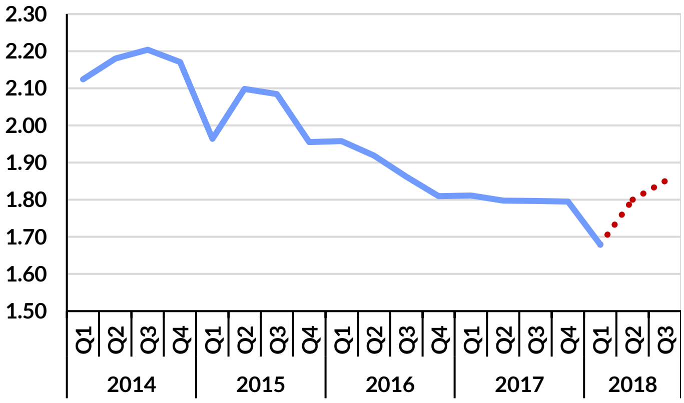
Brazilian Boost?

Weekly Tanker Market Report

For some time now, Brazil has been a major source of demand for the tanker markets, both from a crude export perspective and as an outlet for refined products (notably from the US). It's fair to say that Latin America's largest economy has had a pretty tough ride in recent years, having to contend with the oil price collapse and 'car wash' scandal. Things are, however, now looking better. Upstream, the nation has a continuous pipeline of new offshore oil projects scheduled to come online, whilst downstream, Petrobras is edging closer to achieving the foreign investment necessary to finish its stalled refining projects.

Brazil Refined Products Production (mbd)



Both upstream and downstream developments will have far reaching implications for the tanker sector. On the crude side, the main positive demand driver is that the growth in crude production is projected to accelerate, at least in the short term. However, so far in 2018, production growth has failed to meet expectations. Accelerating declines in mature fields have seen production in the Campos basin fall to a 17 year low according to a recent Reuters report. These declines have, to a certain extent, masked output increases from new projects, primarily in the Santos basin. Overall, slower production growth, field maintenance and mature field declines have seen crude exports running 300-350,000 b/d below 2017 levels over the first six months of year. Nevertheless, new project start-ups are expected to offset declines from mature fields in the coming years, with higher growth expected over the second half of 2018 and beyond. Recent IEA data suggests that Brazilian crude production will grow by nearly 900,000 b/d between 2018-2023. On the face of it, positive for crude exports from the country.

In recent months, utilisation of existing refining capacity also appears to be on the up. These higher refining runs have restricted crude exports, whilst at the same time negatively impacting product trades. Petrobras reported refined products output of 1.679 million b/d in Q1 2018, the lowest level since at least 2007. However, unofficial data suggests runs may have risen by 200,000 b/d since then, assuming a utilisation rate of 85%. Higher oil prices have forced the government to introduce fuel subsidies, making it more difficult for traders to import refined products, such as gasoline and diesel, into the country. This has of course negatively impacted the product tanker market, most notably those vessels loading in the US Gulf. The lack of export demand has been accentuated by similar developments in Mexico. Despite this, future downstream capacity additions in Brazil remain uncertain. Most new refining projects in Brazil have failed to materialise. Petrobras has halted work at its 150,000 b/d Comperj plant, whilst the 130,000 b/d expansion at Abreu e Lima has also stalled. The company has been courting investors to assist in the commissioning of these plants, but even so, it is likely to be a number of years before any major capacity additions come online in the country.

To summarise, Brazilian crude exports are likely to recover from the lows seen over the first half of this year, as refining runs stabilise, oil field maintenance concludes and new production comes online. This will of course be positive for crude tanker demand; however, export growth could eventually be limited by refining capacity additions, if and when, these projects are commissioned. On the clean tanker side, much depends on whether higher refining runs can be maintained and whether the government continues to 'actively' manage the price. Nevertheless, Brazil will remain short on products for some time to come, even with any capacity additions, making South America's largest economy dependent on clean product imports for the time being.

Crude Oil

Middle East

The August VLCC programme took a little while to get underway but eventually the market moved through a more active phase that arrested the previous steady decline and allowed for a very slight rebound by the week's end. That said, there remains very easy availability upon the fixing window and Owners will require sustained momentum to drive the market noticeably higher. For now, ws 49 for short East and ws 47.5 for longer runs remains the order of the day, with rare movements to the West still at sub ws 20 marks. Minimal Suezmax enquiry this week saw rates fall to ws 140 by ws 27.5 to the West and 130 x ws 65 for a straight run to the East. Little change expected in short but tonnage should start to ballast elsewhere to potentially more active areas.

West Africa

As in the AGulf, a slow crawl into August for VLCCs, but then moved through a much busier spell that solidified rates at ws 47 to the Far East and to around $2.4 million from Angola to West Coast India. Owners will begin to at least try to re-establish 'insurance' differentials over AGulf/East numbers to protect against missing out on any potential gains from there over the longer time commitment from here. An active week thinned the Suezmax list and rates started to pick up, with mid 70's on the horizon to UKCont/MED and low 80's for Far Eastern destinations.

Mediterranean

A topsy turvy week for Med Aframaxes. What has commonly been known as one of the world's most volatile markets, has proven to be the case these past few days. Charterers played a clever game in the main as many refused to believe the hype last week, instead watching as rates slipped downwards from ws 140 to a low of ws 98.75. Consequently, of course a great deal of them pounced at the same time to profit from the bargain basement prices, causing this dead cat to very much bounce back. The tonnage list for July dates is suddenly stripped bare and a market which should never really have gone below ws 115 has now moved past this point once more for a vanilla Black Sea/Med voyage. Cargoes remain and Owners look more positively into the weekend. TD6 flatlined despite increasing Suezmax activity throughout the week, however, a tight front end of the list shows signs of a potentially firming market, with 135,000mt at mid to high ws 80's the likely direction.

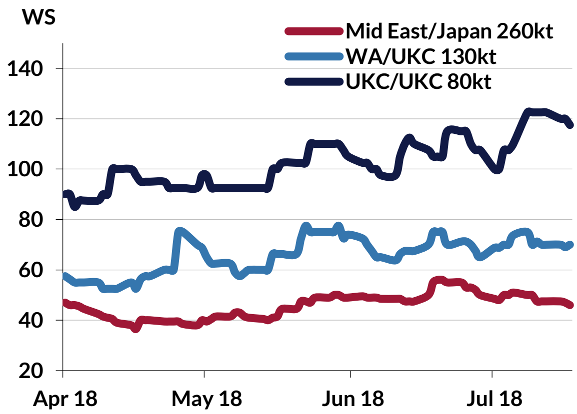
Caribbean

Aframaxes slipped through the week, hitting a rocky bottom at 70,000mt by ws 85 upcoast and Owners will now be hoping for some heavy bargain hunting interest to re-create reactive upward momentum. No guarantee of that, however. VLCCs recently had to endure an extended cargo drought and rates had fallen off accordingly. This week saw better interest; however, early dates then became much tighter to allow for some upward rate movement to get underway. USGulf to Singapore moves to around $3.3 million, with runs from the Caribs to West Coast India marked at $3.0 million, with load port costs at Charterer's account.

North Sea

Aframax markets went into hibernation to some extent this week, shedding some of the gains from last week. However, supply of firm positions remained balanced, which steadied confidence and held Baltic rates at 100,000mt by ws 95 and X-North Sea at 80,000mt x ws 120. Some North Sea/transatlantic business, offering the prospect of shifting tonnage out of the way, helped but at a slightly less robust level - 80,000mt x ws 80. Into next week we will have to see where early August cargoes take it but it's not a bad base for Owners to launch from. VLCC availability remains in good supply throughout August and fixing levels have reflected the over-abundance of tonnage. Levels now though should hold, with last done at $4.0 million from Hound Point to South Korea and $2.90 million from Rotterdam to Singapore.

Crude Tanker Spot Rates



Clean Products

East

A steady week on the MRs and although activity has ticked over, some rates have taken a tumble. EAF suffered some negative adjustment at the start of the week which, as expected, lead to many more cargoes emerging, giving fuel to leverage softening on other routes. Subsequently EAF was further negatively tested to the current ws 185. Red Sea runs have also been under fire, dropping $50k from Monday to sit at $525k since. TC12 looked to follow the softening at the start of the week but, since has picked up to 35 x ws 155, helped on by the early week surge of cargoes. UKCont cargoes still remain unpopular and are in need of a fresh test from $1.45m last seen. Short haul spiked mid-week but has since settled at $240k level. Overall it appears that EAF hasn't yet finished being chipped away at but, with the quiet end to the week and still a decent amount of cargoes, unless many more emerge, Monday should see these levels hold and the tonnage list stay balanced.

LR1s have remained busy this week, but surprisingly have still seen a slight dip in rates. This is mainly for East runs where 55,000mt naphtha AGulf/Japan is now ws 117.5. West rates have held firm with reluctance in that direction though with 65,000mt jet AGulf/UKCont at $1.65 million. LR2s have been relatively quiet but, with lists remaining balanced rates have been flat. 75,000mt naphtha AGulf/Japan is ws 105 for now and 90,000mt jet AGulf/UKCont is down a touch to $1.950 million. Little real movement is expected next week though and a steady market is expected for the medium term.

Mediterranean

The lists pulled at the start of week 29 were grim reading for Owners, with an abundance of prompt ships across the board (23 prompt Handies to be exact…). This coupled with a sluggish rate of enquiry meant Owners felt the heat and an inevitable softening was seen by ws 5 points with the current going rate for X-Med at the 30 x ws 125 mark. With the X-Med market weak, this lead to rates ex Black Sea negatively correcting back in line with X-Med and for a certain stem with a vessel in good position, we saw lows of 30 x ws 132.5. For the time being Owners will continue to remain on the back foot with prompt tonnage still rife and unless we see a dramatic uptick in enquiry, the doom and gloom in the Med looks set to continue.

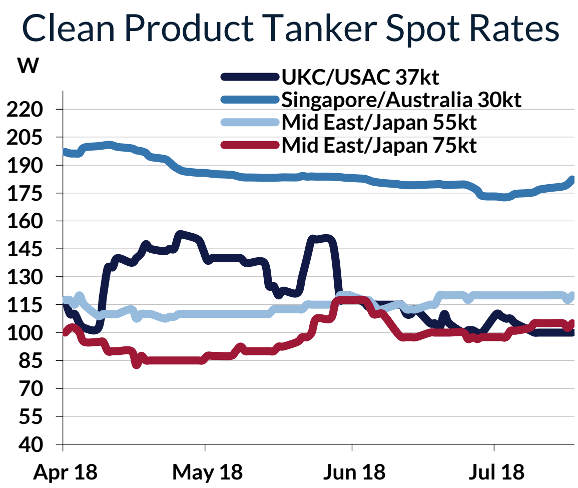
With MR enquiry almost non-existent the past few weeks, the outlook for week 29 was bleak with prompt tonnage severely outweighing enquiry. An uptick was seen however, midweek which began to clip away vessels at the front end of the list, however, rates continued to trade at yearly lows of 37 x ws 100 for Med-transatlantic runs. With the UKCont looking tighter for tonnage and an influx of WAF enquiry appearing, there is potential for this to drive transatlantic rates not only in the UKCont but in the Med market too. Fresh test was seen on a few voyages with Black Sea-Ecuador and Med-USWC achieving $935k and 37 x ws 125 respectively. With little outstanding enquiry at the time of writing, the UKCont market will be the driving force for Med rates at the beginning of week 30.

UK Continent

With an improved States market last week holding back potential ballasters, for once our tonnage lists saw depleted levels of ballast units weakening the European markets. As Monday appeared along with it a steady stream of enquiry also which has been clipping away available vessels at last done rates of 37 x ws 100 for transatlantic and ws 110 for WAF. This last route seemed to begin to work again also for traders so the flow of stems heading South has improved and Owners began to see opportunities to stand up from this bottomed sector. As we come to the close of the week, we find Owner's ambition starting to be seen, as finally for them the 37 x ws 100 is broken to ws 105 for TC2. A glut of outstanding stems will only aid this belief and pushing into week 30, the mixture of both transatlantic and WAF moves traditionally are the ingredients we need to see for positivity to bloom.

For the most part, the summer months continues to plague the Handy market with enquiry being insufficient to clear the abundance of available tonnage. However, with much of the Baltic programme being fixed away behind the scenes the tonnage list gradually started to tighten this week and with enough enquiry to keep the front end of the list from growing by Thursday, Owners were successfully able to push Baltic/UKCont rates up ws 5 points to 30 x ws 135 with X-UKCont likely to follow suit to 30 x ws 125. This is in comparison to a rather weak Monday which saw 30 x ws 100 achieved down to the Med, and with that market softening Owners will be looking to achieve min 30 x ws 120 now. Provided the majority of subs are actually lifted and the August Baltic programme starts working soon, next week could see further rate gains achieved, as the lists have begun to favour the Owners. The key here will be for Owner to push rates up gradually and be careful not to scare off more cargo being quoted by being over-bullish too quickly.

The Flexi market has witnessed a few more ships appearing on the list as one Owner gets tonnage back from COA commitment, as a result the market now has more ships and more players meaning, it is even harder for Owners to capitalise on the few cargoes that are on offer. Typically most employment opportunities are offered around Portugal, Gibraltar and Spanish Med with Owners positioning their tonnage accordingly. Some positivity on the Handies later in the week may give some encouragement for the Flexi sector but its early days yet with most still benchmarking X-UKCont 22 x ws 165 and plus ws 10 for Baltic load.



Dirty Products

Handy

The North West Europe market started the week slowly but activity quickly picked up and continued steadily throughout the week. As the position list got chipped away at this eventually provided Owners an opportunity to find some ground to push rates up, closing the week ws +5/10 points from where it started. As we draw the week to a close, workable tonnage is looking thin on the ground, which in turn is pushing the fixing window well into end / early August dates come Monday.

The Mediterranean market has seen similar trading conditions as the North this week. In turn, we probably have witnessed one of the busiest weeks for a while. Monday opening started with a steady cargo enquiry flow which continued to develop as the week progressed. As tonnage started to tighten in the East Mediterranean region, fixing levels started to creep up with an overall gain of ws 10 points within a few days from the Black Sea. This activity has left us with limited firm units in play and with cargos still uncovered the firm sentiment is likely to continue into next week.

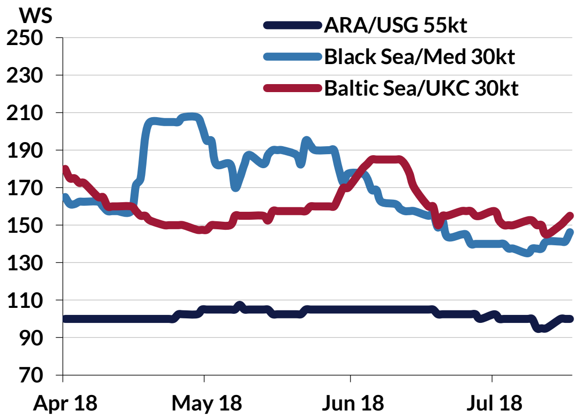
MR

Levels in both the Mediterranean and Continent alike took a positive turn this week, as surrounding Handy activity led to momentum spilling over into the MR sectors. Rates did eventually react with Charterers running out of options for the fixing windows in play, and without immediate replenishment looking likely, the MR sectors can expect to enjoy a period of firmer trading conditions.

Panamax

Week 29 should be viewed as something of a success story, where a clear draw down on natural availability here in Europe has allowed for conditions to tighten. Moving on from previous floors of ws 95, Charterers who left it late out of the blocks to cover were left paying some ws +7.5 points up and more critically, as a result, of tighter fundamentals European Charterers are having to bring ballast tonnage into position ex US. Going forward this will bring stability to the sector and forward rate behaviour will be closely linked to US values.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	July 19th	July 12th	Last Month	FFA Q3
TD3C	VLCC	AG-China	**-1**	47	48	57	47
TD20	Suezmax	WAF-UKC	**+1**	70	69	73	67
TD7	Aframax	N.Sea-UKC	**-4**	119	123	106	103

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

			wk on wk change	July 19th	July 12th	Last Month	FFA Q3
TD3C	VLCC	AG-China	**+250**	9,250	9,000	17,500	9,750
TD20	Suezmax	WAF-UKC	**+1,000**	11,250	10,250	12,500	10,000
TD7	Aframax	N.Sea-UKC	**-1,500**	15,750	17,250	7,250	6,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	July 19th	July 12th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-1**	104	105	100	
TC2	MR - west	UKC-USAC	**+3**	103	100	102	117
TC5	LR1	AG-Japan	**-2**	118	120	120	118
TC7	MR - east	Singapore-EC Aus	**+6**	183	177	179	

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

			wk on wk change	July 19th	July 12th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+2,250**	10,000	7,750	6,750	
TC2	MR - west	UKC-USAC	**+750**	2,000	1,250	2,000	4,250
TC5	LR1	AG-Japan	**+250**	8,000	7,750	8,000	8,000
TC7	MR - east	Singapore-EC Aus	**+1,500**	11,000	9,500	10,500	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**-15**	416	431	413
ClearView Bunker Price (Fujairah 380 HSFO)	**-23**	441	464	454
ClearView Bunker Price (Singapore 380 HSFO)	**-9**	451	460	439
ClearView Bunker Price (Rotterdam LSMGO)	**-55**	606	661	615

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