VLCCs Buck the Trend

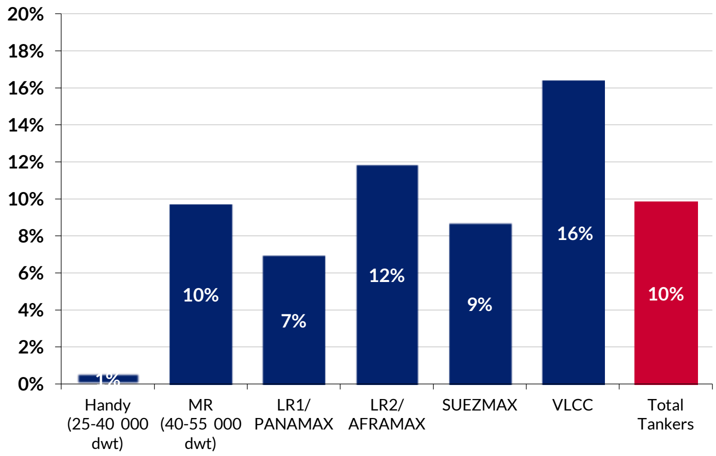
Weekly Tanker Market Report

Much attention has been given in recent months to continued activity in newbuild VLCC tonnage. We, at Gibson's, are not an exception to that, warning repeatedly about the risk of over-ordering if investment in VLCCs continues at such a relentless pace. However, what has gone largely unreported is the fact that the pattern of ordering activity has been completely different in other tanker segments, starting from Suezmaxes down to MRs.

Most notably, investment in new tonnage has been minimal in the LR1/Panamax size group. Just 4 tankers have been ordered so far in 2018, while ordering was also highly limited over the previous two years. Without doubt, a lack of investment interest has been driven by poor performance. In recent years, LR1s have also faced an additional challenge in terms of the increased competition from both smaller and larger product carriers, frequently reporting lower earnings compared to other sizes. Not surprisingly, owners have showed preference for smaller MRs or bigger LR2s when ordering a new tanker. With the exception of Handy tankers, as of now LR1/Panamaxes have the smallest orderbook, at 7% relative to its existing fleet.

The orderbook for Suezmaxes is also becoming notably smaller. Only 2 firm tanker orders (plus 4 shuttle tankers) have been placed this year to date, while investment in new tonnage was also somewhat restricted in 2016 and 2017. As a result, the Suezmax orderbook has now fallen below 9% relative to its existing size, nearly three times smaller from its position two years ago.

Orderbook as a % of Existing Fleet



The MR orderbook (40,000 to 55,000 dwt) stands close to 10%. Investment in new tonnage so far this year has been rather modest, with just 26 confirmed orders; yet, last year over 70 new tanker orders were placed. It is also worth pointing out that the orderbook for Handy tankers (25,000 to 40,000 dwt) is almost non-existent, with just 3 tankers yet to be delivered. However, this is largely a reflection of owners' preference for the larger MR size when ordering new tonnage.

Finally, LR2/Aframaxes have the second largest orderbook of all size groups, largely as a result of robust investment in 2017. Yet, investment has slowed once again this year, with 12 confirmed orders for the year to date. As such, the orderbook remains notably below that of VLCCs. Just under 12% of the LR2/Aframax fleet is on order versus 16% in the VLCC segment.

The above developments indicate that the growth in fleet size for most size groups could slow down notably next year, particularly if the demolition market remains active. Scheduled deliveries for Suezmaxes, LR2/Aframaxes and LR1/Panamaxes are expected to fall in 2019 to their lowest level since 2015. The number of scheduled deliveries in the MR segment in 2019 is on par with levels this year, yet still notably below the number of new deliveries seen between 2014 and 2016. This paints a much healthier picture in terms of fleet growth going forward. However, in order to see a much-needed rebound in tanker earnings, the current trend of robust ordering in the VLCC segment should certainly not be repeated in other tanker classes.

Crude Oil

Middle East

The week ended with broadly no change for VLCCs week on week with an initial slight push negated by a slower second half to leave rates at around ws 49 to the Far East for modern units and to ws 40 for older vessels, with rates to the West again at no better than ws 20 via Cape. Unless Charterers over-concentrate their activities over the last phase of the June programme, it is likely that the marketplace will again remain rangebound, and still very uninspiring when converted into TCE returns. The week started with Suezmaxes in high spirits as vessels continued to look into the Med for employment, however few were able to make sense of the longer ballast as Med/East rates flattened out and only modest local demand led AG/West rates to soften from ws 30 to mid ws 20's while East rates remained in the ws 70 - 72.5 range. A busier final decade in Basrah provides some hope for Owners but tonnage supply should be sufficient to suppress rates from moving far from these levels. Aframaxes eased off from previous not-so-highs as enquiry moderated locally, and further afield. Rates chipped down to 80,000 by ws 95 to Singapore and may discount further into next week.

West Africa

Suezmax sentiment in West Africa was bullish at the start of the week but sustained enquiry was needed to back this up. Unfortunately for Owners it did not materialise, and rates corrected down to ws 72.5 for UKCM before then stabilising. Some softening is expected next week as plenty of ballasters arrive for final decade June stems and the MEG fails to provide any support. VLCCs quickly matched the slight AGulf gains, but once back in-step, then were having to consider also tracking slightly lower again in tandem. Evidence of that was lacking, however, as fresh interest dried up well before the week's end - ws 49 then to the Far East with a flatline \$2.87 million the latest paid for a run to East Coast India.

Mediterranean

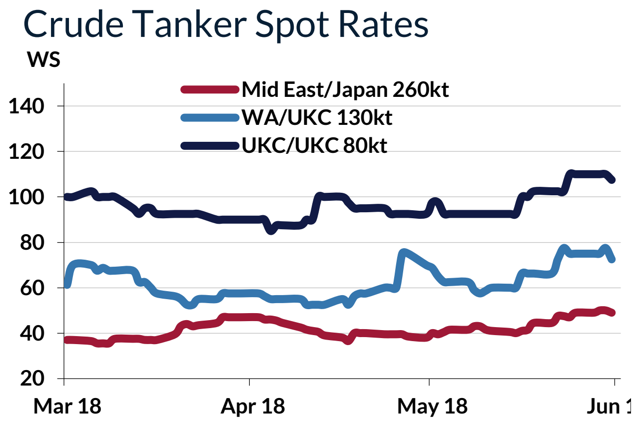
Aframaxes were never going to be able to hold their mini-spike for long, and the long holiday weekend provided the negative catalyst to undermine the marketplace. Thereafter, Charterers could dictate the pace, and Owners tumbled over themselves to dump rates back to 80,000 by ws 110 X-Med (from ws 170), though a period of consolidation should now ensue. Med/Black Sea Suezmax enquiry continued to tick over but the weakening Aframax market stunted the Suezmax rise seen last week. 135 x 97.5 was repeated for TD6 routes while \$2.95 was paid for Black Sea/S Korea, but lower values are on the cards for the short haul local runs, at least and as with other regions the overall outlook is flat, at best, next week.

Caribbean

Aframaxes failed to make further headway, despite occasionally moving through quite busy spells. As late last week, a degree of retracement threatens into the weekend but Owners will quickly respond if Charterers do concentrate their activities again next week. VLCCs here remained 'best in class' and will retain the accolade for a while yet upon steady interest, and tight early supply. Rates from the now more voluminous US Gulf to Singapore moved to \$3.75 million + with runs from the Caribs to West Coast India operating at around \$3.5 million.

North Sea

A delayed start to the week in London disrupted the Aframax market rhythm as Owners had feared and rates merely ticked steadily lower over the remainder. 80,000 by ws 100 now Cross UK Cont and to 100,000 by ws 65 from the Baltic with a strong looking position list pointing to further deterioration over the coming period. VLCCs saw very little again but rate demands stayed propped up by alternative load opportunity across the Atlantic. Rates for fuel oil to Singapore theoretically operate at around $3.2 million with up to $4.2 million sought for crude oil from Hound Point to South Korea.



Clean Products

East

MRs have suffered this week from an active LR market. LR2s initially pushed rates, followed swiftly by the LR1s. We have therefore seen softening across all routes, and those which have remained relatively untested are due some sympathetic softening in the new week. Shorthaul has come down to $150k - an ex DD ship taking a heavy cut on last done levels, and resetting the bar on these short runs. Gizan has bumped around $475 to $490k, but the lower levels will be taken by Charterers in the new week. UKC has been relatively untested - options taken on Red Sea loadings will have little relevance on an AG load, but we assess $1.15million for this current market. EAFR will come off the ws 170 levels we have previously seen, and Charterers will push to achieve closer to ws 160 levels - the level of aggression here will be lead by cargo volume on Monday, and whether the next test is destined for East or South Africa. TC12 has remained relatively untested - 35 x ws 130 the assessment but taking a backseat as naphtha moves predominantly on the LRs. With a heavy front end and sincere lack of cargoes - Owners need some more cargoes to drag them from the doldrums.

Mediterranean

It was inevitable that a spike of activity would be seen on Tuesday following the 3 day weekend in the UK and this cancelled out a wealth of prompt tonnage which left the status quo across the Med balanced. Rates have held throughout at 30 x ws 140 for X-Med stems and other than a ws 142.5 seen yesterday which was not repeated; rates have been stable throughout the week. At the time of writing the market remains under pressure with prompt units still available with sluggish enquiry and a market quote seen earlier today will expose the extent of the tonnage list.

Black Sea has traded consistently at 30 x ws 150, in line with the rule of thumb +10 point premium on X-Med, and for the time being rates are unlikely to change.

With the market in the UKC suffering heavily this week, Owners were on the back foot from the off with rates softening to 37 x ws 120 for Med -Transatlantic rates in line with where TC2 now lies. A lack of enquiry coupled with a relatively well supplied tonnage list has left the general sentiment negative across the Med. Fresh test was seen for Med-AG and Med-SAF runs at lumpsum $750k and $1.05million respectively and with Posidonia on the horizon next week, this is likely to stir up more trouble in the market.

UK Continent

With market fundamentals heavily stacked in the Charterers favour it has been a rather depressing week for the Owning fraternity. Once the UK had arrived back from the bank holiday weekend and tonnage lists were pulled, it showed a number of prompt units on the front end of the list and an armada of ballast vessels coming from a very weak US market. Once this was apparent levels began to soften very quickly as the market fell to 37 x ws 115 (last chems) for TC2 and West Africa to around the 37 x ws 135-137.5 mark. Transatlantic has been the busier route but not preferred as those with tonnage have been looking to fix either short or down to West Africa, however there has been limited stems on both. There has been some resistance from Owners to break the 37 x ws 120 mark for TC2 on a last 3 CPP vessel but with Posidonia now on the horizon only time will tell if the pressure will continue to build and ultimately see rates take another tumble.

As week 22 comes to a close and with the condensed action post bank holiday keeping Owners busy, it is not a surprise that some are scratching their heads as to how this market did not improve.

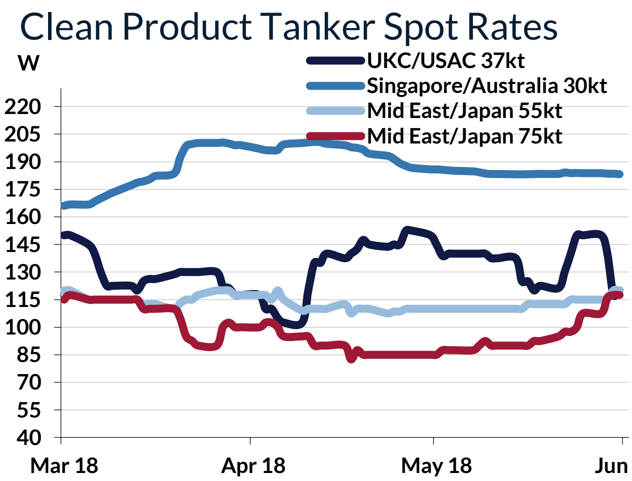
Rates started in the Baltic around the 30 x ws 150 mark with the X-UKC tracking at the traditional 10 points under, and by Wednesday we were seeing the Baltics clear a good slice of tonnage away upto the end of the first decade of June. But despite Owners anticipation of progress, Baltic rates fell to 30 x ws 147.5 and this was repeated consistently to the end of the week with the X-UKC similarly settling at ws 137.5. As Friday arrives, cargoes ex Baltic are being taken out nearly up to the mid-month point which with Posidonia on the horizon is not necessarily a surprise, but where the next opportunity for Owners to claw back rates is still in question, expect more placidity moving into next week with distressed last minute cargoes perhaps the only opportunities ahead.

Another week passes by on the Flexis with limited talking points to note. The market has seen just about enough enquiries to keep the units focused on spot trades moving, although not enough to move rates. The 22 x ws 180-185 X-UKC continues to be the benchmark used to freight the more popular runs between North Spain and Spanish Med. Elsewhere COA cargoes and own programme requirement keep the other units employed. Otherwise the fortune of the Flexi fleet in NWE continues to rely on the levels being achieved on the Handies, so keep a keen eye trained on them for any potential changes next week.

LRs

The LR2s have had another positive week seeing rates slowly nudge their way up. TC1 sits at 75 x ws 117.5 and UKC reach the $2.0million mark. Owners will be pleased with this level of positivity but will be slightly concerned that as the week drew to a close fresh cargo entering the market slowed right up. Although no dip in rates seen yet, if there isn't a fresh supply of cargoes in the market early next week there could be a round of fresh tests on rates as Charterers try to steady the push.

It's been a mixed week for the LR1s, initially seeing a positive correction on TC5 there was a feeling that this could be the push the LR1s had been waiting for, however, it was a short lived push as TC5 quickly adjusted back to its tried and tested levels of 55 x ws 115. There has been limited change on the UKC rates which hold steady at $1.65million. Owners will be hoping for a healthy supply of new cargoes to keep the pressure on, however, with Posidonia starting this weekend, potential for softening could readily happen.



Dirty Products

Handy

This week the Continent market went from strength to strength, with Owners barely holding back the excitement from being chased by Charterers all looking for the firmest units coming up. Adding further fuel to the fire numerous cargoes were seen within a narrow range of dates tilting the supply vs demand balance noticeably in Owners favour. At time of writing ws 170 has become the benchmark number and for the time being Charterers are forced to abide knowing that tonnage relief could be all of some 7 days away from reopening, meaning strength is likely to persist well into end second decade fixing windows.

In the Med we can't quite speak of similar tales where individual units have been the prettiest girl on the dancefloor, however, activity presented in greater abundance than what was being perceived. This is perhaps the determining factor as to why the market didn't fall off further than ws 165 X-Med, although the region was also assisted through West Med units finding roundtrip voyages from the Continent and Black Sea. Demand scooping up front end tonnage from the East Med.

Owners however aren't out of the woods just yet, fixing dates already reaching ahead into mid second decade could be put down to early Posidonia coverage, which could spell a quiet period next week.

MR

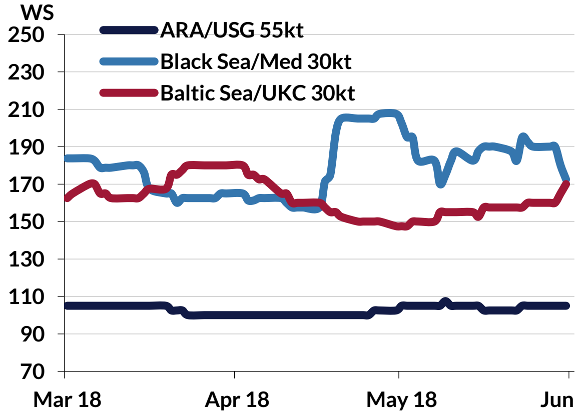
In the Continent the theme of this week has been pinpointing the next unit and booking early to avoid disappointment, where in some cases Charterers have moved half a month forward to secure coverage. The result of this process apart from an immediate lack of liquidity that is to follow is that rates will be looking firmer when the next test happens, especially if the surrounding Handies continue to rally like they have been.

In the Med MR's for the most part have found employment by virtue of their own doing rather than forcing part cargo Handy stems to work although as far as rates are concerned, Charterers definitely had the initiative over the first few deals to be booked. A slight reduction has been seen however with a list now looking somewhat lighter on availability some immediate trend reassurance is offered.

Panamax

In Europe another week plays out where Charterers look to secure natural positions knowing that any alternative option would involve reaching uncomfortably deep into their pockets to entice a ballast unit across. That said, slowly Owners are managing to bring more to the table in terms of financial reward as one deal sits now +2.5 points higher on last done for a conventional Skikda/USG run. For the immediate deals ahead this cycle will repeat at ws 102.5 vs 105, in spite of a lower number being done, which has legitimate reasons for an enticement rate.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 31st	May 24th	Last Month	FFA May/June
TD3C	VLCC	AG-China	**+2**	49	47	40	46
TD20	Suezmax	WAF-UKC	**-5**	73	78	53	66
TD7	Aframax	N.Sea-UKC	**-5**	106	111	96	97

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

			wk on wk change	May 31st	May 24th	Last Month	FFA May/June
TD3C	VLCC	AG-China	**+2,500**	10,500	8,000	5,000	8,250
TD20	Suezmax	WAF-UKC	**-1,250**	12,000	13,250	4,750	9,000
TD7	Aframax	N.Sea-UKC	**-2,750**	4,500	7,250	-1,250	-750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 31st	May 24th	Last Month	FFA May/June
TC1	LR2	AG-Japan	**+18**	118	100	90	
TC2	MR - west	UKC-USAC	**-30**	120	150	135	133
TC5	LR1	AG-Japan	**+4**	118	115	109	117
TC7	MR - east	Singapore-EC Aus	**-1**	183	184	201	

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

			wk on wk change	May 31st	May 24th	Last Month	FFA May/June
TC1	LR2	AG-Japan	**+6,000**	12,000	6,000	6,250	
TC2	MR - west	UKC-USAC	**-4,000**	4,250	8,250	7,750	6,250
TC5	LR1	AG-Japan	**+1,000**	7,750	6,750	7,500	7,500
TC7	MR - east	Singapore-EC Aus	**+0**	10,500	10,500	15,500	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**-18**	423	441	371
ClearView Bunker Price (Fujairah 380 HSFO)	**-18**	451	469	403
ClearView Bunker Price (Singapore 380 HSFO)	**-6**	457	463	391
ClearView Bunker Price (Rotterdam LSMGO)	**-23**	653	676	621

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