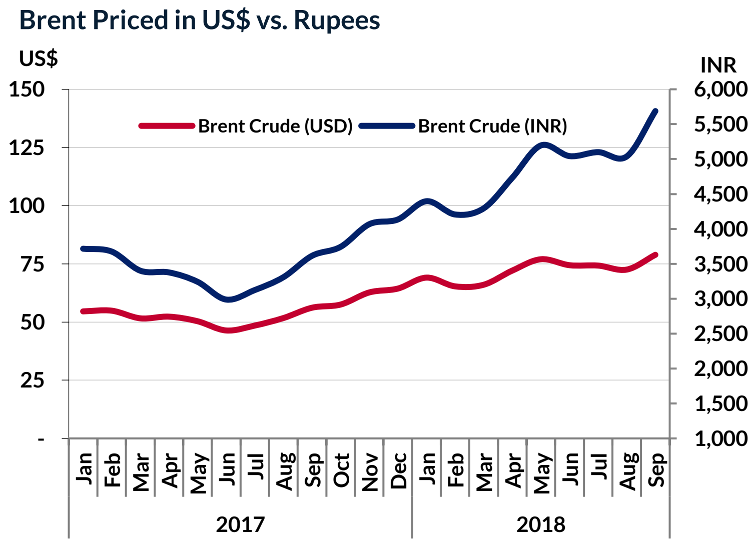
Crude Price Gain Doubles India's Pain

Weekly Tanker Market Report

India, along with China has long been revered as a key driver of world oil demand growth. However, higher crude prices and a weaker rupee have seen domestic fuel prices surge. Now, with sanctions imminent against one of India's largest suppliers, consumers could see further price rises which may impact on their purchasing power. This begs the question; can the crude market really rely on India to drive demand over the coming years in a higher price environment?

Since the start of 2018, crude prices have risen over 11%. What has become an already expensive time for Indian refiners to import US$ priced crude has been exacerbated by a simultaneous 13% decline of the Indian Rupee vs the US$. This unwelcome mix has meant in real terms, an almost 30% increase in the price of crude for Indian refiners. The Reserve Bank of India recently estimated that for every $10 increase in a barrel of oil, GDP suffers by 0.15%, potentially cannibalising some the anticipated oil demand growth. Furthermore, crude import reliance is rising as domestic production fails to grow. Quite simply, higher crude prices offer zero upside for the Indian economy. To limit the impact, the Government has sought to protect consumers from rising prices through tax cuts on diesel and gasoline this month and has even asked domestic refiners to sacrifice margins in order to limit price rises.



Despite higher prices, seaborne arrivals in the first two decades of October are pointing toward a strong gain, with Kpler reporting an average of 308,000 b/d higher crude imports month on month than September (a 5% increase YOY Q3 2017 vs Q3 2018). There have been higher volumes from Nigeria and Latin America, with noticeable arrivals from Venezuela as well as increasing gains from Iraq. Indian crude buying seems strong for now. Imports have also risen from Iran, with September volumes already up 20% YOY, prompting many to ask whether imports from Iran will wind down following the sanctions snapback. Indeed, Oil Minister Dharmendra Pradhan has stated India's intent to continue lifting Iranian barrels, with Indian refiners reportedly already placing orders to buy 9 million barrels for November. Perhaps this is unsurprising when it is considered that heavily discounted Iranian barrels may help the country manage the effect of higher international crude prices. India has even sought to implement a new payment system to purchase Iranian crude in rupees, in order to circumvent US sanctions.

Looking further ahead, irrespective of prices, developments in Indian refining capacity are likely to be the main driving force behind the growth in crude import demand. Between 2019-2022, 550,000 b/d of additional refining capacity is due to come online, roughly the same as demand growth projections over the corresponding period. Even if domestic demand does falter, high run rates are likely to keep import volumes high. If unexpectedly the domestic market cannot absorb all the product, then refined product export volumes will have to rise.

Crude Oil

Middle East

VLCC Charterers did their best to restrict the fresh cargo flow and initially their efforts prevailed to allow rates to drift off slightly from last week's numbers. Late week, however, the tide turned as more forward positions hit resistance, which eventually led to a noticeable rebound getting underway, with short haul rates moving to as high as ws 125, with 'standard' Far East movements at no less than ws 85 for modern units, and rate ideas to the West moving up through the mid ws 30's. With a full second half November programme to come, there is now potential for something even more substantial if Charterers don't control the pace. Suezmaxes gained sharply to the West on news of a 20 tonne crane restriction being imposed by Basrah for November liftings and those compliant units managed to quickly drive rates towards ws 60, with runs to the East also improving to ws 110+ and perhaps higher could be seen into next week too. Aframaxes eased off a little to 80,000mt by ws 135 to Singapore upon lighter interest but there's a solid feel nonetheless, and any concerted cargo-push would lead rates up again in short order.

West Africa

Suezmaxes tried to provoke Charterers into chasing ahead to allow them to realize latent potential but although rates did creep higher, towards 130,000mt by ws 110 to Europe and ws 105 to the USGulf, there was no big rush to fix, although next week the potential for bigger gains will remain. VLCCs tracked sideways at the start in line with the AGulf, but then Owners pushed ideas to ws 85+ to the Far East to keep in step, and are now attempting to reinstate 'insurance' premiums for the longer voyage duration. As it looks, they may well succeed.

Mediterranean

Consistently heavy Aframax fixing steadily drove rates higher by the day to end the week at a very healthy 80,000mt by ws 180 X-Med, with even higher levels called for. Positions are tight, and look thin on the next fixing window too, so the spike probably has some time to run. Suezmaxes have recently been whipped along by unflagging Eastern demand and so long as that continues, rates will always threaten higher. For now, 140,000mt by ws 110 from the Black Sea to European destinations, and up to $4.1 million to China...a self-supporting complex overall.

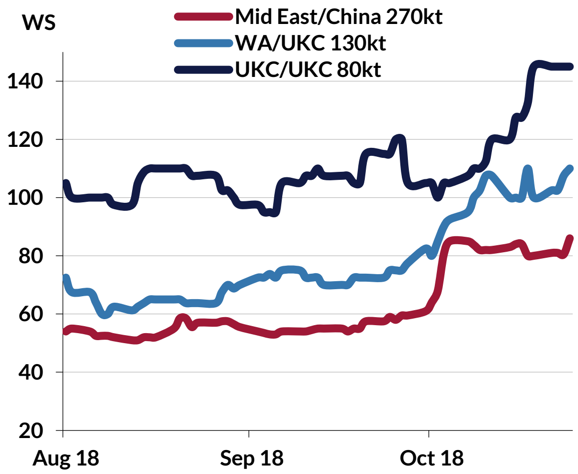
Caribbean

Aframaxes raced into clear blue water as heavy demand met even tighter supply and rates leapt from 70,000mt by ws 200 upcoast, to ws 265 before consolidating. The market is now taking a small pause for breath and the break could trip up Owners near term agenda, but any resumption of the hunt will then quickly restore order. Suezmaxes also remained firm/very firm at up to ws 107.5 transatlantic, $4.3 million from the USGulf to Singapore, and to ws 125 upcoast with already solid VLCCs again averaging close to $7 million from the USGulf to Singapore. No let-up in early sight.

North Sea

Last week's Aframax gains were quickly built upon but late week the euphoria subsided a little to draw rates back to 80,000mt by ws 145 X-UKCont, and to 100,000mt by ws 120 from the Baltic and Owners may be more minded to consolidate than tough it out to re-turn the market higher. VLCC availability stays very thin on the ground and any prospective Charterer would find rate ideas at no less than $6.95 million for crude oil from Hound Point to China, or $5.5 million for fuel oil to Singapore, with Owners having additional optionality to ballast to other load zones too.

Crude Tanker Spot Rates



Clean Products

East

An extremely busy week on the MRs has seen the list thin aggressively both off the front end and natural window, something unseen for a long time now. Last done TC12 levels are ws 120, but you would be hard pushed to find another Owner willing to send a ship East there to repeat these levels. EAF has traded flat at ws 125 but again the state of the list will push these numbers next week. Last done ex Mangalore is $1 million Westbound, which should equate to $1.025 million ex AGulf, but again there is scope for this run to firm. Short haul has remained at $140k XGulf, and $325k into the Red Sea (although needs a fresh test), but we can see this run remaining popular as Owners wish to stay short to open in a healthier market. Today will be quiet as Charterers try to let the dust settle after a busy week, but if subs are lifted there will not be much choice for Charterers in the new week. There could be a mad rush to pick off the best of the rest in the coming working days.

The LRs have been active during the course of the week, concluding with positive rate rises on the larger ships. With LR2s commencing the week pretty tight on the front end, it wasn't going to take a huge influx of fresh cargoes entering the market to see levels positively correct. With TC1 at 75 x ws 110 and UKCont assessed at $1.85 million, Owners should be pleased in this progression of rates. The LR1s have been rather unexciting rate wise this week, however, with a strong end to the week seeing a deluge of cargoes going on subjects, the tonnage list is tight heading into the weekend. Rates remain flat at 55 x ws 130 for TC5 and $1.425 million heading West, however, these will certainly be tested early next week, as fresh stems reach the market. Added to the fact that we have seen bunkers come off a touch the sentiment for the LRs is encouraging as we approach week 44.

Mediterranean

The pressure on Owners was apparent from the outset of week 43, with a slow rate of enquiry during Monday and Tuesday, coupled with a good supply of fixing window tonnage, meaning rates slipped to 30 x ws 145 for X-Med stems by Wednesday. At the time of writing, however, a healthy list of cargoes remains and, with tonnage beginning to tighten around EMed Owners are beginning to shift onto the front foot, with the potential for a few more points on offer for stems needing bigger lifters (30 x ws 155 on subs, albeit, on an MR) and safer itineraries. An inflated Black Sea market has been seen the last couple of weeks and it was inevitable that rates would begin to slip back in line, with X-Med rates now trading at the 30 x ws 160 mark. Come Monday, with the tonnage list growing over the weekend, the late momentum seen is unlikely to have a great effect with rates looking to hold.

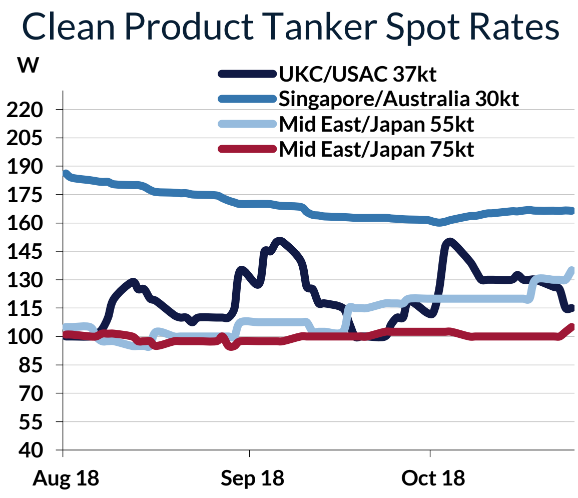
MR action in the Med has been slow this week, with rates by and large tracking action up in the UKCont. At the time of writing, with outstanding cargoes worryingly rare expect next done for Med-transatlantic to trade in line, with TC2 at the 37 x ws 115 mark. A market quote heading to Brazil was seen midweek at the 37 x ws 141 mark which was a punchy rate considering where transatlantic rates are headed but this was always going to be the case for vessels heading to Brazil before the potential Q4 improvements. For now, sentiment remains poor with some Owners starting to look at short haul routes as they are in the North.

UK Continent

A rather disheartening week for the MRs in NWE as Owners have watched their earnings being eaten into from the very beginning. TC2 kicked off 37 x ws 120 (ws +5 points on Baltic loads) but rapidly slipped to 37 x ws 115 on the back of a PMI cargo on subs by COB Tuesday. Transatlantic enquiry has been slow due to the lack of arb opportunities, so despite the relatively strong USGulf market drawing away tonnage rates have succumbed to the negative pressure. WAF enquiry has been slow this week too, as this run seems to be favouring LR tonnage, as a result, rates need a fresh test but will be around 37 x ws 125 should something need cover. Given that, the long haul routes have lost value and therefore their appeal, many Owners are now angling their ships for short haul routes (in the hope that TC2 will bounce back later down the line), although rates are still uninspiring at 40 x ws 115 for last CPP units. Although the market is poor right now, there will be a point where demand picks up, and given that tonnage has been drawn away from our side of the pond in favour of the USGulf, when this demand kicks in Owners could see some rapid and substantial improvement in NWE. However, this doesn't look to be in the opening stages of next week, but opportunities could arise as we start seeing more November dates being worked.

The Handies have had a similar week to the MRs, as Owners have been forced to take hits on their earnings as the week progressed. Baltic/UKCont runs lost about ws 10 points from the beginning of the week, to settle 30 x ws 140 at the time of writing Friday and still pressured. X-UKCont runs have had similar losses in line with the Baltic closing out 30 x ws 130 by the end of the week. Fresh cargo enquiry has been insufficient to clip away tonnage form the front end of the list, meaning Charterers have had multiple ships at their disposal and the inevitable softening occurred as a result. There will be plenty of ships to clear of the front end come Monday, with Charterers no doubt calling for less than current levels, but with earnings at year lows due to increased bunker prices, Owners will likely dig in the heels hard at the current numbers.

Although the levels on offer for Flexi Owners are not particularly inspiring (largely not helped by the weak Handy market), there has been enough consistent enquiry to keep the front end of the list from ballasting substantially. The current Flexi fleet has been evenly distributed between NWE and Gib, meaning Charterers have not had the usual plethora of tonnage available for certain cargoes. Nonetheless, demand is still not substantial and rates are still tracking the Handies, now in need of a fresh test, rates are expected to land around 22 x ws 170-175 X-UKCont. Keep an eye on the Handies next week to gauge the sentiment forecast for the Flexis.



Dirty Products

Handy

We finish this week in much the same way as last, in terms of a short position list, however, the difference between this Friday and last is that firm sentiment has borne fruit. We started the week, with ws 220 being reported and with fresh tonnage slow to materialise we close the week having seen one Owner ballast up for a long haul voyage ex ARA. Looking further afield for tonnage may continue, as from Monday, we expect to see enquiry for the second decade fixing window come into play for November.

In the Med we began the week, with a flurry of activity and the pace that was set has been sustained through to Friday. Throughout the week, positions were clipped away and rates steadily climbed from Monday's ws 210 for Black Sea/Med to fixtures at ws 260 and rumours of ws 270 on subs. End month positions in the Med have largely been picked off and we start next week well in to November's fixing window in this region as well. One thing that is certain is that Owners will do what they can to maintain recent gains, especially as the winter months approach.

MR

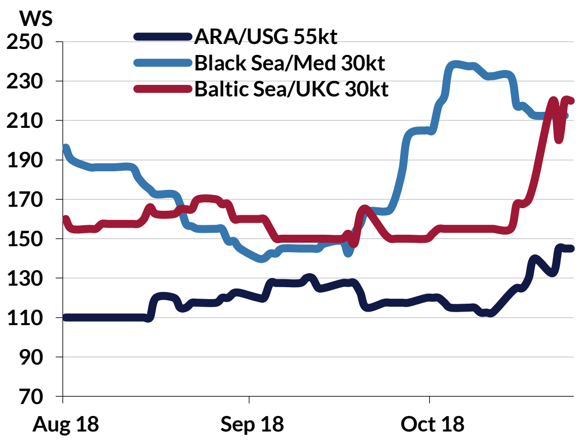
Another week, where limited MR's options were available in the region, shows trend remaining extremely firm, where Charterers have been forced to look at alternative sizes, (not that this offers much reprieve) or book ahead taking a risk on itineraries. With dynamics set like this, for the immediate short term ahead it is hard to see where the spoiler for this market may occur? Something to contemplate, however; towards the latter stages of the week, Clean tonnage is now giving serious consideration to switching trades, as with such favourable returns it's hard to ignore the pull of a firing DPP market.

The Mediterranean also remains firm although perhaps this week hasn't been one of the most active of weeks. This said, thanks to all the activity on Handies, the position list finishes the week extremely tight, which in turn has allowed Owners to push for numbers around the 45 x ws 155 level across a typical X-Med voyage.

Panamax

With pressure witnessed over in the US again, this week questions remain unanswered for the most part on what values should be fixing at on this side of the Atlantic, although one thing is indisputable, sentiment definitely hasn't eased off despite a publicly recognised test being absent. Next week, is however, expected to give us further opportunity to ascertain where European and US values align and the real test will be for ships that are sat naturally over here are willing. Units ex dry dock or approaching their open position, both of which will provide an interesting test of resolve.

Dirty Product Tanker Spot Rates



125 YEARS
GIBSON
SHIPBROKERS
1893 - 2018

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 25th	Oct 18th	Last Month	FFA Q4
TD3C	VLCC	AG-China	**+0**	84	83	59	83
TD20	Suezmax	WAF-UKC	**+9**	109	100	76	103
TD7	Aframax	N.Sea-UKC	**+14**	147	133	118	122

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

			wk on wk change	Oct 25th	Oct 18th	Last Month	FFA Q4
TD3C	VLCC	AG-China	**+1,250**	41,250	40,000	17,500	41,000
TD20	Suezmax	WAF-UKC	**+4,000**	26,500	22,500	12,500	23,750
TD7	Aframax	N.Sea-UKC	**+8,750**	32,750	24,000	13,500	17,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 25th	Oct 18th	Last Month	FFA Q4
TC1	LR2	AG-Japan	**+5**	106	100	100	
TC2	MR - west	UKC-USAC	**-12**	115	127	110	136
TC5	LR1	AG-Japan	**-1**	128	129	120	126
TC7	MR - east	Singapore-EC Aus	**-1**	166	167	163	

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

			wk on wk change	Oct 25th	Oct 18th	Last Month	FFA Q4
TC1	LR2	AG-Japan	**+1,250**	6,000	4,750	5,750	
TC2	MR - west	UKC-USAC	**-2,000**	2,500	4,500	2,000	6,000
TC5	LR1	AG-Japan	**+250**	8,500	8,250	7,000	8,250
TC7	MR - east	Singapore-EC Aus	**+0**	6,500	6,500	7,000	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**+2**	463	461	450
ClearView Bunker Price (Fujairah 380 HSFO)	**+5**	506	501	490
ClearView Bunker Price (Singapore 380 HSFO)	**+4**	507	503	493
ClearView Bunker Price (Rotterdam LSMGO)	**-3**	681	684	677

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