Panama Canal Locks Out Tankers

Weekly Tanker Market Report

The new enlarged Panama Canal locks will open their gates to the first toll paying vessels on 26th June, twenty months behind the original scheduled completion date. The initial target date for a bigger canal was October 2014, to coincide with the 100th anniversary of the opening of the original canal. However, the project has been beset by several obstacles, including a contractual dispute between the Panama Canal Authority (ACP) and Grupo Unidos, the consortium responsible for the construction. A series of strikes by consortium workers and a national strike in Panama caused further delays and yet more cost overruns. Finally, in August 2015, water came streaming through cracked concrete in the new Cocoli lock at the Pacific end during stress testing, which the ACP finally admitted would cause a further delay. The original cost of the expansion was $5.25 billion, but all of the above could push the final total to nearer $7 billion. To add to ACP problems, the new canal opening will coincide with depressed freight markets, particularly for the liner trades, the intended market for the enlarged canal as well as increased competition from the Suez Canal. One piece of good news for the ACP is that the draught restrictions caused by the El Nino effect, which had threatened the opening, have ended following sufficient rainfall over recent days.

Panama Canal Expansion

Existing and New Dimensions

	Existing	New 2016 Limits	*Typical Aframax Dimensions	*Typical Suezmax Dimensions	*Typical VLCC Dimensions
Max Length	294.3m	366m	245m	275m	333m
Max Beam	32.21m	49m	42.8m	48.5m	60m
Max Draft	12.03m	15.24m	14.9m	17m	22m
Max cargo size	**65,000mt**	**130,000mt**			

*** 2008 built onwards**

Historically, only about 5% of all traffic transiting the canal are tankers and we do not anticipate this figure to change significantly, once the enlarged waterway is fully operational. The maximum width of the new locks (49 meters) prohibits any tanker larger than a Suezmax from being physically able to transit. Furthermore, a Suezmax can only transit with a reduced draft. The economics of taking a part loaded Suezmax through the canal to discharge in the Far-East will make most moves along this route arbitrage driven, given the distance and the transit fees. The impact of the removal of the US ban on crude exports may well be minimal in the short term as we do not envisage any significant increases in crude exports while domestic production is falling. However, we could witness some crude movements from the US Gulf to the Far-East. The current low pricing of bunker fuel will also influence the decision whether to pay canal fees or sail via the Cape. US Gulf refiners may appear to benefit from the option to ship LR2 parcels to the West coast of Latin America via the canal, however port infrastructure is likely to see MRs remain the dominant players in the region. Similarly, the Jones Act will continue to limit product movements from the US Gulf to US West Coast.

The enlarged Panama Canal from the outset was primarily designed for the container, car carrier and VLGC markets, as well as possibilities for LNG. The Panama Canal Authority has faced many challenges since embarking on this project in 2007 and undoubtedly, the hard earned expansion will make a notable impact on a number of shipping trades. However, the tanker market is unlikely to be one of those.

Crude Oil

Middle East

The potential disruptive element of the meetings/parties in Posidonia this week didn't seem to put off Charterers from finalising their June VLCC programme. Owners were able to secure a slight premium over levels earlier in the week, but with the carry over of tonnage for the next month seemingly in good supply we can expect to see some incentives from Owners being shown. Currently levels for East are around ws 62.5 on 270,000 mt and for West at ws 35 on 280,000mt. Suezmax rates have remained steady this week as the end June cargoes have been worked which currently stand at around ws 80 for East and ws 45 for Western destinations. We are still awaiting the July Basrah program to be published to see if it will favour Suezmax or VLCC tonnage. A flurry of Aframax activity in the far east recently has seen a cut in the supply of ballasters to the AG, accentuating what was already a tightening tonnage list. While we have not seen rates move as much as we might expect as a result, this can be attributed to a lack of any real activity as the market slowed down for Posidonia week. Rates currently stand from the AG at 80,000mt x ws 92.5 and from Singapore 80,000mt x ws 95.

West Africa

Suezmax Owners have seen little activity this week and in turn rates have further softened down to ws 70 to the US Gulf and ws 75 to Europe. With Owners sentiment softer we are likely to see lower levels achieved next week. VLCC levels have steadied at around 260,000 x ws 65 for the East against moderate demand although we could potentially see some discounting if the AG market looks to soften as Charterers push further on into July.

Mediterranean

The Aframax market suffered from the Posidonia disruption. It seemed that most business to be concluded was done at the beginning of last week and since then the apparent inactivity has drawn out all firm sentiment from the Owners. Certainly more was fixed than meets the eye but the tonnage list does not lie; an armada of early ships have provided choice for Charterers. Rates as high as ws 126 at the peak for cross Mediterranean voyages have been eroded slowly but surely with a low of ws 95 reportedly concluded from the Black Sea by the close. There may be some consolidation now and the strikes in France are withholding some ships, but the going is still fairly weak for Owners. Strikes have continued in France this week but this has not hampered Charterers in achieving lower levels. Rates have now eased to 135,000 by ws 80 for Black sea to European destinations. Still potential for rates to soften further, especially if as anticipated the French strikes end next week.

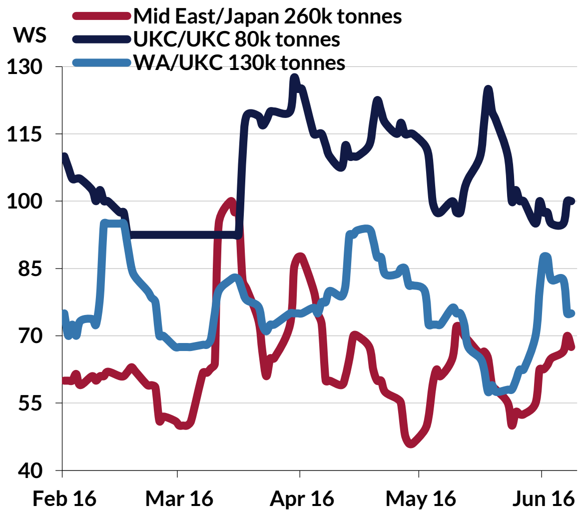
Caribbean

The start of the week gave Aframax Owners some hope to turn the tables here with an uptick in enquiry, unfortunately it was never enough to push levels on and now that Charterers have once again taken their foot off the pedal any further opportunities to push on have diminished keeping levels just under ws 100 on 70,000mt. VLCC enquiry has kept to a minimum this week which gave Charterers the ammunition to shave off last done. Availability going in to next month looks healthy enough to discourage any immediate recovery with last done at $4.65 million to Singapore.

North Sea

An active week for North Sea and Baltic Afrmaxess with a good level of fixing giving the market a spark which went amiss last week. Rates for cross UKC moved from 80,000 mt by ws 100 to ws 110 and likewise rose from ws70 ws 77.5 on 100,000 mt for the Baltic. The outlook remains firm, sentiment suggests that there is still room for improvement but if charterers can manage the flow of enquiry rate gains shouldn't run away. With a small handful of available tonnage in a natural position combined with the delays in France should give VLCC Owners the chance to secure a premium over last done, whether Charterers are able to make such levels work remain to be seen. Last done remains around $3.9 million to Singapore.

Crude Tanker Spot Rates



Clean Products

East

The activity on the MR market in the AG was dampened early on this week by missing personnel, eating feta and coiffing ouzo in Posidonia. Unfortunately, the return of much of the market did not come hand in hand with a flurry of action. Rates remain soft and have taken a step down from last done levels, to the dismay of Owners. Runs to the continent have settled on the $950k levels, but remain unpopular amongst Owners due to the lack of trading options at the discharge area. X-AG runs are now down to $165k, but with LR1s so hungry for work, there is no guarantee that MRs won't face greater competition for these stems in the coming week. gasoil runs to EAfr have settled at the ws 125 level, and those going to Gizan hover around $400k, although Charterers see a little fat still to strip off this rate. With short haul still the flavour of the moment, tonnage is likely to remain relatively long in the coming week, and the health of the market will suffer until the LRs manage to pull their socks up. Similarly to the MRs, the larger sized vessels have seen less action this week due to the various parties in Posidonia. The LR2s have a number of outstanding cargoes, but unfortunately enough tonnage to cover them. Charterers therefore feel justified asking for sharper than last done numbers, and market rates have therefore softened throughout the week. West runs are now sat at $1.775 million, and TC1 now at ws 85, although it doesn't seem as though we are too far short of the ws 80 level. The LR1s have been very quiet this week, and Owners are now dropping down to the MR Charterers, looking for work. A Sikka/UKC on subs at $1.175 million highlights the fragility of the market, and Owners are now resided to the fact that $1.225 million defines an AG loading West run. The preference of Owners to stay East means that TC5 will come under further pressure next week. Ws 94 on subs is likely to take another drop, and ws 90 is not out of the realms of reality.

Mediterranean

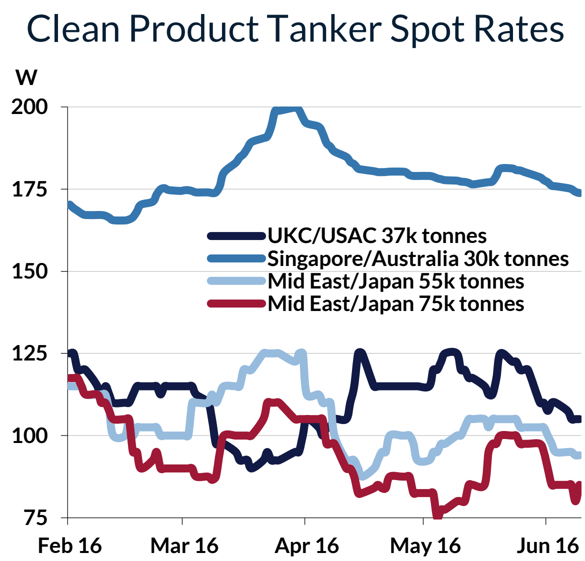
Posidonia has certainly played a key part in the Med market this Week, with reports of fixtures being a tricky thing to gather. Rates have been kept under pressure with limited opportunities for vessels to find employment and consequently sliding cross Med runs to 30 x ws 130. We can anticipate that Black Sea runs could also slide, but with tonnage being thinner in the East Med, the final defence for Owners still holds strong. With a good level of tonnage opening up in the next 10 days, unless we see a glut of inquiry, or a strong level of secret fixing on a boat party in Greece, Owners will need to dig in to hold present levels.
MRs have seen little to get excited about in the Med this week, with demand for Red Sea runs being minimal to none. With MRs as a whole remaining under pressure from Charterers we can expect small reductions in freight to be achieved as Charterers keep the pressure on.

UK Continent

As the close of a disrupted Week 23 comes to an end, constant pressure on rates by Charterers throughout have shown small rewards. Activity levels have been consistent throughout the 5 days which many could have thought were ground for slight improvements, but with weak States and WAF markets, ballasters have been the bane of Owners lives and rates continue to be pressured. Looking ahead it seems hard to see when this present trend will change, Owners can enjoy demand for runs to Argentina, but presently with limited reformate East and WAF runs available, this market will remain placid.
Handies more than any on the Continent seemed to suffer the most from the Posidonia parties, with activity only rearing their heads as the second half of the Week appeared. Thankfully tonnage has not been plentiful, and delays in France continue to keep workable tonnage off our lists. Rates bounced around a little but as the close of the Week appears, it seems 30 x ws 135 will go down as the market rate. Charterers will be looking to push further as employments levels still do not balloon, but for the time being Owners have enough ammunition in their belts to keep this market flat. Flexis see the pace of their market slow compared to previous Weeks and as a result Charterers have been able to chip away at numbers. As days progressed, tonnage has built and as we come to Friday, a few prompt ships appear with limited options for employment. We await to see where next is fixed and what Charterers can push here.

LRs

The added distraction of Posidonia to what is already a stagnant market has subsequently offered up another quiet week for LRs in the West. Most of the action has come from Charterers quietly clipping away a few LR1 vessels for the ARA/WAF gasoline run, with levels trading flat at 60 x ws 82.5. Off prompt dates there have been limited options for Charterers this week; unfortunately for Owners the lack of inquiry has prevented them from pushing rates up. Looking across the pond, USG-TA rates have continued to fall with reports of 60 x ws 52.5 on subs today. Looking into next week, as quickly as the list of options for Charterers has narrowed this week on the Continent, we will suddenly have a handful of vessels open from mid-month dates onwards. Unless we see an improvement in inquiry, then expect rates to come under renewed pressure. LR2 activity has been slow through the week with just a couple of cargoes milling around the depths of brokers back pockets. However, as we end the week activity has picked up off the Continent for both naphtha and reformate offering an option for Owners other than to begin ballasting back to the East whilst hoping something will pop up on route. With a handful of vessels opening in a similar window, Charterers naturally hold the upper hand, but the big question is how low rates can fall in a market where rates have been sitting off the bottom for a while. Latest reports is that $1.8 million has been achieved for Mongstad-Japan and today we are putting Cont-Japan levels are at $1.6 million. Cont-AG runs are being rated at around $1.4 million and we saw this week a fresh test out of the Mediterranean albeit loading out of Melitah (so a premium achieved) of $1.675 million for a ship ballasting from the Continent. A final note is that another LR2 has dirtied up today showing Owners are still on the fence as to which strategy to take. It will be interesting to see if this spurt of activity continues at the start of week 24.



Dirty Products

Handy

This week started with the handbrake firmly applied in the north with fresh activity stalling as Posidonia parties were in full swing, Owners were braced as negative correction was almost a certainty. The front end of the working week remained quiet with prompt ships appearing helping to lengthen the list. This said we start to draw the week down for the weekend and owners will be pleased to see a few stems coming to market. Come Monday morning the fresh list will be key as Owners will have the bit between their teeth determined to keep rates from heading further south.

The Mediterranean market has seen rates steadily drop throughout the week due to a number of people traveling early this week. Although we have seen a steady amount of enquiry this week tonnage availability remains healthy and well spread within the region. As we push towards the next trading week Charterer's remain in the driving seat set to test this market further.

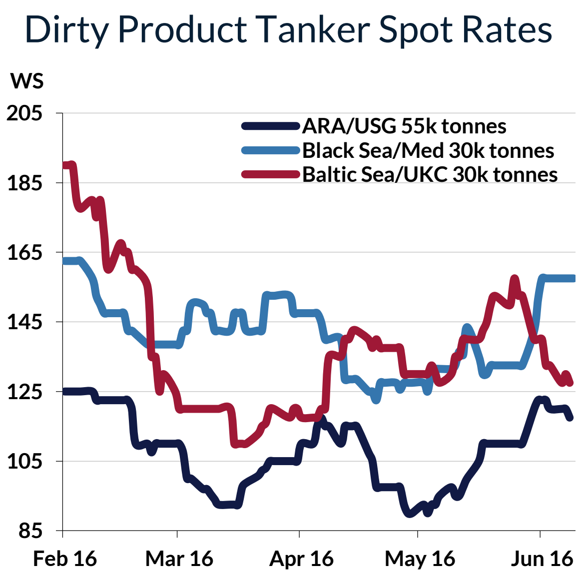
MR

This week has seen the Continent market scarce of naturally placed units within the region. Charterers have been keeping an eye out for potential ballasting units which in turn has aided Owners out of the region using this to their advantage to gain ground where possible. The weekend break will have Charterers hoping to see a few more vessels starting to appear taking the pressure off looking toward surrounding market to cover firm stems.

The Med this week has been dominated by tonnage selection based on vessels itineraries. Charterer's being mindful of this has been careful in not being caught out with stem dates as a natural sized tonnage were hard to pin down. Come Monday and with this theme continuing a few more vessels appearing will settle Charterers worries.

Panamax

The trend of this week has been a little more subdued in activity levels then we have seen in recent weeks. It could be said this has come as no real surprise due to the lack of firm natural tonnage positioned this side of the Atlantic. With this in mind a close eye has been kept on activity levels within the States markets but similar to over here it has continued to trade flat with availability starting to be more plentiful compared to stems to cover. As we draw the week to a close natural tonnage is starting to look firmer and with tonnage moving this way due to the inactivity in the States. Rates in both regions are starting to look like they could be on a slippery slope heading into next week.



GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	June 9th	June 2nd	Last Month	FFA Q2
TD3	VLCC	AG-Japan	**+3**	67	64	48	61
TD20	Suezmax	WAF-UKC	**-12**	75	87	83	75
TD7	Aframax	N.Sea-UKC	**+13**	109	96	115	95

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

			wk on wk change	June 9th	June 2nd	Last Month	FFA Q2
TD3	VLCC	AG-Japan	**+2,250**	51,750	49,500	32,750	45,250
TD20	Suezmax	WAF-UKC	**-7,500**	25,500	33,000	32,750	25,750
TD7	Aframax	N.Sea-UKC	**+11,000**	24,750	13,750	33,750	12,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	June 9th	June 2nd	Last Month	FFA Q2
TC1	LR2	AG-Japan	**+0**	85	85	83	
TC2	MR - west	UKC-USAC	**-4**	105	109	117	103
TC5	LR1	AG-Japan	**-4**	94	98	99	92
TC7	MR - east	Singapore-EC Aus	**-5**	174	179	179	

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

			wk on wk change	June 9th	June 2nd	Last Month	FFA Q2
TC1	LR2	AG-Japan	**-500**	14,000	14,500	14,750	
TC2	MR - west	UKC-USAC	**-1,250**	9,250	10,500	13,000	8,750
TC5	LR1	AG-Japan	**-1,250**	11,000	12,250	13,500	10,500
TC7	MR - east	Singapore-EC Aus	**-1,000**	14,250	15,250	16,000	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**+15**	238	223	202
ClearView Bunker Price (Fujairah 380 HSFO)	**+10**	253	243	221
ClearView Bunker Price (Singapore 380 HSFO)	**+22**	252	230	220
ClearView Bunker Price (Rotterdam 0.1% LSFO)	**+23**	458	435	405

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