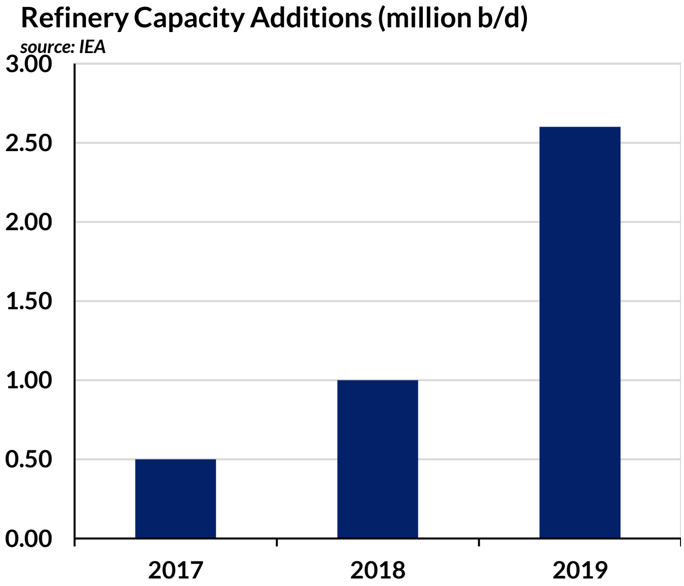
Refinery Ramp Up

Weekly Tanker Market Report

According to a recent IEA report, 2019 is expected to see the largest wave of refinery capacity additions since the 1970's. The Agency expects that 2.6 million b/d of new capacity will initiate operations this year. In terms of pure volumes, this is of course a bullish sign for the product tanker market, but what really matters is how global product flows shape up.

Asia accounts for the bulk of the new additions. The new 400,000 b/d Hengli and Zhejiang Petrochemical plants should support higher export flows from China in 2019. Further South, Malaysia's 300,000 b/d RAPID project, and Hengyi's 160,000 b/d Brunei plant, as well as the recently commissioned 200,000 b/d Nghi Son Refinery in Vietnam, will all add to regional supply. Some of this supply will be gasoline focused, which could further pressure an already oversupplied global gasoline market and force more product out of the region. Where this goes however is uncertain, with main global demand centres already well supplied.



Products supply out of the Middle East is also set to rise following capacity expansions there. Higher products supply will primarily be driven by the start up of Aramco's 400,000 b/d Jazan refinery, increased capacity from KPC's Clean Fuels Project and the start-up of Iran's third 120,000 b/d Persian Gulf Star condensate splitter (although sanctions may complicate the matter). Flows into the Middle East may also be impacted. Argus estimates that the region is currently 100-200,000 b/d short of gasoline, but with the start-up of new plants this year, that deficit could drop to 50,000 b/d. All in all, this has the potential to impact on gasoline flows from the West. Likewise, the overall distillate surplus in the region is expected to grow, supporting incremental export volumes.

Ultimately, more product will be pushed out of both the Far East and Middle East during 2019 as both regions see greater product length, with South/Latin America, Africa and Europe being the primary demand outlets for exporters. The picture is however more complicated as we move closer to 2020. As 2020 approaches, middle distillates are expected to (at least initially) serve as the primary route to compliance with the 0.5% sulphur cap. In theory higher demand and wider product imbalances should support arbitrage, particularly from East to West. However, Asia's gasoil length is expected to be reduced through higher regional demand for low sulphur fuels, which may limit the growth in exports out of the region. This is however, expected to be counterbalanced by higher intra-regional flows, offsetting any negative impact caused by potentially lower extra-regional outflows.

With much of the impact from new refining capacity not expected until the second half of the year, shipowners may have to endure a weak six months before seeing any sizeable demand boost. Seasonal factors will also play a role. Spring turnarounds are likely to limit product export volumes over the coming months, whilst higher newbuild volumes will continue to threaten the product tanker market. However, as we move into the second half of the year, a combination of seasonally higher flows, preparations for 2020 and the impact of new refineries coming online should be felt, allowing 2019 to end the way it started – on a high.

Crude Oil

Middle East

January has proved a 'short' month for VLCC volumes and with easy ongoing availability, and a big chunk of the February programme already taken care of, Owners started to feel the pressure. Rates remained largely rangebound, but then started to compress from the top end to end the week in the low ws 50's East, and low ws 20's to the West. Ballasting alternatives remain popular, but even those are starting to lose some of their previous shine. Chinese New Year approaches and Owners will be hoping for some heavier pre-Holiday fixing to help them out. Suezmaxes remained broadly flatline at around ws 85 to the East and low ws 40's West but there were occasional premiums paid for replacements and one or two early 'injection barrels' liftings. Little change likely into next week. Aframaxes continued to soften to 80,000mt by ws 105 to Singapore on low-feed demand, and easy supply. Perhaps further discounting next week, but a bottom does look in near sight now.

West Africa

Suezmaxes spent most of the week searching for a hard market bottom which was eventually found at the ws 70 mark to Europe. Once that had been established, Charterers quickly moved to bargain hunt, and in sufficient numbers to provoke a counter reaction to pull rates back up towards ws 80 to Europe and ws 75 to USGulf, with perhaps a little more to come over the near term, at least. VLCCs found limited demand as Charterers allowed for the leading AGulf scene to settle. Ballast time considerations then came into play, and deals were then struck at lower values. Rates eased to just under ws 54 to China with an also lower $3.5 million paid to West Coast India. Further erosion looks on the cards unless/until the Middle East revitalises.

Mediterranean

Aframaxes remained upon their previously downward course until mid-week but Charterers then became more willing to move and a busier second half developed. Rates moved up from their lows to 80,000mt by ws 110 X-Med and to ws 135 from the Black Sea, with the trend set to continue for a little while yet. Suezmaxes drifted lower to 140,000mt by ws 92.5 from the Black Sea to European destinations upon low-volume local movements and although Eastern demand remained quite steady, rates to China also fell away to under $3.8 million. Eyes will be upon further West Africa gains to help trim availability and boost sentiment.

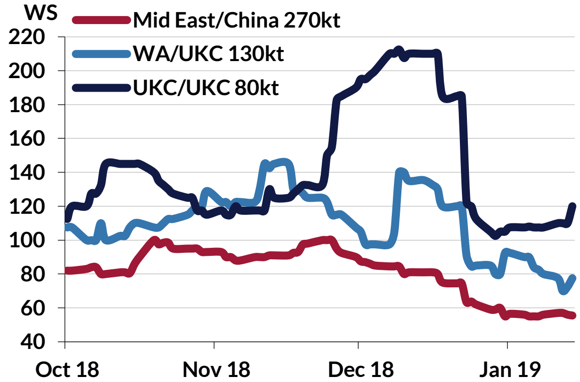
Caribbean

Aframaxes were aided by increased transatlantic demand and a bout of bad weather disruption. Rates gained to 70,000mt by ws 165 upcoast and to ws 137.5 to Europe and should remain on a mini roll over the near term, at least. VLCCs are starting to look more crowded over the horizon, but there remained just enough balance to keep a '$6'(million) in front of the mainstream USGulf / Singapore run, although older units were willing down to $4.7 million from the Caribs to West Coast India. demand should continue at a steady pace though some degree of rate erosion looks on the cards.

North Sea

It seems to take quite a lot to get Aframaxes shifting here but the cumulative effect of improved demand did get the boat moving and rates gently re-floated to 80,000mt by ws 115 X-UKCont and to 100,000mt by ws 105 from the Baltic. Owners will hope for similar attention next week to allow for something more meaningful to be achieved. VLCCs saw only occasional cargoes which brought rates slightly lower to $6.1 million for crude oil to South Korea and towards $4.75 million for fuel oil to Singapore, but little trading interest could be developed at that.

Crude Tanker Spot Rates



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

Clean Products

East

The LR1 Owners are having a tough old week, with rates in a downward spiral. The tonnage list has an abundance of ships and Owners are becoming more and more desperate to snap up cargoes as the inevitable softening continues. UKCont came right off to $1.825 million and TC5 is around the ws 132.5 levels. But, with limited outstanding stems heading into the weekend, there will be a lot of prompt tonnage that needs to be addressed come Monday morning. Unusually, the LR2's which historically enjoy stealing the limelight, have been quietly ticking along in the background minding their own business. Cargoes came into the market and ships went on subs. Rates have been flat and there appears to be no really urgency to test this sentiment. UKCont stays at $2.7 million and TC1 holds at ws 130. The only threat to the LR2 maintaining this sentiment is how much the LR1s soften and if there is a knock-on effect.

The MRs Owners have worked hard to get to the end of the week. Rates had to adjust accordingly to get tonnage moving and although disappointment for Owners to see rates drop, at the close of the week the list looks pretty balanced. EAF corrected to 35 x ws 195 and TC12 has been tested at 35 x ws 130. UKCont softened as the week progressed and finishes at $1.475m. Short hauls are harder to call as rates will be very date and load port dependant, but assess $260k for X-AGulf and $650k for a AGulf-Red Sea is where they sit for now. With several outstanding cargoes still to be covered come next week, Owners will be hoping that positive steps can be made in week 5.

Mediterranean

The lists pulled on Monday morning were grim reading for Owners, with a wealth of tonnage at the front end of the list pressuring Owners from the off. This coupled with a slow level of enquiry meant rates softened, with 30 x ws 160 quickly becoming the going rate for vanilla X-Med voyages. Following a busy couple of days on the Handies, the front end of the list was shortened, rates stabilised and we even saw Owners claw back a handful of points for a stem ex E-Med. With uncertain weather on the horizon, safer itineraries were needed. Black Sea rates negatively corrected back in line with X-Med to 30 x ws 170, however, at the time of writing, a 30 x ws 185 is seen on subs for a naphtha cargo, which has left a few scratching their heads. Whether this is an anomaly or a sign of things to come will be apparent next week, but it leaves week 4 on a slightly more positive note than it began.

On the face of things, a rather passive week has passed on the MRs in the Mediterranean as Owners struggled to gain a grasp on fixing levels and Charterers pilled the pressure on. A couple of Brazil runs saw the knocked back rate of 37 x ws 145 being taken out, transatlantic at ws 120 and to the AGulf at $750k. But slowly tonnage options were clipped away, the UKCont has seeing positivity, and off the back of this come Friday we arrive at 37 x ws 165 for WAF, with other routes there now to progress. With Owners off the prompt window looking to keep momentum up, we expect moving into the next week for rates to push up in line with the heightened WAF run.

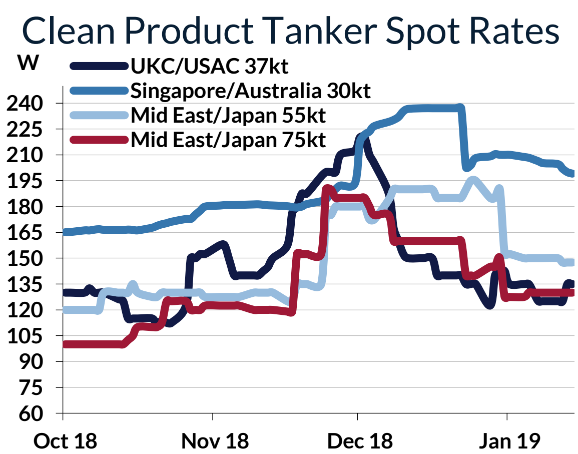
UK Continent

All in all a positive week has passed by for the MR owning fraternity up on the Continent for both ice and non-ice markets. A lack of ice units within the natural fixing window has kept Owners firmly in the driving seat here, with 40 x ws 185 being fixed numerous times for Baltic / UKCont, which is expected to continue as we roll through the ice season. Enquiry has also been good ex Continent which has seen a number of non-ice vessels get fixed away forcing the front end of the tonnage list to tighten significantly and at the time of writing. TC2 trades around the 37 x ws 145 mark and West Africa firm to 37 x ws 160. Looking ahead and, with a number of vessel on subjects, a big factor for next week's fixing will be if they get subjects or not, but Owners will be quietly confident for another push on freight for week 5.

Week 4 brought with it first decade Baltic cargoes and Charterers played a clever/careful game not to flood the market at one any point whilst also making sure fixing laycans are far enough ahead so not to cut off tonnage options. As a result, rates have remained unchanged with 30 x ws 195 persisting ex Baltic although Owners may become more bullish as we move into next week.

The only slight gains Owners have made is on the X-Continent market as 30 x ws 160 was fixed but expect non-ice tonnage to be recycled smoothly and options available for Charterers, which will keep a lid on rates.

The Flexis have had a relatively stable week from start to finish, the saving grace here has been the relatively small fleet size of Flexi units and their current geographical spread. This meant that when fresh cargoes are quoted, Charterers are not inundated with offers from a variety of ships. Primarily the market is held up by 2 Owners and, with their ideas for X-UKCont not falling below 22 x ws 200 the market has held. There are certainly opportunities to get a little more, especially as the Handies have remained tight. As of now we expect more of the same next week, until the Handies make further gains the same numbers should be on offer.



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Dirty Products

Handy

This week the NWE sector followed suit from where week 3 finished, with Monday morning quickly highlighting to all, the limited number of workable units available. Charterers subsequently attempted to pick off firm units where possible in an attempt to limit their exposure to rising freight costs but, with the enquiry that followed, we finish the week with gains of at least ws 15 points from when we started. As the majority of units have been fixed away, all eyes will be on Monday's fresh position list to show us where opportunity lies, but we can expect to see the trend remain firm.

The Mediterranean can only be described as being hit with a tidal wave of activity early on in the week, which in one respect provided Owners with a platform to force increment, but left the final days trading rather dull where it seemed everyone covered in one go. That said, the rationale as to why such conditions occurred, comes down to a perfect storm of bad weather and increased enquiry from the Black Sea on Tuesday, which pushed a number of Charterers to move quicker than they had intended. Owners progressively gained a few points, fixture by fixture, resulting in the Black Sea closing the week towards the ws 265 level. Monday morning is gearing up to be a treasure hunt, as the market evaluates itineraries and to see whether Owners have anything hiding behind what's being shown.

MR

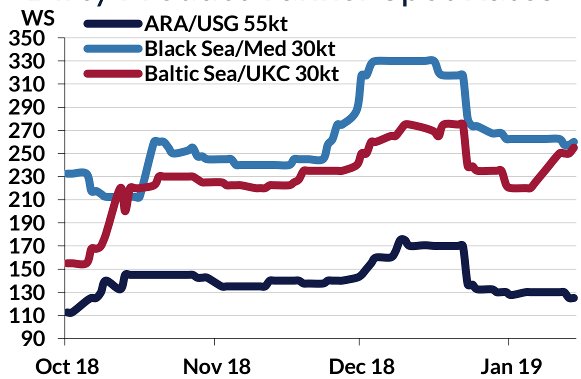
The much depleted position lists continues to play havoc within the NWE region, as the need to pull natural size units from outside the region continued this week. With this in mind, the only real workable units were marketed from the Spanish Med region. At the time of writing, one unit has been fixed away and another ballaster is on subs but, with the tight Handy market, this lone wolf is now looking like hot property... watch this space.

In the Med, the sentiment remains firm as this sector is once again able to cling onto the active smaller sized Handy sector. There has been some activity, a variety of fixing and failing this week on the early tonnage, which for now has kept fixing levels steady. Next week could bring a turning point, with more steady activity as Charterers should be presented with a number of units expected to open on end/early dates. It is still too early to say how firm these units are, but the tonnage selection should start to open up next week... watch this space.

Panamax

The Panamax market traded in a rather peculiar fashion, as the US market fires on all cylinders. Europe has failed to get out of neutral, let alone first gear. A lack of activity combined with a lengthening tonnage list has left levels sitting now some ws 10 points softer than where the week begun. Unfortunately, negative pressure still surrounds this sector and further tests could yet set the floor at lower levels.

Dirty Product Tanker Spot Rates



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 24th	Jan 17th	Last Month	FFA Q1
TD3C	VLCC	AG-China	**-1**	55	56	83	51
TD20	Suezmax	WAF-UKC	**-6**	75	81	135	70
TD7	Aframax	N.Sea-UKC	**+3**	111	108	204	105

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

			wk on wk change	Jan 24th	Jan 17th	Last Month	FFA Q1
TD3C	VLCC	AG-China	**-1,500**	29,250	30,750	52,000	24,250
TD20	Suezmax	WAF-UKC	**-4,000**	22,250	26,250	48,000	19,250
TD7	Aframax	N.Sea-UKC	**+2,500**	25,750	23,250	78,000	21,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 24th	Jan 17th	Last Month	FFA Q1
TC1	LR2	AG-Japan	**+0**	130	130	158	
TC2	MR - west	UKC-USAC	**+8**	136	127	154	132
TC5	LR1	AG-Japan	**-9**	140	149	189	117
TC7	MR - east	Singapore-EC Aus	**-7**	199	206	235	

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

			wk on wk change	Jan 24th	Jan 17th	Last Month	FFA Q1
TC1	LR2	AG-Japan	**-250**	27,000	27,250	30,250	
TC2	MR - west	UKC-USAC	**+1,500**	12,500	11,000	12,750	11,750
TC5	LR1	AG-Japan	**-2,250**	19,250	21,500	25,750	13,250
TC7	MR - east	Singapore-EC Aus	**+1,000**	22,000	21,000	24,500	

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

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ClearView Bunker Price (Fujairah 380 HSFO)	**+4**	383	379	339
ClearView Bunker Price (Singapore 380 HSFO)	**+10**	406	396	352
ClearView Bunker Price (Rotterdam LSMGO)	**-6**	528	534	492

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