

Trade Wars

Weekly Tanker Market Report

China officially increased tariffs up to 25% on \$60 billion of US products from 1st June, following the US decision to increase tariffs on \$200bn/year of imports from China to 25% from 10th May. Chinese imports of nearly every US energy commodity now face a tax of up to 25%. Crude is exempt, but China's imports of US crude have fallen dramatically anyway since the 2nd half of 2018. Despite the trade conflict, US crude exports continue to grow. The loss of trade to China is being offset by higher shipments to other Asia Pacific countries and Europe. Similarly, Chinese crude imports continue to increase, with US barrels being replaced from multiple sources. As such, up until now the impact of US-China trade conflict on the crude tanker market has been very limited, although undoubtedly there would have been stronger long haul VLCC demand, if China had continued buying US crude.

However, trade tensions are translating into significant volatility in oil prices as fears of a global economic slowdown intensify. China, of course, is exposed the most, with the GDP growth already down from 6.8% during 1H 2018 to 6.0% in 2H 2018, according to the International Monetary Fund (IMF). China's trading partners also have been negatively affected. Global manufacturing and trade volumes have been decelerating since the 3rd quarter of 2018 and the slowdown is starting to show up in sluggish consumption of middle distillates such as gasoil and diesel. Global manufacturers have reported falling export orders for eight months since September 2018, according to the new export orders component of the JP Morgan global purchasing managers' index. Furthermore, the Netherlands Bureau of Economic Policy Analysis showed that trade volumes peaked in October and have since been contracting at the fastest rate since 2009. The latest round of tariffs will undoubtedly apply further downward pressure on global economy. The IMF anticipates that US - China tariffs could reduce global GDP rates by 0.3% in the short term from 3.3% in 2019 and 3.6% in 2020. Due to the obvious link between economic growth and oil demand, there is of course a growing risk of slower growth in global oil demand. Argus media suggested that if the growth in world GDP slows to 3%, this potentially could reduce growth in global oil demand by 130,000 b/d this year and by around 250,000 b/d in 2020. Of course, it remains to be seen by how much demand will actually be affected, as China has introduced stimulus measures to reduce the impact of new tariffs. Separately, the shipping industry also has rapidly approaching global sulphur cap on marine bunkers, which will offer a big boost to demand for diesel regardless of economic developments.

Brent Oil Prices



during 1H 2018 to 6.0% in 2H 2018, according to the International Monetary Fund (IMF). China's trading partners also have been negatively affected. Global manufacturing and trade volumes have been decelerating since the 3rd quarter of 2018 and the slowdown is starting to show up in sluggish consumption of middle distillates such as gasoil and diesel. Global manufacturers have reported falling export orders for eight months since September 2018, according to the new export orders component of the JP Morgan global purchasing

managers' index. Furthermore, the Netherlands Bureau of Economic Policy Analysis showed that trade volumes peaked in October and have since been contracting at the fastest rate since 2009. The latest round of tariffs will undoubtedly apply further downward pressure on global economy. The IMF anticipates that US - China tariffs could reduce global GDP rates by 0.3% in the short term from 3.3% in 2019 and 3.6% in 2020. Due to the obvious link between economic growth and oil demand, there is of course a growing risk of slower growth in global oil demand. Argus media suggested that if the growth in world GDP slows to 3%, this potentially could reduce growth in global oil demand by 130,000 b/d this year and by around 250,000 b/d in 2020. Of course, it remains to be seen by how much demand will actually be affected, as China has introduced stimulus measures to reduce the impact of new tariffs. Separately, the shipping industry also has rapidly approaching global sulphur cap on marine bunkers, which will offer a big boost to demand for diesel regardless of economic developments.

However, we should not forget about other threats. Could we see a further retaliation by China that will directly affect tanker demand? There has been a suggestion that one "weapon" China has at its disposal is the country's ability to increase oil product exports by granting additional export quotas. If Chinese products flood international markets, refining margins could come under pressure, translating into lower crude throughputs and hence demand for shipments. Beyond China, the conflict is escalating between US and Mexico, with US threatening to impose tariffs on all Mexican exports. Should these go ahead, the negative impact on global economy and hence tanker trade is likely to be even bigger. However, the alternative scenario is that if trade disputes are resolved, the eventual outcome will be very different to the situation we are facing right now.

Crude Oil

Middle East

Holidays were the theme of the week for barely half-paced VLCCs and, with availability remaining heavy on the fixing window, rates necessarily compressed into a tighter, and lower range. Modern units to the Far East operate in the high ws 30's - at best - with rare runs to the West again in the high 'teens'. Some degree of normal service should resume next week, but Owners will have a hard job to lever themselves out of this rut, whatever Charterers throw at them. Suezmaxes initially drifted but as things started to improve in other load zones, ballasting alternatives started to harden their stance and rate demands shifted up a little towards ws 35 to the West and ws 70 to the East and consolidation likely. Aframaxes suffered a very quiet week to draw rates down to 80,000mt by ws 107.5 to Singapore and a jump-start early next week is sorely needed to arrest the decline.

West Africa

Suezmaxes turned a corner in the second half of the week - previously rock bottom rates had failed to attract Eastern ballasters and as the fixing window moved to that deficit position, and Charterers started to become more active, Owners started to push their envelope to end the week in relatively bullish mode. Rates have now moved up to 130,000mt by ws 77.5 to Europe, and to ws 70 to the USGulf where they should hold for a little while yet, or until those ballasters once again appear on the

horizon. VLCCs plodded through the week, with only occasional interest as the AGulf wallowed. Rates shunted below the ws 40 mark to the Far East for the first time in a while, with down to \$2.55 million seen for Nigeria to West Coast India...little early improvement from that likely.

Mediterranean

Aframaxes merely flatlined as every potential chance of breakout was thwarted by Charterers side-stepping onto a later, better populated, position. The end result is that rates remain at little better than 80,000mt by ws 80 X-Med and to ws 92.5 from the Black Sea. Suezmaxes began to pick up their game late week upon West African support, raised interest, and a sprinkling of wider port delays. 140,000mt at ws 80-ish from the Black Sea to European destinations now with a noticeably higher \$3.3/3.4 million payable for runs to China. Things should stay similarly positioned into next week, or until any of the supporting rods crumble away.

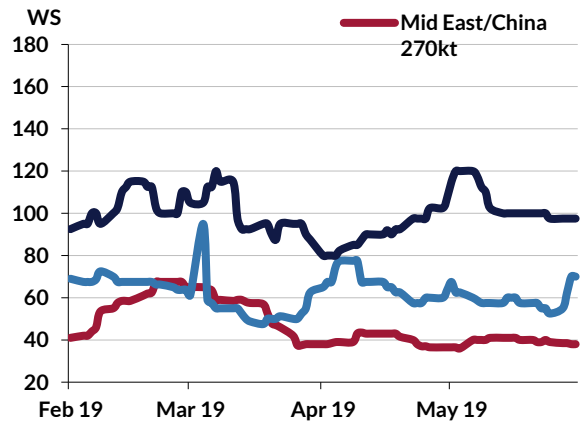
Caribbean

Bad weather looms to potentially aid otherwise flat footed Aframaxers that had been left at little better than 70,000mt by ws 85 upcoast and mid/high ws 70's transatlantic. A straw to cling onto in any case. VLCCs saw low volumes but there was just enough attention into July to keep rates largely unchanged at around \$4 million from the USGulf to Singapore, although wider VLCC weakness will likely threaten discounting from that into next week.

North Sea

Aframax Owners could never shake off a sticky prompt position list that effectively compromised any chance of recovery and Holidays in Europe early next week will similarly handicap. 80,000mt by ws 95 remains the default baseline X-UKCont, with 100,000mt by ws 70 typical from the Baltic. VLCCs scored no hits and rates for crude oil to Korea are again posted at no higher than \$4 million with fuel oil to Singapore theoretically marked at \$3 million.

Crude Tanker Spot Rates



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

Clean Products

East

MRs have continued in the same vein as last week. It has just taken a few prompt cargoes to highlight how incredibly light on workable tonnage we are. \$355k now fully fixed for a vanilla X-AGulf is not short of an LR1 rate; Sikka/Fuj on subs at \$375k lumpsum is an LR1 rate, only garnishing such a premium as the cargo had a Sudan option as well. UKCont is trading at \$1.55 million but why would an Owner be keen to relocate away from such a high-earning market? TC12 holds at 35 x ws 145, the only surprise is that 35 x ws 175 is now on subs into EAF. This may highlight a slight change in the pace of the market, being in Eid. Seeing a healthier supply of tonnage past the natural fixing window could hypothetically bring down the sentiment. We shall see next week when we get Saudi back in full force.

LR1s have enjoyed similar status to MRs: an incredibly tight front end but ample supply for second half of the month dates. TC5 has sat at 55 x ws 117.5 as it is preferred to westbound cargoes. For the westbound, these runs are completely date dependant: \$1.875 million equivalent was a late replacement job and would probably be repeated off earlier dates. Off the natural window, however, you would have to say the market is probably \$25k-\$50k cheaper. Short haul will remain comparative to MR freight, especially with all these gasoline ships opening up and keen to keep moving, possibly to clean up before the next naphtha window.

LR2s have been fairly quiet and rates have dropped away slightly. Lists are not long though and rates will recover quickly if activity returns after this holiday week. 75,000mt naphtha AGulf/Japan is ws 105, with 90,000mt jet AGulf/UKCont fixing at \$2.20 million. Overall, a strange week, with holidays across the East and so the real market levels will be more obvious when everybody is back on Monday.

Mediterranean

This week Owners have seen a mixed bag of results, as despite arguably some good levels of fixing, the dizzy heights of ws 180 Black Sea and ws 165 X-Med were rapidly forgotten by Wednesday. Ws 20 points have been knocked off the market, with some savvy chartering seen. However, with the level of ships being clipped away in this suppressed market, Owners start to believe their position strengthens by the close of the week. East Med and Black Sea loading becomes a little less populated. If there is any improvement ahead, we would expect to see it here. The weekend is in a stable state and Monday/Tuesday levels of enquiry will be key as to whether Owners are able to capitalise on shrunken lists.

A quieter week for MRs in the Med sees the tonnage list well supplied in contrast to a couple of weeks back. In turn, rates have trundled along, with almost no change from 37 x ws 115 on Med/Transatlantic from Monday to Friday. This has in part been dictated by

the ultimately placid NWE market. With next week's sentiment looking rather uninspiring up there, we anticipate more of the same for the Med.

UK Continent

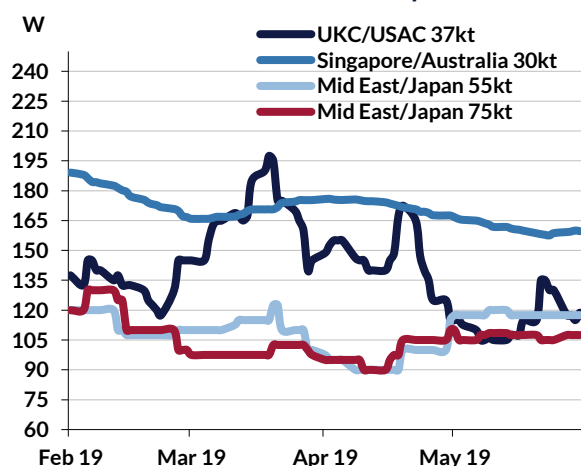
In a nutshell, for MRs the outcome of this week looked like it might be a little different from the 37 x ws 117.5-120 TC2 levels we are seeing at Friday lunchtime. Although Monday was generally quiet, fresh cargoes taking cover on Tuesday and Wednesday meant Owners managed to get rates up ws 5 points from 37 x ws 115. However, all that was achieved has been to shy away any Charterers, with remaining stems to either fix direct or roll to next week. The conclusion has been rather flat, leaving rates trading sideways (generally within ws 2.5 points) for the duration of the week. WAF demand has been pretty slow this week, with the premium over transatlantic runs only at ws 10 points. With the weekend USGulf market, we are expecting to receive our fair share of ballasters, therefore keeping the sentiment in Charterers' favour early next week.

All in all, it has been a successful week for Handy Owners up in the north, as they have been able to break the mould and finally to shift freight northbound. The catalyst has been the improved amount of Handy cargoes being quoted ex Baltic, partnered with a few late runners adding some spice into the market which saw levels rise to 30 x ws 120. Off the back of this, X-UKCont also followed suit and nudged up to 30 x ws 110. With better demand being seeing down to

the Med, the tonnage list will be a tad healthier heading into next week. Handies end the week on a sideways note.

Although Handies have seen a little bit of rebound this week (albeit minimal), the Flexi market still remains in the doldrums as fresh market enquiry remains scarce. The odd COA cargo keeps certain units employed and the tonnage list is slowly ticking over. However, when Charterers look to test the market, the build-up of tonnage means they have the upper hand, with 22 x ws 130 seeming to be fair benchmark for X-UKCont.

Clean Product Tanker Spot Rates



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

Dirty Products

Handy

The North sector has once again failed to get going this week, as only a handful of fixtures have been reported. Prompt tonnage has been shown since the start of the week's trading but market enquiry simply hasn't surfaced. Although tonnage supply has been thin, Owners have not had the opportunity to push on rates. Even with rumours of a good amount of off-market activity keeping units moving, flat sentiment remains unchanged. This week's conference rate of ws 120 is looking to be hanging around into the early part of next week.

In the Med, the Black Sea market has continued to lead the charge, with the start of the week giving Owners two busy days of cargo flow to get their teeth stuck in to. Replacement business saw a push of ws 5 points, with cargoes on more natural dates hovering around the ws 170 level. Tonnage looks to be building up in the West Med; however, positive sentiment remains, as repetition at ws 160 continues. As the week draws to a close, we report of enquiry having stalled since mid-week. Should tonnage build further as we move into mid-month fixing dates, the region has potential to flatten out.

MR

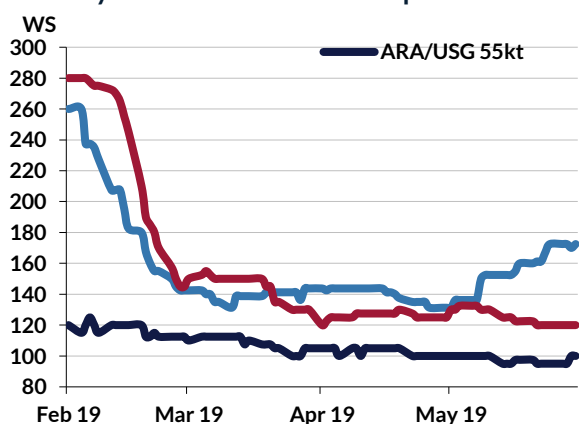
In the North, MRs this week have suffered a similar fate to their Handy counterparts, as we have very little to report on. Tonnage (that had been shed as we entered this week) was soon replaced on the list and these units have seen no full size enquiry at the time of writing. With the enquiry in the Handy market falling by the wayside, MR Owners have not had the safety net of alternative size cargoes to fall back on to keep moving.

In the Med, MRs have seen slightly more activity but have not managed to build on the momentum that has been created in previous weeks. With full size enquiry slow to surface, Owners have had the opportunity to pick off Handy stems where replacement business and opportunities close to where they're opening have surfaced. Going forward, tonnage is looking well stocked across the region and as such week 24 is expected to start in much the same way.

Panamax

This week enquiry has continued to trickle into the Panamax market this side of the pond but still not enough for a sustained push on rates, with further repetition of ws 97.5 being concluded. There has been a couple of variations to this, where Owners were able to gain a couple of points. However, these small gains have been achieved only where certain requirements were needed to conclude the deals. Looking forward, tonnage remains in play naturally this side of the pond, albeit a little thinner than when we started the week. With the added weakness in the Aframax market, we are likely to see a similar theme to next week's trading.

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	Jun 6th	May 30th	Last Month	FFA Q2 (Jun bal)
TD3C VLCC	AG-China	-2	38	40	37	38
TD20 Suezmax	WAF-UKC	+12	66	54	65	65
TD7 Aframax	N.Sea-UKC	+0	99	99	119	94

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

		wk on wk change	Jun 6th	May 30th	Last Month	FFA Q2 (Jun bal)
TD3C VLCC	AG-China	-1,250	11,250	12,500	8,750	38
TD20 Suezmax	WAF-UKC	+7,750	12,500	4,750	10,250	65
TD7 Aframax	N.Sea-UKC	+3,000	16,750	13,750	28,250	94

Clean Tanker Spot Market Developments - Spot Worldscale

		wk on wk change	Jun 6th	May 30th	Last Month	FFA Q2 (Jun bal)
TC1 LR2	AG-Japan	-1	105	107	107	
TC2 MR - west	UKC-USAC	-13	119	132	115	120
TC5 LR1	AG-Japan	-1	117	117	118	111
TC7 MR - east	Singapore-EC Aus	+2	160	158	166	158

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

		wk on wk change	Jun 6th	May 30th	Last Month	FFA Q2 (Jun bal)
TC1 LR2	AG-Japan	+250	16,500	16,250	16,000	
TC2 MR - west	UKC-USAC	-1,500	8,500	10,000	6,500	8,750
TC5 LR1	AG-Japan	+250	13,750	13,500	13,250	12,500
TC7 MR - east	Singapore-EC Aus	+1,000	13,500	12,500	13,500	13,250

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

ClearView Bunker Price (Rotterdam HSFO 380)	-37	352	389	402
ClearView Bunker Price (Fujairah 380 HSFO)	-30	375	405	418
ClearView Bunker Price (Singapore 380 HSFO)	-23	382	405	419
ClearView Bunker Price (Rotterdam LSMGO)	-55	530	585	601

www.gibsons.co.uk

London

Audrey House
16-20 Ely Place
London EC1N 6SN

T +44 (0) 20 7667 1247
F +44 (0) 20 7430 1253
E research@eagibson.co.uk

Hong Kong

Room 1404, 14/f,
Allied Kajima Building
No. 138 Gloucester Road
Wan Chai, Hong Kong

T (852) 2511 8919
F (852) 2511 8910

Singapore

8 Eu Tong Sen Street
12-89 The Central
Singapore 059818

T (65) 6590 0220
F (65) 6222 2705

Houston

770 South Post Oak Lane
Suite 610, Houston
TX77056 United States