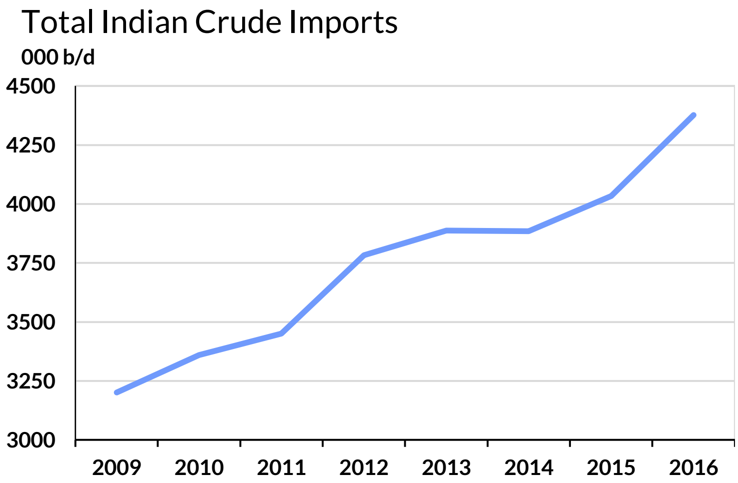
India – A Jewel for Tankers

Weekly Tanker Market Report

India's energy policy is largely defined by its ever expanding energy deficit which places an even greater dependency on a diverse mixture of fuel resources. Industrial development and population growth has led to a surge in energy demand which continues to be a major headache for the Modi government. The government also needs to find a compromise between the surge in demand for fossil fuels to feed its growing requirement, but at the same time keep a watchful eye on environmental pressures. In terms of energy consumption in 2015, India has overtaken Russia to become the third biggest consumer after China and the USA with around 5.2% (BP Statistics) of the global share. While the nation pursues ambitious targets for renewable energy use such as solar and wind power and increasingly LNG demand, India still remains very reliant on coal and oil imports. The International Energy Agency reported that India will account for 25% of global crude oil growth and will be the fastest-growing crude oil consumer through to 2040.



In September, India's petroleum minister announced a plan to raise its oil storage capacity to take advantage of low oil prices. The first phase to set up a strategic petroleum reserve (SPR) is already at an advanced stage in three locations, Visakhapatnam, Mangalore and Padur, with a combined capacity of 5.3 million tonnes (38.7 million barrels). Storage at these three sites has already commenced filling and is expected to complete later this year. However, the minister also stated that the ministry had finalised plans to set up two new larger SPRs, each with a 5 million tonne capacity, one in the eastern State of Odisha with the second in the western State of Rajasthan. Participation to set up new storage facilities would be open to both private and foreign participation, with a plan to take overall storage capacity to more than 15 million tonnes over the next five years.

Last month, India imported 17.216 million tonnes (4.5 million b/d) of crude oil as refiners stepped up purchases to meet record domestic fuel consumption. Bloomberg estimates India imports more than 80% of its crude oil requirements and demand continues to grow through increased use of trucks, cars and motorbikes. Indian motorbike sales are forecast to reach 19 million in 2018. Domestic refineries have been struggling to keep up with gasoline and diesel demand despite additional capacity being added. According to the latest government statistics, India's product demand grew 8.5% year on year in 2015 to 3.81 million b/d. Figures covering January-August this year show product demand was up by 10% to 4.13 million b/d. Indian refiners continue to add capacity, spending billions of dollars in an attempt to keep up with domestic consumption. However, an even stronger growth in internal demand has at times necessitated product importation.

At a time of concern over the prospects for the tanker market going forward, India remains a Jewel on the Crown for tanker owners. This week, the announcement of a Rosneft controlled consortium to take a 98% interest in Essar Oil is likely to stimulate more longer haul barrels from Venezuela to Vadinar. Venezuela already accounts for around 12% of India's total crude imports. Growing oil demand for both domestic requirements and to fill the SPR will continue to support short haul imports from the Middle East and from further afield with cargoes from the Atlantic Basin.

Crude Oil

Middle East

A relatively quiet week for VLCC's as Charterers do their utmost to deflate any sentiment that has been building with Owners. A market enquiry today saw the number of offers into double figures highlighting that some cracks are beginning to appear and as a result a fixture of 270,000mt x ws 58.5 to Taiwan was recorded on a new building. Last done levels on a modern vessel from the Middle East to China was 270,000mt x ws 67.5 and 280,000 x ws 38 for US Gulf via Suez. For non-Iranian business Suezmaxes remain flat at 140,000 x ws 37.5 for Western destinations and 140,000 x ws 60 for the East off the back of supply outweighing demand. After a long period spent in the shadows Aframax Owners exploded into the sunlight this week as the perfect storm of a glut of enquiry, coupled with a starved tonnage list, led to Owners commanding rates that would have been perceived as inconceivable a week or so ago. With the usual less approved suspects occupied with inter-ag and Pakistani business one or two prompt replacements fetched numbers into the worldscale 90's and as more cargoes entered the market the amount of available tonnage soon whittled down, leading to Owners pushing for triple figures. Expect Owners ideas to remain bullish until tonnage availability eases into first decade next month. Last done though is AG/East 80,000mt x ws 95-100 level.

West Africa

Suezmaxes have come off a touch but have now stabilised paying 130,000 x ws 72.5 for UKC MED destinations. This looks to be the bottom now which should in turn entice other Charterers to start testing the market next week. VLCC interest was kept to a minimum here although Charterers are keeping a close eye on developments in the Middle East, and if rates start to come off then levels here will follow suit. Last reported fixed was 260,000mt x ws 66 for West Africa/China.

Mediterranean

Med Aframax activity coupled with some delays in certain ports has finally proved the catalyst to a rise in rates. The week began with conference rates of ws 65 for Cross Med and Black Sea to Med voyages (with certain long voyage paying even less) but as ships were removed from the list, so did Owners start to dig their heels in. The culmination of this firmer sentiment was in a replacement cargo for a restricted port, which achieved a high of 80,000mt x ws 80. The bar has now been set and Owners will maintain that this should be the new level into next week. Suezmaxes enjoyed a tighter list and a busy Black Sea programme which has allowed Owners the opportunity to push on to 140,000 by ws 90. Rates look to stay firm for the time being whilst the position list remains thin.

Caribbean

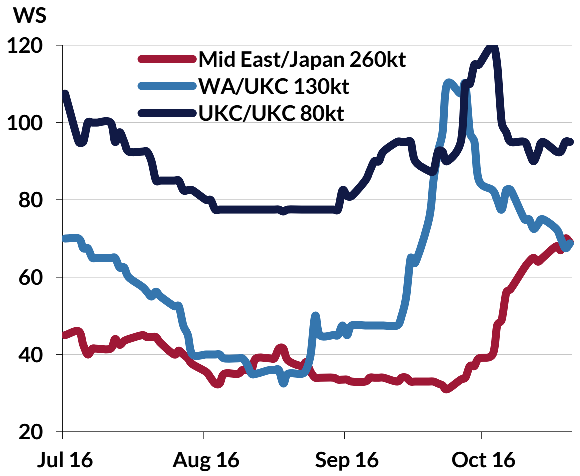
Aframax Owners were unable to hold onto the gains achieved last week as Charterers were blessed with an influx of tonnage at their disposal. Last done levels for a generic upcoast run are now 70,000mt x ws 100. The VLCC cupboard was pretty bare this week, mainly down to delays in getting the November stem program from suppliers. Levels could well ease off a little after this barren spell down to around $4.4 million to Singapore and $3.7 million for a run to West Coast India.

North Sea

The North Sea and Baltic has had an interesting week. Delays are rife in the North and many ships are waiting on orders with Fuel oil, Osberg & Forties, amongst other grades delaying on the Cont. Demand generally is down but a home must be found for the current product. However, another influence and one refuted by those chartering is that ships have been held on unofficial storage with the low demurrage rates of the recent market making this viable. These delays are a major influence and with returns on tankers modest and low for Q4 expectations Charterers seem happy enough to reach ahead and take those safe positions thus avoiding a bottle neck. Right now Cross North Sea is up five points fixing 80kt x ws100. This looks unlikely to change short term unless there is a glut of cargo. Baltic/ UK Cont has moved up from WS72.5 on 100kt to ws 75 on 100kt. The true influence on these Baltic rates has been the level of options required on recent cargoes.

In addition, a small but news worthy number of vessels have been fixed out of the area as arbitrage opened up for ECC. Aframax tonnage was fixed to this destination at 80kt x ws 85-ws 87.5 levels. Going into next week the jury is out on market prospects, as if itineraries firm, then the present rates will almost immediately be undermined. VLCC availability keeps light throughout November, but current workable ARB levels remain unattractive to Owners, last done remains $4.05 million for Rotterdam to Singapore.

Crude Tanker Spot Rates



Clean Products

East

An interesting week on the MRs, which has seen rates soften on all routes except the west runs. The list of prompt tonnage was lengthy at the start of the week, but this has slowly but surely been cleared out, leaving just a few prompt vessels. Runs to UKC have moved up - GTL now trading around the 1 million mark, and Jet at $1.025 million levels. Shorthaul is trading at $145k, and runs into the Red Sea at $375k. The Red Sea is not a bad place to end up currently, as it is very tight on tonnage. East Africa has come off, and finishes the week at ws 102.5. Naphtha runs are still hovering around the ws 95 level - although with tonnage thinning in the AG and the Far East market comparatively less attractive, there are not as many naphtha-keen players out there. As we are seeing a number of LR2 cargoes split, the MRs are active, but there is not a deluge of cargoes outstanding.

Although we have seen a good number of ships put on subs on both the LR1s and LR2s this week, Owners will feel disappointed by the current state of rates finishing the week. A lot of naphtha was moved on the LR2s, which crept up to 75 x ws 90 levels. However, a disappointing ws 87.5 put on subs towards the back end of the week has got Charterers feeling as though they can try to repeat last done levels. West runs reached $1.85 million, but this was followed by a $1.825 million on a smaller cuber. Charterers with outstanding west stems are looking around the $1.8 million level to tidy up their stems this week, but this is unattainable in the current market. With a couple of new cargoes quoted this morning off early dates, it will be interesting to see how aggressive Charterers go on their early November cargoes.

The LR1s have very much played supporting act to the LR2s, which have been slightly busier. Rates have sat fairly flat at the $1.35 million a level AG/UKC - a step down from the $1.4 million levels Owners were talking at the start of the week. TC5 has been cemented at the ws 92.5 level - a slight step down from the 55 x ws 95 seen earlier. Given the lack of activity to finish the week, and a lack of outstanding cargoes, LR1s are looking fairly flat going into next week.

Mediterranean

Week 42 has provided entertainment for all stakeholders of the Mediterranean market. With a flux of enquiry from both the Med and Black Sea, rates have continued to climb the ladder throughout the week. The tonnage list has tightened significantly and off the back of this Cross-Med levels have jumped to 30 x ws 125 and 30 x ws 130 for ex Black Sea liftings.

MRs remain tight as more activity has been seen this week which has been reflected in rates picking up. Med / Trans atlantic has mirrored TC2 and rates have risen to 37 x ws 87.5 and gasoline supply to the Red Sea has been steady resulting in levels adopting the policy of hold the line at $600k basis central Med load into Jeddah.

UK Continent

A generally much more positive week for the MRs, a more evenly balanced tonnage list early in the week coupled with solid fresh enquiry from the outset meant that Owners were able to make incremental rate gains as ships were picked off. As tonnage continued to tighten West Africa rates also rallied, although not to the levels that would have been expected settling 37 x ws 92.5. TC2 has been the main driving force for rates increasing and with USG picking up too the market seems more stable and likely to be more resilient to a couple of days of quieter activity. A flutter of reformate bound for China has cleared some ships off long term, although this seems to have gone quiet again after Owners achieving $1.175 million for this run. The outlook looks positive going into next week provided we see consistent fresh enquiry as we have this week.

Handies have had a particularly flat week of trading and there have been limited fresh cargoes to make any impact on the market and clear the available tonnage that are keeping rates placid. Some MR cargoes flirted with the idea of handy tonnage for long haul routes although ultimately this did not produce the fruit Owners were looking for. Rates ex Baltic remain flat 30 x ws 105 whilst XUKC routes are now paying 30 x ws 102.5.

Although there has been a handful of spot Flexi cargoes entering the market this week the availability of tonnage has only been adequate enough to keep rates moving sideways. 22 x ws 135-137.5 remains the status quo and with the Handy market lacking any considerable action Flexi rates have subsequently been held back as the pro-rata means they are paying roughly the same. Currently the outlook for next week looks unchanged as markets expect to trade flat at least for the first few days.

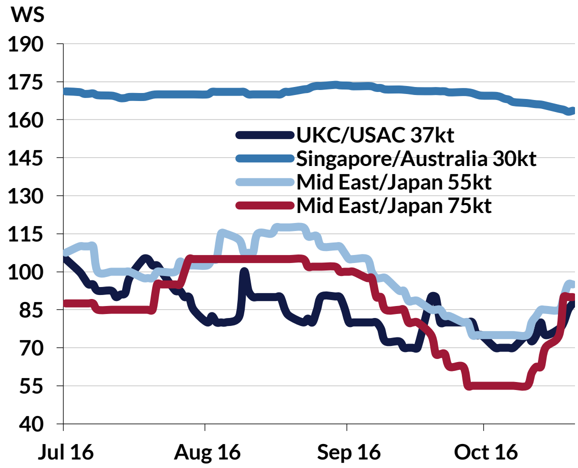
LRs

There has finally been something for Owners to cheer about this week on the LRs in the west due to a burst of LR1 enquiry and the AG market continuing to provide employment for LR2 ballasters.

Typically, the week appeared to begin slowly, but in fact some activity was happening behind closed curtains and by COB on Wednesday evening many of the workable LR1 tonnage options had been either fixed away or placed on subs. A lot of the focus during the second half of this week has then been on which vessels were successfully cleared away, and slightly unfortunately in the eyes of the Owners, we have seen a few vessels fail to get their subjects. In terms of rates, LR1 Owners have had to settle for 60 x ws 65 on the ARA/WAF run and although Owners are pushing for 60 x ws 70 next to be done, we still see a handful of vessels able to make end month dates on the Continent and therefore, Owners might have to settle for 60 x ws 65 again at the start of next week, unless fresh stems enter the frame. There are signs that better activity levels will continue into week 43 as questions are still being asked by the traders today. One LR1 has achieved $900k this week for a UMS Porvoo/AG run, Owners are aiming for $750k or MED-AG, but Charterers are trying to hold out for $700k and another Owner is on subs for a naphtha Mellilah/Brazil-Cont run at 60 x ws 95. As we end the week, LR1 Owners on the Continent are rating ULSD ARA/EMED runs at 60 x ws 60.

There has been a slight improvement in LR2 enquiry this week with a few fresh tests seen. One vessel achieved $1.575 million for an Ust-Luga/Japan naphtha run up from $1.45 million previously seen and in the Mediterranean, one vessel was reported on subs during the week at $1.4 million for a Skikda/Japan run. Charterer's hands have been slightly forced this week as LR2 Owners have been reluctant to jump on low numbers for West/East runs, preferring to either hold out in hope the market continues to firm and or to look towards the AG for employment where AG-UKC runs are now sitting at $1.8 million. Looking ahead, the arbitrage still remains firmly shut and therefore rates are really only being driven up by the AG market offering better returns for Owners. However, in order to prevent LR2 rates from continuing to firm, some Charterers are threatening to split stems into MR stems. Furthermore, yesterday we saw a disappointing $1.825 million put on subs for an AG-UKC run and therefore today aggressive Charterers are now aiming for $1.8 million.

Clean Product Tanker Spot Rates



GIBSON SHIPBROKERS

Dirty Products

Handy

This week's activity failed to compare with that from recent weeks, where as such, Charterers were faced with a handful of prompt ships to choose from. This combined with inactivity over the first few days of the week, negativity eventually crept in as we head into the weekend with a downslide measuring around five points. Looking ahead however it won't take much to re-stabilise this region as its not awash with excess capacity despite a few units needing employment.

There has noticeably more disparity between the Owners and Charterers ideas this week down in the Mediterranean as once the market started to move, Charterers found themselves chasing tonnage to cover quickly in a rising market. Owners were keen to make the most of this spell of favourable trend and as this week continued volatility was there for all to see, although having said this, deep in everyone's mind will be whether these levels will be still be there on Monday, as towards the end of the week, activity levels have looked noticeably more subdued.

MR

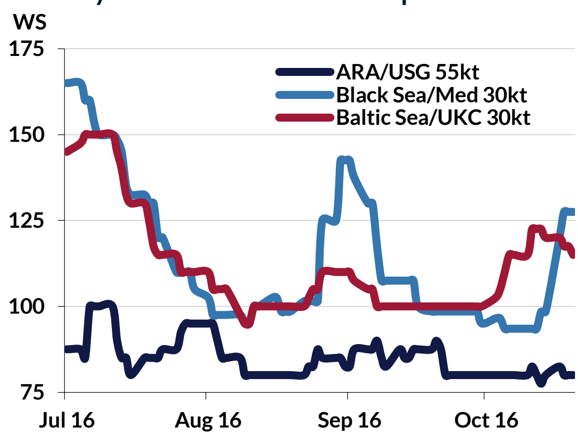
The Continent this week has overall seen minimal enquiry and for the few naturally placed units who were determined to hold out for the full 45kt stem, Monday cannot come quickly enough. Disappointment then all around in the north, as not only were natural stems in short supply but part cargo values also lost ground.

Contradictory to the Continent, tonnage placed in the Med was high in demand this week with full sized stems making a regular appearance particularly out of the Black Sea. The start of the week's activity saw units being picked off enabling Owners to put pressure on current levels. There was however a strong resistance seen from Charterers when pressed too far too soon. If we are to see levels in the 120's, repeat conditions as seen this week will be need to be replicated and sustained.

Panamax

Come week 42 closing there does appear to be hope on the horizon for Panamax Owners. Although they may still have to wait some time yet before any benefits are seen in Europe. Markets in the US have rallied, with numbers in the 120 region being seen. In turn this has created the kind of disparity in earnings where ships aren't likely to ballast this way (unless from a very favorable open position). Any turnaround in conditions from Europe is only likely to occur once the natural tonnage is looking in shorter supply.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 20th	Oct 13th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+1**	67	66	33	61
TD20	Suezmax	WAF-UKC	**-4**	69	73	96	80
TD7	Aframax	N.Sea-UKC	**+5**	98	93	91	102

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

			wk on wk change	Oct 20th	Oct 13th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+750**	47,750	47,000	12,000	41,250
TD20	Suezmax	WAF-UKC	**-2,250**	21,000	23,250	36,750	27,000
TD7	Aframax	N.Sea-UKC	**+4,500**	19,500	15,000	14,750	22,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 20th	Oct 13th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+27**	90	63	68	
TC2	MR - west	UKC-USAC	**+4**	84	80	80	96
TC5	LR1	AG-Japan	**+10**	95	85	81	92
TC7	MR - east	Singapore-EC Aus	**-3**	163	166	171	

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

			wk on wk change	Oct 20th	Oct 13th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+5,500**	13,750	8,250	8,250	
TC2	MR - west	UKC-USAC	**+500**	4,750	4,250	4,750	7,000
TC5	LR1	AG-Japan	**+1,750**	9,750	8,000	7,750	9,250
TC7	MR - east	Singapore-EC Aus	**-500**	11,500	12,000	13,250	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**+4**	269	265	250
ClearView Bunker Price (Fujairah 380 HSFO)	**+6**	296	290	271
ClearView Bunker Price (Singapore 380 HSFO)	**+5**	288	283	263
ClearView Bunker Price (Rotterdam 0.1% LSFO)	**+6**	451	445	413

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