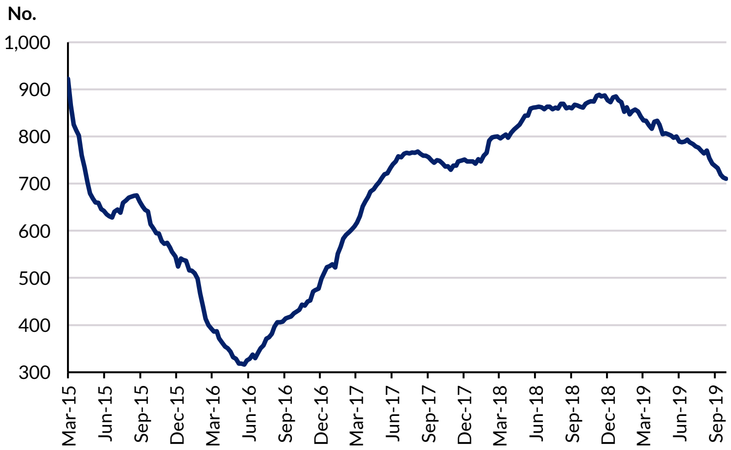
The Flood out of the US

Weekly Tanker Market Report

Without a doubt, the key driver of the growth in crude tanker demand this year has been US crude exports. Aframaxes have been by far the biggest beneficiaries of rising exports, both in terms of STS demand and actual trading. Volumes traded on Aframaxes averaged around 1.15 million b/d in Q3, up by 0.45 million b/d from Q1 levels, according to ClipperData. The biggest gains were seen in trade to Europe, although higher volumes have also been shipped to Canada. Surprisingly, there also has been an increase in trade to the Caribbean, an unintended consequence of US sanctions placed on Venezuela. Suezmaxes have seen much smaller gains. Here, exports averaged around 550,000 b/d between July and September, up by just 50,000 b/d compared to the 1st three months of this year. The picture is different for VLCCs. US crude exports on very large crude carriers peaked during the 1st quarter of this year, at around 1.15 million b/d, but shipments eased back afterwards, averaging just 0.95 million b/d during Q3, the lowest level since late 2018. This decline is largely due to the near disappearance of China from the US crude export market. However, despite the US trend, VLCCs are benefitting from more long-haul trade out of Latin America (and plenty of other factors right now!)

Going forward, large scale pipeline capacity additions from the Permian Basin to the US Gulf suggest further growth in crude exports. As reported previously, commercial operations have already began on the 670,000 b/d Cactus II and the 400,000 b/d EPIC pipeline. Testing is also underway on the new 900,000 b/d Grey Oak pipeline, with commercial deliveries expected to begin in the 4th quarter of the year. As such, we are likely to see further growth in exports in Q4 2019 and throughout 2020. Longer term, more pipelines are planned. Jupiter reportedly secured financing for a proposed 1 million b/d pipeline to the Port of Brownsville. ExxonMobil together with Plains All American announced a construction of another 1 million b/d pipeline to the Texas Gulf Coast. Enterprise also reported plans for a further expansion of the Midland to ECHO pipeline system, with initial capacity of 450,000 b/d. All projects are expected to start operations in the 1st half of 2021. As VLCC port infrastructure lags behind pipeline developments, until we see new terminals capable of loading a full VLCC cargo, it will be smaller crude tonnage that will benefit the most from rising crude exports.

US Rig Count (Oil)



However, for these expectations to materialise, we need to see continued growth in US crude output. The latest EIA figures suggest domestic production could increase by over 0.85 million b/d in Q4 from the average level so far this year. In 2020, US crude output is anticipated to rise by another 0.9 million b/d. Yet, there are clouds gathering over the longer-term horizon. Oil prices have generally remained under pressure this year, while performance of small/medium sized shale producers has been disappointing. The number of active oil rigs in the US has been in steady decline since late 2018, falling in early October to its lowest level since May 2017. Perhaps these factors are behind the EIA's surprising downward revision of US oil production, with the agency expecting domestic oil supply to decline by 0.4 million b/d year-on-year in 2021 in its latest international energy outlook. However, despite these concerns the prevailing view is still for a further growth beyond 2020. In recent years, there have been significant increases in rig productivity on the back of technological advancements. For example, instead of using several separate drilling rigs to exploit reserves, frackers are using one drilling rig to drill multiple wells from the same location. It remains to be seen what forecast proves to be correct. However, the importance of continued growth in US crude exports cannot be overstated. It is indeed something that we as an industry need to keep a keen eye on.

Crude Oil

Middle East

Superlatives being sought to describe the VLCC scene - Charterers chased hard through the week, and onto November positions that still await stem confirmations from suppliers. Owners responded by asking for ever higher numbers and to lead rates to peaks of ws 325 East and to around ws 170 to the West. Such numbers haven't been seen since before the financial crash and many players are struggling to strategize given the suddenness of the spike. 'back then' oil prices were in excess of $100 per barrel, but now we are around $60 per barrel, and the cost of freight is at up to 20 percent of the value. Is this sustainable for any length of time? maybe, but it will necessarily eventually lead to doubts being cast upon the viability of sourcing grades from the USGulf/Mex/Caribs in particular, and the whole complex will move through a period of reassessment. Some degree of 'profit taking' may now be seen but in the short term, Owners will still benefit from rates that will maintain extremely fat returns. Suezmaxes had been lagging, but are now leading the charge in their own right in all load zones and that optionality has allowed Owners here to ride rates to 130,000mt by ws 260 to the East and to ws 115+ to the West. Aframaxes were also in firming mood to take the market to 80,000mt by ws 200 to Singapore, with no early retreat in sight, despite only modest local activity - sentiment will remain boosted by the larger sizes though.

West Africa

Competition for the same candidates for Med/Black Sea loadings boosted both areas once Charterers took any remaining brakes off their negotiating strategy. Rates have rocketed to 130,000mt by ws 260 to Europe and ws 250 to the USGulf and could move even higher before momentum evaporates. VLCCs started slowly but once the AGulf popped, Charterers had little choice but to re-enter...and then paid the equivalent price. 260,000mt by ws 240 to China has now been paid but perhaps that may now prove a high water mark as the attraction of locking in at TCEs of over $200,000 per day for nearly 3 months trading begin to work upon owners' psyche.

Mediterranean

Aframaxes dipped but then restored their marks in the second half of the week to re-establish an average 80,000mt by ws 210 X-Med - ws 220 ex Black Sea - and look set to consolidate, at least, over the next fixing phase too. Suezmaxes, as above, played tag, with West African needs and thereby drove the market to new highs of 140,000mt by ws 250 from the Black Sea to European destinations, and to $9 million for runs to China - no early let-up likely as it seems.

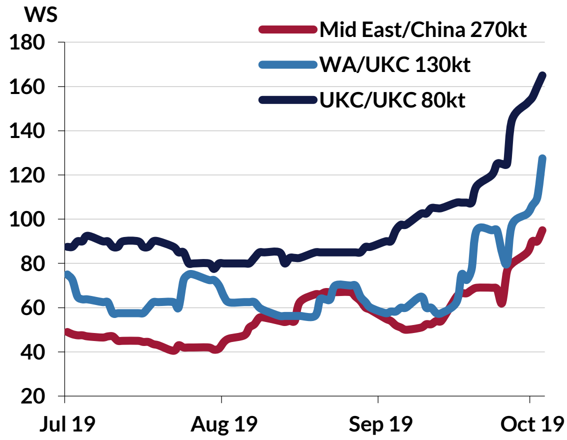
US Gulf / Latin America

Aframaxes here had lagged behind but this week played catch-up and pushed rates to in excess of 70,000mt by ws 200 for both upcoast and transatlantic options. Things should remain 'upward' into the close too. VLCCs - already spikey - moved into stratospheric rate territory as potential ballasters from the East put the handbrake on unless well compensated, and levels from the USGulf to China shot up to as high as $20 million, though there were signs that such high freights were negatively impacting willingness to source barrels from the region to seek slightly cheaper Middle Eastern supply.

North Sea

A muted start for Aframaxes but bullishness returned later week and rates inflated towards 80,000mt by ws 195 X-UKCont, and to 100,000mt by ws 165 from the Baltic too. Availability isn't yet tight enough to call for much more but if activity picks up next week, then so will rates. VLCCs saw very little firm enquiry but if called upon Owners would be seeking in excess of $15 million for any crude runs to South Korea/China and will remain very strong whilst the USGulf and West African markets motor.

Crude Tanker Spot Rates



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

Clean Products

East

A very active week for the MRs, where the sentiment has certainly followed on the coat tails of the larger ships. Rates have seen a positive rise, albeit not as strong as the larger ships; however, as the list continues to clear out, Owners have been starting to push harder. Short haul cargoes have been the preferred options as Owners try and maxims time as the long-haul rates see a rise. X-AGulf was certainly offering the most competitive deal at the start of the week, however, with the tightening list the rates also firmed up and close the week at $235k. TC12 got a fresh test and a strong correction up to 35 x ws 160. EAF needs to be tested but, with offers in at 35 x ws 175, assess it will settle at ws 165. UKCont is yet to set a straight test but should sit at the $1.4 million mark. Owners will go into the weekend feeling positive and hoping to keep the pressure on come next week.

Mediterranean

Finally the Owners have managed to capitalise this week on good levels of enquiry and a tight list. A positive trajectory has been seen throughout the week and we have seen a ws 35 point jump in X-Med rates from Monday to Friday. Cargoes have been consistently seen ex Greece which has kept Owners ideas bullish and, with good levels of Black Sea enquiry to match this has kept tonnage tight. At the time of writing, 30 x ws 155 is on subs for a cargo ex Skikda which has led to a 30 x ws 165 on subs but given the number of cargoes ex E-Med/Black Sea outstanding, there is certainly potential for north of last done before the end of play. Next week will see Owners start on the front foot, with their ideas likely to remain high.

In general a quiet week for the MRs in the Mediterranean but, with surrounding market pushing, Owners managed to jump on the bandwagon and enjoy some positivity. The limited activity we did see, saw a States run at 37 x ws 137.5 before this quickly subsided and at the close of play settling around ws 125. The one East run we did see was concluded at $700k for Red Sea discharge at the end of the week, and moving forward Owners will be hoping the busier Handy market could well provide additional fixing opportunities, with markets across Europe jumping around, expect once again an unsettled week ahead.

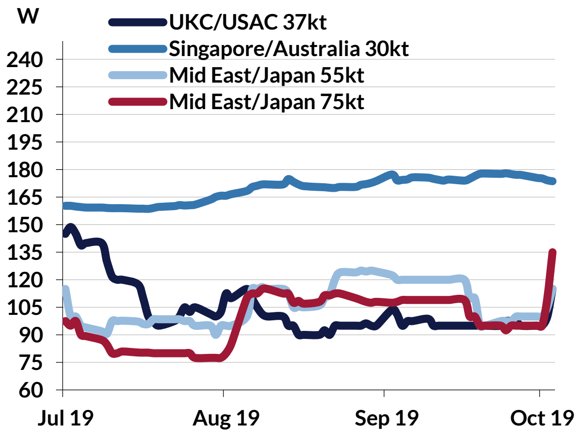
UK Continent

The most volatile week we have seen for quite some time draws to a close, with Owners attempting to arrest the slide in rates we saw yesterday. We started down low at the 37 x ws 120 mark on Monday but, with a good number of cargoes and optimistic Owners, despite the length of prompt tonnage, we saw something rare and market fundamentals were thrown out the window and positivity on rates appeared. By the midpoint we reached ws 137.5 but, with this enquiry slowed, some WAF stems taken out on the LRs and tonnage still in ample supply. A knock to rates occurred pulling down to ws 130 closely followed by ws 125. Thankfully for Owners, this brought fresh enquiry and hope of stabilisation. The list, as has been the case for some time now, remains well supplied and yet despite that, Owners will fancy at the start of next week a renewed belief and sentiment in this market could move again. The US Gulf has had a positive week and that should certainly reduce the number of ballasters coming back. Coupled with this the Handy market has also offered some opportunity for the MR's to find employment. If you then look at the wider picture, with so many other segments literally going ballistic, this market has to surely join the party at some stage.

All in all a much better week has passed for Handy Owners in the North. Strong Baltic demand was seen at the start of the week, with dates being quoted as far out as the 23rd as Charterers looked to cover their exposure before the market potentially moved. With cargoes being quoted Owners were able to push the market with each fixture, with some reports that 30 x ws 165 was even paid at the back end of the week for Baltic / UKCont. ULSD being traded X-Continent also saw an influx of cargoes and many would actually argue was the busier of the two markets and main driving force behind rates improving. A few distressed cargoes and replacements definitely added some spice into the market but at the close of business today rates have settled at 30 x ws 145 for X-UKCont (which have been capped by the MRs) and 30 x ws 155-160 for Baltic / UKCont.

It has been the same old story on the Flexi size, with very little natural 22kt stems being quoted. Owners have been keeping a firm eye on the improving Handy market and have been positively adjusting their fixing ideas with each day that passed us by. Flexi Owners haven't been able to capitalize just yet from the improvements on the 30kt stems and even if their chance does come, Charterers will be greeted with a healthy amount of prompt willing Owners with seeming a fair benchmark for 22 x ws 187.5-190.

Clean Product Tanker Spot Rates



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Dirty Products

Handy

In the North this week well approved tonnage has been in limited supply against a backdrop of strong demand from Charterers, with cargoes trickling down from larger ship sectors. A number of Panamax cargoes disappeared from the market to be replaced with both MR UKCont/WAF fixtures and Handy UKCont - LPA/WAF fixtures. This has been good news for Owners and going into next week there will be a continued theme of low tonnage availability, well approved or otherwise, which will see Owners push on rates if demand for tonnage continues from the market.

The Med this week has seen consistent and sustained enquiry matched by Owners with a steady supply of ships. Significant flow of oil from the Continent to West Africa has brought up rates in the North and attracted much enquiry for Med tonnage willing to ballast North. A strong number of Black Sea to Med cargoes has drawn on the Mediterranean tonnage list, leaving well approved tonnage more limited going into the beginning of next week. As a result sentiment has flattened, with Owners obliging the Med market to follow rates in the North and the wider shipping market as a whole..

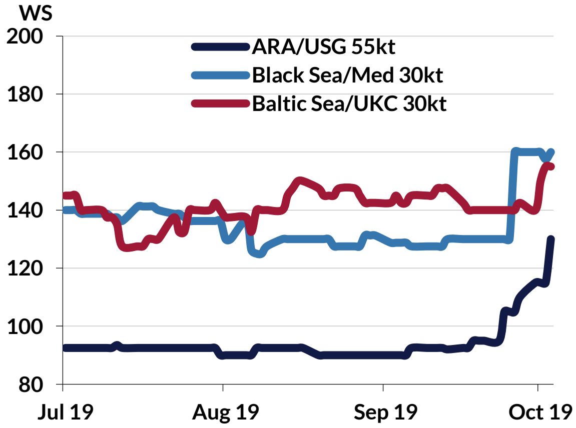
MR

With surrounding markets continuing to strengthen in the North it was only a matter of time before the MRs picked up the pace too. This week has firmly cemented true benchmarks in both the North and Med markets. With tonnage limited in the North full size enquiry has been slow to show of late and this week has seen some fixing and failing for longer haul voyages. Going in to next week, tonnage is showing but in limited numbers. In the Med, this sector has seen a similar scramble for tonnage, with fresh full size enquiry continuing to keep tonnage moving both from the Black Sea and from Med ports. Some units have failed but the cargo flow has been such that back up cargoes have been on offer for both MR and Handy stems. Going in to next week, the region is tight on the natural window so looking toward end month is the best bet.

Panamax

It was inevitable that last week's firm momentum within this sector was going to roll into this week like a rollercoaster at full speed, as the limited tonnage from both sides of the pond continue to develop more volatile trading. This has resulted in Owners offering levels far above those we have seen so far this year. Adding fuel to the fire, larger sectors failed to offer any release as all other sectors continue to firm up accordingly, in an effort to price themselves, as a viable alternative. When all this is said and done, this sentiment is going through to next week faster than the England rugby team to the RWC quarter finals. So, expect Owners with firm units in play to continue to hold fast in expectation that they can secure strong additional gains.

Dirty Product Tanker Spot Rates



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 10th	Oct 3rd	Last Month	FFA Q4
TD3C	VLCC	AG-China	**+80**	175	95	54	150
TD20	Suezmax	WAF-UKC	**+116**	243	126	59	225
TD7	Aframax	N.Sea-UKC	**+26**	196	170	106	146

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

			wk on wk change	Oct 10th	Oct 3rd	Last Month	FFA Q4
TD3C	VLCC	AG-China	**+89,750**	163,750	74,000	28,250	150
TD20	Suezmax	WAF-UKC	**+61,750**	109,250	47,500	11,500	225
TD7	Aframax	N.Sea-UKC	**+18,750**	87,000	68,250	22,000	146

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 10th	Oct 3rd	Last Month	FFA Q4
TC1	LR2	AG-Japan	**+19**	148	130	102	
TC2	MR - west	UKC-USAC	**+14**	126	111	96	173
TC5	LR1	AG-Japan	**+20**	131	111	112	166
TC7	MR - east	Singapore-EC Aus	**-0**	173	174	174	188

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

			wk on wk change	Oct 10th	Oct 3rd	Last Month	FFA Q4
TC1	LR2	AG-Japan	**+8,000**	32,500	24,500	15,750	
TC2	MR - west	UKC-USAC	**+2,500**	10,500	8,000	4,750	20,000
TC5	LR1	AG-Japan	**+6,500**	19,250	12,750	12,750	28,000
TC7	MR - east	Singapore-EC Aus	**+1,000**	16,500	15,500	14,000	19,750

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

ClearView Bunker Price (Rotterdam HSFO 380)	**+8**	309	301	298
ClearView Bunker Price (Fujairah 380 HSFO)	**-60**	304	364	371
ClearView Bunker Price (Singapore 380 HSFO)	**-40**	347	387	449
ClearView Bunker Price (Rotterdam LSMGO)	**+12**	557	545	552

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