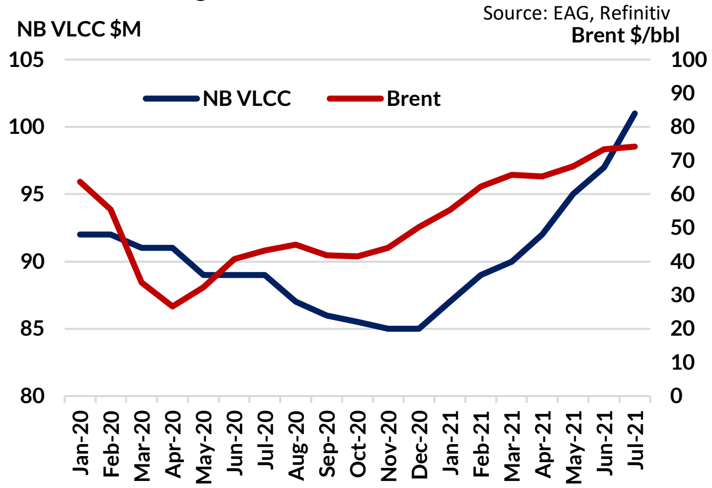
Inflationary Pressure

Weekly Tanker Market Report

Concerns over growing inflationary pressure across the global economy have been gaining ground. This was reinforced in the recent July edition of the IMF's *World Economic Outlook Update*, which notes that whilst the recovery in economic activity is uneven, expansionary fiscal policy and accommodative monetary policy have resulted in strong price increases from consumer goods to commodities. In terms of the tanker market, the later may increasingly come to play a role as inflation expectations become reality.

Inflation Driving Crude and Newbuild Prices



Many expect oil prices to maintain upward pressure despite the recent OPEC+ output agreement that will add 400,000 b/d of crude to the market each month from August to December. The IMF forecasts oil prices to rise 60% above their 2020 levels. Brent and WTI have seen price increases of 40% and 46% respectively YTD due to growing oil demand as inventories decline, economies reopen, and refiners seek to increase their runs to supply additional products to meet demand where it exists.

Rising oil prices driven by rising oil demand should be positive for tanker owners. However, higher prices raise the risk of demand destruction whilst increasing the attractiveness of typically higher cost renewables and low carbon fuels at oil's expense. Therefore, whether higher oil prices are positive or negative for tanker owners will depend on the extent of price gains and how much extra oil is supplied to the markets. If rising oil prices continue to drive inflation higher then policy makers could be forced to act sooner rather than later.

Inflation could also significantly impact the newbuilding sector. As mentioned, commodity prices are an area of notable price inflation, with the IMF forecasting a 30% increase in non-oil commodities, especially for metals and other primary commodities. Despite the recent cooling in iron ore prices, the market is currently experiencing an increase in the prices of scrap metal and most importantly steel plate used in shipbuilding. Whilst shipbuilding prices are influenced by newbuilding demand and the availability of yard slots, the cost of raw materials also plays a critical role. Newbuild VLCC prices have increased approximately 11.5% YTD which shows the growing inflationary pressure facing owners' newbuilding decisions and is likely to become a growing issue as yard capacity decreases. Likewise, second-hand vessel values have also increased in line with this trend. For example, a 5-year-old VLCC has appreciated approximately 10% YTD as have demolition values due to rising scrap prices; this may help to spur scraping and asset plays where it makes sense.

Another interesting area inflation could impact is ship finance in terms of the cost of capital. Eventually, Central Banks will be forced to act once inflation starts exceeding their long terms targets. This should lead to a gradual tightening of interest rates that will eventually be passed on to borrowers, increasing the cost of financing newbuilds adding further CAPEX to prospective investments.

The tanker market is not immune from the rising inflation being experienced across the global economy. This should in theory require an increase in rates to offset the rising cost of owning and operating a tanker. Although if compensatory rate gains are insufficient, then the effect in real terms will be negative. Therefore, owners will have to carefully consider the impact this trend will have on their business. In Central Bank terminology this inflationary episode may not be so "transitory" as hoped.

Crude Oil

Middle East

A relatively active week for VLCCs, with the majority of interest emanating from China, although due to the overabundance of tonnage rates again have softened with levels currently down to 270,000mt x ws 31 for Far Eastern destinations. A voyage West remains virtually non-existent but we estimate levels to hold at around 280,000mt x ws 18.5 to the US Gulf (via Cape). Suezmax Owners have been able to maintain last week's gains mainly due to replacement cargoes and a firm Aframax market. Rates to the East have peaked at 130,000mt x ws 62.5 and ws 26.5 to Europe. The availability of tonnage going forward is heavily weighted in the Charterers favour and we are likely to see lower levels achieved next week.

West Africa

VLCC Charterers are starting to venture further forward into their September programme without too much of a fuss as other areas remain weak providing little to no support. Last done levels remain repeatable at 260,000mt x ws 33, with little change expected next week. A rarity, this week we have seen a volatile Suezmax market. The front end of the week saw rates soften and by the end of the week levels had recovered to 130,000mt x ws 52.5 to Europe. With availability of tonnage still in good supply we anticipate rates to remain flat as tonnage from Europe cannot accept lower levels without incurring a negative return.

Mediterranean

The story remains the same for Aframax Owners this week. Enquiry is balanced with availability and although spot tonnage is not in record amounts, the weakness of surrounding markets puts paid to any ambition Owners may have had to push. In fact, rates have slipped further, with Black Sea runs which would ordinarily ask small premiums for the extended employment now achieving very similar to X-Med. Ceyhan voyages have settled at ws 85 and CPC charterers are at ws 87.5 in most cases with very little sign of meaningful change in the offing. Indeed, the major charterer of CPC is finished for the month and Owners will be looking to fix off dates where possible and move on. A Suezmax vessel achieved a higher level for CPC/China at $2.6 million due to a tightening of workable tonnage off those dates. For local requirement, the market remains flat at 130,000mt x ws 57.5 on a Libya/Europe run.

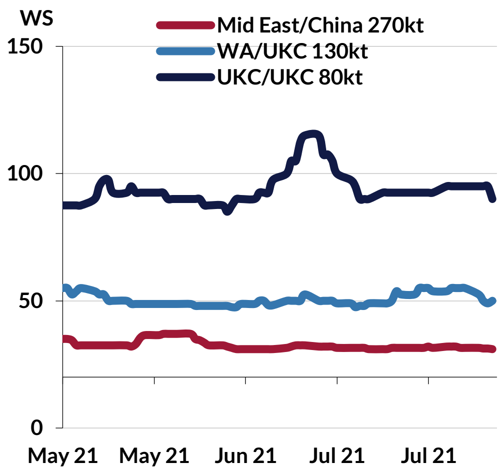
US Gulf/Latin America

A dire situation for Aframax Owners isn't getting any better as Charterers remain apathetic with a continual drip feed of enquiry. Available tonnage remains plentiful and rates have again been eroded from their previous lows, with last done transatlantic fixing at 70,000mt x ws 65 with short haul ranging from the low-mid 70's. VLCC interest again remains muted as we wait for the next few tender enquiries to come to the surface. Owners would fare well if they are to hold on to last done, although the higher bunker costs will deter a few from agreeing to any kind of a discount. Last done currently stands at around $4 million to the Far East.

North Sea

What to say, possibly one of the dullest weeks of the year so far. Little attempted to disturb things on the surface, with muted activity putting a bit of downer on everyone. The list of available tonnage isn't worth mentioning as the prompt end seems to stretch as far as the eye can see. X-North Sea is trading at 80,000mt x ws 90 levels and Baltic/UKCont at 100,000mt x ws 60 levels, with nothing likely to change in the short-medium term.

Crude Tanker Spot Rates



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

Clean Products

East

A week that has seen all sizes push collectively has meant we come to the end of the week with some very enthusiastic Owners and Charterers looking to Monday with the prospect of hunting hard to find a safe ship for their cargo. LR2s have been solidly chipping away at the tonnage list and as result the lack of ships means next done UKCont will be in the region of $2.0 million and TC1 at ws 95 levels. It's been the same on the LR1s with an intense supply of cargoes that's cleared a good proportion of ships from the list. TC5 needs a test on a <15 year old ship but will be at the ws 110 levels and UKCont sits at $1.625 million for now but could easily see further positive corrections. Owners will take pleasure in the fact that the majority of ships on subs are on for long haul cargoes and as a result will not be back on the list for quite some time. As a result, expect this momentum to continue.

An incredibly busy week on the MR segment. All rates have firmed and Owners are really enjoying operating in this bullish sentiment. TC12 has jumped to ws 105 and now at ws 135 as of this afternoon - looking at the number of naphtha tenders coming up ex India, you would expect this to be positively tested again next week. Westbound needs a good test (this run has moved on bigger sizes, predominantly) but we assess $1.175 million to finish the week. TC17 will firm sympathetically against TC12's latest push, ws 185 the level to aim for in the new week. The list is thin enough that short haul is more likely to go into the LR1 segment - $250k is what you would pay today if you could find a vessel on dates.

Mediterranean

After a slow start to the week, activity has begun to pick up in the Med Handy market as we see some more fresh enquiry and fixing action. The unfortunate news for Owners is that despite the improvement in activity, rates have come under increased pressure due to the sheer amount of fixing window tonnage available to Charterers. 30 x ws 117.5 has gone on subs X-Med a handful of times today, with 30 x ws 120 also being achieved ex Black Sea due to the lack of cargoes in this sector. The market is under pressure as we approach the weekend.

All in all, it's been a lacklustre week in the Med MR market, with slow levels of cargo enquiry and very little fixing action throughout. Midweek we saw the MRs finally receive a fresh test on a market quote, which saw 37 x ws 125 transatlantic and 37 x ws 135 WAF achieved on the back of improvements ex UKCont. However, since then the UKCont market has suffered some negative corrections, which could see Med levels come under some pressure if this rate of enquiry persists.

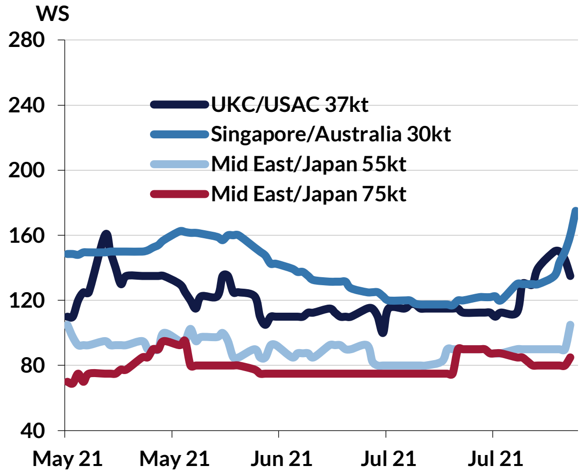
UK Continent

After a hostile week was seen last week for Charterers in the UKCont MR sector, any fresh enquiry would have to tread very carefully and if possible delay quoting to let Owners enthusiasm burn off. A couple of problematic stems on Monday/Tuesday unfortunately were not able to have this luxury and 37 x ws 150 was seen for transatlantic, but there were certainly signs things were cooling down. Fresh enquiry off the 9-13 window were presented with an ever expanding tonnage list, which come Friday forced this market south back to 37 x ws 135. A light dusting of WAF enquiry saw rates level with transatlantic, so we expect a fresh test after this correction to fall pretty close in line if not a 5 point premium. Charterers will be hoping for repeat success next week and if enquiry levels don't pick up, there are little excuses available to prevent this occurring again.

Monday morning's Handy tonnage list was slender due to good demand over the last few weeks for UKCont/MED voyages, which has seen a healthy number of units leaving the region. This was the catalyst for a rate jump on TC9, which quickly firmed to 30 x ws 145 but as the week rolled on the market did level out at current levels as many leaned on COA partners in order to cover under the radar. UKCont/MED also improved to 30 x ws 120 with many Owners pushing for a premium due to how stagnant the Mediterranean market looks and X-UKCont remained in the shadows but closed the week at 30 x ws 135.

In terms of enquiry and fixing activity it's been a quiet week in the UKCont Flexi market, with the glimmers of action we have seen this week being kept behind closed doors. The positive news for Flexis is that their 30kt counterparts have seen rates firm throughout the week, which should enhance Owners ideas. We therefore end the week with ideas for a X-UKCont run around the 22 x ws 180 mark but a fresh test is needed to see where this market really lies.

Clean Product Tanker Spot Rates



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Dirty Products

Handy

Despite a very slow week up on the Continent, for now sentiment remains just as firm as when the region was last active owing to tight supply. Ws 160 denotes a reliable benchmark, however, this is on the premise that you aren't having to cover for sub 15 y/o tonnage, as when taking this consideration into account, your only option is to book forward right now. For Charterers there are some signals to look out for; West Med tonnage is a target (again you'll need to allow for ballast time), and if conditions repeat like they have this week for much of the forthcoming week ahead, then surely the lists will start to repopulate. We wait and see!

Shifting our focus now into the Med, from time to time we see such disparity in strength between two neighbouring markets and this is evident right now. Still finding its floor, the Black Sea this week has been tested down the low 130s with ample supply of units in the Med likely to find themselves without employment heading into Monday. So, with conditions firmly in Charterers favour and the Black Sea having just fallen, it's likely next week will be one of trying to find the floor before a recovery can be seen.

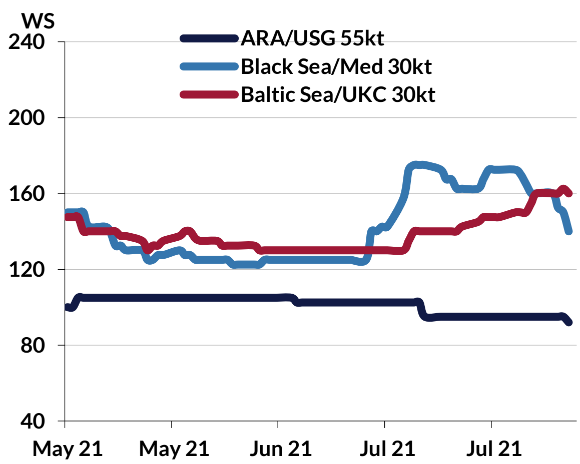
MR

So often the MR sectors see prevailing sentiment made or lost by the impact of surrounding Handymax markets and in the Continent you might have expected more resistance from Owners given the lack of availability for 30kt units. This week, however, has been an outlier for such behaviour and in all honesty Charterers have done well to use the lowest denominator of the market to set Continent values. Elaborating on this, the Med right now is very soft and units have been willing to ballast up for UKCont/Med voyages - being tested down to ws 110, then re applying a + 5 (as that's a typical differential X-UKCont vs UKCont/MED) we have ws 115 as a benchmark for X-UKCont. That's only 12.5 points on a prorate where a Handy sits. Because of this, once the Continent loses a bit of availability - don't be surprised to see Owners trying to push for more X-UKCont on a full 45kt basis.

Panamax

A somewhat repetitive week as conditions dictate that Owners remain on the back foot and, with tests from the Med this week, we have seen a further 5 point reduction placed on the price of moving 55kt transatlantic. That said, surrounding Aframaxes seem to be the culpable reason; offering a similar $/MT on a pro rate, the positive is (if you can call it that) that with current bunker prices we have become marginal whether a TCE looks negative meaning that the surrounding Aframaxes have been pushed to a limit. This is likely to dictate a floor now for Panamax rates and it is also worth remembering that Panamaxes give heat included as well as the flexibility on discharge options. Hopefully this soon translates into increased opportunity.

Dirty Product Tanker Spot Rates



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 6th	Jul 29th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	**+0**	31	32	32	33
TD20	Suezmax	WAF-UKC	**-4**	51	55	49	53
TD7	Aframax	N.Sea-UKC	**-2**	94	96	93	95

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

			wk on wk change	Aug 6th	Jul 29th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	**+1250**	-3,000	-4,250	-3,250	-1,000
TD20	Suezmax	WAF-UKC	**-750**	1,500	2,250	-500	2,500
TD7	Aframax	N.Sea-UKC	**-250**	-3,000	-2,750	-3,750	-2,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 6th	Jul 29th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	**+3**	83	80	75	
TC2	MR - west	UKC-USAC	**+8**	138	130	117	126
TC5	LR1	AG-Japan	**+3**	104	89	79	103
TC7	MR - east	Singapore-EC Aus	**+27**	158	131	117	140

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

			wk on wk change	Aug 6th	Jul 29th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	**+2000**	4,500	2,500	1,500	
TC2	MR - west	UKC-USAC	**+2000**	6,000	4,000	2,000	4,000
TC5	LR1	AG-Japan	**+4250**	6,500	2,250	500	6,250
TC7	MR - east	Singapore-EC Aus	**+5000**	8,250	3,250	1,500	5,500

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

	wk on wk change	Aug 6th	Jul 29th	Last Month*
ClearView Bunker Price (Rotterdam VLSFO)	**-23**	501	524	521
ClearView Bunker Price (Fujairah VLSFO)	**-5**	531	536	537
ClearView Bunker Price (Singapore VLSFO)	**-24**	521	545	531
ClearView Bunker Price (Rotterdam LSMGO)	**-25**	564	589	575

** WS spot rates converted into 2021 WS100*

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