WEEKLY TANKER REPORT

GIBSON
SHIPPING ENERGY

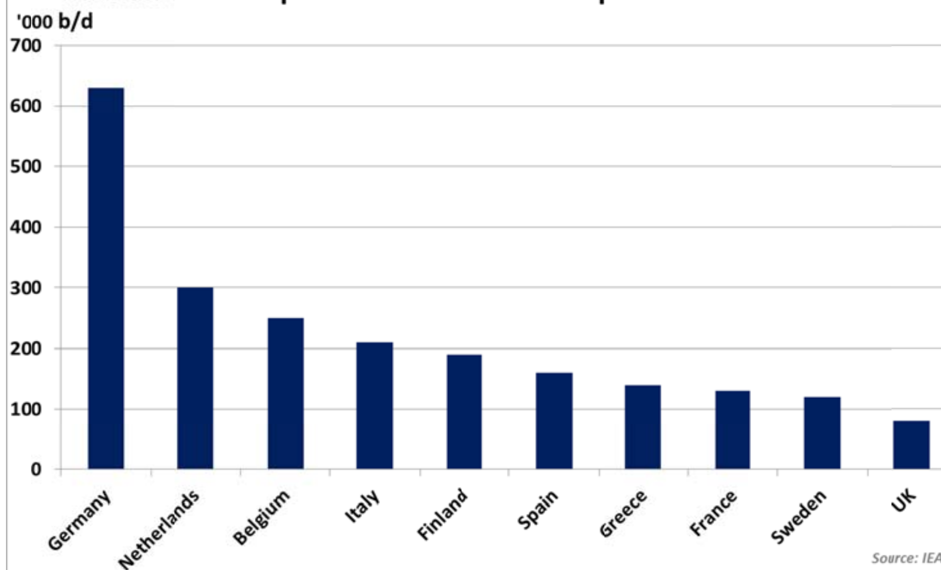
11th April 2014

EUROPE OVER A BARREL

In our industry, politics have always played an important yet "wild card" role. The recent escalation of tensions between the European Union and Russia in light of the crisis in Ukraine has reminded us of that once again. The developments in Ukraine have not only led to some limited sanctions against Russia, but also resulted in talks about possible further economic measures, which includes the energy sector.

According to the IEA, last year the Russian Federation exported just over 3 million b/d of crude oil to OECD Europe. This accounted for 71% of total Russian crude exports. Two thirds of this trade was seaborne, both out of the Baltic and the Black Sea ports, providing vital support both to the Aframax and the Suezmax markets in the region. Russia is also a big exporter of petroleum products, with 1 million b/d of products shipped to OECD Europe in 2013 (representing around 36% of total Russian product exports). Exports were almost entirely shipped out of the Baltic/Northern and the Black Sea ports, generating significant demand for the product tanker market, primarily MRs.

Although Europe is an important trading partner for Russia in terms of oil sales, for several years and long before the events in Ukraine, the Russian Federation has been trying to diversify its oil exports markets, placing particular emphasis on developing the Asia Pacific crude trade. Crude exports via the ESPO pipeline both out of the Kozmino port on the Pacific Coast and directly in to China through the pipeline spur averaged 0.75 million b/d last year, its highest level since the start-up of the line in 2010. And there is more to come, with Rosneft signing further crude supply deals with China. For Russia, the latest political stand-off with the West can only intensify its efforts to develop ties with the Asian markets.



Europe is also dependent on Russian exports; with oil from the Federation (crude, products, NGLs or other feedstock) accounting last year for 44% of total net oil imports in to the region. This suggests that any possible sanctions regarding crude and products trade will be very difficult to implement, both in terms of cost and ability to find alternative source of supply.

There is a great uncertainly of what shape future sanctions may take, if any; the developments in the political arena certainly deserve paying close attention to, particularly considering how many barrels are at stake. Although at present there appears to be no immediate threat to both crude and products seaborne trade; the current political crisis, particularly if it escalates further, may lead to a long term objective for both Russia and the EU to reduce its dependence on each other, with implications for major tanker routes.

CRUDE

Middle East

A fair amount of sparring between Charterers and Owners on the VLCCs over the course of the week with most in agreement that it finished as a draw. We are now nearing the very end of the April programme and with a reasonable amount of tonnage to move into May, the prognosis is steady to flat for the moment with 280 x w29 going West and 270 x w41.5 to go East. Suezmaxes were busy this time last week and then the following Monday which heavily eroded the early positions in the area. However with dates moving into May now, this early tightness is failing to see an effect and with ample availability into end April we can see the market unchanged at 130 x w62.5 East and 135 x w32.5 West. Aframaxes have had a small uptick on activity in the far East, but this has had little effect in the AG area and rates are unmoved and unlikely to change in the short term from 80 x w95 East discharge.

West Africa

Suezmax rates softened further during the early part of the week, down to 130,000 mt by w52.5 for Mediterranean discharge, due to the long availability of tonnage. Levels have now stabilized and the week ends slightly firmer at 130,000 mt x w 55 for European discharge options. Although the VLCCs were looking to improve on the back of the activity at the start of the week in the AG, a quieter second half to the week means that market here is likely to be called into question next week. Rates are unlikely to fall dramatically but a feeling of softness may start to creep in as we finish with West Africa to China estimated at 260 x w42.

Mediterranean

Mediterranean Aframaxes this week have initially suffered from a period of inactivity. Rates floated down towards ws80 and the future looked grim for Owners. However, news of a breakthrough in negotiations to reopen some Libyan ports has stirred Charterers to action. Wanting to cover before any inevitable rise in rates, there was a huge amount of activity and this served to strip the position list bare. Rates predictably began to rise and a high of ws105 was concluded for a cross Med replacement cargo by the close. Whilst the volume of cargo has now slowed, any remaining cargos to be covered prior the 25th cross-Med with find the going firm, to say the least.

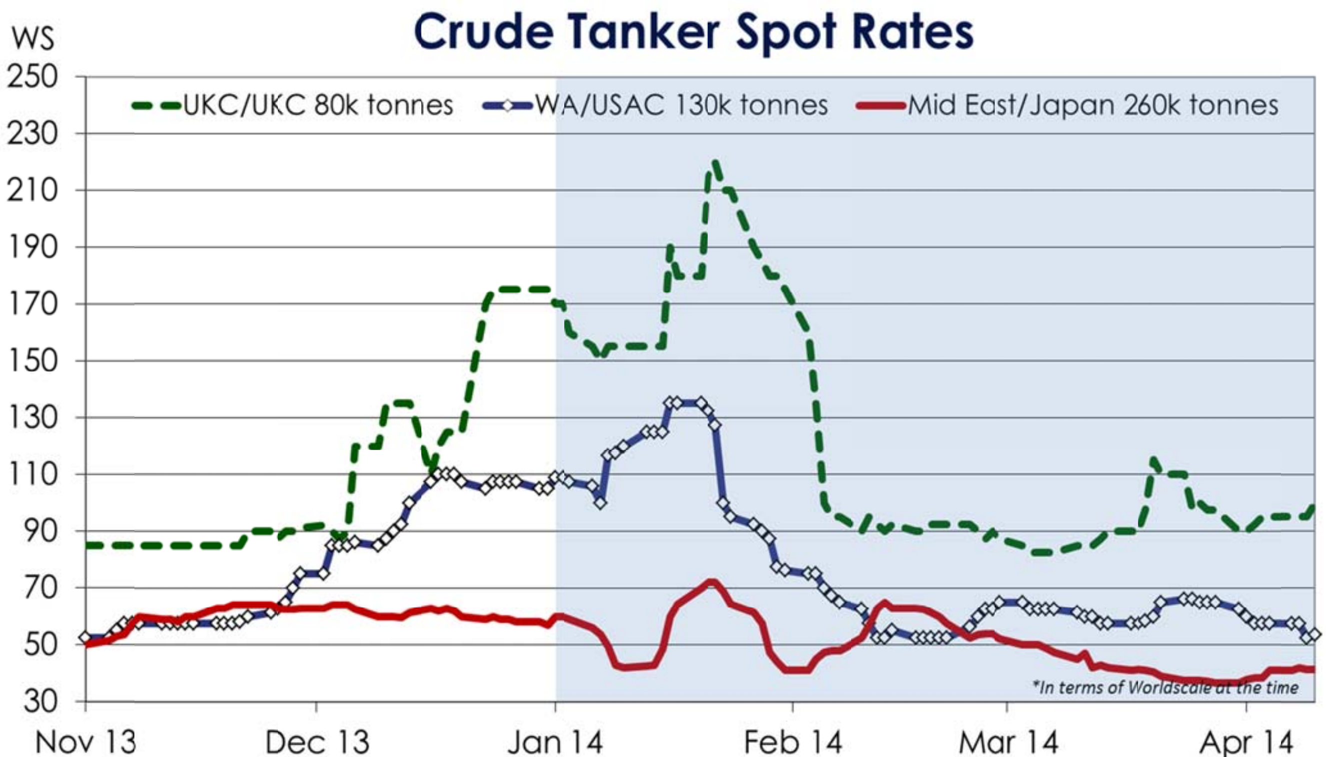
Suezmax Owners were willing to discount 'last done' rates to conclude fixtures in the area rather than face the daunting task of ballasting to West Africa. Some prompt tonnage has also benefited from the firming Aframax market. Black Sea movements have been fairly active with cargoes now being covered into early May loading dates with rates being concluded down to 140,000 mt by w 56.25 for Mediterranean discharge. With the overhang of Suezmax tonnage now being absorbed Suezmax Owners might be able to obtain higher levels next week if there is a pre Easter rush of enquiry.

Caribbean

As the fog eased off so did the Aframax rates erode. The week has ended at 70,000 mt by ws 102.5 for upcoast discharge. Suezmax tonnage has seen plenty of enquiry for Caribbean Sea/Singapore with levels down to $2.8 million being concluded. A relatively quiet week on the VLCCs means that any work to be done will be saved until next week with an expectation of little movement on the rates at $3.45m to go to Singapore and around $3.0m to West Coast India the only likelihood is a southerly direction.

North Sea

A continuous high level of fixing in the North Sea assisted by a number of ships taken out by the Baltic stems provided a platform for rates to move up this week. Levels moving up from 80,000 by ws 95 to 80,000 by ws 100 by the end of the week. The Baltic remains flat with a lack of activity unable to shift rates up from 100,000 by ws 75.



CLEAN PRODUCTS

West is weak, and a mixed bag in the East

East

The Lr2s have been quiet this week and although they remain very tight on ships ppt on, there hasn't been the demand for tonnage. The fixing window is now 1-5 May and we have seen rates come off to WS 93.5 from Ws98, this is in partly due to the imbalance with the LR1s, where we had a 4 point spread between LR1s and LR2s, this anomaly occasionally does occur, but usually without longevity, as Charterer's will break up Lr2 stems and take advantage of the cheaper LR1s. West bound movements are currently fixing at US$2.3 Million.

LR1s have suffered, supply far outstrips demand and we have seen Lr1s frequently taking out MR shorthauls, just to delay their position. Tc5 has slipped to Ws 95 and westbound movements down US$ 1.7 Million. Owners are hoping that LR1s pick up, as the Lr2s stems are switched to LR1s, but the backlog of tonnage needs clearing out first and currently there are slim pickings for Owners.

The MR market has continued to be extremely tight on tonnage throughout and some big numbers are being pushed out, particularly on the shorthauls, however the weak LR1s have continually undermined this, fixing MR cross AG voyages at US$ 270-275 levels. TC12 has firmed up 5 points with 125 on subs, East Africa is now up to 185 levels and although the UK Continent distillate moves are untested, this has to be assessed at a minimum US$ 1.5 Million. Next week with the tight tonnage any fresh cargoes coming into the market, will be seeing big numbers from MR Owners, as they look to capitalise on the tight position list.

After a long and furious period of tightness, the North Asia market seems to finally be exhaling and freight rates look to be coming off the boil. The ongoing refinery turnarounds have brought us an altogether quieter week which has seen the position list gradually start to lengthen and as a result Owners are no longer in a position to demand top dollar for the standard backhaul runs. A lot of the business that has been done this week is replacement jobs on late running tonnage. South Korea/Singapore on an MR should now fix at below US$ 490K levels, which is the first time we have seen it dip below US$ 500K in over a month. LR1s have also suffered, mirroring their lackluster in the Middle East and should now fix at US$ 530K-540K levels for South Korea/Singapore. LR2s should now fix a shade below US$ 600K. We can expect the north market to continue to soften, and Charterers with End/April dated cargoes may now look to start taking chunks off last done rates. Singapore has also been a bit quieter this week, but as is often the theme, there has been enough activity on the short haul to maintain market levels. Singapore/Australia should be fixing at around 30 x ws175 levels, and with a balanced tonnage list, the Singapore region has a good chance of staying firm next week and could become stronger than the situation in the North.

Mediterranean

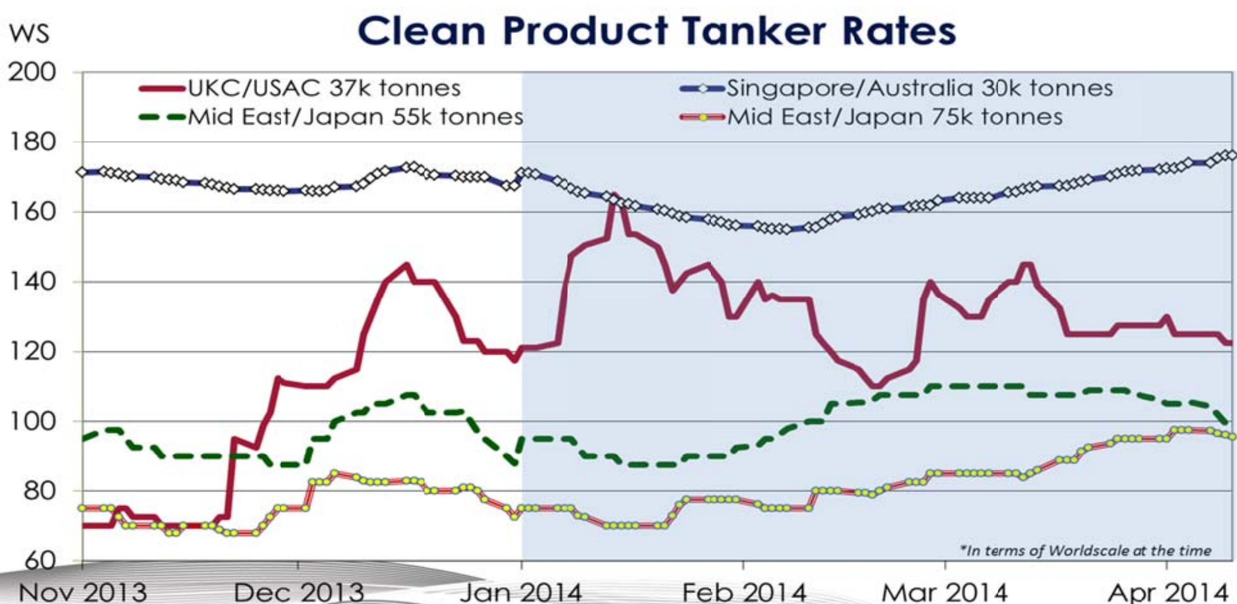
Desperate times in the cross med handy market this week and the rate slide has been decisive. The market fundamentals are showing no sign of abating as tonnage supply remains critically long across the med for handy size units. We are calling TC6 30 x ws 120, for the Black Sea, realistically 30 x ws 125 but we expect the premium to narrow and trade in line with the rest of the med. For the MRs possibly load sensitive on the early side but for second decade dates MRs are looking on the long side and owners are generally willing all options to get out of the Med. For a straight TA Owners are talking 37 x ws 120, so five points shy of TC2, consider 37 x ws 135-137.5 for West Africa, whilst heading East around a US$ 1m lumpsum for Jeddah/Gizan range.

UK Continent

A steady week on the continent as a reasonable amount of enquiry has kept the market busy, although long tonnage list prevents any movements in the rate for now, TC2 finishing at 37 x WS 125 level, although 37x120 is reported on subs a couple of times. Cont/West Africa maintains a 15ppt premium at 37 x ws 140 although again has seen more activity. A busy flexi market is keeping the handies on their toes, and it won't be long before handies start to consider smaller cargoes from the lack of enquiry in their own market. Cross cont paying 30 x 160 / 22 x 187.5. LRs are also busier, with Cont/West Africa now trading at 60 x ws 100 levels, higher rumoured on subs.

Caribbean

A quiet week in the US has weakened any optimism that the market will firm and TC14 now settles to ws 77.5. Fresh enquiry has dried up once again and the tonnage list is starting to lengthen. Unless next week brings a pre-holiday spike in activity, rates are likely to soften further. Caribbean Sea up to the USAC trades soften to ws 95 and runs to Brazil are steady at ws 122.5.



DIRTY PRODUCTS

Handy

Any gains Owners had hoped to make on the back of a poor naturally positioned list this week have evaporated as inquiry in the Continent market has proved depressingly low. The ws 160 that had started the week is old news, there will be PPT vessels at the start of next week and the market looks likely to succumb to negative pressure with proceedings beginning at ws 155-157.5 lvls. A saving grace for Owners is the condensed fixing period in the next 2 weeks as working days are lost across Europe to the Easter period; historically this has led to a rise in activity. In these situations charterers who cover first usually get the best freight.

The Mediterranean market has received greater inquiry than its northern neighbour but this is hardly saying much! The region is suffering from building tonnage and despite some inconsistent X.Med numbers the market is soft. Cargos have decreased as the week has progressed and owners have chased employment which is symbolic of deteriorating conditions. Dates approach the end of the second decade and similar to the above, we do expect inquiry to improve next week but rates are unlikely to move far. Flat market ahead with sentiment negative at the start of next week.

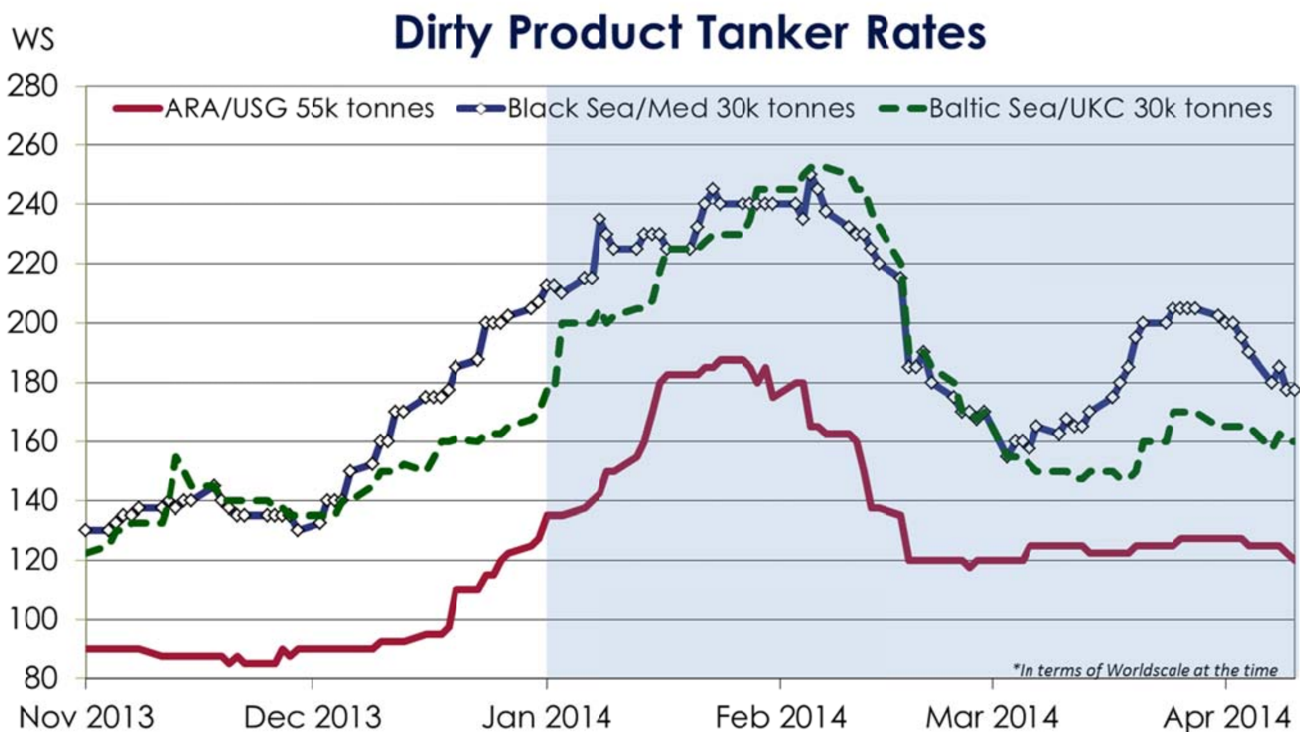
MR

It has been a consistent week for MR's in the Continent despite the feel of activity being somewhat sporadic. Progressive activity rather has forced the market to evolve. At one stage (despite limited tonnage trading in the region), Charterers were able to book units a sub 140 levels, now we sit on the precipice of accepted positive movement with rates pushing closer to the WS 145 mark (for short haul business).

The Mediterranean appears to be hamstrung by the short haul nature of most voyages on offer and lack an immediate lack of full 45kt opportunities. Charterers this week found that, as long as they weren't stuck with a ppt cargo, rate movement followed in a similar direction to neighbouring handy market. Going into next week Owners will find that Tonnage is well spread, here too they will face a battle in order to prevent further decline.

Panamax

Throughout the week Charterers found that conditions altered very much depending on fixing dates. Where sufficient time for ballast tonnage was allowed, competition in this sector intensified, in turn this only benefited Charterers as they managed to reduce levels down in to the 122.5-125 range. Come the latter stages of the week however, those Owners leaving it later to fix their tonnage have made progress posting better than envisaged results. This now could have a knock on effect with the balance of cargoes still to be covered with an April Laycan.



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Apr 10th	Last Week	Last Month	FFA Q2 14
TD3	VLCC	AG-Japan	+3	42	39	42	42
TD5	Suezmax	WAF-USAC	-5	54	59	58	59
TD7	Aframax	N.Sea-UKC	+4	98	94	87	96

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

			wk on wk change	Apr 10th	Last Week	Last Month	FFA Q2 14
TD3	VLCC	AG-Japan	+3,500	18,250	14,750	17,750	18,500
TD5	Suezmax	WAF-USAC	-4,250	9,500	13,750	12,750	12,750
TD7	Aframax	N.Sea-UKC	+3,000	13,250	10,250	4,750	11,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Apr 10th	Last Week	Last Month	FFA Q2 14
TC1	LR2	AG-Japan	-2	96	97.5	85	
TC2	MR - west	UKC-USAC	+4	125	121	144	124
TC5	LR1	AG-Japan	-9	97	106	110	99
TC7	MR - east	Singapore-EC Aus	+3	176	173	167	

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

			wk on wk change	Apr 10th	Last Week	Last Month	FFA Q2 14
TC1	LR2	AG-Japan	-750	16,000	16,750	11,250	
TC2	MR - west	UKC-USAC	+750	9,000	8,250	13,000	8,750
TC5	LR1	AG-Japan	-2,750	9,750	12,500	13,250	10,250
TC7	MR - east	Singapore-EC Aus	+250	13,500	13,250	11,500	

(a) based on round voyage economics at 'market' speed (13 knots laden/12 knots ballast)

	wk on wk change	Apr 10th	Last Week	Last Month
LQM Bunker Price (Rotterdam HSFO 380)	+5	582.5	577.5	577.5
LQM Bunker Price (Fujairah 380 HSFO)	+4	591.5	587.5	602.5
LQM Bunker Price (Singapore 380 HSFO)	+11	590.5	580	600.5

SK/JCH/TP/JT/slk

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