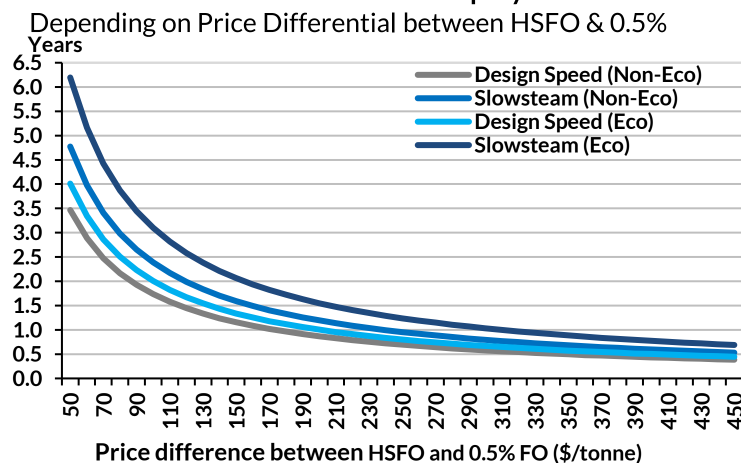
And the Winner is?

Weekly Tanker Market Report

The date is sometime in 2020, the event is the annual Alternative Fuels award ceremony held in front of a packed auditorium full of stakeholders covering representation from shipowners, refiners and the oil majors. The audience is eagerly anticipating the announcement of the coveted winner. The best newcomer Oscar went once again to LNG, still not quite worthy of the big prize. While the lifetime achievement award went to fuel oil for decades of loyal service to the shipping industry. So who will win the ultimate prize 'compliant low sulphur fuels' or 'scrubbers'? On the stage there appears to be some confusion, who has the envelope containing the all-important result?

The above paragraph may be a little skit on events at the recent Hollywood Oscar's ceremony, however it does illustrate the huge amount of uncertainty that currently surrounds the sulphur limits issue. Shipowners appear to have adopted a wait and see approach, while many refiners have the headache of whether to make considerable investment in upgrading, in what are in, many cases, old inefficient production facilities. In addition, what will become of all the surplus of high sulphur fuel (HSFO), effectively a by-product of the current cracking process?



Lets take a look at some of the options. Increasing use of low sulphur fuels has been widespread over the past few years with the growth of the ECAs. During the recent low bunker price environment, the additional ECA low sulphur fuel costs have been absorbed by counterparties. But where will the oil price be in 2020? Another option is to continue to use HSFO and install a 'scrubber' to clean the engine emissions prior to exhaust discharge, but this solution requires upfront capital investment. Higher bunker prices would make this a much more attractive solution as the price differential between distillates and HFO would be that much greater and consequently the scrubber repayment period would be quicker (see graph). But even here there are other considerations to be thought through not least the age of the vessel. With many owners controlling large fleets, investment here could be considerable even if technology brings down equipment costs. Given the above it is hardly surprising that owners are adopting a wait and see approach.

Refiners have a different approach, who will pay the huge investment costs to change refinery plant to produce compliant fuel – namely distillates? Here the challenge is whether there will be enough compliant product to meet demand by 2020? The industry estimates that on current requirements refiners will need to replace around 250 million tonnes of HSFO with a substitute to meet the 0.5% maximum sulphur specification. Alternative fuels have been developed by several of the oil majors, but the challenge here is to find a cost-effective way to remove the sulphur from HSFO. This also raises the issue of compatibility between the new hybrids. Also, why would refiners want to develop cheaper alternatives as owners already pay a premium for distillates. Should owners favour adopting scrubbers the incentive for refiners to develop cheaper cleaner fuels disappears.

In conclusion, it will be difficult to pick a winner here. In reality each solution has its own merits in the right set of circumstances and in all probability, each will take a share of the prize. It is not surprising that shipowners have adopted a wait and see approach. The headache of current trading environment is perhaps prohibitive for owners to sanction more debt and in the end owners will leave the party without clutching any awards.

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Crude Oil

Middle East

An active week for VLCCs, but the heavy weight of availability persisted to keep the market boxed in at an average low ws 50 mark to the East and high ws 20's level to the West - basically unchanged from last week's numbers. March fixing is rapidly drawing to a close now and opportunities for Owners to kick the soft trend will be limited. Suezmaxes had a bright start and initially drove rates up to ws 95 to the East and into the low ws 50's to the West, but from midweek things slowed again and no further gain could be posted into the weekend upon a flatter feel. Aframaxes couldn't maintain their previously upward move, but did manage to tick over at around 80,000 by ws 120 to Singapore for most of this week - perhaps a little lower by the week's end and into next week.

West Africa

Suezmax Owners had already threatened a break-out and a combination of a busier phase and a rash of replacement needs, quickly allowed for a noticeable upward push towards 130,000 by ws 105/107.5 for Europe/USGulf and Owners should be able to maintain their hold for a little while yet. VLCCs saw only modest attention through the week and with the AGulf stumbling, rates couldn't break out of a high ws 50/low ws 60 range to the Far East with around $2.5 million payable for Angola/West Coast India runs. It should get somewhat busier next week, but rates are unlikely to strengthen.

Mediterranean

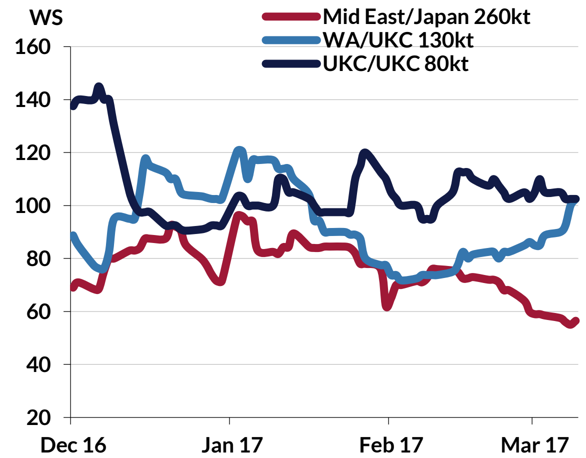
Aframaxes ebbed and flowed, with a start point of 80,000 by ws 120 cross Med and an end point closer to ws 105 as Owners eventually succumbed to an easier balance which will take a bit of time to re-correct. Suezmaxes suddenly became supercharged…relatively speaking. Support from West Africa and extra cross Med interest kept things spinning even as Black Sea programmes began to dry for the month. Rates reached 140,000 by ws 122.5 from the Black Sea to European destinations with around $3.6 million payable for China discharge. The shelf life of this more positive situation will need West Africa to keep retain momentum however.

Caribbean

Aframaxes showed initial extra promise, but it failed to really catch on and rates ended at a compromise 70,000 by ws 130 level upcoast. Owners need an active start to next week to prevent further softening too. VLCCs moved through a very slow phase with rates largely untested, but theoretically stand slightly lower at $4.1 million to Singapore and $3.2 million to West Coast India. Even lower is possible.

North Sea

Aframaxes failed to build upon last week's mild improvement and then started to gently reverse to 80,000 by ws 95 cross North Sea and to 100,000 by ws 100 from the Baltic with another u-turn unlikely over the near term, at least. Traders found more value in attempting to take VLCCs East and some succeeded at an average $3.5 million for fuel oil from Rotterdam to Singapore and to $4.5 million for crude from Hound Point to South Korea/China though there are signs that the economics may not be so favourable into next week.



Clean Products

East

The MRs have this week been very busy in the AG, and we have experienced considerable firming on all routes. There is now particular tightness off the 15-20th window, and with more cargoes coming out of the woodwork at a rate of knots, rates will likely continue to move. Shorthaul sits at $190k, although a $215k has gone on subs off the middle of the tight 15-20th window. TC12 has come up off the ws 132.5 level, and will push past the ws 140 level next week as rates surge. EAF was put on subs at ws 172.5 on Monday morning and has been repeated several times, and even pushed up further to ws 177.5. Westbound is now on subs at $1.1 million, but again will likely need another test early next week. Interestingly, shorthaul will not be hampered by an overtonnaged LR1 market as these larger ships are also moving on subs at a good rate. Short options are very hard to cover off natural dates given the good returns seen for MR owners on longer haul, and given their lack of preference will likely see a further push from Owners next week.

LRs saw a busier week across both sizes with rates firming all round. With MRs busy as well there is a real shift in tempo on clean East markets. LR2s were on fire come Tuesday morning and rates should probably have moved more, but they cleared the list quickly and 75,000 mt naphtha AG/Japan moved to ws 110. 90,000 mt jet AG/UKCont moved up to $1.55 million as well and both rates probably have more to come. LR1s came on focus the next day and with an influx of cargoes, rates have edged up with 55,000 mt naphtha AG/Japan up 7.5 points to ws 125 and 65,000 mt jet AG/UKCont now at $1.25 million. Next week may well see further rises and Charterers start to look further out.

Mediterranean

The outlook for Handy Owners in the Mediterranean has become steadily more positive as the week progressed. A combination of steady enquiry, a tightening tonnage list and bad weather has given Owners the platform to push back up to 30 x ws 170 for X-Mediterranean voyages and 30 x ws 180-185 ex Black Sea. Any prompt cargoes on stems back because of late runners could expect to pay considerably more as well. We expect to see a similar situation heading into the first part of next week as the tonnage list is better balanced, however, if the inclement weather passes we could see rates start to back down.

As with Handy enquiry the MRs in the Mediterranean have a seen a slight uptick of fresh enquiry. The majority of action has been for Brazil, transatlantic and UKCont discharge whilst Eastbound cargoes continue to be sluggish. Owners are somewhat bullish although with adequate tonnage to satisfy demand the market has ultimately stayed flat. This looks likely to persist into Week 11.

UK Continent

MRs up on the Continent kicked off week 10 in positive fashion with Owners being able to slowly, but surely push freight North thanks to strong reformate, WAF and Baltic enquiry. Transatlantic volumes have increased with 37 x ws 147.5 now the benchmark for TC2, 37 x ws 165-170 for West Africa and $1.4 million to China. A few were able to relieve some pressure on the MR market by looking to cover their exposure via Handysize tonnage which was the main factor behind the market not jumping. Looking ahead a steady flow of enquiry needs to be maintained heading into next week if rates are to hold.

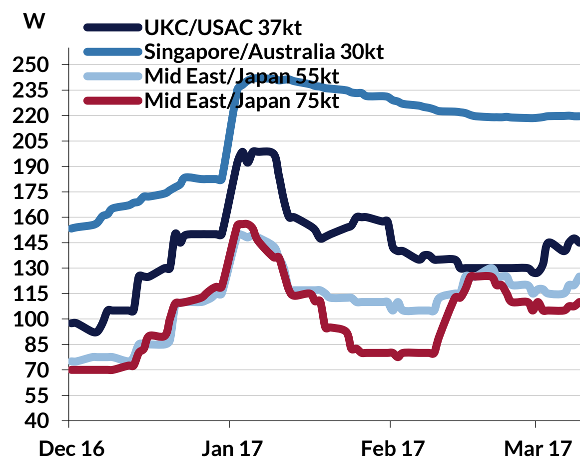
Handies this week continue to tread water with available stems clipping out tonnage. Rates settled quickly at the beginning of the week as we saw 30 x ws 177.5 being done for Baltic/UKCont and this rate staying put. X-UKCont runs have seen a discount at ws 155 being repeated and with little movement on the horizon. Looking ahead we find a number of stems still outstanding, albeit with dates a week away and we can predict more of the same in this balanced sector.

Flexis continue to stay quiet with much of employment hiding behind the COA curtain. Rates remain stable at 22 x ws 210 with the outlook next week seemingly the same flat calm ahead.

LRs

Owners began the week with a relatively positive outlook given the shortage of LR tonnage in the West. LR1 ARA/WAF runs have held this week at 60 x ws 120, but there are reports of a vessel on subs at 60 x ws 122.5 as the week closes, Charterers have continued to clip vessels away this week for some ARA/AG runs leaving the list of options thin on the ground. One vessel is on subs at $1.2 million for STS Southwold/AG meaning Owners are now aiming towards $1.3 million on that run. LR1s look firm and an active start to Week 11 will see rates move up again. There is a severe lack of LR1 options in the Mediterranean. There are reports of one Charterer taking a vessel from the Continent. This should achieve 50-100k premiums to cover the ballast voyage.

LR2s have looked firmer as the week has developed and Charterers have been picking off vessels for voyages for direct continuation and one LR1 Charterer took an LR2 to cover a Mediterranean LR1 stem. However, with the naphtha arbitrage to the East remaining closed, there is a lack of real substance. Rates are in a position to rise if there is an increase in activity; however otherwise, with new LR2 positions creeping into Western waters over the next few weeks, rates are set to remain steady.



Dirty Products

Handy

The week in the continent proved to be a stern contest between Owners and Charterers, where notable differences of perceived strength could be seen. More so, variations were also evident even between operators of tonnage in the area. Come Friday, however and given the extent of how fleets have been utilised this week, and off market deals coming to the surface, it seems the majority are now singing from a more uniformed song sheet.

Elsewhere, the Med has endured a particularly volatile week, causing many a Charterer a headache where the Turkish Straits have been closed due to weather conditions. Affecting even units sub 200M loa, this has derailed many a previously firm Itinerary, and with it causing huge adjustment in fixing lead time to meet Black Sea cancelling dates. Naturally Owners have been able to profit from such fundamentals and given the backlog of units now delaying Southbound transit (thus taking longer to show re-availability), surrounding markets could still see positive adjustments heading into next week.

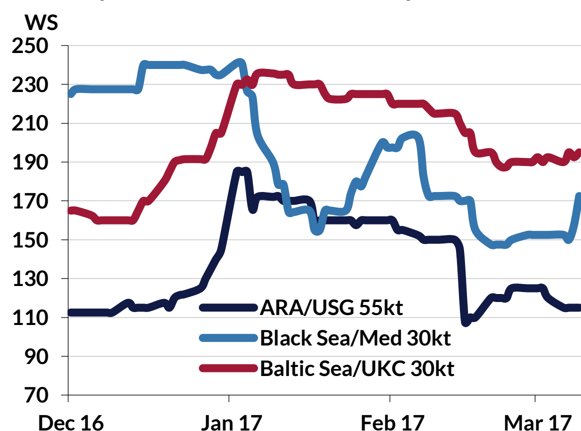
MR

This sector has been steady in the North with little activity and no volatility on rates. Some Owners have found covering their units more difficult than others which could suggest Charterers have been in the driving seat being able to 'nit-pick' their units with limited competition. This said, the region looks to remain trading flat for now.

Activity spikes from the Handysize sector has sparked an upward trend on the MR's where maximising cargo lift must have been on the forefront of Charterers minds while the Turkish Straits delays continue to cause further complications. A twenty point spike since the beginning of the week on the surrounding Handies gave Owners a confidence boost as we roll into the weekend, and with Handies getting snapped up around MR's Owners are now in a position to sit back and wait for full sized stem opportunity knowing backstops are aplenty.

Panamax

Monday morning presented us with a handful of vessels in ballast towards our shores, with the decision to come this was being mainly driven by a soft Caribs market and a build-up of tonnage States side. The effect of this has impacted rates negatively where we saw levels being concluded at lows of ws 112.5. From this marker however, Owners have dug in not to discount any further, and as the week has gone on the majority of tonnage moving this way is either fixed away or on subjects helping to stabilise conditions. Next week Charterers may well have to readjust lead time again as it looks like little fresh tonnage is moving this way. Furthermore, the Caribs market is continuing to trade soft, but with recent levels seen this side of the pond it is not overly attractive for many to ballast this way, there could be a little more resilience in trading in the next round of enquiry.



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 9th	Mar 2nd	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-3**	56	59	82	58
TD20	Suezmax	WAF-UKC	**+19**	104	85	112	99
TD7	Aframax	N.Sea-UKC	**-8**	98	106	101	104

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

			wk on wk change	Mar 9th	Mar 2nd	Last Month	FFA Q3
TD3	VLCC	AG-Japan	**-1,250**	19,250	20,500	40,250	20,750
TD20	Suezmax	WAF-UKC	**+8,750**	26,000	17,250	28,750	23,500
TD7	Aframax	N.Sea-UKC	**-5,500**	9,000	14,500	12,500	14,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 9th	Mar 2nd	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+5**	110	105	118	
TC2	MR - west	UKC-USAC	**+19**	148	129	174	148
TC5	LR1	AG-Japan	**+8**	124	116	118	124
TC7	MR - east	Singapore-EC Aus	**+0**	219	219	241	

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

			wk on wk change	Mar 9th	Mar 2nd	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+2,000**	11,250	9,250	12,250	
TC2	MR - west	UKC-USAC	**+2,750**	9,500	6,750	13,500	9,750
TC5	LR1	AG-Japan	**+1,500**	9,250	7,750	7,750	9,250
TC7	MR - east	Singapore-EC Aus	**+250**	11,250	11,000	13,000	

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

	wk on wk change	Mar 9th	Mar 2nd	Last Month
ClearView Bunker Price (Rotterdam HSFO 380)	**-13**	293	305	308
ClearView Bunker Price (Fujairah 380 HSFO)	**-13**	316	328	336
ClearView Bunker Price (Singapore 380 HSFO)	**-11**	313	323	340
ClearView Bunker Price (Rotterdam LSMGO)	**-14**	463	476	463

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