

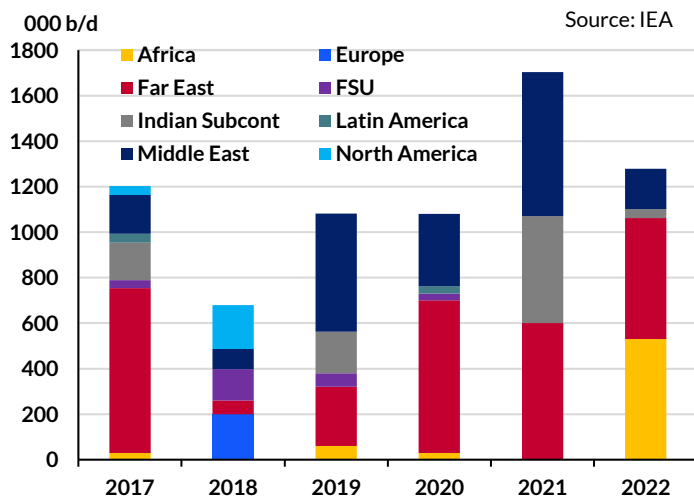
Gasoil 20:20

Weekly Tanker Market Report

Much research (including our own) has looked at the impact of the change in the global bunker specification from a compliance perspective. Whilst the debate as to what will emerge as the dominant option in the long term still rages, few doubt that middle distillates will (at least initially) emerge as the primary route to compliance. However, as significant as the impact will be from an operational perspective, attention should also be focused upon the trading opportunities that such a seismic shift creates.

The IEA predict that middle distillates demand (excluding bunker demand) will grow by 1.9 million barrels by 2020, whilst refining throughput will grow by 3.9 million b/d. Whilst the IEA does not specifically state their assumptions for the increase in middle distillates demand directly linked to the specification change, a figure of 2 million b/d has emerged as a consensus among many analysts, indicating a very tight and perhaps even short gasoil market at the time. Such tightness is likely to generate interregional imbalances and pricing differentials, generating arbitrage opportunities for traders, and with that, freight volatility in the product tanker market.

Refining Capacity Additions



In the run up to 2020, new refining capacity additions in the Middle and Far East start to emerge. 2019 is expected to see the start-up of Saudi Arabia's 400,000 b/d Jizan refinery which will be well placed to ship middle distillates both East and West. However, other major Middle Eastern projects are likely to miss the start of the 2020 party, meaning the existing infrastructure, capacity upgrades, and capacity expansions in other regions (mainly Asia) will need to contribute to the global distillates pool. However, all regions will see a significant demand shift at the time, with only the Middle East, Russia and the US likely to have any surplus product for export.

For clean tankers, these developments are clearly supportive from a demand perspective through the generation of new trade flows. However, the implications for dirty product tankers are harder to gauge and much will depend on where demand for what will be a surplus of fuel oil emerges. Much will depend on the eventual role scrubbers play, and how much of the excess fuel oil can be consumed for other purposes such as power generation, or as a low-cost feedstock to more complex refiners who have the facilities to handle it. Indeed, simple refineries with high fuel oil yields may be forced to rationalise capacity, and fuel oil production will be less attractive. This is likely to lead to less short haul trade within the developed OECD markets, with surplus volumes likely to be shipped into less developed nations. With increasing volumes likely to be shipped further afield, the decline volumes could be partially compensated for by longer voyages in terms of tonne mile demand. Equally, crude trading will be impacted, with sweeter crudes commanding a higher premium over the sour grades.

Evidently from a clean tanker demand perspective, 2020 offers the potential for strong growth, whilst dirty product tankers face a more uncertain path. However, as we move into the next decade, the impact of new regulations is likely to push scrapping higher, particularly for older vessels which tend to trade more in the dirty products markets. Furthermore, just as we see a demand shift in the barrel, we could also witness a higher proportion of the younger dirty fleet migrating into the clean tanker market.

Crude Oil

Middle East

VLCC market fizz faded as the week progressed and as Charterers moved onto better stocked forward positions. Rates have now fallen off an average 10 ws points to the East with ws 57.5 to the East and ws 34 to the West the current bottom markers. A long weekend for many now and that won't aid any quick turnaround. Further erosion cannot be ruled out. Suezmaxes had a reasonably active week, but never reached a point of critical mass to leave rates in the mid/high ws 80's to the East and low ws 40's West. 'Last done' numbers seems to be the order of the day for the near term. Aframax broadly maintained their previous marks at around 80,000 by ws 115/117.5 to Singapore. but volumes were merely modest and the short-term outlook is flat.

West Africa

Suezmaxes found occasional opportunities to push within a generally busy week. The rate structure moved noticeably higher into the mid ws 80's to the USGulf and low ws 90's to Europe, but further spikes were capped by the upcoming arrival of a slew of ballasters from the East that will serve to continue to cap and perhaps weigh upon, the market going forward. VLCCs had to move lower as the AGulf crumbled, but Owners will now re-establish a premium over AG/East marks as 'insurance' for the longer voyage duration. Currently rates operate at around ws 62.5 to the Far East with an average \$3 million available to West Coast India.

Mediterranean

No change at all in the Aframax rate structure here - gentle pushing and pulling through the week, but the end result was an average 80,000 by ws 105 X-Med once again and a softer tone going into next week. With West Africa stronger and local demand also much heavier than of late, Suezmaxes found fresh legs to push rates to 140,000 by ws 100 for European destinations with runs to China moving at up to \$3.1 million. Things should remain in Owners' favour into next week too.

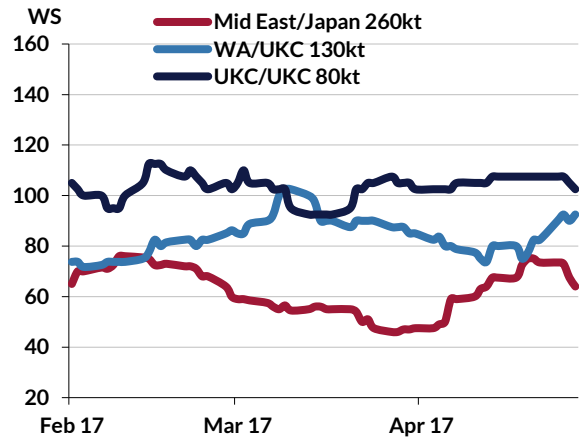
Caribbean

Aframaxes spent the week in defensive mode - defending 70,000 by ws 105 upcoast. They succeeded in that, but still don't have enough early balance to allow for a near term break-out. VLCCs were covertly pruned to maintain rates at up to \$4.5 million to Singapore and to around \$3.6 million to West Coast India. Charterers will probably provide enough interest over the coming period to solidify the bottom line, at least.

North Sea

Aframax hopes of improvement this week were dashed on tepid demand and easy supply. Rates slipped to under 80,000 by ws 100 X-UKCont and to 100,000 by ws 77.5 from the Baltic. The holiday weekend will cement the malaise. VLCCs struggled to find bankable employment, but up to \$3.75 million was attempted and then failed, for fuel oil to Singapore and traders will need lower than that to truly bolt down deals.

Crude Tanker Spot Rates



Clean Products

East

The MRs have been much the less active size of vessel this week in the Middle East. Given the cost per ton of moving LR's, Charterers have really been sitting off any MR tonnage letting the pace of the market slow and taking advantage of an abundance of tonnage to pressurise rates. Given the preference of larger tonnage, longhaul (and in particular West runs) have been less popular on the MRs. Having said this, they have been tested at the end of the week and \$850k is the cheapest we have seen. Argentina currently has a requirement for several gasoil tenders, and so we have seen more enquiry for MR cargo movements ex-AG. \$900k is the market level assuming on dates for IMO ships. Shorthaul is still down at the \$150k for cross AG and Red Sea runs have been bouncing around the \$350k - although a prompt jet run into Gizan has been traded \$25k higher. TC12 has been shaved down to ws 122.5 - but given the fact that Golden Week starts on Monday, this market will quieten down and relocating East not preferred. EAF has come under considerable pressure, and a ws 140 on subs for a last veg ship has been repeated numerous times on CPP trading ships. Rates remain very weak, but some Owners are now saying that the bottom has been reached. With not too many cargoes outstanding - Charterers will choose to disagree come the new week.

LRs have had a quiet time this week with rates overall staying pretty flat. With tonnage actually looking slightly reduced into mid-May, there we are seeing small improvements and may see more into

next week. 75,000 mt naphtha AG/Japan has edged up to ws 87.5, but 90,000 mt jet AG/UKCont is untested having been done at repeated levels of \$1.325 million this week. 55,000 mt naphtha AG/Japan has finally seen a late week improvement up to ws 110 and more maybe on the cards. 65,000 mt jet AG/UKCont is still flat at \$1.10 million.

Mediterranean

Handies - After the previous busy week in the Mediterranean, Owners came in on Monday buoyant with expectations. Unfortunately, this has fallen flat on its face with slow levels of enquiry ex Black Sea and Mediterranean. With this in mind, it was not a surprise to see rates slide throughout with 30 x ws 180 on subs X-Mediterranean. Black Sea enquiry remains slim and rates are still there to be tested. Looking ahead we can expect more of the same unless something out of the ordinary occurs. The long weekend ahead may only compound the fall.

MRs in the Mediterranean have, for the most part mirrored the activity seen upon the Cont with rates gradually losing ground due to the availability of tonnage coupled with a slower pace on enquiry. Next week looks set to be the same although the shorter week can sometimes be a saving grace.

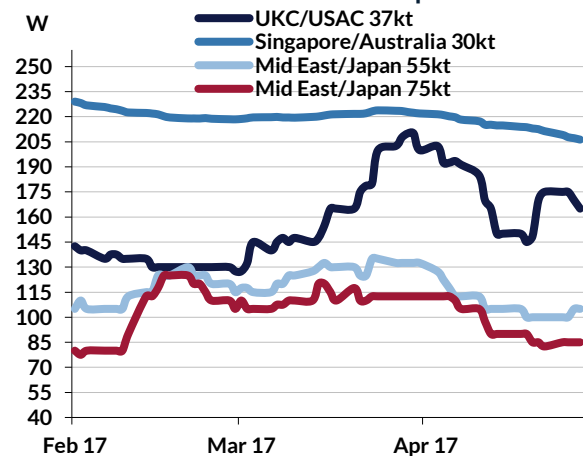
UK Continent

Week 17 brings a slightly negative vibe to the MRs in NWE as Charterers had little in the way of fresh cargo to keep the market rolling on last done levels. Ultimately this has seen TC2 soften to 37 x ws 165 by weeks end and WAF around 37 x ws 180. As with the Handies, tonnage has been well supplied by both pushed tonnage and positions hidden behind the scenes. There are some rumours of WAF barrels starting to trade and similar for reformat bound for the East although for now this is doing nothing to dispel the bearish sentiment.

The Handy market has been plagued by a week of sluggish enquiry throughout, whilst the tonnage list has been well supplied for both Baltic and X-UKCont stems. In addition, the majority of Owners have had hidden positions meaning stems have been clipped away whilst the tonnage list is maintained. The Baltic/UKCont run has softened 20 points from weeks beginning to 30 x ws 165, whilst we have seen a low of 30 x ws 155 for X-UKCont. With a long weekend on the horizon rates are set to stay soft as tonnage builds and enquiry dwindles.

Flexis have managed to maintain the constant lack of spot enquiry meaning rate guidance a touch difficult as each cargo provides a fresh test to the market. That said, the rapid softening of the Handies have put pressure on the otherwise stable flexi rates meaning ships are likely to see the top of the market at 22 x ws 200, down 15 points from Monday.

Clean Product Tanker Spot Rates



Dirty Products

Handy

With growing unease building up on the Continent, the week proved to be another disappointment on numerous fronts. Not only did activity levels dip off to such an extent that tonnage has been allowed to accrue, but rates shed further value from levels already offering very little profitability. Having little alternative to just wait it out, Charterers are look set to enjoy a further period of favourable conditions.

Down in the Med, from an activity perspective, conditions have been rather more tolerable, where gauging the fixture count for the week, the majority of Owners would have at least made a dent in fixing their fleet on for the next employment. Here however, is where the telling factor influencing trend currently lays. The inactivity that precluded us has affected Owner confidence, and with tonnage still sat spot, any reduction seen in tonnage stocks still isn't enough. With this in mind, Charterers have been able to leverage large reductions to freight costs week on week.

MR

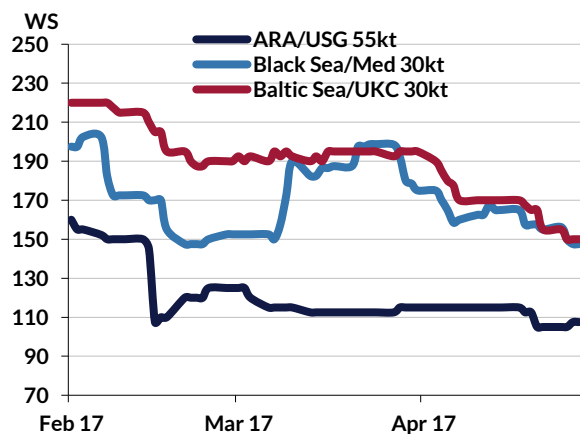
As surrounding markets suffer from inactivity, the safety net of part cargo requirement, so often afforded to this sector has been temporarily removed. For this reason, any full-sized activity this week was always going to be met with competition. Levels from a chartering perspective did not disappoint as negative adjustments were made. In the Med however, there are at least a few more positives to be taken as with the

fixtures seen this week some of the potential overhang from one week to another has been thwarted. Alas, the same cannot be said for the Continent where hopes are pinned that next week will offer more opportunity.

Panamax

This week may prove to be significant for the short-term dynamics of the market, as there have been numerous firm deals booked in the midst of questions that failed to materialise into firm requirement. Furthermore, we were even offered a rare glimpse of some good old fashioned date sensitive volatility! On the whole tonnage stocks in Europe look rather more depleted and levels have bounced back from the lows set at ws 102.5, (although at time of writing it is still up for debate where prevailing benchmark numbers should align). Awaiting this response Owners are keen to point out the Caribs markets have also picked up, that has potential to disrupt European supply of ballast tonnage.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Apr 27th	Apr 20th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	-13	63	76	70	61
TD20	Suezmax	WAF-UKC	+11	92	81	81	82
TD7	Aframax	N.Sea-UKC	-8	100	108	101	112

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

			wk on wk change	Apr 27th	Apr 20th	Last Month	FFA Q3
TD3	VLCC	AG-Japan	-10,250	26,000	36,250	29,250	24,500
TD20	Suezmax	WAF-UKC	+5,500	21,250	15,750	15,500	17,000
TD7	Aframax	N.Sea-UKC	-5,250	11,500	16,750	10,500	20,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Apr 27th	Apr 20th	Last Month	FFA Q3
TC1	LR2	AG-Japan	+0	85	85	115	
TC2	MR - west	UKC-USAC	+1	169	168	130	155
TC5	LR1	AG-Japan	+4	104	100	126	113
TC7	MR - east	Singapore-EC Aus	-7	206	213	219	

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

			wk on wk change	Apr 27th	Apr 20th	Last Month	FFA Q3
TC1	LR2	AG-Japan	-250	5,000	5,250	11,500	
TC2	MR - west	UKC-USAC	+250	13,250	13,000	6,750	11,250
TC5	LR1	AG-Japan	+750	6,500	5,750	9,000	8,000
TC7	MR - east	Singapore-EC Aus	-750	9,750	10,500	10,750	

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

ClearView Bunker Price (Rotterdam HSFO 380)	-10	281	291	270
ClearView Bunker Price (Fujairah 380 HSFO)	-12	301	313	293
ClearView Bunker Price (Singapore 380 HSFO)	-9	304	313	295
ClearView Bunker Price (Rotterdam LSMGO)	-16	442	458	435

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