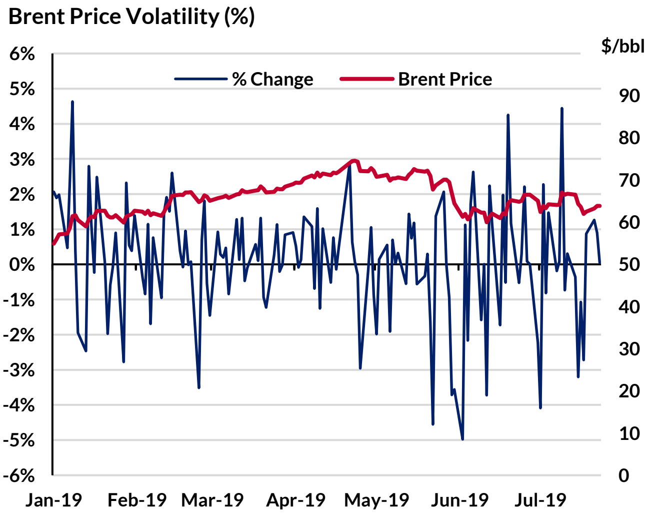
Stable Volatility

Weekly Tanker Market Report

During the first week of July, the well documented arrest of the 300,000 dwt 'Grace 1' by the British government caused tensions to spike between Iran and the West. Iranian retaliations to arrest a British flagged vessel, the Stena Impero, in the Straits of Hormuz have seen numerous statements calling for calm amidst the mayhem of political games. The current state of affairs has sparked tales of the Suez Crisis and the Gulf War, so why has there been minimal impact on freight rates and crude prices?



Firstly, there hasn't actually been any major disruption to flows through the region. The reported inspection of the 2,000 dwt MT Riah would barely have been newsworthy had it not been for the current media hysteria, but the recent seizure of the Stena Impero has made owners nervous. Furthermore, those looking to operate in the region that are *not* British linked may feel the current tit for tat measures between Iran and Britain, poses a lower risk to them to trade. If that is the case, when we take all British flagged product and crude carriers out of the total trading tanker pool, we lose only 2% of the global fleet. However, the British managed VLCC 'Mesdar' spooked markets when it seemed to change course abruptly to Iran before heading back into the Gulf. Although there were attacks on five non-British operated vessels in the Gulf, Iran has denied any involvement in these incidents.

Secondly, global demand growth has slowed. The IEA has reported that Q1 2019 global oil demand growth slumped to 310,000 b/d, the lowest figure recorded since the end of 2011. Although factors in the market such as limited output from Iran and Venezuela and OPEC+ led production cuts should suggest a bullish tone, slower global economic growth and trade wars between major economies present a downside demand risk. However, the IEA has estimated a stronger second half of 2019 due to economic activity output improving and new plants ramp up, which could support prices later in the year.

Lastly, the world remains oversupplied, hence the extended cut in OPEC+ production. In June, world oil supply topped the 100 mb/d mark for the first time since January, according to the IEA. There have been calls for OPEC+ to cut crude production to 28 million b/d - the lowest since 2003 - down from current levels of approximately 30 million b/d in an attempt to rebalance markets. Global inventories and stocks are still deemed too high. The benchmark Brent crude price briefly reached a yearly high of $74/bbl in April, but recent events in the Middle East Gulf have affected crude price volatility by only 4%, with prices barely moving from the mid-$60/bbl levels throughout. In comparison, when OPEC announced their first round of production cuts back in December, Brent moved 8% overnight. Production cuts have had a knock on effect for tanker rates. The benchmark VLCC rate - TD3 - has fallen 6 WS points to WS42 ($1.21/mt) since the start of July despite tensions in the Middle East Gulf.

The current situation has arisen from a backdrop of threats from Iran that they will retaliate for the arrest of Grace 1, with the attitude of 'if we cannot export, no one will'. The increasing presence of the US and British navy in the Gulf has done little to ease tensions. However, at the moment owners have a sit and wait policy whilst acting with precaution throughout the region. The global knock on effect for the tanker market at the moment seems to be fairly muted: at present it seems business as usual. This may be one for Boris Johnson and new foreign secretary Dominic Raab to rescue.

Crude Oil

Middle East

A busy week for VLCCs but despite the activity, rates remained firmly anchored to previous marks - no higher than ws 43 to the East for modern units, with older vessels at down to ws 35,and runs to the West still at under ws 20 via Cape. Charterers have been concentrating their attention upon lower H+M valued units and so long as those vessels remain in situ on the prevailing fixing window, the market is likely to remain similarly anchored. Suezmaxes drifted sideways through the week upon slack demand and easy supply, with Owners becoming more minded to merely side-step the area for other load zones. Rates remain in the low ws 70's East and to around ws 30 to the West. Aframaxes towed a steady line at 80,000mt by ws 110 to Singapore and if demand remains likewise into next week then some improvement may then be seen.

West Africa

Suezmaxes here became the cheerleaders of their sector as a rash of early stems hit a tighter position list and Owners quickly grasped the opportunity to take advantage. Up to 130,000mt by ws 87.5 was paid for a prompt-ish movement to Europe and Owners will be looking to secure an average rate of close to ws 80 for slightly later dates too. Whether the market can continue to roll onto more forward positions remains to be seen but ballasters from afar will then begin to compromise somewhat, and profit taking instinct may then serve to undermine. VLCCs saw no such fun, it was a busy start to the week but rates merely shuffled sideways at down to ws 45 to the Far East. Thereafter things slowed once again, and it will require an unlikely turnaround in the AGulf to materially change the outlook.

Mediterranean

Aframaxes crumpled as the week wore on - very slack, and very easily tonnaged. Rates have been knocked down to 80,000mt by ws 80 X-Med now and near term prospects are equally depressing. Suezmaxes looked to West Africa for hope and inspiration but never found enough attention to allow for rates to make an equalising positive move. 140,000mt by ws 70 from the Black Sea to European destinations - again, and at down to $3 million for runs to China.

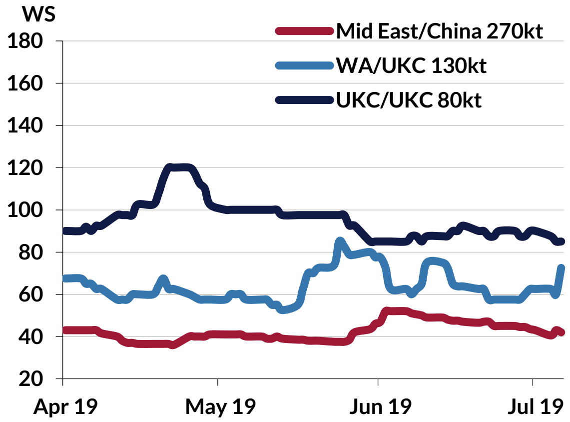
Caribbean

Heavy Aframax supply needed to be hard pruned to allow for any rate-growth, eventually a degree of balance was restored but rates didn't push above 70,000mt by ws 80 upcoast and ws 75 transatlantic, though there could be a last gasp flick in the tail before the close today, or perhaps to kick off with next week, nothing dramatic though. VLCCs have been finely balanced of late and a reasonably steady drip feed of enquiry proved just enough to maintain recent peaks at up to $5.35 million from the USGulf to China. Ballasters will start to dilute but there's no large wave of tonnage expected, and rates should remain fairly steady over the next fixing phase.

North Sea

Aframaxes bumped down to a bottom, and then found another bottom. 80,000mt by ws 80 now X-UKCont and 100,000mt by ws 60 from the Baltic. Owners will just have to grit their teeth and endure the summer doldrums. VLCCs found occasional interest but Owners rate demands were nicely propped up by USGulf loading alternatives and crude oil from Hound Point to South Korea was again marked at $4.5 million. A steady rate outlook for now.

Crude Tanker Spot Rates



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

GIBSON SHIPBROKERS

Clean Products

East

Not an overly exciting week for the MRs in the AGulf. Activity has been ticking over but not enough to tighten up the list. As we head into the new week, there are going to be a number of prompt ships come Monday. With this readily available tonnage, rates have struggled to progress. EAF floats at 35 x ws 125 and TC12 at 35 x ws 100. UKCont sits at $1.2 million and $450k for stems into the AGulf. Even with a good number of open cargoes, the number of ships available to cover these stems indicates that at present this current sentiment won't be changing dramatically soon.

LR1s have seen a busier end to the week but rates haven't met the hype, with TC5 returning to ws 95 after a brief visit nearer ws 100. 65,000mt jet AGulf/UKCont is hovering around $1.625 million, down a touch also. Mainly this can be put down to LR2s almost being at parity. LR2s themselves are still struggling, with Satorp closed another 2 weeks at least. 75,000mt naphtha AGulf/Japan is down below the previously unbreakable ws 80 at ws 77.5, whilst 90,000mt jet AGulf/UKCont is at $1.69 million. We really are bumping along the bottom of the market at these levels. However, with refinery volumes looking to rise again in August and lists not as long as they have been through the month, we may see some improvements by mid-month - but it won't be the exponential IMO2020 rise so many have been predicting.

Mediterranean

A week to forget for Owners, with Charterers firmly on the front foot throughout. A lack of enquiry has meant that the tonnage list has continued to grow and a wealth of prompt tonnage at the front end has inevitably caused rates to soften. At the time of writing, 30 x ws 130 is the going rate (ws 15 points less than Monday). Given enquiry continues to thin and vessels are still sitting prompt across the board, come Monday it would not be surprising to see south of last done. Black Sea action has been quiet this week and, with delays easing off consistently every day, a negative correction was imminent but by how much it was difficult to tell. A fresh test was seen on Friday morning, with 30 x ws 150 now the going rate. With NB Turkish Straits delays continuing to ease off (now 1-3 days), expect the gap between X-Med and Black Sea to continue closing in Charterers' favour.

The driving force for rates this week has been the UKCont sector, with little action to ride off in the Mediterranean. A lack of activity saw rates hit new lows of 37 x ws 95-97.5. With sentiment in the UKCont looking fairly negative for next week, the outlook for Owners looks fairly bleak. East runs have seen little activity; however, expect downward pressure on last done, with a Med-AGulf around the $725-750k likely. For now, the market continues to look soft, with rates unlikely to improve for the time being.

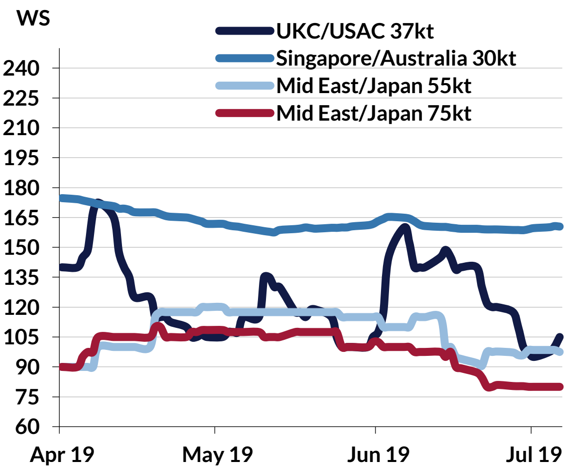
UK Continent

The slightly more positive market at the end of last week ultimately fell short of the mark this week. Rates pushed up from ws 95 to reach 37 x ws 105 by the mid-week point. Although this came and went, so did the sentiment and chance for Owners to make any more ground in their favour. Enquiry slowed exactly at the point Owners needed it to continue, meaning that by the time of writing on Friday rates have begun to slip, with the equivalent of 37 x ws 100 on subs for an ARA load. WAF enquiry has been pretty much non-existent for yet another week. Until this route has some life, it feels TC2 will remain doomed also, WAF is only ws +10 points on transatlantic. Short haul routes look attractive for many Owners, as locking in for longer voyages with these TCEs can be a hard pill to swallow. Charterers preference for forward fixing has further hampered Owners efforts to improve rates. With a weekend coming up, it only serves to make their job harder come Monday…double figures could be the reality once again.

All in all, Owners will be leaving their desk rather frustrated with how the Handy market has played out throughout week 30. For the majority of the week rates ex Baltic were trading at 30 x ws 120 and 30 x ws 110 for X-UKCont. However, with the combination of slower volumes and LRs being preferred for certain voyages, Baltic softened to 30 x ws 117.5 and X-UKCont dropped to 30 x ws 107.5. The tonnage list has been replenished both on the front end and for natural fixing dates, so unless we have improved volumes (especially ex Primorsk) expect this trend to continue. If this sector is to hold current level going forward, any enquiry needs to be consistent. A few days of inactivity ultimately leads to rate losses as tonnage is recycled so fast.

Not much in the way of excitement for the Flexi here - it's the usual players doing the usual business, with little to give and fresh test to the market other than levels around last done. Rates are still dictated by the (also lacklustre) Handy market, with a discount thrown on top. Some softening of the Handies late in the week suggests we could see a fresh negative test for the flexis next week, with X-UKCont not going to be much more that 22 x ws 140 unfortunately. More of the same on the horizon.

Clean Product Tanker Spot Rates



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Dirty Products

Handy

The Continent Handy market seems to be full of liquidity and firing on all cylinders right now, with the market picking up to 30 x ws 137.5 by week's end, with Owners earmarking the ws 140 boundary as next done. For Charterers the weekend's arrival has given a chance for calendar dates to catch up with fixing windows. This, combined with tonnage opening in the West Med area willing to come up, offers rational as to why further gains haven't been achieved.

Enquiry in the Med this week has dragged its heels relative to the availability of tonnage across the region. With the top of the list well stocked with prompt units, it is perhaps of no surprise that the region has weakened further, as enquiry failed to flow but instead drip fed day by day. With every cargo presented this week, there has been an expectation of a negative test. We finish the week with a drop to ws 122.5 X-Med and ws 135 from the Black Sea. Going forward, opportunities for Charterers remain and there is little for Owners to hang on to other than prospects for those in the West Med of a ballast North.

MR

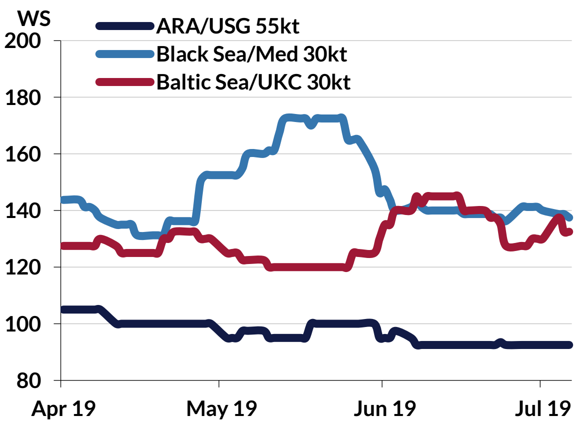
For the second week running we are able to report MR activity in the North, as from the off on Monday the list presented Charterers with opportunities on larger size cargoes. Fairly swiftly one unit was fixed away for a 38kt stem to the Med and the other natural unit is on subs, with Med options. Come next week, should subs be lifted, it will be back to business as usual, with the only options currently showing being a ballast away. With the surrounding Med market weakening further, units could tempted North.

In the Med, sentiment in the MR market is following suit with the surrounding Handies. With little full size enquiry showing, not having a fall back has started to take its toll . Rates for both Med and Black Sea loadings have been negatively tested recently. Going into next week with the MR list pretty much unchanged, Owners will be expecting to see much of the same. Being in the depths of the summer market, reducing idle days makes the prospect of a ballast to more lucrative regions increasingly appealing.

Panamax

The conference rate of ws 92.5 holds another week of validity, although Charterers have been given slightly more cause for concern than we have seen in recent weeks. Modern approved tonnage is thin on the ground, which has created a larger dependence on ballast tonnage in order to cover. This, in combination with a US market which for the first time in a while showed a slight pickup in the USGulf area (with levels climbing to 50 x ws 110), did cause some to raise eyebrows at what could follow. That said, where ships remain in prominent ballast areas, signs of market elevations in Europe look a little premature for the time being.

Dirty Product Tanker Spot Rates



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GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jul 25th	Jul 18th	Last Month	FFA Q3
TD3C	VLCC	AG-China	**-2**	42	44	50	50
TD20	Suezmax	WAF-UKC	**+17**	77	60	64	73
TD7	Aframax	N.Sea-UKC	**-4**	84	88	88	90

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

			wk on wk change	Jul 25th	Jul 18th	Last Month	FFA Q3
TD3C	VLCC	AG-China	**-2,000**	13,000	15,000	22,500	50
TD20	Suezmax	WAF-UKC	**+9,000**	18,250	9,250	15,250	73
TD7	Aframax	N.Sea-UKC	**-3,500**	4,000	7,500	8,000	90

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jul 25th	Jul 18th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-1**	80	80	98	
TC2	MR - west	UKC-USAC	**+8**	106	99	134	122
TC5	LR1	AG-Japan	**+1**	96	95	110	103
TC7	MR - east	Singapore-EC Aus	**+2**	161	159	161	165

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

			wk on wk change	Jul 25th	Jul 18th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+0**	7,250	7,250	13,250	
TC2	MR - west	UKC-USAC	**+1,500**	5,750	4,250	10,500	9,000
TC5	LR1	AG-Japan	**+250**	8,000	7,750	11,500	10,000
TC7	MR - east	Singapore-EC Aus	**+500**	12,000	11,500	12,750	13,000

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

ClearView Bunker Price (Rotterdam HSFO 380)	**-7**	367	374	389
ClearView Bunker Price (Fujairah 380 HSFO)	**-1**	410	411	399
ClearView Bunker Price (Singapore 380 HSFO)	**-12**	446	458	420
ClearView Bunker Price (Rotterdam LSMGO)	**+7**	562	555	575

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