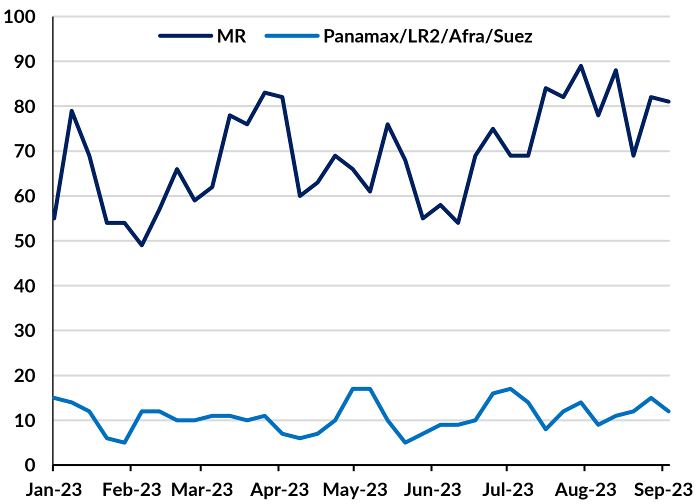
Traffic Jam

Weekly Tanker Market Report

The Panama Canal has received much attention recently as low water levels have led to both an increase in transit waiting days as well as the number of vessels waiting to cross. The implications of these difficulties are clear; if vessels must sail an additional 10,000 nautical miles around Cape Horn and the Magellan Strait, this will increase both bunker consumption and sailing days with knock on effects for vessel TCEs, supply chains and ultimately GHG emissions. Additionally, there has been a notable increase in canal transit fees through the auction system, which allows for tonnage without a prebooked slot to pass through. So far, much of the attention has been focused on the dry, container, LPG and LNG sectors but what impact could this have on the tanker market?

Weekly Change in the number of tankers waiting for Panama Canal transit (No. of Vessels)



Recent vessel tracking data shows that the for the smaller and more versatile MR sector, where local market dynamics often require a canal transit there has been volatility in the number of vessels waiting to cross. This may suggest, intra-regional flows could be reduced or face further logistical challenges going forward. Meanwhile, for tankers larger than MR size, the canal is less important and transit numbers remain low even in normal market conditions, meaning that there has been little material impact on these larger tanker sizes.

For MRs, however, canal issues were one of the factors supporting firmer freight rates in the US Gulf (USG) during August. As such, this size is likely to be the most impacted tanker sector going forward, if delays continue beyond September. This could see USG-West Coast South America and USG-US West Coast flows tighten to some extent. The economics of diverting an MR around Cape Horn is unlikely to be attractive from a TCE perspective and so the only real solution is a return to normal transit times or vessels increasing their transit prebooking to optimise their sailing days. However, there are limitations to how many of each vessel type can cross the canal per day, which would require preference being given to these tankers which for the time being remains unlikely. We are unlikely to see much of an impact on crude flows given the relatively low volumes passing through to the pacific side of the canal and more of the USG crude loading onto VLCCs, which cannot use the canal.

What does this mean going forward? Firstly, regional tonne miles are likely to increase, which will effectively impose lower vessel availability out of the USG. Ironically, such an increase in tonne miles may marginally improve some vessels CII scores, given the longer distances they will be sailing. Secondly, canal delays could lead to increased flows from the Far East, as higher freight rates and transit delays from the US Gulf shift pricing more frequently in favour of Asian barrels into the West Coast of South America. Thirdly, if such water shortages and delays start to develop a seasonal pattern due to climate change, then this is likely to add new complexity in the market, which will require some degree of forward planning towards future third and fourth quarters which could see higher volumes in Q2, depending on East Coast South America and US West Coast storage capacity and demand levels. All in all, whilst higher rainfall in Panama is expected in the second half of September, which will bring some relief and a return to normal canal traffic, the tanker market remains largely unaffected, except for regional MRs and we wait to see what conditions next year brings.

Crude Oil

Middle East

VLCC Owners are starting to show resistance after a very challenging week where rates were approaching yearly lows. The slowdown is not surprising as exports from the AG are down by almost 10% and this has forced many Owners to ballast to the Atlantic. The sentiment remains soft for now but rates are slowly edging upwards as we see Charterers move to cover their first decade October programme and today we would expect a 270,000mt AG/China run to fetch in the region of ws 37.5 and a 280,00mt AG/USG to go for at least the ws 24 level.

Rates for a standard TD23 run are pushing towards 140,000mt x ws 60 with sentiment starting to build among Owners. The market looking to head East look steady, and a vanilla run into the East is approximately 130,000mt x ws 82.5 today.

For the Afras, after numerous weeks of soft sentiment and rates declining, a busy Indo market has returned some optimism to the East with rates creeping up day by day. With fewer options now available to Charterers in the AG in comparison to recent times, the market is left finely balanced. In the next week or so, should Indo cargo enquiry remain, we could see Owners opt to stay local and less ballasters head towards the AG. That being said, Owner's resilience will continue to be tested as we end the week with AG/East at 80,000mt x ws 110.

West Africa

VLCC rates in WAF have started to recover as we have seen an upturn in activity as Charterers look to take advantage of low freight levels. This uptick while welcome will depend a lot on what happens in USG as the Atlantic is getting crowded with a heavy influx of East ballasters escaping the gloomy AG zone. Today we are expecting a 260,000mt WAF/China run to go for the ws 43 level.

Suezmax markets in West Africa have really picked up the pace on Friday with plenty of activity and Owners' ambitions are starting to push up. Rates stand around 130,000mt x ws 75-80 for TD20 depending on the terms required. Premiums to head East stand at approximately 10 points.

Mediterranean

Suezmax markets in the Med have remained quiet throughout the week, though with firming sentiment in the Atlantic, we will see some resistance. There are keen players around for a TD6 run (even on rather prompt dates) and we estimate next-done will be around 130,000mt x ws 72.5. Rates to head East from the Med are also struggling with a few ships keen on this voyage and are approximately $3.9 million for Libya/ Ningbo.

Another disappointing week for Mediterranean Aframaxes as the weather delays of the previous week has not led to enough reduced availability.

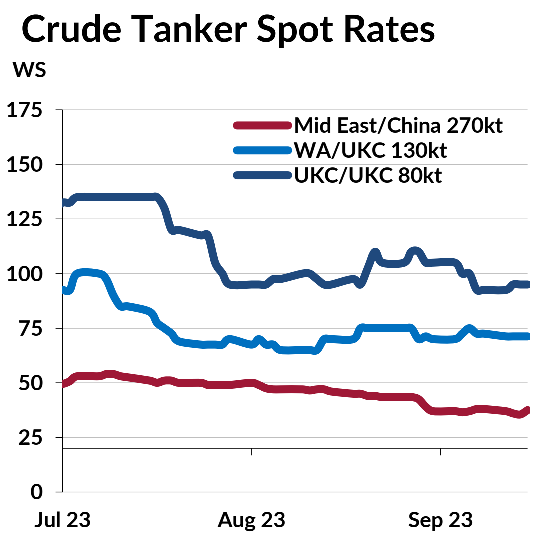
In fact, sentiment was so affected by this quiet period that rates dropped further reaching what seems to be a bottom of ws 85-87.,5 levels for Ceyhan loaders. We have finally though reached a point where returns can be below operating expenses and at this point many Owners will sit back before committing. This in conjunction with upcoming maintenance in Trieste will give Owners some small optimism going into next week.

US Gulf/Latin America

This area has enjoyed a busy week on the VLCCs and a noticeable increase in Brazil exports is helping Owners regain the initiative as rates begin to move northwards. We are also seeing increased exports from Mexico which all helps and with a heavy demand for Crude going to the UKC the outlook is looking better in the short term. We expect a USG/China run to fix in the region of $7.15m on today's market while a Brazil/China is paying ws 42.5. Aframax activity remains limited, so we expect rates to remain at current depressed levels going into next week.

North Sea

A rather lackluster week in the Continent with the region enduring a prolonged quiet spell. What limited activity there has been was met with a health selection for Charterers to choose from with no surprises seen that levels have been tested favorably from a Charterers perspective. Looking ahead however, Owners can perhaps expect some relief to soon follow as where the levels on this asset class are priced so competitively, surrounding sizes can expect some volume to be lost to Aframaxs which offer Charterers a better $/MT.



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

Clean Products

East

Continued activity and a tight list for the AG MRs this week has left most of us wondering why we haven't reached ws300 for TC17 yet. Both on and off market moves have seen prompt and ballast units with little waiting happy to repeat ws280 basis South Africa however at the same time some resistance has been seen to heading East with TC12 cargoes seeing inflated numbers. With lists continuing to look tight to end month, the expectation is for levels to climb from here.

A very active week for the LR1s with all focus was this sector. The list has tightened considerablt and the availability for Nap/Jet suitable ships is causing Charterers a slight headache. As a result we have seen a big jump on last done levels with 55kt x ws 172.5 on subs, however, owners ideas for next done are certainly pushing on from this number. West runs have been quiet on the open market but behind the scenes charterers have been trying to cover stems on the quiet. $3.5m upwards should be where were are heading.
The LR2s although not as busy as the LR1s have been slowly and steadily ticking over, the list is also tight of the front end and owners are keen to see a positive adjustment. TC1 needs a fresh test but circa 75kt x ws 145 is a fair assessment. Similarly to the LR1s, Jet suitable ships are hard to find and as such $3.9-4.0m is where it currently sits, but this will be tested next week.

Mediterranean

What a week for the Handies here in the Mediterranean as we see rates firm over 70 ws points from Monday. We began the week with X-Med trading sideways at the 30,000mt x ws 200 mark but with cargoes pouring into the market on Monday and Tuesday the list tightened up very quickly on the front-end with 30,000mt x ws 215 achieved by COB Wednesday. The spike came on Thursday however when we saw a couple prompt replacements needed and Owners taking full advantage of the lack of tonnage with the heights of 30,000mt x ws 275 reached. Black Sea action on the other hand has been slow with little to report but a fresh positive test is due here. At the time of writing Friday has been quiet with both parties seemingly holding off till next week where possible. Owners remain bullish into the weekend.

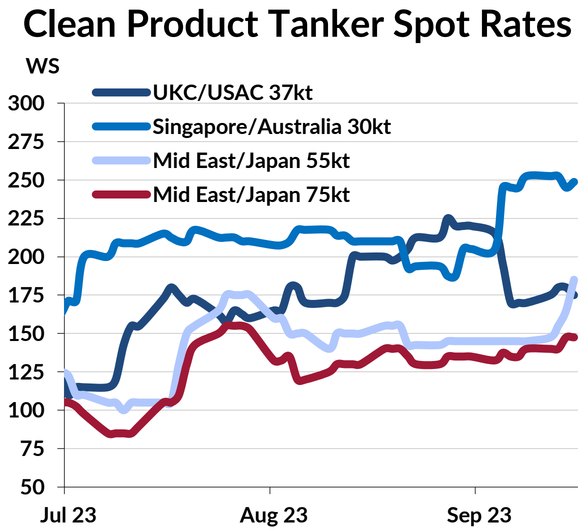
Finally, to the Med MR's where rates picked up a touch on Monday but since then have steadied out. With 4 fresh stems quoted on Monday, Owners were able to push Med/TA up to the 37,000mt x ws 185 levels, a 5 point jump from Friday. Cargo enquiry since then has slowed with rates being repeated at the 37,000mt x ws 185 mark throughout. As we approach the weekend there is little left outstanding but with the Handies firm expect rates to hold here.

UK Continent

Owners have managed to navigate this week well and despite the dark cloud of ballasters brewing over on the USAC, rates have been able to hold with 37,000mt x ws 180 being the call for the majority of the week for TC2.

The week started with limited options for Charterers and Owners were able to add a few points here and there with the limited enquiry we saw and could well have hoped for more, especially with the Mediterranean seeing a good premium. Come midweek though we saw the majority of fixing completed and we can expect by the mid-20s load window to see many more options for Charterers with ample ballast options. Next week may not be as enjoyable for Owners with TC14 rates down below the WS 100 mark again and just how much correction we shall see is the ultimate question on all minds.

On the other hand, though the Handy market has continued to hold firm at 30,000mt x ws 190 for the majority and with the Mediterranean market really picking up some pace, we could easily see some further gains around the corner. Charterers have played a good game to keep rates relatively stable but as we start to show limited fixing options left, we anticipate Owners to walk into the office on Monday morning with some bullish pants on.



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

Dirty Products

Handy

Owners in the Med have remained firmly in the driving seat after another active week of trading. A lack of replenishment come Monday allowed Owners to maintain levels at ws 165 before this was quickly escalated to ws 170 on Tuesday as tonnage continued to tighten. Despite enquiry slowing in the latter half of the week, availability was looking sparse and consequently allowed one Owner to push levels to ws 172.5. Going forward, if demand remains robust without a significant influx of available tonnage, we can anticipate that Owners will remain bullish and aim for rates upwards of ws 175.

In the Continent, the start of the week was looking tight in terms of natural and ballast tonnage and allowed one Owner to sustain levels at ws 185 as seen in the previous week. However, as the week progressed, the pace of enquiry has been somewhat sluggish and has consequently made it difficult for Owners to better this last done figure. Although activity in the latter half of the week has remained somewhat under the radar, with BITR rates slowly depleting day by day, we can assume that ws 185 hasn't been repeated and it's more likely now that next done negotiations will lie in the ws 180-182.5 range, if enquiry fails to pick up the pace.

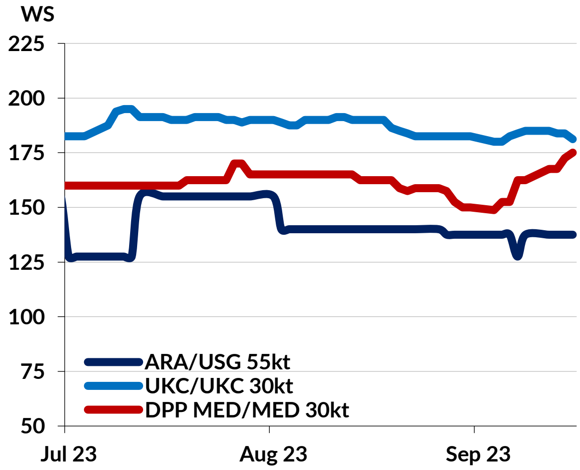
MR

This week's test in the North has shown little movement for this sector, as rates continue to hold at 45 x ws 160. Despite a slower week in terms of activity, tight positioning and slow replenishment resulted in both Owners and Charterers settling for last done levels. Elsewhere in Med, it was a rather exciting week for MRs, as recent tests based on 45kt saw one Owner achieve 45 x ws 162.5 for a Cross Med. A significant factor you should consider off the back of this rate is the current firm market on Handies is now benefiting MRs, as Owners look to push on with every cargo shown to them.

Panamax

Another frustrating week for the Panamax TA market as questions and firm enquiry remained absent, leaving no choice but to rely on surrounding markets to identify current levels. As Owners' units start to edge closer to their opening dates, finding employment could now see Owners look at all options by taking a more localised run or coverage on a smaller stem should they surface. As we look towards States market, a slow start to the week resulted in a build-up of tonnage, which then saw Owners succumb to negative pressure as rates came under pressure. All sectors right now for the Panamaxes are offering little attraction.

Dirty Product Tanker Spot Rates



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GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Sept 14th	Sept 7th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	**+1**	37	36	46	46
TD20	Suezmax	WAF-UKC	**-2**	71	73	68	75
TD7	Aframax	N.Sea-UKC	**+1**	95	94	96	110

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

			wk on wk change	Sept 14th	Sept 7th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	**-250**	5,000	5,250	20,250	17,250
TD20	Suezmax	WAF-UKC	**-2750**	16,250	19,000	16,250	19,250
TD7	Aframax	N.Sea-UKC	**-750**	3,750	4,500	6,500	17,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Sept 14th	Sept 7th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	**+8**	143	135	132	
TC2	MR - west	UKC-USAC	**+9**	180	171	199	171
TC5	LR1	AG-Japan	**+25**	170	145	152	145
TC7	MR - east	Singapore-EC Aus	**+1**	255	254	215	216

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

			wk on wk change	Sept 14th	Sept 7th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	**+2500**	30,750	28,250	28,000	
TC2	MR - west	UKC-USAC	**+1500**	18,500	17,000	24,250	16,500
TC5	LR1	AG-Japan	**+7000**	28,250	21,250	23,750	20,750
TC7	MR - east	Singapore-EC Aus	**-250**	31,250	31,500	24,250	23,500

(a) based on round voyage economics at 'market' speed, non eco, non scrubber basis

Bunker Price - Rotterdam VLSFO	**+19**	619	600	589	
Bunker Price - Fujairah VLSFO	**+21**	651	630	629	
Bunker Price - Singapore VLSFO	**+17**	659	642	639	
Bunker Price - Rotterdam LSMGO	**+48**	970	922	871	

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