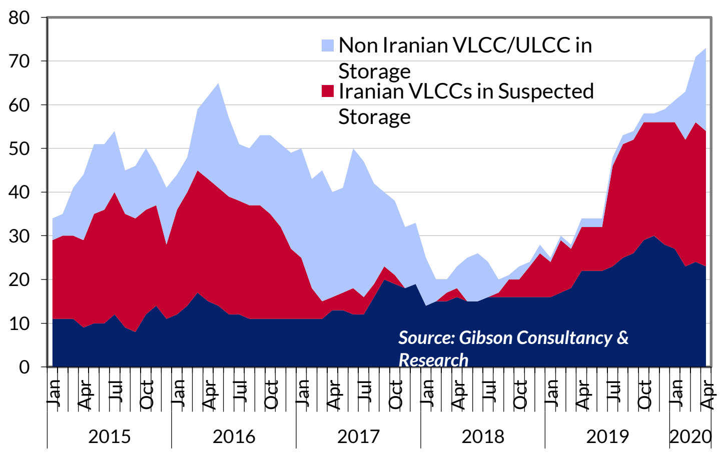
# It Takes Two to ConTango

## Weekly Tanker Market Report

In recent weeks reports about floating storage have featured in the international press. In the 2nd half of April Reuters reported that oil held in tanker floating storage reached at least 160 million barrels, including 60 VLCCs, up massively from levels witnessed just a couple of months ago. There is nothing new about floating storage, which we classify as vessels laden and stationary for at least a four week period. Back in 2015/16 up to 50 VLCCs were involved in crude floating storage, in part due to a contango play and partly due to Iranian sanctions. A storage flotilla was even more impressive in the 2nd half of 2009/early 2010, with tankers being used to store both crude and products. Back then, the number of vessels tied up in storage (from VLCCs down to LR1/Panamaxes) peaked at 131 units, with VLCC numbers being as high as 56 vessels at one point.

Conditions for floating storage are favourable once again due to a massive imbalance between oil supply and demand. Currently, Gibson counts just over 70 laden VLCCs that have been stationary for at least four weeks. 20 of these tankers have international crude on board, 31 are Iranian (NITC) tankers, whilst the remaining VLCCs are involved in products storage, mainly dirty petroleum products around the Singapore area. In addition to these numbers, we also count 15 converted VLCCs (now FSOs) in permanent crude and products storage located around Indonesia and Malaysia. The number of VLCCs in international crude storage, which was almost non-existent at the end of last year, increased notably in March and April. In contrast, the number of tankers involved in Iranian floating storage and products floating storage has barely changed in recent months.

Number of Non-Trading VLCCs




** Includes VLCCs in products storage off*

What is interesting to note though is an increase in a number of laden VLCCs being stationary between 1 and 4 weeks. AIS data shows that at present, around 20 VLCCs fall into this category, double the level seen in early April. Many of these tankers represent unexpected discharge delays due to quarantine measures; however, at least some could be forced to store for an extended period due to logistical bottlenecks, such as ullage issues.

Apart from forced storage, there remains a potential for a contango play. This view is supported by significant increases in time charter activity, most notably when the contango widened significantly in March and April. Over the past two months around 80 VLCC time charter fixtures were reported, compared to just 13 over the corresponding period last year. A 3 month spread in Brent futures peaked on 21 April at around $9.75/bbl, supporting 3 month storage at $204,000/day on a VLCC before any profit margin for the trader is accounted for. Now the contango structure has softened substantially, as evidence started to build that May loading program out of the Middle East and Russia will be notably lower, whilst news about easing quarantine restrictions also offered some support to oil prices. At the time of writing, the 3 months spread stood at $2.23/bbl, supporting 3 month VLCC storage at $38,000/day. Although the contango is much weaker, so are VLCC spot rates. TD3C closed today at around WS58 for a modern vessel, equivalent to $54,000/day, but a lower rate could be achieved on a less competitive tanker, making a contango play potentially viable.

However, crude futures are volatile and the pricing structure could change dramatically in the weeks ahead. When it comes to floating storage, the picture will continue to evolve. It remains to be seen how many tankers fixed for time charter business recently will actually be tied up in storage for an extended period of time. Similarly, with the spot market being at much lower levels, new opportunities to lock into a contango play could also emerge. Watch this space.

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# Crude Oil

## Middle East

After last week's heavy damage, VLCC Owners had to endure another week on the back foot as Charterers steadily ground rates further downwards into the mid ws 50’s East and to around ws 30 West via Cape. The fall did, at least, provoke a busier phase, but it was of the bargain hunting variety and the best that can be said is that the market has now probably hit a natural bottom. Suezmaxes found similarly testing conditions and Owners increasingly turned their attentions to any opportunities to the West as Eastern returns fell away. Rates now stand in the low ws 80's East and at down to ws 50 to the West, with no early clawback likely. Aframaxes held at their starting rates through the week - 80,000mt by ws 150/155 to Singapore - but became busy, and balanced, enough to provide optimism for a slightly firmer scene to come…though that will likely be a story for next week now.

## West Africa

Suezmaxes continued to steadily soften through the week but eventually the overhang of prompter units began to clear and there is now a platform, at least, for more determined defence...whether that can convert into any sort of a rebound remains to be seen...and whether Charterers decide to chase forward. Rates have levelled off at down to ws 90 to Europe, ws 87.5 to the USGulf, and to around ws 95 to the Far East. VLCCs started very slowly but a little more interest developed as the AGulf busied, although the resultant rates merely replicated AGulf/East lows with ws 55 seen to the Far East and no significant change likely until/unless the Middle East does make a move.

## Mediterranean

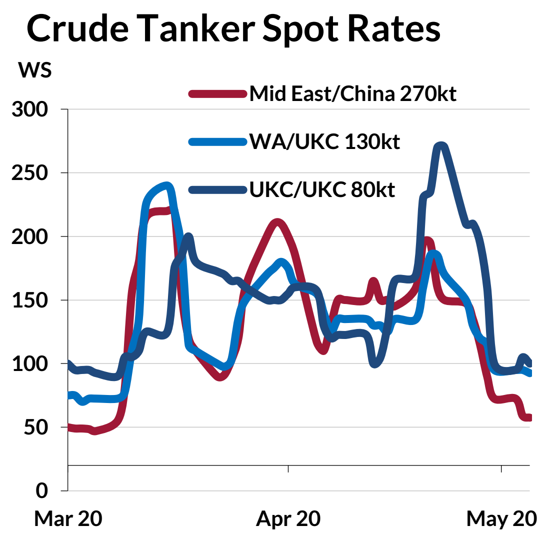
Aframaxes here also continued upon the downward path initiated last week, but then began to re-balance upon early dates to hold up at 80,000mt by ws 125+ X-Med, and ws 135 from the Black Sea, and there are hopes of a pushback of sorts into next week. All a bit tentative though. Suezmaxes dipped a little lower and then drifted sideways upon modest demand and easy enough supply. Rates are now shored up at 140,000mt by ws 85 from the Black Sea to European destinations, with down to $4.6 million available for runs to China.

## US Gulf/Latin America

Aframaxes quickly lost a chunk of rate fat to bring the market down some ws 80 points to 70,000mt by ws 120 upcoast and to ws 110 transatlantic and Owners need to see a lot more 'local' activity at least in order to regain any serious grip. VLCCs were expected to come sharply off as the wave of USGulf dischargers with their very different economics to ballasters, impacted upon the new fixing window and rates duly fell away to $7.5 million from the USGulf to South Korea/China and could yet discount further.

## North Sea

No relief for ever pressured Aframaxes ...slow trading, and more than adequate supply, leaves the market floundering at 80,000mt by ws 97.5 X-UKCont, and 100,000mt by ws 85 from the Baltic. The U.K. Bank Holiday will add another dead weight to any hopes of an early rebound. VLCCs saw little and had to match lower USGulf/Caribs marks on the rare occasion that they were called upon to perform. $6.75 million for crude oil to South Korea/China seems to be a realistic number for now.




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

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# Clean Products

## East

An interesting week on the MRs. It started with a fair bit of activity, both on and off market. Fresh enquiry kept the natural window well entertained, but if you looked closely at the list you would see a huge array in terms of ownership, which is always going to hold this segment back from rate firming. Monday and Tuesday saw last done levels traded on TC12 (ws 375), those who paid ws 400 simply weren't doing their job properly, the most popular product traded, but a feeling of impending softening took grip as the week progressed, driven by an overperforming LR2 segment, and the LR1s failing to hang on to last done naphtha levels. East Africa has now fallen off to ws 385, and TC12 to ws 365, but there is more fat in these numbers. You will see a fair number of ships both off the earlier window and into the natural one, who will soften last done levels. Westbound levels have to soften towards $3 million next week, encouraged in part by LR2s now subs at $7.5 million ex AGulf and heading towards the end/early trading window with a more healthy supply of tonnage for charterers to consider. Correction is most definitely happening as we look at this segment, but it isn't the drop off most have been telling tales of the past months - that, we suspect, is yet to come...

LRs have seen a mixed week after a record breaking few weeks. LR1s have remained steady and rates have bounced slightly after an early week dip. 55,000mt naphtha AGulf/Japan is now ws 425 and 65,000mt jet AGulf/UKCont remains at $5.3 million although Owners are trying to push up from there. LR2s have seen a very quiet period and after a week of literally no stems, this week saw a handful finally come in. Stems are still being split to MRs due to the freight differential and LR2 rates accordingly are likely to reset slightly. 75,000mt Naphtha AGulf/Japan is now ws 450 and could drop nearer ws 400 soon. 90,000mt jet AGulf/UKCont is now $7.5 million and again nearer $7.0 million is likely next. Overall with demand now really struggling, the LRs are quieter but lists remain short and with storage continuing things are a long way from any normal traded market.

## Mediterranean

These unprecedented times have brought yet another bizarre week to the Med market, with rates falling just as quick as they rose 2 weeks ago. Monday brought almost 20 prompt ships and, with a lack of enquiry throughout the week, negative corrections were seen time and time again. At the time of writing, most are freighting the X-Med Handy market below the ws 200 mark a whole ws 250 points less than at the end of last week. Owners arguments now is that the floor has been reached but, with prompt ships still in abundance and Black Sea enquiry almost non-existent, this market is going to continue negatively correcting. Next week will begin with Owners on the back foot and until storage capacity is full again in the Med and vessels start to become uncertain again, rates will remain soft.

Finally, to the MRs where it seems the weaker market has opened up trading opportunities for many as we saw a number of runs East appearing early in the week once again. The magic number seems to be at $2 million for Japan moves with 3-4 ships being clipped out at this level and, with the Handy market no longer attractive as that fell in value, gave Owners something to hold onto. Moving ahead Owners will feel relatively content we have reached some form of floor in the market, but this long weekend partnered with little outstanding could prove troublesome come Monday morning.

## UK Continent

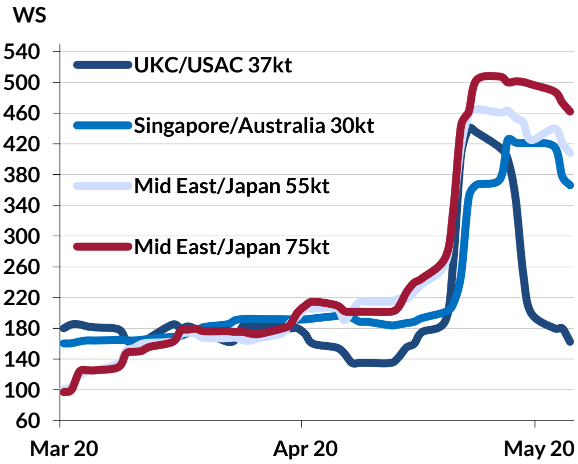
In terms of spot activity, this week has been busier than the past two by quite some distance, especially on the bread and butter TC2 and WAF runs. However, rates have been on the retreat for much of the week once more up until the back end of what is another short week. TC2 has rebounded slightly to end the week at 37 x ws 170, with WAF somewhere in the region of 37 x ws 190. We need next week to be similarly active again as arb movements East and storage contango are struggling to make sense now. These will be a big loss to an already healthy position list so any quiet days are likely to bring concerns for Owners.

This time last week we were seeing the dizzy heights off 30 x ws 300+ being offered and fixed for Baltic and Continent cargoes but a lot can change in a week as those higher levels will feel like a distant memory for the owning fraternity now.

With each fixture that passed rates were negatively corrected and by the end of the shortened week, levels for Baltic / UKCont now trade at 30 x ws 150 and 30 x ws 140 for X-UKCont respectively. Currently it does feel that the bottom of the market has been reached but, with the bank holiday weekend on the horizon and tonnage now expected to build up over the 3 day period Charterers ideas could look very different come Monday.

It's been an all-round quiet week in this Flexi market, with slow levels of enquiry and little to report in the way of fixtures. The UKCont Handy market has come under heaps of pressure this week with rates plummeting throughout and as a result the Flexi market has been dragged down with it. With rates tracking the Handies, as mentioned, today's call for a X-UKCont voyage sits at around the 22 x ws 180-185 mark.

### Clean Product Tanker Spot Rates




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

# Dirty Products

## Handy

This week the North West Europe DPP market has simply been inactive as fresh enquiry has in general been limited across the board.  When enquiry did surface, it was inevitable to see a negative correction in fixing levels, as we report a ws 40 point drop in rates, with one swipe of the sword for a Baltic stem. However even with this correction, additional fresh enquiry has been limited - the short week hasn't helped cargo flows either! As a conclusion, Owner's have held onto respectable levels so far but sentiment remains weak as we expect more prompt tonnage to be shown come Monday.

The writing has been on the wall for Owners in the Med, as Mid April's excitement on clean turned to early May's disappointment in both markets. Monday started with a tonnage list well stocked with prompt candidates and units in the East Med showing as targets for the first cargoes to appear from the Black Sea. The story didn't quite pan out as expected in the first two days as levels surprised most by clinging on to the 300's and a mix of fixing and failing kept the market guessing where the levels should be. Find a well-placed, well approved unit and do not expect to be seeing far off last done. Fast forward 48 hours and we all sit with sweaty palms waiting to see where the new benchmarks will be set as a market cargo counts their number of offers on both hands. With an extra day to the weekend for most, prompt tonnage is set to get in the way of Owner's ability to claw anything back in week 20.

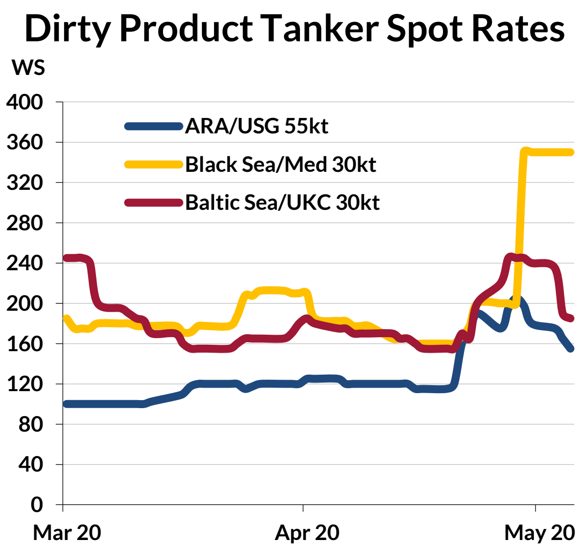
## MR

The picture is unchanged in the North in terms of activity but the same cannot be said for rates as surrounding markets have come crashing down around the lack of enquiry for MRs. Prompt tonnage in the North remains and the latest we hear from Handies is 30 x ws 170, showing the fragility in the market.

Activity in Med this week was always going to be pressured for Owners due to natural tonnage building in the region and early in the week an MR was lured to take a Handy stem as we saw the equivalent level of 45 x ws 200 done, down ws 30ppts on the fix prior. Cooler heads were shown for full stems with 45x207.5 getting repeated on the same cargo after fixing and failing. We have however seen MR's track the pro-rated Handy rates in recent weeks and today's latest tender activity on the Handies has seen a sheer collapse in rates, with 30 x ws 260 reported or equivalent to 45 x ws 175. A long weekend ahead with the May bank holiday for some, tonnage is likely to build into Monday and it will be difficult for MR Owners to hold levels at these last done rates early next week.

## Panamax

Availability of tonnage has stemmed the flow of activity for the most part in this sector as surrounding markets also continue to offer better value. In the North, it has taken until the last day of trading to see where the market lies, with ws 132.5 reported and ws 125 rumoured to be where the week closes. Going forwards, the list remains a challenge for those with cargoes coming up and unless an Aframaxes can be considered then Charterers are faced with the reality of June dates having to come into play.




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

## Dirty Tanker Spot Market Developments - Spot Worldscale

| | | | wk on wk change | May 6th | Apr 30th | Last Month* | FFA Current Q |
|---|---|---|---|---|---|---|---|
| **TD3C** | VLCC | AG-China | **-41** | 58 | 98 | 122 | 51 |
| **TD20** | Suezmax | WAF-UKC | **-28** | 89 | 118 | 125 | 71 |
| **TD7** | Aframax | N.Sea-UKC | **-53** | 103 | 156 | 128 | 113 |

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

| | | | wk on wk change | May 6th | Apr 30th | Last Month* | FFA Current Q |
|---|---|---|---|---|---|---|---|
| **TD3C** | VLCC | AG-China | **-52,000** | 54,000 | 106,000 | 135,500 | 45,250 |
| **TD20** | Suezmax | WAF-UKC | **-18,500** | 45,000 | 63,500 | 65,500 | 33,250 |
| **TD7** | Aframax | N.Sea-UKC | **-37,750** | 27,500 | 65,250 | 44,000 | 33,500 |

## Clean Tanker Spot Market Developments - Spot Worldscale

| | | | wk on wk change | May 6th | Apr 30th | Last Month* | FFA Current Q |
|---|---|---|---|---|---|---|---|
| **TC1** | LR2 | AG-Japan | **-39** | 462 | 501 | 201 | |
| **TC2** | MR - west | UKC-USAC | **-109** | 164 | 273 | 138 | 168 |
| **TC5** | LR1 | AG-Japan | **-39** | 408 | 447 | 205 | 244 |
| **TC7** | MR - east | Singapore-EC Aus | **-55** | 366 | 421 | 194 | 221 |

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

| | | | wk on wk change | May 6th | Apr 30th | Last Month* | FFA Current Q |
|---|---|---|---|---|---|---|---|
| **TC1** | LR2 | AG-Japan | **-14,500** | 159,500 | 174,000 | 62,750 | |
| **TC2** | MR - west | UKC-USAC | **-22,250** | 25,250 | 47,500 | 19,250 | 25,750 |
| **TC5** | LR1 | AG-Japan | **-10,750** | 101,500 | 112,250 | 45,500 | 56,750 |
| **TC7** | MR - east | Singapore-EC Aus | **-10,250** | 59,000 | 69,250 | 26,750 | 32,000 |

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

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|---|---|---|---|---|
| ClearView Bunker Price (Rotterdam VLSFO) | **+17** | 201 | 184 | 231 |
| ClearView Bunker Price (Fujairah VLSFO) | **+27** | 233 | 206 | 261 |
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| ClearView Bunker Price (Rotterdam LSMGO) | **+10** | 231 | 221 | 291 |

www.gibsons.co.uk

**London**
Audrey House
16-20 Ely Place
London EC1N 6SN

**T** +44 (0) 20 7667 1247
**F** +44 (0) 20 7430 1253
**E** research@eagibson.co.uk

**Hong Kong**
Room 1404, 14/f,
Allied Kajima Building
No. 138 Gloucester Road
Wan Chai, Hong Kong

**T** (852) 2511 8919
**F** (852) 2511 8910

**Singapore**
8 Eu Tong Sen Street
12-89 The Central
Singapore 059818

**T** (65) 6590 0220
**F** (65) 6222 2705

**Houston**
770 South Post Oak Lane
Suite 610, Houston
TX77056 United States