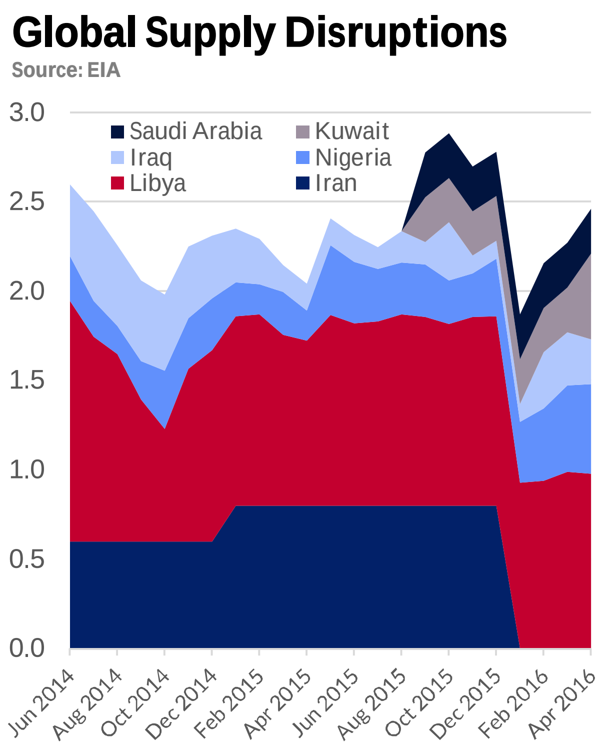
Disruptive forces

Weekly Tanker Market Report

Major supply disruptions can be a frequent feature of the oil markets with the most recent examples this decade being Libya and Iran. Yet at the start of the year, global supply disruptions fell to their lowest levels since mid-2013 as Iran returned to the market. With more oil on offer, it was little surprise to see crude prices collapse to 12 year lows of $27 - $28/bbl in January. However, since then, global supply disruptions have increased once again. At the start of 2016, global supply disruptions stood at 1.9 million b/d, steadily increasing to 2.5 million b/d by April as disruptions impacted on production in Nigeria, Kuwait, Libya and Iraq. By May the situation deteriorated further with wildfires shutting in at least 1 million b/d of Canadian production, whilst Nigeria's 0.3 million b/d Qua Iboe stream went offline for a number of weeks. At the same time, concern over a deepening crisis in Venezuela added fuel to the fire. With so much uncertainty, it was little surprise to see oil prices rally to a 6 month high of $49.28/bbl earlier this week.



However, global supply disruptions are nothing new, having averaged 2.3 million b/d since mid-2014 when global crude prices collapsed. The world has simply become accustomed to disruptions, with alternative sources of supply acting as a buffer to volatile price increases. However, lower prices are slowly eroding these cushions. US production is falling, other Non-OPEC production pressured and signs are emerging that the crude market is starting to move closer towards equilibrium. Some analysts have even suggested that the outages experienced this month have led to a temporary stock draw, although the world remains awash with oil. Our report last week identified an increase in the number of VLCCs engaged in floating storage, at the same time global shore based stocks remain at near record levels. In the IEA's latest oil market report they noted that in Q1 2016, global stocks grew at the slowest pace since the end of 2014; however, growth is still growth. In the US alone, crude stocks built by 1.3 million barrels last week despite ongoing outages in Canada and falling domestic production.

For the tanker market, the impact is mixed. Ongoing issues off West Africa have contributed to the recent weakness in Suezmax freight, given that production from both Qua Iboe and Forcados has been disrupted.
Thus the return of these lost barrels from Nigeria should prove supportive, although the escalation of violence in the West African nation remains a major concern. Disruptions in Canada could see US and Canadian refiners source cargoes from the Middle East, West Africa and Caribbean – if the fires persist. However, in the short term refiners have plenty of options, from drawing down shore based inventories to tapping floating storage, neither of which are supportive for tankers. Tapping floating storage might cause further pain as it would release ships back to trade. Yet this may prove unlikely considering that supply disruptions are largely centered in the West, whilst nearly all floating storage is located in the East. It is therefore most likely that refiners will opt to both draw down land based stocks and add incremental seaborne imports.

Crude Oil

Middle East

The softening trend set late last week continued for VLCCs. Charterers eyed reasonably full medium term tonnage lists and trod cautiously into the new June programme to massage sentiment - and rates - lower. Currently, levels operate into the mid ws 50s to the East and to mid ws 30s to the West and there may yet be room for further deterioration. Suezmaxes started well stacked on the market shelf, and although there is now a degree of balance re-forming, it will need a good dose of bargain hunting momentum to raise rates significantly from the present low ws 30 level to the West,and from the mid ws 70s to the East. Aframaxes suffered from very light enquiry so that last week's 80,000 by ws 87.5 to Singapore remained cemented, and possibility of further discounting lurks.

West Africa

Just plain nasty for Suezmaxes with Nigerian outages an added catalyst for rate falls to ws 55 to USGulf and barely ws 60 to Europe. Bottom has probably been touched, but the only way isn't yet 'up', and a sideways shuffle looks to be the interim direction. VLCCs weren't over busy and had to lower rate demands in line with the weakening AGulf, though Owners will hold onto a small premium over that region for 'insurance' over the longer voyage duration. Rates dipped to just below ws 60 to the Far East with $4.05 million the last paid to West Coast India.

Mediterranean

A steady build in Aframax enquiry eventually broke the seal and an extra layer of Black Sea fuel interest added more fuel to the fire. Rates jumped to 80,000 by ws 125 cross -Med, and there may yet be more to come before the heat is extinguished. Suezmaxes got busier too with part cargoes adding extra zest, but it was from a lower base, and rates didn't progress much further than 140,000 by ws 77.5 from the Black Sea to European destinations. A resurgent West African scene - if it eventually happens - will be required to get Owners' motor really going.

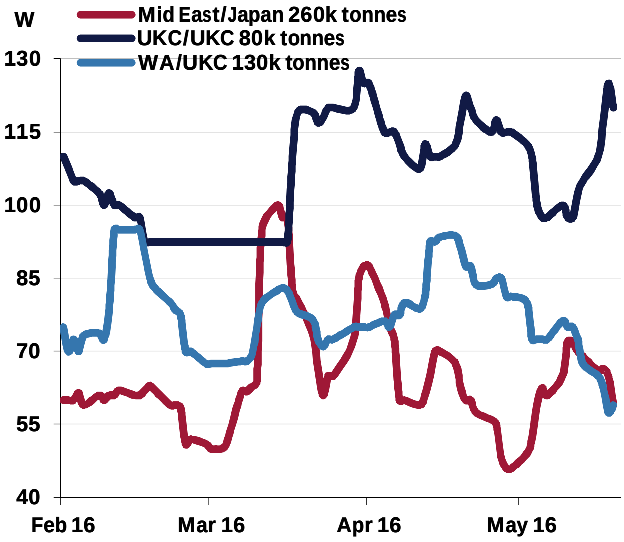
Caribbean

Aframaxes continued to wallow in the low ws 90s upcoast through most of the week but did pick up a tad late on, and ws 100 should become the bottom marker next week - 'should', not 'will'. VLCCs bobbed around in a wide-ish range due to early date sensitivity, but that is now fading and Owners will do well to re-bag $5 million+ to Singapore, and $4 million to West Coast India. They are more likely to have to accept less as dates roll forward.

North Sea

As in the Med, better times for Aframaxes here, or at least they started that way but things quietened late week, and there was some evidence that the highs of up to 80,000 by ws 125 cross UKCont, and 100,000 by ws 105 from the Baltic, were being left behind. Owners will need a fast start next week to retain ground. VLCC fuel oil 'arb' economics only worked at down to $3.5 million for traders, and that effectively put that market 'out of play' with rate demands at closer to the $4 million mark. Occasional crude fixing was seen, however, from Houndpoint to Korea and $5.8 million was paid to one lucky ticketholder.

Crude Tanker Spot Rates



GIBSON SHIPBROKERS

Clean Products

East

LRs have had a busy week with LR2s in particular taking major moves upwards. Cargoes flooded in on Monday and Tuesday to add to the stems already hanging over from the week before. 75,000 mt naphtha AG/Japan has jumped from ws 80 to ws 100 this week, whilst 90,000 mt jet AG/UKCont is now around $1.95 million up some $300k on the week. LR1s have seen improvements but the pace has been much slower. 55,000 mt naphtha AG/Japan is up to ws 105 with 65,000 mt jet AG/UKcont hovering at $1.35 million. We may well see more business on the LR1s next week though as they have become better value again. The MR tonnage list was not a pretty sight on Monday morning - ships were arriving at a pace comparable to brokers at a free bar. Fortunately for those Owners with ships caught in the melee, an ample number of cargoes appeared early in the week to ease the pressure on rates slightly. Rates did soften - Owners conscious to keep their ships moving were willing to take a slightly softer rate to achieve it. Cross-Gulf rates have dropped below the $200k level, and now sit at the $180k level. As on all sizes, naphtha runs East have been popular this week, and end the week at the ws 107.5 level. Stems headed down to EAfr were also re-evaluated. A ws 137.5 on subjects for a Yanbu load was soon repeated on an AG load, hence the bar was re-set. West runs are also down at the $975k mark, but have been relatively unpopular this week. Owners will be hoping for as many cargoes next week, but would prefer more long-haul stems to ease concerns over tonnage over-supply. Although the LR2s have this week hogged the action, a push in rates will start Charterers thinking about smaller options, and if the firming continues on the larger ships, we can expect to see the MRs follow suit.

Mediterranean

As week 20 comes and goes, we have seen this market kick the can down the street with little to no movement in rates. Unfortunately for Owners these rates have been at the very bottom of the barrel and any opportunity to shift numbers northbound have been shot down before they could even fly. One benefit we have seen though as we come to Friday is that Charterers have enjoyed these levels of fixing and good numbers of ships have been turned over. Looking ahead if this interest continues there could be a chance finally for some increase in rates. Saying this though, few ships has left the Mediterranean and we can expect the turnaround of vessels not to be delayed too much. Owners will be focusing initially on keeping their assets moving before they can aim for higher levels. MRs have seen little love this week with only a handful of stems appearing and all staying in the West. The demand for runs heading East has kept any Owners aspirations to improve this market just as that. Good levels of inquiry in the north as we come to the close of the week has kept tonnage off the Med radar as ballasters continue north, with some West Med tonnage committing also.

UK Continent

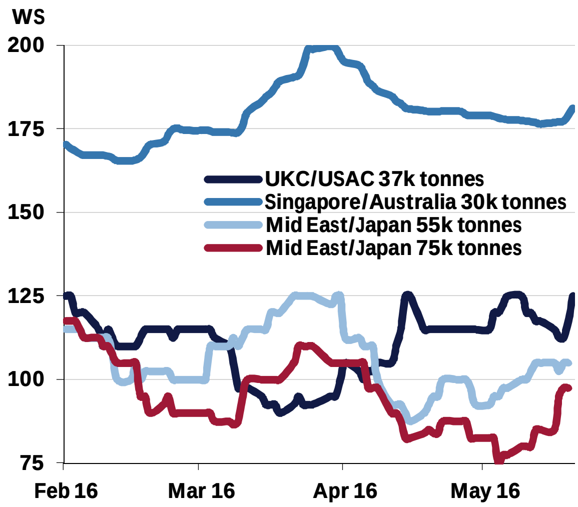
A week of highs and lows for Owners and Charterers alike, as we saw a gloomy start for rates begin to show some promise by the time we reached Friday. As we broke the back of the week, rates continued to trade under pressure at 37 x ws 115 with a handful of ships being clipped away less for discharge/reloads. Then we saw a large number of stems appearing in front of us, which cut the fat off the lists, and left us with a sturdy position for Owners to progress. As the close arrives, tonnage is limited and we still have a number of cargoes to cover before June appears. Looking ahead, Owners will be wanting to keep momentum up, as we reach 37 x ws 117.5 and hope to achieve more before Monday arrives. Charterers will be keeping a close eye on USAC tonnage and WAF potential ballasters to aid in keeping a lid on this sector, as LR1s begin to see some promise also. The Handy market seems like it never got out of bed this week, with rates consistently being fixed at the 30 x ws 115 level. Charterers and Owners alike seem content to keep this trend going as this balanced market has kept things placid. With the Flexi market towering over this sector, some Owners took the decision to play ball here in keeping their tonnage moving. Looking ahead, a fresh tonnage list on Monday morning will give a good view on whether we can expect any movement in fixing, and for the rest of week 20, I think it was over before it even began. The Flexi Owners managed to hold a strong position throughout the week as we saw stems being covered well ahead of time. This has kept tonnage lists limited and aided

Owners digging in deep and keeping rates sturdy. As Wednesday passed the potential for further progress was evident, but being held back by the weaker Handy market. As we come to the end of the show, rates sit firmly at 22 x ws 157.5 with any fresh market cargoes most likely confirming this market's placidity.

LRs

Week 20 began in quiet fashion with many countries closed for Whit Monday. However, on Tuesday LR1 activity picked up resulting in a handful of vessels finding employment, but due to the weighty tonnage list, Charterers were able to peg levels back at 60 x ws 75 for ARA/WAF. Meanwhile in the Mediterranean, a fresh test was seen with an LR1 placed on subs for a Med/Japan run at $1.4 million. During the course of the week, vessels have been clipped away by Charterers and further LR1 stems have entered the frame. Consequently, Owners finish this week in a more positive mood rating ARA/WAfr runs at 60 x ws 80-85 and with the hope that further inquiry is seen in the early part of Week 21. LR2s have spent much of the week staring into the abyss. Given there has been such little activity recently, Owners have looked at alternative options. Another vessel has turned to DPP for employment and another is ballasting from USAC to the Red Sea. Fortunately, towards the end of the week, a couple of LR2 naphtha cargoes entered the market with reports of $1.85 million achieved for a Mongstad/Japan run.

Clean Product Tanker Spot Rates



GIBSON SHIPBROKERS

Dirty Products

Handy

Conditions in the continent moved progressively north in direction as tonnage levels were drawn upon and cargo supply remained continual. Closing the week, Owners are looking to try and make levels stick in the 150s which reflect values of deals seen at the higher end of the scale over recent fixtures. Ullage delays and tonnage exiting in the region could also provide stimulus heading into next week, where the trend is expected to continue along its current path. In the Med conditions were rather more yo yo like in their behaviour, as Monday through Friday saw initial gains from early week trading brought back down by the time the week's activity had ceased. Tonnage availability being the hindrance to Owners efforts, so far it has only been Mays programme being cleared down. Next week will bring the commencement of June's programme which is likely to offer a stabilising effect on conditions, thwarting the possibility of further decline.

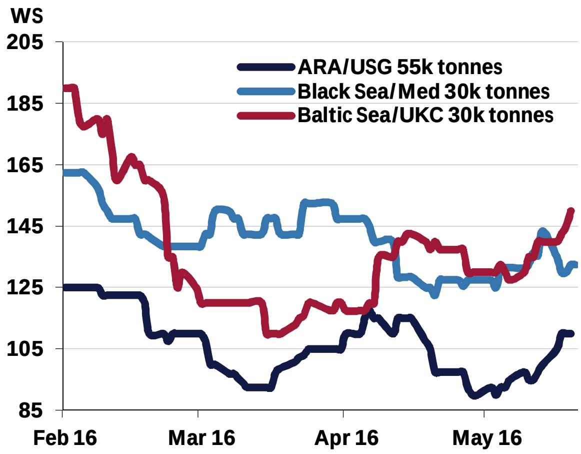
MR

Finally this sector is presented with a run of natural opportunity in both the continent and Mediterranean, where coming in to the end of the week, both markets have managed to shed the excess tonnage that had been weighing down Owner aspiration. This said, it is perhaps the continent where this transformation has been more noticeable where surrounding sizes have also traded firm, we are leaving this week sat on the verge of positive volatility. In the Med however there are still a few units needing to be fixed on and with a surrounding Handy sector (as referenced above) cooling off, Owners looked rather nervous of missing full sized opportunity, which equated to a rather flat trend through the week.

Panamax

Try as Charterers might, finding any chinks in the armour of Owners resolve proved rather unsuccessful as 55 x ws 110 was established as the correct value. Limited natural tonnage and the States market making use of locally placed availability created a precise balance that so far has supported Owner's arguments at the negotiating table. Furthermore, this strength could yet last a while longer as replenishment of availability on European shores looks awhile off at the time of writing. This said, perhaps for Charterers there may be a silver lining to this tale; offered where the moment values start to increase aligning values out of parity with the US, interest from Owners wanting to head this way will intensify.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 19th	May 12th	Last Month	FFA Q2
TD3	VLCC	AG-Japan	**-11**	61	71	60	59
TD20	Suezmax	WAF-UKC	**-12**	60	72	86	65
TD7	Aframax	N.Sea-UKC	**+19**	120	101	120	94

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

			wk on wk change	May 19th	May 12th	Last Month	FFA Q2
TD3	VLCC	AG-Japan	**-13,000**	45,000	58,000	48,500	43,000
TD20	Suezmax	WAF-UKC	**-7,000**	18,250	25,250	34,500	21,000
TD7	Aframax	N.Sea-UKC	**+13,250**	35,500	22,250	38,250	35,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 19th	May 12th	Last Month	FFA Q2
TC1	LR2	AG-Japan	**+13**	98	85	84	
TC2	MR - west	UKC-USAC	**-2**	116	117	116	116
TC5	LR1	AG-Japan	**+2**	105	103	98	104
TC7	MR - east	Singapore-EC Aus	**+5**	181	176	180	

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

			wk on wk change	May 19th	May 12th	Last Month	FFA Q2
TC1	LR2	AG-Japan	**+3,500**	18,250	14,750	16,000	
TC2	MR - west	UKC-USAC	**-500**	12,000	12,500	13,250	12,000
TC5	LR1	AG-Japan	**+0**	13,750	13,750	14,000	13,750
TC7	MR - east	Singapore-EC Aus	**+750**	16,000	15,250	16,500	

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

LQM Bunker Price (Rotterdam HSFO 380)	**+4**	220	216	189
LQM Bunker Price (Fujairah 380 HSFO)	**+8**	245	237	203
LQM Bunker Price (Singapore 380 HSFO)	**-8**	224	232	204
LQM Bunker Price (Rotterdam 0.1% LSFO)	**+17**	423	406	368

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