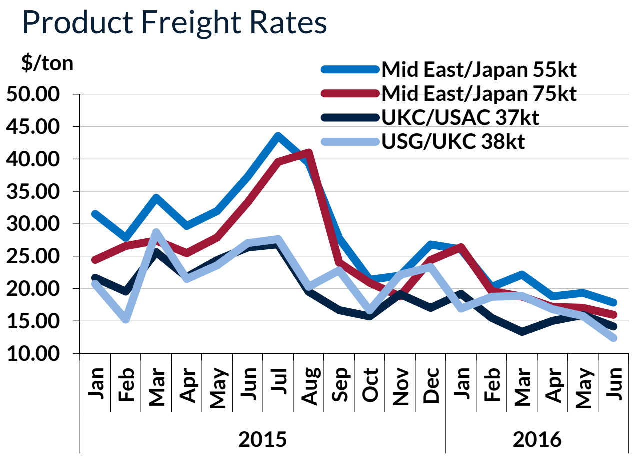
Hard & Fast

Weekly Tanker Market Report

This year the product tanker market has come down much harder and much faster than we initially expected. Gibson Consultancy & Research projected that spot rates across all tanker sectors would average lower in 2016 relative to 2015, however the scale and speed of the correction has exceeded expectations. A number of factors are at play.

The supply of tonnage is rising. So far in 2016 we have seen approximately 44 MRs, 25 LR2/Aframaxes and 8 LR1/Panamaxes hit the water (5.5 million dwt), with a further 10 million dwt to come this year alone. It is therefore little surprise to see freight under pressure, at least from a supply side perspective. However, the demand side has been less supportive than originally anticipated.

In the West product tankers have been pressured by a lack of arbitrage business. The key Europe – US Atlantic Coast TC2 trade has suffered from high gasoline stocks all along the Atlantic seaboard, making it difficult for traders to place cargoes. Equally the backhaul US Gulf to Europe TC14 has shown few signs of strength as diesel stocks on the Continent remain high. Even with a recent drawdown owing to strikes in France, the arbs have been challenging to say the least.



LRs in the region have suffered a similar fate. The premium of Far East naphtha prices over European narrowed to $6.25/ton earlier this month, the lowest premium in 3 years, owing to a temporary oversupply of light distillates (gasoline/naphtha) in the region. The result has been painfully low LR freight rates. The arbitrage may have since improved, but still sits below workable levels.

The picture East of Suez has not been much better despite some positive demand side developments. Saudi net product exports surged in Q1 2016, following significant downstream investment in recent years. Q1 net exports stood at 940,000 b/d, vs 440,000 b/d over the same period of 2015, yet the market weakened. Additionally, India has both exported and imported above average volumes in the first quarter, although export capacity is likely to be pressured by strong domestic demand. Stockpiling ahead of Ramadan failed to support freight, with Argus reporting that Turkey and India dominated gasoline exports to the Middle East during the period, reducing the demand for European barrels, whilst rising exports from North Asia also competed with flows from the West. Competitively priced LPG has also squeezed out some naphtha cargoes, whilst at the same time, European naphtha producers have found it more profitable to sell to regional buyers.

However, beyond the immediate term, a demand rebound may be on the cards. Demand for naphtha in the East is expected to increase over the second half of 2016 as new petrochemical projects ramp up. Much of this additional demand will be met from new condensate splitter capacity in the Middle East as well as increased arbitrage flows from Europe. Furthermore, as the crude market rebalances, and product stocks ease, trading opportunities are expected to increase. Longer term, a period of weaker refining margins could once again see capacity rationalisation in aging refining centres, increasing the need for long haul imports and with that, increased tanker demand. Right now, optimists may even take comfort from meteorologists' predictions that the 2016 hurricane season may be the most active in years, perhaps injecting some volatility into the freight market.

Crude Oil

Middle East

Resistance proved futile for VLCC Owners - just too many ships 'left over' from the June programme, and a lighter than average announced July Basrah schedule then further undermined sentiment. Rates crumpled to the lowest values of the year with down to ws 39 to the East and ws 24 to the West recorded. Bargain hunting may well ensue next week, but until the backlog is cleared, Owners will remain boxed into similar levels. Suezmaxes had the potential to gain a little on initially strong interest but momentum was then lost and a handful of more needy units anchored down the bottom end of the rate range that currently stands at around ws 40 to the West and ws 80 to the East. Aframaxes drifted sideways on light action through the week, and no immediate prospect of a change in direction.

West Africa

A progressively building rate complex for Suezmax Owners to enjoy - for most of the week at least. Charterers were generous providers of the feedstock, and rates rumbled up to ws 85 to Europe, and towards ws 80 to the US Gulf accordingly. By the week's end, however, the more awkward positions had been covered, and there was a sense that a degree of profit taking was approaching for next week's session as dates roll onto easier positions. VLCCs occasionally found cover but Charterers played it as slow as possible whilst the AG deteriorated. Rates fell off to around ws 50 to the East, and may ease lower, but should retain a noticeable 'insurance' premium over the AG/East mark for long haul 'insurance' purposes.

Mediterranean

Slight mission creep to the upside for Aframaxes here as steady levels of enquiry served to rebalance the market. Rates moved to an average ws 100 cross Med, and could gain a bit more if the service continues similarly. Suezmaxes remained largely in a holding pattern on little local interest, awaiting the next month's programme. Owners eye the gains made in West Africa, and hope that they can be retained to add support for when busier times ensue. Currently 140,000 from the Black Sea to Europe moves at close to ws 80 with up to US$3.6 estimated for runs to China.

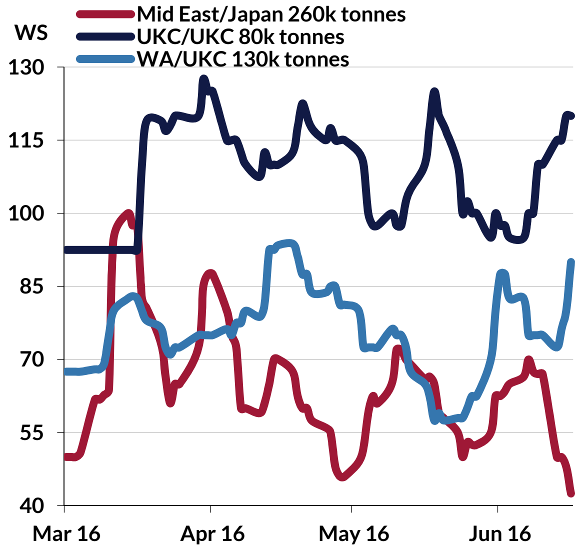
Caribbean

Static across the board - Aframaxes bobbed around within a tight 70,000 by ws 95/97.5 range upcoast and there's no obvious reason to call for a near term change. VLCCs saw little fresh enquiry but there were occasional markers posted at down to US$3.5 million to West Coast India, and to US$4.5 million to Singapore. Further compression likely.

North Sea

Better for Aframaxes - Owners built upon the higher base created last week as Charterers kept the marketplace busy. Rates moved solidly higher to 80,000 by ws 120/125 cross UKC with up to 100,000 by ws 105 payable from the Baltic. Although the latter looks pretty well fixed out for the month, there should be enough left for the cross North Sea players to keep their plate spinning for a while yet. VLCC itineraries remained compromised by French strike delays but the fuel oil 'Arb' to Singapore didn't widen enough to provoke a spike and trades could be closed at down to US$3.6 million, though little was actually concluded.

Crude Tanker Spot Rates



Clean Products

East

This week brought a sizeable level of action for the larger ships - long overdue in the eyes of Owners. The desperate times induced desperate measures to secure business, and rates have again come off on both the 1s and the 2s. A twice replaced TC1 cargo ended up fixing at ws 82.5, but the market level remained planted at the ws 80 level. Another US$50k has been stripped off the rate for AG/UKC runs, which finish the week at US$1.75m. The LR1s have been much busier than last week, but the continued emergence of short haul cargoes will not afford Owners any prolonged respite from long tonnage. An LR1 on subs for a cross Gulf run at US$170k highlights the softness of rates. TC5 runs finish the week at ws 90, and West runs at US$1.225m. Owners will take confidence in the fact that a good number of cargoes remain uncovered going into the new week, many loading in WCI - we may therefore see Owners opt to move tonnage in this direction. With the continued inactivity of the West markets, Owners will continue to push for East runs on both sizes, conscious of inactivity down the line.
Rates in the AG for MRs have remained pretty uneventful. Again there was a decent amount of activity seeing plenty of fresh cargoes reaching the market. However, the generously supplied tonnage list ensured that rates were not positively tested and in some cases rates came off. AG/EAfr started steady repeating last done levels however, when really tested came off slightly to 35 x ws 122.5. UKC voyages have remained stubborn at a well-established US$950k. Cross AG voyages have been date and route dependent and as a result US$147,500 has been put on subjects. There was also a slight softening seen for AG/Red Sea cargoes with US$380k confirming owner eagerness to get ships moving. AG/Japan remains relatively steady at 35 x ws 100. Historically the next few months have seen a rate rise, however, in order for this to be realised the tonnage list needs to show signs of thinning out.

Mediterranean

Not much to discuss down in the South this week, as it seems the Posidonia hangover has kept things rather placid. If there was any uncertainty between 30 x ws 130-135 at the beginning of the week, this has been washed away with the rain, and Owners and Charterers alike seem content with 30 x ws 130 for cross Med and 30 x ws 140 for Black Sea runs. Looking ahead tonnage can expect a consistent turn over and minimal highs or lows ahead… More of the same to be expected.
On the MRs, enquiry has been sparse with finding a run to the East like finding a needle in a haystack. Subsequently pressure has been built for TA runs and we see 37 x ws 90 placed on subjects. This mirrors the pressure in the Continent and we can expect a fresh test needed to see where Red Sea runs lie.

UK Continent

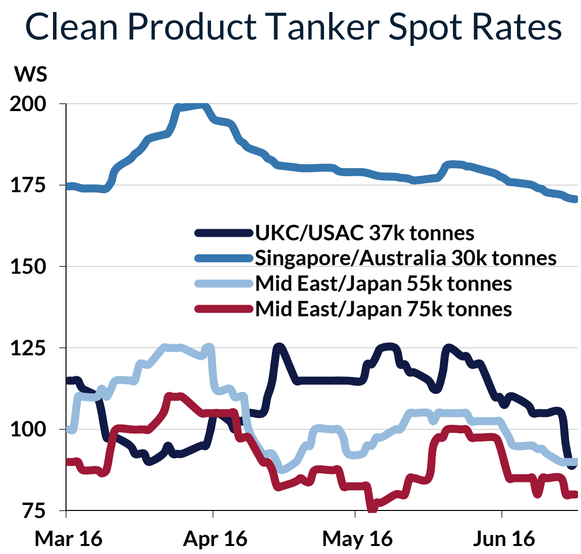
A fairly dire week has passed for Owners, as we see continued pressure on rates dropping the market. With a poor American market and limited WAF business, any tonnage open here has set their sights on the Continent runs and begun the ballast. This partnered with prompt natural tonnage in the UKC has given Charterers plenty of opportunities to drive the TC2 runs down, and as we come to Friday we see 37 x ws 90 being called the market. We have minimal demand for WAF and Far East runs also pass us by, and with pressure building also with excess LR1s in the North, it seems hard to see any upside on the horizon. Despite reasonable levels of employment, this was not enough to soak up available tonnage, and we can expect this pressure to remain heading into week 25.

Handies similarly have struggled through this week, as slow levels of employment have done nothing to help hold onto last done fixings. Pressure from the MRs also have forced Handy Owners to take a drop in rates and we now see 30 x ws 120 on subs for a Baltic/UKC run. Reports of less circulate the market, and with a disrupted end to the week with many travelling, it can be believed as some accept what they can get just to get ships moving. Looking ahead Owners will hope they can put the brakes on any further slip, but more enquiry is going to be needed if this is going to happen.

Finally, to the Flexi market, where to not break the trend, have similarly struggled this week. Pressure from the larger tonnage have chipped away at the traditionally stable market, and now sub 22 x ws 170 is seen as the market, and just how much less depends on the run. Owners across the board in the Continent will put this week to the back of their minds, and be hoping more promising markets will be on the horizon, unfortunately for now, all that is on the horizon is ballast tonnage…

LRs

The Euros have come at a good time to help distract Owners minds from the rates being achieved in the West. Week 24 has been tough for Owners and week 25 looks set to be equally, if not more challenging, particularly on the LR1s where seven prompt ships will be hunting for employment come Monday morning.
LR1s have slipped from 60 x ws 82.5 at the start of the week to 60 x ws 77.5 for ARA/WAF and although Owners hope to hold rates at last done levels, realistically; with plentiful options for Charterers we suspect there will be a further decline here. A fresh test this week on the ARA/Japan run shows levels are now down to US$1.35m. Out of the Mediterranean, we have seen a fresh test of 60 x ws 92.5 for Naphtha to Brazil, a route we rarely see.
LR2s started the week with a flurry of activity. A couple of Charterers took cover at levels about 50k below last done with US$1.8 million fixed for Mongstad/Japan and US$1.85 million for Ust-Luga/Japan. As we end the week, we see reports of a vessel on subs for a reformate stem from ARA/Singapore collecting around the US$1.4 million mark. Thankfully for Owners, a couple of Mediterranean-Black Sea naphtha stems to Japan have offered employment for the LR2s that have ballasted away from the Continent towards the AG, US$1.6 million is the rough figure depending on the loading port and dates. Vessels going Owners programme, dirtying up or ballasting towards the Mediterranean have helped keep the list ticking over, but due to low levels of activity, rates remain under pressure.
Overall, it is hard to see much change in activity and therefore rates will remain flat if not slip further South. However, one positive for Owners as we end the week is that although rates are low in the East, activity is beginning to pick up.



Dirty Products

Handy

Overall market activity this week has remained steady with levels trading sideways for the majority. Closing the week out with a few vessels starting to appear and the weekend break giving the chance for vessels itineraries to firm we could see fresh enquiry aimed toward end month dates come the opening bell Monday.

Finding vessels with firm itineraries has proven a challenge this week in the Mediterranean. As we hit the back end of the week a late burst of cargoes have helped Owners in play with firm prospects achieve positive correction which Owners will be hoping to carry this momentum into next week. Charterers with stems uncovered will be keen for the fresh list come Monday in the hope of a few more options appearing, helping to put the brakes on any further gains.

MR

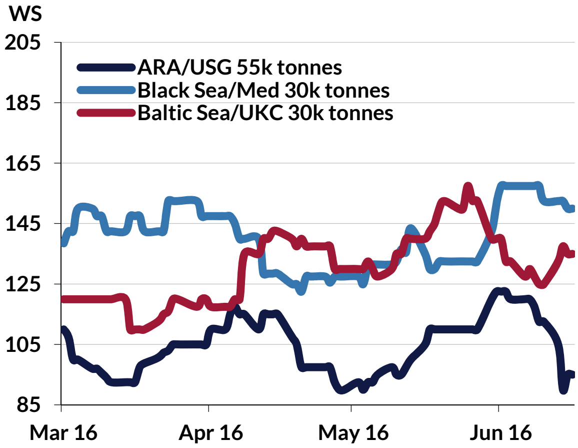
The Continent this week has seen a distinct lack of naturally placed tonnage in the region which has left Charterers looking at surrounding markets to cover firm stems. As of now, if Charterers need a naturally sized vessel their eyes will remain on surrounding regions in view of tempting Owners to ballast in.

The Mediterranean market this week has been in contrast in activity levels seen in the North, as the week progressed a number of vessel itineraries started to firm which in turn prompted Charterers to move quickly. The outlook for next week is much of the same due to the majority of fixtures being concluded as short voyages only. It is worth keeping in mind the Aframax market starting to firm up towards the end of this week, it may not be long for Charterers to looking into splitting stems which will put further pressure on the market.

Panamax

Commencing the week, the position list remained plentiful with vessels in natural positions and ballasting units providing Charterers plenty of options. Hitting the midweek mark, the market burst into life from both the UKC and Mediterranean regions, with a number of vessels being placed on subs below ws 100 levels. As the week draws to a close Charterers may have to be wary when entering the market as the tonnage lists look a little thinner then when we started the week. Next week fresh tonnage lists will truly show where this market lies.

Dirty Product Tanker Spot Rates



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	June 16th	June 9th	Last Month	FFA Q2
TD3	VLCC	AG-Japan	**-24**	43	67	71	55
TD20	Suezmax	WAF-UKC	**+12**	87	75	72	81
TD7	Aframax	N.Sea-UKC	**+16**	126	109	101	99

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

			wk on wk change	June 16th	June 9th	Last Month	FFA Q2
TD3	VLCC	AG-Japan	**-26,250**	25,500	51,750	58,000	39,000
TD20	Suezmax	WAF-UKC	**+7,250**	32,750	25,500	25,250	29,750
TD7	Aframax	N.Sea-UKC	**+16,500**	41,250	24,750	22,250	16,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	June 16th	June 9th	Last Month	FFA Q2
TC1	LR2	AG-Japan	**-5**	80	85	85	
TC2	MR - west	UKC-USAC	**-14**	91	105	117	100
TC5	LR1	AG-Japan	**-4**	90	94	103	92
TC7	MR - east	Singapore-EC Aus	**-3**	171	174	176	

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

			wk on wk change	June 16th	June 9th	Last Month	FFA Q2
TC1	LR2	AG-Japan	**-750**	13,250	14,000	14,750	
TC2	MR - west	UKC-USAC	**-2,250**	7,000	9,250	12,500	8,750
TC5	LR1	AG-Japan	**+0**	11,000	11,000	13,750	11,250
TC7	MR - east	Singapore-EC Aus	**+250**	14,500	14,250	15,250	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**-12**	226	238	216
ClearView Bunker Price (Fujairah 380 HSFO)	**-18**	235	253	237
ClearView Bunker Price (Singapore 380 HSFO)	**-23**	229	252	232
ClearView Bunker Price (Rotterdam 0.1% LSFO)	**-31**	427	458	406

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