

Trade Deal or Truce?

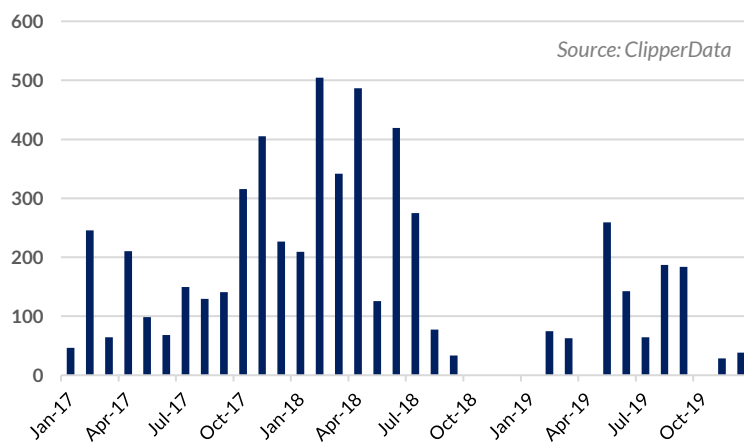
Weekly Tanker Market Report

After nearly two years of trade tensions, the US and China have finally signed the long-awaited phase one trade deal, helping to ease economic fears and boosting market confidence. The Trump government claims an enormous win as well as a political victory, being able to make progress where previous administrations have failed. The centrepiece of the trade agreement is the pledge by China to purchase an additional \$200 billion worth of US goods and services over the next two years above the 2017 baseline. Commitments include \$52.4 billion in additional energy purchases, \$32 billion more in agricultural products, \$78 billion in manufacturing purchases and \$38 billion in services. Furthermore, the deal also addresses some disputes over intellectual property and includes commitments from China not to manipulate its currency. In return, the US will reduce tariffs on Chinese imports that have been in place since September 2019, from 15% to 7.5%. The deal also allowed China to avoid additional taxes on \$160 billion of its exports that were due to be implemented last month.

The agreement involves an eight-chapter document with a preamble. However, despite its length, the text of the accord somewhat lacks clarity to determine how it will work in practice, while it is also unclear whether China interpret the agreement differently to the US. China’s vice premier, who signed the deal, said Chinese businesses will buy American goods and services “based on the market conditions in China”, suggesting that commitments made are perhaps not as ironclad as advertised.

For the tanker markets, the most critical part is the pledge made by China to step up purchases of US oil, gas and coal. According to Reuters, the promised \$52.4 billion will be broken down into \$18.5 billion in

US Crude Exports to China
(’000 b/d)



2020 and \$33.9 billion in 2021. There is scope for big increases in crude trade as China’s appetite for crude keeps rising and US crude exports continue to surge. In theory, if China is to buy an extra 420,000 b/d of US crude this year and a further 775,000 b/d in 2021, this would cover about 50% of the pledged energy purchase (at a WTI price of \$60/bbl). If such gains are seen, this would offer a strong boost to long haul trade. However, if increases in bilateral crude trade are greater than growth in total Chinese imports, shorter haul movements into the country are likely to come under downward

pressure. There is also plenty of potential to increase LNG trade between the two countries, taking into account rising US natural gas production and LNG demand in China. However, for the markets to see any meaningful growth in China’s imports of US energy, Beijing first has to remove a retaliatory 5% tariff on imports of US crude and a 25% tariff on imports of US LNG. So far Beijing has not publicly committed to any waivers or adjustments to these levies.

This week’s agreement is a step in a right direction and not just for tankers; however, many remain sceptical about China’s ability to deliver on most of its pledges. More importantly, the trade war is far from over. Around \$250 billion worth of Chinese exports would remain subject to a 25% tariff and as such, most of the factors that have led to weaker global economic growth this year are still there. Both US and Chinese officials state they are ready to commence a second stage of negotiations, which could lead to further tariff reductions. However, it is unclear when and if this phase two deal could be reached. We can only hope that China makes good on its promises and that existing tariffs are phased out sooner rather than later.

Crude Oil

Middle East

Onto the 2020 Worldscale but no straight line adjustment for pressured VLCC Owners this week. Remaining January needs were efficiently mopped up and the bulk of the fresh February programme is a story for next week. Rates came tumbling down to as low as ws 70 to the Far East, with the average little better than the low ws 80's even for modern units, although there are now signs of a fightback mustering. Nothing openly reported to the West where rates are theoretically marked at down to ws 50 to the USGulf via Cape. Suezmaxes drifted sideways, and slightly downwards upon insipid demand and easier supply. Ws 135 to the East now, with down to ws 75 available to the West. Aframaxes were active, but availability easily mopped up the action and rates fell off sharply to 80,000mt by ws 165 to Singapore, nonetheless. More discounting to come, but a bottom will move into sight before long.

West Africa

The whole Suezmax complex is in the process of recalibrating and here Owners also had to stage a fighting retreat through the week. Rates slipped off towards 130,000mt by ws 125 to Europe, with a little less than that to the States. For now, the search for bottom will continue. VLCCs had a slow opening but once the AGulf had made a more significant adjustment, Charterers entered in numbers and the wave of bargain hunting pushed rates to ws 75 to

the Far East, with down to \$6.4 million seen to East Coast India. Signs now that the bottom of the curve has been hit, and there'll be some degree of fightback staged into next week.

Mediterranean

Aframaxes discounted further to 80,000mt by ws 145 X-Med and to ws 157.5 from the Black Sea but that then generated enough interest for Owners to call a halt to the slide. Charterers are chasing onto more forward dates now and Owners are resisting. Some ground could therefore be regained next week. Suezmaxes ticked over and the flatline feel pushed Owners into accepting slightly lower rates to 140,000mt by ws 142.5 from the Black Sea to European destinations, and towards \$6 million to China. Further drift likely before any firm grip can be refound.

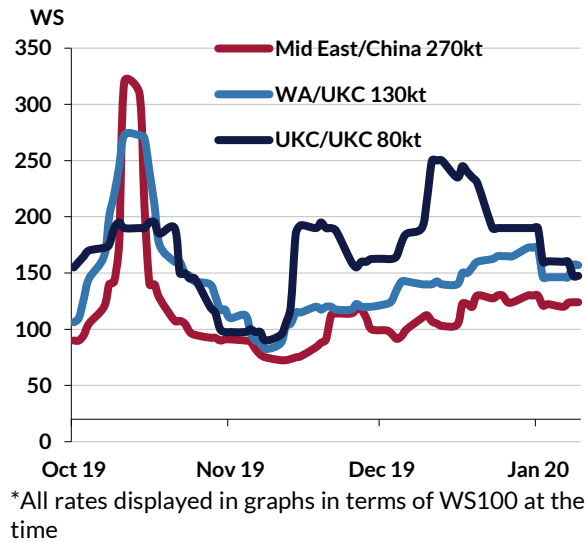
US Gulf/Latin America

Fog has assisted Aframax in keeping rates at close to recent sky high marks but that is due to lift soon and Charterers will then find more favourable conditions to draw the market back to more usual seasonal levels in all likelihood. 70,000mt by ws 300 upcoast and to ws 215 transatlantic for the time being, at least. VLCCs began to get very busy but ballasters from the easing East kept a solid lid on rates, however, with average levels at no better than \$11 million to Singapore, although onward demands will be quickly sensitive to any moves in the AGulf.

North Sea

Softening Aframax sentiment - and rates - through the week to end at 80,000mt by ws 130 X-UKCont and to 100,000mt by ws 120 from the Baltic despite heavier fuel oil speculation. Needs a finer balance to make an upward correction. VLCCs found occasional interest but had to ease ideas in line with other load alternatives, with the last seen at \$9.7 million for crude oil to China - a noticeable drop week on week.

Crude Tanker Spot Rates



Clean Products

East

The MRs remained tight during the course of the week and saw most rates positively tested. However, rather surprisingly a few nervous Owners took cargoes at less than last done and this has somewhat stemmed the momentum. Naphtha holds steady at 35 x ws 160 and short hauls sit at a healthy \$300k levels for Jubail/Jebel Ali. Stems into the Red Sea pushed to \$775k and assess that UKCont is at the \$1.675 million mark. EAF started strong at 35 x ws 210, however, waived with ws 190 (last cargo Veg) going on subs at the end of the week. Owners will be disappointed to have seen this slight softening as Charterers will now look to exploit any other vulnerable ships aiming to steady any further push from Owners.

LRs in the East have struggled all week, with a severe lack of volume. LR1s have seen rates drop away quickly on all runs, with 55,000mt naphtha AGulf/Japan down to ws 130 today, some ws 15 points off this week. West runs have had a similar result, with 65,000mt jet AGulf/UKCont down \$200k to \$2.20 million. More may be taken off unless a marked increase in activity is seen. LR2s have also suffered with a huge downturn in the amount of product exported from Saudi refineries. 75,000mt naphtha AGulf/Japan is down to ws 125 and 90,000mt jet AGulf/UKCont is around \$2.65 million, but both rates are still vulnerable and we don't see them holding next week. Until we see volume return to the market, rates will continue their downward slide.

Mediterranean

It's been a week of softening in the Med as the continuous build-up of prompt tonnage has caused this market to come off by some margin. At the time of writing, we see X-Med on subs at 30 x ws 205, which is a ws 35 points drop from where we started week 3. A lack of Black Sea enquiry throughout the week has also caused this market to slip in line with X-Med. Next done ex Black Sea is likely to correct around the 30 x ws 225-230 mark if not lower. The combination of slow enquiry, especially ex Black Sea, and the large amount of prompt vessels available was always going to be a recipe for disaster. This is the reason why we've witnessed such a drastic drop in rates. Going into week 4, Owners will be hoping for an influx of fresh cargoes to help clear the currently well-stocked tonnage list. However, with the fixing window now up to end month dates, it seems a further softening will be on the cards next week.

Finally to the MRs, where we have seen an innocuous week of trading come to the end, with Owners struggling to gain much leverage throughout. Enquiry levels have remained low. With the UKCont seeing decline, it didn't take much for a similar fate to be seen here as we slipped to 37 x ws 160-165. East enquiry has been reasonable in comparison to recent week, and this settles around \$1.25 million for AGulf. Charterers continue to hold the upper hand across the board on the MRs, with enquiry levels key here if Owners are to be able to bounce back at all.

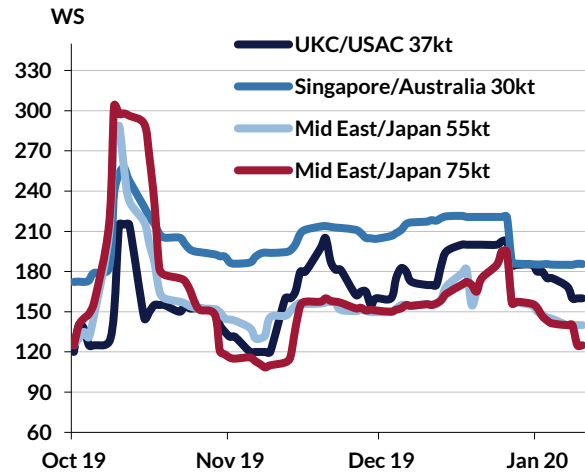
UK Continent

Overall a difficult week for Owners, culminating in rates ending the week softer than where they began. Once again, demand or lack of it has been the major factor but this has been further exacerbated by a falling LR market. We end the week with TC2 hovering around 37 x ws 157.5 at best, with WAF just about holding at 37 x ws 195 but wary that further softening may yet occur.

A rather uninspiring week for Handies up in the North as Owners tried their best to hold rates. However, with most 3rd decade stems being covered early in the week (and under COA), the fixing window has been a little forward for the majority of the week, meaning rates softened to 30 x ws 170 for Baltic/UKCont but have traded sideways since Tuesday. X-UKCont has been very inactive, resulting in slim pickings for Owners. When tested, levels dropped to 30 x ws 155. The list is still favourable for Charterers, meaning the beginning of next week should be more of the same.

Once again, there has been very little fixing action to report in this sector as prompt units have been available to Charterers throughout the week. Fixing ideas are drawn from pro-rated Handies with a slight discount, with 22 x ws 200 seeming to be a fair benchmark for X-UKCont.

Clean Product Tanker Spot Rates



*All rates displayed in graphs in terms of WS100 at the time

Dirty Products

Handy

The NWE sector has been somewhat plagued this week, with a significant lack of fresh enquiry from the outset. Since Monday's opening, the lack of activity has taken a toll on Owner's aspirations. Fast forward to Friday and one deal has been traded down to ws 265 level (ws 2019) and put on subjects, with another Charterer waiting in the wings to push further. At this stage whether these deals are concluded or not, it does not matter as the writing is on the wall for Owners, as prompt tonnage continues to build. The region is left needing a serious injection of activity early next week to stop any further negative drop in market rates.

The Med fared a little better than the North, as fresh stems have been continually drip fed into the market this week, despite closing play with a ws 10 point drop from where the week started. This can be put down to Charterer's maintaining a steady pace in announcing fresh enquiry and as a result overall, the market remains slightly in Charterers favour. However, it may not take much activity early next week to tip the scales in Owners favour, should cargo be presented early on. Unlike NWE this region has for the majority been trading on 2019 ws rates, with only 1-2 fixtures being traded on the 2020 scale - next week more continued trading on the new level is need to iron out the fundamentals and give some consistency.

MR

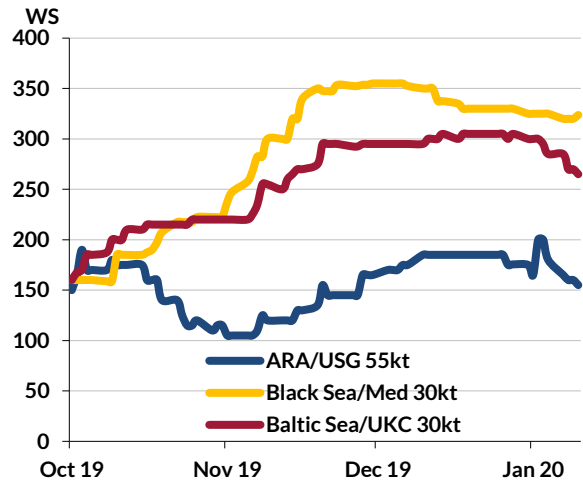
The North this week has seen limited material activity considering the wave of MR stem enquiries presented by Charterers early in the week. One unit was placed on subs for a long voyage to South Africa leaving her off the UKCont list for a while and the other was put on subs early in the week and was able to name her price, but was released with a change of orders and ended up moving to the Med. This has left Charterers looking to similar P-Max vessels for their MR stems or increasing the stem size to a Panamax for a better dollar per tonne. Charterers now need to look to month end and will need to look to ballast units for any fresh MR stems early next week.

As with the North early in the week, Med MR enquiries were coming in thick and fast as traders looked to optimise and supply into the open FO West-East arb. Early on it seemed that the market was firming, with enquiries thoroughly overwhelming available units and Charterers looked to parcel up from some Handy stems. However yesterday and today it became clear that traders out of the Black Sea were mainly fighting over the same barrels and the heat in the market was not a fair reflection of demand for these units. As we move into next week the fixing window has pushed to end Jan- early Feb, with rates steady and finally rolling into ws 2020 terms.

Panamax

With surrounding Aframaxes providing a more viable solution for moving transatlantic destined barrels, Panamaxes here in Europe are taking a back seat for the time being, and in most cases fixing short local voyages in order to move units into forward fixing windows. As far as freighting is concerned, benchmarks are in desperate need of a freshen up and with tonnage plentiful in the Med, the initial negative corrections may become uncomfortable.

Dirty Product Tanker Spot Rates



*All rates displayed in graphs in terms of WS100 at the time

Dirty Tanker Spot Market Developments - Spot Worlds scale

		wk on wk change	Jan 9th	Jan 2nd	Last Month*	FFA Q1
TD3C VLCC	AG-China	-37	85	122	90	76
TD20 Suezmax	WAF-UKC	-16	131	147	122	112
TD7 Aframax	N.Sea-UKC	-27	135	162	251	127

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

		wk on wk change	Jan 9th	Jan 2nd	Last Month*	FFA Q1
TD3C VLCC	AG-China	-43,000	63,500	106,500	72,500	51,500
TD20 Suezmax	WAF-UKC	-8,000	52,250	60,250	56,750	47,500
TD7 Aframax	N.Sea-UKC	-18,250	39,750	58,000	123,250	33,000

Clean Tanker Spot Market Developments - Spot Worlds scale

		wk on wk change	Jan 9th	Jan 2nd	Last Month*	FFA Q1
TC1 LR2	AG-Japan	-35	121	156	129	
TC2 MR - west	UKC-USAC	-29	158	187	171	167
TC5 LR1	AG-Japan	-18	139	157	131	122
TC7 MR - east	Singapore-EC Aus	-1	186	187	183	171

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

		wk on wk change	Jan 9th	Jan 2nd	Last Month*	FFA Q1
TC1 LR2	AG-Japan	-11,000	18,000	29,000	23,750	
TC2 MR - west	UKC-USAC	-4,750	14,500	19,250	17,750	16,250
TC5 LR1	AG-Japan	+1,250	16,500	15,250	16,250	12,250
TC7 MR - east	Singapore-EC Aus	+750	15,000	14,250	17,000	12,500

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

ClearView Bunker Price (Rotterdam VLSFO)	-40	538	578	509	
ClearView Bunker Price (Fujairah VLSFO)	-100	678	778	613	
ClearView Bunker Price (Singapore VLSFO)	-40	663	703	591	
ClearView Bunker Price (Rotterdam LSMGO)	-34	558	591	573	

* WS spot rates converted into 2020 WS100

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