Certain Uncertainties

Weekly Tanker Market Report

2019 so far has proved to be a year dominated by geopolitical events. The US Administration has placed sanctions on both Iran and Venezuela in a bid to reduce crude exports to zero. Tanker sabotage and disruption in the Middle East Gulf has pushed insurance premiums up and led to some shipowners to avoid the region. Potential disruptions to Libyan supply remain. The US-China trade war has threatened to generate an economic slowdown, adding further market uncertainty. Crude prices have ebbed and flowed, touching highs of $74.57/bbl in April and lows of $54.91/bbl in January as both supply, demand and geopolitical signals vie for supremacy.

OPEC production cuts have remained a challenge to tanker demand throughout the year and subject to the outcome of next weeks meeting are set to remain in place. However, supply is rising from the US. Total US production was over 12 million b/d at the end of May according to the IEA, an increase of almost 14% from the same period last year. Latest data shows US crude production is up 1.5 million b/d as of the end of May compared to the same period last year. The US shale revolution has continued to surge on with some analysts predicting production growth in 2019 could climb an extra 1.2 million b/d - or 16% - for the full year. Much of this has flowed down to the US Gulf via new pipeline capacity with over 500,000 b/d of extra pipeline capacity now reportedly flowing in the first half of 2019 and an additional 2 million b/d of further new capacity due to come online in the second half of this year. US Gulf exports are also up with over 2.5 million b/d loaded in May, over 1 million b/d more than the same period last year according to Clipper Data. Much of the growth in production has covered the emphatic fall in Venezuelan and Iranian barrels. According to the IEA, Venezuela produced just over 800,000 b/d in May – down from 1.4 million a year ago, moreover Iran's production fell to 2.4 million b/d in May, a fall of almost 1.5 million b/d from the same period in 2018.

June also saw an improvement in VLCC tanker earnings after briefly dipping to lows for the year. TD3C fell to WS36 in May before tensions in the Middle East saw several vessels sabotaged over the space of a few weeks. The unease in the region meant some shipowners were unwilling to do business in the region whereas insurance premiums saw an increase that were passed onto the charterer pushing rates up to WS52 and TCE's to almost $25,000/day, up from lows of around $9,500/day in April and May. Another unforeseen event saw the 335,000 b/d Philadelphia Energy Solutions refinery explode, briefly pushing up June TC2 rates from yearly lows of WS100 by 60 points to WS160.

On the vessel supply side, 2019 has seen 39 VLCCs already delivered, the highest number Gibson has on record in a 6-month period. So far only 26 tankers above 25,000 dwt have been sent to recycling yards this year, significantly lower than 2018. Scrap prices remain relatively firm, however the potential for better returns and a stronger market have tempted owners to retain tonnage in anticipation for 2020.

As we enter the second half of the year, many are gearing towards new IMO 2020 regulations. Many shipowners have made their intentions known as to whether they will fit scrubbers or not. Presently it is estimated that up to 3,500 vessels will be fitted with scrubbers by 2020, with VLCCs potentially having 30% of their total fleet scrubber fitted. Many refineries have been preparing to start supplying compliant bunker fuel from H2 2019, although it is expected that gasoil will be the dominate bunker choice heading into 2020, with uptake of low sulphur fuel oil set to increase over time. Most regions are expected to supply a 0.5% fuel by 2020, however the quality and quantity remain uncertain.

Heading into the second half of the year many challenges and opportunities remain. Navigating IMO 2020 is perhaps the biggest unknown. However, deliveries should start to slow down into 2020 as the orderbook is falling and scrapping starts to increase. If the global economy weathers current headwinds and US crude production fails to disappoint we could - as mentioned in our end of year 2018 report – be in for another rollercoaster ride, currently we are on the waltzer and we're mid spin.

Summary Table - Market & Fleet Data

		Jun-18		Jun-19		2019	
		WS	TCE/day	WS	TCE/day	WS Low	WS High
Rates	(TCEs at 'market speed')						
VLCC	Middle East - Ningpo	50	$ 6,750	52	$ 23,250	36	68
Suezmax	West Africa - UKCont	65	$ 8,250	63	$ 13,750	48	145
Aframax	North Sea - UKCont	108	$ 4,000	85	$ 3,000	85	95
LR2	Middle East - Japan	98	$ 6,000	100	$ 13,500	90	136
LR1	Middle East - Japan	120	$ 6,250	110	$ 11,500	90	166
MR	UKCont - USAC	100	$ 2,000	160	$ 17,500	100	198

	Mid 2019 Fleet Size	
VLCC	760	
Suezmax / LR3	583	
Aframax/LR2	1038	
Panamax/LR1	453	
Handysize / MR	2068	
Tanker Firm Orderbook (25kdwt+)	396	53.06m dwt
New Deliveries (25dwt+)	153	22.7m dwt

	Mid 2018	Mid 2019
Brent Oil Price	$ 79.44	$ 65.87

	Fujairah	Rotterdam
Bunkers 380cst HSFO (end Jun)	$ 339.00	$ 319.00

	2018 (May)	2019 (May)	
World Oil Production (May)	98,880	99,504	0.63%
OPEC crude production	31,495	29,950	-4.91%
Non OPEC	61,869	63,972	3.40%
World Oil Demand (Full Year)	99,200	100,300	1.11%

Tankers Demolished (25,000 dwt+)	26	3.15m dwt
	China	Subcont
Scrap Prices	$165	$445
VLCC's sold for scrap number /dwt	6	1.7m dwt

Crude Oil

Middle East

Steady VLCC fixing but Charterers retained discipline nonetheless, keeping the fixing window as close to 'spot' as reasonably possible. The refusal to chase ahead, and ongoing easily adequate availability, prevented Owners from obtaining further leverage, and rates broadly settled within the modestly higher range set last week. Levels to the East were therefore pegged at little better than ws 51, with older units at down to ws 40, and runs to the West still marked in the low ws '20's'. Suezmaxes spent the week in defensive mode upon moderate interest and easy supply. Rates edged lower towards ws 40 to the West and ws 70 East accordingly, with little meaningful change likely over the near term either. Aframaxes had pushed last week and this week found just enough to retain the gain though by the week's end competition was growing again, and a gentle retreat is looking the likely call for the next phase.

West Africa

As anticipated, Suezmaxes had to face initial pressure that forced rates down into the ws '50's' for Atlantic discharge, but interest did pick up in the second half of the week, to allow for a degree of clawback to ws 70 to Europe, and to ws 65 to the USGulf. There's little/no support from other load-zones, however, and further meaningful gain will probably be only seen on any replacement needs. VLCCs were necessarily handcuffed to AGulf plateauing but did begin to see increased attention over the mid-week period and rates became almost 'conference' at ws 48 to the Far East, with an improved $3.125 million seen for Nigeria to West Coast India. Little change likely into early next week.

Mediterranean

A welcome, and slightly unexpected, surge of Aframax enquiry cleared much of the previous tonnage overhang, to set rates onto an upward path to 80,000mt by ws 107.5 X-Med and to ws 112.5 from the Black Sea. The clear-out wasn't completed, however, and as dates necessarily roll forward, those left behind may be forced to compromise the gains and lead to a degree of easing. Suezmaxes showed nothing of note. Activity stayed upon the light side and availability weighed upon Owners' negotiating stance. Rates edged lower to 140,000mt by ws 77.5 for European destinations and to $3.1 million to China, though eyes will be turned hopefully towards West Africa just in case something more positive develops there.

Caribbean

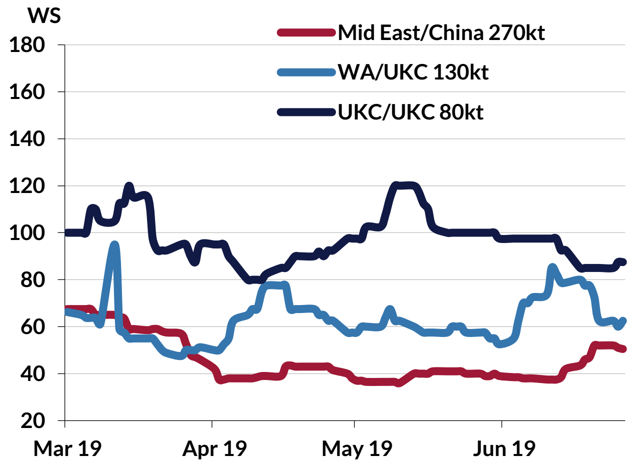
Aframaxes remained down, and almost out. Plenty of ships chased spasmodic low-calorie demand and rates compressed into a 70,000mt by low/mid ws 80 range, with no immediate relief on the horizon. VLCCs held steady, with occasional more prompt needs always threatening bonus rates. On average $4.7/$4.8 million from the USGulf to

Singapore now and rates shouldn't stray too far from that range over the coming week.

North Sea

Unlike in the Med, Aframaxes here faced very low level interest that anchored rates to little better than 80,000mt by ws 87.5 X-UKCont, and 100,000mt by ws 65 for the duration. It will take an unlikely surge of quick fire enquiry early next week to shift the market from that rut. VLCCs on the usual fixing window were willing around $5.2 million for crude oil to South Korea, but there was also occasional much earlier interest, and the obvious lack of suitable units for those dates, meant Owners asking for closer to $6 million if required...not many did.

Crude Tanker Spot Rates



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

Clean Products

East

The MRs will unfortunately take another couple of weeks to recover from a relative drought of cargoes. Short hauls are circling at $200k, but with Gizan numbers now down to $415k and an incredibly heavy front end, you could see these numbers being further tested. TC12 on subs at ws 110 again was just a “take first counter” situation but, with 7 other ships there, could this be further tested? Westbound sits at $1.3-$1.35 million load port dependant and with EAF cargoes being so very popular will dip sub ws 135. Being the weakest sector in the region, a further couple of disappointing weeks for Owners will likely happen before any improvement.

The basic news is both LR1s and LR2s are overtonnaged and rates are therefore drifting off. They are now where they would have been if the 2 tankers hadn’t been attacked 2 weeks ago. 55,000mt naphtha AGulf/Japan is now ws 107.5 and 65,000mt jet AGulf/UKCont no more than $1.70 million. Both could see further declines next week. LR2s are steadier but still vulnerable. 75,000mt naphtha AGulf/Japan is ws 97.5 and seems flat while 90,000mt jet AGulf/UKCont is a touch weaker at $2.0 million. A push of stems is needed next week to see improvements and some commentators are predicting just that. Time will tell.

Mediterranean

For much of week 26, cargoes and tonnage in the Med were balanced, which left X-Med rates trading sideways throughout at the 30 x ws 135 mark. Delays in the Straits due to the construction of a new bridge leaves Charterers scoping out ships with safe itineraries. Owners have been quick to capitalise on this, with ideas becoming an increasingly bullish 30 x ws 180 has even been seen. With the majority of people jetting off to the Copenhagen and Genoa parties; however, there’s been a slower entry of cargoes meaning X-Med rates are yet to follow suit. A few fresh cargoes pushed into the market, come Monday will give the necessary tools for Owners to make some headway, pushing rates higher…..potential brewing here.

A quiet week on the MR front in the Med, with rates by and large being driven by action up on the UKCont. With refinery issues in the US causing TC2 rates to firm up to 37 x ws 160, this sentiment trickled down into the Med, with a positive correction on the horizon. Eyes are still trained to NWE in order to gauge what's on offer for the Med next week, but if the market behaves like it's set to then we should see some higher rates being done on the back of the trading opportunities created from this refinery outage.

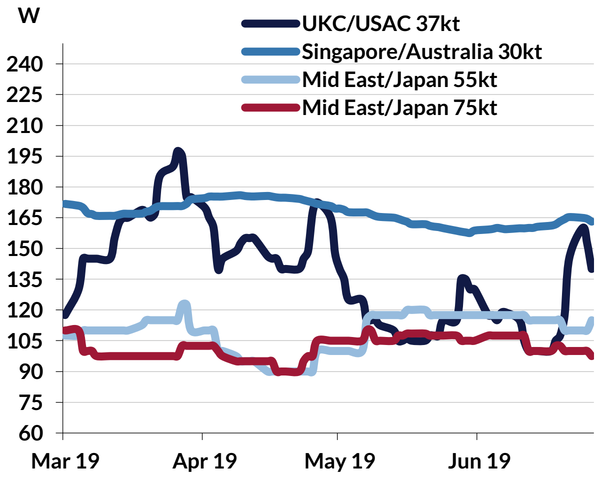
UK Continent

The MRs in NWE have all the makings of a positive market all primarily being built on the foundations of the news about the outage (now looking permanent) of the refinery in Philadelphia. With the gasoline arb being supported across the Atlantic, it's a little surprising the TC2 market saw a momentary dip early in the week at the 37 x ws 160 slipped down to 37 x ws 140 (even briefly 37 x ws 130), although this can be put down to a natural correction after the hype of last week and a slightly slower pace of enquiry than what was expected. With the USGulf holding its ground, and potentially improving, this is drawing much of the ballast units from the NWE tonnage lists, which provided we get the expected enquiry next week should mean Owners have their way (many holding for 37 x ws 145-150, at the time of writing on Friday). WAF enquiry has been steady this week, although a little lacklustre, it's just enough to keep the ws 12.5-15 point premium over TC2. If enquiry picks up on this route, then there could be some serious margin for improvement provided the Atlantic basin can hold its nerve. Lots of potential next week, so hopefully comments in 7 days time match the market being portrayed here.

With some more savvy position lists being put out by Owners this week and a couple of prompt-ish liftings, the Handy market has also enjoyed some improvements. Most of the excitement was early in the week, with the market picking up on Monday and Tuesday from 30 x ws 110 Baltic/UKCont to 30 x ws 135, all the while with the X-UKCont market was tracking ws 10 points below. Inevitably the parties across Europe this week left before the end of the week feeling pretty quiet and thus untested as to whether this market has more legs. The weekend will put a few new units on the Monday tonnage lists but if enquiry continues in the same fashion (and the MRs continues to improve) then Owners may be able to snatch some more points during the course of next week.

There has been a little more to speak about this week in the Flexi market. As well as the normal fixing in Bay of Biscay and South Spain there have been a few Handy stems that have been forced to downsize due to punchy rates being shown and prompt requirements being quoted. There is now more on offer for the Flexi Owners given that the Handies have made some moves northwards….22 x ws 160 should be on the table for X-UKCont voyages and potentially more if the larger tonnage can make further ground next week.

Clean Product Tanker Spot Rates



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

GIBSON SHIPBROKERS

Dirty Products

Handy

The NWE sector has maintained its firm stance once again this week, as on Monday's opening, we were presented with a shortened tonnage list. However, the steady trickle of cargoes that fed into the market only managed to limit rate gain up to the ws 147.5 level. This has only demonstrated to us that the region continues to have some balance as Owners and Charterers alike are aware of the balance in the region. Looking ahead to next week, it is fair to expect the regions sentiment to remain firm and potentially tick up a little.

In the Med, this week kicked off with promising activity levels weighted towards the front end of the week. It is good to remember that this week's proceedings started off following the negative trend from where last week finished. With that said, as far as rates go, the low of ws 140 from the Black Sea witnessed repetition and activity was enough to keep the region falling any further. Adding to this, the X-Med enquiry has done its part in continuing to be enough to support the fixing levels within the region. Come next week, once again tonnage replenishment should be enough to produce another healthy looking tonnage list. Watch this space.

MR

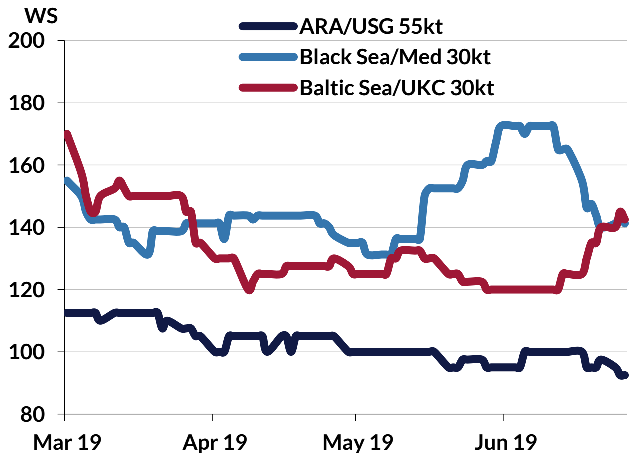
A lack of tonnage on the Continent is keeping levels theoretically high, with guidance based on a single fixture made mid-week. However, without a cargo base or tonnage supply, liquidity issues seem to be once again suffocating the sector.

In the Med, there has been a degree more to talk about, but with the surrounding Handy sector stuttering, MR Owners have been afforded very little manoeuvrability to press for anything better than last done. Fixing dates will now be moving ahead, bringing in the next wave of tonnage, so for now, the immediate future looks very similar to where we are at now.

Panamax

Activity levels this week finally gave Owners something to smile about as the Mediterranean came back to life. In turn, this pick-up in activity has now cleared down a noticeable proportion of the excess tonnage supply, although rates can only be described as "flatlining" with repetition at last done being assured from the offset at every negotiation. Looking ahead, we will need to see further stimulus before we can break this cycle.

Dirty Product Tanker Spot Rates



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

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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jun 27th	Jun 20th	Last Month	FFA Q2 (Jun bal)
TD3C	VLCC	AG-China	**-2**	50	52	40	47
TD20	Suezmax	WAF-UKC	**-7**	64	70	54	62
TD7	Aframax	N.Sea-UKC	**+0**	88	88	99	89

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

			wk on wk change	Jun 27th	Jun 20th	Last Month	FFA Q2 (Jun bal)
TD3C	VLCC	AG-China	**-3,250**	22,500	25,750	12,500	47
TD20	Suezmax	WAF-UKC	**-4,750**	10,500	15,250	4,750	62
TD7	Aframax	N.Sea-UKC	**-1,250**	6,750	8,000	13,750	89

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jun 27th	Jun 20th	Last Month	FFA Q2 (Jun bal)
TC1	LR2	AG-Japan	**-4**	98	102	107	
TC2	MR - west	UKC-USAC	**+18**	134	117	132	138
TC5	LR1	AG-Japan	**-4**	110	114	117	108
TC7	MR - east	Singapore-EC Aus	**-3**	161	164	158	161

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

			wk on wk change	Jun 27th	Jun 20th	Last Month	FFA Q2 (Jun bal)
TC1	LR2	AG-Japan	**-2,250**	13,250	15,500	16,250	
TC2	MR - west	UKC-USAC	**+2,500**	10,500	8,000	10,000	11,250
TC5	LR1	AG-Japan	**-1,500**	11,500	13,000	13,500	11,000
TC7	MR - east	Singapore-EC Aus	**-1,250**	12,750	14,000	12,500	12,500

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

ClearView Bunker Price (Rotterdam HSFO 380)	**+27**	389	362	397
ClearView Bunker Price (Fujairah 380 HSFO)	**+22**	399	377	412
ClearView Bunker Price (Singapore 380 HSFO)	**+33**	420	387	414
ClearView Bunker Price (Rotterdam LSMGO)	**+33**	575	542	607

www.gibsons.co.uk

London
Audrey House
16-20 Ely Place
London EC1N 6SN

T +44 (0) 20 7667 1247
F +44 (0) 20 7430 1253
E research@eagibson.co.uk

Hong Kong
Room 1404, 14/f,
Allied Kajima Building
No. 138 Gloucester Road
Wan Chai, Hong Kong

T (852) 2511 8919
F (852) 2511 8910

Singapore
8 Eu Tong Sen Street
12-89 The Central
Singapore 059818

T (65) 6590 0220
F (65) 6222 2705

Houston
770 South Post Oak Lane
Suite 610, Houston
TX77056 United States