Worst Performance of the Year

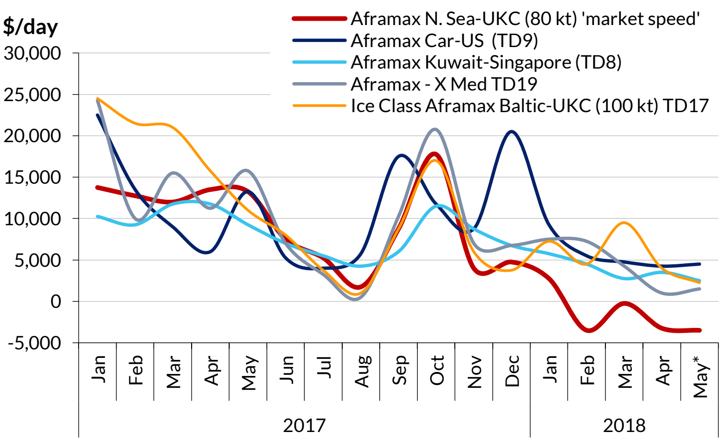
Weekly Tanker Market Report

It goes without saying that crude tanker earnings across all size groups have been at very depressed levels this year. However, if one is to choose the "winner" in terms of the worst performance, it probably will be Aframaxes trading in the North Sea. Despite traditional support offered to the market during the winter months, spot TCE earnings on the key trade from Hound Point to Wilhelmshaven (TD7) averaged so far in 2018 at disastrous levels. The running average for the year to date shows a negative return of minus $1,750/day for a tanker with standard consumption levels before waiting time is taken into account.

In addition to weak fundamentals, there are also factors behind this exceptional weakness that are unique to Aframaxes trading in North West Europe. Mild weather for most of the winter season reduced to the minimum the volatility in rates. There has also been a notable decline in Russian crude exports in the Baltic. Crude exports from Primorsk and Ust Luga averaged just under 1.3 million b/d during the 1st quarter of this year, down by over 350,000 b/d compared to the corresponding period in 2017, following the expansion of the ESPO pipeline spur into China mainland. Crude production in the North Sea has also declined, although not so dramatically. Output fell by 130,000 b/d during 1st three months of this year relative to Q1 2017.

While there is less demand, tonnage availability is heavier, and the growing fleet is only one of the reasons. Since September 2017, there has been a notable increase in volume of US crude being shipped to Europe, primarily on Aframaxes, boosting the number of tankers looking for employment in the region. According to AIS data, during the 1st four months of this year 35 Aframaxes loaded in the US for discharge in North West Europe compared to just 14 units over the corresponding period in 2017. Another 26 Aframaxes departed from the US for the Mediterranean discharge between January and April 2018 versus 11 tankers over the same period in 2017.

Crude Aframax Spot Earnings (tce)



The current trade dynamics in North West Europe are unlikely to change dramatically anytime soon. Production cutbacks need to be lifted to see meaningful and sustainable increases in crude exports out of Russia. Output in the North Sea is projected to slip further this year and in 2019. Only in 2020 production is forecast to bounce back, following the start-up of new projects in Norway. At the same time, crude supply in the US keeps rising at relentless pace, suggesting that exports are also likely to carry on growing. Most of the growth in demand for US crude is coming from Asia. However, until VLCC loading infrastructure in the US is improved to eliminate the expensive practice of reverse lightening, US barrels could remain attractively priced for the European market. If this is the case, it will only keep Aframax availability off the UK Continent and in the Mediterranean at elevated levels. Yet, as there is limited scope for growth in crude demand in Europe, the same is also likely to push more of the regional supply, be it West African, Mediterranean or North Sea barrels, to Asia on bigger tonnage.

As far as the Aframaxes trading in the North Sea are concerned, perhaps the most realistic prospect for improvement in the immediate future is actually on the supply side. As spot earnings are worse than in other key trades, owners may be prompted to reposition to a different trading area, if the opportunity arises. Owners of coated tankers may take an even more radical approach and switch to the clean tanker market all together. Longer term, the slowing pace of deliveries and prospects of higher demolition driven by new legislation offer hope for a more substantial recovery.

Crude Oil

Middle East

No improvement in extremely depressed earnings for VLCCs, despite Worldscale market values moving up a few ws points over the week - a merely compensatory move for higher bunker prices. Availability remains very easy, and the fresh June programme is unlikely to cause Charterers any cause for concern. Rates operate at up to ws 44.5 East for modern units with under ws 18 available to the USGulf via Cape. Suezmaxes remained flatline, at best, and an increasing number of Owners are precluding themselves from Iranian trades to further swell availability for other loadports. Rates cling on to around ws 62.5 to the East, and to ws 25 to the West with many vessels likely to head to the Atlantic in protest/as alternative. Aframaxes found reasonable levels of enquiry, and enough to ease rates into the mid ws 90's to Singapore, where they are likely to hold over the next fixing phase also.

West Africa

Suezmaxes pushed a little higher early in the week, but again it was really just an adjusting move to account for raised bunker prices and although Owners did their best to beat the drum to provoke Charterers into more concerted forward action, they didn't get the required result and ballasters from the East will keep Charterers largely within their comfort zone, and rates little higher than ws 67.5 to Europe, and ws 62.5 to the USGulf. VLCCs saw solid enough early action as a rash of unsold barrels popped up to be covered behind market dates, leading to a peak ws 46 paid to the Far East, although once normal service resumed, Owners were willing down to ws 43 for easier positions with a flatline $2.325 million the last seen to West Coast India, though any bunker led uptick in the AGulf will also be mirrored here.

Mediterranean

An increasingly busier week for Aframaxes eventually rebalanced things sufficiently to allow for rates to pick up potential to 80,000mt by ws 100+ X-Med and Owners may be able to stretch that very relative purple patch over the first half of next week too. Suezmaxes showed little spark, but rates to the East moved higher towards $2.9 million to China from the Black Sea on higher fuel costs. Levels for European options remained largely unchanged at down to 140,000mt by ws 75, however, and aren't likely to turn over the near term, at least.

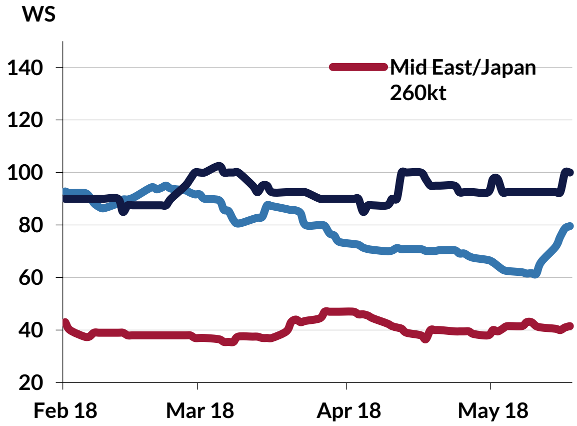
Caribbean

Aframaxes spent the week chipping incremental gains to move through 70,000mt by ws 110 upcoast with a little more yet to come if Charterers continue to feed as strongly. VLCCs remain 'best in class' here as ongoing tightness upon the prevailing fixing window allowed Owners to consolidate USGulf/Singapore rates at no less than $3.5 million and at up to $3.4 million from Caribs to West Coast India also. Ballasters from the Far East may eventually dilute, but for now the market remains supported.

North Sea

Aframaxes rebalanced sufficiently to slightly inflate rates to 80,000mt by ws 105 X-UKCont, and to 100,000mt by ws 85 from the Baltic, but it was a quieter scene late-week and Owners will be more concerned to consolidate, rather than push higher, over the short term. VLCCs saw little, but there was occasional specimen fixing with $4.15 million paid for crude oil from Hound Point to South Korea and fuel oil from Rotterdam to Singapore again marked at around $3 million if called upon.

Crude Tanker Spot Rates



Clean Products

East

The week started fairly quietly on the LR2s with a long list but later activity has started some upward momentum. 75,000mt naphtha AGulf/Japan is up to ws 92.5 and higher has been done earlier. 90,000mt jet AGulf/UKCont has remained steady at $1.625 million but, with LR1s firmer and the list tighter, this must surely be higher next week. LR1s have been under pressure, with a number of westbound stems that Owners just are not keen to do. Rates have pushed up, with 65,000mt jet AGulf/UKCont up to $1.55 million and hard to repeat. In sympathy really TC5 has edged up, with 55,000mt naphtha now at ws 112.5 and with more likely next week. LR1s have also been helped, with a firmer MR market giving extra possibilities to Owners.

A busy week for smaller tonnage in the Middle East. As cargoes emerged en masse on Monday and Tuesday, sentiment picked up and rates shifted in tow. A palms ship was taken for EAF at ws 160 and, although a subsequent ws 160 was done on a fully clean ship, it looks as though EAF will be positively tested in the new week. TC12 has been quiet, larger tonnage is preferred to move naphtha given the scale economies available. Our assessment remains ws 126 but this route needs a fresh test. Westbound for another week is unpopular and untested, we assess $1.2 million but Charterers would push to top up stems where possible to take larger tonnage. Shorthaul has remained relatively flat, unsurprising as Owners look forward to a stronger market post discharge. $180k is on subs Jub/Jeb off the natural window, a prompter loading could be more difficult to cover unless subs fail elsewhere. Red Sea runs again need a fresh test in the new week. An option has just been taken at $475k for an already laden vessel, off natural dates, the market level should settle just sub $450k in our opinion, the fresh week will again settle the market here. As we finish the week, the list looks tight and, unless Ramadan really stems the flow of emerging cargoes in the new week, sentiment will remain positive.

Mediterranean

For much of week 20 an equilibrium was present across the Med, with rates trading sideways at the 30 x ws 140 mark. That being said, an oversupplied East Med has seen pressure build on the market and a 30 x ws 137.5 was seen earlier today which may lead to a further softening at the beginning of week 21. We've consistently seen good levels of Black Sea enquiry throughout this week, which has cancelled out an oversupplied tonnage list and rates have remained stable at 30 x ws 150. With few cargoes now outstanding, next done is likely to be in line with last done X-Med (at the ws +10 point premium), with further rate losses potentially on the cards. For now, the market remains under pressure, so let's see if this is translated into week 21….

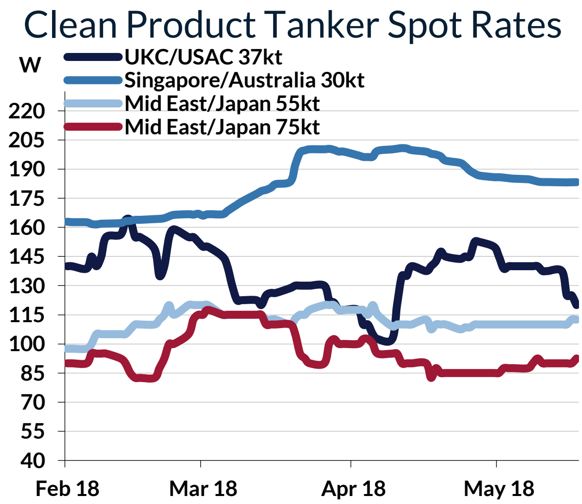
A worrying week on the MR front in the Med, with rates by and large being driven by the softening seen in the UKCont. Enquiry has been sluggish, and this coupled with a comparatively well supplied tonnage list has meant rates have suffered, with 37 x ws 120 the likely going rate for Med-transatlantic runs in line with TC2. General sentiment is that the market has reached its bottom but if enquiry persists at the rate we saw this week, then pressure will continue to build.

UK Continent

MRs in the West kicked off the week in rather uninspiring fashion as Europe was expecting to receive an armada of ballast units from a very subdued States market. With tonnage well supplied across the board for both prompt and natural fixing dates, it didn't take long until a tumble in rates was seen. By the midweek point it seemed that TC2 had seen enough enquiry and consistent fixing for Owners to hope that some stabilizing had occurred at the 37 x 125 mark for TC2 & 37 X ws 145 for WAF; however, with a number of people either travelling or participating in sporting events on Thursday, it left with it a disjointed feel, resulting in TC2 falling to 37 x ws 120. A busier Friday should mean that the bottom of the market has been reached, which should relieve some pressure in the Owning camp as the higher bunker prices continue to eat massively into their TCEs. A side note, as European countries are off on Monday, expect the true strength of this market to be tested on, come Tuesday.

As week 20 comes to a close on this Handy sector, Owners will perhaps question how we saw rates slide, despite consistently good levels of activity. The first half of the week saw rates ticking along sideways at 30 x ws 150 ex Baltic and ws 140 for X-UKCont movements but, as we saw the MRs struggle to prevent further decline and LRs taking some cream off the top ex Baltic, rates for the 30kt market inevitably faced some strong pressure and, with that in mind, it was not too long until we saw 30 x ws 145 and 135 on subs for Baltic and UKCont respectively. Further European bank holidays next week will not ease Owners woes, but the levels of fixtures despite the fall in rates should give enough ammunition to keep rates in place for now, until we see what June has in store for us ex Baltic over the next few days.

This week finally saw the Flexi market to have some spot cargoes in the public domain to give a much needed fresh test in an otherwise illiquid market. Perhaps unsurprisingly the two X-UKCont stems were fixed in line with Handy rates, pro-rated back with a small discount for 22 x ws 185. Although there were some rate losses on the Handies in the latter part of the week, the majority of Flexi tonnage in NWE has been fixed under COA or O/P requirement, meaning tonnage is relatively tight and thus insulating the rates from any dramatic changes. More of the them same expected next week, with little on offer to swing the favour either way.



Dirty Products

Handy

We can hardly call this a week's trading, as the majority of trading happened at the early stages, clearing out early units in the region. There are still a few Owners heading into the weekend, looking over their shoulders and wondering why they're still uncovered, but this is due to vetting or age complications. Despite the week finishing on a quiet note, well approved owners remain bullish.

Similarly to the continent, the Mediterranean saw a vast amount of activity on Tuesday, which saw rates for Black Sea-Mediterranean voyages 30 x ws 190 levels by the end of the week. The end of this week also settled but Owners still feel they have a strong foothold of the region. With berthing delays in different corners of the Mediterranean, next week's position list has the potential to keep sentiment firm. It is also worth mentioning that HSFO this week reached $451 per tonne, the highest we've seen from Gibraltar since November 2014 as well as Brent crude also the highest it's been since then. This, however, doesn't appear to be the driving force behind the Mediterranean's activity but instead, a lack of firm tonnage for Charterers to get their teeth into.

MR

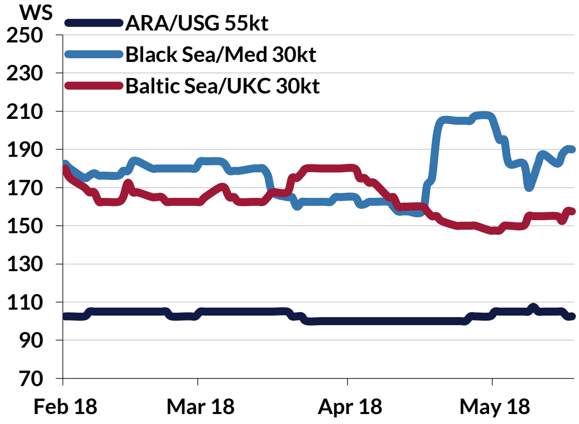
Despite the continent's supply of tonnage, this week saw full-sized stem cargoes in the North, which is more than we have seen in previous weeks. Questions continue to be asked, suggesting that there could be more enquiry yet to follow.

As surrounding markets saw activity, Owners in the Mediterranean were able to tuck into Handy cargoes as well as compete on full MR stems, where positions allowed this week. The tonnage sheet is well covered up to end month, which Charterers now have to keep in mind. The first MRs next week are likely to show numbers basis 45kt, until vessels replenish.

Panamax

From the amount of natural tonnage sitting on our lists, Owners faced an uphill battle to hold onto previous benchmarks set, when the market peaked almost two weeks ago. Indeed, competition for stems did cause a reduction in levels; however, the approaching weeks may well offer hope for Owners. The surrounding Aframax routes raised in value, which combined with the US sectors gaining traction, means we stand now at some ws 15-20 points in disparity between earnings in Europe and the US. Charterers will be wary that, once the natural tonnage thins just a little more, ballast tonnage will (at least for the time being) up rate ideas considerably.

Dirty Product Tanker Spot Rates



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 17th	May 10th	Last Month	FFA May/June
TD3C	VLCC	AG-China	**-1**	41	42	40	43
TD20	Suezmax	WAF-UKC	**+7**	67	60	53	63
TD7	Aframax	N.Sea-UKC	**+8**	101	93	96	94

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

			wk on wk change	May 17th	May 10th	Last Month	FFA May/June
TD3C	VLCC	AG-China	**-2,250**	3,250	5,500	5,000	4,750
TD20	Suezmax	WAF-UKC	**+2,000**	8,500	6,500	4,750	6,750
TD7	Aframax	N.Sea-UKC	**+4,500**	750	-3,750	-1,250	-3,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 17th	May 10th	Last Month	FFA May/June
TC1	LR2	AG-Japan	**+1**	91	91	90	
TC2	MR - west	UKC-USAC	**-19**	120	139	135	135
TC5	LR1	AG-Japan	**+2**	112	110	109	116
TC7	MR - east	Singapore-EC Aus	**-0**	183	183	201	

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

			wk on wk change	May 17th	May 10th	Last Month	FFA May/June
TC1	LR2	AG-Japan	**-500**	4,000	4,500	6,250	
TC2	MR - west	UKC-USAC	**-3,500**	3,750	7,250	7,750	6,000
TC5	LR1	AG-Japan	**-250**	6,250	6,500	7,500	7,000
TC7	MR - east	Singapore-EC Aus	**-500**	10,500	11,000	15,500	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**+26**	442	416	371
ClearView Bunker Price (Fujairah 380 HSFO)	**+21**	461	440	403
ClearView Bunker Price (Singapore 380 HSFO)	**+15**	458	443	391
ClearView Bunker Price (Rotterdam LSMGO)	**+25**	676	651	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