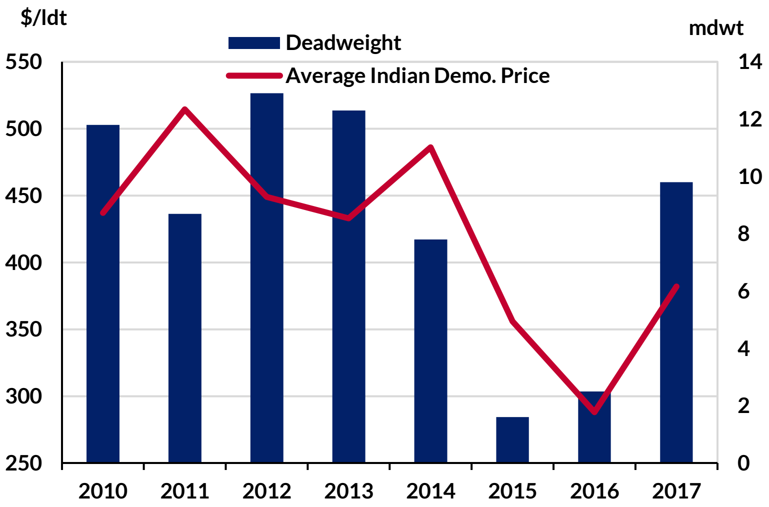
# Demolition Rebound

## Weekly Tanker Market Report

One of the few bright spots for the tanker market last year was the notable increase in recycling sales. Of course, this could be viewed as a double-edged sword as many of these sales could have been a result of poor earnings across most of the tanker market sectors. Another factor to consider is that lightweight prices gained steadily throughout 2017, closing the year just shy of $450/ldt for sub-continent sales. By the end of December, lightweight prices for tankers were approx. $100 tonne higher than the corresponding month in 2016. However, tanker recycling activity could only improve after the low level of sales recorded for 2015 and 2016 and lightweight prices have continued to rise into the new year which we hope will attract more sales.

Tanker Scrapping vs. Lightweight Prices




In deadweight terms tonnage sold for demolition in 2017 amounted to 9.78 million tonnes, 86 units (25,000dwt+). The young age of the tanker fleet continues to be a barrier to sales, however, changes to OPEC production quotas began to bite in 2017 and unlike the previous year, the continuous stream of newbuildings across most sectors began to impact on earnings heaping pressure on older units. Older tankers found it increasingly difficult to get traction in the market and some owners may have found lightweight prices to be tempting.

Last year we witnessed 11 VLCCs committed for demolition (average age 21.5 years), with the last sale in December, PLATA GLORY (built 1999) achieving the highest reported lightweight sale price at $438/ldt. Five Iranian controlled VLCCs were sold to Indian breakers, accounting for 1.5 million dwt. Of the 86 tankers sold last year, Bangladesh breakers took 46 units (5.1 million dwt), while India took 35 (4.3 million dwt). The final destination of the remaining five units is yet unknown. Pakistan remains absent from tanker demolition for the moment, following a series of explosions at recycling facilities in 2016. Twelve Suezmaxes (average age 22.5 years) and a sizable 30 Aframax/LR2 sales (average age 21.4 years) were concluded, the highest number since 2013. Our statistics above include only tankers removed from the conventional trade for demolition. However, five additional VLCCs were removed permanently from the trading fleet to take on FSO/FPSO duties, which accounted for the removal of a further 1.5 million deadweight.

Last January we alluded to the impact that pending legislation would have on demolition sector. In the event the IMO bowed to pressure to lessen the impact on owners softening the implementation of the Ballast Water Treatment convention (BWT). Owners have now turned their attention to the new 2020 sulphur limits, which we believe in combination with BWT, will exert greater pressure to increase scrapping levels as we head towards the end of the decade. The recent price hikes in bunkering costs could also heap pressure on owners to scrap, particularly for tankers with less efficient bunker consumptions. Tanker market fundamentals have changed considerably from a year ago, all of which could combine to be the catalyst for higher levels of removals in the near future.

# Crude Oil

## Middle East

A lone, last minute VLCC deal to the East at the very close of last week that paid a noticeable premium, jolted the market into a vigorous, and positive, reaction at the opening bell this week, and the relief/euphoria drove rates up to a peak ws 62.5 East as a result. Thereafter, Charterers looked around to see that good availability remained, and decided to shut the taps once again, demand then softened somewhat, and older units accepted down to ws 50 also. A more cautious approach likely over the next phase. Suezmaxes bumbled along with only modest interest hitting up against easy supply - rates remained stuck at around ws 70 (18 Worldscale) to the East and sub ws 30 (18 Worldscale) West with no real cause for early change. Aframaxes kept flat through the week, but are now starting to resist 'last done' 80,000mt by ws 92.5 (18 Worldscale) numbers to Singapore and may add a little to the scoreboard next week.

## West Africa

Recent Suezmax lows still weren't low enough to provoke Charterers into serious bargain hunting and rates crumpled even further to 130,000mt by ws 50 (18 Worldscale) to the USGulf and to ws 55 (18 Worldscale) to Europe. availability remains thick enough to call for similar levels well into next week too. VLCCs, rode higher, initially, on the back of the Middle Eastern gains, but quietened late week also, and rates are marked at around ws 58 to the East with $2.275 million the last paid to West Coast India. Any further change will be dictated by AGulf fortunes.

## Mediterranean

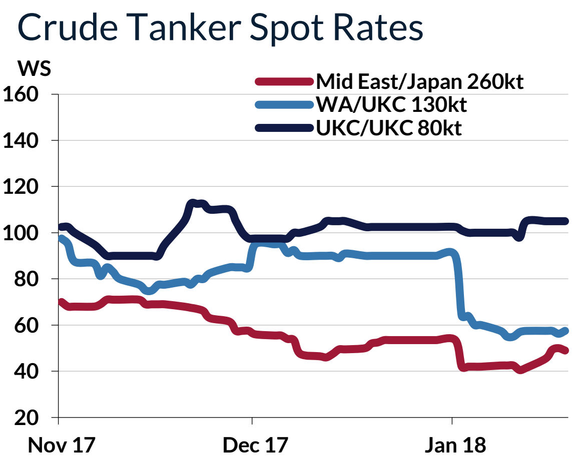
Aframaxes became reasonably busy, but never reached a point of critical mass to drive the market above their previous marks. 80,000mt by ws 90 (18 Worldscale) X-Med is representative for now, but Owners will hope for some extra impetus to break through the ceiling next week. Suezmaxes saw only modest attention that fell well short of allowing for any positive rate moves. 140,000mt by ws 62.5 (18 Worldscale) from the Black Sea to European destinations is a soggy bottom marker with $2.6 million available for runs to China.

## Caribbean

Ice in the USGulf! for a little while, and Aframax Owners hoped that the consequent disruption would aid their cause - in vain, however, and rates eased off to 70,000mt by ws 115 (18 Worldscale) upcoast. VLCCs were gently picked off through the week, but supply remained easily sufficient and the end result was for little/no rate change. $3.5 million Caribs/Singapore and around $3 million to West Coast India are the current centre points.

## North Sea

Aframaxes here jumped into the new week and smartly pushed the market higher. The momentum didn't last though, and levels then eased off a little to 80,000mt by ws 100 (18 Worldscale) X-UKCont and to 100,000mt by ws 90 (18 Worldscale) from the Baltic. Next week, Owners may be more minded to consolidate at those levels rather than risk a standoff. VLCCs saw occasional interest, but rates held reasonably steady at a high of $3.1 million for fuel oil to Singapore with no less than $4.25 million available for crude oil to South Korea/China.



# Clean Products

## East

The MR market has finally started to turn, and we have seen rates climb back up from the bottom of the market. Shorthaul now sits at $160k, and Red Sea runs $375k. EAF has been tested numerous times, and keeps climbing past the ws 140 levels, with every possibility that ws 160 will be put on subs this afternoon. UKCont is mostly untested on this size as LRs still remain relatively much cheaper, although seeing a $940k Argentina run indicates that they should be moving up towards these levels. TC12 has also remained relatively untested, but will be brought up sympathetically to ws 110 start of next week. It is likely that Charterers will continue to target LR1 for their shorthaul cargoes - the backlog of prompt LR1 tonnage remains the cheaper option than an MR. Next week should be another busy one and it is likely we will see further firming.

LRs started promisingly, but it has come to very little. LR2s are rock bottom with 75,000mt naphtha AG/Japan at ws 80 and 90,000mt ULSD AG/UKCont $1.30 million. With tonnage still off early dates, far more business is needed to see any real improvement. LR1s may be saved by the MRs activity. So far rates have remained stuck to the floor like the bigger vessels, but with MRs firming now, the chance of some more shorthaul runs will give some respite. More longerhauls are required though so see real movement from the LR1s. 55,000mt naphtha AGulf/Japan remains at ws 88 and 65,000mt jet AGulf/UKCont is at $1.050 million.

## Mediterranean

Week 3 will be one for Owners to forget as the lists pulled on Monday morning meant everything went downhill from there. An abundance of prompt units across the board coupled with slow enquiry at the start of the week meant rates have softened ws 20 points with X-Med now trading at 30 x ws 170. Off the back of the softening seen in the Med, Black Sea rates corrected themselves and are now trading at the ws +10 point premium at 30 x ws 180. End month date tonnage looks well supplied, and a further softening could be seen at the beginning of week 4.

A lacklustre week on the MR front, with slow enquiry throughout. Although rates in the UKCont began to firm towards the end of the week, ballasters ex WAF and from the USGulf added to an already well supplied tonnage list and a Med-transatlantic run is currently on subs for 37 x ws 135, albeit for a vessel with last cargo vegoil. If enquiry picks up next week, the gap will begin to close between rates in the Med and UKCont.

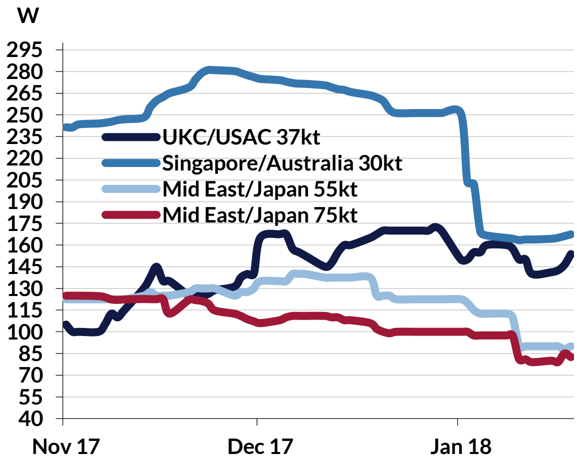
## UK Continent

As week 3 comes to a close, good levels of WAF runs has been the pillar for Owners to build rates from. 37 x ws 155 was the starting point down to WAF and this was consistently fixed for the first half of the week, but with tonnage lists thinning opportunities to press rates appeared and by the close of play rates ticked up to ws 170. Transatlantic runs have been fairly thin on the ground, but with upward pressure on the market, rates have picked up to the 37 x ws 155 mark and beyond. Pushing into next week, Owners will be looking to add further strength to this market and stabilise rates with the cloud of a weak TC14 market looming in the air offering Charterers options.

Handies have continued to kick the can down the road with rates holding fast at 30 x ws 140 for Baltic lifting and ws 130 for X-UKCont. Despite good levels of fixings, little opportunities to move off these rates has been possible and expect pushing into next week, things to remain the same way.

Finally, to the Flexis where the limited number of cargoes have paired well against the limited number of ships available and rates continue to trade sideways. With the Handy market remaining flat throughout, opportunities for much movement in rates is limited as we look for similar sentiment next week.

Clean Product Tanker Spot Rates



# Dirty Products

## Handy

This week saw the official Worldscale handover from 2017 to 2018 on the continent as rates were adjusted accordingly by the majority. The benchmark for Owners and Charterers at the close of business today is 30 X ws 172.5 which is being clung onto by a shoestring. The level of enquiry for this time of year has left everyone wondering whether February's supply will pack more punch than we have seen this month. In the Baltic ice is continuing to set which could offer some Owners reprieve, however, when everyone else around you has ice class tonnage, it is difficult to request a premium.

The Mediterranean has crab walked its way into the weekend with very little to rock the boat. Weather delays are however, keeping this region afloat with vessels delaying their berthing. With conditions set to deteriorate over the weekend and further February stems expected, tonnage could be tight on Monday morning.

## MR

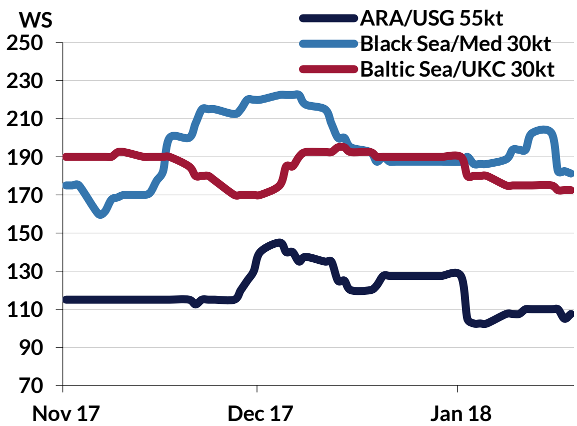
In terms of activity, the continent was starved of talking points once again this week, as the lack of natural tonnage gave Charterers little option other than to use alternate sized tonnage. Although with ice season now upon us, it may not take a lot of persuading by Charterers for Owners with iced class tonnage in nearby regions to ballast up. Charterers will be keen for the fresh position list Monday morning to select some early candidates should the need arise.

An overall steady week in the Mediterranean as once again Owners were faced living mainly off part cargo requirements. Naturally sized positions have started to creep toward the front end of the tonnage list as we close week 3 leaving the region in need of a fresh test. One thing to note, is the weather in the East Mediterranean is looking quite rough, early next week we may see the one or two replacement jobs come to fruition with Owners ready to pounce…

## Panamax

This week has witnessed little fresh activity from both sides of the pond for us to get our teeth stuck into. With that said, activity has just about been enough to clear down early tonnage in the Caribs region, but come next week we are likely to see further replenishment as units start to firm. Looking locally towards our shores, enquiry has not quite been enough to clear out all of the natural tonnage, but as things look at the time of writing, options have definitely thinned out. The reality is that with current levels of enquiry mixed with tonnage open locally, the need to test this market by prying a unit from the States is still yet to be seen. As we are now moving further into February laycans, we are likely to see resistance from Owners in ballasting tonnage this way at current market levels.

Dirty Product Tanker Spot Rates



GIBSON SHIPBROKERS

## Dirty Tanker Spot Market Developments - Spot Worldscale

| | | | *wk on wk* change | Jan 18th | Jan 11th | Last Month | FFA Q1 |
|---|---|---|---|---|---|---|---|
| **TD3** | VLCC | AG-Japan | **+7** | 50 | 43 | 49 | 41 |
| **TD20** | Suezmax | WAF-UKC | **+1** | 57 | 55 | 89 | 63 |
| **TD7** | Aframax | N.Sea-UKC | **+7** | 105 | 98 | 104 | 107 |

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

| | | | wk on wk change | Jan 18th | Jan 11th | Last Month | FFA Q1 |
|---|---|---|---|---|---|---|---|
| **TD3** | VLCC | AG-Japan | **+5,750** | 16,750 | 11,000 | 10,500 | 9,750 |
| **TD20** | Suezmax | WAF-UKC | **+500** | 7,000 | 6,500 | 16,500 | 10,000 |
| **TD7** | Aframax | N.Sea-UKC | **+4,500** | 7,250 | 2,750 | 7,000 | 8,500 |

## Clean Tanker Spot Market Developments - Spot Worldscale

| | | | wk on wk change | Jan 18th | Jan 11th | Last Month | FFA Q1 |
|---|---|---|---|---|---|---|---|
| **TC1** | LR2 | AG-Japan | **+2** | 82 | 79 | 108 | |
| **TC2** | MR - west | UKC-USAC | **+3** | 151 | 149 | 160 | 147 |
| **TC5** | LR1 | AG-Japan | **-1** | 88 | 89 | 137 | 99 |
| **TC7** | MR - east | Singapore-EC Aus | **+4** | 167 | 164 | 267 | |

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

| | | | wk on wk change | Jan 18th | Jan 11th | Last Month | FFA Q1 |
|---|---|---|---|---|---|---|---|
| **TC1** | LR2 | AG-Japan | **+750** | 4,500 | 3,750 | 7,000 | |
| **TC2** | MR - west | UKC-USAC | **+500** | 10,500 | 10,000 | 9,750 | 9,750 |
| **TC5** | LR1 | AG-Japan | **+0** | 4,250 | 4,250 | 9,500 | 6,000 |
| **TC7** | MR - east | Singapore-EC Aus | **+500** | 10,250 | 9,750 | 14,250 | |

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

| | | | | |
|---|---|---|---|---|
| ClearView Bunker Price (Rotterdam HSFO 380) | **-3** | 367 | 370 | 342 |
| ClearView Bunker Price (Fujairah 380 HSFO) | **-1** | 386 | 386 | 369 |
| ClearView Bunker Price (Singapore 380 HSFO) | **-3** | 390 | 393 | 371 |
| ClearView Bunker Price (Rotterdam LSMGO) | **-3** | 596 | 599 | 543 |

**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