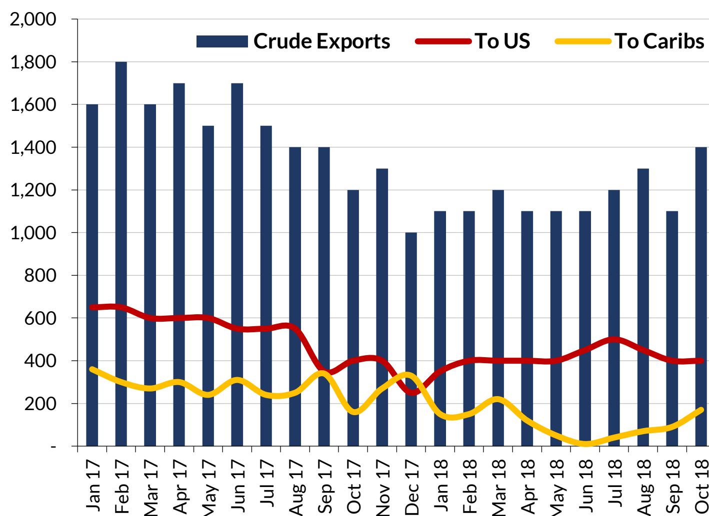
When the Going Gets Tough

Weekly Tanker Market Report

To say its been tough for Venezuela in recent years would very much be an understatement. The economy has shrunk more than half since 2013, almost 10% of their 30 million population have fled and their oil output – which accounts for 90% of their exports – has plummeted to levels not seen since 1940's. A chronic lack of investment in the vital oil infrastructure, years of mismanagement and hyperinflation has sent the country's oil production into 'free fall'.

Since January Venezuelan crude output has averaged at 1.4 million b/d, down by 0.6 million b/d over the corresponding period last year. The fall in output is reflected in crude exports. ClipperData indicates that this year the country's total exports have averaged just under 1.2 million b/d, down by 0.37 million b/d year-on-year. The decline has been witnessed both in the long haul and short haul crude trade. Shipments to Asia Pacific, mainly China and India have averaged 0.57 million b/d during the 1st ten months of this year, down by 80,000 b/d versus 2017 figures. Although this does not look like much, there also has been a notable decline in crude trade to the Caribbean where PDVSA owns/leases crude storage facilities for further shipments. Exports to the Caribbean have fallen in 2018 by 170,000 b/d year-on-year. Without a doubt, the seizure of PDVSA's assets by ConocoPhillips in May this year has been a contributing factor behind the overall decline. However, some progress in their dispute has been made after a payment from PDVSA to Conoco concluded using a combination of cash and commodities. Finally, Venezuela on average has shipped less crude to the US this year than it did over the same period in 2017, although some minor rebound has been seen in recent months. Overall, between January and October 2018, crude trade has averaged 0.43 million b/d, down by 120,000 b/d when compared to the same period last year.



Interestingly, the decline in Venezuela's total crude shipments this year has been smaller than the fall in production levels as the problems faced by Venezuela's refining sector intensifies as well. A lack of funds for upgrades and maintenance as well as skilled staff seeking employment elsewhere has been the driving force behind the issues. Venezuela's biggest refinery, Amuay, is running at under 20% and other key refineries are barely functioning. The ongoing decline in crude refining runs means an increasing need to import products, mostly from the US. It has been reported that large amounts of heavy naphtha have been shipped south to blend with Venezuela's deteriorating local crude quality. Apart from more product shipments into the country, there are also logistical issues. Media reports suggest that delays have occurred in unloading fuel cargoes since most of their ports are more orientated for exporting rather than importing therefore contributing to shortages. It was reported that one tanker bringing imported gasoline was highly contaminated forcing PDVSA to withdraw the product from distribution. The incident has been allotted to them having to seek fuel from 'unreliable suppliers' due to many companies unwilling to do business with a country carrying US sanctions.

Going forward, the economic turmoil faced by Venezuela shows no signs of abating. As such, there appears little upside to crude production levels, despite the country having one of the world's largest oil reserves. Many are seeing 1 million b/d as the floor to Venezuela's production, although others have mooted the idea of output being as low at 0.7 million b/d by the end of 2019. Nonetheless, Venezuela's oil minister Manuel Quevedo has stated recently that even with all the problems faced production has stabilized and that the government is hopeful that output will increase to 1.6 million b/d by the end of the year. An ambitious target, perhaps, considering the falling rig count, which is usually an indicator of future production.

Crude Oil

Middle East

VLCC activity was light as the Industry decamped en masse in Dubai. Rates for AGulf/East, which started on a firm footing, began to slide as end November stems were covered on modern tonnage at ws 90 mark to the Far East. However, rates steadied by the end of the week, as Charterers started to cover early December cargoes and there is optimism amongst Owners that rates will rebound next week. Suezmaxes have also had a quiet week, with many Owners deciding to ballast West to obtain better returns. Rates currently stand in the low/mid ws 120's East and ws 45 West and Owners will hope for next week to be more active now that the December load programs have been released. Similar story for Aframaxes this week. Rates hold at 80,000mt by ws 140 for East discharge; however, it is finely balanced. The front end of the tonnage list is thin for both old and modern units, so any influx of cargoes could easily see rates jump up, especially given further potential for Owners in the Mediterranean and the prospect of tonnage ballasting away.

West Africa

A quiet start to the week initially led to some softening in Suezmax rates down to 130,000mt by ws 115 to Europe. By the end of the week, the market had rebounded back to ws 120 for European discharge and $4.285 million to Balikpapan. The market now has a different outlook, with problematic cargoes still needing covering and a tighter tonnage list, giving Owners confidence to push for higher rates. VLCC levels were pushed downwards by lack of activity in AGulf and a comfortable position list for mid-December onwards. Charterers were successful in fixing below last done levels and by end of the week, rates were heading towards mid ws 80's to the Far East.

Mediterranean

Suezmaxes made further gains this week off the back of longer Turkish Straits delays and strong demand for Eastern discharge options. Levels pushed by to 135,000mt by ws 172.5 for European discharge and $4.9 million for South Korea. Levels show no sign of abating and still have potential to push higher. Aframaxes found its theoretical floor after some steady downward pressure on rates. The market has certainly turned a corner and the outlook for Owners is far brighter. Rates have now passed the 80,000mt by ws 145 mark from the Black Sea to European destinations and, with weather delays beginning to have an affect on itineraries, this only adds more fuel to the Owners' fire for next week.

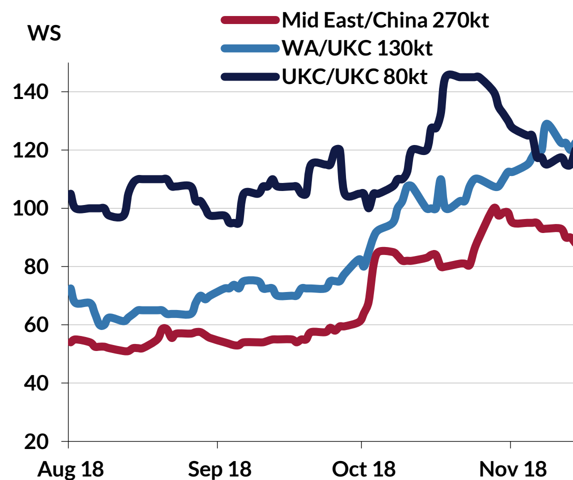
Caribbean

Further weather disruptions this week aided Aframax Owners in maintaining last week's levels of 70,000mt by ws 230, with higher being paid for replacement cargoes. Suezmax rates have also pushed up to 150,000mt by ws135 for Caribs/US Gulf and the tonnage list remains tight. VLCC activity picked up during the week, as Charterers began to move off forward positions as tonnage supply dried up. The

recent firm levels were repeated and by week's end there are signs that levels will push towards $7.85 million for US Gulf to Singapore. VLCC market is expected to remain firm for the balance of December.

North Sea

Aframax levels seemed to have bottomed this week at 100,000mt by ws 90 from the Baltic and 80,000mt by ws 115 for X-UKCont. This so far has failed to build, with Baltic cargoes fixing ahead and North Sea volumes not quite busy enough to drive rates. Further Continent action today will help to build next week's foundation; yet, the time frame for a market recovery is still very much up in the air. VLCC Charterers this week had difficulties in securing tonnage at workable levels and activity has been kept to a minimum. There is no sign of any downturn as tonnage availability remains light.



Clean Products

East

MRs have really pushed this week, taking no heed of much of the market travelling to Dubai for the week. Westbound now sits at $1.2 million, with every indication that it will push further in the fresh week. TC12 has been relatively untested, unsurprising, given that LR2s comparatively provide some better value. EAF should start to move towards ws 200, although currently sits at ws 180, shorthaul will remain flat as Owners predict an even stronger market towards the end of the year and will remain eager to stay short. Next week will be interesting, given how tight the list looks.

LR2s have had a steady week, with TC1 solid at ws 120 and 90,000mt AGulf/West at $1.9 million. LR1s have also been flat but with reasonable activity and with MRs busy, are sure to see a reaction of some sort. 55,000mt AGulf/Japan is at ws 135 today and 65,000mt jet AGulf/UKCont is $1.45 million. There is potential for rates to firm on both sizes but, with most travelling to Dubai this week, next week will be the real test.

Mediterranean

A surge of momentum has entered the Med market this week, with cargo enquiry strong right from the off. From Monday Owners knew they were on the front foot and held off offering in for stems as long as possible in order to build the positive sentiment and leave Charterers uncovered for stems off earlier dates. X-Med has jumped from 30 x ws 155 up to 30 x ws 170, which is where it is trading at the time of writing; however, it wouldn't be surprising for more to be seen due to the booming Black Sea market. The simple case of supply and demand in the Black Sea gave Owners the ability to offer bullish rates, which has paid off, with stems needing cover before the 24th achieving heights of 30 x ws 200-202.5. With tonnage still tight and stems needing cover, you could argue that more points are on the cards for stems outstanding before the 24th. However, come Monday with the natural shift in fixing window, the market will be a different story, with these ballooned rates likely to be under pressure, with a wealth of new candidates available.

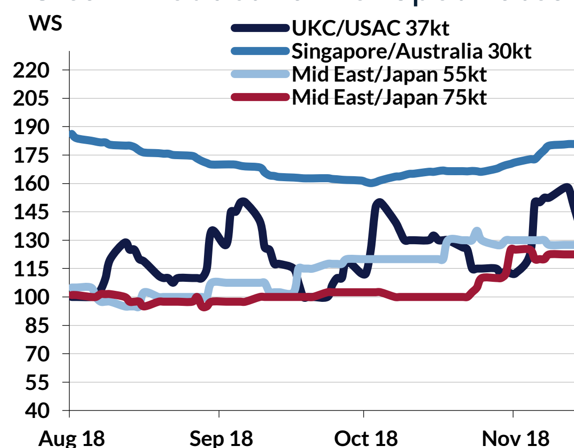
With little to no enquiry pulling ships East of Suez and a crumbling Continent MR sector, Owners sitting in the Med were always going to face an uphill battle to keep rates in place. Thankfully, reasonable levels of stems have been seen, especially loading EMed/Black Sea area, which has slowly clipped away tonnage and pulled ballasters in from WAF. Rates though have followed a similar trend to the UKCont, as to be expected, and as the close of play arrives, we see WAF trading around 37 x ws 155-160 and expect a fresh test of transatlantic move towards the ws 140 mark. For the time being we continue to mirror rates of the Continent, with a surge of East moves required for the Med to beat to its own pace.

UK Continent

The momentum which Owners built towards the back end of last week on the MRs has well and truly came to a halt in week 46. Charterers have played a very shrewd game by holding back stems and drip-feeding them into the market, which has seen TC2 soften (at the time of writing) to 37 x ws 140 and West Africa requiring a fresh negative test around the 37 x ws 155-160 level. Another factor has been the healthy amount of ballasters the European market has received from West Africa and also a few vessels from the States market. One positive note for Owners looking ahead will be the rate shift we have seen ex USGulf, which may see rates stabilize in NWE, as Owners sentiment and ideas begin to improve, but for now Charterers remain firmly in the driving seat.

Activity on the Handies has been generally quite slow this week, fresh enquiry has been lacklustre and Charterers have looked to draw the heat from the market after last week. As a result, fresh cargoes being quoted in the public domain have been few and far between, with a preference to cover programme stems under COA, where possible. As a result, rates have slipped from 30 x ws 175 Baltic/UKCont at the beginning of the week to 30 x ws 165 by Friday and X-UKCont levels following in line but the typical ws 10 points below. A further slide in rates has been pegged, thanks to the relative tightness of the tonnage list especially of the front end, this is also why a couple of high numbers (30 x ws 180 ex Baltic, 30 x ws 160 X-UKCont) were seen in the back end of the week. For now next week looks to trade sideways from levels currently seen, as 3rd decade cargoes should bolster the skinny cargo list and limit further rate losses.

Onto the Flexis, although there has been little in the way of 'fireworks' here, given that on Monday the list was littered with prompt tonnage, the rates that have been on offer haven't been too bad - mostly trading sideways around 22 x ws 200 and little change at the time of writing on Friday. A market quote was able to get very competitive freight for a ship opening next to load port, reaffirming that dates and positioning are crucial in determining what's achievable rate wise, in this otherwise continuously illiquid and fragmented market. Keep an eye on the Handies next week to determine underlying sentiment.



Dirty Products

Handy

As the market suffers a slower week of trading, values have been trimmed within the region, where tonnage stocks build and units fall outside of their fixing windows. That said, some of the sharper numbers, that have been seen, were achieved for voyages offering escape routes from the region. For this reason it is difficult to assess, where the benchmark X-UKCont routes true value lies. Looking ahead, we will need to see some further testing to establish where this market will settle but, with end month fixing windows nearly in play, corrections could be temporary.

In the Med trading conditions have been rather more steady after suffering a ws 10 point drop mid-week. Although whilst on paper the tonnage lists look well stocked, many of the units being shown aren't as firm as what they would appear, which probably offers some rationale as to where Owners have got their resilience from. Moving forward levels are expected to be tested again next week but, with the Aframaxes again now making ground, the optimism in the region slowly builds.

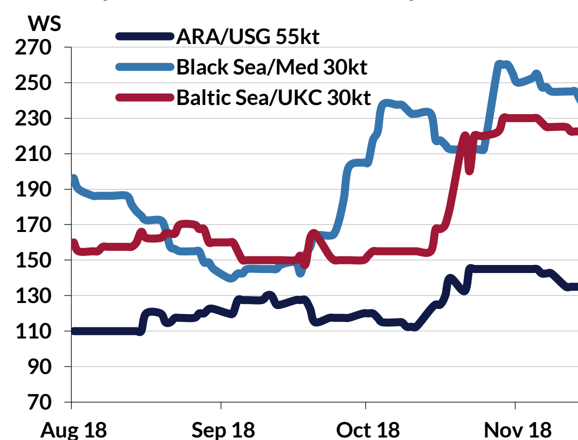
MR

A scenario we have not seen for a while quickly unfolded in the north on Monday, as for the first time in a while natural tonnage was presented on the position lists. However, the full size stems, that Owners would have been hoping for, have not come to light. Instead, those with early tonnage to work, had only seen part cargo stems and for the most part of the week we are left wondering, if fixing windows have escaped those in play. That said, with some last minute fixing come Monday, tonnage is likely to be looking thin on the ground once again, leaving this sector still very much dates dependant going forward.

The Med on the other hand trades in contrast to the NWE region, with activity being rather more fluid with enquiry. This has resulted in a steady flow of tonnage getting clipped away throughout the week, although as far as rates go, the market has remained balanced throughout, with levels remaining flat. Come Monday, apart from 1-2 early units needing to be clipped away, trend could change, should a few cargoes be seen in quick succession.

Panamax

This week the Panamax sector can actually report a flash flood type scenario, with the sun shining immediately after; as where the Aframaxes in the Med dipped to ws 80/80 (fuel) and the foundations where the Panamax sector should align, were shook from beneath. Numbers did eventually settle at around ws 130-135 but this is only on the premise that units are naturally occurring on our shores. At time of writing, the market remains without fresh benchmarks of what ballast tonnage will need to come over, with disparity against the US still occurring.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Nov 15th	Nov 08th	Last Month	FFA Q4
TD3C	VLCC	AG-China	**-4**	90	94	83	82
TD20	Suezmax	WAF-UKC	**+1**	121	120	100	114
TD7	Aframax	N.Sea-UKC	**-2**	118	119	133	123

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

			wk on wk change	Nov 15th	Nov 08th	Last Month	FFA Q4
TD3C	VLCC	AG-China	**-1,250**	50,250	51,500	40,000	42,250
TD20	Suezmax	WAF-UKC	**+2,000**	35,500	33,500	22,500	32,500
TD7	Aframax	N.Sea-UKC	**+250**	17,250	17,000	24,000	20,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Nov 15th	Nov 08th	Last Month	FFA Q4
TC1	LR2	AG-Japan	**+0**	120	120	100	
TC2	MR - west	UKC-USAC	**-10**	142	152	127	151
TC5	LR1	AG-Japan	**+1**	130	129	129	131
TC7	MR - east	Singapore-EC Aus	**+3**	181	178	167	

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

			wk on wk change	Nov 15th	Nov 08th	Last Month	FFA Q4
TC1	LR2	AG-Japan	**-750**	10,000	10,750	4,750	
TC2	MR - west	UKC-USAC	**-750**	8,250	9,000	4,500	9,750
TC5	LR1	AG-Japan	**+1,000**	9,750	8,750	8,250	10,250
TC7	MR - east	Singapore-EC Aus	**+4,500**	12,500	8,000	6,500	

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

	wk on wk change	Nov 15th	Nov 08th	Last Month
ClearView Bunker Price (Rotterdam HSFO 380)	**-28**	409	437	461
ClearView Bunker Price (Fujairah 380 HSFO)	**-35**	457	492	501
ClearView Bunker Price (Singapore 380 HSFO)	**-47**	461	508	503
ClearView Bunker Price (Rotterdam LSMGO)	**-38**	608	646	684

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