

Shale Comeback

Weekly Tanker Market Report

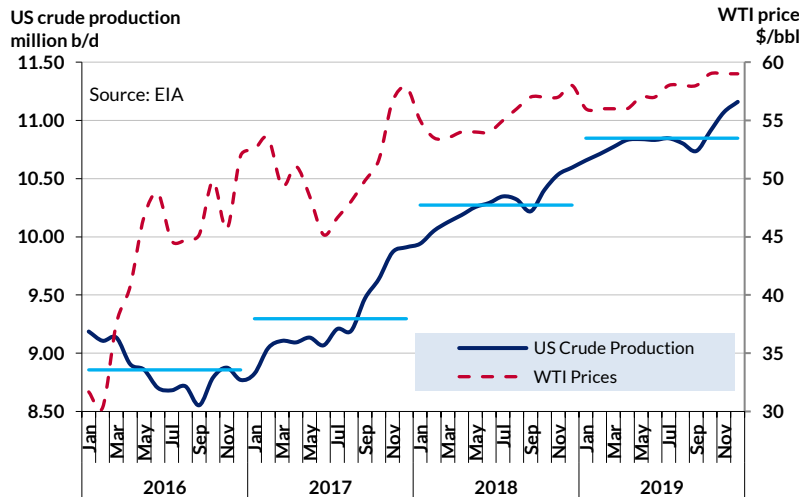
The US shale industry made a spectacular recovery last year, supported by firmer oil prices on the back of the robust growth in oil demand and output restraint exercised by OPEC and its partners. In December 2017, US crude production was assessed by the Energy Information Administration (EIA), the US energy watchdog, at just over 9.9 million b/d, up by a colossal 1.15 million b/d compared to December 2016.

In the past, such large-scale gains in domestic output triggered similar scale declines in the country's crude imports but it does not appear to be the case this time around. In fact, US crude imports averaged slightly higher during the first three quarters of 2017 relative to the corresponding period of 2016. Interestingly, long haul crude shipments from the Middle East showed very little change year-on-year, trade from Canada continued to increase and a further decline was seen in short haul volumes shipped from Latin America, most notably Columbia and Venezuela. However, the picture changed in the fourth quarter. Preliminary weekly data provided by the EIA shows a sizable drop in the volume of crude imported between October and December 2017 compared to levels witnessed earlier in the year. Yet, this decline is partially attributable to disruptions caused by several major hurricanes in the US Gulf and the fact that refiners tend to reduce stocks at the end of the year in order to reduce tax liabilities. Nonetheless, even with less crude shipped towards the end of the year, annual average volumes in 2017 are likely to be very similar to those seen in 2016.

Another key factor in the US crude trade last year is the relentless growth in the country's crude exports. In the third quarter of 2017 exports averaged around 1.05 million b/d, up by nearly 0.45

million b/d year-on-year. Initial weekly estimates also suggest further growth in the fourth quarter, with exports averaging at record high levels at around 1.45 million b/d.

Outlook for US Crude Oil Production



There is more to come. Just a few days ago the EIA published its outlook for domestic crude production for the next two years. The latest forecast for 2018 is notably more bullish, which perhaps is not surprising taking into account the upward trend in oil prices in recent weeks, with Brent futures flirting with the \$70/bbl mark and WTI rising close to \$64/bbl. The agency now expects domestic crude production to reach record high levels in March, when output is forecast to climb above 10.1 million b/d. On an annual basis, production is projected to average over 10.25 million b/d in 2018, up by another 1 million b/d year-on-year. A further annual gain of around 0.55 million b/d is anticipated in 2019.

Such robust projections for output growth, coupled with the ongoing infrastructure improvements in the US to expand its export capacity suggest strong potential for further increases in exports. The same will also help to alleviate the downward pressure on imports. However, the future is far from certain. Perhaps the biggest uncertainty surrounds the OPEC response to a continued surge in US shale output.

Crude Oil

Middle East

By any normal standards, volume wasn't the issue for VLCC Owners - it was a busy period, but fat availability continued to weigh heavily, and rates became solidly boxed into a range capped at ws 50 to the East and ws 25 to the West, with marked discounts from that for older, and more challenged units. January needs are now all but covered, and February programmes will not be fully confirmed until late next week, so any potential momentum is likely to be lost. Suezmaxes posted no change to the previous rate structure - maximum ws 87.5 to the East and ws 37.5 to the West as tonnage lists continue to easily handle modest demand. Aframaxes had a sluggish week of it as maintenance schedules restricted demand and rates shuffled sideways at ws 92.5/95 to Singapore with little early change likely.

West Africa

Suezmaxes spent the week searching for a rock-hard bottom. They seem to have found it at ws 62.5 to the USGulf and ws 67.5 to Europe, and will now hope that such low levels provoke Charterers into a busy spell of bargain hunting next week to re-ignite momentum. VLCCs saw quite active enquiry, but with the AGulf so flat, there proved little need for rate negotiation as ws 52.5 to China became 'conference' for anything that moved with as low as \$2 million payable for straight runs from Angola to West Coast India. No change either, until the Middle East makes a move.

Mediterranean

Aframaxes edged slightly higher at the start of the week, but thereafter moved onto the defensive as demand eased, and supply rebuilt. Rates eased back to 80,000mt by ws 90 (18) X-Med and may yet move even lower. Suezmaxes - as in West Africa - had to battle with an over-easy availability problem - and only modest demand. Rates fell to 140,000mt by ws 70 to European destinations with around \$2.6 million available for runs to China.

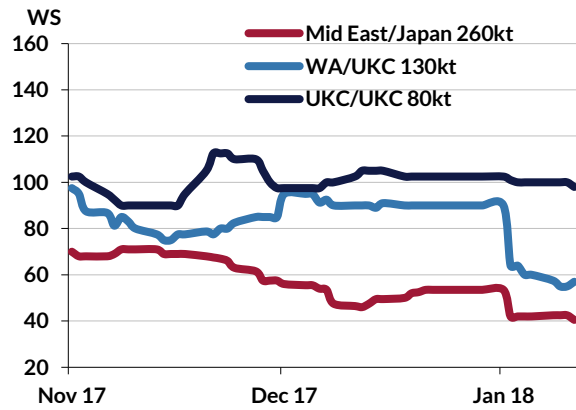
Caribbean

Aframaxes got an early shot in the arm and bounded higher to 70,000mt by ws 130 (18) upcoast, but the marketplace quietened somewhat into the final phase and rates look set to settle back over the next fixing phase. Early VLCC positions were efficiently worked through to arrest the recent discounting and allow for just a hint of rebound - \$2.9 million to West Coast India and \$3.5 million to Singapore represent the current bottom markers, though further short-term gains are likely to be minimal.

North Sea

A slightly heavier late week workload started to work in Aframax Owners' favour. Baby steps just for now, but rates from the Baltic ticked up to 100,000mt by ws 70 (18) for Continent options and X-UKCont may now move above its recent 80,000mt by ws 95 (18) rut. A busy start to next week would seal the deal. VLCC interest remained light, but \$4.25 million was seen for a solitary movement from Hound Point to South Korea, with fuel oil from Rotterdam to Singapore marked as being at around \$2.8 million for any stray traders that may wish to play.

Crude Tanker Spot Rates



Clean Products

East

It's been a rather torrid week for the LR Owners in the East. With new lows being achieved Owners have been battered and bruised and will be wishing this week to be over. TC1 and TC5 have both softened, but must be getting close to rock bottom at 55 x ws 90 and 75 x ws 79. westbound stems were Owners escape route from the dire state of affairs in the AGulf, however, this level of competition for westbound cargoes meant that in the same vein as the naphtha cargoes going East, rates were hit. LR1 sits at \$1.05 million and LR2 closes at \$1.375 million. Owners are desperately hoping that February cargoes bring change to the sentiment.

It seems this week, as though the MRs have finally run down to the bottom of the market. There are no routes now which haven't been stripped down to the bones, and daily earnings are at low single figures. UKCont has been chopped down to \$825k levels - although it is surprising in this market to see Charterers opt to use MRs when LRs are equally as weak. TC12 is trading at 35 x ws 115 basis (18) flats - even the Far Eastern market offers slightly better returns than the Middle Eastern one. Shorthaul is down to \$125k - Red Sea runs need a test, but should be down at \$375k into Gizan. EAF runs are down to ws 105 - the issue with this market is that there remains prompt tonnage which needs to be covered. Although we have seen a busier week, we still need this front end cleared, and Owners will inevitably have to take 10 days wait minimum off this front end to

secure something off the natural window now. The silver lining here is that cargo volume is high, and if subs clear early next week, Owners will feel a little less oppressed.

Mediterranean

An abundance of prompt vessels and slow enquiry throughout meant Owners bit the bullet this week and rates softened 10 points with X-Med rates now trading at 30 x ws 190. It will be interesting to see if the beginning of week 3 sees further softening which is likely to happen unless enquiry picks up as current fixing window tonnage is well supplied. Black Sea rates held for the majority of the week around the 30 x ws 210 mark however, a replacement stem is now on subs for ws 7.5 points less at 30 x ws 202.5, outlining the instability of the market.

A lacklustre week for the MR's in general with slow enquiry meaning rates have tailed off slightly, mirroring those up in the UKCont with Med-transatlantic rates trading around the 37 x ws 150 mark. Ballasters ex WAF have not helped Owners with units entering the picture putting strain on an already pressured market.

UK Continent

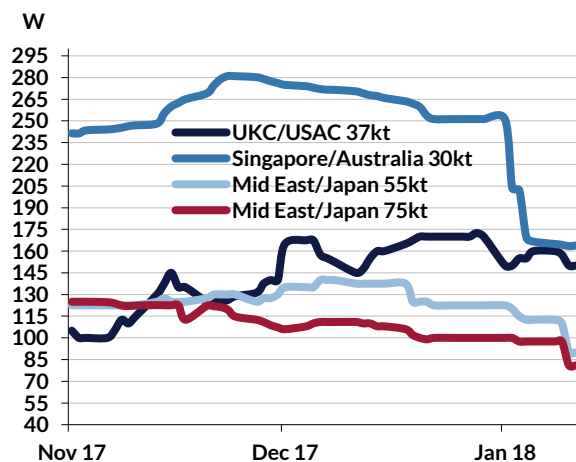
After a quiet start to week 2 for the MR sector, pressure was inevitably going to build on rates, as slowly throughout we have seen the effects of this. TC2 held fast at 37 x ws 160 to begin with, but with good levels of ballast tonnage from WAF appearing on the horizon and natural positions beginning to open, it was not long till we saw ws 150 being the norm by the end of the week. With this also we saw WAF runs correct down to ws 170 and Baltic liftings settling just below the 40 x ws 150 point, but with reports of certain ports requiring Ice Class in the next fixing window, opportunities could slowly rise for Owners to bolster their argument. LRs still remain a popular choice for certain Baltic stems, and with the Handy market struggling this week, Owners in the MR sector are not being supported by neighbouring sizes.

Talking of Handies, we find this market remaining under pressure throughout the week, and with a hefty negative correction on Monday afternoon, Owners were ready for a tough week ahead. LRs have continued to remain a thorn in the side of the owning fraternity, losing multiple stems to their larger sized cousins, but as the week progressed Owners managed to dig their heels in holding this sector at 30 x ws 160 for Baltics and ws 155 for X-UKCont runs.

A slightly improved level of fixing helped clear tonnage out on the prompt side, but as Friday appeared along with it further prompt tonnage and any thoughts of a stronger sector washed away.

Flexis had another slow week with stems being absorbed by own programme tonnage once again. A UKCont/Portugal early in the week paid relatively well about \$330k levels as tonnage for those dates was thin. However, with inactivity continuing to plague the market, levels for X-UKCont and Baltic/UKCont are suffering with 22 x ws 205 done early in the week ex Baltic and about 15 points less for X-UKCont was on subs, although ultimately failed. More of the same next week is expected especially with Handies looking weak at the time of writing.

Clean Product Tanker Spot Rates



Dirty Products

Handy

A mixed feeling in the continent this week, where the front-end trading days saw Charterers have a fair amount of tonnage to choose from with the market dropping value with points being shaven from last done levels. As the week progressed however, a few more cargoes starting to trickle into the market and it seems Owners have rebuilt lost confidence as the list suddenly looked a little bit tighter starving off further negative correction. Fresh position lists Monday morning will be key to see which way this market will go, however, if this week is anything to go by, some operators have been dealing with a rather large fixing schedule.

The Mediterranean jump started this week with enquiry flooding into the market particularly stemming from the Black Sea. Weather delays caused a difficult trading platform for Charterers and Owners were quick to press where possible. The week finished with one foot off the gas, however, over the last two weeks the majority of work has been put into the first couple of days of the week, so we anticipate more end month dates in play come Monday.

MR

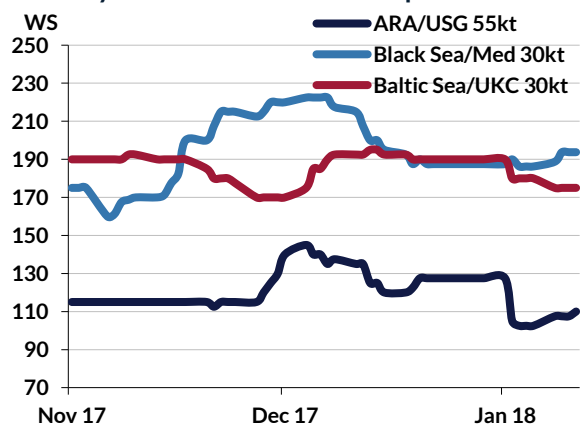
Owners will be sat somewhat jubilant from the weeks proceedings where in both the Mediterranean and continent activity proved plentiful, and TCE's moved positively as a result. Perhaps though what is most pleasing for Owners to see is that fixing dates have stretched forward into the month, and at this particular point in time, down in the Mediterranean even those units that fall outside of preferred fixing windows have part cargo activity holding potential to achieve favourable earnings. It gets worse for

Charterers too, as up in the continent availability is very stretched for January having already raided the available West Mediterranean tonnage. Numbers in the North therefor could easily rise upon next done.

Panamax

Week 2 has proved significant for deciphering where levels should align in both European and US sectors, with an added intricacy of getting the 2018 ws crossover correctly pinpointed. Pitched against an ARA/USGulf run rates after taking a dip eventually settled at ws 110 (18) which coincides with the US benchmark route of Caribs/USGulf now trading at parity. The US however, seems to be the main loser this week, shedding large chunks of value (as somewhat expected), although in doing so we may now see more fluidity come into the market as tonnage will be willing to come this way, further assisting the US in clearing its overhang of availability.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 11th	Jan 04th	Last Month	FFA Q1
TD3	VLCC	AG-Japan	+0	43	43	52	39
TD20	Suezmax	WAF-UKC	-6	55	61	91	63
TD7	Aframax	N.Sea-UKC	-2	98	100	101	107

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

			wk on wk change	Jan 11th	Jan 04th	Last Month	FFA Q1
TD3	VLCC	AG-Japan	+250	11,000	10,750	12,000	7,250
TD20	Suezmax	WAF-UKC	-2,500	6,500	9,000	17,500	9,500
TD7	Aframax	N.Sea-UKC	-1,500	2,750	4,250	5,250	8,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 11th	Jan 04th	Last Month	FFA Q1
TC1	LR2	AG-Japan	-3	79	82	111	
TC2	MR - west	UKC-USAC	-7	149	156	152	145
TC5	LR1	AG-Japan	-7	89	96	137	102
TC7	MR - east	Singapore-EC Aus	-6	164	169	272	

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

			wk on wk change	Jan 11th	Jan 04th	Last Month	FFA Q1
TC1	LR2	AG-Japan	-750	3,750	4,500	7,750	
TC2	MR - west	UKC-USAC	-1,250	10,000	11,250	9,000	9,500
TC5	LR1	AG-Japan	-1,250	4,250	5,500	9,500	6,750
TC7	MR - east	Singapore-EC Aus	-1,000	9,750	10,750	14,750	

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

ClearView Bunker Price (Rotterdam HSFO 380)	+3	370	367	335
ClearView Bunker Price (Fujairah 380 HSFO)	-2	386	388	372
ClearView Bunker Price (Singapore 380 HSFO)	+4	393	389	363
ClearView Bunker Price (Rotterdam LSMGO)	+18	599	582	530

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