

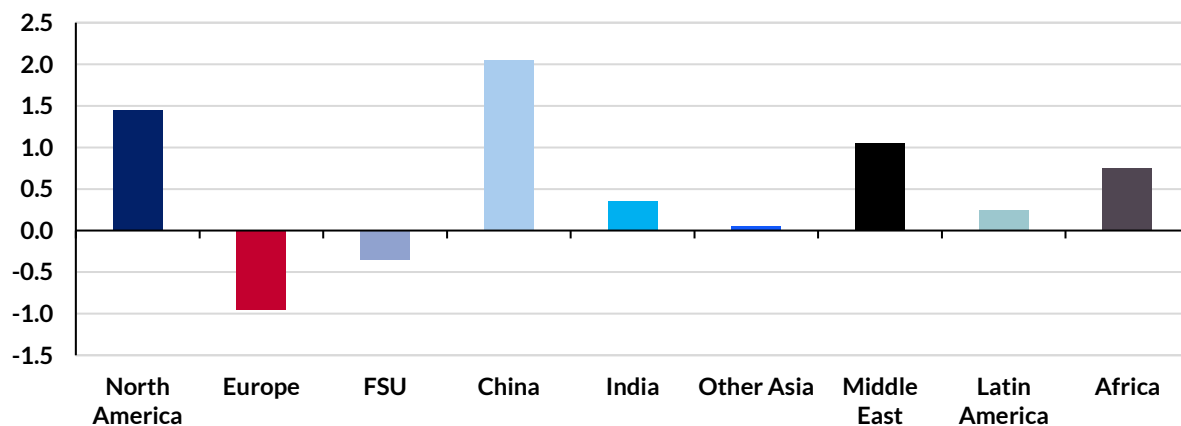
## The Future of Europe

### Weekly Tanker Market Report

Over the next 5 years, the global refinery landscape will continue to evolve, with the IEA projecting that over 9 million b/d of new capacity will be added, roughly twice the level of refined products demand growth over the same time period. With over two thirds of new capacity being added East of Suez, pressure will grow on older, less complex refineries, many of which are located in Europe.

Structural changes in global oil products demand and crude supply will also significantly impact on refining margins and arbitrage, not just in Europe, but globally. In the short term, less complex refineries may lag behind, as new regulations come into play, particularly those that lack the ability to upgrade or desulphurize fuel oil. Some may turn to lower sulphur crudes although price premiums for these grades are likely to rise, impacting upon margins. However, as the refining landscape recalibrates post 2020, other structural changes will come into play. Gasoline exports have proved a key source of profitability for European refineries. However, demand growth is expected to slow in the Atlantic Basin, whilst the potential start-up of Aliko Dangote's Lekki refinery also threatens to starve off a key outlet for European gasoline.

#### Regional Changes in Refinery Throughput (mbd) 2018 vs. 2024



Ultimately, many of the older and less complex refineries in Europe will come under increased regulatory and competitive pressure over the next five years, having to deal with IMO2020 and then fight off competition from newer, more efficient plants, located either close to major demand centres, or close to key sources of feedstock supply. This of course a generalisation, many plants in Europe have invested in cokers, hydrocrackers and solvent de-asphalting units to aid the production of higher quality fuels, whilst there will still be significant exports and regional demand for European products. Nevertheless, newer/more efficient plants in the US, Asia and the Middle East will pressure European Refinery runs lower by 2024, with the IEA projecting a 900,000 b/d decline. Even if global oil products demand surprises to the upside, there is still likely to be excess refining capacity.

Changes in the European refining scene will also impact crude trade flows at a time when North Sea crude production is expected to rise. By 2024, Europe is expected to see its crude production increase by 440,000 b/d. However, with refinery utilisation projected to fall, crude exports from the region look set to increase. Imports into the region are also expected to ease back, boosting the overall crude surplus in the Atlantic basin. With the majority new refining capacity being added in the East, shipowners stand to gain from stronger tonne mile demand growth, although shorter and medium haul trading opportunities may well diminish.

## Crude Oil

### Middle East

The week started with a degree of uncertainty after the weekend attack. On the back of this, both some VLCC Owners and Charterers held back until there was some clarity as to how the market would react. One Chinese Charterer dominated the amount of fixing throughout the week, proved to be a wise move. As the week progressed, rates have started to rise gradually. Last done is 270,000mt x ws 69.5 for Far Eastern destinations. With muted interest for Western destinations, it is nearer to mid ws 30's on 280,000mt. The attacks in Saudi caused mixed reaction from Suezmax Owners; some were hesitant to engage but not enough to alter the scene completely. The more compelling story is action elsewhere and Owners ballasting away from the MEG, which will likely lead to a tonnage deficit further down the line. Rates have settled in the mid ws 30's for TD23, with upside on the horizon heading into next week. Levels to the East hover around 130,000mt x ws 90. Aframaxes in the AGulf began the week looking flat, trading sideways at 80 x ws 100 levels. However, behind the scenes the market makers were rapidly looking to take cover and by Tuesday/Wednesday an influx of cargoes had flooded the market. Rates are up to 80 x ws 120 for AGulf-East, with potential for further gains.

### West Africa

With the uncertainty in the Middle East resulting in the global oil price jumping, we did expect at least a 10-15% jump in freight rates. Since then we've seen the perfect storm for Owners, with three load regions that have shown consistent enquiry and firmed, giving Suezmax Owners multiple employment options. A concentrated patch of enquiry in the 9-12 window has been the gift that keeps on giving for Owners. As a result, we've seen a 38% jump in rates since Monday, pushing levels up to 130,000mt x ws 95 for UKCont-Med destinations. It took a little while before we saw some VLCC activity here, but once we did, the AGulf market had already shifted upwards, ensuring levels here would replicate. Combine this with a strong US Gulf market, Owners, that were interested in ballasting West, were spoilt for choice and rates have reflected this, with last done levels around ws 70 on 260,000mt for Eastern destinations.

### Mediterranean

It has been a week of incremental rise in rates as the market certainly feels more autumnal. There has been a consistent stream of cargo activity that has thinned the tonnage list out and has created pinch points for prompt dates. The week began with X-Med rates sitting at the ws 105 mark and we end the week, with Charterers staring down the barrel of 80,000mt x ws 112.5 for natural dates. With 15 outstanding cargoes in the Med and Black Sea this afternoon, there will

be plenty for Owners to get their teeth stuck into. Suezmaxes are still looming in the background and, if rates push on once again, we will see Charterers attentions turn to the bigger units to cover long X-Med and Black Sea positions, which could provide a natural cap. A busy USGulf/CARIBS market and a firming West African market has kept tonnage occupied and drawn vessels to ballast away from the Med, keeping the list evenly balanced. Longer haul business has been the real talking point, with Owners reluctant to fix without a healthy premium, which has pushed rates up to \$3.6 million to China, with the levels at around 140,000mt x ws 85 for Black Sea to Med discharge.

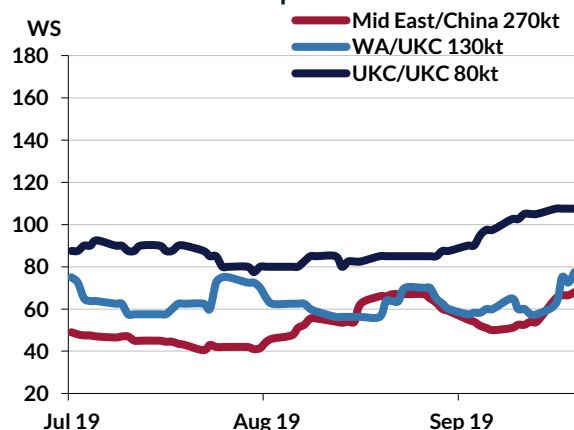
## Caribbean

Aframax Charterers started the week where they left the previous week, with a good supply of enquiry putting Owners on the front foot and pushing levels up to around 70,000mt x ws 150 for a generic Caribs/USGulf run. Weather disruptions should also impact, ensuring Owners go into the weekend again with a degree of optimism. VLCC availability remains light but this has just pushed Charterers into venturing further forward into November dates. Last done here is \$7.1 million for USGulf to Singapore, with further gains likely.

## North Sea

Another week of progressive growth for the North Sea and Baltic markets. A lot of expectation has been built for October, when a busier Urals programme seems to be on the cards. The arrival of the much-anticipated Johan Sverdrup oil field will certainly give the market plenty to talk about. This week, we have seen the Baltic market jump to 3 figures, as ws 100 was fixed for a straight Continent run. The North Sea has also been buoyed, with rates moving up. The market is now up to 80,000mt x ws 115 but it looks like more is on the horizon. As we go into the weekend both markets look set to warm further. Another slow week for VLCCs but Owners will need to compare potential returns achievable from the USGulf if they are to fix from here, which will push levels to around \$6.75 million from Rotterdam to Singapore.

## Crude Tanker Spot Rates



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

## Clean Products

### East

The attack in Saudi Arabia at the weekend has destroyed Owners' hopes of any improvements this week and activity levels have died. It means a market, previously looking marginally weaker, now looks disastrous. 75,000mt naphtha AGulf/Japan is now down to ws 95 but ws 90 must be there soon. 90,000mt AGulf/UKCont is last seen at \$2.025 million but below \$2.0 million is likely next. LR1s have seen a similar sentiment, with 55,000mt naphtha AGulf/Japan dropping quickly to ws 95. 65,000mt jet AGulf/UKCont is last done around \$1.70 million but is completely untested and at least \$50k less is likely. Tonnage remains available on all sizes and dates and, with SASREF going into an early maintenance schedule, there is little good news for Owners. MRs have also had a tough week. It started positive, with decent levels of cargoes and ships going on subs, but by Tuesday afternoon it was pretty much done for the week. Bunker prices have helped to keep headline freight rates around last done levels. But, finally, the pressure became too much and, with EAF tumbling ws 20 points to 35 x ws 155 in one fixture, the outlook for Owners is bleak. UKCont is at \$1.4 million, \$600k to the Red Sea and \$265k for a X-AGulf, are all in need of a fresh test come next week. With the negative sentiment building, Charterers will almost certainly be gunning for less than last done.

### Mediterranean

The bottom of the market at 30 x ws 100 is where rates have been trading the last couple of weeks. So, it was really a case of 'things can only get better' from an Owners' perspective. A busier Tuesday saw 30 x ws 105 a couple of times and Owners were quick to try and establish this as the going rate. At the time of writing, an EMed load can achieve this, whilst West sees a few points less, with limited activity in this region. Black Sea action has been relatively slow. However, rates have mirrored sentiment in the Med, with a positive correction seen to 30 x ws 112.5 late in the week. Come Monday, Owners will be hoping to build on the slight bit of momentum seen this week. Yet, in reality, with the list replenishing over the weekend then it will take a large uptick in enquiry in order to move them onto the front foot.

MR Owners walked into the offices with an air of anticipation, as we waited to see the fallout from the news over the weekend, with the hope of increased demand to the AGulf ahead. Fresh cargoes were seen heading that way, with \$685k being the call for the AGulf. However, unfortunately for the Owning fraternity this fizzled out as larger tonnage was preferred. Other routes have been tested and unsurprisingly achieved similar to the UKCont market, with 37 x ws 95 for transatlantic and ws 105 for WAF. With some improved enquiry hitting the shores in the North in the second half of the week and bunker prices inflated, the potential for

improved rates is on the cards as long as enquiry levels continue to flow.

## UK Continent

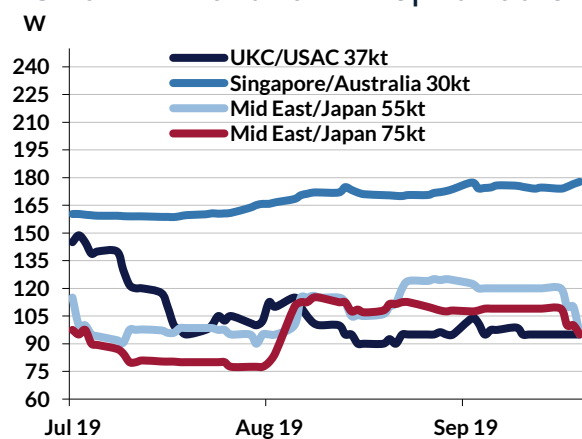
We end the week with TC2 still ambling along at 37 x ws 95 and earnings suffering as a result of increased bunker prices. On that basis it should all be doom and gloom, with the USGulf market also suffering and not expected to improve until at least the middle of October. However, there was a glimmer of hope. After a reasonably busy week in terms of fresh enquiry and over the past 48 hours in particular, things seem to at least moving in a more positive direction. It has been a long wait for this market to show signs of improvement. Although nothing has yet improved from a rate or earnings perspective, demand is healthier and that is the key factor against such a heavy position list. Owners are certainly in a more positive frame of mind and the more aggressive ones are certainly trying to push for higher numbers. Whether there are enough less aggressive Owners around to absorb this influx of cargo is now in the balance, so it will be an interesting end to the week. A rise certainly looks more likely than it has done for some time.

All in all, its been a pretty bland week for the Handies, where rates have rolled sideways for the duration, with TC9 firmly cemented 30 x ws 105 and X-UKCont steady at 30 x ws 100. Baltic volumes are still below their norms, which is ultimately leaving the tonnage list oversupplied. Given the relatively

quick turnaround times for Handy voyages, until volumes can increase expect these market conditions to continue. One outstanding cargo on Friday lunchtime is seeing Owners try their luck, with 30 x ws 110 Baltic/UKCont. Yet, with little else to choose from, it feels that the ws 105 is still there. It seems that 5 days of trading before the list grows over the weekend isn't quite enough to tighten the list to the point, where Owners can make some ground.

There hasn't been anything too out of the ordinary on the Flexis this week. There have been the normal cargoes ex North and South Spain, albeit at last done levels 22 x ws 130. Amongst this, there have been a few failures, which inevitably drains any positive sentiment that was building over the apparent 'tightness' of the list, something that's more common here, due to the geographical dispersion of the Flexi fleet. There's not a huge amount to look forward to next week as it stands. The winter months need to come quickly to inject some life into this sector.

## Clean Product Tanker Spot Rates



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

# Dirty Products

## Handy

The NWE sector started off this week very much on a quiet note. On Monday we were presented with a number of prompt/early units positioned at the front of the tonnage list. This knocked a firm blow to the momentum that was building at the end of week 37. As a result, rates were corrected down. That said, activity did start to flow and Owners managed to capture the rate slide by only ws 5 points from where the week started. That said, next Monday we may expect another challenging week, as again a few units continue to sit prompt.

The Med once again has continued with the steady flow of enquiry that we have seen in previous weeks. However, Monday also showed another weighty tonnage list, which continues to play its part in preventing Owners from making any ground. That said, we should note that we have not seen a great deal of fluctuations in fixing levels even when the market has been busy. This indicates the consistency of cargo base is needed before volatility is presented. That said, at time of writing the East Med area is starting to show first signs of tightening for well approved units, and in turn early October stems from the Black Sea may start to come to the party a couple of days earlier than usual.

## MR

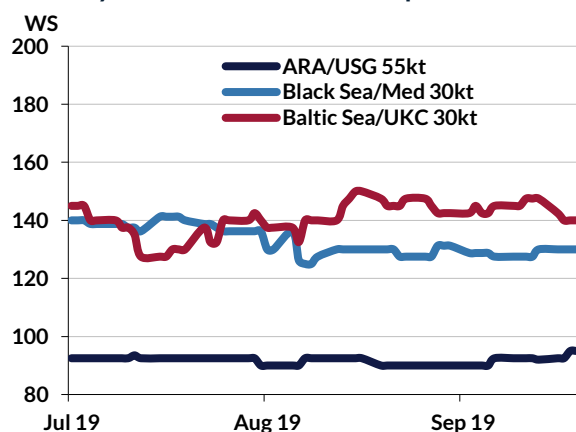
In both the Cont and Med this week we have had to endure slower conditions all around, with many Owners having to face a reality that the perfect cargo may not come their way. Some interesting moves have been seen, providing just enough stimulus to keep momentum balanced. One thing to note, however, is that where fewer approved units present in the Continent, we can expect to

see a widened disparity in fixing levels between the Med and Cont going forward.

## Panamax

Following on from last week's positive activity, tonnage has continued to clear down on this side of the pond. However, rates have just witnessed marginal increments, with last done from NWE now sitting at ws 95 (up from ws 92.5). Looking towards next week, it could be said that we remain on the verge of positive volatility as, with just a couple of natural units to take care of, Owners can finally be sitting in a positive position. It's also for us to point out that adding to the mix, the Caribs/US markets continue to trade firm in the high ws 150's, leaving little scope to entice a ballaster this way.

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	Sep 19th	Sep 12th	Last Month	FFA Q3 (Bal)
TD3C VLCC	AG-China	+16	69	54	66	70
TD20 Suezmax	WAF-UKC	+21	80	59	63	81
TD7 Aframax	N.Sea-UKC	+5	111	106	85	107

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

		wk on wk change	Sep 19th	Sep 12th	Last Month	FFA Q3 (Bal)
TD3C VLCC	AG-China	+12,500	40,750	28,250	42,500	70
TD20 Suezmax	WAF-UKC	+8,250	19,750	11,500	13,750	81
TD7 Aframax	N.Sea-UKC	+2,000	24,000	22,000	7,250	107

## Clean Tanker Spot Market Developments - Spot Worldscale

		wk on wk change	Sep 19th	Sep 12th	Last Month	FFA Q3 (Bal)
TC1 LR2	AG-Japan	-4	98	102	113	
TC2 MR - west	UKC-USAC	-1	95	96	94	102
TC5 LR1	AG-Japan	-16	97	112	112	98
TC7 MR - east	Singapore-EC Aus	+4	178	174	170	171

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

		wk on wk change	Sep 19th	Sep 12th	Last Month	FFA Q3 (Bal)
TC1 LR2	AG-Japan	-4,250	11,500	15,750	19,500	
TC2 MR - west	UKC-USAC	-1,500	3,250	4,750	4,750	4,500
TC5 LR1	AG-Japan	-5,750	7,000	12,750	13,250	7,250
TC7 MR - east	Singapore-EC Aus	-1,000	13,000	14,000	15,500	12,000

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

ClearView Bunker Price (Rotterdam HSFO 380)	+75	373	298	290
ClearView Bunker Price (Fujairah 380 HSFO)	+75	446	371	358
ClearView Bunker Price (Singapore 380 HSFO)	+62	511	449	371
ClearView Bunker Price (Rotterdam LSMGO)	+43	595	552	548

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