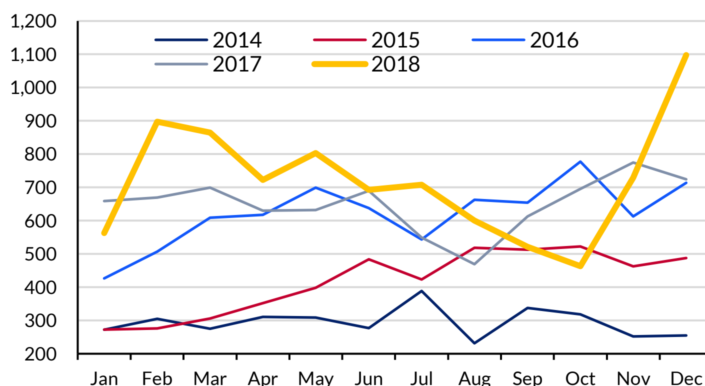
Chinese Products Push

Weekly Tanker Market Report

Late in 2018, China issued a raft of additional refined product export quotas to cope with a domestic oversupply of fuel. These additional volumes were partly responsible for the strength of the Asian product tanker market towards the end of 2018 and the persistent weakness in the Asian oil products markets. For many the question is therefore: what will Chinese refined product export volumes look like in 2019, and can they help sustain the regional product tanker market?

So far, the Government has issued 18.36 million tonnes of quotas in the first round, vs. 16.24 million tonnes for the same period of 2018 (+13%), pointing to a stronger start to the year, at least in terms of volumes. However, in the immediate term, January exports may be lower than in December, given that the end of 2018 saw many quota holders rush to use up any remaining allocations before the expiration date. Further, product carriers were well positioned to capitalise on these higher volumes towards the end of 2018, given that a lull in newbuilding deliveries and a strong crude tanker market reduced competition for clean cargoes. However, for 2019 there is a substantial orderbook to be delivered, whilst many of vessels which slipped back from Q4 2018 are now emerging from the shipyards, and in some cases being fixed to load clean products out of Asia. With the crude market seemingly weaker, the appetite for crude carriers to carry clean cargoes on the maiden voyage is likely to persist, potentially limiting the upside for product carriers in Asia (at least in the short term).

CPP Exports: China (000 b/d)



Overall though, volumes are expected to see gains year on year. The Sinopec Economics & Development Research Institute recently suggested that China's oil product exports would rise to 51 million tonnes in 2019, up by 9% on its own figures and 3 million tonnes higher than the total 2018 quota. The key threat to this however, is that the crude import quotas issued for far for 2019 are significantly lower year on year. Recently Beijing authorised 89.84 million tonnes of crude imports in its first round of quota issuance, down from the 121.32 million tonnes in the first round last year (-26%). More quotas will be issued later in 2019, perhaps earlier than usual, so this does not mean volumes will end up lower year on year, but it does signal downside pressure on import volumes for at least the first half of 2019, and potentially lower refined products production. However, new refining capacity is due to fire up later in the year, such as Hengli Petrochemical (400,000 b/d) and Zhejiang Petrochemical (400,000 b/d), meaning that feedstock volumes into China will see some upside, as will product export volumes. Where the product is sold to will also have implications for product carriers. With pending IMO 2020 regulations coming into play, and the wider implementation of emission control areas (ECAs) across Asia, more distillate may be retained within the region, lending greater support to MRs better suited to intraregional trade. Unless of course, slower economic growth and higher refinery runs within the region forces more product to be 'pushed' outside, or stronger demand for distillate in the West ahead of IMO 2020, 'pulls' more product out of the region on larger tankers.

Bringing all these factors together, shipowners can allow themselves to be cautiously optimistic. Even though export volumes are likely to ease from the December high; bigger quotas and the start up of new refineries should support product tanker demand. Newbuild tankers will remain a persistent threat this year, and lower crude import quotas might limit product output. Yet, higher stocks, both for crude and clean may prove sufficient to cover off any shortfall in the coming months, before volumes seasonally ease into the second and third quarter. However, with 2020 now on the horizon, Owners can be forgiven for banking on a strong end to 2019.

Crude Oil

(All rates below based on Worldscale 2018)

Middle East

The pre-holiday VLCC downtrend continued to bite over the festive season, with the New Year commencing in a similarly softer vein. The rate decline has been a slow puncture so far, and Owners will be hoping that further damage can be limited through the coming week, although availability will continue to weigh. Currently modern units to the East move in the low ws 70's, with rates to the West marked at around ws 30 to the USGulf via cape. Suezmaxes saw only modest interest over the period which was insufficient to support the marketplace - rates eased to ws 110 to the East and down to the low ws 40's to the West, with no early recovery in sight. Aframaxes remained broadly steady throughout, with rates operating within an 80,000mt by ws 145/150 bracket to Singapore and probably staying similar into next week too.

West Africa

Suezmax positions became even easier supplied and Owners faced an ongoing defensive battle into the New Year. Rates fell noticeably to 130,000mt by ws 97.5 to Europe, and ws 92.5 to the USGulf, with Charterers still in the mood to probe further. VLCCs ticked lower on AGulf easing, and mediocre attention. Rates are still slippery, and are now down to around ws 67.5 to the Far East, with $3.8 million the last seen from Nigeria to West Coast India. Stabilisation will be dependent upon AGulf fortunes over the coming week.

Mediterranean

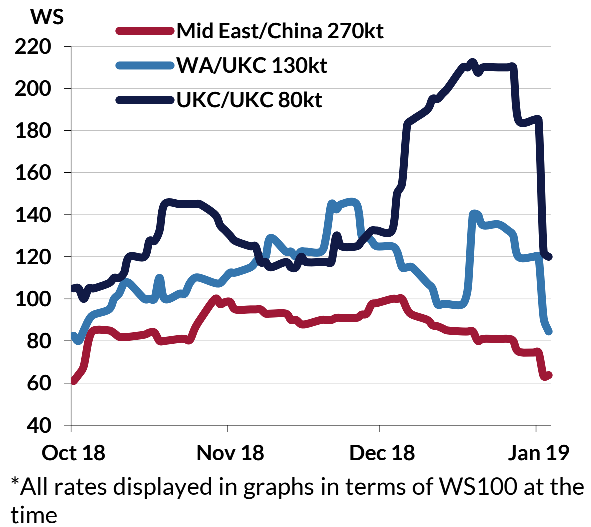
Aframaxes retained an impressively strong profile over the disruptive holidays, due in the main to raised delays in the Turkish Straits - now over two weeks. Rates held at up to 80,000mt by ws 195 X-Med, and to ws 205 from the Black Sea and should stay similarly robust into the first half of next week, at least. Those Straits delays also allowed Suezmaxes to keep scoring at up to 140,000mt by ws 145 from the Black Sea to European destinations and to $4.1 million to China too. Rates do look a little toppy, however, even given the delays, and if West Africa continues to back-pedal, then sentiment here may well become adversely affected.

Caribbean

As in the Med, Aframaxes here managed to keep their rate-plate spinning nicely, despite the break. Rates inflated further, in fact, to 70,000mt by ws 245 upcoast, with a supportive ws 195 payable for now regular transatlantic runs also. Owners will hope to continue the good work, but a noticeable correction will quickly develop if Charterers take their feet off the gas for even a short duration. VLCCs were initially very quiet, and increasingly well stocked on the fixing window. Enquiry did then come through, but rates fell off noticeably to $5.5 million from the USGulf to Singapore and to $5.2 million from the Caribs to West Coast India, with the increasingly popular USGulf/UKCont route down to $2.75 million.

North Sea

Aframaxes here failed to match the performance seen elsewhere west of Suez...just not enough enquiry to satisfy fattened availability, and rates fell off sharply to 80,000mt by ws 127.5 X-UKCont and to 100,000mt by ws 117.5 from the Baltic too. Owners will be more minded to ballast to more lucrative load zones unless a quick turnaround develops. VLCCs did eventually get some interest but rates had to adapt to the wider softening reality to find cover at $5.95 for crude oil from Hound Point to South Korea and to $5.1 million for fuel oil from Rotterdam to Singapore, with further easing still possible.



*All rates displayed in graphs in terms of WS100 at the time

Clean Products

East

A fantastic start to the year for MR Owners in the East, with a very tight tonnage list and cargoes still to be covered, spirits are high and sentiment is positive. There have been encouraging gains on some routes but expect all rates to be tested early next week. Short haul cargoes rose steadily, with X-AGulf at $300k levels and cargoes in Red Sea at $725k. Red Sea cargoes could command a higher level, however, with the Red Sea so short on tonnage, it looks a very attractive discharge location so there is possibility for a little competition for Red Sea stems. Jet heading west saw a healthy rise, with $1.57 million on subjects and Owner ideas are currently starting in the $1.6 million region. TC12 has been very much date and Owner dependant, as levels dance around the 35 x ws 180-185 (18) mark. EAF looked set to push on last done and there was an air of frustration from Owners as 35 x ws 215 (18) was repeated as ws 215 (18) seems to be holding – for now. With Singapore busy, the number of ships looking to make the ballast towards the AGulf has eased up further adding to the pressure on available tonnage in the AGulf. Next week has all the ingredients for a busy week.

LR2s have had a very busy week and rates have arrested the decline, and are now firming back up again. 75,000mt naphtha AGulf/Japan is back up ws 5 (18) points to ws 145 (18) and 90,000mt jet AGulf/UKCont is up $50k again to $2.35 million. This trend should continue into next week. Meanwhile LR1s have had a slower week, with limited cargoes. The rates have not seen any real drop yet Eastbound, with 55,000mt naphtha AGulf/Japan still rating at ws 190 (18) but, with West rates down $100k there is room to fall. 65,000mt jet AGulf/UKCont is at $2.1 million now and could see more come off next week. Value is in LR2s for now, but if they firm, the value will revert back the LR1s and they should once again see volume pick up.

Mediterranean

Following the festive lull, week 1 has seen both 2018 and 2019 flat rates being used, which has caused some confusion as to where rates have settled. At the time of writing, X-Med rates seem to be holding at the 30 x ws 200 (19) mark although given the amount of prompt tonnage around (especially WMed) and, with more vessels opening up over the weekend, come Monday Owners will be on the back foot with rates severely under pressure. Black Sea has softened slightly today in line with X-Med and now trades at 30 x ws 210 (19), however, with delays in the Turkish Straits still causing uncertainty, once the Russian ports are fully back online next week, we could see more stability in this market in comparison to X-Med.

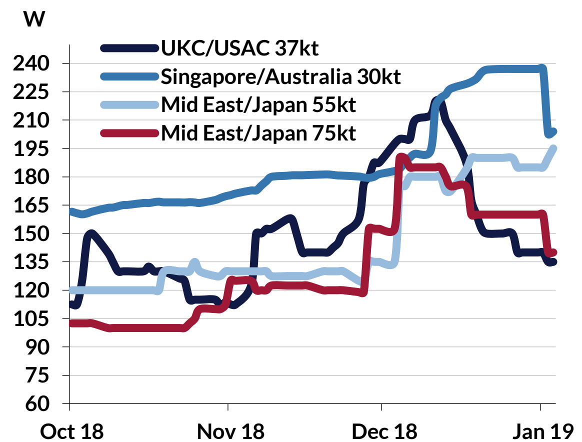
A predictably slow start to this truncated week was seen on the MRs plying their trade in the Med, as many used the busier UKCont market as a guide for rates. So it was no surprise to see 37 x ws 135 (18) being the fixing rate for transatlantic runs and a fresh test for AGulf sitting at $1.1 million. As Thursday arrived though we saw a few more market stems appear and come the close of the week a handful of them remain uncovered, with a dwindled tonnage list. Similarly to the UKCont, the Med market finds itself in an improved position for Owners and further enquiry will give the opportunity to press on rates back to where many Owners believe it should have been all week.

UK Continent

With many slowly but surely arriving back to their desks after the New Year, it brought with it a very well supplied MR tonnage list, which immediately put the owning fraternity on the back foot. With supply heavily outweighing demand, Charterers were bullish with their fixing ideas as TC2 quickly softened to 37 x ws 135 (18) and 37 x ws 155 for West Africa discharge. Cargo enquiry however, did pick up later in the week which has seen the front end of the list now being cleared and the market effectively bottoming out at current levels. Looking ahead, Owners will know they will have better fundamentals to work from come the start of week 2, but fresh stems will be the catalyst for any revival on rates here.

It was near enough the same story on the Handies, with rates being negatively corrected to 30 x ws 165 (18) for Baltic liftings and 30 x ws 155 (18) for the Continent respectively, then bottoming out at current levels until Friday. At the time of writing, Owners are now becoming more bullish with their fixing ideas as they look to repeat the 30 x ws 170 ex Baltic paid for a replacement vessel as the tonnage list begins to tighten. The Baltic is now covered up till the 13th, with the next batch of cargoes expected to be quoted come Monday. The market ends the week finely poised.

Yet another week of inactivity overshadows the Flexi market. Units are still readily available, with only the odd COA lifting keeping some vessels employed. Rates continue to be loosely benchmarked against discounted Handy rates (22 x ws 200 (18) for X-UKCont) although must be taken on a case-by-case basis for a better feel for Owners willingness to minimise idle days.



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Dirty Products

Handy

The North West Europe market managed to get over the New Year with a positive outlook for Owners. Tonnage in the area has remained limited during the holiday period and Owners have held onto rates at ws 270 for the Baltic, crab walking sideways. Although the activity has not been overwhelming, the few cargos that have come to the party have just been enough to maintain this trend. Depending on how much activity we see in the early days of next week, we may well see some adjustment. Adding to this, we still await a ws 2019 fixture to report.

The first week of the year has not brought the excitement some Owners were looking for in the Med market. In fact, as early tonnage continued to build in the region the general feeling was for the market to start to soften. Adding to this, fresh activity has been very limited until late in the week. With some countries still not fully back from their New Year holidays, as such rates have been progressively put under pressure. As we draw the week to a close, a substantial drop of ws 20 points from last done was put on subs with Black Sea-Med trading now at ws 300, this leaves the outlook for next week with a negative feeling.

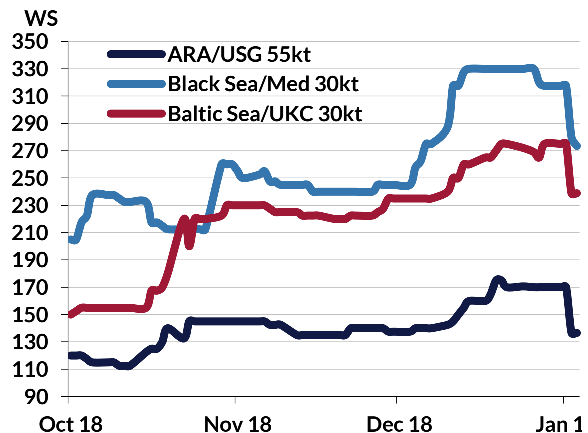
MR

The first week of 2019 got off to a sluggish start on the MR's in the north, as a lack of tonnage prevented fresh enquiry in this sector. Units are available further afield, however, it is unlikely Owners will be pulled away from the region without a premium. Tonnage replenishment next week may come, however, options remain on the Handy units, so if dates dictate then some flexibility is needed.

In the Med the situation is similar, with a lack of natural tonnage being shown and those that are have some uncertainty around their itineraries. As a result the Med market continues to be dominated by the Handy sector, as enquiry on full size stems remains limited. Next week activity could pick up as the New Year hangover clears, however, the next test is likely to be a correction on last done.

Panamax

Starting the week with some older deals making the headlines, ws 170 on 2018 schedule was thought to be a viable platform from where to continue now that everyone was back at their desks. Alas, from an Owners point of view, the tonnage lists here in Europe provided something which in recent times they had been unaccustomed to (competition for cargoes). A mixture of clean ships willing dirty and units being cancelled having run late allowed Charterers to claw back up to ws 15 points from where the week started. Furthermore, sentiment doesn't yet show any signs of a revival as too many units still need employment.



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125 YEARS
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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 3rd	Dec 20th	Last Month	FFA Q1
TD3C	VLCC	AG-China	**-21**	62	83	96	48
TD20	Suezmax	WAF-UKC	**-46**	89	135	115	73
TD7	Aframax	N.Sea-UKC	**-88**	116	204	176	103

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

			wk on wk change	Jan 3rd	Dec 20th	Last Month	FFA Q1
TD3C	VLCC	AG-China	**-9,750**	42,250	52,000	61,250	25,250
TD20	Suezmax	WAF-UKC	**-15,250**	32,750	48,000	34,750	23,750
TD7	Aframax	N.Sea-UKC	**-47,500**	30,500	78,000	58,250	21,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 3rd	Dec 20th	Last Month	FFA Q1
TC1	LR2	AG-Japan	**-38**	120	158	188	
TC2	MR - west	UKC-USAC	**-39**	115	154	200	121
TC5	LR1	AG-Japan	**-28**	161	189	182	123
TC7	MR - east	Singapore-EC Aus	**-31**	204	235	190	

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

			wk on wk change	Jan 3rd	Dec 20th	Last Month	FFA Q1
TC1	LR2	AG-Japan	**-12,000**	18,250	30,250	34,250	
TC2	MR - west	UKC-USAC	**-3,250**	9,500	12,750	19,500	11,250
TC5	LR1	AG-Japan	**+750**	26,500	25,750	22,000	17,750
TC7	MR - east	Singapore-EC Aus	**-7,500**	17,000	24,500	13,250	

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

	wk on wk change	Jan 3rd	Dec 20th	Last Month
ClearView Bunker Price (Rotterdam HSFO 380)	**+2**	321	319	373
ClearView Bunker Price (Fujairah 380 HSFO)	**-10**	329	339	404
ClearView Bunker Price (Singapore 380 HSFO)	**+4**	356	352	410
ClearView Bunker Price (Rotterdam LSMGO)	**-6**	486	492	536

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