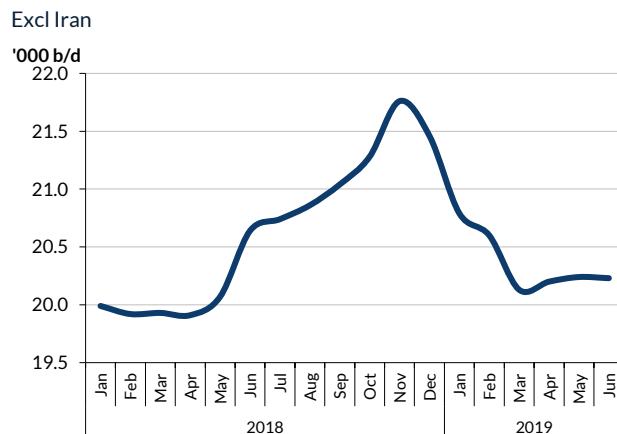


Are Cuts Bad for Business?

Weekly Tanker Market Report

It is official. After weeks of speculation and some minor reshuffling in terms of meeting dates, in early July OPEC+ announced the extension of their production cuts for another nine months until the end of the 1st quarter of 2020. On its own and keeping everything else equal, OPEC output cuts, particularly those coming out of the Middle East, are bad news for the crude tanker market, most notably for VLCCs. In the 4th quarter of last year, nearly 68% of all spot VLCC trade originated out of the Middle East Gulf and Red Sea, compared to 14% out of West Africa and nearly 15% out of the US Gulf and Latin America.

Middle East OPEC Crude Production



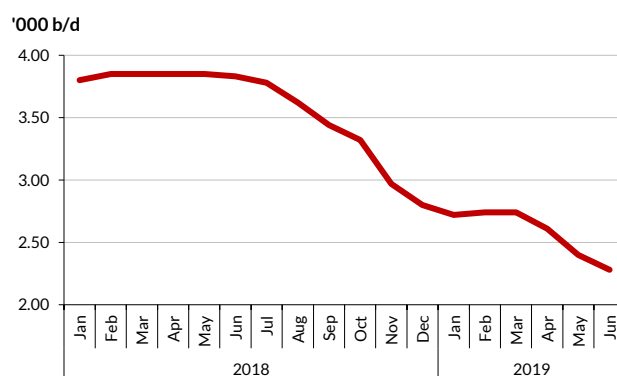
According to the IEA, between November 2018 and March 2019, Middle East OPEC crude production (excluding Iran) declined by over 1.6 million b/d, while only a marginal uptick in volume has been seen thereafter. Not surprisingly, such a dramatic drop in production applied a considerable downwards pressure on sector earnings.

Dark clouds are also gathering over the growth in oil demand in 2019, with the IEA reducing its estimates for growth in global consumption twice already this year, down to 1.2 million b/d. With this in mind, the concern of course is that ongoing production constraints will only prolong the pain currently faced by owners.

Iranian crude output declined by nearly 0.7 million b/d between November 2018 and June 2019, down to 2.28 million b/d, while further falls could not be ruled out. We have long argued that per se Iranian trade carried out entirely on the Iranian fleet does not impact the international tanker market due to the closed nature of this trade. However, right now should there be a wish to maintain the overall Middle East crude exports at levels similar to those seen earlier in the year, output by other Middle East OPEC producers actually needs to increase to compensate for the loss of Iranian barrels. It remains to be seen what will happen. On one hand, Iran is exempt from the production deal; on the other, Saudi Arabia is over complying, with the country's crude production in June assessed some 0.54 million b/d below its target. If efforts are made to compensate for the decline in Iranian exports, this will create additional trading demand for international owners.

However, Iran complicates the overall production/export picture out of the Middle East.

Iran Crude Production



Refining data also suggests that demand for crude will increase. The latest IEA monthly report indicates that global refining runs could rise by over 3 million b/d in the 3rd quarter of this year versus the previous quarter, with Europe and Asia alone needing an extra 0.8 million b/d each. With production cuts in place, where will this crude come from? Some of the additional demand is likely to be met out of stocks, but mostly refineries will need to rely on increases in crude production/imports.

Although global trade is complex, the obvious place to fill the net deficit is the US. In recent weeks, the country's crude exports hit a new record high. Prospects are for further gains. The EIA expects domestic production to increase by 0.47 million b/d by September from June levels and by another 0.26 million b/d by December. Plenty of new pipeline capacity to the US Gulf is also expected to come online in the 2nd half of the year, enabling further growth in exports. Incremental volumes are likely to flow to Europe and long haul to Asia, more than offsetting ongoing restraint out of the Middle East. If that is the case, then OPEC+ production cuts could actually be good for business.

Crude Oil

Middle East

VLCCs spent the week largely marking time but, with pressure continuing to the downside and Owners having to find extra stamina to prevent more marked slippage. Mid ws 40's to the Far East, at best, for modern units, with runs to the West remaining in the high teens. July programmes are now moving into their final phase and availability remains a challenge to market health. Suezmaxes posted no material rate change week on week and will remain similarly flatline over the near term unless/until Charterers move into a higher gear - unlikely as it seems. Aframaxes got busier but conversely rates retreated to 80,000mt by ws 110 to Singapore as supply remained thickly spread. Another busy week may improve the situation but that required volume is certainly not a given.

West Africa

Suezmax Owners can at least say that they've established a bottom but it looks as if they will have to continue to bump along that bottom for some time to come, whilst Charterers content themselves to keep the market pace 'steady'. Rates close at down to ws 52.5 to the USGulf and to ws 57.5 to Europe. VLCCs tried hard to defend against AGulf softening permeating here but did have to give a little ground to ws 47 to the Far East when called upon but enquiry was on the light side. Interest to India did pick up somewhat, although rates failed to

respond but a replacement deal to West Coast India did secure a slightly higher \$3.45 million, nonetheless.

Mediterranean

Aframax activity did pick up quite smartly but tonnage remained easy and rates became stuck in an 80,000mt by ws 80/85 rut X-Med despite the action. Perhaps improvements will be seen next week if the activity continues. Suezmaxes had hoped for busier times to return but as the week wore on, began to lose patience and then started to accept discounts to 140,000mt by ws 70 to European destinations, and to \$3 million for runs to China, with a lot more volume required to positively turn the tide.

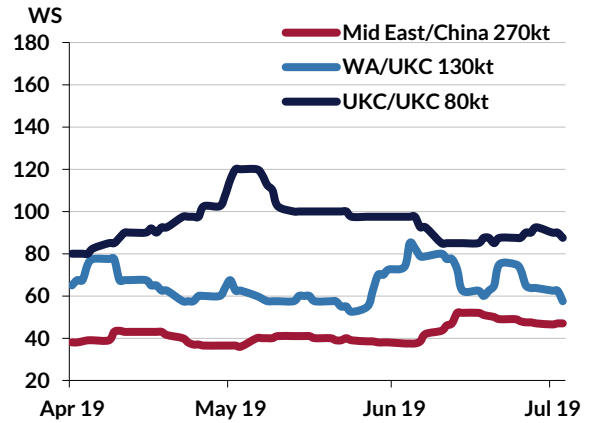
Caribbean

Aframaxes came back from their long weekend to a very overweight tonnage situation and enquiry never even dented the overhang. Rates remained at a zero return, 70,000mt by ws 67.5 upcoast accordingly and even nasty late-week weather in the area looks unlikely to provide the necessary upward stimulus. VLCCs started slowly and rates fell off to under \$4 million from the USGulf to Singapore but enquiry picked up again later in the week to stop the rot and allow for some hope of redress into next week, although Charterers are now working upon particularly forward dates that allow for more eastern ballasters to participate.

North Sea

Aframaxes found reasonable attention but not quite enough to cause any pinch points to worry Charterers, or to push rates from 80,000mt by ws 85/90 X-UKCont and 100,000mt by ws 60/65 from the Baltic. Discharge optionality is in vogue though and some premiums may eventually become engineered. VLCCs found less than of late but \$4.5 million was reported for crude oil from Skaw to China at least, although availability remains plentiful and improvement from that unlikely.

Crude Tanker Spot Rates



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

Clean Products

East

MR's have not seen the activity that Owners were hoping for this week. There hasn't been the flow of cargoes required to tighten the tonnage list and put pressure on rates. Certainly, it's not a negative sentiment, it is just more of a stalemate. EAF settled to 35 x ws 130 and has held since. Short haul rates have improved a bit, as the list cleared a touch, but at \$200k levels for a X-AGulf and \$475k into Gizan, there is not much to get overly excited about. There does remain a good number of open cargoes heading into the weekend and, with the natural ceiling in place from the LR1s at the beginning of the week being slowly lifted, Owners will be hoping that the flow of cargoes into the market remains consistently high as week 29 commences.

LRs have seen a mixed week. LR1 activity picked up and rates quickly started to turn around, with 55,000mt naphtha AGulf/Japan jumping to ws 97.5. 65,000mt jet AGulf/UKCont also shifted around, with \$1.65 million now the rate - but with LR2s struggling there is a limit to rises and by Friday rates have steadied again. LR2s have struggled both with July over tonnaged and issues at the Satorp refinery in Jubail. With reduced volume and too many vessels, rates have bottomed at ws 80 for 75,000mt naphtha AGulf/Japan. 90,000mt jet AGulf/UKCont has also struggled with \$1.85 million being paid - very much a low point of the year. August is now the only objective for Owners and, with added volume expected maybe the predicted Q3 surge can finally be seen.

Mediterranean

Week 28 has proven to be one where Owners certainly came out on top, with positivity oozing throughout. The Black Sea market has been the driving force from the off, with Turkish Straits delays of up to 7 days northbound, meaning inflated rates have been seen in return for safer itineraries. For the vast majority of the week, 30 x ws 200 has been the going rate, which has inevitably dragged up EMed rates due to a tightening list and bullish ideas, with 30 x ws 175-180 achievable for much of the week. Moving further West, however, the front end was better supplied and at the time of writing, 30 x ws 170 and 30 x ws 160 are the going rates for Central and West Med liftings respectively. The cargo list, however, is beginning to thin and with delays through the Straits now around 4-5 days NB, come Monday we could begin to see these inflated rates under pressure.

A rather lacklustre week on the MR front in the Med, with rates by and large being driven by sentiment in the UKCont. With TC2 softening throughout and rates now trading at the 37 x ws 120 mark, this has followed suit in the Med, with all routes seemingly under pressure. A fresh test was seen for a Med/AGulf stem which negatively corrected from heights of \$950k last week to \$775k and, with a wealth of MRs at the front end, Handy cargoes began looking rather appealing given the market, and a few of these were clipped away. With the sentiment still negative for next week, expect further rate losses to be seen with Owners firmly on the back foot.

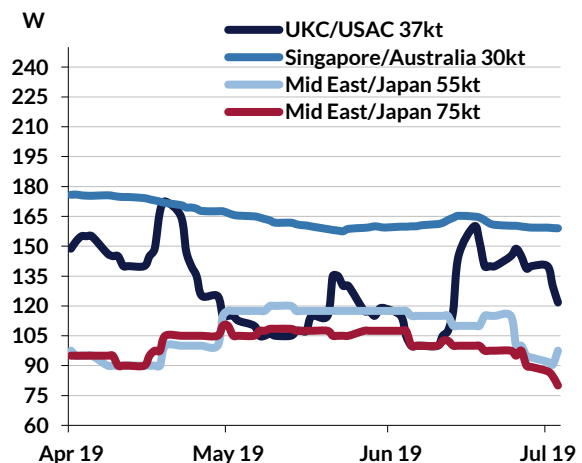
UK Continent

A week to forget for the MR's in the West. The back end of last week had seen the decline in rates start, but this week things really started to gain downward momentum and we end the week with TC2 at 37 x ws 120. A lack of enquiry going transatlantic and LRs being preferred down to WAF have combined to squeeze any remaining confidence out of the Owners, as tonnage lists become far too heavy and demand is at the bare minimum. Normally we would hope that next week will bring some respite, but in reality for the short term at least, further declines look ominous. Bad weather in Louisiana, does just question, as to whether UMS demand will pick up from NWE next week but as of yet, it's too early to tell.

The first part of the week was pretty placid for the Handies. Rates seem to be happily trading sideways at 30 x ws 130 Baltic/UKCont and ws 10 points lower for X-UKCont. The pace of enquiry from the Baltic programme and also X-UKCont had the market in a nice equilibrium. However, Thursday saw a mad rush of cargoes as Charterers scrambled to fix in the 2nd decade and rates started to push, as a result 30 x ws 125 was done X-UKCont but needed a quick replacement adding another ws 5 points, although most Owners would still be there to take 30 x ws 125 X-UKCont and 30 x ws 135 for Baltic liftings. With a tight list on Monday we expect Owners to capitalise on the momentum at the beginning of the week, and provided enquiry is similar to this week rates will firm some more.

Although the Handies had some rate recovery at the end of this week, unfortunately the same cannot be said of the Flexis. Available units have littered the front end of the list for the duration of the week, which has placed Charterers firmly in the driving seat and realised in the form of a market cargo that saw plenty of interest and ultimately fixed at competitive rates. There have been some COA commitments to draw the odd unit away but we are still left with boats to cover (in all regions) and thus rates to match - 22 x ws 155 should still be on the cards for X-UKCont and more of the same next week as it currently stands.

Clean Product Tanker Spot Rates



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

Dirty Products

Handy

In the North the Handy market started from where it finished last week, with a well-stocked tonnage list keeping sentiment soft. However, as the days started to tick by, enquiry (that had been concluded off market) started to come to light. With talk of more activity, Charterers picked off a couple of the prompt units in the region and by mid-week the list looked to be just enough to push a few more stems. With all this said, at the time of writing, this tonnage continues to outweigh enquiry, leaving us still in need of a fresh test as to where this market really sits.

The tone for the Med this week was on Monday, with a two page position list and early talk of a further softening of rates in the region. However, Owners have been thankful for the unseasonal delays in the Turkish Straits that have prompted a number of stems from the Black Sea region being worked a little more forward than some may have liked. These stems continued to come as the week progressed, with levels maintained where we started the week. Looking forward to next week, we are likely to continue with a current flat sentiment, unless there is a drastic upsurge in enquiry levels.

MR

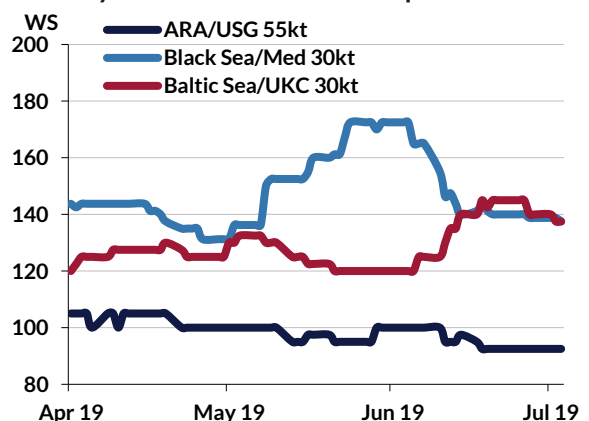
In the North the MR market continues to suffer as ballast tonnage still remains the only option. As such, covering full size stems for now is simply not viable. The need to look ahead on dates remains and this is the only factor keeping the market in this region firm. Only testing a ballaster will show where the market truly lies; however, with units in the Med seeing enquiry trickle along, the premium may be too much to make it work.

On the other hand in the Med the market has experienced more activity, with units seeing full size enquiry as they approach their opening dates. With the surrounding Handy market continuing to stutter rather than go at full speed, sentiment has weakened. As such, the MR market has seen a drop, with ws 107.5 on subs from the Black Sea. As we go into week 29, the summer market will continue to offer little opportunity for Owners to push on from current levels, unless the taps of enquiry are opened up a little more.

Panamax

This week has shown further reduction in tonnage stocks, although for now we are still not looking at any of this recent activity translating into gains for Owners in terms of improved daily earnings. Instead, while Europe looks rather more balanced than the US trades, a distinct lack of impetus allows Charterers to take ballast tonnage in at last done levels. At time of writing, further questions are being asked about the next possible load windows, but until a pickup happens States side, Europe will continue to suffer.

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	Jul 12th	Jul 5th	Last Month	FFA Q3
TD3C VLCC	AG-China	-2	46	48	39	52
TD20 Suezmax	WAF-UKC	-4	58	61	81	66
TD7 Aframax	N.Sea-UKC	-3	88	91	93	91

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

		wk on wk change	Jul 12th	Jul 5th	Last Month	FFA Q3
TD3C VLCC	AG-China	-3,750	16,750	20,500	11,250	52
TD20 Suezmax	WAF-UKC	-3,750	5,750	9,500	12,500	66
TD7 Aframax	N.Sea-UKC	-2,750	6,500	9,250	16,750	91

Clean Tanker Spot Market Developments - Spot Worldscale

		wk on wk change	Jul 12th	Jul 5th	Last Month	FFA Q3
TC1 LR2	AG-Japan	-11	80	91	108	
TC2 MR - west	UKC-USAC	-10	130	140	119	132
TC5 LR1	AG-Japan	+0	98	97	118	109
TC7 MR - east	Singapore-EC Aus	-1	159	160	160	164

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

		wk on wk change	Jul 12th	Jul 5th	Last Month	FFA Q3
TC1 LR2	AG-Japan	-4,750	6,750	11,500	16,500	
TC2 MR - west	UKC-USAC	-2,250	9,500	11,750	8,500	9,750
TC5 LR1	AG-Japan	-1,000	7,750	8,750	13,750	10,750
TC7 MR - east	Singapore-EC Aus	-2,250	10,000	12,250	13,500	11,000

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

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