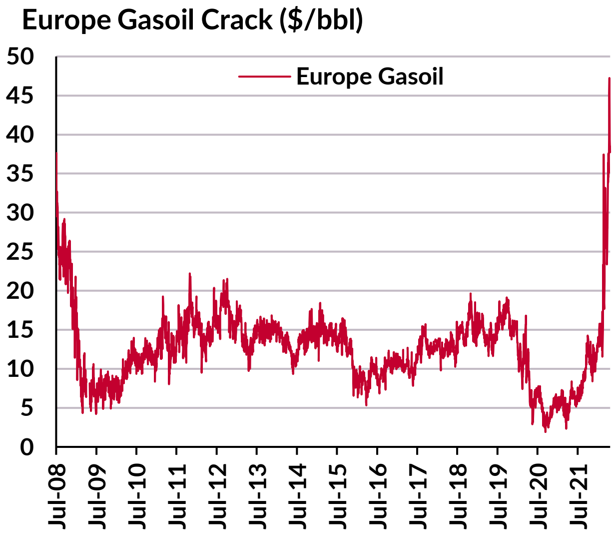
Redefining Refining

Weekly Tanker Market Report

In recent weeks, headline refining margins have surged to record levels, whilst clean tanker rates have also tested or exceeded previous records depending on the region/route. Rates remain volatile and with the International Energy Agency predicting that global refining runs will surge by 4.4 million b/d from April to August this year, owners have good reason to be optimistic in the short term. Yet, oil demand is torn between a post covid recovery and the economic fallout of the war in Ukraine, the reallocation of trade due to Russian sanctions/self-sanctioning and China's zero covid policy. All these factors complicate the outlook, with downside risk on the horizon. However, with the invasion redefining oil trade, the refining landscape faces its own redefinition which will impact the product carrier market for years to come.



In the short term, exceptional refining margins, coupled with very low (in some cases record low) inventories and rising demand provide a clear incentive for refineries across the globe to raise utilisation over the coming months. In the United States, refineries in the US Gulf have historically benefitted from lower energy costs and cheaper feedstock, which remains the case relative to facilities in Europe, particularly given European natural gas prices. Regional refiners are benefitting from strong export demand from their traditional Latin American market in addition to increased European demand, where importers are increasing purchases of non-Russian origin cargoes. US Gulf refinery throughputs are expected to grow further over the coming months due to both strong export and domestic demand. Last week, US Gulf utilisation stood at 92.4%, well below the 96-98% levels typically seen over summer.

Elsewhere, refining activity in the Middle East and India is expected to grow. Indian refinery input reached record levels in February and is projected to grow further in 2022 as new expansion projects boost fuel output, whist access to cheaper Russian oil will also underpin margins. In the Middle East, capacity will also grow, with the full commissioning of Jizan and Al-Zour, the latter which KPC expects to fire up in the coming weeks. Therefore, India and the Middle East combined have the capacity to boost flows Westbound as Russian barrels are increasingly displaced from Europe. Refining activity in Asia is also expected to expand. Growth in China is likely be limited by government policy, although exports could remain elevated if China continues to pursue zero covid. However, facilities in Japan and Korea are also expected to raise runs over the coming months to capture stronger refining margins driven by increased Asian mobility.

In Europe, where significant capacity is earmarked for closure, the picture is more complex. With the region seeing some of the highest natural gas prices in the world, the cost of energy required to power local refineries has soared. Additionally, refineries in Europe which rely on Russian crude via pipeline will face severe feedstock challenges in the months ahead. Nevertheless, even with these obstacles, European throughputs are still expected to recover over the coming months in line with seasonal demand, whilst longer term capacity closures may be delayed as governments reassess energy security.

Undoubtedly, the outlook remains uncertain, but at present all of the evidence points towards a significant increases in refining activity and products trade over the coming months. It may be hard to imagine that the current rate levels will hold, whilst heightened volatility is almost guaranteed. However, the next few months may prove to be a critical period for owners before the economic damage of the invasion leads to further downwards revision in oil demand forecasts.

Crude Oil

Middle East

A somewhat dull week for all with plenty away from the market due to holidays in Asia. Rates have continued to stoop lower, due to a combination of cargo scarcity and plenty of tonnage to compete for the few cargoes that did work. As the week drew to a close we saw a steep drop and the current level stands at approximately 270,000mt x ws 42.5 to the Far East and 280,000mt x ws 23 for UKC via Suez. Gradual activity for Suezmaxes has been prevalent here with cargoes being drip fed into the market throughout the week giving a steady feel. TD23 has held for the majority of the week around 140 x ws 45 level. With well stocked tonnage lists in the region its unlikely we'll see any sign of rates increasing as we go into next week with 130 x ws 82.5/87.5 achievable for Eastern runs. AG Aframax rates remain firm off the front window up to around 15th due to healthy activity and a tight list. However, as many Owners move away from Kozmino trade, the list begins to pad out further into the month. As the week closes AG/East sits at around 80 x ws 195-200 level.

West Africa

The decision of many VLCC Owners to speculatively ballast via Cape, and the numerous fixtures as of late with West discharge locations have put significant pressure on Owners here. Rates have declined by almost 10% since the beginning of the week with the 260,000mt WAF/Far East level currently standing around ws 44. The current weak market for VLCCs and the reluctance from Owners to lock in lower returns, has reduced the premium usually charged for India as the shorter run is now preferred. Suezmax Owners have managed to edge rates up slowly with the list slightly tighter up to 20th. A few more positions open for early 3rd decade as we have progressed through the week so more demand is needed to see rates really push on. TD20 is assessed at ws 80-82.5 and East 130 x ws 85-87.5.

Mediterranean

The long weekend for Aframaxes led to a relatively busy return to the desks this week. In addition, hype surrounding an imminent return to action for Libya allowed Owners to push for stronger rates which fundamentally should not have been there. Ceyhan rates rose from ws 147.5 to ws 155 levels and CPC cargos after the recent dip to ws 215 recovered to ws 230 levels. By the close there was less volume than predicted and Owners' ambitions have stalled somewhat, allowing less desirable cargos to profit from the ships left over. Suezmax Owners had a quiet week with very little activity to spark interest. As with last week TD6 softens yet again with 130 x 130 levels and with plenty of Black Sea players around we expect rates to remain subdued. CPC/Korea runs fetching in the region of $4.5 million LS.

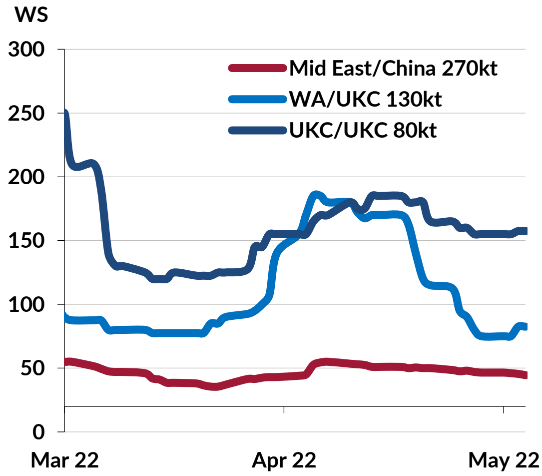
US Gulf/Latin America

The availability of prompt tonnage and limited enquiry in WAF to pull speculative ballasters away, has depressed rates in the USG. With a number of VLCCs fixed to discharge in Rotterdam coming up, and very limited volumes being moved from the North; the short-term outlook is rather bleak. US Gulf to the Far East today sits in the region of $5.4 million.

North Sea

Owners felt the pressure this week with little to shout about as Baltic rates took another dive and the North Sea flattened out. The uncertainty over mid-month sanctions has pushed Owners to try and lock in at decent levels but at the same time driven rates down. Baltic/UKC is now trading ws 200 level and X-North Sea at ws 155. The North Sea is flattening out now although some Owners are preferring to ballast than risk hanging around in an uncertain market. Next week should hopefully offer some more clarity to the current muddy waters.

Crude Tanker Spot Rates



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

Clean Products

East

A flat week for the MRs with public holidays in the Middle East and Singapore halting the upwards surge. However, with a very busy LR segment and a tightening Far East market, the MRs have simply had a buffering week before what looks like another push next week. The segment is due substantial TC17 enquiry (AGulf/EAF). A dip off in east/west movements was inevitable given the levels subbed and now fixed from last week - more owners being attracted to the Latam-type runs which they usually avoid but currently show great TCE earnings. With Aramco are yet to return considerable volume to the segment following Eid al-Fitr, if it comes early and quickly next week the MRs will once again make a push higher.

LRs have had another turbulent week even with Japanese and Middle East holidays. LR1s have seen good volume all week and rates have accordingly kept climbing. 55,000 mt Naphtha AGulf/Japan is now at ws 320 up some 40 points with 60,000 mt Jet AGulf/UKCont firming even more and now at $4.95 million. Rates have consistently risen but more is now quoting on the LR2s which may head off some LR1 business - having said that, no letup has been seen yet. LR2s in themselves having started the week fairly quietly have now jumped and 75,000 mt Naphtha AG/Japan moved quickly in the last 48 hrs with ws 260 then ws 280 and now ws 300 going on subs one after the other. 90,000 mt Jet AGulf/ UKCont saw a big push with stems off the earlier window with $5.50 million taken by Charterers - Owners ideas now reside just South of $6.0 million and should be achievable.

Mediterranean

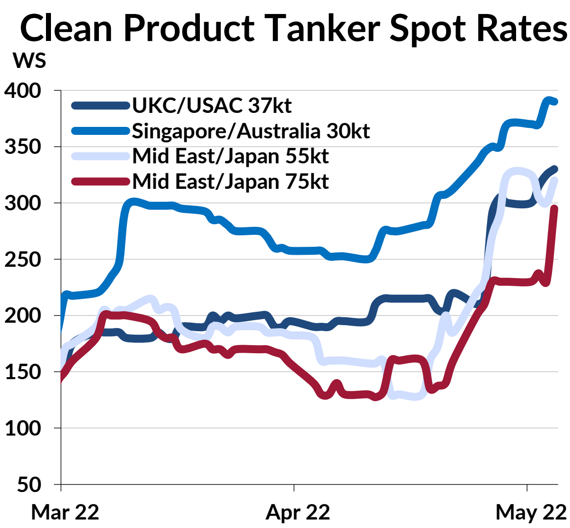
After what was a steady start to the week in the Med Handy market we have seen a strong finish with rates firming up around 20 points. We began the week with 30 x ws 275 being repeated for X-Med but as we have progressed enquiry has improved and therefore tightened up the front end of this list. At the time of writing 30 x ws 295 is on subs for X-Med and there is a feeling amongst Owners that this can continue to rise before the week is out. Russian Black Sea levels have also received tests this week which sees levels now at the 30 x ws 425 mark with non-Russian loads trading around 20 points less. Heading to the weekend Owners ideas are bullish so expect Charterers to hold off until Monday before quoting (if they can) to try and bring some more candidates into play.

Overall, it's been a positive week for the Med MR's which have seen rates firm off the back of improvement in surrounding MR markets (UKC & East). TC2 levels have increased around 30 points this week which has helped the Med begin to push for more also. Unfortunately for Owners in the Med, we have not seen the same levels of enquiry as the UKC and as a result rates have only pushed up 10 points here (37 x ws 310 Med/TA). The last done WAF premium is at the +20 mark on Med/TA but given the lack of enquiry we expect this to correct to +10 when next tested. The market steady into the weekend.

UK Continent

Another successful truncated week passes for the Owners, with the bank holiday Monday condensing Charterers opportunities to cover and Owners positivity has only blossomed under these conditions. We walked into the week at 37 x ws 300, but it didn't take long to see ws 310 and more for a couple of troublesome stems. By midweek we had peaked at the 37 x ws 330 with optionality costing more, and despite Charterer's attempt to slow the inquiry down, there seems little opportunity to see anything but last done offered or more. At the time of writing, we see 5-6 stems outstanding and no doubt more behind closed doors and would expect right now Charterers to be content at fixing last done as we expect this positivity to continue into the first half of next week.

It's been a positive week for Handies plying their trade in the North as freight has improved in all sectors. The Continent has seen busier on the X-UKCont run and a few prompt/restricted stems were the catalyst for X-UKCont to firm to 30 x ws 290-295. UKC/MED even though quieter with only the odd cargo being quoted sees levels trade at 30 x ws 250. Finally, to the Baltic where Russian lifts trade at 30 x ws 385-390 but is very much owner/entity dependent. A few stems remain uncovered in the 16-20 window which will be met with bullish fixing ideas by Owners. Potential heading into next week.



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Dirty Products

Handy

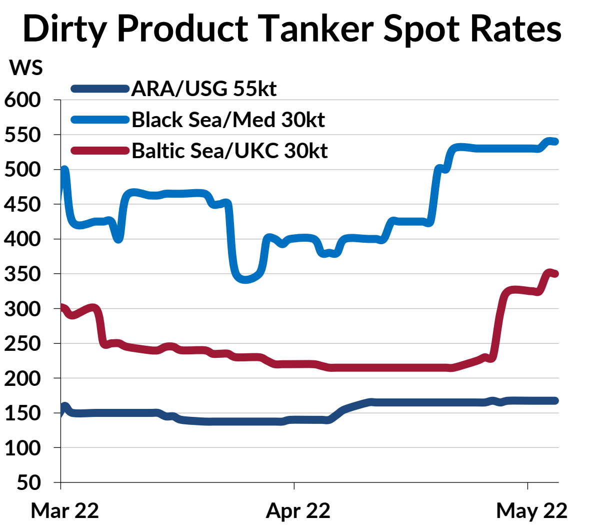
The recurring theme of tight availability continues in both the Med and Continent alike where as soon as tonnage is firming up on itineraries we seem to have Charterers waiting in the background ready to clip units out. Because of this continual demand, the lists are not being given time to replenish and where Owners have options on what they can go and fix, they have been able to command increments between deals. That said, where the market on occasion has gone up too far too quickly rates did eventually settle where at time of writing the Med sits at ws 310/315 and the Continent being the biggest winner this week now up at ws 325. For the short term at least, you cannot take your eyes off of the Handy markets but we are approaching a pivotal date which had the potential to shake fundamentals yet again.

MR

The benefit of being an MR Owner in Europe continues to be the fact that firming rates and tight tonnage in surrounding markets makes taking part cargo less of a time filler and more a viable option for most. Owners that have been holding out for full stems where Russian loading is involved continue to throw their hat in the ring for similar cargoes especially from the Black Sea and are reaping the benefits of ws 500+ markets. Those not willing these runs aren't being left on the shelf however where limited supply of tonnage on both the Handies and MRs are supporting earnings for non-Russian cargoes in a strong position for a traditionally slower time of year.

Panamax

Despite the number of marketed units this side of the pond increasing this week there really hasn't been the level of questioning those Owners would have liked. Rumours early in the week of some barrels up for grabs in the north got tongues wagging but radio silence fell on the market until close to the end of the week when one unit approaching opening dates was rumoured on subs. The fresh test the market has been waiting for saw ARA-Transatlantic on subs at ws 155 however with subs quickly failing the market is left back to where it started the week. With the Panamax Transatlantic market currently the least active, those with units to fix will be keeping an eye on more localised runs.



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GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 5th	Apr 28th	Last Month*	FFA Q2
TD3C	VLCC	AG-China	**-2**	45	47	53	47
TD20	Suezmax	WAF-UKC	**+1**	79	78	187	106
TD7	Aframax	N.Sea-UKC	**-3**	155	158	169	130

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

			wk on wk change	May 5th	Apr 28th	Last Month*	FFA Q2
TD3C	VLCC	AG-China	**-6000**	-8,000	-2,000	6,750	-4,750
TD20	Suezmax	WAF-UKC	**+1750**	4,000	2,250	64,750	19,750
TD7	Aframax	N.Sea-UKC	**-250**	27,750	28,000	42,750	10,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 5th	Apr 28th	Last Month*	FFA Q2
TC1	LR2	AG-Japan	**+55**	289	234	131	
TC2	MR - west	UKC-USAC	**+21**	327	306	193	264
TC5	LR1	AG-Japan	**+20**	307	287	156	237
TC7	MR - east	Singapore-EC Aus	**+25**	391	366	252	279

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

			wk on wk change	May 5th	Apr 28th	Last Month*	FFA Q2
TC1	LR2	AG-Japan	**+16750**	61,500	44,750	11,250	
TC2	MR - west	UKC-USAC	**+4500**	31,750	27,250	8,750	20,750
TC5	LR1	AG-Japan	**+3500**	46,750	43,250	12,000	30,250
TC7	MR - east	Singapore-EC Aus	**+3250**	40,250	37,000	18,250	21,500

(a) based on round voyage economics at 'market' speed, non eco, non scrubber basis

ClearView Bunker Price (Rotterdam VLSFO)	**-20**	801	821	821
ClearView Bunker Price (Fujairah VLSFO)	**+74**	911	837	846
ClearView Bunker Price (Singapore VLSFO)	**+36**	873	837	815
ClearView Bunker Price (Rotterdam LSMGO)	**-42**	1229	1271	1045

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