

Opposite Directions

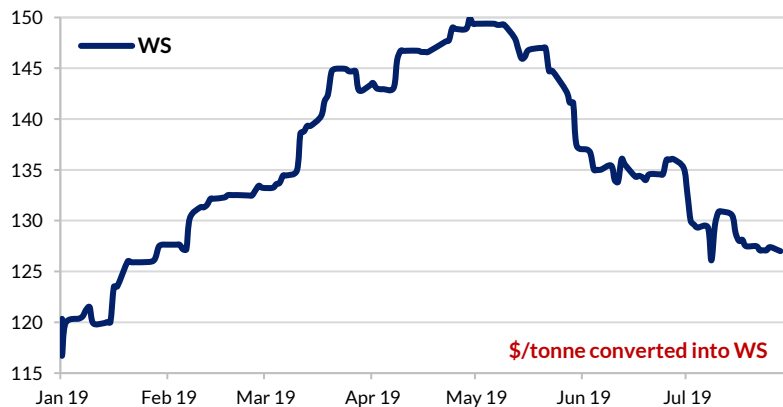
Weekly Tanker Market Report

Historically, there has been a strong correlation between tanker spot and time charter rates, with period rates tracking (with some time lag) developments in the spot market. However, this year TC and spot values have moved in opposite directions. Spot earnings on benchmark trades gradually cooled over the course of this year, with returns in the clean tanker market reaching in July their lowest level this year. Crude has performed somewhat better, but TCE returns have been weak nonetheless. In contrast, time charter rates have firmed, reaching in July their highest level since 2016/17. The biggest uplift has been seen in 1 and 3 year period assessments for eco VLCCs and LR2/Aframaxes.

The downward trend in the spot market has been underpinned by OPEC+ production cuts, extended refinery maintenance, weakness in product demand and plentiful deliveries. In contrast, the ongoing upward movement in the period market has been driven by robust chartering enquiry and positive near term fundamentals, such as a limited tanker orderbook (beyond the 2019 schedule), anticipation of major increases in US crude exports and the approaching IMO 2020, which is expected to lead to incremental trading demand as well as stronger interest for fuel efficient tonnage due to higher bunker costs. Rates for a 3-year TC have also been supported by expectations of notable increases in tanker demolition due to the requirement to retrofit tonnage with approved BWT systems when the deadline comes. Combined, these factors suggested a strong possibility of a market uplift, with limited downside risk.

During the 1st five months of 2019 the same positive trend was witnessed in the tanker forward curve. This year's fourth quarter \$/tonne quotes for TD3C increased by 25% between January and early May, while over the same period a 16% gain was seen in the TC5 forward freight assessment. Thereafter, both TD3C and TC5 were negatively impacted by the breakdown in US/China trade talks and growing concerns about the global economy. Although a partial rebound was seen in VLCC forward assessments since mid-June, \$/tonne values for Q4 2019 on TC5 continued to decline, erasing most of the gains observed earlier in the year. As forward freight assessments are a good barometer of the prevailing

TC5 FFA for Q4 2019



market sentiment, this suggests that industry participants are generally maintaining a bullish near term view for crude tankers (albeit at a slightly lower level), but forward sentiment for larger product carriers is starting to look increasingly shaky, at least for Q4 2019.

Without doubt, there are some good reasons for concern. The US/China trade dispute shows no signs of abating. Growth in world oil demand in 2019 has

been revised down several times, with product tanker demand more directly exposed to economic indicators. Naphtha, for example, is mainly used as a feedstock in the petrochemical sector and hence there is a direct link with global economic activity. Demand for diesel/gasoil is also largely driven by industrial uses. However, stronger demand for gasoil is still seen due to IMO 2020. Other fundamentals also have not changed. The ramp up of commercial operations at new export orientated refining plants in the Middle East is nearing, although perhaps the start up dates could be pushed back. In terms of fleet supply, the vast majority of the LR2/Aframax and LR1/Panamax tonnage scheduled for delivery this year has already been delivered, while just a few tankers are yet to start trading. As such, there still

remains a solid foundation for the market to firm, regardless of the economic turbulence. It remains to be seen what will happen in the end but ... the jury is almost out.

Crude Oil

Middle East

The tables are certainly starting to turn here, as Charterers continue to press on with their August VLCC program. By comparison to last month we are some 30+ fixtures ahead of the previous month and we are starting to see a far more balanced look. Combine this with a strengthening West Africa and US Gulf market pulling Eastern ballasters, rates here inevitably had to move. Last done levels are 270,000mt at ws46 to the Far East and 280,000mt x ws23 for Western destinations, although we can expect the next bout of fixing to be pushing up from this.

Another quiet week for Suezmax tonnage and with rates softening globally for the Suezmax sector less Owners will be inclined to ballast to other areas. Rates remain in the low ws70s East and low ws30s West. Aframax interest has been muted this week and tonnage has started to build. Levels are slowly coming off, with the next fixture for a generic AG/East nearing 80,000mt x ws100.

West Africa

What a difference a week makes. Charterers sat on their hands in the early part of the week, Owners became nervous and, as the week progressed, rates tumbled as Owners chased cargoes. Summer has finally arrived and the week closes with rates in the low ws60s to Europe and low to mid ws70s East on 130,000mt. It seems unlikely that Owners will be able to engineer any recovery, although August promised so much with a bumper stem list.

VLCC Owners were able to push for further premiums here purely against sentiment as the US Gulf market went from strength to strength. On the back of this moving market, Charterers looked to venture further forward looking to lock in at current levels rather than risk paying additional premiums later on. However, in doing so, just added further fuel to the fire. Last done reported was 260,000mt x ws50 to the East.

Mediterranean

The Mediterranean Aframax market has coughed and spluttered this week. At the opening of trading, a healthy amount of activity was concluded. Yet, with dates threatening to move further from Owners, rates at last done levels were snapped up. A Ceyhan to Augusta voyage could have been fixed at 80,000mt x ws 85 levels and CPC voyages a few points more. But with longer flat rates available on some cargoes and with activity dwindling towards the end of the week, these rates were eroded further. At the close, Sidi Kerir cargoes fixed in the ws 70s and other cargoes a few points more. The weekend will only serve to punctuate any momentum once more and, with other markets providing no respite, it seems we are here to trade flat for a while longer.

An active week for Suezmax tonnage but the harsh reality is there are plenty of vessels to be absorbed. With West Africa rates tumbling, Owners have no incentive to ballast out of the area. Levels still remain 140,000mt by ws70 from Black Sea to European destinations but rates to the East have softened. Now high \$2 million for Med to China voyages is achievable.

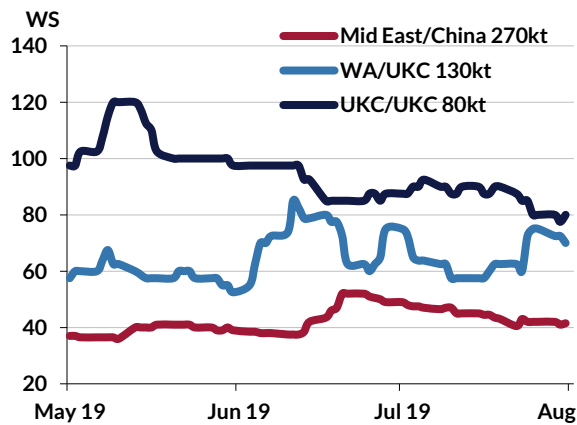
Caribbean

Aframax Owners were unable to build on the previous week gains. Unfortunately for them, rates again softened back down to 70,000mt x ws75 upcoast, as a slow flow of enquiry ensured tonnage once again began to build. It will need to see another good run of enquiry to cut back the list and give Owners any hope of a recovery. VLCC interest again was the highlight of the week with naturally placed ships being quickly taken on forward dates. Charterers are now having to rely on potential Eastern ballasters to cover demand and levels naturally spiked on the back of this. Last reported from the US Gulf is \$6million for South Korea discharge.

North Sea

A week for Owners to forget in the North as rates somehow managed to slide even lower, with the short-medium term looking unchanged and X-UKC remaining at 80,000mt x ws80. There is plenty of choice in the list, with multiple Owners offering different options to leave the region. Continued influx of vessels from States side does nothing but further erode the weak market. VLCC levels will tick up, with Owners casting one eye over to the US Gulf as they would naturally seek similar returns here that could be achieved across the pond, with rates nearing \$5million from Hound Point to Far Eastern destinations.

Crude Tanker Spot Rates



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

Clean Products

East

A week filled with potential, yet it took 5 days until some of that potential was realised. An options cargo allowed for rates to be tested (albeit the cargo was WDWF) but showed Owners intentions. A very untested UKC route went briefly on subjects at \$1.3m and will assess that other UKC stems would be looking to pay similar levels. TC12 reached a high of 35 x ws 120, although it is not an accurate representation of a straight TC12 nap cargo, which would sit at 35 x ws 115. EAFR slowly ticked along, closing the week at 35 x ws 135. We had a brief spell where MR stems were being upsized to LR1s. However, as the pressure was put on the LR1 list, these stems returned to MR stems. Owners have been waiting (patiently) for the opportunity to push on rates and finally there was enough momentum to push a little harder. With this push, expect that Charterers will hold off on releasing cargoes into the market for this week to allow some of the pressure to ease before reassessing on Monday.

LR1s have seen a busier week, with a slight turnaround. Although activity eased off later, hopes are high into next week. 55,000 mt naphtha AGulf/Japan is now at ws 95 and 65,000 mt Jet AGulf/UKC is \$1.65 million. But these rates could rise rapidly, if we start next week with any volume. LR2s are in a similar place having seen a decent clear out of early tonnage and hopes starting to grow we could see a swift recovery.

The speed of decline may well encourage Owners to see a similar rate of ascent, if we see the next week start strongly. Already more stems have hit the market but Owners are reluctant to jump in today. 75,000 mt naphtha AGulf/Japan is now ws 85 but ws 90 is not far away. 90,000 mt jet AG/UKC is harder to gauge, with Owners ambitiously seeking \$1.95 million but a fair rate is probably nearer \$1.85 million today. Hopes are that the long predicted Q3 rise is now in motion.

Mediterranean

Despite a relatively active start to the week for Handy Owners, the weight of the tonnage list crippled any positivity and rates slipped. Monday and Tuesday offered tonnage opportunities to be fixed away, as X-Med sat at 30 x ws 130 and Black Sea at a 10 point premium. Enquiry began to dry out at the halfway mark and any remaining stems saw a glut of tonnage, as Charterers pushed below the 30 x ws 120 mark. As we arrive to Friday, little to no stems remain uncovered, with 30 x ws 117.5 being the new low and, perhaps a little surprisingly, Black Sea still holding at ws 140. Expect Monday morning not to be pretty reading for Owners, with lengthy tonnage lists produced and rates remaining under pressure.

With this sector under pressure and rates pushing down to 37 x ws 95 for TA and WAF at ws 115, Owners have been able to enjoy the luxury of a mildly better handy market, and tonnage has been clipped away for these runs. With this, Owners have been relatively successful in turning availability over. If any promise of improvement in the UKC is around the corner, then this Med market could also see a similar fate. Fresh 37kt stems will be the key factor here, if Owners are to pull themselves out of these doldrums.

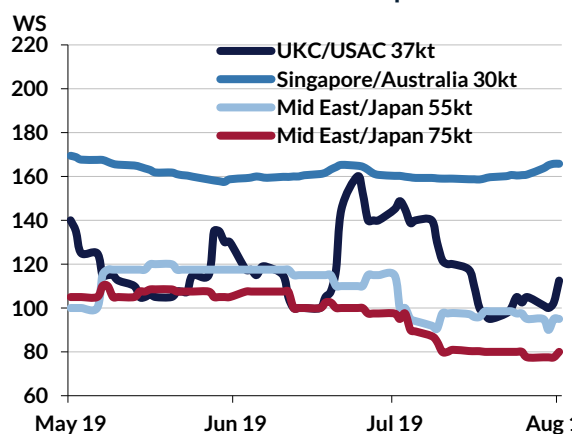
UK Continent

MR - A negative start to the week, as the market followed in the footsteps of recent times, with rates very much on the floor and enquiry sluggish at best. However, since the middle part of this week, we have seen a sudden injection of fresh cargoes - somewhat unexpectedly it has to be said. Rates have edged up but, with such a lengthy position list of late, this has been a slow and only gradual increase up until now. TC2 sits at 37 x ws 115, with a good few stems outstanding and the possibility of more gains to be made next week (possibly before). Owners will be hoping for a busy start to next week come Monday morning to help boost their growing confidence. We are not out of the woods just yet but there is more reason to be optimistic about a period of recovery than we have seen for a good few weeks.

A bit of this and a bit of that on the handies in NWE this week. There hasn't been any major wave of excitement or negativity, which ultimately leaves the comments being rather bland. Rates have managed to inch up by ws 2.5 points since Monday, with 30 x ws 117.5 dictating Baltic/UKC runs and ws 10 points less on offer for X-UKC liftings. Both cargo and tonnage lists have been in the balance for the duration. A good amount of enquiry in the middle of the week showed some promise but ultimately the rates being achieved fell short of Owners' initial ideas. Next week should see the balance of 2nd decade Baltic stems being worked but, with tonnage being recycled quickly and COAs mopping up most of the action, it feels like we might have Deja Vu this time next week.

As with the Handies, there hasn't been a whole lot to shout about this week. There's been a few questions asked and couple of cargoes fixed by the normal players but, with the Handies rolling sideways for pretty much the duration of the week, the Flexi's have been forced to follow in their footsteps. There has been readily available tonnage littering the front end of the list, meaning 22 x ws 140 has been kept in check for X-UKC, will little sign of change in the opening stages of next week...thankfully we have the Ashes Cricket and Goodwood Racing to distract us for today!.

Clean Product Tanker Spot Rates



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

Dirty Products

Handy

A mixed bag of results in the North this week as tonnage gradually tightened after units were cleared down in the early part of the week. With natural tonnage thin and the Med being tested fixture by fixture, a lid was kept on sentiment as West Med tonnage showed a keen interest in any movement off the Cont. We finish the week trading around the ws 137.5 level that we started with and going forward expect sentiment to remain steady as tonnage is likely to be replenished.

In the Med there has been an increase in activity this week as enquiry has been fed to the market across the region, with the central Med and Black Sea seeing the majority of the action. Despite the uptick in enquiry, mid-week lists still saw a variety of prompt units and as a result, sentiment has remained weak with little for Owners to hang on. West Med units have the prospect of heading North for opportunities there but with dates now approaching mid-month, prompt units may be further tested going into next week.

MR

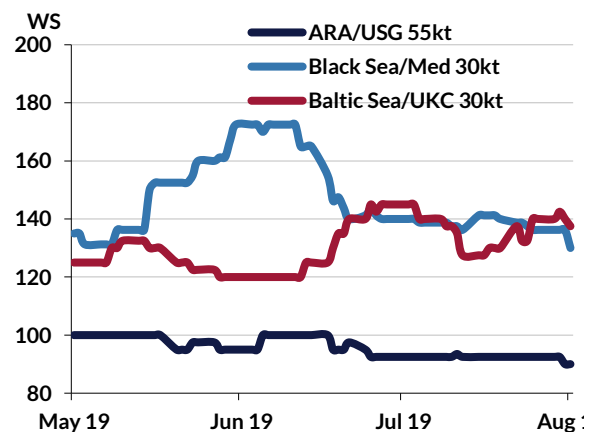
From this week's trading it would seem we will have to wait even longer for benchmarks to be revalidated as liquidity continues to evade this sector. This said, there is a level of blame to be placed on the slim tonnage stocks as the reason Charterers are opting to move oil on other sizes. In spite of all this however, we would expect the Continent to still outperform the Med when it comes to fixing levels next done.

The supply and demand ratio for MR's in the Med has been a bit one sided this week where Owners have had to take out part cargoes or risk falling further outside their fixing windows. As a result, levels have been on the decline with deals now dropping into double digit territory below ws 100. What also compounds this sector is that many of these voyages are of a short haul nature, which does not provide much period of relief even for the ships fixed this week.

Panamax

Coming into this week, conditions for this sector alone have been of a two tier market where on one side you have the units of post 15 year vintage struggling to find employment and then we have had younger tonnage generally happy to take last done ws 92.5 levels with stimulus generally lacking. Now however, with larger units on the surrounding Aframaxes severely underperforming, Charterers have been able to secure tonnage at levels beneath that of what a Panamax had been fixing. We finish the week waiting to see where the ripple effects of the Aframax will land but what is certain is that Owners will face challenging conditions for the forthcoming week.

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	Aug 1st	Jul 25th	Last Month	FFA Q3 (Bal)
TD3C	VLCC AG-China	+2	44	42	48	53
TD20	Suezmax WAF-UKC	-10	67	77	61	71
TD7	Aframax N.Sea-UKC	-2	82	84	91	91

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

		wk on wk change	Aug 1st	Jul 25th	Last Month	FFA Q3 (Bal)
TD3C	VLCC AG-China	+750	13,750	13,000	20,500	53
TD20	Suezmax WAF-UKC	-5,500	12,750	18,250	9,500	71
TD7	Aframax N.Sea-UKC	+500	4,500	4,000	9,250	91

Clean Tanker Spot Market Developments - Spot Worldscale

		wk on wk change	Aug 1st	Jul 25th	Last Month	FFA Q3 (Bal)
TC1	LR2 AG-Japan	-1	79	80	91	
TC2	MR - west UKC-USAC	+5	111	106	140	132
TC5	LR1 AG-Japan	-2	95	96	97	110
TC7	MR - east Singapore-EC Aus	+5	166	161	160	167

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

		wk on wk change	Aug 1st	Jul 25th	Last Month	FFA Q3 (Bal)
TC1	LR2 AG-Japan	-1,250	6,000	7,250	11,500	
TC2	MR - west UKC-USAC	+750	6,500	5,750	11,750	10,500
TC5	LR1 AG-Japan	-1,000	7,000	8,000	8,750	10,250
TC7	MR - east Singapore-EC Aus	+500	12,500	12,000	12,250	12,500

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

ClearView Bunker Price (Rotterdam HSFO 380)	+9	375	367	389
ClearView Bunker Price (Fujairah 380 HSFO)	+25	434	410	399
ClearView Bunker Price (Singapore 380 HSFO)	+16	461	446	420
ClearView Bunker Price (Rotterdam LSMGO)	-1	561	562	575

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