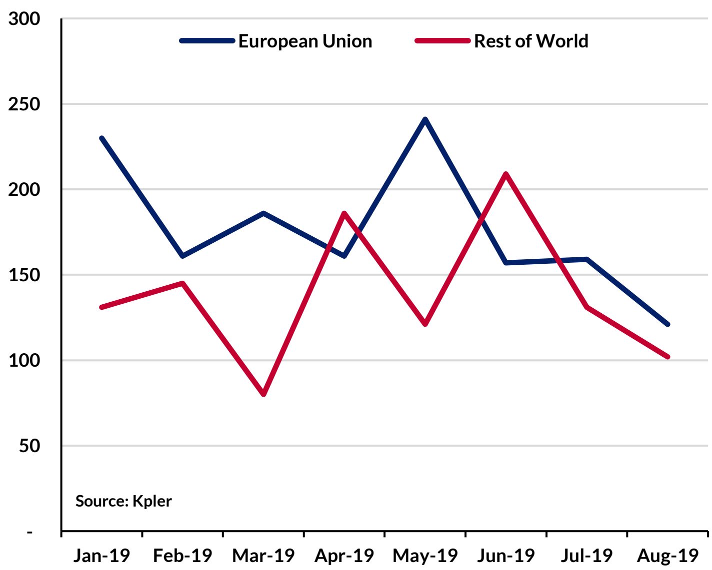
Deal or No Deal

Weekly Tanker Market Report

If Boris Johnson gets his way, the ever-impending event that is Brexit will soon be upon us. Little has been said about the impact on the wider international tanker market, with the UK being a relatively small piece of global tanker trade; however, Brexit will have an impact, most notably on regional trade between the UK and EU.

For 2019 to date, 57% of UK clean petroleum product (CPP) exports have gone to the EU, currently subject to zero tariffs. However, if the UK crashes out of the EU without a deal, British CPP exports to the EU would be subject to non-EU country tariffs of 4.7%. For imports, the UK may consider placing 0% tariffs on fuel imports; however, if it elects to do so for one country, under WTO rules it must do for imports of the same product from all countries. With tariffs being placed on product exports to its biggest market (the EU) and 0% imports likely on fuel imports, the UK refining industry would be placed at a competitive disadvantage, with this likely to impact trade flows. For example, Valero's Pembrokeshire based refinery has exported just under a quarter of all its products so far this year to Ireland. With tariffs being introduced, it may be more competitive for Ireland to source these volumes from the EU. However, subject to the implementation of bilateral trade deals between the UK and other counterparties, it may prove more economical to push UK CPP exports further afield, for example to the US or West Africa. In effect these inefficiencies of supply could create increased tanker demand.

UK Product Exports 2019 (000 b/d)



However, alternatively, a scenario may also evolve whereby the UK reduces both its exports and imports. Whilst currently much of the UK's own product supply is retained, some areas, such as the Thames region tend to get most of their supply from the Belgium and the Netherlands. If tariffs are placed on UK exports, then it may prove more profitable to ship barrels coastally, rather than export. A leaked government document recently stated that the implications of a no-deal Brexit could force two UK refineries to shut down if tariffs were imposed because it would make them non-competitive compared to facilities within the EU. Although some refineries such as Total's Lindsey refinery sell most of their product straight back into the UK. Analyst views are mixed; however, reduced trading flexibility would almost certainly impact margins, and potentially force refining runs lower.

Between now and October 31st, there remains a great deal of uncertainty. Will there be a deal, or no deal? Without a deal, UK refineries will be impacted, to what degree is unknown. Tanker trade will be impacted. However, whilst it may be significant for smaller vessels trading regionally across North West Europe, the impact for the global tanker market will likely be muted.

Crude Oil

Middle East

A drip fed VLCC market has allowed rates to ease and allowed the established upward trend of last week to make a U-turn. Rates have taken a hit as the rate of fixing has slowed, allowing Charterers to achieve below last done numbers. Rates in the area have now adjusted to mid - low 60's for East and high 20's for West, with the list remaining healthy. For any gains, the market will need to see a higher concentration of cargoes next week. Suezmaxes were comparatively busy in the East this week, but a consistent supply of ballasters has kept rates more subdued than could have been. West rates have crept up to 140 x ws 35 with the East steady at 130 x mid 70's. Little change is expected next week.

West Africa

The Bank Holiday really derailed Suezmaxes. Tonnage built over the course of a slow early week and the market corrected sharply to 130 x ws 62.5 for Europe. This did draw Charterers into the market to capitalise on lower rates but plenty of Owners are holding out for next week in the hope of a quick rebound. VLCCs softened in WAF, with a new level set at ws 57.5, with rates following the slowing of the AGulf. Cargoes have been attracting over 7 offers each, however, some resistance to lock into the longer voyages at a discount has been seen.

Mediterranean

Shipowners in the Mediterranean Aframax market will reflect on some missed opportunities this week. Charterers have played their hands very skilfully in the last couple weeks, during which time consistent fixing, port delays and some weather delays have thinned the firm tonnage list to its bare bones. Upon noticing this, they have taken advantage of the prevailing weak sentiment of the preceding months and fixed ships on a private basis at last done levels, with Owners not realising what was going on around them. Saying this, the situation did become clearer and some modest gains were made, with cross Mediterranean cargoes moving up from low ws 80's to high ws 80's. However Black Sea cargoes were fixed very forward and, with barely any rate changes. Ws 87.5 had concluded from CPC out past mid-month. This betrayed any change in sentiment and, with the prospect of no more Black Sea cargoes to bail out earlier ships, these distressed vessels will now have to take X-Med cargoes at the best they can. At the close, ws 75 has been concluded for a X-Med voyage, with a good flat rate. Concerningly long lists are thwarting any hope of a revival in the Med for Suezmaxes. Black Sea/Europe has ended the week steady at 135 x high 60's and $3.15million for Far East destinations. This trend looks set to continue next week.

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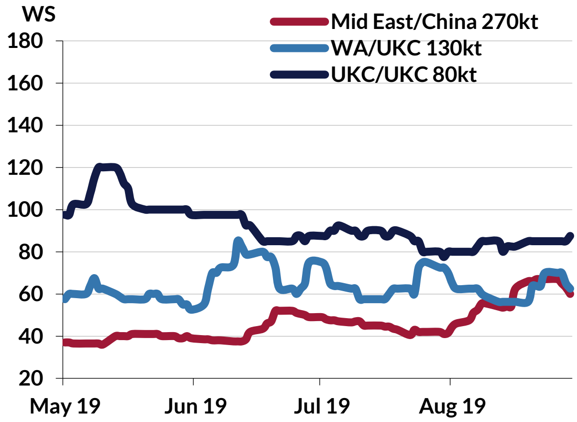
Caribbean

A consistent flow of cargo activity has kept the position list lean and, with many Owners opting for local voyages vs long haul, there is certainly a firmer outlook as we enter September. We see rates firm as we end the week.

North Sea

A week of change in the North, with action finally coming to stir up what has been a very uneventful market for the past few weeks. Despite rate changes being relatively minimal, sentiment is shifting on the back of this as Owners have a more positive outlook going forward. For the time being X-North Sea is fixing at ws 85 levels and Baltic/UKCont around ws 60 depending on options. Rates for VLCCs in the UKCont have followed other regions and softened. With a relatively healthy list, last done numbers were chipped away. A cargo going long East is currently on subs at $5.55 million showing a downwards correction. We can expect next done to be less than this now as well.

Crude Tanker Spot Rates



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

Clean Products

East

A very active week on the MRs. We have seen the front end thin drastically, to the tune of ws 40 points being put on EAF. Ws 207.5 failed, but the intention remains amongst Owners to fix at ws 200 levels (some will likely take just sub). Naphtha runs have been busy, and the market now sits at ws 145-150 levels. Important to note that, with Singapore busy, ECI loads are difficult to cover with a distinct lack of ballasters and this could drive further increases in Owners expectations for naphtha in general. Short runs are circa $300k now, grade and specifics dependant. Red Sea runs trading at $650k. The front end is incredibly tight, and there remains 15 cargoes on the market, on a Friday. There is pressure on Charterers to fix safely when they can achieve anything close to reasonable levels.

A week of mixed fortunes on both LR sizes. LR2 activity has picked up as expected and the lists are now much shorter. But the hangover of vessels from August has forced rates down on all routes through the week. 75,000mt naphtha AGulf/Japan is now ws 107.5, down ws 5 points and 90,000mt jet AGulf/UKCont is at $2.20 million also down at least $50k. But, with the sustained quoting this week, we expect there to be a bounce into next week and rates to see ws 2.5 points/$50k improvements.

LR1s are the opposite, with a lack of stems all week but starting with a fairly tight list, it now looks likely we will see some small discounts. As much volume that could go on LR2s seem to have done so, and so Owners are starting to worry as tonnage builds slightly. It won’t take much to stop the decline but next week needs to start with more cargoes quoting.

Mediterranean

Rates have consistently traded around the 30 x ws 95-100 mark this week, with the bottom of the market having been found. Although activity has been fairly good, the sheer number of vessels around, means that Owners aren’t able to capitalise on the momentum, which means rates for the time being will hold at these levels. Black Sea rates are trading ws 10 points higher around the 30 x ws 110 mark; however, come Monday, with tonnage replenished over the weekend expect Owners to begin week 36 on the back foot, with rates likely to trade at these levels, unless we see a surge in cargoes on Monday.

Finally to finish up in the Mediterranean, a rather uninspiring week passes for the MRs. With the UKCont offering little improvements, not surprisingly, the Med mirrors this sentiment with 37 x ws 95 being the call for transatlantic. A lack of East moves is a further dent in Owners ambitions, with some Handy cargoes being taken out to keep vessels moving. Pushing forward Owners will be hoping these summer month doldrums will be ending shortly, but for now, we hold on tight and ride the wave.

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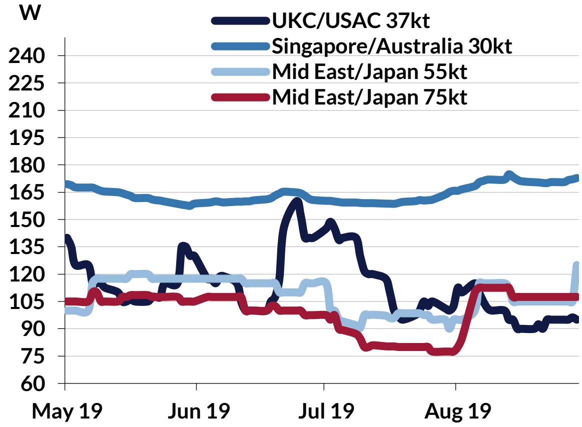
UK Continent

Another very flat week for the MR's in the West, with enough tonnage in supply to absorb the recent levels of enquiry we have been seeing. Rates have held at 37 x ws 95 for the duration of the week for TC2 runs, with WAF bound cargoes paying just ws 10 points above. Right now it is hard to see any real change on the horizon in the short term, although Owners will be hoping that the normal seasonal adjustments we would anticipate for this time of the year will not be too far around the corner.

A rather uninspiring week for Handies plying their trade up in the North as the combination of lacklustre enquiry and a tonnage list plagued with prompt/hidden units has seen rates take another hit this week. By the mid-week stage 30 x ws 105 went on subs for Baltic/UKCont, X-Continent has remained untested. Due to the lack of volumes, next done should land around the 30 x ws 95 mark and UKCont/Med has taken a tumble to 30 x ws 85. We need a drastic influx of cargoes next week if rates are set to improve.

Flexis have had a pretty dismal week, not helped by the negatively of the Handies. There has been the odd market quote to keep some ships moving but generally there are lots of ships for employment on the front end of the list and whilst 22 x ws 127.5 is a rough benchmark for X-UKCont, in practice Owners are likely to be much more willing to shave some rates off to snatch a cargo. Predictably more of the same next week.

Clean Product Tanker Spot Rates



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Dirty Products

Handy

Having recently suffered a correction down to the ws 140 levels, the Continent market received some validation with repetition throughout the week. The good news for Owners is that the activity which followed, has now left availability a great deal thinner on the ground, which could be enough to question todays levels, should activity levels pick up early next week.

In the Mediterranean, conditions have been rather more subdued throughout the week, with the Black Sea dipping back below the ws 130 mark. On one odd occasion though, some cargoes being worked did entice premium but this was done where the tightness of the position dictated rather than the supply/demand dynamics.

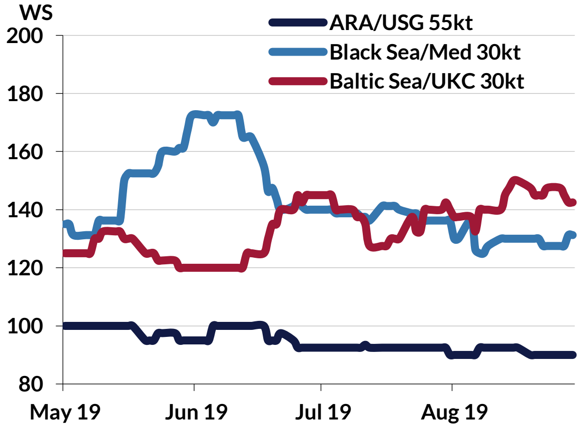
MR

Fresh activity within this sector in general has been very limited this week. Within the NWE region, this can be clearly put down to the little to no natural tonnage being marketed in the region. In turn, this has only given Charterers one option; covering stems within the surrounding markets. The Mediterranean on the other hand, has a steady flow of marketed units on the tonnage lists, but simply has not had the enquiry to give the region a fresh test. As we draw this week to a close, some units are getting close to being spot free of cargo, this leaves early trading next week primed to deliver a fresh rate check, which is unlikely to please Owners.

Panamax

The trend remains unaltered after another weeks trading although for now it any signs of change in either direction remain to be seen. Looking into why we are seeing conditions remain so placid, we continue to point the finger of guilt at the surrounding Aframaxes offering competitive transatlantic numbers and the US Panamax sector lacking any real invigoration.

Dirty Product Tanker Spot Rates



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 29th	Aug 22nd	Last Month	FFA Q3 (Bal)
TD3C	VLCC	AG-China	**-6**	60	66	42	58
TD20	Suezmax	WAF-UKC	**+2**	64	63	77	68
TD7	Aframax	N.Sea-UKC	**+1**	86	85	84	89

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

			wk on wk change	Aug 29th	Aug 22nd	Last Month	FFA Q3 (Bal)
TD3C	VLCC	AG-China	**-8,250**	34,250	42,500	13,000	58
TD20	Suezmax	WAF-UKC	**+500**	14,250	13,750	18,250	68
TD7	Aframax	N.Sea-UKC	**+500**	7,750	7,250	4,000	89

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 29th	Aug 22nd	Last Month	FFA Q3 (Bal)
TC1	LR2	AG-Japan	**-4**	108	113	80	
TC2	MR - west	UKC-USAC	**+1**	95	94	106	112
TC5	LR1	AG-Japan	**+13**	125	112	96	119
TC7	MR - east	Singapore-EC Aus	**+3**	173	170	161	171

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

			wk on wk change	Aug 29th	Aug 22nd	Last Month	FFA Q3 (Bal)
TC1	LR2	AG-Japan	**-2,500**	17,000	19,500	7,250	
TC2	MR - west	UKC-USAC	**+250**	5,000	4,750	5,750	8,000
TC5	LR1	AG-Japan	**+2,000**	15,250	13,250	8,000	14,000
TC7	MR - east	Singapore-EC Aus	**-1,250**	14,250	15,500	12,000	14,000

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

ClearView Bunker Price (Rotterdam HSFO 380)	**+10**	300	290	367
ClearView Bunker Price (Fujairah 380 HSFO)	**+24**	382	358	410
ClearView Bunker Price (Singapore 380 HSFO)	**+60**	431	371	446
ClearView Bunker Price (Rotterdam LSMGO)	**-3**	545	548	562

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