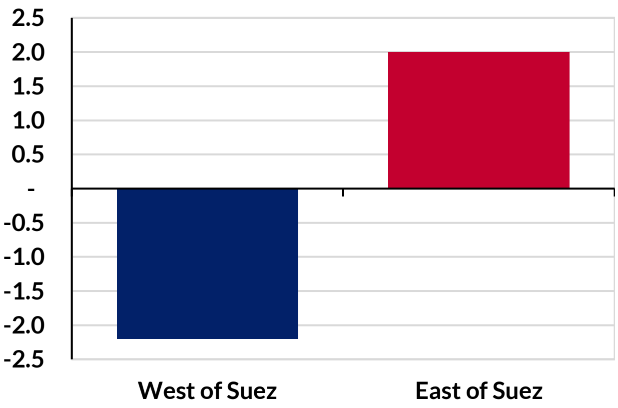
The Long and Short of It
Weekly Tanker Market Report

Many tanker market participants have placed significant faith that both fundamental developments and short term disruptive factors will push the products tanker market into an upcycle over the next few years. Much has been said about how new refining capacity in Asia, coupled with IMO2020 will create sizeable arbitrage opportunities from East to West, giving a substantial boost to the product tanker market. Whilst this view is certainly reasonable, the reality is not quite so simple.

Firstly, regional distillate balances are going to shift everywhere, not just in Asia. Regions such as the US, which are projected to see a growing surplus over the next five years, may, on a short term basis, see their distillate surplus shrink in order to cater for domestic bunkering demand. A similar story is true in the Middle East, where long haul flows will have to compete with shorter haul demand to key bunkering hubs such as Fujairah. In Asia, any East to West outflows will also have to bypass regional demand. Singapore for example, supplied nearly 50 million tonnes in bunker fuels last year, collectively the Asia Pacific region supplied more than three times that amount. Granted, the majority of those volumes have historically been high sulphur fuel oil (HSFO) but come 2020, gasoil is (at least initially) expected to capture the majority of the market. Ultimately, this means that there will be stronger demand for locally produced distillates, which is expected to limit outflows from Asia, which conversely is expected to see a shrinking distillate surplus over the next 5 years.

2018 Distillate Balances (mbd)



Structurally, however, the market will be supportive of at least some increases in East to West flows in the short term. Looking at the balances last year, the East of Suez (Middle East and Asia) market had a distillate surplus of 2 million b/d. West of Suez (including West Coast Americas and Africa) had a deficit of 2.2 million b/d. This would suggest that additional supply from the East of Suez to the West will rise. However, both regions will see their gasoil balances tighten next year. Changes to the Asian surplus may be counterbalanced by new refining capacity coming online this year, although the Western market is expected to a see a steeper deficit. Ultimately, this should support wider pricing differentials between regions. However, at this stage it is difficult to predict at what level an arbitrage may or may not be open. Another challenge laying in the way of long term flows is that of freight costs. Whatever the price of compliant fuel, it is expected to drive up freight rates, so any arbitrage that does occur will need to be wide enough to compensate for higher shipping costs.

Fundamentally, with structural imbalances in place, prices should ultimately adjust to facilitate the higher rates. Volumes from the East into the key shorts of Europe, Africa and Latin America will have to compete with producers in the US, Russia and Middle East, who are all long on distillates and also have the advantage of shorter sailing distances and thus cheaper freight, better placing them to supply the Western markets. The long and short of it is that East of Suez will be long, and West of Suez will be short. The majority of new refining capacity start-ups this year are in the East, which should support incremental flows between regions and support tonne mile demand. Yet, the volumes will be capped by the fact that the East of Suez bunkering market is bigger than that of the West, coupled with the fact that initially, gasoil is expected to be the dominant bunker fuel before 0.5% blends gain traction.

Crude Oil

Middle East

VLCCs found enough mid-week attention to marginally raise the top end of the rate range but momentum never really took hold and as soon as dates rolled forward to widen competition, Owners found themselves back to square one, with rates to the Far East boxed into a ws 40 ceiling and levels to the West still in the high 'teens' via Cape. Holidays in the U.K. and U.S. on Monday don't have to disrupt, but will probably provide Eastern Charterers with a good excuse to keep things on the slow side, initially at least. Suezmaxes enjoyed some minor excitement as replacement needs forced a slim early list but once that pinch point had passed, normal service started to resume and rates eased back to ws 33 West and to ws 65 East accordingly. Aframaxes started slowly but then gained some late week traction to lead rates up to 80,000mt by ws 117.5 to Singapore, with the possibility of a little more before the market slows again.

West Africa

As anticipated, a testing week for Suezmaxes here. availability remained heavy, and demand only spasmodic. The end result was for rates to be scraped even lower to ws 57.5 to Europe and to ws 52.5 to the USGulf which, although now effective bedrock, looks likely to remain where the market will reside over the coming period too. VLCCs, as in the AGulf, enjoyed a brief flicker of hope and levered themselves a small premium over prevailing AGulf/East numbers to 260,000mt by ws 43.5 to China but, with support from that region faltering, further gains were effectively squashed. A 'last done' market now - at best.

Mediterranean

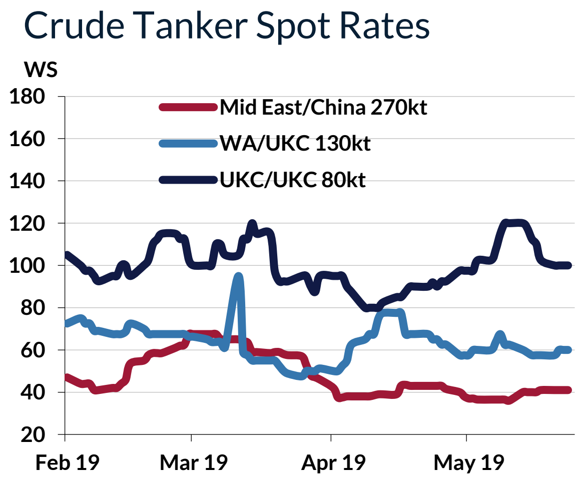
Aframaxes started the week on the back foot but Charterers then pushed concentrated cargoes into the marketplace to turn the tide and set rates upon a steadily upward course. Rates ended the week at 80,000mt by ws 120 level X-Med, with up to ws 130 payable from the Black Sea. flatline Suezmaxes at 140,000mt by ws 72.5 Black Sea/Europe, $2.85 million China, then intervened to cap the gain on part cargo opportunity and both sectors moved happily into the weekend.

Caribbean

A tough week for Aframaxes, as the dip at the end of last week turned into a relative rout, rates fell sharply to 70,000mt by ws 85 upcoast and to ws 75 transatlantic, despite what was actually quite solid interest. Just too many ships on the fixing window for the time being, at least. VLCCs continued quite busy and pushed to as high as $4.5 million to Singapore initially. Later, however, one or two early units popped up unexpectedly to weaken the front end and ballasters/refugees from the Far East remain keen on forward dates to compromise further improvement.

North Sea

Aframaxes couldn't reap any advantage from Mediterranean gains as demand failed to challenge supply and rates merely drifted sideways at 80,000mt by ws 97.5 X-UKCont and to 100,000mt by ws 70 from the Baltic. The U.K. bank holiday won't help either. VLCC rate demands remained solid upon USGulf support and remained at, or close to, $4.5 million for crude oil to South Korea. A slight lull just for now, but demand is expected to pick up over the coming month and Owners will prove hard to spook - over the near term, at least.



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

GIBSON SHIPBROKERS

Clean Products

East

A strong week for MRs, with Owners pushing to see a positive correction on last done levels. As the week progressed, the flow of stems remained constant and with thinning tonnage list, these aspirations were achieved. EAF went on subs at 35 x ws1 82.5, a sizable ws 22.5 up over the course of the week. UKCont showed the signs of a rate rise and Owners were pleased to see a $1.535 million on subjects. A drive to push further from bullish Owners needs to be temped, considering that only $200k is between LR1 and MR UKCont rates. Unless there is a movement for the LR1s, we will surely see a natural ceiling on the MRs. Short haul cargoes have danced about the $300k mark (date and ranges dependant), but these voyages are certainly very attractive, commanding decent returns. Naphtha moving East also saw a healthy correction, with 35 x ws 150 going on subjects. Although not a huge amount of open naphtha cargoes remains heading into the weekend, this is a good last done for Owners to move from next week. The tonnage has tightened right up of the front end, but there isn't an abundance of open stems looking to week 22. Owners will be hoping for another strong Monday, but Charterers will almost certainly use the weekend to try and ease this head of steam and temper the enthusiasm seen by owner this week.

LR1s have been busy this week and rates are starting to move upwards. 55,000mt naphtha AGulf/Japan is now ws 120 and could see more in the coming week. 65,000mt jet AGulf/UKCont is still down at $1.75 million but also looks set to see improvements soon. LR2s have seen a quieter time though and the heat has been taken out of the market. With a dip in volumes during 1-10 June window, there is now a hangover of vessels into mid-month, which will hold rates back. 75,000mt naphtha AGulf/Japan is ws 107.5 and fairly steady for now. 90,000mt jet AGulf/UKCont is last done at $2.275 million and actually could see a slight discount.

Mediterranean

The Black Sea market has continued to be the driving force in the Med this week, with enough cargoes to clip away EMed tonnage. This in turn lead to a positive correction in rates ex EMed. At the time of writing, Black Sea is at heights of 30 x ws 180. Although only a few cargoes remain, tonnage remains tight and, if any cargo needs covering before 3rd June, then more points are on offer. A two tiered market has been seen in the Med this week, with an EMed lifting warranting more points and 30 x ws 165 is now the established number. With the UKCont market still on its knees, ballasters have begun to enter the picture, which lead to a few 30 x ws 155's done midweek. However, in reality 30 x ws 162.5 is probably achievable now, a touch behind that of EMed.

A fruitful week for Owners in the Mediterranean as limited levels of tonnage were met with good levels of enquiry, and it wasn't long till gains were seen. 37 x ws 117.5 appeared early on Monday and, with this momentum, Owners managed to continue towards ws 127.5 and settling at ws 130 by the close of the week. Not surprisingly, WAF pulled up to heights of ws140+, with AGulf dotting between $700-$800k, dependant on Owner. With demand for tonnage ex Black Sea and runs to the UKCont still outstanding, expect Owners to remain bullish in their ideas.

UK Continent

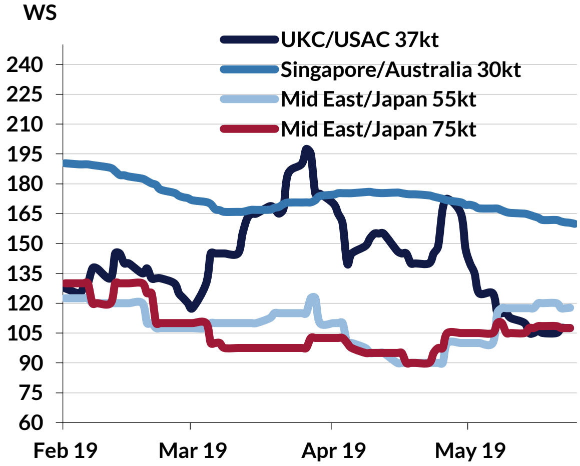
A mixed bag of results for Owner and Charterers alike in the continent, as good levels of enquiry early in the week gave hope for rate gains. Unfortunately though for Owners, any improvements have been hampered by a glut of tonnage, with non CPP last cargoes and the ws 5 point discount has been a thorn in their sides. In a slightly surprising occurrence of events we see the Mediterranean able to make gains, with a limited tonnage list enjoying some good activity. Now, with ballast tonnage on its way over and nearly ws 20 points more available in the Med, Owners look to pull up UKCont numbers. As Friday arrives, we reach 37 x ws 127.5 for WAF, which arguably pulls TC2 to ws 115 also. We await to see what arguments Charterers in the north can use to keep a lid on further potential gains.

Once again, it has been another uninspiring week for Handies plying their trade up in the north, but fortunately for Owners freight levels have managed to hold the line at last done levels, with a healthy amount of direct fixing ex Baltic for programme cargoes being the main catalyst for this. 30 x ws 110 has been repeated numerous times throughout the week along with 30 x ws 100 for X-UKCont. Even though enquiry has picked up towards the latter stages of the week due the UK bank holiday, some Charterers have pushed past the natural fixing window, although there still seems to be a healthy amount of (hidden) candidates for Charterers to pick and choose from. Same old expected to occur here.

A pretty stagnant week for the Flexis in reality. A couple of ships managed to find some employment early on loading South Spain. Yet, this has been for short haul voyages, keeping these units trading no further than north of Spain.

In NWE, employment opportunities have been minimal and rates have stayed depressed, given the diversity of Owners with tonnage available for charter. This, coupled with the depressed Handy market, keeps the sentiment and rates in the doldrums and pegged around 22 x ws 130. Any recovery in this sector is reliant on the Handies making some moves, although that doesn't seem to be anytime soon.

Clean Product Tanker Spot Rates



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

Dirty Products

Handy

The north has suffered a similar fate as last week, as we endure another tough week for Owners. With little fresh enquiry being marketed in the region from Monday, we once again report of fixing levels being chipped away at the result of which sees rates trading around the ws 120 level, some ws 10 points from where the week started. In addition to this, we have witnessed some larger discounts than you would normally expect for a longer voyage to the Med, this only highlights some Owners have had to take what is on offer and limit any further losses and to get to a more active region. Looking towards next week, we can only expect this soft sentiment to remain, unless we see a significant upturn in enquiry.

The Mediterranean has continued from where things left off from last week, as firm sentiment in the region goes from strength to strength. Straight out of the blocks on Monday morning, fresh enquiry came to take out units early on and despite a lull in activity mid-week, incremental gain was seen. A few more points have been pushed for, as tonnage has thinned and this sees us end the week with the Black Sea trading at the ws 160 levels. With tonnage now limited in the region, there is no sign of the firm sentiment going away any time soon. Despite there being a long weekend in London this weekend, sentiment and trading levels are unlikely to change, so all eyes will be on the fresh lists published next week.

MR

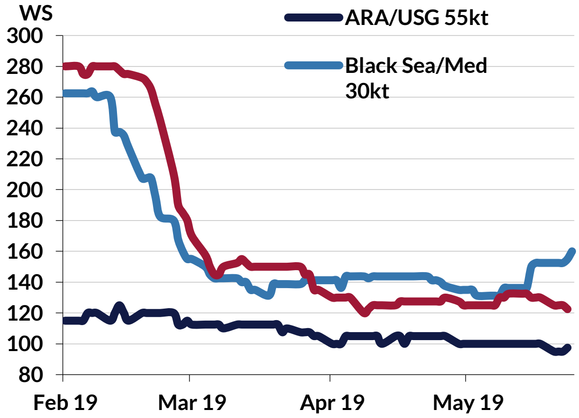
Despite tonnage showing, the picture for MR Owners in the north this week has not changed, as we get to Friday with the tonnage list unaltered. The only change to talk of is that units that were not open prompt on Monday now are and as such the term 'sitting ducks' has been whispered. With decrement in the sluggish Handy sector seen throughout the week there is little to offer these units in terms of a fall back when both Handy and full stems are not showing. Adding fuel to the fire is the fact that the Med has maintained a good pace and these units in the north will undoubtedly be keen to head south. With this in mind, expect to see a fresh test for the first cargo that comes to market.

In the Mediterranean, the MRs have fared slightly better, not only seeing a good level of enquiry on full size stems but sentiment has carried Owners through to a point where incremental gain has been maintained. Tonnage in the region is by no means lacking but uncertainty over some itineraries and the Handy sector performing well has placed confidence back in the hands of Owners after what feels like a sustained period of stagnation. With delays in the Straits set to continue over the coming days into next week, Owners getting close to their dates may find themselves capitalising on replacement business where the Handy market shows a thinning list on end month dates.

Panamax

Levels here in Europe this week took a dip where inactivity which precludes week 21 lead to a ws 5 point drop, with numbers settling below ws 100. From this point though, a number of stems have been covered, which has helped to remove some of the excess capacity sitting on European tonnage lists but unfortunately for Owners more is needed before a revival in fortunes can be sought.

Dirty Product Tanker Spot Rates



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 23rd	May 16h	Last Month	FFA Q2 (Bal)
TD3C	VLCC	AG-China	**+1**	42	41	42	42
TD20	Suezmax	WAF-UKC	**+0**	60	59	62	62
TD7	Aframax	N.Sea-UKC	**-9**	100	108	93	98

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

			wk on wk change	May 23rd	May 16h	Last Month	FFA Q2 (Bal)
TD3C	VLCC	AG-China	**+2,000**	14,500	12,500	12,500	42
TD20	Suezmax	WAF-UKC	**+750**	7,750	7,000	7,000	62
TD7	Aframax	N.Sea-UKC	**-5,750**	13,750	19,500	8,750	98

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 23rd	May 16h	Last Month	FFA Q2 (Bal)
TC1	LR2	AG-Japan	**-0**	108	108	101	
TC2	MR - west	UKC-USAC	**+3**	109	105	170	116
TC5	LR1	AG-Japan	**-2**	117	119	92	116
TC7	MR - east	Singapore-EC Aus	**-3**	160	163	172	166

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

			wk on wk change	May 23rd	May 16h	Last Month	FFA Q2 (Bal)
TC1	LR2	AG-Japan	**+0**	16,250	16,250	13,000	
TC2	MR - west	UKC-USAC	**+750**	5,250	4,500	16,000	6,750
TC5	LR1	AG-Japan	**-250**	13,000	13,250	6,250	13,000
TC7	MR - east	Singapore-EC Aus	**-250**	12,750	13,000	13,500	13,750

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

ClearView Bunker Price (Rotterdam HSFO 380)	**-8**	397	405	443
ClearView Bunker Price (Fujairah 380 HSFO)	**-7**	412	419	449
ClearView Bunker Price (Singapore 380 HSFO)	**-7**	414	421	454
ClearView Bunker Price (Rotterdam LSMGO)	**-16**	607	623	618

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