

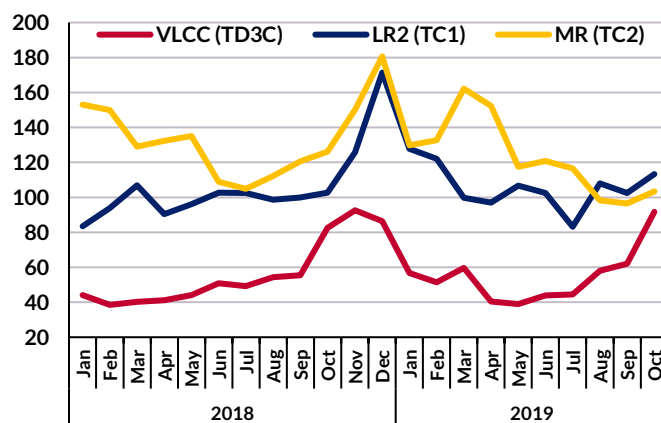
Clean Break?

Weekly Tanker Market Report

With most crude tanker markets surging to multi-year highs, many have questioned whether the clean sector should expect to experience the same fortunes. The last few days have seen product tankers firm both East and West, in some cases considerably. Now, many are questioning whether this recent firming the start of a more sustainable trend or merely a short-term blip?

Great faith has been placed in IMO2020, particularly in terms of its impact on distillates trading. However, can owners still realistically expect this seismic event to transform prospects in the clean tanker sector over the coming months? To answer this question, it is first important to look at how expectations for demand for the different types of compliant fuels have evolved since the convention was first ratified back in 2016. Initially, a consensus opinion emerged that marine gasoil (MGO) would

Tanker Freight Rates (WS)



offer the primary route to compliance in the early days of 2020, and with a surge in demand for gasoil, clean product tankers would stand to benefit from increased trading opportunities. This theory is still valid. However, the supply of 0.5% fuel oil (VLSFO) appears to be improving, with an ever-increasing number of suppliers now offering the fuel on a regular basis. If more VLSFO is available than originally anticipated, it would seem logical that MGO demand growth expectations might need to be pared back. However, even if VLSFO supply does exceed initial expectations, industry estimates still point towards an increase in MGO demand of 1 to 2 million

b/d, with the transportation of gasoil and other blending components still supporting trade. What is unclear, however, is the impact on tonne miles in terms of how much product will be traded long haul versus retained locally for bunkering demand. In any case, increased products trading activity around IMO2020 should be a supportive, even if it isn't obvious just yet.

Fleet supply factors are also likely to be having an impact. Not only have newbuild product tankers been a constant factor this year, but so have newbuild crude tankers entering the clean products market on their maiden voyage. However, a bullish crude tanker market is likely to deter this activity in the short term. Finally, the recent strength of the crude market has also attracted a number of product tankers to 'dirty up', which may constrain product tanker fleet supply and thus support clean freight rates.

However, a key factor weighing on product tanker demand is that of world oil demand which has already been revised down on a number of occasions and could be trimmed further. As it stands, demand is projected to average 1.3 million b/d in 2020, which if it holds true, will mark a modest increase from this year's 1.1 million b/d growth rate. Furthermore, with IMO 2020 driven distillate demand potentially growing at a faster rate than total oil consumption (due to contractions in fuel oil use), product tankers may largely be insulated from any slowdown in total demand.

Finally, on the refining side, higher refinery runs are expected for the remainder of the year and into 2020 (notwithstanding some seasonal maintenance). Refining runs for May to July this year fell versus the same period of 2018 but are expected to firm substantially over the coming quarter, growing by 1.4 million b/d YOY. Thus, a strong end to the year in terms of refining runs, the implementation of IMO2020 and the potential for more favourable fleet supply conditions could all support product tankers towards the end of 2019 and into 2020.

Crude Oil

Middle East

The market seal having been broken last week, VLCC Owners wasted no time this week in driving for significantly higher marks. Charterers fed enough fuel onto the market fire to assist and rates moved up through the gears to reach as high as ws 100 to the East, with runs to the West marked in the high ws 40s via Cape. There remains plenty enough to do for the balance of October for consolidation, or even further gains, before the dust settles...if it does. Suezmaxes didn't enjoy large volumes but, with other load zones ramping noticeably higher, sentiment was firm and rates responded to reach ws 130 to the East, with up to ws 55 asked to the West. Aframaxes, likewise, weren't over busy, but also were positively impacted by events elsewhere and rates moved smartly higher to 80,000mt by ws 150 to Singapore with perhaps more to come within short.

West Africa

Boom time all round here...Suezmaxes were chased hard onto very forward dates, with large premiums secured, and back filling requirements facing ever tighter - and more aggressive - supply as the Med and Black Sea markets also rocketed. Rates soared to 130,000mt by ws 145 for all Atlantic options and there could yet be improvement over that before the cycle completes. VLCCs quickly took their lead from AGulf gains and then spiked even higher to 260,000mt by ws 102.5 to the Far East as

the tightness in the wider Atlantic added extra support and impetus. Next week will likely yield similarly spectacular results too.

Mediterranean

A 100 ws point gain on the week for busy and tight Aframaxes can't be sneezed at, but Owners will go for further gold if Charterers keep up the fixing pace. 80,000mt by ws 215 X-Med now and that's the bottom marker too. Suezmaxes had threatened to jump but the intensity of the competition upon the super tight fixing window, together with wider market strength, propelled rates to as high as 140,000mt by ws 170 from the Black Sea to European destinations, with around \$5.5 million now asked for runs to China.

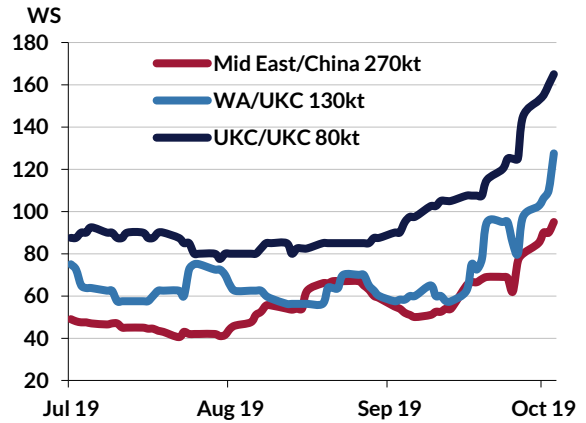
Caribbean

Aframax Owners here are temporarily the poor relations...availability re-built, and enquiry remained modest for most of the week, to draw rates back to 70,000mt by ws 152.5 upcoast. With all the fun and games elsewhere, however, rates would quickly respond if Charterers decided to shop in numbers from next week. The VLCC pool here has been very thin for some while, and this week rates pushed to levels not seen for many a year - \$12 million now to the Far East and it's almost 'name your price' whilst ballasters from the East are otherwise profitably engaged.

North Sea

A more conservative market build for Aframaxes here but steady gains nonetheless to 80,000mt by ws 170+ X-UKCont and to 100,000mt by ws 140+ from the Baltic and the short term prospects are for more of the good work to continue. VLCCs saw very little but in theory Owners would need over \$10 million for crude oil to the Far East to align with alternative load options.

Crude Tanker Spot Rates



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

Clean Products

East

MR activity levels are starting to pick up in the Middle East, inevitable after a serious push on the LR2s in the working week just gone. Given that last week was completely bereft of workable cargoes, Charterers have had an easy backstop of a heavy front end, to ease any pressure of trading cargoes this week. Any earlier loaders hotly competed over the natural window balanced for now. Shorthaul sits at circa \$200k levels, with TC12 still at ws 115, and westbound untested at \$1.3 million (longhauls go on the LRs this week). The same issue will develop in the new week when comparing the incredible value emerging on both the MRs and the LR1s, compared to the surging LR2 segment. Expect a lot of stems to be downsized in order to grasp as much value as possible, before the market gets busier.

LRs have finally seen the push that has been predicted for some weeks, delayed by the various production issues. LR2s in particular have risen fast, with 75,000mt naphtha AGulf/Japan moving from ws 102.5 to ws 135 in 2 days. 90,000mt jet AGulf/UKCont has seen a similar move up some \$400k to \$2.45 million. Owners want more and, with lists so tight any further volume may well see rates push on. LR1s have lagged well behind for now, with a long front end and a reduced volume. But things are turning and added together with a confident sentiment from Owners, a push on the smaller size is now very likely. 55,000mt naphtha AGulf/Japan for now is ws 115 but will have to approach LR2 levels if any real

activity comes. 65,000mt jet AGulf/UKCont is untested as well, with a guide of around \$1.70 million being used, but again could move higher especially if the larger stems are broken down. Altogether the feel is of a sustained push into the winter now.

Mediterranean

A positive week all in all for Handy Owners in the Med, with rates firming throughout. Italian cabotage fixtures were the trigger which saw X-Med jump to the 30 x ws 115-117.5 mark, given a European crew was needed and a replacement ex Egypt then saw heights of 30 x ws 120 hit. Friday has seen a bit of a stand-off, with most Owners freighting the market still at the 30 x ws 120 mark, however, with a discharge/reload ex Augusta at ws 110 late in the day on Thursday, this hasn't helped their cause. In reality, with cargo enquiry slowing towards the end of the week and enough ships around, the market ends the week somewhere in the middle, around the 30 x ws 115 mark but expect Owners to hold for more. Come Monday, momentum will have slowed and a replenished list will mean it will be an uphill struggle to repeat the ws 120, unless we see an uptick in enquiry. Black Sea rates have by and large been driven by sentiment in the Med, with cargoes being drip fed into the market, however, at the time of writing, expect Owners to hold for rates around the 30 x ws 125-127.5 mark. It will be an interesting start to week 41, with a stand-off likely with this market certainly poised.

Yet another lacklustre week on the MR front in the Med, with plenty of tonnage to dampen most positive ideas. A firming in the North mid-week will likely pull rates up from last done levels, closer to the 37 x ws 115 for Med-transatlantic likely. That being said, enquiry remains slow so you could see the North trade a nudge in front of the Med, which we have seen in the past. The sentiment in NWE will shape next week's rates in the Med and if the positivity continues, then expect this to be mirrored.

UK Continent

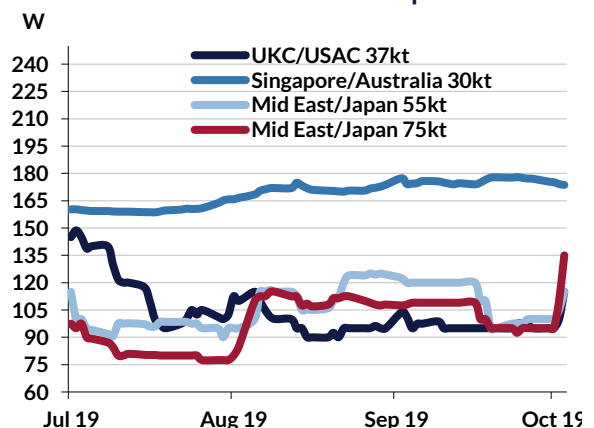
A pivotal end to the week has finally seen TC2 woken from its summer slumber. Enquiry has been healthy all week, with plenty of TC2 activity coupled with renewed WAF activity on the back of thinning LR availability. That said, the tonnage list remains very well supplied and it feels a little strange that we have witnessed a ws 20 point improvement this week. TC2 currently sits at 37 x ws 115 but you cannot really attribute these improvements to the market fundamentals. The reality is the turnaround we have seen so far is based purely on sentiment, and much of that may be attributable to other segments booming more than Owners real belief that this market is looking any stronger than where it started the week.

Handy Owners will be pretty satisfied on how week 40 has worked out as the combination of good enquiry and a tightening tonnage list especially on the

front end has resulted in freight taking a shift North. Baltic demand has been the main driver, with a healthy amount of vessels being taken before Wednesday and 30 x ws 125 went on subs for a naphtha requirement forcing dates to be quoted around the 15-17 window as Charterers look to cover their exposure ahead. X-Continent followed suit, with 30 x ws 120 being repeated and even though rates have now settled down at current levels Owners will be keeping a firm eye on what happens on the MRs in order to try and capitalise and push the market next week.

Yet another relatively quiet week for spot action on the Flexis leaves all parties involved looking to the Handy market for guidance on achievable rates. The firming of the Handy market means Flexi tonnage can now justify fixing higher rates as 22 x ws 162.5 went on subs for X-UKCont from a simple pro-rate on the Handysize, which give us the benchmark. Poised and Handy driven moving forward.

Clean Product Tanker Spot Rates



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

Dirty Products

Handy

At the start of the week we were presented with what can only be described as a tonnage list ready to deliver a volatile few days. The realisation of this quickly pushed Charterers to come to the market early to secure tonnage. So, even though the first few fixtures were concluded at ws 140, repeating the last done levels, tonnage availability quickly thinned and Owners gained ground and pushed the fixing level up during the week. At the time of writing, Baltic cargoes are trading at least ten points more from where the week started. Moving into next week tonnage replenishment may be limited, so we expect this fiery sentiment to continue.

The Mediterranean on face value has not been as positive for Owners. In fact, it can be said that early trading suffered a small shaving of some ws 2.5 points. Steady enquiry from the Black Sea, however, has continued to flow and the conference level of ws 157.5 has been concluded multiple times. As the week progressed, rates have held at last done levels but enquiry has slowed a little towards the end of the week, leaving Monday's fresh tonnage lists critical as to where this market is heading.

MR

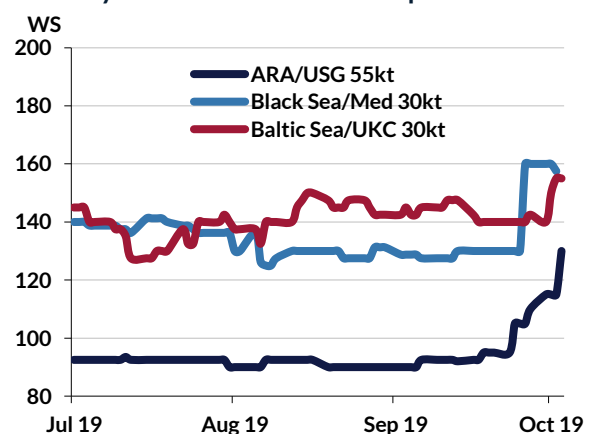
With elevations seen across surrounding larger and smaller sectors, it didn't take Charterers too long to find value in the MRs, whereby mid-week the scramble for tonnage supported this sector as well. Gains inevitably followed, with Owners daring to push the boundaries well beyond measures of volatility seen earlier in the year. Finishing the week, tonnage is now stretched for

immediate fixing dates, which would suggest that firm conditions will stick around going into next week.

Panamax

The firm sentiment within this sector continues to push on, as we witness from both sides of the Atlantic. Owners are taking the lead and gaining ground in levels, fixture upon fixture. Looking closer to home, the limited tonnage this side of the pond has created opportunity for Owners, with tonnage in play resulting in last done of ws 120. However, the big brother - the Aframaxes continue to go from strength to strength and now trading some ws 80 points from where the week started (ws 220 X-Med). Bring it back to this sector, natural size tonnage replenishment looks to remain limited, so expect some more volatile trading in the coming days.

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	Oct 3rd	Sep 26th	Last Month	FFA Q4
TD3C VLCC	AG-China	+20	95	75	52	95
TD20 Suezmax	WAF-UKC	+41	126	85	60	137
TD7 Aframax	N.Sea-UKC	+43	170	127	96	134

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

		wk on wk change	Oct 3rd	Sep 26th	Last Month	FFA Q4
TD3C VLCC	AG-China	+24,250	74,000	49,750	26,750	95
TD20 Suezmax	WAF-UKC	+24,750	47,500	22,750	12,250	137
TD7 Aframax	N.Sea-UKC	+31,750	68,250	36,500	14,750	134

Clean Tanker Spot Market Developments - Spot Worldscale

		wk on wk change	Oct 3rd	Sep 26th	Last Month	FFA Q4
TC1 LR2	AG-Japan	+36	130	94	108	
TC2 MR - west	UKC-USAC	+15	111	96	98	150
TC5 LR1	AG-Japan	+9	111	101	117	149
TC7 MR - east	Singapore-EC Aus	-4	174	177	175	181

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

		wk on wk change	Oct 3rd	Sep 26th	Last Month	FFA Q4
TC1 LR2	AG-Japan	+12,500	24,500	12,000	17,750	
TC2 MR - west	UKC-USAC	+4,250	8,000	3,750	5,500	16,000
TC5 LR1	AG-Japan	+3,250	12,750	9,500	14,250	22,250
TC7 MR - east	Singapore-EC Aus	+1,250	15,500	14,250	15,250	17,500

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

ClearView Bunker Price (Rotterdam HSFO 380)	-69	301	370	300
ClearView Bunker Price (Fujairah 380 HSFO)	-37	364	401	382
ClearView Bunker Price (Singapore 380 HSFO)	-71	387	458	431
ClearView Bunker Price (Rotterdam LSMGO)	-31	545	576	545

www.gibsons.co.uk

London

Audrey House
16-20 Ely Place
London EC1N 6SN

T +44 (0) 20 7667 1247
F +44 (0) 20 7430 1253
E research@eagibson.co.uk

Hong Kong

Room 1404, 14/f,
Allied Kajima Building
No. 138 Gloucester Road
Wan Chai, Hong Kong

T (852) 2511 8919
F (852) 2511 8910

Singapore

8 Eu Tong Sen Street
12-89 The Central
Singapore 059818

T (65) 6590 0220
F (65) 6222 2705

Houston

770 South Post Oak Lane
Suite 610, Houston
TX77056 United States