Imperfect Storm

Weekly Tanker Market Report

Perhaps the most apt description of the IMO (MEPC72) meeting in London this week is that the organization is 'stuck between a rock and a hard place'. Whatever action the IMO decides to pursue, they will be heaped with criticism from one side or another. Anyone expecting some softening of the 2020 sulphur limits can forget it. The IMO Secretary General in his opening address reinforced the message that it will come into effect as stated. However, the organization is now thinking beyond 2020, planning a strategy in how to deal with the challenge and opportunities for tackling greenhouse gases (GHG) from maritime transport. A topic, which has been bubbling at the IMO since MEPC68 in 2015.

The debate will inevitably boil down to two issues; how hard will the IMO set the reduction to carbon emissions and what will be the timetable for implementation? Perhaps we can add to the mixture the extent of consensus by Flag States, each of which will have their own reasons to delay or implement change. Proposals for a 50-100% reduction in GHGs between 2050 or 2060 is under consideration, as a softer approach welcomed by many. Meanwhile the European Union member states are pushing for an emission reduction target of between 50-70% by 2030 and up to 100% by 2050. Even before MEPC72 concluded its deliberations and announced their decision to the eagerly awaiting shipping community, members of the European Parliament (MEPs) had indicated that, should the IMO take a "too lame" approach, then Europe will very likely take independent measures. This would not be the first time that the European parliament has acted outside of the IMO umbrella. A precedent was set in July 2003, when the European Parliament introduced into EU law the accelerated phase-out of single hull tankers ahead to the IMO timetable. The European Union has been at the forefront of international efforts towards a global climate deal. In 2016, the Paris agreement was seen as a turning point in the battle against climate change, even though shipping was excluded from the final draft. Almost every nation signed up to the accord, including the industrial giants the US and China. It is against this background that the IMO has little room to manoeuvre when they announce their proposals following MEPC. Of course, Donald Trump last November in his famous "we're getting out" proclamation, indicated that the US would begin negotiations to re-enter the agreement that would be fairer to the US economy.

As has been stated many times, shipping remains the most environmentally efficient method to trade. Emissions from shipping continue to move lower through better designs and advances in engine technology. At the same time, the size of the global fleet is increasing as is seaborne trade. Ship owners have often been accused of being slow to react to change but have usually met the challenges, frequently during difficult markets, such as we are seeing now. In order to meet even more ambitious emissions target such as 50-70% by 2030 as proposed, we need to start building even greater energy saving ships now. One interesting statement broadcast by the BBC earlier in the week quoted a Korean source stating that the new ships being added to their fleet are now "30% larger and 30% more efficient". To achieve greater efficiencies to meet ambitious targets will require newer ship designs and even greater emissions targets from the engine manufacturers. The development of alternative fuels is still in its infancy and, whilst we have seen a considerable rise in "LNG ready" tonnage, concerns about availability and entry costs are still an obstacle. Whilst we all support the aims to achieve greater environmental targets, it is paramount that these are realistic and practical. At the end of the day we are all trying to achieve the same goal.

Crude Oil

Middle East

No improvement for previously sliding VLCCs....a slow week as Charterer's proceeded to gently close out the April programme and had to wait upon May schedule confirmations. Availability remained abundant, and rates slipped further to under ws 40 East for the most modern units, with rates to the West into the high 'teens. It could get busier next week but even if it does it seems unlikely that any pinch points will develop to allow for a positive market U-turn. Suezmaxes started brightly with early replacement needs adding additional support - rates stepped up to as high as ws 40 to the West and to ws 70 to the East but then interest slowed and Owners moved back onto the defensive with some rate erosion anticipated. Aframaxes had been expected to add a little rate fat and the market did indeed gain to 80,000 by ws 90 to Singapore on solid demand and the improvement should hold for a little while yet - maybe a touch better than that, even.

West Africa

Suezmaxes had hoped for a more active week to engineer improvement, but it was the opposite and Owners spent the week fighting an ongoing rear-guard action that resulted in rates falling further to ws 48 to the US Gulf, and to ws 50 to Europe. These are effective bottom markers, but it will take sustained bargain hunting to pull the market noticeably higher over the coming period. VLCCs drifted upon minimal interest and a weakened AGulf scene. Rates have compressed towards ws 40 to the Far East with little above $2 million available from Angola to West Coast India. So long as the Middle East flounders, nothing positive will develop here either.

Mediterranean

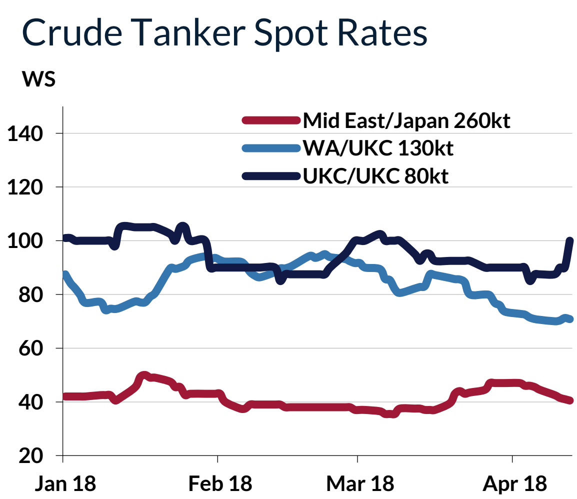
Aframaxes began to see increased volume but the backlog of availability remained heavy enough to neutralize and rates fared little better than 80,000 by ws 75 X-Med though there is more hope now that things could improve next week if even only moderate enquiry enters early next week. Suezmaxes remained in 'same as' territory - 140,000 by ws 70/72.5 from the Black Sea to European destinations, and around $2.5 million for China runs - through the week, but tonnage lists are lengthening and there is downward pressure developing as West African malaise eats away on sentiment.

Caribbean

Aframaxes became a little more optimistic, but never found enough to reach critical mass and rates ended below 70,000 by ws 100 upcoast with another attempt/hope potentially in the wings over the next fixing phase. VLCCs are better balanced here than elsewhere and have kept rates fairly solid, though there was a touch of late week slippage to $3.2 million from the Caribs to Singapore, and to $2.7 million to West Coast India and ballasters/refugees from the Far East will serve to dilute somewhat if the Middle East remains similarly soft.

North Sea

Aframaxes moved away from the year's lows seen last week, and then enjoyed a mini-spike that may hold good for a few more fixing days yet. 80,000 by ws 100+ X-UK Cont now, and 100,000 by ws 85+ from the Baltic but such ripples don't seem to last very long in such short haul markets, and Owners will probably seek to consolidate the gain, rather than push much higher. VLCC tonnage is tight, but enquiry has been very limited. Fuel oil to Singapore is marked at around $2.7 million with $3.9 million reported for a rare Hound Point to SKorea Crude oil movement.



Clean Products

East

A lacklustre week on the MRs where activity hasn't really gained any momentum and as a result rates have suffered. UKCont remains unpopular with Owners and Charterers relets are proving to be the main player for these voyages, its relatively untested but on dates $1.175M should be achievable. TC12 saw a little fluctuation during the week starting at ws 132.5 but since has been tested at ws 135. This movement looks set to continue as with several ships needing to head East for upcoming dry-docking owners will be keen to cover potential ballast costs. X-AG sits at $170k having been negatively tested during the week, falling past what was thought to have been the bottom of the market. Gizan cargoes also came under fire with $375k being achieved on more than one occasion, but it would have appeared to have reached its natural floor. Charters have managed to push below the ws 170 seen last week to end on ws 165 for cargoes heading to EAFR. That said, EAFR cargoes remain popular and with more stems expected next week, probable competition for these stems will put pressure on last done levels. Cargoes this week have not appeared at a quick enough pace to change the sentiment of the market, and with a lacking of supply of outstanding cargoes, tonnage continuing to build this sentiment will certainly remain come Monday.

LRs have had a very disappointing week with activity levels well down. LR2s in particular have seen just a handful of stems quote but in reality, rates would have been further tested if more had quoted. As it is 75,000 mt naphtha AG/Japan is now ws 90 and 90,000 mt jet AG/UKC is $1.70 million. But unless more business is seen, soon rates could easily fall further. LR1s have held relatively steady but are likely to see a decline with not enough quoting. 55,000 mt naphtha AG/Japan is w ws 110 today and 65,000 mt jet AG/UKC is $1.325 million but again the East rate in particular could be under threat unless next week starts quickly.

Mediterranean

The tonnage list was grim reading for Owners at the start of Week 15 with prompt units in abundance across the Med. Market quotes seen in the first few days, exposed hidden tonnage and meant rates softened to 30 x ws 132.5 with Black Sea trading around the 10 point premium at 30 x ws 145. Good levels of enquiry meant ships towards the front end of the list began being fixed away and this stemmed any further rate losses and saw X-Med trade around the 30 x ws 135 mark throughout the week. Bad delays through the Turkish Straits meant Owners ideas were bullish for Black Sea stems. However following a few failures around East Med and Black Sea, this left certain Owners willing to hold at the 30 x ws 145 mark. With tonnage looking well supplied for fixing next week, the saving grace for Owners may be if these delays persist through the Straits.

MR action in the Med this week has by and large been driven by the action up in the UKCont. An uptick of WAF enquiry in NWE saw TC2 rates firm which has inevitably lead to rates in the Med following albeit a nudge behind NWE around 37 x ws 125. With ballasters ex WAF now entering the picture, levels may trade a little more flat...reports of the TC2 arb being open will lead a keen eye for early next week for UMS Med/Transatlantic in order to pick off these ballast units.

UK Continent

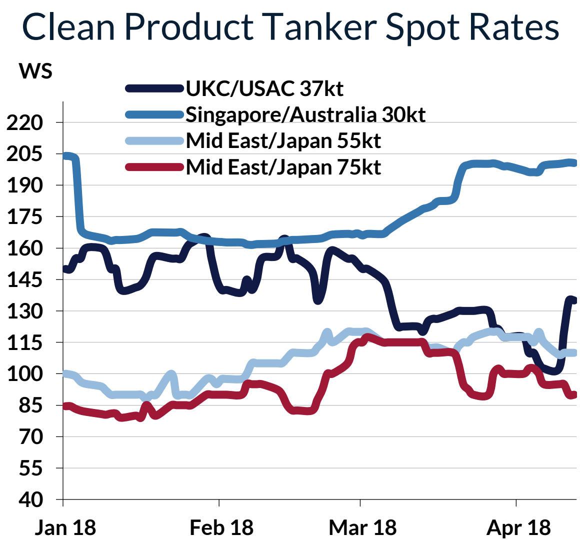
With good levels of inquiry at the start of the Week 15, Owners finally managed to get a hold of this sector and pull rates up from 37 x ws 100 for TC2 upto ws 135. Monday morning tonnage list was quickly cleared out and we saw an influx of WAF movements and partnered with systematic Transatlantic runs, ws 125 was quickly achieved closely followed by ws 135 for Transatlantic. WAF being the main catalyst here rates jumped towards 37 x ws 155-157.5 also and at the halfway point of the week Owners would have been preparing for more. But with this excitement, fresh enquiry slowed on Wednesday and Thursday and ended up clearing excess stems which are now moving into the early 20's window.

Opportunities for further progression from Owners seemingly slowed with ballast tonnage from WAF on the horizon, but Charterers still needing coverage for 2nd Dec stems will see some hostility from Owners and with reports of the Transatlantic arb opening we see a handful of outstanding TC2 stems come Friday lunch which will be enough to keep momentum in Owners favour.

A good week for the Handies up in NW Europe as a healthy amount of enquiry has been seen from both the Baltic & Continent markets. Cargoes have been balanced against available tonnage, giving a sense of stability on freight across the board as ice trades at 30 x ws 140, non-ice 30 x ws 135 & 30 x ws 130 for X-Continent. Looking ahead Handy Owners will have a firm eye on what is happening on the MRs as there may be a chance to capitalize on cargoes loading pre 20th as MR tonnage is tight within that window. Although if this fails to materialize expect last done levels to be maintained.

In a week that witnessed improvement on the Handies (which has tended to be the common denominator for Flexis rates) the flexi market could have expected to see some more gains. In practice however Owners have tended to fall short of the pro-rated Handy numbers (22 x ws 170ish) partly due to the fact that the majority of action has been done on Lumpsum basis ex S.Spain and also in part due to cheap re-let units being available in NWE.

With 22 x ws 165 reported for Grangemouth discharge this is some ws 15 points short of where it might have otherwise landed. The fragmented nature of this market is reflected in the numbers being done, expect more of the same next week and beyond.



Dirty Products

Handy

A rather subdued market in the continent this week where in the whole activity was just about taking care of the available tonnage on offer. Rates however did find themselves under pressure and closing the week we are sat some 10 points below where the week begun. Owners can however breath a slight sigh of relief where as you will read in a moment, the Med did eventually pick up taking care of potential West Med ballaters, thwarting for now further negativity.

Down South, however in the Med, tonnage stocks proved too much for the region to cope with in the early weeks trading with Black Sea numbers falling in line with X - Med, reapplying a 10 point differential.
This said, it was a totally different market come Wednesday, as Black Sea activity spiked with Turkish Strait delays lengthening. In turn this has served to not only stabilize the region but with further requirement being seen Owners have even been able to raise levels back up a few points. Looking ahead, with further gains still possible before the week is out, next week could well see additional ground being made.

MR

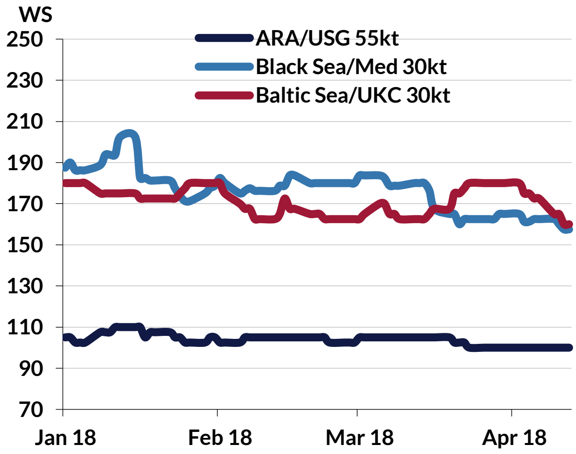
A stuttering week in the Continent as once again the small amount of workable tonnage in the region has again resulted in little enquiry from natural sized stems. In the early stages of the week we did witness a couple of units in the region get fixed away, albeit against part cargo opportunity. Come Monday the tonnage list being presented may be looking a little thin on the ground for early units, but if the short options that were fixed this week get declared then we may not have to wait too long.

The majority of MR's this week were snapped up on part cargo activity as the Handysize stems hogged the limelight. The position list has been cleared out of early tonnage and with the Turkish Strait delays we are witnessing at the time of writing this, options are likely to be limited for Charterers next week.
Some Charterers may come quick out the blocks on Monday to snap up early tonnage before Owners look at their alternative options.

Panamax

This week will be forgotten no sooner we turn the lights out and leave for the week, as so seldom were Charterers looking to utilize tonnage of this size that validity of previous benchmarks is only held due to the fact that Owners opt to sit spot than accept sub ws 100. Surrounding larger markets taking opportunity from this sector where they offer a more competitive $/mt and reports of own tonnage utilization are just some of the other factors suppressing trend, in addition to the overhang of tonnage on our lists.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Apr 12th	Apr 05th	Last Month	FFA Q2
TD3C	VLCC	AG-China	**-6**	40	45	36	41
TD20	Suezmax	WAF-UKC	**-3**	53	55	69	59
TD7	Aframax	N.Sea-UKC	**+6**	96	90	100	96

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

			wk on wk change	Apr 12th	Apr 05th	Last Month	FFA Q2
TD3C	VLCC	AG-China	**-6,000**	5,000	11,000	3,000	6,250
TD20	Suezmax	WAF-UKC	**-1,750**	4,750	6,500	13,250	7,500
TD7	Aframax	N.Sea-UKC	**+2,750**	-1,250	-4,000	4,000	-1,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Apr 12th	Apr 05th	Last Month	FFA Q2
TC1	LR2	AG-Japan	**-8**	90	98	118	
TC2	MR - west	UKC-USAC	**+28**	135	107	126	134
TC5	LR1	AG-Japan	**-3**	109	113	115	110
TC7	MR - east	Singapore-EC Aus	**+4**	201	196	173	

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

			wk on wk change	Apr 12th	Apr 05th	Last Month	FFA Q2
TC1	LR2	AG-Japan	**-3,250**	6,250	9,500	15,250	
TC2	MR - west	UKC-USAC	**+4,000**	7,750	3,750	7,000	7,500
TC5	LR1	AG-Japan	**-1,250**	7,500	8,750	9,250	7,500
TC7	MR - east	Singapore-EC Aus	**+500**	15,500	15,000	12,000	

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

	wk on wk change	Apr 12th	Apr 05th	Last Month
ClearView Bunker Price (Rotterdam HSFO 380)	**+5**	371	366	347
ClearView Bunker Price (Fujairah 380 HSFO)	**+19**	403	384	381
ClearView Bunker Price (Singapore 380 HSFO)	**+9**	391	382	369
ClearView Bunker Price (Rotterdam LSMGO)	**+43**	621	578	547

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