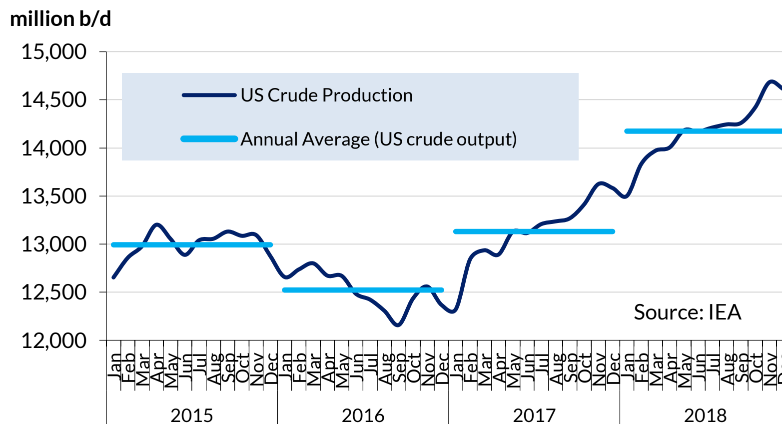
Hanging in the Balance
Weekly Tanker Market Report

Undoubtedly, the OPEC led production cuts are having negative implications for crude tankers, particularly VLCCs. Although no major changes have been seen in the absolute volume of spot VLCC fixtures out of the Middle East, this coupled with the ongoing rapid expansion of the trading fleet, forced spot earnings down to around $17,500/day in recent months, from over $40,000/day at the start of the year. In contrast to the developments in the crude tanker segment, so far to date the impact of production cuts on oil markets has been rather muted. Although global OECD oil stocks have moved to lower levels relative to the five-year averages, they still remain at highly elevated levels. The biggest challenge to OPEC's strategy is recovering US crude oil production. According to the EIA, US crude production averaged at 9.2 million b/d in June, up by over 0.65 million b/d from the lows seen in September 2016. Crude output is anticipated to rise by a further 0.55 million b/d by December 2017.

Recovering Libyan and Nigerian production are also diluting OPEC's effort to rebalance the market. Last month Libyan output was assessed by the IEA at 0.82 million b/d, up by nearly 0.55 million b/d from the lows seen in August 2016. The latest indications for the country's production are around 1 million b/d, while the Libyan National Oil Corporation targets a further 0.25 million b/d gain to 1.25 million b/d by the end of the year. The gains in Nigerian crude output are also impressive. In June production climbed close to 1.6 million b/d, up by around 0.45 million b/d from August 2016 levels. If the relative stability seen in recent months remains in place, further gains could be achieved in the 2nd half of this year. The ongoing rebound in Libyan and Nigerian production has prompted a discussion as to whether supply caps should be introduced for these countries or alternatively whether a flexible approach should be employed by other producers participating in output cuts to accommodate rising production from the exempt countries. However, both Libya and Nigeria indicated their unwillingness to cap, while further cuts would require a great deal of cooperation. Yet, if additional cuts are agreed and implemented, this will serve another blow to crude tanker demand this year.



An equally important question is what will happen in 2018 when the current deal expires? Will we see a rebound in the Middle East crude exports, so much needed by the weak tanker market? The IEA expects to see a healthy growth in world oil demand at 1.4 million b/d; however, further gains are projected in non-OPEC supply. By far the biggest increase is anticipated in US oil production, which is forecast to rise year-on-year by 1.05 million b/d. Smaller gains are also expected elsewhere, most notably in Brazil, Canada and the UK, together accounting for a further 0.6 million b/d increase. Although output in a number of other countries is expected to see a minor decline, the overall picture is that all of the forecasted increase in demand is likely be met by increases in Non-OPEC supply (crude, NGLs, biofuels, processing gains). If the forecast is correct, this leaves almost no scope for increases in OPEC crude output in 2018 from current levels. If OPEC decides to abandon its restraint, there is likely to be another build in global inventories and further downward pressure on oil prices. The dilemma faced by OPEC does not inspire much optimism for the crude tanker market, hoping to see increases in Middle East crude exports. If production cuts are extended through 2018, the only hope for owners will be continued strong gains in long haul trade, persistent floating storage and slowing fleet growth.

Crude Oil

Middle East

Very easy looking VLCC lists lended Charterers the necessary comfort to keep the market pace at 'dead slow' despite having full August programmes in hand. Owners held the line as best they could, but the bottom of last week's rate range became the top of this week's with now lows of ws 45 and highs of ws 50 to the East the new norm and mid ws 20's available to the West. Perhaps a bit busier next week, but no sea-change likely. Suezmaxes picked up their pace a little, but to no more than a slow trot and rates struggled to break through ws 70 to the Far East with around ws 30 the ceiling to the West, though Kharg liftings still command reasonable premiums. Aframaxes quietened as the week wore on and rates slipped to 80,000mt by ws 87.5 to Singapore with 'bottom' still to be found.

West Africa

Suezmaxes initially dipped, but that then provoked a slightly busier spell to trim early positions and lead rates a little higher to 130,000mt by ws 67.5 to Europe and close to ws 65 to the USGulf. Dates will now roll forward onto more populous positions and Owners will struggle to maintain forward momentum. VLCCs slowed to a virtual stop as Charterers watched the early August AGulf story unfold and anticipated sharper discounts. Rates theoretically slide towards ws 52.5 to the Far East with down to $2.45 million paid for a run to East Coast India.

Mediterranean

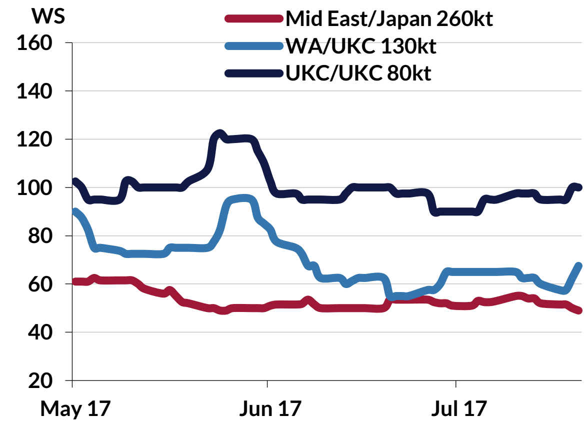
Aframaxes started brightly and Owners managed to gradually increase rates towards ws 90 X-Med, but by the week's end things had slowed and that looks set to remain the effective cap over the next fixing phase too. Suezmaxes found slightly more to do and the cumulative effect was to provoke rates somewhat higher to 140,000mt by ws 75 from the Black Sea to European destinations with runs to China operating at close to $2.5 million. Further gains look hard to achieve, but consolidation is possible.

Caribbean

Aframax Owners had hoped for increased activity to convert previously trimmed lists into improved rates. That turned out the case and rates slowly gained towards 70,000mt by ws 100 upcoast, though any significant spike still seems doubtful with the weekend effecting a degree of 're-set'. VLCCs struggled to find anything, so that rates ended in virtual reality territory - say around $2.5 million West Coast India and $2.8 million to Singapore?

North Sea

As in the Med, Aframaxes here found more solid ground - albeit belatedly - and rates moved up to a peak 80,000mt by ws 100 X-UKCont with 100,000mt by ws 70 asked from the Baltic. It could be an even brighter start to next week. VLCC 'arb' economics didn't excite traders and even down to $2.5 million for fuel oil from Rotterdam to Singapore failed to gather much interest. Crude oil to South Korea was also hard to make work and 'last done' $3.8 million will probably need to be pruned for any near-term success.



Clean Products

East

The MRs have benefitted from an incredibly busy week in the Middle East, with a lot of AG loaders coming out to wipe out the front end of the tonnage list. We finish the week at the stage where there is next to no tonnage available before August, and some Charterers are left with cargoes still to cover off this front end. What is more, the LR1s have also thinned over the past couple of days, so we are far from the situation where LR1s can swoop in to pick up the MR shorthauls. EAF has taken a nice jump up to ws 175 and repeated - this was given a further boost by the news that UACC can no longer call in Fujairah, which restricts their tradability. TC12 is again trading at ws 132.5, but needs a test as it may be brought up sympathetically. West runs have been relatively unpopular - an off-market $925k seemed cheap, most Owners still considering $950k the market level. Shorthaul has bounced between $170k and up to $210k - grade, date and port restriction dependent. You would be hard pushed to find prompt coverage for anything short now. Red Sea runs remain down at the low 400s - Owners will continue to trade these a little cheaper in comparison to other routes, purely due to the fact that the Red Sea is so tight at the moment. With a lot of outstanding cargoes still in the market, it will be an active start to the new week on Monday.

The LRs have had a busy week, particularly on the LR2s, with tonnage really starting to thin out. Most traded stems have been naphtha and Owners have steadily demanded more to be put on subs. We have seen TC1 climb past the ws 100 threshold up to ws 102.5, but there is every chance that this will see further improvement in the new week. West runs have again been brought up sympathetically, with $1.425 million now the market level as the week ends. There are stems yet to cover on the LR2s, so we may see some more progression. The LR1s have been busy, but not yet seen as much progression as has been witnessed on the LR2s. A spout of ws 110-112.5 on TC5 should theoretically be tested next week, but as yet has not been done. West runs are still trading at $1.125 million, slightly more seen for a late replacement. The list is looking thinner on the LR1s, but they will really need an injection of cargoes come Monday to further boost any development in rates.

Mediterranean

Week 29 had been generally slow for Med and Black Sea Handies as cargo and tonnage have been recycled at a consistent pace leaving little opportunity for Owners to add any positivity to rates. Incremental rate decreased throughout the week sees rates close out 30 x ws 125 X-Med and an +10 points for Black Sea loaders. The generally slower summer months are overshadowing the market currently and with a handful of ships arriving having brought gasoil from the UKCont next week looks to bring more of the same.

GIBSON SHIPBROKERS

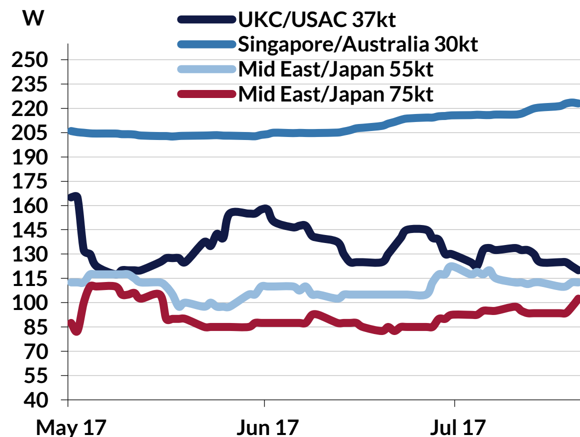
Med MR action has been relatively light this week, which sees some Owners looking to do X-Med stems more akin to the handy market in attempt to hold out for better rates to commit themselves to long haul. The longer hauls routes fixed this week see numbers track similar to TC2, but with 5-10 points discount as 37 x ws 115 was on subs transatlantic. A Brazil run ex Skikda fixed 37 x ws 150 mid-week, although next done for the same route is more than likely to be less. Outlook is fairly flat and bleak into next week although expect some resistance from owners as we are now trading around year lows.

UK Continent

125, 125 and more 125 for transatlantic runs it seemed for the MRs this week plying their trade in the continent as Owners managed to hold their positions here with limited other employment opportunities ex Baltic or down to WAF being available. As the week comes to a close the pressure from chartering has cracked this defence as 37 x ws 120 is now on subjects for transatlantic and tonnage becomes prompt. Expect Owners to dig their heels in to prevent a further slide, but unless improvement on the quantity of stems occurs, this could be a tall ask next week.

A placid week for the Handies comes to a close in the continent with rates holding throughout. Cargoes have been slowly drip fed into the market with also a good number of stems being worked directly with Owners. This has kept a lid on any potential in this sector as we stabilise at 30 x ws 140 for Baltic liftings and ws 135 for X-UKCont. Looking ahead Owners will be hoping for improved enquiry, but with end month dates already being covered, what more July has to offer will be crucial.

Finally, to the Flexis where COA employment has been the only real opportunity for Owners to keep their tonnage moving. Market stems have been in short supply and tonnage has begun to build on the prompt side. Rates continue to hold at 22 x ws 180, but pressure will be increasing on this thought as candidate numbers do the same.



Dirty Products

Handy

Tough week for Owners in the continent as fresh enquiry proved to be minimal thus leaving a handful of prompt vessels remaining in the region throughout. With the summer season taking its toll, rates continue to be under pressure as levels lurk around rock bottom leaving Owners to rely on personal relationships to get tonnage moving.

Compared to the continent the Mediterranean experienced a very different story this week. Last week's steady activity delivered Charterers a tight position list on Monday opening and with end month stems coming into play we quickly witnessed an increase in levels. This activity did not slow down until we entered the back end of the week where firm tonnage was cleared out and we had witnessed a ws 20-25 point jump in levels from the Black Sea. Next week tonnage is likely to remain tight leaving itineraries key in the region.

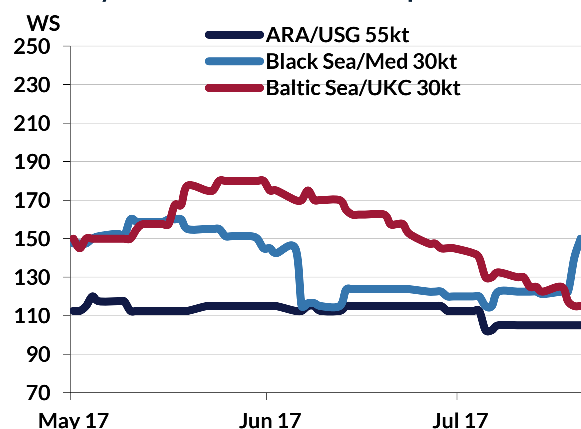
MR

A familiar story in the continent this week, with naturally placed units lacking in the region coupled with a shortness of natural sized stems has kept rates stagnant in the region. With the two day break now upon us we may see some fresh positions come to light early next week, thus tempting a few more Charterers to dip their toe in the market awaiting a fresh test.

Owners in the Mediterranean will be heading into the weekend relatively happy as the tightening Handy market has given opportunity for Owners to be on the front foot. This in turn has managed to fix away tonnage that was placed towards the top of the tonnage list at the beginning of the week, leaving Monday's fresh position lists to prove pivotal as to see if Owners can gain even further ground.

Panamax

This week we have seen a North / South divide as repetition has been achieved in both regions with ws 105 from the North and ws 102.5 from the Mediterranean firmly established. In turn, this activity has managed to turn over tonnage steadily throughout this week and come Monday all eyes will be on the fresh tonnage lists. This said it is likely to show further tonnage becoming available as fixing windows creep forward towards the Mediterranean 2nd decade.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	July 20th	July 13th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-4**	49	54	61	50
TD20	Suezmax	WAF-UKC	**+3**	65	62	76	67
TD7	Aframax	N.Sea-UKC	**+4**	100	96	96	104

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

			wk on wk change	July 20th	July 13th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-4,000**	13,500	17,500	24,250	14,500
TD20	Suezmax	WAF-UKC	**+500**	10,000	9,500	14,750	11,000
TD7	Aframax	N.Sea-UKC	**+2,250**	8,750	6,500	7,000	11,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	July 20th	July 13th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+9**	103	94	110	
TC2	MR - west	UKC-USAC	**-8**	122	130	130	129
TC5	LR1	AG-Japan	**-0**	111	111	113	118
TC7	MR - east	Singapore-EC Aus	**+3**	223	220	205	

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

			wk on wk change	July 20th	July 13th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+2,500**	10,250	7,750	11,000	
TC2	MR - west	UKC-USAC	**-1,500**	6,250	7,750	7,750	7,250
TC5	LR1	AG-Japan	**-250**	7,250	7,500	8,000	8,250
TC7	MR - east	Singapore-EC Aus	**+500**	12,500	12,000	9,500	

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

	wk on wk change	July 20th	July 13th	Last Month
ClearView Bunker Price (Rotterdam HSFO 380)	**+13**	292	279	273
ClearView Bunker Price (Fujairah 380 HSFO)	**+14**	310	296	298
ClearView Bunker Price (Singapore 380 HSFO)	**+15**	311	296	302
ClearView Bunker Price (Rotterdam LSMGO)	**+23**	445	422	421

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