

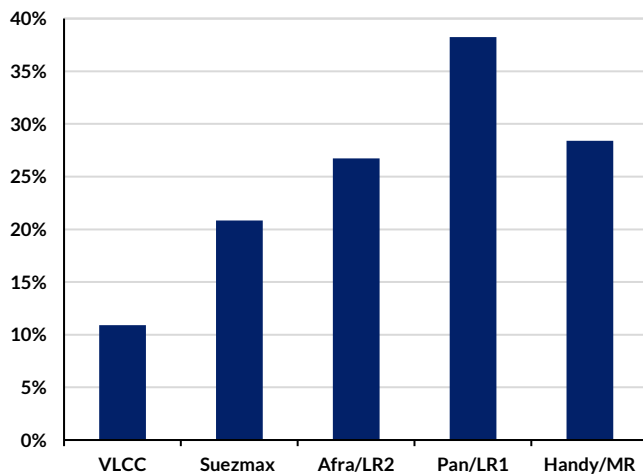
# A Year of Pain?

## Weekly Tanker Market Report

2017 was always expected to be a challenging year, however, for the crude sector at least, the first half of the year generated reasonable earnings. In contrast, product tankers suffered heavily during the first six months, but did at least witness increased volatility later in the year. 2018 looks set to be another painful period for tanker owners, with a continued wave of new tonnage and potentially challenging demand conditions.

On the supply side, the key issue is of course the weight of deliveries expected for 2018. This year 40 million dwt of crude and product tankers (over 25,000 dwt) are due for delivery, compared to the 35.5 million dwt delivered in 2017, potentially making 2018 the busiest delivery year since 2010. Delays are, however, expected to be a factor in reducing the volume of tonnage entering the market this year. Interestingly in 2017, slippage (taking account of the scheduled number of deliveries vs. actual deliveries) across the crude sector fell relative to 2016. Actual deliveries for VLCCs fell just 11% below the scheduled number, whilst Suezmax slippage was somewhat higher at 21%. However, delivery delays in the product tanker sector, which had a more challenging year relative to the crude market, ran significantly higher. In the crossover Aframax/LR2 sector deliveries fell 27% below the scheduled number, whilst LR1 slippage rose to 38%. MRs, which didn't fare as badly in the spot market as the larger product carriers, saw slippage of just over 28%. Given the anticipated fundamentals for 2018, delivery delays are expected to remain a feature, and for the crude sector in particular, and could increase relative to 2017. However, the same fundamentals are likely to encourage scrapping activity; which, when coupled with slippage, could help offset some of the supply growth for 2018.

Tanker Slippage in 2017



Supply is of course just one side of the equation. In terms of oil demand the IEA forecasts positive growth of 1.3 million b/d; slower than recent years but above long-term averages. However, the consensus is that OPEC will continue to limit output until the end of the year, giving little opportunity for export growth from the Middle East and perhaps West Africa. The focus is therefore outside OPEC. The US will of course remain one to watch over the year with the EIA expecting crude production to average 775,000 b/d higher in 2018, much of which expected to head for export. Elsewhere, output growth could be seen from Brazil, Kazakhstan and Libya. However, the threat of lower production exists elsewhere. Could Venezuela be 2018's wildcard event?

For the clean market, there is little reason to expect 2018 to be any worse than last year. In the West, the year has at least started on a better footing, even if weather is the primary factor. More fundamentally, oil products demand looks good. Refined product stocks, which had become a key barrier to arbitrage trade, have come down significantly, particularly in Europe, and to a lesser extent in the key US Atlantic Coast region, which should improve fundamentals in the Atlantic. Higher diesel exports are expected from the Baltic, whilst demand from Latin America and West Africa looks set to remain a key theme. The picture is a little more mixed in the East. In the Middle East, there are few refining developments set for 2018, whilst repairs at Ruwais are expected to last into 2019. In the Far East, Chinese product exports could rise once again, following the issuance of higher export quotas in the first quarter, supporting regional tanker demand. However, it remains to be seen whether these developments will be enough to make a real difference. Will the wait go on until 2019?

# Crude Oil

## Middle East

A disappointing end to 2017, and equally so for the start of 2018, for VLCCs. Hopes for a late rally evaporated upon a disciplined cargo feed and ongoing easy/very easy supply. This remains the case also as we enter the last furlongs of the January races. Rates for modern units operate at close to ws 50 to the East and low/mid ws 20's to the West with little early change likely. Suezmaxes took a pace forward and then a pace back again to just about hold position at 130,000mt by ws 85 East and to ws 36 to the West as availability constantly replaces any temporary gaps created. Aframaxes gently circled around an unchanging centrepoint with 80,000mt by ws 95 (2018 Worldscale) the current peg and no clear sign of that shifting anytime soon.

## West Africa

Suezmaxes plumbed the rate depths and then fell off even further to 130,000mt by ws 67.5 to the USGulf and little better than ws 70 to Europe - below OPEX - and will have to endure more of the same pain for a little while yet, or until Charterers move more solidly to replicate the bargains upon more forward positions. VLCCs fought to hold ground, but the soggy AGulf and modest demand, meant rates discounted somewhat to ws 52.5 to the Far East with as low as \$2 million available for straight Angola/West Coast India movements. No big moves likely over the coming period either.

## Mediterranean

Aframaxes picked up the pace late week, but it was employed merely working through thick position lists and rates couldn't move above 80,000mt by ws 87.5 (2018 Worldscale) X-Med, and ws 95 (18) from the Black Sea. Perhaps there could be a degree of

break-out next week - perhaps. Suezmaxes drifted sideways, and then downwards, to 140,000mt by ws 75 from the Black Sea to European destinations with around \$2.8 million available for runs to China. Busier times may be around the corner, but availability will weigh nonetheless.

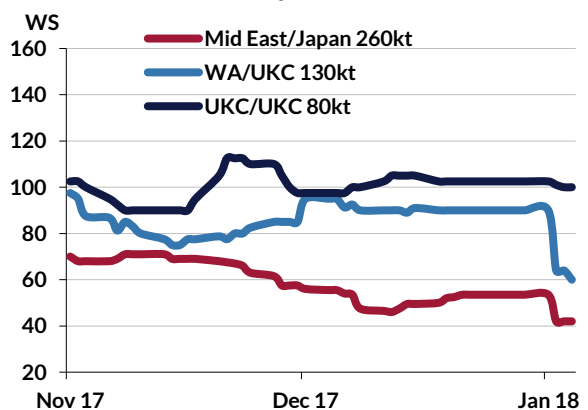
## Caribbean

Aframaxes took an early hit as holiday tonnage built, and demand faltered. Rates fell off to 70,000mt by ws 105 (2018 Worldscale) upcoast and look stuck there, or thereabouts, over the near term too. Early VLCCs were forced to engage in other Atlantic load zones and any 'local' business suffered accordingly. Rates moved off to \$3.4 million to Singapore, and to below \$3 million to West Coast India with no early turnaround likely.

## North Sea

'Same as' over the period for Aframaxes here...even the new Worldscale flat rates posted very little variance over the 2017 schedule. 80,000mt by ws 100 X-UKCont and 100,000mt by ws 67.5 from the Baltic remained, and remains, the default marks. VLCCs saw little interest, but \$3.05 million was reported for a fuel oil movement from Skaw to Singapore off an early date.

### Crude Tanker Spot Rates



## Clean Products

### East

In a similar ilk to the LR's, the MR's have continued to slip this week. Far from seeing the expected and much needed deluge of cargoes, a sub-par trickle has far from satisfied the list, and the area remains over saturated with fine prompt tonnage as well as good ships off the natural window. Shorthauls sit at \$160k, but will start more and more to compete with larger tonnage desperate for anything to keep moving. EAF has come off to ws 175 (17) an incredibly aggressive drop and the suggestion that this could worsen as the days roll on, so much power in the hands of the Charterers. TC12 needs a fresh test, as does UKCont, but would you honestly take an MR for longhaul when it is so cheap to move products on LR's? Unlikely, but these assessments must be brought down sympathetically to ws 155 (17) and \$975k respectively to fall in line with weak LR markets. Red Sea runs are down to \$400k, but again need testing. Most cargoes we are seeing traded on the MR's, at the moment are shorthaul, terrible news for the already long list. Until LR's are afforded some respite, tougher times lay ahead for smaller tonnage next week.

An incredibly disappointing week on the LR's. The LR2's continue to pile up in what is proving to be a blood-bath where new cargoes emerge to be traded. TC1 is sub 100 (17) - finishing the week 75 x ws 97.5 (17). West-bound cargoes are being traded at \$1.45 million. Returns are so low for Owners that some are actually taking the conscious decision to sit off load regions and wait the dip of this market out, hopeful that higher rates are

just around the corner. LR1's are in a similar predicament, the supply of cargoes is barely enough to stem the ever softening movement of rates. TC5 is at 55 x ws 112.5 (17), and even ATC suitable ships with Ras Tan suitability and the ability to deballast both sides demand little premium. AGulf/UKCont sits at \$1.1 million for now, but how steady a foothold this is is yet to be seen. Tough times ahead for Owners, as Charterers push to fix off the new flats they will try to nibble slightly more off in their favour.

### Mediterranean

Once all parties were up to speed following the Christmas and New Year break, a good level of enquiry for X-Med stems was seen, but in turn matched by a relatively lengthy tonnage list leaving the market balanced allowing Charterers to push rates sideways for the duration of the week to 30 x ws 200 (18). Fixing ideas for Black Sea rates differed at the beginning of the week leaving rates unsettled, but 30 x ws 210 (18) seems to have taken hold at the back end of the week. There is potential for these levels to move North at the start of week 2. The fresh enquiry seen today leaves a number of stems in the same fixing window whilst tonnage is beginning to tip towards the Owners favour.

On the MR's, enough enquiry was seen throughout the week for rates to hold for transatlantic runs at 37 x ws 155 (18) for the majority of the week. A stem which ended up replacing achieved heights of 37 x ws 167.5 (18) although the market is a little more subdued for un-problematic stems. Ballasters coming up from WAF

will come into the picture next week, but with NWE looking good, tonnage is likely to be drawn there keeping the status-quo in the Med.

## UK Continent

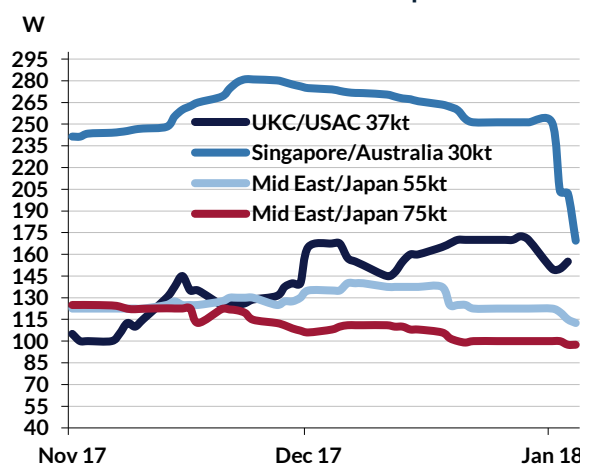
As week 1 comes to a close, much of the start to this week has been spent converting 2017 to 2018 Worldscale rates and we saw an array of rates fixed throughout. TC2 started up at 37 x ws 152.5 (18) and with some good levels of enquiry before the end of the first week, Owners were able to sneak a couple of points here and there. As the week pushed forward and WAF runs began to find some stability at towards the 37 x ws 180 (18) point, Owners ideas for TC2 subsequently inflated and as the weeks fixing comes to an end ws 160 (18) has been achieved from Southern UKCont regions giving Owners a freshly painted target to aim to repeat. The Baltic market has ticked along and as we see some LR clearing out stems, levels of enquiry have been limited with rates seemingly falling in line with transatlantic around 40 x ws 160-165 (18) levels.

The Handies have had rather a dull start to the year so far, with rates remaining unchanged for the duration of the week on both 2017 levels (30 x ws 210 Baltic/UKCont, 30 x ws 200 X-UKCont) and 2018 levels (30 x ws 190 Baltic/UKCont, 30 x ws 180 m/f 5 X-UKCont). Owners have been able to make small gains of about 5 points on cargoes needing prompt load or difficult load ports. The lacklustre start has been in the most part due to LR tonnage taking a

significant amount of the January Baltic programme with 4 LR1s and 2 LR2s fixed ex Primorsk alone. As a result, rates are looking a little pressured in the back end of the week as tonnage looks to outweigh the remaining enquiry expected for the next fixing window.

As expected Flexi enquiry has been somewhat limited so far, with the majority of available stems being absorbed on own tonnage. That said, however, there has been the off piece of enquiry allowing Owners to keep their boats on the move, albeit in regions and on routes away from the traditional Baltic/UKCont and X-UKCont runs. Owners are still taking their benchmark numbers from the Handy market, 22 x ws 245-250 (18), although in practice cargoes are comparatively rare and should be assessed on an individual basis with regards to the apparent availability or lack of tonnage for a given cargo.

## Clean Product Tanker Spot Rates



# Dirty Products

## Handy

Although it feels well into the year already, Happy New year!! With the majority of the industry back in the office on Tuesday this sector managed to spring into life with a number of units going on subjects. As the week progressed, this small flurry of activity gradually steadied, and as fixing dates crept forward after the recent holiday, workable units started to open up for Charterers. This has left the tonnage list in balance and we are likely to witness a similar theme again next week.

Looking towards the South, the Mediterranean has began with consistency to kick 2018 off this year, but as we draw the week to a close the sentiment is looking to slowly turn towards the Owners favour. This in turn has had a helpful hand from the amount of units that have delayed throughout the region as the week progressed. On Monday fresh tonnage lists are going to be key as to where this market really sits and Charterers will be wise to utilise tonnage that is already under their control where possible.

## MR

The North has started this year with the same sentiment as last year ended, with a lack of natural tonnage in the region dominating the headlines. With very little workable tonnage on offer, Charterers have nowhere left to run besides looking to cover stems with alternative sized tonnage, and when we look at where the majority of MR's are trading at present, this is not likely to change in the near future.

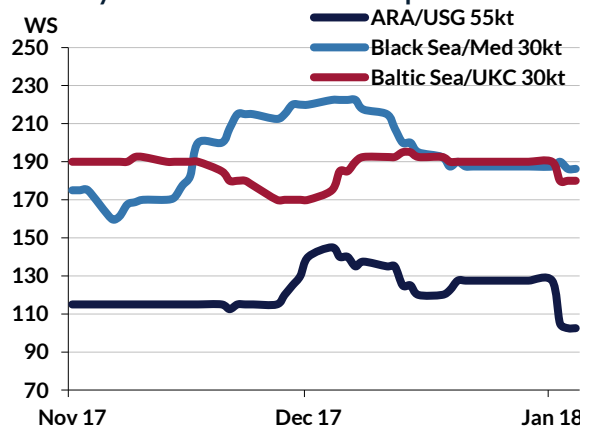
The Mediterranean on the other hand is where the majority of units are naturally positioned at present, but this sector has had somewhat of a false start this week with limited natural sized stems coming into the

market. Owners with units up the top of the position list early this week have managed to find employment within the steady Handysize sector. Looking towards next week, there could be some more full sized stem activity with Russian holidays coming to an end and with the Aframaxes beginning to firm.

## Panamax

A tale of two halves in the continent with fixing and failing giving this sector plenty to talk about. This week, we saw a lot of enquiry jumping between both the Panamax and Aframax sectors in a race to cover. Similarly in the Mediterranean there was a clearout of tonnage that could work upto end month dates. There is currently a Mexican standoff between the two sides of the pond where US prompt tonnage will not ballast this way at the current market. Charterers are waiting for this tonnage to build in hope some take the plunge and ballast this way after the final day of trading is concluded in the Caribs today. There is likely to be some new faces on the position list come Monday, but it may take a little more persuading.

Dirty Product Tanker Spot Rates



## Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 04th	Dec 21st	Last Month	FFA Q1
TD3	VLCC	AG-Japan		43	53	52	42
TD20	Suezmax	WAF-UKC		61	89	91	63
TD7	Aframax	N.Sea-UKC		100	104	101	108

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

			wk on wk change	Jan 04th	Dec 21st	Last Month	FFA Q1
TD3	VLCC	AG-Japan	-2,500	10,750	13,250	12,000	10,000
TD20	Suezmax	WAF-UKC	-7,000	9,000	16,000	17,500	9,750
TD7	Aframax	N.Sea-UKC	-2,000	4,250	6,250	5,250	9,000

## Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 04th	Dec 21st	Last Month	FFA Q1
TC1	LR2	AG-Japan		82	100	111	
TC2	MR - west	UKC-USAC		156	171	152	155
TC5	LR1	AG-Japan		96	125	137	102
TC7	MR - east	Singapore-EC Aus		169	260	272	

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

			wk on wk change	Jan 04th	Dec 21st	Last Month	FFA Q1
TC1	LR2	AG-Japan	-1,250	4,500	5,750	7,750	
TC2	MR - west	UKC-USAC	+250	11,250	11,000	9,000	11,250
TC5	LR1	AG-Japan	-2,000	5,500	7,500	9,500	6,500
TC7	MR - east	Singapore-EC Aus	-8,250	10,750	19,000	14,750	

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

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