Worldscale Flat Rates

Weekly Tanker Market Report

The concept of Worldscale is not an easy principle to grasp, particularly for those outside the tanker industry. The task gets even more complicated as Worldscale flat rates are reset at the start of each year due to fluctuations in international bunker prices, exchange rates and port costs. On long haul routes, bunkers form the most significant component of all voyage costs and as such, major fluctuations in bunker prices could lead to a sizable change in WS flat rates (WS100). The picture is somewhat different for the short haul voyages. The shorter the distance, the less important the volatility in oil and bunker prices is; equally, this also means increased significance of changes in exchange rates, as this affects the USD equivalent of total port expenditure. For example, on the benchmark Aframax trade from Ceyhan to Lavera (TD19) port expenses last year accounted for just over 50% of total voyage expenditure.

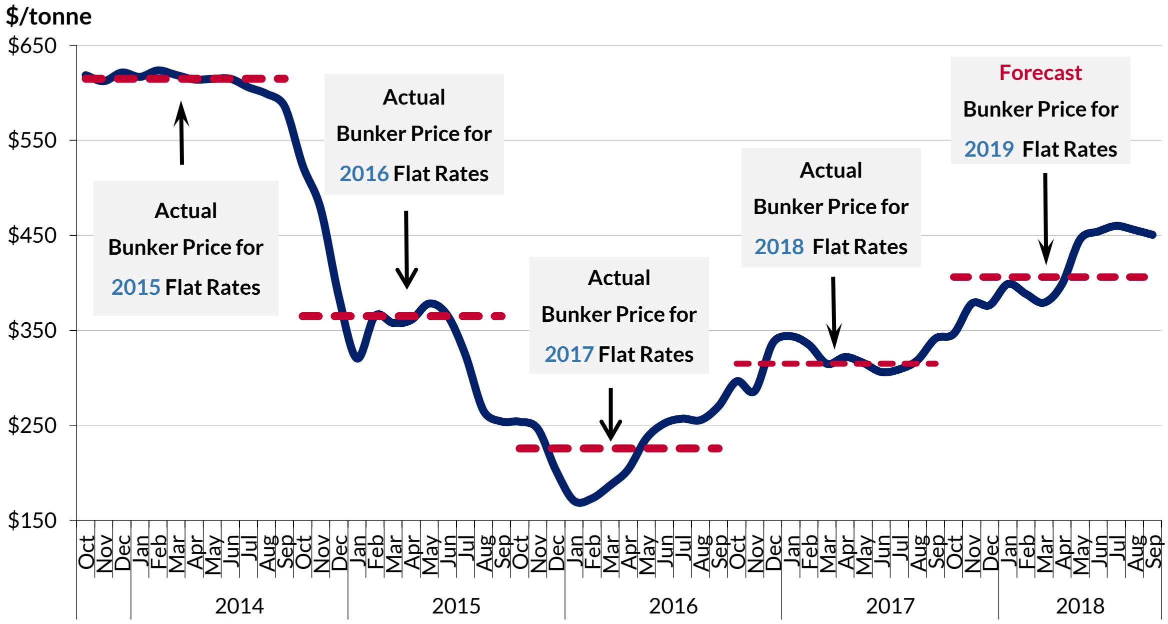
The upward trend in oil prices has continued since last year, with international bunker prices firming by around $120/tonne since September 2017. Robust oil demand, declining crude inventories, an ongoing fall in Venezuelan crude production and concerns about future direction in Iranian crude exports all contributed to firmer oil prices, despite spectacular gains in US production and the recent pledge by OPEC and a number of non-OPEC countries to return their combined output to levels initially agreed in late 2016.

The bunker component that goes into the flat rate formula for next year is based on prices between October 2017 and September 2018. As such, we already have the majority of the data that will go into the 2019 calculations. Taking into account the actual bunker assessments since October 2017 and the latest bunker forward curve, international bunker prices (that will be used to set 2019 Worldscale flat rates) are expected to be around 30% higher compared to the corresponding period a year earlier. This suggests that WS100 in 2019 will increase by around 15-17% on long haul routes and by 9-13% on short haul trades.

These changes will be in essence cosmetic, as increases in flat rates will be compensated by the corresponding decline in WS spot rates, without any effect on actual $/tonne costs. However, the picture for the actual freight costs could be quite different from the 1st of January 2020, when the global sulphur cap on marine bunker fuels goes into effect.

Representative Average Bunker Prices

High Sulphur 380 cst



Crude Oil

Middle East

VLCC Owners were blessed with an upturn in interest for modern units predominantly destined for China. Such persistent interest has helped Owners push levels on to 270,000mt x ws 54 being last done, but there is every likelihood that further gains will be realised as Charterers continue to pursue modern tonnage and availability diminishes. Voyages West also took a severe turn upwards, as the majority of Owners preferred to stay in the East, enabling Owners that would consider a Western voyage to push levels on to 280,000mt x ws 28 via the Cape. An active week for Suezmaxes and with a plentiful tonnage list, Charterers found the task easy in the early part of the week to find Owners willing to repeat last done of 140,000mt x ws 27.5 for European discharge. As the week has progressed, Owners showed some resistance and pushed rates closer to ws 30 and 130,000mt x ws 70 for Eastern destinations. Aframax rates in the East have been on the rise this week with 80,000mt x ws 120 on subjects for a Red Sea/East run. The Indonesian region is active, tight for tonnage and bunker prices are continuingly creeping up. Owners ideas for AGulf/East rates are also inching up. Fresh tests are needed, but AGulf/East is now close to 80,000mt by ws 102.50 level with further gains for Owners on the horizon for next week.

West Africa

Suezmax Owners sentiment stayed strong for the early part of the week, with levels peaking at 130,000mt x ws 75 for European discharge. The week is ending with rates no higher than ws 70 for Europe and Owners will be on the backfoot next week, with many Eastern balusters coming into play for the next fixing window. With the majority of modern VLCC tonnage being lured to the Middle East, Charterers have had to dig deeper into their pockets to secure positions here. Owners will continue to remain in the driving seat as long as the Middle East market keeps pumping Owners with a continual flow of enquiry. Last done levels to China were 260,000mt x ws 56 with levels around $3 million to West Coast India currently achievable.

Mediterranean

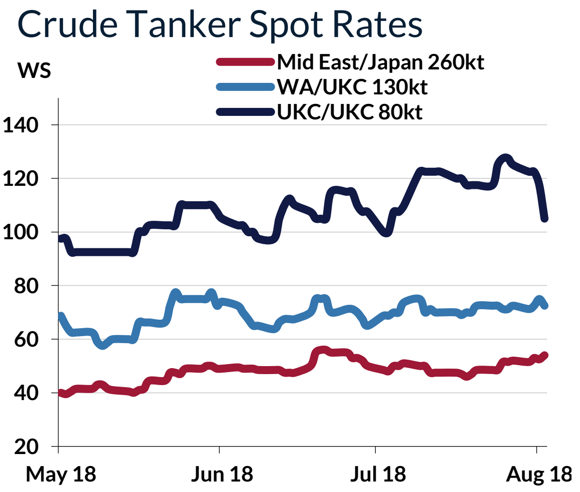
The Mediterranean Aframax market has been a mixed bag this week, we have seen contrasting fixtures with a CPC fixture off the 12th at 80,000mt x ws 122.5-125 mid-week, and others at ws 117.5 off similar dates. Enquiry levels have not produced the confidence that last week exhibited. Owners have therefore, varied in confidence and seen the market very much within the narrow boundaries of dates, some appear to have discounted some of their availability but held out with some resilience on what remains once they have shed some risk. All this is normal but, it has shown that although confidence is threatened, it has not been abandoned. As usual in the Mediterranean market, much support has been found in the replacement market as the prompt list has not been excessive, so it has been rare to see a late running replacement discounted. But the North Sea and Baltic markets collapse, will no doubt be a reminder that things go down faster than they go up these days, and that ever present scenario continues to stalk the Mediterranean Aframax market. Suezmax rates finally broke the ws 85 recent ceiling, with a tighter tonnage list and a concentration of stems needing to be covered, 140,000mt x ws 90 has been paid multiple times for European destinations. The party now looks over, and with prompt tonnage coming into play next week, rates should once again ease off.

Caribbean

The Caribbean Aframax scene started off as the previous week had ended, slow with Owners seeing the position list looking longer by the day. Then Charterers lit the blue touch paper and quickly Owners were able to start their recovery against a prolonged flow of interest. Last done levels have jumped to around 70,000mt x ws 117.5 for Caribs/Up coast, although, this market could quickly destabilise if Charterers let things die down. VLCC availability for September looks balanced throughout the month and Charterers with US Gulf barrels have been able to secure positions prior to any Caribbean activity. A similar theme that resonates throughout the VLCC market this week, is that we again see levels move healthily upwards with last done from US Gulf to South Korea at $4.85 million and a projected level around $3.5 million for Caribs to West Coast India with loadport costs for Charterers account.

North Sea

The North Sea and Baltic markets looked like they may be reasonably stable as the week commenced, tonnage a little over supplied but the optimist could find cause to predict a shallow downward curve, rather than the route that seems to have taken hold, as the week draws to a close. Baltic rates on Monday were still holding 100,000mt x ws 100, a little attrition was anticipated, but it appears Charterers sensed there was no fundamental support. This is market that has performed poorly all year and the floor seems never more than a few days of inactivity away. And so it is, as the market shed ws 5 points with every passing trade to a conclusion, we see Baltic/UKCont at 100,000mt x ws 75 and 80,000mt x ws 100 for X-UKCont. Chinese North Sea VLCC interest has spiked with levels for Far Eastern destinations moving to $4.2 million from Hound Point with fuel oil rates not as active but, it is projected that $3.2 million should be achievable from Rotterdam to Singapore.



Clean Products

East

Not an overly busy week for the MRs, causing rates to continue to slide. WS 7.5 points have been taken off TC12 to ws 140 since Monday and similarly EAF has softened to ws 170, but with few being seen this week, Owners are keen to undercut last done in order to avoid sitting prompt. Short haul has come off during the week and sits around the $175k levels. Gizan has not escaped the slow market and corrected to $425k but, could be further tested early next week. After a low redelivery number to Argentina was used as leverage, the UKCont number has been pushed down to $1.265 million. Overall the lack of activity hasn't managed to clear the prompt tonnage which after a rather quiet week, will only continue to build come Monday which, added to the fact that there are public holidays in Singapore next week suggests the soft sentiment will remain in place.

LR2s started the week very positively and rates were being pushed by Owners. But, by mid-week activity was down to a crawl and LR1 weakness has hit sentiment and rates have fallen back. 75,000mt naphtha AGulf/Japan is now ws 101 and 90,000mt jet steady at $1.95 million but both may have to see a discount next week. LR1s have seen a steady start but a very quiet end with rates falling fast. 55,000mt naphtha AGulf/Japan is now ws 105 and 65,000mt jet AGulf/UKCont down to $1.49 million. These rates could also see more of a decline unless we see a really busy start next week, even then a lot of tonnage is prompt and will take time to clear.

Mediterranean

A tale of two halves comes to mind when summing up the Handies during week 31, with most Owners comfortable at the start of the week with the general sentiment feeling balanced. Prompt tonnage was available but, nowhere near as much as previous weeks and a healthy cargo list meant rates continued to hold at the 30 x ws 125 mark. The middle of the week saw a discharge/reload on subs at 30 x ws 120 which had a knock on effect on X-Med and at the time of writing, 30 x ws 122.5 seems to be the going rate, with rates likely to soften due to a slight softening seen on Friday morning in the Black Sea market. 30 x ws 130 is on subs a few times for Black Sea/Med cargoes due to a wealth of tonnage available and Owners will remain on the back foot come Monday, with tonnage opening up over the weekend. The market remains pressured as we move into week 32.

A slow week on the MR front with rates by and large tracking action up in NWE. Yearly lows of 37 x ws 100 continue to be seen for Med-transatlantic runs and a fresh test was seen on Thursday for a Med-Brazil market quote which is currently on subs at 37 x ws 115. Enquiry has been almost non-existent; however, Owners have continually been on the back foot with tonnage well supplied at the front end of the list. Unless we see the UKCont market improve, expect the doom and gloom to continue for the foreseeable future.

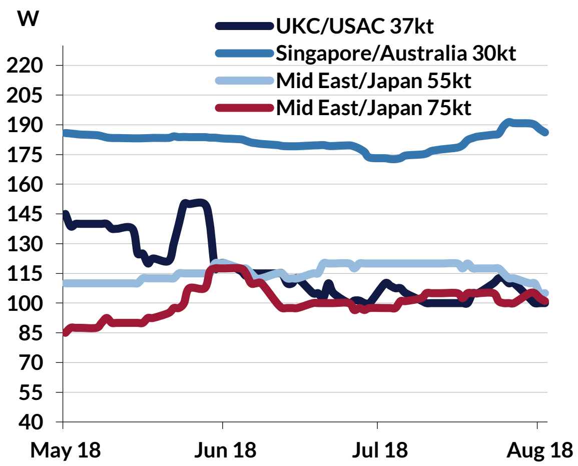
UK Continent

Not the most thrilling week for MRs up on the continent, as the sheer oversupply of tonnage remains a thorn in the side for the owning fraternity. If you look back, a healthy amount of transatlantic cargoes were fixed at the start of the week but, as TC2 enquiry slowed towards the back end of the week , WAF enquiry picked up a little to keep the market ticking over. TC2 seems to have hit the bottom now at 37 x ws 100 as Owners (with last 3 CPP history) resisted to break the three digit psychological barrier and even though the tonnage list is in a better place, don't expect freight to move mountains next week. The USGulf market continues to bottom feed and USAC units now have a dilemma on their hands, to either to ballast down to the Gulf or ballast across to Europe. Both options aren't attractive but believe we will see a 50/50 split due to different Owners having different agendas/programmes which will see the list rebuffed both sides of the Atlantic for the next fixing window. Unless enquiry improves don't expect any fireworks here.

A frustrating week for Handies plying their trade up on the continent as the combination of prompt units and a quieter Baltic programme has seen levels soften this week with Baltic liftings slipping down to 30 x ws 130 and 30 x ws 120 for X-UKCont respectively. The list did look in good shape, at the midweek point but, a number of failures across the board due to some cargoes going on bigger units, saw pressure mount on Owners. The short term outlook remains rather bleak and with supply heavily outweighing demand Charterers are expected to remain firmly in the driving seat.

Finally, to the Flexies, where a quiet week has seen little market activity throughout, with the occasional COA enquiry keeping units ticking over. For the moment, this market continues to track the Handies, and can expect little volatility whilst things remain damp on bigger sizes.

Clean Product Tanker Spot Rates



Dirty Products

Handy

Owners in the north will likely be heading into the weekend keen to make week 31 a distant memory, as a minimal amount of enquiry was sustained throughout. Levels seemed to be holding around the ws 160 mark but with fresh opportunity lacking, ws 150 levels continued to loom. A couple of boats were placed on subs as the week drew to a close but options still remain readily available for Charterers. Owners will be keen for a busy start next week to help try and stabilise the region.

A hectic start to the week in the Mediterranean, mainly driven by Black Sea enquiry, as rates fell just short of hitting the ws 200 mark. It seemed these levels may have just made Charterers apply the brakes, with fresh opportunity seeming to dry up rather quickly. Hitting the midweek stage workable tonnage started to noticeably appear again, as the next test will inevitably see a negative correction early next week.

MR

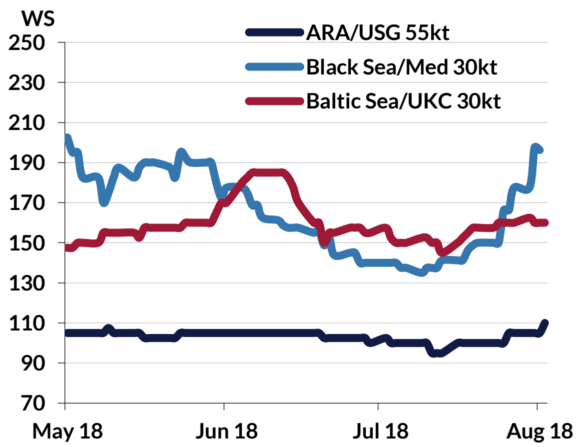
Commencing week 31, Charterers were presented with a healthy choice of units naturally placed in the north which, may have had the Owners in question looking over their shoulders. A couple 40-45kt stems quickly provided some reprieve, coupled with one Owner deciding to ballast two vessels to the Mediterranean, quickly changed the sentiment. Similar to Handies, chances for employment were few and far between with a keen eye on the fresh position list come Monday morning.

Owners in the Mediterranean were pleased with Black Sea volumes providing the chance to elevate current levels although it could be argued that much of this was attributable to a Handymax market, rising sharply and offering a better TCE than what a full 45kt had up until this point been paying. . Furthermore, with East Mediterranean positions looking on the thin side when full stems did present Owners managed to gain some ground with ws 130 being achieved and repeated thereafter.

Panamax

An injection of liquidity has allowed Owners to put their foot on the accelerator pedal this week, where pretty much every natural position managed to gain employment. Steadily, after the first few deals had been booked, what started as a jump from ws 105 to 107.5, the week's trading now peaks at ws 115. Looking ahead, this sector now also shows a positive platform from which Owners can enjoy a spell of positivity as where Charterers will now need to bring ballast tonnage into position when covering a Europe/transatlantic requirement. For this reason, Owners will have the upper hand when determining the cost factor of a deal, as this will be key to deciding whether or not to send ships this way.

Dirty Product Tanker Spot Rates



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	August 02nd	July 26th	Last Month	FFA Q3
TD3C	VLCC	AG-China	**+3**	54	52	57	55
TD20	Suezmax	WAF-UKC	**+0**	71	70	73	70
TD7	Aframax	N.Sea-UKC	**-21**	105	126	106	102

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

			wk on wk change	August 02nd	July 26th	Last Month	FFA Q3
TD3C	VLCC	AG-China	**+1,750**	14,750	13,000	17,500	15,750
TD20	Suezmax	WAF-UKC	**+750**	11,500	10,750	12,500	11,250
TD7	Aframax	N.Sea-UKC	**-12,250**	7,250	19,500	7,250	5,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	August 02nd	July 26th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+1**	101	100	100	
TC2	MR - west	UKC-USAC	**-11**	100	111	102	117
TC5	LR1	AG-Japan	**-7**	108	114	120	112
TC7	MR - east	Singapore-EC Aus	**-5**	186	191	179	

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

			wk on wk change	August 02nd	July 26th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+0**	6,750	6,750	6,750	
TC2	MR - west	UKC-USAC	**-1,500**	1,500	3,000	2,000	4,250
TC5	LR1	AG-Japan	**-1,500**	5,500	7,000	8,000	6,500
TC7	MR - east	Singapore-EC Aus	**-1,000**	10,500	11,500	10,500	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**-11**	419	430	413
ClearView Bunker Price (Fujairah 380 HSFO)	**+9**	460	451	454
ClearView Bunker Price (Singapore 380 HSFO)	**+2**	470	468	439
ClearView Bunker Price (Rotterdam LSMGO)	**-24**	605	629	615

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