Orderbook in Focus

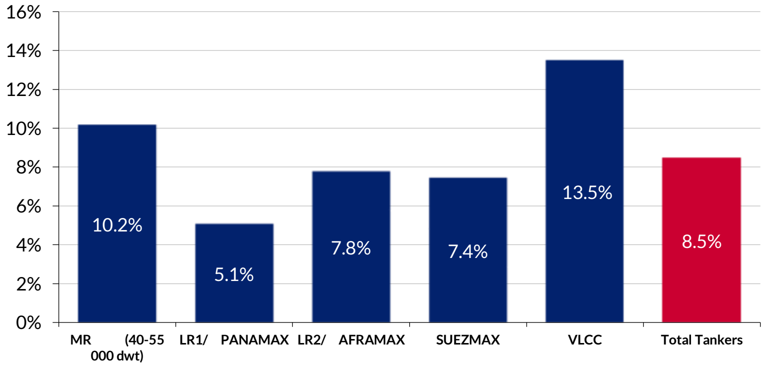
Weekly Tanker Market Report

One of the forward looking indicators of how healthy (or unhealthy) the tanker supply/demand balance could be in a couple of years is the tanker orderbook. Limited new tanker ordering activity over the past three years has undoubtedly been a welcome development for owners. The only exception to this general trend was robust investment in new VLCCs back in 2017 and to an extent in 2018. This year also started strong for VLCC contracting, with 12 fresh orders placed in January; however, the interest in new tonnage has completely dried up since then. MRs (40,000 to 55,000 dwt) have also seen stronger investment this year, with 40 orders placed since January. This compares to just 59 MR orders for the whole of 2018. Ordering activity in other segments has been considerably more limited. This year no Panamax/LR1 orders have been placed, while the market has also witnessed just 6 firm Suezmax orders and 8 firm Aframax/LR2s orders.

An overall lack of enthusiasm in new tonnage is not surprising. Despite a strong Q4 2018 and early 2019, cash flows largely remain constrained, following a disastrous performance during the 1st nine months of last year. At the same time, the priority for some owners, particularly those owning larger tonnage, has been securing finance for scrubber installations. Furthermore, regulatory uncertainly with regards to optimal vessel designs and specifications make the investment decision even more challenging at present. While ordering has been restricted, the pace of new deliveries has accelerated. Since the beginning of the year, 30 VLCCs, 22 Suezmaxes, 31 Aframaxes/LR2s, 6 Panamaxes/LR1s and 30 MRs have been delivered.

Not surprisingly, a robust delivery profile coupled with limited new investment has translated into a notable decline in the orderbook. At present, the global tanker orderbook (above 25,000 dwt) stands at just 8.5% relative to the size of the fleet currently on water. VLCCs have the highest orderbook at 13.5%, while MRs have the 2nd largest orderbook - at 10% relative to its existing size. Despite having the highest orderbook, new investment in these segments is still relatively modest from a historical perspective. In early 2016 VLCC orderbook stood at 20% and back in 2011 it was assessed at a colossal 33% relative to its fleet size at the time. The orderbook size is even smaller for other segments. Aframaxes/LR2s and Suezmaxes have respectively 7.8% and 7.4% of its fleet on order, while the Panamax/LR1 orderbook is at just 5%.

Orderbook as a % of Existing Fleet



Most of the tankers on order are scheduled to start trading this year, maintaining downward pressure on industry returns. We could, of course, see some slippage in delivery dates. However, with growing optimism for improving market conditions in the 2nd half of the year evidenced in the freight forward curve, owners may be keen to avoid delays. Beyond 2019, the delivery profile is considerably lower, suggesting tightening supply conditions. The market is also expected to benefit from new regulations, which are likely to support demolition activity. While IMO2020 will make aging and inefficient tankers even less competitive, owners will also be evaluating whether it is worth investing into expensive ballast water treatment system retrofits when their deadline for installation approaches.

One of the key sensitivities is future ordering activity. Limited ordering so far this year has been a good indicator of current investment appetite. Newbuilding prices have also firmed notably, discouraging investment. The biggest uplift has been in newbuild Suezmax values, which have appreciated by 17% compared to lows seen back in 2017. However, the interest in new tonnage is likely to firm once we see sustainable improvements in industry returns. The question then is: will the anticipated increase in demolition be enough to keep tonnage supply in check?

Crude Oil

Middle East

VLCCs started slowly but did begin to find more reasonable attention from mid-week, however, availability remained easy/very easy and Owners needed a lot more in order to lever themselves away from recent lows. Currently, modern units again operate at under ws 37.5 to the Far East and theoretically at no better than ws 18 West via Cape. The May programme will be nearly closed out by this time next week and Owners will be hoping for at least a day or two of concentrated action to lend momentum. Suezmaxes found steady interest but competition also remained strong and rates remained anchored at down to ws 60 to the East, and to ws 26 to the West - another repeat performance beckons. Aframaxes maintained their previously upward trend to end at 80,000mt by ws 120 to Singapore, and could take a further step higher next week too.

West Africa

Suezmaxes began the week more optimistically, and propped up by some outstanding earlier needs from the previous week. Rates jumped a little to ws 67.5 to Europe but the gain proved short lived, as dates rolled onto easier positions, and Charterers began to hold back to draw the market back towards ws 60, and to ws 57.5 to the USGulf. A more testing week ahead too. VLCCs had no choice but to match flagging AGulf numbers and rates fell off to ws 38 to the Far East accordingly. A line was then drawn but any rebound will require Middle Eastern inspiration.

Mediterranean

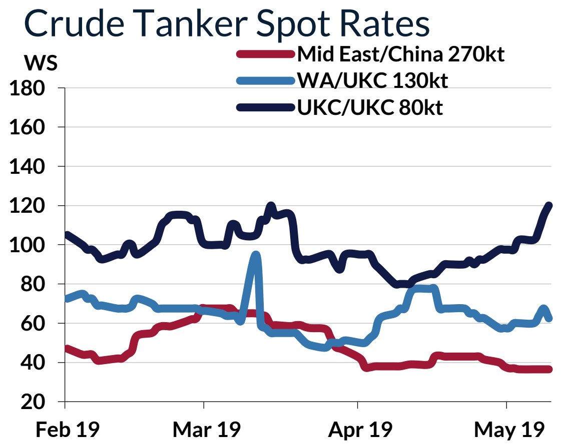
A more robust week for Aframax Owners to enjoy and solid interest allowed rates to climb to 80,000mt by ws 110 X-Med and to ws 117.5 from the Black Sea, with potential for a little more, but the week closed upon a slower note and consolidation will probably be Owners' short term mission now. Suezmaxes drifted sideways, and then slightly lower to 140,000mt by ws 72.5 from the Black Sea to European destinations, and to $2.75 million for runs to China. Slack demand, and easy availability the culprits.

Caribbean

Aframax Owners have spent an elongated period setting the foundation for a break-out, and then a progressive upward trend... Rates are now pushing from the ws 70s into the ws 90s. Maybe even higher next week. VLCCs found spasmodic enquiry that was insufficient to force any issues for Charterers and rate demands continued to centre around a $3.5 million mark from the USGulf to Singapore. No big moves likely over the near term either.

North Sea

As in the Med, an improved Aframax marketplace here and still improving into the close as it seems. 80,000mt by ws 120+ X-UKCont and to 100,000mt by ws 100 from the Baltic, with the relative 'fun' likely to continue through the first half of next week, at least. VLCCs saw limited action, with rate demands now at down to $4 million for crude oil to South Korea/China and to $3 million for fuel oil to Singapore. No significant move away from those marks looks likely over the near term.



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

Clean Products

East

MRs Owners will be heading into the weekend with a positive outlook. The tight sentiment has remained and, with the number of open stems only growing rates were tested and saw strong rises on last done levels. TC12 has a last done on ws 130; however, upwards of ws 137.5 are likely as next done. UKCont has been tested off both the natural window and prompt replacement window and regardless the way you look the rise has been steep. Assess it sits at the $1.425 million level but this does need to be tested again. X-AGulf saw a healthy increase and is getting very close to the $300k mark. EAF, although having been at some tough lows only a few weeks ago, led the charge. With ws 142.5 as last done and Owners looking at the ws 150+, expect another correction next week. Towards the end of the week understandably Charterers were trying to steady the number of fresh cargoes entering the market in an attempt to curb Owners' enthusiasm; however, this may just only be enough to buy more time until next week.

The LR2s have been ticking over in the background this week, with the LR1s stealing the limelight. TC1 sits at ws 105 and UKCont at the $2.225 million mark. There is certainly potential for activity to increase as Charterers may look to stem up from the aggressive LR1 and MR market. However, so far its been just a few Charterers that have been able to achieve this. The LR1s had a very busy first half of the week with rates correcting sharply, last done TC5 ws 117.5 and UKCont $1.75 million would be snapped up by any Charterer. Yet, with Owners wanting to push further, levels of ws 120 and $1.8 million are likely as next done.

Mediterranean

Following the bank holiday weekend, the prompt ships at the front end of the list were cleared out at the bottom of the market at 30 x ws 125. With a large majority of the list now on subs, Owners began to capitalise on this and rates began to slowly but surely firm, with a market quote on Wednesday achieving 30 x ws 140. There were certainly legs in this market; however, Charterers played a clever game on Thursday by limiting the number of cargoes in the market. This slowed momentum and took the spring out of the market's step. With the Tuapse refinery still under maintenance, enquiry has been slow ex Black Sea and rates have by and large tracked X-Med, with a positive correction seen in the week. At the time of writing, a replacement is on subs ex Black Sea at 30 x ws 160 for a naphtha export, although in the grand scheme of things, Black Sea will track where Med rates are at the moment, which is still around the 30 x ws 140-142.5 mark. Come Monday, the list will begin to lengthen once more; however, expect rates to remain stable around these levels for the time being...

Thankfully for Owners this rather lacklustre week comes to a close for MRs trading in the Mediterranean. Rates continue to mirror that of the UKCont and when we started to see further correction in the North, the few cargoes that were clipped out this week saw a similar fate. Transatlantic closes at the 37 x ws 115 mark and the limited test of AGulf was seen at $850k, which considering where the LR1s sit, is perhaps a little toppy. Expect this to see further downward pressure. With a fairly uninspiring market still in place across Europe, we can expect little excitement on the horizon for MR tonnage, with rates to continue sideways ahead.

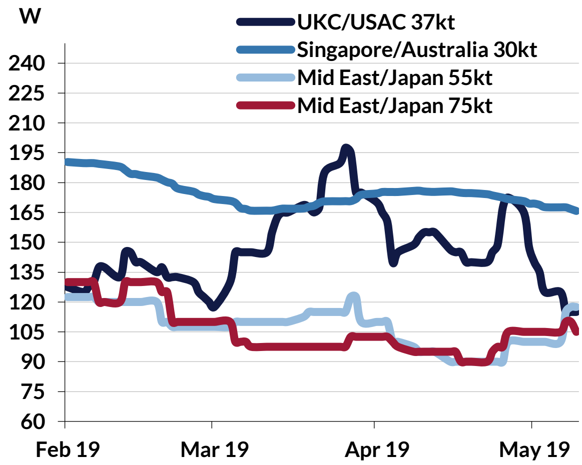
UK Continent

We were fully expecting to write that TC2 had held all week at 37 x ws 115, with the exception of the ws 2.5 point discount available for last cargo fame tonnage. However, as we close the curtains on the week, surprisingly a replacement went on subs at 37 x ws 112.5 on a last CPP vessel. Owners have on the whole managed to show some resilience in keeping rates stable at 37 x ws 115 multiple times. So, seeing what might potentially be the last fixture of the week done below this, will throw the market back in to the firing line again. With the USGulf showing signs of improvement this week, we can only assume Owners believe that the USGulf is going to be a better place to have the ship next open in the coming weeks. There is additional pressure on the UKCont from other sectors, in particular on the LRs, who have been hoovering up cargoes in to WAF at shockingly low levels as the West/East arb remains shut. We fear next week we could see some further rate reductions as Charterers once again have regained the upper hand.

A rather depressing week has occurred for Handies plying their trade in the North, as the combination of a weighty tonnage list and LRs being preferred, has seen freight take another hit. Baltic liftings have slipped to 30 x ws 117.5 and X-Continent (even though has seen better demand compared to previous weeks), also has dropped to 30 x ws 107.5. Hidden units once again prove to be the thorn in Owners' sides and unless we see improved Handy enquiry at the beginning of week 20, expect this sluggish market to continue, with very little to get excited about here.

The Flexis have continued in the normal ways. The occasional cargo (usually Spain or Portugal load or discharge) enters the market and clips away the odd unit off the front end. Levels are generally dictated by the Handies, which have had a pretty rubbish week, with rates softening from start to finish. As a result, we finish off the week with 22 x ws 140 being a likely next done X-UKCont, if not less. Tonnage still outweighs demand, so we aren't expecting too much positivity here early next week.

Clean Product Tanker Spot Rates



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

Dirty Products

Handy

After the bank holiday there was an underlying feeling of uncertainty of how the NWE market was going to shape up this week, as on face value the tonnage list was weighed heavily, with prompt units. However, Charterers did not wait around to take advantage of this position, as a steady pace of enquiry kept on coming. With that said, it was not enough for Owners to take the upper hand and push on rates but repetition of the ws 130 has been seen a number of times. We close this week out, with what can only be described as a tight position list. The focus now is on what is to follow, increment could well be on the cards.

The Mediterranean has seen one of the busier weeks than we have witnessed for a while. Similar to the North, early this week the tonnage was looking healthy in Charterers' favour. As days passed, however, consistent activity followed, with cargoes being seen across the Med and Black Sea. Slowly the tonnage lists began to slim and the position list cleared down. Finally, this week saw Tuapse coming back up and running again. We close the week, with foundations built for lift off. This is all stacking up for an interesting week next week, especially if the cargo base seen on week 19 lasts for a little while longer.

MR

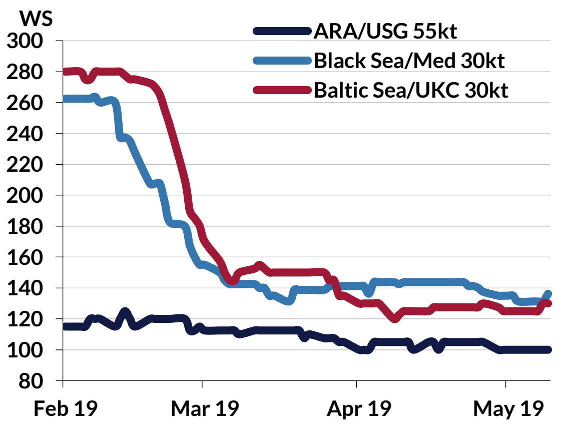
MRs in both regions this week have more than lagged behind their Handy counterparts, with just a handful of fixtures to talk about. The North remains sparse of activity to say the least and as such it has taken until the last day of the week to see any muted whispers of activity. In general, however, whilst the region waits for momentum to pick up, the surrounding Handy sector is starting to simmer, which may force Charterers to seek alternate coverage, bringing the MRs into play.

On the sliding scale of activity levels, the Med has fared slightly better, with a handful of units seeing at least some action. Ws 105 is the end result basis X-Med, further tests are waiting to happen. Here too, with the surrounding Handy sector beginning to gather momentum, MR Owners will be hoping to have soon smaller size enquiry to fall back on.

Panamax

Owners looking for any green shoots of recovery this week will be left disappointed, where fixing levels are concerned. However, all things considered, the threats coming from above (with Aframaxes stealing requirement away from the Panamax sector) have now been extinguished through newly found strength. For now though we seem to be caught up in a recurrent theme, which equates to ballast tonnage willing to come over at ws 100 and natural units having to incur long idle periods, thus also not willing to drop to sub ws 100. For now then the market is flat … unless prompt barrels can be worked.

Dirty Product Tanker Spot Rates



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 09th	May 02nd	Last Month	FFA Q2 (Bal)
TD3C	VLCC	AG-China	**-0**	37	37	39	41
TD20	Suezmax	WAF-UKC	**+7**	65	58	77	65
TD7	Aframax	N.Sea-UKC	**+21**	119	98	82	94

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

			wk on wk change	May 09th	May 02nd	Last Month	FFA Q2 (Bal)
TD3C	VLCC	AG-China	**+1,000**	8,750	7,750	10,500	41
TD20	Suezmax	WAF-UKC	**+4,250**	10,250	6,000	16,250	65
TD7	Aframax	N.Sea-UKC	**+15,750**	28,250	12,500	1,250	94

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 09th	May 02nd	Last Month	FFA Q2 (Bal)
TC1	LR2	AG-Japan	**-1**	107	108	95	
TC2	MR - west	UKC-USAC	**-21**	115	136	156	123
TC5	LR1	AG-Japan	**+13**	118	105	94	119
TC7	MR - east	Singapore-EC Aus	**-3**	166	169	175	166

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

			wk on wk change	May 09th	May 02nd	Last Month	FFA Q2 (Bal)
TC1	LR2	AG-Japan	**+500**	16,000	15,500	11,750	
TC2	MR - west	UKC-USAC	**-3,500**	6,500	10,000	14,000	8,000
TC5	LR1	AG-Japan	**+3,500**	13,250	9,750	7,250	13,250
TC7	MR - east	Singapore-EC Aus	**+0**	13,500	13,500	14,750	13,500

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

ClearView Bunker Price (Rotterdam HSFO 380)	**-18**	402	420	418
ClearView Bunker Price (Fujairah 380 HSFO)	**-17**	418	435	428
ClearView Bunker Price (Singapore 380 HSFO)	**-18**	419	437	429
ClearView Bunker Price (Rotterdam LSMGO)	**-4**	601	605	599

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