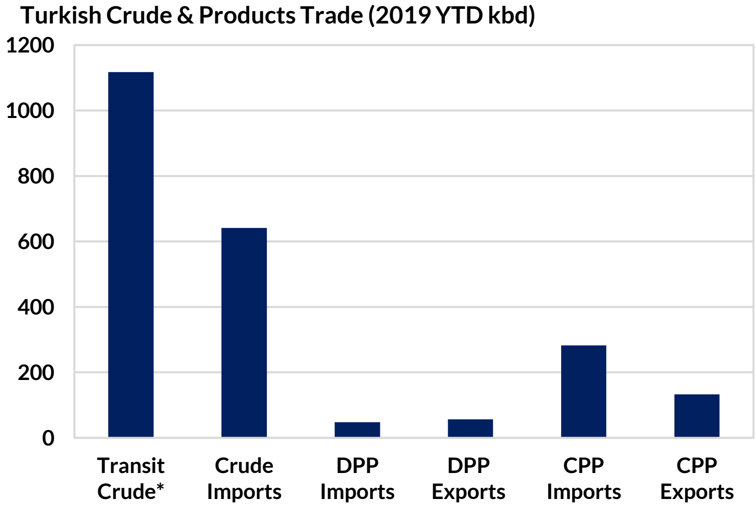
Pulling Out

Weekly Tanker Market Report

Donald Trump's 'shock' decision to withdraw American troops from Syria last might not immediately appear to have implications for the oil markets. After all, Syria has effectively been excluded from the oil market since 2011. However, it is not Syria that we need to focus on, rather the impact on Turkey, which does have a more meaningful role to play in the global oil markets.

Politics are once again at play. The presence of American soldiers in Syria acted as a deterrent to Turkish operations against Kurdish fighters stationed along the Syria-Turkey border region. Trump was all too aware of this when he ordered the withdrawal, hence why the American pull out was accompanied by a sanctions threat. Last week, US Treasury Secretary Mnuchin said the Trump administration was prepared to impose "very significant sanctions" against Turkey amid concerns about its military offensive in Syria. Mnuchin said the administration wanted to put the Turkish government on notice amid concerns about attacks against Kurdish fighters. This week, Trump followed through on his threat. On Monday night, the U.S. Treasury's Office of Foreign Assets Control sanctioned Turkey's Ministry of National Defence and the Ministry of Energy and Natural Resources, as well as the corresponding ministers. Although, the sanctions fell short of impeding Turkey's ability to buy and sell fuel, further sanctions could be imposed if Turkey fails to comply with US demands. So, if the worst does happen, how would the oil markets be impacted?



Turkey is not an exporter of oil. However, the Republic acts as a major transit hub for foreign crudes with the port of Ceyhan operating as the loading point for oil transported on the Baku-Tbilisi-Ceyhan and Kirkuk-Ceyhan pipelines. So far this year, over 1.1 million b/d has been exported from Ceyhan via these two pipelines. Although it would seem unlikely that sanctions would be extended to cover 'transit crudes', with Trump anything is possible. Trade through the Turkish Straits, although significant would likely be unaffected owing to international laws governing freedom of navigation.

Imports into Turkey could also be impacted, with the country taking around 600,000 b/d of seaborne crude this year. Downstream, Turkey has seen its capacity expand in recent years. Most notably with the start-up of Socar's 200,000 b/d refinery, which took total capacity to 768,000 b/d. Despite increases in exports owing to increased refining activity, internal demand has kept shipments modest, with combined CPP and DPP exports averaging around 180,000 b/d for the year to date. Imports have fallen back for the same reason, averaging approximately 325,000 b/d so far in 2019.

Perhaps it is too extreme to suggest that Turkish oil trade might be impacted by these latest developments. However, Trump has extensively used sanctions since taking office, meaning nothing can be ruled out. If wider sanctions are imposed, the key will be who is specifically targeted, and how far reaching into the energy sector they go. Any impact on transit crude exports would have significant implications for tanker trade.

Crude Oil

Middle East

What goes up, must come down…but such a sharply shaped VLCC rate parabola is unprecedented. Up around 150 ws points, and then down 200 ws points within a week as Owners postponed dry-docking and scrubber fitting, and Charterers moved to maximise the efficiency of their own fleets. Naturally, given the unique situation, market players are still attempting to get a handle on where the consensus will eventually be found. Next week should be a lot busier and, with good availability on the next fixing position, it shouldn't take long for the market to then find more solid bottom markers. Ws 110/120 to the Far East now and around ws 85 to the West via cape, still very handsome returns if Owners can muster up collective amnesia to eradicate the mayhem of what happened in between. Suezmaxes initially moved even higher but then had to backtrack to ws 190 ish to the East and to close to ws 100 to the West, as VLCCs fell away, and other load zones weakened. Aframaxes likewise pushed up to as high as ws 250 to Singapore, but also fell into line with the general correction to end at around the ws 190 mark, with bottom yet to be found.

West Africa

Suezmaxes lost momentum, completely, and very quickly rate demands slipped away. Charterers just sat on their hands and rates drew sharply lower towards ws 170 to Europe, and a little lower than that to the USGulf. As elsewhere, the search for true value continues. In the AGulf, VLCCs had to ride the same hairy rollercoaster and rates ended back at 260,000mt by ws 107.5 at best to the Far East and face further testing into next week even if activity does then start to pick up.

Mediterranean

Aframaxes initially rode their wave higher but then slowed from mid-week to put Owners upon the defensive once again and, with availability looking a lot easier on the next fixing window, current rates of 80,000mt by ws 190 X-Med and ws 200 from the Black Sea are likely to become past tense early next week. Suezmaxes found less to do as the week wore on and the weaker news from West Africa additionally handicapped. Rates are on the slide, with the current 140,000mt by ws 210 for European destinations, and $8.25 million to China, Looking 'toppy' into next week.

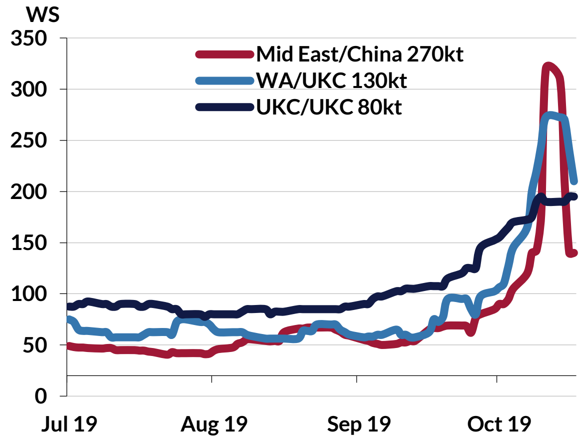
US Gulf / Latin America

Aframaxes here kept quite steady despite a holiday compromised start to the week. Rates held at around 70,000mt by ws 210 upcoast but did start to look a little less robust into the weekend and may be more defensive over the coming period. VLCCs had reached astronomical highs, but highs at which precluded traders from sourcing USGulf barrels competitively against Middle Eastern grades and the consequent stand-off, together, with the severe recalibration elsewhere, virtually halved rates to close to $11 million from the USGulf to Singapore, a level that is now beginning to attract more trading interest, at least.

North Sea

Aframaxes undulated through the week but ended up where they had started 80,000mt by ws 190 X-UKCont, and 100,000mt by ws 157.5 from the Baltic. Charterers held back to wait for the most beneficial opportunity to re-set the marketplace, and things are now teed up for that to happen within short. VLCCs had questions, but nothing of substance resulted and now that the USGulf zone has fallen away, Charterers will be looking for equivalent discounts from Owners here too. In theory crude oil to South Korea would attract around $12 million, but that could yet be challenged.

Crude Tanker Spot Rates



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

Clean Products

East

A very busy but in the end a slightly disappointing week for MR Owners. Following on the coat tails of the larger ships, the MRs pushed aggressively and saw some good numbers being put on subs. With 4 ships going on subs at 35 x ws 265 to EAF, there were signs that the market was really going to push, but the rate rise was possibly a little too much. All 4 ships were released and, with 35 x ws 200 going on subs today, a correction has been seen. UKCont saw a push and fixed at $2.075 million, however, with the natural correction being seen, assess this will be negatively tested and should see sub $2.0 million next week. X-AGulf stems were pretty quiet this week as it was only really given as options on long haul deals. As a result, rates hit highs of $400k. We are yet to see a vanilla X-AGulf, which similar to the other rates should also correct accordingly but does need a fresh test. TC12 got in on the action and, with 35 x ws 295 going on subs, there was a lot of hype. Alas, with the sentiment wobbling, rates were adjusted before being fixed and closed the week some ws 65 point down at ws 230. Overall, Owners will be disappointed that rates on subs were not achieved, however, the downwards correction being seen is still resetting at better levels than a few weeks ago. A little silver lining perhaps.

So close, but so far. The LR1s are in an interesting place right now, any further ground lost to Charterers would surely further the overall sense that the LR2s are teetering on the edge of an inevitable readjustment downwards. We expect to see Charterers doing their best to hold out over the next day or two and very little fresh cargoes on the back of that stance. The list itself is no different to the general theme of the whole year, the only difference being the inflation in the market as a whole. In short Owners would do well to dig in here and do their best to establish a solid base for the market.

We appear to be at a bit of a crossroads on the LR2s. The overall picture has shifted from the situation of being hard pressed to collect offers, with much competition for Charterers to the situation where Owners are willing to repeat last done levels for TC1. Whilst the list remains pretty tight, the amount of outstanding stems had subsided a touch until this morning, whilst Charterers took stock to figure out where we go next. Since then, a few more have emerged off the end / early window in the AGulf.

Coming into today (before the Mbeni and ATC cargoes were quoted), whilst this might have been an unpopular view amongst some, I was of the opinion that if given a real chance to test the market on the next natural stem, the true value of TC1 is probably around the 280 mark, with the next done after that possibly standing to be less until we find a natural footing. Now it seems there may still be a bit more room for Owners to push, but I do feel like we are nearly at the end of the ladder.

An important couple of factors to keep an eye on are listed below. (1) Western tonnage and their ability to cap the market where we are. (2) The LR1s show a much different picture. Whilst there is resistance from Owners, fundamentally the list is not as strong and therefore forward planning would lend itself more to buying LR1 stems for Charterers to have the ability to test that much more fragmented segment. (3) Owners seem to be pretty content here, which then eventually starts to lead to complacency.

Mediterranean

All in all, a very positive week for the Owning fraternity in the Med, with consistent enquiry, coupled with a tightening list, resulting in an upward trajectory throughout. The comparison between Monday and Friday's rates is ws 20 points, with the current going rate for a vanilla X-Med around the 30 x ws 185 mark. Thursday evening saw a flurry of excitement, when a larger cubed Handy went on subs at the 38 x ws 185 mark for a Morocco run. However, in reality, this wasn't representative of the general market and ideas were swiftly batted down. The Black Sea fixing window has stretched right up until the 30th at the end of the week, which highlights the tightening list. A 15 point premium is seen on X-Med, with the going rate at the 200 mark. Week 43 will see Owners begin the week with a spring in their step and rightly so, with the sentiment positive for the near future.

MRs in the Mediterranean have had good success on rates despite the minimal activity seen. Yet, similar to the UKCont sector, Friday foundations have been knocked away from underneath Owners feet. Where we settle next is yet to be seen. WAF managed to push up to 37 x ws 185, actually driving the UKCont market up along with it, and the limited AGulf runs rose from $850k to $1.025 million by Wednesday. Transatlantic activity has been minimal in the Med, and unfortunately it seems Owners pushed too hard too quickly on TC2. Once Charterers managed to grab hold of this market, we saw 50 ws points wiped out just as quickly as it was put there. We expect a quiet end to this week as Owners lick their wounds. Pushing into Monday, a fresh look to fixing rates will be needed, with the hope of improved enquiry to support it, but next done will be critical on Owners positivity.

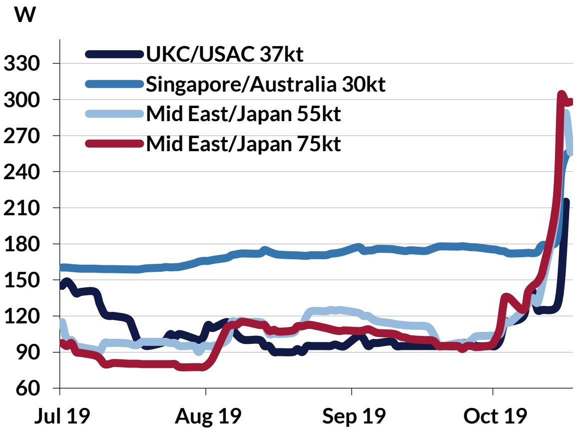
UK Continent

MR Owners entered this week, with a positive attitude and when enquiry began to flow on Monday, opportunities presented themselves. With this we saw Transatlantic pull to 37 x ws 140 by Tuesday, but then a market quoted Brazil run appeared and things got spicy. 37 x ws 202.5 was put on subs and subsequently transatlantic runs rose to ws 180 and then quickly rates entered the ws 200s. This market peaked, with rates up to 37 x ws 210, but since then that positivity has been well and truly quashed by an almost total lack of fresh enquiry. As a result, we have seen nothing above ws 180 confirmed and the market has retracted further to ws 160 since then. It looks very unlikely that we will see anything done this side of the weekend now, so all focus will shift to next week. Given how quiet the last few days have been, it is probably a fair assumption that the early part of next week should be busy. However, given the volatility we have seen this week, predicting rates is by no means easy. We would expect Owners to make up some of the ground lost in the second half of next week but how much is difficult to say.

A good amount of activity has been seen this week for Handies plying their trade in the north. Once tonnage lists were drawn at the start of the week, it revealed a tightness on the front end of the list. With this, we saw Charterers try and fix ahead by pushing the natural fixing window from the Baltic. Owners played a smart game by only pushing the market by ws 2.5-5 points and by Thursday morning 30 x ws 177.5 was on subs ex Baltic. Good ULSD demand for X-UKCont also saw this market follow suit, with 30 x ws 170 being paid at the peak of the market. Although as we reached the later stage of the week and as the MRs began to crumple, momentum has also been stalled on the Handies. 30 x ws 175 went on subs ex Baltic and 30 x ws 162.5 was paid for X-UKCont. A quiet Friday has passed and with it you feel that the pressure is now building on Owners. Monday/Tuesday fresh cargoes will need to be seen, if owners are to hold onto these levels.

Finally to the Flexis where unsurprisingly the positivity in the Handy sector permutated in this 22kt world and the slow enquiry saw opportunities to press. Owners were expecting to see this sentiment to continue, but with a knock in MR rates seen, Handies began to stall and Flexis begin to tread water. Some fresh enquiry will be key to enable Owners to stretch their legs once again, as rates dance around this 22 x ws 210 mark ahead.

Clean Product Tanker Spot Rates



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Dirty Products

Handy

The NWE sector was always poised for a challenging week for Charterers, as the clear down in tonnage coming into the week was always going to play its role. As a result, we have witnessed fixing levels being boosted by over ws 20 points and still climbing at the time of writing. Factors contributing to this were not just pressure seen from larger tonnage sectors, but the general pick up in cargo base, suggesting fundamentals are there right now beyond sentiment. We see fresh stems now reaching out forward towards end month's dates. Come Monday we may expect the market to cool off a little but all the signs are that the firm sentiment is going to hold firm.

The Mediterranean market kicked off in a way we have not witnessed for many weeks. By the end of Monday's trading, pretty much the majority of the tonnage list was reported on subjects. Rates continued to firm throughout, as trading levels reached a solid ws 190 for the Black Sea by the end of this week (some ws 20 points from where the week started). This means Owners with firm tonnage continue to remain in the driving seat. However, come Monday the sustained enquiry levels we have seen will need to continue for any further gain to be made. So, with this said, it leaves us all looking eagerly for fresh positions list early next week to assess what tonnage replenishment there is.

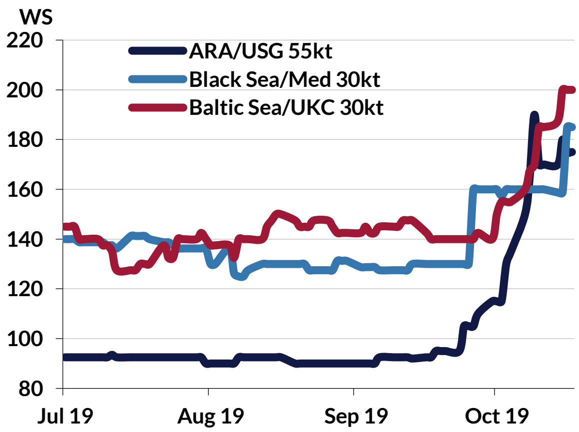
MR

Coming into the week MR Owners were beginning to wonder what was happening, as a few units were starting to near their opening dates, with few questions being asked. It didn't take long, however, for the surrounding markets to get going again, with opportunity spilling over to the MRs. As such, levels have been both reaffirmed and built on in certain cases, with availability now stretched again for approved tonnage in the immediate fixing window ahead.

Panamax

There has been plenty of activity this week in the Panamax sector but sadly much of the questioning failed to come to fruition, as both requirements for East and West have been met by increasingly bullish numbers. From the way these items have subsequently been withdrawn without fixing, this would suggest that traders are finding it tougher to move the opportunity barrel. This could then indicate as far as shipping markets are concerned, we are perhaps nearing the top. One observation which also needs to be addressed before further possible movement is that at the time of writing there are units hitting our lists that are in workable windows and still need fixing!

Dirty Product Tanker Spot Rates



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GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 17th	Oct 10th	Last Month	FFA Q4
TD3C	VLCC	AG-China	**-42**	133	175	69	102
TD20	Suezmax	WAF-UKC	**-42**	201	243	80	149
TD7	Aframax	N.Sea-UKC	**-3**	194	196	111	150

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

			wk on wk change	Oct 17th	Oct 10th	Last Month	FFA Q4
TD3C	VLCC	AG-China	**-45,750**	118,000	163,750	40,750	102
TD20	Suezmax	WAF-UKC	**-20,750**	88,500	109,250	19,750	149
TD7	Aframax	N.Sea-UKC	**-2,250**	84,750	87,000	24,000	150

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 17th	Oct 10th	Last Month	FFA Q4
TC1	LR2	AG-Japan	**+150**	298	148	98	
TC2	MR - west	UKC-USAC	**+45**	171	126	95	175
TC5	LR1	AG-Japan	**+125**	256	131	97	189
TC7	MR - east	Singapore-EC Aus	**+84**	257	173	178	208

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

			wk on wk change	Oct 17th	Oct 10th	Last Month	FFA Q4
TC1	LR2	AG-Japan	**+46,250**	78,750	32,500	11,500	
TC2	MR - west	UKC-USAC	**+9,000**	19,500	10,500	3,250	21,000
TC5	LR1	AG-Japan	**+28,250**	47,500	19,250	7,000	33,250
TC7	MR - east	Singapore-EC Aus	**+13,500**	30,000	16,500	13,000	22,750

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

ClearView Bunker Price (Rotterdam HSFO 380)	**-40**	269	309	373
ClearView Bunker Price (Fujairah 380 HSFO)	**-1**	303	304	446
ClearView Bunker Price (Singapore 380 HSFO)	**-1**	346	347	511
ClearView Bunker Price (Rotterdam LSMGO)	**+14**	571	557	595

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