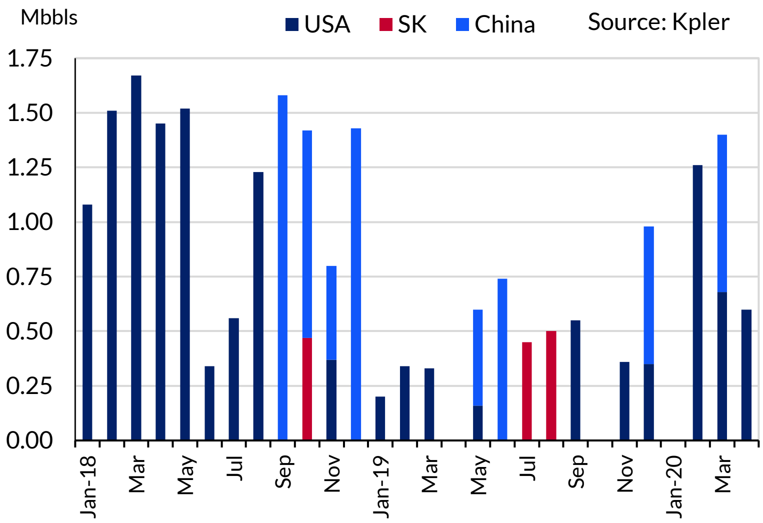
# Canadian Pipeline Dream

## Weekly Tanker Market Report

Canada has the third largest oil reserve behind Venezuela and Saudi Arabia. Since the 1960's Canada has been producing oil from the large oil sands reserves that are deposited around Edmonton. However, due to the geographical location of the sites located in Alberta, the land locked reserves are predominantly exported from the region via pipeline to the US via the Keystone pipeline to the Patoka Oil Tank farm in Illinois and the Cushing storage facility in Oklahoma.

However, such is the potential for future oil sands production that increased demand is being put on top of the current export ordinated infrastructure, which includes pipelines and railcar exports. Whilst the majority of Canadian oil exports are delivered to the US via pipeline, accounting for around 96% of the Canadian oil exports, other outlets receive the remaining 4% of the country's shipments. Increasingly, Asia is becoming a major destination for Canadian crude, with China becoming a significant buyer, and South Korea entering the market for Canadian heavy crudes. These exports have increased from the West Coast export facilities. But, the restricted infrastructure in the region is significantly capping the export potential.

**West Coast Canadian Crude Exports**




To alleviate the capacity problems, there are three major pipeline projects currently under construction; two of them are focused on increasing export volumes to the US (Enbridge Line 3 and Keystone XL). The third, the Trans Mountain Expansion Project, is focused on exporting oil from Edmonton to coastal export facilities at the Westridge marine terminal in Burnaby, British Colombia. All three projects have experienced planning delays and courted legal action from local and environmental groups. The Trans Mountain project faced severe delays due to legal challenges. The government highlighted this project as having the potential to significantly open the oil export sector to new markets, so much so that it stepped in and purchased the project from Kinder Morgan to ensure the projected was constructed. The existing pipeline originates near Edmonton and transports crude and refined products to export facilities in British Colombia (BC) and Washington State (US). The pipeline system has a capacity of 300kbd, of which 221kbd is allocated to refineries in BC and Washington State. The remaining 79kbd is allocated to the Westridge marine export terminal.

The expansion project is essentially adding an additional pipeline to the existing 1,150 km line that will create a system that will have a nominal capacity of 890kbd~~d~~. At the end of this new expanded pipeline will be a new marine terminal. The current single berth will eventually be decommissioned and removed and replaced with three new berths designed for Aframax tankers. This will potentially mean that exports will increase to around 669kbd once the project is completed in 2022. So, after many years of delays, the Canadian pipeline dream of having increased export potential to serve the expanding Chinese and Asian markets is tantalizingly close. This of course assumes that there are no further delays in this on-going saga.

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# Crude Oil

## Middle East

A week to forget for already pressured VLCC Owners - not nearly enough enquiry to tighten slack lists and rates remained into the mid ws 30's to the East and ws 20 to the West - at best...worryingly close to running costs, and next week is unlikely to provide the needed ammunition to re-fire, although it may prove just a little busier. Suezmaxes found it equally as tough as availability continued to swamp demand and ballasting away posted little better alternative, with rates down to the mid ws 40's East, and into the 'teens' to the West. A brief flicker late week in West Africa gives hope, but any fleeing herd from here will no doubt trample that underfoot quite quickly. A fairly steady feed of Aframax enquiry established a rate floor of 80,000mt by ws 57.5 to Singapore and Owners will agitate for just a little bit more, albeit without much conviction, and a sideways move is the more likely outcome for next week.

## West Africa

Down and out for most of the week, Suezmax Owners got a late - pre U.S. Holiday - flick in the tail to give a touch more encouragement, but it is likely to prove merely a teaser for most, as Eastern tonnage ears have pricked up and a wave of ballasters will soon arrive if the small gain to 130,000mt by ws 50/52.5 to Europe is held onto for longer than a few working days. VLCCs found modest, well spaced, attention but it only served to keep rates within a ws 35/37 holding pattern to the Far East as Owners kept aligned with AGulf earnings. Perhaps Charterers on the smaller size will add some extra exploratory enquiry next week in light of the temporarily widened differentials, but that could quickly re-set.

## Mediterranean

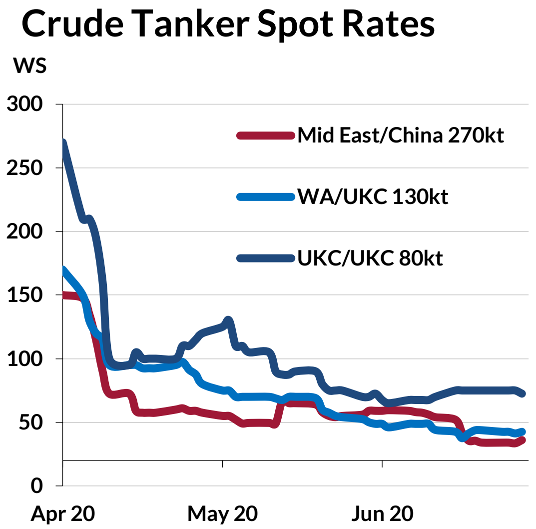
Aframax Charterers slowly and steadily steamroller their way through the early Summer and Owners' resistance is largely futile. 80,000mt by ws 55-ish X-Med and no better than ws 60 from the Black Sea - for now..and into the foreseeable future. Suezmaxes also remained largely flatline at 140,000mt by ws 50 - max - from the Black Sea to European destinations, with runs to China topping at $2.9 million. As elsewhere, owners look to West African hopes to give them a straw to cling on to.

## US Gulf/Latin America

The U.S. holiday could have provoked a rash of supportive bargain hunting...but it didn't, and yet again Owners struggled to find the leverage to pull rates to above 70,000 by ws 70 both upcoast and transatlantic. Another tonnage build over the long weekend won't help either. VLCCs were more active than of late, but negotiations were a little one sided and rates eased off further to under $4.5 million from the USGulf to Singapore, although ballasters will be loathe to reduce much further until/unless true desperation overwhelms them.

## North Sea

As in the Med, Aframaxes here remained very dull and rate deficient. 80,000mt by ws 70/75 X-UKCont, and 100,000mt by ws 42.5/47.5 from the Baltic are the default Summer rate ranges so far...and moving forward. VLCCs got occasionally picked off...and then occasionally unpicked. Rate demands settled at around $5.5 million for crude oil to South Korea/China, and will remain at close to that for any near term needs.




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

# Clean Products

## East

LRs have been surprisingly steady this week after the disaster the MRs have experienced. LR1s have seen a dip at the end of the week though, with 55,000mt naphtha AGulf/Japan at ws 75 and 60,000mt jet AGulf/UKCont at $1.35 million. These rates are vulnerable and could easily see a further chunk taken off into next week. LR2s have also held up reasonably well considering, as tonnage is not abundant but there is just a lack of any real volume. 75,000mt naphtha AGulf/Japan is now ws 75 and 90,000mt jet AGulf/UKCont is sitting at $2.0 million. Again, next week could be telling, but if steady business can be seen, LR2s could be the most likely to stay level. Overall though there are no real positive signs for now.

A pretty disastrous week for the MRs in the AGulf – TC12 has taken a further negative testing southwards as Shell took 3 ships on subs at 35 x ws 55. UKCont still needs a fresh test but, with the current sentiment, number of ships and available tonnage, $900k is a good starting point. Owners will be hoping that this week has seen the floor being reached as returns coming back are in the single figures and Owners must be considering just sitting ships prompt and riding this period out. 4 open stems at the close of the week and a tonnage list that favours the Charterers, Owners need some luck next week. A glimmer of hope is that Far East ballasters are not actively heading to the AGulf as soon as they come open, which may allow some hope for Owners with ships in the AGulf.

## Mediterranean

Another week to forget for Handy Owners plying their trade in the Mediterranean with rate losses seen throughout. A simple case of supply and demand meant that rates have slipped from 30 x ws 110 to 30 x ws 90 and, with E-Med stems attracting 8 offers on Friday, less is on the cards. Black Sea activity has consistently been quiet over the past few weeks and rates are driven by Mediterranean sentiment, which has seen Owners willing ws +10 points on top of wherever X-Med lies. Next week will likely bring further pressure to this market and Owners will be hoping that the floor is 30 x ws 90, but given the sentiment, 30 x ws 85 is likely next done.

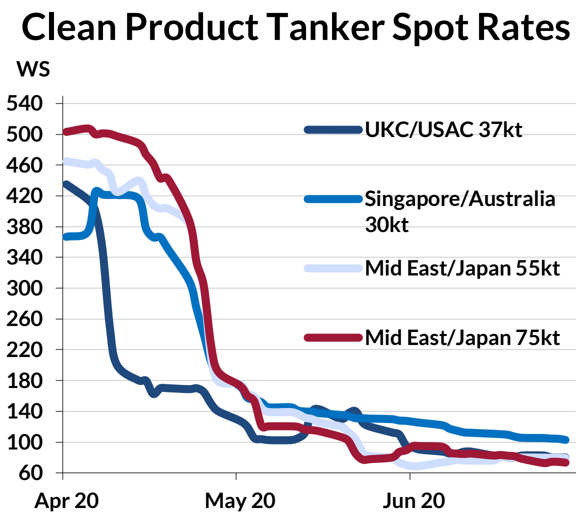
For MRs in the Mediterranean, a fairly dull week has passed with rates sitting at the bottom of the barrel throughout. It looks like we settled at 37 x ws 80 for TA like the UKCont and, with a couple of queries headed east at $750k for AGulf. With enquiry low as we come to the end of the week, it seems unlikely this market is going to move anywhere, but pressure will still be sitting on Owners shoulders and Charterers if they find the right ship at the right place, could well see opportunities to push rates southbound once again.

## UK Continent

The week draws to a close in much the same vein as it started, with rates pretty much on the floor and little to suggest change is coming anytime soon. In between, we had a better mid-week period but, with the tonnage list still outstripping demand comfortably, rates rarely looked like improving. Once again Owners will be left hoping that we see a sizable upturn in activity next week, although the chances of that given the time of year and other obvious factors suggest it may be too early for that to happen. In the meantime, TC2 remains rooted at 37 x ws 80, with WAF in a similar state of stability at 37 x ws 92.5.

Another steady week for Handies plying their trade up in the North as rates have traded sideways, with Baltic liftings at 30 x ws 95, 30 x ws 85 for X-UKCont and 30 x ws 75 for UKCont/Med. A rush was seen midweek as Charterers approached COA partners for the start of their second decade Primorsk stems resulting in a healthy amount of units being cleared from the tonnage lists. A few failures later in the week has resulted in prompt units now being scattered across the region and, with July Primorsk volumes down compared to recent months it might be a trickier task for Owners to hold onto last done levels as we move forward.

Overall, it's been a quiet week in this UKCont Flexi market, with slow levels of enquiry throughout and any glimmers of fixing activity being kept from prying eyes. However, today has seen some action with 22 x ws 125 going on subs for a Baltic/UKCont run, which falls in line just below a prorated Handy rate as this market continues to track larger tonnage. As a result, 22 x ws 110 still remains the current call for a X-UKCont run.

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# Dirty Products

## Handy

In the North the steady resurgence in the Handy market has continued as the balance of available tonnage versus cargo enquiry just about tips in Owner's favour. Monday started with a shortened list and it soon became clear that hidden/unmarketed tonnage had also thinned and the first cargoes up would see Owners push from last done. Soon ws 122.5 was on subs and this level held firm. With a slowdown in MR enquiry, the list has been padded out by these units looking part cargo and so by mid-week ws 127.5 was fixed X-UKCont. Going forward, expect much of the same should enquiry still flow as we finish the week with rumours of a Handy on subs to take tonnage out of the region.

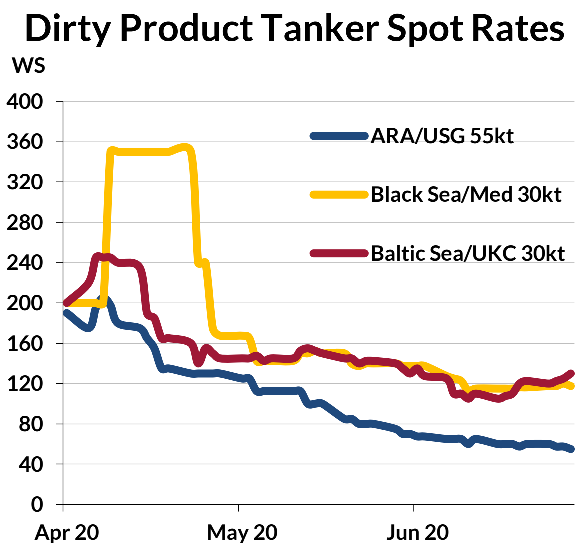
The Handy market in the Med has now experienced two consecutive weeks whereby enquiry from the Black Sea has driven positive sentiment. With the bottom being found in week 26, week 27 has enabled Owners not only to keep their fleets moving but to push for ws 2.5 points here and there, following sustained enquiry levels throughout the week. Added into the mix has been increased enquiry from the West Med and early units there heading north to cover longer voyages off the Cont. Ws 125 from the Black Sea is not yet there, however, should the taps continue to flow early next week, this is a realistic level to expect.

## MR

MR Owners in Europe have seen a mixed bag of results this week, driven largely by the firming Handies in both the North and Med. Most Owners have chosen to 'twist' and throw their hat into the ring to compete for Handy cargoes, as rates steadied in the Med and gains were also seen in the North early in the week. MRs enquiry in the North will see one unit leave the region and another opening UKCont mid-month. The next unit up is likely to finish the week prompt as Charterers wait for tonnage replenishment in week 28. In the Med tonnage ticks over, driven by Handy cargoes from the Black Sea, however, levels are relatively flat for now as supply of tonnage just about outweighs cargo enquiry.

## Panamax

Week 27 has left little inspiration for positive discussion in this sector, as firm enquiry continues to evade the majority of Owners. This was highlighted when one Owner made the decision to move two units from Europe back transatlantic to find employment. However, with this said, off market activity has managed to move on a couple of units on a very quiet basis. Sentiment remains weak and as far as fixing levels go, we report of ws 52.5 on subjects to close this week out. Looking towards next week, we are likely to see a little of the same at least until prompt tonnage clears away.

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## Dirty Tanker Spot Market Developments - Spot Worldscale

| | | | *wk on wk change* | July 2nd | June 25th | Last Month* | FFA Q3 |
|---|---|---|---|---|---|---|---|
| **TD3C** | VLCC | AG-China | **-1** | 36 | 37 | 56 | 36 |
| **TD20** | Suezmax | WAF-UKC | **-1** | 42 | 44 | 55 | 46 |
| **TD7** | Aframax | N.Sea-UKC | **-3** | 72 | 75 | 77 | 73 |

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

| | | | wk on wk change | July 2nd | June 25th | Last Month* | FFA Q3 |
|---|---|---|---|---|---|---|---|
| **TD3C** | VLCC | AG-China | **-2,250** | 21,250 | 23,500 | 49,000 | 21,250 |
| **TD20** | Suezmax | WAF-UKC | **-1,750** | 11,500 | 13,250 | 20,500 | 13,500 |
| **TD7** | Aframax | N.Sea-UKC | **-2,750** | 1,000 | 3,750 | 5,500 | 1,750 |

## Clean Tanker Spot Market Developments - Spot Worldscale

| | | | wk on wk change | July 2nd | June 25th | Last Month* | FFA Q3 |
|---|---|---|---|---|---|---|---|
| **TC1** | LR2 | AG-Japan | **-8** | 73 | 82 | 77 | |
| **TC2** | MR - west | UKC-USAC | **-1** | 80 | 81 | 126 | 89 |
| **TC5** | LR1 | AG-Japan | **-1** | 79 | 80 | 86 | 76 |
| **TC7** | MR - east | Singapore-EC Aus | **-4** | 103 | 107 | 131 | 115 |

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

| | | | wk on wk change | July 2nd | June 25th | Last Month* | FFA Q3 |
|---|---|---|---|---|---|---|---|
| **TC1** | LR2 | AG-Japan | **-3,500** | 13,250 | 16,750 | 16,000 | |
| **TC2** | MR - west | UKC-USAC | **-500** | 6,000 | 6,500 | 16,000 | 7,500 |
| **TC5** | LR1 | AG-Japan | **-500** | 10,250 | 10,750 | 13,250 | 9,250 |
| **TC7** | MR - east | Singapore-EC Aus | **-1,000** | 8,250 | 9,250 | 14,500 | 10,250 |

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

| | | | | |
|---|---|---|---|---|
| ClearView Bunker Price (Rotterdam VLSFO) | **+20** | 293 | 273 | 273 |
| ClearView Bunker Price (Fujairah VLSFO) | **+19** | 324 | 305 | 284 |
| ClearView Bunker Price (Singapore VLSFO) | **+13** | 328 | 315 | 290 |
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