

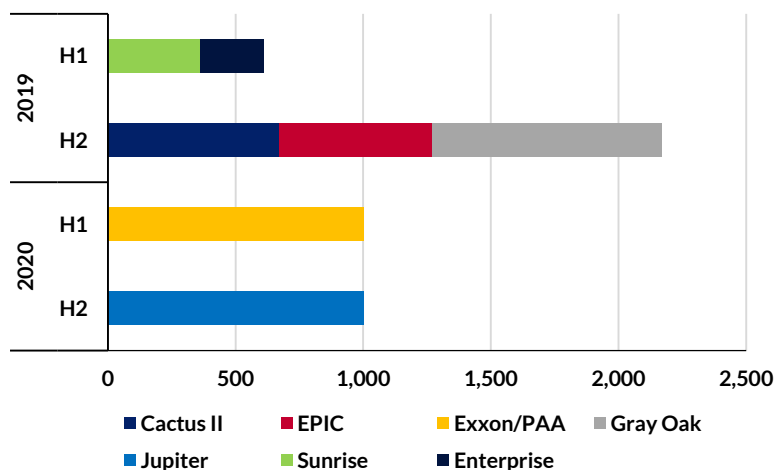
A Gulf in Class?

Weekly Tanker Market Report

It is fair to say the US crude exports have transformed the global oil markets since the crude export ban was lifted by Congress at the end of 2015. Crude exports have risen at a considerable rate, placing the US in the market as a major exporting player. Whilst OPEC have been busy cutting production, the Americans have been steadily increasing their market share. However, the question is; can production continue to rise at this pace?

Latest figures suggest the trend won't stop in 2019, the consensus is that US exports will rise to almost 3 million b/d this year, with most of the production for exports arising from the Permian basin. The increase in export capacity will be facilitated by numerous large-scale pipeline projects, all of which will flow into the Gulf Coast. Major pipeline projects include the Cactus II, Sunrise, Gray Oak and EPIC projects, which are all expected to come online in 2019 - the majority in the second half of the year - which will add over 2.5 million b/d to the existing network of pipelines down to the US Gulf Coast; with a further 2 million b/d projected to flow in 2020. With new infrastructure coming online, bottlenecks to the ports will start to ease, which may incentivise further well completions and drilling activity, supporting growth in export volumes.

Projected Pipeline Capacity to USG 2019/20 (kbd)



Consensus amongst analysts suggests exports from the US Gulf could rise to between 2.8-3 million b/d by the end of 2019. Although the first half of 2019 is projected to stay relatively flat at between 2 and 2.2 million b/d as new pipeline capacity is introduced into the market. Once fully operational, forecasts suggest a 400,000-500,000 b/d rise in exports between Q2 and Q3 in 2019, eventually rising to 3 million b/d by the end of the year.

Port loading capacity will then become even more pivotal. With LOOP the only terminal currently capable of fully loading VLCCs, new projects are needed to improve the cost and efficiency of US exports. Subject to environmental approval, the Carlyle led project that includes dredging at Harbor Island in the Port of Corpus Christi, will enable VLCCs to berth at the port and fully load cargo onshore. Dredging is scheduled to commence during the second quarter of 2019, with the target of being fully operational in late 2020. Further projects are planned. Freeport has also been earmarked on the Gulf Coast as a port to be readied for VLCC loadings, as well as numerous companies showing an interest in port expansions along the Gulf. In theory, the possible expansion of ports to handle VLCCs could carry much of the increase in supply expected to reach the US Gulf.

Overall, with supply volumes projected to increase throughout 2019, the need for greater pipeline capacity is evident, as is the need for deeper ports. Inefficiencies in the supply chain have altered current market dynamics, highlighted by a recent trend for charterers to use VLCCs over Aframax for voyages from US Gulf to Europe. This peculiarity has been facilitated by strong demand for Aframax to engage in lightering operations, constricting the supply of ships available to lift export cargoes. Once infrastructure improves, the status quo is likely to be restored.

Crude Oil

Middle East

Steady, but rather uninspiring, VLCC interest through the week failed to patch the slow market puncture to allow rates to deflate into the low ws 50's East and mid ws 20's West on the new 2019 Worldscales schedule. Further erosion is possible but there's a finer balance on early dates and perhaps Owners will manage to dig in next week. Suezmaxes were reasonably active and managed to push rates slightly upwards to ws 40+ West and to ws 95 to the East, as availability became pruned, though a more significant gain looks unlikely over the near term. Aframax enjoyed a busy week that allowed rates to solidify at 80,000mt by ws 125 to Singapore, with the prospect of something better developing next week.

West Africa

Suezmaxes started slowly but as the market reached a more definite bottom, Charterers briefly entered in sufficient number to provoke a reactive upswing to lead rates to 130,000mt by ws 87.5 to the USGulf and ws 92.5 to Europe. Thereafter, however, the cargo flow quickly stalled, and a more defensive air permeated the marketplace. VLCCs saw little in comparison to the wider Atlantic scene and when eventually some interest developed, Owners competed to drag rates down to a low of ws 53.75 to the Far East but unless the AGulf slips even further, then the market may well hover at a little above that mark for a while.

Mediterranean

Turkish Straits delays have been a lengthy ongoing supportive feature for both Aframax and Suezmaxes and so long as they continue, the whole complex here will outperform the default fundamentals. Aframax move at up to 80,000mt by ws 165 X-Med plus around 10 ws points ex Black Sea, whilst Suezmaxes operate at a steady 140,000mt by ws 127.5 from the Black Sea to European destinations, and at around \$4.4 million to China. A similar week ahead, but perhaps a little softening developing.

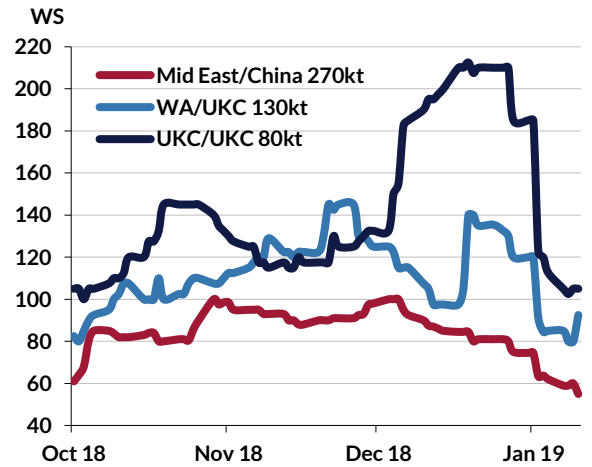
Caribbean

Aframax initially kept the market at recent peaks, but a mid-week hiccup in the cargo flow quickly spooked Owners into a hefty 50 ws point fall to 70,000mt by ws 150 upcoast, and it will take a little while for Owners to regroup unless/until Charterers resume their active feeding. VLCCs enjoyed a bumper week of activity that served to eradicate the early over supply, and allow rates to regain some of the previously lost ground. 270,000mt at up to \$6.2 million from the USGulf to Singapore now with the newly more popular run to the Continent moving at around \$4.0 million. Ballasters from the East remain a cap to much further upward potential, however.

North Sea

Aframaxes spent most of the week tracking lower, but by the week's end a bottom has been reached as Owners dug in harder, and flagged up the economic benefits of ballasting off to the still solid Mediterranean market. 80,000mt by ws 102.5 X-UKCont, and down to 100,000mt by ws 85 from the Baltic will now be the platform for Owners to attempt to claw back some advantage over the coming week. VLCCs found occasional interest at up to \$4.95 million for fuel oil from Rotterdam to Singapore, and to \$5.8 million for crude oil to South Korea but Owners will rather move over the Atlantic if asked to consider much less.

Crude Tanker Spot Rates



*All rates displayed in graphs in terms of WS100 at the time

Clean Products

East

LR2s have remained busy throughout the week and rates have accordingly bounced back a notch. 75,000mt naphtha AGulf/Japan is now ws 127.5, up ws 10 points and 90,000mt jet AGulf/UKCont is \$2.475 million, again up some \$200k. LR1s have been steady and only Japan runs have lost any ground, with 55,000mt naphtha AGulf/Japan at ws 150 (equivalent of ws 177.5 (18)) whereas 65,000mt jet AGulf/UKCont is up slightly at \$2.0 million. Shorter hauls are holding strong, with MRs so strong for now.

A very strong week for the MRs where the tonnage list has been consistently tight and Owners drive has seen last done levels being positively tested. EAF was a little slow to join the party, but it made an entrance at 35 x ws 225. The shorter cargoes have been trading well and ensured that as soon as tonnage was available, it was very quickly snapped up. X-AGulf sits \$365k and Red Sea cargoes at the \$725k levels, but are very much date dependant. UKCont has been untested this week but for a cargo on dates it should trade around the \$1.6 million mark. TC12 also saw a small positive correction and sits at 35 x ws 157.5. Owners will be confident as we approach the weekend, with the tonnage list still pretty tight and a few cargoes yet to be covered. The only air of caution is that, with the short haul levels at parity to a very steady LR1 market, Charterers may start to look at a better \$ per tonne LR1 to cover their MR stems if they can make it work.

Mediterranean

The lists pulled on Monday morning were grim reading for Owners, with a plethora of prompt tonnage available across the board. With Owners on the back foot from the outset rate losses were seen, with rates beginning with a 2 slowly slipping into the hundreds and at the time of writing, the going rate for X-Med is the 30 x ws 190 (19) mark. Although weather in the Straits was causing uncertainty, the softening seen in the Med inevitably pressurised rates, with Black Sea now trading at the ws +10 point premium of 30 x ws 200 (19), although certain Owners were happy to fix at slightly less in return for a higher min flat. Cargoes and tonnage look fairly balanced; however, come Monday this could be a different story, with the sentiment likely to be more negative than positive...

MRs plying their trade in the Mediterranean has ridden on the coattails of the UKCont sector, with a positive attitude seen from Owners across the board. The reformate arb opened heading Far East out of the Cont and, with that Owners were keeping a close eye on opportunities to exploit this move, but the lack of WAF enquiry partnered with relatively limited transatlantic runs has ultimately kept a lid on rates, with fresh negativity being seen on Friday. AGulf runs are pinned at \$825k and, with certain Owners still looking to shift tonnage that direction, this rate will be kept under pressure. Pushing forward enquiry levels will need

to keep up if Owners are to maintain fixing levels of present as ballast tonnage continues to flow up from WAF.

UK Continent

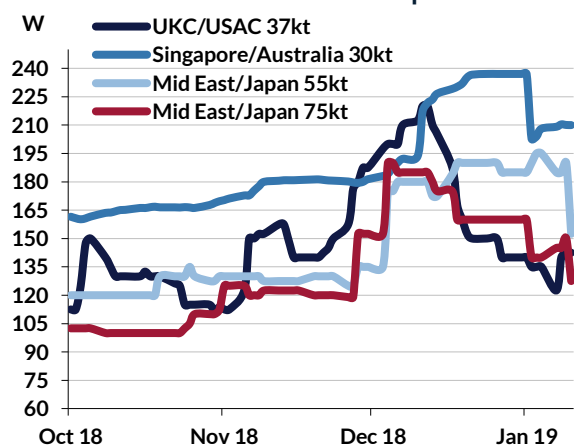
A mixed week for the MRs in NWE, with the tonnage list relatively tight for the duration, although we have only really seen the small gains made early in the week maintained rather than pushing on. TC2 has been the flavour of the week (along with China bound barrels trading around \$1.5 million Mid China), with summer grade UMS arb working numbers ticked up ws 10 points to 37 x ws 140 (19) and have more or less been maintained. A re-let putting 37 x ws 135 (19) on subs Friday will leave the rest of the non-ice class Owners frustrated especially as WAF barrels are still limited and in need of a fresh test around ws +15-20 points over TC2. Ice class ships are few and far between right now, meaning these boats can command a nice premium, with equivalent of 40 x ws 162 (19) on subs Baltic/UKCont and 37 x ws 180 transatlantic loading Porvoo. These vessels look to remain positive next week whilst non-ice units look to build over the weekend leaving the outlook at little weak for early next week.

All in all a good week for Handies as with the MRs, the list has been tight from the outset the difference being that there has been consistent enquiry in this sector meaning Owners have been able to confidently be bullish with rates ticking up over ws 10 points early in the week to

30 x ws 165(19) Baltic/UKCont. This has thus forced Charterers to prefer approaching certain tonnage directly to keep the status quo and not offer any further bargaining chips to Owners. X-UKCont has been a little slow but despite having more units available (due to lack of ice requirement) rates have stayed in line with Baltic/UKCont around 30 x ws 155 (19). Owners will be confident early next week and the steady winter Baltic programme looks to support Owners ideas, further gains are easily feasible here.

It's been a bit of a struggle this week for the Flexis as the list has been littered with available units on the front end of the list and minimal enquiry to clip them away. As a result sentiment is still drawn from Handies but, with a good discount on the pro-rated levels (22 x ws 200 (19) X-UKCont). Owners have found more frequent employment ex North Spain and Spanish Med, a trend that looks to continue into next week. Otherwise the occasional COA requirement keeps some ships on the move but there's no fireworks expected in the near future.

Clean Product Tanker Spot Rates



*All rates displayed in graphs in terms of WS100 at the time

Dirty Products

Handy

A slow week on the Continent but perhaps it's fair to say, that the region saw just about enough to prevent the tonnage lists from stagnating. That said, there were times this week where Charterers did have a moment to better last done deals, but this was short lived and only really permissible at the early stages of the week. Looking ahead, one trait does not seem to be growing old within this sector, tonnage stocks seem to rather quickly depleting without any real abundance of activity. With this in mind, it won't take much impetus to alter conditions.

Market trend in the Mediterranean was given a bolster right from the get go this week as Monday morning bore witness to a flurry of activity. Immediately this was enough to steady the region, with much of the prompt oversupply being mopped up. In truth a slight bit of value was lost; however, with the surrounding Aframax sector showing some lengthy delays through the Turkish Straits, Owners remained positive that opportunity will trickle through. Finishing the week and gauging the activity over the course of the week as a whole, its clear to see that foundations for future volatility have been put in place.

MR

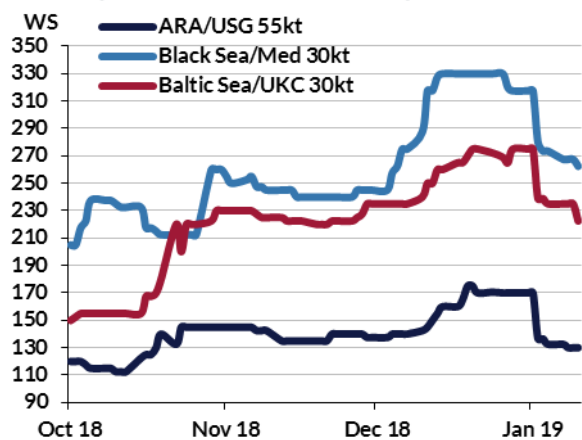
After some initial confidence denting fixing and failing, the market was offered a glance at where values should lay in a sector lacking liquidity. Mainly down to the lack of tonnage supply available to Charterers, a typical approach of case by case freighting is now needed.

In the Med, MR's this week seemed to be self-supportive where full sized demand has meant that Owners did not have to rely on a fallback Handy cargo for employment. Furthermore, the dynamics of the region have shifted into Owners favour, as where availability now looks stretched, Charterers are now being forced to enter earlier in order to cover. So far though this is yet to translate into any profitable upturn but on the whole, momentum continues to simmer.

Panamax

Perhaps to keep the mood light, its best for Owners to focus on the positives this week where they can at last boast less competition for cargoes. As natural tonnage this week progressively cleared down, Charterers were forced to sit up and take note, especially where the attitude towards ballasting ships over from the US has shifted towards not doing so. That said, Charterers will be aware that alternate options are available on the surrounding Aframaxes, which for now completely removes any ability revive sentiment.

Dirty Product Tanker Spot Rates



*All rates displayed in graphs in terms of WS100 at the time

Dirty Tanker Spot Market Developments - Spot Worldscale

		wk on wk change	Jan 10th	Jan 3rd	Last Month	FFA Q1
TD3C VLCC	AG-China	-5	57	62	85	49
TD20 Suezmax	WAF-UKC	+3	92	89	99	75
TD7 Aframax	N.Sea-UKC	-11	105	116	198	105

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

		wk on wk change	Jan 10th	Jan 3rd	Last Month	FFA Q1
TD3C VLCC	AG-China	-10,250	32,000	42,250	50,750	22,750
TD20 Suezmax	WAF-UKC	-250	32,500	32,750	27,750	22,500
TD7 Aframax	N.Sea-UKC	-9,250	21,250	30,500	73,000	21,250

Clean Tanker Spot Market Developments - Spot Worldscale

		wk on wk change	Jan 10th	Jan 3rd	Last Month	FFA Q1
TC1 LR2	AG-Japan	+8	128	120	180	
TC2 MR - west	UKC-USAC	+26	141	115	215	131
TC5 LR1	AG-Japan	-7	154	161	175	133
TC7 MR - east	Singapore-EC Aus	+6	210	204	224	

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

		wk on wk change	Jan 10th	Jan 3rd	Last Month	FFA Q1
TC1 LR2	AG-Japan	+0	18,250	18,250	34,250	
TC2 MR - west	UKC-USAC	+4,250	13,750	9,500	19,500	11,500
TC5 LR1	AG-Japan	-3,500	23,000	26,500	22,000	17,500
TC7 MR - east	Singapore-EC Aus	-500	16,500	17,000	13,250	

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

ClearView Bunker Price (Rotterdam HSFO 380)	+37	358	321	352	
ClearView Bunker Price (Fujairah 380 HSFO)	+50	379	329	391	
ClearView Bunker Price (Singapore 380 HSFO)	+44	400	356	391	
ClearView Bunker Price (Rotterdam LSMGO)	+41	527	486	531	

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