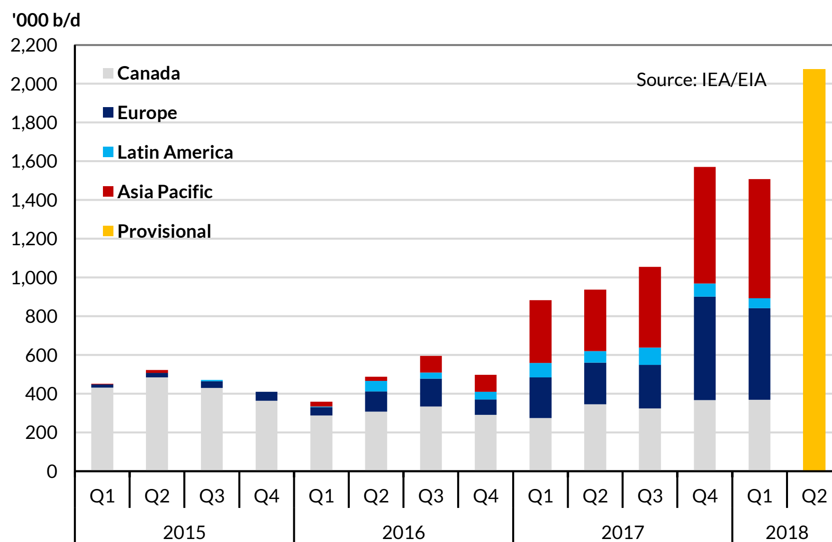
Trump, Tariffs & Tankers

Weekly Tanker Market Report

When Donald Trump decided to run for the US Presidency, "America First" was the overriding theme of his campaign. This was reiterated in his inaugural address, when he was sworn into office in January 2017. Within days of entering the Oval office, the president immediately set about introducing his ideas to protect US jobs by implementing trade tariffs. Initially steel was high on the president's thoughts but at that time he also proposed a "border adjustment tax" (BAT); which, if implemented, would have added 20% to the price of imported crude and products. Since then, things have gone very quiet until the recent escalation of the trade war with China, which has witnessed heated exchanges between the two nations, resulting in retaliatory measures on a variety of traded goods.

As the tariff war escalates, the latest commodity to be implicated in a possible 'tit for tat' retaliation, is China's threat to its purchases of US crude. The Beijing government has threatened to impose a 25% tariff on US crude oil and oil products after the trade war took a turn for the worse in recent weeks. This would make the purchase of US crude uncompetitive in China, forcing the nation to seek other suppliers. US government data (EIA) shows crude exports to the country have been in the range of about 330,000 b/d over the 1st quarter of 2018, accounting for about 20% of total crude exports. Results for the 2nd quarter are anticipated to show further gains. US crude is a good fit for China because of the decline in their domestic production and the quality of the crude which is purchased at a discount to Brent. The Chinese independent refiners are expecting tariffs to be imposed on US crude and are likely to look towards OPEC members in the Middle East and West Africa to fill the gap. Earlier in the week Reuters reported some 14 million barrels of US crude oil on the water, with China listed as the destination through August. Interestingly but not surprisingly, LNG has been excluded from any retaliatory measures. China's growing demand to substitute LNG for coal led to a very tight market over the winter, with shortages in supply. So, Beijing is being very selective in their tariff countermeasures.



On the face of it, the loss of US barrels to China could have a serious impact on tonne mile trade from the Atlantic Basin, given also the potential threat to Venezuelan crude supply. As we have highlighted in previous reports, the long-haul trade Caribs/US Gulf to the Far-East have underpinned the VLCC market this year. However, should China follow through with its warning to slap on tariffs, this could place downward pressure on the WTI benchmark, widening the discount to Brent, which in turn would make US oil more attractive to other buyers. Thailand, Taiwan, South Korea as well as India may be more than happy to tap into available barrels, particularly with the risk of the loss of Iranian crude and the potential failure of Venezuela to meet its supply commitments. In fact, US crude exports to India hit record levels in June. Europe could also increase their purchases, which might open up further opportunities for crude tanker trade. So, the threat to the tanker market may not be as serious as some have feared. The US will continue to export crude and Chinese refiners will turn their attention to OPEC members to keep the flow going.

Crude Oil

Middle East

Another month of recent record VLCC spot volume yet the market has gone down....supply is the ongoing challenge and Owners will be in need of disruption to the flow of that in order to convert the demand into noticeably higher rates. Currently, levels stand at little better than ws 47.5 to the East for modern units with rates to the West back into the high 'teens'. Suezmaxes drifted sideways, and then a little further downwards on very thin interest. Rare runs to the West were especially hard fought over to drag those numbers towards ws 27.5 with rates to the East at down to ws 65. Aframaxes became a little tighter to allow rates to creep up a touch to 80,000mt by ws 102.5/105 to Singapore but ballasters are on the way and there's no further steam to come.

West Africa

Suezmaxes spent the week in defensive mode but as tonnage built and activity flatlined, Owners had to give ground to ws 65 to the USGulf, and to under ws 70 to Europe before a slightly busier spell halted the slide. A lot more will be needed, however, to create the necessary impetus to bring the market into higher territory. VLCCs had very little to do for most of the week, apart from watching the leading AGulf zone soften and once some activity appeared late week, Owners had re-calibrated their ideas accordingly to ws 47.5 to the Far East with Angola/West Coast India marked at around $2.4 million. A busier spell likely within short, but no rate recovery.

Mediterranean

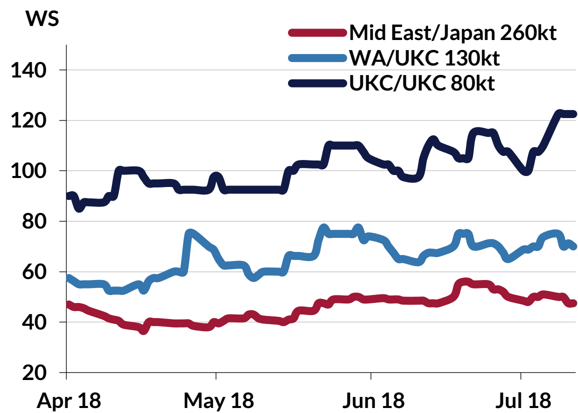
Aframaxes opened in better shape than of late and activity was further boosted by the re-entry of previously shut-in Libyan barrels. Rates moved into a mini spike at up to 80,000mt by ws 145 X-Med and remained humming into the week's close. Suezmaxes had also been active, but availability easily coped with the demand and rates continued sideways at 140,000mt by ws 80/82.5 from the Black Sea to European destinations, and at around $2.8 million to China. If the Aframax situation remains upward, then there could be support for something a little higher next week, though West Africa needs to move solidly too in order for something significant to develop.

Caribbean

A slow, steady, puncture in Aframax fortunes this week - easy availability and dotted line demand allowed Charterers to manage the marketplace down to 70,000mt by ws 100 upcoast, and perhaps lower than that will be seen before bottom is hit. VLCCs cramped up with hardly a cargo in sight, and availability weighing heavily. Rates softened to $3.1 million from USGulf to Singapore and to little over $3 million from the Caribs to West Coast India. Owners will look to other load zones in the interim.

North Sea

Aframaxes initially maintained last week's modest gains and then stretched their legs a little further to 80,000mt by ws 125 X-UKCont, and to 100,000mt by ws 100 from the Baltic and upcoming port delays in the region will likely keep tonnage lists sufficiently lean to allow for perhaps further gain over the near term, at least. VLCCs are thicker on the ground now and there's only thin interest too. Rate ideas slip to just over $3 million for fuel oil from Rotterdam to Singapore and low $4 million level for crude oil from Hound Point to South Korea.



Clean Products

East

MRs are extremely tight up until the 20th now in the Middle East. Owners have, to their credit, taken this opportunity to push rates where possible, and we have seen significant firming across all routes. Short haul has climbed up to $225k levels and Red Sea runs are now at $575k. West runs are incredibly difficult to find willing tonnage for, hence the $1.45 million on subs ex Kuwait. TC12 has also pushed a second replacement on subs 35 x ws 157.5, but this run needed some attention given how poor returns are when compared to other routes. EAF is now 35 x ws 220, but now Owners have the bit in between their teeth, they may push here as well. In their favour, a busy LR1 market offers little help to Charterers who could try to resize or take larger tonnage. As the natural window moves beyond this ridiculously tight front end, it will be interesting to see how ballsy Owners remain with their expectations.

A busy week on both LR1s and LR2s. LR2s have pushed rates up to a reasonable level particularly on West routes. 90,000mt jet AGulf/UKCont is $2.1 million now and 75,000mt naphtha AGulf/Japan is up to ws 105. If pressure remains into next week we will see both rates climb further. LR1s have been unable, so far to push the longer haul rates even though shorter runs have firmed. 55,000mt naphtha AGulf/Japan is ws 120 and 65,000mt jet AGulf/UKCont is closing in on $1.70 million. Again a busy start next week could see more paid, as the list is very balanced.

Mediterranean

As week 28 comes to a close in the Mediterranean, Handy Owners and Charterers alike may as well have not bothered negotiating rates as 30 x ws 140 ex Black Sea and ws 130 for X-Med has been repeated throughout. It seems just enough cargo enquiry was seen to entertain the plethora of available tonnage across the Med and fixing same as last, has been the norm. Looking forward, it seems unimaginable at the moment to see where any positivity will appear from, as Owners and Charterers settle into this lackadaisical summer market.

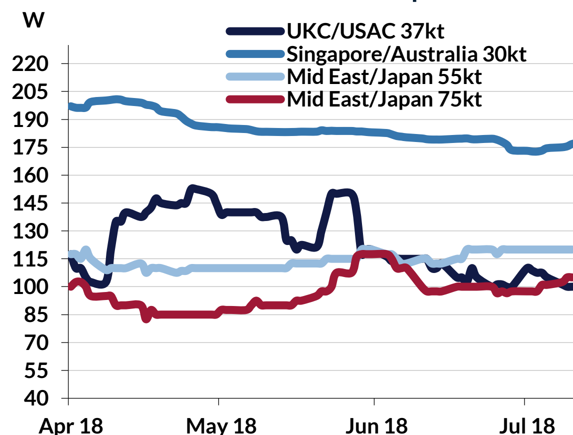
As to be expected, MRs continue to mirror rates from their northern cousins in the Continent with the limited enquiry seen talking ws 100 for transatlantic and around ws 110 for WAF. East movements have been in short supply keeping Owners opening in the Med, on their toes, as to what they can do, and some tapping away at calculators realising they can swoop up long haul Handy stems comfortably. Owners will be hoping East or transatlantic arbs begin to open, but for now more flat calm ahead.

UK Continent

The MR market has been rather uninspiring throughout week 28 with both parties seemingly finding middle ground and fixing repeatedly at 37 x ws 100 for transatlantic and 37 x ws 110 for WAF. An abundance of prompt tonnage remains the thorn in the side for the market and currently with gasoline heading down to WAF now seemingly dried up, the market has been solely reliant on transatlantic, which at best continues to be drip-fed in the market. One brighter note for Europe, is that the USGulf did slightly improve, which should now see ballasters from the USAC stay States side, which should relieve the pressure a little for later dates. Looking ahead, currently, it's hard to see the light at the end of the tunnel but breaking the three digit mark remains a physiological barrier for Owners which just may keep levels at last done …. for now.

A rather sluggish week has passed for Handies plying their trade up in the north as the combination of drip-fed enquiry and a rather long tonnage list has kept Charterers firmly in the driving seat. Currently Owners can't break the mould as Baltic liftings remain at 30 x ws 130 , X-UKCont track ws 10 points lower at 30 x ws 120 and even though we have seen Med demand increase levels kept low around the 30 x ws 105-107.5 mark. With TCEs at a low point for Baltic/UKCont many Owners are now trying to get their ship fixed for long haul and out of the Continent, but with these employment opportunities few and far between the rocky road is expected to remain.

Once again not much to report in the Flexi sector with COA activity being the only opportunity for Owners to keep tonnage moving. A fresh market test is still required but for now we call rates 22 x ws 160 with the Handy sector being the cap here.



Dirty Products

Handy

The North West Europe region has witnessed another flat week in terms of activity with enquiry just managing to tick over tonnage in the region. Rates have managed to hold around the ws 150 level the majority of this week, but at the time of writing there is an underlying feeling that off market activity is chipping away at units not being shown. Once again, it is worth noting that some of the stems that have managed to be concluded this week have options to take units away from the region. However, come Monday the tonnage list is likely to replenish with more units being shown leaving us with the soft sentiment in the region.

The Mediterranean market started the week slowly with a long tonnage list highlighting a number of prompt units. All signs were suggesting a further possible drop in the rates, even though with the general understanding that rates were indeed at the bottom. This was supported partially by the positive trend of the Aframax market, activity picked up by mid-week and several ships managed to find employment. Rates remain stable for now around the 30 x ws 140 level for Black Sea trade but as we approach the end month loading window, we should expect activity to hold at this current level with one caveat, on how the position list will look come Monday.

MR

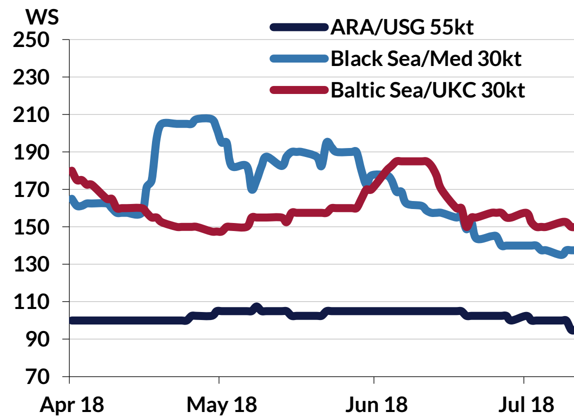
For the majority of week 28 full sized enquiry appeared to be a bit of a non-starter with mainly part sized stems for Owners to feed on. With a quiet beginning to the week, Charterers choice of selection continued to gradually improve as a handful of units started to creep up the tonnage list, adding a bit of pressure on the next test. Closing the week out, it appeared a couple of Charterers may have decided on clipping a couple of the prompter units away whilst they had the choice as murmurs of under the radar activity came to surface. A keen eye will be on the upcoming positions in the region on Monday as the weekend break will likely bring them into play.

A quiet first couple of days in the Mediterranean were quickly forgotten by Owners as a busy Aframax market has seen stems broken down and eventually tightening current positions. Coupled with a busy Handy market, the Mediterranean seems prime for further increment early next week. At the time of writing, we should not be surprised to see further units clipped away before the weekend arrives.

Panamax

North West Europe proved that 55 x ws 95 is the conference rate for natural positions this week, as the region lacked any oomph of fresh enquiry. Similarly in the Mediterranean only a couple of firm stems gave Owners something to get their teeth into. However, as the week progressed all eyes started turning towards the Aframax sector which is currently cooking on gas. Potential split stems could be on the cards next week, where dates allow, unless barrelling up rather than downsizing onto Seema's proves a more viable option for traders.

Over the other side of the pond in the absence of President Trump during his trip to the Europe, it would appear the brakes have been applied. The last test for Caribs/up sits vulnerable currently at 50 x ws 115 but activity closes the week on a much softer note.



125 YEARS GIBSON SHIPBROKERS 1893 - 2018

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	July 12th	July 05th	Last Month	FFA Q3
TD3C	VLCC	AG-China	**-3**	48	50	48	48
TD20	Suezmax	WAF-UKC	**-3**	69	72	68	67
TD7	Aframax	N.Sea-UKC	**+13**	123	110	114	100

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

			wk on wk change	July 12th	July 05th	Last Month	FFA Q3
TD3C	VLCC	AG-China	**-2,250**	9,000	11,250	9,750	9,750
TD20	Suezmax	WAF-UKC	**-750**	10,250	11,000	10,000	9,500
TD7	Aframax	N.Sea-UKC	**+8,250**	17,250	9,000	11,250	3,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	July 12th	July 05th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+4**	105	101	99	
TC2	MR - west	UKC-USAC	**-8**	100	108	110	114
TC5	LR1	AG-Japan	**+0**	120	120	113	121
TC7	MR - east	Singapore-EC Aus	**+4**	177	173	179	

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

			wk on wk change	July 12th	July 05th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+1,250**	7,750	6,500	6,750	
TC2	MR - west	UKC-USAC	**-750**	1,250	2,000	2,750	3,500
TC5	LR1	AG-Japan	**+0**	7,750	7,750	6,750	8,000
TC7	MR - east	Singapore-EC Aus	**+750**	9,500	8,750	10,000	

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

	wk on wk change	July 12th	July 05th	Last Month
ClearView Bunker Price (Rotterdam HSFO 380)	**-12**	431	443	424
ClearView Bunker Price (Fujairah 380 HSFO)	**-1**	464	465	450
ClearView Bunker Price (Singapore 380 HSFO)	**-5**	460	465	453
ClearView Bunker Price (Rotterdam LSMGO)	**+13**	661	648	642

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

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