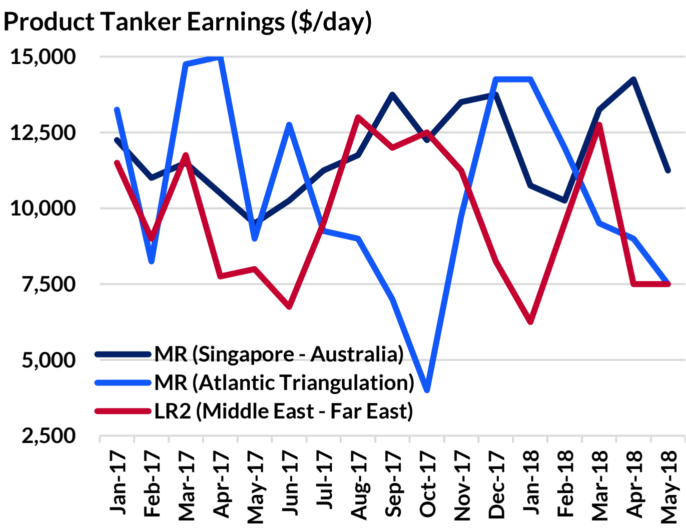
East or West, which is best?
Weekly Tanker Market Report

Where to position tonnage has always been a key question for tanker owners. Having exposure to the right market can make the difference between a profitable or a loss making voyage. In the dynamic product tanker market, choosing the right place to be, at the right time can be even more challenging. So where should owners position their tonnage for the balance of the year? The Atlantic, the Middle East, or the Far East?

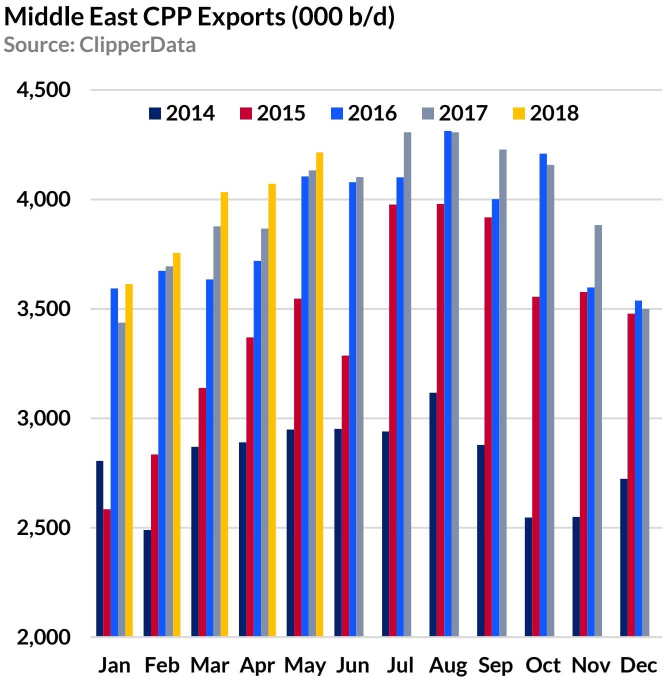
In the Atlantic, traditionally the focus has been on US driving season. US buying activity had certainly picked up over the past month, with imports in the US Gulf and Atlantic coasts recently hitting a 7 month high as traders replenish stocks ahead of peak demand season. However, with higher domestic refining runs, and stock builds well underway, is there really much prospect for significant buying to lift freight levels substantially over the coming months? Although hurricane season is of course, always a wildcard.



The focus therefore shifts towards West Africa and Latin America. With elections in February, the Nigerian government is focused on keeping gasoline stocks inflated. Yet, with shore based inventories full and floating storage high, imports may be constrained. However, buying activity could remain erratic, occurring as and when NNPC can accommodate more product imports. The issuance of the delayed crude for product swap quotas should also be supportive for product tanker demand, as more independent offtakers participate in import activity.

Latin America has proved to be the primary outlet for US refined products in recent years. However, this demand could be threatened. Higher prices have forced the Brazilian government to introduce subsidies, increasing the differential between local and international prices, potentially complicating products trading into the region in the short term. Mexico, which has been particularly reliant on the US over the past few years, is on a drive to reduce it's import dependence. In April the country managed to increase gasoline, diesel and kerosene production to 463,000 b/d, the highest in 9 months as the Salina Cruz refinery came back online. If refining runs continue to grow, US exports to Mexico could come under continued pressure for the balance of the year. In crisis stricken Venezuela, refining runs will continue to fall; however, the impact on product import demand is likely to be constrained by the country's ability to pay for supplies. These factors combined signal that buying activity may be different for the balance of 2018, compared to 2017 activity levels.

Looking East, having exposure to the Middle East product tanker market over the summer would seem a sensible choice. Seasonally high exports around July/August, coinciding with stronger demand for jet fuel to the West and naphtha to the East often generates a spike in rates over the summer period, even if the next few weeks see somewhat of a lull in activity.



Much depends on product demand from Asia, with both demand into the region and domestic supplies being a key determinant. Fundamentally, Chinese product exports should see continued growth this year, having soared by 800,000 b/d since 2012. However, export quotas are currently flat YOY, suggesting no export growth from this major source of supply. It remains to be seen whether the government will issue further quotas as the year progresses. Whilst lower growth in Chinese exports might be somewhat bearish for tankers operating across Asia, it could create opportunities for tankers trading cargoes into the region, particularly with 650,000 b/d of new naphtha reformer capacity due to come online in China this year. This development should also encourage demand for the naphtha flows from the Middle East and West, perhaps lending support to the West – East naphtha arbitrage which has been limited in recent years. On the other hand, potentially flat product exports from China, coupled with more flows from other regions, could pressure returns for intra-regional and backhaul opportunities, particularly when competition from newbuild crude tankers are accounted for.

Crude Oil

Middle East

Again, no significant change in VLCC fortunes - a week of gentle attention with rates to the East in the high ws 40's for modern units, and to ws 40 for older vessels, and at down to ws 17.5 to the West via Suez Canal. As things stand, another similar week ahead with the upcoming July programme then possibly open to delay by the Eid Holiday coinciding. Suezmaxes drifted, but a short fire pulse of activity upon positions pruned by ballasting temporarily jumped rates to ws 35 West and mid ws 70's East, though easier availability upon the next fixing window will likely depress values once again. Aframaxes remained on point at 80,000mt by ws 95 to Singapore, but need more attention to hold that level into next week, and are likely to slip a little initially, at least.

West Africa

A tired Suezmax scene left Owners having to accept lower rates at down to ws 60 USGulf, and to under ws 65 to Europe with ballasters from the East keeping lists full, and support from the Med/Black Sea fading. Owners still hope for 'something' to happen, but it could be a long wait. VLCCs ticked over within a ws 48/50 range to the East and rates are likely to remain protected as ballasters from the East look more attentively at strong USGulf and Caribbean load alternatives. Occasional interest was seen to India also, but at a static $2.82 million to East Coast India as 'last done'.

Mediterranean

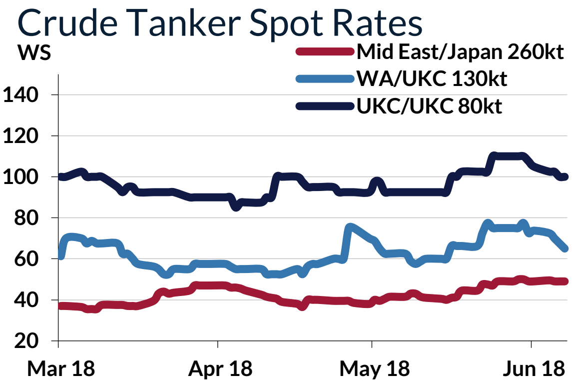
Aframaxes continued their free fall from recent peaks to end up dumped to 80,000mt by ws 82.5 X-Med (from nearly ws 170 2 weeks ago). There has now been a bit more bottom feeding activity, which should lead to some redress, but those short-lived glory days are over for the time being. Suezmaxes held up reasonably well at first, but Posidonia week ensured a slow-paced marketplace, and rates began to slip late week as the main players returned to find easier availability upon the prevailing fixing window. 140,000mt by ws 85 now from Black Sea to European destinations with further slippage on the cards.

Caribbean

Venezuelan uncertainty played to Aframax Owners' advantage and rates jumped to 70,000mt by ws 145 upcoast, and look set to stay there or thereabouts for a little while yet, although a degree of mild slippage could wash through as next week progresses. VLCCs remain best in class here with $4 million to Singapore hit from the USGulf, and runs from the Caribs to West Coast India at $3.5 million+. Ballasters from the Far East will likely cap further gains, however, unless the AGulf makes an unexpected turn.

North Sea

Aframaxes became increasingly pressured on building tonnage and limp demand. Rates are down again towards the lows of the year - to 80,000mt by ws 95 X-UKCont, and to 100,000mt by ws 70 from the Baltic and the outlook doesn't look much better. Little VLCC activity but $4.15 million was seen for crude from Hound Point to South Korea and $3.15 million reported for fuel oil from Rotterdam to Singapore which was in line with expectations, and should remain similar over the coming week too.



Clean Products

East

A desperate week for MRs in the Middle East, in which a severe lack of workable cargoes has seen tonnage build heavily off the front end, and rates have softened. Shorthaul has now dipped to $150k levels, and Charterers will have a real opportunity to cut further fat out of this route if they can lift off the front end. Red Sea runs again have softened to $400k, but given the preference for LR1s for shorthaul, we haven't seen this route tested too much. Longhaul routes have been incredibly untested given the action on the LRs, we assess $1.125 million and 35 x ws 120 levels to finish the week. EAF has not been as tested as it usually is, a distinct number of relets to cover obvious signs of a shortage of cargoes. As we approach a new week, the thin silver lining for Owners is that LR1s have been busy, the reality elsewhere being that MRs need some serious volume to address this overbearing tonnage list, before any improvement can be seen.

Generally a steady week on the LR1s with a fair amount of volume keeping markets ticking along whilst Posidonia keeps most people diverted. 55,000mt naphtha AGulf/Japan has been flat at ws 115 and 65,000mt jet AGulf/UKCont dropped a touch from last week's high to $1.60 million. These rates look set to roll over into next week with a fairly cleared list, but also most stems are now covered for the next 2 weeks. LR2s have seen a quieter time, but it has only really put logic back into the rates with a differential once again to the LR1s. 75,000mt naphtha AGulf/Japan is now ws 110 and could see another 5 points come off, so making a 10 point spread to the LR1s which is far more usual. 90,000mt jet AGulf/UKCont is untested later in the week but must be down to around $1.90 million accordingly. Lists are not abundant though, so a pick up next week will steady the rates fairly quickly.

Mediterranean

Posidonia week was always going to disrupt the flow of the market in the Mediterranean with many travelling and sunning themselves in the Greek sun. It was no surprise that fresh enquiry was slow at the start of the week, causing a slight slip in fixing numbers to 30 x ws 137.5 for X-Med and ws 147.5 ex Black Sea. As the halfway point arrives and the beer supplies dried up in Athens, we saw a good flow of stems clearing out much of the prompt tonnage available. This gave Owners the chance to hold on to last done, and for the time being, seems hard to imagine anything but these numbers being achieved. Pushing into next week we can expect further end second decade Black Sea runs partnered with the usual X-Med requirements to come into the market and with fresh turnaround of tonnage this flat market can be expected to continue.

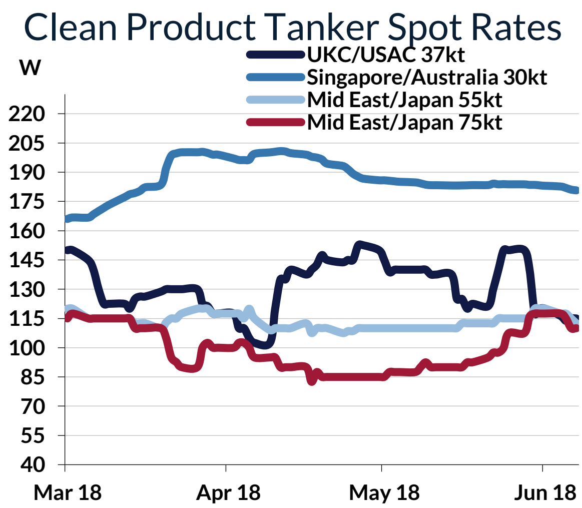
On the MRs we saw a mirror image of rates from the UKCont market appearing in the Mediterranean as Owners struggled to fight off Charterers' subdued view on rates. By midweek 37 x ws 115 was seen for transatlantic runs falling from ws 120 and further slow enquiry pilled more pressure on until we finally saw ws 112.5 on subs. Expect Owners to be scratching their heads as to how to improve returns, with the potential demurrage play being something to consider in WAF, but for now more repeating of TC2 rates are set on the horizon.

UK Continent

As the summer is starting to settle in and parties in Greece dominated the first part of the week, it made for a rather quiet week of trading in NWE. There has been little arb opportunity transatlantic or WAF leaving the cargo list rather short for the entirety of the week (there are some noises being made about mix aromatic heading to China loading mid-month onwards, however). As a result TC2 levels have traded 37 x ws 115 for the duration with some minor increases and decreases for replacements or last non-CPP ladies. WAF barrels have been few and far between but have seen the odd cargo to test the market 37 x ws 130 with these levels still being maintained at week's end. The weak USG market means this side of the pond has continued to be plagued by the arrival of ballasters meaning there is still tonnage to clear early next week, if rates are to have any chances of improving.

A consistent week for Handies up in the north as the combination of good levels of enquiry and a balanced list has enabled Owners to continually repeat last done levels. Baltic liftings have held firm at 30 x ws 147.5 and continent cargoes have traded 10 points lower at the 30 x ws 137.5 mark. Looking ahead and with the Primorsk programme now looking to cover up till the 18th, there could be potential for the market to slip a little heading into next week, as tonnage will build over the weekend.

This week has been wholly uninspiring for the Flexi cohort as enquiry continues to dwindle with the majority of employment opportunities being taken by COA or own tonnage. As has become the norm benchmarking is still take from the Handies with 22 x ws 180-185 being the going rate X-UKCont for the duration of the week. That said, however, re-let tonnage desperate for cargo is found to be a cheap option with the equivalent of 22 x ws 151 being confirmed mid-week.



Dirty Products

Handy

The North started this week following on from the firm sentiment the week before. The lack of firm tonnage in the area has been the main driver for this prolonged positive market. Come mid-week we witnessed highs of 30 x ws 182.5 being confirmed from the Baltic and repeated. However, fresh enquiry dried up a little towards the end of the week, but it could be said, that this is down to limited workable units left to play with resulting in leaving the region stable for now.

The outlook for next week, is one that is likely going to follow on from this one, but with West Med tonnage unable to find employment locally. Come Monday there will be a few ballasting up that may be hot property.

The Mediterranean has not fared as well as the North with rates dropping at a steady pace though this week. This is due to the lengthy position list that was presented to us on Monday, also the demand on tonnage just has not been there this week with little for Owners to pick from. At the time of writing we continue to report of outstanding stems to be covered, but this is due to Owners continuing to show resistance from what is on offer. It could be said that it is just a matter of time before we witness further negative rate correction. Taking into consideration what has been fixed from the North the past couple of weeks is only going to add further pressure, as we will need a drastic upturn in enquiry to absorb the number of units expected.

MR

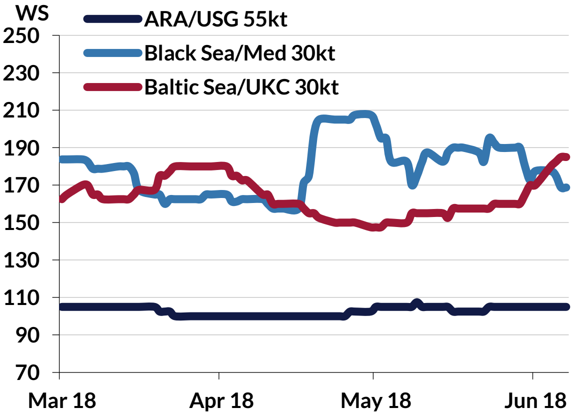
A static week in terms of full sized enquiry in the North as it was mainly part cargo stems on the menu for the few Owners in play to feed on. With the Handy market tight, we did witness some increment which would of been pleasing on the eye for the few Owners with workable tonnage. Heading into next week, Charterers will be monitoring surrounding regions particularly in the West Med which continues to trade softer. Coupled with fresh enquiry seeming to stall the back end, we may see Charterers start to get a grip back on this market, depending on further tonnage availability Monday morning.

A tough week for Owners in the Mediterranean as the Greek parties took their toll with minimal fresh stems to compete for. Workable vessels continued to pile up, as did the pressure for Owners, with units remaining well spread heading into the weekend. Owners will be hoping with offices back to full capacity next week will bring a few more cargoes to help "damage limitation" on the next test.

Panamax

A slight upturn in activity this week threatens to be undone through a combination of both units failing subjects and tonnage committing to making a ballast towards on speculation of finding a cargo. Furthermore, with only the Aframax markets showing promise in the US, tonnage this side is very keen to get out to the US. In turn this is further threatening to derail Owners attempts to steady conditions where opportunity is being lost to surrounding markets.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale							
			wk on wk **change**	**June 7th**	**May 31st**	**Last Month**	**FFA June**
TD3C	VLCC	AG-China	**-0**	49	49	40	47
TD20	Suezmax	WAF-UKC	**-8**	65	73	61	65
TD7	Aframax	N.Sea-UKC	**-6**	99	106	93	98

Dirty Tanker Spot Market Developments - $/day tce (a)							
			wk on wk change	**June 7th**	**May 31st**	**Last Month**	**FFA June**
TD3C	VLCC	AG-China	**-750**	9,750	10,500	4,000	8,500
TD20	Suezmax	WAF-UKC	**-3,500**	8,500	12,000	7,750	8,500
TD7	Aframax	N.Sea-UKC	**-2,250**	2,250	4,500	-2,250	1,500

Clean Tanker Spot Market Developments - Spot Worldscale							
			wk on wk change	**June 7th**	**May 31st**	**Last Month**	**FFA June**
TC1	LR2	AG-Japan	**-6**	112	118	88	
TC2	MR - west	UKC-USAC	**-5**	115	120	140	123
TC5	LR1	AG-Japan	**-3**	115	118	110	113
TC7	MR - east	Singapore-EC Aus	**-2**	181	183	185	

Clean Tanker Spot Market Developments - $/day tce (a)							
			wk on wk change	**June 7th**	**May 31st**	**Last Month**	**FFA June**
TC1	LR2	AG-Japan	**-2,250**	9,750	12,000	4,250	
TC2	MR - west	UKC-USAC	**-750**	3,500	4,250	8,000	4,750
TC5	LR1	AG-Japan	**-750**	7,000	7,750	6,750	6,500
TC7	MR - east	Singapore-EC Aus	**+0**	10,500	10,500	12,250	

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

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ClearView Bunker Price (Singapore 380 HSFO)	**-6**	451	457	415
ClearView Bunker Price (Rotterdam LSMGO)	**-15**	638	653	618

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