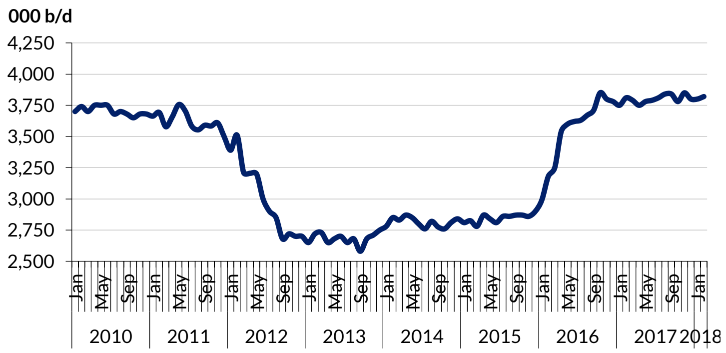
Iran – Last Chance Saloon?

Weekly Tanker Market Report

May 12th is the next deadline for the US to waive oil related sanctions on the Iranian government. However, US president Donald Trump after the latest waiver on sanctions, pledged that this would be Iran's "last chance" to comply with the nuclear accord. The original deal was approved in 2015 under the Obama administration following the International Atomic Energy Agency's verification Iran's compliance. Trump has always been a fierce critic of the nuclear pact which lifted many of the restrictions on Iran to trade internationally. He went on to say that if congress and the European signatories did not "fix the deal's disastrous flaws", the US would withdraw. The recent removal of Rex Tillerson as Secretary of State could also be viewed as another move to toughen up US foreign policy in dealing with certain countries. According to the Financial Times, Tillerson together with Jim Mattis (US Defence Secretary) have argued that "torpedoing the deal" would be disastrous. As well increasing tension in the Middle East, it would also deepen America's split with its European allies. In contrast, Tillerson's replacement, hardliner Mike Pompeo advocates leaving the Iran deal.

Putting aside all the political rhetoric, any change in US policy towards Iran would probably have little impact on the current status quo in the tanker market. Although most economic and financial sanctions were lifted, difficulties with US dollar transactions would once again become a major headache should US sanctions be re-instated. Prior to the January 2016 deal, European companies had been reluctant to resume business involving Iran because of the risk of unwittingly violating secondary sanctions on Iran or damaging established relationships with US banks. Since the embargo was lifted, European nations have been keen to re-establish links with Iran. The US acting alone would have little impact unless president Trump can persuade nations like China, India and Japan, which continued to import Iranian crude during the sanction period, to join an embargo. Should the US manage to persuade the original signatories of the Joint Comprehensive Plan of Action (JCPOA) to support them, then Iran would really be in a spot of bother. In this scenario, NITC VLCCs could once again be forced to act as a storage hub for unsellable Iranian barrels. However, this time around there are five less VLCCs to work with, following NITCs scrap sales last year. It is possible that Iran could attempt to purchase tonnage, probably through a friendly partner or supportive nation not on the US radar. Tanker owners presently facing extremely challenging markets might find it tempting to sell off tonnage older tonnage; however, this is unlikely to work. Iran may also take another look at placing a fresh wave of VLCC orders, probably from China, although this will not help them in the short term. In terms of trade, taking Iranian barrels out of the market would have limited impact as other Middle East producers would be more than willing to pick up any shortfall in supply. As a consequence, tonne miles would be unaffected. However, the removal of several Iranian VLCCs back to floating storage could make a real difference – Iran controls 5% of the current fleet.

Iranian Crude Production



In the current political climate, Trump is unlikely to gain support from the European JCPOA signatories as they no longer have the appetite for the cause, urging the US to respect the integrity of the original agreement. Since the embargo was lifted, many nations have established strong business relationships with Iran, including several high-profile US companies. Those nations purchasing Iranian barrels are also unlikely to want to change supplier for various reasons. The deadline for the "fix deal" coincides with the US preparations for talks with North Korea, so president Trump could play this one of two ways. By making strong demands on Iran he could send out a signal that the US doesn't want to negotiate with rogue states. Most likely, we will see more sabre rattling from the White House and the waiver moved forward again.

Crude Oil

Middle East

A sharp burst of early week VLCC activity provided enough bargain hunting momentum to force rates a little away from their recent absolute bottom, with modern units moving to ws 43.5 to China and more elderly vessels at up to ws 37. Rates to the West also managed to break back above the ws 20 mark too. Thereafter, however, Charterers applied the brakes, and Owners could only dig in to attempt to hold the gain, rather than press for higher. Perhaps a little more defensive over the coming period. Suezmaxes broadly remained unchanged through the week at down to ws 24 to the West and to the low ws 60's East but slightly busier times are expected by many, and rates could tick a little higher next week. Aframaxes crept up a touch to 80,000mt by ws 80 to Singapore and could perhaps add a ws point or two over the next fixing phase.

West Africa

Suezmaxes spent the first half of the week searching for a solid bottom and hit bedrock at ws 45 USGulf, and just above ws 50 to Europe. Next week is holiday shortened for many, and there is hope that a busier, more concentrated, approach then by Charterers will move the rate needle higher. VLCCs quickly equalised with improved AGulf levels, plus a bit extra as insurance against further gain over the longer voyage duration. Up to ws 46 paid to the Far East, but then, as the Middle East stalled, a slight easing back to just sub-ws 45 with around $2.1 million available for runs from Angola to West Coast India.

Mediterranean

Aframaxes softened slightly, and then remained in too easy supply to pull rates above 80,000mt by ws 87.5 X-Med and Charterers will probably be able to continue to feather the market at close to that mark over the near term. Suezmaxes began to get more active in the second half of the week which served to halt the rate slide and to regain a little territory to end at 140,000mt by ws 70 from the Black Sea to European destinations, with $2.5 million available to China. Again, as in West Africa, there is anticipation of increased action before the Holiday at the end of next week.

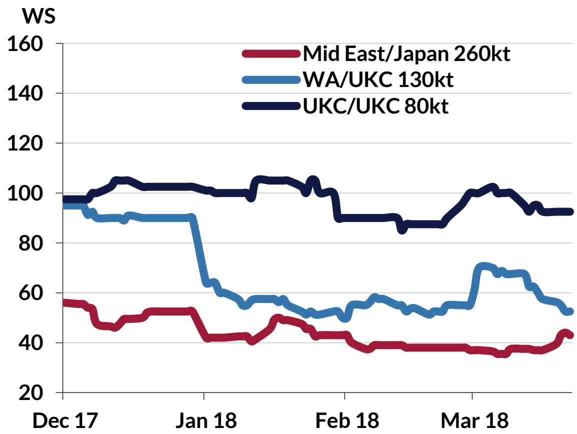
Caribbean

Aframaxes started dead-slow, and flatline at 70,000mt by ws 90 upcoast. Slightly more interest than developed, and very early dates commanded reasonable premiums too. Owners now look for closer to ws 100 and will be sensitive to any further increased volume too. VLCCs became a lot busier than of late with a fair clear-out of earlier units. Rates firmed to as high as $3.45 million from the Caribs to Singapore with $2.85 million the new high to West Coast India and it should remain reasonably/relatively solid for now.

North Sea

A dull mirror image of last week's Aframax note here...too slow, and too easily tonnaged, to cause any pinch points, and the market remains flatline at 80,000mt by ws 92.5 X-UKCont and 100,000mt at down to ws 80 from the Baltic. The short week to come may possibly help - possibly. VLCCs had questions asked, but very few converted into real business - a very prompt fuel oil stem from Rotterdam to Singapore was, however, reported covered at a discounted \$2.475 million, but other Owners will look for a bit more.

Crude Tanker Spot Rates



Clean Products

East

An interesting week whereby somewhat inversely the LRs have benefitted from an extremely tight MR market, and we have seen sympathetic firming move up through the sizes. LR1s have been busy - naphtha runs in particular. A series of cargoes early this week has pushed TC5 up to 55 x ws 117.5 with the suggestion that further firming could be seen next week. West has not been the preference, given a continued weak West market. Given that MR Owners are trying to push West runs up past the $1.25 million levels, it was inevitable that when tested, LR1s would rise past the $1.45 million levels, and sure enough we have seen $1.495 million on subs this Friday morning. Charterers will look to stem up where possible to take advantage of a weak LR2 market, where rates have softened throughout the week. TC1 fell below the 100 thresholds to 75 x ws 95 early this week, and has since fallen further to ws 92.5, with the suggestion of further softening early next week (Owners would rather be the first rather than the last to fully fix in a falling market, after all). West will be brought down sympathetically to $1.725 million but needs a fresh test. Given the softness of the LR2s, they should benefit from more activity early next week and hopefully level out. The LR1s will likely continue to surge as they are required for MR cargoes, as well as their own requirements.

The MRs were off to a flying start this week, with plenty fresh in the market. As tonnage cleared out aggressively off the front end, a stalemate has developed between Owners, who want to hold off and see where rates are going, and Charterers, who have struggled to find MRs to match their requirements. Rates have therefore firmed across the board, helped on by the equally busy LR1s. Red Sea runs have not been as popular this week as in the previous couple, perhaps due to a notable absence in the market from ATC who have been shifting a considerable amount of gasoline into the area to stem the lack of supply from Yanbu. Runs into Gizan finish the week $50k up at $600k, and look set to continue the upwards trend in to the next week. Fresh enquiries this end of the week to EAF will put positive pressure on rates, which should shift up towards ws 210, possibly further. UKCont has been unpopular as Owners don't want to commit to long haul and be taken away from the busy market. If Charterers need to move cargo West, they will be expected to show some monetary incentives to drag Owners away from the busy AGulf, and this run finishes this week at the $1.25 million, but in need of a test. Likewise, TC12 has not been as popular as the short hauls, none the less still following the firm trend, ending on ws 149. The firming rates are looking at giving returns at high teens to low 20s. So, at $55k up on Monday, X-AGulf finishes on $275k, showing Owners are unsurprisingly keen for these high returns on the shorter voyages. The tonnage is looking very tight until end month, LR1s have been covering some MR stems due to the lack of smaller tonnage, however, even these are now looking just as tight. Charterers should be careful when quoting, if it is possible to hold it off, it would be recommended. Although, as Owners will have noted, the market has managed to become this busy without even seeing a hint of an ATC stem, so with a couple more of these guaranteed Red Sea cargoes, the tight sentiment and high rates should stick around in to the next week.

Mediterranean

The outlook at the start of week 12 was immensely negative with over 15 prompt Handies across the Med on Monday morning. An influx of Handy cargoes appeared quickly with 30 x ws 145 the going rate and this persisted throughout the week helping hold back further losses and clear out the majority of prompt units. As we moved into the back end of the week, the front end of the list tightened (especially EMed tonnage) and therefore saw Owners managing to claw back on the rates slightly with the going rate for X-Med at the time of writing 30 x ws 147.5-150. Black Sea stems remain at the ws +10 point premium with certain stems achieving heights of 30 x ws 165. If subjects begin to be lifted heading towards COB, then come Monday there is certainly potential for us to see north of last done levels.

A busier week on the MR's than the past few, with rates by and large dictated by action up in the UKCont. An uptick of enquiry was seen in both NWE and the Med at the start of the week which saw rates rise to 37 x ws 130 for transatlantic runs with WAF demand the driving force for this number. At the time of writing, rumours of 37 x ws 145 are now circulating for Med-transatlantic however, this may be option based and is taken with a pinch of salt. Owners however, will certainly be trying to use this as a benchmark come Monday morning.

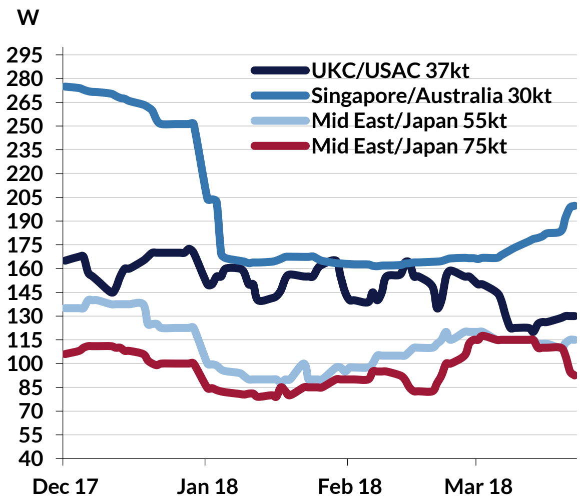
UK Continent

Small gains at the beginning of week 12 have been the only real progression MR Owners have been able to make in a relatively active market. As Tuesday arrived we set this market at 37 x ws 130 for TC2, ws 150 for WAF runs and a tepid 40 x ws 157.5 for Baltic/UKCont, but despite a good number of cargoes clipping tonnage away, fresh ballast tonnage has always been around the corner keeping this equilibrium in balance. As the close of the week has arrived, an air of positivity slowly increases from the Owners fraternity, and opportunities to try and press present rates may well start to appear next week, but with all of these beliefs the continuity of cargoes needs to be seen.

A rather predictable sector this week with Handy Owners and Charterers alike seemingly happy to repeat last done throughout. 30 x ws 160 has held fast loading ex Baltic with few opportunities to press this higher or lower partnered closely with the X-UKCont market. Here the going rate still remains 30 x ws 145 despite a little more pressure being felt at the close of the week with tonnage continuing to be readily available. Cracks in Owner's armour are perhaps there for Charterers exploitation heading into next week, with improved enquiry being what is needed to rebuff these thoughts.

Another typical week for the Flexis with little to shout about in the market and 22 x ws 190 being done early in the week, but ultimately the cargo was upsized to 30kt. The true lack of Flexi cargoes on offer in this market does just highlight that the rates achievable are still linked to the sentiment on the Handies with the occasional intermediate cargo continuing to be a source of employment. Expect this market to continue to shadow the Handies for the foreseeable future.

Clean Product Tanker Spot Rates



Dirty Products

Handy

As the week progressed slowly but surely, Owners were able to build from favourable sentiment, where values finish firmer from where we started, although delving a little deeper, the main building blocks have been provided as a result of a stretched tonnage list noticeably lacking approved tonnage able to trade in the Baltic. Such conditions are expected to continue, where at time of writing Charterers have already shown their cards by reaching forward to begin covering April stems, and where non-ice class units have been fixing slightly lower numbers, perhaps at this late stage of the year we have at least finally seen a two-tier winter market develop.

In the Mediterranean conditions have not fared so well by comparison, where the region has been struggling to cope with the weight of excess tonnage. Some very sharp numbers have been seen where Charterers have had to cover West Mediterranean requirements, however, eventually the Black Sea did kick into life by absorbing East Mediterranean tonnage, which in turn creates a spread in strength in the Mediterranean depending on where you are loading. Also, on the horizon, attention shifts to covering early any Easter requirements, where if you speak to most Owners they are now sat more optimistic for immediate forward trend.

MR

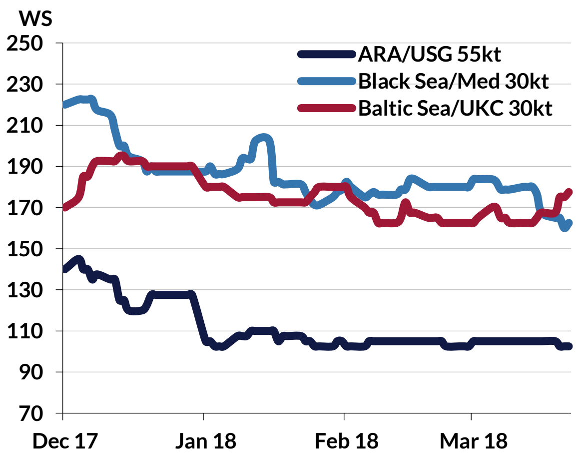
Recent activity in the continent has again made a telling mark on this sector showing recent reductions to be a blip in trading records. Nevertheless, a number of units had sat idle for way too long or ended up fixing voyages that where perhaps suboptimal from a TCE point of view. Any rebound in conditions therefore would be viewed as a shallow victory, but at least the next ships up can enjoy a greater level of prosperity.

In the Mediterranean sentiment echoed to a similar tune to the continent, where it has taken progressive activity to really see any real effect on trend. Although the final results from a week's trading are not hugely noticeable, it is fair to suggest that the market has moved on from the low points seen during week 12. One other signal for possible shifts in trend, if the surrounding Handies do pick up leading into Easter, this sector will also benefit.

Panamax

With natural tonnage making its way onto our lists for forward windows, this sector appears to be in an unbreakable cycle that only an influx of activity could see altered. Somewhat predictable this next sentence; Charterers for now aren't showing the appetite to all take a position in a narrow date range. System bbls are however, keeping selection from reaching crisis point, and with fixtures seen only attracting ws 100 (or just sub of), Owners can at least be thankful that ballast units aren't making their way over in swarths which would only negatively affect trend further.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 22nd	Mar 15th	Last Month	FFA Mar
TD3	VLCC	AG-Japan	**+7**	44	37	38	35
TD20	Suezmax	WAF-UKC	**-6**	53	59	52	62
TD7	Aframax	N.Sea-UKC	**-2**	93	95	90	94

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

			wk on wk change	Mar 22nd	Mar 15th	Last Month	FFA Mar
TD3	VLCC	AG-Japan	**+5,000**	11,500	6,500	7,500	4,500
TD20	Suezmax	WAF-UKC	**-2,750**	6,000	8,750	5,750	9,500
TD7	Aframax	N.Sea-UKC	**-1,500**	-1,000	500	-3,500	-500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 22nd	Mar 15th	Last Month	FFA Mar
TC1	LR2	AG-Japan	**-17**	93	110	98	
TC2	MR - west	UKC-USAC	**+3**	131	127	155	132
TC5	LR1	AG-Japan	**+2**	115	113	115	114
TC7	MR - east	Singapore-EC Aus	**+19**	200	180	166	

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

			wk on wk change	Mar 22nd	Mar 15th	Last Month	FFA Mar
TC1	LR2	AG-Japan	**-5,500**	7,750	13,250	9,750	
TC2	MR - west	UKC-USAC	**+250**	7,500	7,250	11,500	7,750
TC5	LR1	AG-Japan	**+0**	9,000	9,000	9,250	8,750
TC7	MR - east	Singapore-EC Aus	**+2,750**	15,500	12,750	10,500	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**+4**	358	354	352
ClearView Bunker Price (Fujairah 380 HSFO)	**+12**	387	375	375
ClearView Bunker Price (Singapore 380 HSFO)	**+8**	381	373	375
ClearView Bunker Price (Rotterdam LSMGO)	**+15**	566	551	553

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