

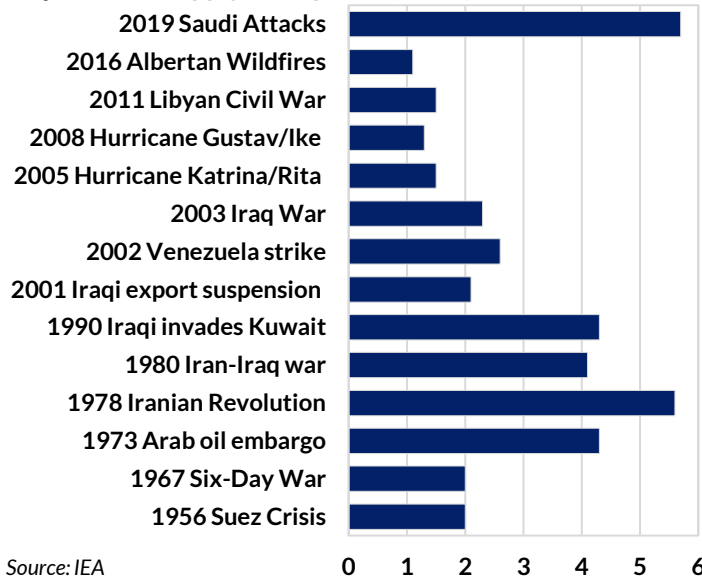
The shape of things to come?

Weekly Tanker Market Report

2020 is already turning out to be a highly volatile year. Most tanker freight markets have remained extremely firm over the first two weeks of January whilst geopolitical risk has ratcheted up once again. The US killing of General Soleimani, followed by Iran’s retaliatory action could have had major repercussions for the oil and tanker markets. However, aside from price impacts, so far no physical effect on the market has come to fruition and tensions appear to be cooling - for now. What happens next however will be key, with countless different scenarios that could play out.

One of the most talked about scenarios remains the possibility that the Strait of Hormuz could be closed. Whether this is achievable or not, and whether it would trigger a major conflict is beyond the scope of this report, but any closure no matter how temporary would impact approximately 17.2 million b/d of crude oil and 2.4 million b/d of refined product flows. If this was to materialise, the impact on the oil price would be extreme, with major economic ramifications.

Major Crude Supply Disruptions (mb/d)



Source: IEA

The loss of 17.2 million b/d of crude flows could not be replaced from anywhere in the world within a short time frame. Saudi Arabia, Iran and Venezuela possess the biggest spare production capacity; however, none would be in a position to increase exports. Whilst Saudi Arabia could theoretically push approximately 3 million b/d of crude to the Red Sea via the East-West pipeline (assuming that loading infrastructure could handle these volumes), the pipeline itself could become a target.

The obvious place to source additional crude would be from OPEC+ members outside the Middle East Gulf who could reverse their 715,000 b/d of pledged production cuts, whilst some countries

like Russia may be able to produce even more. Collectively however, it is unlikely that OPEC+ production increases would exceed 1 million b/d in the short term. The US could also contribute more, although much of this might be retained for domestic consumption, whilst it is unclear how much additional crude the US could produce quickly. The largest month on month increase in US shale production recorded was 300,000 b/d, whilst Canada could remove government mandated cuts to increase output by up to 300,000 b/d. However, even if all these players delivered quickly (which is uncertain) and Saudi maxed out its East-West pipeline, only 5.315 million b/d of the loss could be recovered, leaving a near 12 million b/d shortfall. Emergency stocks would of course be released, although this would have little benefit to tanker trades.

So, with approximately 12 million b/d of seaborne oil trade lost if the Strait of Hormuz was closed, the implications for freight rates would be disastrous, perhaps akin to the periods following the oil shocks of 1973/1974 and 1979, both of which led to prolonged downturns in tanker freight rates. Of course, endless different scenarios could materialise. If the Strait stayed open, but with attacks on tankers becoming more common, then freight and insurance rates could surge to record levels. Right now, it is difficult to rule out any scenario, but one thing is certain; the risk to oil and shipping is arguably the highest it has been this century.

Crude Oil

Middle East

A very steady week for VLCCs that had hit peaks over the festive period and then enjoyed sufficient New Year volumes to maintain position. Early dates remained tight and attractively priced Atlantic alternatives persisted. We are now into the end game for January liftings, but February confirmations will be in hand from the middle of next week. The balance may slightly tip in Charterers' favour but a concentrated fixing pattern would ensure a continuation of the 'conference' market level. Rates to the Far East presently hold at up to ws 145, with rare runs to the West called at around ws 80 via Cape. Suezmaxes were not over busy but a flush of interest to the West pushed rates to over ws 90 for a short while, with East rates maintaining a healthy ws 170+ mark, despite the slowish pace. Aframax action stayed steady but availability began to swell and rates are now sliding to 80,000mt by ws 220 on the 2020 scale and are likely to slip further before Owners can regroup.

West Africa

Suezmaxes restarted cautiously, but hopefully, and mid-week enough fresh enquiry washed in to allow rates to inflate slightly to 130,000mt by ws 185 to Europe and towards ws 180 to the States. Ongoing strong U.S. interest assisted, but ballasters from the East began to compromise thoughts of even higher numbers and the week ended on a flatter note. Hopes will remain, however, for

another cargo boost early next week. VLCCs began to pick up pace as Charterers were forced to move upon ballast time considerations. Up to ws 145 was seen for Nigeria/East but an average ws 135 level persisted for Angola/China runs, with \$8.8 million seen to West Coast India. Steady for now.

Mediterranean

A disappointing week for Aframax. Onto the new 2020 Worldscale now but ever slimmer cargo pickings drew rates down to ws 157.5 X-Med and to ws 167.5 from the Black Sea although Owners will feel that a seasonal bottom has now been reached. Suezmaxes showed little zip but other regions supported and Eastern demand kept ticking over. 140,000mt by ws 172.5 from the Black Sea to European destinations, with around \$6.5 million payable for China and rates look set to remain rangebound for a while yet.

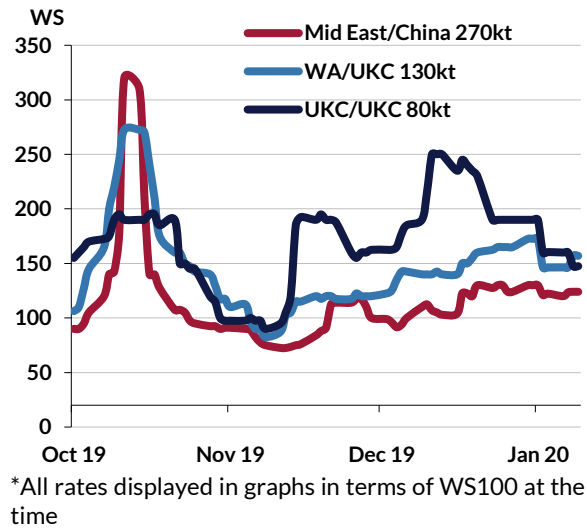
US Gulf/Latin America

Aframaxes here were the stars of their sector - very heavy fixing kept coming and rates forced to super highs of up to 70,000mt by ws 450 upcoast. Ballasters are now being attracted moth-like to the area and the subsequent dilution will likely lead to a pragmatic rate retreat through next week. VLCCs remained tight on the fixing window and just a small increase in demand converted quickly into a significant rate-step higher to \$15.3 million from the US Gulf to China/South Korea. Perhaps a degree of discounting into next week but the tight fundamentals won't evaporate quickly.

North Sea

Aframaxes had moved off to 80,000mt by ws 145 X-UKCont and to 100,000mt by ws 130 - on the 2020 Scale - but a ramp up in fuel oil interest then began to relieve the situation and a sharp snap back is certainly on the cards for next week - a reasonable hope, at least. VLCCs picked up their rate ideas on the back of Stateside gains and up to \$13.5 million was seen for crude oil to South Korea accordingly. Similar values will be demanded over the near/medium term too, even if enquiry remains spasmodic.

Crude Tanker Spot Rates



Clean Products

East

A strong close to the first full week back in the office for MR Owners, with numerous open stems still to cover and a tonnage list looking tight. Rates positively corrected as Owners started to get more confidence in the market. EAF rose up to 35 x ws 197.5, some ws 15 points up over the course of the week. TC12 currently on subs 35 x ws 152.5; however, expect better than last done to be achieved on next fixture. Stems into the Red Sea sit at the \$675-\$700k level, with X-AGulf cargoes at around \$300k. We could see some LR1s start hunting for short haul MR stems as they struggle for natural LR1 cargoes; however, even with this potential fishing, the MRs look set for another strong week.

LR1s have seen a busy week, with an element of activity being an overflow from the tighter MRs. Rates have stayed flat accordingly, whereas the bigger LR2s have dropped away. 55,000mt naphtha AGulf/Japan is now ws 145 and 65,000mt jet AGulf/UKCont is flat at \$2.45 million. These rates look pretty solid for the next week ahead. On the other hand, LR2s have seen so few stems that rates are coming away, albeit not that quickly. 75,000mt naphtha AGulf/Japan is now ws 140 and may see further discounts. 90,000mt jet AGulf/UKCont is a little fragile and no higher than \$2.90 million for now but could easily be \$100-\$150k less, if more volume doesn't come soon. Overall, with refineries facing annual maintenance and Chinese New Year hitting earlier, we are in for a tougher few weeks than hoped for.

Mediterranean

At the end of week 2, most have been left scratching their heads as to how rates have fallen so drastically given the poor weather and delays through the Turkish Straits. With NB delays as high as 5-6 days coupled with healthy Black Sea enquiry, this is normally the recipe for a firming market and the kick-starter to drag up Med rates. However, this was not the case due to far too many ships across the board, with W-Med plagued with ballasters and C-Med/E-Med littered with prompt ships. An abundance of available tonnage allowed Charterers to consistently squeeze rates downwards. At the time of writing, 30 x ws 240 (20) is the going rate in the Med (with a negative correction likely), which is a whole ws 40 point drop from Monday when we saw 30 x ws 300 (19 WS100) on subs (30 x ws 285 equivalent). The weekend is unlikely to help proceedings, with an even greater tonnage list looming on Monday. With Turkish Straits delays easing off, the writing is on the wall for Owners that unfortunately less than last done is on the cards.

Finally to the MRs, where limited tonnage has meant Owners were able to keep some more positivity in the market compared to their Northern cousins. Yet, inevitably the market has seen a decline as the week has passed. 37 x ws 200 (20 WS100) was achieved heading transatlantic, but coming to the close of the week we have seen ws 180 (albeit on a last veg ship). Partnered with the Handies also falling, the opportunity for

employment on that size has diminished. Tonnage still remains relatively limited. It won't take much for this market to improve but for now, with enquiry slow, Owners continue to kick the can down the street awaiting next week's potential.

UK Continent

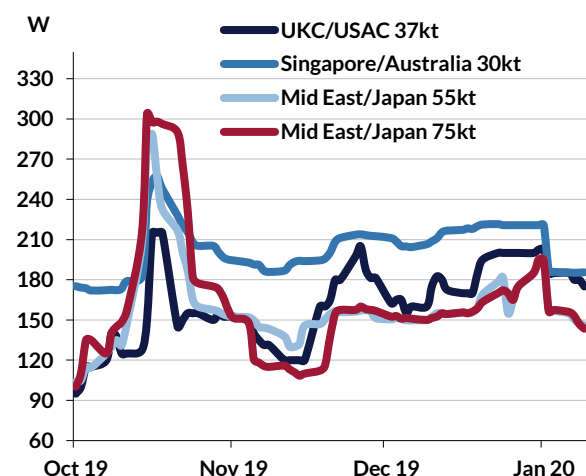
We don't think too many people will be disappointed to see the back of this week. Considering it was the first full working week since the middle of December, we are sure most people would have high expectations of the new year getting off to a solid start. Instead, what we have seen is very little in the way of cargo enquiry and rates gently coming off. Whether the latest U.S gasoline inventories are to blame for lack of demand or if it is purely down to pricing won't change the facts that this week has been one to forget and hopefully very quickly. Aside from the transatlantic market, WAF has also failed to deliver on much needed enquiry, with LRs being the preferential size based on current freight rates. So the harsh reality at the moment is we have a tonnage list that was already well stocked throughout the second decade and a cargo list that is far too short to absorb it. That unfortunately means that we are likely to continue to see rates decline throughout the balance of January. Today we would value TC2 at 37 x ws 170 and WAF at 37 x ws 200 but, with further softening likely going forwards.

A lacklustre week has passed for the Handies up in the North, as the sheer amount of tonnage available to

Charterers coupled with drip-fed enquiry, has meant rates have continued to soften. Charterers played the game very well by fixing ahead of the natural fixing window, which has seen Baltic/UKCont drop to 30 x ws 192.5. With Continent once again offering very little fixing opportunities, rates are expected to be negatively corrected to 30 x ws 180. Looking ahead, expect this trend to continue heading into week 3.

A relatively quiet week for the Flexis. A few spot cargoes have helped to keep some ships on the move, yet rates have dropped compared to last week. X-UKCont trades around 22 x ws 260-265 levels but don't expect levels to bounce back anytime soon due to the fact there are plenty of ships available in the typical load areas. Those in this sector will be keeping a close eye on which direction the Handies head.

Clean Product Tanker Spot Rates



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

Dirty Products

Handy

The first decade of January 2020 has not been the booming start to the year that some Owners were hoping for in the face of IMO2020. The first full trading week of the year has been quieter than expected, putting pressure on rates from NWE. On face value, at the start of the week enquiry and available tonnage were pretty balanced. However, dig a little deeper and as the week progressed more and more units started to come out of the woodwork. This prompted a few more market quoted stems, where Charterers started to chip away at fixing levels, as we expect next done to be concluded some ws 15 points from where the week started. The market still feels somewhat unsettled as we get the impression that not all traders were at full pace.

The Mediterranean DPP market kicked off with a little more pace than the NWE market this week, as the tonnage list was looking well stocked. Early trading only managed to take out a number of the units leaving the outlook looking set to remain more favourable for Charterers. With that said, come mid-week, rates stabilised, but Turkish Straits delays went up rapidly to 6-7 days for Northbound, which injected a flurry of fresh enquiry from the region and tipped the balance of power back towards the Owners. As a result, ws 340 was reported on subjects and, with a few stems still to be covered, we can only expect this momentum to continue into next week.

MR

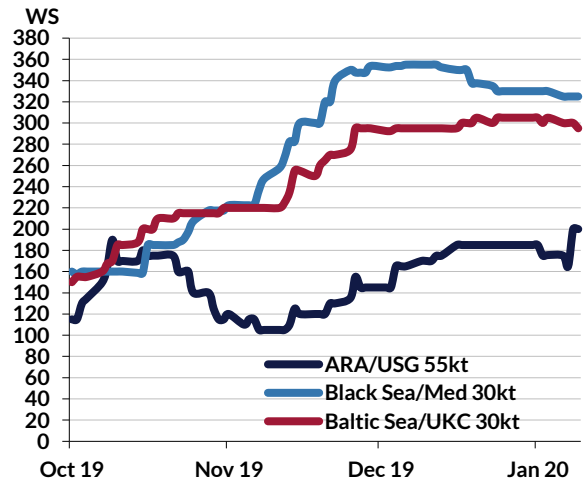
The trend in the MR market in the North has continued on from where 2019 left off, with an almost non-existent supply of available tonnage. With the next and only unit showing in the region now in its natural window, there is soon to be a fresh test. Until this cargo comes to the market, however, it remains to be seen whether the MR's will follow the softening Handy market or be valued independently.

As with the Handy market, the Med has seen more activity than the North. However, the lack of activity from Charterers here has left the spread in rates ranging over ws 20 points. On Tuesday we heard Black Sea, Med booked at ws 220-225 & 242.5 (WS 2019 rates), with the market seemingly dropped by one Charterer holding two stems. These rates have yet to be tested coming into the end of this week leaving Owners speculating as we move into WS 2020 rates where the first deal will be struck. Prevailing market rates in both bigger and smaller sizes suggest that rates will come off from here.

Panamax

With the surrounding Aframax markets cracking under the weight of availability and a desire to get out to the US, what has happened to the Panamax sector is quite painful from an Owners perspective. Enquiry moving across to an 80kt size has both derailed what is achievable and has allowed the tonnage list to grow, which in turn is likely to mean that a recovery will now take even longer. 80 x ws 110 UKCont/Transatlantic. Panamaxes will have to consider the reality that ws 160 might be more in tune.

Dirty Product Tanker Spot Rates



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

Dirty Tanker Spot Market Developments - Spot Worlds cal

		wk on wk change	Jan 9th	Jan 2nd	Last Month*	FFA Q1
TD3C	VLCC AG-China	+3	125	122	90	94
TD20	Suezmax WAF-UKC	+11	158	147	122	130
TD7	Aframax N.Sea-UKC	-15	147	162	251	129

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

		wk on wk change	Jan 9th	Jan 2nd	Last Month*	FFA Q1
TD3C	VLCC AG-China	+3,750	110,250	106,500	72,500	71,000
TD20	Suezmax WAF-UKC	+8,000	68,250	60,250	56,750	47,500
TD7	Aframax N.Sea-UKC	-10,000	48,000	58,000	123,250	34,250

Clean Tanker Spot Market Developments - Spot Worlds cal

		wk on wk change	Jan 9th	Jan 2nd	Last Month*	FFA Q1
TC1	LR2 AG-Japan	-13	143	156	129	
TC2	MR - west UKC-USAC	-10	177	187	171	169
TC5	LR1 AG-Japan	-11	146	157	131	134
TC7	MR - east Singapore-EC Aus	-2	185	187	183	171

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

		wk on wk change	Jan 9th	Jan 2nd	Last Month*	FFA Q1
TC1	LR2 AG-Japan	-5,000	24,000	29,000	23,750	
TC2	MR - west UKC-USAC	-1,750	17,500	19,250	17,750	16,250
TC5	LR1 AG-Japan	+1,500	16,750	15,250	16,250	13,750
TC7	MR - east Singapore-EC Aus	-250	14,000	14,250	17,000	11,500

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

ClearView Bunker Price (Rotterdam VLSFO)	-12	566	578	509
ClearView Bunker Price (Fujairah 380 VLSFO)	-35	743	778	613
ClearView Bunker Price (Singapore 380 VLSFO)	+3	705	703	591
ClearView Bunker Price (Rotterdam LSMGO)	-19	573	591	573

* WS spot rates converted into 2020 WS100

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