

# VL-exit?

## Weekly Tanker Market Report

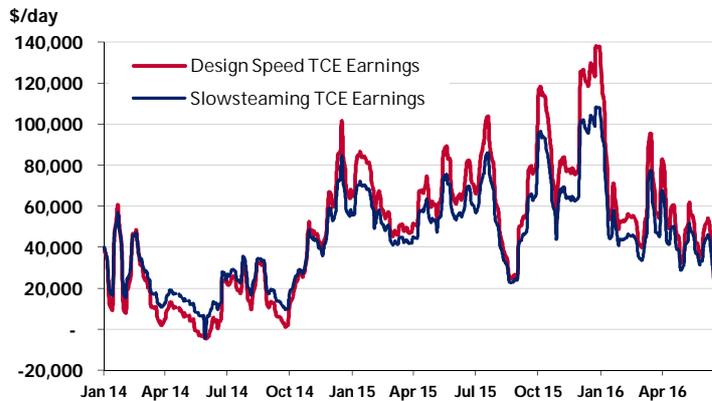
Earlier this week spot returns in the VLCC market touched their lowest level since October 2014, with TCE earnings for Middle East/Japan (TD3) falling close to \$20,000/day. The current weakness has been essentially driven by the build-up of available tonnage, leaving charterers with healthy numbers to choose from. However, is this a temporary blip or are there more fundamental forces at play? Perhaps, the best way to understand the current situation would be to examine the main drivers of the VLCC market both last year and so far in 2016 to see what has changed.

Back in 2015, the spectacular strength in all crude tanker markets (not just VLCCs) was underpinned by very limited growth in supply coupled with major gains in demand. Demand was supported by notable gains in Middle East crude exports and strong refining margins, which stimulated trade to existing and new markets, as well as commercial and strategic storage. At the same time, the overhang of crude oil production over demand not only “pushed” surplus barrels into floating storage but also resulted in sizable delays/inefficiencies in tanker transportation.

In the 1st half of this year crude tanker demand benefitted from a major increase in Iranian crude exports. In addition, floating storage continued to rise. At the end of May, the number of non-trading VLCCs (including tankers employed in storage of Iranian crude/condensate) reached 9.5% of the existing fleet. However, at the same time we are also starting to see stronger growth in tanker supply. The VLCC market has witnessed 20 new additions so far in 2016, the same as for the whole of 2015. Deliveries in the Suezmax segment have been more restricted, yet the Aframax fleet has seen the biggest growth, both in terms of new deliveries and “migrants” from the clean segment. Furthermore, the Suezmax and Aframax markets have “underperformed”

### VLCC Daily Spot TCE Earnings

Middle East Gulf - Japan (TD3)



so far this year relative to VLCCs, capping the earnings’ potential for VLCCs. Crude oil production disruptions in Nigeria have caused the most damage to Suezmax demand, but long haul crude trade WAF/East has also somewhat eased. Finally, tight tanker supply/demand fundamentals back in 2015 enabled owners to take advantage of falling bunker prices; this year charterers are gaining an upper hand and rising bunker prices are gradually eroding owners’ profitability.

What should we expect in the second half of this year? The pace of deliveries is expected to accelerate. Between July and December 35 VLCCs are scheduled

for delivery, although some slippage is anticipated, taking into consideration the turmoil in the shipbuilding industry. Furthermore, the market may see NITC tonnage starting to compete for spot VLCC cargoes in the latter stages of 2016. On the demand side, any further increases in crude exports out of the Middle East will be supportive to trading demand; however, at the moment the scope for further increases appears to be limited. This coupled with the anticipated strong seasonal increase in oil demand, continued decline in US shale and ongoing production outages in a number of countries around the world suggest that oil markets are likely to move to much closer balance in the 2nd half of this year. Although, inefficiencies in transportation and tanker storage are unlikely to disappear overnight; nonetheless, storage demand is expected to wane.

All of the above indicate that VLCCs could face rough seas ahead. However, as with any forecast (including UK opinion polls), there is a degree of sensitivity. The actual decline in US crude production could be smaller than currently expected. The situation in Nigeria may improve, following the recent announcement of ceasefire with militants. Alternatively, Iran could beat market expectations once again and the country’s crude exports may register further strong gains. Any of these scenarios will help to maintain the overhang of crude production over demand, offering further support to forced and operational tanker storage and/or tanker trading demand. In addition, the presence of a mild contango structure in oil futures could at least provide a floor to short term VLCC rates. And last but certainly not the least is the prevailing owners’ sentiment, which can at any moment override any fundamental developments.

# Crude Oil

## Middle East

Having last week hit the lowpoint of the year so far, VLCC Owners spent this week fighting to prevent further falls. Volumes were actually quite robust as charterers moved in numbers to bargain hunt, but although eventually there was some mild re-inflation for the most suitable units, broadly the market remains at a very depressed mid ws 40 East and mid ws 20 West average mark and any noticeable gains will have to wait until the second half of July programme - if at all. Suezmaxes ticked over on steady activity, but never enough to force any issues and rates slid sideways at ws 77.5/80 East and a little sub ws 40 to the West. Downward pressure now lurks, however. Aframaxes maintained their sideways drift at 80,000 by ws 95/97.5 to Singapore and will stay similarly positioned over the coming period.

## West Africa

Suezmaxes quickly found themselves in much weaker territory as the supply/demand balance tipped sharply back in Charterers' favour. Rates moved off steadily through the week to end at 130,000 by ws 62.5 to the USGulf, and to ws 65-ish for Europe with no early turnaround looking likely. VLCCs had previously eased off, but had maintained premiums over Agulf numbers. This week Owners actually managed to widen that differential, and even push a little higher to ws 52.5 to the Far East on a swathe of mid-week interest. Now, however, July is almost fixed out, and Charterers will be wary of chasing hard onto August dates unless the Middle East makes a further move.

## Mediterranean

Aframaxes stepped up markedly early on to get close to ws 130 cross Med, but then hit the buffers as Suezmaxes failed to spark, and rates fell back to around ws 120 with perhaps more softening/equalising to come. Suezmax owners abandoned the idea of challenging in West Africa, and the move to fix locally kept rates here under pressure, and to just over 140,000 by ws 70 for

Black Sea to European destinations with around \$3.3 million payable to China.

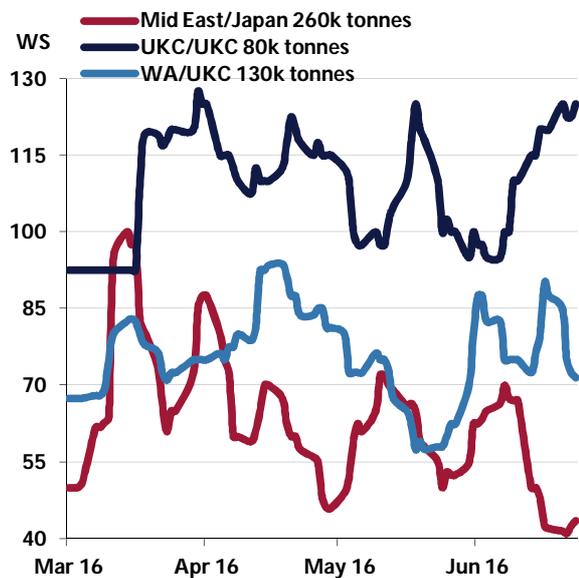
## Caribbean

A summer slump feel to the Aframax sector here. Rates crunched down to 70,000 by ws 90 upcoast, and Owners can't find any realistic catalysts for early change. VLCCs dipped to lows of \$2.6 million to West Coast India, and to \$3.6 million to Singapore which then encouraged a busy spell of fixing to rebalance the market. No solid upward push, but Owners will be harder to persuade for the next round of fixing.

## North Sea

Aframaxes threatened to take a more severe tumble than they actually did. Owners fought an impressive rearguard action to hold rates up at 80,000 by ws 115+ cross UKCont, and 100,000 by ws 95+ ex Baltic but availability is fattening, and further falls will be harder to prevent into next week. VLCCs - as in the rest of the Atlantic - had more to do than of late and there was interest concluded at \$3.6 million for fuel oil from Rotterdam to Singapore, and at \$5.125 million for a headline Houndpoint/SKorea crude oil lift. Availability looks thin enough to retain those marks, at least, for a while yet.

## Crude Tanker Spot Rates



# Clean Products

## East

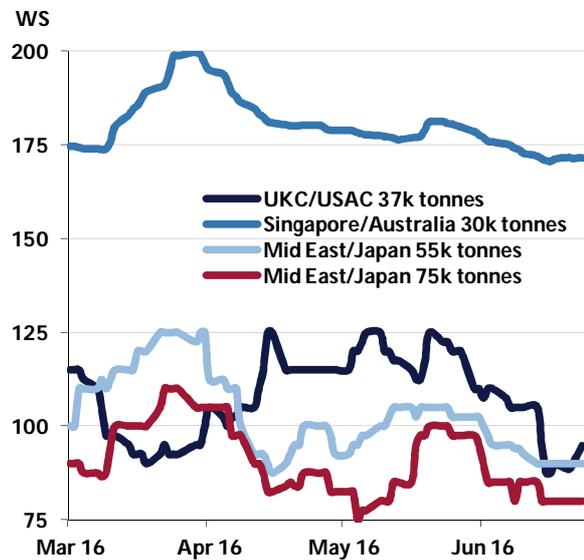
An incredible busy week on the larger ships, which has not only seen a remarkable amount of tonnage cleared off the list, but has finally given Owners the confidence to demand higher freight rates. The LR1s have been the size of choice for Charterers this week, and the supply of vessels off end/early dates is remarkably thin. Eastern naphtha runs have again been the preferred voyage amongst Owners, in sight of further trading opportunities post-discharge. For this reason, TC5 (although busy) has not yet seen rate inflation, and it has only been the West runs which have seen significant firming - they finish the week at \$1.55 million to the UKCont with the potential for further firming. East rates will inevitably be brought up to ws 100 in sympathy, but it would not come as a surprise if this was quickly surpassed early next week. The LR2s have also seen a sizeable volume of cargoes go on subjects, however tonnage is not currently looking quite as thin as the LR1s. West runs finish the week at \$1.8 million, and TC1 runs at 75 ws 87.5, taking a healthy rise at the end of the week. With cargoes remaining on both the LR1s and the LR2s, but a healthier supply on tonnage on the larger-sized ships, it will be interesting to note whether Charterers look to top up their LR1 stems to avoid paying up on last done levels - opting to exploit more stable freight increases on the LR2s. The MRs have seen a slight reduction in the number of ships going on subjects this week - stepping aside to watch the LRs take mainstage temporarily. As shipping law dictates - the MRs will inevitably follow suit - well that is at least what Owners will be hoping for. Rates have thus far remained flat, and on some routes even been bartered down by Charterers exploiting prompt tonnage in the AG. Naphtha runs have stayed dead level at ws 100 all week, as have West runs to the continent at \$950k. The MRs have been used more for short haul and EAfr stems by Charterers. EAfr runs have bounced around the ws 125 levels - a ws 120 on subjects at the same time as a ws 130 off more forward dates. AG/RSea at one point dipped down to the \$375k levels, but have since stepped back up towards the \$400k levels, shameful of their brief blip. X-AG runs finish the week at \$185k, but with LRs starting to firm, many Owners of larger tonnage

may snag smaller short haul stems in view of capitalising on ever-firming LR long haul rates in the coming weeks.

## Mediterranean

As week 25 draws to a close, Owners won't be too disheartened in the level of volumes/enquiry they have seen. Cross Mediterranean Handies started the week in a slow fashion, but as the week progressed enquiry levels picked up and Owners began to build some momentum. With the tonnage list continually being chipped away at, rates were able to move up to 30 x ws 132.5 and 30 x ws 140 for Black Sea liftings. MR activity has been there, but not in vast amounts. Movements West (TA) have traded around the 37 x ws 90 mark and similarly no change on Red Sea discharge as rates hold at \$700k basis central Med load.

## Clean Product Tanker Spot Rates



## UK Continent

As week 25 comes to a completion, we can look back and be pleased with the good levels of enquiry past. With the gasoline arbitrage to the State's remaining open Owners throughout the week have been able to claw back some worldscale points and TC2 is now up to 37 x ws 97.5. Many feel there was potential for MRs to push some more however, prompt LR1s have remained the thorn in the side with many MR stems going on bigger tonnage. Looking ahead, a firm eye will be on the TC14 market and what affect ballast tonnage could have up on the Continent, but with gasoline demand increasing down to West Africa and reformat barrels being exported to China, positivity seems to be in air and heading into next week further improvements could be on the cards. Handies have kicked the can down the street this week with very little upside to see from the market. Levels have floated around the 30 x ws 115 mark, but with fresh market enquiry thin on the ground last done levels will be tested. Flexis almost mirror the pain of Handy Owners, as rates have been forced down to fall in line with the Handy market. Owners have little chance to see any improvement ahead and presently will fall in

line with the bigger tonnage. Levels close the week at 22 x ws 155.

## LRs

As suspected the first half of the week was tough for both LR1 and LR2 Owners. Rates were under pressure due to the lengthy tonnage list and limited inquiry. Due to this, Owners have been scouring the market for alternative options. Vessels have ballasted from both the Continent towards the Mediterranean (particularly on the LR2s), from West Africa around the Cape of Good Hope towards the AG and we have also seen vessels ballast through to the Red Sea. On top of this, a few Owners have also been actively looking to dirty up. However, from the mid-week stage onwards some signs of life have appeared in this market. Both LR1s and LR2s are looking really hot in the East and during the back end of the week; we have seen a surge in MR activity and a handful of LR1 stems hit the scene. Rates remain under pressure still given the oversupply of tonnage in the area; although the foundations are being laid for a better week 26. LR2 Baltic/Japan rates hover around \$1.85million, LR1 ARA/WAF runs are achieving 60 x ws 65 with similar levels touted to go TA and fresh tests show Med/Japan paying \$1.2million.

# Dirty Products

## Handy

Activity in the North this week appears to be front end laden and on reflection, what an exciting few days they were! All the firm tonnage able to make end month dates was snapped up in a frenzy leaving the tonnage list decimated with Charterers seeking alternate sized tonnage come Friday. This said, levels failed to elevate beyond a 5 point medium, which for some is perhaps a little puzzling considering the supply and demand alterations. Nevertheless, solid foundations have now been laid, and with July dates creeping into the mix, sentiment could well see positivity ahead. In the Med conditions have been replicant to that of the Continent, as Charterers scrambled to cover fixing dates that began stretching forward in view of necessary lead time. As a result, increment had been placed between deals leading to market peaks of 30 x ws 170. Elsewhere, more conventional cross Med movements also felt the heat, with owners re-applying differentials on surrounding trade routes.

## MR

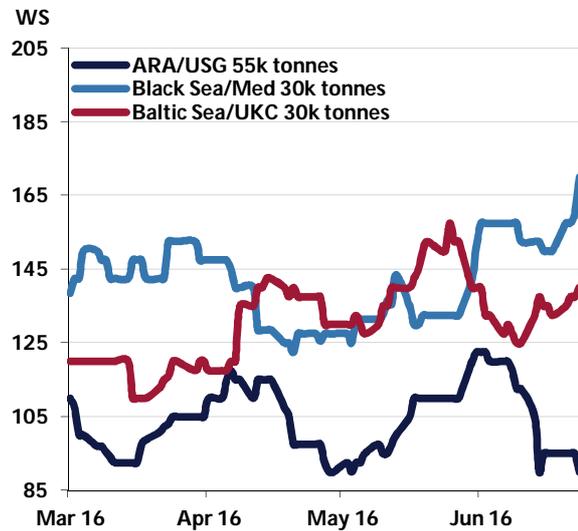
So often in this sector where surrounding markets experience a run on fixing, sight is often shifted towards this sector where a \$/MT saving is potentially available. This week both the Med and Continent show such examples where levels in both regions witness increment through sustained activity. Looking ahead, this now places the MR sector in a period of resilience, as it is likely that firm conditions will carry forward for as long as it takes the tonnage to repopulate.

## Panamax

Expecting a second week of activity like what we had recently witnessed was perhaps asking a lot from a sector well known for its boom or bust trading patterns, and for those left trying to secure employment this week, such markets could only be found etched into the history books. To summarise the week, conditions in the US slowed losing a bit of its value, which also echoed on this side of the Atlantic where at time

of writing we see numbers again falling south of the ws 90 mark.

## Dirty Product Tanker Spot Rates



## Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	June 23rd	June 16th	Last Month	FFA Q2
<b>TD3</b>	VLCC	AG-Japan	+2	45	43	61	53
<b>TD20</b>	Suezmax	WAF-UKC	-17	70	87	60	77
<b>TD7</b>	Aframax	N.Sea-UKC	-3	123	126	120	110

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

			wk on wk change	June 23rd	June 16th	Last Month	FFA Q2
<b>TD3</b>	VLCC	AG-Japan	+1,500	27,000	25,500	45,000	36,250
<b>TD20</b>	Suezmax	WAF-UKC	-250	32,500	32,750	18,250	27,000
<b>TD7</b>	Aframax	N.Sea-UKC	-2,750	38,500	41,250	35,500	25,750

## Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	June 23rd	June 16th	Last Month	FFA Q2
<b>TC1</b>	LR2	AG-Japan	+0	80	80	98	
<b>TC2</b>	MR - west	UKC-USAC	+4	95	91	116	100
<b>TC5</b>	LR1	AG-Japan	+4	95	90	105	92
<b>TC7</b>	MR - east	Singapore-EC Aus	+1	172	171	181	

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

			wk on wk change	June 23rd	June 16th	Last Month	FFA Q2
<b>TC1</b>	LR2	AG-Japan	-500	12,750	13,250	18,250	
<b>TC2</b>	MR - west	UKC-USAC	+250	7,250	7,000	12,000	8,250
<b>TC5</b>	LR1	AG-Japan	+250	11,250	11,000	13,750	10,750
<b>TC7</b>	MR - east	Singapore-EC Aus	-500	14,000	14,500	16,000	

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

ClearView Bunker Price (Rotterdam HSFO 380)	+12	238	226	220
ClearView Bunker Price (Fujairah 380 HSFO)	+15	250	235	245
ClearView Bunker Price (Singapore 380 HSFO)	+19	248	229	224
ClearView Bunker Price (Rotterdam 0.1% LSFO)	+12	439	427	423

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