

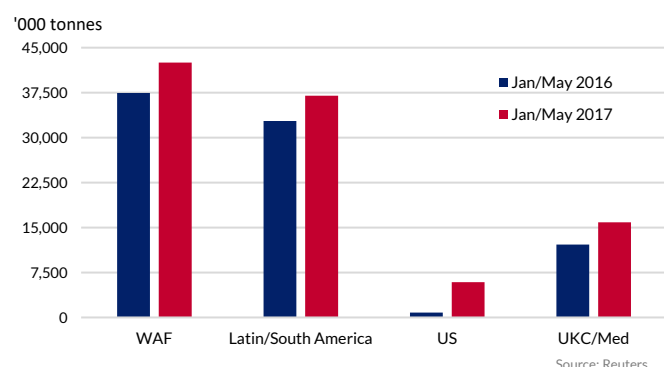
Extending the Pain

Weekly Tanker Market Report

The announcement made last week by OPEC and a number of non-OPEC producers to extend production cuts to March 2018 has important implications for the crude tanker market, in particular VLCCs. Cutbacks largely originate out of the Middle East, where most VLCC trade comes from. During the 1st five months of this year, VLCC spot earnings on the benchmark trade from the Middle East to Japan averaged \$27,000/day, less than half the level of TCE returns witnessed over the same period last year. Although \$27,000/day is still not bad by conservative estimates, extending cuts for another nine months will coincide with continued rapid growth in the tanker fleet. Between now and the end of March 2018, 34 VLCCs are scheduled for delivery, while 25 tankers have already been delivered since the beginning of the year. Although slippage in terms of delivery dates is likely to continue; nonetheless, we will still see a robust growth in the VLCC fleet size.

Furthermore, if OPEC succeeds in its intention to rebalance oil markets, this will translate into a further decline in VLCC floating storage, a big support factor to the market since early 2015. The total number of VLCCs involved in various non-trading activities (primarily storage) is already down. The latest count is at 23 units, down from 38 tankers at the end of last year, with the decline driven by Iranian and non-Iranian crude storage. The extension of production cuts during the 3rd and 4th quarters of this year, the

Volume of Crude/Fuel Oil shipped on VLCCs to the East
By departure date



time when demand usually registers strong gains, suggests that there could be a further draw in a number of VLCCs involved in floating storage.

On this basis, the downturn in the VLCC market is likely to accelerate in the short term. Yet, there may be a silver lining, which could offset at least partially the looming crisis for VLCC owners. Large scale cutbacks in the Middle East crude availability are stimulating long haul trade of Atlantic Basin crude to the East, in part being driven by the increase in value of regional barrels relative

to the Atlantic Basin benchmarks. Analysis of AIS trade data shows that in terms of absolute volume of crude and fuel oil shipped on VLCCs, long haul trade from West Africa to the East increased by 13.5% between January and May 2017, compared to the corresponding period last year. The picture is similar for trade from Latin/South America: here the volumes shipped increased by 13%. An even bigger increase in VLCC shipments was observed from North West Europe/Mediterranean and the US Gulf. The volume of dirty shipments on VLCCs from North West Europe and Mediterranean to the East jumped by over 30% this year, while trade from the US witnessed a spectacular six fold increase. If Middle East crude exports remain restricted, while demand in Asia continues to rise, this will only stimulate further growth in long haul trade to the Pacific Basin.

Similarly, a question mark remains over the potential recovery in Nigerian and Libyan crude production. Any further increases in output in these two countries will not only offset some of the efforts made by other producers but will also provide further support to long haul trade. Finally, as long as the restraint is exercised by OPEC countries, this will stimulate further growth in US crude output and exports. If a major recovery is witnessed in the US shale output during the period, the same could deter the release of tonnage from floating storage duties.

All in all, the next nine months may prove to be not as bad for VLCC owners as some feared. However, as always is the case, the future fortunes do not only depend on the market fundamentals, but also owners' confidence or the lack of it...

Crude Oil

Middle East

VLCC rates initially dropped to as low as ws 39 to the Far East and the lowest of the year so far. Once they had, however, the bargains proved too hard for Charterers to resist and they responded by swamping the market with fresh enquiry. Rates did then recover a little to ws 50 East and mid ws 20's to the West upon the sheer momentum but consistently good availability prevented any noticeable spike. There remains a possibility of further improvement into next week, but an easier pace would compromise. Suezmaxes found no such attention and merely drifted lower as tonnage lists grew. Rates ease to under ws 70 to the East and into the high ws 20's to the West. Aframaxes posted no change over the week - slow and well tonned...rates stuck at around 80,000 by ws 100 to Singapore now, and over the near term at least.

West Africa

Suezmax Charterers became less and less willing to trade as the week wore on. Owners, in the meantime, eyed increasing committed competition and rate demands eased accordingly. 130,000 by ws 75 for both US Gulf and Europe looks a realistic next rate-ledge but even that may not be considered low enough to provoke heavier levels of enquiry. VLCCs remained steady through the period with a tendency to the upside to maintain the positive differential over AGulf numbers. 260,000 by no less than ws 55 to the Far East with \$2.8 million the last paid to East Coast India. Further improvement will be steered by middle eastern fortunes.

Mediterranean

A big correction for Aframaxes here - ws 150 to ws 95 Cross Med - in steady downward steps. Supply outweighs modest demand and rates looks set to remain at bottom hugging numbers for a while yet. Suezmaxes mirrored West African retreat as local interest eased and the bad news from the South impacted. 140,000 by ws 77.5 from the Black Sea to European destinations currently and an early turnaround unlikely.

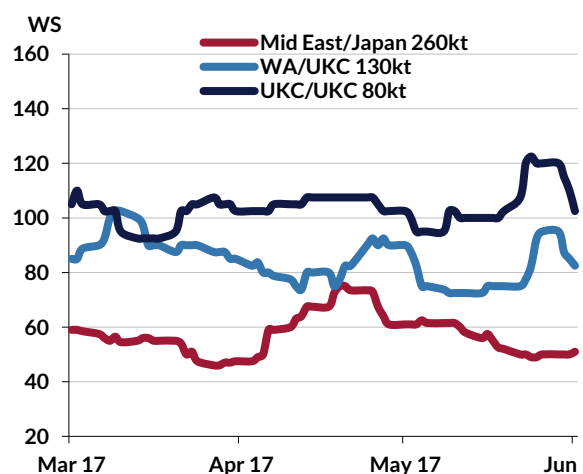
Caribbean

Softer here too for Aframaxes that began to become more populous on the fixing window to then slow Charterers' hands which in turn led to lower rates of down to 70,000 by ws 112.5 upcoast. Still perhaps not low enough to get things buzzing again though. VLCCs were steadily cleared from earlier positions but no pinch points developed and rates fell off to \$3.1 million to Singapore and \$2.6 million to West Coast India - levels that should just about hold upon the next fixing phase.

North Sea

A holiday shortened week never really got moving for Aframaxes - worse, it became so slow that Owners were forced to accept noticeable discounts to end the week at 80,000 by ws 97.5 Cross UK Cont and 100,000 by ws 77.5 from the Baltic. A thin projected urals stem list will continue to weigh. VLCCs were occasionally taken but many Charterers struggled to make sense of the \$2.8/2.9 million asked for Fuel Oil runs from Rotterdam to Singapore and with some gains now being seen in West Africa, Owners ideas are unlikely to slide much further.

Crude Tanker Spot Rates



Clean Products

East

Although the MRs started the week at a decent pace, they lost momentum as the week progressed, with more interest pushed towards the slightly more active LR market. Shorthaul has suffered slightly from an overtonnaged LR1 list, with last UMS ships unable to do TC5 so trying their hand at MR shorties. \$170k is where the market finished this week, with US\$ 420k again the level to go into the Red Sea. A surplus of tonnage now in the Red Sea means it is no longer such an attractive voyage, and we are seeing Owners ballast back to the Gulf looking for work. West runs are slightly unpopular currently, and need a fresh test from the AG. An uncovered Kuwait load is too forward to cover currently, but general market sentiment suggests that \$ 950k should cover an AG load jet stem. TC12 is due to see some improvement, having for a long time been considered a paid ballast back East for Eastern Owners, and although we have seen ws 124 fully fixed, next done seems to be heading up towards ws 130 levels. East Africa has been a stalwart popular route - it keeps Owners local and tidies them away for a couple of weeks whilst the market improves they hope. Ws 145 has been the market level all week - with multiloaded market cargoes fixing higher but not being market representative.

Mediterranean

The Med Handies seem to have slipped back to their normal ways of trading rather flat. X-Med has managed to move sideways 30 x ws 140 for the duration of the week with the occasional gain or loss for a tricky or easy load. The pace at which cargo is entering the market and ships are being recycled remains balanced leaving us with a similar situation going into early next week. The Black Sea did manage to hold onto 30 x ws 155 for a day or so extra before falling to the standard +10 point premium over X-Med as a similar situation is present here.

The tight and relatively active market early in the week seen in the North was giving some serious hope to MR owners in the Med which has experienced

a distinct lack of tonnage for the past fortnight. However a fresh market quote run to Brazil late in the week going on subs 37 x ws 175 is much lower than where the mostly bullish Owners would have expected the cargo to fix suggesting the market is a little more flat than first thought. Otherwise enquiry remains for the most part relatively quiet and 'under the radar'.

UK Continent

All in all volumes across the board have been much better throughout week 22 for MRs plying their trade up on the Continent. Transatlantic has been the main catalyst behind Owners being able to maintain/stabilise the TC2 market at 37 x ws 155 up until the midweek point of the week. As Thursday morning arrived a standoff occurred between Charterers & Owners fixing ideas but eventually a few hidden positions enabled the market to slip to 37 x ws 150. Looking ahead the MR tonnage list looks tight within the 5-10 fixing window but anything past that there seems to be much more availability for Charterers.

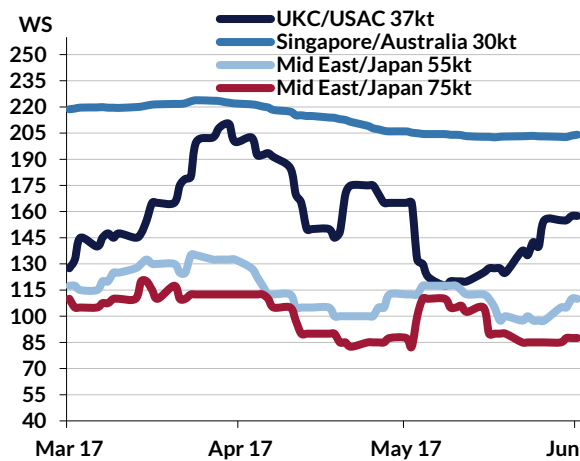
Handy freight rates have also seen an increase this week with Baltic runs now trading at 30 x ws 145 and X-UKC at 30 x ws 140. With some distressed MR cargoes having to seek Handy coverage in order limit their exposure resulted in a good amount of tonnage being sent long haul. That being said, the market has ended on a quiet note and with a number of countries looking forward to a 3 day weekend, pressure could eventually build on the owning fraternity and see a slip on levels.

Flexis have also made up for some lost ground as a natural correction has happened due to Handies picking up. COAs still dominate the majority of this market but a few fresh spot tests have seen the market rise to 22 x ws 180.

LRs

LRs have had a better week with rates across both sizes moving up. LR1s have seen the better movement with 12.5 ws points increase on TC5 with 55,000 mt naphtha AG/Japan now at ws 110. West voyages are a little less established but 65,000 mt jet AG/UKC is now back to \$1.10 million and there may be more to come reflecting the TC5 move. LR2 rates have also seen improvements but it has been slower. 75,000 mt naphtha AG/Japan is now ws 90 but will probably see another 2.5-5 points next week. 90,000 mt jet AG/UKC has moved some \$50k firming to \$1.375 million. Again there may be more next week but it will need a little more volume.

Clean Product Tanker Spot Rates



Dirty Products

Handy

The shortened week for many seemed to make the Continent market fall asleep as there was little enquiry and minimal fixtures to report. This glitch in activity slowed momentum for Owners and dented their previous week's efforts with last done coming off. Whether this week will have a detrimental effect on Monday's trading conditions remains to be seen, however rates look in a much stronger position when comparing to their cousins in the Mediterranean...

Where do we start...Black Sea stems could be counted on your hands which usually is the driving force in this market. Further to this, tonnage in the Mediterranean was top heavy and this was simply too much for rates to sustain last week's levels. With multiple vessels ballasting into the region and central and West Med tonnage building, owners will be hoping next week's enquiry will be this market's saving grace, albeit at vastly reduced levels.

MR

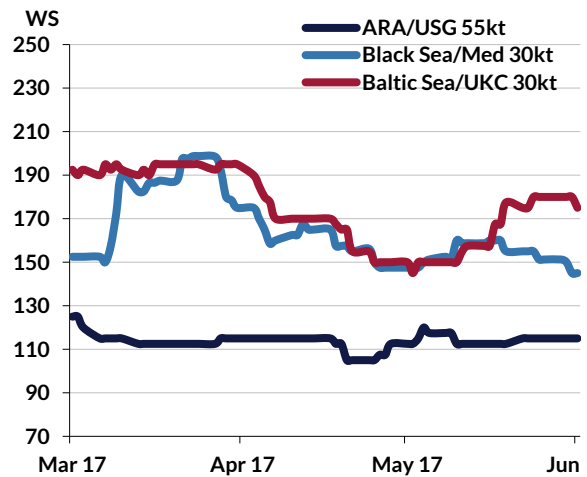
Keeping the trend of the week in the Continent region, the market continues to lie in wait as naturally placed units remain scarce and activity remained overall silent. Vessels in nearby regions were closely monitored although with the Mediterranean market looking depressed owners in play are now making efforts to head on up in search of employment, which is handing Chartering the initiative.

A recurring theme this week whereas the days passed by, hopes faded of seeing Charterers switch their attentions to this size of unit. Being left bitterly disappointed, this sector looks primed for negative correction, with Charterers spoilt for choice on tonnage, next week will be a tough one from an Owner's perspective.

Panamax

Coming into the week with tonnage looking more well stocked, Charterers were hoping to see a readjustment of rates. Tests this week however showed repetition at the ws 115 mark with testament to Owners resolve where negativity could have been a distinct possibility. This said, activity States Side came to the rescue just in time, clearing down excess availability on the front end of the lists.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	June 1st	May 25th	May 4th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	-1	49	50	61	63	53
TD20	Suezmax	WAF-UKC	-5	83	88	76	92	71
TD7	Aframax	N.Sea-UKC	-17	103	120	96	100	105

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

			wk on wk change	June 1st	May 25th	May 4th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	+500	14,500	14,000	24,250	26,000	17,250
TD20	Suezmax	WAF-UKC	-1,500	17,000	18,500	14,750	21,250	12,250
TD7	Aframax	N.Sea-UKC	-12,500	11,500	24,000	7,000	11,500	13,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	June 1st	May 25th	May 4th	Last Month	FFA Q3
TC1	LR2	AG-Japan	+3	88	85	110	85	
TC2	MR - west	UKC-USAC	+13	156	143	130	169	135
TC5	LR1	AG-Japan	+10	108	98	113	104	128
TC7	MR - east	Singapore-EC Aus	+2	205	203	205	206	

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

			wk on wk change	June 1st	May 25th	May 4th	Last Month	FFA Q3
TC1	LR2	AG-Japan	+1,000	6,000	5,000	11,000	5,000	
TC2	MR - west	UKC-USAC	+2,250	11,000	8,750	7,750	13,250	8,000
TC5	LR1	AG-Japan	+2,250	7,000	4,750	8,000	6,500	10,250
TC7	MR - east	Singapore-EC Aus	+500	9,750	9,250	9,500	9,750	

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

ClearView Bunker Price (Rotterdam HSFO 380)	-15	288	303	273	281
ClearView Bunker Price (Fujairah 380 HSFO)	-18	307	325	298	301
ClearView Bunker Price (Singapore 380 HSFO)	-19	308	327	302	304
ClearView Bunker Price (Rotterdam LSMGO)	-19	441	460	421	442

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