North Dakota, the pipeline provides a crucial link to domestic refiners and also potential export opportunities.

Once crude arrives in Illinois via the DAPL several options become available. Firstly, barrels can be piped from storage facilities further south into Texas on existing pipelines to the US Gulf for export. Crude exports from the United States have been growing steadily in recent years and the opening of the DAPL will no doubt further boost export opportunities. North Dakota crude is light sweet which has proved popular in the export market, with small batches already being sent to Asia and Europe, according to data from Platts. South Korean and Chinese refiners have imported US grades recently for testing. Several Asian refineries have reported that Bakken origin crude is distillate rich and low sulphur, which could feed comfortably into Asian refineries.

The second option available is to feed into the domestic refinery system in the Midwest. With increasing volumes of crude arriving in Illinois, Midwest refineries are pushing for a change in directional flow to the existing Laurel pipeline which could impact on crude and product trade in the Atlantic. The 350-mile Laurel pipeline currently flows from East to West, connecting East Coast refineries and product from New York Harbour to Pittsburgh.

Midwest refiners want to change the direction on a section of Laurel Pipeline enabling them with regular access to the Pennsylvanian market to supply with products. East Coast refiners fear that the approval of this could lead to the reversal of the entire pipeline, leaving Midwest refiners to serve the East Coast and even send product into New York harbour, a major product trading hub. This would potentially displace seaborne imports of gasoline into the USAC as Midwest refiners would have access to a cheap domestic crude source and are confident of lowering gasoline prices throughout the region.

East coast refiners currently provide around one-fifth of gasoline demand on the East, with the rest met by a mixture of pipeline imports from the US Gulf (Colonial pipeline) and imports from Europe and Canada. If Midwest refiners were granted access to the Laurel pipeline and this did presage a full change in directional flow, it could prove disastrous to East Coast refiners. Some state lawmakers and some refiners in Philadelphia have provided vocal opposition to any change in directional flow.

In terms of impact on the tanker market, a potential reversal on the Laurel pipeline could prove particularly painful. As East Coast refiners import most of their crude from West Africa and South America, these imports could be reduced if Midwest refiners increase throughput and are able to displace product from East Coast refiners into Pennsylvania. Furthermore, if Midwest refiners are able to place product into the US East Coast and New York harbour, this could prove detrimental to TC2 flows from Europe. However, as with any major infrastructure deal, opposition is highly likely. As an example of how difficult it can be, the bumpy road of the DAPL offers ample warning to all concerned.

Crude Oil

Middle East

Modest VLCC enquiry as Charterers concentrated upon mopping up their remaining June needs and awaited confirmation of July programmes. Rates drifted sideways with ws 50 to the East effectively the ceiling by the week's end with mid ws 20's still the zone for the West. Things should become busier next week, but availability looks easy enough to limit any positive reaction. Suezmaxes also only enjoyed demand merely sufficient to anchor rates at down to ws 67.5 to the East and ws 25 to the West with little sign of any early change. Aframaxes completed the downbeat picture with thin volume allowing for rates to be chipped lower to 80,000 by ws 95 to Singapore and again, no realistic turnaround in near sight.

West Africa

Last week, Suezmax Owners had believed, or hoped, that rates couldn't go any lower than already sub Opex numbers... They were wrong and the market crumpled into the high ws 50's - maximum low ws 60's for all Atlantic options. Charterers 'should' start to bargain hunt in greater numbers, but it may take a little time for them to be bothered. VLCCs moved through a busier phase mid-week and some awkwardness in clearing certain units did give some hope of a mini-rally, for a while... Thereafter normal service resumed and rates re-found an average mid ws 50 level to the Far East and $2.75 million to East Coast India, where they will remain until/unless the AGulf makes a move.

Mediterranean

No meaningful rate change for Aframaxes week on week here. 80,000mt at down to ws 92.5 X-Med with the market merely ticking over. Tonnage looks plentiful enough over the next fixing phase to lead to little onward variance also. Suezmaxes showed little fight, but had scant ammunition. Rates remained at no better than 140,000mt by ws 70 from the Black Sea to European destinations with down to $2.5 million available for runs to China. 'Same as' for the short term, at least.

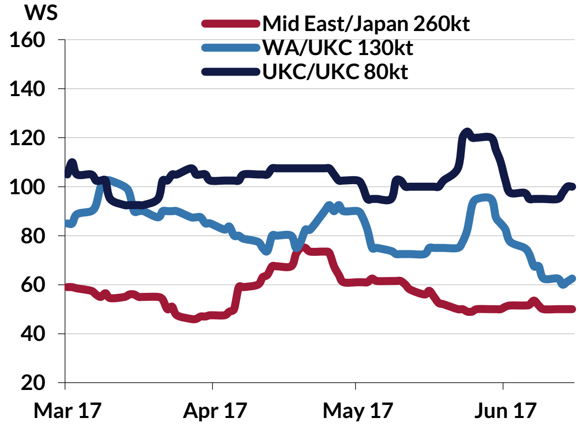
Caribbean

Aframaxes dipped below 70,000mt by ws 90 upcoast and couldn't muster the usual bounce back. It could happen next week, but that would only be wishful thinking. VLCCs had tightened enough to hold previous rates of around $2.6 million to West Coast India and $3.2 million to Singapore, but Owners will still have to be patient before any potential forward finer balance allows for opportunity to push for higher.

North Sea

Small signs of very gentle recovery for Aframaxes only translate into rates moving a touch higher to 80,000mt by ws 97.5 X-UKCont and 100,000mt by ws 75 from the Baltic. A slow end to the week, but a chance of a bit extra next week - perhaps. VLCCs are quite thin, but it needs the 'arb' to open wider before traders will be willing to pay higher than $2.9 million for fuel oil to Singapore and $3.9 million for crude oil to South Korea. one to watch though.

Crude Tanker Spot Rates



Clean Products

East

MRs really cleared out off the front end at the beginning of this week - meaning that Charterers were relieved to cover prompt cargoes without having their hand forced to pay up. Short haul dipped down to $150k, but was given a slight boost by a $200k into KAZ - this however, must be taken with a pinch of salt given the level of KAZ suitable tonnage. Red Sea runs have remained untested since $400k was done early on this week, but the market seems to be more of a $415k to finish the week. Gasoil has not been going down to EAF and SAF as much this week, but with Argentina tenders open, most traders will look to add EAF options for trader flexibility. Market level is currently ws 142.5. TC12 remains relatively untested – unsurprising, given the amount of naphtha we saw a couple of weeks ago, and the popularity of LRs to run naphtha East. West runs to the UKCont are trading at $935k - but some Charterers seem nervous covering end month stems. It is inevitable that Charterers will let the market settle a little before coming into the market early next week with end month stems.

LRs have had a busy week with good volume, but sheer volume of tonnage remains the impediment to any improvements for Owners. LR1s have seen rates stabilise and there is good reason to expect slight rises next week. 55,000mt naphtha AG/Japan is steady at ws 105 and 65,000mt jet AG/UKCont is set at $1.1 million. LR2s have seen rates drop off, but that was always needed to clear tonnage. 75,000mt naphtha AG/Japan is now down at the bottom again at ws 85 and 90,000mt jet AG/UKCont is at $1.30 million. LR2s are likely to need LR1s to move first before seeing any improvements themselves.

Mediterranean

Handies in the Med have for the most part been steadily fixing 30 x ws 130 for X-Med and plus 10 points for Baltic Sea/Med as tonnage and cargoes remain well in the balance. A flurry of enquiry late in the week sees Owners quick to pounce on the bullish sentiment and swing rates back in the opposite direction with 30 x ws 140 on subs now for a X-Med voyage. If enquiry continues on this tract going into next week, rates could firm rapidly due to the bi-polar nature of the Med market. We wait for next week to see if this market has any legs.

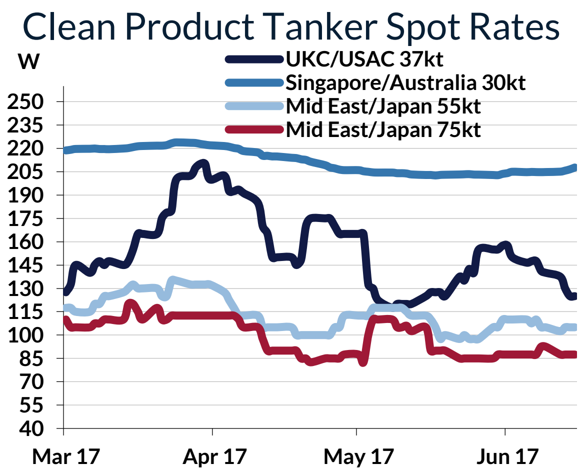
MR activity has been relatively steady this week, albeit at rather low rates. Negative pressure seen up in the UKCont market has permeated down to the Med leaving Owners with little ground to push rates on. Med/transatlantic is working around 37 x ws 122.5 and Brazil runs offering not much more than 37 x ws 155. Owners are reluctant to go much lower than current levels suggesting there may be some rate stability going into early next week.

UK Continent

As week 24 comes to a close, the sheer weight of tonnage has wiped out Owners optimism and chipped away at rates. Enquiry has been drip fed into the pool of eager Owners, and with all runs having fresh tests, Charterers had the opportunity to show the markets true colours. TC2 runs slip down to 37 x ws 125 with WAF and Baltic at 37 x ws 140 and 40 x ws 122.5. Rumours of interest heading to the Far East appear throughout the week, and with a handful of stems still to be covered with June dates, we shall see whether we have hit the bottom of the barrel yet.

Handies saw a similar week as the MRs with excess tonnage forcing rates to fall to the previous bottom. 30 x ws 125 has been consistently repeated since mid-week ex Baltic, and we are seeing the same number also for X-UKCont runs too. Pushing ahead, Owners will be trying to hold tight at these levels and with tonnage thinning on the prompt dates, this could be possible, but with the inevitable turnover of vessels around the corner, Owners will need to dig in deep.

A quiet week for the Flexis sees rates suffer as tonnage has steadily become readily available. Rates are holding around 22 x ws 170 for both Baltic/UKCont and X-UKCont. Rates continue to be Owner dependant, with a similar situation looking to persist into next week.



GIBSON SHIPBROKERS

Dirty Products

Handy

Enquiry in the continent drifted off as this week struggled on. Owners were left with very limited options, but to eventually succumb to Charterers counters as rates slowly ticked down, despite their best efforts to clip away hidden tonnage. However, we have seen bigger slides before and with tonnage being fixed off market, it has given Owners something to sing about. Next week we are likely to see much of the same with a few familiar faces replenishing the position list.

Just when the Mediterranean market starting to pick its feet up, enquiry fizzled out. There is still little Owners can smile about at the current ws levels, however, this week bottomed out at levels higher than last week. This week saw little enquiry, particularly from the Black Sea, however, as we edge towards end-month dates there could be a glimmer of activity on the horizon.

MR

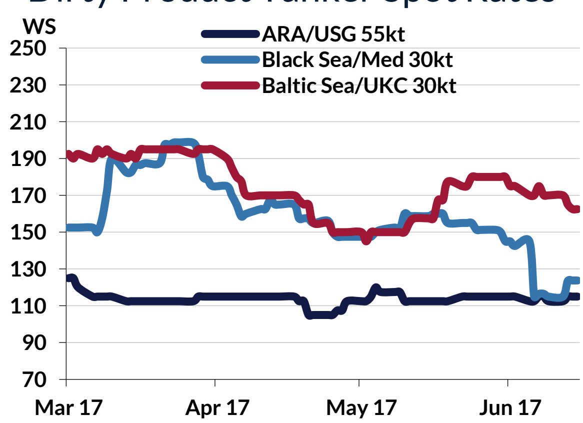
A couple of vessels managed to find cover giving Owners short lived hope that this region could get their tonnage moving. However, as the week developed so did the workable positions in the region. One fixture concluded did give Owners a benchmark on levels that usually jumps up and down like a kangaroo, but the tail end of this week may not mean these levels will be achievable again on Monday.

Tonnage in the Mediterranean remained in Charterers favour for the duration of this week with activity mostly drip fed. Towards the back end of the week, we did witness a couple of Charterers come out of the woodwork providing some opportunity for Owners to compete for. With a few vessels remaining prompt over the weekend, next week we could see Owner's duck out at the chance to exit the region and try their luck elsewhere.

Panamax

This week was initially presented with a handful of vessels either in ballast or opening naturally this side of the Atlantic which quickly got snapped up early. As the week progressed and tonnage thinned so did enquiry, despite one Charterer requoting a previous fixture to find a replacement. The penny dropped quickly and the realisation that there was limited tonnage workable before end/early dates. Next week a careful eye will be kept on surrounding markets and if the need arises to cover a firm Panamax stem, alternative sizes may be the only option if dates do not apply.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	June 15th	June 8th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-2**	50	51	61	51
TD20	Suezmax	WAF-UKC	**-4**	62	66	76	69
TD7	Aframax	N.Sea-UKC	**+4**	100	96	96	104

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

			wk on wk change	June 15th	June 8th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-750**	15,500	16,250	24,250	16,750
TD20	Suezmax	WAF-UKC	**-1,250**	9,750	11,000	14,750	12,500
TD7	Aframax	N.Sea-UKC	**+3,500**	10,500	7,000	7,000	13,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	June 15th	June 8th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-5**	88	93	110	
TC2	MR - west	UKC-USAC	**-18**	124	142	130	137
TC5	LR1	AG-Japan	**+1**	105	105	113	119
TC7	MR - east	Singapore-EC Aus	**+3**	208	205	205	

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

			wk on wk change	June 15th	June 8th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-1,250**	6,250	7,500	11,000	
TC2	MR - west	UKC-USAC	**-2,500**	7,000	9,500	7,750	8,750
TC5	LR1	AG-Japan	**+250**	6,750	6,500	8,000	9,000
TC7	MR - east	Singapore-EC Aus	**+250**	10,250	10,000	9,500	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**-6**	273	279	273
ClearView Bunker Price (Fujairah 380 HSFO)	**-4**	296	300	298
ClearView Bunker Price (Singapore 380 HSFO)	**-3**	298	301	302
ClearView Bunker Price (Rotterdam LSMGO)	**-9**	403	412	421

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