

# Is the curtain up on US Crude Exports?

## Weekly Tanker Market Report

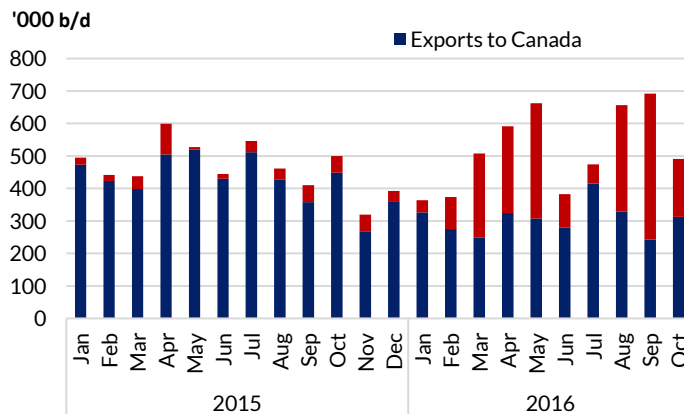
Hardly had the creases fallen out of the new drapes in the Oval Office, when the new president commenced overturning several key pieces of legislation implemented by his predecessor. One item of significance to the oil trades was the decision to give a second chance to two controversial oil pipelines. President Trump signed executive orders supporting two projects, Keystone XL and the Dakota Access pipelines, both of which had been opposed by environmentalists under the Obama administration and halted as a consequence.

In particular, the Keystone XL pipeline will run for 1,179 miles from Alberta, Canada to Steele City, Nebraska where the pipeline will join the existing network. The new section is designed to increase capacity to 830,000 b/d from the present 550,00 b/d, providing a more direct route from Canada to the US Gulf Coast via Cushing. Following president Trump's decision, TransCanada immediately submitted an application to the US State Dept. for approval to restart the mothballed project. The pipeline is a privately financed deal. This coupled with the desire to use US produced pipe and labour, makes it attractive to the new administration. However, this particular project may not be a done deal as it is almost certain that opposition to the project could once again cause disruption to the progress.

Apart from the latest developments in terms of Canadian crude pipeline infrastructure to US, we are also likely to see a significant rise in US crude exports for several reasons. Crude exports ramped up much more quickly than expected in 2016 and we are presently seeing the all important US rig count rising. International oil prices are also rising and more efficient US shale production techniques are providing better margins for the oil producers. The new president's policy "America first" and in particular, providing energy security as well as providing jobs for American workers was a major part of the Trump election campaign; meaning less dependence on crude imports. In this area, another Trump proposal is to bring in a "border adjustment tax" (BAT); which, if implemented, could add 20% to the price of imported crude (& products). The proposed legislation will directly have an impact on imports, primarily seaborne if the Canadian pipeline is built. Also, the same will boost domestic production. Goldman Sachs believes will lead to a ramp up in US production, resulting in a large oil surplus in 2018. Some will go into domestic refineries, but crude exports could also rise. US refineries have been running in the range 90-95% capacity for some time and, with few major enhancement projects on the horizon, any surplus of crude produced will be up for overseas sale.

Putting all the above together, prospects for a rapid increase in US export crude is finally beginning to look a real possibility. In addition, although the potential decline in seaborne crude imports, at first

### US Crude Exports



glance, sounds like bad news for tankers, existing crude exporters to the US will need to seek alternative markets but this could actually benefit our market. Venezuelan and West African barrels would in all probability be shipped to the Far-East and India, supporting tonne miles. Another issue here to consider will be the price differential between WTI and the international Brent price which will also influence imports/exports. The US is also taking steps to improve export infrastructure. One of the first cargoes, following the lifting of the export ban in December 2015, loaded at the 2 million barrel Occidental storage facility at Corpus Christi, Tx. Plans to upgrade the 300,000 b/d facility include deepening

and widening the Channel to accommodate Suezmaxes. Other projects in the Gulf are also taking place. So perhaps we will see larger volumes of US crude exports, the question is how quickly this will happen and how large the volumes will be?

## Crude Oil

All rates on 2017 Worldscale throughout the report.

### Middle East

Having taken a hard hit prior to the long Chinese holidays, VLCC Owners had to endure another phase of thin interest that more definitely shifted the rate range to lows of ws 55 East for new buildings with a top of ws 70 payable to the most favoured units and to as low as ws 37 to the West. Activity did start to pick up at the week's end, however, and a busier week to come should prevent further slippage. Suezmaxes drifted lower again on very easy supply and limited interest. Rates to the East eased to ws 72.5 with as low as ws 36 called for runs to the West and no early turnaround in sight. Aframaxes bumbled along and had to give a little ground eventually to 80,000 by ws 115 to Singapore with further drift a possibility into next week.

### West Africa

Suezmaxes had hoped that a bottom had been reached here, but another very slack week meant that the pressure continued to weigh and rates stumbled even lower to 130,000 by ws 67.5/70 to USGulf and to ws 70/72.5 to Europe. The situation looks very unlikely to change positively over the early part of next week, at least. VLCCs eventually found a clutch of cargoes, but Owners had to settle at a little lower - ws 71.5 to the East and \$3.275 million to West Coast India - though should retain those small premiums over AG/East numbers upon the next upcoming deals.

### Mediterranean

Aframaxes fell further to 80,000 by ws 87.5 X-Med, but then a more frantic spell of bargain hunting ensued to halt the slide and perhaps lead to some mild degree of rebound next week. Suezmaxes had been helped by solid Eastern demand paying up to \$3.1 million from the Black Sea to China, but local business remained very modest and rates to Europe chipped lower to 140,000 by ws 77.5 with easy availability likely to take some time to absorb.

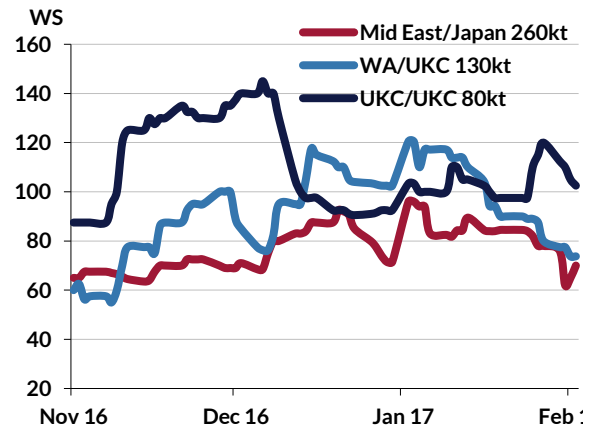
### Caribbean

A slow slide for Aframax - from 70,000 by ws 165 to around ws 120 upcoast and Owners will be hoping for some further weather disruption to provide an upward catalyst, though none seems on the early cards. VLCCs hardly scored at all, so rate levels remain largely theoretical - lower than 'last done', but uncertain as to by how much - \$4.75 million to Singapore and \$3.8 million to West Coast India, at best, would probably be asked.

## North Sea

Aframax Charterers spent most of the week getting Owners where they wanted them, at a lower 80,000 by ws 95 X-UKCont and also 100,000 by ws 95 from the Baltic. More fixing/bargain hunting then livened things up a bit, but rates remained stubbornly fixed and a busy re-start to next week will be required to move the market needle. VLCCs did occasionally find partners to the East, but at lower numbers than of late - \$3.8 million for Rotterdam to Singapore and to \$4.9 million for crude to China with similar values expected upon next deals.

## Crude Tanker Spot Rates



# Clean Products

## East

The MRs have this week suffered at the hands of an incredibly weak LR market. Shorthaul has been battered by Charterers down to the \$167.5k level - Charterers repeatedly reminding MR Owners that the LRs are offering similar numbers to keep themselves employed - the threat of using larger tonnage enough to bring down rates. Westbound voyages are down at \$1 million, with Charterers again looking to sharpen further next week. Naphtha runs are down to ws 150, but those stems which have gone on subs have done so internally so could do with a fresh test next week. EAF is the only route which has stayed relatively stable - late replacements have meant that last done is ws 185, but the market remains at ws 175. Expect a fair bit of softening next week whilst the LR market attempts to shift some tonnage, albeit at incredibly cheap freight.

LRs have really struggled this week with LR2s in particular seeing a disastrous collapse. 90,000 mt AG/UKCont has dropped down to lowest levels ever seen of \$1.225 million while 75,000 mt naphtha AG/Japan hovers at ws 80, with returns of about \$2,000 per day. LR1s so far have resisted the real pain by taking MR stems but as MRs free up this will become harder. 55,000 mt naphtha AG/Japan is now ws 105 and 65,000 mt Jet AG/UKCont is \$1.1 million. Next week will likely see further drops on the LR1s though.

## Mediterranean

In a similar turn of events, last week the Handies in the Med traded flat or sideways for the duration of the week. We close with 30 x ws 155 for X-Med voyages and a 10 point premium for cargoes loading X-Black Sea. There were good volumes of

activity early in the week leaving the tonnage lists a bit tight for the remainder of the week. Even though Owners were able to make incremental gains on cargoes with slightly tricky options the general market has remained flat. The same situation looks to persist going into next week.

The MRs have seen good levels of enquiry compared with recent weeks although with a quiet market in NWE Owners have not been able to push rates. Med/Red Sea (basis Jeddah) rates are now around the lumpsum \$700 k and Brazil last is 37 x ws 167. These rates look to hold for now, but could have a fresh negative test next week if the market stays subdued.

## UK Continent

All in all week 5 has proven to be a rather lacklustre for MRs plying their trade in NW Europe. With the gasoline arbitrage slammed firmly shut to the states, TC2 volumes have lacked resulting in rates consistently coming under pressure. The front of the tonnage list was dominated by last palm/molasses tonnage which saw charterers lock in numbers around the 37 x ws 135-137.5 at the start of week and this trend was shortly followed for last cargo CPP ships. WAF runs also slipped and close the day at 37 x ws 155 and Baltic runs at 40 x ws 155. Looking ahead if volumes don't increase next week expect further cuts on rates, will be seen.

A rollercoaster week for ice class Handies as freight levels have fluctuated throughout the week. With one Owner holding the majority of the ice class tonnage in the back end of the week they have been able to push and hold

rates holding their monopoly. Enquiry has been slow as the weekend approaches suggesting that the positivity seen late in the week is likely to come under pressure early next week. X-Cont cargoes have been few and far between, but with plenty of tonnage, rates are unlikely to be exciting for Owners.

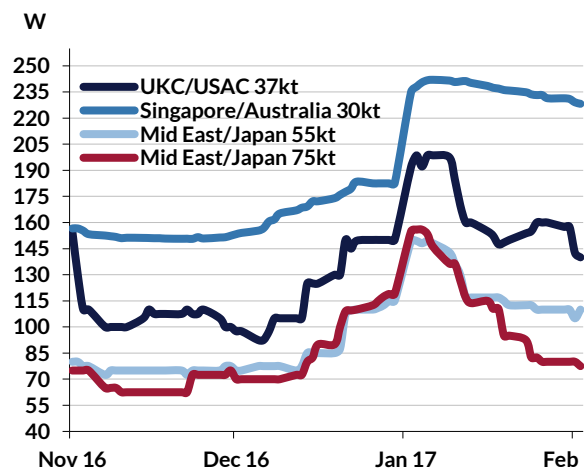
Not much to report on the Flexi market this week as spot enquiry has been super light. Owners once again have been reliant on contracts they have in place to keep their tonnage employed. For now the Flexis continue to trade flat at 22 x ws 210.

## LRs

It has been a pretty uneventful week for the LRs in the West as just a trickle of LR enquiry has been seen. As each day has passed, the outlook for LR1s has deteriorated as the list of options available to Charterer's has steadily grown. There have been a few decent rates achieved by Owners, but these are mainly by replacements and or for vessels able to load earlier dates. However, at the time of writing, there are prompt vessels on the Continent, in the Mediterranean and that does not take into consideration the many ballasters on the horizon from Brazil and West Africa. TC16 has remained flat for a few days now at 60 x ws 132.5 and the last done level seen for a trip to the East was a UMS cargo from ARA/AG at \$1.175 million. week 6 is set to provide fresh tests on many of the LR1 routes with Charterer's eyeing up a chance to slice some meat from the bone.

For the best part of the week LR2s have looked steady with even a chance of some upside for Owners. In terms of rates, 90 x ws 110 has been repeated a few times for ARA/WAF runs, Owners have been rating ARA-Spore runs at \$1.8-85 million and TC15 has been hovering around the \$1.95 million mark. Unfortunately, for Owners however, a few new positions have entered the frame, the Aframax market has slumped in the Mediterranean discouraging LR2s to switch to trade dirty and a few cargoes have failed to materialise. Subsequently, the outlook has slightly softened.

## Clean Product Tanker Spot Rates



# Dirty Products

## Handy

It was a week of two halves in the Continent, with a healthy amount of activity to start keeping rates steady at ws 225 levels. Despite the positive start, levels of enquiry started to decline as the week drew on and this showed when numbers took a wobble with ws 220 reported. Closing the week naturally placed units being shown remain slightly depleted and there is a sense that it would not take much for Owners to start pushing for increment should a handful of cargoes appear early next week.

Delays and shaky itineraries continue to have an effect on the market in the Mediterranean this week with Turkish Strait delays averaging about 3 days and Central Med positions questionable, Charterer's have had to be careful with tonnage selection. Despite this as we headed further into the week, the volume of cargoes seemed to drop and Owners have not been able to sustain these favourable levels, closing the week X-Med reportedly trading in the ws 185 - 190 region.

## MR

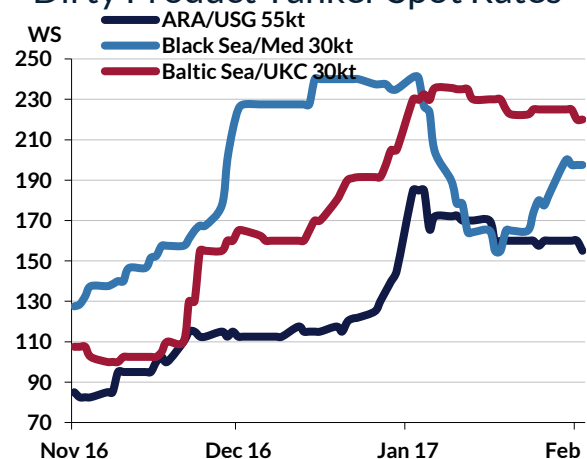
The Continent market this week remained dormant, which was to be expected with naturally placed units lacking and reports of full sized stems becoming a distant memory. Charterer's eyes would have been focused on nearby regions in order to pull tonnage. As of now we are still patiently waiting to see the first acid test basis 2017 flat rates, but with a couple of vessels due to open in the region, next week may just bring the first.

Different story in the Mediterranean with Charterer's not having to look too far to find coverage with units remaining well spread throughout. With the X-Med market reportedly trading at ws 150 levels and with options still available, Charterer's may just feel they have the upper hand despite the market appearing flat on the surface. Nonetheless heading into next week, a close eye must be kept on itineraries with rough weather due.

## Panamax

The Continent market has seen about as much action as a game of chess at checkmate. Despite this part of the world lacking naturally positioned units, it has been an uneventful week and ideas of where this market stands at the close of business today, remains unchanged. It wasn't much more exciting in terms of cargoes in the market in the Mediterranean, however, the combination of ballast units from the East, the Caribs market softening and vessels opening in the region was too much for rate stability and at the close of business week 5 rates at 55 x ws 117.5 look again, vulnerable.

Dirty Product Tanker Spot Rates



## Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 2nd	Jan 26th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	-12	67	78	92	59
TD20	Suezmax	WAF-UKC	-13	73	86	109	76
TD7	Aframax	N.Sea-UKC	-12	101	113	100	107

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

			wk on wk change	Feb 2nd	Jan 26th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	-10,250	27,500	37,750	48,000	20,500
TD20	Suezmax	WAF-UKC	-5,000	12,500	17,500	27,000	13,500
TD7	Aframax	N.Sea-UKC	-11,250	10,250	21,500	11,250	14,750

## Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 2nd	Jan 26th	Last Month	FFA Q3
TC1	LR2	AG-Japan	-3	78	80	153	
TC2	MR - west	UKC-USAC	-18	144	162	197	136
TC5	LR1	AG-Japan	-1	110	111	145	107
TC7	MR - east	Singapore-EC Aus	-5	228	233	242	

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

			wk on wk change	Feb 2nd	Jan 26th	Last Month	FFA Q3
TC1	LR2	AG-Japan	-1,000	2,500	3,500	20,250	
TC2	MR - west	UKC-USAC	-3,000	8,750	11,750	16,750	7,750
TC5	LR1	AG-Japan	+0	7,000	7,000	11,750	6,250
TC7	MR - east	Singapore-EC Aus	-750	11,750	12,500	11,250	

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

ClearView Bunker Price (Rotterdam HSFO 380)	-1	302	303	316
ClearView Bunker Price (Fujairah 380 HSFO)	-3	322	325	348
ClearView Bunker Price (Singapore 380 HSFO)	-6	324	330	356
ClearView Bunker Price (Rotterdam LSMGO)	+26	491	465	468

[www.gibsons.co.uk](http://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](mailto: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

**Beijing**

Room B1616,  
Huibin Building,  
No 8, Beichen East Road,  
Chaoyang District,  
Beijing 100101