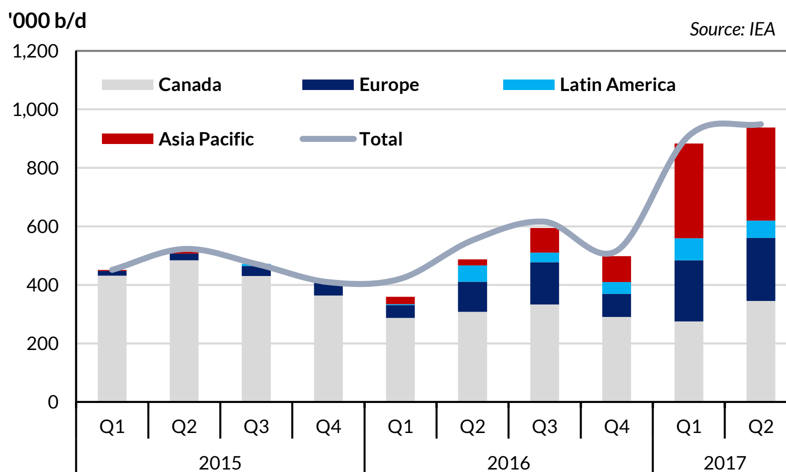
Long Haul Boost

Weekly Tanker Market Report

One of the headlines in the international press in recent weeks has been the surge in US crude exports to record highs. Preliminary data from the US government agency EIA shows that the country's crude exports hiked to nearly 2 million b/d in the week to September 29, surpassing the 1.5 million b/d record set the previous week. This latest spike in shipments is likely to be temporary; however, the bigger picture is that US crude exports have undeniably witnessed a notable step up in volumes this year relative to 2016.

Records from the IEA, the international energy watchdog, show that US crude exports averaged 0.93 million b/d during the 1st half of this year, nearly double the level over the same period in 2016. About one third of total exports was destined for Canada, while over 20% was shipped across the Atlantic to Europe. More importantly for the tanker market, long haul shipments to Asia Pacific increased rapidly, averaging over 0.3 million b/d between January and June 2017, versus just 20,000 b/d over the corresponding period in 2016. The analysis of trade flows using AIS tracking suggests that US crude exports remained at similar robust levels during the 3rd quarter of this year.

Main Destinations for US Crude



One of the reasons behind the sudden emergence of crude trade to Asia is the Middle East crude production cutbacks, which translated into higher values for Middle Eastern barrels relative to Atlantic Basin benchmarks. Most of the US crude is shipped to Asia on VLCCs, although there is still plenty of Suezmax trade as well. Economies of scale dictate that VLCC shipments should be more practical; however, all VLCC loadings involve reverse lightering, which is expensive and can add up to 15-25% to the overall cost of freight to Asia. This situation is likely to change in the future, with at least two major ports in the US Gulf considering plans to accommodate VLCCs at their loading berths. In May 2017, an empty VLCC was successfully docked at the Corpus Christi export terminal. A few months later the port authority announced a dredging project for deepening the Corpus Christi ship channel to 54 feet, which in theory will allow the passage of a part-loaded VLCC. Occidental Petroleum also plans to complete by late 2018 a project to install multiple loading arms at its Ingleside Energy Center facility at Corpus Christi to load VLCCs on a regular basis. The Louisiana Offshore Oil Port (LOOP) has a similar ambition, announcing in July 2017 that it is seeking shippers who would like to use its existing import terminal to export crude. The port's authority states that the facility would require only minor modifications to ship oil bi-directionally and that the loading service could become available in early 2018.

Although the eventual phase out of self-imposed production cuts in the Middle East is likely to affect the arbitrage negatively, the infrastructure improvements in the US to support direct VLCC loadings could help to offset that. Nonetheless, for US exports to continue to rise, the oil industry needs to see further robust gains in the US crude production. The country's output is on track to increase by 0.4 million b/d this year but will production continue its rapid ascent in 2018 and beyond?

Crude Oil

Middle East

Chinese VLCC demand continued a-pace to close out October fixing upon an upbeat and upward footing, that is now spilling over into the fresh November programme too. Rates incrementally gained through the week to end in the low ws 70's to the East and high ws 20's to the West and if the momentum is maintained then further progress is possible. A slight counter to that is that older units remain in numbers and will continue to keep the bottom end of the range at a long arm's length. Suezmaxes plodded onwards, but then saw a little more late week activity to steady rates at around ws 80 East and ws 37.5 to the West with reasonable premiums still payable for Iran loadings. Aframaxes remained broadly at last week's improved 80,000mt by ws 120/125 levels to Singapore upon steady, sometimes stronger, demand and that should remain the case over the near term, at least.

West Africa

Suezmax Owners held the line, despite strong availability, as better news from other Atlantic/Med load zones propped up sentiment and eventually Charterers began to bite more meaningfully here too. Rates then took an upward step to 130,000mt by ws 75 USGulf and to ws 80 for Europe with more to come perhaps if next week starts brightly. VLCCs tried hard to re-establish differentials over prevailing AGulf/East numbers, but although rates did move a little higher, it was more in parallel, than outstepping. For now, high ws 60's long East, with $3.4 million last seen to East Coast India, but more rate fat could be put on within short.

Mediterranean

Aframaxes had already established a solid platform that then allowed Owners to springboard rates to as high as 80,000mt by ws 155 X-Med before a quieter end week phase started to allow for some deflation which may become temporarily progressive. Suezmaxes hadn't seen much in their own right, but the Aframax gains led to part cargo opportunity that rebalanced the sector enough to lead rates up to 140,000mt by ws 90+ from the Black Sea to European destinations with close to $3 million available for runs to China. With the Aframax prop being kicked away though, things may stall for a while.

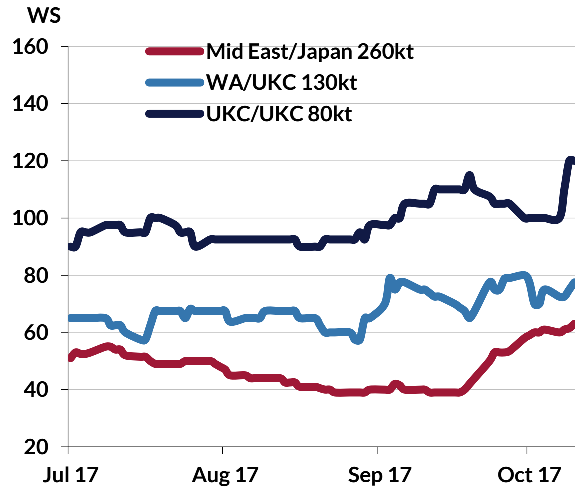
Caribbean

Bad weather disruption proved a beneficial catalyst for Aframaxes here and heavy early attention swept rates up to 70,000mt by ws 150/155 upcoast for a short while, but then eased off into the weekend as demand slowed and lists rebuilt. Owners will be weather watching over the weekend. VLCCs are well balanced, but not yet tight enough to lead rates higher than $4.2 million to Singapore and $3.4 million to West Coast India though there is upward intent lurking and forward lists look on the tight side.

North Sea

Aframaxes eventually got the firming message from elsewhere and as Charterers busied themselves, Owners demanded higher rates in return. An improved 80,000mt by ws 125 X-UKCont and 100,000mt by ws 105 is the result and there may yet be more to come. Little VLCC 'arb' movement this week, but Charterers found it hard to secure tonnage at less than $3.7 million for fuel oil to Singapore nonetheless and availability will remain in limited supply rolling forward too.

Crude Tanker Spot Rates



Clean Products

East

This week we have seen a large negative correction on the LR2s - inevitable given the lack of cargoes in the market end of last week and beginning of this. In a matter of days, West runs came down from $1.995 million to $1.825 million. A wealth of tonnage available to Charterers and the power to dictate rates really in their hands. TC1 has also come under considerable downward pressure, having seen West runs go on subs at much lower levels, Charterers were seeking ws 110 levels on their end month naphtha stems. Cargoes eventually went on subs at ws 115, but we feel they will drop down to ws 110 in the new week.

The LR1s have remained relatively level throughout the week, towards the end experiencing a sympathetic dip. Charterers evidently eager to get extra value from the LR1s to bring them in line with the LR2s. TC5 is currently trading 55 x ws 125, but will probably dip to ws 120 in the new week. West runs are currently at $1.4 million, but with the sentiment comes a realisation amongst Owners that they would rather be the first rate done in a softening market rather than fixing at the bottom.

The MRs started the week seeing the softening sentiment take a firm grip of the market. EAF rates negatively correct quickly and UKCont followed shortly thereafter. But, having seen this hive of activity, tonnage off the early dates really thinned out and this subsequently helped rates stabilise, and on certain routes even see a positive test. AGulf/EAF closed the week 35 x ws 210 and jet stems heading westbound sit at the $1.2 million level. The short X-AGulf cargoes have not seen the highest levels of activity and are still nursing the wounds suffered from the LR1s snapping up MR cargoes, asses rates at $190k for a Jubail/Jebel Ali. Similar to the X-AGulf stems, cargoes into the Red Sea have been few and far between and are in need of testing, but for now it hovers at the $475k mark. TC12 naphtha cargoes saw little activity and came under pressure dropping to 35 x ws 155. However, with a few outstanding TC12 cargoes still to be covered a fresh test will be seen early next week. As we go in to week 42, there are a few outstanding cargoes, but these cargoes are falling a little further forward and the tonnage list is able to support the demand. There has been a distinct lack of short haul cargoes so would expect a fresh dump of shorter voyages which should mean that activity levels remain high. Nonetheless, with the LRs looking set to dip further, there is a possibility that we could see of slight softening on the MRs into next week.

Mediterranean

Week 41 has seen Med rates soften throughout due to rife prompt tonnage around West Med leaving X-Med now trading at 30 x ws 157.5. A natural correction in Black Sea rates occurred towards the end of the week, dropping ws 15 points and ending the week at 30 x ws 175. With tonnage continually recycled, unless plenty of fresh enquiry is seen at the beginning of next week, the general sentiment of the market is that softening will continue.

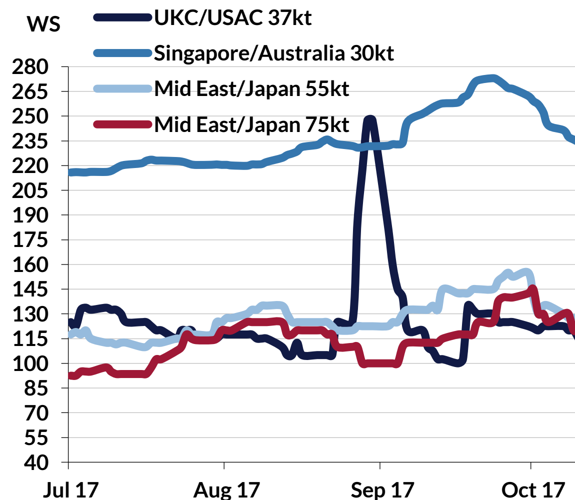
Despite MR action in NWE being generally rather weak, the Med market has enjoyed both tight tonnage through and good enquiry. As a result, Owners have been able to achieve 37 x ws 125 Med/transatlantic which has been at least ws 5 points more than on offer ex NWE. A mid-week Brazil enquiry ultimately went on an LR1 for 37 x ws 160 although perhaps a little more than most MR Owners would settle for with cargo on their dates. AGulf runs are offering $800k at the moment, as eyes look to next week to see if the market conditions will persist.

UK Continent

In reflection week 41 has proven to be a rather lacklustre for MR Owner's plying their trade up on the continent. With a lack of TC2 arb, the market has been heavily reliant on West African business, however, with supply heavily outweighing demand levels have softened. TC2 at the time of the writing trades around the 37 x ws 110-112.5 mark although 37 x ws 105 has been seen for a discharge reload. West Africa traded 37 x ws 140 early in the week down to 37 x ws 135 and will now require some testing after the drop which has been seen on the transatlantic market. The short-term outlook for Owners remains bleak as cargo flow remains light and also with the Gulf remaining subdued USAC units continue to ballast towards European shores. Until prompt tonnage starts getting fixed away don't expect a revival on rates.

A stable week 41 has passed for the Handy Owners with Baltic loadings consistently being fixed away at 30 x ws 140. Cargoes have been balanced proportionally against available tonnage, giving stability across the board, but we reach the end of trade this week, we have limited cargoes left. With larger tonnage potentially there to take out a number of Baltic liftings, Charterers may well start to see cracks in the Owners defence begin to show.

Flexi action continues to be quiet forcing Owners to look for longer haul voyages away from their traditional stomping ground of NWE in order to keep idle days to a minimum. Despite tonnage being in relatively short supply, spot enquiry is limited. Rates for now are tracking somewhere in line with the Handy market 22 x ws 175 X-UKCont and 22 x ws 185 ex Baltic - these rates tend to fluctuate depending on the cargo and Owner in question.



Dirty Products

Handy

Slow and steady wins the race up in the continent as this week's array of cargo activity has gradually firmed up the region incrementally. Owners have been careful not to be too overzealous with offers keeping the position list thin and rates building in one direction only. As a consequence, this trend is likely to continue on Monday and with surrounding markets also on the climb we may see a scramble of activity early next week.

The Mediterranean looked like it was going to crash on Monday morning and to a certain degree it did. However, sentiment quickly changed and the region did a complete U-turn with levels superseding where they finished last Friday. With larger sized tonnage firming, split stems are likely to keep Handies on their toes again next week.

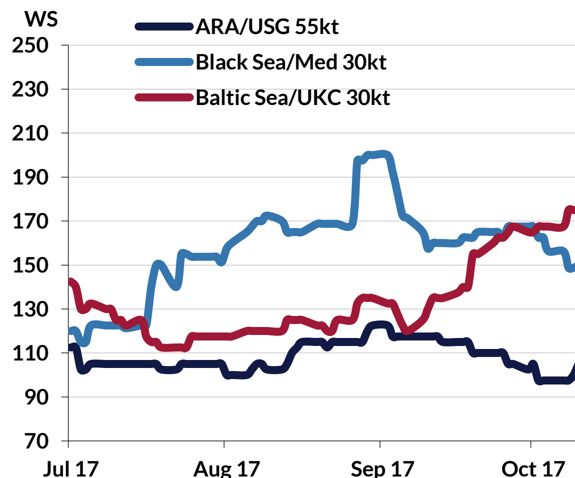
MR

Continuing the themes of recent weeks, Charterers faced yet another week of having limited options with naturally placed units super tight for the duration. Charterers in need of vessels were forced to search nearby regions and take chances on questionable itineraries or face some very bullish ideas from the very few Owners who had vessels in the region. We did see a decrease in fresh enquiry toward the back end as Charterers seemed to apply the brakes in hope the fresh position list Monday morning will bring some well needed replenishment.

Owners in the Mediterranean could not be blamed for dreading this week with Monday morning positions proving favourable to Charterers with positions prompt and well spread. As the week progressed full sized stems start to trickle into the market as positions gradually started to disappear. We did see a few vessels fail, but were quickly snapped up proving a sign further increment likely for next week.

Panamax

This week kicked off proceeding with a strong hangover of activity from the end of last week's trading. This activity ended up taking out a number of units, which were either in ballast or opening naturally close to our shores. Come Tuesday afternoon the position lists we were presented with quickly became thin on the ground with workable tonnage and with limited units available to ballast just as the US market began to firm. In turn we have had to take a closer look at surrounding markets to seek potential candidates to find coverage where possible, but these have steadily been firming as the days tick by now touching levels that way surpass recent months. As we draw the week to a close with reports of 55 x ws 125 on subjects from the NWE this market is likely to remain firm until tonnage replenishes.



GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 12th	Oct 5th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+3**	65	61	43	74
TD20	Suezmax	WAF-UKC	**+4**	77	73	65	87
TD7	Aframax	N.Sea-UKC	**+26**	125	99	92	108

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

			wk on wk change	Oct 12th	Oct 5th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+2,750**	23,000	20,250	8,750	31,750
TD20	Suezmax	WAF-UKC	**+1,250**	13,000	11,750	9,250	17,000
TD7	Aframax	N.Sea-UKC	**+20,000**	24,250	4,250	1,000	11,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 12th	Oct 5th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-15**	115	130	125	
TC2	MR - west	UKC-USAC	**-4**	119	123	114	140
TC5	LR1	AG-Japan	**-4**	126	130	135	128
TC7	MR - east	Singapore-EC Aus	**-18**	234	252	221	

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

			wk on wk change	Oct 12th	Oct 5th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+0**	11,500	11,500	15,500	
TC2	MR - west	UKC-USAC	**-750**	4,750	5,500	4,500	7,750
TC5	LR1	AG-Japan	**-500**	8,750	9,250	10,750	9,250
TC7	MR - east	Singapore-EC Aus	**-2,250**	12,000	14,250	12,250	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**+9**	321	313	307
ClearView Bunker Price (Fujairah 380 HSFO)	**-8**	334	342	316
ClearView Bunker Price (Singapore 380 HSFO)	**+4**	340	336	320
ClearView Bunker Price (Rotterdam LSMGO)	**-10**	498	508	474

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