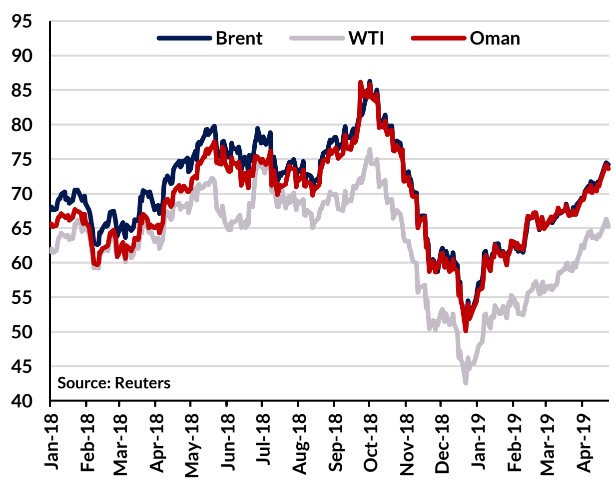
Trump, Waivers and Oil Prices

Weekly Tanker Market Report

So, here we go again - Trump, waivers and oil prices. It feels like déjà vu, except this time there are no waivers. The US administration recently announced they will no longer grant waivers to countries importing Iranian crude in a bid to block their exports. However, if the US administration wants to lower crude prices it will rely on others to compensate after the benchmark Brent closed at its highest level in six months to $74.51/bbl on the back of this news. Fears of supply tightening were seemingly eased by comments from the administration, suggesting Saudi Arabia and the UAE would increase production to keep supply in line with current demand levels. However, Saudi Arabia's energy minister seems to think otherwise, publicly stating they will not increase production pre-emptively, suggesting that the market is already well supplied and that they will wait to see the effect on supply first. The Kingdom is currently pumping around 9.8 million b/d, some 500,000 b/d below their agreed cut with OPEC+.

Brent vs WTI vs Oman ($/bbl)



Iran's response has been somewhat muted, stating they will ignore any US action and will continue to export as much as they can regardless. Some outlets have suggested Iran could attempt to choke activity coming from the Strait of Hormuz; however, analysts have been quick to dismiss any such move. The American Automobile Association has said the sanctions will have repercussions on America's domestic market, predicting prices will rise to over $3 a gallon, up 15 cents per gallon on current levels as we enter the US 'driving season' and uncertainty creeps into the market.

The choice to end waivers and implement sanctions comes at a time of increasing turmoil in the oil supply chain. Venezuela continues to be hampered by domestic issues and international sanctions. Libya also now looks an uncertain producer as fighting escalates in the country. Iran has exported over 1.1 million b/d in Q1 2019, over 1.3 million b/d less than during the same period last year. The EIA have now assessed the sanctions on Iran could leave a greater shortfall in world oil markets than previously estimated. To make matters worse, Urals shipments through the Druzhba pipeline have been suspended due to concerns over contaminated crude, further exacerbating prices, with Brent briefly tipping over $75/bbl on Thursday morning. The crude is said to contain excess levels of chloride, potentially damaging refineries in the region.

Japan and China have already started stockpiling Iranian crude in expectation that waivers would be withdrawn, with Iranian exports up in March by a fifth to 1.33 million b/d according to Argus, the highest since October, just before US sanctions were implemented. It remains to be seen whether China and India will continue to buy Iranian crude, if sanctions are indeed imposed. In any case, total volumes are likely to fall. The question then is how Iranian barrels will be replaced, if Saudi Arabia decides to maintain production at current levels. In coming months, the country is also expected to increase direct burn of crude for power generation. This will only apply additional pressure on Saudi's exports. As such, it seems likely that if none or too few additional barrels from the Middle East are forthcoming, upward pressure on oil prices will intensify. Brent, WTI and Oman are already at their highest level this year, so if the US administration plans on controlling and lowering oil prices, they may have to be careful what they wish for.

Crude Oil

Middle East

A holiday shortened, and uninspiring, week for VLCCs...modest volumes and more than sufficient tonnage, combined to puncture any remnants of last week's slightly more hopeful sentiment and lead rates back down to the very low ws 40's to the East for modern units, with more 'challenged' vessels at down to ws 35. Virtually nothing was seen to the West and rate demands there remained in the 'high teens'. More holidays to come and lots more ships too - a soggy near term outlook then. Suezmaxes drifted sideways on little interest and good availability...even ballasting alternatives began to lose attraction too as West Africa, in particular, sagged. Rates stay at no better than 130,000mt by ws 62.5 to the East and ws 30 to the West...to be continued. Aframaxes had a slightly busier week of it to allow rates to crawl a little higher to 80,000mt by ws 102.5 to Singapore and the feeling is that things could further improve - a little - through next week too.

West Africa

Suezmaxes resisted as best they could, but cargo interest was very light, and all the while availability grew. Rates are now at under ws 65 to Europe, and under ws 60 to the USGulf, with another step lower looking increasingly likely. VLCCs had been slow but then received a concentrated burst of activity to break the spell...that was the good news...the bad was that, with competition still on the heavy side, Owners couldn't move rates higher than the previously established ws 45 mark to the Far East, and that looks set to remain the 'conference' level over the next fixing phase also.

Mediterranean

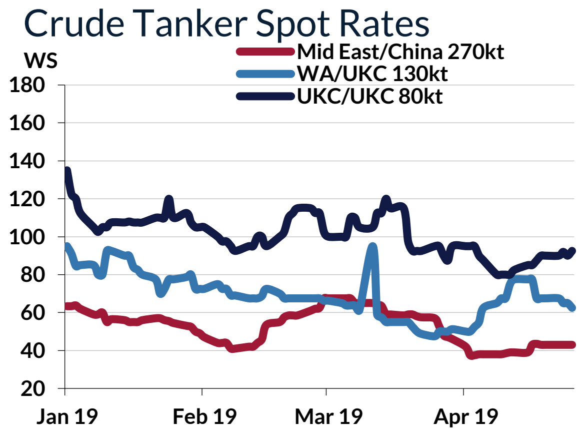
Just grim for Aframax Owners here - not enough activity to seriously prune weighty tonnage lists and rates fell off to as low as 80,000mt by ws 67.5 X-Med, ws 80 ex Black Sea, accordingly. Perhaps things may marginally improve next week, but that remains merely a hope for now. Suezmax conditions tipped more in Charterers' favour - no delays now through the Straits, easy tonnage, and a falling West African market, have now set a progressively downward trend, with rates now at 140,000mt by ws 75 from the Black Sea to European destinations and around $2.8 million payable for runs to China. No early U-turn anticipated.

Caribbean

Aframaxes spent most of the week in limbo whilst the overhang of tonnage was worked through. A glint of a finer balance came into view by the week's end but there is still work to do before the list tightens sufficiently to haul rates back up from their 70,000mt by ws 75/77.5 range upcoast and ws 70 transatlantic levels. VLCCs started with a degree of promise, but then quietened and actually retreated slightly to close to $4 million from the USGulf to Singapore - despite the West African noise. Little rate movement likely over the near term, at least.

North Sea

Aframax Owners started to get a little more hopeful as the week wore on, but as at the time of writing, had not achieved a breakout from a maximum 80,000mt by ws 97.5 X-UKCont and 100,000mt by ws 82.5 from the Baltic. Next week may be different, but if there is an upward move, it is unlikely to hold for long unless the other zones also play along. VLCCs saw very little again but $4.85 million was seen for crude oil from Hound Point to South Korea and fuel from Rotterdam to Singapore is again rated at around $3.5 million, though nobody seems to want to engage.



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

Clean Products

East

A relatively active week for the MRs, where the tonnage list has been chipped away. On the whole rates have yet to see a positive correction to this increased activity and certainly Owners are looking to next week, with a little more confidence. EAF is poised to see a push but for now 35 x ws 110 levels hold. UKCont has been flat at $1.15 million and TC12 saw a little push to 35 x ws 110. Cargoes into the Rea Sea have been untested but assess $450k levels for now. X-AGulf stems have seen a bit of fluctuation, depending on options and packages involved; however, $150k is a good guide. Looking to next week, Owners will be hoping that ships on subjects get cleared and activity levels remain high. However, several ships remain on the list and, although there is a sentiment drive from Owners to see rates improve, there may be few last done levels deals needed before this is achieved.

LR2s led the charge this week, with continued volume and rates have risen fairly quickly. 75,000mt naphtha AGulf/Japan is now ws 105 and 90,000mt jet AGulf/UKCont rates at $2.10 million. These rates are likely to continue upwards, as more stems are entering the market and the distillate volume is high again. LR1s have been slower to respond but they are getting tighter. 55,000mt naphtha AGulf/Japan is still last done at ws 90, but no Owners so far are willing less than ws 105-110. 65,000mt jet AGulf/UKCont is only edging up to near $1.60 million but, if the LR2s continue their push, these rates could firm further.

Mediterranean

A lacklustre week overall in the Med, with the market yet to wake up following the long weekend. The lists pulled on Tuesday were inevitably in Charterers' favour and this coupled with a slow rate of enquiry entering the market, meant that Owners were on the back foot from the offset. X-Med rates have softened consistently throughout the week and at the time of writing, 30 x ws 135-137.5 is the going rate. It would not be surprising to see south of this. Black Sea rates have followed suit and last done is now at the 30 x ws 150 mark, with rates negatively correcting due to the sentiment in the Med. With prompt tonnage still to be cleared out, expect the beginning of week 18 to be under pressure and Owners will be hoping for an influx of cargoes on Monday in order to balance the market.

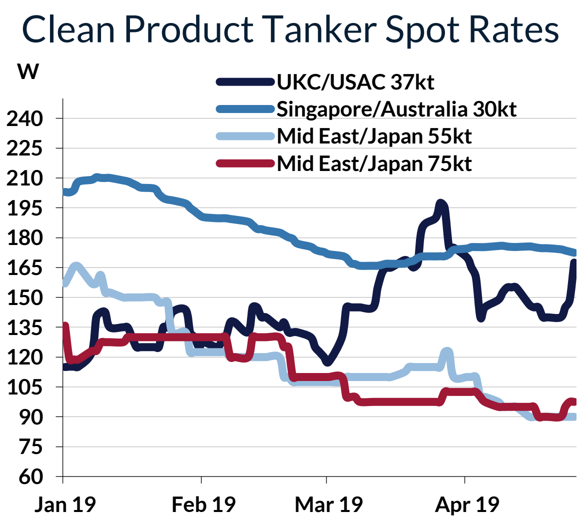
Rates by and large have been driven by the action seen in NWE this week, with a tightening list and healthy enquiry causing TC2 to firm. A positive correction will be seen in the Med, with last done levels at 37 x ws 147.5; however, with TC2 trading at around ws 20 points in front of this, expect north of last done to be seen. Fresh test was seen for a Med/AGulf run at $875k on a last cargo palms vessel showing the positive sentiment in the market and if week 18 brings similar action to this week, then Owners will be licking their lips.

UK Continent

With the majority of Europe returning to their desks on Tuesday, the shortened week brought with it a healthy amount of TC2 cargoes, resulting in a sharp rise in freight. The gasoline arb to the States is open, which has been the main catalyst why enquiry has picked up. With the tonnage list tightening, Owners have managed to push TC2 freight up to 37 x ws 170-175 (at the time of writing). A quieter Friday has passed us by today as Charterers roll the dice and hope that a few more options are available to them come Monday, which should be aided by the healthy amount of ballasters. But with the US continuing to look towards Europe for UMS, many are expecting a busy week ahead.

The Handies also kicked off the week in good fashion, with both Baltic and Continent markets holding steady at 30 x ws 170 and 30 x ws 157.5 respectively, with most awaiting for the first 10 days of the Primorsk May programme to be released, which kept sentiment positive/strong. However, the combination of an inactive end to the week and a healthy amount of hidden units has seen Baltic soften to 30 x ws 160. X-UKCont is expected to be negatively corrected to around the 30 x ws 150 level. Rumours of LRs being picked off ex Primorsk won't help Handy proceedings here, which could result in another wobble on freight.

Finally to the Flexis. Not too much to report in the public domain as cargoes tend to be done under COA or on a private basis. Very little seems to be bubbling to the market surface and the odd spot deal (which was concluded early in the week) saw 22 x ws 205 being fixed for X-UKCont; Owners are getting their fixing ideas from the Handies, which at the time, were trading at 30 x ws 157.5. Although with Handies softening, expect a negative correction to occur on the Flexis, with 22 x ws 190-195 next to be done for X-UKCont.



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Dirty Products

Handy

This week was always potentially going to be a little disjointed due to the Easter break and extended weekend. However, activity in the NWE region came out fighting, with a number of fresh stems in the first couple of days trading this week. As a result, Owners were able to gain some ground, resulting in a couple of points being seen added on to fixing levels. At the halfway point of this week's trading, things were looking positive for Owners but fresh enquiry quickly dried up. As a result, we end the week on a flat note and come Monday all eyes will be focused on fresh tonnage to show us which direction any early trading will take.

The Med on the other hand has suffered a different fate, as the steady stream of enquiry has just about managed to keep the region ticking over. In fact the West Med has suffered from a negative correction due to the oversupply of tonnage. The absence of fresh enquiry from the Black Sea has been ever present once again this week, and if this was not the case, a different story would be told today, as the number of units opening in the East Med have been few and far between. The latest news from the Black Sea is that activity should be picking up from mid-May dates, so next week is likely to remain flat until this starts to kick in.

MR

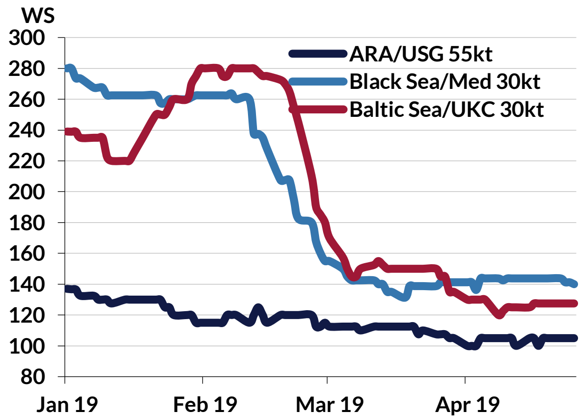
With limited tonnage showing at the start of the week, it comes as no surprise that week 17 has left us with very little to get excited about. With the one sole unit being covered off market mid-week and another unit showing quickly after, week 18 looks like it will be much the same. Unless tonnage shows after the weekend, rates will remain untested and ballasters may well be drawn on should cargoes need to be covered.

In the Med, MR activity has also been slow albeit with a couple more fixtures to report of than the North. With one unit testing the Black Sea/Med market early on and achieving ws 105 and a market quote achieving ws 110, the list has not yet seen enough activity to tighten. With sparks still missing from the market at the time of writing, the expectation is that units will be there to be tested at the start of week 18.

Panamax

Given the activity levels on the Panamaxes this week, there has been little to get our teeth stuck in to. The market kicked the week off still in the shadow of the larger Aframax sector, where the potential for a more competitive freight remained on offer. As the week progressed both sides of the pond failed to gain momentum, where any activity seen followed on at last done levels. Going forward and looking closer to our shores, natural tonnage continues to be in play, but the cushion offered by the Aframaxes could be showing signs of dwindling as the NWE Aframax sector has picked up pace this week, and continues to shows of further activity to come, so watch this space.

Dirty Product Tanker Spot Rates



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Apr 25th	Apr 11th	Last Month	FFA Q2 (Bal)
TD3C	VLCC	AG-China	**+3**	42	39	58	46
TD20	Suezmax	WAF-UKC	**-15**	62	77	49	64
TD7	Aframax	N.Sea-UKC	**+11**	93	82	94	92

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

			wk on wk change	Apr 25th	Apr 11th	Last Month	FFA Q2 (Bal)
TD3C	VLCC	AG-China	**+2,000**	12,500	10,500	28,500	46
TD20	Suezmax	WAF-UKC	**-9,250**	7,000	16,250	6,250	64
TD7	Aframax	N.Sea-UKC	**+7,500**	8,750	1,250	11,000	92

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Apr 25th	Apr 11th	Last Month	FFA Q2 (Bal)
TC1	LR2	AG-Japan	**+6**	101	95	99	
TC2	MR - west	UKC-USAC	**+14**	170	156	168	151
TC5	LR1	AG-Japan	**-2**	92	94	115	106
TC7	MR - east	Singapore-EC Aus	**-3**	172	175	170	169

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

			wk on wk change	Apr 25th	Apr 11th	Last Month	FFA Q2 (Bal)
TC1	LR2	AG-Japan	**+1,250**	13,000	11,750	12,500	
TC2	MR - west	UKC-USAC	**+2,000**	16,000	14,000	17,500	12,500
TC5	LR1	AG-Japan	**-1,000**	6,250	7,250	11,500	9,500
TC7	MR - east	Singapore-EC Aus	**-1,250**	13,500	14,750	16,750	13,000

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

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