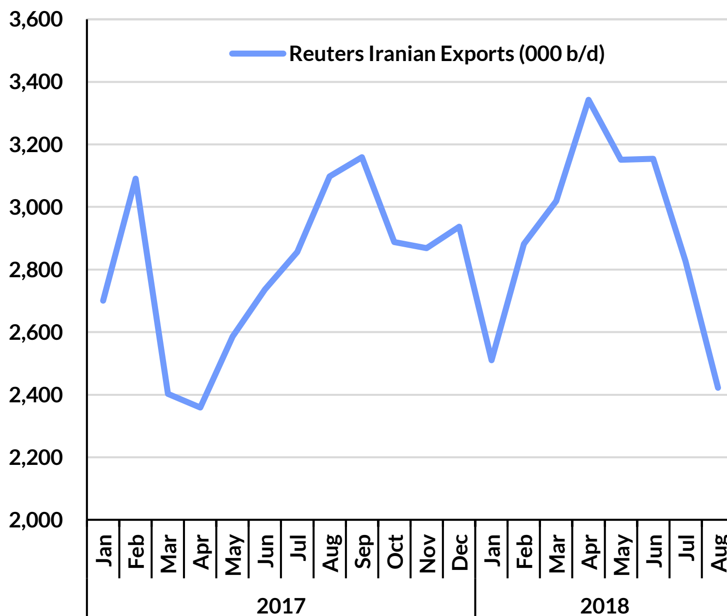
Sanctions Loom Large

Weekly Tanker Market Report

As we move closer to the November 5th re-imposition of sanctions against Iran, the impact is starting to become more noticeable for the tanker market. The IEA reported this week that Iranian crude production had fallen by 150,000 b/d to 3.63 million b/d in August, the lowest since July 2016. Ship tracking data suggests that exports have fallen further, by 400,000-500,000 b/d to around 2.4 million b/d. So, the question really is, by how much and how quickly will Iranian production fall and who is going to replace those lost barrels?

During the last round of sanctions output fell as low as 2.6-2.7 million b/d, with exports generally around the 1.2-1.3 million b/d mark. Whilst it might be reasonable to expect similar levels this time around, Iran may find itself with fewer willing buyers. South Korea has stopped buying all together, with the last cargo imported in July, and appears willing to comply with US demands. Japan and India have also reduced imports in recent months, but have sought waivers from the US, and it looks likely that they will both continue to import at least some volumes of Iranian crude after sanctions are imposed. Reliance Industries and Nayara (formerly Essar) look set to stop purchases altogether but the state owned refiners appear prepared to continue imports.



In Europe, volumes are already easing off as sanctions approach. For the time being, some cargoes are still heading towards Spain, Italy and Turkey. Whilst shipments to the European Union are expected to cease entirely ahead of November 5th; Turkey, which continued to import Iranian crude throughout the last period of sanctions, may continue doing so, particularly when current US-Turkey relations are considered.

By contrast, China may even step up purchases as Iran is forced to offer increasingly attractive discounts, whilst utilising state owned NITC to handle delivery and cargo insurance.

In short, Iran will have less buyers. Even if China takes more, total Iranian exports will have to decline. Replacement barrels from elsewhere will therefore be needed. OPEC production is increasing, having hit a 2018 peak of 32.63 million b/d in August. However, additional volumes are likely to be required to offset the expected decline from Iran. Outside OPEC, the US could of course become a key source of additional supply for the global oil markets, with refiners in Korea, India and Japan already taking more. However, the US cannot shoulder the burden alone whilst also keeping oil prices at an acceptable level. Earlier this week US Energy Secretary Rick Perry met his Saudi and Russian counterparts, reportedly to urge them to guarantee supplies in order to keep prices in check, a key political point for President Trump. For the tanker market, what Saudi Arabia, Russia and the rest of OPEC do is key. Quite simply, if the lost Iranian barrels are compensated by supplies from elsewhere, there will be more demand for the international tanker fleet, as the NITC fleet will not be able to compete for these cargoes.

Crude Oil

Middle East

VLCC Owners will feel a little deflated this week after it offered so much potential, with a good number of cargoes expected to enter the market, but in fact gave very little. Even with this, Owners have been able to slightly strengthen rates to both East and West directions, with last done being 270,000mt x ws 55.5 for a voyage to China and 280,000mt x ws 20 to the USGulf via Suez Canal. There is still a chance that Charterers do in fact have some end month positions to cover and if that is the case, then Owners should be able to secure further premiums over last done. A quieter week for the Suezmax market has seen rates remaining supressed at 140,000mt x ws 27.5 to the West and 130,000mt x ws 80 for Eastern destinations. Next week is expected to be more active but we still have a long tonnage list, which will keep rates unchanged. The outlook on Monday was bleak for Aframaxes in the AGulf, with plentiful good quality tonnage options visible for Charterers and little outstanding enquiry. However, a steady flow of activity has kept rates pretty steady. AGulf-East began the week at 80 x ws 107.5-110 levels but has only slipped to around the 80 x ws105 level as we draw a close to week 37.

West Africa

Suezmax Charterers sat back for the first part of the week in an attempt to soften Owners' sentiment. This proved to be successful, with fixtures being concluded at 130,000mt x ws 70 to Europe towards the end of the week. Rates will not soften further and it needs to be seen how many Owners are willing to repeat this rate next week. Not all doom and gloom for VLCC Owners here, as we see a few cargoes in the market place. Current levels of 260,000mt x ws 55 have been repeated a few times to the Far East but there is potential for further gains, provided the flow of activity continues. Some South American business drew some Eastern ballasters, which ensures availability here looks a little more balanced.

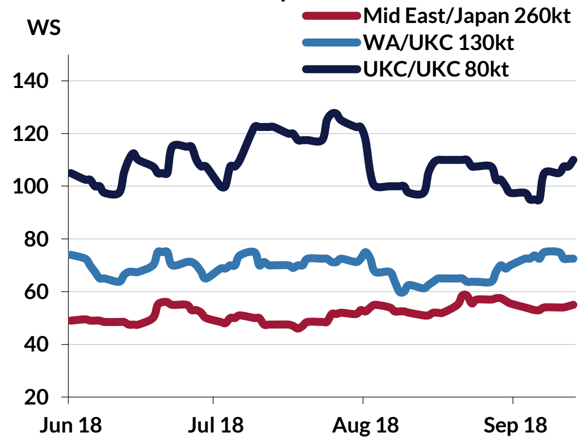
Mediterranean

After the damage was done to Owners at the end of last week, there was an expected rush on Monday to pick up bargains. However, this did not materialise, as Charterers saw a fuller list and decided that further rate erosion was possible. As a result, by the end of the week rates had crumbled further, with 80,000mt x ws 100-105 levels being achieved for Black Sea to Mediterranean voyages. Furthermore, the X-Med market was not lagging far behind, with ws 105-110 levels achieved even for Libya loaders, as the wind really was taken out of Owners' sails. On a more positive note, there has been significant fixing and whilst only a brave person will call an immediate uptick, the worst most probably has passed for Owners and there will be some maintenance of these levels going forward. Suezmaxes have been active this week and rates slightly pushed up, with 140,000mt x ws 83.75 being paid from Black Sea to European destinations and $3.1 million to Ningbo. The week ends with cargoes remaining uncovered, with potential for higher to be paid next week.

Caribbean

Aframax Owners are struggling to hold on to their recent gains achieved here, as potential weather warnings subside, freeing up a number of earlier ships. This being said, last done levels remain respectable, with last done being 70,000mt x ws 147.5 for a generic up coast run. VLCC interest hasn't really sparked into life as yet, albeit a few USGulf cargoes taking centre stage. Rates inevitably took an initial hit, with last done from USGulf

to South Korea fixing at $5.0 million and a voyage from Caribs to West Coast India should be expected to command a rate of around $3.5 million, with load port costs for Charterer's account. With a number of ships still waiting for their discharge programme to be finalised, this should enable other Owners to capitalise and push for stronger levels.



North Sea

A welcome rally clawed back some optimism as the week commenced for the North Sea Aframaxes. The recovery, although not spectacular, is perhaps a good omen as the season turns. However, by mid-week it appeared to stall as last done rates were repeated at 80,000mt x ws 107.5 and no further gains made. Owners, clearly lacking in confidence that the market was capable of removing the overhang from last week, sort a shotgun wedding, with the most eligible suiter instead; not time to play hard to get yet, it seems. It's not a very firm market. However, it is beginning to perhaps exhibit some resilience to quiet periods though, modest gains are realised more quickly and this has been the case over the summer. With the maintenance season tailing off and weather contributing to some uncertainty in tonnage supply, it may become a less predictable market over the next few weeks. VLCC Owners are reliant on crude opportunities here as the fuel oil arb remains effectively 'out of play'. That being said, a few ships have been taken on subs for crude to the Far East, with levels of around $4.5 million being concluded.

Clean Products

East

A relatively flat week for the smaller tonnage in the Middle East. Given how busy the LR1s have been, this can come as little surprise. Most tests of rates have come back at last done levels, reflecting a fairly balanced list and a steady flow of cargoes. Shorthaul has sat very flat at $140k levels, date and grade to explain any slight fluctuations either way. Red Sea runs again have softened slightly to $300k basis Gizan, although most Owners claimed they would turn their nose up at repeating. EAF got a positive test early in the week, when a prompt cargo was fully fixed at 35 x ws 132.5. Off the natural window, this is unrealistic for Owners and the market should be assessed at ws 125 but it is in need of a fresh test. Longhauls haven't made sense for Charterers, given scale economies available on the LRs, but 35 x ws 115 for TC12 and $1.05 million is the market level to end this week. Given that the LR1s have had a push at the end of this week, we expect some good activity next week and we may seem some rate pushes pre-Appec.

LR2s have quietened right down this week, after a very busy time the week before. 75,000mt naphtha AGulf/Japan has got back to ws 100 and 90,000mt jet AGulf/UKCont is up at $1.90 million. Both rates have little upward momentum for now, though with very little business in the market. LR1s on the other hand have got busier through the week and the rates have firmed accordingly. 55,000mt naphtha AGulf/Japan is now ws 110 and possibly has more in it. 65,000mt jet AGulf/UKCont is at $1.45 million but also may become hard to repeat going forward. There are still LR1 stems to cover, so they haven't finished yet. Next week is likely to see more switch back to the LR2s again but this may take time to see any effect.

Mediterranean

The lists pulled on Monday morning of week 37 were generally more positive than previous weeks, with fewer prompt ships; which has meant rates have held throughout at the 30 x ws 115 mark for X-Med stems. Enquiry has ticked over throughout the week and was well balanced with tonnage, with only a slight dip in rates seen on Thursday, which bounced back immediately. Black Sea rates have by and large traded at the ws +10 point premium to X-Med at 30 x ws 125; however, on certain occasions, when vessels opened up in Black Sea, we saw south of this number (30 x ws 120). With the UKCont market in a more profitable position, Med-UKCont runs were trading at the same level as X-Med at 30 x ws 115, with Owners happy to reposition themselves in NWE. As for week 38, few fireworks are expected, with 30 x ws 115 and 30 x ws 125 likely to hold for the time being.

Another slow week on the MR front, with enquiry entering the market at a sluggish pace. This has left both Owners and Charterers struggling to put a finger on where the market truly lies but, with rates in the UKCont suffering this week due to the sheer amount of tonnage around, next done for Med-transatlantic runs will be around the 37 x ws 120 mark. With the sentiment a negative one in the UKCont, expect rates to remain pressured as we move into week 38.

UK Continent

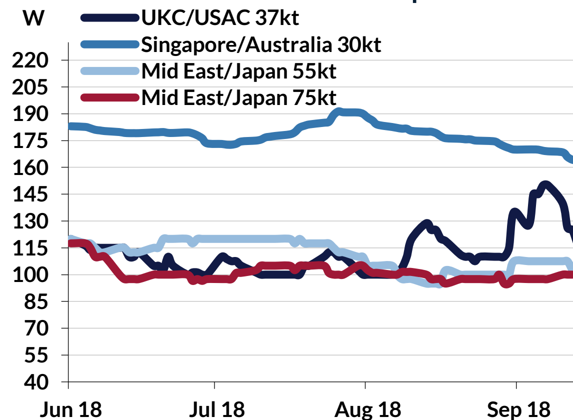
This week has been in stark contrast to last for the MRs in NWE. Owners had been banking on there being good enquiry prior to the 16th, early this week, where the tonnage list was still tight, thus allowing Owners to hold 37 x ws 150 on transatlantic cargoes. However, in practice the fixing window moved on past the 17th and into 3rd decade quickly, which in turn opened up a wealth of

ships. As a result, we saw TC2 negatively correct quickly and aggressively; by Tuesday 37 x ws 125 was on subs Baltic/transatlantic and at the time of writing 37 x ws 120 is on subs. However, the likelihood is that this will go lower, given the number of units available at Charterers' disposal. WAF enquiry has been very quiet this week, which was to be expected after a substantial amount of product was moved there last week. 37 x ws 140 is on subs but a fresh cargo should be able to achieve less. Shorthaul routes are once again becoming preferred routes for many on the back of long haul routes declining in value, where levels can only track TC2 numbers basis 40kt. Unfortunately, the current picture is a bit bleak into next week, with tonnage looking well supplied early doors; the only saving grace could be the storm disruption in the States, although it's unclear how this will pan out just now. Reassess first thing Monday.

Once Handy position lists were drawn on Monday morning, it revealed a tightness on the front end, resulting in the market stabilizing at 30 x ws 140 ex Baltic, 30 x ws 130 for continent liftings and even saw some Owners finally push up the UKCont/Med rate to 30 x ws 125-130. Although, as we reached the back end of the week, and with cargo volumes slowing and tonnage being replenished for natural fixing dates, Owners were unable to hold the line anymore, with 30 x ws 135 going on subjects ex Baltic. Looking ahead, with Primorsk now reportedly covered up until the 26th, a further wobble could be on the cards, as pressure will continue to mount in the owning fraternity. X-UKCont rates need to correct in line with the lower numbers ex Baltic too; so expect 30 x ws 125 to be on the cards soon enough.

The Flexi market has once again been quiet this week. The occasional cargo enters the market but, given the plethora of tonnage, is easily picked off at generally pretty un-exciting rates. There was a cargo mid-week (this cargo ended up being upsized to Handy) that revealed Owners' eagerness to fix ships, meaning numbers are a good chuck below pro-rated Handy levels, with 22 x ws 165 a fair reflection of X-UKCont. Problems have been compounded by a weakened Handy market that looks to persist into next week and, with prompt Flexi tonnage building over the weekend, it will be hard to get anywhere near making gains.

Clean Product Tanker Spot Rates



Dirty Products

Handy

Trading in the continent this week got off to a flying start; where the lengthened tonnage list excess capacity was quickly mopped up. With this burst of activity also came stability. Although we initially saw levels drop into the mid ws 140's, there was enough momentum in the market to see the week finish on par to where it all began at around the ws 150 level.

In the Med, conditions have been rather slow. Monday through to Friday fails to have any real effect on prevailing sentiment. That said, any gain needs to be recognised and the Black Sea did pick up by two and half points, but any Owner reading this will probably agree with the next statement; East Med tonnage hasn't been the problem so much, it's what's open in the West Med that has caused the headache. For this reason, we have seen a spread in fixing levels with the West Med trailing by some 5-7.5 points.

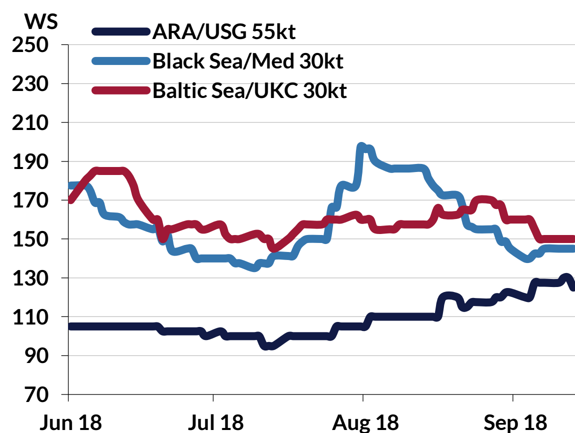
MR

Sporadic positioning of available MR's has led to liquidity problems for this sector, but at the same time has played into Owners hands quite nicely. Despite gaps in fixing when Charterers did need to cover on an MR, they quickly found aspirations of negative correction were short lived. Stability is therefore afforded to this sector, a trait which is likely to remain in the immediate future.

In the Med, for the most part of the week there was an absence of full cargo activity. As a result many operators had to shift their attention to looking at part cargo enquiry to keep tonnage moving before the weekend. Worse however, is that rates do appear to be stuck on the bottom rung, which is a recurring cycle which is proving hard to break.

Panamax

Coming into the week, where ballast tonnage had given us a platform from which to benchmark from, Charterers quickly realised that levels where likely to be more competitive from ships that where open naturally on European tonnage lists. No sooner as this theory became reality, other players were quick to enter the market and quickly availability began to dwindle. Looking forward, and where October programs are now well underway, Owners may yet see some upside yet to come, although this will be entirely linked to how conditions in the US fair.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	September 13th	September 06th	Last Month	FFA Oct
TD3C	VLCC	AG-China	**+2**	55	53	52	55
TD20	Suezmax	WAF-UKC	**-0**	73	73	64	73
TD7	Aframax	N.Sea-UKC	**+12**	108	95	110	104

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

			wk on wk change	September 13th	September 06th	Last Month	FFA Oct
TD3C	VLCC	AG-China	**+2,000**	14,500	12,500	13,500	14,750
TD20	Suezmax	WAF-UKC	**-750**	11,500	12,250	8,750	11,750
TD7	Aframax	N.Sea-UKC	**+7,750**	7,750	0	10,000	5,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	September 13th	September 06th	Last Month	FFA Oct
TC1	LR2	AG-Japan	**+3**	100	97	97	
TC2	MR - west	UKC-USAC	**-27**	121	148	123	127
TC5	LR1	AG-Japan	**-3**	103	106	98	105
TC7	MR - east	Singapore-EC Aus	**-5**	164	169	177	

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

			wk on wk change	September 13th	September 06th	Last Month	FFA Oct
TC1	LR2	AG-Japan	**+1,000**	5,500	4,500	6,250	
TC2	MR - west	UKC-USAC	**-4,500**	4,250	8,750	5,250	5,250
TC5	LR1	AG-Japan	**-500**	4,250	4,750	4,250	4,500
TC7	MR - east	Singapore-EC Aus	**-1,500**	7,000	8,500	10,000	

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

	wk on wk change	September 13th	September 06th	Last Month
ClearView Bunker Price (Rotterdam HSFO 380)	**+13**	431	418	411
ClearView Bunker Price (Fujairah 380 HSFO)	**-1**	480	481	447
ClearView Bunker Price (Singapore 380 HSFO)	**+21**	475	454	445
ClearView Bunker Price (Rotterdam LSMGO)	**-1**	655	656	618

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