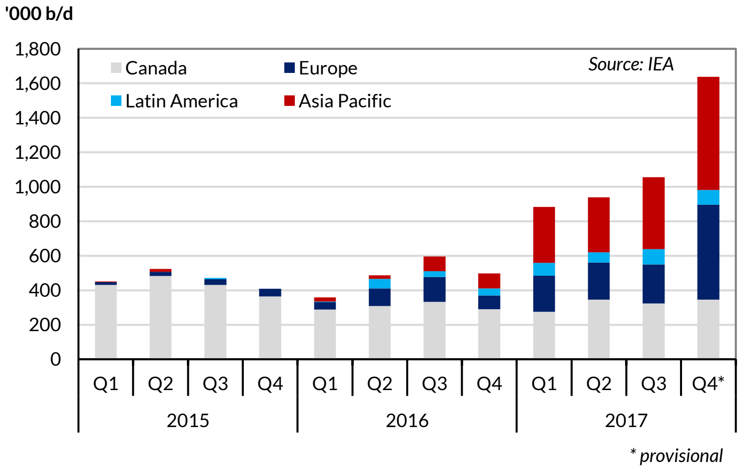
Go with the Flow

Weekly Tanker Market Report

Just last week the first test loading of a VLCC took place at the Louisiana Offshore Oil Port (LOOP), a successful culmination of the port's efforts to modify one of its pipelines to accommodate the bi-directional flow of crude through the terminal. It remains to be seen how much will be exported from the port on a regular basis, taking into account its restricted pipeline connectivity to the key shale plays. However, undoubtedly there is no shortage of export demand. The growth in US crude exports was spectacular last year, with total volumes up by around 1 million b/d over the course of the year. The biggest increases were seen in long haul trade to Asia, stimulated by restricted crude flows out of the Middle East and the need for diversification by energy hungry Asia Pacific countries. Both Suezmaxes and VLCCs benefitted from these incremental long haul barrels, although to date loading a VLCC required an expensive reverse lighting exercise. Infrastructure improvements at LOOP would certainly improve freight economics for VLCCs. In addition, once the dredging project at the port of Corpus Christi is completed, the terminal is also expected to be able to load part-laden VLCCs.

Main Destinations for US Crude



Long haul trade from Latin/South America to Asia also remains strong, despite the economic turmoil in Venezuela, which is affecting the country's crude exports. Venezuela's short haul crude trade to US has been in decline for quite some time, while long-haul volumes to the East have started to slip of late. Nonetheless, this has been more than offset by growing shipments of Brazilian crude both from Brazil and Uruguay. According to AIS movements, last year the volume of crude exported on VLCCs from these two countries reached 25 million tonnes, up by over 25% versus 2016.

Robust crude trade from Latin/South America, coupled with the increasing number of long haul shipments out of the US Gulf, is translating into gradual increases in demand for VLCCs. Yet, the availability of naturally positioned tonnage in the region is at best static, if not at risk of decline, as ongoing increases in US crude production threaten to lower the country's crude import requirements, including those barrels shipped from the Middle East. For VLCCs, discharging in Europe, loading in the Caribbean or the US Gulf is already a natural step forward. Furthermore, a new trend has emerged since last year, with VLCCs occasionally ballasting from the East to load off the South American coast or in the Caribbean.

Keeping all things equal, strong prospects for continued growth in US crude exports and VLCC infrastructure developments suggest further increases in chartering demand and with it, dwindling availability of naturally positioned VLCCs in the region. This implies a greater need for ballasters; however, the majority of the US business is done on a speculative basis. Quite possibly these market dynamics will pull more prompt tonnage towards the US Gulf, creating additional opportunities for Eastern ballasters for Caribs/South American term loadings. Of course, owners will only welcome more inefficiencies in trade, yet a watchful eye has to be kept on developments out of Venezuela, as a further decline in long haul crude trade out of the country cannot be ruled out.

Crude Oil

Middle East

Chinese holidays, and I.P. Week in London, handicapped VLCC Owners' hopes from the very start of the week and although volumes were not as thin as they could have been, ongoing heavy availability continued to weigh heavily, and rates remained stuck fast within their recent lowly range. Older/more challenged units at down to ws 30 to the East with modern units into the high ws 30's and runs to the West as low as ws 15.5 via the Suez. Perhaps busier next week, but supply will remain a negative drag anchor. Suezmaxes found very little to do and competed extra hard for any stray cargo to the West to force rates there into the very low ws 20's with no better than ws 57.5 available to the East. Some have ballasted to the Atlantic, but even that exodus has barely dented supply. Aframaxes remained weak, and rates edged off further from their recent lows. 80,000mt by ws 82.5 to Singapore now, and similarly poor values likely over the near term, at least.

West Africa

Suezmaxes started slowly, but activity increased as the week wore on. That was the good news for Owners, but the bad news, was that they failed to extract any advantage from the uptick and closed the week at more or less where they started - 130,000mt at little better than ws 50 to the USGulf and ws 55 to Europe with Eastern ballasters/refugees the parties to blame. VLCCs faced an exceptionally quiet week and rates remained largely theoretical at ws 41.5 to the Far East with around $2 million still the mark for Angola to West Coast India. It should get busier next week, but AGulf malaise will keep rates pegged when it does.

Mediterranean

Aframaxes trod water over the first half of the week, but then a burst of activity and a sudden dearth of vessels with firm itineraries, allowed for a mini spike to lead rates to 80,000mt by ws 107.5 X-Med with a possibility of a bit more fat to be added before levelling off. Suezmaxes merely ticked over at no better than 140,000mt by ws 67.5 from the Black Sea to European destinations and to $2.4 million to China, but will nudge a little higher on part cargo raiding if Aframaxes do continue to gain.

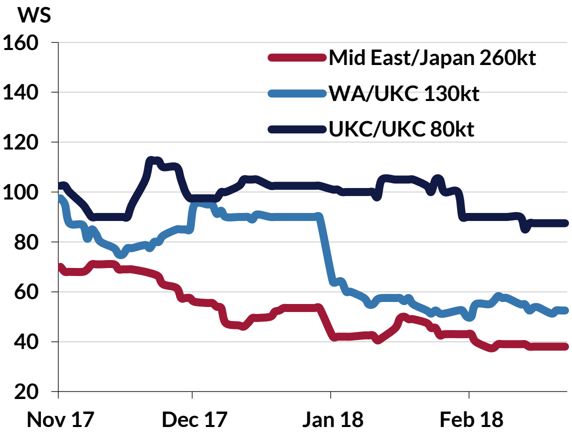
Caribbean

Fog in the USGulf persisted, and disrupted, through the week to allow Aframaxes to broadly hold the gains of last week, but did start to ease off a little to 70,000mt by ws 102.5 upcoast as things began to normalize into the weekend. VLCCs regained a little poise on a clearance of early units to reposition at $3.3 million from the Caribs to Singapore and to $2.65 million to West Coast India but it will need a lot more to engineer any further inflation.

North Sea

Steady Aframax fixing under the surface, but not enough to cause more than a mild ripple. 80,000mt by ws 90 X-UKCont now and 100,000mt by ws 75 from the Baltic, but more serious, and widespread ice in the region could have a more marked effect next week. VLCCs saw minimal interest, but $3.7 million was concluded for a singular crude oil movement from Hound Point to South Korea.

Crude Tanker Spot Rates



Clean Products

East

It's been a while coming, but, finally the LR2s saw some action to stimulate the market. A very active first half of the week saw rates positively correct and look set to come out of their slump and push further. With TC1 reaching 75 x ws 100 with relative ease, ws 105 should be achievable. Heading to the UKCont improved and finishes the week at $1.75 million. With the tonnage list at it tightest seen for 3 weeks, Owners will undoubtedly be confident going into the new week. But, with a lack of cargoes of the 10-20 March window, a fresh supply of cargoes will be needed to see this push continue. The LR1s were able to follow in the footsteps of the LR2s and saw an exciting start to the week. A positive sentiment swept the market and rates correct accordingly. However, as the cargoes ran out, the rates wobbled. With TC5 at 55 x ws 115 (ws 110 for last UMS) and UKCont at $1.275 million and no outstanding cargoes. We could see rates being negatively tested early next if open cargoes remain lacking.

MRs have remained relatively flat this week in the Middle East. As expected, IP Week has kept a lid on what was a very tight market at the end of last week. LRs and in particular the LR2s have benefitted from an injection of cargoes and have firmed throughout the beginning of this week. Although the supply of cargoes has been no more than steady on the MRs, it has been enough to keep the list fairly balanced. We have seen shorthaul trimmed down to $180k, an outstanding Red Sea run will inevitably get on subs at $475k. West runs have been tested and sit now at $1.04 million, and TC12 ends the week 35 x ws 120, although have remained relatively untested given the volume of TC1 cargoes in the market. EAF has remained relatively flat at ws 175, but it is generally agreed that we are yet to see the majority of these early March stems, which will likely test this number in the new week. Circumstantially, given the fact that it has been IP Week, the MRs are in a good place going into the new week, if we get the expected release of cargoes early next week, they have the propensity to move.

Mediterranean

The early stages of week 8 saw both Owners and Charterers in a stand-off with cargoes and tonnage looking balanced. Rates held around the 30 x ws 155-157.5 mark for X-Med stems and 30 x ws 165 for Black Sea runs whilst IP Week was in full swing during Monday and Tuesday. However, by Wednesday as the bleary eyed began to flee London, cargoes were on the thin side too and rate losses were seen. At the time of writing, 30 x ws 147.5 is the going rate for X-Med stems with the general sentiment in the market fairly negative. Rates ex Black Sea remain pressured and will likely move back in line with X-Med stems and reaffirm themselves at the ws +10 point premium on X-Med given delays in the Straits have come back down to the traditional 2 points.

All in all, a relatively slow week on the MR front with rates being dictated by what's been happening up in the UKCont. 37 x ws 135 was the going rate for a Med-transatlantic run towards the beginning of the week. However, since then, Owners have deliberately held off in order to see if rate improvements in NWE will translate into the Med. With a slight uncertainty in the air, fresh test is needed for most runs in the Med at the beginning of week 9 but expect Owners ideas to have a bullish train of thought off the back of action in the UKCont.

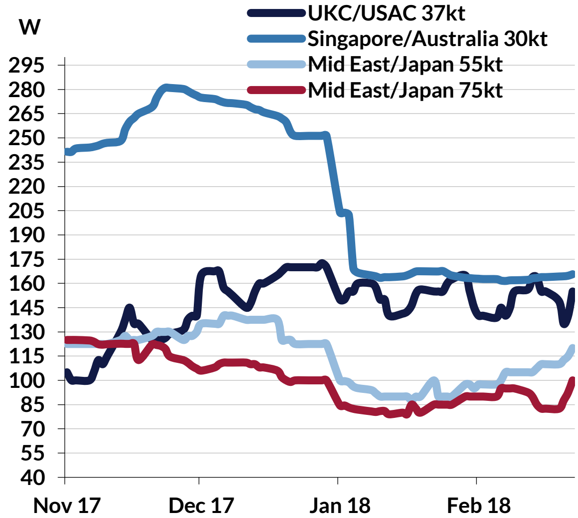
UK Continent

A predictable sluggish start to the IP Week with minimal enquiry beginning to build pressure on rates off the back of a poor end to week 7. Thankfully for the Owning fraternity it seemed we just compressed enquiry into the second half of the week, as we tripped down to 37 x ws 140 for TC2 only to end at a positive ws 155. The glut of enquiry hit our shores on Wednesday, and with this clearing out options for Charterers, the second wave of stems gave momentum for Owners to take back ws points, pushing up to 37 x ws 175 for WAF and ws 185 on subs for a distressed lifting. Looking forward we have seen the States market also pick up which will limit ballast tonnage on our lists on Monday morning, giving Owners with natural positioned tonnage further incentives for gains, and with a good number of stems still needing coverage off early March dates, rates will be looking for further climb.

The early part of the week looked relatively positive for Handy owners despite a number of people traveling to London for the festivities of IP Week. The list was still relatively tight after the previous week's fixing and a few outstanding cargoes mean 30 x ws 220 Baltic/UKCont held with 30 x ws 195 on offer X-UKCont. However, with fresh enquiry dwindling after Monday and more available units being pushed, by the time bums were back on seats Thursday, Charterers were quick to take advantage of a well-supplied list leaving 30 x ws 200 on offer ex Baltic (although briefly stopping at 30 x ws 215 and 30 x ws 210 on the way down) and X-UKCont gets a fresh test 30 x ws 180. At Friday lunchtime the list is well supplied still, and cargoes are lacking with further losses likely before COB.

Unsurprisingly this has been a quiet week for the Flexis no doubt partly due to IP Week, but also in part by a softening Handy market. As a result, Flexi Owners have been forced to take out intermediate stems in order to keep their boats on the move as spot enquiry is generally taken up on own programme tonnage or seeing enough interest to keep rates depressed. In a market that is becoming ever harder to benchmark freight 22 x ws 220-230 seems reasonable for X-UKCont voyages with a small premium for Baltic loading….if you can find a cargo that is!

Clean Product Tanker Spot Rates



.

Dirty Products

Handy

Levels in the continent suffered this week where a lack of activity in the region allowed tonnage availability to suffocate any hopes Owners had in clinging on to recent values. Unfortunately, the immediate gloomy forecast doesn't end here, where perhaps the only thing stopping us from advising the measurement of values lost this week is the fact that the floor may not yet be upon us. In short, an absence of cargoes in the immediate early March fixing windows continues to have Owners worried, although there is still time for a few stems to surface come Monday where traders are generally all back at their desks.

In the Med conditions fared rather more measurable where all in all, it's fair to say "honours even" come the closing stages of the week. On rare occasions, Owners even found availability stretched at times where they were able to grab a ws 5 point increment on Black Sea values, however as itineraries became known to more units, Charterers fanned the flames on sustained upturn bringing trend back to an overall flat trajectory.

MR

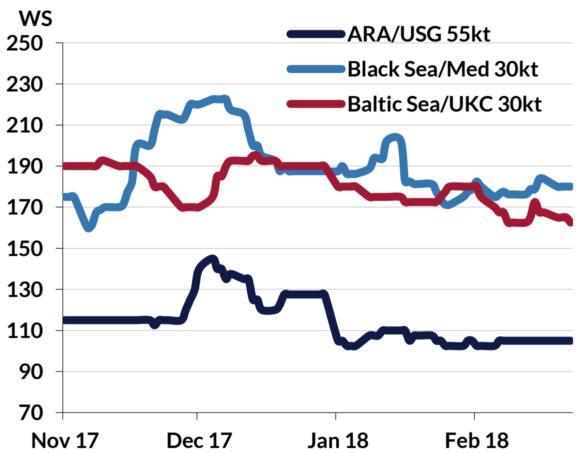
We still lie in wait for the next test out of the continent as overall options for Charterers remain unforthcoming. As of now there is only one naturally placed unit in play, but nevertheless a few units are making their way up edging closer to the region as Charterers remain pondering when next to strike. Owners will be hoping to see an increase in enquiry as surrounding sizes witness a quiet week (as expected), but we still should not be surprised to see Charterers move sooner than usual in securing tonnage.

It seems IP Week took its toll for Owners in the Med as full-sized stem enquiry remained missing for the duration. We are starting to see a few more positions start to creep into play, as we await the next test and with IP Week now over, we may not have to wait long. On a more pleasing note for Owners, the latter end of this week has seen an increase in part cargo opportunities which could help prevent any potential negative correction early next week.

Panamax

After last week's inactivity, week 8 offered a little more enquiry with natural tonnage this side of the Atlantic being fixed away. At a cost to the market, last done now sits at 55 x ws 100 although with units now cleared out, Charterers are now in need of securing a ballaster that will need more encouragement in terms of ws points to move this way. Adding to that, the Caribs markets after a slow start has continued to trade steady having risen to ws 110-115. Something which was highlighted again in this sector and it is the competition and threat of bigger sized tonnage stealing Panamax cargoes. The sheer volume and availability where vetting allows is still a thorn in Owners side for now.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 22nd	Feb 15th	Last Month	FFA Q1
TD3	VLCC	AG-Japan	**+0**	38	38	50	35
TD20	Suezmax	WAF-UKC	**-2**	52	55	57	58
TD7	Aframax	N.Sea-UKC	**+0**	90	90	105	96

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

			wk on wk change	Feb 22nd	Feb 15th	Last Month	FFA Q1
TD3	VLCC	AG-Japan	**-250**	7,500	7,750	16,750	5,000
TD20	Suezmax	WAF-UKC	**-1,500**	5,750	7,250	7,000	8,250
TD7	Aframax	N.Sea-UKC	**-1,000**	-3,500	-2,500	7,250	500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 22nd	Feb 15th	Last Month	FFA Q1
TC1	LR2	AG-Japan	**+16**	98	83	82	
TC2	MR - west	UKC-USAC	**-1**	155	156	151	153
TC5	LR1	AG-Japan	**+7**	115	108	88	108
TC7	MR - east	Singapore-EC Aus	**+2**	166	164	167	

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

			wk on wk change	Feb 22nd	Feb 15th	Last Month	FFA Q1
TC1	LR2	AG-Japan	**+4,750**	9,750	5,000	4,500	
TC2	MR - west	UKC-USAC	**-750**	11,500	12,250	10,500	11,250
TC5	LR1	AG-Japan	**+1,000**	9,250	8,250	4,250	8,000
TC7	MR - east	Singapore-EC Aus	**+250**	10,500	10,250	10,250	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**+11**	352	341	367
ClearView Bunker Price (Fujairah 380 HSFO)	**+5**	375	370	386
ClearView Bunker Price (Singapore 380 HSFO)	**+7**	375	368	390
ClearView Bunker Price (Rotterdam LSMGO)	**+30**	553	523	596

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

This report has been produced for general information and is not a replacement for specific advice. While the market information is believed to be reasonably accurate, it is by its nature subject to limited audits and validations. No responsibility can be accepted for any errors or any consequences arising therefrom. No part of the report may be reproduced or circulated without our prior written approval. © E.A. Gibson Shipbrokers Ltd 2018.