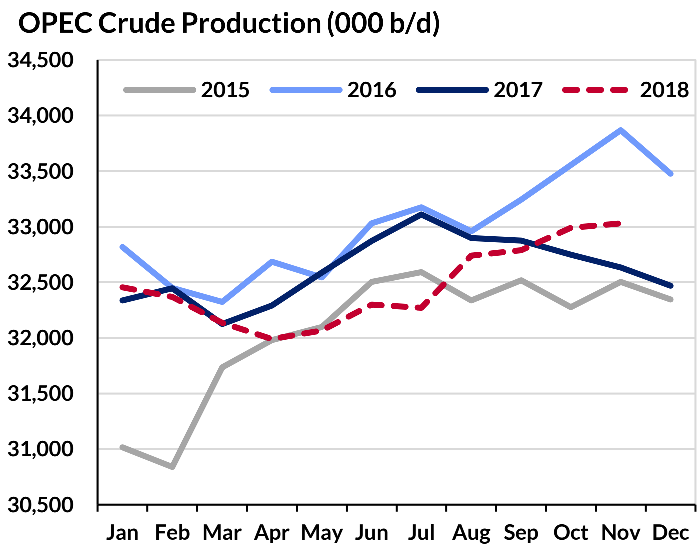
OPEC at it again

Weekly Tanker Market Report

Unless you've been living under a rock for the past week, you will probably have heard that OPEC are at it again, preparing to cut production just as the tanker market experiences its strongest seasonal upcycle since 2015. In short, OPEC members have agreed to cut 800,000 b/d from October production levels, with its allies contributing a further 400,000 b/d. Clearly it is no revelation that this is likely to set a bearish tone for the tanker market for at least the first half of 2019.

Whilst OPEC has not released a country by country breakdown, this week the IEA suggested that Saudi Arabia is likely to over comply, producing 10.20 million b/d in January, down from 11.06 million b/d in November. If this proves to be correct, then Saudi Arabia alone will cater for OPEC's entire obligation. Moreover, Iraq has committed itself to cutting 140,000 b/d, the UAE is already cutting nominated volumes for January and Nigeria has also agreed to participate.



It is however worth noting that for most members, the production cuts are based off October production levels. Most members have been steadily increasing output in recent months, meaning the cuts will at least come from a higher basis point. In any case, the recent increases in OPEC production, which have lent support to the crude tanker market, will soon be removed, with Saudi Arabia's steep cuts ensuring full compliance with the agreement is promptly delivered. However, cuts from OPEC's allies may not arrive so quickly. Whilst Russia has agreed to remove 230,000 b/d from the market, it has agreed to do so gradually, which may give the smaller end of the crude tanker market some additional breathing space, particularly if volumes increase from other Former Soviet Union States.

The timing of this production cut probably couldn't be any worse. Once slippage from 2018 is accounted for, some 70+ newbuild VLCCs are scheduled for delivery next year. 24 of which are due in Q1. Some hope could be taken from the potential for as many as 60+ VLCCs to go in for scrubber retrofitting at some stage next year. However, on an annualised basis this may only account to the equivalent of just 4-6 VLCCs taken out of the fleet (if it is assumed each retrofit takes 1 month). Of course, there are sensitivities on timings; if the bulk of the retrofits are concentrated in the second half of 2019 then the impact might appear greater, but on balance the significance could be limited. It also needs to be considered that some retrofits may take place during natural dry dockings, whilst this does not negate the impact, it must be considered that each year a certain number of dry dockings take place anyway. The potential downside is not just for VLCCs. All crude carriers will be impacted. Beyond OPEC cuts, for the Aframaxes, the key downside risk is lower production from Russia. Suezmaxes will also be impacted by lower exports from the Middle East, Russia and perhaps West Africa with Nigeria now willing to participate in the deal.

Of course, the counter argument to this negative tone is that exports from the Atlantic Basin (in particular the US) will continue to rise, offsetting the lost output from the Middle East. IEA figures suggest crude supply in the Americas will grow by 1.1 million b/d next year, neutralising the decline in OPEC+ production, with longer tonne miles also support the demand side story. Although it is difficult to argue against this, it is debatable whether the anticipated demand increases will be sufficient enough to absorb the high fleet growth expected next year.

Crude Oil

Middle East

Last week's VLCC market softening continued as Charterers moved slowly, but steadily, to close out the December programme, with full January confirmations only in hand from early next week. There is a possibility that brief momentum could develop prior to the Holidays but, with availability looking on the easy side, there is no necessity of that and rates could well ease off further over the period. Currently modern units to the East run in the mid ws 80's, with rates to the West in the mid ws 30's. Suezmaxes made marginal early gains but things slowed again in the second half of the week and rates then drifted sideways at down to 130,000mt by ws 115 to the East and ws 57.5 West. Again, a chance of a busier week to come, but probably little rate-response. Aframaxes found a little more to do late week but that merely allowed rates to settle at 80,000mt by ws 150 to Singapore, and there will need to be a lot more activity to improve the rate structure next week.

West Africa

Suezmaxes spent most of the week searching for a solid bottom to the market and Charterers did their best to help them find it! eventually, rates hit 130,000mt by ws 97.5 to Europe, and to ws 92.5 to the USGulf, which seems to be a bedrock mark and Owners will now be hoping that a wave of solid bargain hunting develops to raise them off the rocks, by a little at least. VLCCs merely tracked flagging AGulf fortunes. Owners never found enough attention to counter the downtrend, and rates slid off into the very low ws 80's to the Far East accordingly. Next week may see further discounting, but any larger moves will be dictated by whatever happens in the Middle East.

Mediterranean

Aframaxes consolidated the spikes of last week, and even improved upon those somewhat. 80,000mt by up to ws 215 X-Med now but even higher numbers were thwarted by Suezmax part cargo interest and Owners will probably be more minded to repeat 'last done' rather than tough it out for further glory. Suezmaxes held up well through most of the week but were increasingly reliant upon Turkish Straits delays, and firm Aframax scene, to defy market gravity. Eventually Owners took a pragmatic rate-cut and ended the week at a lower 140,000mt by ws 130 from the Black Sea to European destinations, and $4.3 million for runs to China.

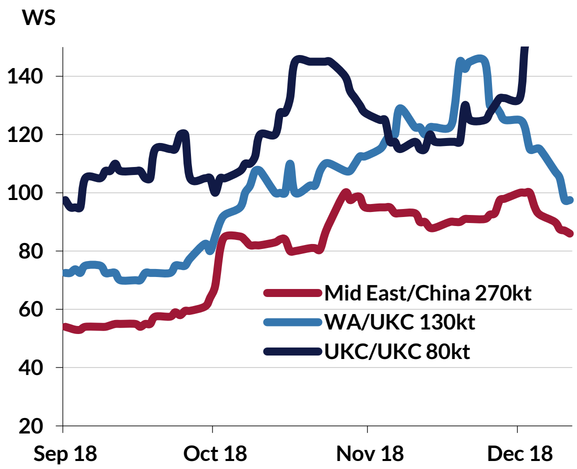
Caribbean

A much more positive phase for Aframaxes that sprang back from 70,000mt by ws 120 upcoast to over ws 210, and seemed to be hanging on to the gains into the weekend. It was just very busy, and availability consequently evaporated on the fixing window. Perhaps a slight re-set next week if Charterers hold fire on forward dates. VLCCs kept on the slow side and supply began to look a lot easier moving forward. There were still tight enough early positions, however, to prevent heavy slippage and $7.1 million from the Caribs to West Coast India was evidence of that. There needs to be more visible fixing to accurately mark a probable re-calibration.

North Sea

As in the Med, Aframaxes continued to enjoy happy times - and the highest rates of the year too. 80,000mt by ws 200+ now X-UKCont, and 100,000mt by ws 165 from the Baltic. Such levels will be hard to maintain for long, but supply should remain tight enough for a little while yet to give Owners hope of extending the run into the Holiday. Little VLCC action to speak of but $7.4 million was reported for crude oil from Hound Point to South Korea early in the week and around $6 million was 'available' for fuel oil to Singapore if traders wanted to trade - most didn't.

Crude Tanker Spot Rates



Clean Products

East

MRs have been busy this week, off the natural window and we still see cargoes emerge on what should ordinarily be a quiet Friday. EAF dipped down to 35 x ws 190, nervous Chartering on the part of Owners more than anything else; but has since moved back up to ws 200. Shorthaul has been less tested, given how busy the LR1s have been, but $200k and $600k remain the market assessments for X-Gulf and Gizan respectively. You should be able to bag a cheap number to UKCont. Owners of ice class tonnage eager to relocate before the winter months really kick into full flow. TC12 will climb further towards 35 x ws 190 as we start the new week. The Red Sea is incredibly tight and the ws 215 EAF on subs ex Yanbu will drive sentiment higher. We may see some EAF ballasters heading towards this area over the weekend to take advantage of a severe lack of workable tonnage.

LR1s have seen a very busy week and although rates have drifted off a touch, the long list had meant predictions were to see major falls and this hasn't happened. 55,000mt naphtha AGulf/Japan is now at ws 172.5 and 65,000mt jet AGulf/UKCont is steady at $1.925 million. LR2s by contrast have been very quiet. Although the list is still very short off the earlier window, later positions look easier and the lack of stems has seen Owners perceptions start to ease off. 75,000mt naphtha AGulf/Japan is now around ws 175 (although unproven), whilst 90,000mt jet AGulf/UKCont is at $2.85 million. More will be needed next week or rates will likely slide fairly quickly.

Mediterranean

Owners were licking their lips at the beginning of week 50, with the momentum seen towards the end of last week spilling over into Monday and the ability to reap the rewards continued. Enquiry has consistently entered the market and, with poor weather across the Med leaving ships uncertain, this left a tight front end and has meant X-Med rates have firmed to heights of 30 x ws 235, with 30 x ws 245 seen ex Israel. Tonnage opening in the Black Sea/SOM area has been very limited, which has allowed Owners to dictate the rates. At the time of writing, 30 x ws 250 is the going rate ex Black Sea. Given the outstanding cargoes and X-Med period on the horizon, it would not be surprising to see north of last done in both markets come Monday.

In the MR market, the positivity from the UKCont and a tonnage list which has been on the thin side enabled Owners to pull transatlantic rates up to 37 x ws 210 plus. Limited enquiry heading East has left this number a little open ended, with only a Med/Suez at $840k on a last palms ship to really guide the benchmark. A quieter end to the week may start to put some doubt in Owners' minds. We are reaching the point where Charterers will want to cover their end of year stems, where a premium could be paid for a safe ship and an Owner will look to clear out their ships before the holidays perhaps for a discount… rates sit on the fence for now.

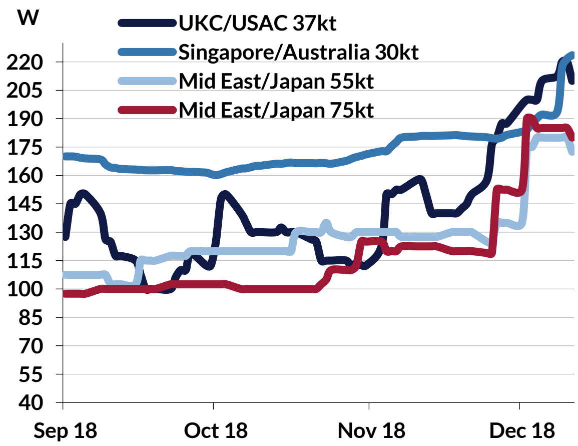
UK Continent

As we close week 50, Charterers will be leaving their desks rather satisfied, with their efforts throughout the week, as the combination of drip-feeding cargoes into the market and targeting certain Owners with voyage preference, has seen a wobble on rates occur. TC2 is now trading at 37 x ws 207.5-210 at the time of writing. There still remains an air of uncertainty on where these MRs will head next week, as Owners remain confident that the pre-festive rush will keep the market firm next week. Yet, if the inactivity continues, pressure will mount, which may see panic buttons hit as they look to get vessels fixed away for Christmas.

Another good week for the Handies in NWE, the market enjoyed another influx of fresh cargoes, as the majority of Charterers look to cover their Baltic programme stems in the run up to Christmas. Owners quickly built rates from 30 x ws 220 to ws 230 Baltic/UKCont. The real success was perhaps on X-UKCont, which saw both 30 x ws 232.5 and 30 x ws 235 confirmed as problems with strikes in France and others needing replacement offered up a few more points. Thursday and Friday have felt a lot quieter, however, meaning 30 x ws 225 was seen Baltic/UKCont as it seems there is little in the way of outstanding cargo on all routes. The tonnage list is relatively balanced going into next week but, without the Baltic enquiry, Owners will be hoping for late-runner over Christmas to support their ideas.

With the Handy market continuing to trade well, the positivity has filtered down to the Flexis. With certain cargoes struggling to find any suitable Handy tonnage or at rates that makes sense, the Flexis have been a more viable option. Rates are trading around 22 x ws 270-275, depending on the Owners and route in question. Whilst this is a good chunk below the direct handy pro-rata, the Owners will be happy with the returns on offer. Expect these levels to continue trading next week, the small fleet of Flexis are managing to find enough employment in NWE and also North/South Spain to keep tonnage from building and last done rates in check.

Clean Product Tanker Spot Rates



Dirty Products

Handy

We've all heard the children's story about the hare and the tortoise, and so the continent has another strong week of fixtures. Rates have been gradually tightened in Owners' favour, as positions were clipped away day by day, leaving little firm well approved options for Charterers. Whether the 'tortoise' of the UKCont catches up with the 'hare' of the Med remains to be seen, albeit unlikely, however, as we approach the last week before the Christmas, sentiment is certainly heading in that direction.

Another fast week of fixing in the Med where Charterers struggled to find firm vessels giving Owners further ability to push on from last week. They say good things happen in three's; however, some may be struggling to find comfort in Greek mythologies at the moment facing levels of ws 30/330+ with the Black Sea being the driving force in the last month. The bare position list caused Charterers headaches, when fixing for X-Med and, as a result, Owners were able to take advantage this week especially for special (sternline) requirements. Early January dates will be in the back of our minds this weekend, as the front side of next week will likely see the pre-Christmas rush commence.

MR

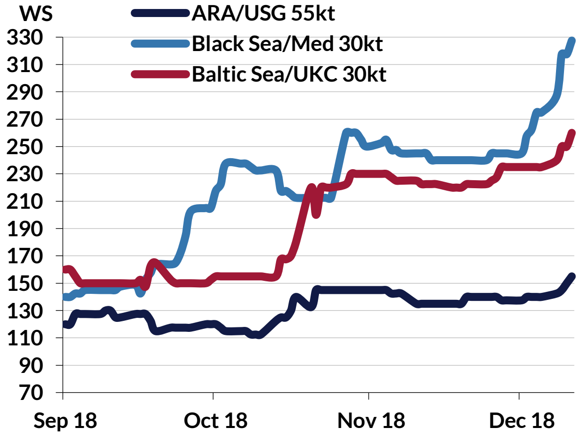
"Who has the Brofjorden barrels?" was the question everyone was asking this week, where up to five different Charterers were looking off similar dates for suitable tonnage. The limited natural units gave Owners the upper hand but, with that said, the long haul routes Charterers presented restrained Owners from offering too aggressively. Looking ahead at positions in the region it is going to be tough for Charterers to repeat last done, so some may try to pounce on first available units while they can at the beginning of the week.

The stage was set for MR Owners on Monday morning, with only really one firm candidate available to work, allowing Owners to achieve double centenary figures basis 45kt. As the week progressed and further units firmed, Owners were able to build on their strong platform and reports of ws 220 were pushed around the market. Looking ahead, ceilings will also be lifted on this sector, if the Handies continue to rally and again offer better returns on a part cargo basis.

Panamax

The few natural units were gradually clipped away, giving Owners a firm platform to build on. With the peak for transatlantic, at the time of writing reaching 55 x ws 155 levels, Owners will be heading into the weekend, with their sights on ws 160 before Santa comes home. For charterers who were trying to keep a lid on further hype, the buoyant Caribs market has now given Owners the impetus they needed to ask for a premium to ballast over.

Dirty Product Tanker Spot Rates



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Dec 13th	Dec 6th	Last Month	FFA Q1
TD3C	VLCC	AG-China	**-11**	85	96	90	59
TD20	Suezmax	WAF-UKC	**-16**	99	115	121	84
TD7	Aframax	N.Sea-UKC	**+22**	198	176	118	118

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

			wk on wk change	Dec 13th	Dec 6th	Last Month	FFA Q1
TD3C	VLCC	AG-China	**-10,500**	50,750	61,250	50,250	24,250
TD20	Suezmax	WAF-UKC	**-7,000**	27,750	34,750	35,500	20,250
TD7	Aframax	N.Sea-UKC	**+14,750**	73,000	58,250	17,250	19,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Dec 13th	Dec 6th	Last Month	FFA Q1
TC1	LR2	AG-Japan	**-8**	180	188	120	
TC2	MR - west	UKC-USAC	**+15**	215	200	142	159
TC5	LR1	AG-Japan	**-7**	175	182	130	138
TC7	MR - east	Singapore-EC Aus	**+34**	224	190	181	

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

			wk on wk change	Dec 13th	Dec 6th	Last Month	FFA Q1
TC1	LR2	AG-Japan	**-1,500**	32,750	34,250	10,000	
TC2	MR - west	UKC-USAC	**+3,000**	22,500	19,500	8,250	12,750
TC5	LR1	AG-Japan	**-1,250**	20,750	22,000	9,750	13,500
TC7	MR - east	Singapore-EC Aus	**+5,500**	18,750	13,250	12,500	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**-21**	352	373	409
ClearView Bunker Price (Fujairah 380 HSFO)	**-13**	391	404	457
ClearView Bunker Price (Singapore 380 HSFO)	**-19**	391	410	461
ClearView Bunker Price (Rotterdam LSMGO)	**-5**	531	536	608

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