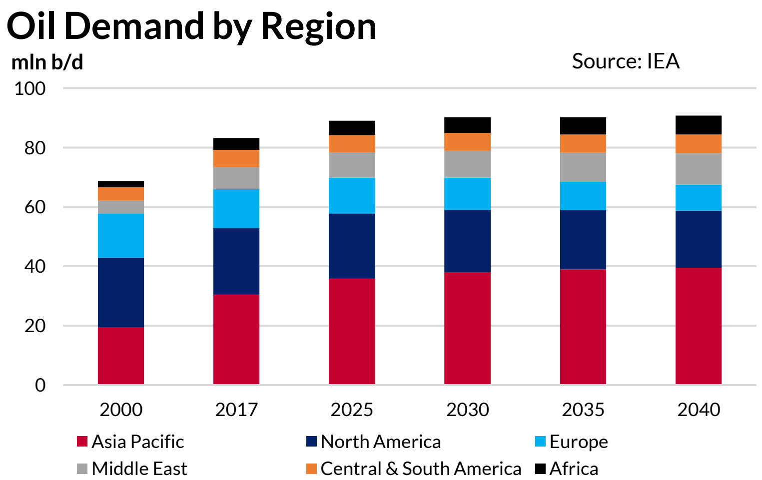
In the Long Run

Weekly Tanker Market Report

Ordering a new tanker is undoubtedly a big decision. More often than not the investment is driven by robust industry earnings, although at times the main reason is attractive asset prices, regulatory developments and/or the need for replacement tonnage. As the vessel's trading life is typically around twenty years, the decision to order should also be considered against the backdrop of projected developments in tanker demand both in the short and in long term. Factors such as slowing growth in world oil demand and environmental concerns should also be taken into account.

The IEA has recently published its annual long-term energy outlook, offering a view of developments in oil demand and supply through to 2040. In the New Policies Scenario, which is considered by many a baseline forecast, the agency takes into account not only the current policies but also ambitions, including those set out in Paris agreement, together with the likely evolution of known technologies. Here, global oil demand is projected to increase by around 1 million b/d per year to 2025, slowing notably thereafter to around 0.25 million b/d. The expectations are for robust growth in demand from the petrochemical sector, trucks and the aviation sector; while oil usage in cars is expected to peak around 2025, declining afterwards as the uptake of electric cars accelerates globally. Gains in global demand will entirely be coming from developing economies, largely Asia and the Middle East. China is anticipated to overtake US as the largest oil consumer, importing over 13 million b/d of by 2040. Strong increases are also seen in India and the Middle East, with consumption in both regions rising above the EU needs around 2030.

In terms of supply, production in North America is forecast to increase substantially to 2025 and then plateau around 2030. Thereafter, output is expected to ease back; yet, an even bigger decline is projected in regional oil demand, meaning that exports out of the region will continue to rise. In Central/South America oil supply is projected to increase consistently throughout the forecast period, with likely strong increases in net exports between 2025 and 2040. As most of the demand growth is coming from Asia, this suggests ongoing growth in long-haul trade out of the Americas.



When it comes to the refining sector, the IEA expects around 17 million b/d of new refining capacity to come online, almost entirely in Asia Pacific and the Middle East. As new plants are more competitive, the bulk of global refining throughput is projected to shift from the Atlantic Basin to East of Suez towards the end of the outlook period, focusing on growing integration with the petrochemical sector. Less competitive refining capacity in Europe, North America, Russia, Japan, Korea and China could be under threat. From the product tanker market perspective, the potential closure of inefficient and aging refineries in the West highlights the potential for growing regional product imbalances and hence rising product tanker demand.

On the face of it, the IEA base case outlook remains positive for tankers, particularly for larger units. Oil demand is not expected to peak until 2040, although a notable deceleration in growth rates in the very long term reduces the ability to quickly absorb excess tanker capacity during the industry down cycles. Apart from trade demand prospects, shipowners should also be mindful of the IMO targets to reduce greenhouse emissions by at least 50% by 2050. Although measures to achieve these targets are yet to be defined, there is clearly a growing possibility that further regulations will be forthcoming, with potential major consequences for the global shipping fleet.

Crude Oil

Middle East

Robust demand returned to the VLCC sector to reinvigorate ambition and lead the market upon an upward path. That said, older and more challenged units provided a weighty portion of the fixture tally and acted as a drag weight to Owners of modern units that would otherwise have scored more significant gains. Rates moved to ws 95+ to the Far East for modem units with older vessels at down to ws 85 and runs to the West marked in the low ws 40's. Perhaps further improvement next week. Supermaxes initially kept at close to recent highs but late week began to drift off somewhat as Charterers moved onto more populous forward positions - no crash, but rates are easing to ws 65 West and ws 125 East, nonetheless. Aframaxes started busily to lead rates higher, but then quickly moved to better tonnaged positions that provided sufficient competition to drag rates back to sub 80,000mt by ws 160 to Singapore and there could yet be further resettlement.

West Africa

Suezmaxes lost a degree of faith as the week wore on. Charterers began to hold back, and re-supply from Eastern ballasters also impacted. Rates eased off to ws 130 to Europe and to ws 120 to the USGulf as a consequence - still very healthy but not quite as fighting fit as previously, though any concentration of fixing next week could well reverse the trend. VLCCs initially flatlined, but a solid pulse of mid/late week interest, and a more positive AGulf scene, bolstered Owners' confidence to push ideas into the high ws 90's to the Far East and over ws 105 for shorter, more restricted, movements. No retreat into next week either.

Mediterranean

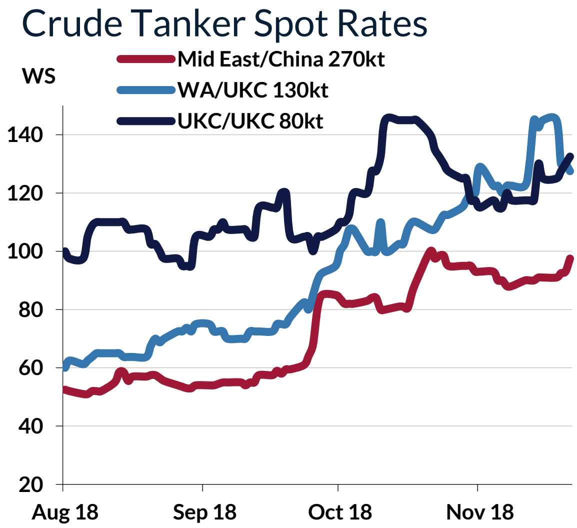
Aframax Charterers had already started to chase last week and a slow end to that week was quickly countered by another sustained cargo thrust through this week. Rates are now at up to 80,000mt by ws 195 X-Med and although many Owners will be keen to cash in at such heady numbers, the party should last for a little while longer. Suezmaxes - as in West Africa - broadly held very positive numbers but had to retreat a little as enquiry slowed and availability loosened a touch. 140,000mt by ws 160 now for Black Sea to European destinations, with $4.8 million asked for runs to China.

Caribbean

The Thanksgiving Holiday at the end of last week hit Aframaxes hard. Sluggish demand, and an overhang of tonnage, combined to drive rates down to 70,000mt by ws 120 upcoast though a 'bottom' should hove into sight soon. VLCCs remained in very tight supply, so that a drop off in demand failed to negatively impact upon Owners peak rate demands of up to $8 million from the USGulf to Singapore, and around $7 million from the Caribbean to West Coast India. With other areas firming, ballast re-supply from the East will become more limited/more expensive too.

North Sea

Aframaxes continued to play 'follow my leader' to Mediterranean gains - upwards, but still behind. Its been busier and there's a positive vibe in the marketplace that could see rates increase further from the present 80,000mt by ws 135 X-UKCont and 100,000mt by ws 110 from the Baltic. Very little VLCC action but tonnage is also very sparse and, with other zones popping, Owners demand up to $6.5 million for fuel oil to Singapore, and no less than $7.5 million for crude oil to South Korea.



Clean Products

East

On the whole the MRs have not really seen the levels of positivity witnessed on the larger ships. The limelight has been pointing toward the LR2's and as a result the MRs have just ticked along. However, the tonnage list is looking well balanced and, with the possibly of larger stems being spilt up, Owners will be hoping that with a round of fresh cargoes this balanced list could be pushed to the Owners' advantage, but, as yet, this has not been realised. With this lack of activity, rates have been tested as the week progressed, disappointing for Owners but nothing that's cause for alarm. EAF danced around a little but sits at 35 x ws 157.5, TC12 holds at 35 x ws 145 levels, however, these could easily be positively correct as additional stems made it into the market. Red Sea and X-AGulf runs both softened a bit with Red Sea at $425k and X-AGulf at the $180k mark. UKCont still has a few keen takers, and given that the West market sentiment has been positive, rates have held well at $1.175 million. With the prospect of a healthy supply of cargoes entering the market next week, and the balanced tonnage list, Owners are quietly confident for week 49.

The biggest week in the LR market for some 2 years. LR2s went ballistic with TC1 rising ws 35 points in 2 days and Owners fighting hard for more. 75,000mt naphtha AGulf/Japan now sits at ws 155 but it's hard to find a vessel at that rate even. 90,000mt jet AG/UKCont is hard to assess but around $2.3 million today depending on dates. LR1s have actually not seen any more stems than a usual week, but the sentiment change on LR2s has moved Owners ideas and we are now in a standoff. 55,000mt naphtha AGulf/Japan is now around ws 150, with last done at ws 140, whilst 65,000mt jet AGulf/UKCont is around $1.65 million, with last actually fixed at $1.50 million. So there is room for more and this firmness looks set to last into January, with lists tight for the remainder of December.

Mediterranean

Whether the gap between X-Med and Black Sea would close in either Charterers or Owners favour was the question at the beginning of week 48, and the latter certainly prevailed. Bad weather in WMed causing uncertain itineraries coupled with a constant flow of enquiry, left Owners in the driving seat and Med rates have jumped ws 25 points, with 30 x ws 200 now the going rate at the time of writing. The front end of the list remains tight and, with cargoes still needing cover for dates around 6-7 Dec, expect these higher numbers to be maintained and potentially built on. Black Sea numbers have consistently traded at the 30 x ws 200 mark throughout, with Owners struggling to capitalise on a tight list due to slow enquiry. That being said, 30 x ws 215 was seen for a replacement and, with the market firming in the Med, Owners ideas will now be at around the 30 x ws 205-210 mark for natural stems. It's likely the momentum seen this week will continue into week 49, with most Owners licking their lips as to future prospects.

On the MRs a strong Market structure was laid in place from last week with tonnage availability light and Owners bullish in their ideas, and with that it was no surprise to see rates mirror that of the Continent's spike. A Brazil run started the momentum pulling up to 37x182.5 and then with some good inquiry down to WAF numbers pulled through the 200 mark and at close of play we see 37 x ws 205 on subs and transatlantic settling around ws 190. A quieter end to the week will give Charterers a chance to regather their thoughts, but pushing into next Week with tonnage tight across the Atlantic, expect Owners to continue their drive for further gains.

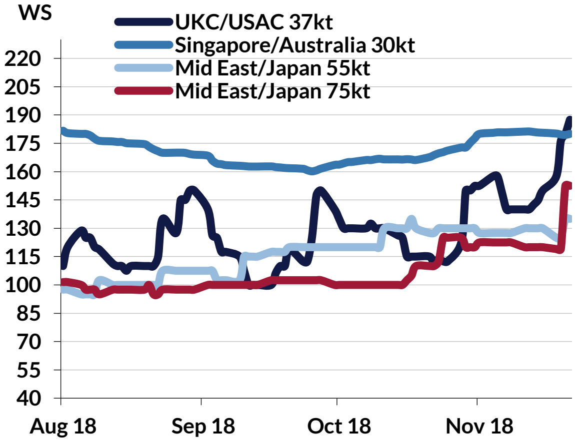
UK Continent

A rather satisfying week for MR Owners up on the Continent, as the combination of good cargo enquiry (WAF demand being the catalyst) and a slender tonnage list both on the front end and for natural dates has seen rates shift northwards with TC2 now trading at 37 x ws 185-190 and 37 x ws 205 for WAF. With the market fundamentals in Owners favour, they have been bullish in their fixing ideas all week and even though cargo enquiry has slowed on Thursday/Friday, tonnage for the next fixing window remains tight as the strong USGulf markets keeps ballasters away from Europe. The 'Atlantic basket' (TC2+TC14) now looks to be a very attractive option and preference for Owners, which could add further spice to the WAF rates as we move into next week. All in all positive and further gains could be on the cards moving into week 49.

For the Handies it's been a week to remember for the Owners, the writing has been on the wall for a while and although some thought this would happen in week 49, Owner's prayers were answered a week early. In sum, both Baltic/UKCont and X-UKCont markets have firmed ws 50 points from Monday trading 30 x ws 210 and 30 x ws 200 respectively. The tonnage list has been tight for the duration of the week and coupled with plenty of fresh enquiry on all the typical Handy routes in NWE, Owners did not hold back. The spicy market has left a few players approaching tonnage direct by week's end, as the market looks to continue in its current form early next week. Provided enquiry continues in the same fashion, we expect there to be more on the cards for Owners early next week.

The Flexis struggled a little in the early part of this week and enquiry was slow, with COA requirements and the odd cargo around Gibraltar seemingly to be the main sources of employment. However, with the Handy market making substantial gains Charterers have started to look at the Flexis as cheaper alternatives and/or because there is no Handy tonnage around. There are varying ideas here, but ultimately ideas are derived from where Handies are and given how tight the list is the discount from this is likely to only be marginal, with 22 x ws 250-260 a feasible range for X-UKCont. Going forward keep an eye on the Handies for future improvements, its positive there too.

Clean Product Tanker Spot Rates



Dirty Products

Handy

During the opening stages of the week it quickly became apparent that the tonnage list on the continent for loading in the first decade December looked extremely light of approved tonnage. It didn't take long thereafter, for cargoes to enter and Owners find themselves able to move benchmarks between deals. Looking ahead, until replenishment is seen, identical conditions will face Charterers in the immediate working days ahead.

In the Med, levels for the week have plateaued along with collective activity for the week, suggesting that what we have actually had is a week of foundation laying for possible volatility ahead. Furthermore much of the activity has served to tighten up supply in the East Med area which does open the idea that going forward further disparity will open between West and East Med values.

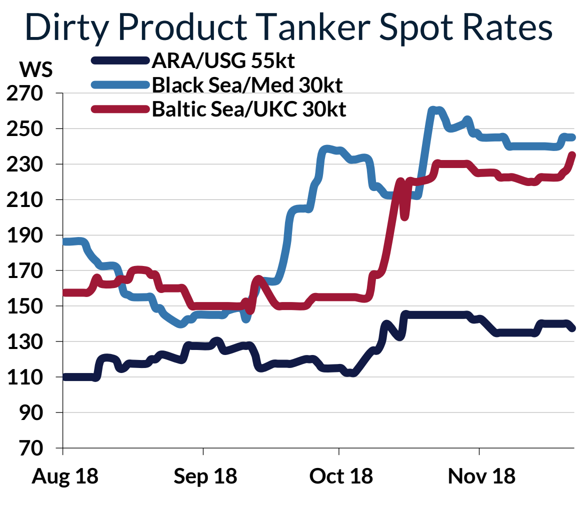
MR

This week saw the leftover positions get cleared away early on leaving the region lacking natural tonnage. With units now being fixed away from the region, Charterers will be forced to look for tonnage from other regions or otherwise look on alternative sizes. Owners will be looking to build on this platform especially with the Handy sector tightening and tonnage availability looking on the slim side.

With an active start to the week and units being picked off at a steady pace throughout, workable units have been slimmed down in the region. The recent gains that have been steadily achieved by Owners have seen rates level off at the ws170 level from the Black Sea. This region looks to remain firm on next week's opening, leaving tonnage replenishment reliant on vessel itineraries firming and the options that are declared by current Charterers early next week.

Panamax

In the confinements of a single working week, the worsening US market has helped liquidity in the transatlantic market, as units willing to ballast over have provided Charterers with a pool of tonnage to choose from. This is a trait that has not been seen in this sector for some time. That said, the increase in activity has led to rates repeatedly being tested at ws 137.5, with Owners actually having a solid platform from which to assert their beliefs on market strength.



125 YEARS GIBSON SHIPBROKERS 1893 - 2018

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Nov 29th	Nov 22nd	Last Month	FFA Q4
TD3C	VLCC	AG-China	**+5**	96	91	84	98
TD20	Suezmax	WAF-UKC	**-16**	127	143	109	124
TD7	Aframax	N.Sea-UKC	**+9**	131	123	147	129

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

			wk on wk change	Nov 29th	Nov 22nd	Last Month	FFA Q4
TD3C	VLCC	AG-China	**+7,000**	60,000	53,000	41,250	63,250
TD20	Suezmax	WAF-UKC	**-6,750**	41,000	47,750	26,500	39,750
TD7	Aframax	N.Sea-UKC	**+7,000**	28,250	21,250	32,750	26,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Nov 29th	Nov 22nd	Last Month	FFA Q4
TC1	LR2	AG-Japan	**+37**	156	119	106	
TC2	MR - west	UKC-USAC	**+45**	188	144	115	188
TC5	LR1	AG-Japan	**+13**	142	129	128	148
TC7	MR - east	Singapore-EC Aus	**-1**	180	181	166	

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

			wk on wk change	Nov 29th	Nov 22nd	Last Month	FFA Q4
TC1	LR2	AG-Japan	**+12,000**	25,000	13,000	6,000	
TC2	MR - west	UKC-USAC	**+8,500**	17,500	9,000	2,500	17,500
TC5	LR1	AG-Japan	**+3,250**	13,500	10,250	8,500	14,500
TC7	MR - east	Singapore-EC Aus	**+1,250**	11,250	10,000	6,500	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**-25**	368	393	463
ClearView Bunker Price (Fujairah 380 HSFO)	**-31**	411	442	506
ClearView Bunker Price (Singapore 380 HSFO)	**-37**	424	461	507
ClearView Bunker Price (Rotterdam LSMGO)	**-51**	534	585	681

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