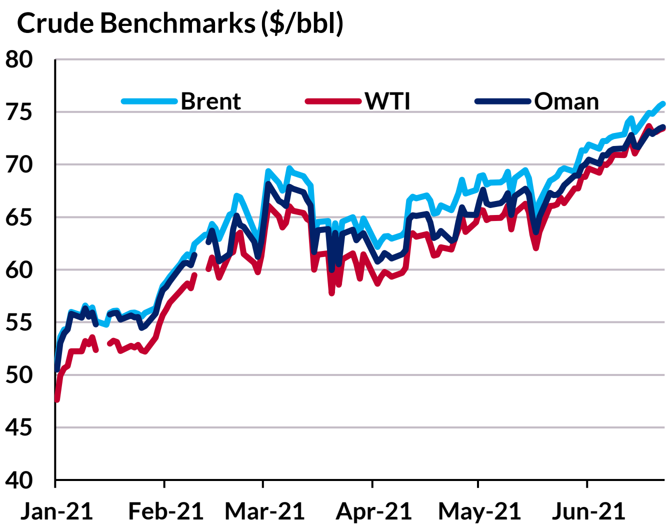
Uneven Recovery

Weekly Tanker Market Report

As global oil demand charts a path to recovery it is becoming increasingly clear that the world is recovering at an uneven pace. China was the first to go into lockdown and the first to emerge, seeing its own oil demand quickly return to pre-pandemic levels. However, recently the rest of Asia has lagged, with Eastern demand being impacted by strict lockdowns in Southeast Asia and India. In recent years, the East has been heralded as the major driver of oil demand but this quarter the West has been the major driving force as the US continues to rebound and Europe emerges from lockdowns following major vaccination drives.

This geographical imbalance in the demand recovery is having implications for tankers. In the crude market, comparatively stronger Western demand is supporting regional spot crude prices. In the US, WTI prices have risen to exceed the Oman Middle East benchmark, effectively closing the arbitrage to ship US crude to Asia. Brent has also risen relative to Eastern benchmarks, impacting the viability of flows of Brent priced grades to the East.



These pricing dynamics have implications for freight rates. Increasingly Asian refiners are incentivized to purchase Middle Eastern crude, draw from storage or source regional grades. Buyers in the Atlantic are also favoring local cargoes, and these shifting trade patterns are in turn, shifting demand between the different tanker classes. Under such conditions, Suezmaxes and Aframaxes will be the primary beneficiaries. Indeed when looking at freight rates across different asset classes, the smaller sizes are currently outperforming the VLCCs, even if the absolute levels remain low.

However, this market distortion will not last indefinitely. Q3 2021 will see growing Eastern demand. Indian demand is already showing signs of rebounding, having increased by approximately 12-13% over the first half of June compared to the same period of May. Restrictions elsewhere in Asia are also expected to be gradually eased leading to incremental increases in oil consumption.

Oil supply is also expected to increase over the third quarter. Further OPEC+ barrels will hit the market in July, with the group expected to announce its plan for August onwards production levels at next week's ministerial meeting. Subject to the supply/demand balance, increased oil flows should impact pricing differentials, gradually allowing for "normal" trade patterns to emerge. Demand from China however is looking less certain. Last week China issued 35 million tonnes of crude import quota to its independent refiners (a 35% drop YOY) as the Government looks to crackdown on overcapacity in the sector and rein in emissions. On this basis imports by independent refiners face a substantial decline in the second half of 2021, although fuel oil imports are expected to increase, and state-owned refiners may increase run rates to compensate.

Over the long term, refinery run rates in the West will remain below pre-Covid levels, whilst Eastern throughput will exceed 2019 levels from next year. These shifting demand patterns will see the Atlantic crude surplus and Asian deficit widen, driving West to East crude trade. All in all, the distortions we are seeing in the market today are just that – distortions, not a new reality.

Crude Oil

Middle East

An active start to the week gave VLCC Owners some optimism that now was the chance to structure a recovery that could have some longevity. This, combined with potential positive news coming from Iran about an agreement being in place, provided some encouraging signs that we are in the early stages of a rebound. That being said, the latter part of the week has quietened and again Owners will have some doubts that these encouraging signs are not going to materialise. Last done to the East on modern is 270,000mt x ws 32.5, with levels around 280,000mt x ws 18.5 to the US Gulf (via Cape) being projected. Suezmax Owners benefited in the earlier part of the week from tight availability of Basrah suitable tonnage and rates peaked at 140,000mt x ws 35 to Europe and 130,000mt x ws 72.5 East. Charterers are aware that the supply of tonnage going forward is more plentiful and are now sitting back to allow rates to soften. A steady week for Aframaxes in the AGulf - roundtrip earnings are close to zero, so rising bunker costs may see a rise in rates next week. Whether that rise shows an increase in earnings or merely covers the extra costs remains to be seen. For now little sign of increased supply/demand that might push things along, with last done being around 80,000mt x ws 90 for the East.

West Africa

A slow week for VLCC enquiry would normally ring the alarm bells that we are going to see further reductions; however, with higher bunker costs and a slight uptick in rates in the East, Owners here are not going to be as compliant. Last done East was 260,000mt x ws 34, admittedly on a tighter position, but again, should be used as a benchmark on more forward dates. Suezmax activity in West Africa has been light this week; yet, rates have slightly firmed due to higher bunker prices and the need for Charterers to compensate Owners for leaving a firmer Mediterranean market due to the lack of available Eastern ballasters and tonnage coming open in the area. The week ends with levels of 130,000mt x ws 52.5 for Europe.

Mediterranean

A week which promised a lot for Aframaxes did eventually deliver, as a tight list and port delays in Trieste, Aliaga and Lavera added to the warm sentiment. Rates rose from the ws 90s to 80,000mt x ws 105 for Ceyhan/Med voyages and a high of ws 112.5 was achieved for CPC loaders requiring options. At the close though the going is quiet and, with port delays easing at the end of next week a softening in rates is anticipated. Suezmax Owners have benefited from a firmer Aframax market this week, which has given them more opportunities to fix in the area. Rates have peaked at 130,000mt x ws 57.5 to the Continent.

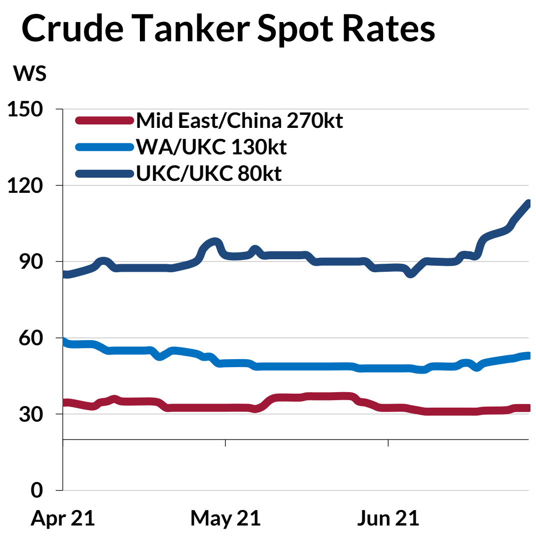
Unfortunately, Owners have not been able to make any traction for cargoes heading East and levels remain at $2.15 million for Libya to Ningbo.

US Gulf/Latin America

Aframax Owners continue to fight for whatever scraps are thrown their way. Combined with a healthy availability list, a strong enquiry is needed next week to alter the current dire situation Owners are faced with. Last done transatlantic is 70,000mt x ws 70, with a premium for the shorter haul run. Unattractive crude pricing in the West has ensured we have had a quieter week for VLCCs here, levels though should remain rangebound with extra transit costs biting into what little profits Owners can realise. Last done US Gulf to long East holds at around $4 million.

North Sea

Perhaps the strongest week of growth we have seen so far this year. Although this isn't saying much, Aframax Owners will cherish the fact that they are getting some returns for the first time in a while. Baltic/UKCont is currently trading in the high ws 80s on 100,000mt and has limited vessels for the current fixing window. X-North Sea is trading around 80,000mt x ws 115 levels. Unfortunately, the initial Urals programme for July is 8 stems down from June and doesn't suggest that this market will have much longevity. But for now the market is warm!



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

Clean Products

East

Quiet end to the week on all sizes, we really are experiencing a dampened level of demand across the board. Starting with the LR2 segment, we have seen a good number of ships on subs this week but no real movement in rates. $1.65 million to the Cont, tried and repeated throughout. Slightly more paid at the end of the week off very prompt dates with a Brazil option, which not all will give. Naphtha AGulf/Japan has traded 75 x ws 75, a couple of sharper deals knocking points off here or there, but the market level remains steady at ws 75.

Tough times likely remain for the LR2 segment as we head into a new week, seeing ATC move Yanbu distillate short into Suez, which does not bode well for the LR2 segment. Owners would want to see demand for this product further afield.

The LR1 segment has been fairly two-tiered. The list is heavy off the front end, vessels opening up off the back of short haul cargoes and unwilling to swallow 1.5-2 weeks wait to fix off the natural window. The natural window has traded very flat at last done levels. Charterers are happy to cover at $1.3 million ex India basis UKCont discharge, or 60 x ws 95 basis Singapore. TC5 will likely soften as it will be much preferred to westbound, although most of these types of runs have been absorbed into the LR2 segment as TC1 cargoes; 55 x ws 100 likely next done, although dates will dictate where rates go exactly.

A quiet week for the MRs, with the total cargo count about 33% short of a normal quoted week, sentiment not helped by LR1s continuing to compete on the short haul stems and providing attractive opportunities for Charterers to buy extra barrels.

TCE earnings for short haul, EAF and TC12 are very similar and hovering around $4-5k/day. Understandably, Owners would much prefer short haul and lock in 7 days work at those numbers than take on the job of ballasting back from Walvis Bay at very unattractive numbers. As such, we've seen the EAF/SAF diff shortened from -17.5 to -12.5 on Scorpio/Shell and Scorpio not willing to give SAF options to ATC. Owners will be hoping these diffs become the new norm; this will need cargoes and stubborn Owners, both of which are currently not in big supply.

Mediterranean

Although things started off rather positively this week, with a naphtha replacement in East Med achieving 30 x ws 135, we have found ourselves consistently trading at the bottom of the market at the 30 x ws 120 and 30 x ws 125 mark ex West and East Med respectively. Activity has been consistent but Charterers have been able to pick off units behind the scenes, with Owners not able to justify anything higher than these levels. Black Sea activity has been slow, with rates driven by Med sentiment and the +10 rule of thumb premium was seen on top of East Med rates. Next week will start at the same levels, with an influx of stems needed in order to drag Owners off the bottom of the market.

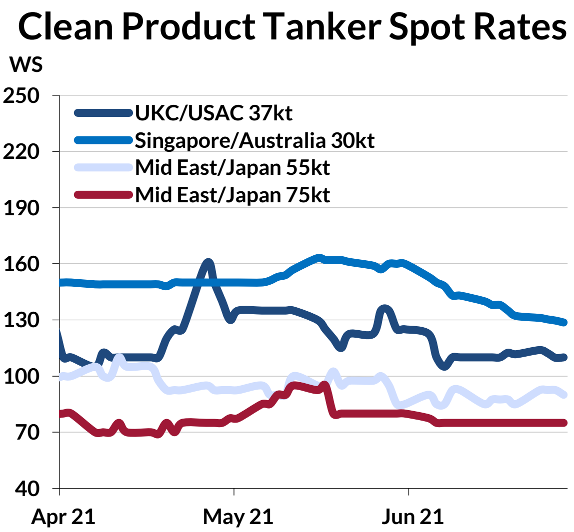
The tighter Med list has kept rates trading north of the NWE market, with 37 x ws 120 and 37 x ws 130 the going rate for transatlantic and WAF respectively for much of the week. An influx of stems on Weds/Thurs allowed Owners to be more aggressive and 37 x ws 140 was seen for a market quote to Brazil. The tonnage list for mid first decade July is looking healthier, so expect Charterers to aim for lower next week, with Owners digging their heels in .

UK Continent

This week on the MRs the market has been tested constantly, with pressure from Charterers getting us down to 37 x ws 110 level for ARA/transatlantic, which is where the market has bottomed in our opinion. The list has shortened slightly throughout this week, with the majority of ballasting ships either on subs or fixed away now. There is still tonnage at the front end but it does look more positive sentiment wise. Right now we see a prompt WAF replacement out there, which will need to cover today; with minimal tonnage available to them, we do expect more on that next. We will call TC2 tight at ws 110 for now.

It's been a lacklustre week for the Handies plying their trade up in the North this week, as rates continue to stay put at the bottom. 30 x ws 120 and 30 x ws 115 have been repeated for Baltic/UKCont and X-UKCont respectively over the course of this week as we see just enough enquiry to keep ships ticking over. If there is any chance of this market pulling itself off of the floor, then we need to see an influx of cargo enquiry appear come Monday but for now the market remains steady.

Overall it's been a quiet week in this UKCont Flexi market, with slow levels of enquiry and little to report in the way of fresh fixing action throughout. Over the course of the week rates in this market have been guided by the UKCont Handy market, with the call for a X-UKCont run remaining steady at the 22 x ws 150 mark. Market remains flat as we near the weekend.



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Dirty Products

Handy

In both the Med and Continent we have seen a reprieve from recent trends, with tonnage tightening across both regions. In the case of the Continent, a fixing run has seen availability stretch: although increment has yet to be seen, anticipation is holding that perhaps there is more to come. For now though, fixing date progression and running out of trading time this week may have just stilled the sails a little. In the Med, most of the week's activity was seen over just a couple of days. As we have seen before, when the Med starts to move, activity continues to be conducted on ever more private terms. This has definitely worked against Owners this week, with information being the lifeblood of any market. Without the flow of information, it has only been confidence that was lacking. A prompt cargo attracting a premium just goes to show that trend can swiftly change. Now that this region has woken up, it won't take many more cargoes in the natural window for Owners to build on this week's progress.

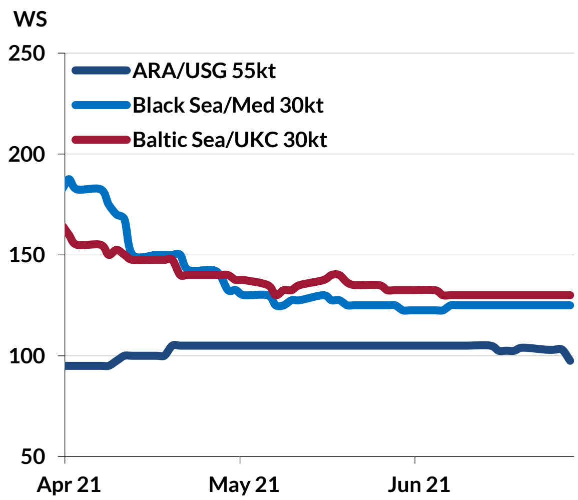
MR

Fortunes have also changed on the MR front this week and for once through their own merit rather than hitching a ride off the back of Handy markets gathering pace. The Continent benefited from a wave of requirements systematically placed into the market, with the outcome a forgone conclusion that movement would be seen between deals. To this effect, rates moved back into the treble digit phase, gaining some 10-15 points week on week. Elsewhere, the Med also saw an injection of activity, although rather surprisingly gains were seen almost immediately and perhaps rather prematurely. From here Charterers took a step away from MRs in the Med, but that didn't stop Owners indicating elevated numbers to Charterers struggling with Handy stems.

Panamax

To any Panamax Owner reading these comments, we sympathise but this sector has become rather enduring. Functionality remains absent, with ships incurring far too much idle time. The question is what to do? Local voyages pay negative returns, making it more cost effective to sit spot and as the US has lost value, ballasting back to the States isn't exactly a profitable option either. Still, the resolve shown in this sector remains strong. At time of writing, Owners continue to draw a line in not competing with larger units by undercutting on a pro rate.

Dirty Product Tanker Spot Rates



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jun 24th	Jun 17th	Last Month*	FFA Q2
TD3C	VLCC	AG-China	**+3**	33	31	36	33
TD20	Suezmax	WAF-UKC	**+2**	52	50	49	53
TD7	Aframax	N.Sea-UKC	**+19**	113	94	93	93

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

			wk on wk change	Jun 24th	Jun 17th	Last Month*	FFA Q2
TD3C	VLCC	AG-China	**+1000**	-2,750	-3,750	4,250	-1,750
TD20	Suezmax	WAF-UKC	**+1250**	1,250	0	750	1,500
TD7	Aframax	N.Sea-UKC	**+11500**	11,750	250	-750	-1,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jun 24th	Jun 17th	Last Month*	FFA Q2
TC1	LR2	AG-Japan	**+0**	75	75	81	
TC2	MR - west	UKC-USAC	**-3**	110	113	114	124
TC5	LR1	AG-Japan	**-1**	88	88	96	100
TC7	MR - east	Singapore-EC Aus	**-6**	129	135	159	149

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

			wk on wk change	Jun 24th	Jun 17th	Last Month*	FFA Q2
TC1	LR2	AG-Japan	**+2500**	1,000	-1,500	5,000	
TC2	MR - west	UKC-USAC	**-750**	1,250	2,000	3,000	3,500
TC5	LR1	AG-Japan	**-500**	2,250	2,750	5,750	5,000
TC7	MR - east	Singapore-EC Aus	**-1250**	3,250	4,500	9,500	6,500

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

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ClearView Bunker Price (Fujairah VLSFO)	**+11**	540	529	488
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