

Companies Count Cost of CAPEX Cuts

Weekly Tanker Market Report

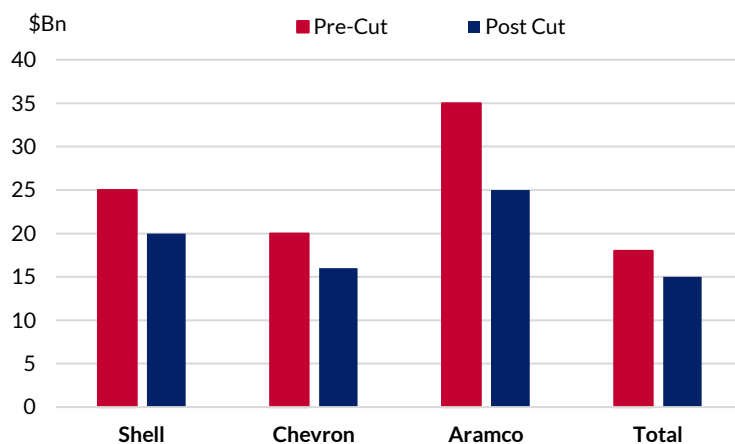
Crude oil prices have been hit by a toxic cocktail of a global slump in demand due to an increasing number of countries implementing stringent restrictions on the movement of people as the Covid-19 virus has spread globally. This has been compounded by the rapid rise in crude flooding the market from Saudi Arabia and other Middle East producers as they try to increase market share after the OPEC+ talks broke down in March.

The sudden drop in Brent oil prices from \$68/bbl to \$22/bbl forced many companies to reassess their spending plans, as this was seen as more than just a dip in prices, but potentially a longer-term downward movement until OPEC+ come to some agreement on future production levels that would provide a more sustainable price environment.

This also comes at a time when oil companies have become over exposed with debt. Chevron, Total, BP,

Exxon Mobile and Royal Dutch Shell reported a debt load of \$231 billion in 2019, just shy of the \$235 billion hit in 2016 when oil prices also tumbled below \$30 a barrel. With Brent currently at \$28/bbl, the big oil companies have started to make contingency plans.

Oil Major's 2020 CAPEX Cuts



Shell was one of the first companies to announce that it would cut CAPEX by \$5 billion to \$20 billion during 2020. This was followed by Chevron, with a \$4 billion cut in its expenditure, to \$16 billion. Exxon Mobil will cut \$3 billion from its spending, to \$30 billion. Total will cut \$3 billion from its

spending. The drop in oil prices has not just impacted the IOCs. Saudi Aramco has recently announced a CAPEX cut of \$5 billion, with a new 2020 spending target between \$25-\$30 billion. Other companies such as BP, ENI, Equinor, Kosmo Energy and Santos are all reviewing their spending budgets for the year ahead and further into the future.

The falling oil price has also impacting the smaller shale producers in the US, which is an industry that is super sensitive to prevailing global oil prices. In the US, Whiting Petroleum Corp has recently filed for bankruptcy, while Devon Energy Corp. is reducing its expenditure by 45% compared to their original 2020 budget.

With at least \$20 billion trimmed from the CAPEX budget from the largest oil companies, the implications of these decisions may not be felt immediately. The oil industry is a capital intensive sector that has had to pay high dividends to attract investors. This means that big oil is in a 'Catch 22' situation, whereby to invest in more exploration, production and refining, they require more capital but to attract the capital they will need to guarantee positive dividends. The only way they have been able to do both is to build up large amounts of debt. It now seems that this business model is under increased pressure as investors seek real change within the sector.

From a tanker perspective, the past two months have been a testing period, from low and steady to rocketing rates in a matter of weeks. Currently, the impact of both the Coronavirus and the massive ramp-up in Saudi crude exports has been such a shock to the underlying global economic model that these alone will be discussed and analysed for years to come. But once all this has blown over, the very real and more long-term implications of the oil companies' reduced CAPEX budgets will have consequences on the tanker market in the coming years.

Crude Oil

Middle East

VLCCs quickly built upon last week's higher platform and, with the added aid of storage/T-C enquiry, spiked rates back to over ws 200 to the Far East and to around ws 140 to the West via Cape. TCEs of \$250k pd plus were the equivalent and all looked set to continue until news came through that an emergency Opec meeting was to be held, with the intention of 'rebalancing' the oil market - big cuts in other words. For now, traders are betting on some degree of resolution, but it remains far from a certainty and in the meantime Charterers tread cautiously and Owners are willing to listen to discounted ideas. Suezmaxes likewise pulled up initially with split VLCC interest aiding, but then also fell back to their start point at ws 175 to the East and to ws 120 West. Again, the meeting on Monday will the new agenda - for good, or bad. Aframaxs moved into a higher gear than of late and rode rates up to around 80,000mt by ws 190 to Singapore. Still firm, but not firming anymore, and it may prove hard to hold the gain fully into next week.

West Africa

The recent uncertain oil market news washed through this sector too of course. Suezmaxes had been ramping towards ws 200 to Europe but then slipped steadily backwards as Charterers became ever more hesitant and rates end the week at close to 130,000mt by ws 160 to Europe and ws 155 to the USGulf - still very healthy levels but wobbly nonetheless.

VLCCs also matched close to AGulf highs to peak at ws 197.5 to the Far East before going very quiet as Charterers held back to reassess on developments.

Mediterranean

It didn't really happen for Aframaxs this week here. Mediocre action and plenty of mouths to feed, led to rates drifting off to 80,000mt by ws 157.5 X-Med and to ws 177.5 from the Black Sea, with perhaps further drift before stabilising. Suezmaxes were propped up somewhat by continuing delays in Euro ports rather than upon any particular cargo push, although current rate levels of 140,000mt by ws 167.5 from the Black Sea to Europe, and to \$6.5 million to China still look quite nice on the mantelpiece.

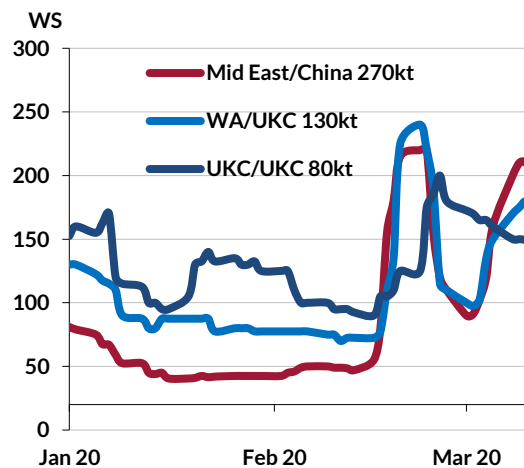
US Gulf/Latin America

Aframaxs thought they had Charterers on the run but never really reached critical mass and upcoast levels remained boxed at 70,000mt by ws 140/145 upcoast and to ws 150 transatlantic. Without a significant cargo boost, or heavy port disruption, this sector quickly flattens. VLCCs moved into super high \$20 million plus territory from the USGulf to China, equating to over 50 percent of the barrel cost - Charterers will only pay that if the absolutely have to and a wave of units coming from the AGulf from mid May will probably allow for some degree of recalibration once those dates become the norm.

North Sea

Aframaxes in the end failed to push above last week's marks. There was some interim excitement but by the week's end traders were backing away and rates were left at little better than 80,000mt by ws 155 X-UKCont, and 100,000mt by ws 120 from the Baltic. Steady but, with a slight air of uncertainty for now then. VLCCs had plenty of interest, but little of the solid variety as Owners' rate ideas remained a few million US Dollars in excess of Charterers' needs. \$12 million to the Far East probably works but for now Owners are closer to \$15 million - or more...to be continued.

Crude Tanker Spot Rates



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

Clean Products

East

An incredible week for the MRs as the list continues to be the tightest it has been for months and the flow of cargo continues to be strong. As for rates, the lack of certain or even remotely stable itineraries across India/Africa and the AGulf means any boat on the water is demanding (and achieving) a solid premium as Charterers continue to feel the heat of a heavily supplied market. With the bigger sizes continuing to push, the MRs continue to offer considerable value, especially on the longer haul stems, with UKCont currently trading at the \$2.0+ million levels. However, short voyages have positively corrected as lack of firm tonnage allows Owners to push, X-AGulf stems commanding \$400k levels gives Owners pretty good returns for a 1 day voyage. Cargoes into EAF on subs at ws 230, however, Owners ideas are somewhat higher than this currently!

Nevertheless, the CPP bubble will burst. When this will happen is unknown, but for the moment Owners are using every second they can to capitalise on inflated rates and returns that will more than counter the inevitable lull that will follow this period of global epidemic crisis.

LRs have had a big week, with rates pushing easily over last done, already high levels. LR2s in particular have broken new ground, with 75,000mt naphtha AGulf/Japan moving sharply to ws 205 and then ws 215. 90,000mt jet AGulf/UKCont also went through the \$4.0 million mark swiftly having hovered temptingly just below for a week. It has reached \$4.575 million but should settle now.

LR1s have seen improvements too although not to quite the same degree. 55,000mt naphtha AGulf/Japan is now ws 205 and steady at that level. 65,000mt jet

AGulf/UKCont is up to \$2.90 million and could see more if later April stems keep moving, especially now the LR2 rises have made the LR1s better value. Whilst the refineries pump out the product the rates will stay firm on all sizes - the start of storage will only enhance this and leave lists shorter. But at some stage when everything is full we must see the taps turn off somewhat and then the falls will be swift.

Mediterranean

Week 14 has been an up and down one for Handy Owners in the Med, with market sentiment becoming progressively more negative as we near the weekend. We began the week on a positive note, with the front end of the list tight and plenty of prompt cargoes needing cover. Rates started at the 30 x ws 220 mark, with this number being put on subs multiple times. However, slower enquiry ex W-Med has created a split market with 30 x ws 210 ex W-Med and 30 x ws 215 ex E-Med the current fixing levels. In terms of the Black Sea, cargo enquiry has been strong all week meaning that rates have held at 30 x ws 240 throughout, but with sentiment in the Med negative and ws 10 points less achieved on a WAF run, Black Sea/Med levels will likely come under pressure, with most pegging it around the ws 230-235 mark on Friday. With the fixing window now stretched up until the second decade, Charterers will be looking to push for less next week with more options open to them.

Finally, we get to the MRs plying their trade in the Mediterranean whereas usual this sector has ridden on the coattails of the busier UKCont market, with a sporadic dusting of enquiry throughout the week. Owners managed to hold onto last done fixing levels for most of the week, but by the halfway point, enquiry heading East slowed and pressure began to build. Come Friday, we are

Starting at a market around ws 170 for transatlantic and ws 185 for WAF, with the latter seeing little interest throughout, which has been a real kicker for Owners as this East market has slowed.

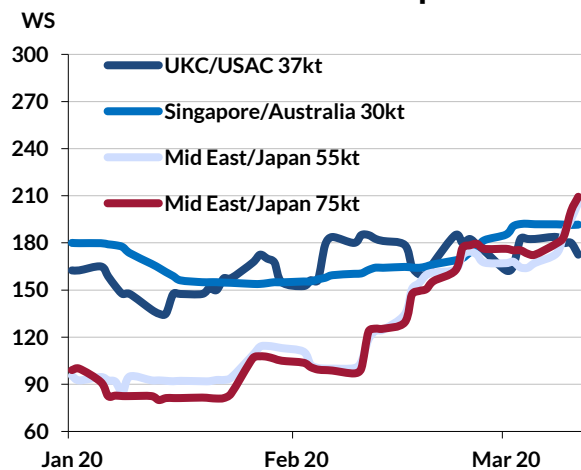
UK Continent

A steady first half of the week for the MRs saw stable rates and good liquidity in terms of fresh cargoes. Naphtha going East was the driving force supporting a busy TC2 market and going some way to alleviate a quiet WAF market. There were also numerous storage enquiries as land-based storage started to reach tank tops. However, some of this positivity has been hampered in the 2nd half of the week as activity slowed, ships started to fail on the Naphtha runs and Owners became jittery. TC2 dropped off to end the week at 37 x ws 170 levels and a largely untested WAF market sits around the 37 x ws 185 mark. With demand for products, especially in the West almost non-existent, more softening could well be on the cards next week.

A very uninspiring week for Handies plying their trade in the North as a real lack of volumes both from the Baltic and Continent has forced tonnage to build heavily and rates to soften. With bigger units being preferred ex Baltic over the last few weeks and effectively gobbling up numerous Handy cargoes, demand for 30kt clips was always going to be slow and there have only been a few fleets who have managed to keep their units ticking thanks to contracts in place. Owners have some work to do early next week to try and shift the healthy amount of prompt-ish tonnage, which has built up, but charterers are firmly in the driving seat for now. It's been a quiet week in the Flexi

market, with little activity to report in the way of fixtures and slow levels of enquiry throughout. As a result, rates have been drawn from the UKCont Handy market, which has been under pressure all week, with rates expected to soften when next tested. Today's call for a X-UKCont voyage is around the 22 x ws 210 mark.

Clean Product Tanker Spot Rates



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

Dirty Products

Handy

The North West Europe region kicked off this week with a fairly strong feeling and fresh activity early in the week kicked off proceedings. This rapidly gave Owners enough ammunition to gain ground and as a result, marked a ws 10 point gain by close of play Tuesday evening. As tonnage steadily cleared, Owners continued to take the high ground and even as the volume of enquiry slowed, firm tonnage remained in short supply. Closing the week out, the Baltic – UKCont is trading at ws 175 but ws 180 is on the horizon shortly. Looking ahead into next week, Owners will limit showing a great deal of tonnage so expect the firm sentiment to stay.

In the Med, Monday's opening presented us all with a tonnage list we have not seen for a while as prompt tonnage took the headlines and with multiple units set to open within the week, the outlook was bleak. Even with cargo volume looking healthy, it simply has not been enough to close the gap and as from Tuesday enquiry slowed right down. With that said, the negative correction didn't see fixing levels plunge as we report a drop of ws 15 points from the start of the week. We close the week with prompt units and, with the thought of more adding to this over the weekend. Early trading next week is likely to be volatile.

MR

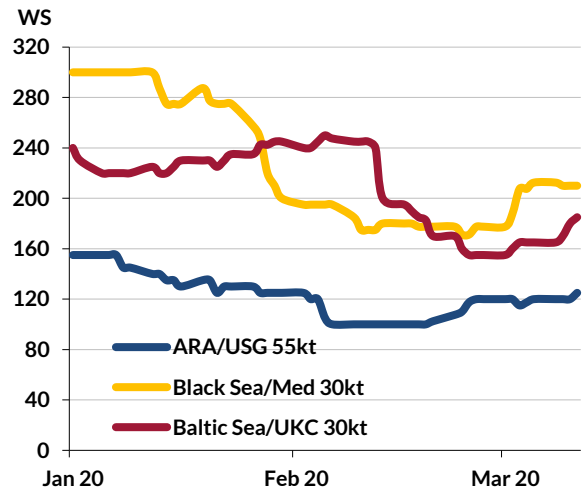
This week in the North has been a no story, the last unit was fully fixed on Friday last week and only two West Med ballast units provide any opportunity to move a full stem in the second decade of this month.

Down in the Med it has been a different story. We started with rates looking steady, expectations of end/beginning month enquiry to slowly whittle through the units and maintain the conference level out of the Black Sea at ws 135. As the Handy rates started to drop off, the MR list was quickly diminished by one Charterer moving three vessels mid-week and speculation that numbers could soon rally subsided due to the sudden build of Handy tonnage. As we come into the end of the week, it seems that despite conflicting market forces, rates have maintained conference level. Not much has been heard on X-Med voyages on the other hand, excluding vessels chartered internally for own program work keeping this run at WS 125. The two West Med units have shown willingness to ballast North, especially for UKCont/Med runs reflecting the lack of tonnage in the North we have seen all week.

Panamax

Given the length of time that conditions have now been simmering, we are starting to see the net drawing in from Owners regarding the acceptance from Owners of ws 120 type fixing levels. The balance of supply/demand is also being shifted where surrounding larger markets pick up and tonnage has tightened, placing Owners in a position to push on from last done. Tonnage this side of the Atlantic remains limited, with little replenishment on the horizon, so we look further afield East and West for workable tonnage. One caveat here is that for now some East units may not please all vetting departments while West units need to be pulled away from a firm Caribbean market. With all that said, next week Owners with workable tonnage will be looking to boost earnings where possible.

Dirty Product Tanker Spot Rates



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

Dirty Tanker Spot Market Developments - Spot Worldscale

		wk on wk change	Apr 2nd	Mar 26th	Last Month*	FFA Current Q
TD3C VLCC	AG-China	+96	209	113	49	106
TD20 Suezmax	WAF-UKC	+48	170	122	76	137
TD7 Aframax	N.Sea-UKC	-10	154	164	94	115

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

		wk on wk change	Apr 2nd	Mar 26th	Last Month*	FFA Current Q
TD3C VLCC	AG-China	+123,500	247,000	123,500	32,750	115,750
TD20 Suezmax	WAF-UKC	+30,500	94,250	63,750	28,250	74,250
TD7 Aframax	N.Sea-UKC	-6,250	63,000	69,250	12,250	33,500

Clean Tanker Spot Market Developments - Spot Worldscale

		wk on wk change	Apr 2nd	Mar 26th	Last Month*	FFA Current Q
TC1 LR2	AG-Japan	+36	209	173	125	
TC2 MR - west	UKC-USAC	-14	171	185	183	133
TC5 LR1	AG-Japan	+41	206	164	124	178
TC7 MR - east	Singapore-EC Aus	-1	192	192	164	161

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

		wk on wk change	Apr 2nd	Mar 26th	Last Month*	FFA Current Q
TC1 LR2	AG-Japan	+14,500	66,750	52,250	28,750	
TC2 MR - west	UKC-USAC	-2,250	26,250	28,500	24,250	18,500
TC5 LR1	AG-Japan	+12,250	47,000	34,750	19,250	39,250
TC7 MR - east	Singapore-EC Aus	+500	27,000	26,500	17,000	21,500

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

ClearView Bunker Price (Rotterdam VLSFO)	-17	212	229	384
ClearView Bunker Price (Fujairah VLSFO)	-32	251	283	421
ClearView Bunker Price (Singapore VLSFO)	-28	243	271	426
ClearView Bunker Price (Rotterdam LSMGO)	-13	281	294	443

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