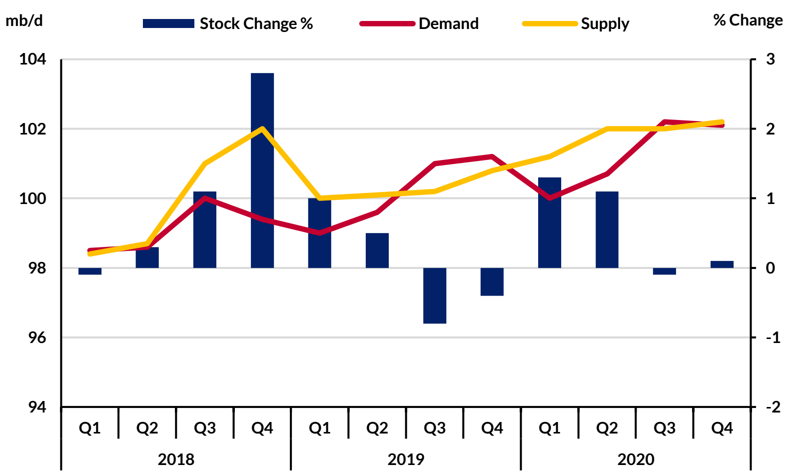
The Balancing Act

Weekly Tanker Market Report

In recent months, the IEA has on many occasions expressed concerns about the health of the global economy. As such, it is unsurprising the latest downgrade by the international Monetary Fund of its outlook for global GDP growth in 2019 and 2020 prompted similar downward revisions to oil demand. This month the IEA has revised its expectations for growth in world oil consumption by 100,000 b/d, down to 1.1 million b/d in 2019 and 1.3 million b/d in 2020. Some trading houses are even more bearish, predicting just 800,000 b/d growth this year.

During the 1st half of the year global demand increased by only 600,000 b/d. The bulk of incremental growth came out of China, with the country's oil consumption increasing by 500,000 b/d. In contrast, demand in India and US increased by just 100,000 b/d each. For the OECD as a whole, demand has fallen for three successive quarters, according to the IEA. Throughout much of the year, the global market has been oversupplied, although a brief disruption in July caused by Hurricane Barry and OPEC led production cuts saw supply ease slightly to 100.2 million b/d. Last month also marked the fifth consecutive month of OPEC+ countries outperforming on their deal to remove 1.2 mb/d from world oil markets. Compliance rose to 134% during July from 118% the previous month, the latest IEA numbers show.

Demand/Supply Balance to Q4 2020



Source: IEA

Despite the threat of recession hanging over many OECD countries, some positivity in talks between the US and China briefly spiked crude prices above $60/bbl for the first time in a few weeks. However, weak output and economic data from Europe and a 17-year low in Chinese industrial output growth this week has further stoked fears of slower growth. US data also showed an unexpected rise in crude inventories, sending the crude price back down below the $60/bbl mark. Despite many weeks of drawdowns previously, the latest stock builds have again dampened optimism and renewed downward pressure on prices. US inventories currently stand at 3% above the five-year average for this time of year. This has prompted many sources to speculate whether or not oil producers take further steps to support prices.

The global economy is currently on a precarious path. The longer trade wars and political tensions last, the harder it will be for demand growth and prices to recover. Supply currently overwhelms demand, with OPEC+ led cuts so far this year largely not being enough to support a sustained level of price. However, in the short term a market equilibrium is likely to be reached, with supply almost matching demand in Q3 and Q4 due to ongoing restraint by OPEC+, involuntary decline in output in Iran and Venezuela, as well as the expectations for seasonally stronger demand in the 2nd half of the year. Nonetheless, the IEA has warned this could be a temporary phenomenon as non-OPEC production growth for 2020 looks very strong. If that proves to be the case, OPEC+ may well find itself in a situation that further production cuts are indeed needed.

Crude Oil

Middle East

VLCCs initially wobbled but just as they did, and despite widespread holidays, Charterers came back to the rescue and pushed sufficient concentrated enquiry over the end August/early September crossover to harden sentiment once again, and lead rates back to previous peaks - ws 57.5+ now for modern units to the Far East, with more challenged units in the very high ws 40's and runs to the West solidly in the mid ws 20's via Cape. Full September programmes will be in hand early next week and Owners will take further advantage if the current pace of the market then continues. Suezmaxes had no such fun with minimal interest through the week and availability remaining thickly spread. Rates operate - again - into the low ws 70's to the East and low ws 30's to the West, with the near term outlook similarly dull. Aframaxes were similarly holiday disrupted but then saw enough late week action to keep rates steady at the ws 100 mark to Singapore, with perhaps a degree of upside to come for next week.

West Africa

Suezmaxes quickly scraped to a hard bottom at 130,000mt by ws 55 to Europe and ws 52.5 to the USGulf but Charterers then refused to bargain hunt in numbers and merely gentle cherry picking left the marketplace struggling at close to those lows, and plenty of tonnage still left hanging. Testing times to continue for a while yet, as it seems. VLCCs started slowly as Charterers eyed defined AGulf direction. Once established and, with ballasting date considerations also weighing, cargoes began to pop up and rates quickly equalised with Middle Eastern numbers to reach 260,000mt by ws 57.5 to the Far East, with consolidation now likely - at the least.

Mediterranean

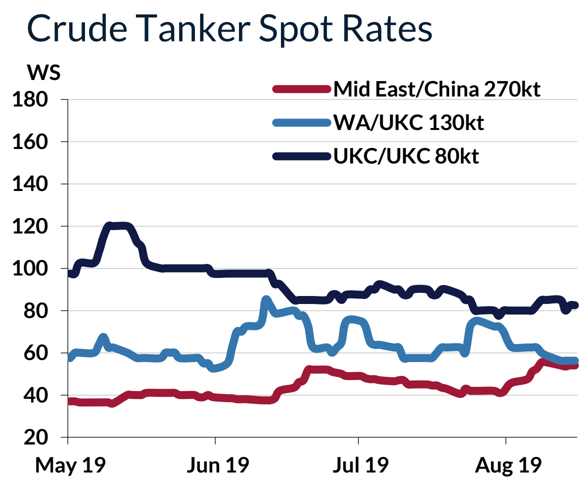
Aframaxes spent the week attempting to re-find a more favourable balance. The list did get thinner, but there were never enough cargoes for Owners to convert that into a solid rate gain. 80,000mt by ws 72.5 now X-Med, with around ws 80 available ex the Black Sea. More work to do next week then. Suezmaxes drifted sideways upon insipid demand, and easy supply. Rates ticked down to 140,000mt by ws 65 from the Black Sea to European destinations, with rates to China at under $3 million now. Again, a lot of work to do for any recovery to get underway.

Caribbean

Another grim week for bottom feeding Aframaxes, that failed to raise rates much above 70,000mt by ws 72.5 upcoast, and no better than ws 70 transatlantic either. There was an increase in activity late week, however, and perhaps a finer balance will be established if that maintains into next week. VLCCs broadly held previous marks but interest was lighter than of late and rates stayed capped at up to $5.3 million from the USGulf to Singapore and Owners will need a solid pulse of activity to score much better than that, despite West African improvement.

North Sea

Aframaxes trod water over the period, with Charterers never encountering any pinch points and rates again flatlining at 80,000mt by ws 82.5 X-UKCont and 100,000mt by ws 55 from the Baltic. No early change anticipated either. VLCCs were occasionally picked off at steady numbers - $5.4 million for crude oil from Hound Point to South Korea was seen and that should remain the average mark for the next fixing phase too.



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

Clean Products

East

A quiet week on the LR1s, you only need to look at Scorpio's exposure in the Gulf now to see that cargo volume has been fairly dire. Westbound has come off $1.675 million on subs ex India, and naphtha moving down towards ws 100 pretty quickly. Shorthaul is competing with the MRs, although some Owners would protest that taking cheaper short numbers aligns them for a busier market, a week down the line. Our feeling is that the LR2s will move first and the LR1s will follow in tow.

MRs have seen their fortunes improve during the course of this week. There wasn't a deluge of stems entering the market but more a steady supply that gradually took away the early tonnage that had caused the negative downturn at the end of last week. Considering how tight the tonnage list looks as we head into the weekend, rates as yet, haven't seen the big rise that Owners' were hoping for. However, signs of a bounce back are there, with EAF on subs at 35 x ws 145 and UKCont improving to $1.375 million, it's a step in the right direction. TC12 has yet to respond, and needs to be tested on last done of 35 x ws 120. There remain a few open cargoes as we head into the weekend, however, with an expected round of fresh cargoes likely to come early next week. These rates should be positively tested as the pressure is put on Charterers.

Mediterranean

Yet another week to forget for the Handy owning fraternity in the Med, with this period of negativity dragging on. The lists pulled on Monday morning were grim reading with 21 prompt ships across the board, which cemented Owners on the back foot from the off. 30 x ws 100 was quickly found as the going rate for vanilla X-Med stems and although fixing window tonnage was still in abundance, with a plethora of prompt units to choose from, Owners held strong and kept rates trading sideways. The final talking point of the week is the fresh rate ex Black Sea, which to Owners' horror is at the 30 x ws 100 mark for a load ex Bourgas. This will inevitably now put pressure on X-Med in order to negatively correct under the ws 100 mark but given the current earnings, it will be interesting to see if they hold their ground and stick together to keep rates trading sideways. Breaking the ws 100 mark will not make sense for anyone but let's wait and see how things pan out on Monday morning…

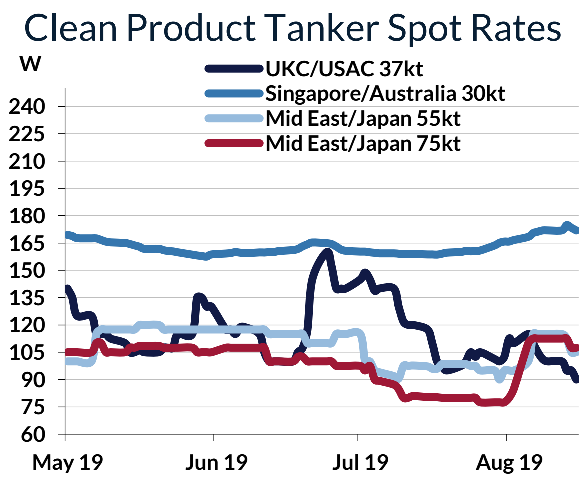
A rather torrid week on the larger sized MRs too, with little action ex Med, meaning rates have by and large followed action from the UKCont market. TC2 for much of the week has traded at the 37 x ws 95-100 mark, with a few Med-transatlantic fixtures in line with this, But, with 37 x ws 82.5 now on subs for an Izmit-transatlantic run (albeit ex DD), this really has driven the nail almost as far as it can feasibly go into the Owners coffin. WAF and East runs have been almost non-existent but expect rates to trade around the 37 x ws 105-107.5 mark and lumpsum $700k mark respectively. Have we reached the bottom of the market yet? You'd have thought so, but given the week we've just had, there could be further losses on the horizon.

UK Continent

Owners have fought bravely in attempting to keep this direct TC2 market settled at 3 digits, but unfortunately, the weight of excess tonnage has taken its toll. With the larger LRs being looked at for WAF runs, partnered with issues at Pembroke, tonnage levels have been built, and Charterers proceeded to press. By the halfway mark we had moved to ws 95, with further losses on the horizon. A bank holiday for many on Thursday offered some respite, but as Friday appeared, a handful of stems picked out tonnage at ease and ws 90 is our new low. WAF enquiry has been light, with many choosing the larger tonnage, but we do see this settle at 37 x ws 107.5. Charterers will be pleased with this week's proceedings, and pushing forward, with little on the horizon to inspire, expect more of the same ahead.

The Handy sector has seen a relatively dull week pass them by, as it seemed rates were flat at 30 x ws 115 for Baltic loadings and ws 105 X-UKCont. Activity had been fairly consistent during the first few days of the week but, with a poor MR market, we see these vessels start nibbling away at 30kt stems, giving Charterers an alternative. Come Friday, it seems this has taken momentum away from Owners as we see 30 x ws 110 on subs loading Baltic and an expected fresh negative test to be seen on the next X-UKCont move. Whether this new low will be able to hold or if it is just a blip on the radar, is to be seen, as we wait Monday for a truer test on where we settle.

Finally, to the Flexis where a few cargoes earlier in the week set the tone for fixing at 22 x ws 137.5 but, with little further action seen, this sleepy week draws to a close. This small knock seen on Handy rates could well filter down into this 22kt market, but as always the enquiry levels need to be seen. Expect little movement ahead in this market restrained by the larger tonnage.



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Dirty Products

Handy

Last week the foundations were laid for a promising week for Owners within the NWE sector. Despite the steady start, it has generally been positive trading, with a continual flow of fresh enquiry. By mid-week we were reporting a ws +5 point improvement in fixing levels since start of play on Monday, and it did not take long for further gains reaching ws 147.5. However, unconfirmed rumours of ws 150 on subjects late on Thursday evening gave Charterers opportunity to lift off and slow up any further enquiry. This managed to halt any further gains, but has left the positive undercurrent of Owner's sentiment with the expectation of more to come next week.

In contrast to the North, the Mediterranean has seen a solid week as far as enquiry goes. However, the long list of tonnage to work through has outbalanced this enquiry, leaving the current flat sentiment within the region. Fixing levels continued to hold from the Black Sea/Med at ws 130 and X-Med at ws 120. With all that said, at the time of writing, this activity has picked up at the end of the week, yet it seems that the reality come Monday is that tonnage will have replenished.

MR

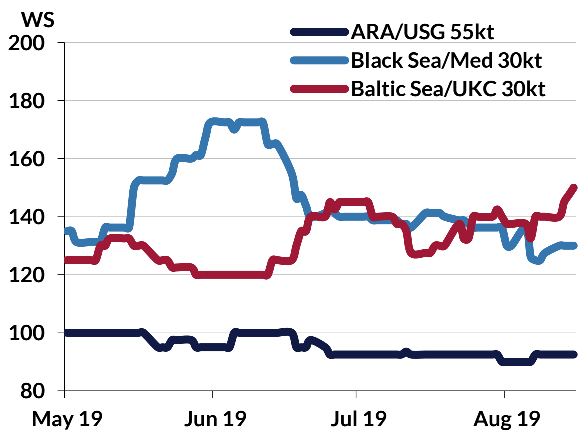
With two units showing in the region at the start of this week, Owners may well have hoped to see some fresh activity in this sector. However, looking back across the fixtures the only opportunities for action came from the firming Handy market where tonnage has been steadily clipped away. One MR was swiftly fixed away from the region and we finish with one still waiting for employment. Come next week, should full size stems not materialize, then the one unit showing open continues to have the fall back of taking a part cargo stem as smaller units continue to see the market firming.

A much more subdued week in the Med for the MRs, with a couple of units clipped away early on from last week's action, but from here just two units have seen activity. Poor levels in the Handy market have not offered Owners any reprieve and despite this sector seeing a flurry of activity, rates and sentiment remain weak. Looking forward, unless activity increases on the MRs, more units will start to approach their opening dates and prompt tonnage is likely to build. For the Med, the end of the summer season can't come soon enough.

Panamax

Panamax rates showed continued buoyancy this week not only surviving further tests at last done levels, but managing to obtain the premiums commonly associated with the tested routes. This performance, however, remains threatened by the surrounding Aframax market that continues to offer a much better all-round deal. Looking ahead, natural tonnage remains this side of the pond and until the larger units start to firm. Flexibility remains in Charterers hands.

Dirty Product Tanker Spot Rates



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GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 15th	Aug 8th	Last Month	FFA Q3 (Bal)
TD3C	VLCC	AG-China	**+1**	54	54	44	58
TD20	Suezmax	WAF-UKC	**-3**	57	60	60	66
TD7	Aframax	N.Sea-UKC	**+1**	85	84	88	91

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

			wk on wk change	Aug 15th	Aug 8th	Last Month	FFA Q3 (Bal)
TD3C	VLCC	AG-China	**+2,750**	31,250	28,500	15,000	58
TD20	Suezmax	WAF-UKC	**-500**	11,500	12,000	9,250	66
TD7	Aframax	N.Sea-UKC	**+0**	7,250	7,250	7,500	91

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 15th	Aug 8th	Last Month	FFA Q3 (Bal)
TC1	LR2	AG-Japan	**-7**	108	116	80	
TC2	MR - west	UKC-USAC	**-12**	91	103	99	108
TC5	LR1	AG-Japan	**-11**	106	116	95	108
TC7	MR - east	Singapore-EC Aus	**-0**	172	172	159	167

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

			wk on wk change	Aug 15th	Aug 8th	Last Month	FFA Q3 (Bal)
TC1	LR2	AG-Japan	**-750**	19,250	20,000	7,250	
TC2	MR - west	UKC-USAC	**-1,750**	4,750	6,500	4,250	7,750
TC5	LR1	AG-Japan	**-1,250**	12,750	14,000	7,750	13,000
TC7	MR - east	Singapore-EC Aus	**+0**	16,250	16,250	11,500	15,250

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

ClearView Bunker Price (Rotterdam HSFO 380)	**-31**	269	300	374
ClearView Bunker Price (Fujairah 380 HSFO)	**-39**	328	367	411
ClearView Bunker Price (Singapore 380 HSFO)	**+3**	350	347	458
ClearView Bunker Price (Rotterdam LSMGO)	**+21**	539	518	555

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