Scrubbers Again and Again

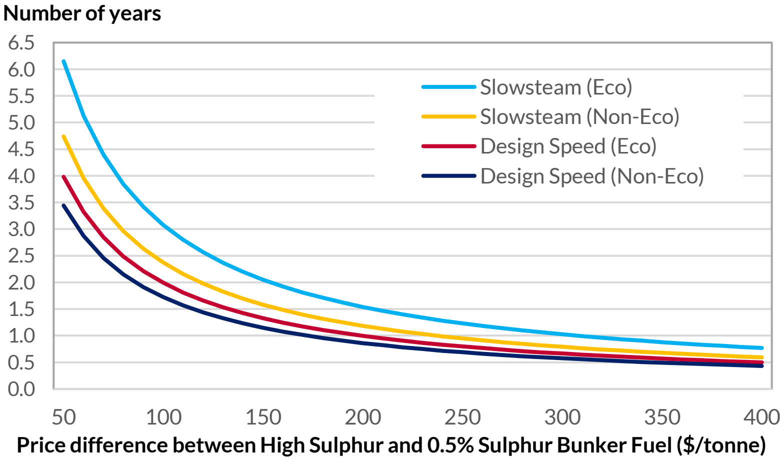
Weekly Tanker Market Report

One of the most hotly debated subjects in the shipping markets this year has been the approaching IMO global sulphur cap of 0.5% on marine bunker fuels in 2020. In particular, a lot of discussions have been focused on scrubbers. On the face of it, many owners appear sceptical and hesitant to embrace the technology and for very good reasons. To name a few, the technology is largely unknown and unproven. According Bimco, just around 450 vessels have scrubbers installed - less than 1% of a global merchant fleet of around 60,000 ships. The costs of installation are also sizable, at around $2.7 million mark for an open loop scrubber on a newbuild VLCC, according to a reputable South Korean shipyard. The costs for a retrofit could be considerably higher, depending on the ship's specification. Another concern is that the environmental legislation could also evolve over time, possibly making the investment in scrubbers obsolete. For example, suggestions have been made that open loop systems could face further regulations in Europe, as they discharge waste sulphur directly into the sea. Finally, there are question marks about high sulphur fuel oil availability in distant and small ports, with limited storage capacity.

Despite these concerns, charterers are showing strong interest to time charter tonnage fitted with the technology. Recently, there have been several T/C deals with all oil majors, where a notable premium has been paid for tonnage fitted with scrubbers compared to tankers without the technology on board. A new trend is starting to emerge where newbuild tankers are being ordered fitted with scrubbers or being "scrubber ready", in other words the equipment could be installed at the later stage. This week two major shipowners have declared their commitment to install scrubbers on some of their existing vessels and newbuild tonnage. DHT Holdings has revealed plans to install scrubbers on a sizable number of its VLCCs (including several of their older units). Frontline has also announced its investment in a scrubber manufacturer, with plans to install scrubbers on the company's VLCC fleet. At present, over 30% of the current VLCC orderbook has been reported to include scrubbers, while another 9% is scrubber ready. However, the actual number of vessels being fitted with scrubbers could be even higher as some deals have been concluded privately.

VLCC Scrubber Repayment Period

Calculation are based on retrofitting an existing tanker



The latest announcement by two major VLCC players could well be the game changer when it comes to owners' perception and strategy going forward with regards to the approaching IMO global sulphur cap. On paper, installation of scrubbers makes perfect financial sense. Not only charterers are willing to pay a significant premium over prevailing market rates to secure tonnage ready for 2020 but also the cost of a scrubber retrofit could be repaid in under 18 months on a VLCC if the spread between high sulphur fuel oil and compliant 0.5% sulphur bunker fuel is at $200/tonne. The repayment period will be even shorter if the price differential between 3.5% and 0.5% sulphur bunker fuel is over $200/tonne. After the cost of investment is repaid, an owner can achieve significant savings, enjoying a strong competitive advantage compared to tonnage without scrubbers. This of course represents an attractive investment case but… only if an owner can secure a space at the yard for installation/retrofit over the next couple of years. Longer term there are other concerns such as a potential narrowing of the spread between high and low sulphur bunkers. Also, uncertainty surrounds the ongoing issue of CO2 emissions – how they will be addressed and what new regulations the shipping markets will then have to face.

Crude Oil

Middle East

A busy week of VLCC fixing allowed Owners to stop the rot of last week with rates gently recovering to just over ws 50 to the Far East for modern units, and into the low ws 20's to the West. July volumes will probably match the June highs, but ongoing easy availability will remain a challenge to converting that into something significant. Supermaxes posted no material change over the week - again - and are anticipated to remain flatline at little better than ws 70 East and low ws 30's West over the next period also. Aframaxes saw little and spent the week upon a defensive footing. Rates eased towards ws 95 to Singapore and are unlikely to reverse the softening trend over the coming week.

West Africa

Suezmaxes crawled slowly up the rate ladder towards ws 75 to Europe, and to ws 70 USGulf but Charterers made every Ws point hard fought for, and the marketplace needs a further solid cargo injection to take rates into clear blue water - unlikely as it seems for now. VLCCs started slowly but did find a bit more to do late week and Owners successfully realigned their ideas with slightly improved AGulf numbers to ws 52 to the Far East with a steady $2.825 million the last seen to East Coast India.

Mediterranean

Having hit bottom last week, Aframax Owners managed to slightly re-inflate rates to ws 95 X-Med with perhaps a little more to come before the market quietens once again, and availability re-stocks. Suezmaxes changed little over the week at an average 140,000mt by ws 80 from the Black Sea to European destinations, and $2.8 million for runs to China. Activity was reasonably strong, but easy availability neutralised any upward push and a flatline outlook seems on the cards.

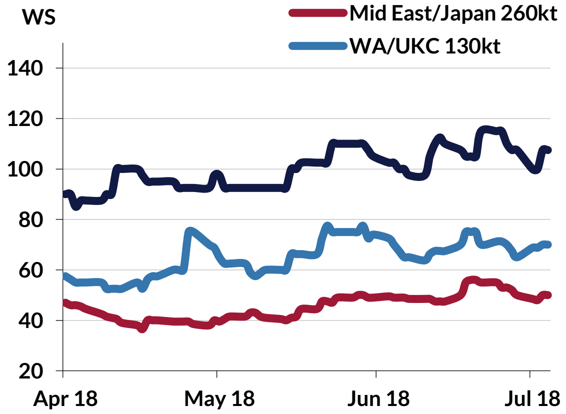
Caribbean

Aframaxes slipped before the U.S. Holiday and failed to recover thereafter. Down to 70,000mt by ws 105 upcoast now, and it may take a while before the cycle turns again. VLCCs slowed down noticeably with Venezuelan issues persisting, and forward hesitation from buyers in the USGulf due to lack of clarity over Chinese tariff threats. Rate demands have eased to $3.4 million from the USGulf to Singapore, and Owners are willing a similar number from the Caribs to West Coast India.

North Sea

Aframax Owners did their best to hold back from seriously engaging, and the ploy eventually paid off. Charterers then showed the required premium, and the market re-calibrated modestly higher at 80,000mt by ws 115 X-UConn, and 100,000mt by ws 87.5 from the Baltic with the potential, at least, of a little higher yet to come. Occasional VLCC fixing but Charterers had few candidates to play with on the fixing window, and Owners successfully managed rates to a higher $4.5 million for crude oil from Hound Point to South Korea with $3.3 million asked for fuel oil to Singapore.

Crude Tanker Spot Rates



Clean Products

East

A busy week for the MRs which have kept up the positive sentiment which began last week. With plenty fresh enquiry in the market, tonnage has rapidly cleared out off the front end and subsequently saw almost all rates firm across the board. Many taking EAFR options put positive pressure on rates and finished at ws 180 but this upwards trend looks to continue and will most likely see plus ws 200 next week. Likewise, TC12 has followed the firming trend and finishes ws 20 higher than Monday at ws 140. West runs have kept steady $1.35 million– if Charterers need to go to UKCont this is likely to see a push at next done to incentivise Owners away from the firming AGulf Market. Gizan has fluctuated between $450k and $500k but finishes at $485k. X-AGulf finishes at $190k but, like most other runs, is expected to push more next week. Many outstanding cargoes remain and, as previous weeks' build-up of AGulf tonnage clears, prompt liftings could struggle to find a ship; stems may have to look to the LR1s to get cover. As such, the firming sentiment doesn't appear to be going anywhere.

Mediterranean

The Mediterranean market has been continually pressured this week, with prompt tonnage rife across the board. On the face of it, enquiry has been thin; however, in reality the majority of business has been done behind closed doors, which has meant rates have traded sideways at the 30 x ws 130 mark throughout for X-Med stems. Black Sea stems have continually traded in line with X-Med and the ws +10 point premium of 30 x ws 140: However, with a wealth of tonnage around EMed/Black Sea areas, Owners have continuously been on the back foot but have been reluctant to drop the market below the levels we have currently seen. Come next week; however, it'll be interesting to see if Owners can dig themselves out of this hole, even with ppt tonnage likely to be in excess.

The MR market has been balanced this week, with enquiry ticking over enough to keep rates in line with the UKCont market at 37 x ws 110 for Med-transatlatic runs. That being said, the UKCont market continues to be pressured, with prompt tonnage causing rates to come off slightly towards the back end of the week, so come Monday we could see south of last done levels ex Med. Fresh test was seen for a SAF run at $850K and, with outstanding enquiry almost non-existent, week 28 will see pressure continue to build on Owners.

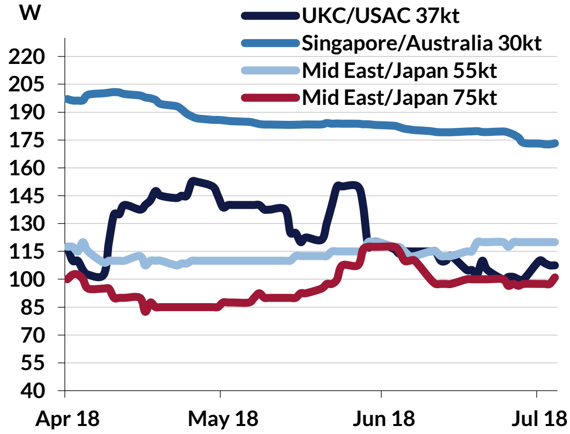
UK Continent

A rather disjointed week for MRs up in the north, as the majority of the tanker community set sail for Copenhagen, resulting in all momentum Owners had slowly gained, fizzle out and see rates eventually soften by the end of the week. With levels rising across the pond and ballast tonnage now be being tempted to head towards the Gulf, some Owners were able to claw some world scale points back, with 37 x ws 115 being fixed a few times ex Baltic and 37 x ws 110 for vanilla TC2 runs. Although, once lists were redrawn around the mid-week point, it did reveal a few more prompt positions, resulting in TC2 falling back down to 37 x ws 105. Looking ahead towards next week, Owners will be hoping and needing West African enquiry to improve, as the market continues to stutter being solely reliant on transatlantic business.

Same old story for Handies up on the Cont, as both parties this week have been singing from the same song sheet, with last done levels being continually repeated. Baltic volumes have been better this week, with 30 x ws 130 the benchmark; whereas X-UKCont has been quieter in comparison but rates trading ws 10 points lower at 30 x ws 120. Looking ahead, expect this sideways theme to continue.

The Flexi market continues to trade in its normal pattern, with spot action lacklustre and inconsistent. As a result, this market has become increasingly hard to accurately benchmark, as the players left have varying ideas of where the market is and what they would prefer to do with their ships. For the most part X-UKCont is still expected to achieve 22 x ws 160, although most of the action is being done either under COA or down in Southern Spain under lumpsum. Next week doesn't look to give any respite and, with one owner getting some ships back after COA commitment, more tonnage on the list will only exacerbate the situation.

Clean Product Tanker Spot Rates



Dirty Products

Handy

Markets in the North this week evolved into suffering from excess weight of tonnage, with levels correcting negatively. That said, approved tonnage had for the most part been able to hold its ground when fixing ex Baltic, with Charterers needing to book 10 days ahead to cover their positions.

In the Med levels continued to trade at bottom levels, where Charterers struggled to extract further value from a region, awash with excess capacity. Over supply and inactivity has seen a further ws 10 points wiped from X-Med values, with the Black Sea now trading with a very narrow differential.

MR

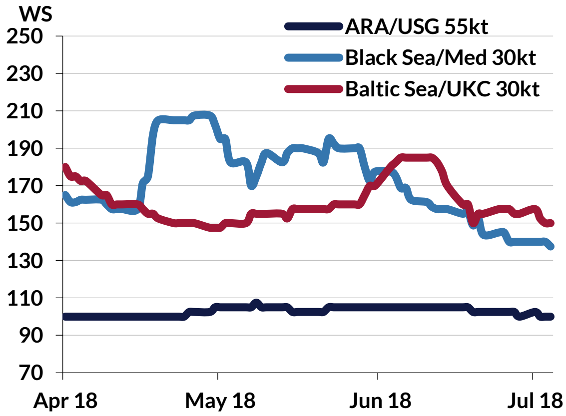
Probably one of the few success stories to report in any sector, as availability of MRs in the continent have again become something of a luxury, meaning Charterers are having to look further forward into the month to secure tonnage. Due to this reason, levels have seen a slight improvement on last done, although fundamentals do look resilient going forward.

The Med, however, cannot bask in similar glories. Suffering a similar fate to that of the surrounding Handy markets, Owners struggled to find adequate full sized stems. Confidence is distinctly lacking and only an upturn in enquiry can provide any green shoots of recovery.

Panamax

A similar story presents within the Panamax sector, as cohesion between interlinked zones fails to ignite in tandem. Charterers in Europe this week had to turn to US tonnage as demand picked up; however, with oversupply in the USGulf area, Charterers were able to keep a lid on Owner aspiration, with increment being capped at ws 102.5. Looking ahead, fixing date progression is likely to see further upturn, being limited for the time being, and the likelihood is that natural tonnage will again be fixing at below recent peaks.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	July 05th	June 28th	Last Month	FFA Q3
TD3C	VLCC	AG-China	**-2**	50	52	49	49
TD20	Suezmax	WAF-UKC	**+2**	72	70	65	67
TD7	Aframax	N.Sea-UKC	**+2**	110	108	99	97

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

			wk on wk change	July 05th	June 28th	Last Month	FFA Q3
TD3C	VLCC	AG-China	**-1,250**	11,250	12,500	9,750	10,500
TD20	Suezmax	WAF-UKC	**+750**	11,000	10,250	8,500	8,750
TD7	Aframax	N.Sea-UKC	**+1,250**	9,000	7,750	2,250	1,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	July 05th	June 28th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+5**	101	97	112	
TC2	MR - west	UKC-USAC	**+7**	108	101	115	121
TC5	LR1	AG-Japan	**+1**	120	120	115	125
TC7	MR - east	Singapore-EC Aus	**-3**	173	176	181	

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

			wk on wk change	July 05th	June 28th	Last Month	FFA Q3
TC1	LR2	AG-Japan	**+1,250**	6,500	5,250	9,750	
TC2	MR - west	UKC-USAC	**+1,000**	2,000	1,000	3,500	4,250
TC5	LR1	AG-Japan	**+250**	7,750	7,500	7,000	8,750
TC7	MR - east	Singapore-EC Aus	**-250**	8,750	9,000	10,500	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**+0**	443	443	432
ClearView Bunker Price (Fujairah 380 HSFO)	**-1**	465	466	461
ClearView Bunker Price (Singapore 380 HSFO)	**-4**	465	469	451
ClearView Bunker Price (Rotterdam LSMGO)	**+7**	648	641	638

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