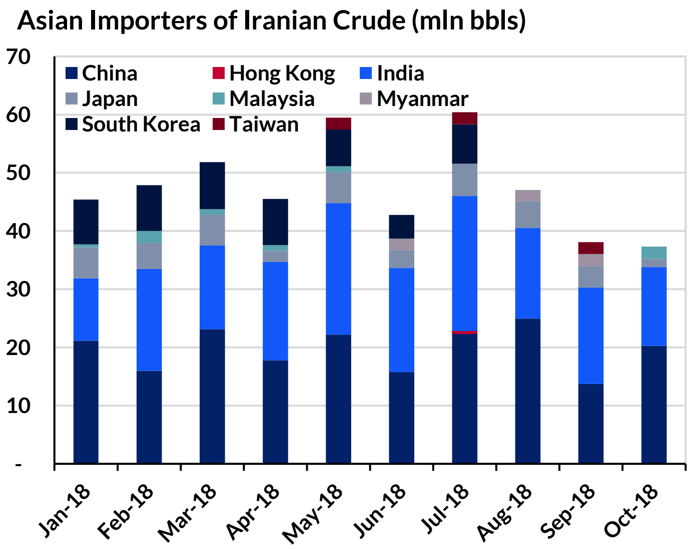
It's Complicated

Weekly Tanker Market Report

Sanctions are back. From Monday any company trading Iranian crude faces being cut out of the US financial system. The Trump Administration has stated its aim is to reduce Iranian shipments to zero, although few expect this to actually be the case. The Administration appears to have softened its stance, perhaps realising that zero exports are both unrealistic, and potentially economically damaging in terms of oil prices. This morning Bloomberg has reported that waivers are likely to be granted to eight countries, with the official confirmation expected early next week.

Despite this, even Iran's top buyers during the previous round of sanctions have shown at least some willingness to comply with Washington's demands. Korea has stopped buying altogether, importing nothing in September, having slowed purchases in previous months. Japan has continued to buy but has steadily reduced its purchases with just one VLCC arriving in the country for October and no known flows for November. Volumes have also eased into the Mediterranean, although some refiners have continued to import up to the wire, with the last Suezmax to come West with Iranian crude currently discharging in Greece. The main Western buyers; Italy, Greece and Spain appear to have now halted all purchases as expected.



It is, however, more complicated for other buyers. China, India, Turkey and Syria are all expected to continue purchases, although the volumes remain uncertain. Sinopec and CNPC have publicly stated their intention to skip November loadings citing sanctions concerns, yet overall China is expected to remain Iran's largest customer. Further muddying the waters, reports of higher volumes of Iranian crude heading into storage in China suggests some Iranian crude could be resold over the coming months.

India also looks set to continue importing, albeit lower volumes. This week the Indian press reported that the country had won waivers from the US, allowing Indian refiners to import 9 million barrels per month up to March 2019, broadly in line with the volumes already expected for November, but below the 17 million tonne per month average imported for the year to date.

Regardless of any waivers it may receive, Turkey may be in no mood to cooperate with the US given recent relations. However, in reality Turkish refiners will be wary of the US, and have so far reduced purchases as they weigh up the risks of non-compliance.

For the tanker market, we maintain our view first highlighted in our September 14th report that Iranian sanctions will benefit the crude tanker market. Quite simply, with Iran's main customers all seemingly reducing their purchases, they will have to source replacement supplies from elsewhere. Given that these replacement supplies will not be shipped on Iranian tonnage, the wider tanker market will benefit. Some of that effect already appears to have materialised in recent weeks, with higher demand for Atlantic Basin crudes in both the Mediterranean and Asia, whilst Middle East exports (excluding Iran) have also increased over the past month.

Questions will remain as to precisely how much Iranian crude is finding its way to market. Tracking Iranian crude flows has already become more difficult in recent months, and increasingly movements will be concealed. Likewise, illicit trading of Iranian crude may also slip beneath the radar.

Crude Oil

Middle East

VLCC rates briefly touched 3 figures into China but, it was never really cemented, as something to build on, and subsequent fixtures have now been fixed slightly lower. Last done for a voyage into South Korea was 270,000mt x ws 93 and 280,000mt x ws 37.5 for the US Gulf but, with Charterers keeping things moving at a slower pace, they are hopeful that such tactics will bear fruit and some potential discounting can be realised. After last week's sharp gains, Suezmax rates have now stabilised at ws 55 West and ws 120 East. Rates are expected to remain steady next week, although there will be more available tonnage in the next fixing window. There has been very little Aframax enquiry from the AGulf region this week and, with ballasters on the horizon from Singapore, options for Charterers remain healthy. However, the strong performing Mediterranean market has attracted the attention of Eastern vessels, which in turn has enabled Owners to maintain steady levels of 80 x ws 140 for AGulf-East.

West Africa

Although Suezmax activity has been light, Owners have been in a bullish mood and rates have slightly firmed, with ws 112.5 being paid to Europe. There is still potential for higher rates to be paid next week. VLCC interest concentrated mainly on voyages to India here, with some healthy premiums paid off tight November dates. Charterers, that are able to venture further into December, should meet little resistance to repeat last done, which stood at 260,000mt x ws 94.25. Again, we should see rates fix lower than last, as the AGulf market shows signs of softening.

Mediterranean

Further steady fixing from midweek onwards stopped the rot from settling into the Mediterranean Aframax sector. After a day of pause, a few discounted fixtures were seen, as Owners looked to not miss on higher than average rates. However, Black Sea cargos began to fix again in earnest, as Charterers looked to protect against Turkish Straits delays. This allowed rates to move back up to their highs in the ws 180s for most voyages, with some Owners managing to earn into the $40k/day levels. Friday has proved to be quiet but Owners have learned from this week and are not ready to thrown in the towel just yet. An active week for Suezmaxes has seen levels push further up and the week closes with rates no lower than 140,000mt by ws 135 from the Black Sea to European destinations and $4.6 million to Ningbo. There will be no respite for Charterers next week and rates will remain strong, as Turkish Straits delays become longer.

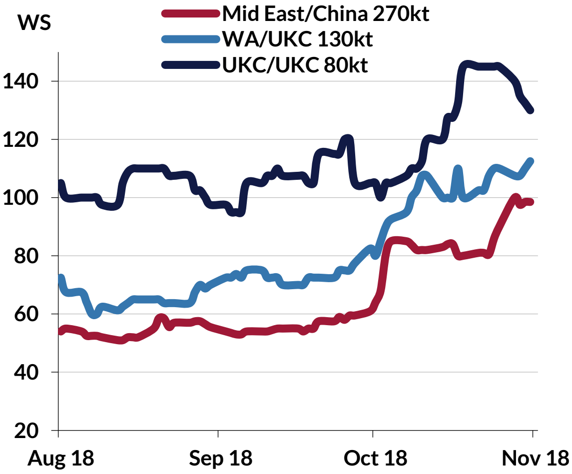
Caribbean

It was always going to be difficult for Aframax Owners to hold on to the high levels achieved last week but, even with a number of positions returning, last done levels remain at a respectable 70,000mt x ws 240 for a generic Caribs/up coast run. VLCC availability for November has all but extinguished and Charterers will need to tread carefully when starting to cover their early December dates. Last done from the USGulf to Singapore is $7.5million, which could be bettered by Owners, when Charterers next come calling.

North Sea

Northern Aframaxes took a ride through the haunted house this week, as ups and downs spooked different parties until the carriage travelled through a spook-free final day. Charterers failed to be scared by any potential bounce back and have held out. Next week, we can expect a gap in the Primorsk programme to help revamp the list and add pressure to those with open positions. Transatlantic cargoes will likely continue to be a popular choice amongst Owners, especially those, who have just done the run over from the States and are looking to maximise their returns. North Sea VLCC enquiry remains muted but, with a lack of available tonnage Owners that are around should still command levels in the region of $6.9 million for a voyage from Hound Point to Far Eastern destinations.

Crude Tanker Spot Rates



Clean Products

East

The MRs have seen a positive close to the week. The tightening tonnage list and decent flow of cargoes helped rates climb and achieve better than last done levels. EAF currently on subs at 35 x ws 155, however, with a further EAF stem still to be covered, this could be further tested. TC12 has also been positively tested, closing the week at 35 x ws 145. UKCont hasn't been tested and is in need of a fresh test; however, with Owners' ideas in the $1.2 million region we expect it will correct to around the $1.125-$1.150 million mark. Short haul voyages have followed suit and also saw rates progress, $160k on subs for a second last veg, with full CPP ships pushing around $180k mark. Cargoes into the Red Sea now sit at $425k and have potential to push a little more. On the whole it's been a very positive week for the Owners, rates have started to give slightly better returns and we head into the weekend with a pretty tight tonnage list. Owners will be looking forward to week 45.

LR2s have seen an active week and hype has been in full flow. For once, that hype has been backed up by real movement. 75,000mt naphtha AGulf/Japan is up at least ws 10 points to ws 120 and could see more soon. 90,000mt jet AGulf/UKCont is up to $1.90 million, although it could see more if it keeps up with returns on East rates. LR1s have been very steady, with both ships and cargoes very balanced. 55,000mt naphtha AGulf/Japan remains stuck at ws 130, while 65,000mt jet AGulf/UKCont is at $1.425 million. Yet, Owners ambitions are high, so where we now go just relies on how much sentiment can be realised in firming rates.

Mediterranean

A fairly placid week has passed for the Handies in the Mediterranean, with cargo enquiry gently balanced against available tonnage. With some turbulent weather bashing the shores, we have seen some replacement opportunities for Owners, which has pulled X-Med up to 30 x ws 150 now. However, with the lack of support from the Black Sea sector, rates there continue to hold at 30 x ws 160. Any additional stems loading in the Black Sea next week will help clear excess tonnage seen in the East Med but for now we can expect rates to hold place and continue to trade sideways.

MRs have seen minimal enquiry pass in the Mediterranean, with the lack of East runs providing slim pickings for Owners. With this in mind, rates have once again been defined by the UKCont market levels, which now pulls towards 37 x ws 112.5-115 for transatlantic and ws 125 for WAF. With rates subdued, we have seen some Owners dipping their toes into short X-Med runs, waiting for levels to pick up. With little other fixing alternatives, we can expect this sentiment to continue ahead.

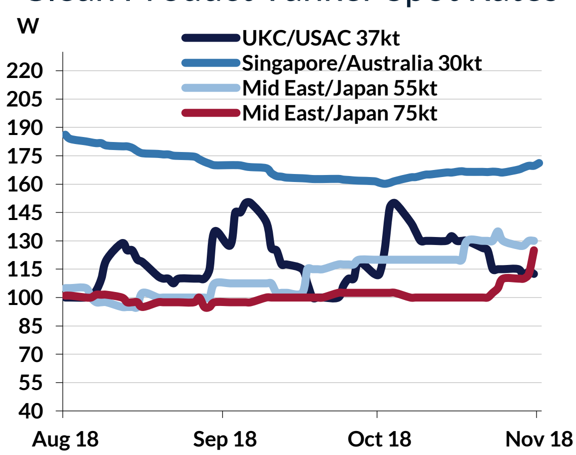
UK Continent

In summary, it's been a week that has left many operating in this market craving the relief of the weekend. Rates have struggled at 37 x ws 112.5 for the duration of the week, even if some Owners were able to get 37 x ws 115 on voyages with various options. The pace of enquiry has been insufficient to clip away tonnage and levels of offer have stagnated as a result, with non-last CPP background ships having to give about ws -5 points discount to gain employment. There has been a little bit of extra WAF demand this week but, with certain Owners hankering for this run, rates have not been higher than ws +10 over TC2. Short haul routes have been a focus for many as a delay voyage, resulting in a well-supplied market and rates to match 40 x ws 112.5. The list will inevitably grow a little over the weekend, meaning the outlook is bleak early next week. However, with ballasters heading to the USGulf in the last fortnight, if and when (and it's a big if and when) demand off UKCont picks up, Owners could really push rates if they play their cards right….we just aren't there yet.

Owners tried their best to hold last week's rates on Monday but, with most 1st decade Baltic programme cargoes covered early in the week (and much under COA), the fixing window has been a little forward for the duration of the week, meaning rates quickly came off to 30 x ws 130 Baltic/UKCont and have traded sideways since Tuesday. X-UKCont voyages have been available but not enough to mop up extra tonnage, so 30 x ws 120 has persisted in the same fashion. Even on Friday, the list is still littered with prompt units, which is ultimately the limiting factor of this market, meaning the beginning of next week should mean much more of the same.

Flexis have had a pretty dismal week, not helped by the negativity of the Handies, which more often than not make more sense to charter over the smaller tonnage. There has been the odd market quote to keep some ships moving but generally there are lots of ships for employment on the front end of the list. Whilst 22 x ws 162.5 is a rough benchmark, in practice Owners are likely to be much more willing to shave some rates off to snatch a cargo. Predictably more of the same next week.

Clean Product Tanker Spot Rates



Dirty Products

Handy

Conditions in the continent this week showed no signs of reversal for Charterers, as recent proceedings have left availability pretty stretched. This being the case, it was never going to take much fresh enquiry to bring about further depletion of available tonnage, which inevitably has happened this week. As such, the region remains firm at around ws 225, with Charterers having to fix more forward, than they would usually be comfortable with doing.

In the Med, Charterers have managed to keep a lid on any upside from this week's trading, aided by a steady pace of activity, which for the most part struck a balance, with the supply of tonnage available. Looking ahead, with clean tonnage considering getting in on the action and units reopening going into next week, for the immediate round of fixing perhaps Charterers can better last done deals by a small margin.

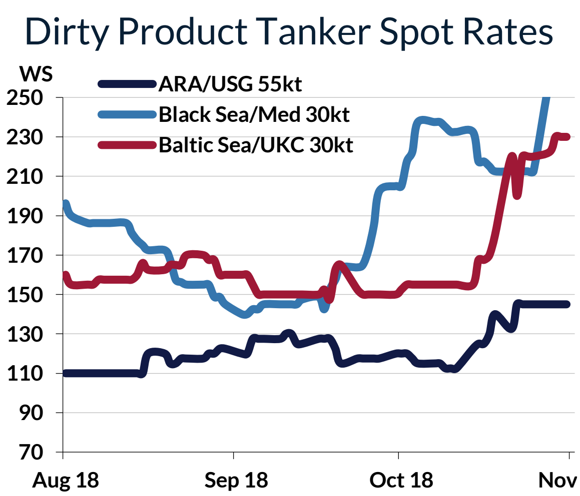
MR

This week will be viewed as a successful period for Owners in this sector, as no sooner units came into play, cargoes where shown, clipping away such availability. Towards the back end of the week, the last remaining natural unit open this side of the week managed a 25 point premium, pushing the benchmark. The next units to hit the continent are close to mid-month dates, which is likely to force Charterers to look a little further ahead of schedule or look on alternative sizes where possible.

This week took a slower pace in the Mediterranean, as enquiry steadied. Some Owners opening this side of the weekend grew tired of waiting for the 'few and far between' 45kt cargo and dipped into Handy size cargoes off earlier dates but, at a discounted rates. Although current rates still may seem on the high side to Charterers, Owners will be disappointed that momentum hasn't held in this region and no doubt they will be keen to regain ground in week 45.

Panamax

It took a few days but, finally Europe has seen values tested, providing a re-validation of benchmarks from where negotiations will now be based upon. WS 145 does, however, mark a significant level of disparity against where the US is trading and for this reason Charterers will be mindful that ballasters will cost more. This said, Owners confidence isn't quite firing on all cylinders, where at time of writing, there are ships competing for the same business.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Nov 01st	Oct 25th	Last Month	FFA Q4
TD3C	VLCC	AG-China	**+15**	99	84	68	91
TD20	Suezmax	WAF-UKC	**+3**	112	109	88	111
TD7	Aframax	N.Sea-UKC	**-13**	134	147	104	127

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

			wk on wk change	Nov 01st	Oct 25th	Last Month	FFA Q4
TD3C	VLCC	AG-China	**+15,750**	57,000	41,250	24,000	48,500
TD20	Suezmax	WAF-UKC	**+1,750**	28,250	26,500	16,500	27,750
TD7	Aframax	N.Sea-UKC	**-7,000**	25,750	32,750	5,000	21,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Nov 01st	Oct 25th	Last Month	FFA Q4
TC1	LR2	AG-Japan	**+14**	120	106	102	
TC2	MR - west	UKC-USAC	**-2**	113	115	148	145
TC5	LR1	AG-Japan	**+1**	129	128	121	138
TC7	MR - east	Singapore-EC Aus	**+4**	170	166	161	

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

			wk on wk change	Nov 01st	Oct 25th	Last Month	FFA Q4
TC1	LR2	AG-Japan	**+4,500**	10,500	6,000	4,500	
TC2	MR - west	UKC-USAC	**+0**	2,500	2,500	7,250	7,750
TC5	LR1	AG-Japan	**+250**	8,750	8,500	6,250	10,250
TC7	MR - east	Singapore-EC Aus	**+250**	6,750	6,500	5,000	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**-5**	458	463	479
ClearView Bunker Price (Fujairah 380 HSFO)	**-12**	494	506	518
ClearView Bunker Price (Singapore 380 HSFO)	**+6**	513	507	522
ClearView Bunker Price (Rotterdam LSMGO)	**-15**	666	681	709

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