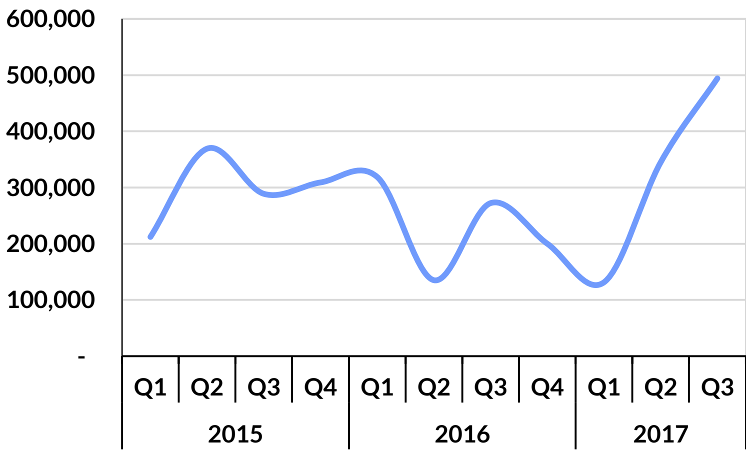
Iraqxit?

Weekly Tanker Market Report

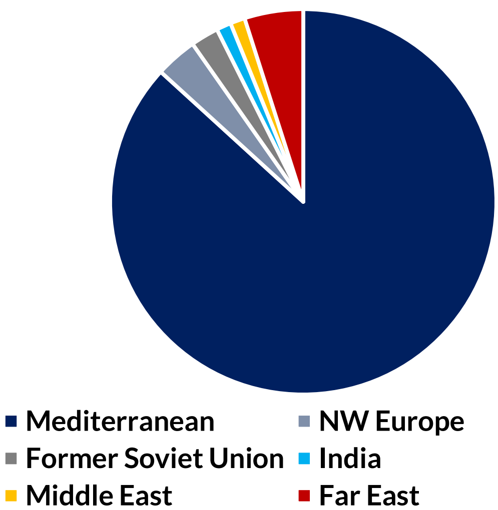
This week's non-binding independence vote in Iraqi Kurdistan may do little to change the semi-autonomous region's crude output in the short term. However, the Kurdistan Regional Government's (KRG) ambition to use the vote as a negotiating tool may have wider ramifications going forwards. Oil is a critical source of funding for the KRG, yet the KRG relies on exports via pipeline to Ceyhan in Turkey to get their oil to market. Likewise, these export flows are an important source of demand for the crude tanker market, most notably impacting the Suezmax and Aframax segments. Kurdish exports via Ceyhan averaged near 500,000 b/d in Q3 2017, underlining the significance for tanker demand. However, politics now threaten that source of income for the KRG, and with that, the prospects for the Mediterranean tanker market.

Kirkuk Crude Exports via Ceyhan (b/d)
Source: Reuters Eikon



Despite the vote being non-binding, and the KRG suggesting it will not declare independence until negotiations have taken place with Iraq's central government, this development has clearly concerned neighbouring governments, which have their own Kurdish populations, primarily Turkey and Iran. Iran may well have less leverage over the KRG but Turkey has threatened to cut off its access to the international oil markets, the primary source of funding for the KRG. Oil prices have reacted to this threat, with Brent trading near 26 month highs, as any disruption to Kurdish exports, would coincide with an already tightening oil market. The KRG has few alternative routes to the sea. No route via Iran or Syria exists or would be viable. Furthermore, any exports via the South would effectively relinquish control of exports to the central government in Baghdad.

2017 Kirkuk Crude Exports by Destination



However, Baghdad may have little direct power itself. The KRG has been key to the fight against ISIS and remains a critical ally, whilst Kurdish forces control the necessary oil installations. The central government could however increase its efforts to seek the arrest of vessels carrying Kurdish crude in an effort to make Kurdish exports more problematic. Yet, fundamentally it is the Turkish Government who holds the physical power to halt oil shipments and disrupt the tanker market.

Crude Oil

Middle East

VLCC Charterers kept the fixing pace up, spurred in the main by the upcoming long holidays in the Far East and that allowed Owners to continue to build upon the platform created last week to push rates up by as much as another 10 Worldscale points to the East. Availability remains relatively easy, however, and further gains look unlikely over the coming week. Ws 55 to the East now, with rates West remaining in the low ws 20's. Suezmaxes started to bubble and did push the rate lid a little higher to ws 80 to the East and into the low ws 40's West before slowing by the week's end and then settling a fraction. Aframaxes in the Far East that had recently spiked, fell back as Appec events disrupted and holidays approached. This also dampened sentiment in a rather slow AGulf and rates dipped towards ws 110 to Singapore accordingly.

West Africa

A cagey start to the week for Suezmax players here, but towards the weekend Owners had started to gain more confidence as Charterers broke for cover on later dates and started to chase. Rates responded positively to step into the low ws 80's to Europe and into the high ws 70's to the USGulf. The trend should hold for a little while yet. VLCC activity moved up through the gears and Owners tried hard to re-establish differentials over the improved AGulf/East numbers. Eventually as high as ws 60 to the Far East was achieved and close to that is again being asked, but unless/until the Middle East makes a further move, then rates are likely to flatline over the near term.

Mediterranean

Down, down, and then up a bit for Aframaxes. As rates hit relative bargain territory, Charterers began to shop more meaningfully and levels are upon a gentle rise once again. Currently 80,000mt by ws 100 X-Med, but with better numbers anticipated soon. Suezmaxes trod water through the week, but eventually early lists were reasonably trimmed and the mood enhanced by West African improvements also. Rates tick a little higher to 140,000mt by ws 82.5 from the Black Sea to European destinations with around $2.9 million available for runs to China.

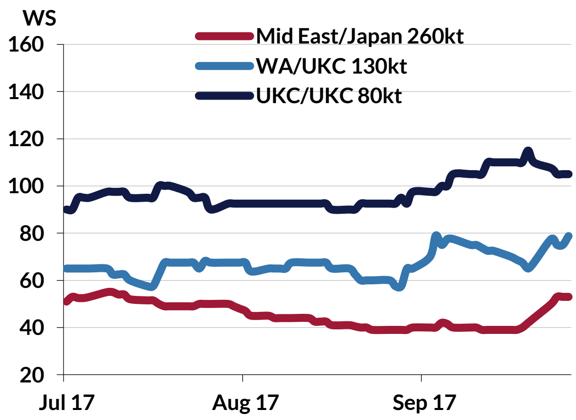
Caribbean

A slow, steady, re-stocking of Aframax availability kept Charterers away from the marketplace as much as possible and led rates down towards 70,000mt by ws 125 upcoast by the week's end, although specimen deals were too thin on the ground to prove the 'true' mark. VLCCs tracked generally sidewards/slightly lower on spasmodic demand and quite easy supply. Rates to West Coast India now move at close to $3.1 million with around $3.9 million the mark to Singapore. Ongoing opportunistic interest from the USGulf serves to prevent Charterers from becoming too complacent, however.

North Sea

Aframaxes ticked over, but not fast enough to motor the market higher than 80,000mt by ws 105 X-UKCont and 100,000mt by ws 85 from the Baltic. A flattish near-term outlook beckons. VLCC availability is tight over the foreseeable future, but 'arb' economics don't allow for much higher than $3.2 million for fuel oil to Singapore or $4.2 million for crude oil to South Korea to be paid, for the time being at least.

Crude Tanker Spot Rates



Clean Products

East

MRs started the week in a flurry, but although cargoes have continued to quote there is enough tonnage now and rates are levelled out for now. The list of tonnage seems a touch longer and rates won't hold unless activity perks up in the early part of next week. For now, 35,000mt AGulf/East Africa is ws 235, 40,000mt jet AGulf/UKCont around the $1.3 million and 40,000mt jet Jubail/Jebel Ali is hovering around $250,000k. The MRs still need LR1s to remain busy or the shorthauls will happily be taken by the bigger units. All eyes are now on how we start the coming week, especially with Far East holidays coming.

LRs have had an exciting week - well compared to most of 2017! Rates have continued to firm with cargoes resolutely quoting. 75,000mt naphtha AGulf/Japan is now ws 142.5 and could be higher off the earlier window. 90,000mt jet AGulf/UKCont is up to $2.1 million, but still could be tested further. LR1s have seen decent enquiry this week and the sentiment has driven rates higher. 55,000mt naphtha AGulf/Japan is ws 155 and again could creep higher with certain requirements. 65,000mt jet AGulf/UKCont is hitting a ceiling for now around $1.775 million and would need more heat on the bigger sizes to see anything more. Most of the market is just relieved the Appec week is over!

Mediterranean

Owners started the week on a positive note on the back of the momentum taken for the market last week. Monday saw plenty of fresh enquiry which allowed Owners to be bullish from the outset with X-Med and Black Sea rates at 30 x ws 200 and 30 x ws 210 respectively. East Med tonnage continues to be extremely tight and if we see fresh enquiry at the beginning of week 40, there is potential for Owners to continue this period of positivity in the Med and push for more points. The market is poised at the end of the week, with enquiry slowing Charterers will be keen to draw any remaining heat from the market if possible.

A tight tonnage list in the Med for MR's meant that although little enquiry was seen, Owners were able to trade sideways around the 37 x ws 132.5 mark for Med-transatlantic runs throughout the week. Rates continue to be a nudge in front of those in the UKCont and could extend this gap if fresh enquiry is seen next week and tonnage continues to be on the thin side.

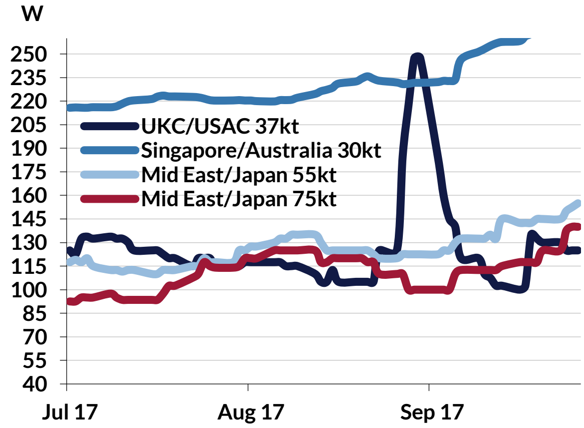
UK Continent

Week 39 has been relatively placid for MRs in NWE, cargoes and tonnages have remained in the balance for the most part with rates trading around 37 x ws 125 transatlantic, 37 x ws 145 WAF and 37 x ws 150 Brazil for the durations, albeit with some minor point fluctuations either side of this. A firm Handy market has offered some employment for NWE MRs, although as of now it is softening but is unlikely to be a viable option anymore. There is little to suggest there will be dramatic change with stems or ships next week so it looks like we will see this trend maintain into next week.

Handy Owners have for the most part been in the driving seat this week, a tight tonnage list from Monday gave the platform for which Owners could steadily push rates up peaking with 30 x ws 170 done a couple of times ex Baltic and 30 x 157.5 X-UKCont. A few problematic cargoes helped the Owners case this week, however, with these now cleared and a quiet MR market, there is a softer tone as the week comes to close with 33 x ws 140 (30 x ws 154) on subs ex Baltic and expect to see these rates come off. It should be noted that tonnage is still tight up to 4th October leaving rates very date dependant.

With the Handy market steadily improving as the week progressed the Flexi Owners have been riding on the coat tails, and, with Handy tonnage in short supply, some cargo has had to look for cover on the Flexis. 22 x ws 220 was briefly on subs and failed, but Owners ideas remain strong in the back end of the week with 22 x ws 210 a likely fixing level. It should be said however, with the Handies beginning to soften there is going to be a natural correction in Flexi rates.

Clean Product Tanker Spot Rates



Dirty Products

Handy

This week started in the North with fresh positions looking tighter than we have seen in recent weeks, where in turn tonnage that was presented with early stems managed to gain ground on last done levels. This in mind, as we draw the week to a close where rates are creeping towards the ws170 levels albeit turning our attention towards next week, perhaps this milestone may be a few deals away just yet. Again looking into next week, fixing dates are going to be pushing towards the end of the 1st decade and tonnage that is being shown is likely to remain tight.

The Mediterranean on the other hand has witnessed an injection of activity where as we broke the midweek point, the majority of firm front end tonnage was reported on subjects. To Owners disappointment, Charterers managed to keep a lid on any significant gains on fixing levels as we report of only a ws 5 point increase from where the week started. Forward trend on Monday will be reliant on tonnage replenishment as bad weather in the Black Sea and a number of units uncertain itineraries could all play a part in forward trend.

MR

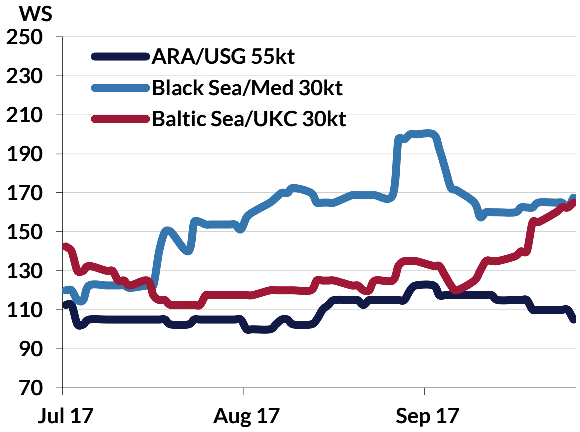
The ball has been in the Owners court this week due to consistent level of enquiry aided by a firming Handysize market keeping the position list rolling. As availability for Charterers has gradually evaporated, Owners have turned down part cargo opportunity with a view to adjust the market on the next full-size stem. Increments have been seen, with Owners next week hoping to build on this week's fortunes.

The Mediterranean market shot off at a rate of knots with positions getting snapped up for full and part cargo enquiry Monday opening. As we hit midweek the majority of firm tonnage found cover, although from an earnings perspective we will need more of the same to turn recent activity into tangible increment.

Panamax

Week 39 from an Owner's perspective proved to be one to brush themselves down from where we see value slashed in a tough marketplace. Negative decline stretching between all of ws 7.5-10 points illustrates quite visibly the extent of how tonnage has been allowed to accrue on the lists, and also how the US markets are failing to take the weight of tonnage across the other side of the pond. This said, we are now at least nearing levels seen over the summer, which had proved to be the floor. Hope does bellow out from most Owners that soon we can draw a line in the sand and gear back up for the end year run in what often proves more profitable.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Sep 28th	Sep 21st	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+11**	54	43	46	64
TD20	Suezmax	WAF-UKC	**+15**	80	65	67	87
TD7	Aframax	N.Sea-UKC	**-7**	105	111	93	109

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

			wk on wk change	Sep 28th	Sep 21st	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+7,250**	14,750	7,500	11,250	22,750
TD20	Suezmax	WAF-UKC	**+5,250**	13,750	8,500	10,250	16,500
TD7	Aframax	N.Sea-UKC	**-5,500**	9,250	14,750	1,750	12,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Sep 28th	Sep 21st	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+23**	140	118	120	
TC2	MR - west	UKC-USAC	**-8**	126	134	118	146
TC5	LR1	AG-Japan	**+10**	153	143	128	144
TC7	MR - east	Singapore-EC Aus	**-2**	267	269	220	

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

			wk on wk change	Sep 28th	Sep 21st	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+5,250**	17,000	11,750	14,250	
TC2	MR - west	UKC-USAC	**-1,250**	5,250	6,500	5,250	8,250
TC5	LR1	AG-Japan	**+1,500**	12,750	11,250	9,750	11,500
TC7	MR - east	Singapore-EC Aus	**-250**	17,250	17,500	12,000	

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

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