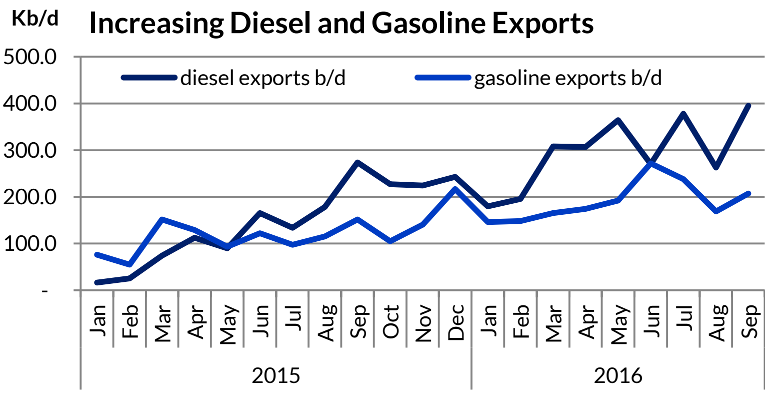
Diesel Market Changes Gear

Weekly Tanker Market Report

Refineries in China have been steadily increasing their crude oil intake in recent years, aided in part by the granting of import licenses to teapot refiners and the creation of the "China Petroleum Purchase Federation of Independent Refiners". Data for January to August 2016 shows that refinery crude throughput has increased by approximately 600,000 b/d over the same period in 2015 (source: JODI). These developments are not only impacting on the crude tanker market but also changing the dynamics of the Asia-Pacific refined products market.

Traditionally China has been seen as one of the main regional importers of diesel; however, the market has seen a fundamental change with the country recently becoming a net exporter of diesel and increasingly an exporter of gasoline.

Chinese internal product demand has changed drastically over recent years as the economy has attempted to gradually shift away from heavy manufacturing and laboring to commercial services, resulting in softer diesel demand used mainly in heavy industries, whilst demand for gasoline and jet fuel has remained strong. Reforms to the refining sector allowing independent teapot refineries to compete against larger state-owed refineries has increased competition to sell internally and has resulted in refineries looking abroad to place barrels.



It is important to note that in general most Chinese refineries are geared up to maximize diesel production. In order to meet internal demand for gasoline and jet fuel, diesel production will naturally increase, resulting in a surplus supply and more barrels for export. However, with more refineries running at high levels, supply of all products will improve, with increasing export volumes.

When looking at the export figures so far this year, the impact of changes to China's product demand paints an interesting picture. Diesel exports for Jan-Sept 2016 on average are closer to 180,000 b/d higher than 2015 levels, with gasoline exports also faring well with an increase of roughly 80,000 b/d. September proved to be a record month for exports of diesel. Most intriguingly, however, diesel and gasoline imports have increased throughout 2016 despite the large export volumes.

What has this meant for shipping? Well sadly the increase in Chinese exports has not resulted in any significant upturn in rates. With the majority of barrels being sold to traders, it would appear most have been heading south into Singapore, with further exports required to really push freight rates higher. What has emerged though is a growing base trade of barrels out of China, which has not just provided an incremental stream of cargoes but also offered owners additional opportunities to achieve higher than 50% utilization during the voyage.

The Chinese economy is facing significant challenges moving forward, and the refining sector is not immune to these challenges. Along with other major industries such as steel and coal struggling with over-capacity, data suggests that Chinese refining capacity stands at around 14 million b/d, with an estimated 3 million b/d in excess capacity at current intake levels. It would appear that the government is beginning to crack down on any grey areas of taxation in gasoline production and sales, which could hit smaller refiners already hampered by higher logistical costs when exporting. Despite this, slowing industrial output and struggling internal demand will most likely lead to refiners being left with few options but to look further afield to place product. This should result in sustained export demand from Chinese refineries and a steady flow of cargoes for product tanker owners at least in the short term.

Crude Oil

Middle East

VLCC Charterers initially concentrated upon the more accommodating older units to successfully drag the market down to ws 50 to the East. Once that had been achieved, sights swung onto more reticent modern vessels that, after token resistance, also moved lower and into the high ws 50's with runs to the West easing to the ws 35 level. By the week's end however, a little more interest circulated and Owners dug in to defend the bottom markers with some hopes for increased momentum into next week. Suezmaxes made a slow start, but from mid-week became noticeably busier to allow Owners to drive rates up towards ws 75 to the East and close to ws 40 to the West though short hauls to India are likely to be temporarily compromised by the Diwali Holiday. Aframaxes failed to build upon last week's platform and ended upon the defensive at 80,000 by ws 95 to Singapore with lower levels threatening for next week.

West Africa

Last week's Suezmax low proved a false bottom and Owners spent most of this week trying to establish a more concrete base. Ws 57.5 for all Atlantic options would now seem to be the floor, but more severe pruning of the easy availability is required before any rebound can be engineered. VLCC's enjoyed only modest attention, but it proved just sufficient to hold rates above the ws 60 mark to the Far East, with $3.85 million the last paid to East Coast India. Medium term direction will be dictated by AGulf fortunes, but a steady feel pervades for now.

Mediterranean

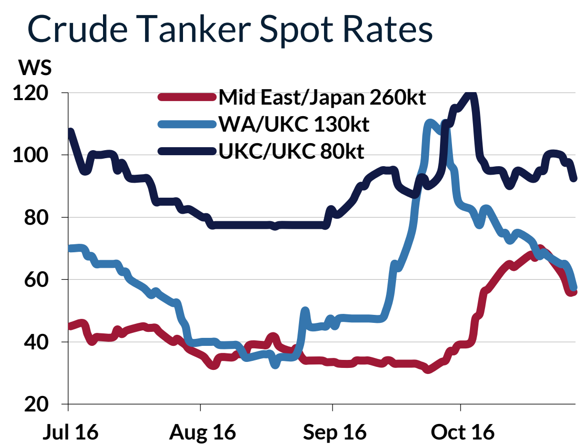
No break-out for stubbornly rangebound Aframaxes - 80,000 by ws 65/70 cross Med for a while now and no sign of a material change to come over the next period either. Suezmaxes fared a little better, but found the going tougher as the week closed with rates easing to 140,000 by ws 77.5 for European destinations, but holding at around $3.3 million for runs to China. 'Bottom' shouldn't be far away now.

Caribbean

Modest improvement through the week for Aframaxes with an even stronger feeling developing into the weekend 70,000 at up to ws 110 upcoast now and Owners will be looking to press for more. VLCC's made little noise, but Owners calmly and efficiently closed out whatever came their way at steady numbers. $4.5 million to Singapore and $3.7 million to West Coast India was typical and early units had West African and Brazilian load alternatives to additionally support.

North Sea

Aframaxes move through a gently softening phase that looks set to run into next week also. 80,000 by ws 87.5 XUKCont and down to 100,000 by ws 65 from the Baltic with lower levels still possible before the end of Friday trading. VLCC's saw less than of late as 'arb' economics closed a little tighter and limited availability held rate ideas a touch too high to successfully trade. $4 million for fuel to Singapore is asked for by Owners, but Charterers bids remain below that - for now.



Clean Products

East

It has been a very quiet week for the LR2's in the AG. With minimal cargoes entering the activity was subdued. AG/Japan sits at 75 x ws 85 and voyages to the UKCont trade at $1.875 million. Charterers have very much controlled the market this week and the expectation is that this sentiment will roll into next week. The LR1s have followed their pattern of previous weeks. Lacking any serious volumes of cargoes to make any real dent on the tonnage list a steady sentiment endured. AG/UKCont closes the week at $1.35 million and TC5 finishes at 55 x ws 90. Both LR1 and LR2 Owners are set to come under increasing pressure throughout week 44.

Even with decent levels of activity rates have struggled to gain any proper traction on the MRs in the AG. There were the occasional peaks however, these were short lived and corrected accordingly. The tonnage does still remain tight until early next week and as a result Charterers have sat on cargoes to allow the market to settle. AG/UKCont voyages sit at $1.075 million. AG/EAf jumped up, but quickly settled down and finishes the week at 35 x ws 120. Short voyage have remained pretty steady, but saw a slight rise towards the end of the week. AG/RSea trades at $395k and X-AG at the $175k level. TC12 has had moderate activity and sits at 35 x ws 100. Expectations are that it will be a quiet start to week 44 with a decent number of cargoes required to make any significant changes to the soft steady sentiment.

Mediterranean

All in all week 43 has proven to a pretty positive for Handies plying their trade in the Mediterranean and the Black Sea. Monday started with the handful of prompt ships being placed on subjects as enquiry levels remained high resulting in the tonnage list beginning to tighten. Levels for XMed voyages continued to hold steady at 30 x ws 125 and Black Sea lifting's even ticked up to 30 x ws 135. As we approached the back end of the week, enquiry and fresh cargoes slowed drastically which has now enabled tonnage to recirculate and begin to build. For now levels are holding, but if the quietness continues, expect a fresh negative test to occur heading into next week.

MRs remain tight in the Mediterranean which has been reflected in the freight rise across the board. We have seen 37 x ws 90 achieved for Mediterranean / Transatlantic which has mirrored TC2 and for Red Sea discharge rates have pushed to $600k basis Jeddah.

UK Continent

At week's beginning the outlook for the MRs was wholly positive as tonnage was tight on the front end and the market noticed good levels of fresh enquiry early on. After the Owner's initial success of inching up rates, the back end of the week has seen the tonnage list grow and balance out whilst enquiry dwindled, now with 37 x ws 87.5 on subs TC2. West Africa enquiry has been especially light this week (needing a fresh test) as has short haul voyages ex Baltic now paying

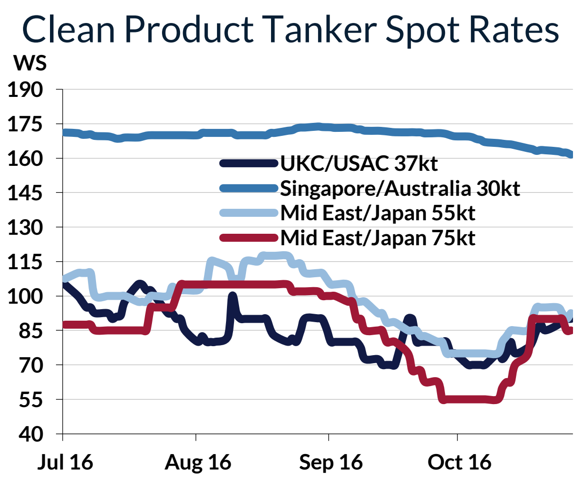
40 x ws 105 and flat. Rates could soften early next week unless enquiry picks up as tonnage looks to become readily available.

Much like the MRs, the Handies showed some initial signs of promise as the week kicked off, however as the mid-week point came and went it was apparent that the pace at which fresh cargoes were being quoted was not sufficient to recycle tonnage and ultimately led to rates softening back to 30 x ws 105 after seeing highs 30 x ws 110 for XUKCont earlier in the week. Next week looks to pick up from the current situation as Owners resist the pressure for a further fall in rates, although this may be in vain if Charterers hold back on quoting cargoes.

Enquiry ex North Spain early in the week gave some promise to the Flexi tonnage albeit for a short while. However, a flurry of Baltic enquiry late in the week has given the platform for Owners to push rates higher back to the 22 x ws 140 mark. Tonnage is more balanced than it has been in recent weeks suggesting owners are likely to push for higher still going into next week.

LRs

A good level of activity on the LR1s in the West and firming rates on the LR2s loading in the AG during week 42 laid a nice platform for Owners to work from during week 43. However, the week got off to the wrong start as play began on Monday morning with news breaking that an LR1 had failed an ARA/WAf run at 60 x ws 70. Much to the Owner's disappointment, Tuesday and Wednesday then went on to offer little which quickly turned the tide in the Charterers favour. With a few prompt vessels available on the Continent for any LR1 taker, 60 x ws 65 if not less was in the Charterers sights. The second half of the week has in fairness picked up and we finish the week with a handful of LR1s on subs. Owners are today rating Baltic/Cont runs at 60 x ws 85, ARA/WAf runs at 60 x ws 70 and ARA/Japan runs at $1.3 million. Black Sea/Japan runs are collecting $1.3 million also, with $700k achieved for a Med/AG move. Reverting to the LR2s, with the arbitrage to the East remaining closed, there have been just a few cargoes for Owners to target. Furthermore, the LR2s in the AG have softened a touch this week. As a result, one Owner has lowered his demands for an ARA/Spore run from $1.25 million at the start of the week down to $1.1 million at the close, and their Med/East ideas are in similar line.



Dirty Products

Handy

Falling at the final hurdle numbers eventually succumb to inactivity as tonnage sat prompt and units piling up on top of one another made a telling impact. Losing just five points in value however fails to fully illustrate this market's current failings, and unless activity levels pick back up quickly we could see further value lost going into next week.

Conditions in the Med at least were rather more validating as although the pace of activity decelerated from the previous week, there was enough to keep trend flat. It can be suggested however that it is requirement from the Black Sea carrying forth the relative values of XMed trading. Moving forward, it will be interesting to see a test on the next West Med lifting. It is suspected that trading differentials between East and West Med could will soon widen.

MR

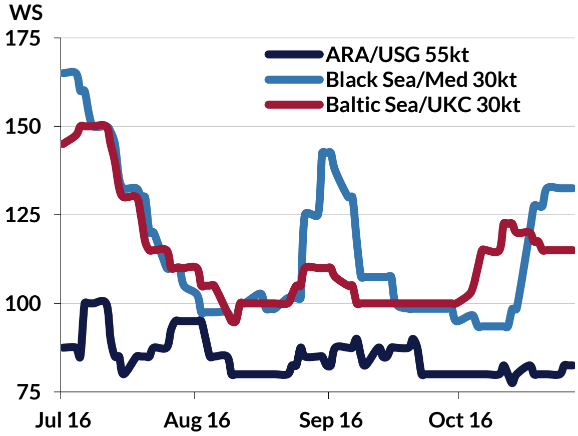
It may not have been an easy ride for some Owners in the Continent this week, but those that have persisted have prevailed. The MR's that have fixed have had the trauma of being ditched on a stem beforehand which highlights the uphill battle Owners are facing to secure a full sized stem in this region. With this in mind Charterers are still able to use this to their advantage and apply pressure.

With the Handy market showing signs of life in the Mediterranean over the past couple of weeks, MR stems have been a popular option due to attractive dollars per tonne. It therefore came as no surprise that Charterers (where they could) maximised cargo opportunity and fired up the MR market. The activity this week quickly tightened positions and availability by the end of this week and selection became tougher for Charterers. The market however, remains stable for now, but if this activity rolls into next week and itineraries of the ships remaining don't firm over the weekend, we could see a gains on the horizon, independent of just tight fixing dates.

Panamax

Just as the week started to look more opportunistic for Owners sat naturally, it appears we have run out of trading time, with further gains looking thwarted in the short term. This said, we remain precariously balanced as US market strength is sustaining for a duration considered more than just a spike preventing ships ballasting back from the Caribs/USG. This said, move favourable ballast zones such as USAC are a threat to restocking European tonnage lists.

Dirty Product Tanker Spot Rates



GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 27th	Oct 20th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-12**	56	67	38	61
TD20	Suezmax	WAF-UKC	**-11**	59	69	98	75
TD7	Aframax	N.Sea-UKC	**-3**	95	98	118	101

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

			wk on wk change	Oct 27th	Oct 20th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-12,500**	35,250	47,750	17,250	41,750
TD20	Suezmax	WAF-UKC	**-6,000**	15,000	21,000	38,250	23,750
TD7	Aframax	N.Sea-UKC	**-2,750**	16,750	19,500	39,000	22,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 27th	Oct 20th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-5**	85	90	55	
TC2	MR - west	UKC-USAC	**+6**	90	84	77	94
TC5	LR1	AG-Japan	**-6**	89	95	75	87
TC7	MR - east	Singapore-EC Aus	**-2**	161	163	170	

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

			wk on wk change	Oct 27th	Oct 20th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-1,250**	12,500	13,750	4,750	
TC2	MR - west	UKC-USAC	**+750**	5,500	4,750	4,000	6,500
TC5	LR1	AG-Japan	**-1,000**	8,750	9,750	6,500	8,250
TC7	MR - east	Singapore-EC Aus	**-500**	11,000	11,500	13,250	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**+4**	273	269	249
ClearView Bunker Price (Fujairah 380 HSFO)	**-8**	288	296	269
ClearView Bunker Price (Singapore 380 HSFO)	**+1**	289	288	260
ClearView Bunker Price (Rotterdam 0.1% LSFO)	**-3**	448	451	418

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