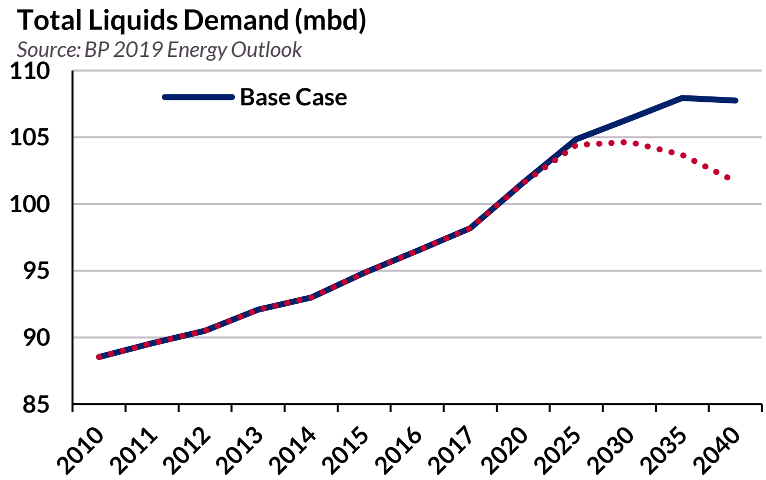
The War on Plastics

Weekly Tanker Market Report

The so called 'War on Plastics' has been steadily gaining traction over the past few years, with major companies such as McDonald's and Carlsberg, to name a few, seeking to reduce the presence of single use plastics in their businesses. Governments are increasingly regulating plastics use, with the UK banning plastic straws from April 2020. Other initiatives will be rolled out in due course. Admittedly, however, the use of plastics is still projected to grow strongly over the coming years, largely driven by the emerging economies, where the desire for economic growth often outweighs environmental concerns. Given that demand for plastics is expected to make up an ever-increasing share of oil demand, understanding the drivers behind this demand will have ever increasing importance for tanker owners going forwards.



The good news for the tanker market is that in the short term, petrochemical demand is growing strongly over the next five years. In fact, according to the IEA, 30% of demand growth between 2018 and 2024 will be driven by demand for plastics and petrochemicals. If more projects are announced in the short term, then the demand growth could be even stronger come 2024.

Beyond the next 5 years however, the forecast for growth is more uncertain. BP stated in its recent 'World Energy Outlook' that the *'single-largest projected source of oil demand growth over the next 20 years is from the noncombusted use of liquid fuels in industry, particularly as a feedstock for petrochemicals, driven by the increasing production of plastics'*, but, the oil major also notes that regulatory developments may threaten this growth. If new regulations are introduced to eradicate the use of single use plastics, then demand growth for petrochemicals could slow drastically. However, even with regulatory threats in the future, companies are stepping up investment in petrochemicals. Indeed, before worrying about slower demand growth for plastics, which may take more than 20 years to materialise, refiners and major industrial players are focusing on the greater threat from a slowdown in gasoline demand, which is likely to be squeezed by the rise of electric vehicles and more efficient engines. In the IEA's most recent World Energy Outlook, under it's 'New Policies Scenario' the Agency predicted that whilst there is increasing regulatory action around the use of single use plastics and higher recycling rates, oil use as a petrochemical feedstock would still grow by 5 million b/d by 2040. Even in the IEA's 'sustainable development scenario', which assumes policy interventions to address climate change, the petrochemicals sector still registers demand growth, whereas demand for transportation fuels and other sectors declines. Industrial players appear to be aligning their long-term strategies to this view. Indeed, Reliance Industries recently announced its ambition to invest in Jamnagar to produce only jet fuel and petrochemicals in order to extract maximum value from every barrel. Saudi Aramco has also sought to expand its petrochemical operations through new projects, joint ventures and most notably, its pending acquisition of SABIC.

In short, the tanker market still has some way to go before it is likely to be impacted by the 'War on Plastics'. However, at some point over the next 20 years demand for gasoline, and perhaps other liquid fuels is expected to slow. With petrochemicals taking a more important role driving future oil demand, shipowners will need to ensure their investment decisions align with the production strategies of the major industrial players.

Crude Oil

Middle East

A testing week for VLCC Owners as Charterers kept to a slow/steady pace and availability re-thickened upon the fixing window. Rates deflated through the week to end up at no better than ws 50 to China for modern units, with rates to the West returning into the mid ws 20's via Cape. Hopes will remain for a busier week to come as the end month game comes into play, but until pinch points develop it may merely serve to prevent further slippage, rather than engender any rebound. Suezmaxes trod water through the week on insipid demand, and easy supply. 130,000mt by ws 70 East, and to ws 27.5 to the West is fairly reflective of the poor market state. Aframaxes jogged along a steady 80,000mt by ws 100 path to Singapore and look set to remain at close to that number over the next phase too.

West Africa

Over-weight Suezmaxes eventually established a bottom to the previously slippery market as Charterers briefly moved through a busier spell of bargain hunting. A very mild clawback then brought rates back to ws 60+ to Europe and to ws 55 to the USGulf, but there was no further push late week, and a lot more work for Owners to do next week in order to make further gain. VLCCs started slowly but as the AGulf eased, and as ballast time considerations came into play, Charterers then picked off a few units at down to 260,000mt by ws 51.5 to the FarEast, with down to $3.2 million last seen to West Coast India. Further moves will be dictated by AGulf fortunes.

Mediterranean

A more positive week for Aframaxes here, but still some way short of what could be termed a 'spike' as availability remains easily adequate upon a rolling basis. 80,000mt at up to ws 97.5 now X-Med and consolidation the watchword for Owners. Suezmaxes saw no excitement and spent the week defending a 140,000mt by ws 65 bottom line from the Black Sea to European destinations and with up to $3.2 million payable to China. Improvement looks unlikely into next week unless West Africa does find extra legs.

Caribbean

At last something for Aframax Owners to shout about! - well, to become a degree happier, at least. A lot busier than of late, with rates responding by a relatively sharp rise to 70,000mt by ws 125 upcoast where they will probably hold for just a little longer before the inevitable reverse chase. VLCCs started slowly, and on the defensive, but from midweek saw improved demand that served to re-establish $5.2 million from the USGulf to Singapore as the default bottom marker. local availability is balanced, and ballasters from the East not fully committed in numbers so rates are likely to continue to hold steady over the next fixing phase too.

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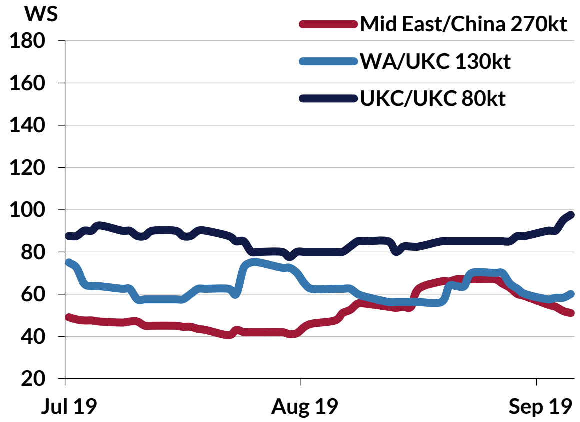
North Sea

Aframaxes had already started to make an upward move late last week and this week steadily enhanced the gain to 80,000mt by ws 100 X-UKCont and to 100,000mt by ws 77.5 from the Baltic. Mopping up operations into the close, and a slight re-build of lists over the weekend will serve to stall further gains but another active week would then add some rate extra rate fat. VLCCs got occasionally picked off, with $5.6 million the last seen for crude oil from Skaw to China and similar levels anticipated for any upcoming opportunities too.

Crude Tanker Spot Rates



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

Clean Products

East

Slightly less activity than that of the last few weeks for the MRs. However, the front end remains very tight and as such, stems of early dates have been able to hold rates. Whereas off the more natural fixing window, rates have seen a slight negative correction as lack of enquiry forced a little competition between Owners. EAF corrected first and closed at 35 x ws 177.5 and TC12 followed suit, sitting at 35 x ws 137.5 levels. Natural UKCont cargoes have again been untested but, with West remaining unpopular for the Owners, they will be wanting $1.4 million levels at least. X-AGulf has held pretty steady and avoided the slight negative softening. Yet, this has been partly due to stems being quoted off earlier dates, where lack of tonnage has been able to support rates. Approaching week 37, Owners will be hoping for a push of cargoes. However, with a number of ships coming into the fixing window an LR1 market easing off, assess these rates will be further negatively tested.

LR2s started this week with a rush of quotes and a quick clearing of tonnage, but by Tuesday the volume had started to dissipate. After small rises, we may well see that lost by next week. Yet, the market should be able to sustain itself at the slightly reduced level. 75,000mt naphtha AGulf/Japan is steady at ws 107.5 and 90,000mt jet AGulf/UKCont is probably now $2.20 million.

LR1s have seen a poor week and rates have struggled to hold. 55,000mt naphtha AGulf/Japan is down to ws 115 and 65,000mt jet AGulf/UKCont is at $1.75 million today. We expect a bigger week though on the LR1s next week, so maybe the falls can stop and level out. Tonnage is very available though, so we need a much better start than what we have seen this week.

Mediterranean

The writing was on the wall on Monday, when the Mediterranean Handy market began with a glut of prompt ships looking for love and rates subdued at 30 x ws 95 for X-Med and ws 110 for Black Sea load. But it seems Charterers decided to take advantage of this, as we saw good levels of X-Med cargoes appear. By Wednesday, a healthier tonnage list was seen, with good foundations laid for a build on rates by Owners. However, the lack of Black Sea enquiry ultimately halted any real progression, as rates here are held at ws 110, with the X-Med rates pulling up to 30 x ws 100-102.5. MRs have also hampered the Handies, with a couple being taken out for 30kt stems. There has been some better enquiry in the back end of the week, but this will need to be sustained for a while longer, if Owners are able to make any substantial gains.

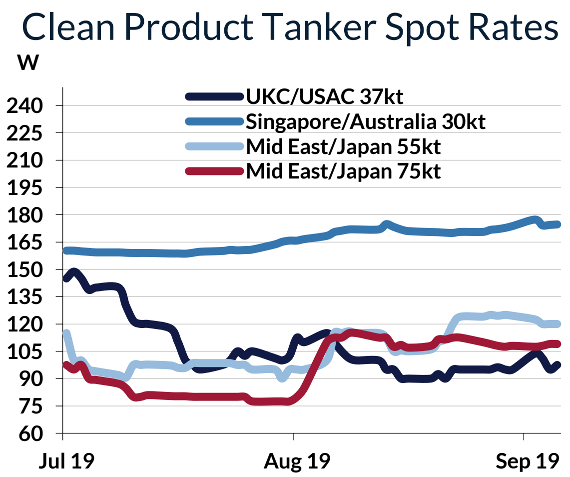
As mentioned, the MRs have struggled to gain much momentum here in the Mediterranean, with 10 prompt ships being shown on Monday and little enquiry to shift them. Owners have had to tackle a couple of X-Med or Med/UKCont runs to keep vessels moving and any natural sized cargoes appearing have been taken out at rates mirroring the UKCont. 37 x ws 95 for transatlantic and ws 105 for WAF delivery have been seen, with a fresh test for AGulf sitting at $555k. Not much opportunity on the horizon here, with Owners digging in deep to hold onto what rates they can.

UK Continent

Another week passes with little or no excitement, or improvement from an Owners' perspective. The abundance of tonnage continues to blight Owners' opportunities to improve rates, with only prompter laycans or replacements offering any sort of premium. TC2 has been stuck at 37 x ws 95 for what seems an eternity now. Until demand increases, it is hard to see any change. We have seen the odd moment or two, when sentiment seemed to show signs of improvement, but they have been very short lived indeed. Both transatlantic and WAF demand remains far too low to pick up the obvious slack in the tonnage list. A few more weeks of the same looks very much on the cards currently.

More doom and gloom has plagued the Handy market this week and the tonnage lists have been relatively lengthy for the duration of the week. Even when tonnage list started to tighten by COB Wednesday/Thursday, enquiry has been so inadequate that rates actually softened, despite the list supposedly going in Owners' favour. TC9 runs slipped ws 2.5 points from Monday, with 30 x ws 102.5now the going rate, although this could see some negative pressure after equivalent of 30 x ws 95 has been done X-UKCont. The Primorsk programme is still reduced this month (around 750k MT total). If tonnage yet again is to build over the weekend, next week looks to be another painful one for the Owners.

Although there hasn't been too much excitement in the Flexi market this week, it does feel as though the market is enjoying a little more activity in general. This has helped to quell the lengthy tonnage list and push boats further out on both dates and geographical location. As a result, rates are in close proximity to pro-rated Handy levels 22 x ws 125-130, depending on the Owner/voyage/dates in question for both X-UKCont and X-Med. The Handies continue to be the limiting factor here and until that sector improves the Flexis will stay as they are.



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

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Dirty Products

Handy

The NWE sector started off with a tonnage list that could only be described as balanced. However, the steady flow of enquiry has not been enough during the week to tip the scales one way or the other. With that said, looking to next week, the building blocks have been put in place for Owners to try and push on. For now the market is firmly sitting at ws 142.5, leaving Monday's tonnage critical as to which way the scales may tip.

On first look the Handy market in the Med has seen a steady flow of enquiry this week. However, pairing that with a list that never seems to shorten, it comes as no surprise that rates have once again been tested. With ws 117.5 for X-Med business and ws 127.5 from the Black Sea this week's low points, Owners are left wondering when the long hot summer of 2019 will be coming to an end. Going into next week there is little sign that change is on the horizon.

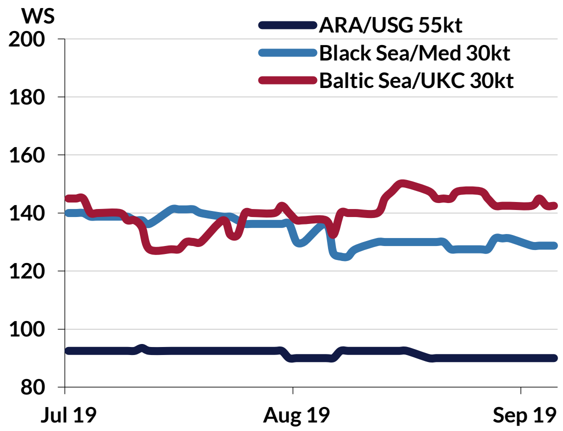
MR

A lengthening tonnage list in the Med has had Owners on the backfoot for the majority of the week. The effects of a slow market have been compounded by a surrounding Handy market, also slow to offer any viable opportunity. As such, rates are being questioned, with benchmarks growing further absent of validity. In the Continent, the week suffers from illiquidity, where both tonnage and requirement lack. However, with the surrounding Handies, looking Firm, we can expect some of this trend to rub off. In other words, levels should actually remain pretty firm and buoyant, despite a noticeable gap in fixing.

Panamax

"There is life out there after all!" - Owners cry out, as this sector has seen an uplift in activity this week. This enquiry has been generated by a number of factors, but from this side of the pond it has been mainly due to the larger Aframax sector starting to tighten. The knock on effect has left the end of this week, with a number of natural units this side of the pond fixed away or at least on subjects. Fresh tonnage lists come Monday will be vital to understand what momentum is left within this sector; however, we are likely to still have units in play. One thing to note is that the US sector remains buoyant as well, with Owners pushing levels now trading tight at ws 132.5 level.

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	Sep 5th	Aug 29th	Last Month	FFA Q3 (Bal)
TD3C	VLCC	AG-China	**-8**	52	60	44	54
TD20	Suezmax	WAF-UKC	**-5**	60	64	67	68
TD7	Aframax	N.Sea-UKC	**+10**	96	86	82	91

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

			wk on wk change	Sep 5th	Aug 29th	Last Month	FFA Q3 (Bal)
TD3C	VLCC	AG-China	**-7,500**	26,750	34,250	13,750	54
TD20	Suezmax	WAF-UKC	**-2,000**	12,250	14,250	12,750	68
TD7	Aframax	N.Sea-UKC	**+7,000**	14,750	7,750	4,500	91

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Sep 5th	Aug 29th	Last Month	FFA Q3 (Bal)
TC1	LR2	AG-Japan	**-1**	108	108	79	
TC2	MR - west	UKC-USAC	**+3**	98	95	111	110
TC5	LR1	AG-Japan	**-8**	117	125	95	112
TC7	MR - east	Singapore-EC Aus	**+2**	175	173	166	171

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

			wk on wk change	Sep 5th	Aug 29th	Last Month	FFA Q3 (Bal)
TC1	LR2	AG-Japan	**+750**	17,750	17,000	6,000	
TC2	MR - west	UKC-USAC	**+500**	5,500	5,000	6,500	8,000
TC5	LR1	AG-Japan	**-1,000**	14,250	15,250	7,000	13,250
TC7	MR - east	Singapore-EC Aus	**+1,000**	15,250	14,250	12,500	14,500

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

ClearView Bunker Price (Rotterdam HSFO 380)	**-9**	291	300	375
ClearView Bunker Price (Fujairah 380 HSFO)	**-23**	359	382	434
ClearView Bunker Price (Singapore 380 HSFO)	**-22**	409	431	461
ClearView Bunker Price (Rotterdam LSMGO)	**+7**	552	545	561

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