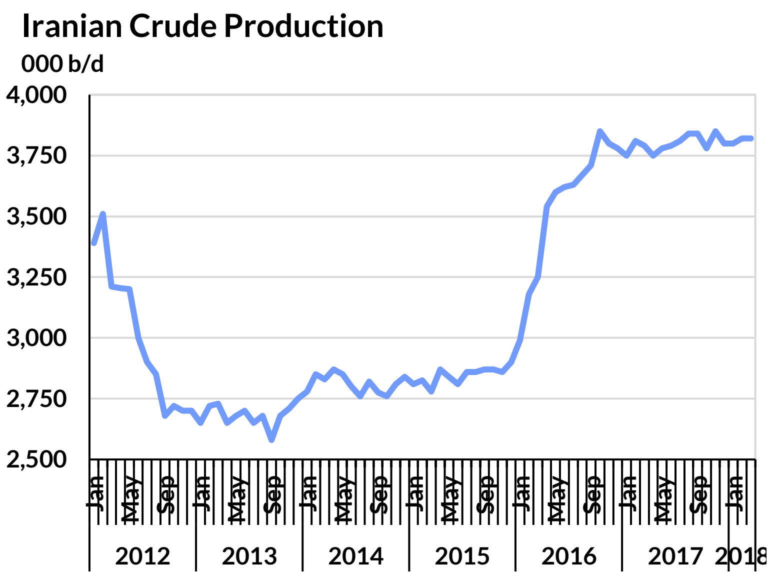
Sanctions Snapback

Weekly Tanker Market Report

Unless you've been living under a rock the past week, you will probably have heard that Donald Trump has taken the much anticipated decision to repeal sanctions relief for Iran, ending a near 2.5 years period of unfettered exports from the Islamic Republic. So, what now for the oil and tanker markets? Market participants have been given a 180-day grace period, but we could see many adjust much sooner.

In terms of oil production, estimates vary widely, with analysts calling the impact somewhere in the region of 200,000 b/d to 1 million b/d. Much will depend on demand for Iranian oil. Perhaps the biggest fall in buying activity will come from Europe. Even though the EU opposes Trump's decision, European players may be forced into line regardless. A lot depends on the stance taken by the finance and insurance sectors, whose cooperation is required to facilitate trade with Iran. If these institutions take a more cautious approach, then Westbound flows are likely to see substantial declines, perhaps with the exception of Turkey and Syria.



However, predicting the move of Eastern buyers, who proved to be loyal customers during the last round of sanctions is trickier. China is largely expected to continue buying Iranian grades and may be tempted to consume even more as price differentials become more attractive. However, Japan and South Korea, who were consistent buyers during the last sanctions era have so far reduced their purchases already this year. Japanese buying averaged 85,000 b/d, down from a peak of 215,000 b/d in 2016, whilst Korea has reduced its intake by 65,000 b/d YOY. India has however, increased its purchases of Iranian crude, importing 492,000 b/d so far in 2018, supported by the need to replace lower Venezuelan volumes. Sanctions may of course make buying for Indian refiners more challenging, but overall most Indian refiners are expected to remain significant customers.

So how will these developments impact the tanker markets? On the one hand, the more Iranian exports decline, the bigger the reduction in crude tanker demand. However, other producers are likely to compensate for any lost Iranian barrels. Furthermore, one must consider that a significant proportion of Iranian exports are carried on Iranian tankers, particularly VLCCs (of which NITC owns 38). If exports increase from elsewhere, for example Saudi Arabia or Iraq to compensate for lower Iranian volumes, then these volumes will not be carried on Iranian VLCCs – so international tanker owners will benefit, whilst Iranian ships spend more storing or idling. Whilst sanctions may be marginally beneficial for VLCCs, the benefit for the Suezmax sector less clear. If Saudi Arabia makes up the lion's share of lower Iranian exports to the West, then the Suezmax market might surrender some market share to the VLCCs. Additionally, as NITC only operates 8 Suezmaxes, there is unlikely to be much impact on fleet supply.

Overall there remains some uncertainty as what the impact might be. Losing Iranian oil from the market is only a negative if it is not substituted from elsewhere or impacts upon tonne mile demand through more short haul crudes being sourced. Simultaneously, losing Iranian ships from the open market is positive for the supply/demand balance. In our view, tanker owners need not panic. Besides, it can't get much worse, can it?

Crude Oil

Middle East

Another extremely frustrating week for VLCC Owners to endure. Bunker prices have ramped higher to further squeeze earnings and initially it looked as if some mild compensatory gain could be achieved to offset, but the sheer weight of availability quickly extinguished any occasional redress, and rates again compressed down to ws 40 East for modern units and into the very low ws 30's for older vessels with runs to the West at no better than ws 18 Cape/Cape. Next week will see the introduction of the June programme, and it could then get a little busier, but that is unlikely to materially help.

Suezmaxes gently ebbed and flowed but on very modest volume, and rates ended more or less where they began, at 130,000mt by ws 65 to the East and down to ws 26 to the West. No near-term change likely either. Aframaxes saw just about enough to hold at an average 80,000mt by ws 87.5 to Singapore and are not anticipating conditions to improve sufficiently next week to change the picture.

West Africa

Suezmax Owners kept their eyes on the horizon for extra cargo interest, but could only see ballasters from the East to keep tonnage lists diluted enough to keep Charterers in their comfort zone, and away from chasing onto forward dates, rates cling on to a maximum ws 60 to Europe and ws 55 to the USGulf with erosion still possible into next week. VLCCs were ready to match the hoped for AGulf increase, but when that failed to materialise then had to accept 'conference' rate levels at down ws 42.5 to the Far East with a neutral $2.45 million last seen to East Coast India. The Caribbean/USGulf zone stays strong, however, and Owners will probably bypass West Africa to seek their fortunes there, rather than accept anything much lower.

Mediterranean

No relief for Aframax Owners here. Quite heavy fixing did, for a while, develop, but the effect was negligible, and with early tonnage remaining uncovered, rates will remain pegged at little better than 80,000mt by ws 80 X-Med over the next fixing phase. Suezmaxes faced more challenging conditions but didn't give up much ground, nonetheless. 140,000mt by a slightly lower ws 77.5 to Europe now, with around $2.5 million payable to China, but another quiet spell early next week would lead to a more noticeable adjustment.

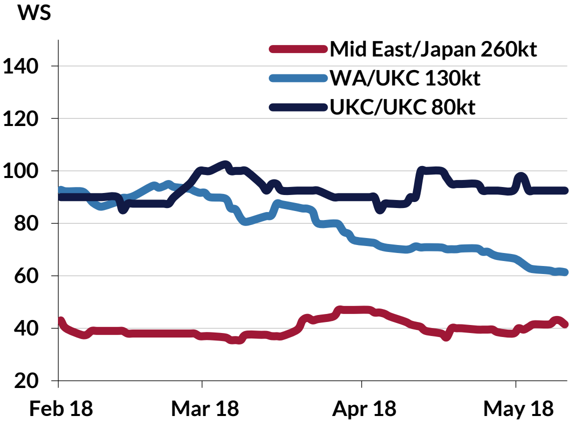
Caribbean

Aframaxes nearly broke into higher rate territory, but never convincingly pushed above the previous 70,000mt by ws 100 high of last week. Another attempt perhaps next week? VLCCs here have easily outperformed other load zones upon solid demand, and a thin 'local' list. Ballasters from the East - or anywhere else in the World really - will start to compromise forward positions, but for the time being rates at up to $3.5 million from the USGulf to Singapore, and $3.4 million from Caribs to West Coast India, should hold.

North Sea

A slow back end to the week for Aframaxes with Ascension Day Holiday not helping either. Rates again bump along at little over 80,000mt by ws 90 X-UKCont, and 100,000mt by ws 70 from the Baltic with even lower possible over the near term. VLCCs are thin on the ground but traders are finding it hard to make sense of moving fuel oil to Singapore, and Hound Point crude liftings remain occasional. Rate demands remain at up to $4.25 million for the crude, and around $3 million for fuel - if called upon.

Crude Tanker Spot Rates



Clean Products

East

LR2s have had a busy week, with a certain amount of pre-Ramadan clearing of stems. It has considerably cleared the early tonnage, but not entirely. Rates have improved, but not by that much. 75,000mt naphtha AGulf/Japan is now ws 90 and should see a touch more. 90,000mt jet AGulf/UKCont has been hard to peg, but for now rates are around $1.625 million. LR1s have had a very steady week really and rates have struggled to go anywhere. 65,000 mt jet AGulf/UKCont has taken a premium now for a few weeks with Owners reluctant in that direction and rates have stuck at $1.475 million. TC5 has remained flat with just the occasional deal either above or below - but for now 55,000mt naphtha AGulf/Japan sits resolutely at ws 110. Ramadan starts next week, so we could see a quieter week.

A busy start to the week on the MRs, however, Monday's big removal of tonnage has been largely undone by the Iran situation as big Charterers immediately halted business opening up a few early ships. EAF has moved the most with rates up ws 22.5 points to ws 157.5, despite this, TC12 hasn't firmed and kept relatively stable at ws 125. X-AGulf has pushed a little to $160K levels and Red Sea runs have fluctuated seeing mid-week rise, however, it has settled back down to where it started the week on $325K mark, given the sudden increase in prompt AGulf tonnage. UKCont has finally been tested at $1.15 million, but Owners are still reluctant to head West. There are a good few outstanding cargoes to take us over the weekend to keep activity levels up, however, not a huge amount off prompt dates, so competitive rates could be seen for these from the newly open ex Iran tonnage in order to avoid idle waiting. Monday should see a steady clearing of these cargoes, but as Ramadan kicks in activity could slow a little as the week progresses.

Mediterranean

For much of week 19, cargoes and tonnage were in the balance with rates by and large trading sideways at 30 x ws 140 for X-Med stems. The rule of thumb ws +10-point premium for Black Sea stems applied for the majority of the week, however, on a few occasions we saw south of this number for ships with shorter ballasts. At the time of writing, however, West-Med tonnage has tightened and a X-Med on 30 x ws 145 and Med/Libya run is on subs at 30 x ws 162.5, albeit off prompt ish dates. It will be interesting to see if this late surge in rates can transfer into week 20.

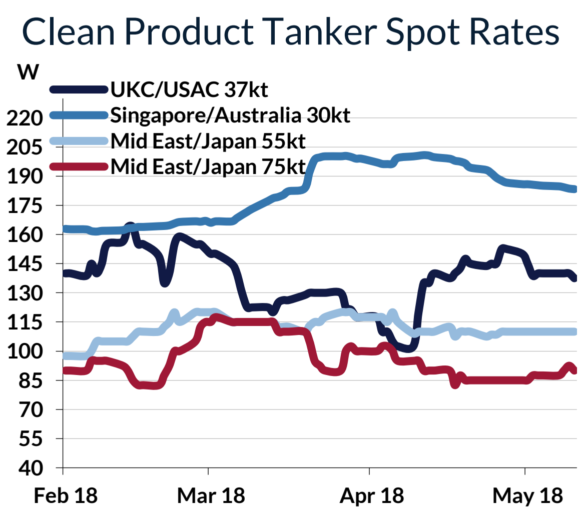
All in all, a pretty slow week on the MR's following the bank holiday weekend, with rates for the most part tracking action in the UKCont. The going rate heading transatlantic has been 37 x ws 140, however, we have seen slightly more than this with ws 145 on subs due to a naphtha clean ship being needed. Fresh test was seen for a Med-SAFR run at $1 million and with cargoes on the thin side, pressure will build on Owners, unless action in the UKCont helps prop rates up.

UK Continent

A rather disjointed week has occurred up on the continent for the MRs, due to number of public holidays in Europe forcing Charterers to cram 5 days of fixing into 3. The MR market really got its wheels in motion by the mid-week point, when a surge of cargo enquiry was seen for transatlantic and a little for WAF. Surprisingly though, rates continued to tread water around the 37 x ws 140 mark for TC2, as hidden vessels remained the thorn in the side for Owners. At the time of writing, cargo enquiry has now fizzled out and the market softened to 37 x ws 137.5 for TC2 (ws +20 for WAF discharge). The list looks balanced enough for last done levels to be repeated this side of the weekend, however, when we entertain the next fixing window a big factor will be the number of ballast units from the USAC which have set sail to European shores. Cargo enquiry will need to improve if the market is to stabilise.

The truncated week across Europe only condensed market enquiry for the Handies in the continent. Looking at just Tuesday and Wednesday with high levels of activity, you would be entitled to think progression on rates was on the cards, but unfortunately for Owners these busy days only cemented fixing levels at 30 x ws 150 for Baltic and ws 140 for X-UKCont. Heading into the end of the week, tonnage and cargoes remain well balanced with only a small handful of enquiries left to cover, with the expectation that Charterers will be happy to continue this week's rate trend.

There has been a rare spate of action on the Flexis this week, albeit mostly under COA committal and own programme fixing. This has allowed Owners to keep ships on the move without the tonnage list building too much at any one point. However, benchmarking this market is a tricky task, made more difficult by the fact that many of the rates have been done behind closed doors, that said, however, the general sentiment (as always) is still tracking the Handy market with 22 x ws 185 X-UKCont in the right region. Look to the Handies next week for any potential gains/losses.



Dirty Products

Handy

The continent again enjoys another week of positive trend which at one point saw Charterers scramble for tonnage able to make early last decade dates from the Baltic. Numbers rising to ws 155, approved workable units looked to be almost sold out in this region. There remains a couple of vessels that will be keen to head to the Mediterranean, but overall Owners will be heading into the weekend rather happy with this week's proceedings.

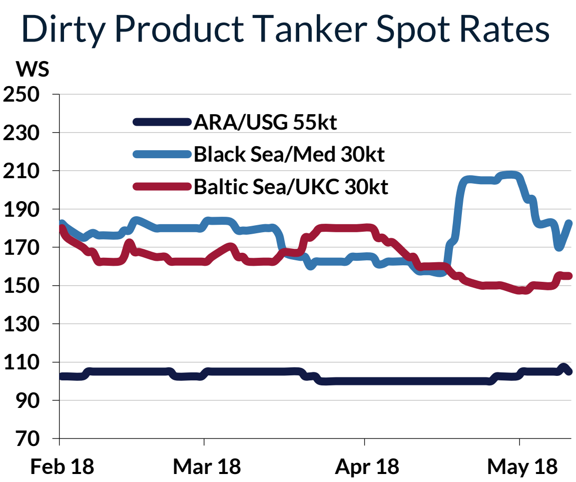
The shortened week after the bank holiday did nothing to stop enquiry in the Mediterranean. This week as the position list was quickly shortened, giving Owners enough leverage to progress on rates back up to the ws 180's from the Black Sea. The week naturally finished with a standoff between uncovered cargoes and stubborn Owners pushing for the next step. The region remains date sensitive in Owners favour with Charterers now having to fix off third decade dates to secure an approved ship for X-Mediterranean voyages. Whether this sentiment will follow into next week remains to be seen, but with Owners current earnings still below Opex at current Worldscale levels, many are keeping a positive mindset for next week already.

MR

Suffering a similar fate both the continent and Mediterranean sectors echoed the same market behaviours as seen in the surrounding Handy routes. In the Mediterranean, the disruptions of Ascension Day proved to be of mixed blessing, as we did see a fixing rush leading up to the point, at which time people departed. Thereafter, however, activity has stayed quieter, but the gains in value have remained valid. In the continent we still appear to have liquidity issues, the few units in position are finding employment, but lack the confidence to ask for much increment.

Panamax

Sometimes it's best to focus on the positives, as for now another week passes with little change in values over in the US. That said, activity has been steadily picking up, which is at least keeping tonnage lists trimmed. Here in Europe Owners can also be pleased with the fact that there still seems to be pockets of strength, and although the cargo base has been noticeably absent this week, trend is yet to be affected.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 10th	May 03rd	Last Month	FFA May/June
TD3C	VLCC	AG-China	**+3**	42	40	40	43
TD20	Suezmax	WAF-UKC	**-1**	60	61	53	60
TD7	Aframax	N.Sea-UKC	**-1**	93	93	96	92

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

			wk on wk change	May 10th	May 03rd	Last Month	FFA May/June
TD3C	VLCC	AG-China	**+1,500**	5,500	4,000	5,000	6,250
TD20	Suezmax	WAF-UKC	**-1,250**	6,500	7,750	4,750	6,750
TD7	Aframax	N.Sea-UKC	**-1,500**	-3,750	-2,250	-1,250	-3,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 10th	May 03rd	Last Month	FFA May/June
TC1	LR2	AG-Japan	**+3**	91	88	90	
TC2	MR - west	UKC-USAC	**-1**	139	140	135	141
TC5	LR1	AG-Japan	**+0**	110	110	109	117
TC7	MR - east	Singapore-EC Aus	**-2**	183	185	201	

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

			wk on wk change	May 10th	May 03rd	Last Month	FFA May/June
TC1	LR2	AG-Japan	**+250**	4,500	4,250	6,250	
TC2	MR - west	UKC-USAC	**-750**	7,250	8,000	7,750	7,750
TC5	LR1	AG-Japan	**-250**	6,500	6,750	7,500	8,000
TC7	MR - east	Singapore-EC Aus	**-1,250**	11,000	12,250	15,500	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**+18**	416	398	371
ClearView Bunker Price (Fujairah 380 HSFO)	**+12**	440	428	403
ClearView Bunker Price (Singapore 380 HSFO)	**+28**	443	415	391
ClearView Bunker Price (Rotterdam LSMGO)	**+34**	651	618	621

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