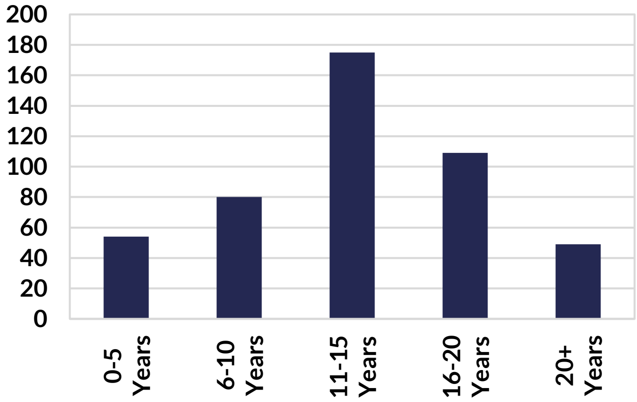
Handy Opportunity?

Weekly Tanker Market Report

This week has seen freight rates for both clean and dirty Handies in the Black Sea and Mediterranean surge to record levels, showing some of same extreme volatility that the VLCCs saw just a month ago, albeit not for the exact same reasons. Such supercharged rates have made this sector one of the best performing asset classes in recent weeks. But the Handy sector has interestingly been devoid of investment in recent years, with effectively no order book and an ageing fleet. Questions therefore need to be asked as to whether this is now a sector worthy of renewed investment?

Handy Fleet Age Profile



The Handy fleet is ageing. Whilst the fleet typically trades for longer than most other asset classes, with an average scrapping age of 26, the implementation of the ballast water management convention is likely to bring the scrapping age down. Furthermore, the pool of modern Handies under 15 years old is also set to shrink. The max 15 year fleet currently stands at 309 vessels, however, next year 33 vessels will move into the over 15 category, whilst only 3 newbuilds will enter the market, making the max 15 years fleet just 279 vessels. In fact, between 2020 and 2023 on average 35 Handies will move into the >15 age group per year. Charterers who have a max 15 year requirement will therefore face increasing difficulty securing suitable tonnage, whilst freight premiums for modern tonnage will surely rise.

Of course, the other side of the story is that of demand, with bearish expectations for demand being one of the reasons why investment has been lacking. Indeed, the dirty Handy sector was one of the few sectors where IMO2020 had the potential to negatively impact demand. When the implementation date for the convention was first set in stone, many in the industry expected gasoil to steal significant market share from fuel oil (one of the primary cargoes for Handy tonnage). Whilst this is true to a certain extent, expectations for compliant fuel oil demand have been consistently revised upwards, creating opportunities for Handies to play a key role in transporting compliant fuel oils to both major and regional bunkering hubs.

So, does this mean there is now a renewed case for investment in Handy tonnage? Perhaps, although caution is still required. Whilst the count of Handy fixtures in the dirty products sector have been in falling in recent years, the decline rate has slowed and fixture volumes this year could be on par with 2018 levels. However, notably for the clean Handy sector, spot fixture volumes for 2019 look down on 2018 levels, having risen consistently over the past few years. Another threat is how much market share the sector is losing to larger MRs in the 45-55,000 dwt range. This year however, MRs appear to have been less actively in terms of the number of part Handy cargoes carried, although they will remain a constant threat to the sector over the coming years.

From an investment perspective, a newbuild MR costs just $2m more and offers a much more diverse range of trading optionality, often making it a more attractive investment proposition compared to a more niche Handy. This goes some way to explaining why investment in the Handy sector has been so limited. However, with a shrinking modern fleet and a reasonable demand base, the case for investing in the Handy sector appears to be growing. If investment is not forthcoming, then those charterers who rely on modern Handysize tonnage to serve their business requirements, could find it increasingly difficult to secure suitable vessels in the future, unless they are able to reconfigure their programme around the larger MRs.

Crude Oil

Middle East

A steady, but only half paced, week for VLCCs which eventually proved insufficient to allow Owners to maintain recent highs. As dates slowly rolled onto better tonnaged positions competition increased and rates slid off to little better than ws 100 to the Far East and into the high ws 50's to the US Gulf, via Cape. The first half of the month is now effectively wrapped up and there's plenty left to do for the balance, however, for now, the trend looks progressive and unless Charterers re-concentrate their second half December activities, rates look set to continue to slide. Suezmaxes spent most of the week in higher rate territory upon solid attention and tighter early supply but by the week's end the market had turned slightly Southerly and an easier balance for Charterers allowed for rates to edge off to 140 to the East and to 62.5 to the West. Aframaxes slowed through the week - Owners broadly maintained last week's levels, however, but then allowed a little slippage to 80,000 by ws 175 to Singapore, and may ease off further over the near term.

West Africa

A strange week for Suezmax players - effectively a rate freeze frame of last week's end point - down to 130,000 by ws 120 to Europe and a little under that to the States but at least from an Owner's point of view that sealed market bottom markers and there is an expectation/hope of a busier week to come, and consequent upward potential...let's see. VLCCs ticked over as Charterers eyed leading AGulf developments. Eventually the die was cast - to the downside - and fixtures were then concluded into the low ws 100's to the Far East onto early January positions. Bottom has yet to be found.

Mediterranean

Aframax sentiment, and activity, undulated through the week with rates operating within a range never far away from recent peaks. 80,000 by ws 215 X-Med now, and a firm feel into the close too. Suezmaxes showed little variance over the period with average rates from the Black Sea to European destinations at around 140,000 by ws 140 with runs to China marked at just under $6 million. Owners need a bit more to remain secure over the near term, but as in WAFR, there is an anticipation of increased activity within short.

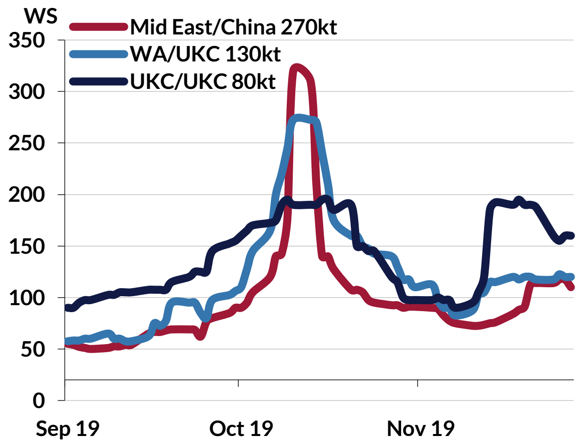
US Gulf/Latin America

Aframaxes enjoyed a holiday shortened week and the run up to the break proved busy enough to allow rates to drive to 70,000 by ws 190 upcoast before the market downed tools. There will be a necessary re-stocking of positions over the period, but equally, pent up demand should also appear early next week to keep rates firm – initially, at least. VLCCs had already firmed to $11 million - to thereabouts - from the USGulf to Singapore with interest pushing quite deeply into January. Charterers then held back somewhat to see if the other load zones weakened sufficiently to ease rate demands from ballasters.

North Sea

A slightly disappointing week for slow paced Aframaxes and rates fell off to 80,000 by ws 160 X-UKCont,100,000 by ws 130 ex Baltic, accordingly. A more active week to come in all likelihood and if other load zones hold up, a rate boost here could easily result - eventually. VLCCs saw very little fresh interest but in theory, rates hold at around $11 million for crude oil to South Korea upon tight supply and ballasting alternatives still 'in play'.

Crude Tanker Spot Rates



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

Clean Products

East

What looked like it was going to be a promising week for the MRs never really materialised. The number of prompt ships lingered and, even though there was a decent amount of open stems, the activity levels were never enough to stop the negative downturn that occurred. EAFR came off to 35 x ws180 and TC12 took a drop to 35 x ws165 for veg ship, so assess it around the ws170 level is where it should settle. Runs into the Red Sea are at the $625k levels and X-AG at around $250k but expect these will get a fresh test early next week, as we could see a further softening as we enter week 48.

Finally to the MRs, where Owners have been able to benefit from the improved Handy market to bolster fixing ideas. This partnered well with limited number of vessels and reasonable enquiry. Owners have been able to dip their toes into the 30kt sector for employment as X-Med rates pushed up to 30 x ws 350. A run to WAF gave MR Owners an excuse to push for more relative to the Continent market. A fresh test to the AG sits at $1.25m and despite the predicted slow end to the week due to Thanksgiving, Owners will still feel positive that rates will be able to hold compared to the potential shaky UKC market.

Mediterranean

Owners have been able to capitalise on the most positive period of the year so far, with rates firming for the majority of Week 48. Heights of 30 x ws 360 ex Israel have been seen this week, which was a combination of healthy enquiry ex East Med and a thinning list; however, for much of the week 30 x ws 340 has been the standard rate for a vanilla X-Med. At the time of writing, the build-up of West Med tonnage has pressured rates in the area, with the market certainly softer in comparison to East Med / BSea. An influx of BSea stems towards the end of the week will help to maintain rates from the East Med region, with a split in rates likely dependent on load area. It wouldn't be surprising to see less than last done ex West, given the fixing window. However, expect Owners to attempt to keep rates closer to the 335-340 mark for an East Med lifting. Expect the weekend to slow the momentum down and for Charterers to come in Monday morning with new fixing ideas, given the stretched fixing window and more available tonnage.

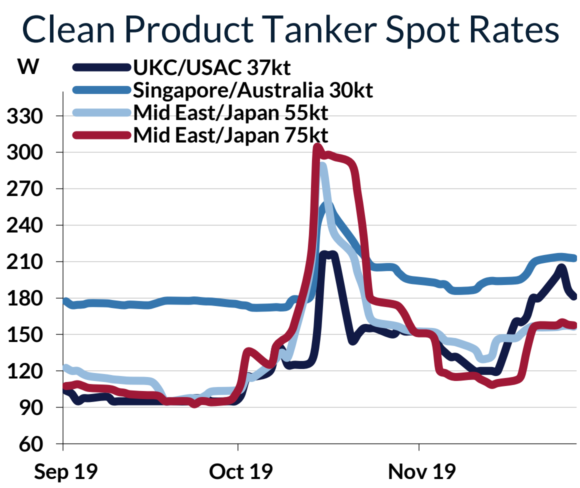
UK Continent

We end the week on MRs with 2 consecutively quiet days and holidays across the pond interrupting proceedings. We also end the week a little softer than it began, with TC2 down to 37 x ws 175-180 levels. Aside from the holidays, the other big influence this week has been the lack of enquiry down to WAF. The major driving factor for the past couple of weeks has suddenly switched attention back to the LRs, as rising freight rates priced out the MRs. We will see these negatives reflected in the position lists next week as they recover from their recent tightness. We expect at least the early part of the week could see some further softening. A returning USG market may offer some relief, but without the WAF barrels we will potentially be short on volume.

As a whole, it has been a positive week for Handy Owners up in the North as the combination of good enquiry and a tightening tonnage list has enabled Owners to push on freight. Baltic liftings have now covered as far out as the 9th and with it rates have now settled at the 30 x ws 205. A few prompt cargoes from the Continent were greeted by bullish Owners, which actually saw 30 x ws

210 being paid a couple of times as spot tonnage was very scarce. For more natural fixing dates (3-5 X-UKC) next done levels are expected to land around the 30 x ws 195 mark. Owners will be hoping that come Monday Charterers will begin to quote their 2nd decade Baltic cargoes via handysize in order to maintain their momentum they have gained.

Flexis jump on the coat tails of the Handies once again and, with positivity seen across the board on the 30kt size, rates have been able to remain positive despite the slower activity. With this in mind, we anticipate around 22 x ws 255-260 to be the fixing rate for fresh enquiry. Yet, with many Owners clearing out of tonnage, Charterers could find themselves getting a little stuck, with opportunity to push opening up.



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Dirty Products

Handy

The North this week has been sluggish at best with enquiry being drip fed to the market and Owners experiencing a mix of fixing and failing. With this in mind, levels have stalled with ws 292.5 level X-Cont being repeated with similar levels being held by Owners to get to the Med. Going forward the region requires an injection of cargo volume to adjust to the current steady sentiment. However, with limited tonnage being marketed, come Monday expect Owners to be looking to push on from last done.

In the Med, the market has continued to strengthen as cargo continued to flow from the BSea and across the Med region. With limited firm tonnage in play Owners continued to gain ground. The time of writing, BSea is trading upwards of 10-15 points from where the week started. Therefore, dates have moved forward due in part, to delays and as such those with firm itineraries have been hot property - mostly on an off market basis. Come next week, all eyes will be on the fresh tonnage lists that will be published, but we expect much of the same.

MR

In contrast to the surrounding freight markets, the MRs have been left to wallow alone without any reported MR cargoes in the North and a lack of market activity.

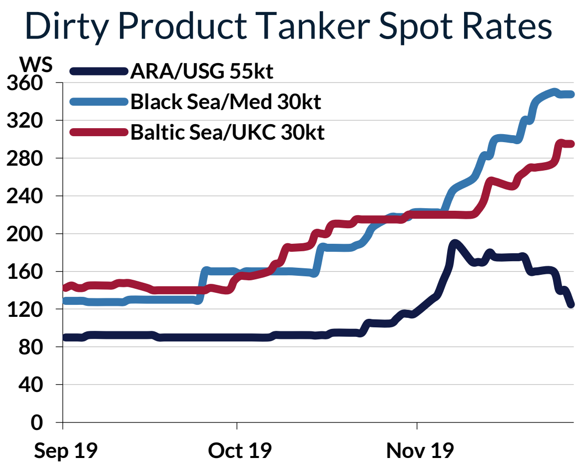
We look back to last done at sub ws 200 levels for X-UKC however this needs a test with expectations that the next full stem will face a good jump in rates. Some Owners have been tempted to accept Handy stems to get ships moving and we finish the week with rumours of the next position up on subs for 30kt.

The fixing window remains unchanged with tonnage showing in the first decade of December, with P-max tonnage sitting on the side lines if required.

On the other hand MRs in the MED have had a very active week behind closed doors. Two units were taken out for another month working BSea/Med from the same Owner extending a current program with their Charterers. Two other units have been placed on own program lifting them from the tonnage pool and the other prompt unit, after waiting it out for an MR stem, has folded and accepted a Handy stem capitalising on the inflating rates the surrounding markets.

Panamax

This week was always going to be a little disjointed due to Thanksgiving. Predictably there was the usual upsurge in enquiry from the Caribs markets early this week. This was driven from the larger Aframax market tightening which started to break down into smaller stems. This was enough for Owners with early tonnage to gain confidence in the region with rates being fixed towards the ws 150 level. This side of the pond has not seen the same pace of enquiry as the US markets. However, the last done level of ws 135 looks to be tested in the next round of fixing. With limited potential ballasters looking to secure employment from close to our shores and natural tonnage thinning, expect some volatile trading to come.



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GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Nov 28th	Nov 21st	Last Month	FFA Q4
TD3C	VLCC	AG-China	**+0**	109	109	90	108
TD20	Suezmax	WAF-UKC	**-2**	120	122	115	133
TD7	Aframax	N.Sea-UKC	**-31**	161	192	99	158

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

			wk on wk change	Nov 28th	Nov 21st	Last Month	FFA Q4
TD3C	VLCC	AG-China	**-750**	94,750	95,500	71,750	108
TD20	Suezmax	WAF-UKC	**-1,750**	45,750	47,500	43,250	133
TD7	Aframax	N.Sea-UKC	**-23,000**	59,500	82,500	17,250	158

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Nov 28th	Nov 21st	Last Month	FFA Q4
TC1	LR2	AG-Japan	**+3**	158	155	157	
TC2	MR - west	UKC-USAC	**+4**	182	178	157	183
TC5	LR1	AG-Japan	**-0**	156	157	153	157
TC7	MR - east	Singapore-EC Aus	**+4**	213	208	195	215

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

			wk on wk change	Nov 28th	Nov 21st	Last Month	FFA Q4
TC1	LR2	AG-Japan	**-11,500**	25,500	37,000	35,500	
TC2	MR - west	UKC-USAC	**+250**	22,000	21,750	17,500	22,500
TC5	LR1	AG-Japan	**-250**	26,500	26,750	24,250	26,750
TC7	MR - east	Singapore-EC Aus	**+250**	23,250	23,000	19,250	23,750

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

ClearView Bunker Price (Rotterdam HSFO 380)	**+9**	251	243	254
ClearView Bunker Price (Fujairah 380 HSFO)	**+11**	253	242	301
ClearView Bunker Price (Singapore 380 HSFO)	**+18**	328	310	380
ClearView Bunker Price (Rotterdam LSMGO)	**+20**	567	548	551

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