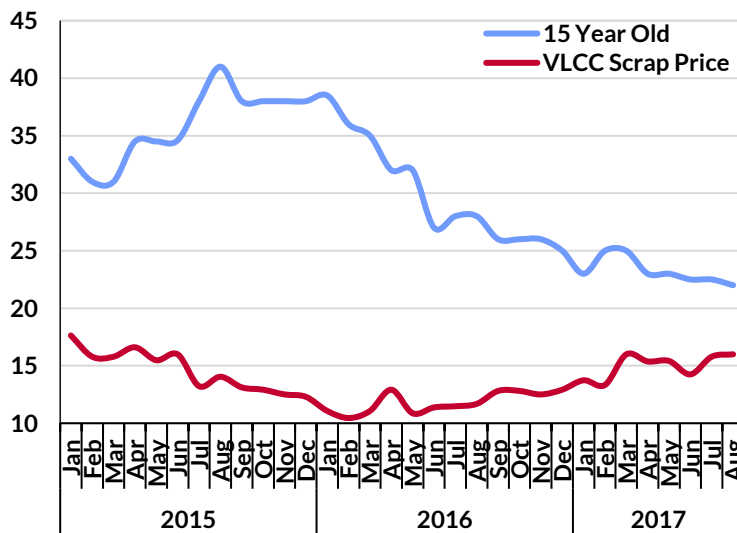


Time to take a Break

Weekly Tanker Market Report

Last September one of our reports focused on the prospects for higher demolition activity for tankers on the back of impending environmental regulation which at that time provided the market with some optimism. The main case for our optimism was the introduction of the Ballast Water Management Convention due to enter into force this September. However, owners were successful in lobbying Flag States to provide a loophole mitigating their exposure to an unpopular act. Analysts were forced to revise the impact of this piece of legislation. Last month, under pressure, the IMO announced a further two year delay to implementation, which provided some owners with an additional reprieve. (see Market Report 14th July). The second item of legislation was the introduction of the Global Sulphur limits to be implemented from 1st January 2020. This legislation now appears to be 'set in stone' despite the ongoing arguments on the availability of compliant fuels, and at what cost and the use of abatement technology etc. Last September most analysts believed that owners faced with all the associated costs of complying with legislation would opt to scrap older tonnage.

VLCC 15 Year Price vs. Scrap Price (mil \$)



As August commenced, it was clear that most sectors of the tanker market were entering the usual summer doldrums and that pressure on rates would provide owners with a severe headache as they left on their summer vacations. The influx of newbuilds over the first half of the year adds more pressure and the wave of low priced orders only raise concerns further down the line. But, perhaps the tanker sector may be on the cusp of a wave of demolition forced by market conditions rather than the impact of legislation? Over the last 30 months, poor trading conditions and a heavy influx of newbuilds in other shipping sectors saw over 850 bulk carriers consigned to the acetylene torches and over

270 container ships doomed to a similar fate. Over the same period, less than 100 tankers (25,000 dwt+) have been sold for recycling. Could the tanker market be entering a similar period where firm rates will be a challenge and the slump prolonged?

As well as the present malaise covering much of the tanker market, several indicators are flagging up the potential for an upturn in tanker scrapping. First of all, we have already exceeded last year's total by more than 1 million tonnes deadweight. Perhaps not too hard to beat given last year's all time low total, but significantly 1.8 million deadweight has been committed since June, perhaps another indicator that tanker scrapping may be taking off? Sales to Indian and Bangladeshi breakers have accelerated despite the monsoon season which usually means much slower activity. Also scrap prices on the sub-continent are around \$100/tonne higher than this time last year which might add incentive and we are beginning to see 15 year old second-hand prices converge with rising lightweight prices. Another pressure is that storage employment opportunities for VLCCs are also diminishing.

It is also apparent that more tankers are being circulated amongst brokers as potential demolition sales. Several owners with fleet renewal programmes may be anxious to scrap rather than place tonnage for sale to competitors. Cash generated by sales could also be welcome by owners to see them through the current lull in the market. Owners presently on holiday may be spending more time looking at spreadsheets rather than relaxing pool side.

Crude Oil

Middle East

A miserable repeat performance for bottom scraping VLCCs. Little more to say really...heavy availability remains as the market moves into the last phase of the August programme and no positive catalyst in near/medium term sight. Rates operate down to as low as ws 37.5 to the East and very low ws 20's West. Suezmaxes lost the little potential they had from last week's mini-push and settled back on easier tonnage and modest demand to just under ws 30 to the West and to ws 65 to the East. Aframaxes also failed to build upon a restricted cargo flow and rates moved off to the lower end of their recent rate range - ws 85 now to Singapore with similar expected over the coming week.

West Africa

A more restricted flow of Suezmax ballasters continued to give Owners hope of improvement, but Charterers kept the fixing pace slow and rates merely remained at last week's levels - ws 62.5 to the USGulf and little better than ws 65 to Europe. Perhaps more attention next week will have the desired effect. VLCCs initially dipped to ws 47.5 to the East, but regained just a little poise to then re-trench at ws 50 and Owners will continue to stubbornly defend the 'insurance' differential over leading AG/East numbers as voyage durations eat deeper into the hoped for better yielding 4th quarter.

Mediterranean

Day on day the same sorry story for Aframaxes - ample supply and soggy demand. Rates were already poor, but now move off even further to 80,000mt by ws 77.5 X-Med with no early turnaround likely. Suezmaxes, on the other hand, stayed busy through the week and early dates became quite tight. Rates nudged up towards 140,000mt by ws

80 from the Black Sea to European destinations with around \$2.5 million asked for runs to China. A slight end week slow-down, but potential replacement needs should allow Owners to defend their lines.

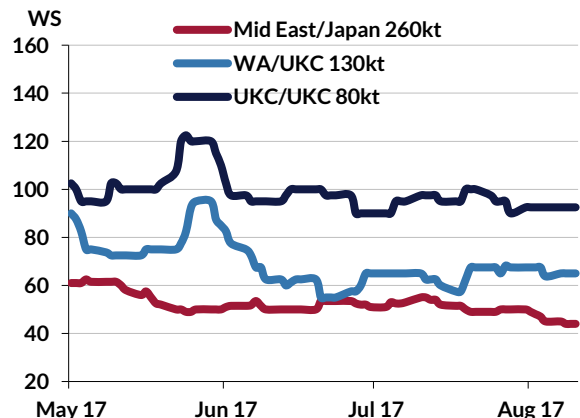
Caribbean

Aframaxes occasionally took advantage of weather disruption and date sensitivity, but the premiums paid were minimal with the market top/tailed at 70,000mt by ws 80/87.5 over the period. More work to do. VLCCs are looking much tighter moving forward and this sector should prove an outlier to other load areas. \$3.1/3.2 million to Singapore now with around \$2.8 million asked to West Coast India.

North Sea

As in the Med, another poor repeat performance for Aframaxes here. Good availability and drip fed demand keep rates within an 80,000mt by ws 85/90 box X-UKCont and to 100,000mt by ws 60 from the Baltic for now and for the near term, at least. VLCCs found little interest even at their asking level of \$2.3 million for fuel oil to Singapore, but Owners may begin to garner more support/optionality from the Caribbean as dates roll onwards.

Crude Tanker Spot Rates



Clean Products

East

A week where there has been decent levels of activity, but a slightly steadier sentiment on the whole to what was seen last week. After the rise seen last week AG/EAF cargoes seem to have settled at ws 200. UKCont voyages still remain unpopular, but have been positively tested and conclude the week at the \$1.2 million level. X-AG and runs into the Red Sea remain steady at \$250k and \$525k respectively. TC12 having been largely untested saw a little action and can be assessed at 35 x ws 145, but with more outstanding naphtha cargoes yet to be covered, expect it to be tested again. Going into the weekend the tonnage list remains tight up to the middle of next week, but with the majority of open cargoes falling post these dates, expectations are that it will hold steady for now.

The LR's have been much more quiet this week than we have seen in previous weeks. The LR2s in particular have seen next to no cargoes emerge, a couple of contract liftings off market, and a market cargo which eventually was loaded on own tonnage. Given the high level of activity seen in previous weeks, the LR2s remain pretty balance provided we see a decent level of enquiry come the fresh week. \$1.8 million may come under slight pressure, and TC1 will likely hold firm at ws 125. The LR1s have been much more active, unsurprising really given the fact that at the end of last week, West runs were trading at \$1.8 million compared to a cheap \$1.3 million. West runs now on the LR1s have climbed up to \$1.425 million, with the suggestion that they may

creep up further to \$1.45 million next week, although this will probably be the ceiling. Naphtha runs East have been trading consistently 55 x ws 135, although if we see the emergence of end-month TC5 cargoes early next week this number will again be pushed. LR1s have not picked up too many shorthaul cargoes as they wait to capitalise on a firm market. MRs the preference currently.

Mediterranean

Handies plying their trade in the Mediterranean have endured another slow summer week with little to be positive about. Cargoes have been in limited supply, as rates remain under pressure from Charterers and this can be seen with X-Mediterranean runs being taken out between ws 115 and ws 120. Black Sea runs have held fast around the ws 130 mark, and we can expect rates to remain down here for the weeks ahead.

MRs have suffered a similar trend with enquiry being drip fed throughout the week and Owners taking similar rates as the Continent market. With East runs also being slow in appearing and rates to Suez at \$450k, Owners will be counting down the days till these summer markets move on.

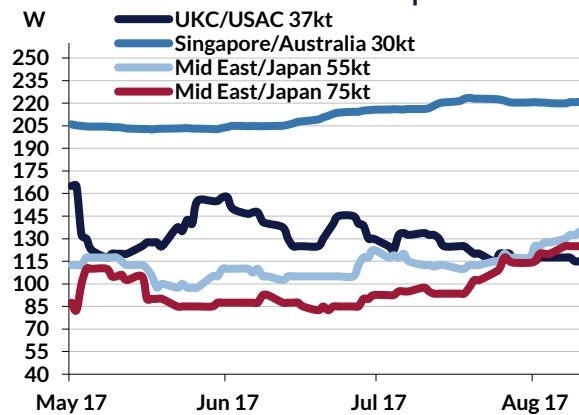
UK Continent

The summer months have been well and truly underway throughout week 32 as the MR market continues on its subdued path. Volumes have been suppressed which has now resulted in rates falling to 37 x ws 115 for transatlantic and 37 x ws 135 for West Africa. For this side of the weekend at least levels have found a bottom, but with Mediterranean MRs now showing huge interest on Continent cargoes, potentially next week rates could come under further pressure. One positive to take is that TC14 has finally picked up to 38 x ws 80 and on paper has potential to pick up some more which is good news for the European market as USAC and ECC openers should ballast down the Gulf.

The Handy market continues to tick over with Owners being able to hold the line at last done levels for Baltic movements at 30 x ws 140. X-UKCont did follow suit and at the start of the week trading at 30 x ws 130, but with prompt tonnage beginning to build Charterers were able to shave a few worldscale points off as the market ends at 30 x ws 125-127.5. Looking ahead a big factor here will be what happens to the remaining Primorsk programme and if LR's have a part to play expect Handy levels to be pressured due to lack of volumes.

The Flexi spot market remains in the dark with hardly any spot activity to report. COAs keeps tonnage slowly ticking over and employed, but don't expect anything drastic to change here over the summer months.

Clean Product Tanker Spot Rates



Dirty Products

Handy

For the current time of year where the shipping fraternity usually heads to the beach, this size sector has not followed what most people thought August would offer. Activity in the continent has consistently ticked over moving along the shortening position list that has been presented. This consistency that we mention has given Owners small gains on last done and although the rates at 30 x ws 120 may not feel a positive momentum was leaning their way. The quiet end to the week from this region with the weekend break ahead might deflate owners bubble as charterers are likely to test this region's stability on Monday.

Last week we thought Owners in the Mediterranean were going to be heading into the market fairly happy, this week they must be beaming with the current Black Sea/Mediterranean route at 30 x ws 170 levels. The activity this week has been spurred on from an accumulation of factors, from late runners, vetting issues, tight positions and tender business. Owners have managed to fix ahead and keep their fleet on its toes. The tender business we touched on has left Charterers with a handful of Owners failing this side of the weekend. With enquiry tailing off towards the end of the week, the market is looking like it has peaked and might get threatened next week.

MR

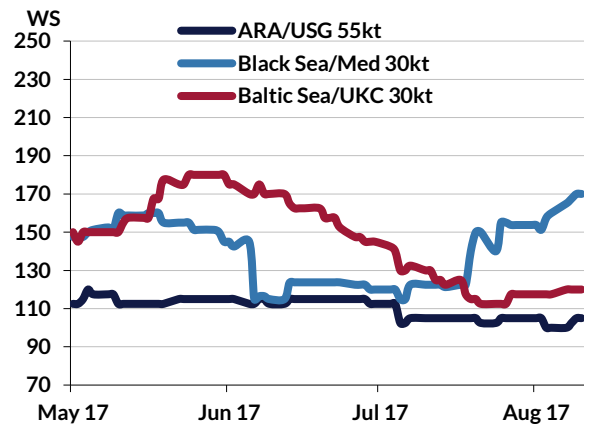
This week began with limited options in the North for Charterers and finished with even less. The last remaining natural sized units were fully aware of their surroundings and are now feeling bullish. The problem this market faces for Owners, as Charterers are quick to point out is that, despite the lack of availability, this regions progression is capped by Aframax rates being at rock bottom levels.

There was little natural sized reported enquiry from the Mediterranean this week, but tonnage was put into own programmes or clipped away under the radar. The handy size market has a lot to do with the current position list which in short looks barren until the end of next week, but itineraries look too uncertain to work this side of the weekend. The benchmark for this region has grown thanks to enquiry on the smaller sectors, however, like the North, Owners will be held by Aframax before anyone runs away with inflated ideas.

Panamamax

This week has seen a steady trickle of activity from both sides of the Atlantic. In turn, we report of only of slight fluctuations in fixing levels of only ws 2.5-5 point seen from the NWE region. The Mediterranean on the other hand received a true fresh test midweek with a market quote coming to ruffle things up. Unfortunately, this was short lived with ample tonnage to cover the stem, in turn giving enough offers to create competition pretty quickly. This competition resulted in going on subjects with little premium for going to Brazil. We are likely to see much of the same next week as fresh lists drawn up on Monday should once again show replenishment in available tonnage.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 10th	Aug 3rd	Last Month	FFA Q3
TD3	VLCC	AG-Japan	-4	43	46	52	45
TD20	Suezmax	WAF-UKC	-2	65	67	64	67
TD7	Aframax	N.Sea-UKC	-1	92	93	97	96

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

			wk on wk change	Aug 10th	Aug 3rd	Last Month	FFA Q3
TD3	VLCC	AG-Japan	-2,500	8,750	11,250	15,750	10,250
TD20	Suezmax	WAF-UKC	-1,000	9,250	10,250	10,000	10,000
TD7	Aframax	N.Sea-UKC	-750	1,000	1,750	6,250	4,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 10th	Aug 3rd	Last Month	FFA Q3
TC1	LR2	AG-Japan	+5	125	120	95	
TC2	MR - west	UKC-USAC	-4	114	118	131	120
TC5	LR1	AG-Japan	+7	135	128	119	125
TC7	MR - east	Singapore-EC Aus	+1	221	220	216	

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

			wk on wk change	Aug 10th	Aug 3rd	Last Month	FFA Q3
TC1	LR2	AG-Japan	+1,250	15,500	14,250	8,250	
TC2	MR - west	UKC-USAC	-750	4,500	5,250	7,500	5,500
TC5	LR1	AG-Japan	+1,000	10,750	9,750	8,500	9,250
TC7	MR - east	Singapore-EC Aus	+250	12,250	12,000	11,500	

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

ClearView Bunker Price (Rotterdam HSFO 380)	+5	307	302	285
ClearView Bunker Price (Fujairah 380 HSFO)	+2	316	314	303
ClearView Bunker Price (Singapore 380 HSFO)	-2	320	322	303
ClearView Bunker Price (Rotterdam LSMGO)	-1	474	475	443

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

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