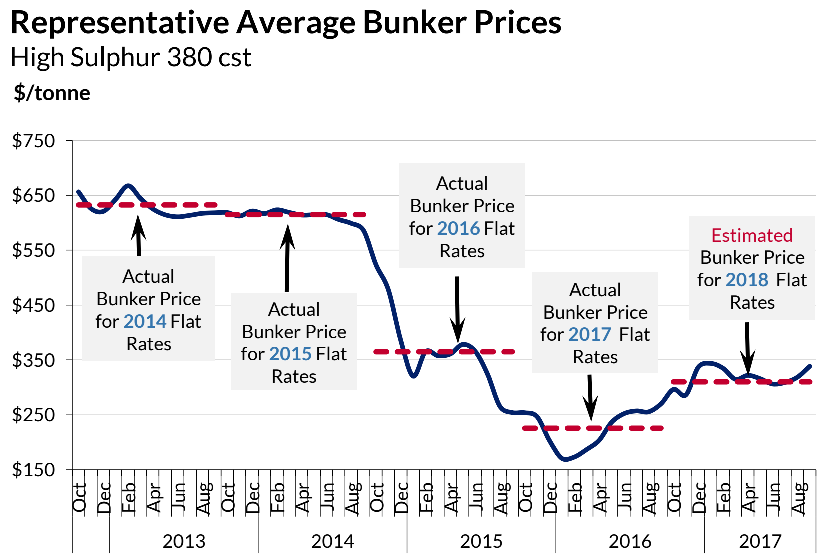
WS100 to Rise at Last

Weekly Tanker Market Report

Over the past couple of years the tanker industry has witnessed major fluctuations in Worldscale flat rates. On long haul voyages, flat rates declined by around 20% at the start of 2017, following an even bigger drop in 2016. As bunkers form a significant component of all voyage costs, the changes in flat rates are underpinned by the volatility in oil and bunker prices.

The initial surge in US shale production, coupled with the decision taken by OPEC to defend its market share by abandoning production quotas, saw high sulphur bunker prices collapse by over \$250/tonne in the 2nd half of 2014. A relative period of stability was seen in the 1st half of 2015; with bunker values fluctuating around \$350/tonne. However, another drop was witnessed thereafter, with international prices falling as low as \$170/tonne in January 2016. Such a dramatic collapse triggered a decline in US crude production and translated into a large scale reduction in the capital expenditure of international oil companies for the development of new fields. Over the course of 2016, oil and bunker prices moved gradually to higher levels. Furthermore, in late 2016 the agreement announced between OPEC and a number of non-OPEC producers to cut output by around 1.8 million b/d offered additional support to prices, which firmed to around \$345/tonne in January this year, the highest level in two years. Yet, some of these gains were lost as the year progressed amid persistently high stocks, the rebound in the US shale sector and recovering Nigerian and Libyan production. Since March 2017, bunker prices have been generally fluctuating within a narrow range of around \$315/tonne.



Now the question is how these latest developments will affect WS flat rates in 2018? To understand the impact, it is important to bear in mind that the bunker element that goes into the flat rate formula is based on average prices between October and September the following year; therefore, we already have almost all the data that will go into the 2018 calculations. Since October 2016 international high sulphur bunker prices have averaged over 40% higher than average prices between October 2015 and September 2016. This suggests that WS100 will rise substantially in 2018 to compensate for these higher costs. On long haul routes, where bunkers are by far the most significant component of all voyage expenses, flat rates are anticipated to increase between 19% to 21%, depending on the distance.

The picture is somewhat different for short haul voyages. The shorter the distance, the less important the volatility in oil and bunker prices is; equally, this also means increased significance of changes in exchange rates and port costs. In general, nominal rates on short haul routes are expected to increase by around 10% - 15%, with changes in Worldscale flat rates on very short trades being even smaller.

Crude Oil

Middle East

Baby steps perhaps, but reasonable VLCC volumes were sustained through the week and that encouraged Owners to try a little harder to raise the market off its recent death-bed. Eventually they enjoyed some success and rates to the East inflated slightly to ws 45, but with rare runs to the West still holding in the low ws 20's. Their hope will be for continued steady attention and further opportunity to then develop. Suezmaxes held their ground, but it's still a low level scene with rates to East at no more than ws 70 with movements to the West again in the high ws 20's and little material change forecast over the near term. Aframaxes ratcheted up the expected improvement towards 80,000mt by ws 115 to Singapore upon steady local enquiry, but more effectively by a relatively rampant short haul market in the inter Far East....to be continued.

West Africa

Suezmaxes spent most of the week stuck fast on slim demand and easy availability. Belatedly, however, Charterers began to bargain hunt in enough numbers to re-create resistance and then convert that into some modest gain. Now close to 130,000mt by ws 70 to Europe and ws 65+ to the USGulf with perhaps a slightly brighter week to come. VLCCs were relatively busy through the period and as the AGulf gained, Owners sought to maintain the recent positive differential over that zone in parallel. Rates now operate at up to around ws 52 to the Far East with $2 million the bottom marker to West Coast India and the market likely to consolidate, or move a little higher over the next fixing phase.

Mediterranean

Aframaxes dipped into the new week, but as they did, sufficient volume developed to call a halt to the slide and Owners will be hopeful of regaining more ground above the current 80,000mt by ws 110 average X-Med level. Suezmaxes drifted sideways and then downwards to 140,000mt by ws 75 from the Black Sea to European destinations on rather flat demand and easy supply. Perhaps if West Africa does improve further, then sentiment will start to reinvigorate things here too - perhaps.

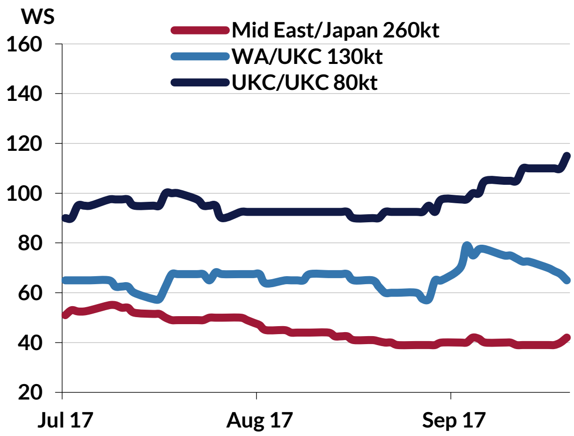
Caribbean

Aframax players remained confused by weather disruption, but eventually settled upon a 'conference' 70,000mt by ws 140 level upcoast though with potential premiums always in the wings for 'special needs'. Further variance will again be down to whatever blows in. VLCCs quietened as the week wore on leaving rates largely theoretical at $4 million to Singapore and $3.2 million to West Coast India, but a discount upon the right dates for a stray Owner can't be ruled out.

North Sea

Aframax Owners successfully banked last week's gain, but then merely maintained it, rather than demand further interest and with activity relatively light, they didn't have much leverage in any case. Slightly unsettled going into next week. Despite a noisy trading scene, there wasn't much VLCC fixing actually concluded this week, but rates keep steady at $4.2 million for crude to South Korea and at around $3 million for fuel oil to Singapore and any increased onward demand will be somewhat reliant upon more expensive ballasters.

Crude Tanker Spot Rates



Clean Products

East

A busy week for the MR's where rates have really seen some serious positive correction. The knock on effect from previous weeks where ships were taking long haul cargoes and ships on the water taking west discharge options has resulted in the tonnage list becoming very tight. In the past where we have seen spikes in rates due to an influx of cargoes entering the market, this week the spike has been due to the lack of available tonnage on the water. And, we go into the weekend with the tonnage list looking super tight, with the positive sentiment is not going anywhere soon. EAF cargoes were the first to jump on the express train and smashed through the ws 200 mark with ease. Currently ws 230 is on subs, but if more cargoes enter the market the momentum will continue. With LR2s taking MR stems for X-AG it didn't take long until the shorter voyages corrected. It seems to have found its footing at $250k. AG/Red Sea cargoes having been relatively untested saw some much needed action and very quickly correct to $550k. Both of the shorter voyages positively adjusted over the week, but there is still scope for further correction as we go into next week. Naphtha stems into the Far East have not seen the brunt of the action this week and are relatively untested and as a result asses it at the ws 175 mark, however, this needs to be tested. On the whole a very positive week for the Owners who will be hoping that they can "find" a spare ship over the weekend to get involved in the action as we go into week 39.

LRs have also pushed hard with major rises across all rates. 75,000mt naphtha AG/Japan is now ws 125 up some 15 points. 90,000mt jet AG/UKCont is up $200k to $1.85 million, but we may well see it move further up with a certain reluctance to go West into a quiet market. LR1s are steadier having seen bigger previous rises, but are still tight. 55,000mt naphtha AG/Japan is now ws 145 and ws 150 could be breached with certain restrictions. 65,000mt jet AG/UKCont is also under severe pressure and has hit $1.65 million, but is likely to be harder and harder to cover. The Appec conference has started which may cool some routes but, we are fixed well past the next 2 weeks already so I doubt there will be any considerable effect.

Mediterranean

The beginning of week 38 saw a 40 point jump on both X-Med (30 x ws 190) and Black Sea (30 x ws 210) rates resulting from a tight tonnage list in the East Med coupled with a long list of cargoes across the board. As we moved through the week, fresh cargoes continued to be seen and the tonnage list remained thin meaning rates could be maintained around last done levels. The latter stages of the week saw Charterers hold off quoting fresh stems in order to take some of the heat out of the market going into next week.

It was a difficult start to the week for MRs in the Med as rates mirrored those up in the UKCont with Med-transatlantic runs trading around the 37 x ws 100 mark. However, with good levels of prompt enquiry from Tuesday onwards in NWE numbers began to climb also in the Med meaning last done rates for a Med-transatlantic run was 37 x ws 140. Tight tonnage in the Med may mean moving into next week, more points are up for grabs for Owners.

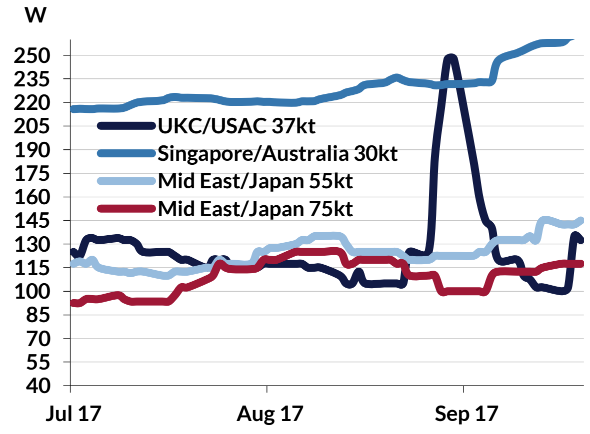
UK Continent

As we kicked off week 38 prompt MR tonnage dominated our position list up on the Continent. Levels started where they left off and TC2 trading at around 37 x ws 100 however, as the week rolled on and prompt requirements began to clear the front the end of the tonnage list, the market started to move. With Charterers now out looking to cover prompt and end month cargoes, transatlantic jumped up to 37 x ws 135 and Brazil to 37 x ws 155 (top of the market). However, that being said the later stage of the week has been subdued with a standoff occurring between both parties and with the tonnage list now starting to replenish it will be interesting to see where we stand come Monday.

The Handy market also saw levels pick up. The main catalyst behind this was due to the fact handy Baltic volumes increased as LR parcels went smaller. 30 x ws 140 was the highest Owners have been able to achieve from the Baltic and X-UKCont was 30 x ws 132.5. Looking ahead a big factor on how the Handy market plays out will be how many stems we will see ex Baltic in the first decade as tonnage currently looks better supplied for that fixing window.

A relatively quiet week again for spot action on Flexis, however, Owners will be pleased to see the Handy rates improving suggesting that a fresh test in the Flexi market will be able to improve over last done levels. Flexi Owners are likely to push for 22 x ws 175-180 now although beyond here it makes more sense to take Handy tonnage, albeit tight.

Clean Product Tanker Spot Rates



Dirty Products

Handy

It's hardly gone unnoticed in the continent that recent weeks have seen a number of units delaying or exiting the region which have collectively weighed in to reduce tonnage supply. Sooner or later such conditions were always going to make an impact where Owners would be able to alter trend in their favour. Ws 155 the peak of this week's gains, we anticipate the immediate few days trading come Monday to follow suit where October's programme is yet to get fully underway.

In the Med we have seen a negative overhang of excess capacity clear down through a steady flow of requirement up until the mid-point of the week. However, at this point in in time, unlike so many other reports that have pre-dated this, we saw yet another injection of requirement which had allowed Owners to realise increment on last done levels. Additionally, multiple load zones have all fired simultaneously that has equated to most of the units in the region being able to find employment, although where a number of vessels had fallen outside of their ideal fixing windows and ending up prompt, general trend was held back until such vessels had been removed from the list.

MR

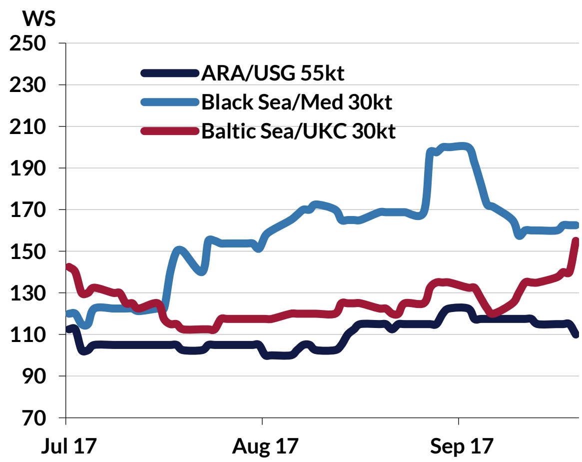
As the days have accumulated this week, so has tonnage in the continent subsequently leaving the region on a cliff ledge ready for a test. Now, surrounding markets have picked up, if natural stems continue at the steady pace we are currently seeing, then Owners will be keeping a beady eye on momentum that may come by in order to keep their vessels moving especially with Handysize tonnage tightening.

Units in the Med have ticked along steadily keeping a sideways trend for this region. For the best part of this week the position list for MR's in the Med have been fairly balanced and could have easily tilted in Owners favour had there been more days in the week. However, the weekend has come at a good time for Charterers and the two-day break will allow time for a degree of replenishment.

Panamax

It could be said the writing was on the wall for this sector when we were faced with a healthy tonnage list on Monday. With this sentiment in mind, decremental softening in fixing levels have been seen down to the ws 110 level at the weeks end. If what is still on subjects at the time of writing manages to get fixed away, tonnage lists are starting to show signs of looking a little thinner. This in mind when looking for tonnage replenishment we turn our attention to the US markets where both the Aframaxes and Panamaxes have continued to steadily firm through the week. Come Monday, Charterers may need to start to look a little more forward than usual when covering ex Europe.

Dirty Product Tanker Spot Rates



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Sep 21st	Sep 14th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+3**	43	40	46	60
TD20	Suezmax	WAF-UKC	**-5**	65	70	67	82
TD7	Aframax	N.Sea-UKC	**+1**	111	110	93	109

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

			wk on wk change	Sep 21st	Sep 14th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**+2,000**	7,500	5,500	11,250	20,000
TD20	Suezmax	WAF-UKC	**-1,750**	8,500	10,250	10,250	14,750
TD7	Aframax	N.Sea-UKC	**+750**	14,750	14,000	1,750	13,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Sep 21st	Sep 14th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+5**	118	113	120	
TC2	MR - west	UKC-USAC	**+33**	134	100	118	142
TC5	LR1	AG-Japan	**+2**	143	141	128	138
TC7	MR - east	Singapore-EC Aus	**+12**	269	257	220	

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

			wk on wk change	Sep 21st	Sep 14th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+250**	11,750	11,500	14,250	
TC2	MR - west	UKC-USAC	**+4,500**	6,500	2,000	5,250	8,000
TC5	LR1	AG-Japan	**+250**	11,250	11,000	9,750	10,750
TC7	MR - east	Singapore-EC Aus	**+1,250**	17,500	16,250	12,000	

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

ClearView Bunker Price (Rotterdam HSFO 38C	**-1**	324	324	302
ClearView Bunker Price (Fujairah 380 HSFO)	**+2**	340	338	314
ClearView Bunker Price (Singapore 380 HSFO)	**+2**	343	341	322
ClearView Bunker Price (Rotterdam LSMGO)	**+14**	519	505	475

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