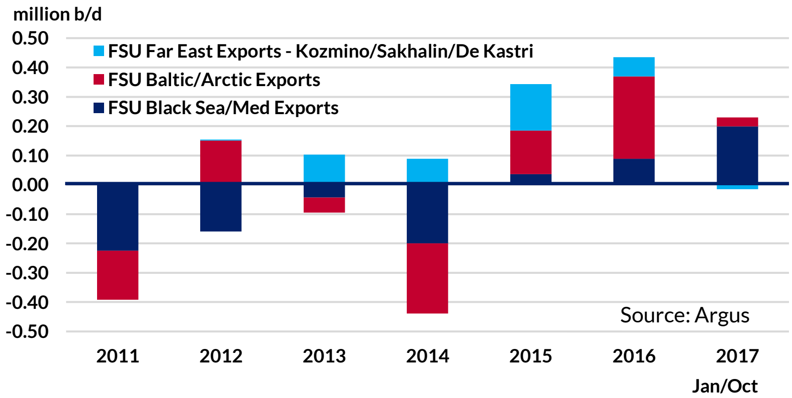
Aframaxes in Focus

Weekly Tanker Market Report

Crude exports out of the Former Soviet Union (FSU) are one of the biggest demand drivers for the Aframax market in the Atlantic Basin. The significance of regional trade has been further boosted by the decline in Aframax shipments in the Caribbean and in the North Sea. Strong gains in FSU seaborne crude exports were seen in 2015/2016 and trade continued to increase this year despite OPEC led production cuts, being driven by rising crude exports through the CPC terminal in the Black Sea. CPC exports averaged over 1.15 million b/d between January and October 2017, up by 250,000 b/d versus the corresponding period last year, following the start-up of the giant Kashagan oil field in the Caspian Sea. There also have been some modest gains in Russian exports of its Arctic crude, which more than offset a minor decline in crude shipments in the Baltic.

Annual Changes in FSU Crude Exports

Mainly Russian, Kazakh and Azeri Crude



Next year there is potential for further growth in volumes lifted from the CPC terminal. The Kazakh energy ministry expects to see another 120,000 b/d gain in Kashagan output, which suggests the country is unlikely to meet its production pledge under the Opec/non-Opec output deal. The picture could be different when it comes to Russia. According to Argus Media, the expansion of the ESPO pipeline branch, that runs through Heilongjiang province in China to Dalian, is nearly complete. This project will increase the ESPO blend shipments through the spur from 320,000 b/d currently to around 600,000 b/d next year. If Russian crude production and refinery throughput are being maintained next year at similar levels relative to those seen in 2017, exports through other established routes are likely to decline. Taking into account Russia's ambition to grow trade volumes with its Asian partners and significant oil backed loans with China, seaborne exports from the Kozmino terminal on the Russian Pacific coast are unlikely to witness a major decline. This clearly puts under threat shipments from the West, particularly seaborne, as flows through the Druzhba pipeline are mostly committed to refineries, for which it is challenging to find an alternative supply source.

If there is indeed a decline in Russian crude exports out of the Baltic and the Black Sea ports, it will be another piece of bad news for Aframaxes, plagued by rapid supply growth. This year 67 units in the LR2/Aframax size group have been delivered and another 75 tankers are scheduled for delivery in 2018. Considering weak demand prospects and rapid fleet growth, it is unlikely the sector will see a notable improvement in freight levels anytime soon. In the longer term, continued growth in world oil demand and the eventual phase-out of the production cuts will aid demand for tonnage. On the supply side, the Ballast Water Treatment (BWT) regulation and the introduction of global 0.5% sulphur limit in 2020 also offer structural support, with promise of stronger demolition activity and with it, slower fleet growth. The prospects for intense demolition post 2020/2025 are particularly strong in the ice class Aframax segment, where over 60% of fleet are within the 11 to 15 year old bracket. Ice class tonnage is more expensive to run due to higher bunker consumption and as such, following the implementation of the BWT and global sulphur cap, these units are likely to come under additional downwards pressure and so could exit trading operations prior to their natural retirement age.

.

Crude Oil

Middle East

VLCC Owners resisted further falls and then managed to claw back a little lost ground as Charterers moved to mop up remaining December positions. Rates for the most modern units broke through the ws 50 barrier to the East, but more challenged units still had to accept little better than ws 45 with runs to the West moving again in the low/mid ws 20's. The January programme will be in hand from early next week and Owners will be hoping for pre-Holiday momentum to help out, and counter ongoing easy availability. Suezmaxes started with hope, but then had to settle for a rather non-descript back half to the week with rates easing towards ws 85 East and into the high ws 30's West with little change anticipated over the near term. Aframaxes put a handbrake on recent retreat and a busy week allowed Owners to propel rates to 80,000mt by ws 130 to Singapore with a continuation of that over the next phase likely.

West Africa

Suezmaxes operated within a holding pattern - as elsewhere - with both sides postponing the real fight until the lead up to holidays from late next week. Rates ended little differently to last week's end marks at around ws 85 to the USGulf and maximum ws 90 to Europe. VLCCs had a busier time of it and managed to slightly widen the positive differential over prevailing AGulf/East numbers - as high as ws 59 was paid for a movement to North China with $2.625 million the last seen to East Coast India. Further progress will now be dependent upon Middle Eastern fortunes.

Mediterranean

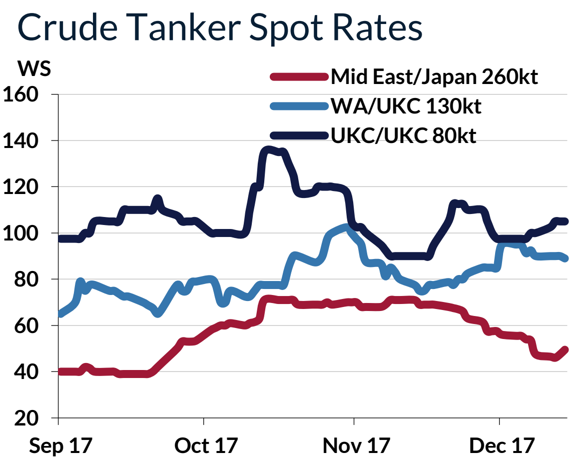
Aframaxes suddenly and unexpectedly, got into the seasonal spirit with strong volumes pruning lists sufficiently to allow Owners to ramp up ideas to North of 80,000mt by ws 120 X-Med and ws 135 from the Black Sea. The party atmosphere should continue for a little while yet. Suezmaxes, on the other hand, were left with much less to do, although heavier January Black Sea stem lists did provide a backstop to sentiment, and rates merely settled to 140,000mt by ws 87.5 from the Black Sea to European destinations with around $3.1 million again asked for runs to China.

Caribbean

For most of the week, Aframaxes kept their plate spinning at up to 70,000mt by ws 170 upcoast, but fundamentals started edging back into Charterers favour, and rates then moved off towards ws 160 with lower levels on the cards into next week. VLCCs had a very quiet week and rate ideas slipped to $3.6 million to West Coast India and under $4 million to Singapore. Unless activity picks up sharply then further discounting is likely to be seen.

North Sea

Unlike the Mediterranean, Aframaxes here found a very uninspiring marketplace. Little better than 80,000mt by ws 100 X-UKCont and 100,000mt by ws 67.5 from the Baltic too. The main talking point, of course, was the ruptured Forties pipeline and consequent force-majeure disruption and that, together with Baltic planned maintenance, also punctured any VLCC hopes too with rates largely theoretical at $3.25 million for fuel oil to Singapore and a low $4 million level likely for crude oil from Skaw to South Korea likely.



Clean Products

East

It's been a week where the MRs in the East never really got any traction. There was a bit going on but activity was never sustained and as such there was a slight softening to the latter part of the week. Having held fast at ws 212.5 EAF cargoes were finally tested and have corrected to 35 x ws 210. Nap cargoes have been quiet for a while and as such were in need of a fresh test. With a few Eastbound cargoes this week, it closes at 35 x ws 165. UKCont runs for the time being hold steady at the $1.1 million mark; however, runs into the Red Sea have come off a touch. With a Suez on subs at $575k, Gizan should be at the $425k level; however, it's not quite there just yet and assessed at $450k level for now. The shorter X-AGulf runs again are very date and voyage dependant but taking $195k as an average works for the time being. Although we have seen a softening in rates towards the end of the week, the snippets of activity have helped to ease the pressure of early ships on the tonnage list and as such next week we will see levels hold flat certainly for the first few days.

LRs have been threatening to see a fall all week but just enough activity has held rates for now. Yet, going into next week rates are sure to come off. 75,000mt naphtha AGulf/Japan is now at ws 110 but ws 105 is likely next week. 90,000mt jet AGulf/UKCont is around $1.65 million and for now seems steady. LR1s have held TC5 with 55,000mt naphtha AGulf/Japan at ws 137.5 but predictions are for ws 130 next week. 65,000mt jet AGulf/UKCont is now $1.275 million and is likely to see another small drop.

Mediterranean

At the start of week 50, most were of the opinion that rates would potentially come off, with the tonnage list looking well supplied and enquiry lagging on Monday. However, by mid-week as ships were confirmed and tonnage started to clear, the tonnage list began to thin. With enquiry picking up towards the back end of the week, this allowed Owners to push for more points and at the time of writing X-Med stems are trading around the 30 x ws 195. Black Sea runs held at the 30 x ws 200 mark for the majority of the week; however, a Charterer with three stems off similar dates allowed Owners to capitalise and 30 x ws 220 is now on subs. The stage is set for further gains next week as we are yet to see end month dates worked firm, leaving Owners bullish before the holidays.

MR enquiry has persisted throughout and as the tonnage list began to thin, this allowed Owners to take the upper hand. Rates have continued to trade in front of those in NWE this week with Med-transatlantic rates currently at the 37 x ws 170 mark. Med-AGulf run is currently trading around the $975K mark. An uptick in enquiry was seen Thursday and Friday leaves Owners optimistic moving into week 51.

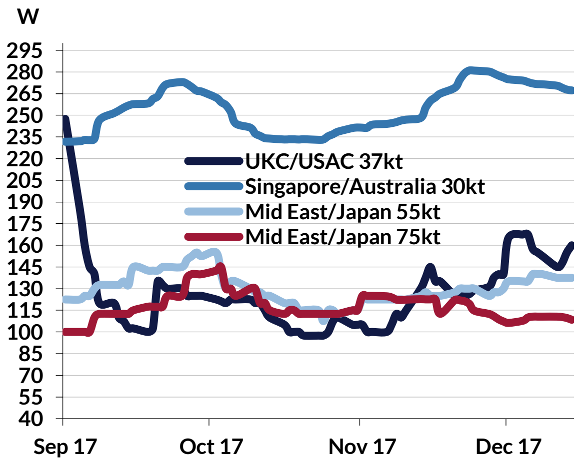
UK Continent

As week 50 comes to a close, uncertainty over where next done will be, has been the main talking point throughout. However, good levels of enquiry have managed to gather some momentum, pushing TC2 runs back up to 37 x ws 160. As the week began, plenty of cargoes were dumped into the market and Owners looked to gain on rates. With good levels of ballast tonnage, partnered with multiple relets available, the market wavered little from the week's starting point. Despite good WAF demand, settling at 37 x ws 180, the MRs have been held back by the fundamental issue that the transatlantic arb has been closed, with only system barrels moving that direction. Improved levels of output from the Baltic for the final half of December did give Owners alternative employment opportunities and this was also one of the most popular routes to pick up, with certain tonnage wanting to stay in the vicinity. Looking ahead, we can see outstanding enquiry still there to be cleared out before the end of the year, and can expect with this week passing a stable base for Owners to work from.

Handy Owners plying their trade in NWE have experienced a week of healthy amount of fixing as Charterers looked to cover their Christmas exposure. Baltic cargoes have been the real driving force here as the Primorsk programme has covered all the way up till the 30th. Off the back of this, Owners have been able to repeat last done levels ex Baltic at 30 x ws 190 and, even though X-UKCont volumes remained subdued, when tested levels corrected to 30 x ws 180. Looking ahead, with the combination of a tightening tonnage list and increased volumes, Owners will be quietly confident that they will be push this market heading into week 51.

The Flexis market continues to be dominated by more exotic routes as in recent times Baltic/UKCont cargoes have seemingly all dried up. With a handful of stems being fixed down to Brazil in the past few weeks, there is a general lack of tonnage in NWE. This, in turn, is helping the Owners with rare positions on the Cont to keep rates pushing in line with what the Handies are achieving; hence, why 22 x ws 260 was done this week X-Baltic. Owners will be keen to capitalise on any chances that crop up between now and the New Year, particularly if the Handies push Northwards.

Clean Product Tanker Spot Rates



Dirty Products

Handy

In the continent this week, just as Owners where building speed it seems they missed a gear with momentum stuttering back to conference levels at ws 190-192.5. Hidden tonnage in the region combined with fixing and a failing have also played a part in helping Charterers keep a lid on aspiration. As we creep ever closer to the Christmas break, further level pegging could well become a trait associated with the region.

The Med began the week in anticipation of a busy period, although as the days ticked along most were left scratching their heads as to when this expected rush would start? Cargo volume did in fact pick up by mid-week, although when stems were brought to market, subsequent fixing levels only faired to the detriment of TCE's wiping some 20 ws points off the value of taking a ship from the Black Sea. At the time of writing, it still looks favourable for Charterers, with Owners sensing some hard days of competing lay ahead next week.

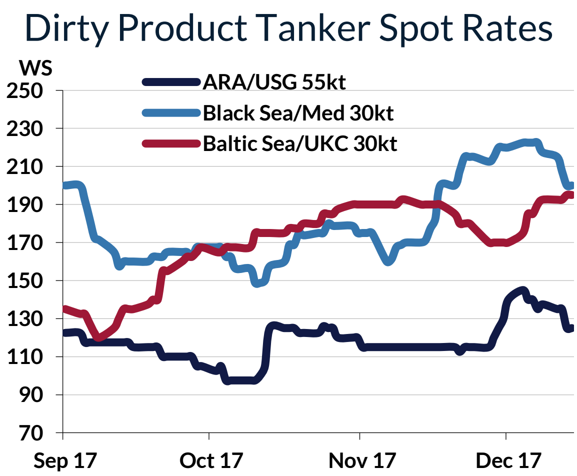
MR

Due to the persistent lack of both tonnage and requirement in the continent, the region can forgo long spells of inactivity that in any other sector would render previous benchmarks invalid. For this reason, often we see numbers showing little variance in fixing levels as and when deals are concluded. This is however, until a Charterer has to move oil on this size of ship, and doesn't have the flexibility to move on alternate sized unit! The necessity to bring a unit in from further afield and it's easy to understand why we see headline fixtures sat up some ws +5-10 points up from where the region had been benchmarked. Such conditions are likely to change in the short term, so let this week serve a marker from what can happen.

Down in the Med activity volumes had slowed down this week, which for now has had only limited effect on the overall trend. Next week, however, now that the lists have been given a chance to recollect, Charterers will be sensing an opportunity to take advantage of the forthcoming disruption, perhaps clawing back some of the value recently added to the sector.

Panamax

Evidence of a two-tier market is made visible again this week where the Caribs has seen the benchmarked Caribs/USGulf route rally up to new heights of ws 197.5. Over in Europe however, conditions fair rather differently where natural Panamaxes are topping out at what can be commanded by the surrounding Aframax sectors. In turn, this creates a large discrepancy in theoretical numbers from the units that are sat on our shores, versus, should the need arise, taking a ship ex transatlantic.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Dec 14th	Dec 7th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-2**	49	52	57	54
TD20	Suezmax	WAF-UKC	**-2**	89	91	84	79
TD7	Aframax	N.Sea-UKC	**+3**	104	101	98	105

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

			wk on wk change	Dec 14th	Dec 7th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-1,500**	10,500	12,000	16,000	13,750
TD20	Suezmax	WAF-UKC	**-1,000**	16,500	17,500	14,750	12,750
TD7	Aframax	N.Sea-UKC	**+1,750**	7,000	5,250	3,250	5,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Dec 14th	Dec 7th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-2**	108	111	107	
TC2	MR - west	UKC-USAC	**+8**	160	152	139	169
TC5	LR1	AG-Japan	**+0**	137	137	129	130
TC7	MR - east	Singapore-EC Aus	**-5**	267	272	277	

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

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

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

ClearView Bunker Price (Rotterdam HSFO 380	**+7**	342	335	346
ClearView Bunker Price (Fujairah 380 HSFO)	**-3**	369	372	373
ClearView Bunker Price (Singapore 380 HSFO)	**+8**	371	363	373
ClearView Bunker Price (Rotterdam LSMGO)	**+13**	543	530	538

www.gibsons.co.uk

London
Audrey House
16-20 Ely Place
London EC1N 6SN

T +44 (0) 20 7667 1247
F +44 (0) 20 7430 1253
E research@eagibson.co.uk

Hong Kong
Room 1404, 14/f,
Allied Kajima Building
No. 138 Gloucester Road
Wan Chai, Hong Kong

T (852) 2511 8919
F (852) 2511 8910

Singapore
8 Eu Tong Sen Street
12-89 The Central
Singapore 059818

T (65) 6590 0220
F (65) 6222 2705

Houston
770 South Post Oak Lane
Suite 610, Houston
TX77056 United States

Beijing
Room B1616,
Huibin Building,
No 8, Beichen East Road,
Chaoyang District,
Beijing 100101