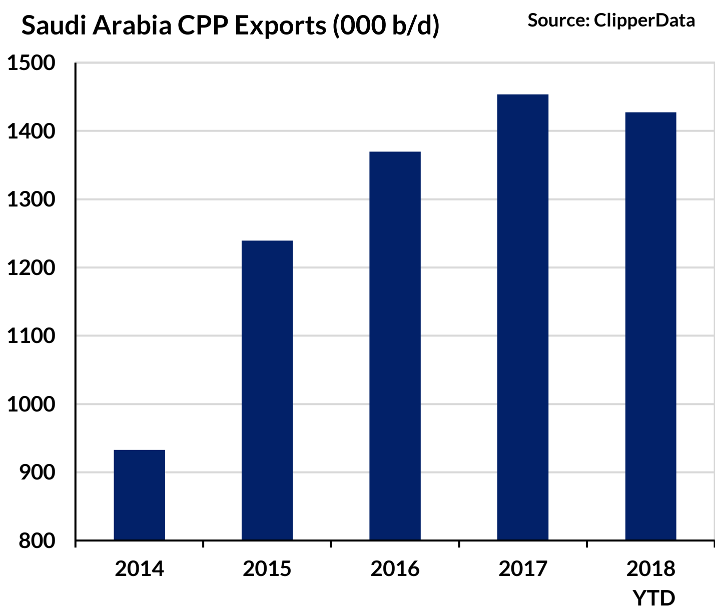
Jazan edges closer

Weekly Tanker Market Report

2018 has been a horrible year for product tanker owners, with sale and leasebacks being necessary for many to provide a financial bridge to better times. Many are pinning their hopes on 2020; which, as we have written in the past is expected to be supportive for product tankers. However, many are also hoping that new refinery developments will offer a further boost to tonne mile demand, similar to what was seen from 2014-2016. However, often such projects are subject to delays and operational setbacks during the commissioning phase, whilst not all new capacity additions are dedicated to export demand.

Aside from repairs to the Ruwais refinery, the next major project to influence the clean tanker market is expected to be the start-up of Aramco's Jazan refinery in the Red Sea. Little information has emerged in recent months in terms of the anticipated commissioning date but most information points to sometime before the end of 2018, with the plant reaching nameplate capacity of 400,000 b/d later in 2019. Originally the plant was schedule come online in 2016.



Most have talked positively about the refinery, although several factors need to be considered. So far for 2018, Saudi Arabia has moved approximately 450,000 b/d of refined products into and along its Red Sea coast. Indeed, much of the Saudi Red Sea imports and cabotage trade originates from Jubail, Rabigh and Yanbu. In fact, about three quarters (300,000 b/d) of Saudi Red Sea offtake originates from other Saudi refineries. The commissioning of Jazan is likely to alter these trade flows. Imports into Jazan from both domestic and overseas sources have run close to 100,000 b/d for the year to date, so these flows can be expected to dry up as the plant reaches capacity.

Of course, some intra-Saudi trade is expected to remain once Jazan comes online. Other ports such as Jeddah will remain import dependent, whilst movements to other demand centres will come down to seasonal fluctuations in domestic demand, maintenance programmes and international trading opportunities. And even if Jazan focuses predominately on domestic demand, 400,000 b/d of additional supply should support incremental export opportunities from other Saudi refineries. Logically, these developments would suggest less demand for cabotage trade from the Middle East Gulf into the Red Sea, meaning potentially more volumes becoming available for export to longer haul destinations, particularly when higher demand for low sulphur fuels materialises in 2020. Equally, Saudi oil products demand is projected to grow only modestly in 2019 by around 90,000 b/d, suggesting the Kingdom will be able to use its incremental refining capacity additions to boost exports, even if it doesn't directly come from Jazan itself.

On balance, even if some cabotage demand is lost, product tankers are expected to benefit from higher export demand, particularly when other regional developments are considered, and provided no other delays, or the war in Yemen influences the completion schedule.

Crude Oil

Middle East

Broadly disappointing for VLCC Owners this week as Charterers reacted to last week's upswing, with a more measured introduction of fresh business and also took advantage of the sizeable discounts on offer from older units too. Now, we are well into the final phase of the August programme and rates have re-set to a lower ws 50 level to the Far East for modern units with older vessels at around ws 45 and runs to the West marked back into the low ws 20's. Availability looks quite reasonable, and it will be tough for the market to make a positive u-turn next week.

Suezmaxes also deflated on very modest interest, and easy supply. Rates slipped to ws 65 to the East and to ws 27 to the West with similar levels forecast over the near term, at least. Aframaxes held at just above 80,000mt by ws 100 to Singapore but there has been solid activity from the Red Sea and there is a chance of something slightly better to come over the next period.

West Africa

Suezmax quietened and Owners held on for grim life at bottom scraping marks of ws 60 USGulf, and no better than ws 65 to Europe as eastern ballasters further supplemented a thick tonnage list. It may, perhaps, get busier next week, but there's a lot of pruning needed to engender any new rate-growth. VLCCs found occasional demand but Owners had to re-calibrate in line with softening AGulf numbers and rates eased back to the very low ws 50's to the Far East accordingly, and to $2.2 million from Angola to West Coast India. Any turnaround, or change, from that will be dictated by Middle Eastern fortunes.

Mediterranean

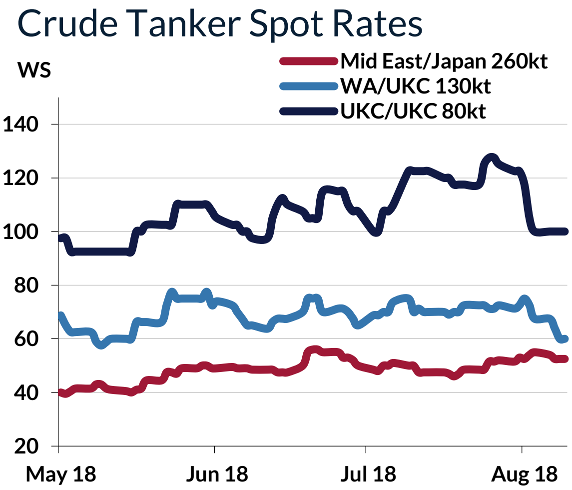
Aframaxes fell off sharply but gradually enough bargain hunting ensued to then re-tighten lists and send rates back upon an upward path once again - the current waypoint being marked at 80,000mt by ws 100 X-Med and there is now an anticipation that the market could improve noticeably upon that over the coming week. Suezmaxes, on the other hand, are presently moving gently in the other direction as lack of delay, modest demand, easy supply, and no back support from West Africa, combine to pressure rates from the Black Sea to 140,000mt by ws 77.5 for European destinations with $2.7 million available for runs to China. The trend looks progressive for now.

Caribbean

Aframaxes slipped and slid through the week as the supply/demand balance tipped further in Charterer's favour. 70,000mt by ws 100 upcoast now, and further deterioration on the cards unless a busy spell of bargain hunting quickly develops. VLCCs largely sat on their hands over the period as cargoes dried up. Next week should see fresh programmes emerge but rates will have softened off to around $3.8 million from USGulf to Singapore, and to around $3.3 million from the Caribs to West Coast India, when they do.

North Sea

Unlike in the Med, Aframaxes here look rather stagnant and need a lot more enquiry to jolt them out of their present rut. 80,000mt by ws 95 X-UKCont, and 100,000mt by ws 65 from the Baltic is the thin rate-ration for now, and likely over the coming week too. VLCCs saw very little solid enquiry but $4.15 million was seen for a crude oil movement loading STS Southwold to South Korea, and Owners ideas for fuel oil from Rotterdam to Singapore held in the low $3 million zone, though few Charterers could make the trade work.



Clean Products

East

A very disappointing week for the MR Owners in the East. Rates have been negatively tested and, with a less than generous supply of fresh cargoes, tonnage off early dates has remained long. EAF took a sharp drop to 35 x ws 130. Likewise, TC12 corrected to 35 x ws 130. With the UKCont relativity untested, $1.2 million could be the next done level; however, this needs a fresh test. With the building tonnage list, short haul cargoes felt the pressure. X-AGulf is at $145k and cargoes into the Red Sea sit at $375k. Owners will be hoping for a strong supply of fresh cargoes early next week to try and hold this soft sentiment from getting worse.

LR1s have remained surprisingly busy this week and yet rates have fallen sharply. Lists remain too long and sentiment is making Owners worry. 55,000mt naphtha AGulf/Japan is now ws 97.5 (below LR2s!) and 65,000mt jet AGulf/UKCont is down to $1.425 million. LR2s are quieter and there is a fair amount of early tonnage; yet, somehow Owners have kept any downward turn to a minimum, perhaps as the tonnage is split over fewer Owners. 75,000mt naphtha AGulf/Japan is steady at ws 101.5 and 90,000mt jet has so far stuck at $1.95 million. LR2s may eventually have to see more pain before things can improve though.

Mediterranean

A rather placid week 32 comes to a close in the Mediterranean, where repeating last done has been the sentiment throughout. As Monday arrived, with Black Sea liftings settled at 30 x ws 130, it was only a matter of time until the X-Med rates slipped from the ws 125. By Tuesday the ws 10 point gap between the 2 movements arrived. Since then, a status quo seems to have been met, with Charterers and Owners alike content at repeating these rates, despite a hefty tonnage list weighing heavily on Owners' aspirations. With little to see on the horizon, as to why this market should change, we expect next week to be a repeat of this one.

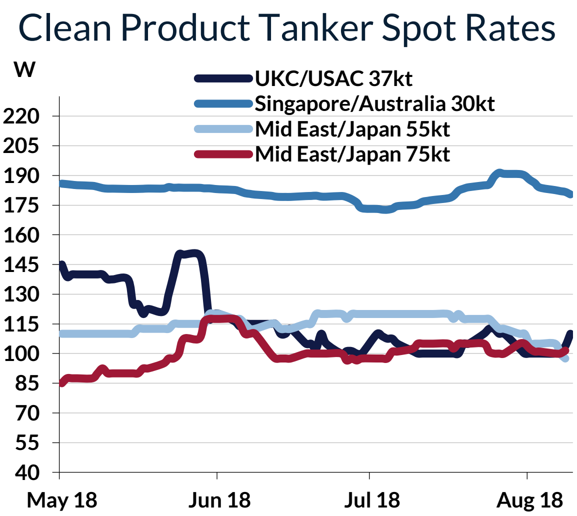
MRs started predictably mirroring UKCont numbers as 37 x ws 100 was seen a few times being fixed for transatlantic movements. Yet, as Owners grip improved in the Continent, rate ideas also did. Unfortunately, for Owners in the Mediterranean, at the moment the enquiry levels remain slow, giving little opportunity to actually test the market strength here. Owners will look to copy rates achieved on the UKCont but will have to bide their time for the opportunities to do so.

UK Continent

Good levels of activity throughout the week has finally seen some Owners being able to capitalize on the momentum they have built and push the market up. With good demand being seen transatlantic and the odd system cargo being seen down to WAF, Owners were able to make incremental gains on freight. The front end of the tonnage has tightened significantly and, with exposure still to cover pre 16-17th window, at the time of writing 37 x ws 122.5 was paid at the end of the week on TC2. The market now remains finely balanced, as these levels will now catch the attention of ballast units from the States, who will now set sail to Europe to try to join the party. In a nutshell, cargoes on the prompt side will continue to see bullish fixing ideas from Owners; however, as dates move into the next fixing window, which will be 18-20th, come Monday, more options appear. Owners will be looking to continue momentum they have built and there is definitely a chance to push on the prompt side; however, it will be interesting to see if once again ballasters halt the momentum for the next fixing window.

A rather frustrating week for Handies up in the north, as the combination of sluggish enquiry and a tonnage list plagued with prompt units saw levels softening further. The Baltic market has suffered due to the fact we have seen good LR demand, which has effectively cleared out the majority of the Handy cargoes for the short term, resulting in levels falling to 30 x 125. X-UKCont had a busier end to the week; however, with supply heavily outweighing demand, rates traded around the 30 x ws 115 mark. Looking ahead, there has been resistance from Owners to hold the line at current levels, which now should see rates hug the floor until the prompt vessels are cleared.

Once again, no fireworks where expected or seen in the Flexi market this week, with very little spot action to actually report. Tonnage is now beginning to build and with the softening seen on the Handies, Flexis are trading around the 22 x ws 155 mark for X-UKCont.



Dirty Products

Handy

A sluggish week for fresh enquiry in the continent. As a result, Owners have been on the back foot, as the region has been tested. To Owners' credit, there was resistance to do less than last done from all in the region but, as the week wore resilience down, gradual softening was seen by the end of the week.

This week started with negative correction from the Black Sea, which then attracted a handful of other Charterers into the market. This quickly halted any further downward trend on this run. The week saw repetition at 30 x ws 187.5 but, as a couple of Owners failed to get their subjects by the end of the week, a couple of units remain prompt.

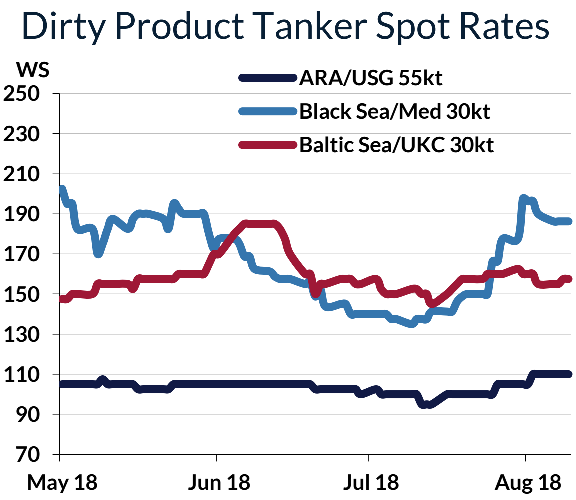
MR

Overall a quiet week in the continent, unsurprisingly, considering Charterers options were pretty much limited for the majority of this week. Nevertheless, we did witness a couple of tests from the region, which at least provided a benchmark. West Mediterranean units may be starting to turn their heads northwards, as Charterers will be hoping the weekend break may improve tonnage selection in week 33.

A week of two halves for Owners in the Mediterranean. Early on, we witnessed Black Sea enquiry flow into the market, providing a healthy amount of opportunity. Owners would have had a spring in their step but, unfortunately, a few failings put a sudden halt to the momentum being gained. A quiet finish may see ws 130 levels from the Black Sea take a slight dip early next week.

Panamax

Considering the lack of natural units from our side of the pond, it did not come as a surprise to see Charterers holding off, with only a couple of vessels lurking for the chance at testing this market. As the week progressed, a couple of failings saw some reprieve for Charterers in the Mediterranean. In the north ws 110 was briefly witnessed but, with a few Owners starting to get itchy feet, a fresh benchmark next week should be expected.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	August 09th	August 02nd	Last Month	FFA Q3
TD3C	VLCC	AG-China	**-2**	53	54	50	52
TD20	Suezmax	WAF-UKC	**-6**	64	71	72	69
TD7	Aframax	N.Sea-UKC	**-6**	100	105	110	102

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

			wk on wk change	August 09th	August 02nd	Last Month	FFA Q3
TD3C	VLCC	AG-China	**-1,250**	13,500	14,750	11,250	13,000
TD20	Suezmax	WAF-UKC	**-3,000**	8,500	11,500	11,000	10,500
TD7	Aframax	N.Sea-UKC	**-3,750**	3,500	7,250	9,000	5,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	August 09th	August 02nd	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-1**	100	101	101	
TC2	MR - west	UKC-USAC	**+6**	106	100	108	118
TC5	LR1	AG-Japan	**-12**	96	108	120	104
TC7	MR - east	Singapore-EC Aus	**-4**	182	186	173	

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

			wk on wk change	August 09th	August 02nd	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-250**	6,500	6,750	6,500	
TC2	MR - west	UKC-USAC	**+750**	2,250	1,500	2,000	4,250
TC5	LR1	AG-Japan	**-2,000**	3,500	5,500	7,750	5,000
TC7	MR - east	Singapore-EC Aus	**-750**	9,750	10,500	8,750	

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

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ClearView Bunker Price (Fujairah 380 HSFO)	**-1**	459	460	465
ClearView Bunker Price (Singapore 380 HSFO)	**+1**	471	470	465
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