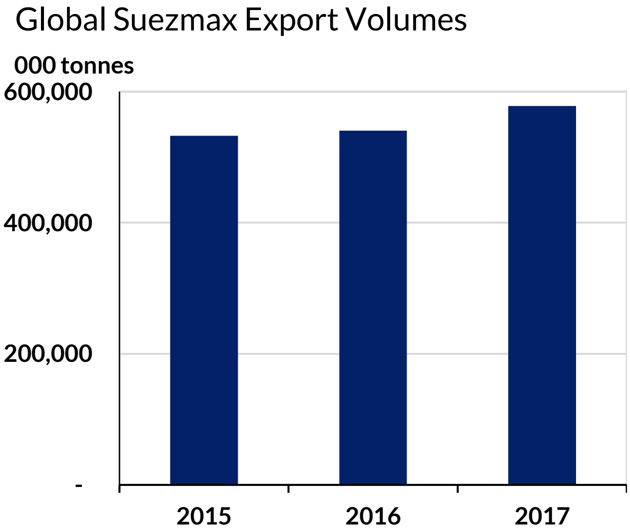
Suezmax Snapshot

Weekly Tanker Market Report

Crude tanker earnings across all sectors were challenged in 2017, not least the Suezmax sector, which saw net fleet growth of 45 units during the year. Heavy ordering activity between 2014 and 2015 saw 57 newbuilds enter the market, making 2017 a record year for Suezmax deliveries. It was therefore unsurprising to see earnings averaging lower at $14,000/day, down from $27,000/day in 2016. However, despite bearish developments on the supply side, developments on the demand side were positive overall. Indeed, AIS tracking data indicates that tonne mile demand for the sector rebounded in 2017 driven by shifting global oil flows.



A key driver of the trade growth was higher crude flows from West to East as OPEC production cuts took effect, in particular, increased CPC blend exports from the Black Sea to Asia. According to tracking data, Suezmax CPC blend volumes grew from 1.5 million tonnes in 2016, to 7 million tonnes last year, which was particularly beneficial for Suezmax demand given distances involved. Nearby, further growth was seen out of the Mediterranean, however the picture was somewhat mixed depending on the countries involved. Declines were seen from Algeria, but Suezmax flows from Libya increased by 5 million tonnes, which accounted for the majority of the growth from the region.

Significant growth was observed from the Americas, with total Suezmax loadings in the region growing by 30 million tonnes. The key to such growth has been higher exports from the US and Brazil. Exports from Brazil account for a third of the increase, whilst the US accounted for more than 20 million tonnes. However, over half of the Suezmax volumes were traded within the region, limiting the tonne mile effect. In the Middle East, despite OPEC's product cuts, Suezmax exports from the Middle East saw continued growth in 2017. Growing by over 13 million tonnes, with almost all the increase originating from Iran. However, not all regions have seen growth. Suezmax exports from West Africa have fallen over the past three years outright exports from West Africa on Suezmaxes fell to below 100 million tonnes in 2017 (down 12 million tonnes YOY).

Moving forwards, whilst 49 Suezmaxes are scheduled to be delivered this year, demand growth can be expected in some of the key load regions. Strong expectations for US production, as well as anticipated higher Brazilian output will support volumes loading in the Americas, even as Venezuelan volumes continue to slide. Export growth from Libya is never certain but remains a possibility whilst high Kashagan production this year (despite Kazahkstan's involvement in the OPEC pact) is expected to translate into higher CPC exports from the Black Sea. In theory, exports from the Middle East should flatten out, given OPEC's pact. However, volumes from West Africa could rise year on year, if Nigeria is able to hold its production stable at its OPEC ceiling of 1.80 million b/d. On balance, 2018 will be tough whilst the excess supply delivered in 2017, and inbound deliveries this year, are absorbed. However, tangible demand growth means it is only a matter of time before earnings return to more sustainable levels.

Crude Oil

Middle East

Hopes of a pre-Chinese Holiday boost for VLCCs were never realised and although the week started with reasonable volume, no momentum resulted, and the pace eased to keep the market at little better than ws 40 for the most modern units to the East, with down to ws 32 booked for the most challenged. Rates to the West remained cemented at under ws 20 for straight runs too. Availability remains an ongoing challenge for Owners over the coming week, and well beyond. Suezmaxes saw less and less as the week progressed and as tonnage built, rate ideas fell further to 130,000mt by ws 57.5 to the East and to under ws 25 to the West with no early recovery likely. Aframaxes operated to a slow beat too, which was just sufficient to keep rates at an average 80,000mt by ws 85 to Singapore, with more of the same the call over the coming period.

West Africa

A week of futile resistance for Suezmax Owners as over easy supply met steady, but underwhelming demand. Rates chipped lower to around ws 50 for all Atlantic options and will take some time yet to recover. VLCCs drifted hand in hand with AGulf fortunes to lead rates down a touch to 260,000mt by ws 41.5 to the Far East with around $2.00 million still the mark for Angola to West Coast India. Ballast time considerations should throw up opportunities early next week, but the rate structure will not shift until/unless the Middle East turns the corner.

Mediterranean

Aframaxes could only fractionally undulate within a tight rate range, and ended the week scraping along the bottom of that at down to 80,000mt by ws 87.5 X-Med as enquiry melted away. Another similar scene likely to greet the market for the first half of next week, at least. Suezmaxes eyed a thicker first decade CPC programme in the Black Sea, but availability was just too heavy to convert the expectation into US Dollars and an otherwise generally tepid wider scene additionally failed to inspire. Rates from the Black Sea to European destinations eased off to 140,000mt by ws 67.5 with down to $2.4 million available for runs to China.

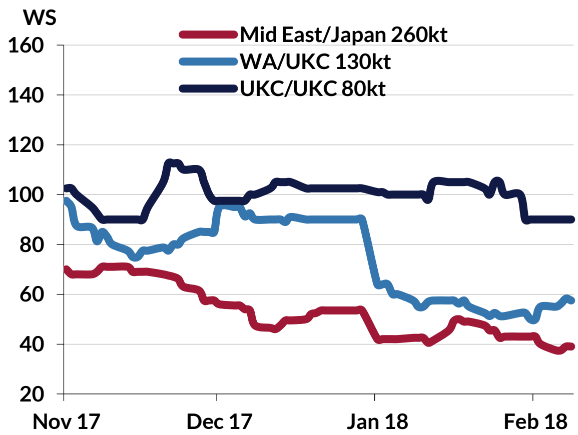
Caribbean

Aframaxes started flatline, but fog disruption in the USGulf came to Owners' rescue and provided the necessary catalyst to jump the market to 70,000mt by ws 110 upcoast. It could go a little higher yet, but once the fog lifts, pressure will once again be felt. VLCCs initially had to discount to as low as $2.4 million to West Coast India and $3.1 million to Singapore, but once early units had been better cleared, there was some recovery from that to add around $300,000 to those numbers. It was also newsworthy to note the first VLCC lifting from Loop Terminal to the Far East, which if goes as well as expected, will become a permanent, and economically attractive driver for further supportive U.S. export utilization.

North Sea

A testing week for Aframaxes here that posted no gain over the period. 80,000mt by ws 87.5 X-UKCont and 100,000mt by ws 70 from the Baltic presently, with no positive signs upon the immediate horizon either. VLCC interest remained muted, but $3.7 million was fixed and failed for crude oil from Hound Point to South Korea with fuel oil from Rotterdam to Singapore theoretically marked at $2.75 million but storage relief, rather than 'arb' economics would be the only reason for traders to engage.

Crude Tanker Spot Rates



Clean Products

East

LRs have had a strange week with LR1s firming and LR2s dropping right off. The gap has widened now so equivalent AGulf/Japan rates are close to parity. LR2s are massively over tonnaged on early dates which has led to this situation and 75,000mt naphtha AGulf/Japan is now at ws 85, with perhaps more to go. 90,000mt jet AGulf/UKCont is now $1.5 million, down some $125k on the week. In contrast LR1s have moved up some ws 7.5 points up with 55,000mt naphtha AGulf/Japan at ws 112.5 and 65,000mt jet AGulf/UKCont now at $1.20 million. February does look busier but the backlog of LR2s will take time to clear.

A fairly quiet week on the MRs, unsurprising given the high level of action seen during the previous couple of weeks. Although cargo volume has been reduced, the sentiment has remained very flat, given the thin availability of tonnage off the front end. Inevitably rates have been nibbled down slightly, but not enough to change the sentiment on any given route. West rates finish the week at $1.1 million, and rumours that they could be tested again early next week. TC12 has for a while been lagging behind for Owners in terms of daily earnings, and a jump to 35 x ws 137.5 started to address this imbalance, although more firming is needed. Last done levels on the shorthaul are $250k (although less is attainable) and $500k into the Red Sea. The issue here being that LR2s are very weak, so should take preference on longhaul. MRs are due a busy week, and we could see a lot of end month volume coming out on Monday, which has the possibility to push the market again if it materialises.

Mediterranean

We've seen a state of equilibrium for much of week 7 with rates trading sideways throughout at around the 30 x ws 155-160 mark. Cargoes and tonnage remain balanced for the time being with X-Med stems achieving 30 x ws 157.5. Delays through the Turkish Straits at the beginning of the week saw Black Sea rates achieve more than the ws +10-point premium on X-Med with a high of 30 x ws 175 however, with a wealth of tonnage seen around East Med begin to grow, rates have come off and are now trading around the 30 x ws 165 mark. With IP week on the horizon, expect little opportunity for Owners to press with fresh market cargoes thin on the ground for now.

A generally slow week on the MR front, other than a slight uptick in enquiry midweek, which saw rates firm slightly in line with rates up in the UKCont. Fresh test was seen yesterday for a run heading East with Med-AGulf at $950k. Transatlantic runs are currently trading at the 37 x ws 155 mark, mirroring rates up in NWE, however with a lack of cargoes outstanding, Owners will struggle to hold these numbers with the general sentiment feeling soft.

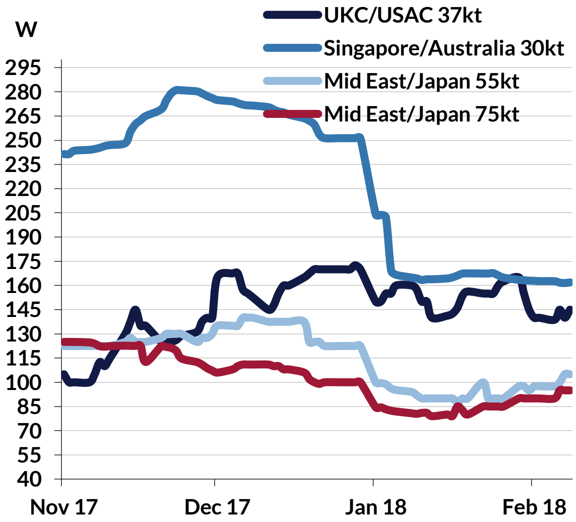
UK Continent

MRs in the West kicked off the week in a busy fashion with good levels of demand seen for both TC2 & West Africa discharge. With enquiry strong and those looking to protect against ice restrictions having to pay a big premium, the owning fraternity remained bullish and optimistic after the first two working days. However, as we hit the midweek point a number of vessels didn't get their subjects and as tonnage lists were redrawn the sting looked to have been taken out of the market and pressure beginning to build on Owners. With little else on the cargo board to offer Owners, TC2 dropped sharply to 37 x ws 155 & WAF to 37 x ws 170. Looking ahead expect MRs in the West to remain soft with the only glimmer of hope coming from those with ice class units.

The fixing last week meant Owners had a platform on which to build rates early on Monday seeing ws 5 points gained quickly for Baltic/UKCont (ice) 30 x ws 220 by COB. In the same vein X-UKCont rates saw similar gains with a handful of fixtures being fixed 30 x ws 195 early in the week. With IP week on the horizon and a few LR's entering the fray, the pace of enquiry was considerably slower by the time Thursday came around, ultimately leaving Owners calls to push rates higher falling on deaf ears. The standoff on Friday sees one dominant Charterer holding ground to pull rates down from last done levels with competitors waiting in the wings before quoting fresh cargoes. Given the availability of ships on the list, we expect rates to come off by about ws 5 points for both Baltic/UKCont and X-UKCont routes by COB.

Another rather quiet week for the Flexis with Owners focussing their efforts on repositioning further South towards Gibraltar in order to keep their ships moving in this fragmented market. We have witnessed ships opening in NWE struggling to find employment as the few stems available are snapped up on own programme tonnage. As a result, the market has become particularly hard to freight with anything between 22 x ws 230-260 possible depending on the voyage and Owner in question. Expect more of the same next week, particularly with the Handies looking soft at the time of writing.

Clean Product Tanker Spot Rates



Dirty Products

Handy

The continent this week should perhaps be summarised as a day's trading rather than a week's trading as all the activity really did happen in a single 24-hour slot. This was enough to bring levels back to pre-existing values before the market dropped to ws 160, although surging back to ws 165, it was like someone turned the taps off in the continent forcing Owners to backtrack on their demands for ws 170.

In the Med trading patterns were rather more inducive of a market with a balanced trend slowly beginning to show an upside. Owing mainly to firm itineraries lacking in the East Med area and the Black Sea pulling in all what became available. To such dynamics numbers did raise some 5-7.5 worldscale points, leaving Owners to question why X-Med differentials against the Black Sea had widened. At time of writing Owners are still trying to close this differential back to a more commonly associated ws 10 points, but for now X-Med does seem to be lagging behind a bit where activity towards the closing stages of the week has dipped off.

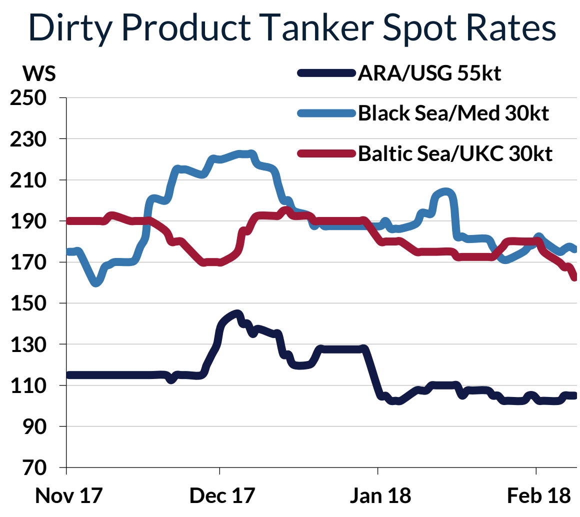
MR

Half term for this sector in the continent, where full stem cargo activity has been put on the back burner. This is no real surprise when at the time of writing no units are naturally open in the region, combined with a very soft market on their larger cousins, Aframaxes. Charterers will only have to wait a little while longer until the position list starts showing some natural sized units to get their teeth into.

Different story elsewhere in the Med this week, where MR cargoes have kept Owners moving and rates afloat. Owners are now in a position to be able to turn down smaller stems and wait to maximise intakes, while the thinning position list up to end month is starting to make conditions tougher for Charterers.

Panamax

Fresh enquiry from this side of the pond has been somewhat subdued, witnessing only few naturally placed units managing to get fixed away. This trend is likely to continue for the short term especially when we take into consideration that a handful of units that had shorthaul options look to have this option declared, thus only managing to replenish tonnage lists on our shores. Owners with such units will be keen to maximise opportunity to shorten any waiting time they may have to find their next stems as the fixing window looks to have moved beyond when these units are due open. Turning our attention to the US markets, it is worth noting that the Caribs region is starting to look tighter then we have seen recently, as activity steadily picked up, as the week progressed. With this build up in enquiry we have witnessed Owners managing to gain around ws 10-15 points from where we started the week. This is only going to make Owners second guess whether to ballast units toward the NWE region, once again leaving all eyes on natural tonnage next week.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 15th	Feb 08th	Last Month	FFA Q1
TD3	VLCC	AG-Japan	**-1**	38	39	43	35
TD20	Suezmax	WAF-UKC	**-3**	55	58	61	59
TD7	Aframax	N.Sea-UKC	**-1**	90	90	100	96

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

			wk on wk change	Feb 15th	Feb 08th	Last Month	FFA Q1
TD3	VLCC	AG-Japan	**-250**	7,750	8,000	10,750	5,250
TD20	Suezmax	WAF-UKC	**-750**	7,250	8,000	9,000	9,000
TD7	Aframax	N.Sea-UKC	**+750**	-2,500	-3,250	4,250	1,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 15th	Feb 08th	Last Month	FFA Q1
TC1	LR2	AG-Japan	**-11**	83	94	82	
TC2	MR - west	UKC-USAC	**+11**	156	146	156	147
TC5	LR1	AG-Japan	**+2**	108	105	96	101
TC7	MR - east	Singapore-EC Aus	**+2**	164	162	169	

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

			wk on wk change	Feb 15th	Feb 08th	Last Month	FFA Q1
TC1	LR2	AG-Japan	**-3,250**	5,000	8,250	4,500	
TC2	MR - west	UKC-USAC	**+2,250**	12,250	10,000	11,250	10,750
TC5	LR1	AG-Japan	**+750**	8,250	7,500	5,500	7,000
TC7	MR - east	Singapore-EC Aus	**+500**	10,250	9,750	10,750	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**-10**	341	351	367	
ClearView Bunker Price (Fujairah 380 HSFO)	**-11**	370	381	388	
ClearView Bunker Price (Singapore 380 HSFO)	**-12**	368	379	389	
ClearView Bunker Price (Rotterdam LSMGO)	**-31**	523	554	582	

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