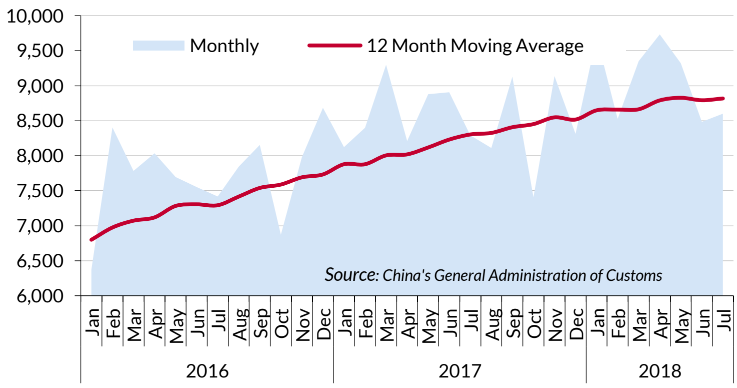
Chinese DragOn Demand

Weekly Tanker Market Report

For nearly two decades spectacular growth in Chinese crude imports has been the key driver behind rising crude tanker demand. Even in recent years shipments continued to increase at a very impressive rate, despite slowing economic growth, up on average by 0.85 million b/d per annum in 2016/17. Robust trade was supported by strong demand from the independent refiners, stockpiling into commercial and strategic inventories as well as the decline in domestic crude production. However, the dynamics could be changing. According to China's General Administration of Customs, total crude imports increased year-on-year by 0.5 million b/d between January and July 2018, down notably from growth rates seen over the previous two years. The gains in seaborne trade have been even smaller due to more crude being imported from Russia via the spur from the ESPO pipeline into China's mainland. Analysis of vessel tracking data by ClipperData suggests that the country's seaborne intake of crude increased by a little over 0.3 million b/d so far this year, just over a third of the gain seen between January and July 2017.

There are number of factors behind this slowing trend. Many Chinese refineries recently went through heavy seasonal maintenance, which temporarily reduced demand for crude. In terms of fundamentals, economic growth in China continues to slow, while there is also a much greater focus on environmental concerns and energy efficiency. The decline in China's domestic crude production is also slowing. According to the IEA, output is projected to fall this year by just around 0.05 million b/d, versus 0.1 million b/d last year and nearly 0.3 million b/d in 2016. Finally, there also have been suggestions of less appetite for crude from China's independent refiners, despite sizable increases in crude import quotas this year. Changes in tax system that were enforced since March mean that independent refiners are no longer able to avoid paying consumption tax on sales of refined products – a measure which previously boosted the refiners' profitability.

China - Crude Oil Imports ('000 b/d)



For the tanker markets, slowing growth in Chinese crude imports has been mitigated by rising tonne miles. Total long-haul trade from Latin/South America continues to increase, despite falling volumes from Venezuela, with more barrels being shipped from Brazil and Colombia. More US crude being imported has been an even bigger support factor. According to ClipperData, between January and July this year, US shipments (on a delivered basis) averaged close to 0.35 million b/d, up by approximately 0.225 million b/d compared to the corresponding period in 2017. However, the growing trade spat between US and China clearly threatens this trade, despite Beijing's decision to drop crude from the list of the latest round of retaliatory tariffs. Unipec announced a suspension on US crude imports for loading in August and September, while there is also no visible interest from other Chinese players. Reuters reports that Unipec will buy some US crude for loading in October, although it is not yet clear whether October cargoes will be delivered into China or resold into other countries. Many fear that the removal of US crude from the tariff list as a temporary measure and could be used as a negotiating tactic. It takes over a month for a tanker to sail from the US Gulf to China and there is no guarantee that tariffs on crude will not be introduced during the voyage.

Although these developments appear negative for tankers, China will have to source similar barrels from elsewhere. West African, North Sea crude or similar quality barrels in the Mediterranean could be a good substitute; there is already an increase in interest observed. In addition, those unsold US barrels, destined for China, will have to find a new home elsewhere, both short haul and long haul. As such, the loss of the US-China crude trade will have limited, if any, impact on tanker demand. The bigger concern remains, however: a slowing growth in total crude imports into the country.

Crude Oil

Middle East

A vigorous introduction of full September VLCC programmes provided the spark that Owners needed to fire up the market to close on ws 60 to the East. However, no sooner had the party started, Charterers took their foot off the pedal and the market quickly responded to the slower phase by retreating back to sub ws 55 with rates to the West remaining in the low ws 20's. Given that availability remains 'easy', the next game play will be dictated by the ongoing pace that Charterers decide to play at. Suezmaxes started slowly but then picked up sufficiently to nudge rates to the East into the mid ws 70's with popular runs to the West also edging up to the ws 30 mark. There may be a little further to go, but probably not a lot. Aframaxes quietened off somewhat, and with that rates edged lower towards 80,000mt by ws 120 to Singapore, with a little further slippage on the cards of next week - as it seems.

West Africa

Suezmaxes were hoping for solid attention to allow rates to break into new, higher, territory. Unfortunately, the reverse happened, and very limited fresh interest met an inflating tonnage list to re-chain rates back at little better than ws 60 for any Atlantic discharge option. Owners will attempt to keep the faith, but there's a lot of work to do for them to regain any grip. VLCCs initially rode higher on Middle Eastern gain but then fell back a little to under 260,000mt by ws 57.5 to the Far East as that zone faded, and Charterers held back. A slight drift likely into next week.

Mediterranean

Aframax Owners managed to hold last week's improvement but never quite saw enough to propel the market any higher than 80,000mt by ws 125 X-Med - again - and it looks as if something a little more special will be needed to make any real difference, and if the pace slows, rates will then quickly puncture. Suezmaxes maintained a steady profile through the week at 140,000mt by ws 80/82.5 from the Black Sea to European destinations and at around $2.9 million for runs to China. The market may well hold there again next week, but West Africa really needs to move to lend sure footed support.

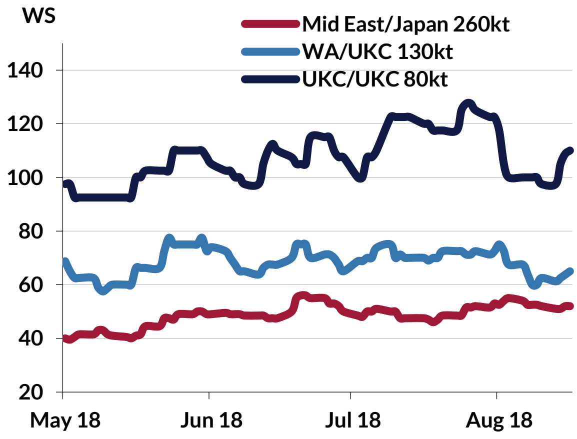
Caribbean

Aframaxes staged the anticipated fightback to pull rates from 70,000mt by ws 90 upcoast, to ws 125+ and will keep their plate spinning into next week, though such moves always seem to be rather short term, and unless some disruption intervenes, softening could well then develop. VLCCs have seen very little on early dates and tonnage there would be willing to discount, though Owners on forward dates have so far shown resilience at $3.8 million from the USGulf to Singapore and around $3.4 million from the Caribbean to West Coast India, though even there, some pressure may be seen over the coming week.

North Sea

As in the Med, Aframaxes here broadly held the gains of the previous week, but also, as in the Med, failed to find the necessary ammunition to force the market higher. Evenly balanced for now, but a feeling that things could drift within short. VLCCs found occasional interest with $4 million paid for crude oil from EC UK to China and Owners willing low $3 million levels for any fuel oil opportunities from Rotterdam to Singapore, though traders were reluctant to engage at even those levels.

Crude Tanker Spot Rates



Clean Products

East

Incredibly disappointing week for MRs in the Middle East. Owners have been continuously battered by Charterers' ideas on rates; which have not improved at all as the number of prompt vessels builds. X-Gulf is now traded at $120k and Red Sea runs down to $300k when they get tested next week. EAF runs are now trading 35 x ws 115, although news that an outstanding cargo is seeing best ws 125 with no optionality could highlight the end of the tether for Owners willing to sit back and be dictated here. Westbound sits at $1.15 million, although some cheap Argentina numbers could affect the status of this level next week. TC12 finally is unpopular, given the state of the larger tonnage, and is likely to remain so next week. Expect another desperate week, even if we are busy cargo wise, we will see a lot of cheap numbers before the list is rebalanced.

A relatively disappointing week for the larger tonnage, saved later on by a late surge in action on the LR2s. The LR1s have suffered from a quiet market during Eid. Cargoes have been scarce and rates have only just managed to maintain last done levels, however disappointing they may be. Westbound cargoes are still trading at $1.475 million, more likely a result of the continued unattractiveness of sending tonnage West, as opposed to Owners' will power. TC5 has continued to trade 55 x ws 100. Charterers are taking optional DC voyages at ws 102.5, a shrewd move in case the market moves next week.

The LR2s have cleared out well at the end of this week, with a whole host of TC1 cargoes now on subs. Market levels remain 75 x ws 95 - but surely, with most tonnage now on subs and ATC returning to the fray next week, we could see some positive movement. Last done West remains at $1.875 million, although Owners are willing to take WAF cargoes at a slight discount and sit up on demurrage to top up their earnings. Interesting to see how much more naphtha we see enter the market next week - distillate is definitely still missing.

Mediterranean

Right from the off, Owners have been on the back foot this week, with prompt ships consistently rife across the board. That being said, the market has continued to trade at the 30 x ws 120 mark, with Owners reluctant to see south of this number. Charterers have picked off vessels behind the scenes with favourable itineraries. Both the X-Med and Black Sea markets are far from balanced but both have managed to trade sideways throughout, with 30 x ws 130 the going rate ex Black Sea. Come Monday, it's likely that the sentiment will remain negative, with tonnage well supplied and cargoes remaining on the thin side.

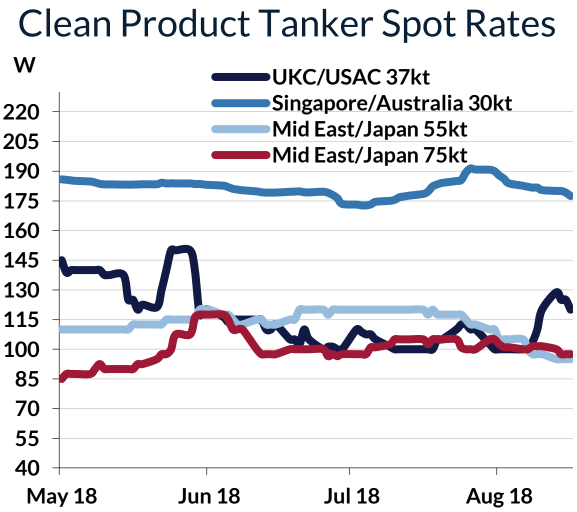
A lack of cargoes has meant the Med market has suffered this week, with rates softening to 37 x ws 110 for Med-transatlantic runs (in line with rates in NWE). This, coupled with a relatively well supplied tonnage list, has meant rates have been pressured throughout and at the time of writing the sentiment is fairly negative across the board. Fresh test was seen for a voyage heading East, with $700k fixed for a Med-AGulf. As we move into week 35, the general sentiment remains fairly negative, unless we see a drastic uptick in enquiry.

UK Continent

Another rather dismal week for MR Owners in NWE as the market suffered further losses, despite there being good levels of enquiry throughout. The market continues to be plagued by excess tonnage and, with many Charterers looking to cover certain cargoes prior to the Bank Holiday, the fixing window was pushed forward. As a result, TC2 rates slipped quickly between Monday-Tuesday, before hitting the floor 37 x ws 107.5 by Thursday, having taken a momentary break by ws 2.5 points intervals on its way down. WAF enquiry has been a bit better this week but, with this being a preferred route for many, achievable levels have only been able to track in line with TC2 +10 ws points. The same can also be said for short haul routes that have become a more attractive option in order to not lock in low TCE's for any longer than one has to, 40 x ws 107.5-110 here. An improved USGulf market should draw a good amount of potential tonnage away from our shores and thin out the tonnage list our side but this will depend on the USGulf positivity and the pace of fresh enquiry in NWE continuing into next week...without that we could see rates soften further.

As week 34 comes to a close, Owners will be relieved that finally good levels of enquiry have transpired into rates pushing up a little, as good levels of X-UKCont movements were seen. The market started fairly predictably, with a healthy number of ships on our lists translating to stable fixing levels of 30 x ws 125 ex Baltic and ws 115 for X-UKCont. Yet, a glut of enquiry quickly chipped away the supply and by midweek we could start believing improvement was on the cards. This suggestion was somewhat stunted as Charterers managed to fix smaller tonnage on certain stems which looked destined for improved rates, but once these other options were cleared opportunities for progression transpired as we see 30 x ws 130 on subs ex Baltic. Whether this sentiment will be able to keep momentum over the long weekend will have to be seen, as many ships which have been fixed for X-UKCont runs will be reappearing rather soon, and cargoes fixed directly off the radar may give Charterers the opportunity to hamper further growth.

Finally to the Flexis, where market cargoes seem to be a thing of the past in this sector, with most employment opportunities are via COAs. With this in mind, rates continue to be pegged back against the handy market and the general feeling of 22 x ws 155 being the fixing level is accepted across the board. Certain vessels with enough cubes were able to dip their toe into the busier Handy sector, as some stems did not require the full 30kt to be lifted. This has offered additional employment opportunities, keeping vessels moving and a gentle increase in the rates on this size should aid Owners to push to equivalent levels. Expect this market to continue its present trend of shadowing the Handy levels for the foreseeable future.



Dirty Products

Handy

Monday presented us again with another shortened tonnage list in the north, where adding further fuel to the fire some of the early units showing availability did little to assist all Charterers where they did not carry the right approvals. Subsequently, this managed to push some Charterers into entering the market early in the week that swept up a number of units in play, giving Owners incremental gains in fixing levels, as the week progressed. We close the week out with one vessel on subjects at the 30 x ws 170, and a region with a firm trend heading into next week.

The Mediterranean on the other hand has taken a little longer to find its feet. As a lengthy tonnage list for Charterers to cherry pick from led to decrement being seen between deals throughout the week. Furthermore, ground lost this week may yet be only a partial correction as where fixing dates progress, the market has only seen the early tonnage ticking over. Looking towards next week tonnage is likely to replenish again, leaving the need for an upturn in enquiry for Owners to claw back a few points.

MR

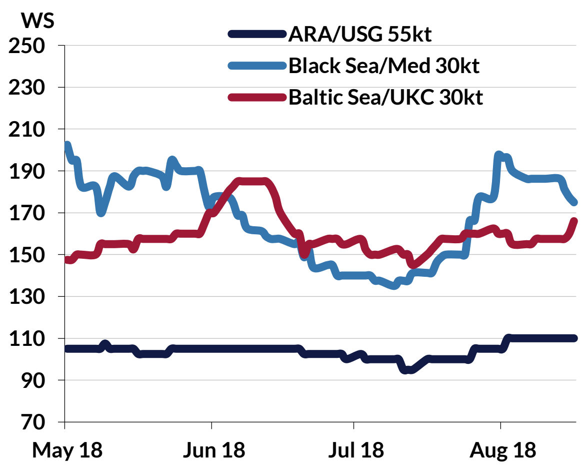
A tale of two markets this week, with the continents Handysize enquiry keeping natural sized units moving along and therefore keeping the region tight. The lack of full stem enquiry is the only thing holding back increment!.

A different story in the Mediterranean, where the lack of enquiry on all sizes has had a negative impact on the regions sentiment. The next test for this size is likely to be a considerable discount on the last benchmark, which is partly to blame due to the Handy sector. With the Handy market stooping to current levels, MR Owners options are becoming increasingly limited.

Panamax

Week 34 is now over and upon reflection we can only ask the question "should it have been more?", yet, although Charterers may not necessarily feel like they had the upper hand, they actually did well to curb Owner aspiration for the reasons as follows. Supply versus demand ratio has seen almost all natural availability taken out with in the past weeks, meaning that European values are now ever more closely linked to values being seen states side. When looking on at proceedings in the US, the surrounding Aframax market has been hotting up, with Panamax Owners bullish that momentum will trickle over. It is becoming difficult therefore to pull tonnage this way at levels more akin to recent softer values.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	August 23rd	August 16th	Last Month	FFA Q3
TD3C	VLCC	AG-China	**+5**	57	52	52	56
TD20	Suezmax	WAF-UKC	**-0**	64	64	70	71
TD7	Aframax	N.Sea-UKC	**-1**	109	110	126	105

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

			wk on wk change	August 23rd	August 16th	Last Month	FFA Q3
TD3C	VLCC	AG-China	**+3,500**	17,000	13,500	13,000	16,750
TD20	Suezmax	WAF-UKC	**-250**	8,500	8,750	10,750	11,500
TD7	Aframax	N.Sea-UKC	**+0**	10,000	10,000	19,500	7,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	August 23rd	August 16th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-2**	96	97	100	
TC2	MR - west	UKC-USAC	**-14**	109	123	111	118
TC5	LR1	AG-Japan	**+2**	100	98	114	103
TC7	MR - east	Singapore-EC Aus	**-2**	175	177	191	

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

			wk on wk change	August 23rd	August 16th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-1,250**	5,000	6,250	6,750	
TC2	MR - west	UKC-USAC	**-2,500**	2,750	5,250	3,000	4,250
TC5	LR1	AG-Japan	**-250**	4,000	4,250	7,000	4,750
TC7	MR - east	Singapore-EC Aus	**-500**	9,500	10,000	11,500	

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

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