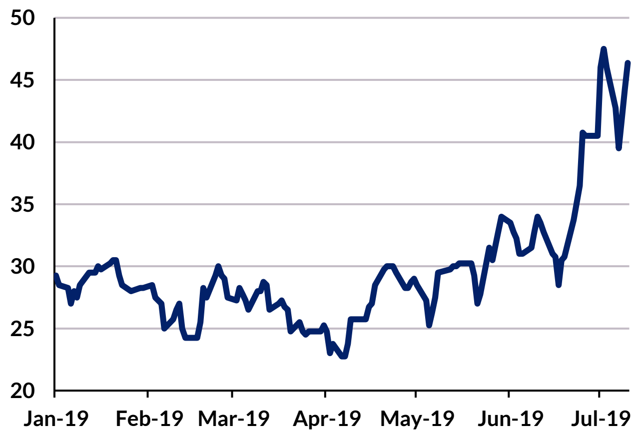
Fuel Flows

Weekly Tanker Market Report

Over the past few weeks, the West - East High Sulphur Fuel Oil (HSFO) arbitrage has firmed substantially from a fairly range bound $30/tonne to a bullish $46/tonne, briefly touching a four year high of $50/tonne last week. Several factors are behind this sudden widening.

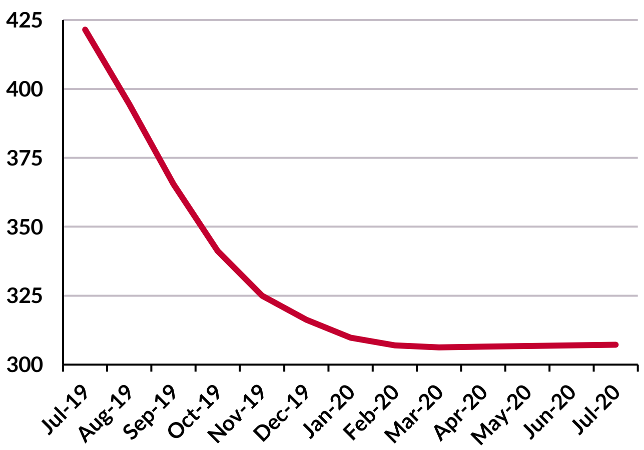
Arbitrage arrivals from the West into Singapore have been lower in recent months, tightening regional HSFO supply. Peak demand season in the Middle East has also reduced flows into Asia, with strong pricing economics for shipping fuel into the Middle East, drawing cargoes from the West and potentially lowering flows into South Asia. Furthermore, less Iranian and Venezuelan fuel oil also appears to be finding its way into the Asian market, contributing to the regional tightness. At the same time, the recent attacks on shipping in the Middle East appears to be pushing some bunkering activity away from Fujairah into the Singapore market, supporting regional HSFO demand.

Fuel Oil West East Spread ($/tonne)



However, perhaps the most significant factor is the pending IMO2020 regulations. Whilst on paper, the arb for moving HSFO from the West to Singapore should work, particularly when considering the weakness in regional VLCC freight rates, moving large cargoes on the route could prove problematic. Given that a standard Rotterdam – Singapore voyage takes 38 days (basis 13 knots via the Cape), cargoes fixed today (which may not load for a few weeks) would not arrive in Singapore until September. With many expecting owners to start switching to compliant fuels from late Q3/ early Q4, HSFO demand may fade by the time the cargo arrives as the switch to compliant fuels gathers momentum.

Singapore HSFO Forward Curve ($/tonne)



Storage also has to be considered. With many preparing tanks to store complaint fuels, storage for HSFO is likely to be constrained. Floating storage is of course one option, however this in itself will incur costs. Other considerations include forward pricing. Unsurprisingly, the forward curve for HSFO is steeply backwardated through to 2020, losing over $105/tonne in value between now and December, making any forward trade difficult to place and storage uneconomical.

To summarise, whilst the price spread between fuel oil in Europe vs. Asia would seem to support arbitrage flows, the pending specification change is preventing an uptick in trade on the route. In short, prompt demand for HSFO may be strong, but forward demand is soft. Some shorter haul trading opportunities may exist, but the longer haul trades look set to remain a challenge. Low sulphur is however a different story, with trading activity of compliant fuels steadily increasing. However, with uncertainty around supply, demand and pricing, trading large volumes of compliant fuels over long distances has its own challenges.

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Crude Oil

Middle East

VLCC Charterers were able to finish off their July programme without too much concern, as availability easily outweighed demand. The seamless transition into August provided no excitement and levels continue to remain rangebound in the region of 270,000mt x ws 43 for Eastern destinations and ws 18/20 on 280,000mt for voyages West. With the amount of ships that remain, it is unlikely that Owners will be able to structure any kind of a recovery just yet. Suezmax volumes this week have dramatically slowed, with tonnage naturally recalibrating as Owners look to ballast to other load regions. Rates remain rangebound, with not enough push or pull factors at present to give us the impression the scene will change any time soon. It has been a very active week for Aframaxes in the AGulf/Red Sea. The week began with rates actually slipping down to 80,000mt x ws 105 levels for AGulf/East, but the clear out now enables some Owners to regain lost ground. Rates have corrected back to around 80,000mt x ws 110 for AGulf/East heading into week 30.

West Africa

An opportunity missed for Suezmax Owners. Demand is up and vessels have been clipped away at a steady rate, but the underlying bearish sentiment amongst the owning community has put a stop to any thought that rates may firm, with last done repeated on numerous occasions now, which remains at 130,000mt x ws 60. A good number of VLCC fixtures have been concluded this week, with Owners and Charterers unable to shift levels up or down respectively, so a generic 260,000mt x ws 46 to the East was repeated time after time. Other factors elsewhere are likely to impact on developments. Whether it is the strengthening US Gulf scene or the flat AG market, sentiment will eventually shift one way or the other.

Mediterranean

The initial excitement from Aframax Owners at the start of the week was quickly eroded by a replenishing tonnage list and rather lacklustre enquiry from Charterers. The end month window now looks to have plenty of potential cover, limiting any growth and keeping levels around 80,000mt x ws 82.5 for X-Med voyages. Suezmax demand has been steady and the list remains evenly balanced, plenty of deals have been done off market, therefore rates kept private and Charterers have been able to carefully manage proceedings, with last done reported levels around 130,000mt x ws 67.5 for a generic X-Med run. We continue to see healthy appetite for short haul voyages.

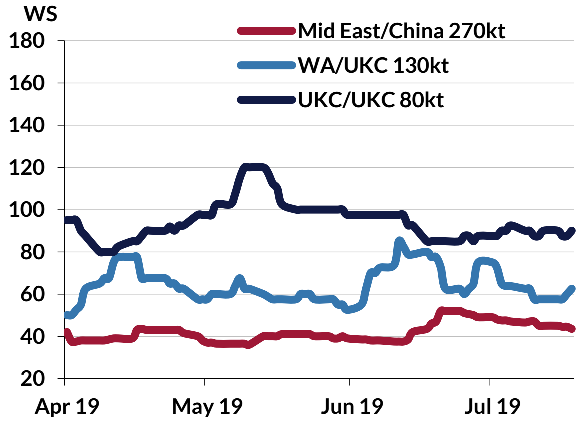
Caribbean

A good uptick in Aframax enquiry over the week gave Owners something positive to work with. Availability has been trimmed and with a more balanced feel going forward, Owners have been able to push levels on to around 70,000mt x ws 80 for voyages into the US Gulf. VLCC levels look to rebound again, with Charterers looking to finalise their August programme against a very thin position list. Owners remain on the front foot and will ensure they take control quickly and push levels on from last done.

North Sea

Aframaxes remain soft this week, as enquiry continues to be drip fed into the market. We appear to have reached the expected summer lull and Owners are beginning to feel the pinch, with current levels around 80,000 mt x ws 90. Owners that are willing all options at discharge are getting preferential treatment from Charterers but we are yet to see anything lift with East options on this size. Minimal interest for VLCCs here with levels expected to be around the mid $3 million for no heat fuel into Singapore.

Crude Tanker Spot Rates



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

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Clean Products

Mediterranean

Handy Owners plying their trade in the Mediterranean started the week at the dizzying heights of Black Sea in the 30 x ws 200 region and X-Med runs bouncing between ws 175 and 170. But as we see sectors surrounding the Handies stutter, and delays through the Turkish Straits coming off down to around 2-3 days Northbound now, Charterers slowly managed to get a grip of fixing rates and the momentum turned. By midweek we saw ws 190 Black Sea and ws 165 for X-Med being the new go to, and a slowing of activity heading into Friday kept Owners on the back foot. We currently expect with a fresh test, to see Black Sea around the ws 180 mark and X-Med sub ws 160, and pushing into next week, can expect Owners needing to dig in to prevent further decline ahead, with Charterers looking for more.

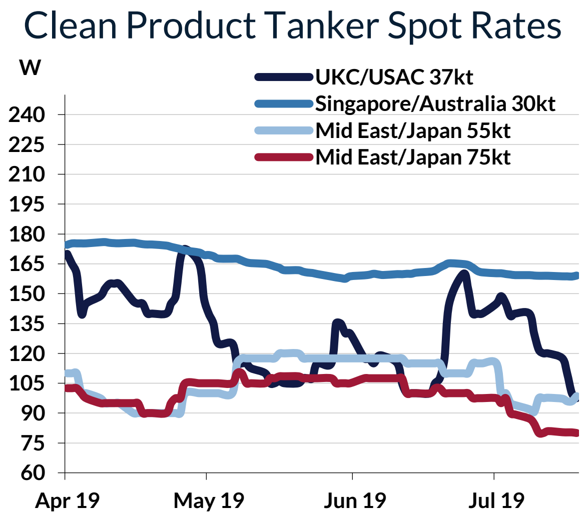
MRs down in the Med were unable to ignore the falling UKCont market and this negative sentiment flooded into this sector also. Despite some reasonable levels of fixing, whether it be a natural 37kt stem of a pro-rated 30kt, rates fell in line as transatlantic is pinned at 37 x ws 100, with the expectation for less for next done. With East moves scarce and WAF limited, Owners have little option but to take what they can find, whether it be the next run transatlantic or a potential Handy cargo, with rates for the time being allowing this.

UK Continent

The end of a painful week for Owners, with another ws 25 points or so wiped off TC2 runs without any real resistance at all. In Owners defence, it is hard to resist the lure of a cargo right now, as activity levels in all directions are at such a low point, beggars can't be choosers as the saying goes. The only positive we can find right now is that 37 x ws 95 might well represent the floor, as there seems little to gain for any Charterer, with relets (which is everyone) hammering any more nails into the coffin. It is hard to see us getting off the floor in the short term but at some point, of course, it will turn and we will see enquiry pick up. Then and only then can we expect rates to correct back towards more positive territory. Fingers crossed that process starts next week.

A rather uninspiring week for Handies up in the north, as the combination of drip-fed enquiry and a healthy amount of units for both prompt and natural fixing dates meant Charterers were quickly able to take back full reign in this sector. Frustratingly for Handy Owners one of the biggest thorns in their side was how badly the MRs were performing on long haul routes (transatlantic/WAF), which ultimately saw MRs starting to compete for short haul Handy stems in order to avoid locking in low TCEs for a month or so. With enquiry scarce and very limited opportunities towards the back end of the week, Baltic liftings have fallen to 30 x ws 125 and 30 x ws 115 for X-UKCont runs. A weak market is expected to continue.

A weaker Handy market added further pressure to an already quiet Flexi Sector this week. With tonnage still readily available and very little being seen on the spot market, rates now require a fresh negative test after the softening we have seen on the bigger vessels. 22 x ws 150 should be on the cards for X-UKCont voyage and this sector inevitably will be reliant on an improvement to happen on the Handies in order for Flexi Owners to have a change of fortunes.



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Dirty Products

Handy

Quite a week for Owners of Handy tonnage on the Continent, where a scramble for approved tonnage meant that Owners benefitted from an uplift in fortunes. This coming fresh off the back of a decline (ws 137.5 down to ws 120-125), marked an immediate reversal in trend, as we find ourselves back at the ws130 level having not quite cemented ws 135 mark (as this particular deal failed). Looking forward to next week, activity will be vital if we are to avoid such gains being undone. Availability is starting to reflect in the 23-24 window, with West Med tonnage also coming up.

This week started off once again with us being presented with a lengthy tonnage list, setting up what could be a challenging week for Owners. However, look a little deeper then you quickly realise, that said tonnage has been weighted towards the West Med region, which in turn has evened out the playing field. With that said, enquiry for the first half of the week was all drawn from the Black Sea region. This continued as the week progressed and adding into the mix a couple of X-Med stems, has left Owners maintaining fixing levels from where the week started. Looking forward into next week, there looks to still be a number of units in the West Med still to find coverage. With the UKCont looking tighter on approved units and the Black Sea pushing forward towards August dates, Owners will have a choice to make whether to head North or not come Monday.

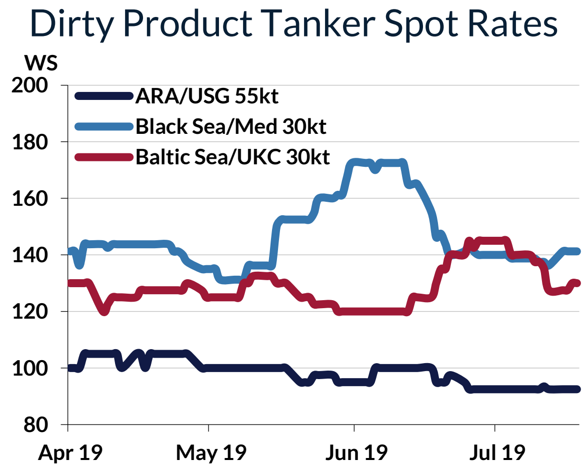
MR

A welcome change to the report this week, as for the first time in some weeks we have seen firm MR tonnage on the position list. Despite their being little activity in terms of fresh tests and full cargoes, the presence of these units leaves Charterers with better options in terms of dates and a fresh test not too far away. With the Handy market in the North getting tighter on approved tonnage, these units may also be attracted by smaller stems should dates allow.

In the Med, the picture is similar to the North, with little full size enquiry showing this week. Tonnage that has approached opening dates has tried to offer some flexibility to Charterers with 30kt stems but, with units being failed across the region, the recent soft sentiment has remained. Going into week 30, the market sees little reason for a turnaround in rates any time soon, but, with the Handy market better stocked with tonnage in the West Med, there may be opportunities for those opening towards the East of the region.

Panamax

Another week of levels rolling along at was 92.5, with a slight change in conditions in that, European Charterers are growing increasingly reliant upon States tonnage ballasting this way to pick up employment. In turn, this has now linked the performance of both the US and Europe markets ever closer but it will be down to the US to transform its fortunes before any knock on effect is felt here.



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jul 18th	Jul 11th	Last Month	FFA Q3
TD3C	VLCC	AG-China	**-3**	44	46	52	48
TD20	Suezmax	WAF-UKC	**+3**	60	58	70	66
TD7	Aframax	N.Sea-UKC	**+0**	88	88	88	91

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

			wk on wk change	Jul 18th	Jul 11th	Last Month	FFA Q3
TD3C	VLCC	AG-China	**-1,750**	15,000	16,750	25,750	48
TD20	Suezmax	WAF-UKC	**+3,500**	9,250	5,750	15,250	66
TD7	Aframax	N.Sea-UKC	**+1,000**	7,500	6,500	8,000	91

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jul 18th	Jul 11th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-0**	80	80	102	
TC2	MR - west	UKC-USAC	**-31**	99	130	117	116
TC5	LR1	AG-Japan	**-2**	95	98	114	102
TC7	MR - east	Singapore-EC Aus	**+0**	159	159	164	164

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

			wk on wk change	Jul 18th	Jul 11th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+500**	7,250	6,750	15,500	
TC2	MR - west	UKC-USAC	**-5,250**	4,250	9,500	8,000	7,750
TC5	LR1	AG-Japan	**+0**	7,750	7,750	13,000	9,500
TC7	MR - east	Singapore-EC Aus	**+1,500**	11,500	10,000	14,000	12,500

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

ClearView Bunker Price (Rotterdam HSFO 380)	**-44**	374	418	362
ClearView Bunker Price (Fujairah 380 HSFO)	**-17**	411	428	377
ClearView Bunker Price (Singapore 380 HSFO)	**-55**	458	513	387
ClearView Bunker Price (Rotterdam LSMGO)	**-37**	555	592	542

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