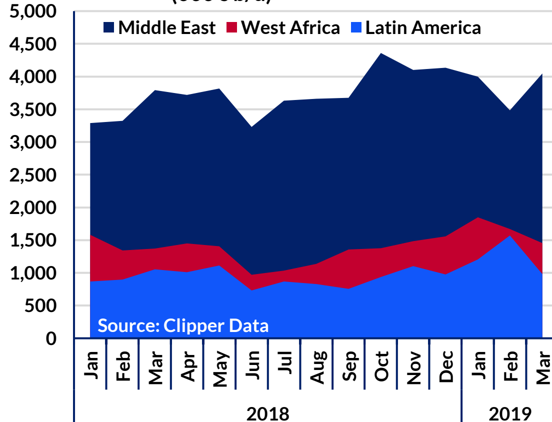
Chinese Samba

Weekly Tanker Market Report

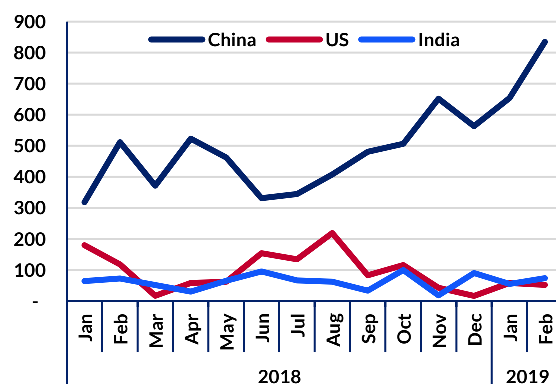
Earlier in 2019, we published a market report into how the surge in Chinese refined product exports had a profound effect on the product tanker market. However, with significant new refining capacity coming online in China this year, it is important to assess where the additional crude supply will come from. With two of China's key suppliers under sanctions, and many others participating in output cuts, procuring the additional volumes demanded may not be as simple as before. Where will China turn?



Traditionally, China's largest sources of crude have been the Middle East and Russia. West Africa and Latin America have also supplied significant volumes. However, productions cuts have put pressure on these flows. OPEC cuts have reduced production from China's biggest seaborne crude supplier, Saudi Arabia. Saudi Arabia is still one of the top suppliers of crude to China, but import growth is slow year on year. Individual supplies from Iraq and Iran are down, with sanction hit Iranian exports to China falling from over 675,000 b/d in Q1 2018 to under 500,000 b/d in Q1 2019, with the UAE and Oman plugging some of the gaps according to Kpler. 2019 Q1 numbers also show just over 1.2 million b/d of Russian crude has flowed into China via pipeline and sea, the same level as Q1 2018.

However, whereas imports from the Middle East and Venezuela look precarious, imports from Brazil specifically have surged in recent months, capitalizing on uncertainty from other countries in the region. Many modern Chinese refiners are set up to run most effectively on heavier grades of crude, but with heavy crude production suffering of late, demand from China – and globally – has soared for Brazil's heavy grades. Petrobras stated in their annual report that 66% of their crude exports in 2018 went to China. Q1 2019 imports of Brazilian crude to China averaged over 665,000 b/d, up 67% from Q1 2018's average of 400,000 b/d. Brazil's production is set to increase over 350,000 b/d this year according to the IEA. However, despite substantial growth, the difficulty markets face now is that Brazilian grades – especially Lula grade - are demanded elsewhere, particularly from the US and India looking to replace Venezuelan barrels.

With significant refinery capacity due to come online in 2019 and crude production in the Middle East remaining constrained, Brazilian crude exports to China should increase further, providing a supportive outlook for VLCCs heading West to East, as we had previously reported. Uncertainty surrounding Venezuelan export volumes and the outcome of the trade war, coupled with OPEC production cuts offers a significant opportunity for Brazil to capitalise on Chinese demand, which is expected to pick up as refinery maintenance season concludes. With domestic demand growing and political turbulence, China has little choice but to continue to diversify its sources crude supply. As such, Brazil could become one of China's critical sources for these additional barrels. But of course, IMO 2020 could change the economics of long-haul crude flows. However, with most of the supply growth in the West and demand from the East, there may be little choice but to cough up the extra expense.



Crude Oil

Middle East

VLCCs continued their downward march, with modern vessels willing as low as ws 35 to the Far East and to ws 18.5 to the USGulf via cape. Late week activity did pick up quite noticeably, but that merely served to draw a line under the decline and Owners will need a further sustained period of heavy attention to prune weighty availability, and lead to any progressive rebound. Suezmaxes again drifted sideways upon only modest demand, and easy supply - 130,000mt by max ws 65 East, and to ws 40 West for now, and probably well into next week too. Aframaxes also found little positivity but did just about hold at 80,000mt by ws 100 to Singapore. More needed to retain that mark over the next phase though.

West Africa

Suezmaxes restarted again at year lows but eventually found themselves within a slightly better balance to threaten a degree of break-out. Charterers largely failed to react, however, and Owners will have to prove themselves next week. Rate demands are now at a modestly raised ws 55 to the USGulf, and to ws 65 to Europe but will lift from those levels if the action does indeed pick up. VLCCs fell away in tandem with AGulf declines, to a low of 260,000mt by ws 40 to the Far East, and Owners will have to wait for the Middle East to improve before being able to secure anything much better here.

Mediterranean

Aframaxes did see quite reasonable enquiry to eventually clear most of the excess, but rates never responded and ended the week at a lower 80,000mt by ws 77.5 X-Med, ws 90 from the Black Sea. A repeat next week may jolt the market higher, but the weekend break will allow a tonnage re-stock to compromise. Suezmaxes also began to find a finer balance to gently re-inflate rates to 140,000mt by ws 67.5 from the Black Sea to European destinations and to $2.9 million for runs to China. It needs more, but an extra boost will come if West Africa takes its potential step higher.

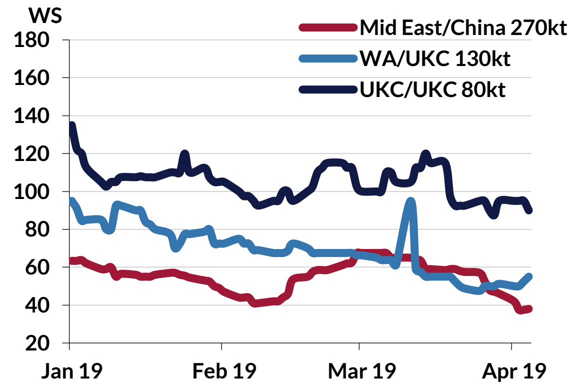
Caribbean

Aframaxes had hoped for a post Houston ship canal clean-up uptick in the market, but demand never challenged very easy supply and rates crumpled to 70,000mt by ws 77.5 upcoast, and look set to remain anchored into next week too. VLCCs had moved through a very slow phase, but this week activity did pick up...the bad news was that heavy availability remained, and rates conversely fell off to as low as $3.7 million from the USGulf to Singapore, where they are likely to remain over the near term, at least.

North Sea

As in the Med, a bit busier for Aframaxes here, but also as in the Med, rates ended the week a little lower too. 80,000mt by ws 87.5 X-UKCont, with 100,000mt ex Baltic at down to ws 60. Owners need consistent demand to force improvement. VLCCs found occasional interest but not enough to resist further discounting to $4.7 million for crude oil from Hound Point to South Korea, and the fuel oil 'arb' to Singapore remained out of play.

Crude Tanker Spot Rates



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

Clean Products

East

A disastrous week for MR Owners, where rates have been negatively tested as tonnage outnumbers open cargoes, crippled further by the pressure coming from a none existent LR1 market. EAF crumbled to ws 130 and shorts corrected quickly to $160k for X-AGulf and $500k levels for stems into the Red Sea. Natural jet/Ulsd stems to the UKCont need a fresh test but $1.3 million is a good marker. With a few fresh stems entering the market towards the end of the week, Owners will be hoping this can stop rates from spiralling downwards further but, with most open cargoes falling towards the end of the natural fixing window, come Monday, there will still be several prompt ships that need to get moving. The ball is firmly in the Charterers court for now, and a tough week lies ahead for the MR Owners.

LRs in general have had a poor week, with activity levels dropping right away. Monday saw LR2s busy completing the previous week's quotes, but after that, little has really happened. 75,000mt naphtha AGulf/Japan is hovering around ws 100 but as yet unproven. 90,000mt jet AGulf/UKCont is now $1.95 million down some $50k on the week. LR1s have had a bit of a disaster with activity levels dropping off a cliff. Rates accordingly have quickly come off with 55,000mt naphtha AGulf/Japan now at ws 100 and destined for lower. 65,000mt jet AGulf/UKCont is untested but no more than $1.65 million today. Again all rates are vulnerable, whilst very few stems are being quoted.

Mediterranean

Many Owners wandered in this week, with a similar bullish attitude from week 13, as rates sat for X-Med in excess of 30 x ws 260 but, with a dramatic slowing of enquiry and tonnage lists replenished, rates were in for a hit. Black Sea liftings on the face of it were in less supply, although expect a few to have been clipped out quietly behind closed doors, and with that by the mid-point we settled at ws 230 for X-Med but unfortunately for Owners there was more to come. We reach ws 200 by Friday, with a fresh test for Black Sea still required to show the correction here, but expected to settle around ws 220, and with Charterers holding the upper hand here, with potential for further losses before the close of play. Looking ahead, with momentum swung back firmly in the Charterers direction, Owners will be looking for all the excuses not to see a further slip in rates but, with a handful of cargoes still awaiting coverage, the opportunity is there to test their resilience.

MRs have seen little love this week in the Mediterranean, and have had to beat the rhythm of the UKCont market once again but, with this sector seeing a significant drop, it was not a pretty week for Owners. A couple of early week WAF runs were clipped away at ws 182.5-185 levels but, with TC2 falling down to ws 145 now, expect a fresh test heading that way to see a ws 20 odd point slip. East runs have been very quiet, giving limited options for Owners, with one taking out a distressed X-Med stem also, but this may have just been the highlight of the week. Enquiry in the North has picked up a little by close of play, which should fall into Owners hands in holding rates in place as we await what is on offer next week.

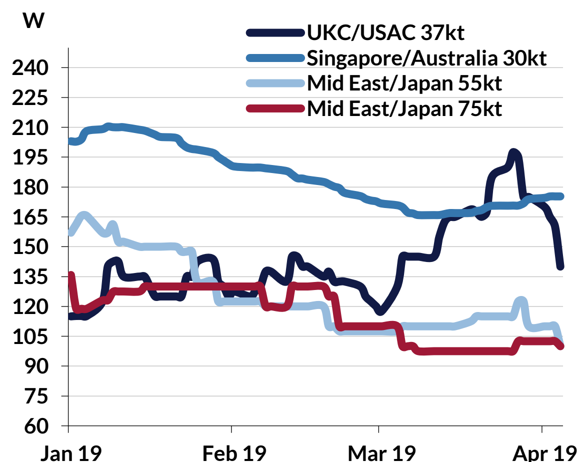
UK Continent

The writing was on the wall somewhat on Monday once the tonnage lists had been updated.

Owners did well to hold TC2 rates in the early part of the week at 37 x ws 167.5-170 levels battling through both Monday and Tuesday. However, by the mid-week point Charterers had held back cargoes long enough from the market to turn Owners sentiment. By Wednesday afternoon and Thursday morning the rates succumbed to the mounting negative pressure and slipped to 37 x ws 160 and then onwards to 37 x ws 145-150 - all the while WAF enquiry had been slow, meaning it was only commanding a ws +10 points premium over transatlantic runs. Mercifully, the stems that were held back early in the week were pushed out to capitalise on the lower rates, giving some balance to the lists and meaning Owners seem to have found the floor 37 x ws 145 which should hold for today and early next week. Non-ice MRs can now call Primorsk and Ust-luga, meaning these premium have been eaten into as well and closely track TC2.

Unfortunately, for Handy Owners in NWE the returning preference and availability of LR tonnage has ruined the previous few weeks hard work as much of the Baltic programme is being clipped away on LR1's, and LR3's. Problems have been compounded by the fact that Primorsk output for April is down by 260KT, leaving the tonnage list lengthy from the get go. The 30 x ws 207.5 seen Friday last week on Baltic/UKCont, seems a far cry from the 30 x ws 150 now (albeit on a ship with class status issues). At the time of writing, there is nothing outstanding cargo-wise in the public domain meaning 30 x ws 150-155 is the number on people's lips for TC9 whilst the practically silent X-UKCont market is at 30 x ws 145. Regrettably, it feels like the market will come off further next week, especially with non-ice ships able to call most of the Baltic ports.

One could be mistaken for thinking the Flexis have been inactive this week but if one tracks the positions list changes, there has been relatively good levels of enquiry that has ultimately kept all Owners in this sector relatively happy and on the move. Although benchmarking against Handies will show that the market has softened some ws 40 or so points to 22 x ws 185 X-UKCont, all in all, ships are being clipped away for a variety of different routes and COA's gobble up the rest. There's no fireworks here, but there is enough happening to give this sector some value.



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Dirty Products

Handy

The NWE sector has been a bit of a non-starter this week, as enquiry levels have been considerably more subdued than expected. This has resulted in a negative correction in freight levels, resulting in a ws 15 point drop from week 13, with Baltic – UKCont now trading at the ws 120 level. The real question is, have we finally seen the bottom of the market now or not?

On the flip side of the coin, the Mediterranean has managed to create some momentum this week, as the steady clear down in tonnage has put Owners on the front foot heading into negotiations.

In addition, the Black Sea has picked up with the volume of stems increasing as Tuapse comes back online. Rates have climbed a little, with the Black Sea now peaking at the ws 145 level. Come Monday, Owners will be feeling confident and fresh tonnage lists will be key to the true direction of the market.

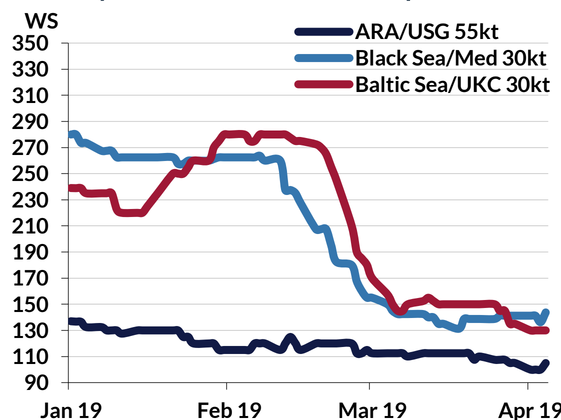
MR

The MR's in the North this week have once again left us all wondering when the spark is going to reignite the region. Closing the week, with just one unit in play, we would expect to be getting excited about the fundamentals of supply and demand and a potential push on rates next week. However, with enquiry simply non-existent, all that is left to do is sit back and wait for this Owner to be either picked off far from last done or take a punt on a Handy stem. The problem being that the market is also short on offerings.

The Med has fared slightly better this week, with reported enquiry being drip fed day to day and units being taken up. That said, much of the what is being reported comes with little in terms of accuracy so the market is left speculating on the finer points of where the land currently lies. With the Handy market showing early signs of strength and MR tonnage firming, week 15 has the potential to build on this week's foundations.

Panamax

The Panamax sector has been difficult for Owners to build any momentum, as the weak Aframax sector which surrounds this market has been offering a more competitive $/ton. In turn, this has resulted in at least 1-2 stems being covered on the larger size units, however, for one reason or another where natural size units have been needed, we once again see the conference level of ws 105 repeated. Come next week we are likely to see much of the same.



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125 YEARS
GIBSON
SHIPBROKERS
1893 - 2018

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Apr 4th	Mar 28th	Last Month	FFA Q2 (Bal)
TD3C	VLCC	AG-China	**-9**	38	47	67	43
TD20	Suezmax	WAF-UKC	**+8**	58	50	62	64
TD7	Aframax	N.Sea-UKC	**+1**	88	88	107	94

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

			wk on wk change	Apr 4th	Mar 28th	Last Month	FFA Q2 (Bal)
TD3C	VLCC	AG-China	**-8,750**	9,250	18,000	40,000	43
TD20	Suezmax	WAF-UKC	**+4,000**	6,500	2,500	13,000	64
TD7	Aframax	N.Sea-UKC	**+500**	6,250	5,750	19,750	94

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Apr 4th	Mar 28th	Last Month	FFA Q2 (Bal)
TC1	LR2	AG-Japan	**-5**	98	103	98	
TC2	MR - west	UKC-USAC	**-44**	148	192	145	130
TC5	LR1	AG-Japan	**-8**	104	112	108	106
TC7	MR - east	Singapore-EC Aus	**+3**	175	172	167	166

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

			wk on wk change	Apr 4th	Mar 28th	Last Month	FFA Q2 (Bal)
TC1	LR2	AG-Japan	**-1,500**	12,500	14,000	12,250	
TC2	MR - west	UKC-USAC	**-9,500**	12,750	22,250	12,750	9,250
TC5	LR1	AG-Japan	**-1,500**	9,500	11,000	10,000	10,000
TC7	MR - east	Singapore-EC Aus	**+250**	14,500	14,250	16,000	13,250

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

	wk on wk change	Apr 4th	Mar 28th	Last Month
ClearView Bunker Price (Rotterdam HSFO 380)	**+11**	416	405	411
ClearView Bunker Price (Fujairah 380 HSFO)	**+5**	431	426	433
ClearView Bunker Price (Singapore 380 HSFO)	**+5**	432	427	436
ClearView Bunker Price (Rotterdam LSMGO)	**+7**	585	578	591

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