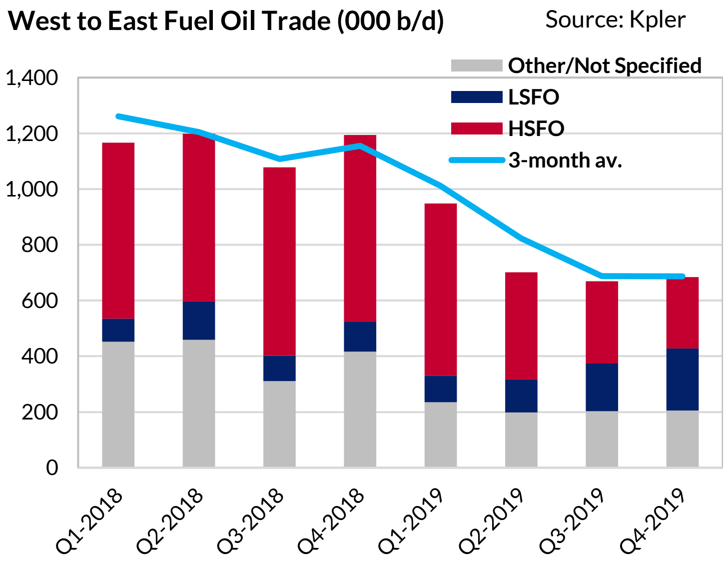
Fuel Flows

Weekly Tanker Market Report

2020 was always going to create a more complex fuel oil market as trade flows shifted and new grades emerged. The first and most obvious impact was a collapse in the volumes of high sulphur fuel oil (HSFO) flowing from West to East – a trend which emerged from the second quarter of 2019. Trade in low sulphur fuel oil (LSFO) then gradually began to rise from Q2 2019 as traders/suppliers sought to gradually build stocks ahead of 2020. However, total volumes (irrespective of sulphur content) have not recovered to the levels seen in 2018, with lower arbitrage flows impacting on long haul tanker movements.

In 2018, 1.17 million b/d of fuel oil was shipped from West to East. In 2019, this dropped to average 760,000 b/d, (down by 410,000 b/d YOY). So, where has this fuel gone if it hasn't headed East, and how are fuel oil flows expected to evolve in the future?

The US increased imports of HSFO and vacuum gasoil (VGO) towards the end of 2019 and is expected to remain an outlet for these grades for the foreseeable future, providing pricing is favorable. Seasonal fluctuations will of course play a role. Eastbound HSFO trade is expected to pick up in the summer when Middle East energy demand peaks. Given OPEC+ cuts, Saudi Arabia and other Middle East producers will likely burn more fuel oil in order to minimize crude direct burn (which has declined in recent years anyway).



China had been expected to add to VLSFO supplies, having introduced a tax rebate in January. However, given the coronavirus outbreak, higher Chinese supplies might take time to emerge, supporting Asian import demand. Although, this may be countered by lower bunkering demand if global trade is particularly hard hit.

The startup of two 35,000 b/d very low sulphur fuel oil (VLSFO) producing units in the first half of 2020, (one in Malaysia and one in Korea) will add to regional VLSFO supply later in this year, which when combined with expected higher output from China, may limit the need to increase LSFO imports into Asia. The eventual startup of Aramco's Jazan refinery is also expected to add to Middle East fuel oil availability, potentially reducing Saudi Arabia's import requirements.

It is also unclear at this stage how much HSFO has been eradicated from the system through refinery upgrades or changing crude slates. Given that large scale floating storage has not yet emerged, it appears the global system has been able to absorb much of the surplus. Looking at inventories in the major bunkering hubs, except for Fujairah, fuel oil/residue stocks (irrespective of sulphur content) are within historical ranges.

Demand for marine gasoil (MGO) as a bunker fuel (at the expense of VLSFO) remains uncertain. Initially, MGO was expected to be the preferred bunker fuel of choice until VLSFO supply and quality concerns were overcome. However, VLSFO stole an early march on MGO. Now, reports are emerging from Northern Europe that bunker sales have been shifting in favour of MGO in recent weeks. The expectation remains that VLSFO will become the dominant fuel, although only time will tell. The markets will continue to adjust over the coming months, after which it will become clearer which trends are long term vs. short term adjustments.

Crude Oil

Middle East

Another testing week for unbalanced VLCCs to endure. Rates remained stuck in the very low ws 40's East and theoretically mid ws 20's West via Cape but scrubber fitted units were willing into the mid ws 30's East, which would translate into loss making returns for non-fitted units. With Chinese demand waivering and availability still weighty, Owners truly have nowhere to go...delays and disruptions developing in the Far Eastern hubs are the only realistic hope. Suezmaxes drifted sideways, and then downwards upon insipid demand and easy supply. 130,000mt by ws 75 East and to ws 35 West now, with little expectation of any near term snap back. Aframaxes wrestled free from their muddy 80,000mt by ws 100 AGulf/Singapore bottom but so far by only a few ws points, the groundwork has now been done for something a bit better next week though.

West Africa

Suezmaxes undulated gently through the week but by the close any fleeting thoughts of improvement had been dispelled as the market retreated to 130,000mt by ws 77.5 to Europe and ws 72.5 to the USGulf, with a pressured re-start next week likely. VLCCs had a reasonably active start to secure a mid ws 40 footing to the Far East, with $3.8 million paid to East Coast India - very poor, but at least holding a small premium over prevailing AGulf numbers. By the week's end, however, it became very slow, and discounts threaten.

Mediterranean

Aframaxes pushed back a little upon improved interest and an exodus of tonnage to the brighter USGulf market, but the push back failed to convert into a chase and rates only gently inflated to 80,000mt by ws 92.5 X-Med and to ws 105 from the Black Sea. Libyan barrels are mooted to be close to flowing once again though, and sentiment will be reinforced accordingly. Suezmaxes also badly need those Libyan barrels - slow and increasingly overtonnaged. Rates, for now, have managed to remain steady at 140,000mt by ws 87.5 from the Black Sea to European destinations, and to $4.2 million for runs to China, but that may prove the top of the range early next week.

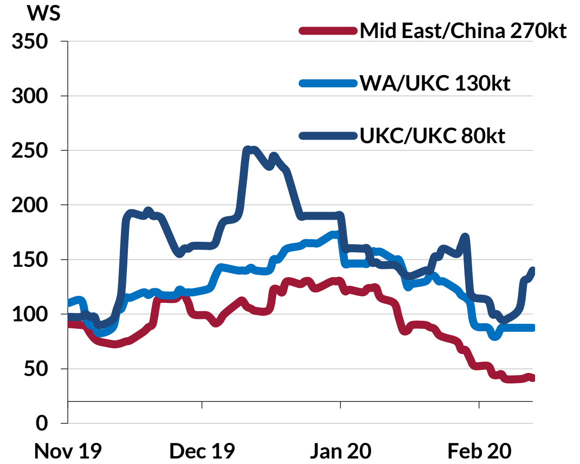
US Gulf/Latin America

Aframaxes had already fought back, and this week were further aided by a run of bad weather that caused sufficient disruption to force rates up to around ws 190 upcoast and to ws 170 transatlantic, despite the wave of refugees from European waters. Things will remain similarly healthy whilst the fog and offshore winds continue to impede. VLCCs continued on their merry-go-round of fixing/failing/re-fixing etc., which provided plenty of talking points but had a net zero effect on rates. $5.5 million from the USGulf to Singapore is the set 'top' rate, with $2.8 million seen for a run to the continent.

North Sea

A robust start for Aframaxes to drive rates into the ws 130’s for 80,000mt X-UKCont, and to 100,000mt by ws 120 from the Baltic, but the market then began to lose it's fizz and although there was no big counter moves, rates could only then plateau with a tendency to the downside by the week's end. VLCCs drew a blank so that rate estimates are...rate estimates - around $6 million for crude oil to South Korea/China should be about right.

Crude Tanker Spot Rates



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

Clean Products

East

Further high ground was made as Owners in the Red Sea and AGulf take advantage of the tightening tonnage picture. Whilst the list continues to tighten and fresh cargoes continue to be pushed out (both prompt and natural fixing window), this market's peak is not yet in sight. EAF is on Subs at 35 x ws 155; however, Owners' ideas have been up to ws 180 and this is likely to be tested next week. X-AGulf off prompt dates could still achieve the $200k levels but looking to the further forward window, $225k could be on the cards. UKCont needs a fresh test but, as the larger ships' sentiment improves, $1.3 million levels are being talked. Given the busy last few days, it comes as no surprise to see a slightly quieter end to the week as Charterers shut the doors and look to roll the dice again on Monday.

Markets have gradually stepped into action and volumes have much improved. Rates have started to come up and will see more improvements into next week. 75,000mt naphtha AGulf/Japan is last done at ws 82.5 but nothing much below ws 100 is now there. 90,000mt jet AGulf/UKCont is up to $1.975 million for a decent cubic vessel but again the next vessel will want $2.2 million. LR1s have seen a moderate improvement but, with a number of cargoes outstanding, Owners are getting more demanding. 55,000mt naphtha AGulf/Japan is now ws 92.5 but will surely rise over ws 100 shortly. 65,000mt jet AGulf/UKCont is likely to move first, with Owners now pushing for $100k more than last at $1.65 million. Next week is likely to start with a few more stems and rates are highly likely to see some pressure.

Mediterranean

The driving force this week has certainly been the activity in the E-Med/Black Sea region, with an influx of cargoes seen on Tuesday, which allowed Owners to capitalise on a relatively tight front end. A ws 25 point jump has been seen throughout the week on rates for both X-Med and Black Sea. With a healthy cargo list still left to cover on Friday, Owners remain positive and will come in Monday morning with their ideas still high. 30 x ws 200 is where ideas lie for an E-Med load currently. Further West, where cargo enquiry is slower, expect a discount to be seen. Laycans are now stretching to mid second decade for X-Med cargoes. With Black Sea stems likely to be slightly further ahead of the curve, tonnage lists pulled on Monday are likely to reveal a rather substantial fixing window tonnage list, which should slow momentum. Heading into week 8, Owners will be looking to continue the momentum they've built this week. It remains to be seen how long it can last, with tonnage likely to build.

Finally to the MRs, where in all honesty we've seen very little movement in rates, as transatlantic runs wobble between 37 x ws 150 and 152.5… Despite tonnage being relatively tight, we suffer a lack of enquiry and Charterers ended up not being in a difficult position and last done being repeated. Come the end of the week, the UKCont sector has some life pumped into it, as a few more WAF stems appear pushing up to 37 x ws 185 there. TC2 followed suit, with ws 165 now the last done. Owners anticipate this positivity will filter down to the Mediterranean. Pushing into next week, expect a bullish approach to the wave of next stems to hit our shores.

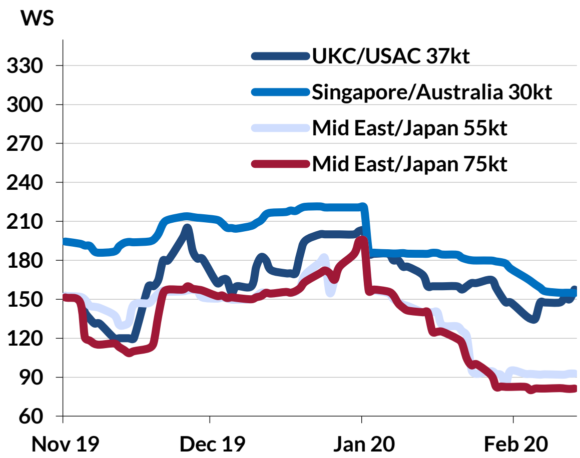
UK Continent

A slightly strange week that has culminated in rates improving despite it never actually being that busy at any point. Demand remains an issue, with the TC2 arb still closed to all but system barrels, although we have seen some improved interest in WAF. The position list has lacked tonnage at the front end for the past two weeks and that has now paid some dividends, with WAF up to 37 x ws 185 and TC2 has shot up to 37 x ws 165. Not bad given the relative quietness for the Owners. With another storm primed to hit the region this weekend, we could see some further upside early next week. Despite the obvious improvements we have seen this week, it is still hard to predict the longer term market, as factors outside our control continue to create high levels of uncertainty across the globe.

A week to remember for Handies up in the North, as heavy storms have seen a healthy amount of delays occur. This resulted in many looking for replacements, which in turn has added some real spice into the market. With most Owners looking to reshuffle late runners in order to satisfy COA requirements ex Baltic, there has been a real short for tonnage for certain dates. Rates have now firmed to 30 x ws 220 for Baltic/UKCont. Even though X-UKCont remains untested, a big correction is expected here with 30 x ws 205-210 next to be done. There has also been good demand seen down to the Med, with levels now trading at 30 x ws 190. Owners remain bullish as we move into week 8.

As week 7 comes to a close, there has been little to discuss in terms of fixtures, with many being kept out of the public domain. However, after a positive week in the Handy market, which has seen rates firm throughout, Flexi Owners will be in high spirits. Rates will therefore fall in line, with the Handies at around 22 x ws 275-280 mark X-UKCont.

Clean Product Tanker Spot Rates



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Dirty Products

Handy

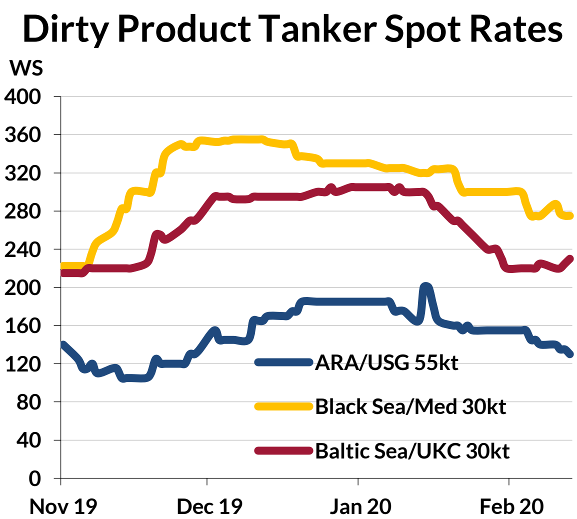
The Handies Med/Black Sea market has seen a steep decline in fixing levels from where it opened on Monday, when 30 x ws 275 was confirmed on a number of voyages, leading to speculation that the sector was starting to tighten marginally. The middle of the week failed to meet these expectations and we look now to close out the week, with trading values for X-Med equivalent to 30 x ws 235, which is a market quote today for a X-Italy move (less the usual ws 10 point premium for cabotage business). The question is has this dropped the bottom out of this market or is this just a one off? What is certain is that come next week early trading will be volatile so expect turbulence, buckle up….

MR

As a result of the wider market sentiment, the MRs have seen little or no enquiry in the Med/Black Sea over this week. Tonnage has started to build and rates are under pressure from Charterers. At the time of writing, we see MRs willing Handy stems at new lows in North, Med & Black Sea or for voyages out of the region. A plethora of vessels now stack up, open before the month end. Unless something leads to drastic increases in enquiries, we expect this downturn to continue. In the North we have had very little action at this size. The only notable movement was a CPP vessel substituting another at Owners' options and as a result we saw the original vessel prompt in the market. However, within hours taken out what was on offer but only being a Handy stem. This now leaves a new DPP MR with Med orders to join the armada building in the Med.

Panamax

The Panamaxes have felt like Groundhog Day, playing a broken record of last week. Tonnage remains open naturally this side of the pond; however, not all units are able to pass all vetting requirements resulting in little fresh enquiry. However, selected tonnage has managed to find employment by taking what has been on offer, which has mainly been short haul stems. So far Owners are not seemingly willing to compete on a $/mt with larger sizes. As a result, we have not seen much enquiry for transatlantic runs here. There is a caveat to this as the larger tonnage Aframax sector is looking poised to gain momentum next week. In turn this trading gap is going to narrow.



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GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 13th	Feb 6th	Last Month*	FFA Feb/Mar
TD3C	VLCC	AG-China	**+0**	42	42	125	43
TD20	Suezmax	WAF-UKC	**-0**	88	88	131	82
TD7	Aframax	N.Sea-UKC	**+37**	132	96	135	122

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

			wk on wk change	Feb 13th	Feb 6th	Last Month*	FFA Feb/Mar
TD3C	VLCC	AG-China	**+1,750**	17,750	16,000	63,750	19,250
TD20	Suezmax	WAF-UKC	**+250**	28,750	28,500	52,250	47,500
TD7	Aframax	N.Sea-UKC	**+26,750**	40,500	13,750	39,750	32,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 13th	Feb 6th	Last Month*	FFA Feb/Mar
TC1	LR2	AG-Japan	**+0**	81	81	121	
TC2	MR - west	UKC-USAC	**+3**	153	150	177	160
TC5	LR1	AG-Japan	**+1**	93	92	139	103
TC7	MR - east	Singapore-EC Aus	**-4**	155	159	186	168

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

			wk on wk change	Feb 13th	Feb 6th	Last Month*	FFA Feb/Mar
TC1	LR2	AG-Japan	**+1,000**	9,000	8,000	18,000	
TC2	MR - west	UKC-USAC	**+750**	16,500	15,750	14,500	17,750
TC5	LR1	AG-Japan	**+1,000**	8,500	7,500	16,250	11,250
TC7	MR - east	Singapore-EC Aus	**-250**	13,250	13,500	15,000	15,500

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

ClearView Bunker Price (Rotterdam VLSFO)	**-10**	461	471	551
ClearView Bunker Price (Fujairah VLSFO)	**-20**	503	523	685
ClearView Bunker Price (Singapore VLSFO)	**-25**	511	536	664
ClearView Bunker Price (Rotterdam LSMGO)	**-2**	489	491	558

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