

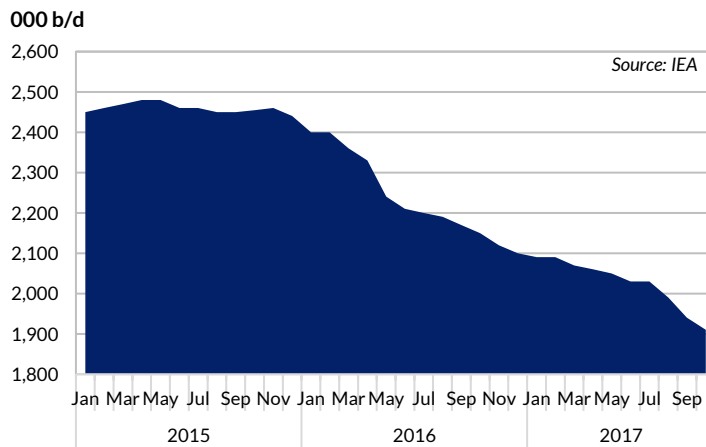
Venezuela's Challenges

Weekly Tanker Market Report

For those of us, who are involved in the tanker market, interest in Venezuela is not just a case of mere curiosity but also a prudent necessity, considering the importance of the country's oil industry for tanker demand. The frequency, with which Venezuela appears in the international news headlines, has intensified notably over the past few months. Back in the summer, the election of the controversial Constituent Assembly and the resulting US sanctions, banning US institutions from dealing with refinanced Venezuelan debt issues, received wide international coverage. More recently, the focus has shifted to Venezuela's colossal \$150 billion foreign debt. Just over two weeks ago Venezuela missed a deadline to make \$200 million in interest payments on two government bonds, translating in Standard & Poor's formally declaring the first default. Around the same time, the Venezuelan president stated the country's intention to restructure its foreign debt. Separately, the Russian Finance Ministry announced that Russia and Venezuela had signed a debt restructuring deal, allowing Caracas to make "minimal" payments to Moscow over the next six years to help it meet its obligations to other creditors.

The latest developments highlight the severity of the debt situation, following the collapse of oil prices from over \$100/bbl. Setting the politics and geopolitics aside, the economic challenges faced by Venezuela have direct implications on the domestic oil sector. The country's crude production has been in steady decline over the past couple of years, largely due to the lack of investment, the shortage of available funds and ill-maintained production infrastructure. According to IEA data, crude output averaged just over 1.9 million b/d in October 2017, down by 0.55 million b/d or 22% compared to October 2015. The decline in crude production has had negative implications for Venezuela's crude

Venezuelan Crude Production



exports, although not to the same extent. Financial problems faced by the country also hit the domestic refining sector, where the lack of maintenance has led to a notable decline in domestic throughput volumes, reducing the downward pressure on international crude exports.

The decline in Venezuelan crude trade to the US is one of the biggest consequences of the economic and political problems faced by the country. Between January and August 2017, crude shipments to the US averaged 0.69 million b/d, down by

175,000 b/d compared to the same period in 2015. In addition, the EIA weekly estimates suggest that this trade has declined further in recent months, averaging just 0.5 million b/d since early September. Interestingly, Venezuelan crude exports to China have actually increased. During the first eight months of this year, shipments to China averaged 0.44 million b/d, up by 100,000 b/d compared to the same period in 2015.

Apart from direct trade implications, it is also reported by Reuters that PDVSA is increasingly delivering poor quality crude to its international customers, which is translating into repetitive complaints, cancelled orders and demands for discounts. There are also reports of logistical issues and disputes over payments. For tonnage that calls at Venezuelan ports, the above translates into additional, and at times extended, delays and sporadic cancellations.

Despite the recent firming, oil prices are still notably below the level needed by Venezuela to balance its financial requirements. As such, the difficulties faced by the country at present are unlikely to disappear anytime soon. The recent debt restructuring with Russia will help to ease the most immediate pressures but it is unlikely to be sufficient to reverse the slide in domestic crude production and exports.

Crude Oil

Middle East

Modest VLCC demand continued to hit up against a solid wall of availability and Owners had no option but to discount further so that rates ended at little better than ws 55 to the East and ws 25 to the West with lower values payable for older units. Roughly halfway through the anticipated December programme now and unless something very surprising happens, the soggy environment looks set to remain in situ.

Suezmaxes did little initially, but then enquiry picked up to prune tonnage lists and allow for some gentle re-inflation to ws 92.5 East and to ws 45 West with premiums over that for Kharg liftings. Aframaxes moved through a clear-out, but rates moved towards a lower 80,000mt by ws 100 to Singapore none the less. Perhaps the rebalancing will now provide a platform for a degree of rebuilding next week though.

West Africa

Suezmax Owners threatened to stage a break out if given opportunity, but for most of the week Charterers retained discipline. Thereafter they loosened the strings somewhat and rates responded accordingly to pull the market up to around ws 90 to Europe and high ws 80's to the U.S. There could be some further upside next week, but a handful of units have already failed subjects, so another pulse of fresh interest will be quickly needed by Owners. VLCCs saw moderate activity, but had to track lower upon the AGulf malaise. Some positive premiums over AGulf / East numbers should,

however, be retained as 'insurance' for the longer time commitment. 260,000mt by ws 63 to the East now with \$2.8 million the last seen to East Coast India.

Mediterranean

Aframaxes 'enjoyed' a busy spell of fixing, but that was mainly engaged in merely feasting upon heavy availability to lead rates broadly nowhere. 80,000mt by ws 90 - ish, X-Med, again, but another active phase would have a more positive effect. Suezmaxes started slowly but, then found a higher gear in tandem with West African improvement. Charterers started to forage onto more forward dates too, and rates stepped up towards a higher 140,000mt by ws 95 from the Black Sea to European destinations with around \$3 million payable for runs to China. Perhaps a little more to come for next week too.

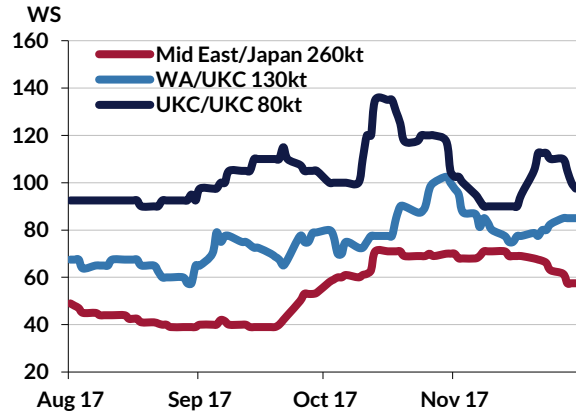
Caribbean

Aframaxes shrugged off the doubts of the Holiday effect and quickly resumed their firm status. Delays in the USGulf also helped, and rates jumped to 70,000mt by ws 170 for ECMexico/USGulf at their peak with longer, caribs, runs nearer to ws 160. The pace needs to be maintained, however, for similar numbers to be repeated over the next phase. VLCCs found less attention than they would have liked, which pressured rates a little lower to \$3.8 million to West Coast India and to \$4.2 million to Singapore, though supply isn't over abundant, and levels should now broadly hold.

North Sea

A slow week for Aframaxes that entrenched uncertainty, and then undermined sentiment to lead rates back to 80,000mt by ws 97.5 X-UKCont and to 100,000mt by ws 65 from the Baltic. As things stand, it doesn't look to get much better for a while yet. VLCCs saw little, but there were some specimen deals seen at \$4.75 million for crude from Hound Point to South Korea and \$3.6 million for fuel oil to Singapore. 'Arb' trading economics will have to improve to raise the temperature.

Crude Tanker Spot Rates



Clean Products

East

A real case of split markets with LR1s busy and pushing ahead, but LR2s struggling and rates dropping off. 75,000mt naphtha AGulf/Japan is down some 7.5 points to ws 105 and 90,000mt jet AGulf/UKCont is off \$200k on the week down to \$1.60 million. Meantime LR1s, having looked vulnerable on Monday, have reversed the sentiment and are trying to push upwards. At time of writing TC5 is still last done at ws 130, but Owners are now all holding for ws 140. 65,000mt jet AGulf/UKCont is steady at \$1.325 million, but could see higher next week.

On the whole it's been a very flat week for the MRs in the AGulf. With the exception of Ice class ships wanting to reposition Westbound rates have remained pretty steady over the week. X- AGulf rates danced around a little, but finish at \$190k and cargoes heading in to the Red Sea sit at the \$500k mark. UKCont movements corrected during the week and finish at \$1.105 million. Cargoes heading East have seen slightly less activity compared to previous week and close at ws 177.5. EAF as per last week remains set in stone at ws 212.5, Owners will be hoping the outstanding cargoes will try and encourage an upturn in sentiment, but as yet it remains steady.

Mediterranean

The balance was tipped in Owners' favour this week with gains seen for both the X-Med and Black Sea markets on the Handies. Enquiry has been strong throughout and a tightening tonnage list especially around East Med means that at the time of writing, X-Med stems are trading around the 30 x ws 200 level. Off the back of this positivity seen in the Med, Black Sea rates have risen, with rumours of 30 x ws 220 on subs and if enquiry persists as we move into week 49, Owner's will continue their bullish approach and push for more points.

The MR tonnage list has remained thin throughout this week and an uptick of enquiry later in the week sees Owners holding for 37 x ws 165 Med/transatlantic, with a fresh test on Brazil likely to be 37 x ws 190-195. East voyages are achieving \$1.0 million for Med-AGulf off the back of this spike in cargoes and the general sentiment in the market is that more is on offer.

UK Continent

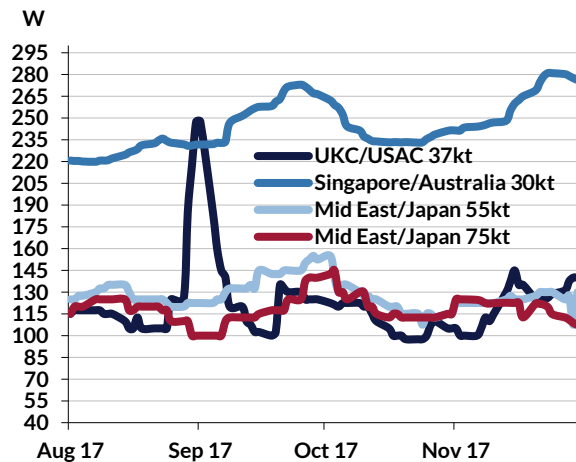
This week finally sees rates starting to climb from unseasonably low levels to offer Owners some respite. Although the TC2 arb has seemingly been shut, WAF runs have been the main driver with Charterers taking plenty of options where possible. With the cargo list being lengthy from the beginning of the week Owners have been able to push rates steadily upwards with TC2 now 37 x ws 165 (and being pushed up by levels done in the Med) and WAF 37 x ws 180-185.

UKCont/Brazil ideally needs a fresh test in the back end of the week after rates on other routes have firmed, but should be in the region of 37 x ws 190. Ice class tonnage is starting to see the first signs of benefit with breach rates commanding a premium for ECC options with the Baltic expected to follow suit relatively soon.

It has been a rather unsettled week for Handies plying their trade in NW Europe as levels have ranged between 30 x ws 140-150 for Baltic liftings. One Owner even managed to achieve 30 x ws 155 towards the back end of the week and many others are now pushing for that number to be repeated. X-UKCont has been quiet and actually does need a fresh test, but naturally they will realign 5 points below Baltic rates. The short-term outlook looks better, whilst the Primorsk programmes expected to be up throughout December leaving some Owners hopeful.

Another quiet week passes by for the Flexis with little spot action to go on. There was some enquiry UKCont/Med early in the week with only one cargo being fixed in the end. Owners will be hoping that some positive signs on the Handies could trickle down to the Flexis with rates expected to be improved on next done from the 22 x ws 185-190 that persisted this week.

Clean Product Tanker Spot Rates



Dirty Products

Handy

This week's trend in the North crabbed sideways with levels heading nowhere. Positions in the North have tightened as we head into the weekend, but unless there is an influx of cargoes on Monday, sentiment will remain unchanged. Looking at the weather forecast next week, particularly in the North Sea, from Wednesday onwards conditions look like they may cause some delays which might have impact on this region's fate.

This week picked up from where we left off last week with Black Sea - Mediterranean still working in the 30 x ws 220 level. Like we have seen in previous weeks, business was worked Monday-Wednesday and cooled off on the last two days of the week allowing tonnage a chance to replenish. It is probably fair to say without these two days of trading the market would be firmer than its current state. Owners will be looking forward to Monday opening and Charterers will be pleased they managed to restrain no more than five points since last Fridays COB. In summary, a lot rests on Monday's activity on which way this region swings.

MR

An all too familiar story in the Continent this week as Charterers are continually faced with a with a position list missing natural sized tonnage. Surrounding regions continue to be closely monitored as Charterers will be hoping to see at least a couple of vessels appear Monday morning to provide further options. As of now the market still lies in wait for the next test which has to be considered on a case by case basis.

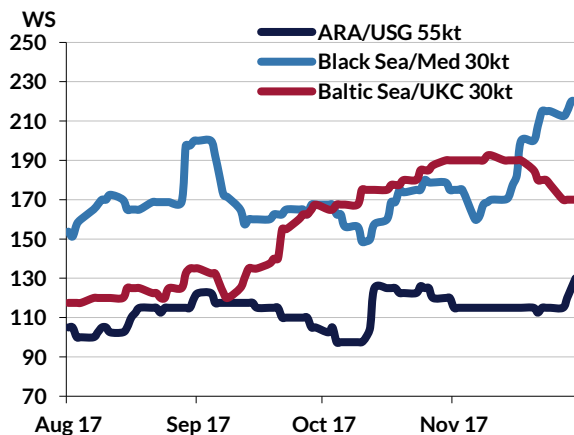
Owners with tonnage in the Mediterranean will be heading into the weekend feeling rather giddy as we witness yet another week of rates being pushed further to the ceiling. Heading into week 48 Charterers should be

expecting much of the same as Owners will inevitably start the week bullish. Although closing the week signs of tonnage replenishment might be starting to look in Charterers favour, provided what is being shown is genuinely still there.

Panamax

This week started off in a relatively sombre mood on Monday. When presented with fresh tonnage lists, it quickly became apparent the little amount of workable tonnage from both sides of the Atlantic available. This realisation prompted a number of Charterers to scour the market to find coverage where possible. The majority of enquiry seen from this side of the pond has been swallowed up by the Aframaxes, which continue to offer competitive rates and options in available tonnage, but where restrictions / discharge options prevent the use of such tonnage some have had to look a little more forward than usual to secure tonnage with reports of ws 140 on subjects from the Mediterranean. The Activity within the US markets has continued to go from strength to strength as Owners are gaining ground where the larger Aframaxes are trading firm as well. Looking forward into next week, the likelihood of tonnage replenishment for NWE and Mediterranean markets is not looking pretty as Owners will not be keen on leaving the HOT Caribs market.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Nov 30th	Nov 23rd	Last Month	FFA Q3
TD3	VLCC	AG-Japan	-7	56	64	71	64
TD20	Suezmax	WAF-UKC	+6	86	80	99	94
TD7	Aframax	N.Sea-UKC	-13	98	110	122	105

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

			wk on wk change	Nov 30th	Nov 23rd	Last Month	FFA Q3
TD3	VLCC	AG-Japan	-5,000	15,250	20,250	28,000	21,000
TD20	Suezmax	WAF-UKC	+2,500	15,250	12,750	21,750	18,000
TD7	Aframax	N.Sea-UKC	-9,000	3,000	12,000	22,250	9,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Nov 30th	Nov 23rd	Last Month	FFA Q3
TC1	LR2	AG-Japan	-12	107	119	112	
TC2	MR - west	UKC-USAC	+27	153	126	98	166
TC5	LR1	AG-Japan	+0	130	130	111	125
TC7	MR - east	Singapore-EC Aus	-4	277	281	237	

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

			wk on wk change	Nov 30th	Nov 23rd	Last Month	FFA Q3
TC1	LR2	AG-Japan	-2,750	7,500	10,250	10,000	
TC2	MR - west	UKC-USAC	+4,000	8,750	4,750	2,000	10,750
TC5	LR1	AG-Japan	+0	8,250	8,250	6,250	7,750
TC7	MR - east	Singapore-EC Aus	+0	15,750	15,750	12,000	

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

ClearView Bunker Price (Rotterdam HSFO 380)	-7	346	353	322
ClearView Bunker Price (Fujairah 380 HSFO)	+0	373	373	343
ClearView Bunker Price (Singapore 380 HSFO)	-8	373	381	345
ClearView Bunker Price (Rotterdam LSMGO)	-8	538	546	497

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