A Really Good Deal for Tankers?

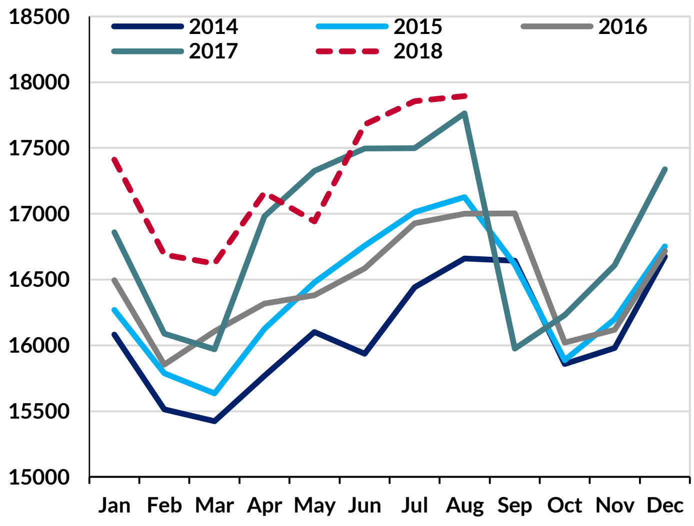
Weekly Tanker Market Report

In the week that Trump claimed to have agreed a 'really good deal' for America as part of renegotiation of the North American Free Trade Agreement (NAFTA), we take a look at developments in the US refining sector and whether this in turn offers tanker owners a similarly good deal.

Trading to and from the United States has been fairly challenging all year, with the market showing some of the worst returns available to product tanker owners. Gasoline imports into the US Atlantic Coast have been effectively flat since 2015, offering no real support to the product tanker market. However, exports of gasoline, jet and diesel have shown some growth this year, up by 145,000 b/d vs. the same period of 2017. In part, this has been facilitated by higher refining runs, which have been particularly strong of late, averaging at 97.3% over the past four weeks, with output of gasoline, diesel and jet up 280,000 b/d year on year.

Gasoline consumption growth in the US is also slowing as higher prices dent consumer demand. Recently the EIA signalled that gasoline consumption would be flat year on year, which could be supportive for gasoline exports, primarily from the US Gulf. However, the agency predicts that diesel and jet demand will rise by 200,000 b/d this year, which could have implications for export volumes, particularly as winter approaches. Distillate stocks have been building in recent months but are the lowest for this time of year since 2014. In short, lower stocks and higher demand could see the domestic market compete with exports.

US Refinery Throughput (000 b/d)



Export demand will of course remain but demand patterns may evolve, and Trump's new Mexican friends could prove a threat to petroleum product exports. Both Mexico and Brazil have been working hard to raise refinery utilisation to reduce import demand. Initially, these efforts seemed to be working, with Mexican refinery output reaching a nine month high in April. However, since then, various outages and operational setbacks have seen utilisation fall in July to a nine month low. So far 2018 has seen Mexican refinery runs down by 125,000 b/d compared to 2017, despite the efforts made to boost domestic fuel production. At the time of writing, some reports have emerged of further operational issues at the 330,000 b/d Salina Cruz facility. Such frequent disruptions have allowed US refiners to increase exports to Mexico over the first five months by a substantial 249,000 b/d.

The Brazilians have also made a concerted effort to reduce import reliance; however, oil products production fell to 1.679 million b/d in Q1. And whilst more recent data is not yet available, the outage at the 415,000 b/d Replan refinery has created another setback. Despite lower runs, exports from the US to Brazil fell by 27,000 b/d between January and May. However, if the outage at Replan persists, this trend could soon reverse.

In short, the US will remain a significant exporter of refined products and a notable importer of gasoline into the Atlantic Coast. In terms of product tanker demand, higher refining runs in Latin America remain a threat, whilst in the short term lower distillate stocks ahead of winter and pending maintenance could impact export volumes. However, by 2020 the US will be well positioned to supply compliant fuels to the world, which could open up new trading opportunities for product tankers in the region.

Crude Oil

Middle East

Reasonable VLCC activity through the week but never enough to challenge ongoing thick availability, preventing Owners from being able to force the market, and for the most part they had to fight a defensive action to protect the previous rate-range. Another solid week of action will be needed to make any material change. Suezmaxes pushed up a little to the East as Owners showed increasing preference for West runs, or just to ballast away from the area. 130,000mt by ws 80 East and to ws 27.5 to the West as it stands, and will probably continue to stand next week. Aframaxes slipped, as expected, to 80,000mt by ws 115 to Singapore, and could slip further if demand remains so modest over the coming week.

West Africa

Suezmaxes broke free from their absolute bottom markers upon strong early interest but then were forced to stall for Atlantic options as interest began to dry up, though rates to the Far East continued to tick higher as demand there maintained. 130,000mt by ws 70+ to UKCont, and ws 80+ to the East. If the pace picks up again next week, then further gains should be on the cards...if not... VLCCs found only dotted line enquiry to engage with and Owners were then forced to lose the premium recently won over prevailing AGulf/East numbers. 260,000mt at down to ws 55 now to the Far East, with $2.95 million the last seen from Nigeria to West Coast India.

Mediterranean

Aframaxes kept their plate spinning nicely through the week at up to 80,000mt by ws 130 X-Med and still remain reasonably robust, though ballasters from the weaker North Sea zone are now beginning to threaten to take some of the gloss off. Suezmaxes held up over the period at up to 140,000mt by ws 85 from the Black Sea to European destinations and to $2.9 million for runs to China. Cargo shelves have now been largely cleared on the fixing position and Owners will have to concentrate early next week to defend what they presently have in hand.

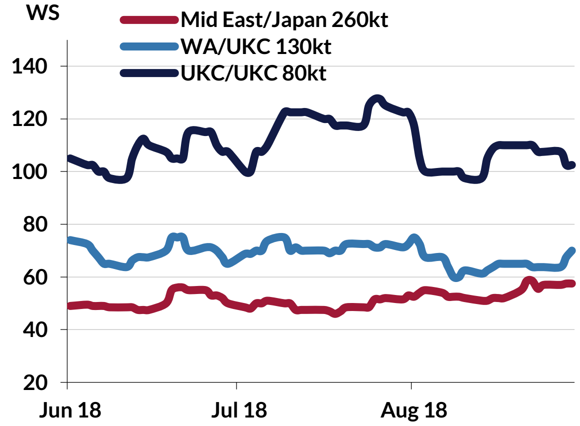
Caribbean

Aframaxes put on an elongated pre-holiday growth spurt, as busy Charterers found thin availability to chase rates up to 70,000mt by ws 140+ upcoast, though the extended weekend may slightly re-set the situation for the delayed opening next week. VLCCs on forward dates found greater attention than of late, and rates from the USGulf to Singapore jumped to over $4 million in short order with levels from the Caribs to West Coast India marked at over $3.5 million also. A few early units have, however, been left behind, and those vessels may be willing to discount if suitable cargoes can be found.

North Sea

Unlike the buoyant Med, Aframaxes here suffered from under feeding and rates steadily chipped lower through the week to end at around 80,000mt by ws 95 X-UKCont, and 100,000mt by ws 72.5 from the Baltic. Some have decided to seek their fortunes in the Med now, and that may eventually allow for a better balance to develop. VLCC Owners drew inspiration from the improved USGulf/Caribs zone and did manage occasional benefit with up to $4.55 million paid for crude oil from Hound Point to South Korea, though little/nothing was seen for fuel oil from Rotterdam to Singapore where rate ideas theoretically held at $3.3 million.

Crude Tanker Spot Rates



Clean Products

East

A week of much needed activity for the MRs in the AGulf. The week commenced with a tonnage list which was incredibly long off the front end. There was a dire need of cargoes. Thankfully for the Owners, the taps were opened up and activity levels have been high all week. The prompt tonnage has been slowly chipped away and, although rates haven't really done much to shout about, Owners are going into week 36 in a better place, when compared to that of last week. EAF has really been tested of late and is not a destination of choice, partly due to the fact that it is trading at the 35 x ws 115. UKCont is untested but likely it is in the $1.175 million area. Short haul voyages have ticked over, with X-AGulf at the $140k level and Red Sea trading at $350k. TC12 has also seen little change in the past few weeks and continues to trade at the 35 x ws 115 mark. Although there is nothing too exciting to talk about on the rates, Owners will be pleased that the front end of the tonnage list is looking a little more balanced and there are still cargoes to be covered.

LR1s started the week after the Bank Holiday with a rush and have kept reasonable volume throughout the week. Rates have finally seen a real increase, with 55,000mt naphtha AGulf/Japan hitting ws 107.5. Yet, West rates have remained flat, with 65,000mt jet AGulf/UKCont still at $1.45 million. LR2s have seen a muted week, with limited stems. Tonnage isn't that easy though, so rates have stayed where they are, with 75,000mt naphtha AGulf/Japan hovering at ws 97.5 and 90,000mt jet AGulf/UKCont possibly up a touch at $1.925 million. Activity will need to be good into Monday to maintain this sentiment, however.

Mediterranean

A lacklustre week 35 comes to a close, where the sheer weight of excess tonnage has once again pulled this market down. The truncated week started at 30 x ws 130 ex Black Sea and ws 120 X-Med. Many thought this was the bottom of the market but, to Owners dismay, an additional 5 ws points was squeezed out early on and rates continued at this new low. Enquiry levels have been pretty consistent throughout but, with nearly 20 prompt ships at one point, Owners have always been on the back foot. Looking ahead, we are unlikely to see much change on the horizon here, as tonnage is constantly recycled within a week.

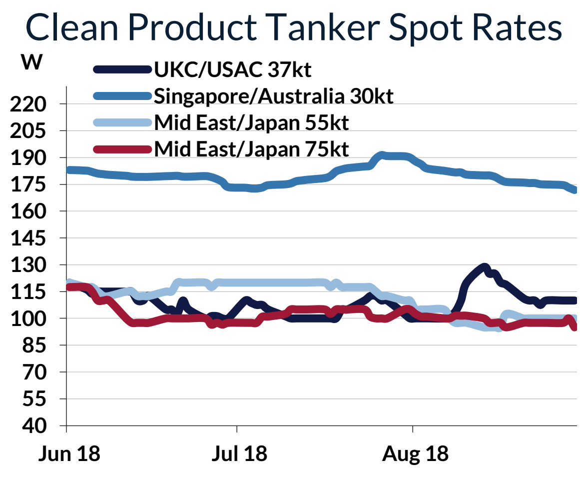
MRs in the Med have once again mirrored the sentiment of their continental cousins, with Owners aspirations by the end of the week picking up. But like often we see in the Med, a delay is seen in improvement, as so far we trail at 37 x ws 110 (105 for a vessel open in port). Expectations are that, with a fresh test, these numbers will improve. East runs have seen increased levels of enquiry, with Jeddah achieving $700k now but, like with all things in this market, ballast tonnage could subdue Owners ideas. Further enquiry will need to be seen, if rates are going to be able to pull up.

UK Continent

The final week of August has ended on a rare but welcome bright note for Owners in NWE, as they have finally been able to lift rates up from levels that have plagued earnings for the duration of the summer. The action really kicked off on Tuesday (after the long weekend in the UK) and enquiry was good from the outset, given that Charterers didn't have the luxury of a Monday to scope the market. The previous week's action left tonnage tight and Owners were holding for more than last on all routes, especially given that the WAF arb was working in conjunction with consistent TC2 movements. Owners' efforts were finally rewarded on Thursday, when TC2 closed 37 x ws 122.5 and WAF still about +10 ws points over this. On Friday tonnage is still tight off the front end, with some cargoes still to cover, so at the time of writing, 37 x ws 135 is on subs twice transatlantic, while WAF is minimum 37 x ws 145 and probably a nudge ahead. Sentiment remains positive into next week, despite the USGulf market taking some losses. Even if we do start seeing a raft of ballasters heading our way, it will be about a week's delay before they have any substantial impact on rates; meaning the NWE market should be positive at least for the early part of week 36.

A stable week has occurred for Handies plying their trade up on the continent, as both parties have seemed happy enough to fix at last done levels. Continent enquiry has proven to be the main catalyst behind why levels have been repeated, as both short haul and longer haul cargoes have kept the tonnage list ticking over. Baltic volumes remain a slight concern for Owners, as bigger units remained the preference; however, with firming being seen late in the week on the MRs, Handysize could be preferred size moving forward. For now, rates ex Baltic close the week at 30 x ws 130, 30 x ws 120 for X-UKCont and 30 x ws 110 for Med discharge with a balanced feel in the air for the start of next week.

Once again normal service has prevailed for Flexis in NWE, with little to report in terms of fresh spot fixing action. A healthy amount of units on the front end of the list will keep Charterers firmly in the driving seat here, with prorated Handy levels giving the best benchmark idea of 22 x ws 155 for X-UKCont.



Dirty Products

Handy

The NWE region has suffered from a very quiet week in terms of fresh enquiry. However, on Monday Owners were holding onto the previous weeks activities where the conference rate of ws 167.5 was repeated a number of times. The anticipated enquiry simply just did not arrive to the party; in turn it has taken some of the wind out of Owners' momentum, as units started to build up in the region. Come Monday, the scales will definitely be tilted in Charterers' favour, so expect a fresh test in early trading next week.

The Mediterranean, on the other hand, has seen a slow and steady pace of fresh enquiry this week. This pace has only managed to keep the early tonnage ticking over in the region. Consequently Charterers have chipped away at fixing levels, with a result of ws 5-7.5 points decline from where we started this week. As we draw the week to a close, Black Sea enquiry has managed to show first signs of the East Med tightening but, it all looks a little too late as next week tonnage is likely to replenish and the sentiment to remain flat.

MR

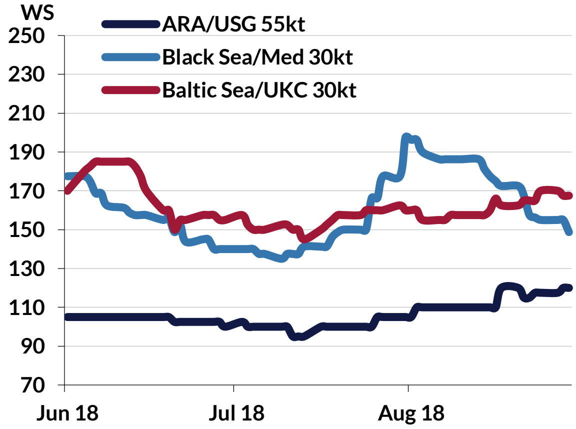
A typical week for this sector where enquiry took a back seat and the fixtures that were concluded were kept off market. This hardly came as a surprise, given the sparse natural positions available this week. One Owner opened prompt just before the weekend and will be keen to exit the region on an either Handy or MR stems, which may be targeted early next week.

What started as a very disappointing week in terms of cargo volume, finally took its toll on last done levels. The quiet Handy sector did not help the MR situation and, looking ahead into next week, positions are likely to be found at the top of Monday's tonnage list.

Panamax

With the markets in the US gaining traction through the week, Panamax Owners are slowly realising better returns. Not only have rates been moving but sentiment is also being positively projected. This is because the surrounding Aframax market is moving north through previously established boundaries. In turn, this is creating some follow on momentum here in Europe, which remains limited for natural tonnage. The next few deals are therefore likely to be tested positively by Owners - as long as aspiration stays under the equivalent cost of an Aframax, then perhaps Owners have some ground to gain.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	August 30th	August 23rd	Last Month	FFA Q3
TD3C	VLCC	AG-China	**-1**	56	57	52	55
TD20	Suezmax	WAF-UKC	**+5**	69	64	70	69
TD7	Aframax	N.Sea-UKC	**-9**	100	109	126	105

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

			wk on wk change	August 30th	August 23rd	Last Month	FFA Q3
TD3C	VLCC	AG-China	**-1,000**	16,000	17,000	13,000	15,250
TD20	Suezmax	WAF-UKC	**+1,500**	10,000	8,500	10,750	10,250
TD7	Aframax	N.Sea-UKC	**-6,500**	3,500	10,000	19,500	6,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	August 30th	August 23rd	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-1**	95	96	100	
TC2	MR - west	UKC-USAC	**+4**	113	109	111	118
TC5	LR1	AG-Japan	**+4**	104	100	114	104
TC7	MR - east	Singapore-EC Aus	**-4**	171	175	191	

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

			wk on wk change	August 30th	August 23rd	Last Month	FFA Q3
TC1	LR2	AG-Japan	**-750**	4,250	5,000	6,750	
TC2	MR - west	UKC-USAC	**+250**	3,000	2,750	3,000	3,750
TC5	LR1	AG-Japan	**+500**	4,500	4,000	7,000	4,500
TC7	MR - east	Singapore-EC Aus	**-1,000**	8,500	9,500	11,500	

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

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ClearView Bunker Price (Singapore 380 HSFO)	**+9**	463	454	468
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