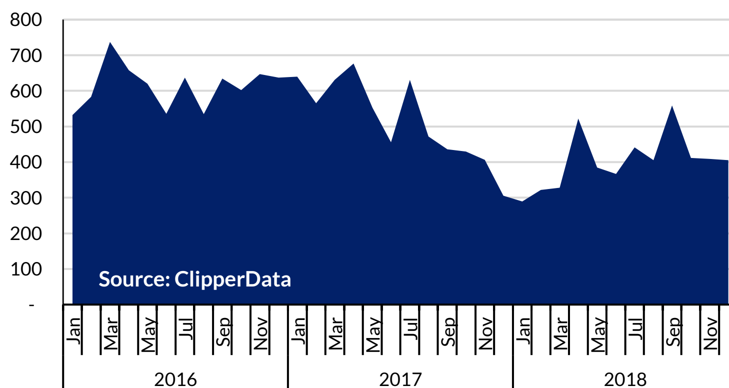
Banning the Trade

Weekly Tanker Market Report

On the 23rd of January the US president recognised Venezuela's national assembly speaker Juan Guaido as interim president of the country and called Maduro's government "illegitimate". Soon afterwards, Washington announced tough sanctions against PDVSA, designed to halt US imports of Venezuelan crude. The government stopped short of placing an outright ban; instead, refiners will be able to continue to receive Venezuela's crude until the 28th of April as long as payments are placed in to a blocked account. Sanctions have already caused chaos and confusion. Reuters reported earlier this week that over a dozen of tankers involved in oil trade with Venezuela were anchored in the US Gulf, as shippers seek clarity and payment instructions.

According to AIS data, US imports of Venezuelan crude averaged under 0.5 million b/d last year. The biggest buyer was PDV's subsidiary Citgo, followed by Valero, Chevron and PBF. The sanctions come at a time of restricted supply of heavy sour crude and so it may be challenging to replace Venezuela's barrels but not impossible. Similar quality crudes could be sourced from different sources, most likely from Latin America and Canada. There is also a possibility of higher shipments from the Middle East, but that will be subject to OPEC's willingness to increase production.



The loss of Venezuela-US crude trade is a negative for regional Aframax and Suezmax demand, although this in part will be mitigated if trade from other Latin American countries rises as a result. Venezuela's long haul crude exports to the East are expected to continue, as most of this trade is backed by "oil for loans" deals with China and Russia. Furthermore, PDVSA plans to divert the volumes effected by sanctions to China, Russia and India, where Rosneft has an equity stake in refining assets. Although this suggests an increase in long haul volumes, there are many uncertainties. Importing countries will need to find a way to bypass the US financial system. More importantly, it is unclear whether Venezuela will be able to maintain production at current levels, if government access to revenues from US sales is curtailed. Venezuela will also need to source naphtha which it uses to dilute extra heavy grades to make synthetic crude for exports. According to ClipperData, Venezuela imported about 80,000 b/d of naphtha from the US last year but these shipments are now prohibited as well. Several cargoes which had been en route from the US to Venezuela when sanctions were announced have been rerouted elsewhere. If Venezuela is unable to find alternative suppliers of diluent, about 250,000 – 300,000 b/d of the country's output could be at risk.

The latest sanctions are also expected to halt Venezuela's imports of other clean US products, with shipments averaging around 80,000 b/d in 2018. Here also much depends on whether Venezuela will be able to source barrels from elsewhere. Europe is a good alternative, but most of European countries have voiced their support for Juan Guaido. As such, products are likely to be imported from further afield.

The developments in regional/local politics over the past couple of weeks suggest that Maduro's government is in increasingly challenging position. Venezuela will also find it difficult to secure tanker tonnage for crude and product shipments. The guidance provided by the US Treasury with the regards to the latest round of sanctions somewhat lacks clarity. Shipping is not mentioned; however, owners are considering whether it is worth continuing to trade with Venezuela anyway. The risks are evident and those willing to trade are likely to demand a significant premium.

Crude Oil

Middle East

'Bad' just got worse for beleaguered VLCCs, as ongoing weighty availability easily soaked up demand and led rates further downwards to under ws 40 East, even for modern units, and to under ws 19 to the West also. Older vessels had to accept into the very low ws 30's to the East just to stay in the picture. With returns now at close to merely running cost levels there probably won't be much further to fall, but equally a rebound is also hard to call unless Charterers really lose their heads on the March programme. Suezmaxes found only gentle attention to keep rates flatline at no better than ws 80 East and ws 37.5 to the West, with no realistic prospect of early recovery. Aframaxes slipped into sub-ws 100 territory to Singapore and need a lot more to happen to prevent further slippage next week.

West Africa

Suezmaxes had been relying upon early replacement needs to provoke an improvement but as those requirements faded, so did the marketplace and rates eased off a little further to 130,000mt by ws 65 USGulf, ws 67.5 Europe, and there will be apprehension in the Owners' camp as to what to expect for next week. VLCCs had already braced themselves for demands to adjust rates to weaker AGulf marks, and once the opportunity came didn't fail to validate the fear. Rates moved off to ws 47 to the Far East, and then were called at no better than ws 45 by the week's end, with older units posting under ws 40. No relief next week likely.

Mediterranean

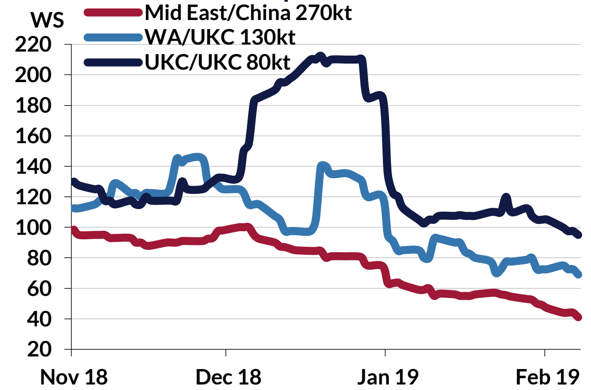
It got more and more challenging for Aframaxes, as the week progressed. Availability grew, and demand waned, to lead rates down to 80,000mt by ws 95 X-Med and ws 105 from the Black Sea, with the market erosion still likely underway into next week too. Suezmaxes, surprisingly perhaps, managed to cling on to previous levels at around 140,000mt by ws 87.5 from the Black Sea to European destinations, and to $3.6 million to China, but it seems a little toppy given the improved availability, and lack of West African support.

Caribbean

Aframaxes enjoyed a brief boost from fog disruption in the USGulf, but the effect was only modestly positive, and short lived too. Rates then backtracked to 70,000mt by ws 120 upcoast but those (fewer) Owners willing to load Venezuela, were more handsomely rewarded... almost 'name your price' territory. VLCCs had a slow week and, with Venezuela effectively ruled out for many players, USGulf competition increased to puncture previous rates and dump the market back to little better than $4.5 million to Singapore, with perhaps even lower to come over the next fixing phase.

North Sea

Aframaxes floundered here also and can only hope for a rush of end month activity to help dig them out of their hole. 80,000mt by ws 95 X-UKCont now, with 100,000mt at ws 75 ex Baltic and little/no realistic optionality to ballast elsewhere for better returns. VLCCs found few toys to play with and are expected to have to accept lower values as USGulf and West African, rates decline. Crude oil from Hound Point to South Korea can be marked at around $5.5 million and probably no better than $4.5 million for fuel oil to Singapore now.



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

Clean Products

East

LRs have seen a quieter week with Chinese New Year. LR1s though, have remained fairly steady having already seen a decline. 55,000mt naphtha AGulf/Japan is ws 120 and 65,000mt jet AGulf/UKCont is at $1.70 million and shouldn't see much more come off. LR2s have dropped away but, with lists remaining fairly short, the fall has been limited. 75,000mt Naphtha AGulf/Japan is now ws 120 and holding, while 90,000mt jet AGulf/UKCont is $2.55 million. A busier week is needed though to hold rates, or both sizes will weaken further.

With Chinese New Year, it was a very disjointed week for the MRs in the AGulf. Having seen a negative slide to the end of last week, the limited activity that was seen ensured that rates hovered around last done levels. EAF sits at 35 x ws 160 and TC12 held steady as 35 x ws 120. UKCont is currently on subjects at $1.375 million and cargoes into the Red Sea are trading at $600k levels. Owners are trying to push the market and generate a little spark to create some positivity but, with a few early ships needing to be cleared of the list, we need an active week next week to see this being achieved.

Mediterranean

Enquiry has been consistently sluggish this week, which has left Owners on the back foot from the off for X-Med stems. As the fixing window began stretching further ahead, this opened up more options for Charterers and lead to a softening, with the going rate for X-Med stems now around the 30 x ws 150-152.5 mark. For much of week 6, Black Sea rates held heights of 30 x ws 185-190 due to a tight front end, however, given the negative sentiment in the Med and Charterers quoting cargoes as far out as 18-19 dates, this inevitably pressured the Black Sea numbers and gave more options leading to the softening seen, with 30 x ws 175 currently on subs. If cargoes continue to enter the market at this rate next week, then expect a further blow to this market...

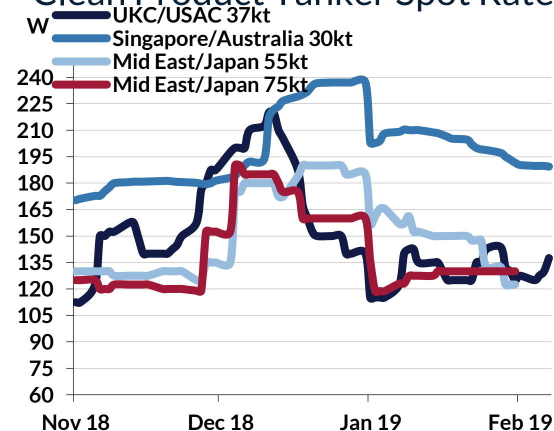
With enquiry levels positive both in the UKCont and Mediterranean, Owners have been waiting for rates to improve patiently, with a "when" rather than "if" attitude. Delays in the Turkish Straits have forced some Charterers into splitting their LR liftings, and therefore Owners were able to keep this bullish attitude towards next done rates. A slight mixed bag of numbers were achieved in the early part of the week, but as the UKCont managed to achieve gains, transatlantic runs have moved past the 37 x ws 130 mark, with WAF similarly toward ws 150. Pushing into week 7 with a few stems still outstanding, Owners will look to press further with the support of good enquiry across the board.

UK Continent

Volume wise there has been a healthy amount of MR cargoes quoted throughout week 6 and finally Owners patience has started to pay dividends, as the lengthy tonnage list has finally begun to tighten. Those with vessels on the front end are becoming more bullish with their fixing ideas, and some looking to capitalize on potential late runners. TC2 has picked up slightly to 37 x ws 135-140 and West Africa requires some testing but a positive correction is expected to occur, with 37 x ws 150-155 a fair benchmark. One frustration for Owners will be the dip in ice rates as 37 x ws 185 was fixed for Baltic/UKCont and 37 x ws 195 for Baltic/transatlantic as a more hidden ice tonnage was available for Charterers to choose from. The North slowed down by Friday, as Charterers looking to halt the momentum gained by Owners and, with not many fresh stems outstanding, it will seem Charterers will chance their luck come Monday.

It's been a frustrating week for Handy Owners in NWE. The stability of last week's numbers were eaten into quickly on Monday as the tonnage list had grown over the weekend, whilst cargo enquiry had slowed as a result of Charterers favouring LRs as their mode of transport for Baltic programme cargoes. As a result, ice-class Handy levels have softened from 30 x ws 190 levels to 30 x ws 185-187.5 but by Thursday/Friday 30 x ws 175 was on subs and looking soft as tonnage was readily available. X-UKCont routes need a fresh negative test from last done 30 x ws 155, but this should land 30 x ws 145-150 as the gap between this route and Baltic/UKCont is reduced. Some UKCont/Med cargoes were looking for cover on Friday are for once somewhat lacking in willing ships, as Owners have positioned their fleet suitably for winter but should see this test 30 x ws 140-145.

The Flexi market continues to trade in its humdrum fashion, with a lack of a consistently traded route to give liquidity in this sector. That said, however, this week has at least produced a few more employment opportunities to keep tonnage on the move and prevent rates from suffering the inevitable. Benchmarked routes are still derived from Handy levels meaning 22 x ws 200 is a rough guide, but, with ARA/Cape Verde subs $460k, and X-Portugal on subs $160k, in reality the market is a lot more fragmented. Looking ahead, if Handies take on further losses next week, this sector will be hit too, otherwise we expect and other flat week of trading to pan out.



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Dirty Products

Handy

On face value, the Continent market remains firm, especially where ice class tonnage is needed, however, with levels touching ws 280, it seems the Handies are becoming a victim of their own success. Where Charterers can they are now moving 30kt clips on larger units, knowing even on a prorated basis they are achieving a better $/MT. The non-ice sector has proved much harder to benchmark. Long haul voyages have been attracting some very sharp numbers where West Med tonnage can be brought into play. On this note, although for now X-UKCont routes remain steady, the Med is coming under pressure where units sit spot, which could act as a counterweight to the market in the week ahead.

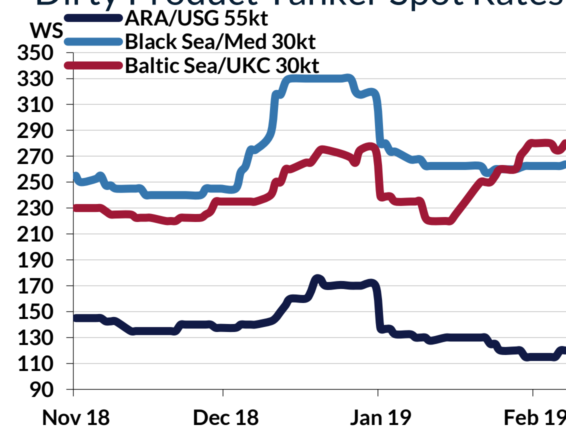
Focussing a little more now on the Med, activity levels this week have only trickled through, allowing tonnage to build. Come Monday, a number of ships will be nearing their open dates and typically of a market displaying such function, rate reductions are possible.

MR

If you are a keen gambler then week 6 was only ever going to be a dead cert, if your money was on there not being any activity. The North continued to be depleted of naturally placed units, which has kept a lid on enquiry from this region and, as surrounding markets continue to offer a more competitive $/MT, the region will remain untested until units start to open up and tempt cargo to show. In the Med, despite starting the week with fresh tonnage on the horizon, there has been very little to report, as little to no fresh enquiry on full stems has surfaced. Even with strength in the Handy market offering Owners a back stop, any units showing have not been able to fall back on this activity as tonnage has been readily available for the small stems. Next week, firm units will be forced in to the fixing window and, with Handy tonnage building, there may be some correction.

Panamax

With less natural units in play over here in Europe this week, Owners have been able to make gains where Charterers needed to secure the services of ballast tonnage, however, for the most part trading for the week stayed flat at ws 115. That said, wider issues at large are having a telling impact on the market, where Venezuelan sanctions in the US continue to have a negative impact States side and surrounding Aframax markets here in Europe continue to move along in the doldrums, capping any positive gains.



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 7th	Jan 31st	Last Month	FFA Q1 (Bal)
TD3C	VLCC	AG-China	**-5**	43	48	57	39
TD20	Suezmax	WAF-UKC	**-2**	69	71	92	61
TD7	Aframax	N.Sea-UKC	**-10**	95	104	105	102

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

			wk on wk change	Feb 7th	Jan 31st	Last Month	FFA Q1 (Bal)
TD3C	VLCC	AG-China	**-5,500**	14,750	20,250	32,000	10,250
TD20	Suezmax	WAF-UKC	**-1,500**	18,000	19,500	32,500	13,250
TD7	Aframax	N.Sea-UKC	**-7,750**	12,500	20,250	21,250	17,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 7th	Jan 31st	Last Month	FFA Q1 (Bal)
TC1	LR2	AG-Japan	**-6**	120	126	128	
TC2	MR - west	UKC-USAC	**+8**	136	127	141	126
TC5	LR1	AG-Japan	**-3**	119	123	154	115
TC7	MR - east	Singapore-EC Aus	**-2**	189	192	210	

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

			wk on wk change	Feb 7th	Jan 31st	Last Month	FFA Q1 (Bal)
TC1	LR2	AG-Japan	**-2,500**	22,750	25,250	18,250	
TC2	MR - west	UKC-USAC	**+1,250**	11,750	10,500	13,750	10,000
TC5	LR1	AG-Japan	**-1,250**	13,250	14,500	23,000	12,500
TC7	MR - east	Singapore-EC Aus	**-750**	19,750	20,500	16,500	

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

	wk on wk change	Feb 7th	Jan 31st	Last Month
ClearView Bunker Price (Rotterdam HSFO 380)	**+13**	386	373	358
ClearView Bunker Price (Fujairah 380 HSFO)	**+10**	403	393	379
ClearView Bunker Price (Singapore 380 HSFO)	**+9**	421	412	400
ClearView Bunker Price (Rotterdam LSMGO)	**+7**	551	544	527

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