

Venezuela Fights to Maintain Exports

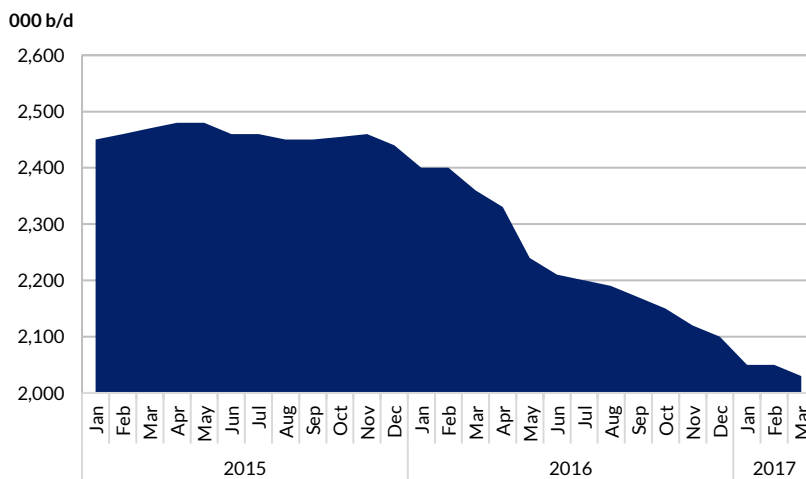
Weekly Tanker Market Report

Back in 2012 the then president of Venezuela, Hugo Chavez stated that his government planned to more than double the country's oil production to 6 million b/d by 2019. The plan included further diversification of its crude oil exports, with the aim to export 2.2 million b/d to Asia, 1.25 million b/d to Latin America and the Caribbean and a further 1.7 million b/d to North America and Europe. OPEC's listing of oil reserves places Venezuela in pole position, with 300 billion barrels of proven reserves, almost a quarter of the OPEC total. So, at that time perhaps this was a realistic aim. But of course, it is not only the political picture has changed significantly over the past 5 years. The oil price shock of the past two years has significantly changed the fortunes of the South American state.

The bulk of Venezuela's crude is in the Orinoco Belt in the northern part of the country. It is significantly more expensive to extract in part due to its heavy nature of the oil, the depth and the remoteness of the region. Chavez, when elected in 2006, nationalised many of the country's industries, including oil. The formation of the state-owned oil company, PDVSA resulted in the foreign oil majors withdrawing from the country, leaving the government to run the whole operation. However, lack of sufficient funding has continued to undermine the operation of PDVSA since its formation. A situation further intensified by the low oil price regime of the past two years, pressuring the nation's vital export revenues. Oil revenue accounts for 95% of Venezuela's export earnings and the recent oil market downturn has inflicted even greater cash flow problems.

Today, Venezuela's total oil production is reported to be running at around 2 million b/d (a 23 year low) and there is speculation about a possible outright collapse in production. Renewed downward pressure on the oil price can only heap more gloom on the economy, which is already suffering from

Venezuelan Crude Production



shortages of many basic essentials and resulting in even larger protests against the government. According to BP, Venezuela's domestic oil demand has slumped by about 17% since its peak in 2013. Another recent report states that three of Venezuela's four main refineries are working at record lows due to equipment failures, lack of spares as well as sufficient feedstock to refine. As less crude is refined domestically, this leaves more to be sold on the international market.

This is despite Reuter's report earlier this year suggesting that PDVSA was struggling to meet some of its contracted obligations and fulfil some of their oil-for-loans deals with China and Russia. Analysis of exports demonstrates consistent monthly flows to Europe, India and China, providing long-haul support to the tanker market, while short-haul volumes to the US continue to slip. In addition, the country recently launched tenders for the importation of 1.88 million barrels refined products, which is in part due to troubles faced by domestic refineries. As such, despite all doom and gloom, Venezuela remains a key contributor to both crude and product tanker demand particularly those barrels that head long-haul to the East.

Crude Oil

Middle East

The week is ending on a high for Charterers after the latest bout of fixing provided them with some significant discounts. Owners will be bracing themselves come next week when the start of the June programme begins with Charterers hoping to carry on the negative momentum. Latest reported fixture to the East was 274,000mt x ws 54.5 for a voyage to South Korea and below ws 30 on 280,000mt achievable to the US Gulf. Weakening sentiment throughout the week for Suezmaxes was compounded by a very light June basrah programme, prompting 140,000mt x ws 32.5 to be paid for West discharge and 130,000mt x ws 80 achievable to the East. Tonnage availability is high and cargo demand low, so the outlook is for further rate erosion.

A rather greyish feel to the Aframax market as a steady supply of enquiry only kept levels rangebound all week with levels of 80,000mt x ws 110 easily repeatable.

West Africa

On the back of a relatively active week Charterers were able to secure some good discounts after the recent falls seen from the AG market had an impact here. Owners will be hoping to hold on to last done levels of ws 60 on 260,000mt although if the AG continues to soften Charterers should feel confident in pushing for lower. Last done to India saw levels reported at \$3.1 million to East Coast India and \$2.725 million for the

West coast. The Suezmax market has been active, but due to the over populated tonnage list rates have softened further down to 130,000mt x ws 72.5 for Europe and ws 85 East. Whilst rates have bottomed we do not see any immediate recovery.

Mediterranean

A deceptive week for Mediterranean Aframax. Activity was there and ships indeed have been fixed, but the usual story remains... preceding quiet days and a position list heavy with early tonnage allowed rich pickings for those needing to cover. The conclusion was a steady erosion in rates down to 80,000mt x ws 100 being achieved by the close for a short X-Med voyage. However, that fixture may have been a flash in the pan and with the list now being trimmed, the next fixing date may find that level very difficult to repeat. Suezmax Owners fate has been a mirror image of West Africa, i.e. active market, but with too many vessels in the area and rates have softened. Likewise expect to see rates remaining suppressed going into next week.

Caribbean

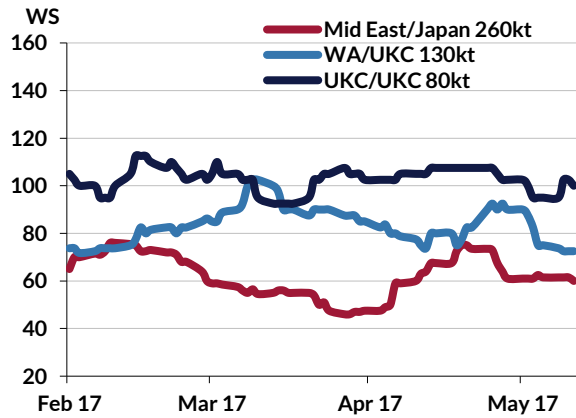
Darker clouds are gathering for Aframax here as a healthy position list against limited demand ensured levels inevitably had to quickly come off, last done is 70,000mt x ws 100 for a Caribs/up run after seeing levels nearer to ws 130 earlier in the week. VLCC interest has remained on the back burner all week with Charterers not ready to press on with their June positions, expect to see

some discounting once we do see some activity, but as of now, last done remains \$4.3 million for Singapore and \$3.55 million for West Coast India discharge.

North Sea

A week of trading water, rates have crab-walked with any little momentum killed in its developing stages. 100,000mt x ws 67.5 continues to be repeated from the Baltic with no real pressure. After seeing a rise of X-North Sea activity earlier in the week rates failed to gain any real traction and have plateaued at 80,000mt x ws 100. Looking at the list it looks unlikely that much will change in the first part of next week, but looking further ahead, and when taking the recent maintenance into account, it could see a slight uptick in rates. VLCC levels continue to come under pressure after seeing some fixing and failing with fuel oil ARB movements to the East this week with last done into Singapore being \$3.7 million, but Charterers will need to see considerably less to have any chance of concluding.

Crude Tanker Spot Rates



Clean Products

East

MRs have seen more action than the larger tonnage this week - the usual delayed reaction to a moving LR2 market seen last week. Unfortunately, although there have been a lot of ships gone on subs and fixed, rates have softened in all directions. A lot of jet is moving West at the moment, and AG loaders have dipped as low as \$800k, although these barrels ended up going to the Red Sea. The market seems to have normalised to \$825k, but these are far from flattering rates for Owners. Shorthaul is at \$150k X-Gulf and \$350k into the Red Sea, although a \$128k was a disappointing rate for a Ruwais/Hamriyah. EAF has now dipped to the inevitable ws 130 - remaining a popular way to sit up on demurrage on discharge and top up earnings. East runs have been recoiling after seeing ws 122.5 on subs ex Iran last week, and ws 117.5 from Mumbai seems to be the new market level. This MR market, although weak, is benefitting from Charterers' desire to use the smaller tonnage for longhaul, hence clearing the list for a little longer.

LRs have seen a much quieter week with rates starting to drop off and the tight tonnage lists look a little easier. 75,000mt naphtha AG/Japan is now ws 106, but instead of pressure upwards it is likely to be forced downwards. 90,000 mt jet AG/UKCont is still a little untested, but rates are around \$1.55 million. LR1s have been flat all week, but are now coming under increased pressure and rates are declining. 55,000 mt naphtha AG/Japan is down to ws 112.5 and 65,000 mt jet AG/UKCont is at \$1.15 million. Both rates are likely to come off further next week although we are not anticipating by much.

Mediterranean

As we come to the close of week 19, despite seeing good levels of cargoes throughout, tonnage has simply outweighed and rates have fallen. Black Sea started at 30 x ws 175 and now we see 30 x ws 160 being repeated with the Med market slumping to 30 x ws 145. Unless we see a sharp improvement in Black Sea liftings we can expect more of the same ahead as this natural turnaround of vessels restock our tonnage lists.

A handful of stems have been scattered across the week for the MR sector, but with a struggling UKCont, market rates have mirrored this position. Owners will be hoping for increased levels of enquiry heading East to kick-start the feeling in the market, and boost potential for a climb.

UK Continent

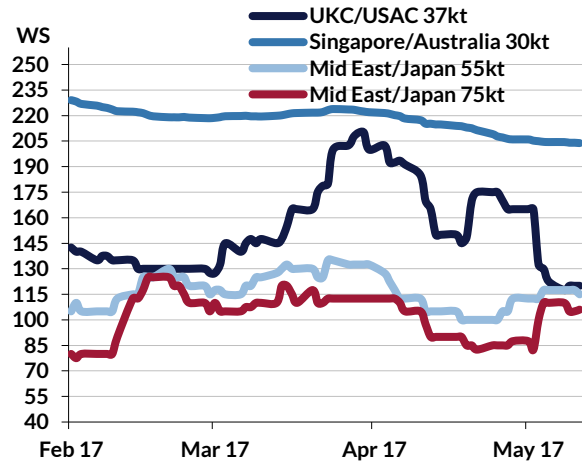
MRs - Owners and Charterers alike have continued to tread water throughout the week with rates stuck in the mud. Transatlantic voyages have consistently been trading at 37 x ws 120 with the limited WAF and Baltic runs at 37 x ws 140 and 40 x ws 125 respectively. A small glimmer of hope could be seen as TC14 improved up to 38 x ws 105, but things will need to improve across the board if we are to shake the impregnable ws 120.

A placid week 19 has passed for the Handies in the Continent, with rates sitting firmly at the bottom of the barrel. 30 x ws 125 for a Baltic load and ws 120 for X-UKCont runs has been the norm with Charterers seemingly happy to

settle here. Enquiry levels have been well balanced throughout the week and as we arrive at Friday a good clear out of prompt tonnage has been possible. Fresh enquiry off prompt dates may struggle for coverage, but with the recycling of vessels around the corner, the natural fixing window has ample supply. Have we settled here for summer... only time will tell.

With the fallen Handy market, it was only time before natural correction would appear for the Flexi market. Rates have now been pegged down to 22 x ws 165 and can expect things to remain here with the flat 30kt market above. COA activity will keep the tonnage turnover present as we can expect the flat calm market to continue.

Clean Product Tanker Spot Rates



Dirty Products

Handy

The Continent finally showed improvement for Owners as activity levels picked back up to more assured volumes, bringing with it increment across front end dates where tonnage availability began to thin. Naturally, a by product of increased requirement is that fixing windows have moved forward, further illustrating that the dynamics of this market have now changed for the short term.

Elsewhere, the Mediterranean also enjoys a moment of changed fortune with the Black Sea providing Owners with some stimulus where Turkish Straits delays picked back up again. Charterers scrambling around for the earliest units had allowed those with firm Itineraries to extract a few points between fixtures reaching a summit of ws 160 for the week. In turn this has also brought up the costs for transporting oil cross Mediterranean where a 10 point differential is reapplied.

MR

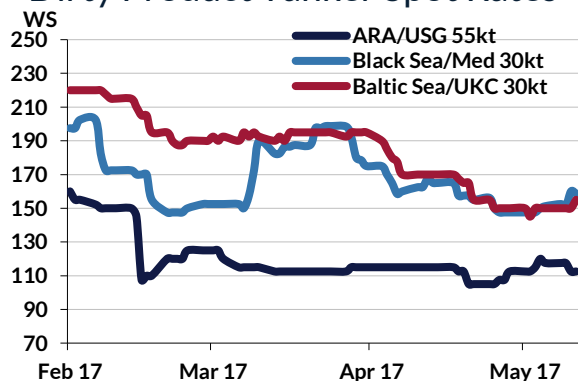
Despite a noticeable drawdown on approved tonnage, volatility in the continent has been contained to such extents considered “fair” by Charterers, considering the fact that in some instances there wasn’t enough units around to meet supply. Looking into next week, reaching out further ahead to fix will be a necessity in order to secure cover.

In the Mediterranean conditions are sat similarly to that of the surrounding Handies where sentiment changes tack, driven by the Turkish Strait delays. To a lesser degree as seen in the continent fixing dates have moved forward, with increment being seen although Charterers will be slightly more at ease given the volume of units trading in the area, which are likely to re-present on the lists next week.

Panamax

Activity seen this week from this side of the Atlantic has done a pretty good job of thinning tonnage placed naturally on our lists. On face, value natural tonnage has been cleared down but by digging a little deeper a few cracks appear and a couple where vessels start to come to light. Come Monday and with fresh tonnages list to ponder over, Charterers should sense some opportunity to test Owners resolve over the next round of enquiry.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 11th	May 4th	Apr 20th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	-2	60	61	76	56	59
TD20	Suezmax	WAF-UKC	-3	73	76	81	79	77
TD7	Aframax	N.Sea-UKC	+5	101	96	108	105	106

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

			wk on wk change	May 11th	May 4th	Apr 20th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	-1,250	23,000	24,250	36,250	18,500	22,000
TD20	Suezmax	WAF-UKC	-1,250	13,500	14,750	15,750	15,000	15,000
TD7	Aframax	N.Sea-UKC	+3,500	10,500	7,000	16,750	13,750	14,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 11th	May 4th	Apr 20th	Last Month	FFA Q3
TC1	LR2	AG-Japan	-4	106	110	85	106	
TC2	MR - west	UKC-USAC	-8	122	130	168	194	138
TC5	LR1	AG-Japan	+2	115	113	100	114	116
TC7	MR - east	Singapore-EC Aus	-1	204	205	213	220	

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

			wk on wk change	May 11th	May 4th	Apr 20th	Last Month	FFA Q3
TC1	LR2	AG-Japan	-1,000	10,000	11,000	5,250	10,250	
TC2	MR - west	UKC-USAC	-1,250	6,500	7,750	13,000	16,750	8,750
TC5	LR1	AG-Japan	+250	8,250	8,000	5,750	7,250	8,500
TC7	MR - east	Singapore-EC Aus	+0	9,500	9,500	10,500	11,250	

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

ClearView Bunker Price (Rotterdam HSFO 380)	+6	279	273	291	295	
ClearView Bunker Price (Fujairah 380 HSFO)	+0	298	298	313	313	
ClearView Bunker Price (Singapore 380 HSFO)	+6	308	302	313	318	
ClearView Bunker Price (Rotterdam LSMGO)	+5	426	421	458	463	

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