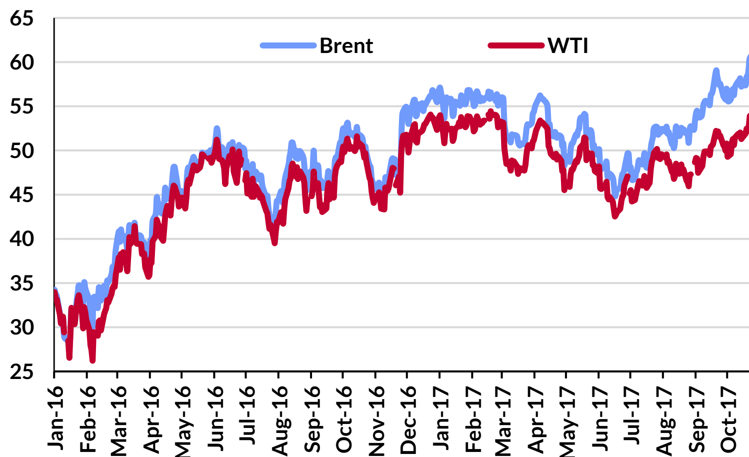
The Road to Rebalancing

Weekly Tanker Market Report

Sentiment in the oil market has changed. Brent, which just a few months ago struggled to stay above $50/bbl now seems firmly above $60/bbl having set a 29 month high earlier this week. For some time, many doubted OPEC's willingness, commitment and ability to rebalance the market in the face of rapidly growing non-OPEC supply. Indeed, prior to the implementation of the deal, many OPEC members increased production, which boosted the volumes of oil on the water, and even with strong compliance, crude oil stocks grew throughout the first quarter, denting market confidence and sending prices lower into the summer. However, this should have hardly come as a surprise, particularly when it is considered that seasonal demand is typically softer in the first quarter. It was always going to be about the second half of 2017, even if some market participants were slow to recognise this. Now, with strong demand, and discipline from OPEC, oil stocks are finally drawing.



The road to rebalancing has been far from smooth. Hurricanes and refinery outages have led to short term distortions in supply and demand, whilst going forwards other hurdles can be expected. Nevertheless, the trend is now clear. Crude oil futures are in backwardation and floating storage, which is often a leading indicator of oversupply in the oil markets, has consistently reduced over the past 4 months. Shore based stocks also appear to be falling but the data for many regions is lagged and subject to constant revisions.

However, despite demand surprising to the upside, it is expected to seasonally weaken into Q1 2018, which could lead to stock builds and with that, short term pressure on pricing. Risk is also influencing prices, perhaps more so than it has in recent years. The dispute in Kurdistan, Trump's stance on Iran, continued instability in Libya, financial strife in Venezuela and a latent threat of insurgency in Nigeria, have all contributed (even if marginally) to higher prices.

Support is also being found from OPEC and Russia's longer-term commitment to the cause. Consensus is growing that OPEC will extend its current arrangement beyond March 2018, quite possibility until the end of next year. Of course, compliance is critical, but provided it remains high enough, OPEC should see continued progress towards its goal. There is, however, a wildcard in the pack; US shale. In theory, $60/bbl price should stimulate more marginal production. But the expectations for the sector are constantly evolving. Costs are reported to be rising, and whilst most still expect production growth, some are starting to revise forecasts downwards in line with a falling rig count, among other factors. However, the rig count often lags oil price changes by a few months, so the response to higher prices may not be apparent just yet. In any case, US supply continues to flood the market, with exports hitting a record 2.133 million b/d last week. Shale remains a formidable challenge to OPEC but also an opportunity for the crude tanker sector. Prices are moving in the right direction but production from within and outside OPEC remains a threat in the longer term.

Crude Oil

Middle East

For the third week in a row VLCCs failed to break through, or even challenge, previous peaks and are now operating in defensive mode as the last quarter of the November programme becomes 'in play'. Next week there is widespread personnel displacement to the Dubai functions and a likely disrupted cargo, and information, flow is unlikely to work in Owners' favour. For now, modern units hold at close to ws 70 East with older units moving into the mid ws 50's with West runs marked at around ws 27 Cape/Cape. Suezmaxes flattened off after last week's slight gains but rate ideas still hold at around ws 85 East and ws 42.5 to the West upon hopes/expectations of a busier week to come. Aframaxes remained steady with occasional upside for prompter needs and Owners are optimistic for next week's campaign. Rates operate at no lower than 80,000 w127.5 to Singapore now, and for the next fixing phase too.

West Africa

Suezmaxes quickly reached ws 100+ high tide marks but thereafter had to leave those behind as Charterers feathered fresh interest against ongoing reasonable availability. Rates now move to ws 87.5 to the US Gulf and to ws 92.5 to Europe with the trend threatening to continue into next week. VLCCs again failed to re-establish positive differentials over prevailing AG/East numbers and as December dates became slowly worked, rate demands were tested to the downside and the two markets are likely to remain hand in hand for a while yet. 260,000 by ws 70, or a bit less, to the Far East with around $2.9 million payable from Angola to West Coast India.

Mediterranean

Aframaxes fell off with a bump from last week's highs but then managed a degree of rebound thereafter, though it's not yet a convincing move. 80,000 by ws 140/145 X-Med now with the Black Sea paying some premiums. Suezmaxes saw good interest and with Bosphoros delays lengthening there was enough underpinning to temporarily ignore the softening West African scene. 140,000 from the Black Sea to European destinations hold at above ws 100 with $3.1 million available for runs to China.

Caribbean

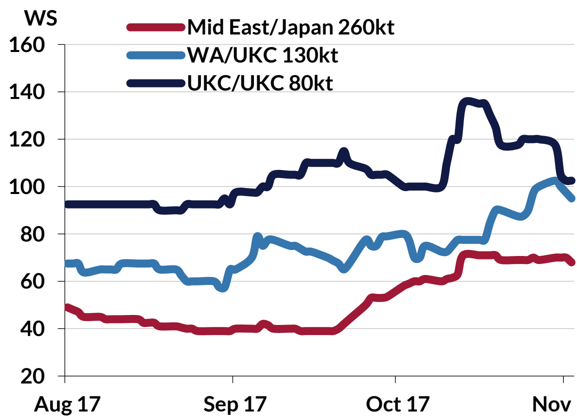
Aframaxes became increasingly challenged on good supply, and pretty feeble demand, the consequence of which was that rates fell off sharply to 70,000 by ws 95 upcoast which may prove to be 'bottom', but may also not yet provide a solid enough bottom to allow for a meaningful rebound over the short term. VLCCs have been finely balanced for a while which will remain the feature through the balance of the year. Rates hold steady at around $4.1 million to West Coast India and $4.7 million to Singapore with ongoing extra interest from the US Gulf set to continue.

North Sea

No bright start for Aframaxes here. Very modest cargo interest punctured any potential momentum and rates ticked down steadily to 80,000 by ws 95 X-UK Cont and to 100,000 by ws 75 from the

Baltic. Owners will resist further falls, however. VLCCs are quite tight, and although there’s been only modest activity, rate demands hold up at $5.3 million for Crude Oil to South Korea and close to $4 million for fuel oil to Singapore and Caribbean alternatives will continue to underpin.

Crude Tanker Spot Rates



Clean Products

East

LRs have had a very mixed week. LR2s started strongly with big gains expected and pushed for by Owners. But by Thursday doubt had crept in and last done levels were seemingly all that was going to be available. But as Friday opened, late running vessels allowed Owners more room to chase and rates have seen a quick rise with 75,000 mt naphtha AG/Japan now fixing at ws 130. 90,000 mt jet AG/UKC hasn't been tested this week but in line with TC1 increases will now look at around $2.0 million. LR1s have seen a very steady amount of business including shorthauls especially with MRs firming. But even with such consistent fixing rates have struggled to move anywhere apart from sideways. 55,000 mt naphtha AG/Japan is now perhaps a touch higher at ws 122.5 and 65,000 mt Jet AG/UKC flat at $1.325 million. Next week could see more firming if Charterers need to come in - conversely if Charterers can afford to wait it may take the heat out and see rates level and eventually fall off again.

An active start to the week saw the front end clear out yet again, as we have seen numerous times in the past week. High demand into East and in particular South Africa have allowed the MRs to trade in isolation in particular from an underperforming LR1 market - although LR1s have continued to mop up shorthaul at cheap numbers, the MRs can focus on EAF and other more specialized trades. EAF finishes the week 35 x ws 225 - Owners keeping their cool in waiting for all the midmonth requirements to hit the market. West should come off the $1.25m levels given the cost equivalent of taking an LR1, but fresh enquiry for MR mean that these levels will likely be repeated. TC12 has been relatively untested - unsurprising given the weaker LR1 market. Stems have been parceled up where possible; although now the LRs have started to firm we may see it tested more in the fresh week. Shorthaul has sat at $225k all week, although LRs have been preferred, and Red Sea runs experienced a nice lift towards the back end of this week to $525k ex WCI. With the market relocating to Dubai next week, much will be done off market - as often happens with these things, last done will inevitably be the order of the day as face-to-face deals are made easy.

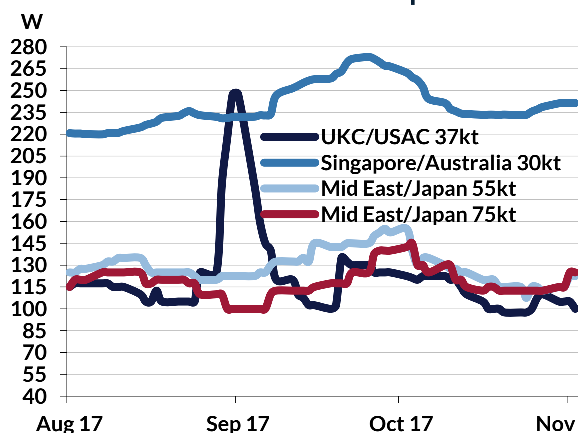
Mediterranean

Handy - The 'status quo' that seems to settle in, all too often for handy rates in the Med, seems to have taken a hold once again this week. Owners have been unable to make any gains from 30 x ws 130 X-Med, although at the same time charterers have struggled to pull this rate in the other direction. There has been the odd fixture either side with a prompt or tricky load that has been able to achieve higher but this leaves the rest of the market tracking the ws 130 still. Black Sea/Med voyages have slipped back to stand in line with the standard +10 points over X-Med. There will need to be a catalyst somewhere to kick these rates on next week but this looks to be elusive right now.

MR - Previous weeks have been favorable for MR Owners opening in the Med as relatively good enquiry and tight tonnage had insulated the rates from the rather lacklustre NWE market. This week however is a different story with tonnage being more than well supplied for the pace and volume of enquiry that has been seen. At the time of writing TA runs look to be in line with TC2 at 37 x ws 100 and 37 x ws 120 for WAF and Brazil. A fresh test on Med/Red Sea sees l/s $525k go on subs but fail and a ship even on subs for l/s $400k but was an easy target and is unlikely to be able to be repeated. A Friday market quote to Brazil is expected to receive enough interest in order to keep rates in the charterer's favour.

UK Continent

MR - The writing has been on the wall for the duration of the week when it comes to MR rates in NWE. Tonnage has been over supplied throughout with fresh enquiry struggling to get going from limited arb opportunities. Rates have suffered the inevitable. TC2 rates soften slightly to close the week 37 x ws 100, whilst WAF is now no more than 37 x ws 120 with Brazil in a similar region. We finish on a quiet note with a notable lack of confidence among the Owners going into next week meaning further losses (albeit small) are likely to be on the cards and could force Owners to start looking at short haul handy voyages instead.
Handy - A similar story here as with the MRs unfortunately. The ULSD Primorsk programme for November is unseasonably and unexpectedly light this month, with this a good general indicator of the handy market rates have reflected the same. Baltic/UKC was 30 x ws 130 early in the week but negative pressure was bound to take a hold leaving 30 x ws 127.5 the going rate today, only 2.5 points up from year lows. X-UKC cargoes have been especially light too with rates softening in line with the Baltic to close 30 x ws 122.5. The latter stages of the week see the majority of business being done away from the prying eyes of the market, although, the general sentiment is rather uninspiring going into next week especially with a slow MR market casting a nasty shadow.
Flexi - Another typically slow week for Flexis sees a couple of fixtures keep levels around last done ticking over 22 x ws 167.5-170 depending on the Owner and voyage in question. That said, the handies coming off a touch means flexi rates should suffer the same fortune with 22 x ws 165 looking like the top of the market on Friday lunchtime. Next week looks to produce much of the same as its stands.



Dirty Products

Handy

From an Owners perspective it has been another successful week's trading on the Continent where the majority of re-availability shown was absorbed into employment and numbers are seeing increment between early week deals. That said, it is the gradient of increment which now gives Charterers hope for a brief cooling off period, as touching the ws 190 mark we have remained here for a number of successive fixtures which have followed. A few ships failing subjects also opens the door very slightly ajar for Charterers to now try their luck.

In the Med conditions have proved rather more challenging this week where a few patient Charterers could sense the value in holding back from fixing until towards the end of the week. That said, decline has been captured to within just a narrow bandwidth from where the week begun, but oversupply does remain an issue heading into Monday.

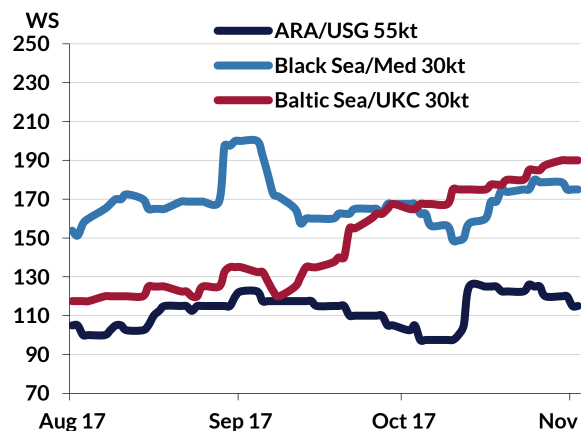
MR

Week on week there is little change in the Continent MR sector in terms of tonnage replenishment. Charterers on the other hand reached a realisation a long time ago that the best option is to stay clear from trying to charter this size unless you have flexibility with stems to look on smaller or larger sized units. So here we have it, the illiquidity in this market is for once caused through unavailability of units rather than lack of demand.

The Mediterranean mean while proves to be rather more inspiring as numerous deals throughout the week give validity to benchmarks and prevent stagnation from occurring. Owners however could argue that rates are flat and TCE's still aren't where they need to be, but with a surrounding handy market showing cracks, this size carries weight in negotiations that numbers here should remain unaffected.

Panamax

Having not so long ago come through a period of strength, such times look a distant memory with the market now looking rather more perilous than Owners would believe, and all of this attributable to a US market not able to deal with the weight of its own tonnage lists. As such, Charterers have been able to take advantage of the tonnage selection made available to them when covering stems, with discounting between deals a by-product of such competition.



GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Nov 3rd	Oct 26th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-2**	69	71	61	81
TD20	Suezmax	WAF-UKC	**-4**	95	99	73	100
TD7	Aframax	N.Sea-UKC	**-21**	101	122	99	111

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

			wk on wk change	Nov 3rd	Oct 26th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-3,500**	24,500	28,000	20,250	35,000
TD20	Suezmax	WAF-UKC	**-3,000**	18,750	21,750	11,750	20,750
TD7	Aframax	N.Sea-UKC	**-16,000**	6,250	22,250	4,250	13,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Nov 3rd	Oct 26th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+10**	122	112	130	
TC2	MR - west	UKC-USAC	**+6**	104	98	123	136
TC5	LR1	AG-Japan	**+11**	122	111	130	134
TC7	MR - east	Singapore-EC Aus	**+4**	241	237	252	

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

			wk on wk change	Nov 3rd	Oct 26th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+2,000**	12,000	10,000	11,500	
TC2	MR - west	UKC-USAC	**+250**	2,250	2,000	5,500	6,500
TC5	LR1	AG-Japan	**+1,000**	7,250	6,250	9,250	9,250
TC7	MR - east	Singapore-EC Aus	**+0**	12,000	12,000	14,250	

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

	wk on wk change	Nov 3rd	Oct 26th	Last Month
ClearView Bunker Price (Rotterdam HSFO 38C	**+27**	349	322	313
ClearView Bunker Price (Fujairah 380 HSFO)	**+20**	363	343	342
ClearView Bunker Price (Singapore 380 HSFO)	**+18**	363	345	336
ClearView Bunker Price (Rotterdam LSMGO)	**+21**	518	497	508

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