

# VLCC Floating Storage – Beginning of the End?

## Weekly Tanker Market Report

VLCC floating storage has been an important feature of our industry in recent years. While Iranian nuclear sanctions were in place, a significant portion of NITC’s VLCC fleet was used for storage of Iranian crude and condensate. From early 2015, the tanker industry also witnessed a gradual increase in VLCCs employed for non-Iranian floating storage. This was on the back of strong gains in the Middle East crude production in 2015/2016, which translated into a major build in land based inventories, supporting demand for tanker storage. Finally, the number of VLCCs absent from the trading market was further boosted by tonnage in other non-trading activities, primarily fuel oil storage around the Singapore area.

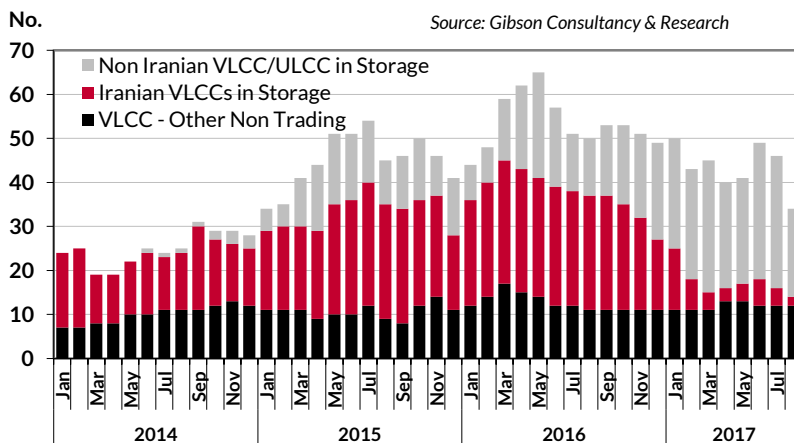
The chart below shows the count of non-trading VLCCs on a monthly basis since January 2014, with the vast majority of these units involved in floating storage. The number of tankers absent from trading operations peaked in 2016, fluctuating between 50 to 60 units for most of the year. The international agreement reached about the Iranian nuclear developments translated into a rapid release of the NITC tankers from floating storage in late 2016/early 2017. However, this was to a large extent offset by robust demand for non-Iranian storage, aided by declining freight rates and persistently high land based oil inventories through the first half of 2017.

A further drop in floating storage was seen last month, as the OPEC led production cuts have finally started to bite. The total number of non-trading units fell to just 34 by the end of August, the lowest level since December 2014. The number of VLCCs in non-Iranian floating storage declined by 10, while a further 2 VLCCs were released from the Iranian floating storage.

Are the latest developments the beginning of the end for the VLCC floating storage? If OPEC proves successful in its effort to rebalance the oil markets and bring down the inventory levels,

### Number of Non-Trading VLCCs

Including Floating Storage



## Crude Oil

### Middle East

A very busy week for VLCC's here, but due to the over-abundance of tonnage available Owners have been unable to wrestle away any bargaining power from Charterers. Levels remain in the low ws 40's basis min 270,000mt for a voyage East and with voyages to the West quite a rarity these days, the last done here in fact dropped to the lowest levels seen this year so far to 280,000mt x ws18 via Suez/Suez. A horrendous week for Suezmax Owners has seen the tonnage list lengthen and rates soften to ws 65 for India discharge and ws 26.5 for European destinations. Another healthy level of Aframax activity in the AG this week is slowly helping to clear the backlog of tonnage that has been building. At a similar time, there has been a slight improvement in activity in the Indonesia region which has slowed the flow of tonnage ballasting back to the AG. Last done levels from the AG to the East are 80,000mt x ws 90, but Owners remain optimistic in securing some premiums next week.

### West Africa

Locking in for a long voyage this time of year is never an easy choice for an Owner, but after seeing a glut of fixing from the AG had very little impact on rates some VLCC Owners are feeling that current achievable returns from here fare better than the potential AG VL market going forward with last done at 260,000mt x ws 49 to the East. Suezmax Owners continued to build on last week's gains. A steady flow of last decade September stems has given them the

opportunity to achieve 130,000mt by ws 75 for States discharge and ws 76 for European destinations.

### Mediterranean

Med Aframax enquiry set pulses racing towards the end of last week and the result was a stalemate on Friday with no Owners willing to commit. Monday was the inevitable day of reckoning when Charterers admitted defeat and paid more on dwindling availability of natural tonnage. Ws 78.75 soon became ws 85 and then ws 100 levels for vanilla X-Meds, with Libyan cargoes paying a premium. The short-term outlook is now more balanced with no sign of confidence draining yet even in the face of a quieter day today. Suezmax Owners have finally made some gains this week buoyed by a busy last decade Black Sea programme. The week closes with rates of 135,000mt by ws 85 being paid for European destinations. Levels are likely to be maintained next week as tonnage is likely to be sucked from the area in to the Caribbean.

### Caribbean

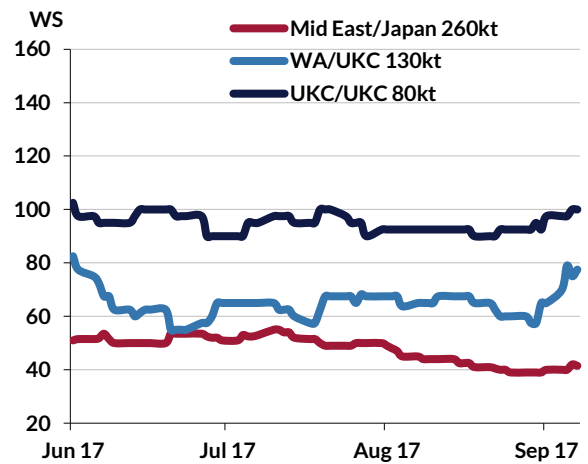
VLCC Charterers that are able to fix on the forward position continue to benefit from the ever willing Eastern ballasted, as such levels have slightly dipped from last week. Currently levels to Singapore are around \$3.50 million and around \$2.80 million for West Coast India. With hurricanes hitting the region causing massive devastation the majority of Aframaxes have been unable to trade as they wait for ports and terminals to re-

open, as such what tonnage that has been available have been able to maintain these stronger levels which currently stand at around 70,000mt x ws 160 for Caribs to the USGulf.

## North Sea

Owner's sentiment in the North has been strengthened after continued action and resistance this week. Rates have been corrected and we are seeing currently Baltic/UKCont being done at 100,000mt x ws 70. For cross North Sea, the market has firmed with levels ranging between 80,000mt x ws 95-97.5 being repeated. With the tonnage list continuing to be tight, the current uptick in the market should persist.

## Crude Tanker Spot Rates



## Clean Products

### East

It has been a relatively flat week on the MRs, because of the huge number of ships put on subs on the LR2s, the other sizes have taken a slight back seat. We saw EAF take a considerable jump early in the week, from ws 180 basis EAF to ws 205 equivalent. A range of numbers in between are now on subs, but general consensus is that the market sits at ws 190 going into the new week.

Shorthaul again has been pretty soft, inevitable really, given the number of prompt vessels, and the number of Owners who want to tide themselves over to re-open in what they feel will be a stronger market. These finish the week sub \$200k, with every indication that off prompter dates, softer numbers will go on subs. Same story for Red Sea runs, which should be trading at \$475k, but will be \$25-50k cheaper off prompt dates. TC12 has been a strong market, with paper trading up, we have therefore seen an increase to ws 165 and repeated numerous times. Owners at the moment seem happy to sit on this number, but we will see how often it is tested early next week. West runs to the Continent are trading around \$1.075 million ex AG, although the TC2 market has softened fairly dramatically, Owners are keeping an eye on two more upcoming storms off the coast of the States and wondering what effect this will have on the market. Important to note on the MRs at the moment that prompt loading cargoes will be taken off the market at cheap numbers, but those off the natural window may start to firm going into the

new week, given the number outstanding.

LRs have had one of the more exciting weeks this year with both sizes moving sharply upwards. LR2s have seen 10 points added to TC1 with 75,000mt naphtha AG/Japan now at ws 110. West rates are unproven, but must be near \$1.75 million for 90,000mt jet AG/UKCont. LR1s similarly have firmed with 55,000mt naphtha AG/Japan also up 10 points at ws 132.5, and 65,000mt jet AG/UKCont also not really tested, but now around \$1.40 million. Next week is looking set for more activity and a good chance of rates pushing on further.

### Mediterranean

Following on from the 10 point increase we saw last week for X-Med numbers, Owners in the Med entered week 36 with an optimistic view for Handy rates. A healthy number of cargoes were seen throughout the week driving rates upwards from 30 x ws 125 to end the week at 30 x ws 140 for X-Med. Black Sea rates however, haven't been able to maintain the +10 point premium to X-Med numbers ending the week at 30 x ws 142.5. Owners will be hoping that week 37 brings more of the same and Black Sea numbers realign themselves with X-Med rates.

With USG refineries slowly coming back online, less demand has been seen from European shores on the MRs. Few cargoes coupled with a healthy tonnage list was grim reading for Owners. Med/transatlantic has slipped down to 37 x ws 130 after the softening seen up

on the Continent and looking ahead further softening could be on the cards heading into next week.

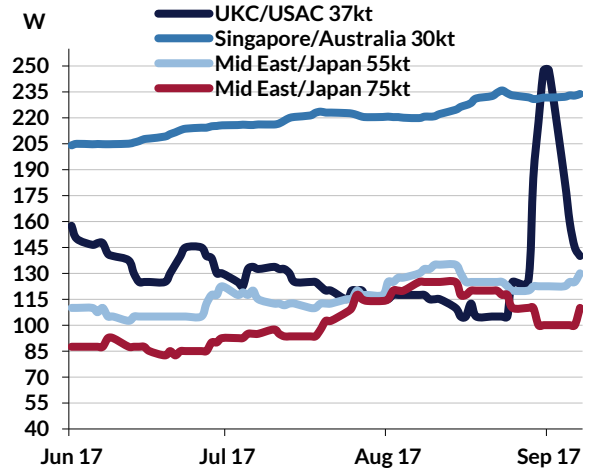
## UK Continent

Week 36 started with promise in the Continent as we saw TC2 trading in the dizzying heights of ws 250, but as time went on we saw refineries coming back online in the Gulf and demand slowing. With the glut of tonnage committing to the ballast to Europe, rates became heavily under pressure and we saw them tumbling with every fixture. As the close of play arrives we now see 37 x ws 130 on subjects and with a healthy tonnage list appearing on the horizon, the potential for a further slip is real. Limited WAF and Baltic runs partnered with next to no East voyages has given Owners few options and Charterers with stems have been able to pick and choose their tonnage. Looking ahead the pressure on rates will continue into next week and can expect fixing numbers to be under pressure for the foreseeable future.

Unfortunately for Owners, a similar story can be told on the Handies, as demand for 30kt runs to the States began to dry up. This left Owners with slow demand for Baltic and X-UKCont voyages pressing rates down. Numbers fell to 30 x ws 160 for X-UKCont and ws 170 for Baltic liftings, but with a quiet end to the week a fresh test to Owners resistance will be needed.

Finally to the Flexis, where this sector has kept hidden under the radar with very little market activity to report. Rates were bolstered by the improved Handies last week, but as we see this slide, expect the same for the 22kt stems and a fresh market test to show the true strength here.

## Clean Product Tanker Spot Rates



# Dirty Products

## Handy

The Continent in this size sector from the outset this week was under downward pressure from Charterers correcting the market. The steady end to week 35 set the trend and the trickle of enquiry presented opened the door for a test on last done. As the week progressed this drop in rates drew Charterers interest out of the woodwork and as this week comes to an end, positions will tighten if all of the off market business get their subjects.

This week the Mediterranean started with a lengthy position list and as a consequence rates were quickly tested. The limited enquiry left Owners in a difficult stance to fight against the downward pressure as competition for the few stems presented was rife. After the inevitable adjustment a few cargoes popped up and combined with replacement jobs, helped rates to stabilise. The outlook for next week's trading is much of the same with last done level's likely to be under further downward pressure, unless fresh activity can steady the ship.

## MR

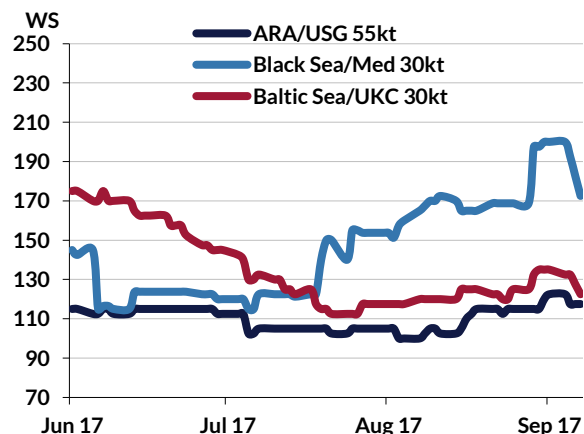
Keeping the trend of recent weeks tonnage availability in the north has remained tight for the duration. Starting the week with only one Owner showing a prompt position and other potential candidates not due open until around mid-month, sentiment remained in the balance as Charterers with requirement had to be wary when entering the market. Closing week 36 it seems some under the radar activity has seen the few available units placed on subjects, again leaving workable tonnage thin on the ground pushing the natural fixing window further into the end decade window.

The Mediterranean witnessed a lack of full sized enquiry this week with a Mediterranean-transatlantic move providing the main excitement. With the bulk of positions placed towards the bottom of the position list we should see a fresh test next week as itineraries start to firm. With the Handy market seeing some negative correction Owners may be already preparing themselves for what is to come, but for now Owners are doing well keeping their tonnage moving.

## Panamax

This market has been plagued with uncertainty this week as the storms in the USGulf/Caribs region have done a good job of messing things up. With this said the outcome has not been as per many Owners may have been hoping for, as we report of little gains achieved in the region. In fact, a similar story on our shores this side of the Atlantic, where we even report a slight softening in rates. This is mainly due to the little fresh enquiry coming to light. The weather disruptions in the Atlantic are likely to become clearer early part of next week. Fresh tonnage lists on Monday will be key as to which direction this sector will be heading...

Dirty Product Tanker Spot Rates



## Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Sep 7th	Aug 31st	Last Month	FFA Q3
TD3	VLCC	AG-Japan	+2	41	39	46	64
TD20	Suezmax	WAF-UKC	+7	74	68	67	85
TD7	Aframax	N.Sea-UKC	+9	101	92	93	106

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

			wk on wk change	Sep 7th	Aug 31st	Last Month	FFA Q3
TD3	VLCC	AG-Japan	+250	6,250	6,000	11,250	22,750
TD20	Suezmax	WAF-UKC	+1,750	12,250	10,500	10,250	16,500
TD7	Aframax	N.Sea-UKC	+6,250	7,500	1,250	1,750	12,000

## Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Sep 7th	Aug 31st	Last Month	FFA Q3
TC1	LR2	AG-Japan	+10	110	100	120	
TC2	MR - west	UKC-USAC	-101	144	246	118	146
TC5	LR1	AG-Japan	+8	129	121	128	137
TC7	MR - east	Singapore-EC Aus	+2	234	232	220	

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

			wk on wk change	Sep 7th	Aug 31st	Last Month	FFA Q3
TC1	LR2	AG-Japan	+1,000	10,500	9,500	14,250	
TC2	MR - west	UKC-USAC	-16,500	8,250	24,750	5,250	8,750
TC5	LR1	AG-Japan	+750	9,250	8,500	9,750	10,750
TC7	MR - east	Singapore-EC Aus	-500	12,000	12,500	12,000	

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

ClearView Bunker Price (Rotterdam HSFO 380)	+20	317	297	302	
ClearView Bunker Price (Fujairah 380 HSFO)	+20	335	315	314	
ClearView Bunker Price (Singapore 380 HSFO)	+21	333	312	322	
ClearView Bunker Price (Rotterdam LSMGO)	+29	500	471	475	

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