The Year of Extremes

Weekly Tanker Market Report

2018 has been a year of extremes. For most part, trading conditions have been very challenging amid a persistent oversupply of tonnage, with spot earnings often well below operating expenses. TCE returns for VLCCs trading on the benchmark TD3C voyage from the Middle East to China averaged just over $11,000/day during the 1st nine months of the year. However, since early autumn, notable increases in loadings out of the Middle East and strong demand from Asian refiners for Middle East and Atlantic Basin crudes have contributed to a very impressive rebound in earnings, with TD3C averaging in Q4 at over $50,000/day. Smaller crude tankers were quick to follow suit, supported by the jump in VLCC rates, a rebound in Nigerian crude production and higher Libyan crude exports, while weather disruptions in the Mediterranean and escalating delays in Bosporus also played an important role. Throughout the year, we have also seen relentless growth in US crude exports, offering incremental support to all crude tanker categories. US seaborne crude exports averaged just over 2.2 million b/d last November, up by nearly 1 million b/d versus the corresponding period in 2017.

December has also seen a major hike in clean tanker earnings against a backdrop of largely very weak results during the rest of the year. Overall, the growth in the product tanker trade in 2018 has been rather mediocre; yet, recently the market has been helped by higher US product exports, a rush of east-west cargoes and less willingness on behalf of newbuild crude tankers to compete for product cargoes on their maiden voyage. In addition, some LR2s were tempted into switching to dirty trade, another factor which helped to somewhat tighten tonnage availability.

2018 has marked the highest number of tanker demolitions over the past fifteen years. All in all, over 150 tankers above 25,000 dwt have been sent to the recycling yards, with weak industry returns and attractive scrap prices offering a strong impetus to scrap. At the same time, the market has seen lower than expected number of new additions: over 25% of the tanker orderbook scheduled for delivery in 2018 has slipped into next year. The combination of robust demolition activity and a slower pace of tanker deliveries has meant that the growth in tanker supply has been fairly marginal.

Another consequence of the dire market conditions for most of the year has been a welcome decline in new tanker ordering activity. Overall, investment in new tonnage has fallen to one of its lowest levels seen over the past decade. Only VLCCs bucked this trend, with new tanker ordering largely driven by speculative investment, with a focus on scrubber equipped tonnage. Nonetheless, even VLCCs have seen notable slowdown in ordering activity in the 2nd half of the year, with just 3 tankers ordered versus 34 between January and June.

Another key development of the year has been the uptake of the exhaust gas cleaning technology. At the end of 2017 hardly anyone showed any support for the technology. The picture is very different now, with more and more owners committing to installations on newbuild and secondhand tonnage over the course of 2019/2020. The biggest interest in scrubbers is in the VLCC segment. If we count all the units where the technology is fitted, will be fitted or intended to be fitted, by the end of 2020 scrubber equipped VLCCs could reach over 20% of the current fleet on water.

As we head into 2019, there will be new challenges and new opportunities. The most immediate threat to demand is the pending OPEC production cut. There is also a substantial new tanker delivery profile over the course of next year. We will hope to see a similar slippage in 2019 delivery dates as the one witnessed this year; however, there could to be less willingness to do so, particularly for scrubber equipped tonnage. On the upside, the expectations are for further increases in long haul trade out of the Americas and higher trading demand in preparation for the IMO2020. Taking account of all the factors above, could we be heading for another rollercoaster ride again next year?

Summary Table - Market & Fleet Data

		Dec-17		Dec-18		2018	
		WS	TCE/day	WS	TCE/day	WS Low	WS High
Rates	**(TCEs at 'market speed')**						
VLCC	**Middle East - Ningpo**	51	$ 11,750	90	$ 52,000	35.5	100
Suezmax	**West Africa - UKCont**	91	$ 17,000	110	$ 31,500	50	145
Aframax	**North Sea - UKCont**	102	$ 5,000	185	$ 62,000	85	212.5
LR2	**Middle East - Japan**	108	$ 9,000	181	$ 31,000	79	190
LR1	**Middle East - Japan**	135	$ 9,250	179	$ 20,750	88	190
MR	**UKCont - USAC**	159	$ 9,500	200	$ 19,000	100	220

	End 2018 Fleet Size	
VLCC	722	
Suezmax / LR3	570	
Aframax/LR2	1001	
Panamax/LR1	451	
Handysize / MR	2036	
Tanker Firm Orderbook (25kdwt+)	449	62.8m dwt
New Deliveries (25dwt+)	190	26.3m dwt

	End 2017	End 2018
Brent Oil Price	$ 64.40	$ 54.40
	Fujairah	**Rotterdam**
Bunkers 380cst HSFO (end Dec)	$ 339.00	$ 319.00

	2017		2018	
World Oil Production (November)	95,560	-0.26%	98,156	2.72%
OPEC crude production	32,634	-3.65%	33,030	1.21%
Non OPEC -inc OPEC NGL & Biofuels	62,926	-2.18%	65,052	3.38%
World Oil Demand (Full Year)	97,870	1.57%	99,140	1.30%

Tankers Demolished (25,000 dwt+)	151	20.8m dwt
	China	**Subcont**
Scrap Prices	$173	$445
VLCC's sold for scrap number /dwt	35	10.4m dwt

Crude Oil

Middle East

VLCC Owners faced a disciplined approach by Charterers to the new January programme, which meant that they remained upon the defensive through the week. Rates slipped from the top end of the range, but although softened, remained a few steps away from a significant puncture. Currently modern units move into the high ws 70's to the Far East, with low ws 30's asked to the West. A holiday disrupted week to come, and a messy marketplace likely. Suezmaxes drifted sideways over the period, with a nudge to the downside...volumes have been light, and tonnage well stocked. Rates now hold at ws 115 to the East and to ws 50 West, with further erosion possible. Aframaxes held up at up to 80,000mt by ws 150 to Singapore on steady activity and look set to remain broadly similar into next week too.

West Africa

Suezmax Owners started the week frustrated as rates scraped along an effective bottom in the high ws 90's to Europe...but once Charterers realised there was no further discounting, they moved to take cover, but then found that early dates had tightened. The consequence was an impressive knee-jerk spike to ws 135 to Europe and ws 130 to the USGulf. Thereafter, Owners were more minded to profit take than defend the peak, and some degree of re-settlement then got underway. Still solid though. VLCCs found only occasional interest that was never enough to counter AGulf declines and rates eased down to ws 80 to the Far East accordingly. Next week will probably see further downward pressure unless the Middle East surprises.

Mediterranean

A game of two halves for Aframaxes this week - initially holding the recent highs, and then slipping to 80,000mt by ws 175 X-Med as interest began to fade, and availability re-stocked. Owners will continue to bag whatever they can, and at easier numbers, through the holiday period. Suezmaxes had started to drift lower, but once West Africa re-invigorated, sentiment quickly responded and rate demands swung back towards 140,000mt by ws 145 from the Black Sea to European destinations, and to $4.3 million to China. So long as West Africa holds, the positivity should remain, but Aframax softening may start to compromise somewhat.

Caribbean

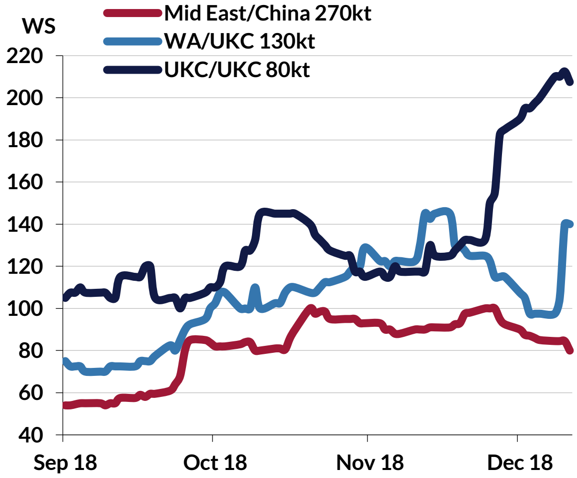
Robust all week for busy Aframaxes - up to 70,000mt by ws 215 upcoast and ws 160 transatlantic, with Owners likely to keep their plate spinning into - and through? - the holidays. Thereafter, readjustment will probably be the order of the day. VLCCs remained very slow, with dates stretching into the last week of January and plenty of candidates leapfrogged. Rates are marked lower at $6.5 million from the USGulf to Singapore and at around $5.9 million from the

Caribs to West Coast India - slippery into next week too.

North Sea

Very steady, and solid, for Aframaxes here - 80,000mt by ws 200+ X-UKCont and 100,000mt by ws 170+ from the Baltic on repeat loop and for now things look set to remain similarly firm. That said, it is a short haul market, and such highs rarely hold for long...Owners will enjoy the festive season though, at least. VLCCs found virtually nothing to do - and ballasting alternatives showed less promise also. traders for fuel oil from Rotterdam to Singapore would have been asked to pay around $5.75 million, but none seemed able to make that work.

Crude Tanker Spot Rates



Clean Products

East

Having seen a period, lacking in activity for the LR2s, finally there was fresh enquiry that enabled Owners to get tonnage moving. However, as expected rates were not to hold at last done levels and, with Owners keen to clear away tonnage before the festive holidays, deals were there to be done. TC1 quickly corrected to a steady 75 x ws 160 and westbound stems followed suit, dropping to $2.575 million. A number of ships have now cleared off the list and as such, expect that this negative correction will level out for now. LR1 Owners have had a very positive week, where the tonnage list has tightened and the flow of cargoes has continued. TC5 corrected quickly, with Owners' ideas sat at the 55 x ws 195 levels. It has been similar, with jet/ULSD moving west. Having taken a bit of time to see the positive correction, Owners will be pleased with the $2.15 million on subs heading into the Christmas weekend. As we enter a period of slight disruption, with holidays and people traveling, expect that activity levels will remain high, but direct deals may be the easiest way for Charterers to cover open stems.

MRs have really thinned off the natural window this past week and theoretically should have seen a lot more progression in terms of rates, than we have actually experienced. Unfortunately for Owners, the sense of fear has creeped in amongst those who until now have stood firm in their rate ideas. No one wants to remain uncovered over Christmas and it seems no one trusts other Owners to keep their ideas bullish. UKCont has pushed up to $1.4 million and even $1.6 million to Argentina, but longer haul is preferred on the larger tonnage; so we haven't seen westbound tested too frequently. EAF has been steadily increasing all week to ws 215, with every indication that it would continue to climb higher. However weak Chartering from Owners has left the market dropping back down to 35 x ws 205. TC12 has sat steady at ws180, but again has remained relatively quiet due to the number of TC1 cargoes in the market. X-Gulf has pushed up to $250k but has been relatively unpopular. With general sentiment that the MRs should come off early next year, Owners generally don't want to stay local, but lock in long hauls, whilst higher earnings are available.

Mediterranean

With the market in previous weeks on an upward trajectory rates have found their feet this week and settled at the 30 x ws 235 and 30 x ws 250 mark for X-Med and Black Sea rates respectively. Although enquiry has been consistent and healthy throughout the week X-Med rates have traded sideways throughout, with enough tonnage around to pick off these stems and stop the momentum moving in Owners' favour. Black Sea tonnage has continued to be very tight; however due to limited enquiry towards the end of the week this meant rates held at the 30 x ws 250 mark although min flat Augusta was seen showing how Owners remained on the front foot. As we move into the festive period activity is likely to dry up but for the time being, rates are likely to hold at current levels.

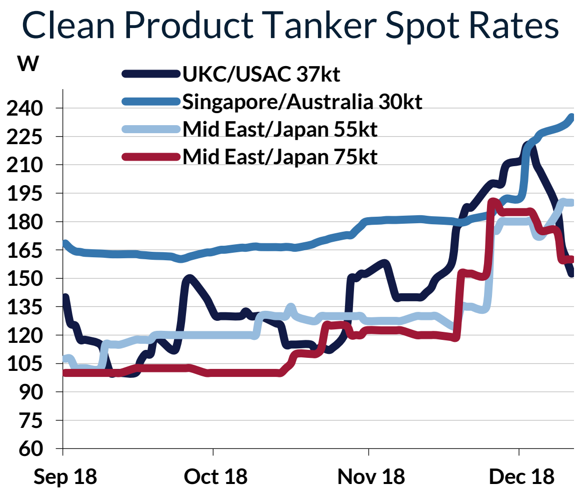
A week to forget for Owners in the Med, with a negative trajectory seen throughout. With the UKCont market falling off a cliff, rates have come off a good 30 odd ws points, with last done Med-transatlantic at 37 x ws 167.5; however, given the state of rates seen in NWE, next done will be more in line with TC2. Tonnage around the EMed/Black Sea area has remained tight, however, which has led to MRs picking off a few handy stems, which are more profitable than the depleting MR market. For now, the outlook is bleak, with the general sentiment certainly a negative one.

UK Continent

The pre-Christmas rush which Owners were relying on in order to force a bounce back on rates, just hasn't materialized in week 51. Once Monday tonnage lists were drawn up its showed around 8 prompt MRs keen and ready to find employment before the festive fun begun, or face the fear of sitting spot over the holiday. With cargoes being drip-fed into the market it didn't take long before cracks started to appear and rates started to head south very quickly. At the time of writing, TC2 has now softened to 37 x ws 150, West Africa to 37 x ws 165 and, with plenty of ships to cover demand and without an influx of cargo on the horizon the Christmas sales could be on the cards next week.

It was going to be a bit of a struggle for Owners to maintain the levels seen last week as enquiry was initially quite slow and the tonnage list was better supplied on Monday. Rates quickly took a correction to 30 x ws 200 Baltic/UKCont whilst X-UKCont stayed in the typical ws 10 points margin below. Rates momentarily dipped to 30 x ws 195 ex Baltic but quickly pushed back up, with a flurry of enquiry on Thursday. X-UKCont cargoes are the talk of the town on Friday but, with some MRs looking for cover over Christmas and snatch Handy stems the 30 x ws 185 was broken and now see 30 x ws 180 on subs. It seems there is enough to hold the market over the holidays, whilst any late runners will add some Christmas spice to Owners' ideas.

Flexi Owners have kept a firm eye on what has been happening on the Handies in order to gather their fixing ideas throughout the week, with rates trading around 22 x ws 245 for X-Cont. (ws 5 point discount from pro-rated Handy levels). Looking at the tonnage list the front end is now quite tight for ARA liftings, with a number of ships opening around Portugal / Spain area and, with the Handies now stabilizing around current levels, expect this to filter down on the Flexis.



Dirty Products

Handy

The pre-Christmas rush gifted Owners in the North further leverage on rates this week, as rates from the Baltic finished at 30 x ws 275. The depletion amount of workable tonnage has kept the market sentiment hot as we approach the final week of the year. There will be a couple of Charterers keeping a close eye on a few end month positions over the weekend, ready to pounce on Christmas eve, hoping for a firm itinerary.

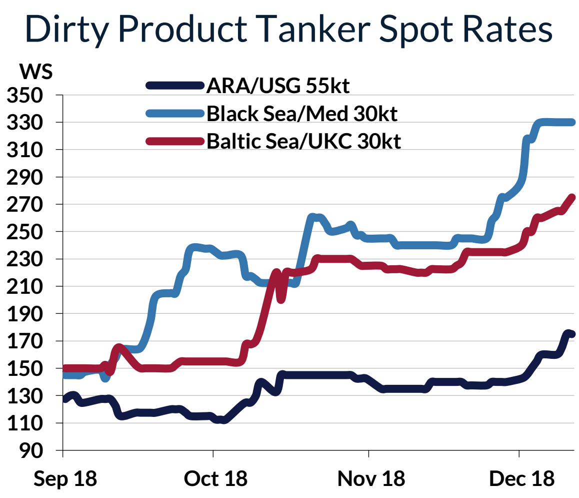
A much calmer week in the Mediterranean, in terms of fresh enquiry, but the lack of workable units kept rates firmly stable. Towards the end of this week, Owners were fixing end month opening positions, which has kept rate optimism high and things look unlikely to change for the remainder of this year. Furthermore the headache of uncertain itineraries is playing havoc for Charterers and propping the market up some more.

MR

Both the NWE and the Mediterranean sectors have been plagued with limited workable units. This has given just enough adrenaline to stimulate the activity that has been seen and kept both sectors firm. Matching tonnage with stem dates continues to be problematic, as some itineraries may not be as firm as first thought. This said, due diligence has not been that easy to confirm, as with conditions forcing Charterers to cover stems a little further forward than liked remains an issue. Next week's disrupted trading pattern may give a welcome break here, as Charterers will be looking for more tonnage to hit the position lists.

Panamax

This week, Owners with natural tonnage this side of the Atlantic have taken advantage of what little competition they have had. As fresh enquiry came steadily through the week, so did Owners gains in fixing levels, with a high of ws 175 being confirmed from the Baltic. The firm sentiment within this sector is set to continue even with the approaching holiday next week, as tonnage replenishment is likely to remain thin on the ground. That said, Aframax tankers have recently taken a dip, with reports of 80 x ws 115 on subs transatlantic. For longer moves Charterers will be looking at the dollar per tonne and considering bigger sizes. In summary this may soak up some of the next round of enquiry.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Dec 20th	Dec 13th	Last Month	FFA Q1
TD3C	VLCC	AG-China	**-3**	83	85	91	58
TD20	Suezmax	WAF-UKC	**+36**	135	99	143	87
TD7	Aframax	N.Sea-UKC	**+5**	204	198	123	118

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

			wk on wk change	Dec 20th	Dec 13th	Last Month	FFA Q1
TD3C	VLCC	AG-China	**+1,250**	52,000	50,750	53,000	27,000
TD20	Suezmax	WAF-UKC	**+20,250**	48,000	27,750	47,750	24,000
TD7	Aframax	N.Sea-UKC	**+5,000**	78,000	73,000	21,250	20,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Dec 20th	Dec 13th	Last Month	FFA Q1
TC1	LR2	AG-Japan	**-21**	158	180	119	
TC2	MR - west	UKC-USAC	**-61**	154	215	144	143
TC5	LR1	AG-Japan	**+14**	189	175	129	140
TC7	MR - east	Singapore-EC Aus	**+12**	235	224	181	

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

			wk on wk change	Dec 20th	Dec 13th	Last Month	FFA Q1
TC1	LR2	AG-Japan	**-2,500**	30,250	32,750	13,000	
TC2	MR - west	UKC-USAC	**-9,750**	12,750	22,500	9,000	11,000
TC5	LR1	AG-Japan	**+5,000**	25,750	20,750	10,250	15,750
TC7	MR - east	Singapore-EC Aus	**+5,750**	24,500	18,750	10,000	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**-33**	319	352	409
ClearView Bunker Price (Fujairah 380 HSFO)	**-52**	339	391	457
ClearView Bunker Price (Singapore 380 HSFO)	**-39**	352	391	461
ClearView Bunker Price (Rotterdam LSMGO)	**-39**	492	531	608

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