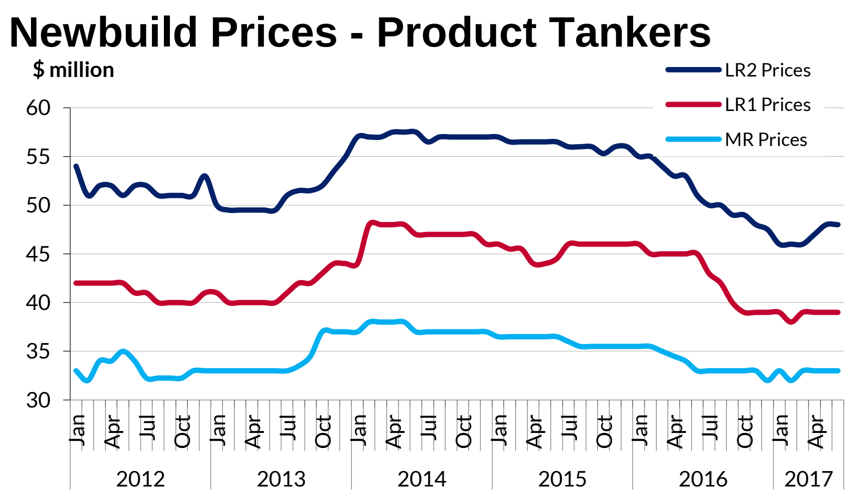
Tankers by Stealth

Weekly Tanker Market Report

Back at the beginning of May, our weekly report focused on the accelerating pace of orders, in particular demand for VLCC tonnage. Two months later we are reporting 20 more fresh VLCC orders, in addition to those placed between January and April. The total count of VLCC orders placed in the first six months of this year reached 38 compared to just 13 in the whole of 2016. We are also aware of several owners circling around the issue, either to order speculative tonnage or direct replacements for their elder units which will certainly add to the recent melee. The pace of VLCC ordering prompted Bimco last week to warn of a potential “fundamental imbalance that would take years to overcome”. Furthermore, we have seen 16 Suezmaxes ordered this year compared to 18 in the whole of last year.



Orders for Aframaxes which are at 35 so far this year (6 in 2016) and LR2s at 12 (2 in 2016) indicate that ordering activity has heated up quickly. Similarly, orders for MRs have already overhauled last year’s total of 30. Almost half of all orders this year have been placed in June alone.

Delivery dates for these orders indicate that only a few slots are available for late 2018 delivery, suggesting that shipbuilders are rapidly filling their forward orderbook. Price is still a driver, but the influx of new orders appears to have applied the brakes to the downward spiral of newbuild prices of recent times. Owners may also be betting on the potential recovery of the tanker market by placing orders for 2019/20 delivery in anticipation of a rising freight market. The latest deliberations at the IMO on ballast water is unlikely to have any real impact on newbuilding orders unless you require tonnage for US trade. With the US regulators operating a different regime outside of the IMO coupled with the Tier III requirements, some owners will be paying a higher newbuild price to comply. It appears that the US authorities are beginning to toughen up ballast water waivers since they started approving systems. The IMO has agreed to extend the deadline, this potentially could lead to slower pace of tanker scrapping in years ahead.

However, perhaps the most interesting development in June was the announcement by Trafigura to order up to 32 crude and product tankers, with a potential value in excess of $1.35 billion. Contracts were reported to have been placed by China’s Bank of Communications Financial Leasing against bareboat charters to Trafigura who are believed to have purchase options. Official confirmation of the initial 22 (Suezmaxes, Aframaxes & MRs) split between Hyundai and New Times remains sketchy and some of the finer details relating to this order remain unreported. Cido Shipping also seem to favour the products market, having recently announced changing an order for two car carriers in to MR tankers. The two vessels involved were originally ordered in September 2015 and as such are not recorded as fresh orders, adding to a swelling tanker orderbook.

Most recent orders placed are for ‘blue chip companies’ who appear to have access to huge lines of credit or have been very creative with their funding. Lack of ‘easy money’ is something which has kept a lid on ordering in the recent past. Referring back to our May report “only those with strong financial muscle are likely to be in a position to capitalise”. There appear to be quite a few out there.

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Crude Oil

Middle East

Steady VLCC fixing through the week, but no pinch points in availability to allow Owners to lever the market higher than their previous low ws 50 East, mid ws 20's West marks. The final phase of the July programme is now being played out and the end month does sometimes provide opportunity, but the odds of anything noticeable developing look poor as things currently stand. Suezmaxes moved through a reasonably active phase and premiums for Kharg loading did stretch to over 10 ws points, though the bulk of enquiry was quite easily satisfied by supply and rates bumped against at ceiling of ws 70 to the East and mid ws 20's to the West. Aframaxes couldn't find any relief from downward pressure, but did continue to make a stand at around 80,000mt by ws 90 to Singapore nonetheless. more resistance will be required next week too.

West Africa

Suezmaxes spent the whole week believing that they could break through into positive earning territory, but each time they looked set to make the jump, Owners couldn't find the nerve and rates stalled at 130,000mt by ws 65 to Europe and little better than ws 62.5 to USGulf. Another attempt perhaps next week, but Charterers seem to have the measure of the 'game' for now. VLCCs kept steadily employed at unchanged numbers… 260,000mt by an average ws 55 to the Far East and $2.6 million to West Coast India and unless the AGulf makes a northerly move then the next deals will show little variance.

Mediterranean

Worryingly for Aframax Owners here, volumes were quite high, but rates remained cemented at loss making lows of down to 80,000mt by ws 70 X-Med and it will take another busy period to allow their boat to float. Suezmaxes rolled solidly forward, but as in West Africa, couldn't find the legs to make a larger stride forward and the market settled at 140,000mt by ws 75/77.5 from the Black Sea to European destinations and at up to $2.7 million for runs to China. Little early change anticipated.

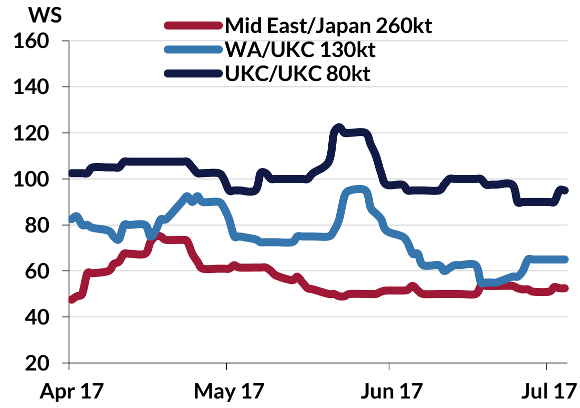
Caribbean

A nasty post-holiday welcome for Aframax Owners...a wall of tonnage and only modest fresh interest rates crumpled to as low as 70,000mt by ws 80 upcoast and only marginally recovered by the week's end. Owners will hope for the attention and rates, to increase next week. VLCCs had previously secured small premiums, but things quietened as the week wore on and there was some deflation to $3 million to West Coast India and to $3.5 million to Singapore as a result. Owners may be able to hold close to that over the coming period, but will have to work for it.

North Sea

Slow for Aframaxes. There was just enough activity to hold a bottom rate line at 80,000mt by ws 90 X-UKCont and 100,000mt by ws 65 from the Baltic, but it was a rather apathetic scene and there are no surprises likely over the near term either. VLCCs occasionally found employment at $4.1 million for crude oil to South Korea and to $2.8 million for fuel oil to Singapore and the prospects are for another week of modest action to come.

Crude Tanker Spot Rates



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Clean Products

East

The MRs haven't seen as much action in the Middle East as last week – however, enough has happened to prevent the tonnage list building up off natural dates particularly. The prompt opening of a couple of nicely positioned veg ships has enabled Charterers to take nice discounts off usual GO and ULSD runs, but overall rates have remained relatively flat. West runs have traded around the $940k levels, although a $950k done ex Kuwait on a ballaster suggests that usual AG loaders should be a little cheaper than $940k. Shorthaul has bounced around the $175-$200k level dependent on grade and distance as always - but LR1s are again doing $180k on the shorties, so there should be some adjustment next week. TC12 has again settled around the ws 130 level, a slight step down from the ws 135 seen last week. What is positive to see is that the 10 point premium for Iranian loadings re-instated. EAF rose to ws 172.5, but again has been readjusted - one of the nice veg ships previously mentioned took a ws165 to EAF - we have also seen a ws 167.5 on subs to EAF, so next week we should see it trading at these levels. It does seem though, that with the LR1s so quiet towards the back end of this week, that the MRs will see stiff competition for shorthaul next week. We are due some more mid-month EAF stems, so this could be a popular stem next week.

LRs have had very mixed fortunes this week. LR2s started the week with plenty of activity and rates on the rise. 75,000mt naphtha AG/Japan is up some 5 points to ws 95 and 90,000mt jet AG/UKCont is up $75k to $1.40 million. Lists are tight but it may take more to see further rises. LR1s had a very busy start to the week, but rapidly tailed off with the last 2 days being deathly quiet. A little more has appeared today, but rates look likely to see a dip. 55,000mt naphtha AG/Japan is ws 115 today and 65,000mt jet AG/UKCont back to $1.15 million.

Mediterranean

Rates have seemingly traded flat throughout the week, however, come Tuesday the Handy market looked set to soften on the X-Med routes. Nonetheless some slightly tricky cargoes helped pull rates back up to 30 x ws 140 (having momentarily dipped below) and even offering 30 x ws 142.5 for certain voyages. Black Sea seems to be more insulated for the duration of the week and managed to maintain the 30 x ws 150 throughout. A lengthy tonnage list come Monday could add some negative pressure so we wait to look for next week.

Enquiry levels for MRs in the Med have been relatively good this week with options heading both East and West have helped to balance a market that was looking a little subdued. This has been helped by better enquiry up in the North allowing Owners to justify some small gains. Voyages into the AG are looking to offer around $880k whilst West voyages are mirroring those achieved up in NWE.

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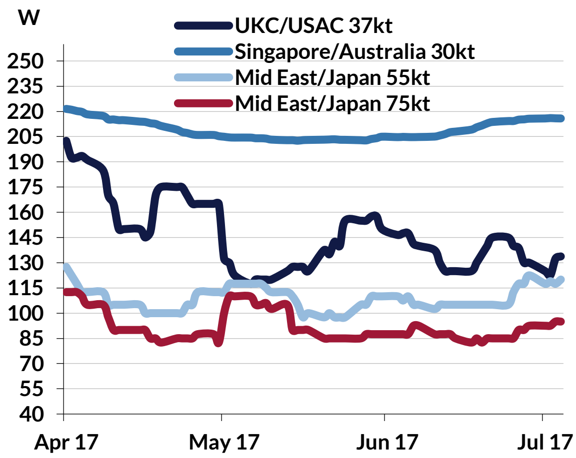
UK Continent

For the most part, it's been a positive week for the MRs in NWE as the market enjoyed good levels of enquiry from the outset. Tonnage on the front end with last 3 CPP background has been in short supply all week, and with a few re-lets in the mix the remaining Owners have been able to inch rates up as the week progressed. Enquiry has tailed off at the back end of the week leaving 37 x ws 132.5 for TC2 and 37 x ws 152.5 under pressure going into next week as arrivals from an active USG market (plus ballasters) look to add tonnage this side of the pond. This is coupled with the fact that LRs have been taking up much of the enquiry otherwise bound for MRs throughout the week.

Week 27 looked to be good for Handies as rates seemed set on staying flat 30 x ws 160 Baltic/UKCont and 30 x ws 150 X-UKCont. With LR2s snatching much of the typically Handy focused stems ex Baltic, Thursday and in particular Friday have been slow on the cargo front allowing tonnage lists to grow. Ultimately the week finishes on a soft note as 30 x ws 135 goes on subs for X-UKCont and routes ex Baltic needing a fresh test, but with 30 x ws 160 no longer on the cards.

As has been the case in recent weeks Flexis have derived spot rates from the action seen on the Handies. For the most part Owners seemed to be able to capitalize on a stable market, but with some considerable softening on Friday a fresh test in needed with rates looking to struggle anywhere north of 22 x ws 185.

Clean Product Tanker Spot Rates



Dirty Products

Handy

On the balance of the week, Owners will be feeling perhaps a little bruised from the negative rate slide Monday through Friday, although perhaps the optimist in us would be suggesting that levels in this region do still outperform those in in surrounding zones. Furthermore, where tonnage has been removed from the lists, come Friday some of the immediate pressure has been alleviated which should help steady the rate of decline. Looking ahead, as ever we will need to see requirement enter with greater frequency if Owners are to salvage anything from this summer slump.

In the Med cargo requirement, this week has been delivered with much greater abundance doing what many thought was impossible in a short space of time, clearing the tonnage overhang. Furthermore, dynamics of this sector have now been altered with Charterers having to consider once again lead time when covering from the Black Sea. Naturally, where activity presents in high volumes for a long enough duration a reaction will happen, next week will be interesting to see if Owners can improve their TCE's , although for this to happen volumes seen this week need to be replicated.

MR

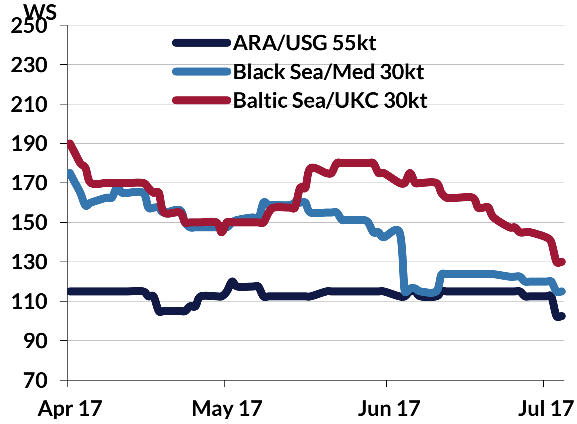
A couple of MR's have been sent far from the region keeping an already tight position list that little bit tighter! The love for X-UKCont voyages is limited while Aframax and surrounding markets remain competitive when looking at dollar per tonne differentials. Heading into next week with a couple of units due to start coming into play we may start to see a few more Charterers come out of the woodwork and test this market.

The Mediterranean market can be viewed half empty or half full, where activity levels seen this week managed to steadily turn tonnage over, but if we dig a little deeper into the deals that managed to get over the line it is mainly part cargo stem being concluded. Entering the weekend due to vessels not getting their subjects, the fresh position list Monday morning will likely be a little longer than preferred for Owners as they hope next week will provide more full-sized opportunity.

Panamax

With rates being noticeably corrected owing to a surrounding Aframaxes sector underperforming the Panamax market even on a part cargo basis, Charterers took this opportunity to secure some of the most competitive freight levels seen this year to date. This said, many deals have been booked which has served to help Owners position across the immediate next set of negotiations, although with the US markets in the doldrums, forward trend looks precarious as ever where Owners see heading to Europe as an attractive option to spread their fleet presence.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	July 6th	June 29th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+0**	52	52	61	52
TD20	Suezmax	WAF-UKC	**+3**	64	61	76	69
TD7	Aframax	N.Sea-UKC	**+6**	97	91	96	104

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

			wk on wk change	July 6th	June 29th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-750**	15,750	16,500	24,250	16,250
TD20	Suezmax	WAF-UKC	**+1,000**	10,000	9,000	14,750	11,750
TD7	Aframax	N.Sea-UKC	**+2,750**	6,250	3,500	7,000	11,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	July 6th	June 29th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+5**	95	90	110	
TC2	MR - west	UKC-USAC	**-3**	131	134	130	135
TC5	LR1	AG-Japan	**+2**	119	117	113	118
TC7	MR - east	Singapore-EC Aus	**+1**	216	215	205	

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

			wk on wk change	July 6th	June 29th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+1,000**	8,250	7,250	11,000	
TC2	MR - west	UKC-USAC	**-500**	7,500	8,000	7,750	8,250
TC5	LR1	AG-Japan	**+0**	8,500	8,500	8,000	8,500
TC7	MR - east	Singapore-EC Aus	**+0**	11,500	11,500	9,500	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**+0**	285	285	273
ClearView Bunker Price (Fujairah 380 HSFO)	**+0**	303	303	298
ClearView Bunker Price (Singapore 380 HSFO)	**-2**	303	305	302
ClearView Bunker Price (Rotterdam LSMGO)	**+24**	443	419	421

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