Canal Crisis

Weekly Tanker Market Report

Since Tuesday, the closure of the Suez Canal has dominated mainstream media headlines around the world. At first there was a general sense that the situation would be resolved in a matter of days but here we are on Friday with the vessel still lodged in place. It remains uncertain when it might be removed with the salvors warning it could take weeks. Spring tide over the coming days will offer the best chance of a refloat, but if this is not possible then salvors will have to look at lightering the vessel before the next spring tides in a few weeks' time. Even when the blockage is removed, a backlog of vessels will need to be cleared, meaning delays will be with us for some time.

Oil prices have shown some volatility driven by the closure this week, but fundamentally the oil market is well supplied, and demand continues to suffer from Covid-19 related disruptions. Quite simply there is little short-term fear that the canal closure will see Europe, or the United States run out of oil. This is not to say that the disruption to shipments won't cause headaches for regional refiners and traders. Whilst general inventory levels are still above average in the US and Europe, some individual refiners may be holding lower stocks, and may have to source crude from elsewhere if delays continue which could see prompt buying of short haul crudes, both from storage and from regional producers.

Likewise, on the products side, middle distillate flows which transit the canal from East to West were already expected to come under pressure as European demand feels the impact of a third Covid-19 wave and inventory levels remain ample. However, naphtha and fuel oil flows heading from West to East might feel the impact more. Seasonally stronger fuel oil demand East of Suez and continued demand for naphtha from the petrochemical sector will impact these sectors more.

The biggest impact will be felt in terms of vessel supply/resupply and how trading patterns are disrupted. Delays coming through the canal simply mean that it will take longer for these vessels to come open for business once again. Those vessels which had already fixed but not loaded are now likely to miss their laycans, meaning charterers will have to seek replacement tonnage. Unless the blockage is moved swiftly, vessels will be forced to sail around the Cape, which will extend voyages by 10-15 days and lengthen tonne miles. In some cases, the supply impact could continue to be felt months down the line. As an example, an LR2 trading from the Mediterranean to Japan would normally be open in Fujairah in 55-60 days' time. If that same vessel has to transit via the Cape, it would not be available for business in the Middle East until 65-70 days' time. This example illustrates that depending on the duration of the delay, the route in question and typical trading patterns, position lists could feel the effects in a few months' time, as much as they will right now. Ultimately longer voyages and increased delays will lead to higher vessel utilisation which is undoubtedly positive for freight rates.

However, the trading economics must also be considered. With the canal blocked, traders will have to re-evaluate their trading strategies. Crude and products which might have been exported from the Mediterranean and Black Sea to the East might stay closer to home if freight costs and crude price differentials incentivise more regional trade. Likewise, cargoes from the Middle East which typically head into Europe via the Canal may end up being sold to Asia, creating more regionalised trade. The economics between different vessel sizes could also come into effect with the improved economies of scale offered by VLCCs, Suezmaxes and larger product carriers lending greater support to these asset classes.

In summary, there are so many variables to be accounted for, but in our opinion these developments are supportive for freight rates with the ripple effects having the potential to be felt for months to come.

Crude Oil

Middle East

News of the grounding in the Suez Canal has given VLCC Owners hope that the longer this delay continues the greater chance that they can structure a recovery. Currently levels are yet to really move, but if the delays do extend into next week and beyond, we may well start to see Charterers quickly looking for cover, which should then trigger the rebound in rates. Last done to China remains at 270,000mt x ws 33.5, with yet again estimated levels to the US Gulf at 280,000mt x ws 19 (via Cape). Suezmax Charterers have been facing a market not seen for some time. The availability of Basrah suitable tonnage has tightened for the first decade April loading, giving the Owners the opportunity to push for higher rates. Next done rates to the West will be approaching 140,000mt x ws 30 and rates to the East are around 130,000mt x ws75. Aframax rates in the AGulf continue to rise, with latest reports of 80,000mt x ws 110 on subs for AGulf-East off early April dates. Owners will be looking to repeat these levels off natural dates and push for more early next week.

West Africa

VLCC rates were already starting to strengthen on the back of increased US Gulf and South American interest; combine that with the developments in the Suez and it is easy to see why Owners are preferring hold back and see how things develop before committing to the longer run with last done to the Far East is 260,000mt x ws 37. Suezmax Owners have continued to push rates up this week. They have benefited from being shown prompt cargoes where the availability of tonnage is tight and achieved rates of 130,000mt x ws 80 to Europe and ws 85 East for more natural dates.

Mediterranean

The Aframax market in the Mediterranean is developing interestingly as we reach the close. The well-known disruption in the Suez Canal coupled with port delays due to bad weather and port maintenance has helped rates move onto new levels. Increases of at least ten percent have been seen for natural tonnage and there is more to come as Charterers scramble for replacement tonnage. Ostensibly, Black Sea to Med voyages are pegged at 80,000mt x ws 160 level now and Ceyhan not far behind that. But this is now a moving target and we try to pin the tail on the donkey. Suezmax Owners have benefited from the temporary closure of the Suez Canal. By the middle of the week Charterers scrambled to replace tonnage that had been blocked from ballasting via the Suez Canal. This has enabled Owners with tonnage open in the Mediterranean to push rates to levels not seen this year, 135,000mt x ws 100 for Ceyhan/Europe. Levels of $2.6 million have been concluded for cargoes to the East with higher rates to be achieved on the next fixtures. Where the market goes next week will depend on how quickly the Suez Canal reopens.

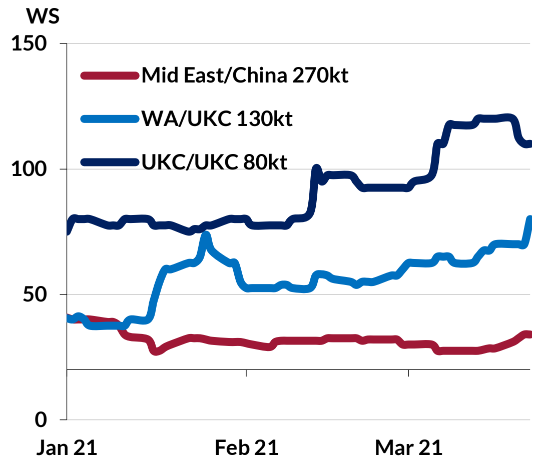
US Gulf/Latin America

A slower week for Aframax Owners here and, with that came the gradual decline in rates. Aided by increased availability, Charterers have been able to secure discounts with each time of asking; whilst last done for a generic Caribs/Up run is at 70,000mt x ws95. VLCC Owners, however, have been able to turn their fortunes around against a steady supply of enquiry throughout the week, with rates moving up to $4.85mill for a Far East run.

North Sea

Correction time in the North Sea and Baltic markets. This week has heralded a shift in momentum as rates did a 180 from their previous growth. X-North Sea is now fixing at 80,000mt x ws 107.5 levels and Baltic/UKCont in the mid ws 90s. The end of ice season is around the corner and despite a few berthing delays the North Sea has had a plentiful supply of tonnage to soak up the limited enquiry. This slide in rates has led several Owners to eye up the more attractive Med market. The list of potential ballasters is building as returns make more sense than hanging around for a short Northern voyage. Next month's Urals isn't the prettiest of reads and leaves owners wanting for another month.

Crude Tanker Spot Rates



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

GIBSON SHIPBROKERS

Clean Products

East

Everybody is talking about the Suez Canal and how this will affect markets, but for the Clean LRs rates were already firming quickly after the increase in demand. LR1s have seen a strong start, cementing the gains we had seen at the end of the previous week. 55,000mt naphtha AGulf/Japan is at ws 127.5 today but ws 130 is likely to be seen shortly. TC5 paper is trading up to ws 150 for April, which may be a touch ambitious but shows the sentiment. 60,000mt jet AGulf/UKCont has been tougher to fix, with Owners ideas being ramped up. But as of today it is trading at $1.75 million but more is likely if the larger size can continue the momentum. Indeed, LR2s have dominated this week, with rates gathering momentum quickly. 75,000mt naphtha AGulf/Japan is last done at ws 137.5, some 45 points up on the week! 90,000mt jet AGulf/UKCont is hard to call but $2.5 million is probably the best offer you will see today and Owners are hoping for more. This compares to $1.825 million paid at the end of last week. Although the Suez problems haven't really hit the clean, the sentiment will start to push all sectors if the Container vessel can't be cleared this weekend.

A quieter week for the MRs when compared to previous ones. As a result, rates have seen a slight negative correction as some nervous owners jumped on stems. However, this should be a very short-lived dip as the MRs look set to rebound into next week. LR2 stems already looking to be split into MR cargoes will help to clear tonnage quickly. With the added uncertainty of the current situation in Suez, Owners will look to lever any opportunity they can. Currently UKCont is at $1.2million, TC12 at 35 x ws 135 and EAF on subs again at 35 x ws 185. However, with the expected increase in activity, these levels could be beaten early next week.

Mediterranean

A very positive week overall for the Owning fraternity in the Med, with rates firming throughout. Rates started the week around the 30 x ws 125-130 mark but the general sentiment was very positive, with most Owners unwilling to offer in order to create some uncertainty in the list. A couple of prompt naphtha cargoes ex W-Med on Tuesday saw rates firming, with 30 x ws 150 on subs, which quickly rose to 30 x ws 160 ex E-Med by Tuesday. An influx of E-Med stems (especially ex Greece) for end month dates allowed Owners to capitalise and in exchange for safer itineraries, rates rose to 30 x ws 195 ex Israel, with min flat 6.5. This pre-Easter rush continued for Black Sea cargoes, which hit heights of 30 x ws 205 and have consistently traded here since Wednesday. For now, rates hold at these high levels but Monday is likely to bring a replenished list and Charterers will be aiming to dampen Owners hopes of any further momentum.

Although the list has been tight this week in the Med, not enough enquiry has been seen in order to keep momentum up, with a mixed bag of rates seen. Generally, transatlantic rates have held around the 37 x ws 150-155 mark. A busier Thursday meant Owners saw heights of 37 x ws

167.5 transatlantic for a trickier naphtha cargo. However, with TC2 sentiment generally poor and enquiry slow, this sentiment has translated into the Med and kept rates subdued. For now, expect rates to hold but could swing either way next week dependent on activity levels.

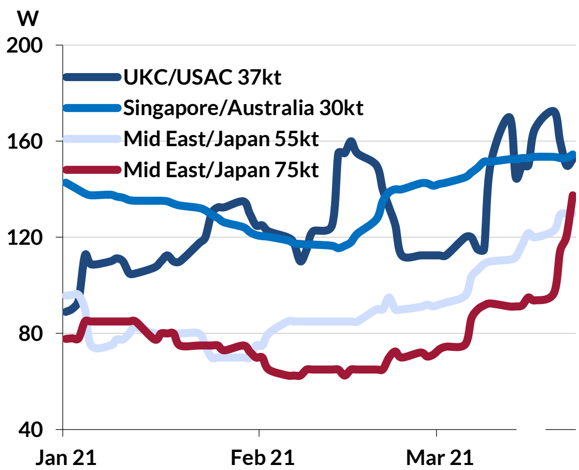
UK Continent

In the end a fairly placid week passes for the MRs trading in the Continent as Charterers faced some bullish Owners at the start of the week but, with limited enquiry quoted into the market, their efforts in subduing this positivity has shown. Charterers were able to knock a few points off last done with some older tonnage being taken out. This has twisted some Owners arms to reassess with others able to rebuke. This gives us a mixture of success and come Friday we see ws 152.5 and ws 157.5 done for transatlantic. The Mediterranean is offering an equally varied blend of results, with tonnage a little tight there. Come Monday a few more options should start appearing for the Chartering fraternity as laycans push past the 5th April and, with that further opportunities to press. Yet, as always, level of enquiry is key and a busy start could easily shift momentum back.

Overall, it's been a positive week for Handy Owners plying their trade up in the North, which has seen rates improve off the back of increased demand. X-UKCont activity has been the catalyst in this market throughout week 12, with consistent enquiry combined with a tight list causing rates to push up to the 30 x ws 147.5 mark. Baltic rates moved up to 30 x ws 160 levels early in the week, which is where they have held for the remainder as we see Charterers cover stems with their COA partners. At the time of writing, X-UKCont rates remain at last done (30 x ws 147.5) but, with a couple of end month cargoes still looking for cover, it wouldn't be surprising to see further gains before the week is out.

All in all, it's been a much better week for Flexi Owners up in the UKCont, with a lot more activity seen in comparison to previous weeks. Week 12 started slowly but once we hit the middle of the week, the Handies in the UKCont began to tighten and 30kt rates in the Med boomed, which left a few Charterers downsizing stems to the 22kt size. We saw the equivalent of 22 x ws185 fixed for a X-UKCont run on Wednesday. Yet, on the back of Handy improvement combined with a lack of flexi tonnage available off end/early dates, next done is likely to push up to around the 22 x ws 195-200 levels, if prompt-ish enquiry appears.

Clean Product Tanker Spot Rates



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

Dirty Products

Handy

There are certain times in any year we always have to look out for, and for the Handy market we just so happened to be approaching one of those markers for possible disruption - the Easter Holiday! With two shorter working weeks, Charterers will be looking to get on top of their fixing programs. In the later part of the week, particularly in the Med, we have seen examples of Charterers doing exactly this, with levels hitting ws 200 X-Med. In the Continent, coupled with the fact that it has been generally busier and tonnage is tight, levels have risen. As a result, we close the week knocking on the doors of ws 180.

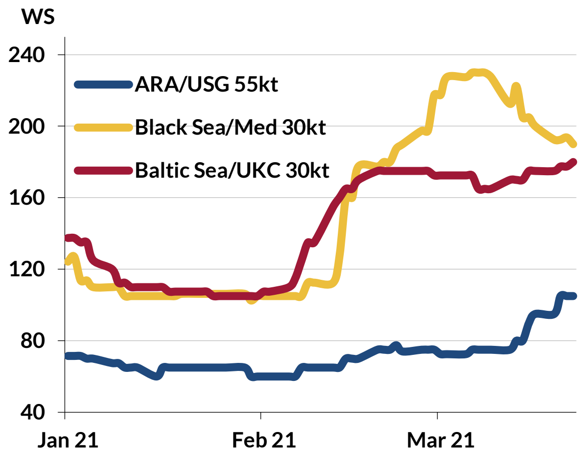
MR

A positive trend in this sector, with rates rising due a position list becoming very patchy in terms of availability. That said, there are still units available, however, right now the sentiment is firm and Owners know that they are in a position of strength having seen both the Med and Continent reach new highs.

Panamax

The past fortnight really has been a marvel to behold. Absolutely minimal volatility was seen all year and now, with a few cargoes all within a narrow date range, supply has really tightened, with treble digits being the end result. There are some external factors, however, which were previously missing. Impetus from a US market has spilt over, where the disparity in earnings has seen Owners take a stance on what level they would fix tonnage out at. In addition, with the bunker price being where it is, the bottom line has been raised too.

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	Mar 26th	Mar 18th	Last Month*	FFA Mar
TD3C	VLCC	AG-China	**+4**	33	29	32	32
TD20	Suezmax	WAF-UKC	**+10**	77	67	55	57
TD7	Aframax	N.Sea-UKC	**-10**	110	120	97	92

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

			wk on wk change	Mar 26th	Mar 18th	Last Month*	FFA Mar
TD3C	VLCC	AG-China	**+6,750**	2,000	-4,750	-3,000	1,000
TD20	Suezmax	WAF-UKC	**+6,250**	17,500	11,250	4,000	7,250
TD7	Aframax	N.Sea-UKC	**-4,750**	14,500	19,250	3,500	2,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 26th	Mar 18th	Last Month*	FFA Mar
TC1	LR2	AG-Japan	**+43**	138	95	71	
TC2	MR - west	UKC-USAC	**+4**	154	150	128	127
TC5	LR1	AG-Japan	**+8**	130	122	91	92
TC7	MR - east	Singapore-EC Aus	**+1**	154	153	137	135

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

			wk on wk change	Mar 26th	Mar 18th	Last Month*	FFA Mar
TC1	LR2	AG-Japan	**+14,250**	22,750	8,500	500	
TC2	MR - west	UKC-USAC	**+1,500**	11,000	9,500	5,500	6,250
TC5	LR1	AG-Japan	**+2,750**	13,750	11,000	3,250	5,250
TC7	MR - east	Singapore-EC Aus	**+1,000**	9,000	8,000	5,000	6,000

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

ClearView Bunker Price (Rotterdam VLSFO)	**-25**	446	471	491
ClearView Bunker Price (Fujairah VLSFO)	**-53**	483	536	516
ClearView Bunker Price (Singapore VLSFO)	**-33**	477	510	529
ClearView Bunker Price (Rotterdam LSMGO)	**-29**	481	510	533

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 1401, 14/F,
OfficePlus @Wan Chai,
303 Hennessy Road.
Wanchai. Hong Kong.

T (852) 2511 8919
F (852) 2511 8901

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

Mumbai
Office 128, Level 1, Block A,
Shivsagar Estate,
Dr. Annie Besant Road, Worli,
Mumbai, Maharashtra, 400018,
India
T +9122-6110-0750

Dubai
Platinum Tower, 39th Floor,
Unit 10, Jumeirah Lakes Towers,
Dubai, UAE