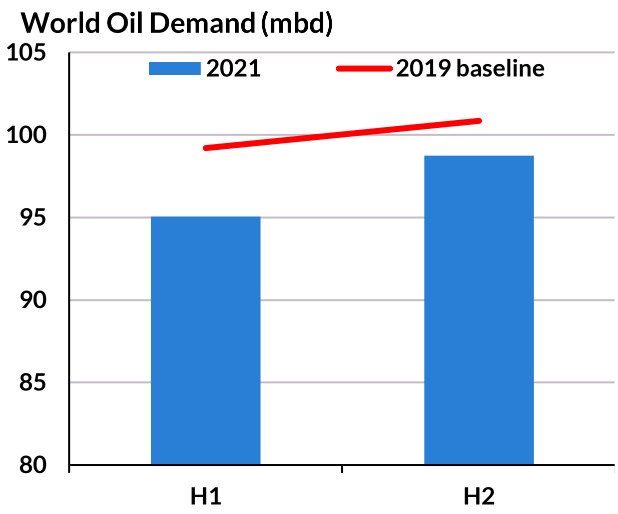
# A Year of Two Halves?

## Weekly Tanker Market Report

2020 was a rollercoaster year, one with extreme ups and downs. Record highs and record lows. For the tanker market, in many ways it was year of two halves, with high earnings in the first half, and low returns in the second. Although the same degree of volatility is not expected this year, it is shaping up to be a year of two halves.

The short-term signals are undoubtedly bearish. Restrictive lockdown measures remain a necessary containment measure for much of the world which will continue to limit the recovery in fuel demand for at least the first quarter. Aviation and transportation fuel demand will struggle to recover over the coming months. OPEC+ will need to carefully manage production to balance supply and demand. Floating storage is expected to continue to ease, however the pace of the stock draw will depend on the supply/demand balance. Saudi Arabia's decision to voluntarily cut production by 1 million b/d could accelerate inventory destocking, releasing even more tonnage into the market.




By the second quarter, as the northern hemisphere moves into spring, the green shoots of recovery should start to be seen. Vaccinations will have been given to an ever-increasing portion of the population in Europe, the United States and beyond, whereas countries in the Middle East and Asia are starting to rollout Chinese made vaccines. India has now also approved two vaccines. It will take time, but as more and more of the population, particularly those most vulnerable receive a vaccine, governments around the world will have more flexibility to avoid oppressive lockdown measures. By mid-summer it is hoped, but not guaranteed that the world will be closer to normality than any point in the prior 15 months.

With hope that vaccines will bring the virus under control by mid-2021, the second half of 2021 is expected to see a strong rebound in oil demand. Pent up business and leisure travel should support transport fuel demand, whilst the impact of fiscal stimulus could support economic activity. Freight rates will be expected to find support, and the markets will see a better end to 2021 than they saw in 2020. Still, by the end of 2021, vaccinations are at the very best likely to reach 1/3rd of the global population based on the production capacity of the leading vaccines.

Cautious optimism should be the key phrase going forwards with vaccines, fiscal stimulus, and a gradual return to the new normal. However, several key dependencies will determine the scale of the recovery in tanker freight rates. On the fleet supply side, availability is likely to increase in the short term as vessels are released from storage, which could return to normal operational levels in early spring. Scrapping will need to increase to balance newbuilding deliveries and support tanker earnings at a time when demand is yet to return to pre-pandemic levels. Fuel consumption needs to continue to see a strong recovery all the way to the end of 2021 and for this, vaccines need to be effective and widespread by the winter of 2021 so lockdowns can be avoided again.

Still, if 2020 taught us anything, it is to expect the unexpected. With a new president in the White House, elections in Iran, the fallout of covid-19 and major regulatory change on the horizon, predicting the next 12 months is anything but straight forward.

# Crude Oil

## Middle East

A muted VLCC market this week with the intra-Chinese deals taking the spotlight. Very limited opportunities for the 'regular' Owners to get their hands on. This could be a blessing in disguise as with no cargoes, rates cannot be chipped away at as well until next week at least. AGulf to the West holds at 280,000mt by ws 17.5 (2020 ws rates), with AGulf-East hovering at 270,000mt by ws 30-31 levels. It may be a new year but Suezmaxes are still suffering from the same old problems, with too many vessels chasing too few cargoes. This in turn has put further downward pressure on rates. Rates to the East are now down to 130,000mt by ws 35 on (2020 ws rates) and below ws 10 for European discharge. We have seen reasonable Aframax activity this week but simply too much tonnage post-holiday keeps rates supressed at 80,000mt by ws 50 to Singapore (2020 ws rates).

## West Africa

With VLCC Owners twiddling their fingers whilst waiting for a cargo from the AGulf, some considered fixing from WAF as a viable alternative. With one enquiry securing nearly 10 offers, this just highlighted how tonnage is beginning to build in the East. Last done to the East was ws 31 and with all likelihood lower will be paid next week. Suezmaxes have started the year in catastrophic fashion. The end of the festive period meant many vessel remained free of cargo and committed to loading in this area. Rates have eroded to 130,000mt by low ws 30's to Europe and low ws 40's East. With rising bunker prices these levels are not sustainable for Owners, further tonnage needs to be removed before we see levels firming to compensate Owners for higher bunker prices.

## Mediterranean

Any hope that 2021 would bring better fortune to Aframax Owners soon fizzled out. After a busy festive period, the inevitable calm after the storm followed. Tonnage has built up and a high of 80,000mt by ws 52.5 for Sidi Kerir to Livorno was soon eroded to ws 42.8 for the same route yesterday. With bunker prices rising, Owners returns are barely positive and next week holds no promise for them. As in other Suezmax load areas, Charterers have benefitted from the weight of available tonnage and in turn have further squeezed rates down to $2 million for Libya to China and for loading Black Sea 135,000mt by ws 52.5 to North Europe. Owners will be facing another challenging week.

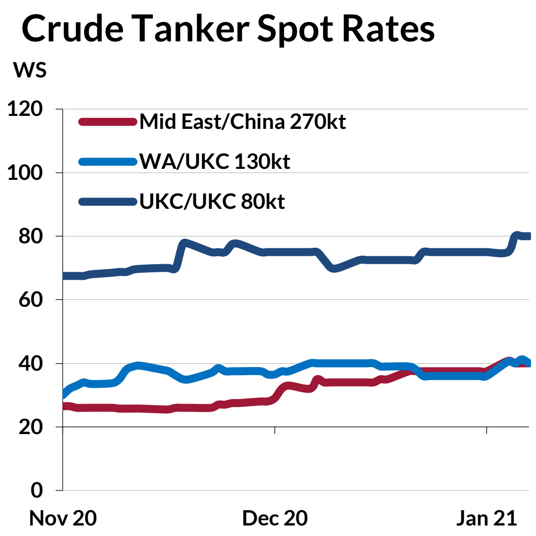
## US Gulf/Latin America

Steady Aframax fixing has allowed the availability of tonnage to thin out this week. Although rates are currently 70,000mt by ws 80 for upcoast, those levels are likely to come under upward pressure. The VLCC US Gulf cargoes worked this week only saw a downward correction in rates. The pool of vessels willing East discharge has only increased due to the muted activity in the rest of the

VLCC world. Last done US Gulf/East at $4.6 million, which has become the comfort level, for now.

## North Sea

Some temperate fixing kicked off the year for Continent and Baltic Aframaxes. Little to make waves so far but the expected ice class restrictions are likely to push rates up. The Atlantic fleet balance seems to be heavier on the European side for now. However, with some Owners seeing better winter value in the US Gulf, we may see further ballasters reducing the availability of tonnage in Northern Europe. The week ends with 80,000mt by ws 80 X-UKCont and Baltic/Cont 100,000mt by ws 60. Rates are expected to increase moving forward.




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

# Clean Products

## East

What started out as a very quiet and uninspiring start to the New Year saw a slight increase in enquiry as the week ended. Not enough to have any bearing on the sentiment, given the length of the tonnage list. But, in conjunction with the LR2s and a MRs seeing activity levels steadily increase, it would be fair to assume that LR1s will start to see more enquiry as the new week approaches. With TC5 going on subs at 55 x ws 75 (2021 flats), albeit with a +15yr old gives an indication of the dire situation Owners find themselves in. UKCont needs a fresh test but should sit at $1.3 million given the number of workable ships. We expect to see some good enquiry on Monday and Tuesday - something the list can very comfortably accommodate.

LR2s have seen a busier week than was expected after a slow start. 5 stems remain uncovered for now and rates are holding higher than the LR1s, which is unlikely to last long. 75,000mt naphtha AGulf/Japan is on subs today at ws 70, some 5 points above last. 90,000mt jet AGulf/UKCont is now $1.65 million although less has been done and should remain solid with the enquiry out there. Next week may see a fall away in activity as LR1s drop their numbers to offer value.

The MRs have enjoyed an early flourish in the new year. The front end has really started to clear out and small improvements in rates reflects a much thinner supply of clean history, young tonnage. EAF has bounced around, most stems pointed to SAF and the last done is equivalent ws 130 on a second last palms vessel. Shorthaul starts to push to $170k-180k levels, nothing spectacular, but you can see these shorter runs being fed into the larger sizes if the list runs out of value for Charterers. TC12 and westbound are less popular on this size. LR2s hold better value and will be used where possible. $900k-$1 million for Cont and 35 x ws 90 basis Japan is a good assessment for now, but unlikely to be tested unless the MR size is a must. Expect the LR1s to absorb the majority of action early next week, very little going into that segment and sentiment down. Easy targets for Charterers.

## Mediterranean

Not quite the start to 2021 that the Owning fraternity were wanting, with rates pressured from the off. We are now in the position we were at the bottom of the pre-Xmas market where voyages are being calculated on a case-by-case basis and returns nearing negative. Monday saw rates continue to trade basis 2020 flats at around the 30 x ws 82.5-85 (2020 rates) mark, however, the lists pulled were grim reading, nearing 20 prompt units which enabled Charterers to attack last done. From Tuesday onwards, rates fluctuated between 2020 and 2021 flats with a softening in rates seen in both Med/Black Sea with 30 x ws 85 (2021 rates) and 30 x ws 100 (2021 rates) the going rate on Friday for X-Med and Black Sea respectively. Expect certain Owners to hold at higher than this, with returns at these levels negative dependent on voyage but, with enquiry almost non-existent, there isn't much justification to fix higher unfortunately.

On the flip side for the MRs, Owners will be positive about this first week with a tight front end allowing them to capitalise and keep rates firming throughout. Heading transatlantic, we've seen a 10-point increase through the week, with 37 x ws 90 (2020 rates) the going rate on Friday for Med/transatlantic. With the UKCont market firing too, this combination should see the positive momentum spill into next week with Owners ideas likely to stay bullish. Expect

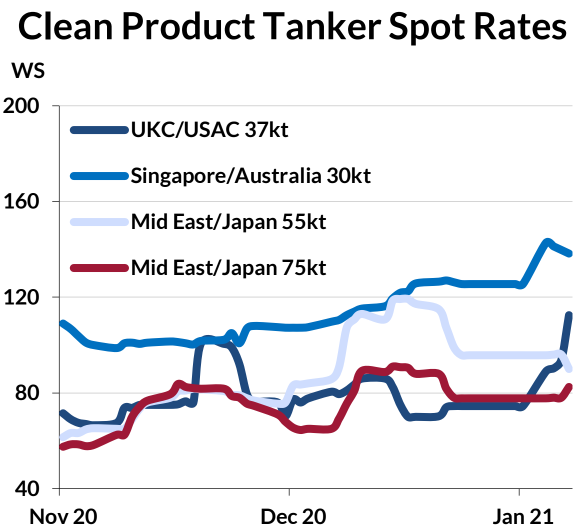
WAF to continue trading at the +10-point premium on transatlantic with rates by and large driven by this action. A good start to 2021 with further momentum possible.

## UK Continent

A tale of two halves this week has been seen on the MRs on the Continent. Up to Wednesday, we spent our time repeating last done of 37 x ws 75 (2020 rates) for transatlantic, with activity levels rapidly chopping away at the tonnage list. A standoff in opinions was then reached as Owners saw the lack of tonnage compared to a healthy enquiry list and it took an Ice class requirement ex Baltic to drive rates, with 37 x ws 130 (2020 rates) put on subs for this distressed stem. From here Owners have had mixed success and rates have varied, with 37 x 90 (2020 rates) the call now for transatlantic and WAF 10-15 points higher. Looking ahead we still see a mix of outstanding stems to cover and Charterers will be hoping a Monday restock of the shelves will be on the cards but for now, Owners hold the upper hand.

A positive week all in all for Owners plying their trade in this UKCont Handy Market. The front end of the tonnage list has been tight all week which has allowed Owners to push for more rate wise. With a few more cargoes coming out over the back end of the week, the equivalent of 30 x ws 100 (2020 rates) X-UKCont has gone on subs with Baltic liftings expecting to follow suit and land around the 30 x ws 105-110 (2020 rates) mark when next tested. At the time of writing, a handful of cargoes remain outstanding, which will most likely be rolled over until Monday, however, if Owners play their cards right, they could potentially push for more before the week is out.

Overall, it's been a fairly active week for the Flexis up in the North, with plenty of positives. There have been a handful of fresh cargoes quoted over the course of the week with vessels going on subs at rates which fall in line with their 30kt counterparts. The good news for flexi Owners is that the UKCont Handy market remains tight with rates moving in the right direction which will lead to further improvement for the Flexis. As a result, Owners will now likely be pushing for around the 22 x ws 130 (2020 rates) mark on a X-UKCont voyage.



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# Dirty Products

## Handy

The first week into the new year appears to have gotten off to an oh so familiar pattern, long availability and not enough requirement. Both the Med and Continent endured such traits this week, but it is worth remembering that not everyone is back fully working yet, which does make an impact. Indeed, towards the end of the week we have seen half of the equation come back (cargo supply) where units have been getting clipped out under the radar. That said, the market is going to need a lot more demand in order to address the volume of tonnage sat outside of its fixing window, where it comes as no surprise to see levels correct down as we have seen steadily happening on the Handies this week.

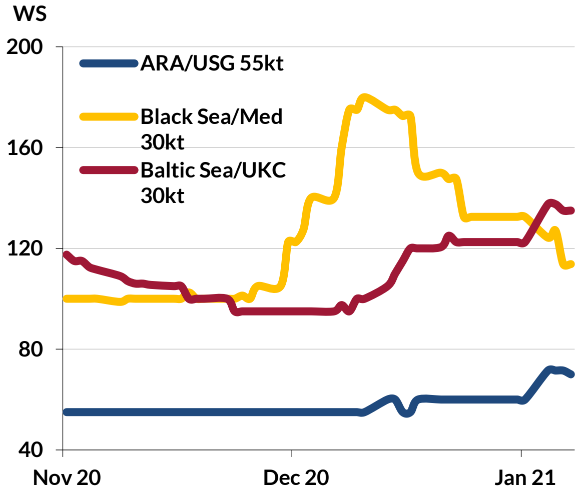
## MR

By comparison to the surrounding Handies there is still more to learn from the MR market as units have been kept moving without much noise being made, which combined with the usual part cargo time fillers has actually prevented a greater degree of saturation from occurring. This is likely to lead to some discrepancies in fixing levels over the immediate deals ahead as we observe (depending on which Owner you speak with) differing levels of nervousness regarding the fixing program they have to get through.

## Panamax

Entering 2021, we are presented with one of the shortest lists of naturally occurring tonnage seen in some time, where on paper those Owners placed here should ordinarily be looking at where they can add value for their assets. The scenario they face this time round though is that simply getting fixed proves to be a tough ask for a number of reasons. Inactivity is one problem blighting this sector, but with a surrounding Aframax sector losing value for transatlantic and undercutting previous highs on a pro-rate basis - it is hard to see how last done holds validity.

### Dirty Product Tanker Spot Rates

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## Dirty Tanker Spot Market Developments - Spot Worldscale

| | | | *wk on wk change* | Jan 7th | Jan 5th | Last Month* | FFA Q1 |
|---|---|---|---|---|---|---|---|
| **TD3C** | VLCC | AG-China | **-3** | 40 | 43 | 34 | 37 |
| **TD20** | Suezmax | WAF-UKC | **-4** | 38 | 42 | 42 | 43 |
| **TD7** | Aframax | N.Sea-UKC | **-1** | 81 | 82 | 72 | 103 |

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

| | | | wk on wk change | Jan 7th | Jan 5th | Last Month* | FFA Q1 |
|---|---|---|---|---|---|---|---|
| **TD3C** | VLCC | AG-China | **-3,000** | 12,500 | 15,500 | 15,500 | 8,500 |
| **TD20** | Suezmax | WAF-UKC | **-2,750** | -750 | 2,000 | 7,500 | 1,750 |
| **TD7** | Aframax | N.Sea-UKC | **-750** | -3,500 | -2,750 | -3,750 | 10,750 |

## Clean Tanker Spot Market Developments - Spot Worldscale

| | | | wk on wk change | Jan 7th | Jan 5th | Last Month* | FFA Q1 |
|---|---|---|---|---|---|---|---|
| **TC1** | LR2 | AG-Japan | **+3** | 80 | 77 | 81 | |
| **TC2** | MR - west | UKC-USAC | **+21** | 110 | 89 | 84 | 120 |
| **TC5** | LR1 | AG-Japan | **-12** | 88 | 100 | 111 | 92 |
| **TC7** | MR - east | Singapore-EC Aus | **-5** | 138 | 143 | 114 | 147 |

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

| | | | wk on wk change | Jan 7th | Jan 5th | Last Month* | FFA Q1 |
|---|---|---|---|---|---|---|---|
| **TC1** | LR2 | AG-Japan | **+250** | 6,750 | 6,500 | 14,000 | |
| **TC2** | MR - west | UKC-USAC | **+3,250** | 5,000 | 1,750 | 4,250 | 6,500 |
| **TC5** | LR1 | AG-Japan | **-3,000** | 5,500 | 8,500 | 17,000 | 6,500 |
| **TC7** | MR - east | Singapore-EC Aus | **-1,000** | 7,750 | 8,750 | 8,500 | 9,000 |

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

| | | | | |
|---|---|---|---|---|
| ClearView Bunker Price (Rotterdam VLSFO) | **+14** | 395 | 381 | 361 |
| ClearView Bunker Price (Fujairah VLSFO) | **+4** | 425 | 421 | 385 |
| ClearView Bunker Price (Singapore VLSFO) | **+11** | 430 | 419 | 383 |
| ClearView Bunker Price (Rotterdam LSMGO) | **+14** | 442 | 428 | 413 |

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