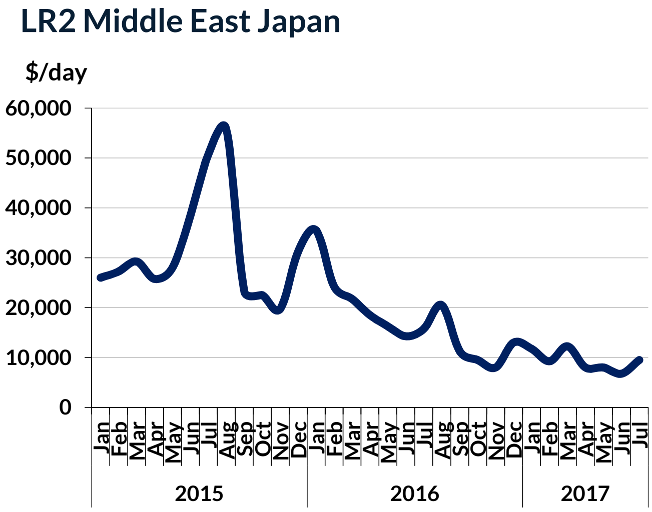
Keep It Clean

Weekly Tanker Market Report

It's safe to say that LR2s have had a pretty torrid year to date, with earnings on the benchmark Middle East - Japan route averaging around $8,000/day in the second quarter, barely enough to cover fixed operating expenses. Many point to fleet growth as the primary issue, yet the trading LR2 fleet has remained fairly static, indicating that new deliveries are not the overriding problem.

Whilst the overall LR2/Aframax fleet has seen substantial growth, with 53 vessels delivered in 2016 and 40 already for the year to date, the actively clean trading LR2 fleet size has remained stable at just under 200 vessels. Last year we counted at least 25 LR2s migrating into dirty trade, whilst many vessels went dirty on, or straight after their maiden voyage. The situation is of course dynamic, with owners having the option to clean up their tonnage if the LR2 market begins to show signs of sustainable returns. However, right now there appears little impetus to favour one market over the next.



On the demand side, getting a complete and truly accurate picture in the short term is challenging, with data sets subject to constant revision and often time lagged. However, export volumes out of the Middle East have been clearly pressured this year. Limited capacity additions have come online, whilst the Ruwais plant has seen at least 127,000 b/d taken offline following a fire, not to mention the Emirate stockpiling product to offer security against a potential interruption to gas supplies from Qatar. Lower export volumes from Saudi Arabia were also observed over the first half of the year. Combined with the UAE, it is possible that regional exports have slipped nearly 300,000 b/d.

In recent years, another major demand outlet for LR2s has been the West/East naphtha arbitrage. However, the arbitrage from West to East remains a shadow of its former self. In 2016, volumes on the West/East naphtha run fell 31% compared with 2015 and have shown no signs of recovery this year. This trade was an important driver behind a strong Middle East market throughout 2015 and H1 2016, with vessels trading on the West East arbitrage being kept off the Middle East tonnage list for prolonged periods, particularly if a backhaul distillate cargo from North Asia to the West was obtained. With no growth in western arbitrage flows and newbuild crude tankers pricing cheaply on the backhauls, tonnage lists have generally lengthened, even though the outright LR2 fleet has hardly changed.

The fundamentals may well follow a similar path in the short term, with little major impetus on the horizon. Repairs at Ruwais may run into early 2019, whilst a well-supplied naphtha market will keep the arbitrage pressured. All the while newbuild deliveries continue apace. However, for the past three years (following the start-up of a number of key refineries) August has seen LR2 earnings spike. With the LR2 market having firmed already in July, seasonal trends appear to be playing out as expected, the question is whether the August spike has come early or is just getting started.

Beyond this, the next major boost on the horizon for owners may be 2019, with Ruwais expected to be back to capacity and new plants such as Jizan and Al Zour making an impact. However, the biggest fundamental shift may be 2020 when a tighter middle distillates market induces price volatility and increased trading activity.

Crude Oil

Middle East

Activity wasn't the problem for VLCCs this week - but heavy ongoing availability certainly was. Owners tried their best to rally but to no avail and rates remained stubbornly rangebound over the period. Lows of ws 44 to the East and ws 23 to the West via Suez now, and over the near term too. Suezmaxes slowed somewhat and rates eased off a touch towards ws 65 to the East and ws 25 to the West accordingly with no clear catalyst in sight for early change. Aframaxes bottomed out but little better than that - ticking over at around ws 90 to Singapore and similarly over the next fixing phase too.

West Africa

Suezmaxes initially dipped but that then attracted Charterers to come out in numbers to allow Owners to regain the lost ground with a view to pushing onwards if the cargo flow maintains. Currently rates operate at up to ws 67.5 to Europe and ws 65 to the US Gulf and into the high ws 70's to the Far East. VLCCs saw relatively modest enquiry that proved insufficient for Owners to reinstate the 'usual' premiums over prevailing AG/East numbers. Rates therefore fell off to as low as ws 49.5 to the East with $2.40 last seen for East Coast India discharge. So long as the AGulf continues to languish it will be hard for Owners to turn the tide positively.

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Mediterranean

Aframaxes occasionally busied but although lists were trimmed, there weren't any pinch points to worry Charterers and the market ended the week quietly with rates anchored in the mid ws 80's Cross Med. No early change likely either. Suezmaxes kept to a steady beat and Owners will hope for a tailwind to develop from any further upward West African movement. For now, 140,000 by ws 75 from the Black Sea to European destinations as things stand with around $2.4 million available for china discharge.

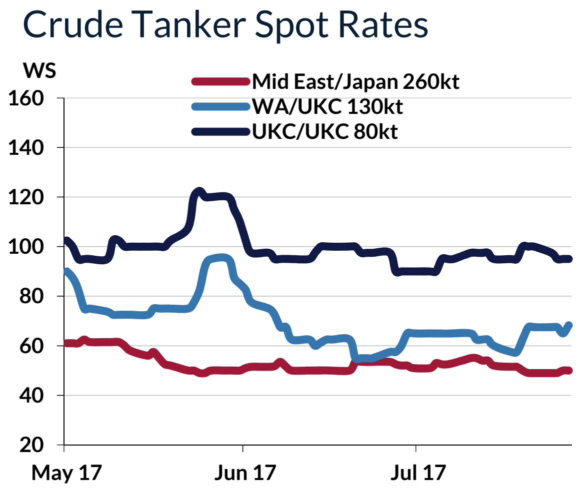
Caribbean

A bright start for Aframaxes but the initial effect was for rates to only creep up a little to 70,000 by ws 105 upcoast and by the week's end Owners had started to move onto the defensive once again and some slippage looks on the cards unless activity quickly picks up again. VLCCs on early dates had little choice but to accept rates at down to $2.6 million to Singapore and close to $2.3 million to West Coast India but will offer a degree of resistance to those marks upon forward dates - perhaps in vain though.

North Sea

Hopes of early week momentum quickly evaporated for Aframaxes here and a generally slow and uninspiring week led rates back to 80,000 by ws 90 Cross UK Cont and to 100,000 by ws 60m from the Baltic. Another attempt perhaps next week - maybe. 'Arb' economics to the East held little excitement for traders to work VLCCs and the best Owners could manage was $2.5 million for fuel oil to Singapore and $3.7 million for crude oil to

South Korea but opportunity was very scarce.



Clean Products

East

A strong performance for the MR's in the AG this week. The tight sentiment from last week pushed through the weekend and continued during the week. Charterers did their best to steady rates however a few prompt replacements helped to bring last done levels upwards. The list has remained tight over the week and goes into the weekend looking equally positive for Owners. The natural fixing window is starting to fix towards the more forward dates which has certainly seen Owners positivity endure. Gas oil stems to EAF took a healthy rise over the week and close at 35 x ws 192.5. Naphtha cargoes have been pretty untested at 35 x ws 135 however, with a few cargoes yet to be covered, next week will give better clarity. Red Sea and X-AG cargoes have enjoyed a good week where Owners returns have improved. X-AG sit at $250k and Rea Sea voyages reached $500k. The sentiment remains positive for now and with the list still tight, Owners will be going into the weekend with high spirits. One word of caution, the LR1s finish the week a bit of a mixed bag, hopefully there will not be stalling in their activity as the decent activity has allowed the MRs to push during the course of the week.

Mediterranean

Week 30 has proven to rather frustrating for Handy Owners in the Mediterranean. Volumes have once again been on the low side which in turn has seen rates slowly but surely decline throughout the week. 30 x ws 125 had been repeated numerous times but with handy tonnage being quickly recycled back onto our tonnage lists, Charterers were able to turn the screw some more which saw levels fall to 30 x ws 120. Black Sea has fared a tad better than the X-Med market with rates holding around the 30 x ws 135-137.5 although that said a fresh test is required after the declining rates seen for X-Med. The short term outlook remains rather bleak for Handies across the board as we continue to plod along through the summer months.

Just like the Handies the MR market has also experienced a rather dull week as levels have near enough mirrored what the Continent has been doing. Transatlantic trades at 37 x ws 117.5, Brazil 37 x ws 140 and WAF at 37 x ws 140, expect levels to remain flat when trading next week.

UK Continent

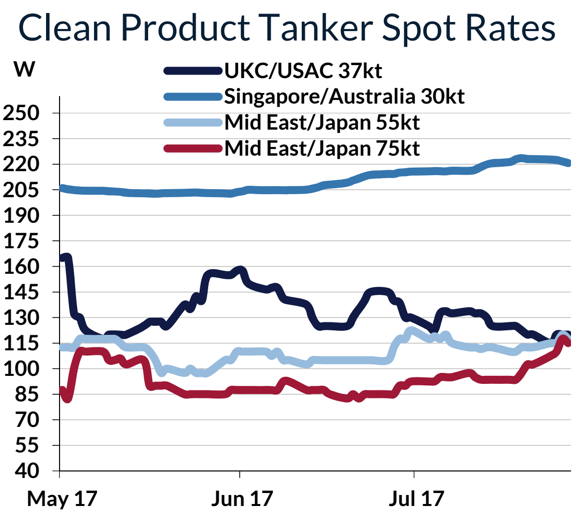
MR activity in NWE has been dominated by gasoline barrels bound Transatlantic as there has been very light demand to WAF and Brazil. As a result, rates traded flat for the duration of the week, with some marginal gains and loses either side of the 37 x ws 120 benchmark, with 37 x ws 115 and 37 x ws 122.5 seen. There has been a little more enquiry for Baltic/UKC and short haul MR stems albeit at rather uninspiring levels. The list is a little tight on the front end but with the fixing window pushing on a bit rates remain flat to soft trading around year lows.

Handies in the Continent have continued to tread water with 30 x ws 140 holding throughout for Baltic/UKC runs. If there was any doubt where the X-UKC level were pinned, then by the close of the week we have seen consistently ws 130 being achieved and we can expect this to hold for now. Cargoes have matched available tonnage keeping lists turning over and partnered with some direct business being conducted also, heading into week 31 we can anticipate more of the same ahead.

Flexis have seen little love throughout the week with any enquiry coming from COA business. Vessels have been finding themselves prompt and any opportunities that have come about, have been quickly snapped up. The falling X-UKC number for Handies will add natural correction to the 22s as we now face ws 175 as the present level.

LRs

LRs have had another good week overall with hype eventually overtaking reality but rates are consistently up whenever you look. 75,000mt naphtha AG/Japan faltered slightly but eventually settled at ws 114 and 90,000mt Jet AG/UKC is untested but looking likely to be up some $125k at $1.60 million. LR1s are also busy and have seen a real push although later dates are now once again seeing the ambitions slightly trimmed back. 55,000mt naphtha AG/Japan is up to ws 117.5 with more perhaps in it, with 65,000mt Jet AG/UKC heading up towards $1.20 million. But there is room for higher rates to be done depending on dates and requirements and care is needed by Charterers to avoid getting their fingers burnt. Next week will continue in the same way as tonnage remains balanced at best and tight in certain windows.



Dirty Products

Handy

Small pockets of opportunity this week have been seen up into the continent where Owners had managed to capture improved returns for their services albeit for the time being across only a narrow window of date sensitivity. 5 ws points the measure so far, fixing date progression is likely to provide salvation for Charterers going forward, curtailing immediate Owner effort at keep trend favorable.

Conditions in the Med this week shows that we have perhaps reached the summit of this recent upswing, with the cycle entering a new phase by cooling off slightly. In general, the majority of Charterers are managing to achieve favorable numbers, however those with prompt requirement did find themselves with less bargaining power, as here too date sensitivity saw Owners levy position based premium.

MR

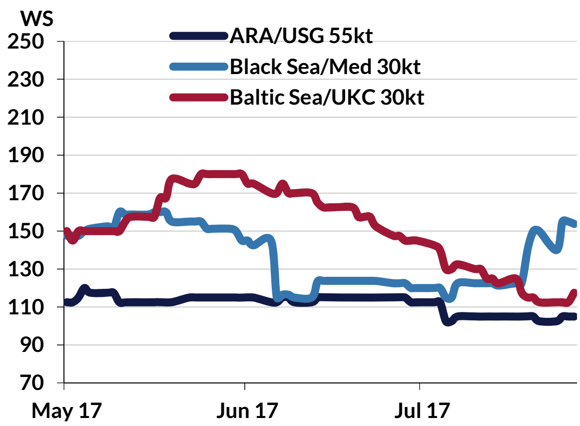
The sentiment for this sector in the north was one of gradual increment. With surrounding sectors beginning to recover this region naturally was dragged up along with it. Available tonnage for this size was limited for Charterers and the combination of these two ingredients was reflected on last done.

The Mediterranean this week was presented with a well spread position list off end/early dates. The minimal activity on natural sized stems this week Owners may force Owners to look at part cargo opportunity otherwise they might have to swallow unwanted idle time. Charterers will be sitting back watching the position list build so Owners will need to stand their ground and not let competition become a hindrance.

Panamax

Week on week this market provides only a lengthened time span for validity of current levels where confidence continues to lack as surrounding Aframaxes pull requirement away from this sector. Such dynamics by their own standing make trading conditions tough for any Owner, however throw into the mix a saturated States market, the picture looks absent of signs of recovery for the time being.

Dirty Product Tanker Spot Rates



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	July 27th	July 20th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+0**	50	49	61	50
TD20	Suezmax	WAF-UKC	**+2**	67	65	76	68
TD7	Aframax	N.Sea-UKC	**-6**	94	100	96	103

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

			wk on wk change	July 27th	July 20th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+250**	13,750	13,500	24,250	14,500
TD20	Suezmax	WAF-UKC	**+250**	10,250	10,000	14,750	10,750
TD7	Aframax	N.Sea-UKC	**-5,000**	3,750	8,750	7,000	10,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	July 27th	July 20th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+13**	115	103	110	
TC2	MR - west	UKC-USAC	**-5**	117	122	130	126
TC5	LR1	AG-Japan	**+4**	115	111	113	118
TC7	MR - east	Singapore-EC Aus	**-2**	221	223	205	

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

			wk on wk change	July 27th	July 20th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+2,750**	13,000	10,250	11,000	
TC2	MR - west	UKC-USAC	**-1,000**	5,250	6,250	7,750	6,500
TC5	LR1	AG-Japan	**+500**	7,750	7,250	8,000	8,250
TC7	MR - east	Singapore-EC Aus	**-250**	12,250	12,500	9,500	

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

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