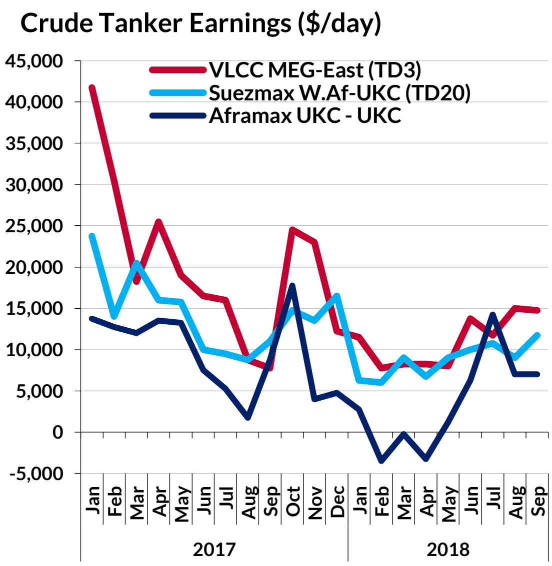
Winter on the Way?

Weekly Tanker Market Report

Winter has typically been a period of stronger earnings and higher freight volatility for the tanker sector. However, the winter of 2017/2018 was a disappointment across all sectors, despite it being particularly cold in the Northern hemisphere. As analysts, this has made forecasting the 2018/2019 season all the more challenging. The reasons why last winter failed to deliver are numerous. Key themes include OPEC production cuts, stock drawdowns, which prompted lower demand for seaborne crude trade, and rising tanker supply among other factors. So how is this winter likely to shape up? Will we see a demand driven spike for this season? Will winter disappoint? Will weather delays come to the rescue, regardless of the fundamentals? Will tanker supply blunt any rally before it really gains any momentum? Only time will provide those answers. However, analysing the fundamentals may give some owners reason to be more positive this year.

Focusing purely on tanker supply, the Aframax/LR2 fleet stood at around 1,014 vessels 12 months ago, vs. 1,013 today. Put simply, the supply side story for this asset class has hardly changed. The picture is similar for VLCCs and not much different for Suezmaxes, with the fleet having grown by 15 vessels over the past 12 months. Generally speaking, the supply side looks stable heading into winter. One reason to be more optimistic, relative to winter 2017/18.



The demand side is of course harder to predict and complicated by the impact of Iranian sanctions on trade flows. Yet, with oil stocks near 'normal' levels, any incremental increases in demand will have to be met from increases in crude trade flows, most of which are expected to be seaborne. Given that the IEA sees world oil demand surging in Q4 to a record 100.3 million b/d, crude tankers could be set for a seasonal boost.

However, due to voyage lengths, Q4 demand has already been felt to a certain extent for the VLCCs. Higher demand from Chinese refiners seeking to fully utilize their crude import quotas and concerns about Iranian supplies has supported the market. Whether or not the VLCC market can continue to move up throughout Q4, depends on part on how robust this buying activity remains and how lost Iranian barrels are sourced. The more delivered Iranian crude the Chinese consume, the less the benefit for the 'international' tanker fleet. So far OPEC has indicated that production will stay flat which, if true, is likely to force Asian refiners to source more from the Atlantic Basin, supporting tonne mile demand and VLCCs in particular. In fact, evidence has already emerged of stronger Chinese buying of West African grades, whilst Korean, Japanese and Chinese buyers have tapped into the US market. Potentially, this points to more barrels being shifted from Suezmaxes to VLCCs but of course is supportive for the entire crude tanker sector.

Aframax owners also have reason to feel more confident about the coming winter season. Whilst Iranian sanctions should be marginally beneficial for all crude tankers (see report dated 14th September), Aframaxes could be the primary beneficiaries. Without additional OPEC/Russian supplies, the focus will be on trading crude supplies already in play. Given that Europe and the Mediterranean is expected to lose 600-700,000 b/d of Iranian crude, local grades will benefit from higher regional demand, which could support short sea Aframax trade. Likewise, Aframaxes will continue to see higher demand in the US Gulf, for both lightering and conventional trading operations as US crude remains one of the key sources of supply in the medium term.

Overall the biggest wildcard for winter concerns the weather. The UK tabloids this week pushed the idea that Europe is braced for its harshest winter since 2010. Whether this reflect the reality remains to be seen. In any case, the story for this coming winter looks a bit more promising than it did 12 months ago.

Crude Oil

Middle East

VLCC Owners managed to ride solid activity to slightly higher rate-marks, but ongoing full availability frustrated ambition for something more noticeable and rates ended the week just below ws 60 to the Far East and still in the low ws 20's to the West. A Chinese holiday through next week may mean the frustration continues over the next phase too. Suezmaxes wallowed again in a low volume, easy tonnaged, environment with rates stuck at little better than ws 75 to the East and ws 27.5 to the West, with Owners even more minded to ballast straight into the improved Med market for round trips back to the East. Aframax availability re-stocked and enquiry failed to match the additions...rates slipped to 80,000mt by ws 105 to Singapore, and may need more time to find a solid bottom.

West Africa

Upward potential for Suezmaxes day by day, but the potential was never truly realised and rates end this week pretty well at last week's levels - 130,000mt by ws 77.5 to Europe and up to ws 75 to the USGulf, but it may become a little busier next week, and if it does, rates will then respond. VLCCs enjoyed an active week, with additional support from a bouncing Caribs/USGulf scene and solid South American enquiry too. That said, rates only gained a few ws points to ws 60 to the Far East with runs to West Coast India marked at around $2.85 million from Angola. Consolidation likely over the near term, with further gains a latent threat/hope.

Mediterranean

Turkish Straits delays moved noticeably higher and with that, all sectors posted gains. Aframaxes jogged steadily higher through the week to 80,000mt by ws 112.5 X-Med - nothing special, but there could yet be further improvement. Suezmaxes also drove upwards to 140,000mt by ws 97.5 from the Black Sea to European destinations and heavy Far Eastern demand allowed runs to China to sharply increase to $3.7 million too. A little slower very late week but no early retreat likely.

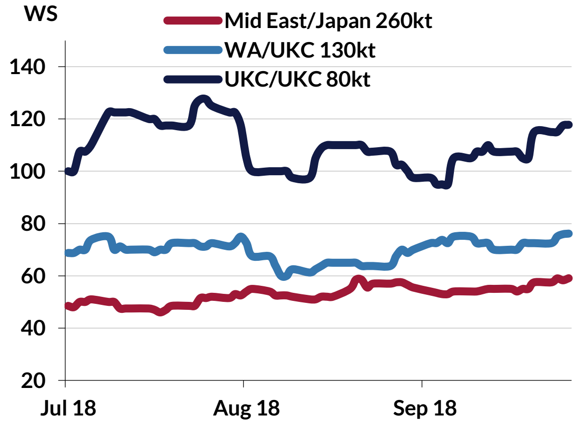
Caribbean

Aframaxes edged off as demand slowed and availability became a little easier, but once 70,000mt by ws 140 had been reached, Charterers busied again, and Owners dug an effective defensive line. More resistance into next week too. VLCCs here became the stars of the show, as increasingly tight supply hit the next wave of demand and rates spiked to as high as $5.2 million from the USGulf to Singapore - $6.2 million South Korea - and $4.5 million from the Caribbean to West Coast India, with loadport costs for Charterers' account. Ballasters from the East will come into play on very forward dates but are unlikely to dilute sufficiently to drag the market backwards anytime soon.

North Sea

A slightly better week for Aframaxes here, with rates gaining incrementally to 80,000mt by ws 122.5 X-UKCont and to 100,000mt by ws 95 from the Baltic. Owners' sentiment seems robust enough to maintain those levels, at least, over the coming week too. VLCCs saw little fresh but availability remained thin and $4.1 million was paid for fuel oil from Rotterdam to Singapore with crude oil from Hound Point to South Korea estimated to now be moving to around $5.3 million to compete with elevated USGulf/East returns.

Crude Tanker Spot Rates



Clean Products

East

Finally, it was the turn for the MRs to absorb a good volume of cargoes. The issue here, as expected, is that the front end has been so heavy the past couple of weeks that rates have inevitably been negatively pressed on every test. Short haul probably is the most shocking. Runs into the Red Sea now trade at $275k into Gizan, with the suggestion that Owners would do less if the opportunity arose. X-USGulf is now $115k but again could be less if Charterers can make use of some of these FOSFA positions. EAF is now down to 35 x ws 110, although this should be pushed back up off the natural window to ws 115 levels, pretty quickly. TC12 is down to 35 x ws 112.5 but relatively unpopular, given how cheap LR2s are. Interestingly, as they are trading at $950k levels, 2 x MRs are cheaper to send West than one LR2 and even give traders some flexibility in terms of selling parcels to differing locations. Therefore, we may (hopefully for the market) see some more cargoes split in the new week and clear away some of this tonnage into another market. For the time being, it is just hopes that subs will clear and tonnage thins; so Owners can trade less desperately - and keep their heads above water.

LR2s have certainly stolen the lime light this week, with high levels of activity. Towards the middle of the week it looked like there it was going to be a push on last done levels, as the list tightened up and Owners grew confident in the market. This, however, did not materialise and levels have held fast at ws 102.5 for TC1. For jet, West has not been overly tested during the week and it is in need of a fresh test come next week. For now, it holds at the $1.95 million level. The LR1s have been fairly active but there has been nothing to really positivity test last done levels. Going into the weekend the tonnage list still holds a number of prompt ships that will be looking nervously for fresh cargoes early next week. Rates wise, it held pretty steady, with TC5 at ws 120 and UKCont at the $1.525 million mark. A decent influx of fresh cargoes next week may generate the positivity that Owners are looking for.

Mediterranean

A breath of fresh air was seen in week 39, with a positive sentiment seen throughout. A consistent level of enquiry meant ships at the front end continued to be fixed away, leaving a tighter tonnage list. At the time of writing, 30 x ws 140 seems the achievable rate for X-Med stems, with Owners' ideas remaining bullish and with EMed/Black Sea tonnage extremely tight, this has led to 30 x ws 157.5 on subs ex Black Sea. Whether this firming market has legs is tricky to tell, with vessels opening up over the weekend. Come Monday we could well see rates under pressure.

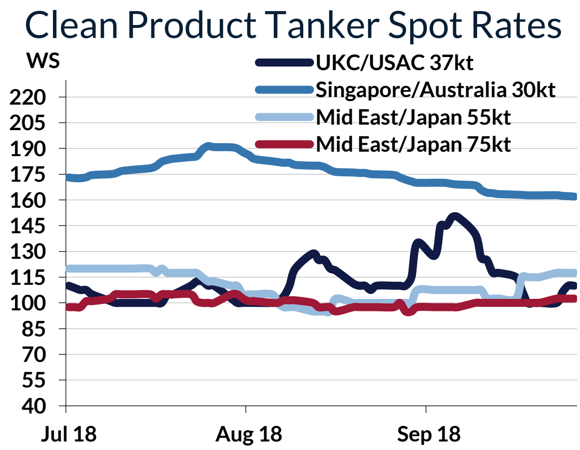
The Med MR market has been the driving force this week, with rates trading a nudge in front of numbers seen in NWE. An influx of enquiry was seen at the beginning of the week. With tonnage on the tight side, Owners were on the front foot. At the time of writing, 37 x ws 115 is the going rate for Med-Transatlantic runs, with Brazil and AGulf trading at 37 x ws 137.5 and $800k, respectively. With cargoes lacking, however, expect last done rates to be under pressure come Monday. Rates are likely to move back in line with those seen in the UKCont.

UK Continent

All in all a relatively positive week for the MRs in NWE, largely by the previous fortnight's action in the USGulf that has drawn much of the usual ballast tonnage away from our shores. As a result, the front end of the list (although being relatively well supplied early in the week) was not quickly replenished by ballasters or hidden ships like normal. In turn, Owners were able to capitalise on this and drew TC2 rates up from the 37 x ws 100 floor to 37 x ws 105 by Tuesday, ws 110 by Thursday and ws 112.5 at the time of writing on Friday. There has been enough WAF enquiries during this week, for rates to stay steadily in check with ws +10 points over TC2; whilst short haul routes that have typically traded in line with transatlantic numbers are now just a nudge below (40 x ws 107.5), partly as many Owners still prefer this route. The positivity on long haul routes looks to be maintained into early next week, as there are still a number of 1st decade October cargoes needing cover and the front end of the list is not expected to grow by a substantial margin over the weekend. Even if the USGulf continues to lose traction, it will be at least a week or so before the bulk of the ballasters would hit NEW. Therefore, one should expect a certain level of confidence from Owners, something that will only grow, with each ship going on subs.

Stable will be the word to describe the Handies up on the continent this week, as both parties have seemed happy enough to fix at last done levels, with 30 x ws 130 being repeated ex Baltic and 30 x ws 120 for continent liftings. There was a chance at the mid-week point for Handy Owners to push levels on a few prompt requirements. However, with MRs readily available on the front end of the list and keen for short haul, they were preferred. Fresh cargo enquiry has now slowed and, with tonnage now beginning to build for the next fixing window, a wobble could be on the cards early next week. Poised.

For once a few more market stems have been seen during week 39 in the UKCont but, with ample tonnage list, we find ourselves with a couple less prompt ships and rates tracking the Handy market as per usual. 22 x ws 160 seems to be the going rate and, with numbers not shifting on the larger tonnage, it is not a surprise this has been a repeatable number. More sideways sentiment ahead.



Dirty Products

Handy

The NWE region has overall endured a steady week, as the balance of workable tonnage and enquiry have remained on an even keel. Early in the week Charterers stared to gain the upper hand and shaved a few points off last done but then more cargoes started to come in to play. Rates since then have held at the ws 150 level but at the time of writing, enquiry has backed off where come Monday, we are likely to see a couple more prompt units looking for employment.

In sharp contrast the Med market started off with a pace of enquiry we have not seen for some time. This activity was considerable and resulted in Owners with firm itineraries getting clipped away right up to the beginning of the second decade of October. The pace of enquiry did not let up and gradually as units started to thin fixture by fixture, Owners continued to gain ground. This resulted in the Black Sea finishing this week trading at around the ws 200 level and, with tonnage now depleted in the region and weather delays in and around the EMed region, activity has slowed. It is fair to say that heading into next week, Owners with firm tonnage will be bullish in early trading. However, it may take a little longer than Charterers would like for things to settle down.

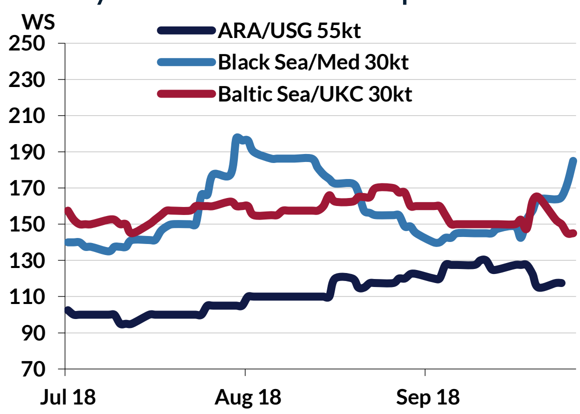
MR

A familiar story on the Continent, where the few available positions have been clipped away at last done levels. Owners that have been in the WMed positions that usually get pulled up for Cont-Med voyages were unavailable, due to the fiery Med market, where we saw a mass exodus of vessel availability! Speaking of the Med, this sector saw levels rise on the back of Handy demand where purely on pro rata basis, MR numbers had to move north without even a fixture being done to justify sentiment. In this region, just as the case was on the Handies, the position list now looks depleted of units with workable itineraries and will only serve to maintain values moving forwards.

Panamax

As availability tightened for European fixing windows, combined with rising bunker prices, Charterers quickly found this week, that selection had diminished when looking to cover here in Europe. In turn, this led to a further clear down in natural selection, thus providing a platform from which Owners can build now going forward. That said, values in the US however, have taken a turn for the worse, which will create a cap at where aspirations can aspire to.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Sep 27th	Sep 20th	Last Month	FFA Oct
TD3C	VLCC	AG-China	**+3**	59	56	52	55
TD20	Suezmax	WAF-UKC	**+4**	76	72	64	72
TD7	Aframax	N.Sea-UKC	**+11**	118	107	110	105

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

			wk on wk change	Sep 27th	Sep 20th	Last Month	FFA Oct
TD3C	VLCC	AG-China	**+2,000**	17,500	15,500	17,000	14,250
TD20	Suezmax	WAF-UKC	**+1,250**	12,500	11,250	8,500	11,000
TD7	Aframax	N.Sea-UKC	**+6,250**	13,500	7,250	10,000	5,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Sep 27th	Sep 20th	Last Month	FFA Oct
TC1	LR2	AG-Japan	**+0**	100	100	96	
TC2	MR - west	UKC-USAC	**+9**	110	101	109	121
TC5	LR1	AG-Japan	**+5**	120	115	100	110
TC7	MR - east	Singapore-EC Aus	**+0**	163	163	175	

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

			wk on wk change	Sep 27th	Sep 20th	Last Month	FFA Oct
TC1	LR2	AG-Japan	**+0**	5,750	5,750	5,000	
TC2	MR - west	UKC-USAC	**+750**	2,000	1,250	2,750	4,000
TC5	LR1	AG-Japan	**+500**	7,000	6,500	4,000	5,250
TC7	MR - east	Singapore-EC Aus	**+0**	7,000	7,000	9,500	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**+19**	450	431	416
ClearView Bunker Price (Fujairah 380 HSFO)	**+14**	490	476	465
ClearView Bunker Price (Singapore 380 HSFO)	**+22**	493	471	454
ClearView Bunker Price (Rotterdam LSMGO)	**+21**	677	656	634

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