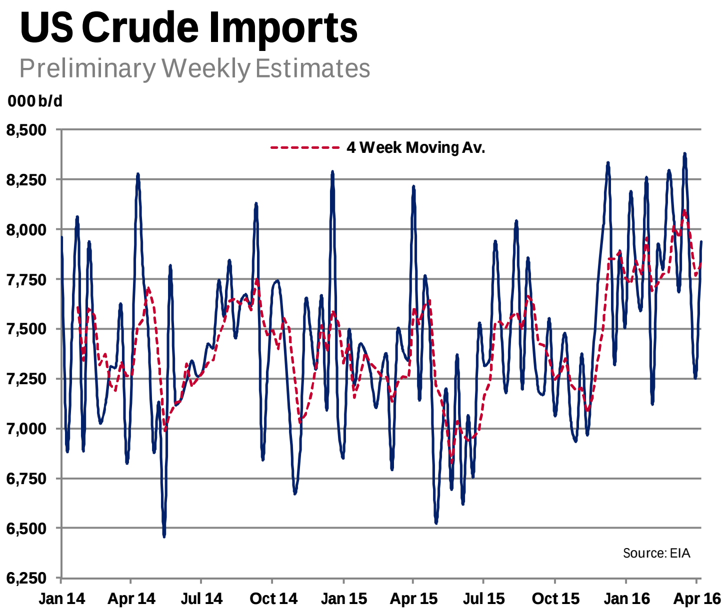
Prospects for Atlantic Basin Crude Trade to the East

Weekly Tanker Market Report

For many years the tanker industry benefited from strong increases in the trade of Atlantic Basin crude to the East. Several reasons were behind this growth. Significant gains in US crude production earlier this decade reduced US appetite for imports. Trade from West Africa was hit the hardest, allowing for more crude being shipped not only to Europe (which suffered from the loss of Libyan barrels) but also long haul to Asia. In addition, there were significant gains in trade from Latin/South America to the East on the back of growing regional production and falling US imports of Latin American barrels.

However, the dynamics of the market are changing. The collapse in oil prices reversed stellar growth in US output, which has started to decline since May 2015, with the downward trend showing no signs of abating at the moment. Furthermore, at the end of last year US authorities repealed the decades old crude oil export ban. Although short term prospects for international exports are likely to be limited, declining production suggests a greater US need for imports. To some extent, we are already seeing signs of this. After years of decline, US crude imports remained flat in 2015 versus 2014, averaging 7.7 million b/d. This year preliminary weekly estimates by the EIA suggest that crude trade into the US has started to rise. Total imports have averaged at 7.8 million b/d since January, up by around 0.5 million b/d compared to the same period in 2015, with stronger imports from the key Middle East and West African producers.



Rising westbound shipments from the Middle East undoubtedly support tanker demand, but can the same be said for volumes from West Africa? The combined Angolan and Nigerian crude production remained generally flat in Q1 2016 relative to last year's average. This means that increases in crude shipments from the region to US reduced the volume being transported westbound to Europe and/or long haul to the East. The picture is similar going forward. Only marginal changes are expected in Angolan and Nigerian sustainable crude production in the medium term. Thus any potential growth in trade to the US could impact negatively on shipments to Asia, if volumes to Europe remain unchanged. On this basis, the prospects for long haul movements are closely linked to developments in Libya, as the recovery in North African crude production is likely to "free" more West African barrels for eastbound shipments. However, considering a great degree of political instability in Libya, this seems unlikely to happen any time soon.

The prospects for crude trade from Latin America to Asia are also more uncertain. The ongoing weakness in US domestic output could stimulate stronger imports of Latin American crude, restricting long haul shipments to the East. The dynamics of the market are likely to change once again when the oil price moves to a higher level, aiding the recovery in US domestic output. However, even then expanding refining capacity in Latin/South America represents another threat to regional exports. According to the IEA, around 0.55 million b/d of new refining capacity is expected to come onstream between 2018 and 2021. As such, in order for long haul crude trade to the East to continue to increase the future gains in Latin American crude production needs to outpace the growth in refining capacity additions.

Crude Oil

Middle East

A retention of the modest VLCC gains of last week was always going to be dependent upon Charterers upping the fixing pace as May programmes became fully in hand but with early availability remaining, and forward lists comfortably stocked, they decided to merely drip-feed fresh enquiry. As a result, sentiment weakened, and rates tumbled back into the mid/high ws 50s East and to high ws 30s to the West. The more testing times look set to remain in situ for a while yet too. Suezmaxes had already slipped, and continued to slide upon limited interest, and building tonnage lists. Current marks stand at an uneasy ws 87.5 to the East, and ws 52.5 to the West. Aframaxes completed the set with lack of activity weighing, and rates falling off further to 80,000 by ws 105 to Singapore with even lower on the near term cards.

West Africa

Suezmaxes eased off initially, but from mid-week Owners dug in harder, and their resistance then provoked enough interest to rebuild the punctured sentiment, and hopes that rates will make upward headway from ws 82.5 US Gulf, and ws 85 to Europe as battle resumes next week. VLCCs saw little as Charterers broadly held back to see where the AGulf would settle, and as that was still unresolved by the weeks end, the wait continues and only ballast time considerations will force hands. Theoretically rates operate at close to ws 62.5 to the Far East with $3.85 million the last seen to West Coast India.

Mediterranean

Sustained Aframax fixing but there was too large a back-catalogue of tonnage to shift to allow for any real pressure to build. That said, there has now been sufficient pruning to lend a finer balance, and rates should tick higher whilst the attention lasts. Suezmaxes saw enough to hold a steady line and though the initial dip in West Africa threatened a wobble, the now slightly brighter prognosis there will keep local rate demands reinforced over the near term, at least.

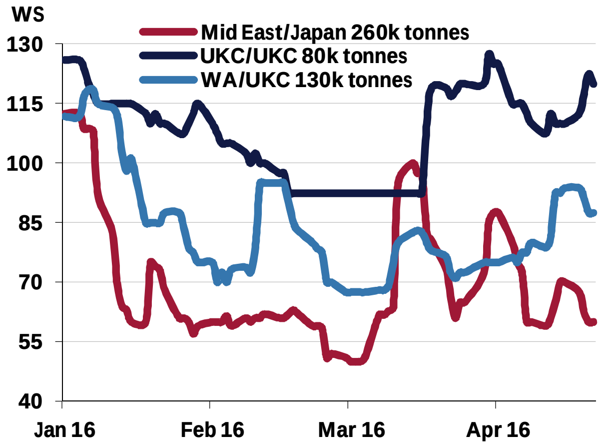
Caribbean

A nondescript start for Aframaxes, but then a flurry of activity jolted the market into an upward shift to 70,000 by ws 117½ upcoast which should be held, or even improved upon, until the dust settles. VLCCs couldn't go anywhere on very little interest and easy looking tonnage - early, and rolling forward. Rate ideas stayed at around $5.3 million to Singapore, and $4.2 million to West Coast India, but may yet become further compromised.

North Sea

End month Aframax programmes were actively set upon to reverse last week's mild decline and return rates to 80,000 by ws 125 cross UKCont, and to 100,000 by ws 105 from the baltic, though late week volumes thinned, and Owners will do well to hold the current peaks. Fuel oil 'arb' economics to Singapore fell away even further but the odd trade was covered nonetheless with $3.95 the last seen on a VLCC to Singapore.

Crude Tanker Spot Rates



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Clean Products

East

LRs have seen a busier week and accordingly rates have seen upward momentum. LR2s have lagged a little behind LR1s but are expected to catch up next week. 75,000 mt naphtha AG/Japan is now at ws 87.5 and 90,000 Jet AG/UKC is upto $1.80 million. Slow progress but tonnage has cleared considerably and that should start to bite more next week. 55,000 mt naphtha AG/Japan has moved to ws 100 with ws 105 done off prompter dates and 65,000 mt jet AG/UKC is upto $1.35 million but more is expected soon. As we approach May rates look set to see steady improvement.

After a reasonably steady start it was certainly a positive conclusion to the week for MR Owners. With a decent flow of cargoes entering the market and subsequently being covered, rates have steadily been positivity tested as the week advanced. X-AG saw a decent increase to $187,500 and heading to EAfr took a rise and although not tested, is expected to trade at the 35 x ws 137.5 level. AG/UKC has been fluttering around $950k but again would expect this to be tested in week 17. After a few weeks of troubled waters for MR Owners the sentiment appears to be changing.

Mediterranean

Handies throughout week 16, as expected , have gone from strength to strength, as activity levels have been consistently high. Charterers that were looking to cover their exposure out of the Black Sea & East Med have found the tonnage options on the light side for both prompt and natural dates. Those Owners that were in position managed to push Black Sea rates up to 30 x ws 205-210 range and the same for East Med 30 x ws 195-200 level for East Med loadings. Those who were loading in West Med had a few more options up their sleeve as the juicy numbers attracted ballasters from the Continent and from West Africa but rates still stood firm at 30 x ws 190. A real talking point has been dirty tonnage which has cleaned up with significantly lower rates being accredited and a few Charterers were able to lock in at 30 x ws 145 for cross Med voyage.

A quiet week for MRs as fresh cargo enquiries have been limited. Gasoline demand from the East has slowed and as a result rates require a fresh test. For Red Sea, discharge levels are at $850k and $950k for the AG and TA rates are 37 x ws 115.

UK Continent

As we come to the conclusion of week 16, it seems as if Charterers have managed to take control once again of the MR sector as rates have flatlined at the 37 x ws 115 mark. With TA enquiry limited along with West Africa and reformate demand to China down, Charterers were able to bide their time and pick off prompt tonnage at less than last levels. That being said the MR tonnage list is looking a lot leaner compared to recent weeks and Owners will be fully aware that if a few fresh market cargoes are seen on Monday then the market could easily shift back into their hands.

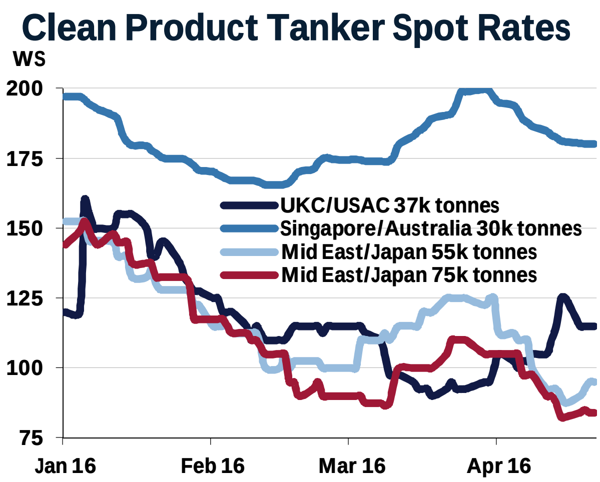
Positivity is in the air for Handy Owners up on the Continent as a market which has traded sideways finally saw rates move northbound through the week. With a number of ships taking the ballast down to the Mediterranean the fat was stripped away from the tonnage which resulted in an uptick in rates. 30 x ws 140 was fixed at the midpoint of the week, but enquiry stalled heading into the latter part of the week and 30 x ws 135 is the new market level.

And finally for the Flexi market. A stable fixing pattern emerged at the start of the week with both parties content at last done figures. As market cargoes appeared on our radar, accompanied with COA business ships began to be clipped away from the tonnage list and rates rose to 22 x ws 147.5.

LRs

Gasoline demand to WAF has been steady during week 16. This has helped to keep the list of LR1s opening up on the Continent or ballasting up from WAF ticking over. Rates were sitting at 60 x ws 102.5 at the beginning of the week, but Charterers have been able to pick off vessels quite comfortably, therefore rates have remained flat. Charterers have been aided by the desire from some Owners to remain positioned in the West. However, with the outlook for LR1s improving in the East and with a few Owners hunting for a trip back to suit their own programs, rates for trips East are unlikely to see much upside right now. Cargoes East are few and far between at present, but latest reports of a naphtha stem ex Baltic to the Far East at $1.635 million provide a fresh test here. Another LR1 opening up in the Mediterranean has found employment to reposition East of the Suez by ballasting through to the Red Sea.

It has been a quiet week on the LR2s with Owners seeing little fresh inquiry. A few stems out of the Baltic have helped employ a couple of the large cubic LR2s, with these trips achieving around the $2.25 million mark. Out of the Mediterranean, we have seen cargoes delayed. Rates have slipped a little to $1.85 million for Skikda-Japan.



Dirty Products

Handy

Numbers came under pressure this week where Mondays lists brought around the inclusion of prompt tonnage, and with only drip feed enquiry being shown thereafter, rates were tested to Owners detriment. This said, with fixing date progression the next waves of activity are just on the horizon Owners should be moderately pleased that we have come through this period with limited value being lost.
The Med took rather more activity to bring stability back into a region that had been trading with a soft trend, and whilst the shape of the tonnage lists have changed, any potential changes are only at their fledgling stage. This said, there are a few additional factors to be taken into account going forward as a few weather delays have crept in combined with units have been lost to a stronger performing CPP market, Owners are now sat slightly more optimistic.

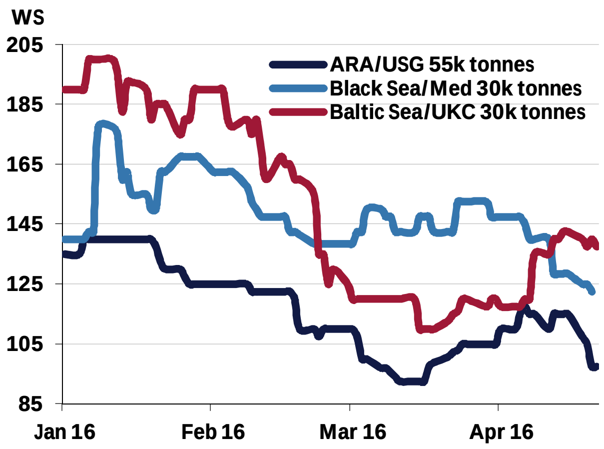
MR

This week has not been the most eventful for those operating in this sector and due to a lack of viable alternate employment come Friday there remain a few units still in search of employment. Whilst there remains an overhang of availability it is likely trend will remain in Charterers favour although already fresh from recent negative corrections Charterers may not guaranteed any sizable further discount.

Panamax

Where a wave of ballast availability hit the European tonnage lists the supply vs demand balance was altered significantly which allowed Charterers manoeuvrability in negotiations. From proceedings this week a foregone conclusion was accomplished as levels plummeted into double digit values. Eventual recovery in this sector is now likely to be determined by the performance of local US markets, as when TCE earnings improve, ballasting this way becomes less attractive.

Dirty Product Tanker Spot Rates



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Apr 21st	Apr 14th	Last Month	FFA Q2
TD3	VLCC	AG-Japan	**-8**	60	68	84	59
TD20	Suezmax	WAF-UKC	**-7**	86	93	80	81
TD7	Aframax	N.Sea-UKC	**+10**	120	110	116	117

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

			wk on wk change	Apr 21st	Apr 14th	Last Month	FFA Q2
TD3	VLCC	AG-Japan	**-10,500**	48,500	59,000	77,750	46,750
TD20	Suezmax	WAF-UKC	**-4,750**	34,500	39,250	32,750	31,750
TD7	Aframax	N.Sea-UKC	**+6,250**	38,250	32,000	36,000	36,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Apr 21st	Apr 14th	Last Month	FFA Q2
TC1	LR2	AG-Japan	**+1**	84	83	100	
TC2	MR - west	UKC-USAC	**-4**	116	120	93	123
TC5	LR1	AG-Japan	**+7**	98	91	122	107
TC7	MR - east	Singapore-EC Aus	**-1**	180	181	189	

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

			wk on wk change	Apr 21st	Apr 14th	Last Month	FFA Q2
TC1	LR2	AG-Japan	**-250**	16,000	16,250	22,000	
TC2	MR - west	UKC-USAC	**-1,000**	13,250	14,250	9,500	14,500
TC5	LR1	AG-Japan	**+1,250**	14,000	12,750	20,250	16,000
TC7	MR - east	Singapore-EC Aus	**-500**	16,500	17,000	18,500	

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

LQM Bunker Price (Rotterdam HSFO 380)	**+11**	189	178	168
LQM Bunker Price (Fujairah 380 HSFO)	**+12**	203	191	182
LQM Bunker Price (Singapore 380 HSFO)	**+6**	204	198	185
LQM Bunker Price (Rotterdam 0.1% LSFO)	**+15**	368	353	348

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