

Cutting back

Weekly Tanker Market Report

Late last year 24 countries, with a combined output in excess of 51 million b/d agreed to cut or cap production. Whilst Nigeria, Libya and Iran are generally exempt, barring any major increase from these states, the potential impact on the market, if fully complied with, stands at 1.722 million b/d. Full adherence may not be expected, but the level to which compliance is met, is key for the tanker market.

Saudi Arabia has pledged the largest contribution at 468,000 b/d and already claims to have reduced production below 10 million b/d. Non-OPECs largest contributor, Russia states output has fallen by 130,000 b/d, with further reductions to be made over the coming months. However, cuts by Saudi Arabia were long overdue after the Kingdom maintained production at peak summer levels, counter to its typical behavior of lowering output ahead of winter. By contrast, Russia's hand may have been forced by extreme (even by Siberian standards) weather, which led to some activity being suspended.

Elsewhere in the Middle East, Kuwait claims to have exceeded its commitments, in part through to field maintenance. The UAE also appears committed, although its maintenance is not scheduled until the 2nd quarter; whilst additional Murban cargoes have been offered following a refinery fire at Ruwais. Oman insists it has met its obligations, as has Qatar; whilst small producer Bahrain has issued no statement regarding its tiny 10,000 b/d contribution. Perhaps the most controversial issue is Iraq. Despite claims of a 160,000 b/d cut, the country plans to export record levels from the South in February. With limited storage capacity, any production decline should be promptly visible in exports. In any case, further cuts in Iraq beyond those already claimed may be difficult if Baghdad expects the Kurdish government to contribute the balance.

Whilst Iranian exports have increased of late, much off the increase has been caused by a sell off of existing stocks. In fact, production eased marginally to 3.72 million b/d in December. Also exempt, Libya claims to have increased production to 700,000 b/d earlier this week, although its supply remains volatile due to operational and security issues. In West Africa, Nigeria remains exempt but Angola claims to have met its commitments, with March loading programs showing lower exports. Elsewhere in Africa, small producers Gabon, Equatorial Guinea, Sudan and South Sudan have made no such claims regarding their compliance, although South Sudan is keen to increase output, which has been curtailed by civil war. Algeria claims to cut production by at least 65,000 b/d.

In the Americas, production in both Venezuela and Mexico has been under pressure from natural declines. Venezuela has seen its output fall to lows not seen in nearly 30 years; whilst Mexico appears to be managing its compliance through natural declines. Ecuador has not made any comment.

In the Caspian, Kazakhstan claims to have trimmed output by the agreed 20,000 b/d; however, its continued compliance may be difficult given rising production from the new Kashagan field. Azerbaijan has pledged to start reducing output by month end. The only producers to agree cuts in the Far East, Malaysia has announced it is cutting production; whilst there has been no news from Brunei, who pledged a minuscule 4,000 b/d.

If all the cuts that have been claimed (ignoring Iraq) are true, then the total impact on the market amounts to a reduction of 1.1 million b/d (see table below). However, hard evidence of these cuts filtering through into export barrels remains to be seen. In any case, lower exports are negative for the crude tanker markets. However, a proportion of Saudi Arabia's cut was never intended for the export markets; whilst some countries may be overstating their compliance. Equally, production in

other areas is rising. The IEA expects Brazilian and Canadian production to increase in excess of 400,000 b/d this year, and US shale to rise by 170,000 b/d. Thus for OPEC and its allies to really force the market back into balance, their cuts may have to be deeper and last longer. However, the deeper and longer the cuts, the more OPEC and its allies risk losing market share. With high volumes of crude loading from Europe to the Far East in January, other producers seem keen to take advantage of any collective action by OPEC, which may reduce the groups appetite for an extended period of restraint.

OPEC/Non-OPEC Agreed Cuts and initial claimed* compliance

OPEC	Agreed cut	Notes	Cuts
Algeria	-50	Claims to have cut by 65kbd	-65
Angola	-78	Songangol claims 78kbd has been cut	-78
Ecuador	-26	No statements regarding compliance	
Gabon	-9	No statements regarding compliance	
Indonesia		Membership suspended	
Iran	90	Exempt	
Iraq	-210	Claims 160kbd cut, but Basrah exports rising	
Kuwait	-131	Claims full compliance	-131
Libya		Exempt	
Nigeria		Exempt	
Qatar	-30	Said to be complying, reducing crude supplies in Jan	-30
Saudi Arabia	-486	Claims to have cut in excess of commitments	-486
UAE	-139	Field maintenance, scheduled for Apr-May	
Venezuela	-95	Compliance through 'natural' declines	-95
Total OPEC	-1164		-885

Non OPEC	Agreed cut	Notes	Cuts
Azerbaijan	-35	Cuts to be made by end Jan	
Bahrain	-10	No statements regarding compliance	
Brunei	-4	No statements regarding compliance	
Equatorial Guinea	-12	No statements regarding compliance	
Kazakhstan	-20	Claims full compliance	-20
Malaysia	-20	Claims full compliance	-20
Mexico	-100	Compliance through 'natural' declines	
Oman	-45	Claims full compliance	-45
Russia	-300	Production down by 130kbd	-130
Sudan	-4	No statements regarding compliance	
South Sudan	-8	Seeking to restart 50kbd of production	
Total Non OPEC	-558		-215
Total OPEC & Non OPEC	-1722		-1100

**Table takes government comments at face value, except for Iraq.*

Crude Oil

Middle East

A volatile week for VLCC Owners as Charterers swiftly moved on to their February programme and initially faced some resistance from Owners. As the week progressed, though, the cracks began to widen and with availability easily outweighing demand, combined with a steady flow of new builds coming into the market, Owners are now on the back foot. Current levels to the West are around 280,000mt x ws 49 (2017 ws) and for Eastern destinations 270,000mt x ws 82.5 (2017 ws) with the potential of further discounting likely. Suezmax focus this week has predominantly been on West destination cargoes. Although the February Basrah program promised Owners so much, the harsh reality has been the oversupply of tonnage in the area. This has led to rates softening to ws 60 (2017 flat rates) to Europe for both Basrah Light and Heavy cargoes.

With the rarity of an abundance of Aframax cargoes and a thinning tonnage list (accentuated by a busy Far East market stemming the flow of ballasters into the area) Owners got a chance to flex their muscles. We are, however, witnessing more and more frequently a two-tier rate band with older, less-desirable units talking 80,000mt x ws 100 (2017 ws) levels while the more in-demand tonnage demands ws 135 (2017 ws) plus. Should the cargoes keep coming at the same frequency next week, rates will be cemented at upper levels. For now we would call the market ws 117.5-ws 125.

West Africa

After a drawn out quiet period it seemed inevitable that Suezmax rates would soften. Owners have taken their medicine with rates bottoming at 130,000mt x ws 87.5 (2017 flat rates) for European discharge. We end the week with the tonnage list balanced due to high volumes of Suezmax activity from other load areas. Next week, Owners will hope they can regain some of the lost ground, but will need to be mindful that half the second decade West Africa stems have already been covered by VLCC tonnage. A rather active week for VLCC's here and again we saw an initial premium at the start of the week, but ending again with Owners on a more defensive footing as levels weaken elsewhere impacting on sentiment here. Last done to the Far East is 260,000 x ws 81.5 (on 2017 ws).

Mediterranean

Suezmaxes have seen a busy second half of the week and rates have bottomed at 135,000 by ws 87.5 for Black Sea to European destinations (2017 flat rates). We have seen many Mediterranean fixtures being concluded to the East with rates in the region of US\$2.6 million for Singapore discharge. With the overhang of spot tonnage having now been absorbed, combined with increasing Black Sea delays, Owners will have a firmer footing going in to next week. As the week progressed Aframax rates eased off due to lack of activity and a growing tonnage list bloated with Aframax tonnage ballasting from the North Sea. Rates have softened to 80,000 by ws 150 (2017 ws) X-Med and with the likelihood that rates will not go lower, we

should start to see a busier period with Charterers looking to book a bargain.

Caribbean

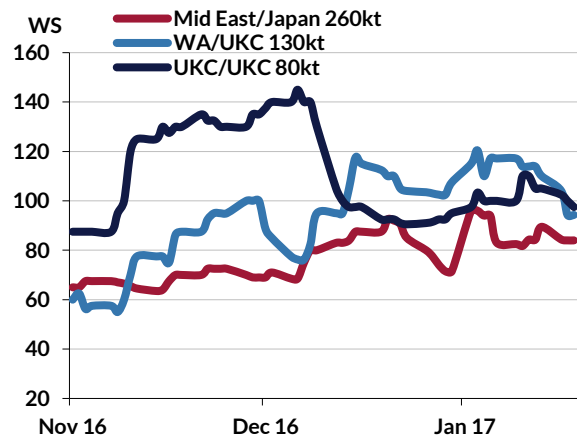
Fog was Owners saviour here, as replacement cargoes provided Aframax Owners with an opportunity to secure some healthy premiums over last done. Whether this is enough to provide Owners with further ammunition going into next week though remains to be seen with last done levels around 70,000mt x ws 165 (2017 ws). VLCC interest generally keeps under the radar here, but with availability good enough on a forward position should encourage Charterers to push for levels below last which are currently around US\$5.2 million for Singapore and US\$4.1 million for West Coast India.

North Sea

A slow week for Northern Aframax. The small amount of activity seen failed to match the quantity of prompt tonnage available. Stagnation set in towards the middle of the week with the subsequent slump being shown in the rates. Thursday saw a slight increase in X-North Sea volumes seeing 80,000mt x ws 97.5, repeated several times. This however, did little to affect a market which had already set its course for the week. The sentiment seems flat as we move through Friday, with Baltic rates hanging in the balance at 100,000mt x ws 95. Next month's Rebcos will look to start working come Monday, perhaps heralding a much-needed increase in activity to stir what is currently some rather still waters.

Plenty of VLCC activity, with some fixing and failing to add into the mix. Overall rates have had to come off to be more in line with Charterers' Economics. Current 'ARB' runs are around US\$4 million to Singapore with rates around US\$5.3 million from Hound Point to South Korea.

Crude Tanker Spot Rates



Clean Products

East

The MRs have this week proved that they have the legs to hold off the slump which has taken ahold of larger tonnage. US\$1.085 million is undoubtedly the headline rate of the week, coming as a surprise even to Owners who had not expected West runs to spike to these levels. EAF runs have bounced around at the ws 145 rate, but Charterers are using the changeover to 2017 flats to shave a few points off, and this run sits at ws 180 on the new flats. Naphtha runs are still at the ws 127.5 level (2016 flats), and Red Sea runs need a fresh test, having been sat at US\$450k for a while. The interesting run this week has really been the shorthaul - when LR2s are offering cross Gulf at US\$200k, it seems inconceivable that MRs are still trading the same run at the same levels, but we have seen the number repeated several times. It is likely that the MRs will soften this week, finally following the now very shaky LR market and we will see Charterers trade aggressively to achieve better dollar per ton on this size.

LRs have had a downcast week with rates on LR1s drifting off, but LR2s tumbling. 75,000 mt Naphtha AG/Japan is down now to ws 95 on 2017 scale, equivalent of ws 73 on 2016, some 15 points down in the week. West rates are also down dramatically with 90,000 mt Jet AG/UKCont at US\$1.6 million. 55,000 mt Naphtha AG/Japan is at ws 112.5 today (equivalent w87.5 2016) and 65,000 mt Jet AG/UKCont is at US\$1.20 million. Next week may see a little more activity with February stems quoting more and a clear of stems for Chinese New Year, but the overall trend is downwards.

Mediterranean

Not the most thrilling week for Handies plying their trade in the Mediterranean and Black Sea. Volumes have increased compared to last week. However, the vast amount of prompt units available have been the main factor why freight levels have continued to decrease. Cross Med levels end the week at 30 x ws 152.5 and ex Black Sea liftings at 30 x ws 165. Looking ahead at the tonnage list a number of ships are now opening East Med which will increase the pressure of Black Sea liftings. Expect levels to remain soft heading into next week.

MRs have mirrored TC2 and trade at 37 x ws 150, but a fresh test is needed here, demand for gasoline east has been quiet and last done is around US\$800k basis Sarroch / Jeddah.

UK Continent

A Bank Holiday in the States to kick the week off on the MR sector was the last thing Owners wanted, with ballasters on the horizon and tonnage in good supply. We continued with plenty of options for Charterers and with this transatlantic rates slowly fell towards 37 x ws 150 mark. The saving grace seemed to be the high levels of demand sending ships down to WAF and tonnage was cleared out throughout the week with this destination. Rates for UKCont/WAF wobbled between 37 x ws 180 and ws 170, and as the end of the week appeared, with a further spike in enquiry, numbers seemed to have settled towards the higher end of this bracket. Looking ahead with tonnage still available, Owners will be hoping any outstanding stems come true and this market has seen the bottom. Early next week fixing will be key for this to occur.

Handy Owners started the week trying to tame the fire in Charterers bellies for further decline and throughout the early part of the week lost this battle. Rates started towards 30 x ws 185 and as we saw this number fall with every fixture, we find ourselves now staring more like 30 x ws 160 mark. Tonnage needed to cover any outstanding stems with late 20s dates in January, may come up against some positivity as options looks short in supply with 30 x ws 170 being spoken about. Heading to the 30s and beyond into February, ships are turning over and rates once again under pressure.

Finally, to the Flexis where this market has mainly been affected by the Handy market falling as enquiry has been very slow. We saw rates start the week around 22 x ws 230 for UKCont runs, and this slowly slipped towards 22 x ws 210-215 by the close of play. Enquiry remains on the light side, and the common theme of “market needs testing” continues into the weekend.

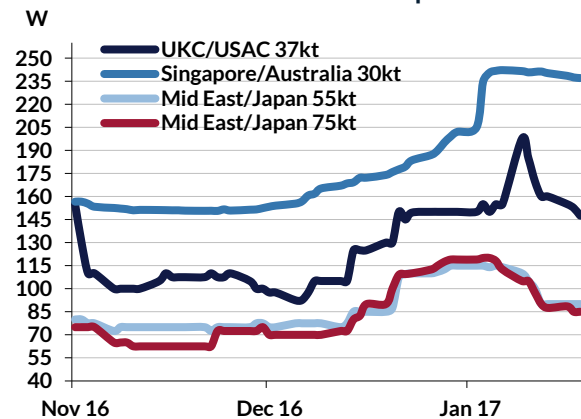
LRs

It has been a terrible week for LR1 Owners. They have seen just a snippet of enquiry other than a couple of LR1s placed on subs as we close the week out of the USGulf, there haven't been any other fixtures reported. Thankfully for Owners, a couple of vessels have been tucked away for own program business. As the week has progressed, vessels on the continent have started to receive firm berthing prospect and with the ballasters also arriving onto the Continent within the next 10-day window, all of a sudden, the LR1 outlook is looking very soft. Most routes require a fresh test and an aggressive Charterer might even aim for less than where we are now tentatively placing them. LR1 ARA/WAF levels have fallen to 60 x ws 135 and runs East, although not a preference to Owners especially those with

ice classed vessels, will also come off. Owners are now rating MED/AG runs at US\$1.25 million with the usual diffs applying thereafter. Only a strikingly active start to next week will help Owners hold any kind of ground on this vessel size.

LR2s began the week in similar fashion with rates slipping US\$50k from US\$2.05 million to US\$2.0 million for a Mongstad/Singapore run, but a few other enquiries have helped a cluster of vessels find employment and with that for now, rates should remain relatively steady in the West.

Clean Product Tanker Spot Rates



Dirty Products

Handy

As the week progressed in the North, inactivity eventually made a telling impact on rates, where levels fell by as much as 10 points depending on the route. Going forward, any rebound is more likely to occur from the Baltic where ice class availability reflects slightly leaner and less suppressed than the non ice market. This said, there have been a few deals booked, where if fully fixed, could alleviate a degree of negative pressure caused by a tonnage overhang heading into next week. Rates aside, the Continent continues to trade 2016 ws values in what is proving to be one of the longest transition periods between schedules, as yet, common agreeance can be made on how to adjust various differentials.

In the Med activity presented in far greater volumes by comparison with the two previous weeks. Although rates are a way off being any where near pre-slump values, a 10 point gain week on week is a notable achievement for Owners given the levels of prompt tonnage Monday opening. Looking into next week, additional units will be showing and with fixing date progression taken into account, we can expect to see a period of flat trading whilst both Owners and Charterers gauge the lay of the land.

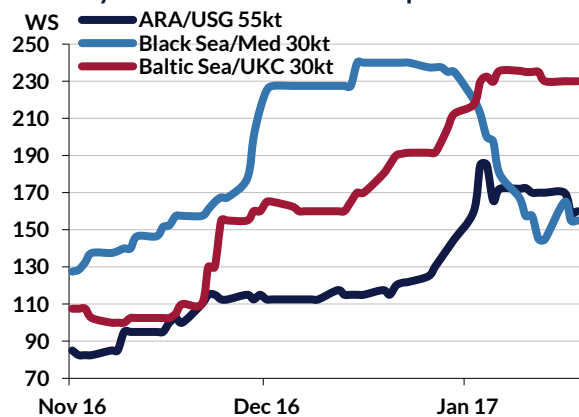
MR

Sporadic activity has left previous benchmarks looking stale, where if it were not for the fact that natural tonnage continues to evade the region, trend would be realising a similar fate to that of the surrounding handies. Elsewhere, down in the Mediterranean activity levels haven't been so much of a problem, rather the inactive weeks that had allowed tonnage to accrue. Negative correction therefore has been realised with a floor being found only towards the back end of the working week.

Panamax

Consistent activity has presented in this sector where once an initial benchmark re-setting took ahold, repetition became a recurring theme. It seems that currently a few Owners are realising that their fleets are positioned too dependent on the strength of the Caribs, and with Europe offering 55/125 ballasting over serves as a useful hedge for the forward month. Looking ahead, whilst this current equilibrium is maintained a period of flatness is expected.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 19th	Jan 12th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	+4	86	82	86	69
TD20	Suezmax	WAF-UKC	-24	88	112	102	92
TD7	Aframax	N.Sea-UKC	-3	98	101	99	107

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

			wk on wk change	Jan 19th	Jan 12th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	+3,500	43,750	40,250	67,750	28,250
TD20	Suezmax	WAF-UKC	-10,000	18,750	28,750	37,750	20,250
TD7	Aframax	N.Sea-UKC	-2,250	10,250	12,500	22,500	16,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 19th	Jan 12th	Last Month	FFA Q3
TC1	LR2	AG-Japan	-23	95	118	83	
TC2	MR - west	UKC-USAC	-26	148	174	119	154
TC5	LR1	AG-Japan	-3	115	118	83	117
TC7	MR - east	Singapore-EC Aus	-5	236	241	172	

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

			wk on wk change	Jan 19th	Jan 12th	Last Month	FFA Q3
TC1	LR2	AG-Japan	-5,500	6,750	12,250	10,750	
TC2	MR - west	UKC-USAC	-4,000	9,500	13,500	10,500	10,250
TC5	LR1	AG-Japan	-250	7,500	7,750	6,500	7,750
TC7	MR - east	Singapore-EC Aus	-250	12,750	13,000	10,500	

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

ClearView Bunker Price (Rotterdam HSFO 380)	-3	305	308	300
ClearView Bunker Price (Fujairah 380 HSFO)	-2	334	336	324
ClearView Bunker Price (Singapore 380 HSFO)	-7	333	340	331
ClearView Bunker Price (Rotterdam LSMGO)	-4	459	463	458

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