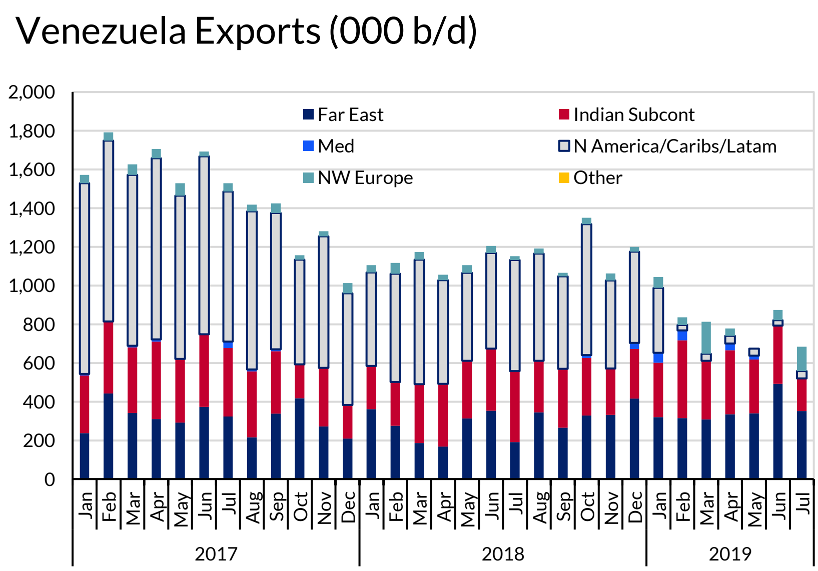
Trouble in Caracas

Weekly Tanker Market Report

In January 2019 the Trump administration announced tough sanctions against PDVSA, designed to halt US imports of Venezuelan crude. The US government also blocked access to its financial system for PDVSA transactions. Overall, sanctions have had the desired effect. Crude trade to US refineries came to a halt since February, down from approximately 0.5 million b/d in 2018. US also stopped exporting clean petroleum products (CPP) to Venezuela, most notably naphtha, used to dilute extra heavy grades to make synthetic crude for exports. Venezuela was largely unable to find a replacement for US clean products, with the volume of CPP imports into the country down by more than 50% compared to levels in 2018. Meanwhile, the economic and political situation in the country continued to deteriorate, while the mounting shortage of skilled personnel, financing and badly needed repairs/maintenance for oil installations translated into a further decline in the country's crude production. The IEA estimates that Venezuela's output declined between January and July by 470,000 b/d, down to 0.81 million b/d, its lowest level in decades.

Despite the decline in absolute volumes, long haul crude shipments to Asia (mainly to China and India) have continued, being backed by debt to Chinese and Russian companies. In fact, long-haul trade has somewhat increased in recent months. Preliminary results from ClipperData show that the country's crude exports to the East averaged around 675,000 b/d during the 1st half of 2019, up by nearly 100,000 b/d versus the same period last year. However, these volumes are still below the levels seen in 2016/17. It also appears Venezuela has made some progress in adapting to challenges faced. In July Argus reported that PDVSA started the transition of its inactive heavy crude upgraders, used to produce synthetic crude mainly for US sales, into blending sites to maximise production of Merey blend, which is in demand for Asia buyers. AIS data supports this statement, with shipments of the grade up this year versus the historical trend. More recently, it has also been reported that PDVSA signed an agreement with a Chinese engineering company to repair Venezuela's refineries. Venezuela will repay in oil products.



Taking into account these developments, it is perhaps not surprising to see fresh US sanctions, with the Trump administration freezing all Venezuelan government assets in the US. The latest sanctions do not explicitly sanction non-US companies that do business with the US; however, the order threatens to freeze US assets of any entity determined to have "materially assisted" the Venezuelan government. Most likely, it is up to the US authorities to decide what "material assistance" actually means and so the willingness to sanction directly Russian and Chinese companies is yet to be tested.

All in all, the position of the Maduro government appears increasingly uncertain, with the latest sanctions only adding to a long list of problems faced. Reuters has already reported that China National Petroleum Corp (CNPC) has halted August loadings from Venezuela, as the company worries that it could be hit by secondary US sanctions. Potentially, Venezuela's crude output could decline further and with it, long haul trade to the East. On its own, this undoubtedly is a negative development for tanker demand; however, with rising output out of the US, Brazil and robust prospects out of neighbouring Guyana, this will simply slow but not stop the growth in long haul trade from the Americas to the East.

Crude Oil

Middle East

VLCC Charterers initially continued to hunt in numbers and consequently allowed the previously established upward trend to be maintained to drive rates up into the high ws 60's East, and into the low ws 30's West by midweek. Thereafter cargo interest dried up somewhat as Charterers began to realise that there was limited risk of higher move, and that availability remained quite easy looking upon the next fixing window. Rates have now edged off and some settling seems likely over the coming phase. Suezmaxes drifted sideways but Owners began to focus more upon Western runs, which raised their demands to the East and rates began to creep higher to 130,000mt by ws 77.5 to the East but still in the low ws 30's West. Aframaxes enjoyed steady attention but not enough to force rates above 80,000mt by ws 100 to Singapore, though another similar spell next week would probably do the trick.

West Africa

Suezmax Owners spent the week consolidating, and then attempting to provoke Charterers into more concerted fixing. There was a little more seen late week, and rates did then begin to edge upwards to 130,000mt by ws 70 to Europe and to ws 65 to the USGulf, and it will be a more challenging period to come for previously relaxed Charterers. VLCCs equalised quickly, with raised AGulf numbers but an outlier fixture at ws 69 to the Far East failed subjects and the inflated balloon began then to deflate – around ws 62.5 now to China but no big move lower unless/until the Middle East flops.

Mediterranean

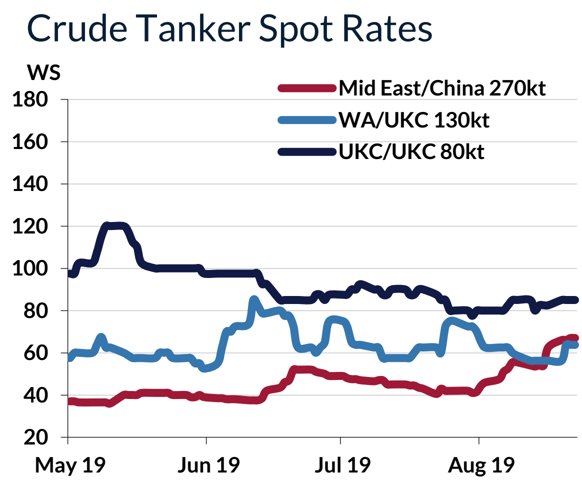
Aframaxes continue to gently undulate through the summer months within a feeble rate range, up to 80,000mt by ws 80 X-Med is about the best for now and there'll be more nickel and diming next week too. Suezmaxes had already established a reasonably solid bottom and then began to take baby steps higher upon slightly improved activity, and a nudging West African market too. 140,000mt by ws 72.5/75 now from the Black Sea to European destinations, with up to $3.1 million for runs to China. Perhaps a little better still into next week.

Caribbean

Aframaxes fought to clear heavily laden shelves of tonnage and for a short while demand began to give some hope of redress but the pace wasn't sustained for long and availability quickly began to weigh again. 70,000mt by ws 72.5/75 upcoast, again, and little early change forecast. VLCCs saw relatively little through the week but wider Atlantic action and firmness, supported sentiment and kept rate demands at around $5.3 million from the USGulf to Singapore - sideways for now, as it seems.

North Sea

More treading water for tired Aframaxes. The week did start on a more hopeful note but that never converted into anything meaningful and the back end of the week slowed, and dampened further expectations. 80,000mt by ws 82.5 X-UKCont and 100,000mt by ws 57.5 from the Baltic currently, with a U.K. Holiday on Monday keeping the brakes firmly on. VLCCs were left largely alone but Owners ideas were raised by events elsewhere towards $5.75+ million for crude oil to South Korea though Charterers are largely minded to sit on their hands until the froth settles.



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

Clean Products

East

The MRs started the week busy and got even busier. With Charterers sensing how firm the market is, they released more and more cargoes trying to cover their own stems. Subsequently, tonnage ran out fast. Owners have commanded the market this week and have achieved a strong rate rise. EAF corrected quickly and aggressively, with the latest on subs at 35 x ws 190. X-AGulf cargoes have been harder to cover, as Owners preferred taking long haul stems; however, assess at $270k for a natural Jubail/Jebel Ali. A few stems into the Red Sea saw levels follow the trend and, with $675k on subs into port Sudan, Charterers are unlikely to get less than $625k for a Gizan cargo. TC12 hasn't been overly active this week, with last done fixed at 35 x ws 115, however, rates are more likely in the 35 x ws 140 levels today. UKCont has been untested this week, last done was $1.375 million. However, with Owners not wanting to head West, rate improved scientifically over the week, it will certainly be the other side of $1.4 million and more than likely closer to $1.5 million levels. Owners will go into the weekend very confident; the tonnage list is super tight up to the end of the month and, with 9 open stems, this intensity will pick from where it left come Monday morning.

LR1s started the week with a heavy front end and steadily thinning natural window. Oddly enough, it has been an extremely active MR market, which has thinned out the prompt ships, as Charterers need to stem up to cover safely. The natural window has been busy; however, Friday saw the taps turned on and we have seen naphtha firm to ws 122.5, with the propensity to push further. Westbounds are interesting: $1.8 million ex AGulf was the last done, then $25k discount. Yet, arguably it has to be pushed in line with a tighter list. Even if less favourable than TC5, expect westbound to be positively tested early next week.

A very interesting week or so for the segment which has been capped off by an overwhelming sense of anticipation for Owners going into next week. The most important thing to take note of, would be the fact that you're not going to see a large overhang of tonnage from August into September (and of those left - no single Owner is too heavily leveraged). Coupled with a first decade of September, which so far has been largely unworked. Levels wise, the $1.7 million done ex Yasref are highly likely to be the envy of anyone else coming in next week to cover around the same window. With no real test of AGulf/UKCont provided since Shell grabbed a $2.1 million West, the next done is likely to raise a few eyebrows, most likely to the tune of $2.25-$2.3million. TC1 again has seen a lack of activity of late and, with everything else going on in the wider market, the natural flow of TC1 stems is likely to see us closer to 75 x ws 120 than ws 115 once the dust settles. Charterers would be prudent to cover wherever possible this side of the weekend.

Mediterranean

Rather a bleak week for Owners in the Med, with rates consistently trading in the double figures from the off. Tonnage on Monday was well supplied for fixing window. Over 10 prompt ships across the board coupled with slow enquiry, meant Owners solidified themselves on the back foot and sentiment remained negative. A slight dip was seen to ws 92.5 but the back end of the week was busier, clearing out much of the prompt ships at the front end. As such, Owners started to see a glimpse of momentum, with 30 x ws 95 establishing itself once again as the going rate. Black Sea rates have held for much of the week, around the 30 x ws 100-105 mark. With enquiry entering the market at a sluggish pace, rates by and large were driven by X-Med sentiment. Come Monday, it will be interesting to see if Owners can capitalise on this late surge in momentum but this will likely be halted by the bank holiday.

A little less excitement for the MR Owners in the Med, with the lack of enquiry really weighing any Owners' ambitions down. Any positivity, that had been seen, has stemmed from the busier UKCont market, with the feeling that we need this momentum to continue through next week, if Owners are going to be able to capitalise here. The lack of stems heading East is keeping tonnage stagnant and will expect this to be the case heading in the early part of next week, with fresh enquiry needed to create any waves of opportunity.

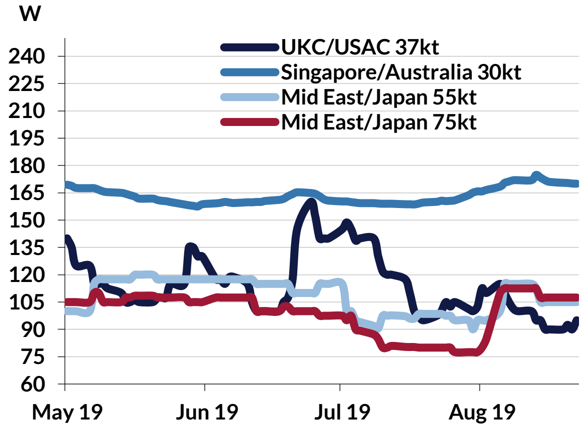
UK Continent

After a few fairly torrid weeks for Owners, it felt like we were due some positivity. With a good number of cargoes taking out a chunk of the tonnage list, a little light is seen at the end of the tunnel. The majority of the interest we have seen has been heading transatlantic. Here, we started at the dismally low 37 x ws 90 but by the midweek point due to ample interest, Owners began to believe they could push back on last done. A few more fixtures after this gave us the new level of ws 95 for transatlantic. With some outstanding still, a standoff is seen, as some believe we can push back into the 3 digit levels. A sprinkling of WAF enquiry has been also added to the mix. This is expected to shift North, also past ws 105. A truncated next week, with the UK off, will compress the fixing window and could see a little more volatility and so Owners' chances for further gains bloom. The amount of tonnage building over the weekend in 3 days rather than 2 will be a pivotal factor.

A week to forget for the Handies in NEW. TC9 rates kicked off 30 x ws 115 on Baltic/UKCont but, with an oversupply of tonnage dominating the lists all week and a slow pace of enquiry, 30 x ws 112.5 quickly took a hold and was easily maintained. The lack of Baltic programme stems from refinery maintenance is causing a backlog of ships. This continues to hamper Owners' efforts to find some respite from these low returning levels. A similar story for X-UKCont cargoes, where available units litter the list, thus keeping rates firmly 30 x ws 100. On the back of this, UKCont/Med rates also showed little signs of life, with enough willing units 30 x ws 95 achieved throughout. A bank holiday in the UK means next week should start in a similar fashion. We need a dramatic influx of cargo to clear the lists out, if there is to be any rates improvement.

The Flexi market has largely and unsurprisingly been dictated by the Handy market. The flat/negative sentiment of the Handies has been mirrored by the Flexis, with X-UKCont getting a fresh test ws 2.5 lower than last done levels to leave 22 x ws 132.5 the going rate. Certain Owners have been able to keep their ships on the move with bread and butter cargoes. However, other than stopping the tonnage list from building too much, it's done little else. Intermediate size stems now look an attractive option and, until the Handies improve, this may be the case for a little while longer.

Clean Product Tanker Spot Rates



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Dirty Products

Handy

This week has not been the one that Owners were hoping for, as the quiet end to last week rolled into week 34. On Monday we were presented with a number of prompt units in the region. This did not change a great deal, until we started to encroach into the back end of the week. However, with that said, a mix of fresh enquiry and off market activity gave Owners enough ammunition to limit their exposure in negative correction. With this in mind, the region still looks to hold just above the ws 140 market but, with a Bank Holiday weekend in London, Owners' hope may well be tested again early next week.

In contrast to the North, the Med has been consistent, with a steady flow of enquiry this week. Yet, with a lengthy position list, Owners were on the back foot for most of the week, as far as trying to create momentum. However, this volatility in the region has only resulted in a couple of points being shaved from where last week finished, with Charterers finding the bottom at ws 127.5 from the Black Sea and rebounding to ws 130 where we started. Here too, the real question is how will the long weekend in London affect the region, but in all likelihood we will be in store for a repeat of this week.

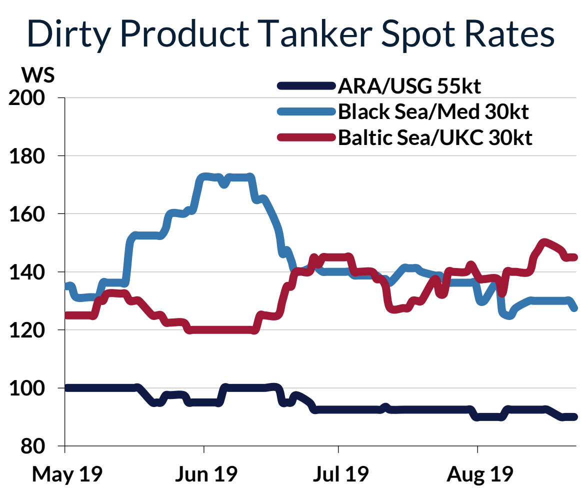
MR

In the North this week has seen the tumbleweed blowing through due to the lack of natural tonnage available on near term fixing dates. Natural tonnage replenishment is needed for the sentiment in this region to change. Until Charterers and Owners have tonnage to play with, all that can be tested is alternative vessel sizes from parcelling up and down. As a result, we have seen a number of Panamax cargoes fixed out of the North and some Owners quietly fixing in the Handy market. We are well into September now for fresh MR ships.

The market in the Med has followed on from last week's subdued level of activity for MRs, as the last three final ships available for near dates have been chipped away early in the week. Black Sea/Med and X-Med cargoes took a slight dip in rates at the front end of the week, before shoring up to ws 110 levels for both markets as near term tonnage disappeared and the fixing window moved to the first days of September. We are anticipating that, if full stems do appear, these will be fixed 5-10 September. With this late fixing window, some Owners have been looking to fix their larger cargoes as part cargoes on Handies.

Panamax

This sector continues to be put under pressure due to the larger Aframax sector continuing to offer a more competitive all round deal. The natural size fresh activity, that has been seen this week, has been for tonnage where restrictions have been in place. However, these fixtures have not been enough to stimulate this sector and in fact Owners have been positioned just to take what has been on offer. This includes some short options. Therefore, the soft sentiment within this sector is simply going to be maintained moving into next week.



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 22nd	Aug 15th	Last Month	FFA Q3 (Bal)
TD3C	VLCC	AG-China	**+12**	66	54	42	63
TD20	Suezmax	WAF-UKC	**+6**	63	57	77	70
TD7	Aframax	N.Sea-UKC	**+0**	85	85	84	90

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

			wk on wk change	Aug 22nd	Aug 15th	Last Month	FFA Q3 (Bal)
TD3C	VLCC	AG-China	**+11,250**	42,500	31,250	13,000	63
TD20	Suezmax	WAF-UKC	**+2,250**	13,750	11,500	18,250	70
TD7	Aframax	N.Sea-UKC	**+0**	7,250	7,250	4,000	90

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 22nd	Aug 15th	Last Month	FFA Q3 (Bal)
TC1	LR2	AG-Japan	**+4**	113	108	80	
TC2	MR - west	UKC-USAC	**+3**	94	91	106	116
TC5	LR1	AG-Japan	**+7**	112	106	96	116
TC7	MR - east	Singapore-EC Aus	**-2**	170	172	161	166

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

			wk on wk change	Aug 22nd	Aug 15th	Last Month	FFA Q3 (Bal)
TC1	LR2	AG-Japan	**+250**	19,500	19,250	7,250	
TC2	MR - west	UKC-USAC	**+0**	4,750	4,750	5,750	9,000
TC5	LR1	AG-Japan	**+500**	13,250	12,750	8,000	13,750
TC7	MR - east	Singapore-EC Aus	**-750**	15,500	16,250	12,000	14,500

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

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