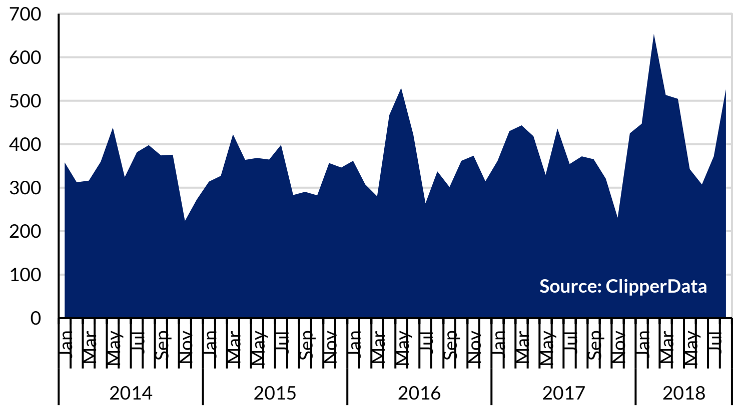
What Matters for Tanker Flows

Weekly Tanker Market Report

In the tanker market, there are many factors not directly related to shipping but which could still have a major impact on shaping up both crude and product tanker flows. The prime example of that is the US shale oil revolution. The resulting surge in US crude production not only enabled a spectacular growth in short and long haul crude tanker trade but also supported an ongoing strength in seaborne exports of US clean products. Large scale pipeline infrastructure projects would be another good example. In Russia, a successful completion of the 1st stage of the East Siberia Pacific Ocean (ESPO) pipeline, including the link into China mainland, limited the export flow of Russian crude from the Baltic and Black Sea ports but at the same time boosted demand for Aframax tonnage in the Far East. Once the 2nd stage of the ESPO line is completed, due in 2020, this will translate into even more barrels being exported from the Russian port of Kozmino, located on the coast of the Sea of Japan. In contrast, a looming pipeline crunch in the US from the Permian basin to the US Gulf threatens to slow the growth in US crude exports in the short term. However, several pipeline projects are scheduled for completion in late 2019/early 2020; which, once online, are likely to offer a big boost to crude tanker trade out of the US.

Changes in regional refining capacity is also a critical factor that should never be ignored. In the Middle East, Saudi Aramco aims to start its new 400,000 b/d Jizan refinery later this year, while in Kuwait a new 615,000 b/d Al-Zour plant is pencilled to come online in 2020. Once these projects are fully operational, product exports are expected to increase substantially, as they did back in 2015/16 when a number of new regional refineries came online. This, however, also poses a threat to the Middle East crude exports, if barrels are diverted from export markets into domestic refineries. Will this be the case? Refining capacity in Asia continues to grow, supporting incremental demand for crude both from the Middle East and from further afield. We also are seeing a trend of national oil companies (NOCs) looking at refining projects in other countries, trying to secure the market for their crude. Earlier this week, Reuters reported that Saudi Aramco plans to deliver in October the 1st crude oil cargo to its joint-refinery project (RAPID) with Petronas in Malaysia. RAPID will contain a 300,000 b/d refinery and a petrochemical complex, with refinery operations set to begin next year. According to the same source, Aramco will supply 50% of the refinery crude oil, with the option of increasing it to 70%. As the Middle East oil companies build their presence in the downstream sector overseas, this suggests that the negative impact on the regional crude exports, following new refinery start-ups, could be limited.

CPP Imports: Nigeria (000 b/d)



In contrast, the future trade dynamics are likely to be very different in West Africa, following the start-up of the massive 650,000 b/d Dangote Oil refinery in Nigeria. The refinery is officially planned to start operations in 2020; however, the latest Reuters report indicates that the project could be delayed until 2022. Once the refinery comes online, it will have double negative implications for the tanker market. Crude exports are likely to come under downward pressure and, as Nigeria is a large importer of products, these are also likely to decline.

Of all the factors described above, the new refinery in West Africa represents perhaps the biggest threat to tanker trade. Nonetheless, as US crude exports are expected to continue to grow in the medium term, this will help to mitigate the threat to dirty trade, and possibly offset it completely. West African product flows are still likely to change dramatically. However, if the Dangote Oil refinery proves to be a success, could we also witness a change in direction of the trade, with the surplus of Nigerian products being exported both regionally and across the Atlantic?

Crude Oil

Middle East

VLCC Charterers do their utmost to hold off showing their last decade positions here and, with this apathetic attitude, rates have drifted off a little against a gradual build-up of tonnage available for the remainder of the month, which is also likely to suppress any potential optimism going into the last quarter of the year. Last done levels are 270,000mt x ws 52 for a generic AGulf/China run and 280,000mt x ws 18.5 via Suez for a voyage to the USGulf. The MEG has simply been suffocated by exceedingly long Suezmax tonnage supply. Even a spurt of late week Basrah cargoes could not lift the current levels of 140,000mt x ws 27.5 to the West and no less than 130,000mt x ws 80 East. Next week, will see October dates worked; however, with tonnage still long on supply, more of the same is expected. Fresh tests at the start of this week in the AGulf highlighted the change in the Aframax landscape. Two quiet previous weeks passed, resulting in a build-up of tonnage. Consequently, when Charterers entered the market this week, the axe on the rates came down. AGulf to Red Sea rates dropped from $900k (last done) to $600k, whilst AGulf-East rates dropped down to 80,000mt x ws 107.5-110 levels.

West Africa

The week started with Suezmax Owners in a bullish mood but this was purely sentiment driven. The majority of fixtures concluded this week have been at 130,000mt x ws 72.5 to Europe. The week has ended on a slightly firmer note West at ws 75 to Europe but, levels to the East have now softened to 130,000mt x ws 82.5. Limited interest throughout the week, combined with the faltering AGulf market, ensures Owners here are facing an uphill task in securing last done levels. Some consolation and potential ray of hope is that the USGulf market remains healthy enough to provide a viable alternative to any Owner committed to coming West. Last done is 260,000mt x ws 54 to the East.

Mediterranean

With a couple of low fixtures concluded last Friday, put the cat amongst the pigeons in the Mediterranean Aframax market this week. Although most Owners could see reasons for the low fixtures being achieved and to be otherwise positive, it was hard for them not to discount follow-up fixtures from the previous highs. Consequently, vanilla Ceyhan/Med voyage rates slipped down to 80,000mt x ws 117.5 over the course of the week and a low of ws 115 was concluded for a CPC/Med voyage. Libya voyages achieved small premiums but, otherwise, rates remained pretty stable at the end of the week despite some heavy fixing. Suezmax tonnage has been in good supply this week and, in turn, levels have eased off to 140,000mt x ws 82.5 from Black Sea to European destinations and $2.85 million East.

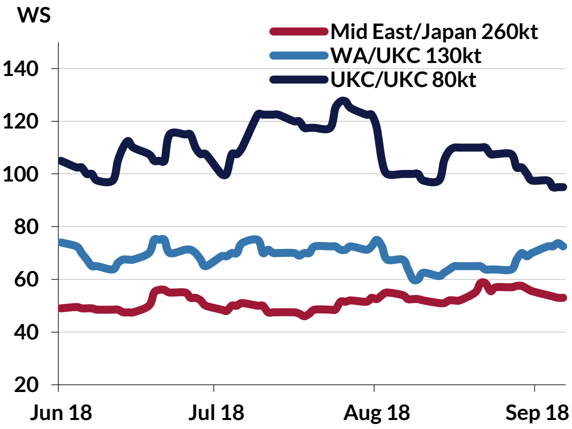
Caribbean

With storm Gordon flexing his muscles in the area, Aframax positions have become few and far between, giving Owners with a firm position the opportunity to secure some healthy premiums. Last done up coast is 70,000mt x ws 167.5, with there being every opportunity that further premiums to be achieved. In contrast, the VLCC market remains somewhat deflated, with limited interest from the USGulf region and even less from the Caribbean. Levels may well come off from last done, which stands at $5.3 million from the USGulf to the Far East and $3.65 million to West Coast India.

North Sea

A week to forget for Northern Owners, as the perfect storm left vessels high and dry. Maintenance, an oversupply of vessels and a warm Med market has caused Owners to consider their options. At current levels, when looking at a general X-North Sea cargo, the returns are close to zero and, with vessels opening up short in the Baltic, Cont Owners are unable to compete. The Med market has attracted a number of ballasters, who will take what returns that they can get. The September outlook remains low but, looking ahead, Owners can hope for an uptick after the maintenance period is completed. VLCC interest keeps to its barest minimum here, expect levels to slightly come off in line with other load areas, which are also suffering. Expect levels around the mid $4 million mark for a Hound Point/South Korea run and roughly $3.4 million for a fuel Rotterdam/Singapore run.

Crude Tanker Spot Rates



Clean Products

East

A relatively balanced week for the smaller tonnage in the Middle East. Now that the front end has been addressed, there was less chance of further softening of rates but, after weeks of being battered down on rates, Owners had little fight left to push rates where possible. Therefore, it has been much of the same. Shorthauls have sat at the $30k. A $10k increase has been seen on slightly longer runs but nothing more spectacular than that. Red Sea runs have also stayed at $325k into Gizan. We think the Red Sea is no bad place to discharge currently, given how thin available tonnage is. EAF has not budged from 35 x ws 115, dates 'mysteriously' moved on the ws 117.5 seen on subs and the ship is back on subs elsewhere at ws 115. Westbound cargoes have remained at $1.05 million UKCont. LR2s have been busy, so more likely to see distillates go West on the LR2s but, last done levels still tempting enough for Owners on the few Westbound cargoes tested. TC12 again has been unpopular for the same reasons as the distillates west, 35 x ws 117.5 remains the market level (returns are pretty weak on this run still; it remains a relocation exercise for those Owners who are keen). The list looks balanced going into the new week, a busy start could make things interesting. The sentiment remains flat for now.

LR1s had a busy start but by mid-week, there was very little new business quoting and rates have now started to dip. 55,000mt naphtha had risen to ws 107.5 but now resides back down at ws105. 65,000mt jet AGulf/UKCont again had looked like $1.50 million was the rate, yet, by yesterday was back down again at $1.425 million. LR2s have also had a hard week, although there is better activity at the end of the week. Rates have fallen, regardless, with 75,000mt naphtha AGulf/Japan now down at ws 95 and 90,000mt jet AGulf/UKCont hovering just below $1.90 million. LR1 lists are long but LR2 lists are healthier but just need more volume. The last decade looks likely to be busier though, so next week should see markets stabilise.

Mediterranean

The sentiment at the beginning of week 36 was far from positive, with a plethora of prompt tonnage available across the board, which kept Owners on the back foot. The majority of X-Med action was traded at 30 x ws 115, with a dip in rates seen for certain cargoes. However, Owners held their ground and were reluctant to repeat this number. Black Sea rates continued to trade at the ws +10 point premium at 30 x ws 125; however, enquiry continued its sluggish pace, which has been the case throughout the Summer and has meant tonnage has continued to build. Moving into the middle of the week saw a market quote on subs for 30 x ws 112.5 (albeit on an older vessel) and this number was not repeated, with prompt tonnage beginning to be cleared away. At the time of writing, for naphtha and jet cargoes (especially around WMed) the list looks tighter and the market more balanced. However, sentiment is far from positive. Owners will hope to build on this as we move into week 37.

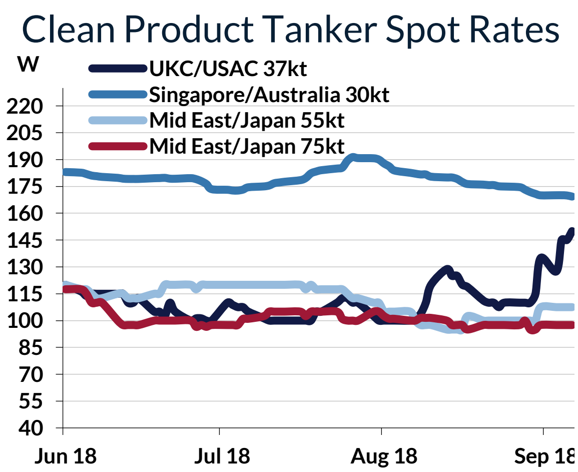
The MR market in the Med this week has been slow, with a severe lack of cargoes available. The UKCont market has seen good improvements on TC2 rates and at the time of writing is trading around the 37 x ws 150 mark. It is likely that Med-transatlantic rates will be trading at a similar level; however, without cargoes it is difficult to put a finger on where the market truly lies, although recently numbers on offer ex Med have been lower than in NWE. Eyes will be now trained eagerly for next week to see if the numbers off UKCont can be maintained and then how that will align Owners with exposure in the Med.

UK Continent

The positivity that was creeping into the NWE MR market at the end of last week certainly continued in week 36, much to the delight of Owners. Both TC2 and WAF arbs seemed to be working simultaneously, meaning the outstanding cargo list was lengthy from the onset and, with tonnage relatively tight from the previous week's action, Owners could afford to be bullish and achieve the desired results. TC2 has firmed ws 20 points for 37 x ws 150 by Thursday evening/Friday lunchtime and WAF has followed suit, now trading at 37 x ws 160. Short haul routes, although a little quiet, still track TC2 levels. The market has firmed rapidly this week (by ws 5-10 pints at a time) and, whilst Owners will revel in this, fresh cargo enquiry has slowed considerably towards the end of the week and the next fixing window looks to be when tonnage is more readily available. WAF demand is unlikely to be as strong next week and, as a result, we expect a natural correction of rates, even if levels hold for Monday. The USGulf will have some impact of this, with Owners hoping it will stay firm as a result of the Hurricane disruption. There are plenty of 'ifs' and 'buts' right now but crucially, without the same levels of enquiry we have had this week, it feels like we've hit the top for now.

Handy Owners have been able to enjoy some of the benefits of the MR market picking up, with some Charterers looking to take Handies on long haul routes, otherwise destined for MR tonnage. Moreover, there has been good levels of consistent enquiry on the more traditional Baltic/UKCont (30 x ws 140) and X-UKCont (0 x ws 130) routes. There have been a few GO movements down to the Med too 30 x ws 120, which has helped the tonnage list favour the Owners for the majority of the week. Levels on offer should persist for the early part of next week but the challenge here is to maintain these levels, which will ultimately boil down to the pace and intensity of enquiry on Monday and Tuesday, coupled with Owners' ability to sensibly manage what tonnage to push and when.

A slight firming of the Handy marker has meant the Flexi enquiry has picked up (albeit marginally) this week. A few cargoes taking cover and fixing has been a welcome tool for keeping tonnage recycled off the front end of the list; however, rates that have been achieved are about ws 10 points below the pro-rated Handy levels, and ultimately closing the week with ideas around 22 x ws 170. Generally, this market has been otherwise quiet, and, if the Handy market fails to maintain the gains seen this week, then inevitably the Flexis will suffer too.



Dirty Products

Handy

This week kicked off the North West Europe market as predicted. The amount of prompt tonnage in the area was considerable and right from the start showed clearly how this week was going to progress. With little enquiry thereafter for Owners to get their teeth into in the early part of the week, rates continued to be chipped away. This forced rates to drop by ws 15 points and the Baltic/UKCont benchmarks now stand at around ws 150. Overall the lack of oil export from the Baltic is having a knock-on effect. The sentiment for next week does not leave much hope and we should expect the rates to remain under pressure.

The Mediterranean market in general has endured a steady week's trading, although with this said, fixing levels have remained low. On a positive note; however, activity levels were good enough to clear down the bulk of the prompt tonnage in the area and we are now showing first signs of a trimmed position list, specifically in the East-Med area. For now, we trade at what could be described as conference levels of ws 145 Black Sea/med and ws 135 for X-Med trade is being repeated. Elsewhere, the positive Aframax market will certainly support the Handy trend, even though not as a direct consequence. It will only take a small upturn in enquiry from the Black Sea next week to have the knock on effect in the region, leaving Monday's fresh tonnage list key, as to where opportunity lies.

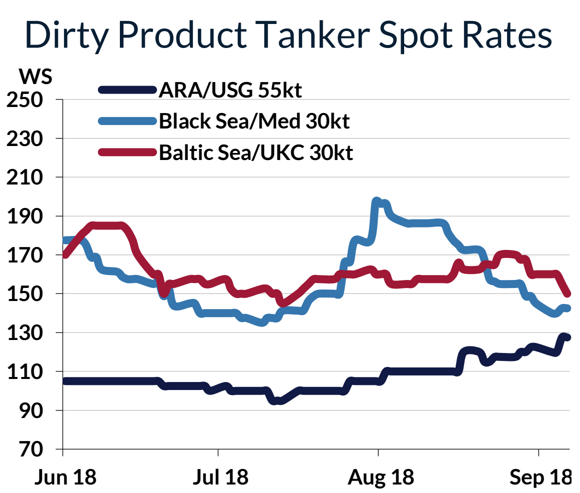
MR

Another week passes in the north, with only a couple of reported fixtures to mention. The reported fixtures are marginally softer than we have seen over previous weeks, which was partly due to a thin position list and partly due to quiet surrounding sectors.

For the majority of this week the MRs have been forced to look at part cargo opportunity in order to keep their fleet ticking over. This has steadily kept the position list ticking over, thrown in with some actual full stem enquiry. The problem for Owners at the moment is the turnaround on these voyages is too short for any momentum to gain potential ground. One thing to note is the firming Panamax sector, which could have a knock on effect where Charterers seek alternative sizes at more competitive $ per tonne.

Panamax

Further changes to the dynamics of this sector have been felt this week, where impact of the weather disruptions from Storm Gordon sent the shipping markets into an upward spiral in the US. In turn, this created a platform from which Owners could build on here in Europe, with a ceiling stretching up until the surrounding Aframaxes provided alternative relief. Furthermore, with such disparity in daily earnings between the US and Europe, it is unlikely that ships will head this way on speculation; that in turn will prevent tonnage stocks from building in the next fixing windows.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	September 06th	August 30th	Last Month	FFA Oct
TD3C	VLCC	AG-China	**-4**	53	56	53	54
TD20	Suezmax	WAF-UKC	**+4**	73	69	64	73
TD7	Aframax	N.Sea-UKC	**-4**	95	100	100	104

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

			wk on wk change	September 06th	August 30th	Last Month	FFA Oct
TD3C	VLCC	AG-China	**-3,500**	12,500	16,000	13,500	13,000
TD20	Suezmax	WAF-UKC	**+2,250**	12,250	10,000	8,500	12,250
TD7	Aframax	N.Sea-UKC	**-3,500**	0	3,500	3,500	5,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	September 06th	August 30th	Last Month	FFA Oct
TC1	LR2	AG-Japan	**+2**	97	95	100	
TC2	MR - west	UKC-USAC	**+35**	148	113	106	132
TC5	LR1	AG-Japan	**+2**	106	104	96	103
TC7	MR - east	Singapore-EC Aus	**-2**	169	171	182	

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

			wk on wk change	September 06th	August 30th	Last Month	FFA Oct
TC1	LR2	AG-Japan	**+250**	4,500	4,250	6,500	
TC2	MR - west	UKC-USAC	**+5,750**	8,750	3,000	2,250	6,000
TC5	LR1	AG-Japan	**+250**	4,750	4,500	3,500	4,000
TC7	MR - east	Singapore-EC Aus	**+0**	8,500	8,500	9,750	

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

	wk on wk change	September 06th	August 30th	Last Month
ClearView Bunker Price (Rotterdam HSFO 380)	**-16**	418	434	424
ClearView Bunker Price (Fujairah 380 HSFO)	**+5**	481	476	459
ClearView Bunker Price (Singapore 380 HSFO)	**-9**	454	463	471
ClearView Bunker Price (Rotterdam LSMGO)	**-1**	656	657	619

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