

The Sea of Crude

Weekly Tanker Market Report

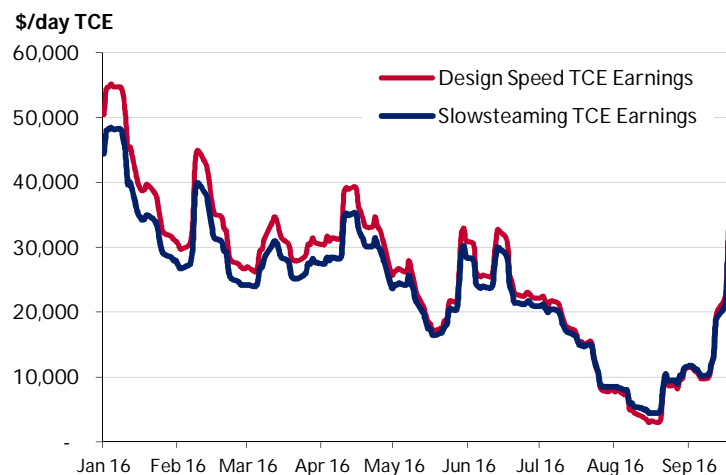
It appears that the crude tanker markets have moved on from the worst of the August slump. Suezmaxes trading out of West Africa are leading the way. In early September Shell lifted force majeure on Bonny Light exports, with loading scheduled to reach 220,000 b/d in October. The Qua Iboe exports, the biggest Nigerian crude stream (estimated at over 300,000 b/d before the force majeure) are also expected to re-start as early as late September. Finally, shipments of Forcados crude are anticipated to resume soon, with a preliminary October loading program reported at 230,000 b/d. More crude from Nigeria has led to an impressive rebound in Suezmax rates in the region, with the TCE earnings for West Africa – UK Continent up from just under \$5,000/day in mid-August to around \$35,000/day currently.

There is possibility of more barrels loading in the Mediterranean. Libya's National Oil Company is in the process of re-opening Zueitina, Ras Lanuf and El Sider oil terminals and the company hopes to triple domestic crude output by the end of this year. So far the success has been mixed. The government officials stated that one Aframax tanker successfully loaded and departed Ras Lanuf, but loading operations have been temporarily halted due to military clashes.

More evidence supports the view that crude exports out of the Black Sea will increase. CPC exports are scheduled to increase in October, with further gains planned towards the end of this year and throughout 2017 amid rising offshore and onshore production in the Caspian region. The biggest gains are expected on the back of the re-start of the giant Kashagan field and the start-up of the Filanovsky

Suezmax Daily Spot TCE Earnings

West Africa - UK Continent (TD20)



field in the Caspian Sea. The combination of higher volumes out of the Black Sea, coupled with positive sentiment, have offered further support to the tanker market.

Despite firming rates and earnings in a number of regional trades in the West, the VLCC AG market remains weak, with spot earnings for Middle East – Japan barely covering fixed operating expenses. It will be interesting to see whether the latest increases in West Africa and the Mediterranean/Black Sea will have a positive effect on the VLCC market.

On a more fundamental level, there is a growing opinion between oil industry practitioners that oil

markets are likely to remain oversupplied well into 2017. There are a number of reasons for that, including growing prospects for Nigerian, Caspian and Libyan crude production. The resilience of the US shale industry has prompted a number of leading oil consultancies to revise up their expectations for US crude oil production. The IEA has also voiced concerns of slowing demand growth in key markets, which together with anticipated increases in crude output, points to a sizable excess in supply over demand at least through the 1st half of 2017.

If these forecasts are correct, the impact on the tanker market will largely be positive, at least in the short term. Tanker demand will benefit from incremental growth in crude exports, while oversupplied oil markets increase the likelihood of continued operational and forced tanker storage. Yet, as is always the case with forecasts, there are uncertainties. One of the most immediate risks is a possible crude oil production freeze deal between a number of crude exporters, with a decision expected in less than a week. The question here is whether the countries like Nigeria, Kazakhstan and Libya, where the near term prospects for production gains are the strongest, agree to participate.

Crude Oil

Middle East

VLCCs saw more as the week progressed, but failed to shake off the holiday lethargy that had set solidly in last week. That said, a steady/busy Atlantic scene, and a widespread improvement in Suezmax fortunes, has started to harden sentiment, and perhaps a busier pre Chinese holiday week to come will start to shift the rate needle upwards somewhat over the coming period. Rates, for now, remain in the low ws 30s East, and low ws 20s West. Suezmaxes did make some upward progress to around ws 60 to the East and ws 40 West but noticeably underperformed against their peers in West Africa, and the Med. Ballasting from the region is already underway, and a finer balance may eventually work to Owners' advantage. Aframaxes held their recent bottom line - 80,000 by ws 60 to Singapore, and Owners are seeking small premiums now for the privilege of fixing upon more forward dates...baby steps.

West Africa

Suezmaxes continued to go from strength to strength on solid demand, and dwindling supply...rates have now reached the 'magic' ws 100 mark to Europe, and only a little less to US Gulf and will hold steady for a little while yet...or until those ballasters from the East begin to dilute tonnage lists. VLCCs should, perhaps, have ridden a deal higher on the back of the Suezmax gain, but few units were available on the earlier fixing windows where the main pressure resided and although good 'full cargo' interest also persisted, levels could only reach a maximum ws 45 to the Far East with \$2.645 million the last seen to East Coast India.

Mediterranean

No further noticeable gain for Aframaxes here, but rates did inflate slightly towards 80,000 by ws 105 cross - Med on initial solid interest. Thereafter, demand faded, and Owners moved more onto the defensive by the weeks end. Suezmaxes retained recent strength, and moved even higher to 140,000 by ws 100 from the Black Sea to European options as more tonnage was

taken to the East, and West African drums kept beating hard. Owners will remain in the driving seat for some time to come.

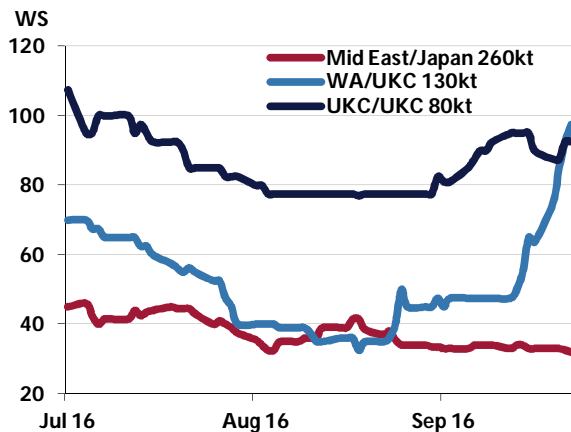
Caribbean

All a bit underwhelming for Aframaxes that never managed to reach critical mass and had to settle for a non-descript 70,000 by ws 92.5 average up coast through the week. Hopes for 'something' to happen next week. VLCCs started brightly as availability evaporated on early dates, and rates climbed to \$2.6 million to West Coast India, and to low \$3 millions for Singapore accordingly. Further gains are possible, but will have to be harder fought for.

North Sea

No real change for Aframaxes as in general supply easily satisfied demand and Owners failed to identify any pinch points to worry Charterers. As things look, next week will operate to the same format. Tight VLCC positions, and more 'arb' interest, combined to allow rates to add a little more fat to \$2.625 million for fuel oil to Singapore with \$3.5 million seen for a crude run to South Korea. Further improvement is still a possibility.

Crude Tanker Spot Rates



Clean Products

East

The MRs have finally experienced enough action to drag them out of the mud they have been through the past couple of weeks. Rates have themselves seen a slight increase as a result, as heavy prompt tonnage has been cleared at very cheap numbers, and Owners claw back the slightest of negotiating power in trading. Short haul in the Gulf finishes the week at \$180k, and runs to the Red Sea at \$400k. The issue we saw midweek was that Charterers opted to top up short haul cargoes to LR1 - taking advantage of cheap rates on other sizes. MRs have not been preferred for longer haul, although a West stem was eventually fixed at \$1.05 million after numerous replacements, which has brought jet runs up to \$1.0 million to finish the week - possibly a little less for ULSD. EAfr runs have crept up slowly to the ws 115 level, but a prompt replacement on subjects this morning at ws 135 has left Owners wondering whether they are justified to bring up their demands on rates. TC14 was relatively steady at ws 100, but again many stems to be covered have either been topped up, or have been snapped up at cheap numbers by Eastern Owners. The number of cargoes that will emerge on Monday morning will inevitably dictate the direction of the market, but with the LRs really struggling, the push made by the MRs will be curtailed by cheaper alternatives on other sizes. The LRs have continued to struggle this week with an abundance of tonnage, in particular the LR2s. Earnings have dropped to less than operating expenses and really cannot go much lower. 75,000 mt naphtha AG/Japan is now at ws 62.5 and 90,000 mt jet AG/UKCont is hovering around \$1.60 million. LR1s have been slightly busier, with less overhang of early tonnage but rates have still struggled. 55,000 mt naphtha AG/Japan is at ws 82.5 and 65,000 mt jet AG/UKCont is \$1.25 million. With increased MR activity, LR1s have seen demand for short hauls to cover, which in turn may lead to slight improvements next week.

Mediterranean

As Week 38 comes to a close in the Mediterranean, a fairly bitter taste is left in

Owners mouths as continued pressure from prompt tonnage kicks this market down once again. As the Week started we found once again 20+ prompt ships with a scattering of cargoes available. A quiet Black Sea output throughout has offered limited opportunities for employment as tonnage began to build once again in the East Med. A few fixtures below the 100 mark have dragged down the rest of the market as we now see for a X-Med run anywhere between 30 x ws 90-100 being fixed and Black Sea seeing the same pressure below 100. Looking ahead an improvement in liftings available out of the Black Sea will need to be seen if we are to start to see any light at the end of this dank tunnel. MRs have seen a couple of Transatlantic runs this Week just mirroring levels achieved in the Continent. 37 x ws 77.5 remains on subjects on Friday and it seems hard to see much movement from here in the near future. Runs East have been thin on the ground, with the few fixture we saw producing similar rates as before with Jeddah going for \$550k. Expect more of the same ahead into the upcoming weeks.

UK Continent

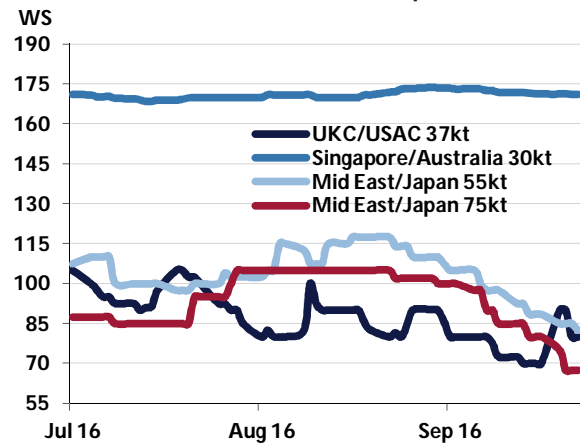
The week started on a positive note with prompt tonnage looking tight and a spike in enquiry due to the Colonial pipeline outage in the US. However, after the initial peak in rates seen on Tuesday TC2 settled and ultimately finishes the week at 37 x ws 80. This is partly due to the pipeline coming back online but also due to WAfr enquiry being slow and China bound cargoes apparently not moving in the end (trading 37 x ws 100 and \$1.3 million respectively). Friday finishes with tonnage looking well supplied for remaining cargoes and with this situation persisting into next week gone is the platform on which Owners were able to command higher rates on Monday and Tuesday. Activity on TC14 has flattened also painting a subdued overtone for MRs in the West, tonnage looks to be well balanced both sides of the Atlantic. Handies in NWE have seen adequate fixing levels this week and consequently rates have been insulated from the gradual slowing of the market. As the week progressed, rates have been able to shift sideways with 30 x ws 115 for cargoes loading out of the Baltic and 2.5 discount for voyages going cross-Continent. The slowing of the MR market, coupled with a handful of failures on Friday, suggests these rates could come under some negative pressure next week.

unless we see an influx of 1st decade October cargoes starting to work from Monday. Knowing this, Charterers are expected to drip feed the market in order to maintain the levels currently being achieved, although with the Med market offering negative earning for the majority of Handy Owners, the potential ballasters arriving on the Cont may lengthen the tonnage list to the extent, where Owners are forced to lower fixing level expectations. Another week passes for the Flexis in which there has been little to stimulate the levels of activity and subsequently rates. Spot action continues to be light and, with the lack of market volatility synonymous with this, Owners are only able to achieve last done levels fluctuating within 2.5 points either side. With the week finishing on a quiet note, Flexies look to be trading 22 x ws 137.5-140 depending on the cargo matched to the Owner; this situation looks to drag on into Week 39, with little on the immediate horizon to shake up this placid market.

LRs

LR1 activity continues to trudge along the bottom in the West and with that, rates remaining suppressed. One Charterer picked off a vessel for an ARA/Med run at 60 x ws 50 and ARA/WAfr-Transatlantic rates are milling around the 60 x ws 65 mark. Another test this week saw one Owner collect just \$650k for an ARA/AG move. During the early stages of the week it looked as though rates would improve out of the USG for runs Transatlantic, but with the Colonial pipeline back up and running, the hype has cooled off and rates have settled back down to 60 x ws 50 for Transatlantic, having said that, tonnage options are minimal in the USG/USAC at present. It has been another fruitful week for Charterers for LR2s in the West. Rates have been driven south once again with \$1.05 million fixed for an ARA/SPORE run. It has been possible for Charterers to apply pressure given the soft East market where AG-UKC runs are down to \$1.6million and the due to the plentiful tonnage options available in the West. With rates now sitting at historically low levels, we are nearing the bottom as there is little fat left to strip away. Owners are looking towards planned refinery maintenance in the AG and a cold winter to improve activity, but for the time being rates are likely to remain stifled.

Clean Product Tanker Spot Rates



Dirty Products

Handy

Slowly enduring conditions in the Continent show signs of change, where impact from tonnage previously fixed to leave the region and steady forward programming of the existing fleet begin to alter the supply balance. However, freight levels this week remain largely unaffected, with only repetition at conference numbers achieved. In the Med conditions have proved rather challenging this week as oversupply gave Charterers the edge at the negotiation table. Competitive numbers being the byproduct the week had a rather soft underlying tone, where any immediate green shoots of recovery evade us.

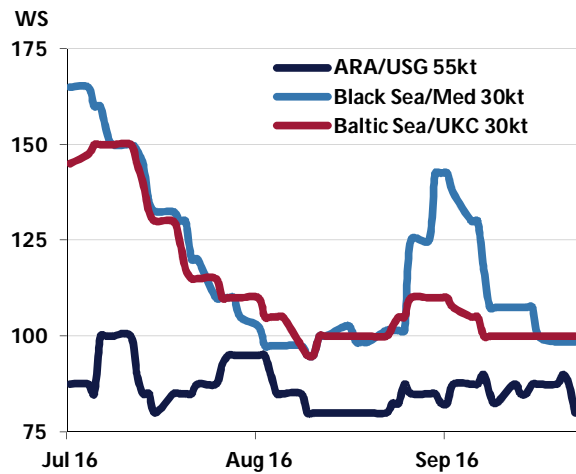
MR

In firmer markets where confidence rallies, the activity this week would have normally led to levels being positively tested. And yet in spite of sporadic positioning seen in the continent, Charterers have continued to book units at competitive levels. How much longer this continues is perhaps a rather pertinent question, as when surrounding markets elevate this market is becoming well positioned to lead the charge in altering MR outlook. In the Med, we also we note a healthier appetite for this size being displayed by Charterers, where come Friday availability looks rather trimmed by comparison to where the week started. Looking ahead, this could well translate into some possible upturn, whilst we wait to learn where and when units booked this week will re-open.

Panamax

Owners this week will be switching their computers off in haste come COB today, frustrated by market proceedings Monday through Friday. On the odd occasion cargo date sensitivity allowed for increment to set in only for tonnage escaping a depressed Caribbean market to come over and crash the party. In short, it is looking like owner will have to dig deep once again a rebuild, whilst we await the next test.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Sept 22nd	Sept 15th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	-1	33	34	37	50
TD20	Suezmax	WAF-UKC	+32	96	63	35	75
TD7	Aframax	N.Sea-UKC	-2	91	93	78	99

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

			wk on wk change	Sept 22nd	Sept 15th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	-1,750	12,000	13,750	17,750	30,750
TD20	Suezmax	WAF-UKC	+17,250	36,750	19,500	6,000	25,250
TD7	Aframax	N.Sea-UKC	-2,500	14,750	17,250	4,500	21,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Sept 22nd	Sept 15th	Last Month	FFA Q3
TC1	LR2	AG-Japan	-13	68	80	104	
TC2	MR - west	UKC-USAC	+10	80	70	93	96
TC5	LR1	AG-Japan	-6	81	88	108	87
TC7	MR - east	Singapore-EC Aus	+0	171	171	170	

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

			wk on wk change	Sept 22nd	Sept 15th	Last Month	FFA Q3
TC1	LR2	AG-Japan	-4,000	8,250	12,250	21,000	
TC2	MR - west	UKC-USAC	+1,500	4,750	3,250	8,000	7,500
TC5	LR1	AG-Japan	-1,750	7,750	9,500	15,000	8,750
TC7	MR - east	Singapore-EC Aus	-500	13,250	13,750	14,500	

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

ClearView Bunker Price (Rotterdam HSFO 380)	+11	250	240	216
ClearView Bunker Price (Fujairah 380 HSFO)	+15	271	256	226
ClearView Bunker Price (Singapore 380 HSFO)	+14	263	249	221
ClearView Bunker Price (Rotterdam 0.1% LSFO)	+15	413	398	366

www.gibson.co.uk

London

Audrey House
16-20 Ely Place
London EC1N 6SN

T +44 (0) 20 7667 1234
F +44 (0) 20 7430 1253
E research@eagibson.co.uk

Hong Kong

Room 1404, 14/f,
Allied Kajima Building
No. 138 Gloucester Road
Wan Chai, Hong Kong

T (852) 2511 8919
F (852) 2511 8910

Singapore

8 Eu Tong Sen Street
12-89 The Central
Singapore 059818

T (65) 6590 0220
F (65) 6222 2705

Houston

770 South Post Oak Lane
Suite 610, Houston
TX77056 United States