Vietnam Joins the VLCC Club

Weekly Tanker Market Report

At the start of August, Kuwait dispatched the first shipment of crude to the recently completed 200,000 b/d refinery at Nghi Song, Vietnam. Located 200 kilometres south of Hanoi, the new refinery and petrochemical plant received its first 270,000 tonne cargo discharged through an SBM pipeline from the VLCC Millennium which arrived on 22nd August. Construction of this new plant commenced in July 2013 at a cost of $9.2 billion with the intention of importing 10 million tonnes of Kuwaiti crude annually.

The plant, a joint venture between Kuwait Petroleum International (KPI), Idemitsu Kosan and PetroVietnam will produce LPG, gasoline, diesel, benzene, kerosene and jet fuel mainly for domestic consumption and will account for approximately 40 percent of Vietnam's demand starting distribution in 2018. Currently Vietnam's first refinery, Dung Quat which commenced operation in February 2009, meets only 30 percent of the country's product demand.

Vietnam is considered to be a key area for crude oil demand growth as domestic production from offshore fields is stalling. Thompson Reuters reported that Vietnam's production peaked in the early 2000s at around 400,000 b/d but has since suffered for several reasons including disputed ownership of several offshore blocks in the South China Sea. Many of these offshore fields are small deepwater blocks which in the current oil price environment are too costly to justify production. However, Vietnam's domestic demand continues to grow as the population increases, over 90 million people and 6 percent annual economic growth will stimulate demand both for crude and products. As a consequence, Vietnam will have need to import increasing quantities of crude to sustain the population's demand and maintain economic growth. A second cargo loaded in Kuwait on the VL Prosperity left on 12th August destined for Nghi Song and is presently off the Vietnamese coast. Thompson Reuters reported that a third VLCC was scheduled for an August loading and that a similar programme for September was envisaged.

In the great scheme of things, Vietnamese imports are insignificant compared with Asia's top importers China and India. While these cargoes will send Vietnam's crude imports soaring to record highs, it has to be remembered that they are starting from a low base to begin with. These additional barrels will soak up more VLCC tonnage on an additional route for a sector presently under pressure to absorb fleet supply. However, it remains to be seen what impact the new refinery will have on product imports into the region.

Crude Oil

Middle East

We could have just cut and pasted last week's VLCC report. We are likely to be saying the same next week as well, as rates range bound at ws 36 to the East. Suezmax tonnage has also seen moderate activity, but supply continues to outstrip demand and rates have softened to ws 67.5 East and remain sub ws 30 West. We do expect to see further tonnage ballasting to the West. Aframax Owners were not able to improve on last week's levels and with tonnage building rates have slightly slipped to 80,000mt by ws 90 to Singapore.

West Africa

Storm Harvey has strengthened Owners sentiment in the Atlantic and those Charterers looking to fix off forward dates have needed to pay higher than last done at ws 70 for ECC discharge to get Owners interested. We wait to see if these levels will be repeated as most Charterers are now just sitting back until next week to see how the situation in the USGulf evolves. VLCC rates remain flatline due to the continuing weak AG/East market, the week closes with rates close to ws 45 for East discharge.

Mediterranean

The Aframax market continued to build on last week's activity, with the prompt position list diminishing significantly and cargoes are being worked abnormally far forward. The week closes with rates approaching 80,000mt by ws 80 for European destinations. Suezmax tonnage has had an uneventful week and rates have remained flat at 140,000mt by ws 75 from Black Sea to European destinations. So far Owners have not seen any benefit from the disturbances across the Atlantic.

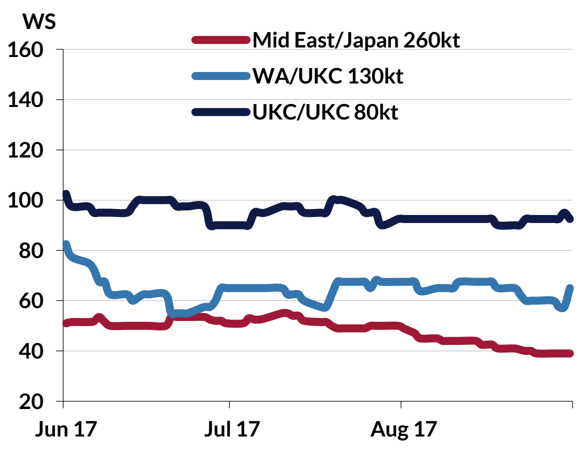
Caribbean

With the disaster caused by storm Harvey unfolding VLCC rates in this area continue to strengthen. Charterers may be forced to find alternative solutions to vessels facing delays and this will come at a premium. For forward cargoes Charterers still have Eastern ballasters to fall back on. The week closes with levels pushing $3.6 million for Singapore and $3.2 million for West Coast India discharge. Not surprising that Aframax rates pushed up and peaked, by mid-week, at 70,000mt by ws 175 for upcoast discharge. However. with so many facilities shut down, actual demand has been light and the week closes at around 70,000mt by ws 160 with tonnage looking more plentiful.

North Sea

A decent level of Aframax activity in the North this week, which in turn has started to warm Owner's sentiment. Cross North Sea fixtures have pushed up to 80,000mt by ws 87.5 with the feeling that ws 90+ will be achieved shortly. The VLCC's market has been fairly inactive and rates remain around $4 million for China discharge. We will continue to see tonnage being sucked into the Caribs.

Crude Tanker Spot Rates



Clean Products

East

Tropical storm Harvey certainly did not act as cause for concern for the LR2s in the AG this week, they have seen little activity and even with a few stems coming into the market later this week, it was not enough to prevent a good few vessels ending up spot as we go into week 36. Rates have softened over the week and close at 75 x ws 100 for Japan and $1.60 million for UKCont, however, these will certainly be tested early next week. LR1s have rolled on with consistently steady activity and so far, no decline even with LR2s seeing large falls. A few Owners we were being asked for West discharge optionality, but not enough to change the sentiment. As a result, it closes the week at 55 x ws 122.5 for Japan and $1.375 million for UKCont. If the LR2s had stayed busier the LR1s would have seen a rebound, but sentiment on the bigger ships is hard to ignore. With Middle and Far East off on public holidays the week was cut short and allowed Charterers even more breathing space. Owners will be hoping for a fresh start on Monday morning.

On the whole, it's been a pretty busy week for the MRs in the East, even if a little disjointed with holidays both at the beginning and close of the week activity was high. However, the consequences of tropical storm Harvey did affect the AG MRs. West rates have inevitably crumbled to $1.025 million as Owners look to move units West to take advantage of a fast-moving transatlantic market. Transpacific movements have also picked up and similar to the larger ships Owners have been asked for further discharge optionality. EAF has softened slightly to ws 185, and short hauls remain cheap at $210k for a X-AG and $435k for Rea Sea runs. There were apparent signs that the long weekend pushed Owners to get tonnage tidied away at slightly softer numbers, but, with the LR1's remaining active, asses that the MRs will remain steady into the new week.

Mediterranean

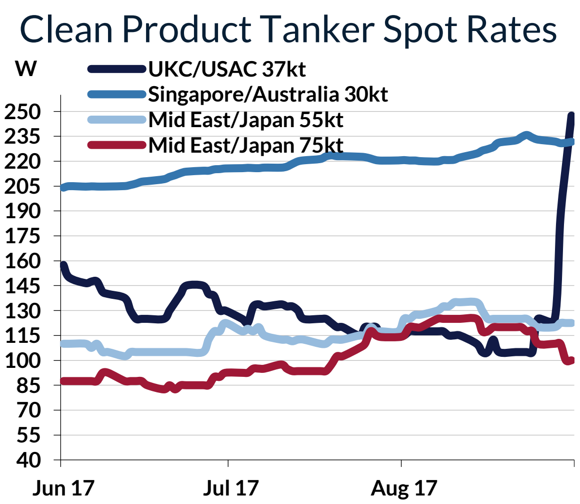
Rates in the Mediterranean followed suit to those up in NWE during week 35 following the damage that tropical storm Harvey caused in the USGulf. X-Mediterranean ends the week at 30 x ws 125, 10 points higher than we saw on Monday with Black Sea rates ending the week at 30 x ws 135. This has been seen due to tonnage that would normally be seen ballasting to the Mediterranean and some West Mediterranean open positions ballasting up towards the UKCont in search of some of the inflated rates. It was the MR's though which enjoyed the most financial gain as we saw Mediterranean-transatlantic runs at a high of 37 x ws 250. With some outstanding MR cargoes going transatlantic, Owners in the Mediterranean may decide against ballasting up to the UKCont which was the case at the beginning of the week as they chased TC2 numbers. Moving into week 36, it's likely that these rates will start to tail off as Houston begins to reopen its refineries and it will be difficult to repeat last done levels at 37 x ws 250 rates.

UK Continent

As we come to a close of a turbulent week, we can finally take breath as TC2 rocketed off the back of tropical storm Harvey. The week began with much speculation as to the levels of disruption we were to see and with continual rainfall for much of the week, it seems we are still not much the wiser. With uncertainty comes cargoes, and most of the chartering fraternity jumped on this opportunity. Rates increased rapidly from 37 x ws 105 to where we stand now towards the ws 250 mark. Cargoes have continually entered the market with multiple transatlantic and South America options, and Owners have managed to improve rates with every fixture. Looking ahead with a bank holiday in the States on Monday and rainfall slowed in the Texas area, a chance to assess where we stand has been given and with good levels of ships on the horizon heading to the UKCont region, we await to see how this inflated market holds its momentum with time passing.

Not surprisingly with the MR sector jumping so quickly, Charterers began to look at all options and the Handy market has been able to piggyback on this momentum. Baltic runs have been brought out slowly throughout the week, but with ships being able to fix 30 x ws 250+ for States runs, rates have naturally been corrected for the localised UKCont movements. The Baltic runs have moved up to 30 x ws 210 now with X-UKCont movements bouncing around the ws 200 mark. This positivity has been built off the back of demand to the States with MRs, so as long as they stay strong, we can expect the Handies to hold fast also.

Finally, to the Flexis where not surprisingly as the Handies were built up by the MRs, the Flexis have been built up by the Handies. Enquiry on the face of it has been steady and rates have built up into the high ws 200s now, potentially even crossing the ws 300 boundary. Demand for X-UKCont runs will improve with larger tonnage looking transatlantic, and we can expect these rates to continue in strength heading into September.



Dirty Products

Handy

North West Europe DPP market is still struggling to find its way out from a depressed trend, even though the beginning of the week saw rates pop up, gaining points over the last done fixtures, few of those that went on subs failed, giving back vessels to a position list that otherwise would have looked thinner and thinner. The tragedy across the ocean is not having an immediate effect to NWE DPP market, however, the spike on Aframax for the route Caribs / USGulf - USAC -– plus 60 points within the week- could kick in a domino effect onto other markets which could positively land on Handy size, but only around end Q3-beginning Q4. This said the fixture trend from the past weeks, with vessels fixed away from the region, is likely to continue to limit the workable tonnage in the coming week ahead.

Trend is buoyant from the wave of last week's activity, the market kicked off with reliable benchmarked fixtures at around the @200 ws level for Black Sea/Med trade route. Additionally, where the Black Sea traded firm numbers for X-Med touched as high as ws 190! Collective activity kept the market bubbling pretty much through all the week well supported by a tight position list. However, at time of writing it would appear that not all Owners positioned on the loading windows in play were that fortunate. Activity has since fallen off, leaving some units precariously placed on the lists, thus in turn preventing rates from gaining a further boost. Furthermore, with the Aframax Med market fairly low, we saw Handy stems combined into Aframax cargoes taking requirement from this sector. Looking ahead, with fixing date progression Charterers could be thrown yet another lifeline against immediate increment where tonnage stocks start to look healthier.

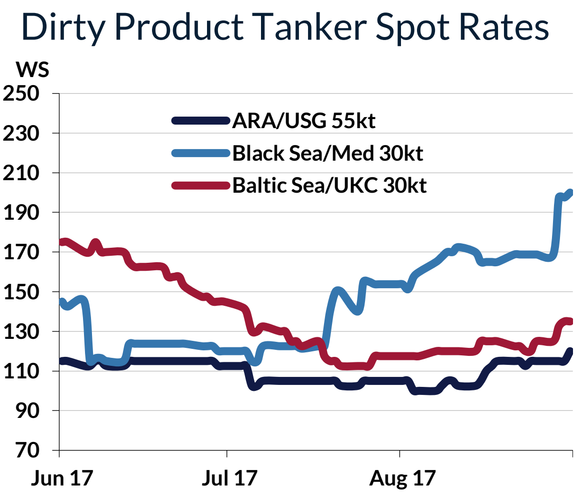
MR

The fundamentals of the MR market in the North remain tight on tonnage with rates remaining balanced for now. Despite natural sized movement on this size, Owners were banking on surrounding markets lending a helping hand to provide support in driving rates North. With a lot of the naturally opening positions now under employment Charterers will be looking at units from further afield or ballasters from transatlantic for cover.

The bulk of this week's activity in the Mediterranean was part cargo opportunity, however Owners rotated positions carefully keeping available units tight. As the short working week in the UK comes to a close the thorn in Charterers side looks to have been removed as enquiry has gone flat. Whether sentiment falls flat next week remains to be seen, but Owners will be keeping a close watch on the Aframax Med market which looks like it is about to take off as opportunity to ride on its tails might be in Owners favour.

Panamax

In which direction, this market was heading early on this week was always going to be driven on what effect storm Harvey was going to have in the USGulf. As anticipated the market the US/USGulf region's quickly snapped up tonnage to allow Charterers flexibility where needed, raising rates to the ws 120-125 level. The effect on this side pond is that we have been left a little short on potential ballasters that could head this way, as a result we report of gains here too with 55 x ws 122.5 reported on subjects. Next week we are likely to see further resistance from both sides of the negotiation as Owners with firm tonnage look to be in a strong position, but Charterers will be looking very closely as at these levels, as Aframaxes continue to provide more competitive freight.



GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 31st	Aug 24th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-1**	39	40	52	44
TD20	Suezmax	WAF-UKC	**+8**	68	60	64	66
TD7	Aframax	N.Sea-UKC	**-0**	92	93	97	96

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

			wk on wk change	Aug 31st	Aug 24th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-750**	6,000	6,750	15,750	9,750
TD20	Suezmax	WAF-UKC	**+2,750**	10,500	7,750	10,000	10,000
TD7	Aframax	N.Sea-UKC	**-500**	1,250	1,750	6,250	4,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 31st	Aug 24th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-18**	100	118	95	
TC2	MR - west	UKC-USAC	**+140**	246	105	131	150
TC5	LR1	AG-Japan	**-2**	121	123	119	127
TC7	MR - east	Singapore-EC Aus	**-2**	232	234	216	

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

			wk on wk change	Aug 31st	Aug 24th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-4,250**	9,500	13,750	8,250	
TC2	MR - west	UKC-USAC	**+21,250**	24,750	3,500	7,500	9,750
TC5	LR1	AG-Japan	**-500**	8,500	9,000	8,500	9,500
TC7	MR - east	Singapore-EC Aus	**+0**	13,500	13,500	11,500	

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

ClearView Bunker Price (Rotterdam HSFO 380)	-1	297	298	285
ClearView Bunker Price (Fujairah 380 HSFO)	+3	315	312	303
ClearView Bunker Price (Singapore 380 HSFO)	+1	312	311	303
ClearView Bunker Price (Rotterdam LSMGO)	+8	471	463	443

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