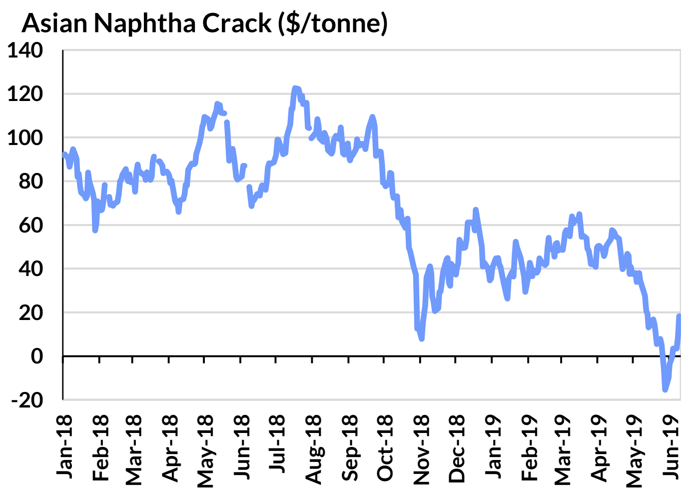
Cracked Spreads?

Weekly Tanker Market Report

As we noted in our report dated 7th June, the slowing global economy, partly driven by the ongoing US-China trade war is starting to impact on world oil demand. An increasing number of agencies are factoring in an increased risk of an economic downturn into their projections. In May, the OECD lowered its forecast for global economic growth to 3.2%, whilst the Netherlands Bureau of Economic Policy Analysis recently claimed that world trade had fallen back to its slowest growth rate since the financial crisis. Fitch Ratings Agency was even more bearish, trimming its 2020 growth rate to 2.7% owing to persistently weak Chinese consumer spending and the impact of the US-China trade war. The Agency has warned that growth could be as low as 2.4% if President Trump follows through on his threat to place tariffs on a further $300 billion of Chinese imports, further undermining trade growth. America is not immune either; the New York Federal Reserve's gauge of business growth in New York State posted a record fall this month to its weakest level in more than 2.5 years, suggesting an abrupt contraction in regional activity. As a result of these headwinds, the IEA has again revised down its assessment for world oil demand, which is now estimated to grow by 1.2 mbd in 2019, with further downside expected if the US-China trade war escalates.



Slower demand is evident in the persistent weakness in crack spreads as fears of an economic slowdown grow. Naphtha has had a torrid year so far. Seasonality has of course played a role, with cracker maintenance impacting on short term demand, whilst competition from abundant LPG supply is also weighing on demand. But it is now evident that the persistently bearish economic news is now impacting on forward demand for petrochemical products, keeping naphtha cracks under pressure. Some recovery in naphtha demand will emerge, particularly considering peak cracker maintenance is nearing its end and new capacity is currently being brought online. However, whether cracks can move to more sustainable levels may well depend on the outcome of trade talks and whether the economic headlines improve. It is also worth noting that most of the petrochemical projects set to start next year have been designed to process LPG or Ethane, limiting the demand growth for naphtha as a petrochemical feedstock.

Unsurprisingly, the distillate market is also feeling the pressure. Given the fuel has mostly industrial uses, it is also sensitive to similar economic factors as naphtha. However, distillate demand will find support from seasonally strong demand for jet fuel during peak travel season. The diesel market is expected to receive a boost in the later stages of 2019 and into 2020, giving the market a more positive near term outlook. Indeed, the IEA forecasts that distillate demand will increase by 1.2 million b/d in 2020 as the shipping industry shifts to cleaner fuels, which should support crack spreads.

The potential impact on shipping demand could be significant. Although crude runs are still expected to rise substantially in the second half of 2019, they have already been revised lower by the IEA. For naphtha, demand will remain constrained by economic factors, potentially impacting on long haul runs from the West and the Middle East into Asia. Distillates trading should prove to be one of the few bright spots, with IMO2020 giving a booster shot just as industrial demand cools. However, as the 2020 dust settles, the underlying fundamentals will emerge as the dominant factors once again. The Trump-Xi meeting at G20 next week will be a key gauge of the future commodity market direction.

GIBSON SHIPBROKERS

Crude Oil

Middle East

Noticeably busier, at last, for VLCCs as Charterers were forced to clear away fresh July stems that they had previously held back upon. The extra volume then hit an Ownership keen to extract advantage from the recent heightened risks and a modestly higher rate-range was established accordingly although AWRP/H+M value variation continued to add confusion, and proved a handicap to market makers. Currently peak rates for modern VLCCs to the East operate at up to ws 52, with older ladies willing as low as ws 40. Nothing was seen to the West but levels are marked in the low ws 20's via cape. Suezmaxes took the initiative right from the kick-off and rates to the West initially spiked hard to ws 55, and to ws 90 to the East, before gradually easing back towards ws 45 and ws 75 respectively. Some of the extra benefit will remain in situ for both sizes, but another leap forward will require heavy, ongoing, attention given the still easy looking availability. Aframaxes also took a jump to 80,000mt by ws 120 to Singapore but activity was on the light side and higher rates are unlikely over the near term, at least.

West Africa

Suezmaxes continued to ease lower, but at a slower pace than at the end of last week, to end at 130,000mt by ws 65 to the USGulf and to sub ws 70 to Europe. Eastern ballasters have added extra competition and until those units begin to thin out, the market is likely to remain under some pressure. VLCCs weren't particularly active but once the AGulf had made its move, Owners ideas quickly equalised and rates pushed to ws 50 to the Far East - perhaps a little higher even. That will remain the case until/unless the Middle East retreats.

Mediterranean

Aframaxes eased, and then came to a full stop at 80,000mt by ws 82.5 X-Med and to ws 87.5 from the Black Sea and the imbalance will remain a severe handicap to any hopes Owners may have of a near term fightback. Suezmaxes held up fairly well at the start of the week but although prompter dates remained tight, the fixing window moved to more populous positions and discounting started to draw rates down to 140,000mt by ws 80 from the Black Sea to European destinations and to $3.3 million for runs to China. The trendline looks set for early next week too.

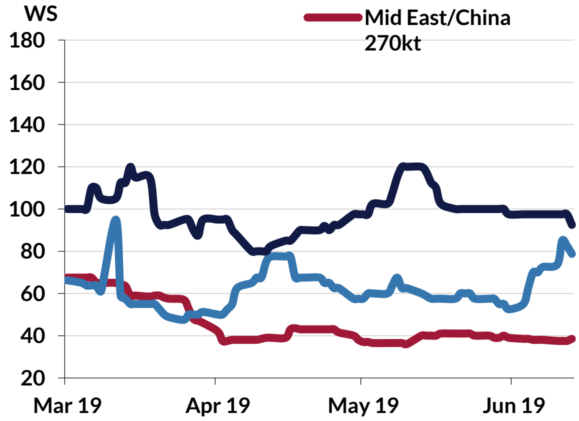
Caribbean

Quiet at first, followed by a wash of under the radar Aframax activity but the wall of available tonnage remained largely intact and rates stayed stuck at no better than 70,000mt by ws 87.5 upcoast, and to ws 77.5 transatlantic. More work needs to be done for Owners to dig out of this market hole. VLCCs pushed initially to close to $6 million from the USGulf to South Korea but then quietened, and eased back to $5.7 million, with a more flatline aspect anticipated over the next fixing phase.

North Sea

Another disappointing week for Aframaxes that failed to hold rates above 80,000mt by ws 90 X-UKCont and 100,000mt by ws 65 from the Baltic. There may be a small end month flick in the tail, but that's more in hope than expectation. Very little VLCC fixing evidence but still solid numbers from the USGulf will prop up Owners ideas towards $4.75 million for crude oil to South Korea but true value needs to be tested.

Crude Tanker Spot Rates



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

Clean Products

East

MRs have not yet benefitted from risk, caused confusion and potential rate spikes. Those boats with sturdier insurance have really stood out, offering Charterers the opportunity to mitigate against potential AWRP exposure. Short hauls have been traded at $220k levels all week. A healthy amount of prompt tonnage there to compete. West runs are completely untested, $1.375 million is the market level, if you can find a willing Owner. EAF has been traded at 35 x ws 137.5, a discount available for early loadings and ex Fuj. TC12 trades at 35 x ws 130 but most naphtha moves on bigger tonnage at the moment. A quiet end to the week won't help sentiment, but what is beneficial, is that the new week can lend a sense of comfort to a very disjointed situation. Owners are now reporting lessened AWRP quotes and Charterers will be more aware of their potential exposure if the situation stabilises.

LRs have seen a differential between West Coast India loading and AGulf loading growing due to the potential risk. With a basically weaker market, rates should have been falling but AGulf exports have remained steady, whereas Sikka exports are seeing rates drop away. 55,000mt naphtha AGulf/Japan is trading now at ws 110, whilst AGulf/UKCont is at $1.80 million. If you load Sikka you will save the equivalent of $50k on UKCont and probably ws 2.5 points for Japan. LR2s are also in a similar situation, with some cheap freight seen ex Sikka but AGulf exports remaining sturdy. 75,000mt naphtha AGulf/Japan is now ws 97.5 and AGulf/UKCont is $2.1 million but a good discount is there for Sikka loads. Also AWRP levels vary quite a lot from ship to ship, so Charterers are also finding themselves trading this factor too. If the relative status quo is kept, things will settle. However, if more attacks come, this could really change the markets.

Mediterranean

For the majority of week 25, cargoes and tonnage have remained fairly balanced, with rates by and large trading sideways at the 30 x ws 135 mark. West Med has been quieter. With ballasters continually entering the picture, we saw a slight dip to ws 132.5, but for the vast majority of the week it has held at ws 135. Turkish Straits delays has seen Owners gain a few more points in exchange for safer itineraries, with Black Sea firming to 30 x ws 155. This has tightened up the East Med list, meaning a variation in rates has been seen for most of the week across the Med, with a ws 5 point premium possible for an East Med load. At the time of writing, however, ws 135 is achievable across the board and this balanced sentiment is likely to continue on Monday.

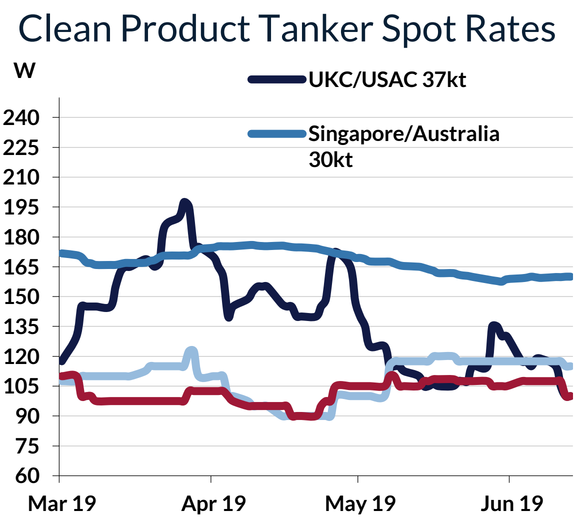
Finally, to the MR sector in the Mediterranean, where once again we see rates being defined by the excitable UKCont market. Enquiry levels started well in the first half of this week clearing out a good number of ships. However, rates were not able to capitalise on this and held steady around 37 x ws 105 for transatlantic and $750k for AGulf. Yet, come Thursday we saw ws 15 points added to TC2 and further gains being seen on Friday morning in the UKCont. Subsequently, we can confidently assume a similar fate here. For now, the lack of enquiry at the close of week merely delays the inevitable improvement on last done, as we close week 25, with some ambitious Owners holding firm.

UK Continent

TC2 is sitting far prettier at the end of the week, than it had been on opening Monday. We have seen increased interest down to WAF and transatlantic, as the week has progressed. With still plenty of uncovered stems left over, there should be enough reason for Owners to be optimistic going into next week. We may see some sitting on hands from Charterers today, as they attempt to halt recent gains. However, as things stand, the improved sentiment will be hard to stop just yet. Currently 37 x ws 120 is the going number for a standard TC2 run, leaving the slightly less desirable WAF moves ready for a fresh test. Right now, there is no reason to believe that rates cannot continue their upward trend in to next week.

There has been very little to shout about this week for any of the Handies trade routes ex NWE. Baltic/UKCont enquiry has been somewhat lacklustre, not helped by the preference of Charterers to fix direct. This means the 30 x ws 110 has been the number on offer from start to finish. X-UKCont enquiry has been equally slow and, with ships being recycled quickly in the mix with some hidden units, rates have been unmoved from 30 x ws 100. With plenty of UKCont/Med willing boats, we see new year lows fixed on this route, as 30 x ws 80 has been done multiple times. The only positive here is that MRs are being a little more active but any trickle down is yet to be seen; otherwise next week looks to produce much of the same.

Little change to speak of from any of the days this week or the previous Fridays in general. Employment still seems to be more easily found in the Bay of Biscay and southwards towards Spanish Med, with the key players positioning their ships accordingly. Rates continue to be derived from pro-rated Handy levels, with a discount 22 x ws 125-130 X-UKCont and ws 175-180 in the Med. There are a few more ships back trading spot this week, which doesn't help already quite bleak outlook for next week.



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Dirty Products

Handy

The building blocks were put in place last week, setting up this week for Owners to gain on positive sentiment within the NWE region. Monday's opening did not disappoint as a couple of Charterers wisely struck early taking out a number of units, which in turn quickly tightened the position list and the amount of workable units available. From here, gains of some ws 20 points have been seen. Looking ahead to next week, it is unlikely firm sentiment will wash away any time soon, as the next round of vessels due to be marketed (when they firm up!!) look to be opening on the cusp of July. There is potential for there to be a gap for early July laycans when we factor in ballast time load ports.

In sharp contrast to the NWE sector, the Mediterranean opened on Monday with a position list we have not seen for a while, with approximately 15 prompt units being marketed. This only left one direction for fixing levels and, as enquiry came to market, rates were chipped away, resulting in a significant drop in levels in the region. At the time of writing, prompt tonnage remains in play. However, a number of these units may not be the first choice for all vetting departments, while the firming market in the North is starting to appeal to West Med tonnage to find employment. As we turn to next week, it could be said that this region may level off as far as fixing levels go, but some work still needs to be done to clear down prompt units, so watch this space.

MR

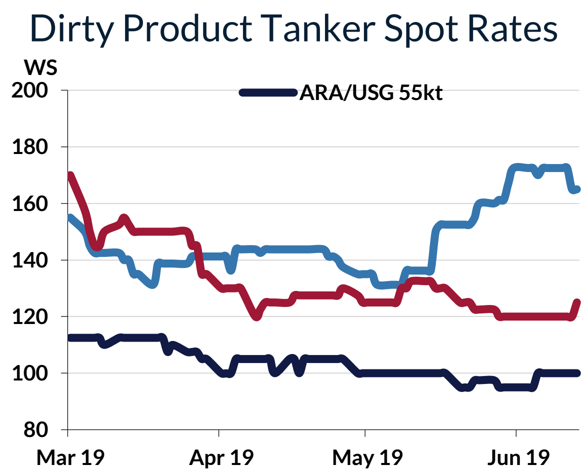
Monday's opening only highlighted the limited amount of natural tonnage in the region. However, Owners with these units began confidentially as the smaller Handy sector also continued to firm. Despite full size stems not showing, Charterers coming to the market with longer voyages on part cargo have enabled MR Owners to throw their hat into the ring. Despite these units fixing and failing throughout the week, firm sentiment holds and is likely to carry through to week 26.

In the Mediterranean, MRs have continued to see some activity this week, with two stems from the Black Sea. Despite the rest of the Med being a relatively barren landscape in terms of natural size stems, Owners are hanging on to reasonably good levels as the 2 Black Sea stems saw ws 110 being repeated. Going into next week, with the surrounding Handy market continuing to be tested each fixture, unless cargo enquiry increases on both sectors we could see further decrement.

Panamax

This sector continues in the same theme we have seen over the past few weeks, where activity levels have only managed to just about tick over and clip out a small handful of units from this side of the pond. A market quote from the Med into Brazil resulted in ws 105 being fixed away. However, with natural tonnage remaining in play, this sector continues to float around the ws 95-97.5

level and is unlikely to fluctuate a great deal in the next round of enquiry. An injection of activity is needed to shake things up but, with the larger Aframax sector continuing to be an attractive option, this is unlikely.



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jun 20th	Jun 13th	Last Month	FFA Q2 (Jun bal)
TD3C	VLCC	AG-China	**+13**	52	39	52	52
TD20	Suezmax	WAF-UKC	**-11**	70	81	70	71
TD7	Aframax	N.Sea-UKC	**-6**	88	93	88	94

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

			wk on wk change	Jun 20th	Jun 13th	Last Month	FFA Q2 (Jun bal)
TD3C	VLCC	AG-China	**+13,750**	25,750	12,000	25,750	52
TD20	Suezmax	WAF-UKC	**-5,250**	15,250	20,500	15,250	71
TD7	Aframax	N.Sea-UKC	**-4,250**	8,000	12,250	8,000	94

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jun 20th	Jun 13th	Last Month	FFA Q2 (Jun bal)
TC1	LR2	AG-Japan	**+2**	102	100	102	
TC2	MR - west	UKC-USAC	**+17**	117	100	117	115
TC5	LR1	AG-Japan	**+1**	114	113	114	113
TC7	MR - east	Singapore-EC Aus	**+4**	164	160	164	158

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

			wk on wk change	Jun 20th	Jun 13th	Last Month	FFA Q2 (Jun bal)
TC1	LR2	AG-Japan	**+500**	15,500	15,000	15,500	
TC2	MR - west	UKC-USAC	**+3,250**	8,000	4,750	8,000	7,750
TC5	LR1	AG-Japan	**+0**	13,000	13,000	13,000	13,000
TC7	MR - east	Singapore-EC Aus	**+250**	14,000	13,750	14,000	13,000

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

	wk on wk change	Jun 20th	Jun 13th	Last Month
ClearView Bunker Price (Rotterdam HSFO 380)	**-9**	362	371	397
ClearView Bunker Price (Fujairah 380 HSFO)	**+6**	377	371	412
ClearView Bunker Price (Singapore 380 HSFO)	**+13**	387	374	414
ClearView Bunker Price (Rotterdam LSMGO)	**+0**	542	542	607

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