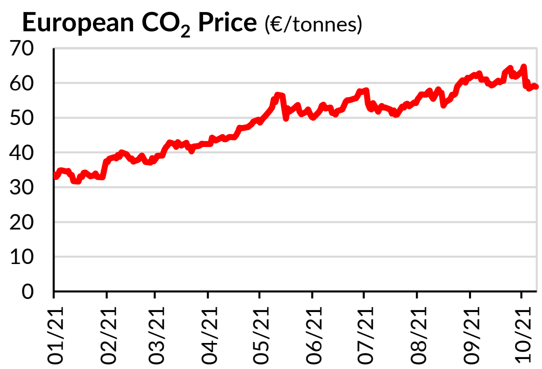
Time for Transition?

Weekly Tanker Market Report

Heads of state haven't even got on their respective planes to fly to Glasgow for the meeting of world leaders to discuss climate issues at COP26 and already there are various groups calling for additional changes to climate policies. COP26 is scheduled for the end of October, while only a few days later the IMO's Marine Environment Protection Committee (MEPC) 77th session will commence. There seems to be significant impetus behind largescale and farsighted action to address climate change.

From a shipping perspective, there has been a coalition of 34 nations and the European Commission who are calling on the IMO to decide in their November meeting to start the process towards zero-carbon emissions. Currently, the IMO is aiming to reduce greenhouse gas emissions by half by 2050. However, this is seen as not being robust enough, with the Marshall Islands, Kiribati and Solomon Islands citing the findings from the recent Intergovernmental Panel on Climate Change (IPCC) Climate Science Report. They have signed a letter to the delegates of the IMO in which the Marshall Islands' ambassador wrote: 'The findings of the recent [IPPC] report could not be clearer and fill us, the most vulnerable to this climate emergency, with alarm.' They call for an adoption of a resolution calling for emissions to be cut to zero by 2050.

The pending COP26 and MEPC meetings will commence at a time when energy is very much in the headlines. Much has already been written about the dramatic escalation in gas (and LNG) prices recently, and which will no doubt be high on the agenda for world leaders to grapple with. Also, the rising oil prices will no doubt get some airtime at the meeting. Without predicting the outcome of COP26, it is certain that there is enough political will by the countries involved to present a more unified stance on environmental issues. This will undoubtedly involve some form of increased interest in what the shipping sector should do.



Shipping is responsible for approximately 2% of global carbon emissions and as such the IMO has recognized the need for action. The International Chamber of Shipping (ICS) recently presented a submission to the IMO, calling for an acceptable market-based measure to accelerate the uptake and deployment of zero-carbon fuels. This could be enacted by implementing a levy on fuels for each tonne of CO_2 emitted. The money would go into an 'IMO Climate Fund' which, as well as closing the price gap between zero carbon and conventional fuels, will also help build the bunkering infrastructure required to supply fuels such as hydrogen and ammonia. The fund would calculate the climate contributions to be made by each ship and collect contributions. In addition, the global airline industry has also committed to reaching net zero carbon emissions by 2050. So shipping is not the only sector that is facing some difficult decisions. A well-known classification society has suggested the need for a CO_2 levy on conventional tonnage in order to create a level playing field for investment in alternative fuels/vessel designs.

Whilst this sounds plausible, the challenges are multiple. First, how to price the levy? Currently carbon prices in Europe are trading around $60/tonne, which has doubled since the beginning of the year. This rise in price has occurred without the impact of the shipping industry having to pay for their emissions. Secondly, there is the very real concern that an additional levy on vessel fuel will ultimately have a knock-on effect on the end consumer, which depending on how the levy is priced, could have an inflationary impact on the economy. Thirdly, there is the problem with bunkering infrastructure. Which fuel will be available in which port? Will the port specialize in one fuel, or will it offer all future fuels? Finally, there is the economic uncertainty that will come with adopting alternative fuels. Which will be best for your vessel and for your trading patterns? Despite all this, the overriding problem that shipping is facing is that this could take more than a decade to enact. We will have to wait for the final outcome of COP26 and MEPC 77, but to encourage the shipping sector towards zero mission fuels, the industry will need much more than just a declaration from a non-governmental organization. Substantial incentives and farsighted leadership is what is needed, plus an extended period of time to design and build the infrastructure and vessel engines that will be required to replace the conventional global fleet.

Crude Oil

Middle East

The theme of the week for VLCC tonnage was sideways with some downward pressure. Expectations were high but lack of activity quickly crumbled sentiment and this downward pressure has come to a halt overnight, with western rates picking up. November stem dates will come into full effect next week and Owners will be hoping to build on the back of a more active market, trying to counteract the ever-rising bunker prices. Last done levels was 270,000mt x ws 40.25 to the Far East and we estimate levels around 280,000mt x ws 20 for US Gulf. Suezmax Owners have continued to make further gains this week and due to tighter availability of tonnage Owners have been able to push rates for Basrah/Europe to 140,000mt x ws 45. Owners are looking to push levels higher for cargoes loading within October and levels to the East are heading towards 130,000mt x ws 70. The outlook continues to improve for Aframax Owners. A combination of increasing bunker prices, steady activity and generally improved Owner sentiment of late is leading to more resistance and with that, rates are firming. Levels to the East finishes the week not far short of 80,000mt x ws 100.

West Africa

Rising bunker prices have led to VLCC resistance in WAF. With good availability of VLCC tonnage in the region faced against a slow-paced market, it was looking like rates should have softened. The reality however has proved the complete opposite. Owners' optimism has made the long haul run much less attractive combined with the rising bunker prices resulting in a firming position in the Atlantic Basin. Last done levels was 260,000mt x ws 45 to China. Suezmax Owners have played a good hand this week and against minimal activity they have been able to further push rates up to 130,000mt x ws 72.5 to Europe and ws 80 East. With more ballasters heading into the area in the next fixing window it looks unlikely that rates will push any higher in the short term.

Mediterranean

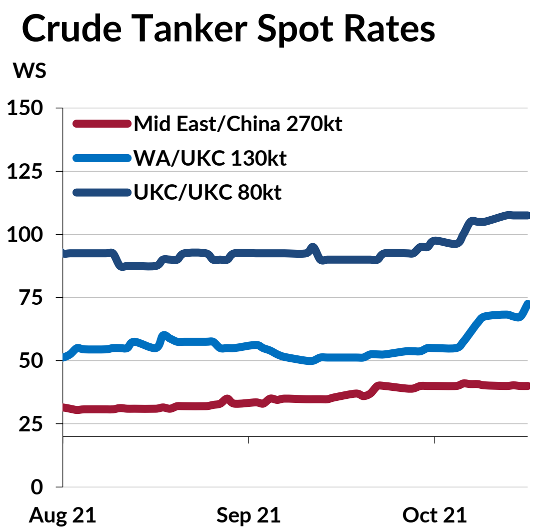
The Aframax market took a sharp downward correction on Monday, with the weight of 9 offers for a market cargo taking its toll. Ceyhan voyages dropped from 80,000mt x ws 105 level to ws 100 and CPC voyages followed suit dropping to ws 102.5. It was believed that those fixtures may have been outliers but as days went on and activity continues to be mediocre, these levels become repeated. The early November CPC program does not inspire Owners and Ceyhan/Libya is stable, so we are likely to remain fairly rangebound into the next few days despite port delays and bad weather. A less active week for Suezmax tonnage where 130,000mt x ws 95 has been paid for an Algeria/Fos voyage. Owners have been less reluctant to fix long haul voyages to the East and Charterers have needed to entice Owners with higher rates. Libya/Ningbo cargoes have achieved rates of $2.85 million with Owners now looking to push for higher levels.

US Gulf/Latin America

The early part of the week saw VLCC rates take a little dip. Since, and with the increased activity and questions from the region, we have started to see upwards pressure. Naturally positioned tonnage remains limited and the upwards movement of bunker prices are making more and more Owners reluctant to ballast at these levels. Last done levels are rumoured around $5.5 million to the Far East. A stellar week for Aframax Owners where tight availability of tonnage collided with multiple cargoes, with rates jumped dramatically fixture upon fixture. Rates have plateaued at 70,000mt x ws 150 for upcoast destinations and ws 135 for transatlantic bound cargoes. Next week more tonnage will come into play and Owners will be looking to defend the gains made.

North Sea

Generally, a quiet week for northern Aframaxes, however, temptations to ballast transatlantic might alert attention over the weekend and thin the position list of available tonnage. Rates end the week flat at 80,000mt x ws 105 for X/UKCont and 100,000mt in the low 80's for Baltic to Europe cargoes.



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

Clean Products

East

LRs have had a week of contrasts. While the LR1s got busier and the rates started to see some real upward progress, the LR2s have dropped further and further down. But now, with a real closing of Westbound rates and East rates building too big a differential, the LR2s are seeing more activity to explore their obvious value.

LR1s saw 60,000mt jet AGulf/UKCont move from $1.50 million on Monday up to at least $1.70 million, with Owners asking more. 55,000mt naphtha AGulf/Japan moved sharply from a low of ws 102.5 straight to ws 125 as suitable ships ran out quickly. This looks likely to now flatten out with the bigger size taking some of the pressure.

LR2s saw rates being nibbled away on each fixture but the renewed volume has arrested the decline and may finally now see the turn. 90,000mt jet AGulf/UKCont is now settled at $2.0 million and shouldn't dip lower. 75,000mt naphtha AGulf/Japan hasn't really been tested but should be ws 90 today. 90,000mt ULSD AGulf/EAF has hit a low point of ws 77.5 but there won't be many Owners jumping at that now. All these rates could and should start firming if the end October activity continues and pushes into November.

Busy week for the MRs. Still no desire to send tonnage West and it shows. $1.3 million UKCont is the going rate and Argentina needs a test. TC12 subs ws 130 and would be hard pressed for replacement. TC17 popular but ws 195 looks cheap now. With LR1s busy and LR2s bouncing back, market looking good.

Mediterranean

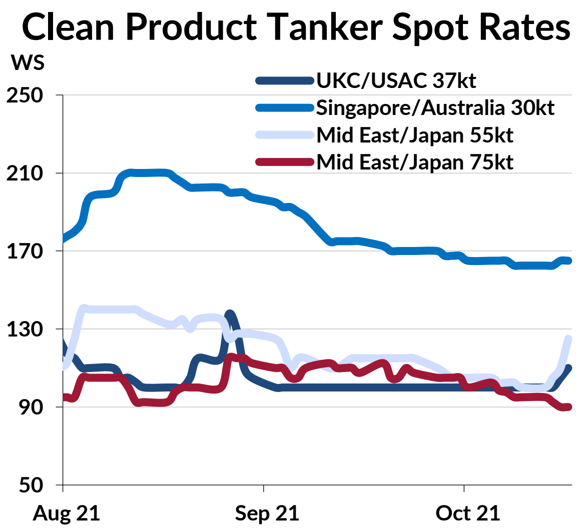
Following a quiet back end to week 40, Monday morning saw a few 30 x ws 120s, which was in line with 30 x ws 130 ex Black Sea (albeit mf Malta). Majority of Owners however were holding at a handful of points higher with paper trading at 130+ for balance of October. Good activity levels throughout this week and an uptick in enquiry ex EMed led to rates firming and come Thursday, coupled with very poor weather around the Med, Owners capitalised and 30 x ws 145 into Libya and 30 x ws 150 ex Black Sea were the next going rates. Friday, however, has seen fireworks in the market with a replacement job ex Black Sea on subs at 30 x ws 185 and a healthy cargo list still needing cover (including replacements) sees Owner's ideas extremely bullish. 30 x ws 180 was seen twice X-Med and we continue to see some Owners with firm itineraries holding back, waiting for the correct time to pounce in order to capitalise on this positive period.

An influx of cargoes at the end of last week and early this week put Owners in good stead to push for some momentum. Monday & Tuesday saw Charterers still able to pick vessels off at the 37 x ws 100 mark transatlantic, however, with the list tightening pre-18th and cargoes still there to cover, it was only a matter of time before rates began to firm. This coupled with a positive UKCont market which saw 37 x ws 102.5 on subs for an SME vessel meant on Thursday, Owners finally made use of a tight list and equivalent of 37 x ws 120 (37 x ws 115 on lc MTBE) for transatlantic was achieved. Expect bullish ideas to persist but Monday will bring a replenished list which could dampen Owners hope.

UK Continent

After a month and a half of ws 100's for TC2 we finally see the market improve to 37 x ws 110. Ending this week with all eyes on the remaining uncovered cargoes, where there's likely more money on the table for Owners. The list has shrunk with each passing day as a good deal of prompt ships were fixed away, tying with the combination of many of the "usual USAC ballasters" heading south for the US Gulf market at the end of last week, ultimately, giving Owners the chance to push this side. In our opinion there's a chance levels could rise further in the short term but we aren't convinced it will last long, given that the US Gulf market is back to 38 x ws 70 and flat... we now will have an influx of ballasters arriving in the 22-30 window in ARA.

Overall, it has been a steady week for Handies plying their trade in NWE as freight for TC9 for the most part has traded at 30 x ws 120, X-UKCont at 30 x ws115 and 30 x ws 100 for UKCont/MED. Continuous fixing has seen the tonnage list take better shape towards the end of the week and with higher numbers now being fixed ex Med, some may even be tempted to ballast down from the UKCont in order to join the party. On Friday, TC9 did improve by 5 points with 30 x ws 125 going on subs off the 28th and around 4 uncovered cargoes being rolled over to Monday could see rates improve some more come Monday. Potential.



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Dirty Products

Handy

Cargoes on the Cont, have been drip fed to the market reflecting the fact that the region was presented with a tight tonnage list on Monday plagued by uncertain itineraries. As units firmed throughout the week cargoes presented which quickly clipped tonnage away giving Owners the opportunity to push on levels. With ws 160 repeated early on, it wasn't long before the market heard of a 5 point gain and we closed the week with Owners poised to push once again. With the Med firming too the back stop of West Med units ballasting up, this is creating some uncertainty putting Owners firmly in the driving seat.

The Med market continues to strengthen and has in the most part been driven by sustained levels of enquiry from the Black Sea. Adding to the tight list this week has been the uncertainty created by bad weather in the Central Med and Black Sea and although replacement business has not been the catalyst for a push on rates, firm tonnage has been steadily clipped away. With ws 157.5 on subs and stems still to cover, week 42 will start with Owners chomping at the bit to push on from here.

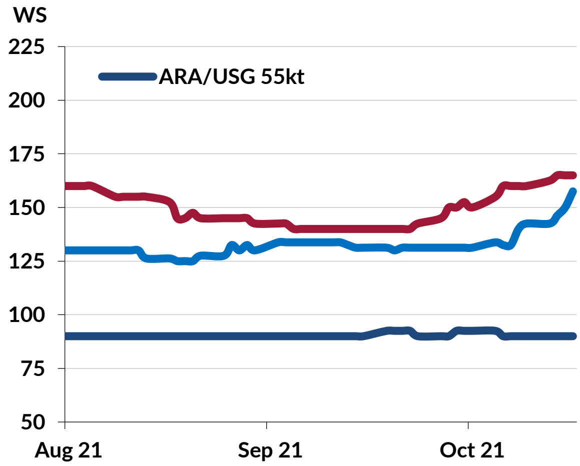
MR

In general Owners are now feeling increasingly confident about the market where not only are they being given a boost from surrounding Handy sectors but also they are finding the confidence to say 'No' to cargoes where ideas are a little too sharp to make sense of, or if the voyages on offer aren't particularly appealing. As far as levels go, however, week on week we are sitting slightly firmer, but put into context even with the gains seen, earnings still run typically below that of what's needed to cover Opex on a round voyage so there is still upside that needs to be found before we can say it's a market Owners are enjoying.

Panamax

Tests this week have shown levels to be fairly consistent with last done despite an absence of fixing activity prior to this week. For Owners though there does at least appear to be some further questioning in the background, but the type of voyages on offer do not appeal to all, and there does seem to be a hidden supply of tonnage in the background being worked. Green shoots of recovery therefor do seem to be a little while off for the time being, but with the US looking firm, some Owners are choosing to ballast back rather than wait it out over here, which also helps to justify current benchmarks.

Dirty Product Tanker Spot Rates



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 14th	Oct 7th	Last Month*	FFA Q4
TD3C	VLCC	AG-China	**-1**	40	41	35	47
TD20	Suezmax	WAF-UKC	**+7**	71	64	52	76
TD7	Aframax	N.Sea-UKC	**+2**	108	106	92	108

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

			wk on wk change	Oct 14th	Oct 7th	Last Month*	FFA Q4
TD3C	VLCC	AG-China	**-3250**	250	3,500	-1,750	7,750
TD20	Suezmax	WAF-UKC	**+2250**	7,500	5,250	500	10,250
TD7	Aframax	N.Sea-UKC	**+250**	2,250	2,000	-5,000	2,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 14th	Oct 7th	Last Month*	FFA Q4
TC1	LR2	AG-Japan	**-7**	90	97	108	
TC2	MR - west	UKC-USAC	**+9**	109	100	100	127
TC5	LR1	AG-Japan	**+21**	124	103	112	122
TC7	MR - east	Singapore-EC Aus	**+1**	164	163	172	172

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

			wk on wk change	Oct 14th	Oct 7th	Last Month*	FFA Q4
TC1	LR2	AG-Japan	**-4000**	2,750	6,750	10,500	
TC2	MR - west	UKC-USAC	**+750**	-1,250	-2,000	-1,000	1,500
TC5	LR1	AG-Japan	**+3250**	7,750	4,500	7,000	7,500
TC7	MR - east	Singapore-EC Aus	**-1000**	6,500	7,500	9,250	7,750

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

ClearView Bunker Price (Rotterdam VLSFO)	**+30**	589	559	526
ClearView Bunker Price (Fujairah VLSFO)	**+20**	603	583	545
ClearView Bunker Price (Singapore VLSFO)	**+45**	621	576	560
ClearView Bunker Price (Rotterdam LSMGO)	**+27**	696	669	594

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