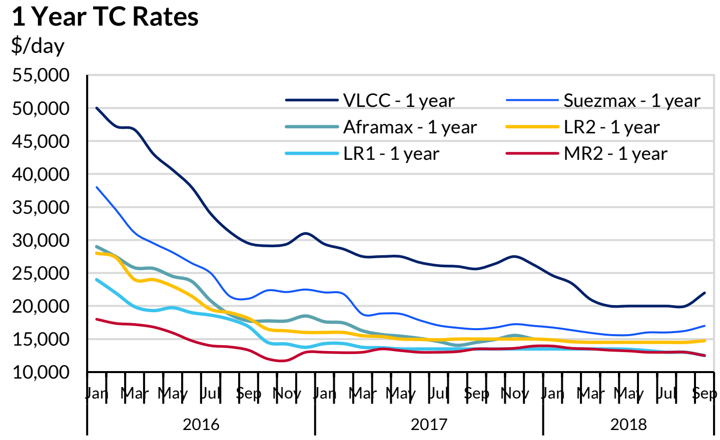
Dirty vs Clean

Weekly Tanker Market Report

The highlight of this week's trading has been an impressive spike in spot VLCC rates, with daily TCE earnings up to their highest level since April last year. The Middle East and West African markets have been supported by an extended period of healthy enquiry from Asian buyers, although weather delays in the Far East have also helped. In the Caribbean/US Gulf, VLCC lumpsum costs for Asian discharge have witnessed a similar hike, on the back of sparse tonnage availability. Suezmax rates out of West Africa and the Black Sea have also jumped to their highest level this year, aided by robust Asian demand, a strong VLCC market and delays in the Turkish straits. Aframaxes are weaker in comparison; however, over the past couple of months, we have also seen sizable swings in rates for tonnage trading in the Mediterranean, Caribbean and to an extent in the UK Continent and in the Baltic. Although the current gains in VLCC and Suezmax rates are unlikely to last for an extended period of time, the latest events show the first display of any meaningful volatility in the crude tanker market for a very long time. We may also see more spikes over the winter season, as highlighted in our weekly report last week. The growing potential for forward volatility is starting to be priced in one year time charter rates for crude tankers, with assessments up by 5-10% over the past month.

However, these emerging signs of positivity are not really reflected in the product tanker market (despite TC2 jumping by WS35 this week). Overall, the performance has been disappointing during the past three months, even with the limited clean tanker fleet growth due to robust demolition. The weakness in TCE returns has been in part attributable to competition from newbuild crude carriers able to take a large volume of products on their maiden voyages and some migration by coated tonnage from dirty to clean trades, following very disappointing results in the crude tanker market during the 1st five months of this year. On the demand side, the picture has been mixed. On one hand, some positive developments have been seen. Product shipments out of the US Gulf continue to grow, albeit at a slower pace than in previous years. Russian CPP exports remain robust, yet hardly any growth has been seen year-on-year so far in 2018. The same can be said for product flows into West Africa but spikes in demand occasionally have offered much-needed support. In the Middle East, the key market for larger product carriers, export flows have hardly changed, while in India strong growth in domestic consumption undermines volumes available for exports. In China, product exports increased substantially during the 1st five months of the year but have fallen notably thereafter. The overall picture is that, although total product tanker demand has increased, these gains have been far too modest to impact the freight rates positively.



Not surprisingly, the MR and LR1 market for one year time charter deals has been very quiet, with the latest assessments at or close to their lowest level seen over the past decade. Rates are somewhat better for LR2s but still not far off multi-year lows. With winter ahead of us, is there much of further downside? The number of scheduled deliveries for larger product carriers is notably smaller in 2019 compared to those witnessed in recent years. There is a healthy delivery profile for MRs but anticipated demolition activity will offset at least some of that. On the demand side, the approaching start-up of an export orientated refinery in Saudi Arabia could lift regional product exports. From the 2nd half of 2019, we could also see additional demand, with oil companies/traders/bunker providers stocking up on compliant bunker fuels ahead of 2020. This alone suggests there is more upside potential than downside risk. However, first we need to see a similar degree of volatility in the clean tanker market, as in crude, before charterers consider reviewing their trading strategies.

Crude Oil

Middle East

'What a difference a day makes' may be a bit of a cliché, but a 10 ws point gain to the East in 24 hours is a nice fit and the week ends some 25 ws points higher week on week too. Rates are up to ws 85 now to the East, and towards the mid ws 30's to the West. All this on what was feared to be a quieter week due to the elongated Chinese holiday! All very good for Owners, but what happens next? Availability hasn't actually been the issue, more the over-concentrated demand, but the month is rapidly coming to a close and there'll be a long wait for the November programme...any loss of momentum will therefore likely threaten a degree of re-settlement, at least. Suezmaxes didn't find anywhere near so much attention and generally plodded through the week at little better than the mid ws 80's to the East and ws 30 to the West, but bigger moves elsewhere are bolstering sentiment, and the VLCC $/tonne equalising may provide supportive cargo splitting opportunity into next week. Aframaxes halted their recent slide, but volumes weren't sufficient to really inspire and rates only crept a little higher to 80,000mt by ws 110 to Singapore. Perhaps a bit more to come for next week.

West Africa

Suezmaxes had been threatening higher levels for some time and eventually Charterers introduced enough cargo to allow Owners to realise some of that potential, with rates late week moving up into the mid ws 90's to Europe and to around ws 90 to the USGulf. Now the seal has been broken it will be tough to turn Owners back again and further gains could be engineered. VLCCs quietened in the second half of the week, but the big gains seen in the AGulf, and spiking numbers in the USGulf/Caribs, meant that rate demands here followed suit and rates to the East are now marked at ws 80+ with as high as $4.9 million booked for a run from Nigeria to West Coast India - a very handsome premium over 'last done' marks. busier next week, and consolidation likely.

Mediterranean

All a bit disappointing for Aframaxes that had posted improvements late last week, but then failed to find enough ammunition to fire higher. In fact, rates eased off before then finding bottom, and starting to rebuild for another upswing. For now, 80,000mt by ws 107.5 X-Med, but higher levels anticipated over the next fixing phase. Suezmaxes remained solid, and quite active, with Eastern demand an ongoing highlight. Rates from the Black Sea to European destinations moved over the ws 100 mark and levels to China pushed towards $3.8 million too. There may yet be more to come.

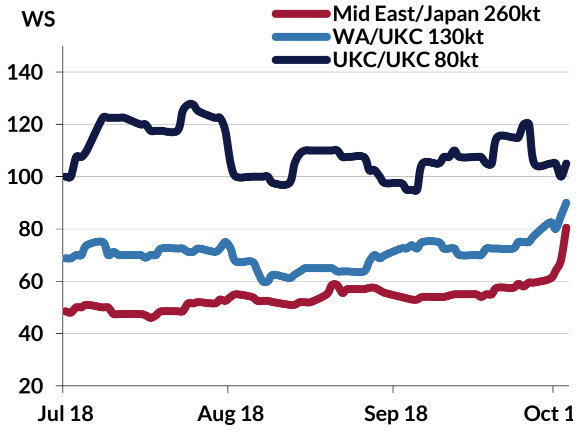
Caribbean

Aframaxes slipped, re-anchored, and started to nose northwards again - 70,000mt by ws 135 upcoast with busy transatlantic interest at around the ws 90 mark. Further sustained enquiry is needed, however, to make a real difference. VLCCs retained their star of the show status, as continued super-tight availability proved a severe challenge to would-be Charterers. Rates have spiked towards $8.5 million from the USGulf to South Korea with over $6 million asked from the Caribbean to West Coast India with loadport costs for Charterers' account. No early retreat likely either.

North Sea

As in the Med, previously robust Aframaxes quickly weakened before finding a solid bottom, and then beginning to re-climb a little. It could be progressive but for the time being rates are pegged at 80,000mt by ws 107.5 X-UKCont and 100,000mt by ws 92.5 from the Baltic. Little VLCC action reported but there are only a few units available, so no big surprise. Rate ideas, however, have ramped higher in response to the large gains elsewhere that can be ballasted into if needed/desired. Ideas for fuel oil from Rotterdam to Singapore are now at up to $4.9 million with around $6.2 million for crude oil from Hound Point to South Korea.

Crude Tanker Spot Rates



Clean Products

East

A trying week for MR Owners in the AGulf. With a lot of early tonnage needing to be cleared out at the start of the week, rates were low and held flat, whilst tonnage was slowly cleared out. Even as bunker prices pushed, rates held steady adding even more pressure on Owners' earnings. However, patience prevailed and with decent levels of activity seen, the second half of the week saw signs that the sentiment was turning. EAF pushed late on Friday afternoon to reach 35 x ws 130. X-AGulf has floated around the $115k mark, however, this will surely be positively tested early next week and should be around the $125k area. Similar story for Gizan which has held steady during the course of the week but assess that $300k is where it currently sits. UKCont has been largely untested this week, but for the first time in quite a while the West market is looking pretty exciting, with this positivity Owners are certainly not ruling out westbound cargoes as have previously been seen. Rates for UKCont cargoes hold at the $975k mark at present. TC12 has ticked along and gently risen in line with the market sentiment, 35 x ws 122.5 is closing for week 40, however, a few naphtha cargoes remain uncovered, this could be tested. Owners should be feeling more positive as we approach the weekend, the front end is looking much thinner and a decent number of outstanding cargoes remain.

Once again, it has been a week of mixed emotions for Owners. LR2s started the week confidently but enquiry has almost totally dried up and at this stage there are no more outstanding stems. 75,000mt naphtha AGulf/Japan is at ws 102.5, but could easily drop below ws 100 next week. 90,000mt jet AGulf/UKCont has hovered around $1.90 million but Charterers are now feeling nearer $1.80 million will be available. Lr1s have been busy all week and Japan rates have firmed strongly. 55,000mt naphtha AGulf/Japan has topped out at ws 125 but may find it hard to hold that level as short hauls and West numbers have dropped away. This is mainly due to the number of ships with UMS history. With LR2s weaker, the LR1s will almost certainly have to recalibrate. 55,000mt naphtha AGulf/Japan for today is ws 120 and 65,000mt jet AGulf/UKCont is at $1.45 million.

Mediterranean

Tonnage has become increasingly tight across the Med throughout the week, in particular for the EMed and Black Sea, which has helped Owners to drive rates steadily northwards. With an already positive platform to build on 30 x ws 157.5 Black Sea/Med on Monday was quickly surpassed with ws 170 (and even ws 180 for a tricky stem) on subs on Friday and cargoes still outstanding. EMed rates have tracked in line with this moving quickly up from 30 x ws 140 to ws 145 by lunchtime on Friday with Owners trying to push for more. Early in the week, Charterers in WMed enjoyed a better supplied tonnage list with 30 x ws 140 being seen even on Wednesday, however, with sentiment driving Owners bullish ideas, levels quickly caught up with EMed with 30 x ws 145 being confirmed on Friday and holding. Looking to next week, the sentiment remains positive for the early part, as the tonnage list is not expected to grow by a substantial margin. However, with some ships being recycled and Charterers likely to hold back in the first part of the week, we may see numbers level off.

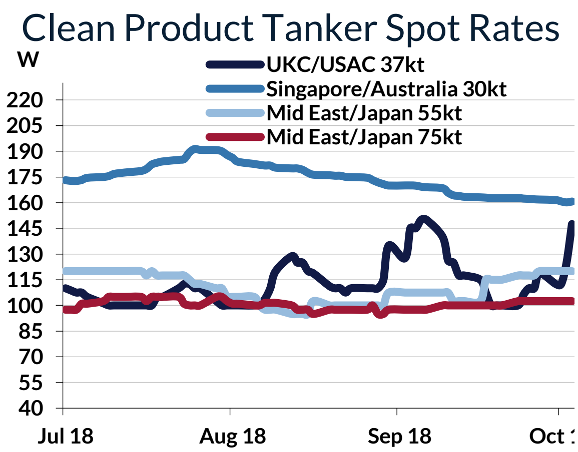
MR rates in the Med have been generally positive in the last couple of weeks and, with this in mind week 40 was no different. Demand has been steady throughout, if not picking up towards the end, meaning rates have followed and close out on Friday with 37 x ws 150 on subs transatlantic, mirroring levels seen in the North. Tonnage has been in short supply during the week, as a market cargo to Brazil found out mid-week with 37 x ws 190 on subs for this route. There are a couple of outstanding cargoes at the time of writing. However, if we receive an influx of tonnage as a result of the poor USGulf market, this would only add pressure in the middle or end of next week.

UK Continent

Finally, some fireworks have been seen this week for MRs in the West, as the combination of good cargo enquiry and a tightening tonnage list especially on the front end has seen rates take a significant shift North. The activity in the Med has also been a factor on why we have seen Continent levels continue to rise as WAF ballasters were sucked in by Med demand forcing a short on the tonnage list in the North. TC2 demand has been consistent this week and WAF played a big part towards the end of the week, with a healthy number of cargoes being quoted. Owners finish firmly in the driving seat and at the time of writing a Vanilla TC2 run trades around 37 x ws 150 mark and WAF at 37 x ws 165. Looking ahead and, with the rate shift seen in Europe a number of ballasters have set sail to try and join the party but will only come into play for the next fixing which could hamper any further gains as we move into Monday.

Just like the MRs the Handies have been able to capitalise on a decent week and claim back some much needed Worldscale points. The Continent has been the catalyst for this after experiencing a very busy week pushing rates to 30 x ws 140. Bad weather in the Baltic added some spice to the market with a few replacements being seen and levels closing the week at 30 x ws 150. With a number of ships locked into short X-UKCont voyages tonnage list will be redrawn first thing on Monday morning which could reveal a few more ships for the next fixing window. Poised.

Once again, little to report in the Flexi market, however, with the activity/firming seen on the Handies, Flexi Owners are expected to revise their fixing ideas to reflect this bullish sentiment. A few units still remain on the front end so rates are expected to trade just below a prorated Handy rate with 22 x ws 180 a fair benchmark.



Dirty Products

Handy

This week the Continent started positively with a number of fresh stems. These cargoes managed to fix away a number of the early units resulting in a gain of 5 ws points over last done. With that said, some Owners were not as fortunate as others as a couple of units failed, in turn this brushed off the good sentiment that the market had so far. Getting to the end of the week the position list remained well stocked with a couple of early units but a limited number of units behind these. However, Friday has been a day of fixing and those left remaining have managed to find cargoes at the end of this week tightening the region and putting sentiment in owners favour ready for Monday opening.

Week 39 activity left a bit of a hangover come the other side of the weekend, as the limited amount of workable units in the Mediterranean will give Owners the confidence to come out fighting once again. Monday through Friday momentum continued and it's no surprise to see kind of step by step gains in fixing levels which we witnessed. As we draw the week to a close, we report highs of ws 235 on subjects from the Black Sea, adding to this we have seen forward dates upto the 20-23rd October window. With some possible late runners and delays due to weather this sentiment looks like it will not be going away any time soon. Come Monday fresh tonnage lists will be key as many expect sentiment to continue the upward trend.

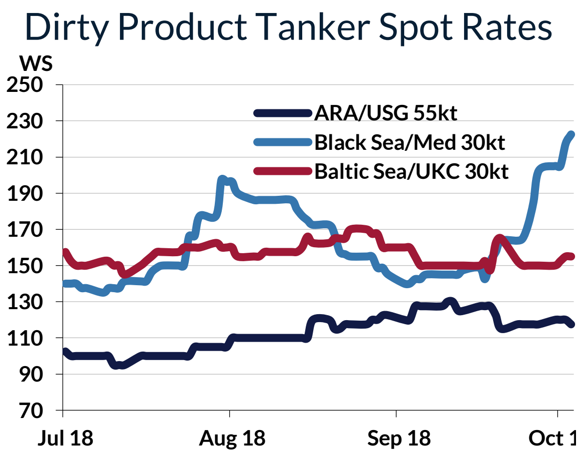
MR

This week we have seen a lot of fixing and failing in the Continent but unlike previous week's there still remains tonnage left in play. That said, the Owners still in position will be looking at surrounding markets, with high hopes on the region firming next week.

Off the back off a very active Handy size sector the MR's have managed to raise the bar to 45 x ws 155 clearing out all of the firm workable units in the region. Whether all of these stems will all be lifting 45kt remains to be seen, but Owners have been able to put their foot down and negotiate basis 45kt to maximise earnings.

Panamax

Much of this week's proceedings have been dictated by the recent performance over in the US where conditions eroded down to 50 x ws 107.5 at the time of writing. This coupled with a rising bunker price made the decision all the more difficult when assessing whether to send tonnage over here towards Europe. Eventually, where units begun to back up a couple of ships have looked to our shore for employment, and with further selection available to Charterers, levels have been tested to the detriment of Owners. Ws 115 for a ballast unit, however, should remain validates heading into next week.



GIBSON SHIPBROKERS — 125 YEARS — 1893 - 2018

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 04th	Sep 27th	Last Month	FFA Q4
TD3C	VLCC	AG-China	**+8**	68	59	53	79
TD20	Suezmax	WAF-UKC	**+12**	88	76	73	94
TD7	Aframax	N.Sea-UKC	**-14**	104	118	95	112

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

			wk on wk change	Oct 04th	Sep 27th	Last Month	FFA Q4
TD3C	VLCC	AG-China	**+6,500**	24,000	17,500	12,500	34,500
TD20	Suezmax	WAF-UKC	**+4,000**	16,500	12,500	12,250	19,000
TD7	Aframax	N.Sea-UKC	**-8,500**	5,000	13,500	0	9,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 04th	Sep 27th	Last Month	FFA Q4
TC1	LR2	AG-Japan	**+2**	102	100	97	
TC2	MR - west	UKC-USAC	**+38**	148	110	148	147
TC5	LR1	AG-Japan	**+0**	121	120	106	120
TC7	MR - east	Singapore-EC Aus	**-2**	161	163	169	

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

			wk on wk change	Oct 04th	Sep 27th	Last Month	FFA Q4
TC1	LR2	AG-Japan	**-1,250**	4,500	5,750	4,500	
TC2	MR - west	UKC-USAC	**+5,250**	7,250	2,000	8,750	7,250
TC5	LR1	AG-Japan	**-750**	6,250	7,000	4,750	6,250
TC7	MR - east	Singapore-EC Aus	**-2,000**	5,000	7,000	8,500	

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

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ClearView Bunker Price (Singapore 380 HSFO)	**+29**	522	493	454
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