

## A Year of Surprises

### Weekly Tanker Market Report

There have been several surprises throughout 2016. Some are good, like Leicester City's Premier league victory, some are best not spoken about. It feels hard to remember a year, with so many shocks; however, from a tanker perspective perhaps the most significant event was saved until the final quarter. On Wednesday the 30<sup>th</sup> of November in a meeting room in Vienna, OPEC agreed to "significant" production cuts. This news was shortly followed by another announcement that several non-OPEC members will also cut production, taking the total level of expected production cuts to nearly 1.8 million b/d.

The oil markets began 2016 in turbulent waters, with fears over how low oil prices would go. Brent prices hit their lows in January of sub \$30/bbl; this coincided with average VLCC earnings of over \$70,000/day. Oil demand growth remained robust, but slowed to 1.4 million b/d from 1.8 million b/d in the previous year according to the IEA. With demand insufficient to absorb the surplus, OPEC finally conceded that production cuts would be needed to rebalance the market, pushing crude prices back above \$55/bbl.

As mentioned, the crude tanker market started the year strongly, carrying on from 2015 levels. However, rates and earnings gradually traded down throughout the year before picking back up in Q4. Crude tanker demand was impacted by noticeable supply disruption in Nigeria witnessed earlier in the year. In addition, as slower growth in global oil demand was observed, oil markets have become more balanced, leading to a decline in tanker operational and forced storage. Furthermore, a heavy refinery maintenance season – reduced and/or postponed last year due to high refining margins – had a negative effect on crude demand and tanker rates. Fleet growth was high on the back of a rising number of deliveries whilst demolition has been almost non-existent. As a result, the market is now digesting the deliveries from the ordering spree over the previous few years, although in 2016 new orders across the board have been highly limited. This has added further downward pressure on the shipbuilding industry which is already going through a major crisis. Tanker newbuild prices have come down to or close to their lowest level since 2004 and it remains to be seen if asset values will fall further in 2017.

2016 also saw the ratification of new industry standards, which will impact on several aspects of the shipping market in the coming years. The ballast water treatment convention will enter into force in September 2017. Although not impacting markets directly this year, the full effects will be evident in future years. In a similar vein, an agreement was reached to lower Global Sulphur Limits from 3.5% to 0.5% by 2020. Both are likely to have significant ramifications.

The build-up of significant product inventories around the world have limited trading and arbitrage opportunities for clean tankers. In addition, there has been a noticeable slowdown in new export orientated refining capacity additions in the Middle East. Spot fixture volumes are showing signs of being on par with 2015 levels, while the growth in product tanker supply has accelerated notably. There also has been a noticeable drop in trading volumes for larger product carriers loading West of Suez largely due to a lack of naphtha arbitrage to the East and limited trade to West Africa. All of these factors combined have translated into a dramatic decline in clean tanker earnings this year. MRs in Asia have been generally able to outperform those in the Middle East and West of Suez, due in part to increasing product imports and exports levels from China.

2016 has been packed full of surprises, with opportunities and challenges evolving around various aspects of the shipping industry. The year may well be finishing on a high across most markets however 2017 is likely present a renewed set of challenges which may trump 2016 from both a supply and demand perspective.

## Summary Table - Market & Fleet Data

	Dec-15		Dec-16		2016	
	WS	TCE/day	WS	TCE/day	WS Low	WS High
Rates (TCEs at 'market speed')						
VLCC Middle East - Japan	87	\$ 122,000	81	\$61,500	31	100
Suezmax West Africa - UKCont	80	\$ 50,000	95	\$34,000	32.5	118.5
Aframax North Sea - UKCont	112	\$ 47,000	119	\$41,250	77	14
LR2 Middle East - Japan	92	\$ 31,250	76	\$ 8,250	55	152
LR1 Middle East - Japan	102	\$ 25,250	80	\$ 5,750	72.5	152.5
MR UKCont - USAC	111	\$ 18,500	108	\$ 8,500	70	160

End 2016	
Fleet Size	
VLCC	688
Suezmax / LR3	509
Aframax/LR2	971
Panamax/LR1	430
Handysize / MR	1986
Tanker Firm Orderbook (25kdwt+)	526 70.7m dwt
New Deliveries (25dwt+)	255 32.1m dwt
End 2015 End 2016	
Brent Oil Price (ICE Close)	\$ 37.28 \$ 54.50
Fujairah Rotterdam	
Bunkers 380cst HSFO (end Dec)	\$330.50 \$ 306.00
2015 2016	
World Oil Production (November)	94,873 2.87% 95,252 0.40%
OPEC crude production	32,800 4.66% 34,200 4.27%
Non OPEC -inc OPEC NGL & Biofuels	62,073 1.85% 61,052 -2.18%
World Oil Demand (Full Year)	94,913 2.07% 96,285 1.45%
Tankers Demolished (25,000 dwt+)	30 2.1m dwt
China Subcont	
Scrap Prices	\$235 \$325
VLCC's sold for scrap number /dwt	1 0.3m dwt

# Crude Oil

## Middle East

VLCC Owners hoped for - expected even - a busy run in to the Holidays to allow for further upside to the buoyant market. Initially there was some inflation, but then Charterers largely sat on their hands, and a more conciliatory sentiment started to take hold. Rates still hold at up to ws 90 to the East and to the mid ws 50's to the West but some discounting is now a potential, at least until a much busier phase develops. Suezmaxes became very active on short hauls to India in particular and that helped rates to move to ws 100+ to the East, and to ws 60 to the West with additional ballasting attraction to West Africa trimming forward availability too. Aframaxes kept a steady profile, but no more than that - 80,000 by ws 105 to Singapore is presently 'conference', and little early change forecast.

## West Africa

Suezmaxes averaged lower than last week, but started to regain optimism late week as Charterers who had held back, were then forced to take action prior to the Holiday. Rates now operate at around ws 107.5 to the US Gulf and to ws 112.5 to Europe and could see further gains into next week. VLCCs slowed hand in hand with the AGulf, and short term direction will also be led by whatever develops there too. Dates are now reaching into February and for the time being rate demands remain in excess of ws 80 to the Far East with \$4.5 million asked for runs to West Coast India.

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## Mediterranean

Aframaxes slipped badly to sub 80,000 by ws 90 Cross Med on a supply/demand imbalance. There are some extended delays in the Bosphoros now though, and perhaps Owners will benefit from the impact of those as next week progresses, but there's no certainty of that. Suezmaxes eased a little but then became busier, and with West Africa also supportive, rates regained somewhat to 140,000 by ws 112.5 for Black Sea to European destinations with higher levels possible after the Holiday.

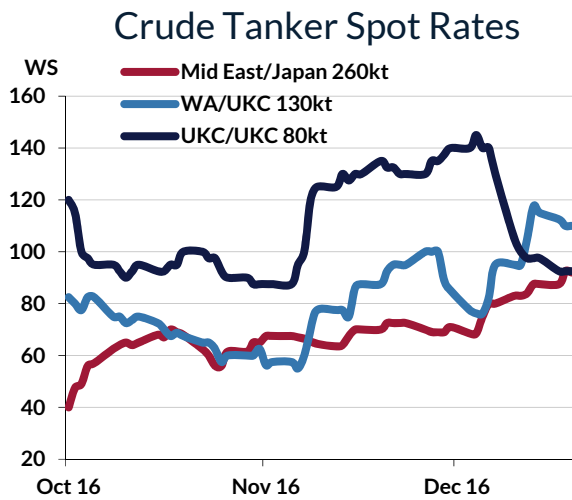
## Caribbean

A solid initial build for Aframax rates here then suddenly became a feeding frenzy as early availability evaporated. Rates popped sharply to 70,000 by ws 200 upcoast but at those levels Suezmaxes could make a part-cargo play, and it's likely that the peaks have now passed. Some residual strength will remain for a while, however, VLCCs kept pleasingly steady for Owners with tight early supply propping up forward demands too. Rates to Singapore moved to around \$5.5 million with \$4.4 million typical to West Coast India.

## North Sea

Aframaxes remained rangebound through the week within an 80,000 by ws 90/95 bracket Cross North Sea, and to 100,000 by ws 95/100 from the Baltic. The fun in the Caribbean is tempting but realistically is out of reach for Owners here to ballast over for given the likely

shelf life of that market. VLCCs saw little of note as the fuel oil 'arb' to Singapore dipped below Owners needs in comparison to other loading areas. Theoretically just under \$4 million works for traders, but Owners ideas are North of \$4.25 million for now.



## Clean Products

### East

The LRs have been incredibly busy this week, as Charterers try to move bbls before the week's end, and clear themselves over the holiday season. Naphtha runs in particular have been popular, and we have seen TC1 rise past the ws 100 level – ws 109 was last done and the market is still looking very firm with further naphtha runs outstanding. West runs have risen to the \$1.95 million level, and even the small cubers are offering at \$2.0 million levels for outstanding cargoes.

LR1s have seen a substantial amount of action as well, and all tonnage has now been cleared off December dates in the AG. This has meant that Charterers have struggled with downsizing LR2 cargoes in an attempt to find better value per ton. TC5 is now on subs at ws 110, and West runs at \$1.2 million ex-AG, although this number will be pushed up further by Owners come the new week.

Any Charterers with Flexis on end month stems will certainly be pushing these into the new year, hopeful that a slight pause from action the next week will subdue the punchy behavior of Owners somewhat. However, with cargoes still to cover and Owners looking to fix port and cheese board, we may see some undercover and punchy trading into next week.

Similar to the larger tonnage, the MRs have also experienced a considerable amount of action, and we have seen them firm considerably throughout the week.

This started in particular for WCI loads, as ballasters from Singapore and Africa were snapped up for the last cheap numbers before the market sky-rocketed. Red Sea has been equally firm, with tonnage even offering to ballast from the AG to take advantage of strong rates for Red Sea loadings. East Africa runs have been seen on subs ex Red Sea at ws 135, and Owners are pushing to repeat these numbers ex WCI and AG. Red Sea has firmed past the \$400 level and looks to be heading very quickly towards \$450k. Shorthaul has for many weeks been hampered by LR1s doing cheap numbers for MR cargoes, but with the LR1 list now as thin as it is, they have been allowed to firm and we have now seen \$180k on subs, with further firming likely. TC12 still sits at ws 110, and may see more action now LRs are looking as firm as they do. The interesting question will be whether this pace can continue through next week and towards the new year. Owners will certainly be hoping so, but will be nervous of historic slowing of pace.

### Mediterranean

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The week before Christmas had given Owners the impetus to add a certain spice to the market that has so long been lacking for them. The holiday rush has ultimately seen the market flush with cargoes and tight on tonnage, as a result the week has seen rates progressively firm. The end of the week brings a slightly more subdued tone as Handies seem to settle 30 x ws 230 for XMed at least and +10 points for Black Sea stems. Charterers and Owner are expected to stand off each other over the Christmas

period hoping one will buckle before the other, we wait to see the conclusion. MRs have been buoyed by the positivity seen on the Cont and with tonnage continuing to be tight in the Med, rates have naturally held their vigour, again here the Christmas period is likely to bring animosity between the two trading parties. Ultimately rates will draw from those seen on the Cont.

## UK Continent

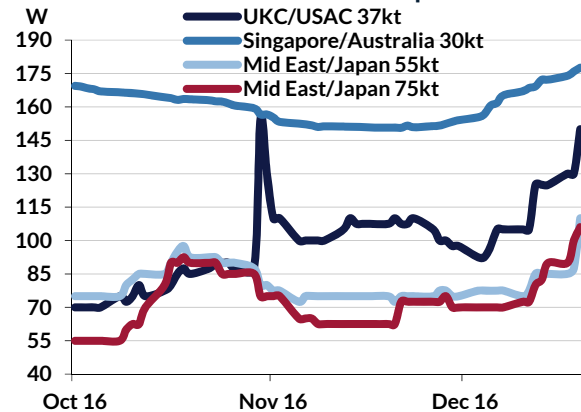
Christmas has seemed to come early for MRs plying their trade in NW Europe as levels have gone from strength from strength throughout the week. Strong TC2 enquiry kicked off the week and as tonnage was continually clipped away as Owners were able to ask for less than last. 37 x ws 130 seemed to be the benchmark but as we progressed the market jumped up to to 37 x ws 150. West Africa enquiry thrived off the back of TC2 and levels sharply rose to 37 x ws 175. Looking ahead, tonnage is there off natural dates and rumours flood the market that 37 x ws 135 is on subs for TC2, expect the market to cool off.

Week 51 has been a highlight for Owners in the North as sky high rates have been booked ex Baltic. Remaining December dates tonnage have been extremely tight which has been the main catalyst behind the sharp rise in rates. Although that said, a number of Handies will be opening around early January dates and if the stern levels of enquiry doesn't continue, expect last done to be tested.

Action on the Flexis has been encouraged by the positivity seen on the Handies, and, with Owner generally bullish rates have joined on the upward trend. Despite enquiry tailing off towards the end of the week 22 x ws 185 seems a stable number this side of the holidays. With some ships

potentially finding themselves cargo free over Christmas rates may come under pressure whilst Charterers take their chances.

## Clean Product Tanker Spot Rates



# Dirty Products

## Handy

With the last full week of the year coming into play, Owners in the North have been able to capture positive increment where Charterers have looked to clear down their requirements in view of the forthcoming festivities. Firmness of itinerary being the trump card in negotiations, Owners single frustration would be that we soon now depart for a break that is likely to see tonnage stocks replenish upon our return. In the Med conditions struck an equilibrium for the most part of the week where Owners made a clear play not to leave ships unemployed over the festive season. As such, requirement that was placed into the market was met only with demands of last done, falling slightly as the week reached the final stages. This said, Charterers are now sensing that levels could fall further over the next few deals.

## MR

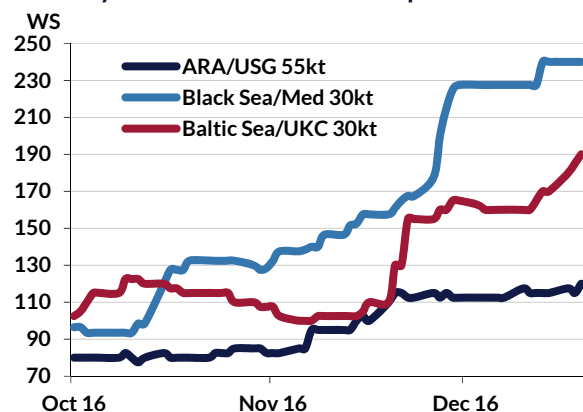
The fixtures from the Continent this week have been sending the natural positions packing out of the region, where although the rates have remained level, the one underlying factor is that Charterers are now relying on ballast units from further afield. With smaller sized stems blooming, further pressure from Owners on the next done is to be expected. Those Owners that covered their units early in the week will probably be looking over their shoulders feeling smug that they got in and out before the week began to stall. However if you're a Charterer that is looking for an MR off natural dates willing to leave the region you might have a different opinion. It is very apparent that

Owners ideas and Charterers ideas of where the market lies are miles apart. One thing for sure is that the number of prompt Aframax's are pulling Owners aspirations back down to earth.

## Panamax

The overwhelming factor within this sector this week has been focussed mainly on proceedings in the Caribbean market as volatility reaches new thresholds. Once again there is a very large disparity in strength between Europe and the States which will present problems for Charterers once the natural tonnage supply in Europe dries up. This said, the surrounding Aframax market is taking opportunity from the Panamax sector, which could help prolong alternative options rather than taking ballast tonnage at higher numbers.

Dirty Product Tanker Spot Rates



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## Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Dec 21st	Dec 15th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	+5	91	86	71	49
TD20	Suezmax	WAF-UKC	+5	107	102	100	72
TD7	Aframax	N.Sea-UKC	-6	93	99	134	96

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

			wk on wk change	Dec 21st	Dec 15th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	+5,500	73,250	67,750	53,250	23,250
TD20	Suezmax	WAF-UKC	+2,750	40,500	37,750	38,750	20,500
TD7	Aframax	N.Sea-UKC	-5,000	17,500	22,500	57,500	18,500

## Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Dec 21st	Dec 15th	Last Month	FFA Q3
TC1	LR2	AG-Japan	+24	106	83	72	
TC2	MR - west	UKC-USAC	+22	141	119	108	119
TC5	LR1	AG-Japan	+24	108	83	74	99
TC7	MR - east	Singapore-EC Aus	+7	179	172	151	

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

			wk on wk change	Dec 21st	Dec 15th	Last Month	FFA Q3
TC1	LR2	AG-Japan	+6,500	17,250	10,750	9,000	
TC2	MR - west	UKC-USAC	+4,250	14,750	10,500	9,500	10,000
TC5	LR1	AG-Japan	+4,750	11,250	6,500	5,750	9,500
TC7	MR - east	Singapore-EC Aus	+500	11,000	10,500	8,750	

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

ClearView Bunker Price (Rotterdam HSFO 380)	+7	306	300	261
ClearView Bunker Price (Fujairah 380 HSFO)	+7	331	324	290
ClearView Bunker Price (Singapore 380 HSFO)	+12	343	331	290
ClearView Bunker Price (Rotterdam LSMGO)	+10	468	458	418



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