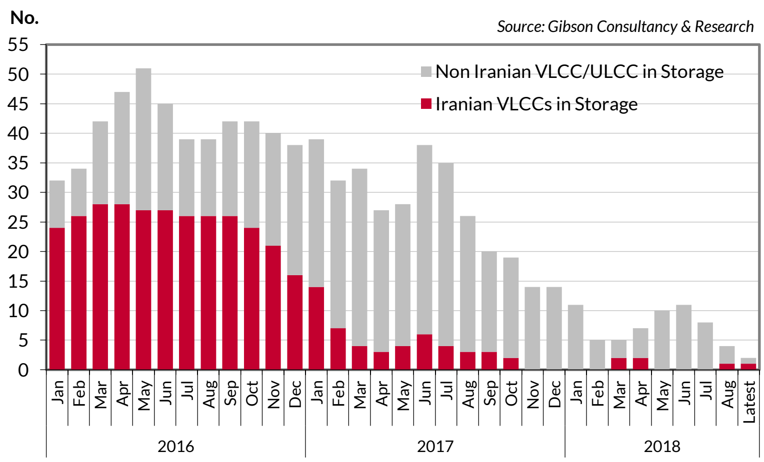
VLCC Maths

Weekly Tanker Market Report

Robust scrapping activity has been one of the key features of the tanker market this year. Demolition has been particularly strong in the VLCCs sector: we have seen 32 tankers sold to the breaking yards so far in 2018 versus 11 units over the whole of 2017. In addition, three former VLCCs (converted into FSOs and used for storage projects) were also sold for permanent removal. In part, the decision to scrap has been due to poor tanker returns, particularly during the 1st half of the year, with 24 units reported for sale between January and May. Higher scrap prices have also played a role, with values on the Indian subcontinent peaking during the 1st quarter of 2018 at their highest level in over three years, at around $460/ldt.

This is welcome news for owners, as tonnage oversupply is perhaps the main culprit for the weak sector performance. On paper, the number of VLCC removals this year exceeds new deliveries, with just 26 units entering trading between January and August. However, some of the tankers reported for demolition had been absent from the trading market for quite some time, while for many others trading opportunities were limited. Out of those scrapped, four VLCCs were on storage duties throughout 2017, while over a dozen of other vessels were also involved in some sort of temporary storage, typically lasting somewhere between 2 to 6 months at a time.

VLCCs in Crude Storage



** Excludes VLCCs employed in fuel oil play off Singapore, shuttle service and laid up*

The total number of VLCCs in crude floating storage has declined dramatically this year. At present, we are seeing just two VLCCs engaged in crude storage, versus on average 27 VLCCs per month in 2017. The majority of the ships that were previously storing have resumed trading, while others have been sent to the demolition yards, as detailed above.

Finally, there are also a few that, after being discharged from floating storage duties, continue sitting idle, without any visible trading activity in sight. These units are mainly of vintage age and could be under pressure to exit the market for good. Overall, there are plenty of ageing ladies – over 55 vessels in the existing VLCC fleet were built in 2000 or earlier. Due to their age profile, low industry returns and limited trading opportunities, these tankers are the most vulnerable to demolition pressure in a run up to 2020. We could also see some younger Iranian tankers returning into floating storage after the US reimposes sanctions, although these ships at present cannot compete for international cargoes.

To sum up, the pool of potential candidates to exit trading operations in the short term is substantial. Yet, we should not forget that we still have nearly 25 VLCCs scheduled for delivery this year and another 60 over the course of 2019. The above maths suggest that the growth in the VLCC fleet could be restricted over the next twelve to sixteen months, if the demolition activity remains robust. Will this be the case? In many ways, the answer to that lies with the owners' expectations of how the market will fare over the coming months.

Crude Oil

Middle East

Very little VLCC rate movement week on week, but there was sufficient volume seen to allow Owners just a little more hope than of late, and the top end of the range edged up to ws 57.5+ to the East accordingly, with rates to the West remaining in the low ws 20's. Availability remains 'easy', however, and a push for any significant improvement will be more of a challenge and with a widespread Holiday in the Far East to disrupt the Monday flow too. Suezmaxes only found modest attention that merely led rates along a low and flat path - again. Down to 130,000mt by ws 77.5 to the East and to ws 24 to the West for now, and likely through next week too. Aframaxes remained at no better than 80,000mt by ws 110 to Singapore and the steady, but unspectacular, scene is likely to remain in situ for the next phase also.

West Africa

Suezmaxes crept a little higher over the week to 130,000mt by ws 75 USGulf, ws 77.5 to Europe, and Owners were ready and willing, but not quite able, to push for higher numbers if Charterers were to oblige with more cargoes, but they were more minded to sit back into the weekend. Next week perhaps? A slow week for VLCCs here but with the AGulf holding/nudging upwards, and plenty of wider Atlantic interest circulating, rate demands remained steady at no less than ws 55 to the East, initially, and then towards ws 57.5 by the week's end with runs to West Coast India marked at around $2.75 million from Angola.

Mediterranean

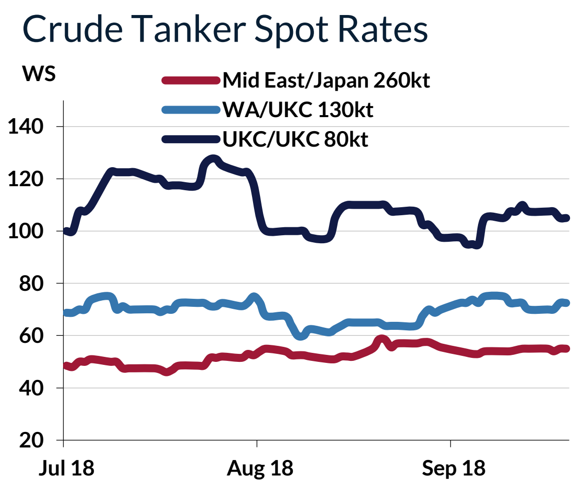
Aframax Owners spent the week largely upon the defensive but succeeded in holding a fairly solid line at 80,000mt by ws 97.5 X-Med, and will look to Turkish Straits delays to lend a degree of extra support next week. Suezmaxes will also benefit if those delays increase, and Owners are looking to improve upon recent default 140,000mt by ws 85+ levels from the Black Sea to European destinations. Eastern demand has been stronger, and rates to China have gained to around $3.3 million as the keener Eastern players were pruned from the list - poised for next week then.

Caribbean

Aframaxes held at close to recent highs even as enquiry began to dry. 70,000mt by ws 150 upcoast for now, but it may prove a little more challenging for Owners to hold that level over the next fixing phase. VLCCs are quite finely balanced and Owners have consolidated their position with an eye on squeezing some extra advantage too. $5.2 million was the last seen from the USGulf to South Korea with Caribs/West Coast India runs rated at around $3.6 million with loadport costs for Charterers' account.

North Sea

Aframaxes slowed through the week, with short options the main feature from the Baltic providing little real protein for the marketplace. 80,000mt by ws 105/110 X-UKCont, and 100,000mt at ws 80 from the Baltic should hold, and possibly may be bettered next week, if volumes increase once again. VLCC availability remains quite tight, but fixing has been light too. $4.6 million was seen for crude oil from Hound Point to China and fuel oil from Rotterdam to Singapore holds at, or a little above, $3.5 million - in theory, at least.



Clean Products

East

A slow week in general for the MRs. The LR1s absorbed most of the action for the front part of the week, therefore, less cargoes emerged for smaller tonnage requirements. Rates have come off, not surprising, given how many vessels are sitting prompt in the AGulf. Westbound cargoes are now trading at $990k, tested twice at the end of the week. TC12 has sat steady at 35 x ws 115 but, as mentioned before, naphtha has been moving on the LRs for the most part. Shorthaul sits at $130k and Red Sea runs, although relatively untested, remain at a $325k level. EAF has been untested in the market: enough relets around to absorb these cargoes. One requirement went on subs at 35 x ws 122.5 equivalent (although this cargo had quite specific requirements, so we could see more taken off this number if all tonnage were players). With the LR1s looking thinner and now the LR2s more active, we should see some more enquiry next week on the MRs. It will have to be a landslide of cargoes to shift rates, however.

LR1s stabilised this week after a very busy period had pushed rates healthily up. 55,000mt naphtha AGulf/Japan is now ws 115, up ws 15 points in the week, while 65,000mt jet AGulf/UKCont is up to $1.50 million. LR2s have now taken the lead and are much busier than they were, although not enough so far to do more than add a little to rates. It has renewed Owners' optimism for the remainder of the year. 75,000mt naphtha AGulf/Japan lies at ws 100 today and 90,000mt jet AGulf/UKCont is at $1.90 million but more is likely next week.

Mediterranean

A state of equilibrium was seen for much of week 38, with cargoes and tonnage balanced up until Thursday morning and rates trading sideways at 30 x ws 115 and 30 x ws 125 for X-Med and Black Sea voyages respectively. A steady flow of enquiry has been seen, which has meant prompt ships were picked off at the front end consistently, leaving an extremely tight list for stems needing cover before the 28th. Fireworks in the market followed, with various replacement stems achieving heights of 30 x ws 130 and for stems off prompt dates a handful more points for Owners were on offer. The Black Sea market also saw a firming late in the week, with Charterers happy to pay a few more points for safer itineraries and at the time of writing, with both X-Med and Black Sea rates in a muddle, 30 x ws 130 and 30 x ws 140 seem fair rates for stems before end month dates. How long this firming will last will be confirmed on Monday. The likelihood is that, as we move into the new fixing window with a wealth of tonnage available, rates will slide back into position, potentially a nudge in front of the 30 x ws 115 and 30 x ws 125 we've seen consistently the past few weeks.

With the UKCont market struggling this week, this has translated into the Med, with a softening in rates seen due to excess tonnage. At the time of writing Med-transatlantic runs trade in line with TC2 around the 37 x ws 110-105 mark and WAF runs are achieving ws +10 at the 37 x ws 110 mark. Enquiry has picked up towards the back end of this week, with a number of stems heading transatlantic, East and down to WAF. However, fixing window tonnage is balanced, with rates unlikely to improve. Fresh test was seen this week for a Med-AGulf run at $700k, with

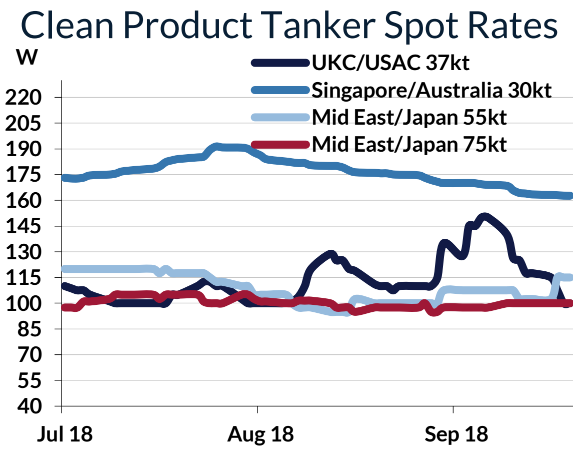
Med-SAF achieving another $200k on top of this. As we move into week 39, until tonnage in the UKCont is cleared away, the doom and gloom is likely to continue in the Med for the foreseeable future.

UK Continent

The sheer weight of available tonnage set this market on a slippery slope. After a few cargoes to test rates, we found ourselves sitting back at the rock bottom of 37 x ws 100 for TC2. Not surprisingly, WAF was pulled to ws 110 and runs for Baltic/UKCont similarly settled at 40 x ws 100. Charterers cover their cargoes with ease at these new lows but we do see some Owners preferring to pass on these levels and sit the ships spot. For the time being there is enough tonnage willing to repeat last done numbers and, if we are to see any improvements, these will have to dry up, with the expectation of little ballast tonnage to help to.

A quiet week in general for the Handies, with little to get excited about for Charterers or Owners alike. Baltic liftings quickly settled down from 30 x ws 135 to ws 130. With that, X-UKCont was also expected to fall but Owners managed just about to hold onto ws 125. This market remains under pressure, as we wait for the fresh October programme to be produced and cargoes to really test, if there is any further movement in this sector.

Finally to the Flexis, where a handful of COA movements have kept a few ships on the move but in general not really enough enquiry. Rates are defined from the larger Handy sized ships. As the close of the week arrives, a market cargo sheds some light onto fixing levels, as 22 x ws 160 is put on subs and expect things to stay here for the time being.



Dirty Products

Handy

The North West Europe region kicked off early on Monday, with a surge of activity. This resulted in the majority of well approved tonnage quickly going on subjects. In the following days, these units continued to get fixed away. As a result, workable units in the region started to thin a little on the ground. As far as rates go, some incremental gains have been witnessed but Owners will be thinking opportunity is lost as gains were limited only to a few points. It is worth noting that the majority of fixtures concluded this week will be sending more units away from the region. This is only going to result in the sentiment remaining firm heading into next week.

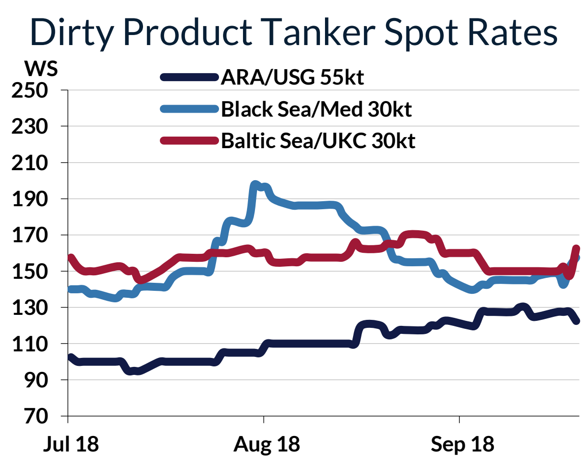
The Mediterranean market has seen a more positive week than what we have witnessed in recent times, when we saw a couple of units take what was on offer not to rack up any more idle time. A combination of the early tonnage being fixed away and enquiry picking up from the Black Sea resulted in a steady positive gain in freight rates. As the week progressed, this trend continued, resulting in a ws +20 gain from where the Black Sea was trading on Monday. Now it is trading around the ws 165 level. With little tonnage to cover end month stems, Charterers will be looking towards October dates come Monday, in the hope of tonnage replenishment.

MR

In the Mediterranean and the Continent levels have enjoyed a boost from a firming sentiment in the surrounding Handy markets, where availability now (week close) looks pretty scarce in both zones. The immediate future for this sector also looks a bit rosier on the back of this week's trading. Particularly in the Continent, Charterers will need to reach a little more forward if they are to secure the services of an MR.

Panamax

Once again European markets have reacted this week to the impact seen over in the US. However, this time around levels have been pulled down to the detriment of Shipowners; in what can only be described as a complete reverse of trend from what had happened pre storms when the markets rose. This said, reductions down to ws 115 may have captured the brunt of negative correction for now. Where the lists aren't exactly awash with natural tonnage, ballast units will at least have an edge in the negotiation stakes.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Sep 20th	Sep 13th	Last Month	FFA Oct
TD3C	VLCC	AG-China	**+1**	56	55	52	55
TD20	Suezmax	WAF-UKC	**-1**	72	73	64	72
TD7	Aframax	N.Sea-UKC	**-1**	107	108	110	104

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

			wk on wk change	Sep 20th	Sep 13th	Last Month	FFA Oct
TD3C	VLCC	AG-China	**+1,000**	15,500	14,500	13,500	15,000
TD20	Suezmax	WAF-UKC	**-250**	11,250	11,500	8,750	11,750
TD7	Aframax	N.Sea-UKC	**-500**	7,250	7,750	10,000	5,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Sep 20th	Sep 13th	Last Month	FFA Oct
TC1	LR2	AG-Japan	**+0**	100	100	97	
TC2	MR - west	UKC-USAC	**-20**	101	121	123	122
TC5	LR1	AG-Japan	**+12**	115	103	98	108
TC7	MR - east	Singapore-EC Aus	**-1**	163	164	177	

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

			wk on wk change	Sep 20th	Sep 13th	Last Month	FFA Oct
TC1	LR2	AG-Japan	**+250**	5,750	5,500	6,250	
TC2	MR - west	UKC-USAC	**-3,000**	1,250	4,250	5,250	4,500
TC5	LR1	AG-Japan	**+2,250**	6,500	4,250	4,250	5,250
TC7	MR - east	Singapore-EC Aus	**+0**	7,000	7,000	10,000	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**+0**	431	431	411
ClearView Bunker Price (Fujairah 380 HSFO)	**-4**	476	480	447
ClearView Bunker Price (Singapore 380 HSFO)	**-4**	471	475	445
ClearView Bunker Price (Rotterdam LSMGO)	**+1**	656	655	618

www.gibsons.co.uk

London
Audrey House
16-20 Ely Place
London EC1N 6SN

T +44 (0) 20 7667 1247
F +44 (0) 20 7430 1253
E research@eagibson.co.uk

Hong Kong
Room 1404, 14/f,
Allied Kajima Building
No. 138 Gloucester Road
Wan Chai, Hong Kong

T (852) 2511 8919
F (852) 2511 8910

Singapore
8 Eu Tong Sen Street
12-89 The Central
Singapore 059818

T (65) 6590 0220
F (65) 6222 2705

Houston
770 South Post Oak Lane
Suite 610, Houston
TX77056 United States