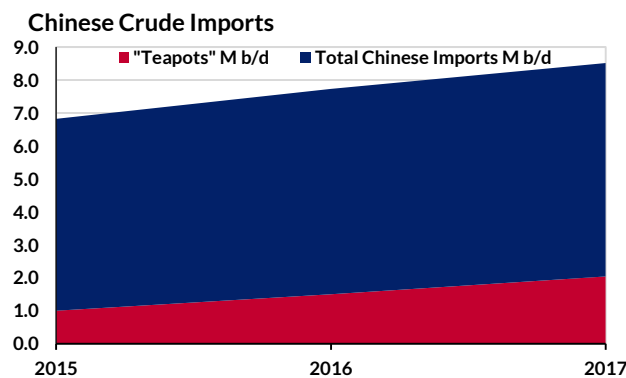


Keeping a Lid on the Teapots

Weekly Tanker Market Report

It has been three years since the Chinese government first allowed the independent refiners to directly purchase crude oil on the open market, provided they met certain conditions. These independents became dubbed “teapot” refineries because of their small size compared to the giant state operated facilities. One of the main conditions imposed on the teapots was to abolish crude distillation units that had a capacity under 2 million tonnes/year (40,000 b/d) as they were deemed too small and inefficient. In 2015 the teapots accounted for about a fifth of China’s refining capacity. At the beginning, eleven independents were licenced to import just over 49 million barrels of crude in the first year of operation. Initially, there were concerns surrounding their creditworthiness, in particular their ability to open letters of credit for payment for cargoes. Traders were also cautious when dealing directly with the teapots as these companies did not have state backing. To get around these sort of problems, many of the teapots formed a consortium to co-ordinate purchases, buy in bulk and lower their costs.



By the end of 2016, nineteen refiners had been granted permission to import nearly 74 million tonnes (1.5 million b/d) as total Chinese imports of crude rose to 7.63 million b/d. During the same period, the independent refiners were granted quotas to export refined products thus further increasing their status. However, by the spring of 2016, increased crude purchasing power resulted in chaotic buying that led to severe port congestion and higher storage costs in the Shandong region, the home to most of the teapots. To resolve this problem, the consortium of independents

signed an agreement to source barrels through Unipecc. As a concession, further streamlining of the smaller capacity units to reduce the independents crude imports was agreed.

However, in 2017 more independent refiners (32 in total) were allowed to raise their import quota to 102 million tonnes/year (2 million b/d) but again with further concessions to cut small refineries. This time the government put in more stringent checks to enforce closures before awarding import quotas. The government also approved several new major independent refinery projects and in May 2017, signed a joint development project between state owned Norinco and Saudi Aramco to build a 300,000 b/d refinery in northeast China. During 2017, China’s crude imports increased to 8.43million b/d.

By 2018, the government, as part of their aim to tackle environmental issues, announced even tighter regulations and taxation on the independent refiners and blenders in an effort to weed out small operations and deal with tax evading players. Outright closure of refineries with capacities under 2 million tonnes p/a would be implemented should the independents fail to meet the new guidelines. In March, it was announced that the teapots were getting ready to start buying ethanol to blend with fuel to meet the governments regulation that by 2020, gasoline must contain 10% ethanol. Yet, another example of how quickly the teapots re-invented themselves in order to deal with changes in the refinery sector. China’s largest independent refiner Dongming Petrochemical has already obtained permits to start ethanol blending. However, trouble could be brewing for China’s independents from several directions. The Beijing government have introduced new tax rules and shrinking diesel demand coupled with higher crude prices are beginning to threaten their survival and profits are being pressed for the first time since their meteoric rise. The independents will also be caught up in the crossfire of the trade tariff war between the US and China. According to Reuters, the teapots are losing money and market share, several have already shut for maintenance to cut exposure to the market, and some may shut for good. So, could these latest setbacks be just “a storm in a teacup” or could we be witnessing the demise of their power? So far, they have managed to overcome every other obstacle thrown at them.

Crude Oil

Middle East

VLCC excitement at last...Charterers cast aside the holiday opportunity to smoothly move onto fresh July programmes, and instead pushed a wave of cargoes into the marketplace that thirsty Owners quickly responded to by driving rates up to ws 57.5 to the Far East and to ws 24.5 to the UKCont via Suez. Good things don't tend to last long, however, and as there remained continuing reasonable/easy availability, Charterers then largely held back from chasing onwards and the market began to retreat once again. Next week's fortune will again be dictated by the pace, rather than purely supply. Suezmaxes found reasonable shorthaul attention but that made little difference to the majority seeking longer runs. Rates to the West operated at little above ws 30 with ws 70/72.5 again the marks to the East. No big change likely. Aframaxes tightened over the week but as yet haven't converted that into rates above the previous 80,000mt by ws 95 level to Singapore. That should change somewhat over the coming period and moderately higher numbers are to be expected.

West Africa

Suezmaxes, having set solid bottom markers last week, started quite brightly to push Atlantic rates into the ws 70's across the board, but a slower back end to the week, and increased availability, then led to gentle rate erosion to end at ws 67.5 to the USGulf, and around ws 70 to Europe. The trend could well be progressive into next week too. VLCCs

quickly equalised with improved AGulf earnings but also had to respond to the late week softening also. Still, with the Caribs/USGulf area remaining an economic alternative, rate demands still held at close to ws 55 to the Far East with a slightly raised \$3.45 million paid for a Nigeria/East Coast India run also.

Mediterranean

Aframaxes spent most of the week re-finding an absolute bottom, and then found it at 80,000mt by ws 80 X-Med. Thereafter there was hope than enough bargain hunting would ensue to provoke a degree of rebound, but that now looks to be a hope to be realised next week. Suezmaxes towed a steady line at 140,000mt by ws 82.5-ish for Black Sea to European destinations with an equally steady \$2.85 million typical to China. A mutually agreeable impasse for the time being, but some discounting could yet be seen.

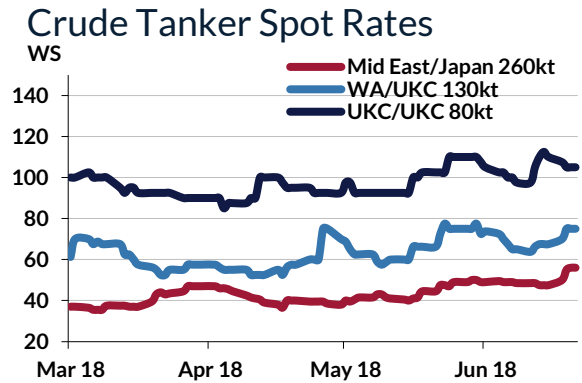
Caribbean

Another early pulse of Aframax activity allowed Owners to make good the slight slippage of late last week to re-find 70,000mt by ws 145 upcoast, but then the pace slowed, and rates began to ease towards ws 130 once again...another shopping spree needed to revisit the previous highs. VLCCs have recently enjoyed solid attention, and solid rates too, but there are just one, or two cracks developing on Venezuelan implosion, and Chinese reticence to commit to late summer purchases until the tariff threat has been sorted out - for good, or bad.

Currently rates from the USGulf to Singapore remain at close to \$4 million with Caribs to West Coast India marked at around \$4 million also.

North Sea

A less volatile week for Aframaxes here and merely steady demand resulted in Owners dipping rate demands to 80,000mt by ws 100 X-UKCont, and to 100,000mt by ws 90 from the Baltic. Things should tick over into early next week with no big moves anticipated. VLCCs again found very little to do but theoretically rates hold at up to \$3.3 million for fuel oil to Singapore, and to \$4.15 million for crude oil from Hound Point to South Korea as USGulf/Caribs alternatives remain in play.



Clean Products

East

Slightly busier week on the MRs, - although we have seen a greater volume of cargoes in the market, it is only starting to address the heavy overhang of tonnage from previously quiet weeks. Rates have therefore remained flat at these weak levels, and in some instances were nibbled away at. X-Gulf has been trading at \$135k for the past couple of weeks, and although we saw a short cross on subs at \$110k, Owners are struggling to make any money whatsoever at anything softer than these levels - justifying any weaker-than-last done levels as a pure time-killer. EAF runs have been tested and repeated numerous times at ws 120 all week. The returns at these levels are much less than doing a TC12 at current ws 110/112.5 levels, but it's the promise of opening up in the Middle East which makes the lower earnings slightly more attractive. West runs have remained unpopular this week (given the increasingly weaker UKCont market) - \$1.075 million is our assessment to end the week. Sentiment has remained flat and weak throughout the week, and we still need more tonnage cleared before seeing any improvement. The heavy tonnage list in Singapore is not pretty reading, ominent of imminently arriving ballasters. Next week, will likely be more of the same, unless we see a really healthy flow of cargoes into the market Monday and Tuesday.

The LR2s have had another relatively quiet week with minimal activity to speak of as the week progressed. As a result certain rates have negatively adjusted accordingly. UKCont corrected and sits at \$1.85 million and TC1 has held steady at 75 x ws 100. It would appear that the market is missing a lot of cargoes which Owners will be hoping make an appearance early next week, so as to help clear out the early tonnage and try to stimulate some movement. The LR1s have seen the bulk of the action during week 25,

with the front end of the tonnage list looking tight and balanced thereafter Owners can go into the weekend feeling a little more positive. However, the negative pressure seen from the LR2s could cause the momentum to be stalled somewhat, so all eyes will be following the LR2s closely. TC5 has seen a gradual positive trend and closes at 55 x ws 120. Westbound is still not the most desired route out there, but nudged up a little to \$1.65 million. With a few outstanding cargoes yet to be covered, the pressure remains on, however, a fresh supply of cargoes is needed to help keep this sentiment.

Mediterranean

All in all a lacklustre week on the Handy front in the Med, with just about enough enquiry ticking over to cancel out prompt tonnage and keep rates trading sideways at the 30 x ws 135 mark throughout. Activity has been slow with the majority of business being done behind closed doors, however, a lack of cargoes towards the back end of the week left ships around WMed willing to do slightly less with 30 x ws 132.5 on subs. Black Sea rates have continued to trade at the 30 x ws 145 mark throughout and although there is a healthy number of cargoes outstanding, tonnage around EMed and SOM is well supplied and will mean rates continue to hold with a lack of momentum moving in either Owners or Charterers' favour.

The MR's have suffered this week off the back of a weak market in NWE. Rates have plummeted to yearly lows of 37 x ws 100 for Med-transatlantic runs with WAF trading at 10 points higher at 37 x ws 110. Enquiry has been sluggish throughout and with a relatively well supplied front end of the list, this has meant Owners have continually been on the back foot. A Fresh test was seen for a Black Sea-Med run at 37 x ws 120 with

Charterer's able to take advantage of Owners wanting to stay short. Owners will be hoping we've found the bottom of the market and it can only get better from here, but whilst the USGulf market continues to suffer, tonnage in NWE and the Med continues to be over supplied.

UK Continent

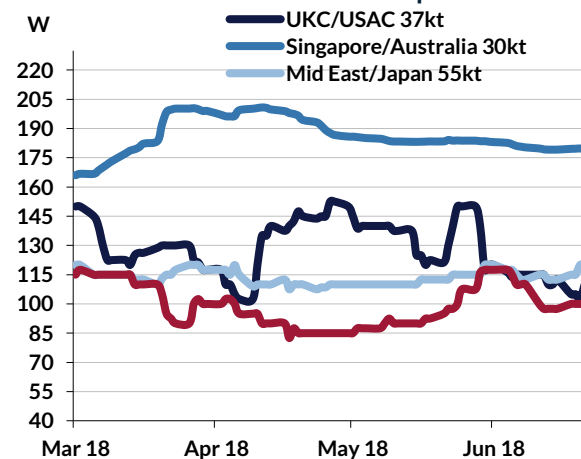
Owners will have a right to feel frustrated at the close of play this week, despite slow beginnings midweek there was good levels of enquiry across the board (mostly transatlantic) with something like 15 ships on subs by Wednesday. Usually this would be a good platform from which to push rates on, however, a persistently dismal States market means the NWE shores continue to be flooded with fresh tonnage. In turn the market has been plagued from start to finish with prompt units meaning TC2 rates took an early ws 5 point slide to 37 x ws 105 and some cargoes even able to achieve 37 x ws 100. WAF continues to be a preferred route by many, meaning the margin over transatlantic quickly depleted and closes out 37 x ws 110. Baltic/UKCont runs were another popular voyage, meaning this traded 40 x ws 100-105 for most of the week. The USGulf mark is expected to improve (hopefully) at some point next week, but until this happens we are unlikely to see any improvement our side of the pond.

Unfortunately, the report on the NWE Handies is not much more upbeat. Enquiry continues to fall by the wayside with only the occasional Baltic/UKCont cargo to clear some tonnage mixed in with a slow X-UKCont market, means rates have suffered the inevitable. Owners efforts to steady the market 30 x ws 140 Baltic/UKCont was rapidly eaten into with 30 x ws 132.5 the going rate and X-UKCont now ws 12.5 points below this as of Friday. There have been a couple of stems to WAF (30 x ws 130-132.5)

although with MRs being cheap, all Handy routes have suffered in the shadow of larger tonnage. There seems to be little respite on the horizon, at least until the MRs can make some improvements.

Unsurprisingly a quiet week for the Flexis, the market saw 22 x ws 185 confirmed for NSpain/Bordeaux, which, once you take the premiums off translates back to about 22 x ws 160-165 X-UKCont a number that has persisted for the duration of week 25. Tonnage is looking readily available going into next week and with the Handy market still on its knees, improvement for the Flexis feels like a long way off right now.

Clean Product Tanker Spot Rates



Dirty Products

Handy

A week of two halves for Owners in the North as the early position list indicated it was going to be a long week ahead, with workable units looking plentiful. To Owners relief it seemed Charterers saved their stems for the back end of the week with a handful of units going on subjects from both Baltic and Continent regions. In terms of levels at the time of writing ws 155 has been cemented as the market rate, but with the weekend upon us, come Monday morning position lists will play a key part as Owners will be pushing for increment.

Despite an influx of end month Black Sea cargoes at the start of this week, an oversupply of tonnage in the region failed to give Owners a chance of achieving any increment on current rates. With positions continuing to build for the duration a market quote provided the biggest hit with Black Sea now trading in the low ws 140's. With prompt vessels still readily available heading into week 26, Owners will already be preparing for an uphill battle and hoping that July programmes will provide a chance for Owners to build some kind of momentum.

MR

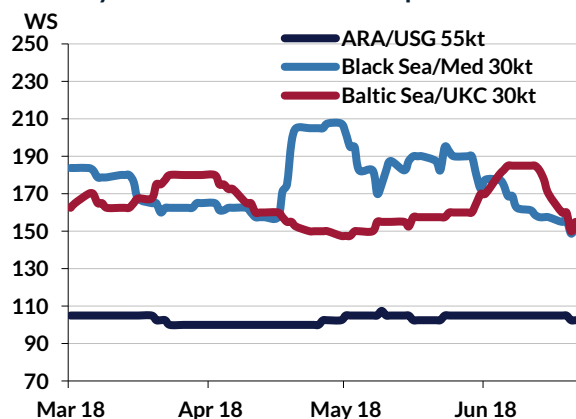
Commencing this week in the North, Charterers were faced with an unusual amount of prompt tonnage, where looking at the list, it seemed bargains a plenty where units would be competing for the same stems. As events transpired, however, the region come Friday looks rather more trimmed as through an amalgamation of part cargo fixing and natural interest some stability has been afforded to the region. Rates do have the potential for some slight upside if any prompt requirement was to enter, however, fixing date progression is likely to act as a leveller in the week ahead.

The Mediterranean suffered a similar fate to the surrounding Handy market where a lack of opportunity has Owners looking over their shoulder, where to make matters worse part cargo absence signals the growing importance of taking opportunities when they arise. With dynamics like these, it is no wonder why we have a soft underlying tone, with the immediate forward outlook set to be endured for a while longer.

Panamax

Focusing on the successes of the week, Owners will be happy for the fact that many of the first units have found employment, however, nerves were tested to the full where one natural ship fixed away at double digit levels. Since then some familiarity has descended back upon the sector with subsequent deals being booked in the ws 100-105 range. Next week we will need to see some further clearing down of tonnage before Owners can attempt to break this cycle.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

		wk on wk change	June 21st	June 14th	Last Month	FFA June
TD3C	VLCC AG-China	+9	57	48	47	52
TD20	Suezmax WAF-UKC	+4	73	68	78	69
TD7	Aframax N.Sea-UKC	-8	106	114	111	102

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

		wk on wk change	June 21st	June 14th	Last Month	FFA June
TD3C	VLCC AG-China	+7,750	17,500	9,750	8,000	13,000
TD20	Suezmax WAF-UKC	+2,500	12,500	10,000	13,250	11,000
TD7	Aframax N.Sea-UKC	-4,000	7,250	11,250	7,250	4,500

Clean Tanker Spot Market Developments - Spot Worldscale

		wk on wk change	June 21st	June 14th	Last Month	FFA June
TC1	LR2 AG-Japan	+1	100	99	100	
TC2	MR - west UKC-USAC	-8	102	110	150	110
TC5	LR1 AG-Japan	+7	120	113	115	116
TC7	MR - east Singapore-EC Aus	+0	179	179	184	

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

		wk on wk change	June 21st	June 14th	Last Month	FFA June
TC1	LR2 AG-Japan	+0	6,750	6,750	6,000	
TC2	MR - west UKC-USAC	-750	2,000	2,750	8,250	3,000
TC5	LR1 AG-Japan	+1,250	8,000	6,750	6,750	7,250
TC7	MR - east Singapore-EC Aus	+500	10,500	10,000	10,500	

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

ClearView Bunker Price (Rotterdam HSFO 380)	-11	413	424	441
ClearView Bunker Price (Fujairah 380 HSFO)	+4	454	450	469
ClearView Bunker Price (Singapore 380 HSFO)	-14	439	453	463
ClearView Bunker Price (Rotterdam LSMGO)	-27	615	642	676

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