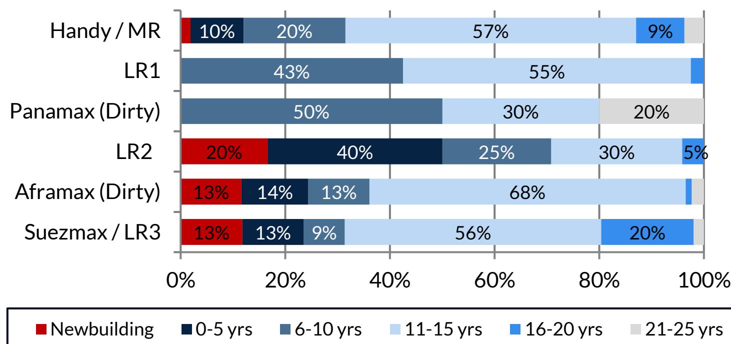
Ice Class Frozen Out!

Weekly Tanker Market Report

This week, much of Europe has been blanketed in snow as cold weather has spread as far south as the Mediterranean coast. With temperatures across the continent as low as -30C (-22F), now might be the perfect opportunity to talk about the ice class fleet.

Perhaps the first thing to mention is the lack of ordering activity in recent years. Most of the recent newbuild investment has gone into Aframax tonnage with a mix of Finnish/Swedish ice class 1A and 1C orders. Last November Sovcomflot (SCF) announced a huge investment in ice class 1A tonnage, ordering six Aframaxes (plus options), at the same time SCF stated their commitment to environmental standards by making them LNG powered. Last month the company announced long term time charter agreements for two of these units. Back in October 2016, Euronav made a rare venture into the newbuildings market by ordering ice class 1C Suezmaxes, with seven year time charter attachments to serve the Quebec refinery to replace some of their older units. Speculative orders appear to be rare, in part due to the higher up-front pricing for expensive kit, so most are already committed to project work.

Ice Class Age Profile



Ice class tonnage by the nature of its employment is expensive to run and costly to repair and of course only command a premium during the short ice season. Older units, although built to ice class rules, may in fact drop out of these trades into the more conventional markets because of escalating maintenance costs. With this in mind, it is interesting to see that today 72% of the Aframax fleet is over 10 years of age. Applying the same principle to the Handy/MR sector, 70% and the Suezmaxes 78% of the fleet is over 10 years old. To put this into context, 68% of the whole ice class fleet today is over 10 years of age. Analysis of the tanker orderbook shows only a handful of ice class units are currently firm orders, most already with committed employment. With so many units from the mid-2000s heading towards third special survey over the next few years, potentially this niche market could be heading for a shortfall. Forty-three percent of the fleet was built between 2003-2007 (10-15 years of age). Given that ice class tankers spend the greater part of their working lives in the ECAs, the impact of the 2020 sulphur legislation will be limited. However, over the next few years many units will be required to invest in Ballast Water Treatment systems as well as the added expenses associated with working in ice in terms of steel replacement etc. Also, ships now have to comply with the safety part of the Polar Code by their first renewal survey. Many of the older units may require changes to fuel tanks to comply with the code, all this comes at a cost.

Of course, there has to be demand for these specialist vessels. Trading routes are changing across the tanker market and the ice trade is no exception. Vladimir Putin has just issued a statement, vowing to increase traffic tenfold along the Northern Sea Route by 2025. This route will require the highest ice classes, similar to those being deployed for the Yamal LNG project. Another example will be changes in the Baltic trades. A recent announcement by Transneft stated that crude exports from Primorsk are expected to fall after 2018 due to increased exports to the Asian market, primarily China, reducing the volumes shipped from Baltic ports at least for this year. However, product exports through the Baltic are due to grow because of the modernisation Russian refineries and a favourable tax system. Those that operate ice class tonnage have some interesting choices to make over the next few years.

Crude Oil

Middle East

After all the disruption from last week with Chinese New Year and IP Week Charterers settled down and concentrated on their 2nd decade VLCC enquiry. Even with the greater influx of interest, Owners were unable to capture any potential gains and the market remains firmly on the bottom. Rates to the East hold in the region of low ws 30's for older units and mid-high ws 30's for the more modern unit based on 270,000mt. Voyages fixed to the West remain somewhat limited with levels holding at around ws 18 via the Cape on min 280,000mt. A very active, three-tiered market this week. Iran was particularly busy jumping from 140,000mt x ws 32.5 to ws 45 for West discharge, with one Charterer covering 6 stems in 3 days. The non-Iranian market was better supplied and struggled to keep up, with rates only improving marginally from low to mid-20's for West and low ws 60's to the East. Basrah Heavy premiums were restored to ws 12.5 points, as one Charterer found themselves with just one ship to pick from. The week ends on the firmer side so long as volumes continue into end-March early-April laycans. After a couple of desperately quiet weeks in the AGulf for Aframax Owners, week 9 has finally delivered an improvement in enquiry. However, the backlog of tonnage will take time to clear and with ballasters on the horizon from the East, has prevented Owners to improve rates which sit at 80 x ws 82.5 for AGulf-East.

West Africa

A slightly strange week. Bullish sentiment superceded fundamentals in the early part which made Charterers skittish, causing the market to spike ws 5 points midweek, much to everybody's surprise. Tonnage was steadily clipped away and Owners capitalised with 130,000mt x ws 70 for WAF/UKContM being repeatedly paid. Sentiment on Monday will still be firm and Owners will look to build on this week's foundation. VLCC Charterers see little need in rushing to finalise their end March positions as availability remains in good supply as other areas continue to provide little to no encouragement. Last done levels have been chipped away at yet again with Owners only just holding on to rates starting with a '4' based on min 260,000mt for Eastern destinations.

Mediterranean

A game of two halves for Aframaxes this week. On Monday there was optimism in the Owners' camp as enquiry was in healthy supply and any cargoes in an early position needing quality tonnage could easily have struggled. For a couple of days there was an impasse as Charterers refused to meet Owners' demands of 80,000mt x ws 120 levels (for Black Sea Med voyages) preferring to wait and see if a further deluge of cargo would come to justify the would-be spike. As it transpired this did not happen and reluctantly Owners slowly backed down, repeating the last done levels of ws 105 for Black Sea to Med voyages with slightly lower for X-Med trips. Furthermore not only did this deluge not

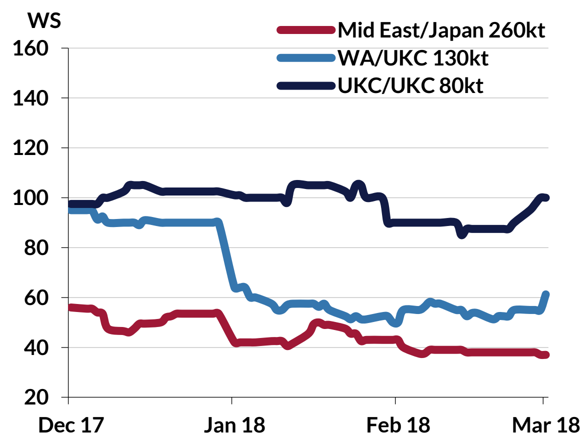
arrive, but by Thursday you could hear a pin drop and premiums soon became discounts with certain X-Med voyages dipping into the ws 80s; even top quality ships will struggle to achieve ws 90 now. Suezmaxes saw a sluggish start to the week with tonnage well supplied and cargo volume ticking along. However, a flurry of late-week enquiry and a firm West African scene hardened rate ideas up from 135,000mt x ws 67.5 to low ws 70s for TD6.

Caribbean

Aframaxes were again able to capitalise on some weather delays to secure a slight premium over last done, although as the weather improves more tonnage is becoming available ensuring rates are starting to level off at around 70,000mt x ws 110. On the flip side, VLCC Charterers will need to tread carefully as availability is starting to thin and Owners should start to see opportunities to push for a premium. Last done levels from the Caribbean to West Coast India are at $2.65 million and to Singapore at $3.25 million plus $1 million for China/South Korea discharge.

North Sea

With a very cold weather front moving in, Aframax rates moved this week mainly being driven by Owners sentiment. This lead to a ws 10 point jump in the Baltic from the previous week, where it is now fixing 100,00mt by ws 85. The X-UKCont has piggybacked on this and is now fixing at around 80,00mt by ws 100. A combination of crude and fuel oil interest for VLCCs has seen an unprecedented amount of enquiry this week taking virtually all of the naturally placed ships. Charterers were able to secure levels at or around last done which remain at $3.7 million from Hound Point to China/South Korea and around $2.70 million for a Rotterdam to Singapore run.



Clean Products

East

LR2s have been the busier of the two LR sizes this week and a healthy supply of cargoes into the larger size has provided a firm platform for rates to build. At first, it looked as though the initial supply of naphtha cargoes could have been all taken on subs, but seeing further supply of end second decade has entitled Owners to push TC1 up to 75 x ws 117.5 levels. Westbound rates have been relatively less tested, but given the stronger outlook on naphtha moved, should be brought up sympathetically in assessment to $1.8 million levels. A healthy supply of cargoes going into the new week hands Owners a degree of power in dictating rates. Charterers will certainly try to downsize where possible. The LR1s have been slightly less busy, but have benefitted from a tightening Red Sea market. Ships have been required to ballast in to lift cargoes, which should eventually firm AGulf numbers. TC5 still trades at 55 x ws 120, and West at $1.3 million levels, although it is important to note that WCI loading cargoes are trading almost on a par with those loading in the Gulf, due to the thin availability of tonnage ballasting past. LR1s are due a busy week next week, given that they are currently lagging behind both other sizes on activity.

A busy day on the MRs in the Middle East. Seeing so many WCI loading cargoes emerge early this week, it was inevitable that rates would move up, especially given the parallel strength of the LR2 market, and a lack of LR1s ballasting past the load area. Most notable movements have been UMS into the Red Sea, pre-emptive for the slowdown of Yanbu refinery. $475k was the initial Gizan number, and although this has been moved up to $500k, there is scope to push further next week, as more UMS will be required in the Red Sea, and that will put greater demand on the MRs. Shorthaul inter-Gulf has firmed to $200k for a vanilla JUB/JEB, but we may see LR1s compete early next week, eager to stay short for what should be an imminently firming TC5 market. Westbound has been relatively untested to the continent, prompt UMS lifts to WAF tested more, and surprisingly cheap at $1.1 million. TC12 has firmed 5 points to 35 x ws 130, although a replacement if needed could push these numbers further, given how busy WCI, and the emergence of more TC12 cargoes, this run has the propensity to really shift next week. Second decade EAF cargoes have been missing early this week, but as they did eventually come they also pushed up, 35 x ws 177.5 now on subs and suggests that again this should be pushed. Charterers have on many occasions have been aggressive enough to trade to last done levels, but as tonnage continues to thin next week (as expected), the mentality amongst Owners may become more bolshie, as they look to push returns further.

Mediterranean

Rates across the Med have been unsettled this week flirting between 30 x ws 145-150 throughout. At the time of writing, a wealth of ships are on subs and if these get lifted the start of week 10 could see a tighter list. Another potential catalyst for rates next week are the expected weather delays around WMed which could see rates rise slightly in exchange for firmer itineraries. Black Sea rates have traded sideways throughout the week at 30 x ws 160 and other than a minor blip to 30 x ws 152.5 have looked stable throughout.

Although MR action has been a touch slow in the Med this week, rates have been maintained about ws 5 points in front of those seen in NWE 30 x ws 155-160. However, the negativity in the UKCont

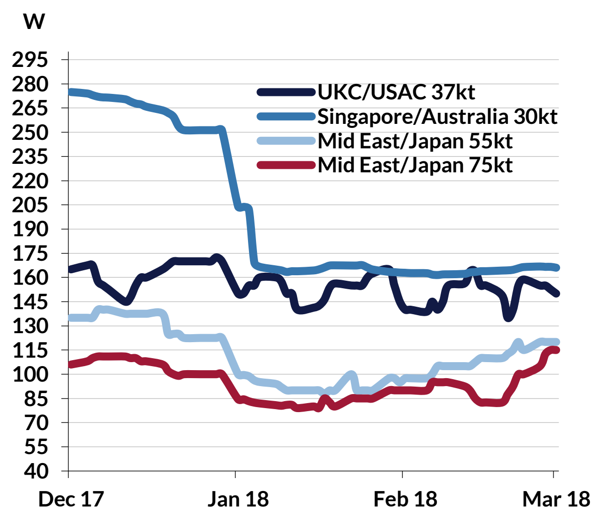
coupled with ballasters ex WAF will draw down on sentiment and expect the top end of Charterers numbers to be reduced in line with what they will pay off UKCont.

UK Continent

On Monday hopes were high for MR Owners in NWE after a busy end to IP week presented a relatively tight list. However, enquiry was notably slow in the early stages of the week allowing tonnage in the normal fixing window to build causing rates to soften from 37 x ws 160 on Monday to ws 150 by Wednesday with Brazil and WAF rates tracking this movement with an additional ws 20 points. A couple of prompt requirements and replacements did see some high numbers paid during the week but are not indicative of the market. In general, where Charterers seem to be firmly in the driving seat, further losses are likely next week, unless the market sees an injection of fresh cargo. Owners with ice class tonnage have been able to maintain last done rates with 40 x ws 180 holding well ex Baltic.

A week to forget for the Handy owning fraternity up on the continent as freight levels experienced a sharp drop. The main catalyst behind the drop was a number of Handy cargoes were swallowed up by the LR programme which has resulted in a rather inactive week on the Handysize. Baltic movements are now trading at 30 x ws 155 and X-UKCont finally got the fresh test which was needed as 30 x ws 145 was repeated a few times. UKCont/Med was seen 30 x ws 140 as well, although less is expected on subs next if the market continues on its current trajectory. Looking ahead and with plentiful ice units still available to Charterers in the current fixing windows many are expecting the downward pressure to remain in the market.

Once again the Flexi market has undergone a rather inactive week as the softening on the Handies continues to plague the Flexis. With freight ultimately dropping hard on the bigger ships, Flexis are now trading around the 22 x ws 210 mark ex Baltic and likely around the 22 x ws 200 mark for X-UKCont. Employment opportunities continue to be focussed away from NWE and UKCont with Owners preferring to trade ships in the Portugal Gibraltar area.



Dirty Products

Handy

The Beast from the East took its time to shake up the North West Europe. The real effect has been on the ice as it has now spread all across the Baltic. However, heading towards the back end of the week, things changed as a handful of cargos has been presented to the market, resulting in a few early vessels fixed away. The weather forecast for this weekend could add further disruption, which could start to tilt the scales in Owners' favour; however, come Monday fresh tonnage lists will tell the real story as further increment looks likely.

The Mediterranean market has witnessed rates remain at the same level as per last week and, with a steady rate of fresh enquiry, has been enough to cover the demand. The Black Sea continues to be the market driver as X-Med might appear to struggle with an extra ws 5 point gap compared with the usual differential for Black Sea trade (-15 vs -10); However, as the week progressed, West Med tonnage started to thin as well, with Owners managing to book away a number of units. It is too early to say if this is going to shorten the gap between the Med and the Black Sea but early trading next week will soon show what direction the region will go.

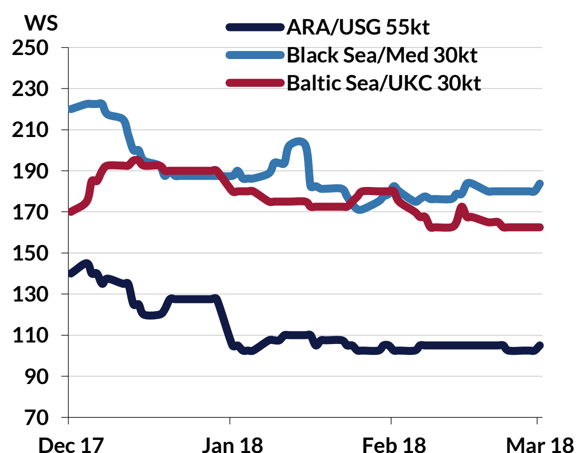
MR

It seems MR Owners in the North have been left out in the cold this week as we still await a well-publicised test for a full cargo. We have witnessed Owners with units in play looking to compete for part cargo stems as Charterers' choice of ice classed units now looks limited heading into next week. There is a couple of non-ice class that would be keen to exit the region for Charterers deliberation but heading into next week we should expect to see some inflated ideas.

Full sized opportunity has proved a rarity this week but nevertheless handy stems entering the Mediterranean have kept tonnage ticking along the position list. We have seen natural sized units slightly diminish toward the back end of the week. The forthcoming position list Monday morning will be an early sign as to where this market will head.

Panamax

As momentum picked up States Side Owners of natural tonnage on our shores here in Europe slowly began to realise that they finally had an opportunity to press for improvements in TCEs. However, trying to extract gains from Charterers is proving much tougher than anticipated. Drip fed cargo supply for now is giving Charterers room to negotiate, although at time of writing the market is sitting on the cusp of possible movement. For this reason just a few more stems may act as a catalyst Owners need and, without so much threat from ballast tonnage, perhaps those willing to say no to ws 105 and wait may possibly get their just rewards.



125 YEARS
GIBSON
SHIPBROKERS
1893 - 2018

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 01st	Feb 22nd	Last Month	FFA Mar
TD3	VLCC	AG-Japan	**-1**	37	38	41	35
TD20	Suezmax	WAF-UKC	**+8**	60	52	51	64
TD7	Aframax	N.Sea-UKC	**+10**	100	90	89	98

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

			wk on wk change	Mar 01st	Feb 22nd	Last Month	FFA Mar
TD3	VLCC	AG-Japan	**-1,250**	6,250	7,500	8,750	4,250
TD20	Suezmax	WAF-UKC	**+4,000**	9,750	5,750	3,750	11,000
TD7	Aframax	N.Sea-UKC	**+7,500**	4,000	-3,500	-5,500	3,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 01st	Feb 22nd	Last Month	FFA Mar
TC1	LR2	AG-Japan	**+16**	114	98	92	
TC2	MR - west	UKC-USAC	**-3**	153	155	144	151
TC5	LR1	AG-Japan	**+1**	116	115	97	115
TC7	MR - east	Singapore-EC Aus	**+0**	166	166	163	

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

			wk on wk change	Mar 01st	Feb 22nd	Last Month	FFA Mar
TC1	LR2	AG-Japan	**+4,500**	14,250	9,750	7,000	
TC2	MR - west	UKC-USAC	**+0**	11,500	11,500	9,000	11,250
TC5	LR1	AG-Japan	**+250**	9,500	9,250	5,250	9,250
TC7	MR - east	Singapore-EC Aus	**+250**	10,750	10,500	9,500	

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

	wk on wk change	Mar 01st	Feb 22nd	Last Month
ClearView Bunker Price (Rotterdam HSFO 380)	**-9**	343	352	378
ClearView Bunker Price (Fujairah 380 HSFO)	**+3**	378	375	397
ClearView Bunker Price (Singapore 380 HSFO)	**-3**	372	375	396
ClearView Bunker Price (Rotterdam LSMGO)	**-8**	545	553	608

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