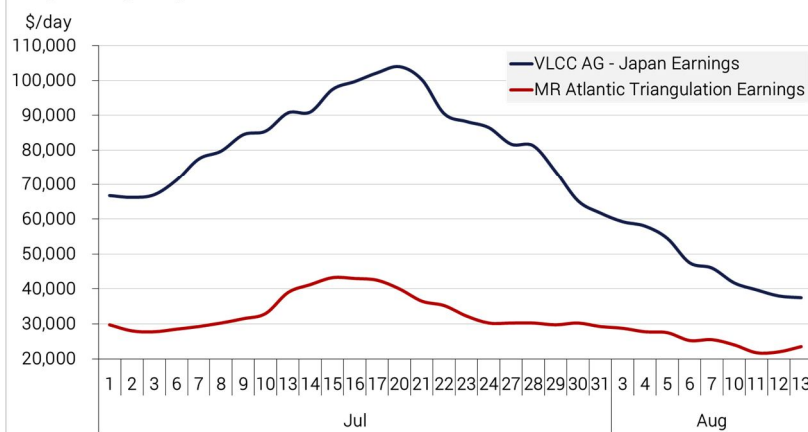


14<sup>th</sup> August 2015

## END GAME

The recent decline in VLCC freight rates marks the end of 9 consecutive months of strong earnings. VLCCs have experienced a almighty reality check, having seen earnings slashed from over \$100,000/day just a few weeks ago to just \$37,500/day (Middle East Japan 260,000 tonnes) at the time of writing. The scale of this correction has stoked concerns as to whether this is just a seasonal downturn, the beginning of the end, or the end of the beginning.

### Crude & Product Tanker Earnings

*Daily Earnings July 2015 to date.*

Various fundamentals have been driving this decline. Most notably in Asia, where middle distillate refining margins have come under increased pressure in recent months as a product glut weighs on prices. These softer margins have had a twofold effect on the tanker market. Firstly, many refiners have cut crude runs as refining becomes less profitable and secondly, those refiners who chose to defer maintenance earlier in the year have chosen a period of weaker margins to initiate turnaround programs. These factors combined have weighed on crude demand in the region. In the West, European gasoline margins remain strong yet arbitrage opportunities are limited as

US driving season approaches its conclusion, weighing on MR earnings, which have plunged from \$40,000/day earlier in July to \$21,750/day earlier this week. Handy earnings have fared even worse. The Cross Mediterranean 30,000 tonnes (TC6) route experienced the biggest comedown, with earnings falling as low as \$10,750/day compared to in excess of \$50,000/day back in July.

Declines in both the crude and western product sectors need to be placed in context and balanced against forward looking fundamentals. VLCC earnings, although dipping to \$37,500/day stand well above the average for this time of year (vs. \$13,250/day since 2009) as are MR earnings of \$21,750 (vs. \$9,000/day since 2009) owing to cheap bunkers which, judging by the latest round of crude price forecasts are likely to remain at comparatively low levels moving into 2016.

Yet product tankers trading East of Suez buck this trend with LR2 earnings averaging \$56,250/day for the month to date. Furthermore, the Ruwais 2 refinery is yet to reach operational capacity, having recently taken a 127,000 b/d unit offline, whilst the 300,000 b/d Paradip refinery is expected to come online towards the end of this year. These factors combined mean there is further scope for increases in exports from the region. However, the product tanker market needs to be assessed in its global context, with markets weak in the West and firm in the East, an eventual rebalancing may be on the horizon as tankers reposition in order to maximise returns.

The key question going forward remains - how and when will global crude markets find a natural balance? As refining margins show signs of cracking and a product glut becomes an ever increasing issue, crude runs may ease. Yet these run cuts are unlikely to come from modern export orientated refining capacity in the East, continuing the shift towards longer haul product movements. Furthermore, the IEA recently predicted that the oversupply in the crude markets will persist in 2016 despite world oil demand growing at its fastest pace in 5 years. Therefore with crude supply and demand taking longer to balance, demand for crude tankers looks set to remain healthy into 2016 with logistical delays and operating inefficiencies likely to persist. Despite economic uncertainty, China looks set to continue to soak up a portion of the surplus with an extra 50 million barrels of storage capacity expected to fill over the remainder of the year, supporting crude tanker demand.

The forward demand side fundamentals therefore remain healthy as the markets move through a seasonally weak period and tanker owners should take comfort from a persisting oil glut which has boosted demand and slashed bunker bills. However, vessel oversupply remains a risk and the second half of 2016 will see the highest number of deliveries since the 1<sup>st</sup> half of 2010.

## Middle East

Relative to the height of the summer, VLCC rates have impressively crashed, but Owners are still earning tce's well above those that have been averaged at this period over the past few years, and rolling averages for the whole year still stand very proud. Disappointment then, but certainly no panic in the camp, and most will hunker down and moodily accept their lot with the hope of better things to come later in the year. Rates moved to just under ws 40 to the East and into the very low ws 20s West. Busier, probably, next week, but no realistic respite. Suezmaxes drifted mainly sideways upon a gentle cargo breeze, and until West Africa picks up as a realistic alternative, local tonnage lists will be plentiful enough to prevent any upward movement from today's 130,000 by ws 70-ish level to the East, and ws 40-ish mark West. Aframaxes eased through the week to 80,000 by ws 102.5 to Singapore, but seem to have reached a bottom, and should hold similarly through the near term.

## West Africa

Day by day Suezmax Owners 'saw' opportunities to push their rate-cause, but day by day they ended back to where they started. Things will improve eventually, but it will require more consistent enquiry to break the stalemate currently set at 130,000 by low ws 70s to Europe, and high ws 60s to the US Gulf. VLCCs moved to mid-September dates and rates were necessarily compromised by the collapse in the Middle East, though Owners have successfully achieved wider than normal differentials over that zone as 'insurance' against a market move developing over the longer voyage time that they would be committed for. Ws 48 for East and around \$3.5 million for West Coast India are the latest demands.

## Mediterranean

Aframaxes merely ticked over at an unchanging 80,000 by ws 100 level X-Med with on-going delays preventing the rather insipid demand from undermining rates too badly. Owners should be able to hang on for a little while yet. Suezmaxes remained stuck within a 140,000 by ws 65/67.5 range from the Black Sea to European destinations, but the previous overhang of availability has been well pruned, and only a small uptick in enquiry next week could/should then convert into a few ws points more.

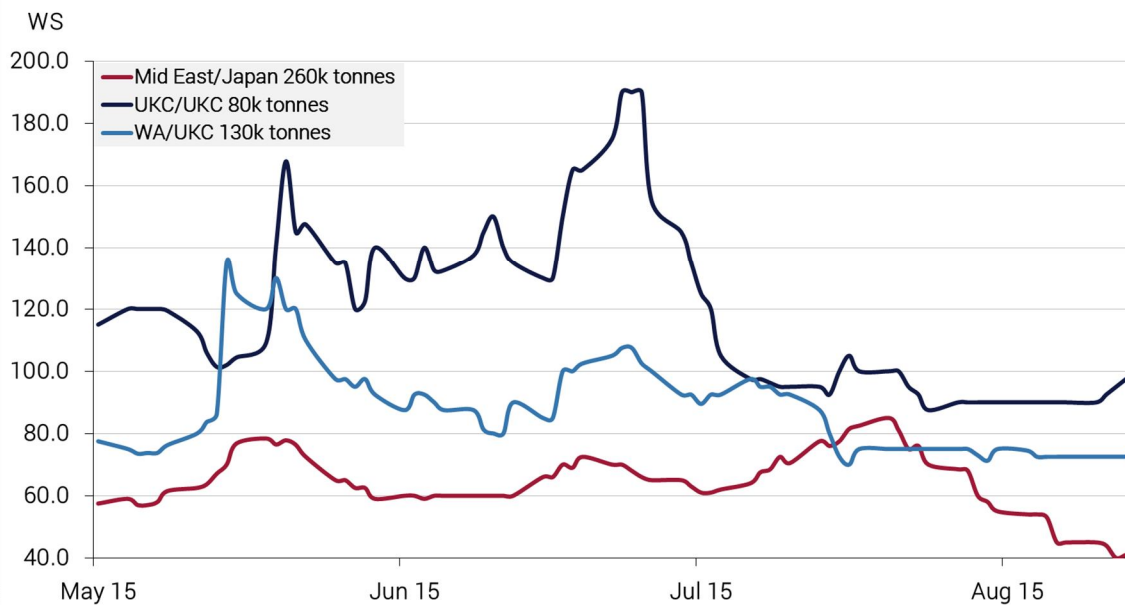
## Caribbean

Resistance proved futile for Aframax... or at least until the much lower 70,000 by ws 80 upcoast was hit. Once it was, Charterers got busier, and there is a finer balance now moving forward. Expect some clawback next week. VLCCs remained the golden girls of their sector, but with ballasters/refugees from afar becoming hungrier, even here rates had to soften. Levels now stand at just under \$6 million to Singapore, and low \$5 million to West Coast India.

## North Sea

A small gain for Aframax to 80,000 by ws 100 X-UKCont, and to 100,000 by ws 80 X-Baltic, and Owners would like to push for a bit more - they'll succeed if Charterers keep the end month taps open. The generally weak VLCC scene brought Owners ideas for fuel oil 'arb' moves to Singapore more into play, and deals were concluded at down to \$5.1 million with crude oil from Houndpoint to South Korea being worked into the mid \$6 million range - a little more active than of late.

## Crude Tanker Spot Rates



## CLEAN PRODUCTS

### East

As expected it was a slow start to the week as the Singaporean Public Holiday came to a close. Nevertheless, overnight the boilers were stoked and it was full steam ahead on Tuesday. With activity high and a tight tonnage list it was only a matter of time before the rates responded, and that they did, (although some may say long overdue). AG/EAFr has witnessed a 10 point rise to ws 205 with AG/Japan fixing at ws 180, 5 points up on last done. AG/UKCont pirouetted around the \$1.9 million levels and AG/Red Sea has remained strong but steady at \$900k. The tonnage list remains tight to the middle of Week 34 so all indications point towards these staying put for the time being.

LR2s have remained firm this week but cracks are starting to appear particularly on the LR1s. 55,000 mt Naphtha AG/Japan has slipped to ws 165 and 65,000 mt Jet AG/UKCont is now \$2.80 million. With ships still available off early dates these rates are still fragile and with bunkers cheaper we could see more discounts next week. LR2s so far have held firm with 75,000 mt Naphtha AG/Japan at ws 172.5 and 90,000 mt Jet AG/UKCont at \$4.0 million. With pressure on the LR1s it won't take more than a few days of inactivity to drag rates down next week.

### Mediterranean

A busier week for those Handies in the Mediterranean as activity increased sufficiently compared to last week. Rates at the start of the week were chipped away at by Charterers as they looked to capitalize on the long tonnage list and capitalize they did as 30 x ws 115 was achieved and a new market low was seen. Although, as the week continued the 30 x ws 115

trend was broken as volumes remained high and the everlasting tonnage list began to look a lot leaner, which in turn enabled Owners to start clawing back some lost ground. The market now remains finely balanced at 30 x ws 120 and anticipate the real test for this market to come early next week.

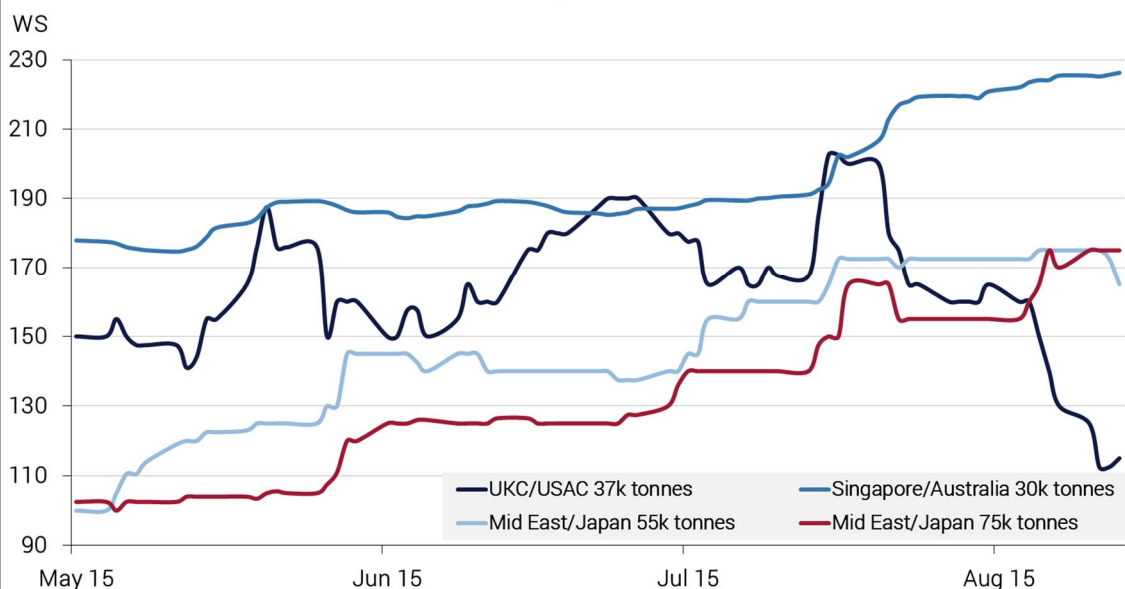
### UK Continent

Week 33 started rather rapidly for the MRs as we saw a glut of inquiry enter the market on Monday. After a further knock in rates produced 37 x ws 115 for the TC2 move, Charterers seemed to charge in to try and take advantage of the dipped rates. As the week pushed on, repeating last became tougher as tonnage lists were cut back to reveal the true strength, and as we arrive to Friday, ground has been made to recover with 37 x ws 125 being put on subjects. Looking ahead we expect fewer options for Charterers in fixing which could in turn aid Owners to get a hold of the sentiment. All will depend on activity levels early on in week 34.

On the Handies it seems the inevitable has finally caught up with Owners, as a number of cargoes entering the quiet market reduce rates down to 30 x ws 150 levels. Anticipate Owners to dig in deep to keep this market here, but with limited fixing opportunities and a continued weak Mediterranean market, further decline could occur if activity does not improve.

The Flexis have remained stable with only a minimal correction appearing by the end of the week to 22 x ws 180. Tonnage is still turned over with a stream of COA and market cargoes clipping away the top of a tonnage list. Looking ahead similar can be predicted on this traditionally balanced market.

## Clean Product Tanker Spot Rates



## DIRTY PRODUCTS

### Handy

Proceedings on the continent this week are to be swiftly forgotten where a lack of activity became a reoccurring theme. Freight levels, as a result, gradually softened although from an Owner's perspective, valid efforts were made in not losing too much ground. At time of writing the trend is showing little sign of reversing, and with Monday's tonnage list bringing around the next wave of tonnage, Charterers may yet find deals are there to be sharpened.

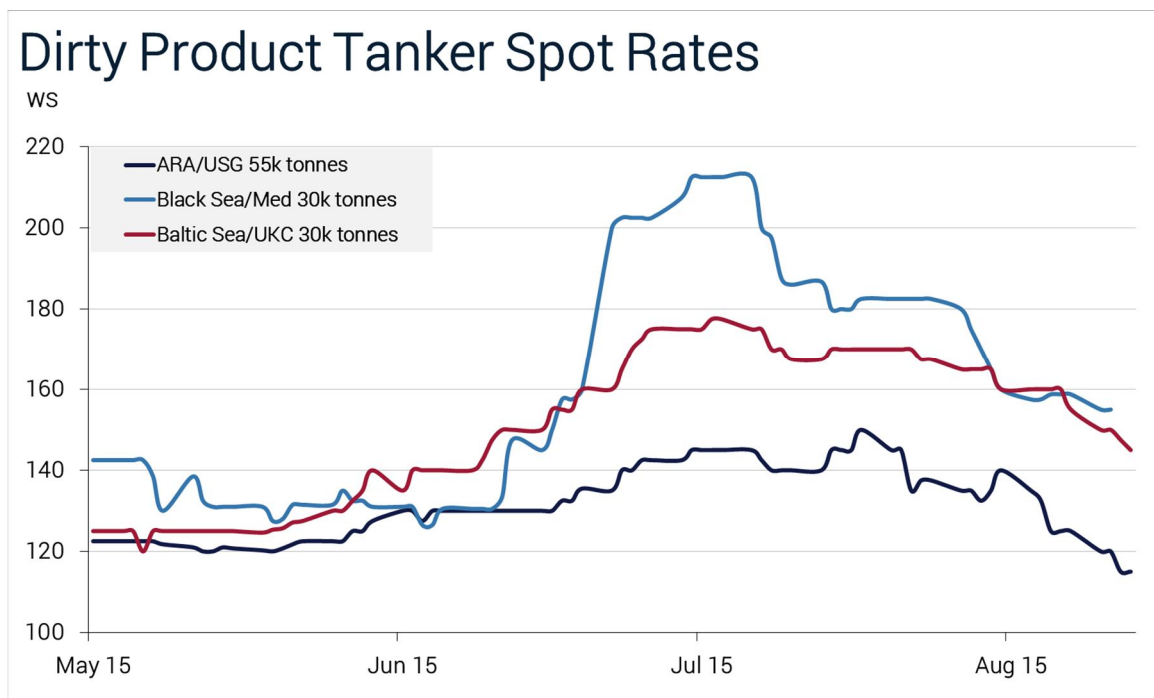
Down in the Med those following could at least report a healthier level of deals being concluded, although activity levels remain vastly depleted if all units are to gain employment. Here too, Charterers have found that the advantage had shifted in their favour with suggestions being muted that the market floor is yet to be seen.

### MR

The continent this week suffered all the traits of a dysfunctional market where despite tonnage being thin on the ground, activity remained absent until today. But this said both the Med and continent regions Owner confidence did appear to suffer, as with surrounding markets losing value, freight ideas were reduced.

### Panamax

When trying to spot forward trends in this sector, conditions in the U.S are often seen as a useful tool in what may happen. In this instance conditions states side are best being described as soft and weakening, it is hardly a surprise to see that ballast tonnage is being the catalyst in downgrading fronthaul values. On current standings, Charterers appear to be holding all the aces where tonnage is available to cover all date ranges for potential requirement; competition also ensured trend remained irreversible.





## Dirty Tanker Spot Market Developments - Spot Worldscale

		wk on wk change	Aug 13th	Last Week	Last Month	FFA Q3
<b>TD3</b>	VLCC AG-Japan	-6	40	46	81	47
<b>TD20</b>	Suezmax WAF-UKC	+1	73	72	71	76
<b>TD7</b>	Aframax N.Sea-UKC	+6	96	90	99	101

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

		wk on wk change	Aug 13th	Last Week	Last Month	FFA Q3
<b>TD3</b>	VLCC AG-Japan	-10,000	37,500	47,500	99,750	47,500
<b>TD20</b>	Suezmax WAF-UKC	+750	39,000	38,250	35,500	41,250
<b>TD7</b>	Aframax N.Sea-UKC	+5,000	31,000	26,000	31,500	35,250

## Clean Tanker Spot Market Developments - Spot Worldscale

		wk on wk change	Aug 13th	Last Week	Last Month	FFA Q3
<b>TC1</b>	LR2 AG-Japan	+0	175	175	150	
<b>TC2</b>	MR - west UKC-USAC	-12	118	130	201	141
<b>TC5</b>	LR1 AG-Japan	-7	168	176	169	159
<b>TC7</b>	MR - east Singapore-EC Aus	+1	226	225	202	

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

		wk on wk change	Aug 13th	Last Week	Last Month	FFA Q3
<b>TC1</b>	LR2 AG-Japan	+0	63,500	63,500	50,250	
<b>TC2</b>	MR - west UKC-USAC	-2,500	17,000	19,500	34,750	22,250
<b>TC5</b>	LR1 AG-Japan	-2,500	43,000	45,500	41,250	40,000
<b>TC7</b>	MR - east Singapore-EC Aus	+500	33,000	32,500	26,750	

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

LQM Bunker Price (Rotterdam HSFO 380)	+1	256	255	293	
LQM Bunker Price (Fujairah 380 HSFO)	+5	278	273	323	
LQM Bunker Price (Singapore 380 HSFO)	-5	260	265	312	
LQM Bunker Price (Rotterdam 0.1% LSFO)	+6	453	447	493	

RNM/JH/DLT/OD/DF/LHT

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