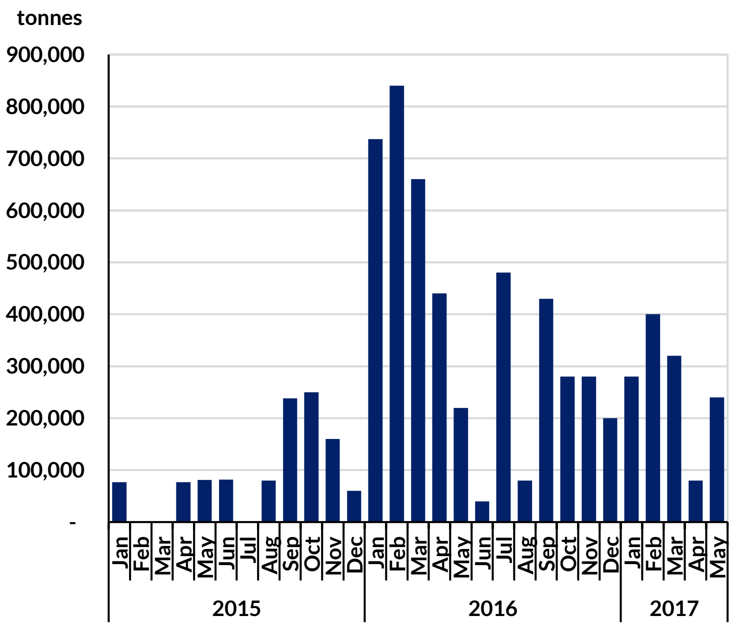
Reforming China
Weekly Tanker Market Report

Back in April we discussed the potential impact of a new Chinese customs duty on the import of mixed aromatics (reformate), light cycle oil and bitumen blend. The implementation of these taxes since has been delayed, and flows have once again resumed following a lull in April. However, regardless of developments on the taxation front, imports of mixed aromatics look set to come under pressure following refinery expansions/upgrades due to come into effect over the next two/three years.

Chinese refineries are in the midst of adding reformer capacity. Reformers allow refineries to produce higher octane gasoline blending components (such as mixed aromatics) from naphtha. This year alone China plans to add 375,000 b/d of reformer capacity, with nearly twice as much in 2018, and higher still in 2019. These new additions will impact the tanker market in several ways.

Reformate Fixtures: NW Europe - Far East*



*only includes fixtures where the cargo type is confirmed as reformate (e.g. excludes cpp)

Provided the new capacity comes online as planned, Chinese demand for reformate imports is likely to decline, which will of course have a negative demand impact for product tankers. Although keeping everything in perspective, Chinese reformate imports represent a very small proportion of overall product tanker demand. Furthermore, this may be mitigated by higher demand for imported naphtha. Currently, many independent refiners sell their naphtha to local petrochemical plants as much of China's domestic naphtha production is unsuitable for gasoline blending. Adding reformer capacity will enable refiners to upgrade their naphtha for use within the domestic gasoline pool. The knock-on effect may be that local petrochemical plants will have to source higher volumes of naphtha from overseas, boosting import demand and to a certain extent offsetting the decline in mixed aromatics imports.

The crude tanker market may also be impacted. Lighter crudes tend to yield more naphtha. With Chinese plants increasing their capacity to upgrade low quality naphtha into higher octane components, demand for lighter crudes, such as those sourced from the Atlantic Basin, could find more favour amongst Chinese refiners who have invested in reformer capacity.

Crude Oil

Middle East

Last week's VLCC strong activity spilled over into the first half of this week to add just a little more rate-fat, but thereafter things slowed and with availability remaining easy, it was Owners that ended upon the defensive with rates retreating again to as low as ws 45 to the East and back into the mid ws 20's West. unless any unexpected pinch points develop before the completion of the June programme then rates look set to become further pressured. Suezmaxes hoped that they would capture extra benefit from the Qatar disruption and potential VLCC splitting, but although some opportunity did develop, tonnage lists remained thick enough and rates remained at little better than ws 67.5 East and ws 27.5 to the West over the period. Little early change anticipated. Aframax volumes stayed light to keep rates anchored at sub ws 100 numbers to Singapore where they look set to remain for the near term, at least.

West Africa

How low can it go? A truly awful week for sub Opex challenged Suezmaxes. Charterers eye full lists and see no good reason to change the market mood. Perhaps, eventually, the bargains will prove too hard to resist for a spate of bulk 'buying'. Rates scrape along at 130,000mt by ws 60 USGulf and ws 62.5 for Europe for the time being. VLCCs started steadily enough at a 'conference' ws 56.5 to the East, but as the AGulf faltered, ideas here also retreated a touch to ws 55 with $2.75 million paid to East Coast India. Owners will have to dig in to prevent further erosion.

Mediterranean

Having endured a rate crash last week, Aframax Owners remained battered and bewildered at rate levels down to 80,000mt by ws 92.5 X-Med, but are now starting to regroup in the hope of more attention next week. Suezmaxes ticked over, then took a step lower as demand fell short of easy supply and West African weakness further impacted. Rates stand at 140,000mt by ws 70 from the Black Sea to European destinations with $2.6 million available for runs to China.

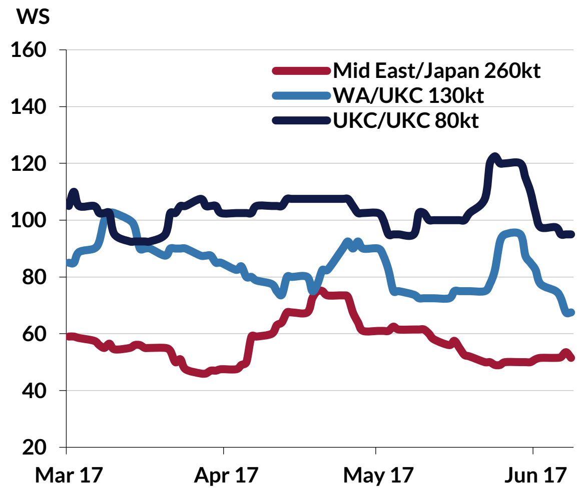
Caribbean

Aframaxes continued upon their downward path to hit 70,000mt by ws 92.5 upcoast and there will be more concluded at close to that level before the market gets a chance to rebalance. VLCCs broadly remained in 'same as' rate territory at no higher than $3.1 million to Singapore and $2.7 million to West Coast India, but looking over the horizon, availability looks lighter and that may open up opportunities for premiums once the market moves forward.

North Sea

A rather lethargic Aframax scene bored Owners into accepting rates at down to 80,000mt by ws 92.5 X-North Sea and 100,000mt by ws 67.5 from the Baltic. It would be nice to flag a positive change for Owners, but that would be merely wishful thinking as it looks now. VLCCs remained within a tight rate band with $2.8 million the last paid for fuel oil from Rotterdam to Singapore and $3.875 million reported for crude oil from Hound Point to south Korea. No big change expected, but tonnage is tighter rolling forward and Charterers will have to be more mindful, perhaps.

Crude Tanker Spot Rates



Clean Products

East

The MRs this week have ticked over at a relatively good pace. The talking point of the week was invariably the issues with Qatar and Charterers and Owners strode carefully as they negotiated Qatar options and the possible premium now needed for inclusion in load / discharge ranges. Seeing a $950k on subs now for Qatar/UKCont would suggest that a slight premium has been paid, although Owners have been arguing for a higher rate previous to these issues. Shorthaul has been dragged down by a disappointing $145k on subs, but the threat of ums LR1s hangs heavy over the Owners of prompt MR tonnage. Red Sea runs have bounced around - a cheap market number into Djibouti is discarded for the age of the ship, and $415k seems a fair number to finish the week on. TC12 has not taken its opportunity to firm when it had the chance and ws 125 has again been repeated. Although EAF rates traded at ws 145 for a last veg ship at the beginning of the week, a ws 147.5 was immediately put on subs for CPP history, and the market dropped by 2.5 points. This number has now been repeated and sets the bar for the new week. The previously seen flurry of EAF cargoes means that we will next week see a fair number of ballasters returning from previous fixtures down to East and South Africa - given the popularity of these runs we may see market levels come under some increased pressure.

LRs have had a disappointing week with LR2s in particular suffering, 75,000mt naphtha AG/Japan is back down after initial optimism and rates at ws 87.5 now, with AG/UKCont looking near to $1.30 million. LR1s have seen good volume, but the sheer weight of tonnage couldn't prevent a slight slip. 55,000mt naphtha AG/Japan is down to ws 105, but should now hold and 60,000mt ums Sikka/Singapore is at ws 110. 65,000mt jet AG/UKCont is pretty steady though with rates staying around the $1.10 million level. Rates are expected to remain fairly constant into the next week.

Mediterranean

On the Handies, slow levels of enquiry partnered with an ever-growing tonnage list has piled on the pressure on rates and produced a gentle decline throughout the week. As the second half of the week came around, enquiry was stunted and as we push ahead, Handy Owners will have a tough time in keeping this market here. Enquiry levels will need to improve quickly to clear out the glut in the tonnage list, and give Owners opportunities to hold fast.

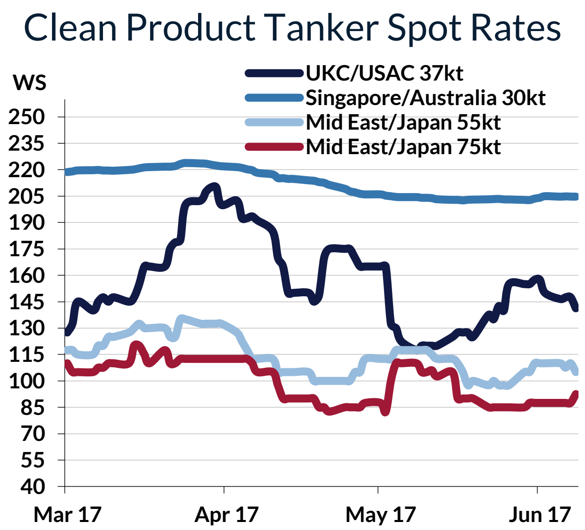
Mediterranean MR business has been moderate this week which has enabled rates to mirror what has been happening up on the continent. Transatlantic rates were trading at 37 x ws 147.5 at the start of the week, but have now finished around the 37 x ws 140 level and West Africa at 37 x ws 160-165. Looking ahead volumes will have to pick up otherwise Charterers will continue to shave more worldscale points off the market.

UK Continent

The uncertainty and misery seen in the UK elections this week seems to have rubbed off on the MR market in NWE too. The list was looking fairly positive early in the week leaving Owners a touch bullish, however, upon closer inspection there are plenty of hidden ships and with limited fresh enquiry rates have slipped to 37 x ws 140 transatlantic and 37 x ws 160 down to WAF. Limited arb trading is piling further woes although certain Charterers seem to be able to make sense of sending reformate East at $1.45 million. The stage is set for more of the same early next week.

Week 23 has offered very little in the way of excitement for Handy Owners as both Baltic/UKCont and X-UKCont voyages have traded flat for the duration. 30 x ws 140 still seems to be achievable on Friday for Baltic/UKCont whilst X-UKCont voyages are trading 30 x ws 135, but looking somewhat shaky with the weekend on the horizon. Enquiry needs to pick up in order to balance the lists if Owners are to have a platform to build the rates, is looking unlikely right now, however.

The Flexi market has, as usual, been tracking the action seen on Handies. Given this has been flat and subdued for the past 5 days the Flexi market has mirrored this, but with very limited enquiry in the latter half of the week rates have softened. X-UKCont voyages are only offering about 22 x ws 165 currently with certain Owners keen to fix ships away at less than last in order to avoid an unnecessary idle day.



Dirty Products

Handy

On the whole, this week's activity has ticked along with the mid-week momentum leaning towards Charterers, however, tonnage selection by the close of week 23 started to tighten shifting pressure the other way and Owners will be disappointed there are not more days left in the week to fix! So, in summary this region remains balanced with momentum swinging like a pendulum.

A really tough week for the Mediterranean due to the lack of last week's inactivity and last fixed of 30 x ws 115 from the Black Sea setting precedent. With Owners TCE's well below Opex it was clear these levels had hit rock bottom and there was only one direction to move. The midweek activity was the turning point and vessels were quickly snapped up at discounted levels clearing the bulk of prompt tonnage aided by some Owners choosing to sit tight and not forward fix in anticipation of a prosperous week 24. The markets may well show further recovery and flatten at some point with Owners just hopeful that the levels seen this week were just a blip in the fuel oil matrix.

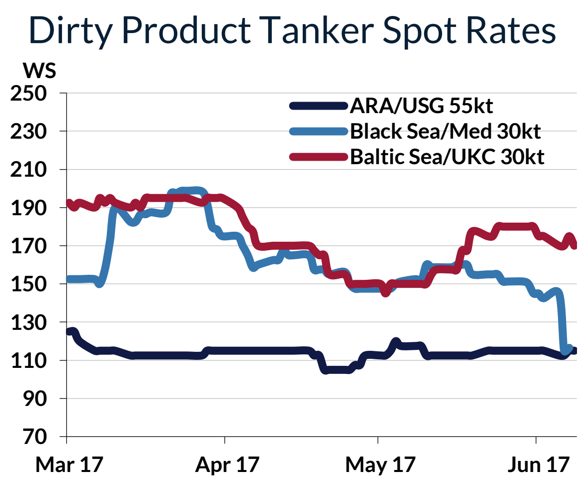
MR

Commencing this week, the lack of naturally placed units in the continent remained noticeable and as expected full sized stem activity continued to elude the sector throughout. As the week progressed the position list began to show signs of replenishment, we may see a well needed fresh test and find out where this market now sits.

A rollercoaster week in the Mediterranean still reeling from last week's inactivity causing Owners to hold their heads in their hands in disbelief. This said, as the week progressed on a burst of part cargo requirements entering the market this has helped tighten the list. This aside, prompt units still weigh heavily upon the region, leaving Charterers with options at their disposal come Monday morning.

Panamax

The public holiday on Monday for a number of countries in Europe started this week off with a relaxed sentiment in the market. That said, it did not take long for Charterers to test the market with one Owner capitalising on what's on offer, clearing down an extensive fixing schedule. Because of this, and given the market conditions states side, ws 112.5 levels became a widely accepted benchmark that others would base negotiations from.



GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	June 8th	June 1st	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+2**	51	49	61	52
TD20	Suezmax	WAF-UKC	**-17**	66	83	76	70
TD7	Aframax	N.Sea-UKC	**-7**	96	103	96	105

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

			wk on wk change	June 8th	June 1st	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+1,750**	16,250	14,500	24,250	17,000
TD20	Suezmax	WAF-UKC	**-6,000**	11,000	17,000	14,750	12,500
TD7	Aframax	N.Sea-UKC	**-4,500**	7,000	11,500	7,000	13,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	June 8th	June 1st	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+5**	93	88	110	
TC2	MR - west	UKC-USAC	**-14**	142	156	130	134
TC5	LR1	AG-Japan	**-3**	105	108	113	122
TC7	MR - east	Singapore-EC Aus	**+0**	205	205	205	

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

			wk on wk change	June 8th	June 1st	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+1,500**	7,500	6,000	11,000	
TC2	MR - west	UKC-USAC	**-1,500**	9,500	11,000	7,750	8,250
TC5	LR1	AG-Japan	**-500**	6,500	7,000	8,000	9,250
TC7	MR - east	Singapore-EC Aus	**+250**	10,000	9,750	9,500	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**-9**	279	288	273
ClearView Bunker Price (Fujairah 380 HSFO)	**-7**	300	307	298
ClearView Bunker Price (Singapore 380 HSFO)	**-7**	301	308	302
ClearView Bunker Price (Rotterdam LSMGO)	**-29**	412	441	421

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