

El Gran Problema Mexicano

Weekly Tanker Market Report

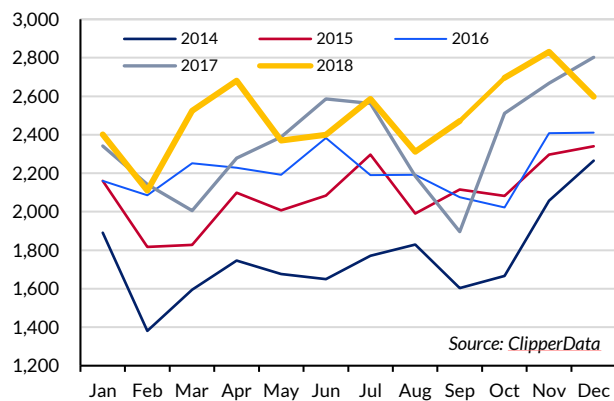
The US product export market has been transformed over the past decade. Exports of clean petroleum products (CPP) averaged 2.5 million b/d last year, up from just 0.8 million b/d in 2008. Rising trade has been underpinned by rapid growth in US crude production and refiners' access to cheaper crude feedstock. Refining margins in the US Gulf have generally been stronger in recent years, compared to those seen in other regional markets.

Due to this competitive edge, further growth in refining runs could be seen. Although utilisation rates are already high, averaging at 92.3% last year, they have been higher in the past - back in 1998 throughput averaged at 95.6% of operating capacity. Increases in capacity are also planned. The biggest addition is by ExxonMobil, who intends to build a new 250,000 b/d crude distillation unit at its Beaumont facility by 2022. There are also plans for smaller additions: for example, Meridian Energy Group plans to build a grassroots 60,000 b/d refinery in Winkler County in the Permian Basin. As the EIA expects to see just modest increases in domestic demand for gasoline, jet fuel and distillates, higher refining runs could translate into incremental product exports. In addition, the approaching IMO 2020 is likely to make US refineries even more competitive. US Gulf refineries have significant capacity to process heavy sour crude

and unfinished oils in comparison to much of the world and as such are well positioned to become one of the key providers of compliant bunker fuels, following the implementation of the global sulphur cap.

In contrast, refining landscape in Mexico is very different. The country's crude throughput averaged in 2018 at just 0.62 million b/d or at around 40% of operating capacity, its lowest level since 1990s. The collapse in refining runs is largely attributable to years of underinvestment, although natural disasters in 2017 also played a role. Crude runs are also challenged by the ongoing decline in domestic production of light crude, needed to produce larger quantities of

CPP Exports: US (000 b/d)



gasoline. With this in mind, it is unsurprising that Mexico is the single largest buyer of US products. Last year, the country's seaborne imports of clean products from the US averaged over 0.7 million b/d, accounting for 28% of all US CPP exports.

Going forward, Mexican product imports largely depend on the country's ability to restore its refining capabilities. The recently elected government has ambitious plans to modernise existing plants and to build a brand new 340,000 b/d oil refinery. According to local media, somewhere between \$3.5 to \$4 billion has been allocated in the 2019 national budget towards a sector overhaul. However, a considerably bigger financial commitment is needed to achieve visible results. A new refinery alone could cost \$8 billion, while the cost of modernising and upgrading the existing plants has been estimated at a price tag of \$18 billion. Financing is likely to be an issue. Pemex's budget is heavily constrained, with the company's debt recently assessed at \$107 billion. Structural changes are also needed to make operations more efficient. According to the Mexican Energy Secretariat (SENER), the count of Pemex's refinery staff is considerably higher in comparison to similar size facilities in the US. The global sulphur cap on marine bunkers represents an even bigger problem. Pemex refineries yield considerably more fuel oil in comparison to US refiners. SENER data shows that historically the overall fuel oil yield at Mexican refineries has been at 34%, compared to 3% for US Gulf plants.

Without doubt, efforts to modernise the Mexican refining sector represent a major threat to clean tanker trade. Only time will tell how successful these attempts are. One thing is clear though - the problems faced are quite significant and there is no quick fix solution. Also, the close proximity to a highly complex refining hub in the US Gulf makes it even more challenging for Mexican refineries to compete successfully.

Crude Oil

Middle East

The AGulf and USGulf (and all points in-between) continued to play the mutually supportive game that had allowed the market to step up last week, and this week the upward rate progression was maintained upon steady overall demand. Rates moved up to a peak ws 67.5 for long East, with asking levels to the West now at ws 30+. For now, it seems that the double act will remain in play and consolidation, at least, is likely for next week. Suezmaxes, on the other hand remained becalmed, with ongoing easy availability lending no urgency and rates merely sliding sideways at down to ws 70 East and low ws 30's to the West. It may get a little busier soon, but that will be unlikely to allow for any break-out if it does. Aframaxes managed to turn an upward corner to 80,000mt by ws 95 to Singapore upon improved attention, and a consequentially thinner tonnage list. Further modest gain on the cards.

West Africa

A grim week for Suezmax Owners to endure as Charterers quietly probed for the weakest elements to chip off rates even further. 130,000mt by ws 62.5 USGulf, and to as low as ws 65 to Europe now, and it will take sustained bargain hunting to reinvigorate. VLCCs weren't particularly busy but had support in the wider Atlantic, and from the AGulf, to allow rates to appreciate towards ws 65 to the Far East, although current peaks there will prove hard to match just for now.

Mediterranean

Aframaxes moved through a noticeably more active phase that steadily re-built rates to 80,000mt by ws 120 X-Med, and at up to ws 142.5 from the delay compromised Black Sea. Although Suezmax part cargo participation is now beginning to cap gains, there should be enough residual strength to maintain over the near term, at least. Suezmaxes themselves were initially very slow but rates held on, and then with Aframax support became more solid, though no higher than 140,000mt by ws 82.5 was payable from the Black Sea to European destinations, with around \$3.2 million asked for runs to China.

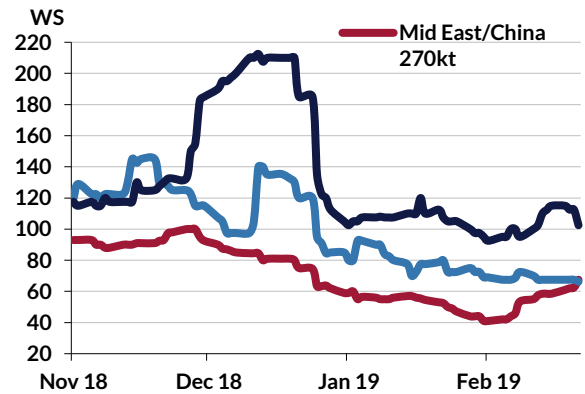
Caribbean

The bubble burst for Aframaxes as re-supply began to wash in against flaccid demand and rates fell off to 70,000mt by ws 115 upcoast and towards ws 100 transatlantic. It will take more steady work before the market can make an upward turn. VLCCs were courted onto deeper April dates but that allowed for more eastern ballasting supply to cap potential gains to \$6.2 million to Singapore - still healthy enough though, and potential remains for something just a little better on early dates, if required.

North Sea

I.P. week in London didn't aid Aframax Owners' cause and the lack of momentum turned rates slightly southerly to 80,000mt by ws 97.5 X-UKCont and to 100,000mt by ws 87.5 from the Baltic, though the attitude towards further deterioration will harden, and Charterers may then be provoked into 'helping out'. VLCC action was very muted through the week, with rate levels largely theoretical at just under \$5 million for fuel oil to Singapore and up to \$6 million for crude oil to South Korea. As elsewhere, the USGulf market will set the market bearing moving forward.

Crude Tanker Spot Rates



*All rates displayed in graphs in terms of WS100 at the time

Clean Products

East

A relatively busy week for the MRs; however, short haul cargoes have been the theme of the week. TC12 naphtha cargoes have been none existent and are in need of a fresh test; it should sit at 35 x ws 120. With West bound cargoes unfavourable at the start of the week, it was expected to be tested as Charterers had to cover stems. At \$1.4 million Owners seem more willing to look at West options. The Red Sea has been tight on tonnage, as a lack of stems in to the area has limited the number of ships naturally opening there. Owners will be keen for AGulf/Red Sea cargoes. At the \$525k mark and, with a strong chance of getting a Red Sea Cargo, they should prove popular. EAF danced around a little and closes the week at 35 x ws 155. The route has certainly been popular with Owners as and when these stems have entered the market. We assess it will be the same heading into week 10. The short haul cargoes have been plentiful, and the rates have moved around, depending on load/discharge port and Owners' own exposure in the market. However, as an average \$230k for a X-AGulf off natural window would be fair. With many ships on subjects for short haul stems and the real lack of long voyage cargoes in the market, the current sentiment is likely to hold steady for now.

LR1s have had a reasonable week but volumes have dropped away later in the week, leading to a more pessimistic view going forward. 55,000mt naphtha AGulf/Japan is now ws 110 and fairly steady, whilst 65,000mt jet AGulf/UKCont is \$1.75 million up slightly on the week. LR2s started brightly with a fair amount of cargoes but by mid-week all activity really stopped and tonnage is building. Big discounts had already been seen and further are now predicted.

75,000mt naphtha AGulf/Japan is last done at ws 102.5 but ws 100 is there and less could be forced. 90,000mt jet AGulf/UKCont is last fixed at \$2.35 million but we can easily see \$100-150k off that on the next done. If next week doesn't see a busy start on both sizes, rates are likely to see a decline.

Mediterranean

With IP week taking the spring out of the step of the market, a slow start to proceedings occurred on Monday but just about enough enquiry ticked over to keep rates trading at 30 x ws 170 for the time being. WMed enquiry was almost non-existent, which was made apparent when a market quote revealed the true colours of the tonnage list and we saw rates dip to 30 x ws 162.5. The EMed/Black Sea market is a different story, however, with the Turkish Straits delays (at worst 4-5 days delayed NB) meaning Charterers extended the fixing window in order to counteract these problems. Tonnage at the front end was tight and kept rates trading at heights of the 30 x ws 200 mark, although on Wednesday we saw a slight dip in rates to 30 x ws 190, with the delays beginning to ease off slightly. This market needs a fresh test, with little enquiry outstanding and with a lack of Handy tonnage able to make dates up to the 10th, expect rates to remain around the 30 x ws 195 mark. With this gap now between WMed and Black Sea at over ws 30 points, an EMed lifting will warrant slightly more points but this unsettled market will require testing on Monday morning.

Not surprisingly the MRs plying their trade in the Mediterranean faced a similar fate, with IP week really pushing Owners to think of different ways to keep their tonnage moving. As the UKCont market saw similar pressure,

it did not take long for transatlantic runs to slip to the 37 x ws 120 mark and AGulf at \$800k. With this in mind, some Owners decided to take out some Handy stems (whether it XMed or ex Black Sea) as rates in this sector have been letting MRs be competitive against the natural sized vessels. Moving forward Owners will be hoping this “blip” will remain just that, and that traders will wake up to a deluge of enquiry next week. However, with short haul runs turning over tonnage quickly, Charterers should still have a wealth of tonnage to pick from.

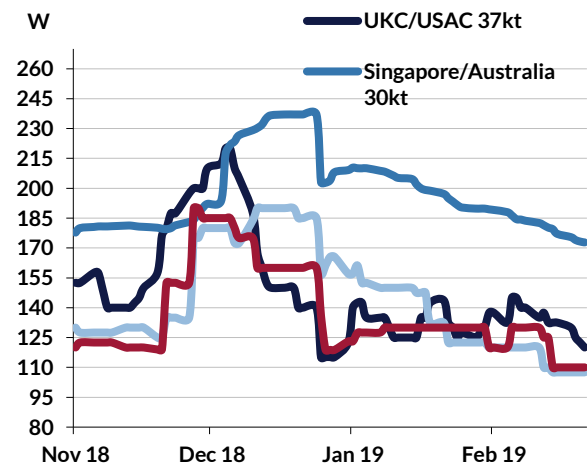
UK Continent

Predictably with IP week in full swing throughout Week 9, cargo volumes have suffered drastically and off the back of it has seen MR freight rates softening day by day. The weighty tonnage list both on the front end and for natural fixing dates has meant there has been plentiful units for Charterers to pick and choose from. TC2 now closes the day at 37 x ws 120 (37 x ws 115 has been seen on a vessel which needs to be delivered in the US) and West Africa at 37 x ws 130-135. The ice premium ex Baltic has melted away this week too; a healthy amount of hidden vessels has resulted in Baltic/UKCont softening to 40 x ws 135. Looking ahead Owners will be hoping for an improvement in cargo flow as many will be returning to their desks after a heavy IP week.

In contrast to the MRs, the Handy market has experienced an active week, which saw the front end of the tonnage list tighten, resulting in Baltic freight moving to 30 x ws 165 and X-UKCont to 30 x ws 135 as safer itineraries seem more important right now. Handy Owners will be keeping a firm eye out on how the MRs perform moving forward, as those with vessels in position may look to snatch a short-haul Handy cargo in order to eat up some idle days. On the whole, positive moving into week 10.

On the surface this week has been pretty quiet for the Flexis, although upon closer inspection a combination of COA requirements, longer haul voyages and weather delays has kept the tonnage list from growing by any great margin. In addition, although spot enquiry has been minimal, the improving sentiment (and thus rates) on the Handies means the same fortune should favour the smaller Flexi units. A fresh test is now needed for the X-UKCont benchmark but 22 x ws 175 should be on the cards for Owners early next week.

Clean Product Tanker Spot Rates



*All rates displayed in graphs in terms of WS100 at the time

Dirty Products

Handy

An enduring time for the Continent: while Handies were reeling the effect from one large drop, we saw a second in as many days. Owners will be hopeful that some repetition will be seen and conditions will stabilise before too much value is lost; however, the cargo supply in the region remains drastically slow, with only a handful of cargoes seen all week. Next week will need to see an early upturn in trade volumes, if trend is to reverse.

Collective activity in the Med has helped to maintain a slightly less imbalanced tonnage list; however, rates fell victim to constant decrement. We now sit clinging on to levels in the ws 140's. Disruption from IP week also didn't help as information flow became rather disjointed, with many of our peers being away from their desks. In reality this also had a negative effect on sentiment, as a quietened feel was amplified.

MR

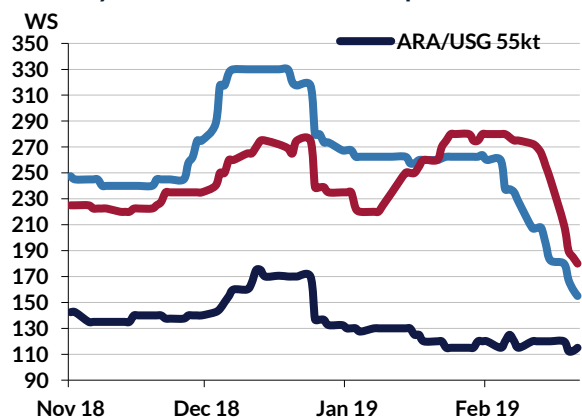
The MR Continent market right now seems to be the only one which has found a floor from recent reductions. Although chunks of value have been lost, at least Owners can now take ws 125 as a solid base from where they negotiate. Furthermore, tonnage supply within this region now looks rather trimmed, offering further hope for stability.

The same, however, cannot be said for the Mediterranean sector. MR units, which had not seen much full sized enquiry and at the same time were feeling the effects of a misfiring Handy sector, have had to fight it out for what limited opportunity came by on a part cargo basis. Going forward and where tonnage is likely to reappear quickly, these same market characteristics are in all probability likely to reoccur.

Panamax

Drawing closure on week 9, it's fair to say that this week hasn't been an awe inspiring period for trading, with only a couple of deals concluded. In essence Owners on both sides of the Atlantic attempt to simply weather the storm and hope for some cargo impetus in order to rebalance the supply vs demand ratio. Until then, rates remain under pressure, with Europe dropping another ws 2.5 points week on week.

Dirty Product Tanker Spot Rates



*All rates displayed in graphs in terms of WS100 at the time

Dirty Tanker Spot Market Developments - Spot Worldscale

		wk on wk change	Feb 28th	Feb 21st	Last Month	FFA Q1 (Bal)
TD3C VLCC	AG-China	+9	67	58	48	59
TD20 Suezmax	WAF-UKC	-1	67	68	71	66
TD7 Aframax	N.Sea-UKC	-11	103	114	104	104

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

		wk on wk change	Feb 28th	Feb 21st	Last Month	FFA Q1 (Bal)
TD3C VLCC	AG-China	+10,750	40,500	29,750	20,250	30,250
TD20 Suezmax	WAF-UKC	-250	15,750	16,000	19,500	15,250
TD7 Aframax	N.Sea-UKC	-7,750	17,250	25,000	20,250	17,750

Clean Tanker Spot Market Developments - Spot Worldscale

		wk on wk change	Feb 28th	Feb 21st	Last Month	FFA Q1 (Bal)
TC1 LR2	AG-Japan	-10	103	113	126	
TC2 MR - west	UKC-USAC	-13	121	134	127	131
TC5 LR1	AG-Japan	+1	110	109	123	113
TC7 MR - east	Singapore-EC Aus	-7	173	179	192	

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

		wk on wk change	Feb 28th	Feb 21st	Last Month	FFA Q1 (Bal)
TC1 LR2	AG-Japan	-2,500	14,750	17,250	25,250	
TC2 MR - west	UKC-USAC	-2,500	8,250	10,750	10,500	10,250
TC5 LR1	AG-Japan	+250	10,500	10,250	14,500	11,250
TC7 MR - east	Singapore-EC Aus	-3,500	15,000	18,500	20,500	

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

ClearView Bunker Price (Rotterdam HSFO 380)	-4	406	410	373
ClearView Bunker Price (Fujairah 380 HSFO)	-2	428	430	393
ClearView Bunker Price (Singapore 380 HSFO)	-3	425	428	412
ClearView Bunker Price (Rotterdam LSMGO)	+8	589	581	544

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