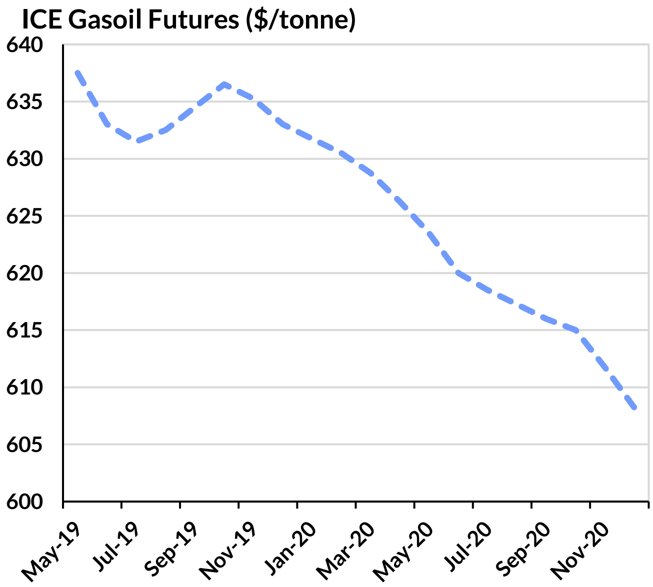
Calling the Curve

Weekly Tanker Market Report

Much of the current market focus is on crude supply, with sanctions, outages and unplanned disruptions impacting on supply. But with IMO2020 just around the corner, fundamental changes in the products market are afoot, with the market dynamics set to drastically shift as we move closer to the end of the year. The market for middle distillates (primarily gasoil, diesel and jet fuel) could be set for a seismic shock – in stark contrast to current market fundamentals.

At present the forward structure for ICE gasoil shows backwardation until July, with a contango setting in from August onwards. The shape of the curve can be explained by short term fundamentals. Continued refinery turnarounds are likely to constrain short term supplies, with notably lower exports from the Baltic expected for May. European refinery runs may also see some impact from crude supply issues, owing to contamination of Russian crude, whilst colder than usual weather could support prompt demand. However, the conclusion of European maintenance season will soon see supplies boosted, whilst higher inflows from the United States can also be expected, depressing forward pricing. Beyond this, the focus shifts to positioning for firmer demand emerging towards the end of the year, justifying the contango structure which emerges in the third quarter.



Of course, when talking about contango, the shipping market tends to focus on the prospects for floating storage. Given that the market structure of ICE gasoil is backwardated for the new few months, floating storage is unlikely to be a feature of the market over the next quarter. However, looking further ahead, the ICE gasoil spread between July and October shows a contango of $5/tonne. Whilst forward storage rates are uncertain, and Q3 typically sees LR2 rates firm, even at a conservative estimate, such a contango is unlikely to support storage economics at this stage. Simple calculations suggest that at a daily rate of $18,000/day, a contango of at least $11/tonnes over three months would be needed to justify such a play, considerably short of where the curve currently sits. However, the current structure is unlikely to be preserved. As refineries exit maintenance over the current quarter and runs increase into Q3, the current contango in gasoil prices may steepen as increased supply depresses prompt prices, whilst increased focus on end of year demand supports the back end of the forward curve. Whether or not the futures structure becomes steep enough to justify storage remains to be seen, with freight costs also expected to firm over the same period. LR2s will always be the obvious candidate for this; however more favourable economics may emerge for newbuild crude tankers (VLCCs and Suezmaxes), where improved economies of scale may be achievable, depending on the level of demand for fuel oil storage and crude tanker fundamentals at the time.

Outside of Europe, forward pricing in the key trading hubs of Singapore and New York Harbour show a modest contango all the way to the end of the year, although the scale is unlikely to justify significant floating storage play in the short term. However, just as in Europe, product supplies will increase post turnaround season, putting downwards pressure on prompt prices. With Singapore being the world's largest bunkering port, demand in the region is expected to change significantly towards the end of the year, perhaps creating storage opportunities for product tankers to capitalise on, even if the window of opportunity proves to be short.

Crude Oil

Middle East

More holidays, and another tough week for VLCC Owners. Availability remained - and remains - heavy upon the fixing window and rates have compressed into a tighter range than of late, with the top end the fall guy. Modern units to the East now operate at little better than ws 37.5, with rates to the West as low as ws 15 via Suez. Further holidaymaking next week, but perhaps a little more active as the week moves on, although Owners are unlikely to reap much benefit nonetheless. Suezmaxes failed to find any spark on a drip feed of interest, and easy supply. Rates eased to ws 60 to the East and to ws 26 to the West, with little prospect of meaningful recovery anytime soon. Aframaxes continued their modest improvement to 80,000mt by ws 112.5 to Singapore as early week action began to have a more marked effect upon availability, there may yet be a little more to come also.

West Africa

More early week pain for already downtrodden Suezmaxes, as rates crumpled into the 'ws 50's' for all Atlantic destinations but eventually those extremely low rates did provoke a degree of bargain hunting interest that hardened sentiment somewhat to engineer modest reflation to ws 60+ to Europe, and to ws 57.5 to the USGulf. Baby steps for now, but perhaps a little better over the next phase. VLCCs stepped lower deal by deal and will likely end the week at under ws 40 to the Far East, with a lower $2.75 million reported to West Coast India too. Until/unless the AGulf takes an upward turn, Owners will find little leverage to change the situation.

Mediterranean

Aframaxes had previously hit bottom marks and Charterers responded this week with more meaningful enquiry to eventually rebalance the market and allow rates to re-inflate to 80,000mt by ws 85 X-Med, and to ws 100 from the Black Sea. Still nothing to shout about for Owners, but they have hope of scoring higher over the near term, at least. No such fun for very flatline Suezmaxes - whatever was seen was easily absorbed by easy availability and rates merely tracked sideways at 140,000mt by ws 72.5/75 from the Black Sea to European destinations, with around $2.8 million still asked for runs to China. No big changes likely into next week either.

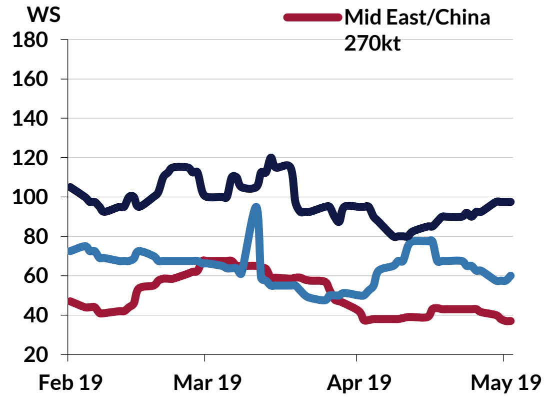
Caribbean

Aframaxes pushed and pulled a little, but there was never enough momentum created to jolt the market out of a sticky 70,000mt by ws 75/77.5 run upcoast, with rates transatlantic again at down to ws 70 and the weekend will force the market to restart the process all over again for next week. VLCCs had been very quiet but a pulse of fresh activity did then wash through the market - availability was easily sufficient, however, and rates eased further to $3.5 million to Singapore, despite the interest.

North Sea

A stable and slightly more optimistic Aframax scene here. Rates haven't moved above 80,000mt by ws 102.5 X-UKCont and 100,000mt by ws 95 from the Baltic but the groundwork has been done, and any uptick in activity next week could then lead to improvements. VLCCs found no public interest and are being marked lower in line with weaker USGulf/East numbers to around $4.7 million for crude oil to South Korea and to $3.3 million for fuel oil to Singapore.

Crude Tanker Spot Rates



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

Clean Products

East

MRs have started to push off the back of the LR1s and LR2s. East Africa cargoes have been busy, but we are still missing further deliveries, 35 x ws 115 will soon push towards mid ws 120's, dependent on volume quoted. $1.215 million is a nice step up on long haul West but could be pushed further, and 35 x ws 110 Japan will have a significant push East. Shorter runs will benefit from a vastly thinned LR1 list, $150k is a good building block for next week. We should see a further push next week, watch out for it to pop.

LRs have had a steady firm week on both sizes. Yet, progress has slowed on the LR2s now, while LR1s have not quite reached where Owners had hoped. 55,000mt naphtha AGulf/Japan only reached ws 105 but really it should be more there. 65,000mt jet AGulf/UKCont is settled now at $1.65 million and will need another push if stems are to firm any more. 75,000mt naphtha AGulf/Japan is ws 107.5 and could see ws 110 next week, depending how the cargoes come out. 90,000mt jet AGulf/UKCont has also settled at $2.25 million and will find any more movement difficult in the short term.

Mediterranean

A daunting week was ahead for Owners plying their trade in the Mediterranean, with a slow end to last week and a hefty tonnage list being drawn on Monday morning. Rates were always going to be under pressure and by Wednesday we saw the floor at 30 x ws 130 X-Med and ws 140 Black Sea. But, with these low rates also came a hoard of enquiry. As we come to a close of week 18, tonnage lists start to look a little healthier and rates begin to hold firm, despite the anomaly of ws 125 being achieved. Owners will begin to pick up confidence but must be wary. With another bank holiday on Monday set to cause more unsettlement, we await to see a fresh wave of enquiry most likely on Tuesday.

Very little to discuss on the MRs this week, with a lack of enquiry giving the limited number of vessels around little to get their teeth into. With rates in the North being once again the main guide to where numbers settle in the Med, seeing a dip in fortunes down to 37 x ws 125 for transatlantic by Friday and potential further decline ahead, Owners will be bracing for a rocky road.

UK Continent

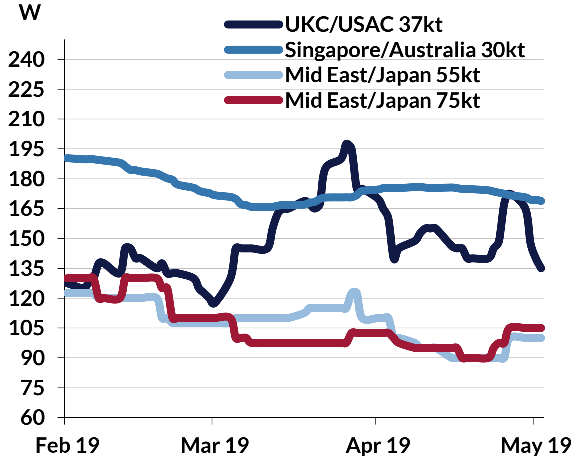
The spike of positivity seen in the middle of last week seems a far cry from where the MRs in NWE now find themselves. Monday and Tuesday were both very quiet in terms of fresh enquiry and, with the tonnage list building, desperation started to settle in the Owners' camp. This then materialised in the form of negative correction in rates practically on each fixture done. Thursday evening saw 37 x ws 145 put on subs for WAF and 37 x ws 130 for TC2, some ws 20 points less than what was done earlier in the week. Cargoes quoted on Friday were inundated with offers, meaning TC2 stands now at

37 x ws 125. However, one Charterer is holding for ws 5 points less and looking likely to achieve it. Tonnage will still be oversupplied early next week. Yet, we are starting to reach levels where Owners will be unable to give rates much lower than where we currently are and dig in their heels. Hopefully, the floor can be found quickly as we haven't reached it just yet.

This week Owners were greeted with the news that expected Primorsk volumes for May will be down by 27% compared to April due to seasonal turnarounds at domestic oil refineries. This combined with a weighed Handy tonnage list meant Charterers were always going to be in the driving seat here. With the Baltic market offering very little in terms of fresh employment opportunities, rates by close of business today are at 30 x ws 140 but in reality when tested further losses could be seen. Continent has also offered very little and has slipped to 30 x ws 130. Little to get excited about here.

Just like the Handies, the Flexi market has also suffered from a lack of activity and Owners in this market have actually now begun to fix intermediates in order to find employment for their vessels. Very little fixing action has occurred on the spot market and fixing ideas are once again come from discounted pro-rated Handy levels, with 22 x ws 170 a fair benchmark for X-UKCont.

Clean Product Tanker Spot Rates



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Dirty Products

Handy

The NWE sector got the week off to a positive start on Monday, with a couple of fresh stems coming out early to ease Owner apprehension of what the week may have in store. Charterers initially managed to shave off ws 5 points from last done, which was repeated a few times since. The activity which then followed created a rebound where we sit now ws 130 at time of writing. With the pick of the crop now looking thin on the ground, the recent pullback of the ws 5 points looks set to last for approved tonnage. However, any upside looks lost, given a bank holiday in London this Monday and with replenishment of tonnage lists anticipated.

The Mediterranean has not fared as good this week, as fresh enquiry really has only managed to trickle along in the region. With this in mind, however, rates have remained flat, with the conference level of ws 125 being repeated multiple times. Looking at tonnage stocks, the lists remain well balanced. As a result, next week's trading is going to need an injection of enquiry to stir things up and to prevent conditions from degrading. Charterers could well see an opportunity for competitive freight in the week ahead.

MR

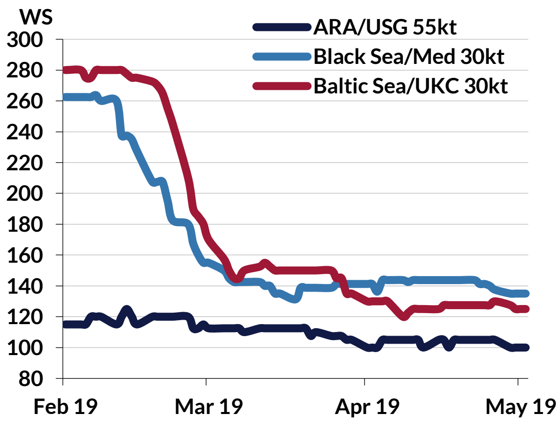
For the majority of this week this sector has given us little to report, as enquiry on full size stems has been limited to say the least. In the North, this may be easily explained: there has been little across the board smaller or larger and also limited on natural workable tonnage.

In the Med, however, a different story is being told. Tonnage has been in play but it has taken until the end of the week to see any enquiry. With two units on subs at time of writing (one to go east), the expectation is that despite the market not being quoted for these cargoes, negative correction will be seen.

Panamax

"Steady as she goes has been widely shouted from the yard arms during this week" if we are to describe how this sector has developed. Ws 100 has been repeated as the conference level this week, the trend is most definitely flat. The variant to this though is where we have seen a couple of stems testing the premium to discharge in Brazil, with a difference of around ws 10-15 points over TD12 between fixtures. Looking forward, natural tonnage this side of the pond remains in play, which will keep a lid on upturn, despite the larger Aframax sector now picking up.

Dirty Product Tanker Spot Rates



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GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 02nd	Apr 25th	Last Month	FFA Q2 (Bal)
TD3C	VLCC	AG-China	**-5**	37	42	38	41
TD20	Suezmax	WAF-UKC	**-4**	58	62	58	63
TD7	Aframax	N.Sea-UKC	**+5**	98	93	88	93

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

			wk on wk change	May 02nd	Apr 25th	Last Month	FFA Q2 (Bal)
TD3C	VLCC	AG-China	**-4,750**	7,750	12,500	9,250	41
TD20	Suezmax	WAF-UKC	**-1,000**	6,000	7,000	6,500	63
TD7	Aframax	N.Sea-UKC	**+3,750**	12,500	8,750	6,250	93

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 02nd	Apr 25th	Last Month	FFA Q2 (Bal)
TC1	LR2	AG-Japan	**+7**	108	101	98	
TC2	MR - west	UKC-USAC	**-34**	136	170	148	124
TC5	LR1	AG-Japan	**+13**	105	92	104	117
TC7	MR - east	Singapore-EC Aus	**-4**	169	172	175	166

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

			wk on wk change	May 02nd	Apr 25th	Last Month	FFA Q2 (Bal)
TC1	LR2	AG-Japan	**+2,500**	15,500	13,000	12,500	
TC2	MR - west	UKC-USAC	**-6,000**	10,000	16,000	12,750	8,000
TC5	LR1	AG-Japan	**+3,500**	9,750	6,250	9,500	12,250
TC7	MR - east	Singapore-EC Aus	**+0**	13,500	13,500	14,500	13,000

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

ClearView Bunker Price (Rotterdam HSFO 380)	**-23**	420	443	416
ClearView Bunker Price (Fujairah 380 HSFO)	**-14**	435	449	431
ClearView Bunker Price (Singapore 380 HSFO)	**-17**	437	454	432
ClearView Bunker Price (Rotterdam LSMGO)	**-13**	605	618	585

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