The 1.2 million barrel question

Weekly Tanker Market Report

OPEC has surprised the markets yet again. Just as oil was falling earlier in the week on speculation a deal might not be reached, oil rallied on Wednesday as speculation swung the other way. Officially OPEC has agreed to reduce production by approximately 1.2 million b/d to a ceiling of 32.5 million b/d, effective from the 1st of January for a six-month period.

Once again the Saudi's will bear the brunt of the cuts. According to OPEC, Saudi Arabia will cut 0.486 million b/d and its Gulf allies Kuwait, the UAE and Qatar will contribute 0.3 million b/d. Iraq, which had stood firm in its need to maintain production to help the fight against ISIS finally conceded, agreeing to slice 0.21 million b/d. Iran, which has been one of the most contentious issues, has been allowed to increase output by nearly 0.1 million b/d. Other OPEC members Angola, Gabon, Ecuador and Algeria have pledged 0.163 million b/d collectively. Venezuela, who have perhaps been hardest hit by the collapse in oil prices surprisingly agreed to shave nearly 0.1 million b/d from their own production. However, minor declines may have been inevitable anyway, considering the countries struggles to maintain output in the wake of an economic crisis. Indonesia, who only rejoined OPEC 12 months ago, has had its membership suspended after failing to participate in such an agreement. Significantly, Nigeria and Libya have been granted exemptions paving the way for higher production if stability in both countries allows. Potentially undermining the effectiveness of OPECs deal.

Outside the cartel, Russia has stated it will ease production by 0.3 million b/d in support of collective action. Reports suggest that another 0.3 million b/d may be turned off by non OPEC producers including Oman, Mexico, Azerbaijan and Kazakhstan. However, with new production coming online from the Kashagan field, there may be limited scope for a Kazakh cut. In any case, non OPEC production could grow by 0.5 million b/d next year supported by increased flows from Brazil, Canada and as mentioned, Kazakhstan before even accounting for the US. The latest data shows US crude production stopped declining in July and has risen marginally since, whilst the rig count also continues a slow rise. With oil prices moving into a $50-$60/bbl range, there is a growing incentive to increase non OPEC supply, counteracting OPEC reductions. Should production outside the group begins to rise rapidly, OPEC may be forced back into defending its market share via higher output.

Member	Reference Production Level	Adjustment	1st Jan 2017 Production Level
Algeria	1,089	-50.00	1,039
Angola	1,751	-78.00	1,673
Ecuador	548	-26.00	522
Gabon	202	-9.00	193
Indonesia	Membership suspended		
Iran	3,975	90.00	3,797
Iraq	4,561	-210.00	4,351
Kuwait	2,838	-131.00	2,707
Libya		Exempt	
Nigeria		Exempt	
Qatar	648	-30.00	618
Saudi	10,544	-486.00	10,058
UAE	3,013	-139.00	2,874
Venezuela	2,067	-95.00	1972
Total		-1164.00	

Source: OPEC

For the crude tanker market, any cut in OPEC production is negative. Just how negative depends on a number of factors. The first key issue is compliance; will the agreement actually be followed and if so how long will it last? Interestingly Saudi Arabia typically boosts domestic production in the summer before cutting back towards the year end. Whilst Saudi boosted its production this summer, it had not yet completed its seasonal cut which will now be counted as part of the OPEC deal. Secondly, how much of the cut will be offset by rising non OPEC supply? If higher prices boost production from outside the group, and Libya and Nigeria see sustainable increases, the impact could be offset, whilst also forcing Asian buyers to source more western grades. The deal could however lead to faster backwardation reducing floating storage opportunities and thus removing one pillar of support from the market. Higher prices could also dent demand in consuming nations whilst supporting demand in producer nations, in essence higher domestic demand, slower growth in overseas demand, altering cargo flows. In any case the key remains compliance and the longevity of the deal.

Crude Oil

Middle East

Another active week for VLCCs, though a good deal of the activity was conducted covertly and the 'feel' of the market was quieter than of late. Rates broadly maintained the very wide range of last week with lows to the East in the low ws 60’s and highs towards ws 75. Eventually a more definite direction will develop and at the moment North is the favourite.

Suezmaxes built on last weeks firm footing at rates pushed up to ws 95 East and low ws 50's West. All eyes were focused on Iran Loading and those Owners who can benefit from loading there capitalised spectacularly with rates peaking at ws 117.5 to Europe. Aframaxes saw a rise in rates to 80,000 by ws 107.5, mainly on the back of a busier Far East market and general tightening of tonnage. Whether this is a pre-Christmas surge or a temporary blip is yet to be seen and the Aframax market remains fragile and is lagging a long way behind the Atlantic markets.

West Africa

A strong start to the week for Suezmax tonnage saw rates peak at ws 97.5 for USGulf discharge and ws 100 for Europe. Activity has since been light as Charterers have sat back and this coupled with the volume of stems being combined on VLCC tonnage has softened the Suezmax market. Next fixtures are likely to be concluded at around ws 87.5 to Europe. Just when things were beginning to look a little shaky, a purple patch of fixing for VLCCs in terms of volume cemented rates at ws 70+ to the Far East with $ 4 million the last paid to West Coast India. Dates move into January now and Owners will be hard to knock lower for a while yet - or unless/until the AGulf softens.

Mediterranean

Aframax cargoes are being snapped up at lower levels by Owners who are keen to fix before rates further tumble. Delays are now down to around 4-5 days Northbound and around 6-7 Southbound for Black Sea transit with the expectation of shorter delays. Suezmaxes continued to benefit from strong Aframax market and increased delays for Turkish straits passage, as the week progressed those delays have slightly eased and more tonnage is available in the next fixing window. Next concluded fixtures are likely to be around 140,000 by ws 105 from Black Sea to European destination.

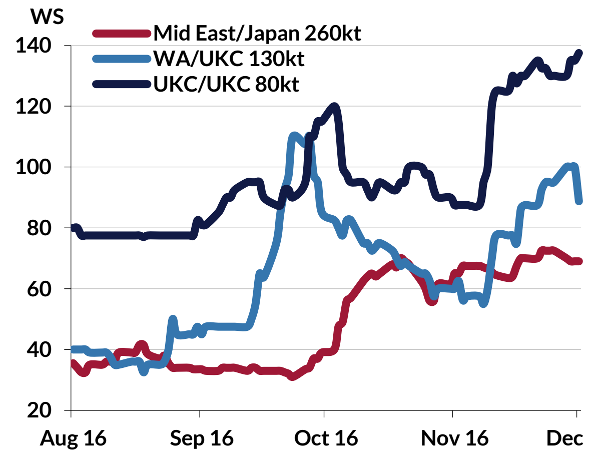
Caribbean

Aframaxes have been unable to maintain the levels of last week and we have seen rates soften over the week down to 70,000 by ws 100 upcoast with even lower potentially on the cards before Owners get the chance to regroup. VLCCs saw very little initially, but alternatives in West Africa and South America prevented any collapse from around $4.4 million to Singapore and $3.6 million to West Coast India until more interest developed from mid-week

and premiums were then even asked for any prompter needs.

North Sea

A firmer week for Aframaxes, sentiment is on the rise parallel to rates which now stand at 80,000 by ws 137.5 plus and 100,000 by ws 112.5. At least 12 vessels are being utilised for floating storage keeping the list relatively tight. A warm market for now with the potential for further improvement. 'arb' economics for traders looking to move on VLCCs to the East evaporated, but availability is tight and Owners will be reluctant to show any less than $4.20 million to Singapore if called upon to trade.



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Clean Products

East

LRs had an optimistic start with a busy Monday and ambitions were high, but Tuesday came and went with little new on the market and by Thursday depression had set in and rates had dropped off, particularly on the LR2s. 75,000 mt naphtha AG/Japan is now ws 67.5, but still drifting and 90,000 mt jet AG/UKCont is down to $1.60 million, but also is vulnerable. 55,000 mt naphtha AG/Japan is steady at ws 75 for now and 65,000 mt jet AG/UKCont is flat at $1.10 million. Some are feeling next week may be a fair bit busier, but we will have to wait and see. The market really needs a shot in the arm though to end of the year in some sort of positive way.

It's been an interesting week for the MRs in the AG, it started with gusto as we saw the SAF rate improve which was followed shortly by a decent rate for a WCI/AG. All seemed to be moving in the right direction for the Owners, but alas, it has not developed further. There have been high levels of activity throughout the week however, rates haven't really progressed further. This has been partly due to the fact the LR1s remain very steady and as such are nibbling away at loose MR stems. AG/UKCont voyages have pushed a little and close as $925k and EAF has found its natural fixing level at 35 x ws 130. A X-AG has moved a smidge and sits at $165k level and cargoes into the Red Sea hold at the $390k levels. With the Far East starting to move naphtha suitable ships have been keen to get east and TC12 finishes the week at 35 x ws 100 mark. Owners on the whole are positive going into next week, however, a similar story to that of the previous week, a lot still depends on the state of play on the LR1s.

Mediterranean

Week 48 has proven not to be the most exciting week for those plying their trade in the Handy Mediterranean market. After the firm and busy week last week Owners were hoping for of the same, but volumes have remained subdued and prompt tonnage has been in ample supply. Rates started at 30 x ws 155, but as the week progressed and pressure started to build on prompt tonnage seeking employment, rates began on their slippery slope. At COB today, Med Handies are now trading at 30 x ws 135 and 30 x ws 145 for ex Black Sea liftings. Heading into next week expect more of the same unless mother nature takes its toll.

MR action has been slower this week and there has been more tonnage in supply. Transatlantic runs have mirrored a weak TC2 market and is now trading at 37 x ws 97.5 and Med/RSea runs require a fresh test which will come early next week.

UK Continent

Owners in the MR market have seen rates take a considerable slide as the week progressed. With TC2 starting the week well into triple digit figures we finish the week with 37 x ws 90 on subs. The inactivity has been put on from the Arb to the States reportedly being shut leaving tonnage to build giving Charterers the opportunity to apply negative pressure. WAF runs have also been quiet and also suffered with last done equivalents of 37 x ws 105-110, China is paying in the region of L/S $1.45 million although less could be on the horizon as of next week.

Handies have had a more positive week as Charterers have been faced with a tightening tonnage list leaving Owners increasingly bullish, although rates are only inching their way up, as it stands. 30 x ws 110 is where we finish this week, but with the fundamentals looking in the Owners favour going into next week this number is expected to hold, and the potential to firm some more if enquiry continues to be positive.

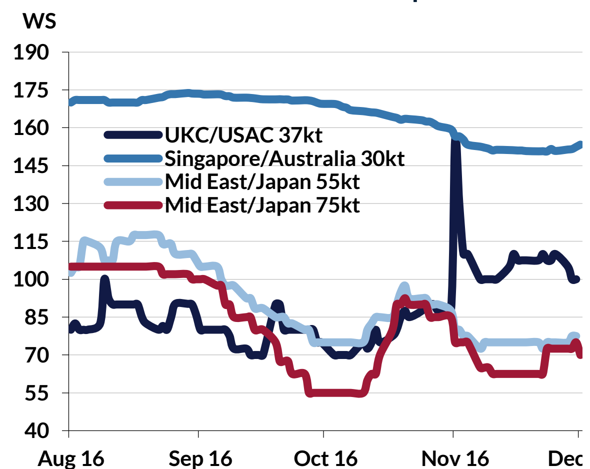
On the Flexis a combination of forward fixing and general uptick on spot activity means rates have moved from their 22 x ws 140 benchmark, finishing the week off on 22 x ws 145. Rates look to remain steady going into next week as cargo and tonnage is in the balance. Owners will take some respite in seeing a better performing Handys market as an opportunity to continue the positivity seen on the Flexis.

LRs

Although week 48 began in a typically slow fashion, both LR1 and LR2 Owners held positive sentiment. Much of this was due to the lack of firm tonnage options available to Charterers particularly on the LR2s which currently have the luxury of being able to switch to the well performing DPP market. LR1 Owners were hoping to see a few stems enter the market early in the week enabling them to apply some pressure to 60 x ws 90 for ARA/WAF and further improve levels on the Mediterranean/East runs where tonnage has been right down to the bone. Frustratingly for LR1 Owners, that burst of enquiry never materialised meanwhile the list of tonnage options swelled with ballasters from Brazil/WAF and the USAC plus relets not going into own programmes. This has subsequently enabled Charterers to apply the pressure and ARA-WAF rates which are now down to a soft 60 x ws 85. Although, rates to go East have remained firm at $1.15million for MED/AG and $1.5 million for MED/Singapore.

LR2 Owners are able to keep applying pressure to last done levels with some Owners rating MED/Japan runs at as much as $2.1 million. However, with the naphtha arbitrage to the East closed it looks as though enquiry levels have returned back to where they have been for most of this year.

Looking into next week, LR2s should remain firm and LR1 rates in the Mediterranean should also hold, but unless we see an increase in UMS to WAf then the LR1 rates off the continent could well come under further pressure from Charterers.



Dirty Products

Handy

A successful week from an Owner's perspective as any increment is very much welcomed. However, with volatility not quite stretching as far as what had been seen in the south the two regions trade with a noticeable disparity. Owners feeling levels need to be raised further, we are going to need to see yet further stimulus next week, as with clean ships dirtying up Charterers come the back end of the week have been given some reprieve.

In the Med Owners continued to press home their fortuitous position where a combination of ullage issues and weather delays create a perfect opportunity to realise increment. Low and behold, the value of a firm itinerary proved paramount (or not in the cases of bizarre chartering seen this week) with the achieving new heights reaching ws 230 from the BSea. Owners will be enjoying this period for now as current trend shows no sign of abating.

MR

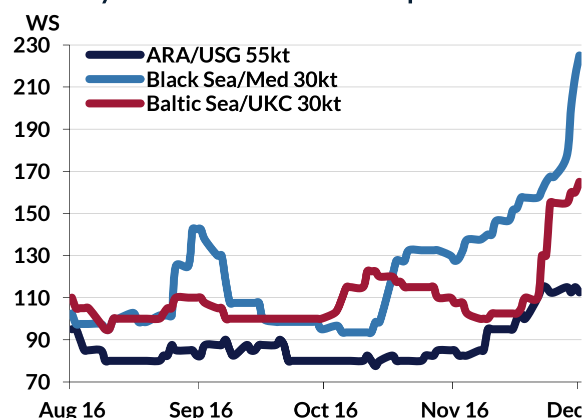
Both requirement and tonnage being somewhat sporadic in the North this week, case by case freighting assessments have been more deserved of the region rather than generic benchmarking. Owners have been trying to correct the Gulf in disparity between the Continent and Mediterranean, but attempts so far have not permitted same. Some repositioning of units may now be required as surrounding Panamaxes have lost value and firmer markets in other regions escape Continent positions.

Elsewhere, the market in the Mediterranean just got better and better for Owners this week, with vessels high in demand and replacement business forced rates northwards. Owners will be hoping next week the momentum keeps rolling. From a Charterer's point of view getting in and out of the market as quick as possible may the way for damage limitation where fixing dates creep more forward.

Panamax

A mixed week for Owners in this sector as only towards the back end of the week did the Caribs show any signs of life. By this stage, however, negativity had already taken ahold in Europe, as where fixing dates started to move ahead, realisation that missing business off of earlier dates would prove more costly than any slight decrement to last done levels. Come Friday however, there has been a few more deals concluded, which in turn alleviates some of the overhang of tonnage. This does help reset the trend outlook slightly as we head into next week.

Dirty Product Tanker Spot Rates



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Dec 1st	Nov 24th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-2**	69	71	67	47
TD20	Suezmax	WAF-UKC	**-13**	87	100	58	67
TD7	Aframax	N.Sea-UKC	**+3**	137	134	88	97

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

			wk on wk change	Dec 1st	Nov 24th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-4,000**	49,250	53,250	50,000	22,500
TD20	Suezmax	WAF-UKC	**-8,250**	30,500	38,750	16,750	19,000
TD7	Aframax	N.Sea-UKC	**+1,500**	59,000	57,500	15,500	19,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Dec 1st	Nov 24th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-2**	70	72	75	
TC2	MR - west	UKC-USAC	**-12**	96	108	117	114
TC5	LR1	AG-Japan	**+1**	75	74	78	93
TC7	MR - east	Singapore-EC Aus	**+3**	153	151	155	

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

			wk on wk change	Dec 1st	Nov 24th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-2,500**	6,500	9,000	10,500	
TC2	MR - west	UKC-USAC	**-2,750**	6,750	9,500	11,750	9,750
TC5	LR1	AG-Japan	**-500**	5,250	5,750	7,000	8,750
TC7	MR - east	Singapore-EC Aus	**-500**	8,250	8,750	10,250	

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

	wk on wk change	Dec 1st	Nov 24th	Last Month
ClearView Bunker Price (Rotterdam HSFO 380)	**+27**	288	261	238
ClearView Bunker Price (Fujairah 380 HSFO)	**+23**	313	290	271
ClearView Bunker Price (Singapore 380 HSFO)	**+26**	315	290	289
ClearView Bunker Price (Rotterdam 0.1% LSFO)	**+25**	443	418	403

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