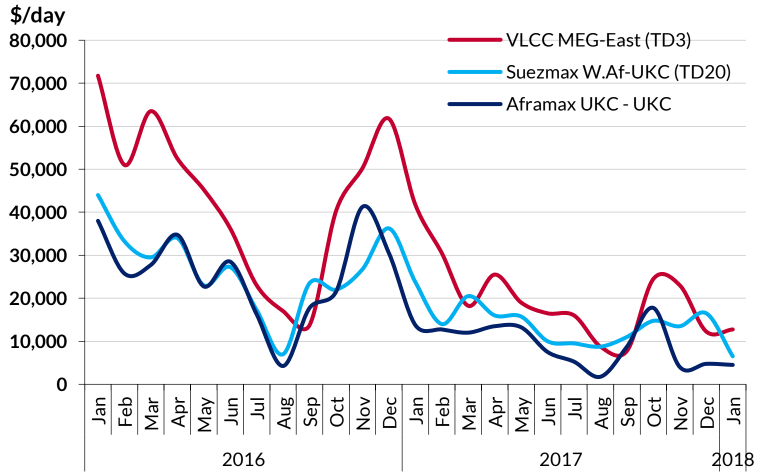
Weak, Crude and Depressed

Weekly Tanker Market Report

For quite some time the consensus in the crude tanker market has been that 2018 will be a disappointing year in terms of industry earnings. However, the extreme weakness in spot TCE returns across all tanker categories in January still left many surprised, taking into the account the traditional support lent to the market during the winter season. Spot TCE earnings on the benchmark VLCC trade from the Middle East to Japan (TD3) averaged just under $13,000/day at market speed last month, an unprecedented level for January since the turn of the century. The performance on key trades for other crude tanker segments was even worse. Spot earnings for Suezmaxes trading West Africa to UK Continent (TD20) averaged $6,500/day, while Aframaxes trading across the North Sea (TD7) returned on average $4,500/day over the course of last month, in both cases insufficient to cover fixed operating expenses.

Monthly Average Crude Tanker Earnings

Round voage basis at market speed



Without doubt, such a poor performance is largely attributable to OPEC-led production cuts, coupled with the rapid growth in the crude tanker fleet. Crude production in the Middle East, the largest load region for VLCCs and an important demand source for Suezmaxes and Aframaxes, is now at similar levels relative to volumes produced in early 2016, while the fleet size is notably bigger. At the start of 2018, the VLCC fleet stood at around 720 units, nearly 80 vessels more than in the beginning of 2016. In addition, back in 2016 a sizable portion of the VLCC fleet was tied up in Iranian and non-Iranian storage. This is no longer the case. VLCC storage of Iranian crude and condensate ceased to exist in November 2017, while storage of non-Iranian crude declined dramatically over the past three months. Overall, over 20 VLCCs were released from floating storage duties between January 2016 and January 2018, with the vast majority of these tankers resuming trading operations.

The Suezmax and LR2/Aframax supply also witnessed a spectacular growth, with the fleet size up by 50 and over 75 units respectively over the past two years. In addition to the developments in the Middle East, crude trade on the Suezmax key route from West Africa to Europe remains weak, despite recovering Nigerian output. This is primarily due to the rebound in Libyan output, which has reduced the European refiners' appetite for West African barrels. Furthermore, more crude is also being shipped from the US to Europe. The same factors aid Aframax demand; however, at the same time there has been a decline in Aframax trade from Latin/South America to the US, mainly due to lower flows from Venezuela. Finally, generally favourable weather conditions in January in a number of regional markets meant less weather driven delays and disruptions, one of the key support factors to the market during this time of the year.

Going forward, there could still be a few weather driven spikes in rates, particularly in the Northern Hemisphere. However, the rapid fleet growth will continue, as the anticipated pick up in demolition activity will provide only a limited relief from plenty of new deliveries expected to enter the trading market this year. To reverse the current fortunes, owners need notable increases in trading demand. At the moment, rising crude exports out of the US is the key area for growth but the industry also needs to see strong gains in exports in other parts of the world.

Crude Oil

Middle East

Another difficult week for VLCC Owners here as Charterers see no reason to fix too far forward as the oversupply of tonnage again dictates. We may start to see Owners become apathetic and withdraw from the field of play until there is a necessity to fix. Currently levels achievable going East are 270,000mt by ws 39 and 280,000mt by ws 18 cape/cape to Western destinations. Suezmax rates have come under further pressure this week and in the earlier part of the week rates to the West bottomed at 140,000mt by ws 25 and after a flurry of activity rates only slightly rebounded up to ws 27.5. The East has seen little activity and levels remain suppressed at 130,000mt by ws 62.5/65. The Aframax outlook in the East remains bleak with rates slipping further this week. AGulf-East runs are now down to 80,000mt by ws85 even after a flurry of activity in the AGulf.

West Africa

Suezmax Owners faced another week of pain, although the market has been more active. The early part of the week saw rates continue to bump along the bottom due to a good supply of tonnage. Rates bottomed at 130,000mt by ws 50 to Europe and by the end of the week Owners have finally been able to reverse their plight and gain a few extra points with ws 54 being paid to Europe. A new lower conference rate was easily achieved once Charterers finally decided to pick up their interest here, again it mirrors how the AGulf market develops and with no signs of improvement it may be possible for Charterers to again chip away from current levels which presently stand at 260,000mt by ws44.5 to the Far East.

Mediterranean

Mediterranean Aframaxes have tread water this week. What historically could have been booming in rates due to two weeks of consistent fixing has been nothing of the sort; a weak Suezmax sector has seen Aframax stems being lifted on a part-cargo basis and insignificant Turkish Strait delays have cut off all momentum from being built. Rates of 80,000mt by ws 105-110 level for ordinary X-Med and Black Sea-Med voyages have become conference and only early replacement cargoes unable to take Suezmaxes have shown signs of paying up. As we approach the weekend we see no reason to change the prognosis for the early part of next week. Suezmax rates remain supressed, same old story with so many vessels available in the area. Levels remain unchanged at 135,000mt by ws 65 from Black Sea to European destinations.

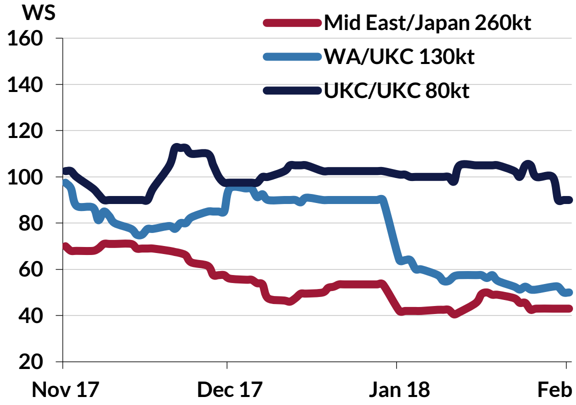
Caribbean

No reprieve for Aframax Owners here, as the slow flow of enquiry enabled availability to build and Charterers were again able to chip away from last done levels, down to 70,000mt by ws 85 for an upcoast run, but one potential ray of optimism would be weather delays are starting to impact which could reverse the recent trend. VLCC levels hold firm as tonnage with uncertain itineraries ensure Charterers focus on the few safer candidates keeping levels strong and enticing a few Eastern ballasters to ply their trade here instead.

North Sea

Overall a week for North Sea and Baltic Aframax Owners to forget. An uphill struggle from the word go, as a lengthy list and depleted cargo sheets left Owners fighting over each cargo, whilst slowly depressing the rates. X-North Sea has now slumped to ws 90 levels and looks unlikely to pick up any time soon, whilst the Baltic is now down to ws 72.5-75 levels depending on whether shorts are required or not. These depressed rates are hovering at the bottom as Owners are now weighing up waiting time versus next to no returns. The short-term outlook remains soft with little likely to buck this trend in the near future. Crude opportunities for VLCC's were at a minimum here with last done levels remaining stable at around $4.2 million for a voyage North Sea/South Korea.

Crude Tanker Spot Rates



Clean Products

East

The MR’s have had a very busy week in the AGulf, continuing the high level of action seen last week. EAF has continued to firm, and the last done 35 x ws 150 will likely be pushed in the new week. Westbound has been untested, although should now sit somewhere around the $925k level, a couple of Owners keen on that direction will bring down the assessment somewhat. TC12 sits 35 x ws 115, but again could be further pushed in the new week. Shorthaul again has faced less competition from the MR1s as they see a better level of cargoes sending them longhaul, but MR specific numbers have settled at the $180k. Although this is less than previously seen, it does highlight a confidence in the market, as Owners take cheaper numbers to stay short for a still firming market. As the LRs remain busy, we are likely see a spicy start to next week, and rates could move further.

LRs have also had a busy week with positive sentiment on both sizes and Owners pushing their rates slowly up. Progress has been limited and indeed earlier in the week, fixtures seemed to buck the firming trend with lower rates fixed. At week end the rates are firmly at higher levels. 55,000mt naphtha AGulf/Japan is up at ws 100 and 65,000mt jet AGulf/UKCont now fixing close to $1.10 million. 75,000mt naphtha AGulf/Japan is last done at ws 92.5, but Owners are pushing for more in the next window. 90,000mt jet AGulf/UKCont is last done at $1.55 million, but cargoes in the market now are struggling to repeat that and $1.60 million looks likely to be fixed. Next week looks likely to carry on this momentum.

Mediterranean

Week 5 has left the Med market rather unsettled with Charterers coming out on top and in the driving seat at the time of writing. We started the week with a number of prompt units available around West Med however, the saving grace for Owners was weather delays which helped prop rates up at the 30 x ws 180 mark. With enquiry consistently slow around West Med, the inevitable softening occurred leaving X-Med rates now trading around the 30 x ws 175 mark.

Black Sea enquiry has remained stable throughout the week leaving rates ticking over at the 30 x ws 190 mark and for the time being, cargoes and tonnage look balanced as we move into week 6.

With rates in the UKCont struggling throughout the week, this has been mirrored in the Med with rates softening across the board.. At the time of writing, Med-transatlantic runs are trading around the 37 x ws 145 mark whilst a market quote heading to Brazil is on subs for 37 x ws 144. Charterers are fully aware of the ships available across the Med, now with the market quote revealing the extent of these units and pressure will build on Owners in week 6 if the level of enquiry is similar to what we’ve seen this week.

UK Continent

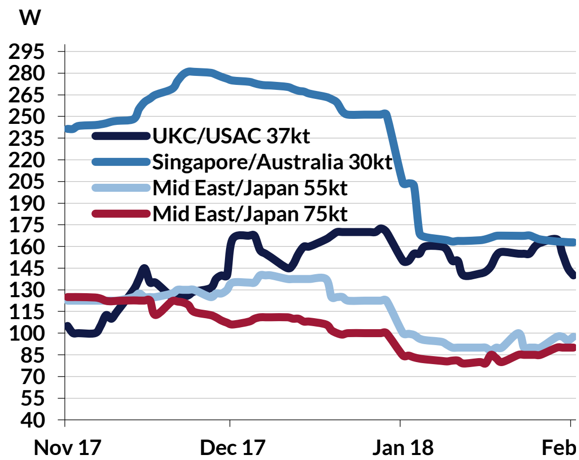
As week 5 concludes, Owners in the MR sector have really struggled to get any upper hand on this market. With WAF runs helping in previous weeks keeping rates in place, the lack of support of this in the first half of the week, saw Charterers pile on the pressure and the inevitability of a softening was ever present. With this is mind it wasn't long till we fell from 37 x ws 185 to ws165 for WAF and the sprinkling of TC2 ending the week down towards 37 x ws 140 (with a ws 135 on subs for last palms). Looking forward, we see good levels of ballast tonnage on the horizon from both the States and WAF, and this will offer Charterers plenty of angles to keep the pressure on this sector, but expect the Ice Class fraternity to be able to freeze rates in place with limited availability partnered with a blossoming Handy sector here.

A volatile week for Handy rates up on the continent as good demand has been seen across the board. With higher numbers ex Baltic seen at the start of the week, (30 x ws 205) Charterers played a clever game by pushing laycans back, using bigger tonnage and effectively holding out until units were back in position for their cargoes. By Wednesday, Baltic liftings traded down to 30 x ws 165 and 30 x ws 160 for X-UKCont. However, Thursday saw a flux of fresh enquiries resulting in the tonnage list tightening drastically and with a few cargoes needed to protect against ice, rates ex Baltic have risen to 30 x ws 195 with X-UKCont still needing some testing with many now talking 30 x ws 180-185.

Charterers will be glad to see the weekend on the horizon and hoping the two-day break will see tonnage turn around.

A week to forget really in terms of Flexi action. The odd own programme cargo keeps some tonnage moving (although does not test the market), whilst the other ships knocking about have either been fixed far forward enough not to worry too much or keen being employed on d/c voyages at low rates. The Handy market has been fluctuating this week, but is tight and firm at the time of writing leaving Flexi Owners bullish with ideas 22 x ws 255-260 ex Baltic...albeit with little or no cargo to test it.

Clean Product Tanker Spot Rates



Dirty Products

Handy

This week's continent market definitely fits into the "game of two halves" bracket, as when Charterers needed tonnage in the opening few days of trading, but only limited firm positions were there to be had. In contrast, the back end of the week now looks startlingly different, where units will be sat spot come Monday morning, without any requirement there to be seen. In short, any gains made this week are now verging on being wiped away.

In the Med, firm itineraries have also been a bugbear of Charterers during the first half of the week, where numbers reacted positively against the cargo base on offer. Similarly, to the behaviour of the continent however, in the final two days trading of the week, ships have firmed up only to find the region absent of cargo supply. At time of writing Owners are now left scratching their heads as to how Monday will pan out, as from being in a position of strength confidence now begins to diminish.

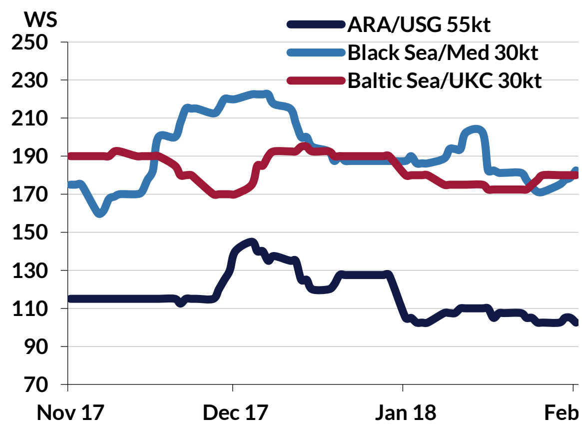
MR

In a week where seldom success stories can be reported, those who managed to fix away their units at the beginning of the week will be thinking they made a good choice to move quickly as what activity volumes followed towards the back end of the week leave a few units in a rather precarious position. As such, Charterers will be sensing that they have an opportunity come Monday to book favourable deals. Particularly from the Med.

Panamax

Upon hitting the midweek stage Owners saw a knock-on effect from one Charterer entering the market, where the news of said stem triggered a few other players to rush for cover. That said, rates are akin to trying to resuscitate a stuffed cat, flat-lining throughout the week with the US markets also sapping any confidence from Owners with tonnage in the next windows. For now, any stimulus afforded to the Panamax markets isn't being offered for a long enough duration in order to have impact.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 01st	Jan 25th	Last Month	FFA Q1
TD3	VLCC	AG-Japan	**-3**	41	44	43	40
TD20	Suezmax	WAF-UKC	**-2**	51	52	61	59
TD7	Aframax	N.Sea-UKC	**-13**	89	102	100	107

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

			wk on wk change	Feb 01st	Jan 25th	Last Month	FFA Q1
TD3	VLCC	AG-Japan	**-2,250**	8,750	11,000	10,750	7,500
TD20	Suezmax	WAF-UKC	**-1,000**	3,750	4,750	9,000	7,250
TD7	Aframax	N.Sea-UKC	**-10,250**	-5,500	4,750	4,250	5,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 01st	Jan 25th	Last Month	FFA Q1
TC1	LR2	AG-Japan	**+7**	92	85	82	
TC2	MR - west	UKC-USAC	**-14**	144	158	156	140
TC5	LR1	AG-Japan	**+6**	97	91	96	109
TC7	MR - east	Singapore-EC Aus	**-3**	163	166	169	

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

			wk on wk change	Feb 01st	Jan 25th	Last Month	FFA Q1
TC1	LR2	AG-Japan	**+2,000**	7,000	5,000	4,500	
TC2	MR - west	UKC-USAC	**-2,250**	9,000	11,250	11,250	8,250
TC5	LR1	AG-Japan	**+1,000**	5,250	4,250	5,500	7,750
TC7	MR - east	Singapore-EC Aus	**-500**	9,500	10,000	10,750	

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

	wk on wk change	Feb 01st	Jan 25th	Last Month
ClearView Bunker Price (Rotterdam HSFO 380)	+1	378	377	367
ClearView Bunker Price (Fujairah 380 HSFO)	+1	397	396	388
ClearView Bunker Price (Singapore 380 HSFO)	+1	396	395	389
ClearView Bunker Price (Rotterdam LSMGO)	-4	608	612	582

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