

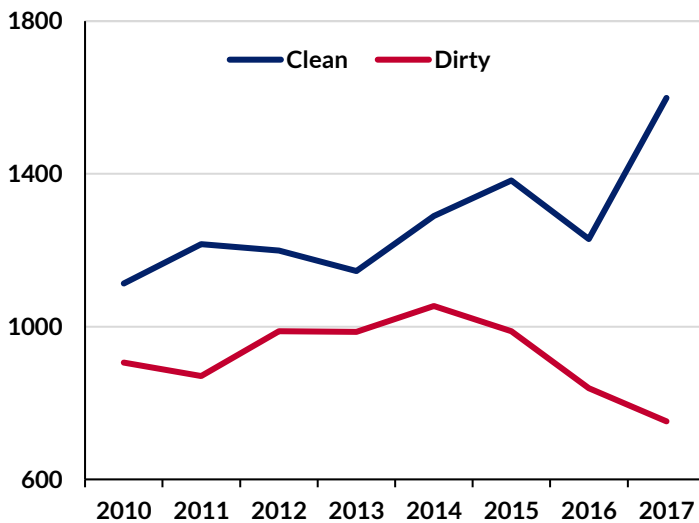
Still Handy?

Weekly Tanker Market Report

Looking at the orderbook for Handysize product carriers (25-39,999 dwt), one might think that this size range presents an attractive investment opportunity, with just three vessels currently under construction; the lowest orderbook of any tanker asset class.

Scrapping is clearly expected to increase. The average scrapping age for a Handy tanker is 26 years old and, with 25 vessels still trading over this age bracket, these units are prime candidates for demolition now. However, it may be a few more years yet before scrapping starts to accelerate, given that 90% of the fleet currently falls below 20 years of age. However, there are grounds to expect the average scrapping age to fall over the coming years, most notably from 2021 onwards. From 2001 through to 2011, an average of 30 Handies were delivered each year; as these vessels turn 20 they could face additional demolition pressures. Although we note that the average age for scrapping in this sector is 26, pending legislation could force early retirement. IMO 2020 for example will force these vessels to burn compliant fuels. Given the higher consumption of these older units, the incentive to scrap will increase; whilst the economics of installing scrubbers may also prove unattractive. Further, the need to install a ballast water treatment (BWT) systems makes the scrapping argument even more compelling. In short, without a new round of ordering, supply in this sector is set to decline, perhaps dramatically into the next decade.

Handy Spot Fixtures Count



But what about demand for the Handy tanker? Is that also projected to fall in line with fleet supply, justifying the lack of investment? Volumes of dirty cargoes carried on Handy tankers have shown a clear trend of decline in recent years (see chart) and there is little reason to expect this trend to reverse in the short term. Come 2020, short haul trade of fuel oil may decline as gasoil steals a slice of global bunker demand, further limiting the trading opportunities for the dirty Handies. However, as compliant fuel oils (considered a dirty product) gain traction, dirty Handies may see demand return, coinciding with a period of tighter fleet supply.

As the market dynamics evolve, some Handies trading in the dirty market may be forced to migrate into the clean sector (provided their tanks are in a suitable condition to do so). In effect reducing the negative demand impact for the Handy sector resulting from lower fuel oil demand, particularly if, as per our recent report dated 5th October 2018, the clean sector experiences a positive demand side boost. The older vessels which are not suitable for clean cargoes may however struggle to find employment.

The fate of the Handy sector is also linked to that of the MRs (40-55,000 dwt). When the MR market is poor, those vessels will often compete for Handy cargoes, limiting the earnings potential of the smaller ships. Likewise, when MRs and the overall tanker sector firms, Handies are expected to benefit, even if not to the same degree as in previous years. Evidently, the future for this size class of tanker is probably the most uncertain of all.

Crude Oil

Middle East

The VLCC sector operated largely as anticipated - much slower as October needs bled out, and November programmes still awaited, and rates re-settling slightly below the peaks seen last week. Owners have therefore held admirably steady given the contrast in volume and will be hoping that when the fresh programmes are confirmed, Charterers again move ahead in numbers to kick start upward momentum once again...let's see. Currently rates are at up to ws 82 to China, and into the low ws 30's to the West. Suezmaxes grew some little legs as early positions tightened and sentiment bolstered by continuing firmness in other load areas. Rates moved to 130,000mt by ws 95 to the East and to ws 35 to the more popular West. Aframax moved up a few gears in rapid succession and Owners managed to then drive rates up to a much higher 80,000mt by ws 150 to Singapore, and there may yet be more to come.

West Africa

Suezmaxes started the week brightly to resume their previous upward path until rates reached 130,000mt by ws 107.5 to Europe, and to ws 102.5 to the USGulf. Thereafter, it slowed somewhat as Charterers held back from chasing too far forward at current peaks, but until/unless the driving Mediterranean market reverses, eventually they'll be forced to re-engage. VLCCs started to see more action but not enough to prevent a degree of discounting in sympathy with the slower AGulf zone. Rates dipped to what became a 'conference' 260,000mt by ws

79 to China with \$4.1 million seen to West Coast India, and eyes will be on Middle Eastern fortunes next week to provide the lead.

Mediterranean

Aframaxes disappointed - enquiry never picked up sufficiently to challenge easy tonnage lists and rates fell off to 80,000mt by ws 100 X-Med in consequence. For now, it seems as if that will remain the case over the next fixing phase also. Suezmaxes, by contrast, continued to enjoy a robust marketplace with Eastern demand again the main driver. Rates stayed above 140,000mt by ws 100 from the Black Sea to European destinations with runs to China at \$3.8 million and that should stay the way - at least - over the coming period too.

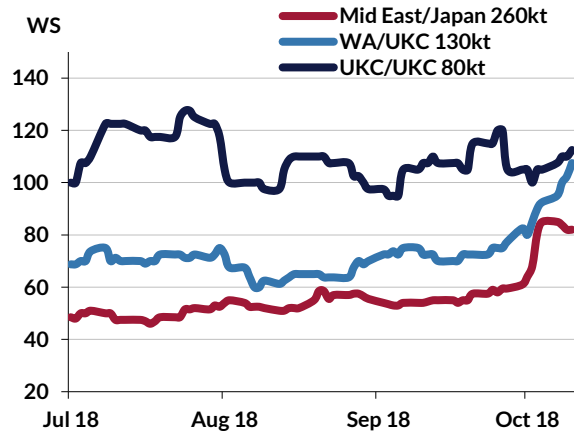
Caribbean

Bad weather/hurricane, even, disruption provided the catalyst for much higher Aframax rates as Charterers busied, and availability thinned. 70,000mt by over ws 150 now and it may hold for a little while before the inevitable 'readjustment' comes back into play. VLCCs didn't see much fresh but tonnage stays very tight and rate ideas still remain at around \$6.25 million from the USGulf to Singapore and at least \$6 million from the Caribbean to West Coast India with loadport costs at Charterers account.

North Sea

Aframaxes did manage to move up the rate scale a little way - to 80,000mt by ws 117.5 X-UKCont, and to 100,000mt by ws 105 from the Baltic, but it slowed late week and further upward progress was then postponed until next week, unless Charterers then decide to sit on their hands. VLCCs found occasional interest against an ongoing thin tonnage list. A very healthy \$6.8 million was reported for crude oil from Hound Point to the Far East and fuel oil from Rotterdam to Singapore would need to fund over \$5 million, though traders are finding the 'arb' hard to square at that.

Crude Tanker Spot Rates



Clean Products

East

Activity levels have ticked along this week for the MR's in the AGulf. Owners will be pleased that the tonnage list is looking balanced and there is a healthy number of open cargoes ready for week 42. Rates on the whole haven't been overly exciting for Owners', but the poised sentiment in the market could see a turn, as clearing the outstanding cargoes will put pressure on available tonnage. After a while UKCont has been tested this week at \$1.0 million. With the West market picking up, added to the fact we are approaching Ice season, expect to see Owners more willing to reposition to the UKCont way. Shorter voyages saw a little climb early on this week, X-AGulf at \$135k and AGulf-Red Sea at \$325k, however, have since held steady. EAF danced around a little but sits at 35 x ws 125 and TC12 is trading at 35 x ws 120. Owners should be feeling confident that commencing week 42 there will be cargoes to cover and a balanced tonnage list. The autumnal push could be around the corner.

LR1s have seen a steady week, yet although Japan rates have managed to hold firm, other rates have dropped away. 55,000mt naphtha AGulf/Japan is now ws 120 unless you cannot use last UMS ships then ws 125 is the rate. 65,000mt jet AGulf/UKCont has fallen off further to \$1.40 million. LR2s still haven't seen the volume needed to see any recovery. Rates have remained surprisingly healthy considering the activity level. 75,000mt naphtha AGulf/Japan is ws 100 and 90,000mt jet is now down to \$1.85 million, but both rates feel like they have reached the bottom.

Mediterranean

Positivity continued at the start of week 41 for the Handies, plying their trade in the Mediterranean as an excess of cargoes gave Owners further opportunity to press rates. X-Med passed 30 x ws 150 by the halfway point, with certain restricted cargoes pulling even higher into the ws 160s. The Black Sea managed to shake their usual ws 10 point premium, with runs trading into the 30 x ws 180s and this has made it trickier for EMed liftings attempting to repeat last done X-Med numbers. As the conclusion of the week arrives, a mixed bag of X-Med rates are achieved, with 30 x ws 152.5 being repeated but also ws 160 is on subs. Load location will be pivotal in whether Charterers pay the higher or lower on this scale, with the Black Sea continuing to demand a ballooned premium fixing around ws 180+.

The sentiment in the Mediterranean this week has been fairly positive in comparison to its Continent cousins, with tighter tonnage and a consistent level of enquiry, meaning rates have generally traded at ws +5 points on top of rates coming out of the UKCont. At the time of writing 37 x ws 135 seems to be the going rate for Med-transatlantic runs and fresh test was seen for a Med-Brazil run at heights of 37 x ws 152.5, showing the strength of the Med in comparison to similar voyages ex NWE. Outstanding cargoes are still there to be covered and Owners will use the momentum seen this week to drive rates as we move into week 42.

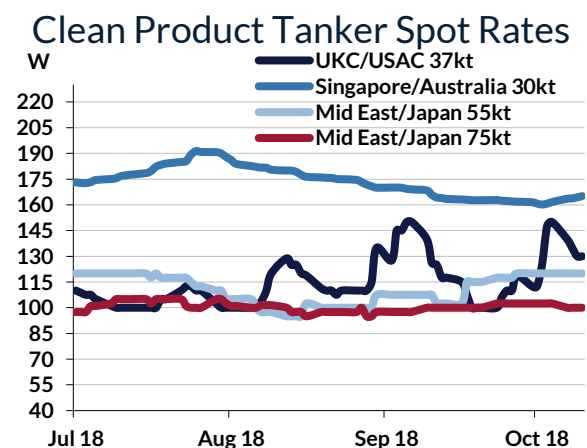
UK Continent

Charterers have played the game very well this week by holding back cargoes and forcing some Owners out there to hit the panic buttons, resulting in TC2 softening to 37 x ws 130. Light West African demand has not helped Owners causes either, with very little on offer to fix (until the end of the week), with levels trading on average ws +10 points on top of TC2. With the negative sentiment creeping in off the Continent, ballast positions decided to set sail to the Gulf which has actually bounced back to around 38 x ws 100 mark. With a better day of enquiry seen on Friday there is belief that TC2 has stabilised at 37 x ws 130 and, with WAF ballasters being sucked into the Med and States ships heading to the Gulf, the next fixing window could see a shortage of tonnage off the Continent. Poised heading into next week's fixing.

It's Deja vu in the Handy market this week, as rates have firmed in a similar fashion to last week. Initially action kicked off slowly, with last done levels being happily repeated. However, a prompt X-UKCont requirement, with only one ship around, pushed rates up ws 10 points to 30 x ws 150 leaving Owners holding for 30 x ws 160 ex Baltic by Wednesday. By comparison the tonnage list was relatively tight partially due to consistent enquiry and also to COA commitments keeping fresh positions at bay. With certain cargoes on the back foot come Friday 30 x ws 165 is now on subs ex Baltic and Owners' have their bit between the teeth to push for more whilst they can. Although the tonnage list tends

to grow over the weekend, with plenty of Handy stems still to cover on the Baltic programme before end month, expect rates to hold if not improve slightly.

A relatively quiet week for the Flexis, one spot cargo and one market cargo does help to keep some ships on the move, although the levels achieved on each of these are fairly low compared with where the week has finished...albeit on the good graces of the improved Handy market! 22 x ws 180 was confirmed for X-UKCont but with larger tonnage making some gains we now need a fresh test expected to be more like 22 x ws 200. Next week doesn't look to produce any fireworks and there are plenty of ships available in the typical load areas, so keep a close eye on the Handies instead.



Dirty Products

Handy

If we are to look at weekly patterns of activity in the North West over the last month, this week has followed suit with a slow start, whilst positions are gathered before moving in to a flurry of activity mid-week. Despite a mix of fixing and failing, there has been plenty to test the region on the smaller Handy stems. However, rates started and finished the week around the 30 x ws 155 level for UKCont - Med and ws 130 for X-UKCont. That said, some Owners may feel there could have been more of a push on rates towards the end of the week as the tonnage list thinned. With limited tonnage going in to next week, we may not need a slow start for Owners to find opportunities to make gains.

The pace of activity we have experienced in recent weeks in the Med has largely been maintained with Black Sea/Med enquiry dominating the start of the week and X-Med telling the rest of the story for the remaining few days. With the Black Sea seemingly going quiet, Med activity did a good job at maintaining perceived values, where we see the week close with the Black Sea/Med rates hovering around ws 230 and X-Med holding at ws 210-215. Looking into next week, with some uncertain itineraries beginning firm and a list of positions being refreshed Charterers may be able to gain a few points they were unable to this week.

MR

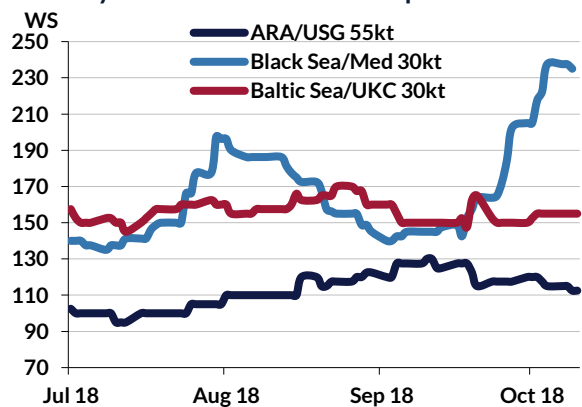
A quiet week on the whole on the Continent, with only a couple of 45kt stems worked which saw downward trend. The few cargoes that were worked have kept the position list ticking over, so rates should trade sideways next week. Monday we may have a couple of prompt units keen to get moving.

Owners had the upper hand this week, as the week began with a depleted position list. Although enquiry was steadier the region held its strength. Looking ahead into next week, Charterers are looking forward to units to be replenished and Owners are eager to see more end of month programmes from the Black Sea. If these two fundamentals materialise then similar trend is set to continue.

Panamax

Only towards the later stages of the week did this sector really boost much to talk about, where news of an elevated Aframax fixture in the US set the pace for the surrounding Panamax markets in both Europe and the US. Eventually, after much procrastination Charterers did eventually succumb to Owners demands of ws 122.5, and although this is less than the ws 125-130 levels initially spoken about, it does mark a gain week on week of around ws +7.5 point.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

		wk on wk change	Oct 11th	Oct 04th	Last Month	FFA Q4
TD3C VLCC	AG-China	+14	82	68	55	77
TD20 Suezmax	WAF-UKC	+17	106	88	73	96
TD7 Aframax	N.Sea-UKC	+11	115	104	108	112

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

		wk on wk change	Oct 11th	Oct 04th	Last Month	FFA Q4
TD3C VLCC	AG-China	+13,000	37,000	24,000	14,500	32,250
TD20 Suezmax	WAF-UKC	+8,000	24,500	16,500	11,500	20,500
TD7 Aframax	N.Sea-UKC	+7,000	12,000	5,000	7,750	10,000

Clean Tanker Spot Market Developments - Spot Worldscale

		wk on wk change	Oct 11th	Oct 04th	Last Month	FFA Q4
TC1 LR2	AG-Japan	-2	100	102	100	
TC2 MR - west	UKC-USAC	-18	131	148	121	146
TC5 LR1	AG-Japan	+2	123	121	103	120
TC7 MR - east	Singapore-EC Aus	+4	165	161	164	

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

		wk on wk change	Oct 11th	Oct 04th	Last Month	FFA Q4
TC1 LR2	AG-Japan	-750	3,750	4,500	5,500	
TC2 MR - west	UKC-USAC	-2,500	4,750	7,250	4,250	7,250
TC5 LR1	AG-Japan	+500	6,750	6,250	4,250	6,250
TC7 MR - east	Singapore-EC Aus	+1,250	6,250	5,000	7,000	

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

ClearView Bunker Price (Rotterdam HSFO 380)	-6	473	479	431
ClearView Bunker Price (Fujairah 380 HSFO)	+1	519	518	480
ClearView Bunker Price (Singapore 380 HSFO)	-14	508	522	475
ClearView Bunker Price (Rotterdam LSMGO)	-16	693	709	655

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