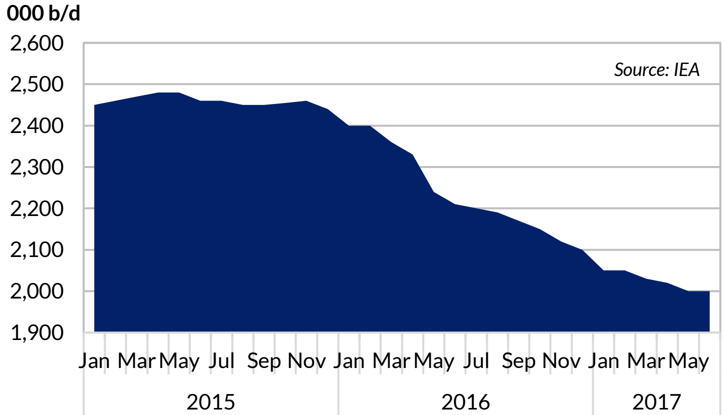
Making Sense of Sanctions - Venezuela

Weekly Tanker Market Report

Often developments in the world's political arena have important repercussions for the tanker market. The recent events in Venezuela are a good example. In late July, the US Treasury imposed sanctions on a number of Venezuelan politicians in an unsuccessful bid to deter the controversial vote for a new constituent assembly. After the elections took place, the US authorities also swiftly sanctioned the Venezuelan president, Nikolas Maduro by freezing any of his assets in the US and preventing US firms and individuals from doing business with him. Much publicity has also been generated about possible further sanctions on the Venezuelan oil industry, in case the US government decides to act upon its threat to take "strong and swift" economic action against the country.

As Venezuela is one of the world's largest crude producers, it is an important market for crude tankers. Venezuelan output has been in decline since 2015, battled by low oil prices and economic/political challenges faced by the country. This year, a further drop in production has been seen, following the implementation of OPEC led output cuts. During the 1st half of 2017, Venezuelan crude output averaged just over 2 million b/d, down by nearly 0.45 million b/d from levels witnessed back in 2015. Despite the decline in absolute volumes, the country continues to export significant volumes of crude. In fact, long haul trade to Asia Pacific has increased relative to 2015 levels, due to the decline in shipments to the US and also following a notable drop in crude throughput at domestic refineries. Crude shipments to China averaged around 0.45 million b/d between January and June 2017, up by around 150,000 b/d versus the same period in 2015.

Venezuelan Crude Production



If US implements sanctions affecting Venezuela's oil industry, these could impact the long-haul trade to the East. One of the most aggressive sanctions being discussed is to ban imports of Venezuelan crude into the US. Although this trade has declined dramatically since 2004, from 1.74 million b/d to 0.73 million b/d during the 1st four months of this year; nonetheless the volume shipped remains substantial. If it is blocked, the vast majority of these barrels are likely to be shipped further afield, mostly to Asia Pacific, offering a major boost to long haul VLCC trade at expense of short haul Aframax business to the US. US refiners will also find themselves in need to replace Venezuelan barrels with similar quality crude, which again will be sourced from somewhere else.

Another path of possible sanctions is to block oil exports to Venezuela. The country is a regular buyer of US light crude and naphtha for blending with its own heavy grades. Due to problems faced by the domestic refineries, Venezuela also imports gasoline and distillates from the US. If the US authorities decide to go down this route, Venezuela will be forced to source both light crude and products from further afield.

Finally, media reports suggest that the US authorities are considering banning the use of the US dollars in PDVSA oil transactions. This scenario is also likely to support long haul trade to Asia, in particular China and India, as was the case when Iranian nuclear sanctions were in place.

At this stage, there is a lot of uncertainty and speculation on what shape future US sanctions against Venezuela will take, if any. However, undoubtedly, any of the above will have consequences for the tanker market. In any case, even a threat of further US actions against Venezuela's oil sector could see the country putting extra effort into expanding crude trade to Asia at expense of shipments to the US.

Crude Oil

Middle East

No relief for beleaguered VLCC Owners... heavy availability continued to meet with too modest demand and rates have now hit new lows of the year. Under ws 40 to the East has been seen with down to the very low ws 20's to the West. Further downside will be limited but a rebound looks to be a long way off also. Suezmaxes, however, did become tighter on early dates and reasonable activity allowed for rates to nudge higher to ws 70+ to the East and to ws 30 to the West with premiums for Iran load still a feature. Aframaxes saw steady action but the market always fell shy of achieving critical mass and rates remained in a ws 85/90 range to Singapore but with some hope for modest improvement next week.

West Africa

Suezmax Owners had hoped for last week's groundwork to provide a foundation for a noticeable step higher. That never materialised, despite a more promising Mediterranean scene that served to restrict the flow of ballasters from the region. Rates stalled at around ws 62.5 to the US Gulf and to ws 67.5 to Europe and it's merely hope again for next week. VLCCs ticked over as Owners fought to defend 'last done' levels in the face of the crumbling AGulf market. Overall Owners were relatively successful in holding a ws 50 line to the Far East with runs to India very scarce but marked as around $2.4 million to East Coast India once again.

Mediterranean

No headlines for Aframax watchers here. A barely steady cargo flow, and easy tonnage lists, pegged rates at around 80,000 by ws 85 Cross Med with no significant change anticipated over the near term either. Suezmaxes kept busy through the week and perhaps should/could have moved higher than 140,000 by ws 77.5 from the Black Sea to European destinations, and around $2.5 million to China. Another busy spell next week would make more of a difference.

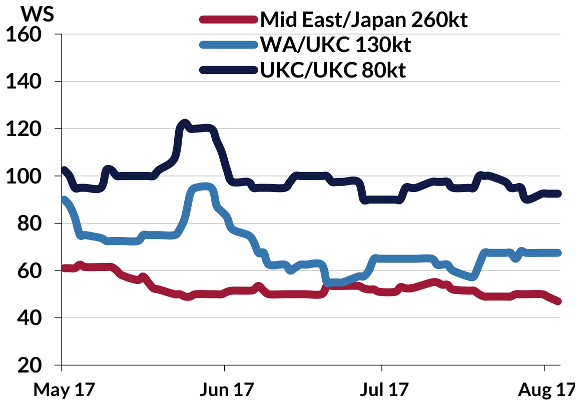
Caribbean

Aframaxes slumped back to 70,000 by ws 90 upcoast, and remained anchored there into the close. There may even be further slippage before the market turns. VLCCs are looking towards more promising times on a finer balance looming on forward dates but although there has been a slight uptick to $2.5 million to West Coast India and to $2.9 million to Singapore, Owners will have to wait a while until those later dates become the fixing window.

North Sea

Another sorry week for Aframxes to endure - a summer grind at little better than 80,000 by ws 90 - again - Cross UK Cont with 100,000 by ws 60 available - again - from the Baltic...to be continued. VLCC 'arbs' didn't work for traders even at the $2.4/2.5 million level Owners were willing for fuel oil to Singapore. Another week, or two, before any solid activity develops.

Crude Tanker Spot Rates



Clean Products

East

The LRs have remained active throughout this week on both the 1s and the 2s, and will start new week on a strong footing. LR2s have not been as busy as they were in previous weeks, but the list remains tight and rates have again been pushed up. West runs have climbed up to $1.8 million, and naphtha runs trading currently 75 ws x 125. There has certainly been a sense of disproportion in terms of West runs, and LR1s presented better value for money and towards the end of the week we saw Charterers try to size down to take advantage of this. The LR1s have been very busy, both for short runs and longhaul. TC5 has moved up to 55 x ws 127.5, and West runs brought up sympathetically to $1.35 million given the movement we have seen on the larger size. Some LR1s have stepped down to do MR shorthauls, and we saw a $245k for a Jubail/Jebal Ali - a sharper number than would have been possible on the MRs. Going into the new week all sizes look active and Charterers will prioritise safe itineraries to avoid any risk of replacing in a firmer market.

Another busy week for the MRs in the AG, there have been plenty of cargoes entering the market and the tonnage list has remained tight throughout the week. The positivity sentiment has continued and Owners have been trying this positively to test rates.

Although rates haven't risen a huge amount, the trend is certainly an encouraging one. AG-EAFR saw a lot of business and saw a rise toward the end of the week to 35 x ws 195 however, ws 197.5 should be achievable. UKC voyages remain undesired given the lack of earnings in the West at present and as such commands a slight premium and sits at $1.1 million. X-AG started the week at the $235k level but slowly gained as the week progressed and finishes at $250 million mark.

Red Sea has been pretty steady at the $500k mark partly due to the fact that Owners are keen to get into the Red Sea given the lack of tonnage to cover the Red Sea cargoes. Naphtha cargoes are completely untested however, with end month stems still to be covered. Finding where the market sits should become clearer towards the end of next week but for now asses it at ws 140. There remain a lot of cargoes still to be covered and the tonnage list goes into the weekend in a tight position. Owners will be looking forward to next week for sure.

Mediterranean

The Handy market has offered little in the way of excitement this week for both X-Med and Black Sea voyages with rates remaining unchanged for the duration giving Owners 30 x ws 117.5-120 X-Med and 30 x ws 132.5 ex Black Sea. The quieter summer months mean that there is little on the horizon that looks to change fortune in the favour of Owners. Expect Charterers to put some negative pressure on rates next week although with earnings around year low level Owners are expected to resist.

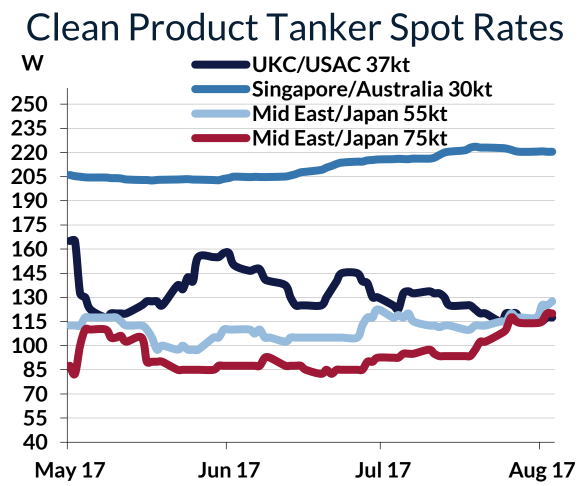
MR action in the Med this week has been relatively quiet and with tonnage readily available for the few pieces of enquiry rates have traded soft with 37 x ws 115 on subs transatlantic whilst Brazil had been done at 37 x ws 131 and on subs again 37 x ws 136.5. Many Owners are unwilling to commit to long haul voyages at these low rates opting for X-Med voyage for Handies instead even as eastbound cargoes are only paying lumpsum $450k into the Red Sea.

UK Continent

MRs stated slowly this week but as the mid-way point elapsed, so picked up enquiry slightly helping Owners hold onto last done rates. Transatlantic voyages have traded around the 37 x ws 117.5 mark with Baltic loads at ws 120 and down to WAFR at ws 135. With every fixture the potential to squeeze 2.5 points seems to be on the cards at the later stages of the week, but so far little success has been had by Owners. Expect more of the same heading into next week, with enquiry needed if Owners are to truly build any higher.

As week 31 comes to a close in the North for the Handies, consistent fixing throughout has helped Owners hold onto rates in the usual quieter summer weeks. A sharp spike in enquiry on Monday morning took out a good level of ships from our tonnage lists and with additional fixing throughout the week, prompter cargoes may struggle to find coverage. But with that in mind, limited cargoes seem left at the close of play and we see Baltic loading held fast at 30 x ws 140 with X-UKC trading 10 points less at ws 130. Expect more of the same as the summer market settles in.

Flexis continue to be relatively uninspiring on the spot market. With rates holding sideways on the back of the stable Handy market leaving Owners looking to achieve either side of 22 x ws 175 depending on the cargo in question. This will persist into next week.



Dirty Products

Handy

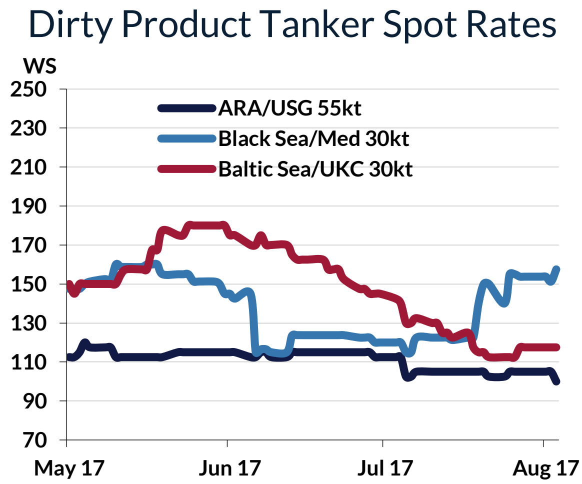
Day by day the continent has done very well at steadily eroding availability and selection at the close of business today is tight up to mid-month dates. Owners have done well at keeping their tonnage moving but rates have not yet been pushed to where we might expect. If Monday is graced with a new dose of fresh enquiry owners will be looking to adjust last done, providing itineraries don't dramatically change over the weekend.

One way traffic in the Mediterranean with Owners able to build off the back of last week's enquiry. Owner's head into the weekend in a strong position with sentiment firming with still some uncovered stems remaining. This end week activity is going to make next week quite lively so securing a ship early Monday morning will be on the back of Charterers mind over the weekend.

MR

Natural sized units remained fairly limited throughout this week in the continent but due to the lack of full sized opportunity Owners in play were unable to take advantage of a limited position list. With the Handy market showing positive signs with vessels being steadily clipped away, unfortunately the rates still have some way to go for Owners to opt to throw their hats in the mix for part cargo stems. Come Monday we may just see a few more workable positions appear and charterers will still sense some sharp numbers will be achievable should dates allow.

Owners in the Mediterranean will be heading into the weekend fairly happy this week as we witnessed a steady amount of 45kt activity keeping the position list ticking along. With only a couple of units left to cover next week it is already shaping up for potential increment. With a frantic finish to the week on Handy stems Owners may be experiencing a few calls for part stem enquiry as this uncharacteristic summer in the Med continues.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 3rd	July 27th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-3**	46	50	61	46
TD20	Suezmax	WAF-UKC	**+1**	67	67	76	70
TD7	Aframax	N.Sea-UKC	**-1**	93	94	96	102

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

			wk on wk change	Aug 3rd	July 27th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-2,500**	11,250	13,750	24,250	11,500
TD20	Suezmax	WAF-UKC	**+0**	10,250	10,250	14,750	11,250
TD7	Aframax	N.Sea-UKC	**-2,000**	1,750	3,750	7,000	8,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 3rd	July 27th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+5**	120	115	110	
TC2	MR - west	UKC-USAC	**+2**	118	117	130	129
TC5	LR1	AG-Japan	**+13**	128	115	113	122
TC7	MR - east	Singapore-EC Aus	**-1**	220	221	205	

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

			wk on wk change	Aug 3rd	July 27th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+1,250**	14,250	13,000	11,000	
TC2	MR - west	UKC-USAC	**+0**	5,250	5,250	7,750	6,750
TC5	LR1	AG-Japan	**+2,000**	9,750	7,750	8,000	8,750
TC7	MR - east	Singapore-EC Aus	**-250**	12,000	12,250	9,500	

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

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