

Clean Hope

Weekly Tanker Market Report

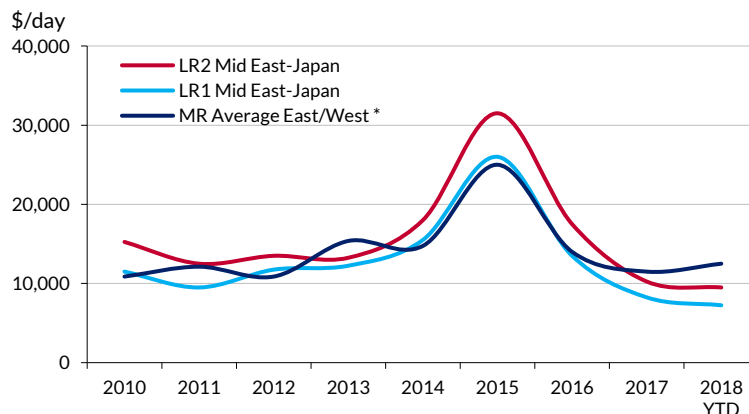
Undoubtedly, 2017 proved to be a very difficult year for the product tanker market, with earnings sinking to multi year lows on the back of rapid fleet growth in the larger product tanker segment, limited arbitrages due to high product stocks and no large-scale growth in demand in key loading areas. Will this year be any different and when do we expect to see a rebound in industry earnings?

The 1st quarter of this year showed mixed results. MRs continued to outperform LR1s and LR2s, with average TCE earnings for the 1st three months of 2018 both in the East and in the West being slightly above the returns for larger product carriers on benchmark trades out of the Middle East. MRs are starting to find support from the slower fleet growth, a consequence of restricted ordering since 2014; robust intra-Asian trade and incremental demand into West Africa and Latin America are also helpful. In contrast, LRs begun January at their lowest level in many years; yet, over the following two months earnings gradually firmed close to their highest level seen over the twelve months as Middle East refineries gradually came out from scheduled maintenance.

The growth in the MR fleet is expected to remain restricted in the short term. So far this year, 15 units have been delivered and another 55 are scheduled for delivery over the remainder of the year. If a degree of slippage is seen, the growth in the MR fleet in 2018 is likely to mark one of its lowest

Annual Average Spot Clean Tanker Earnings

Earnings at market speed



levels this decade, particularly if the demolition activity remains as robust as it was in Q1, with 14 MRs reported sold for demolition. This, coupled with the positive demand signals in Asia, Latin America and West Africa, is likely to offer further support to the MR market in 2018. However, deliveries in the larger product tanker fleet will remain at elevated levels, although not as high as those seen in the previous two years. Since January, 7 LR1s and 8 LR2s have been delivered and another 11 and 12

respectively are scheduled for delivery for the rest of the year. The LR2 market could also be challenged by migration from the dirty segment, as earnings in the Aframax market in recent months have been worse. However, demand for all product carriers could benefit if the recent declines in product inventories in some regional markets stimulate arbitrage movements.

On balance, although some positive signals are being seen for MRs, any gains in the short term are likely to be limited, capped by continued robust growth in the LR fleet and the likely migration from the dirty segment if clean tanker earnings continue to offer relatively better returns.

In the longer term, prospects are for a more substantial and sustainable recovery in the market. On one hand, approaching legislation in terms of the Ballast Water Treatment and the 2020 Global Sulphur Cap on marine bunkers could lead to a notable increase in demolition. On the other hand, large scale refining capacity expansion in the Middle East between 2019 and 2022 is likely to offer a big boost to product trade, driven by product imbalances. Also, product tanker demand could find additional support if the implementation of sulphur cap on bunkers translates into an emergence of new trades for compliant marine fuel.

Crude Oil

Middle East

The Easter break, and then Chinese Holidays, did no favours for previously upwardly mobile VLCCs and only modest fresh attention resulted in the market edging off towards the low ws 40's East, and to sub ws 20 to the West via Cape. Availability looks well stacked for the balance of the April programme, and Owners are likely to remain upon the defensive over the coming period too. Suezmaxes started slowly, but then shifted to a much brisker pace that stripped out the supply fat and allowed for rates to break away from their previous anchor points. Now, 130,000mt by ws 70 East and into the low ws 30's to the West with perhaps a little more achievable before things once again slow. Aframaxes tightened a little to allow for rates to modestly rise to 80,000mt by ws 85 to Singapore with perhaps further increases to be engineered if the cargo flow is maintained...if.

West Africa

Suezmaxes operated within a low based holding pattern through the week at down to ws 50 USGulf and to ws 55 to Europe, but Eastern ballasters are less likely to now dilute, and there is a degree of anticipation of a busier week to come, that may then provoke more favourable conditions, and then rate premiums. Charterers may, however, disagree. VLCCs kept rather muted with minimal fresh enquiry as Charterers eyed AGulf softening to potentially weaken Owners' resolve from here too. Rates are marked

at, or a little below, ws 45 to the Far East now with runs to West Coast India at close to \$2 million from Angola.

Mediterranean

Aframaxes dumped down to bottom scraping levels on very easy supply, and very modest demand. 80,000mt at little better than ws 72.5 X-Med and further distress likely over the near term, at least. Suezmaxes, on the other hand, kept steady over the period and retain some potential of adding a little more if next week proves moderately active. 140,000mt by ws 72.5/75 from the Black Sea to European destinations with up to \$2.6 million asked for runs to China.

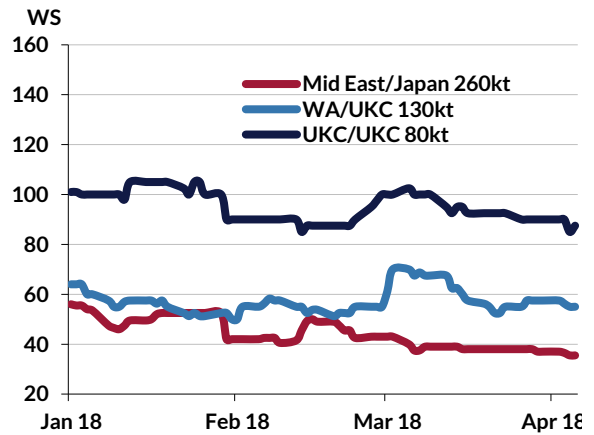
Caribbean

Aframaxes initially pushed to 70,000mt by ws 100 upcoast, but then the cargo flow reduced, and availability remained weighty enough for a degree of late-week slippage, and an uncertain short-term prognosis. VLCCs had recently firmed upon a much finer balance, and retained that balance, and the gains, over the week to end at \$3.4 million from the Caribs to Singapore, and around \$3 million to West Coast India. Availability looks on the thin side over the longer term too, though ballasters from afar will then become a more regular feature if the AGulf continues to sag.

North Sea

Lowest levels of the year for Aframaxes ex Baltic at down to 100,000mt by ws 65 to the UKCont and X-UKCont levels at a poor 80,000mt by ws 82.5 mark and with such heavy remaining availability it is likely that things won't get much better quickly. VLCCs saw very little interest to the East with fuel oil 'arb' rates largely theoretical at \$2.8 million to Singapore.

Crude Tanker Spot Rates



Clean Products

East

A slow start to the week on the MRs after the Easter break with tonnage still looking long, not helped by the many ballasters in to the AGulf. Rates have seen a bottoming out, but the mid-week surge of ships going on subs has helped prevent them from falling further. X-AGulf was tested on Monday at \$180k, \$35k down from last week, and has remained flat having been repeated several times. UKCont has proved unpopular, not helped by the poor Cont market. Our assessment is \$1.2 million, but many Owners are unwilling to give the option, and the rate being untested ex AGulf, this number is purely an assessment. \$850k has been repeated ex Red Sea, but jet moving more from here in that direction. EAF has not been tested as much this week as in previous, and the aggressive softening seen last, has not been further tested. Some Charterers reckon they could achieve sub ws 170, but this is yet to materialise, and ws 170 does seem the tried and tested level for now. Red Sea runs have softened sympathetically against EAF, as Charterers persuade Owners to bring down their earnings against those possible on EAF runs. \$400k has been fully fixed and repeated - \$100k off last week's benchmark. Likewise, TC12 has also softened, a 35 x ws 130 on subs was failed, but highlighted the weakness of Owners for a longhaul, snapping up any opportunity to change markets. Although rates have been soft, a lot of tonnage has cleared off the front end this week, and if we see a level supply of cargoes early next, the market should stabilise and find its footing.

LRs have been slightly on-off this week. A Mexican-standoff of sorts has developed on the LR2s, as Charterers feel as though the lack of activity warrants dragging TC1 sub ws 100, holding out for an Owner to crumble and take the requested ws 95. This has not happened as of yet, but the stalemate continues. Westbound voyages are in the

market as well, but again, waiting to see softening on naphtha runs, so Charterers can push for further savings. Interestingly, it is likely that we will see more naphtha released if rates do soften sub ws 100, but this fresh supply could inversely support a shaky market.

The LR1s have been fairly lacklustre, although they have benefitted from a greater supply of tonnage, rates have not moved massively from their Monday benchmark levels. West routes climbed ever so slightly to \$1.5 million levels, but later this week fell back down to \$1.325 million ex AGulf. We are seeing a lot of demand for alkylate in the States currently, which will aid the LR1s in the sense that more tonnage will be sucked out of the market for a longer period, providing greater support for the market. These have traded at the usual \$300k differential, no one yet breaking the norm to secure a mouth-watering longhaul. TC5 has come off ws 5 points, now sitting 55 x ws 115. Any fresh Aramco requirements in the new week should give further support to rates, but the outlook looks flat given the lack of outstanding cargoes currently.

Mediterranean

A week to forget for Handy Owners in the Med following the Easter weekend, with Tuesday bringing a shedload of prompt ships, which meant it was only downhill from there. This coupled with a slow level of enquiry throughout has meant X-Med rates have softened by almost ws 20 points to 30 x ws 137.5. Rates ex Black Sea held for the majority of the week due to Owners with sternline vessel requiring a premium, however, at the time of writing 30 x ws 155 is on subs ex Black Sea with rates remaining pressured. Come Monday, it is likely that we will be dealt prompt units that will need to be cleared out, meaning further losses are a real possibility from the go.

A slow week on the MR front with cargoes on the thin side and rates continually pressured due to losses seen in NWE, even with the front end of the list looking relatively tight. At the time of writing, the going rate for transatlantic WAF and Brazil runs are respectively 37 x ws 110, 37 x ws 130 and 37 x ws 135, a nudge in front of rates up in the UKCont, however, with cargoes lacking we could see rates fall in line with those seen in NWE.

UK Continent

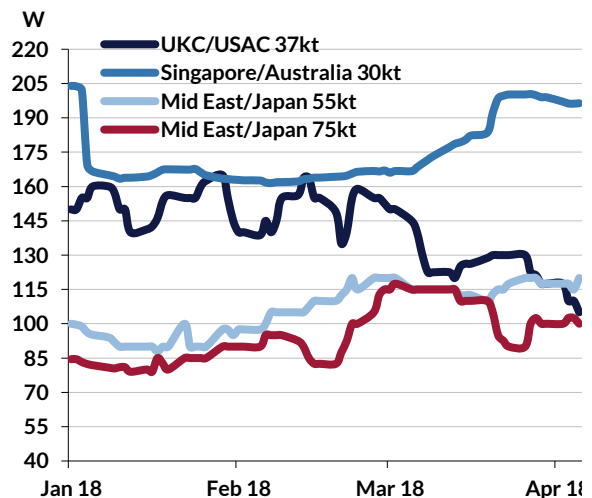
All in all, a dismal week for MR Owners in NWE...a considerable lack of enquiry sees TC2 rates start at an already low 37 x ws 120 on Monday then tumbling quickly to ws 105 by Wednesday and now with 37 x ws 100 on subs (albeit on a last UAN ship). WAF and Brazil enquiry has offered little respite and been similarly lacklustre causing rates to fall in line with a weaker transatlantic market now 37 x ws 120-125 levels. The Baltic ice season is slowly coming to an end and with ice-class tonnage well supplied a natural correction to 40 x ws 120 was inevitable. Unfortunately, the slow pace of this week is setting the scene for further losses in Week 15, so despite fixing year lows already in April, it may not be at the bottom yet.

A similar story to the MRs here with Owners left scratching their heads over how much lower this market can really go. Owners best efforts to hide ships was insufficient enough to hold rates with Baltic/UKCont runs softening ws 10 points to 30 x ws 135 by weeks end with ice premium being all, but wiped out, now due to the general availability of all types of tonnage. The X-UKCont market inevitably was put in line now with 30 x ws 125 on subs and potential for further losses before COB Friday, as a few fresh stems reveal even more hidden positions. That said, there has been a slight uptick in action during the last 2 days of the week with Owners

crossing their fingers that this is enough to hold rates for the moment.....we are not convinced just yet, however.

Unsurprisingly, it's hard to draw any positives for the Flexis this week. Cargo enquiry has yet again been minimal with Owners scrapping over cargoes and ultimately dropping the market further. Benchmarking is difficult, but X-UKCont shouldn't be offering more than 22 x ws 165 by Friday although voyage and Owner in question will ultimately determine what is achievable. Charterers firmly in the driving seat here, and this looks to be the case for the foreseeable future.

Clean Product Tanker Spot Rates



Dirty Products

Handy

Entering the Market in the Continent this week Owners would have quickly realised it will prove to be a bit of a battle keeping rates near the ws 180 mark. With both iced and non-iced vessels continuing to steadily appear throughout, it was only a matter of time before we witnessed some negative correction. A positive note Owners will take is that we have not seen a too bigger drop as current levels trade in the low ws 170's respectively, but next week could well bring a sharper decline with pressure building on tonnage still not yet covered.

Similar to the North although to a greater extent, the Mediterranean witnessed a week where levels took a turn for the worse from an Owners perspective. The early position list looked long on prompt tonnage particularly from the West Mediterranean as fresh enquiry remained dripped fed through out. The majority of cargoes were mainly X-Mediterranean as the region now trades in the low ws 140's however, one positive Owners will take from this week is Black Sea levels have managed to hold around the ws 160 mark. Owners will be needing next week to bring an increase in cargo base if they are to be able to steady conditions.

MR

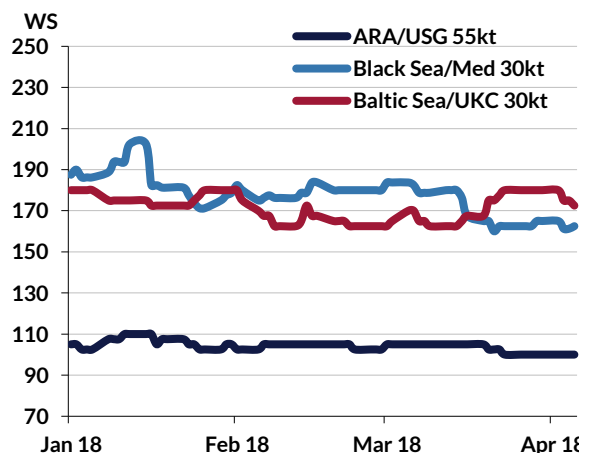
Albeit slight, the Continent did witness a little enquiry this week with one of the naturally placed vessels being fixed away. Charterers will be keeping an eye on a couple of vessels that remain and who are due to open soon, but for now levels are traded case by case.

In a mirror image to the Handy market the early tonnage list in the Mediterranean did not pose well for Owners in play. Although as the week progressed those Owners deciding to opt for smaller parcels have seen Charterers immediate choice of units decrease. Heading into next week, Owners with the earliest tonnage will be hoping to see some full-sized enquiry to take advantage of, but with overall sentiment remaining soft this region remains under pressure.

Panamax

A harsh week for Owners as fresh enquiry proved to be a rarity throughout. Prompt tonnage continues to hang on the lists as we await the next round of fixing. The little enquiry witnessed proved just enough in keeping rates in three figure digits, but we shouldn't be surprised to see non-conformity with this rate being reduced if activity remains this scarce in the immediate weeks ahead.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

		wk on wk change	Apr 05th	Mar 22nd	Last Month	FFA Q2
TD3C VLCC	AG-China	+1	45	44	36	44
TD20 Suezmax	WAF-UKC	+2	55	53	69	60
TD7 Aframax	N.Sea-UKC	-3	90	93	100	95

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

		wk on wk change	Apr 05th	Mar 22nd	Last Month	FFA Q2
TD3C VLCC	AG-China	+1,250	11,000	9,750	3,000	9,750
TD20 Suezmax	WAF-UKC	+500	6,500	6,000	13,250	8,500
TD7 Aframax	N.Sea-UKC	-3,000	-4,000	-1,000	4,000	-750

Clean Tanker Spot Market Developments - Spot Worldscale

		wk on wk change	Apr 05th	Mar 22nd	Last Month	FFA Q2
TC1 LR2	AG-Japan	+5	98	93	118	
TC2 MR - west	UKC-USAC	-23	107	131	126	124
TC5 LR1	AG-Japan	-2	113	115	115	111
TC7 MR - east	Singapore-EC Aus	-3	196	200	173	

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

		wk on wk change	Apr 05th	Mar 22nd	Last Month	FFA Q2
TC1 LR2	AG-Japan	+1,750	9,500	7,750	15,250	
TC2 MR - west	UKC-USAC	-3,750	3,750	7,500	7,000	6,250
TC5 LR1	AG-Japan	-250	8,750	9,000	9,250	8,250
TC7 MR - east	Singapore-EC Aus	-500	15,000	15,500	12,000	

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

ClearView Bunker Price (Rotterdam HSFO 380)	+8	366	358	347	
ClearView Bunker Price (Fujairah 380 HSFO)	-3	384	387	381	
ClearView Bunker Price (Singapore 380 HSFO)	+1	382	381	369	
ClearView Bunker Price (Rotterdam LSMGO)	+12	578	566	547	

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