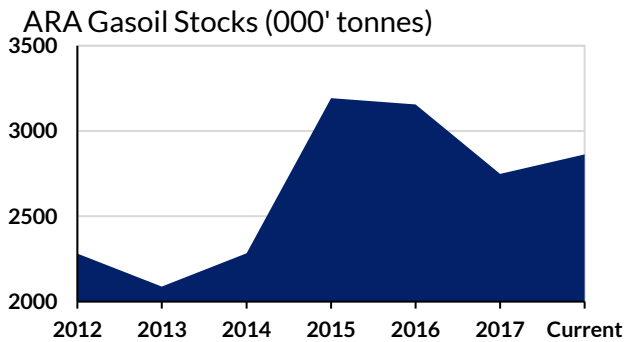


# Stock Watching

## Weekly Tanker Market Report

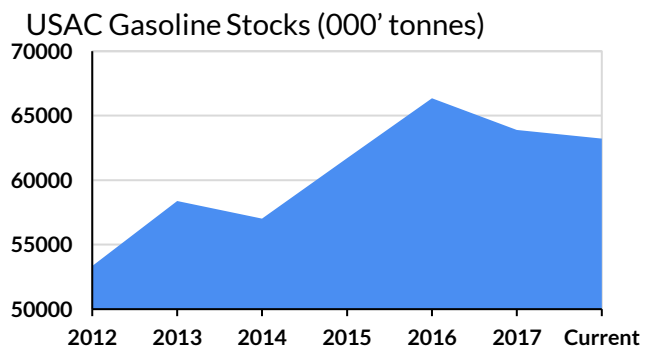
High product stocks, which have been a feature of the market in the wake of strong refining runs in recent years, can be a key barrier to international products trade. Therefore, Gibson closely monitors developments in refined product inventories to forecast tanker demand. However, in recent times, developments in onshore product inventories haven't necessarily translated into the improved opportunities for product tankers. Is this a sign of changing dynamics or are other factors in play?



Looking at the latest data from the IEA on middle distillate and gasoline stocks, shore based inventories in OECD nations have returned close to historical averages. The latest data from November points to OECD gasoline and middle distillate stocks being just 10 million barrels above the five-year average, down from 100 million barrels above historic trends at the start of the year. This should therefore translate into increased products trading. However, when analysing stocks and trade into the key product hubs, lower stocks

have not necessarily translated into higher seaborne imports.

In the key distillate importing Antwerp-Rotterdam-Amsterdam (ARA) region, refined product stocks fell towards the end of 2017 to 1.917 million tonnes, down by 1.75 million tonnes from 2016's peak. Historically, ARA has been a key outlet for US diesel cargoes, making stocks in the region an important barometer for product tanker demand in the Atlantic. However, even with a substantial fall in stocks, there has been limited impact on trade volumes from the US into the region. Whilst this has been partly driven by higher output in the region, a key factor behind this appears to be an insatiable appetite for US products in Latin America, which has often become a more attractive outlet for US exports.



On the other side of the pond, gasoline stocks in the key US Atlantic Coast import hub currently stand at 63.219 million barrels, down 12 million barrels after peaking in early 2017 and the lowest seasonal level in 4 years. Has there been any material impact on gasoline trade from Europe to the US? No, volumes are down year on year, and would probably be lower had hurricane Harvey not disrupted US refining capacity last summer. Again, for European suppliers, other markets have proved more attractive, most notably West Africa (as covered in our 8<sup>th</sup> December 2017 report) and at times, Eastern destinations.

In the Far East, stocks remain elevated. Singapore inventories, which provide the most timely indication of regional supply and demand have built up substantially after dipping throughout the second and third quarters. Such stock levels have made trading arbitrage barrels of naphtha, particularly from the West, more challenging of late, whilst higher exports from China also compete with supplies from other regions.

Of course, the fundamental factors are set for a step change once again in just a few years' time. Expanding refining capacity in the Middle East from 2019 onwards, and the change in the bunker specification will redefine global product balances, shifting trade flows (and tanker demand) accordingly. Yet in the short term, the key demand drivers emanate from developing nations with limited storage, insufficient refining capacity and incomplete data, making forecasting product tanker demand an interesting challenge.

# Crude Oil

## Middle East

VLCCs spent a slow-paced week searching for a bottom to the market. The 'blip' of a couple of weeks ago can more certainly be marked as a dead cat bounce, and an ongoing swathe of availability will continue to act as a heavy drag anchor to any further hopes of re-inflation. Levels to the East dipped into the low ws 30's for older units with down to ws 18 cape/cape paid to the USGulf. Suezmaxes found reasonable short haul attention, but that could never be enough to positively influence the wider market and with India on holiday on Friday, even that cargo flow dried up. Rates settled at down to 130,000mt by ws 65 to the East and to ws 27.5 to the West with little early change likely. Aframax bobbed along on modest interest and rates remained set at ws 92.5 to Singapore accordingly with similar levels anticipated over the next phase too.

## West Africa

Suezmax Owners kept believing that 'something' would happen to alleviate their recent pain, but nothing did, and hopes for next week again rest upon Charterers deciding to embark upon a rash of forward bargain hunting, although for now there is no sign that they will be so minded. 130,000mt at ws 50 USGulf, and ws 52.5 to Europe fairly reflect the very bottom markers. VLCCs found the going too slow to counter crumpled AGulf/East numbers and rate demands fell accordingly towards ws 45 to the Far East and little above \$2 million for

Angola/West Coast India runs. Ballast time considerations may force a little extra interest next week, but rates are unlikely to recover.

## Mediterranean

Aframaxes made some upward headway upon a busy weeks trading, but ultimately hit up against desperate Suezmaxes willing part cargoes at competitive numbers, and things settled somewhat by the week's end to finish at around 80,000mt by ws 107.5 X-Med. Suezmaxes themselves had only very modest full cargo attention and with availability heavy, and West Africa struggling, rates fell off to 140,000mt by ws 60 from the Black Sea to European destinations and to \$2.5 million to China.

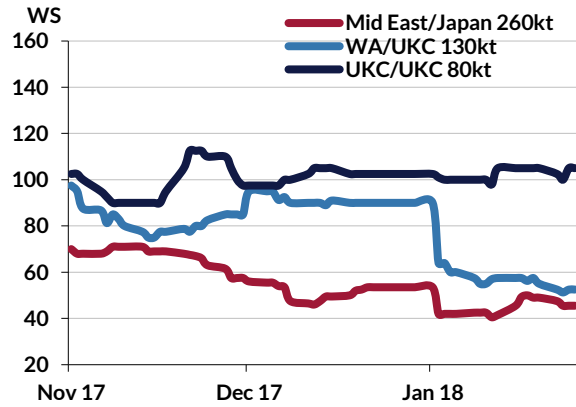
## Caribbean

Aframax Charterers shrugged off the previous threat of bad weather disruption, and then successfully pressured the well supplied market to as low as 70,000mt by ws 90 upcoast with a shaky start to the coming week also likely. VLCCs performed better here than elsewhere as early tonnage thinned, and replacement needs circled. Rates edged up a little higher to \$3.1 million for Caribs/West Coast India and to over \$3.6 million to Singapore but will be capped at close to that on later dates as ballasters/refugees from the East start to flag their interest.

## North Sea

Aframaxes couldn't find the same shine as in the Med and had to stage a fighting retreat back towards 80,000mt by ws 100 X-UKCont and to 100,000mt by ws 85 from the Baltic and the trend looks progressive over the near term too. The VLCC fuel oil 'arb' to the East was deemed reasonably shut and rated at around \$3 million for any that did need to offload, but crude oil was secured at down to \$4.25 million to South Korea and availability looks tight enough for that to remain the base level next week.

## Crude Tanker Spot Rates



## Clean Products

### East

An active week for the MR's in the AGulf which has resulted in the tonnage list becoming very tight for the next 6-7 days. Rates as yet have not been hugely tested, but Charterers with prompt cargoes are going to pay a premium should they have an early cargo to be covered. The tenacious LR1 Owners have been out fishing for MR short haul stems and this has ensured that pressure has been put on the MRs. With LR1s still looking for short cargoes the threat is still present however, the levels that we have seen have improved during the week (a small positive for Owners). Levels for a natural fixing window X-AGulf sit at \$185k and heading into the Red Sea would be at the \$425k mark. TC12 has been tested over the course of the week and closes at ws 115. EAF cargoes have been very popular and have not remained uncovered for long. A slight improvement over the week means it sits at 35 x ws 145. Cargoes into the UKCont have been relatively untested and are in need of a fresh test, but it holds at the \$850k level. Owners will be going into week 5 full of confidence, and rightly so, with a tight tonnage list, a few outstanding cargoes the current run of poor earnings for Owners looks like it could be improving next week.

LRs have been busy this week especially the LR1s. Rates have really struggled though, with very limited rises so far. 55,000mt naphtha AGulf/Japan is at ws 95 now, but 65,000mt jet AGulf/UKCont is still at \$1.05 million. With MRs firming it has allowed short hauls to keep LR1s

busier than they may have been otherwise and so going into next week further firming is expected. LR2s have seen a small increase with 75,000mt naphtha AGulf/Japan up to ws 85 and 90,000mt jet AGulf/UKCont at \$1.4 million. There isn't much more it seems for now with volumes still low, but LR1s may drag them with them if a real push comes next week.

### Mediterranean

Rates were propped up by weather delays across the Med at the start of week 4 as enquiry was generally slow, but rates continued to trade sideways around the 30 x ws 175 mark. As we moved through the week, it became apparent that tonnage around EMed and Black Sea was limited, allowing Owners to capitalise on this and 30 x ws 187.5 was seen for a X-Med stem. We are beginning to see a slight variation in rates across the Med with 30 x ws 185 the going rate ex WMed with the possibility that a slight softening may be seen next week due to well supplied tonnage whilst 30 x ws 185-187.5 is achievable further East, and with a lack of tonnage around EMed and the Black Sea, we could see north of this. Black Sea rates have the potential to firm some more and at the time of writing, 30 x ws 195 is what is achievable.

A generally slow week on the MR front however, rates have continued to mirror those in the UKCont with Med-transatlantic numbers trading at the 37 x ws 160 mark. Fresh test was seen for a Med-SAF run which achieved \$1.275

million and this currently balanced market may be disrupted by ballasters from the US Gulf and WAF beginning to enter the picture.

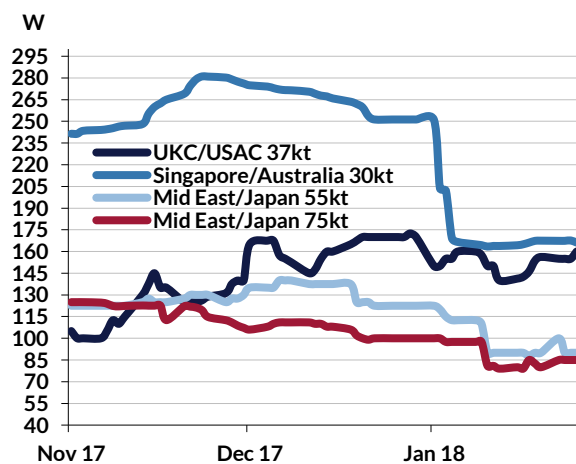
## UK Continent

All in all, a decent week for MRs up on the continent as good levels of enquiry down to West Africa has been the main reasoning why we have seen a slight uptick on freight levels. Prompt enquiry to WAF ex ARA saw rates move to 37 x ws 180 and transatlantic trades at 37 x ws 160 with the gasoline 'arb' to the States remains firmly closed. The front end of the tonnage list is tight, and any January dated cargoes may find it difficult to find a candidate, although that being said off more natural fixing dates (3-5 Feb window), Charterers have many more ballast options at their disposal from a very weak US market. For now, MRs remain balanced however, if more prompt enquiry is seen it could be the catalyst for a push on rates.

The Handy market started the week in a flat fashion as levels ex Baltic traded at 30 x ws 140 and 30 x ws 130 for X-UKCont liftings. However, as we progressed and LR's started to get cleared the Handy market saw a rush of cargoes hit the marketplace which forced a spike in rates. At the time of writing 30 x ws 170 was placed on subject's ex Baltic and with a number of cargoes still remaining further gains are expected. A big factor here will be if a number of vessels get their subjects and if so further pressure will build on an already tight tonnage list.

For the most part the Flexis have traded in a typically quiet fashion with very little spot action early in the week, the odd cargo giving a fresh test to the market with 22 x ws 190 done ex Grangemouth. However, the Handy action seen on Thursday and Friday leaves the Flexi cohort equally as bullish with their ideas as outstanding cargoes look to take cover allowing Flexi Owners to enjoy a rare bit of action. At the time of writing Baltic/UKCont is paying something in the region of 22 x ws 220 with 5-10 points off for X-UKCont. Tonnage is tight however, so Owners look to be in the driving seat currently.

## Clean Product Tanker Spot Rates



## Dirty Products

### Handy

Once activity got going, the continent started to react from availability being drawn upon where at time of writing further signs of increment may have just been curtailed through the arrival of the weekend break. Come Monday however, much will depend on the amount of uncertain units in learning when they will again become workable, and should the region see a similar level of enquiry that brought us to this point, then Owners will indeed have a market to look forward to. That said, perhaps it is a little premature to get too excited as already vessels found themselves being snapped up slightly ahead of the curve. Time will tell whether Charterers have foreseen these circumstances and already covered the bulk if immediate fixing programmes.

The Handy market in the Mediterranean appears to have bottomed this week, which saw some Charterers look to take advantage, while market rates were as attractive as they are likely to get for this time of year. As the working week draws to a close Owners are now sat starting to grow in confidence that some better fortunes will soon be arriving. Monday may well be an interesting days trading for this reason. However, with any short haul market, availability will again be known on Monday and we do anticipate any Charterer who had chosen to hold back having some additional selections made available.

### MR

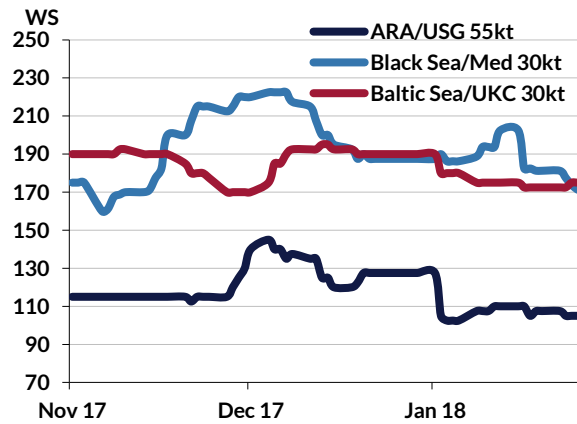
So often the continent region only needs a little activity to reset conditions back to being favourable from an Owners perspective, and once again availability looks much tighter with firm approved units. Furthermore, this is probably the one sector that can really boast Owners being in the driver's seat, as no sooner a firm ship presents, there will undoubtedly be a number of Charterers waiting in the background ready to build a stem around a ship. Rates therefore are expected to maintain a firm upward trajectory, unless Owners really overcook their ideas in which case Charterers will walk away having been well practised in advising traders to only book 45 kt stems if you have the flexibility to move on alternate quantities.

In the Mediterranean the same conditions cannot be said. However, at least following this week's trading we now achieve a recognised floor. This said, hope is offered where the surrounding Handies pick up, and the combined list of Handies and MRs no longer looks so front end heavy.

## Panamax

Owners will be keen to swiftly put behind them any memories from this week, as what little activity presented showed fixing levels falling yet again below previous benchmarks though to be the bottom of the market. The tonnage situation also causes concern on both sides of the Atlantic, as for now Owners are offered no immediate way out from fixing rock bottom TCE's. That said, Operators of tonnage in the US are keeping a very close eye on the surrounding Aframax sector as every now and then, there does appear to be some noise being made which often brings belief that positive sentiment will trickle through.

## Dirty Product Tanker Spot Rates





### Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 25th	Jan 18th	Last Month	FFA Q1
TD3	VLCC	AG-Japan	-6	44	50	49	41
TD20	Suezmax	WAF-UKC	-4	52	57	89	60
TD7	Aframax	N.Sea-UKC	-3	102	105	104	107

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

			wk on wk change	Jan 25th	Jan 18th	Last Month	FFA Q1
TD3	VLCC	AG-Japan	-5,750	11,000	16,750	10,500	8,750
TD20	Suezmax	WAF-UKC	-2,250	4,750	7,000	16,500	8,000
TD7	Aframax	N.Sea-UKC	-2,500	4,750	7,250	7,000	8,000

### Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 25th	Jan 18th	Last Month	FFA Q1
TC1	LR2	AG-Japan	+3	85	82	108	
TC2	MR - west	UKC-USAC	+7	158	151	160	149
TC5	LR1	AG-Japan	+2	91	88	137	99
TC7	MR - east	Singapore-EC Aus	-1	166	167	267	

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

			wk on wk change	Jan 25th	Jan 18th	Last Month	FFA Q1
TC1	LR2	AG-Japan	+500	5,000	4,500	7,000	
TC2	MR - west	UKC-USAC	+750	11,250	10,500	9,750	9,750
TC5	LR1	AG-Japan	+0	4,250	4,250	9,500	5,750
TC7	MR - east	Singapore-EC Aus	-250	10,000	10,250	14,250	

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

ClearView Bunker Price (Rotterdam HSFO 380)	+10	377	367	342	
ClearView Bunker Price (Fujairah 380 HSFO)	+10	396	386	369	
ClearView Bunker Price (Singapore 380 HSFO)	+5	395	390	371	
ClearView Bunker Price (Rotterdam LSMGO)	+16	612	596	543	



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