No Longer a Benchmark?

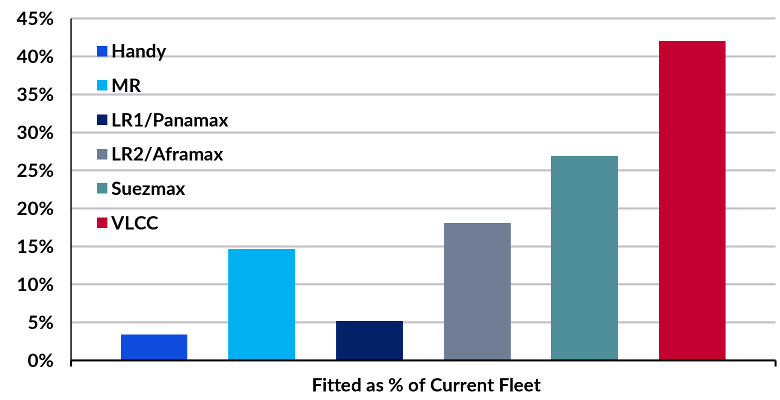
Weekly Tanker Market Report

Spot VLCC earnings were in the negative territory for most of last year, with TD3C averaging minus $250/day on a slowsteaming, non-scrubber, non eco basis. So far this year, returns have been equally disappointing. Despite typical seasonal support offered to the market during the 1st quarter and the fact that Middle East (excl. Iran) crude exports, the principal market for VLCCs, averaged between January and March 2022 2.3 mbd above levels seen over the same period in 2021, spot earnings remained negative. Only in April, average VLCC returns managed to "climb up" to zero, whilst Suezmaxes and Aframax enjoyed much healthier results due to a spike in rates.

Of course, some of this stubbornly persistent weakness in the VLCC market is due to fundamentals. The fleet is bigger than what it was back in 2019, due to ongoing deliveries and minimal scrapping, despite near record high demolition values. Middle East crude exports remain below the volumes shipped back in 2019. At the same time, whilst smaller crude tankers are benefitting from increases in tonne miles, with Russian barrels into Europe starting to be replaced by shipments from the US, West Africa and the Middle East; VLCCs are losing out as the above trend limits the volume of crude available for long haul shipments East of Suez. In addition, we have recently seen an unusual increase in VLCC shipments from the US Gulf and West Africa into Europe, which again is detrimental to VLCC demand due to a relatively short distance compared to a typical VLCC voyage.

With benchmark earnings so low for so long, it is perhaps surprising that we haven't seen meaningful increases in demolition activity. In part, an answer to this lies in a high uptake of the scrubber technology in the VLCC sector. According to Gibson's database, around 42% of existing VLCCs have been fitted with exhaust gas cleaning technology, with a standard scrubber-fitted 10-year-old tanker earning on average just over $6,000/day more than a similar non-scrubber vessel last year. The scrubber premium has increased in 2022, in line with increases in bunker prices and the widening gap between HSFO and VLSFO prices. So far this year, scrubber equipped VLCCs have earned around $11,000/day more on the spot market, a premium over a non-scrubber tanker wide enough to cover OPEX. Yet, the differentials could narrow once again if disruptions in Russian fuel exports translate into tightness in global fuel oil supply pushing HSFO prices higher.

Scrubber Fitted Tanker Fleet (%)



Apart from scrubber equipped VLCCs, another 11% of internationally traded VLCCs (non-scrubber) are built in 2015 or later, meaning that those vessels are likely to be "eco design", hence being able to generate higher returns due to lower bunker consumption. Furthermore, there are also quite a few non-scrubber fitted tankers, mainly around 20 years of age, trading sanctioned Iranian and/or Venezuelan barrels. These vessels account for 11% of the existing VLCC supply and operate outside the international market, at a notable premium compared to mainstream industry earnings.

Evidently the majority of the VLCCs trading on the spot market are capable of generating higher returns than the benchmark 'Baltic Exchange' VLCC description. Furthermore, with more newbuilding VLCCs to be delivered and some ships yet to retrofit, going forward the trading fleet will increasingly become eco and/or scrubber fitted. So, this begs the question, is it now time to assess benchmark VLCC earnings on a different basis?

Crude Oil

Middle East

A very uninspiring week for VLCC Owners, with Charterers being able to constantly chip away from last done. It felt Owners' sentiment deflated further as the week progressed. Last done to the East is 270,000mt x ws 40.75 and we estimate levels West to be around 280,000mt x ws 23 for the US Gulf. The week has passed with little to no excitement; Suezmax rates have been chipped away at but remain pretty much as they were, with TD23 settling at 140,000mt x ws 42.5-45 level and an East run around 130,000mt x ws 82.5-87.5. Cargo slate remains light and Charterers still have keen ships for both East and West discharge. We don't expect much change to the current market moving into next week. After a healthy run, Aframaxes in the AGulf are starting to cool. With many Owners heading away from Kozmino and Owners less keen to ballast into the poor performing Med market, the tonnage list has built up and with that options are more visible for Charterers. Rates are down to 80,000mt x ws 190 level for AGulf/East.

West Africa

Similar discounts have been achievable for VLCC Charterers here as some Owners are starting to feel the heat in looking to get fixed away before this market somehow falls further. Returns remain abysmal and locking in at such levels for some is just a too bitter pill to swallow. Last done is 260,000mt x ws 42 to the Far East. A glimmer of hope for Suezmax Owners this week but ultimately it is all fallen fairly flat. Despite Owners pushing for more, the list remained more Charterer friendly and Owners were hoping for a bit of support from the Americas to really put the squeeze on. WAF/UKCont-Med has settled at 130,000mt x ws 87.5-90, and a run East ws 92.5-95. Deals are being concluded quietly but we see little change to the current market this side of the weekend.

Mediterranean

A week to forget for Med Aframax Owners as ground hog days provided more of the same. Libya has provided little volume as Force Majeure rumbles on, and Charterers were able to fix forward with little difficulty. Ceyhan rates were eroded from 80,000mt x ws 157.5 levels to ws 155 early in the week. Then, after a lack of activity, a nice long voyage from Sidi Kerir to Lavera was concluded at ws 135. Black Sea has remained inactive, with rates dipping marginally under the ws 200 mark but there will be resistance there considering legal and safety issues going forward. Activity levels have been light, with cargoes working receiving multiple offers. Many Suezmax Owners have been pinning their hopes on CPC cargoes, which haven't materialised and talk of a much reduced June programme did little for forward sentiment. TD6 remains soft at 135,000mt x ws 120-125; long haul East runs have tested downwards with Libya/Ningbo down to around $3.4-3.5

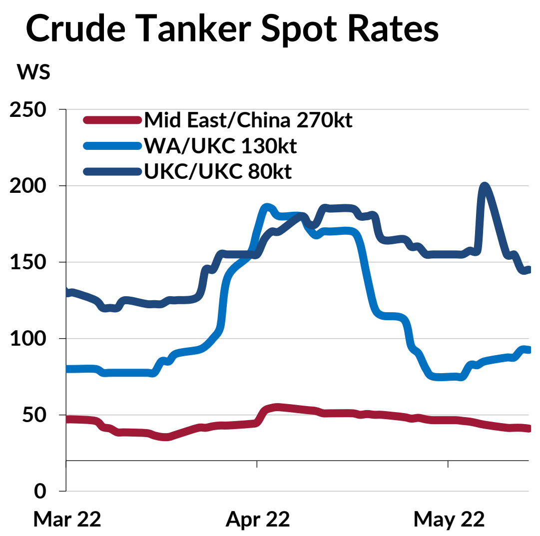
million and CPC/South Korea $4.1-4.3 million level. Lists remain well stocked for tonnage and we expect a quiet close to the week.

US Gulf/Latin America

A week of two halves for Aframax Owners as the start of the week saw some Owners having to compromise and accept lower levels; yet, as the position list balanced, such discounting become more of an acceptance from Charterers to repeat last. Levels hold at around 70,000mt x ws 132.5 for transatlantic and levels around ws 140 for a short run.

North Sea

A slow week in the North as Aframax volumes decrease and rates follow in tandem. X North Sea is trading around 80,000mt x ws 145 levels and Baltic/UKCont at around 100,000mt x ws 200. Nothing looks likely to change the status quo in the near term, with sentiment very flat. The dearth of the Baltic has left a lot of ships with little to do and this won't change any time soon.



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

GIBSON SHIPBROKERS

Clean Products

East

As expected, the MRs took a dip as the position list gave Charterers good opportunity to pick off ballasters and good itineraries for better than last done. With 31 fixtures this week, the list has vastly improved from an Owners' point of view and MRs should hold from here. We're still missing end month TC17 enquiry and, with the LR1s staying buoyed, the ceiling is still high. TC17 should remain at ws 390 levels, whilst West runs continue to be upsized (rates at the $3.1 million levels). TC12 is due a considerable correction lower, as even a drop to ws 320 would give earnings over $15k a day more than TC17. A busy start to next week will help Owners stay motivated and, with Norient the main player at the top of the list, any replacements or prompt cargoes will likely be corrected.

A relatively slow week that's been mainly dominated by Hafnia for the LR1s. With not much activity in the early part of the week, there was a feeling that we could start to see a negative correction creep into play. However, at the midpoint of the week, Hafnia put 10 ships on subs and this certainly cleared out the list. Although details of most fixtures were kept off market, the list bounced back to looking relatively balanced and thus enabling Owners to hold on at the last done levels. UKCont on subs twice at the $4.95 million mark saw a quick recovery from the perceived softer rate that was achieved on the Alky stem. TC5 requires a fresh test but, with the sentiment flat heading into the week, 55 x ws 310-320 is a fair assessment. With the list looking balanced and June stems expected to make an appearance next week, expect rates to remain flat as owners are content to lock in cargoes at these earnings.

Extremely tight off the front end of the list, which has equated to firming across all routes. 90 x ws 310 for East Africa highlights that it no longer trades at a discount, and ATC likely to pay over $6 million for next AGulf/UKCont run. Naphtha is also busy, although likely takes a slight correction to 75 x ws 280 going into the next window. Expect more ballasters both from the West and Far East going into the 10-15 window, which will correct freight slightly.

Mediterranean

All in all, it's been a pretty stable week for the Handies in the Med, which has seen rates trading between 30 x ws 295-305 levels for most of the time, with levels very much dependent on dates and grade. At the time of writing, 30 x ws 300 is last done X-Med but as the week has progressed, fresh enquiry has slowed. With the weekend approaching, it is likely we will see the list lengthen come Monday morning. Black Sea levels continue to be unsettled, with Non-Russian rates varied dependent on counterparty and Russian loads still at over a 100 point premium. Market steady heading into the weekend.

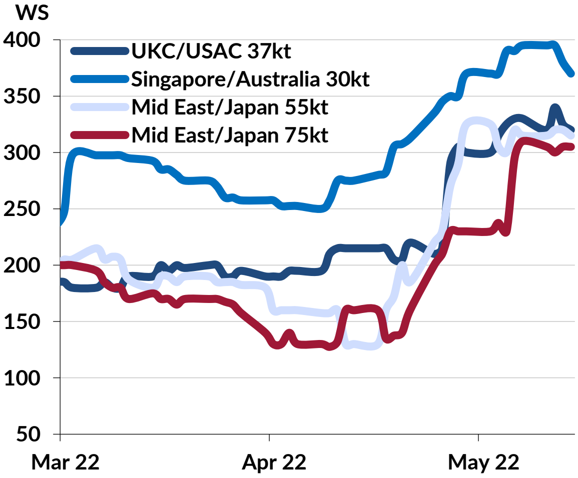
A positive week for the Med MRs, which has seen rates gradually improve. 37 x ws 310 was the call for Med/transatlantic at the start of the week, with TC2 levels being the main driver of this, given the lack of enquiry in the Med at the time. However, as we entered the back end of the week, cargo enquiry has improved and as a result we saw 37 x ws 320 repeated across the board and now 37 x ws 340 is on subs transatlantic. WAF is in need of a fresh test, with levels expected to land 10 points in line with transatlantic. Strong finish here.

UK Continent

This week passes with a feeling that some negative correction was just around the corner. In reality, Owners have played a savvy game to hold rates up to around 37 x ws 320 for the majority... that is until Thursday, where one Charterer in particular took the opportunity and placed 5 ships on subs. This, partnered with other entities also jumping in, meant a fresh tonnage list this morning looked rather red and little options for any outstanding stems. This is starting to fall true now as 37 x ws 345 is put on subs and, with further stems still to cover in the high teens window, expect further gains to be possible. WAF enquiry has also picked up a touch, where in previous weeks the LRs have been preferred and so far continue to hold their 10 point premium. Moving into next week, expect further volatility as the fix/fail ratio tonight will really define what attitude Owners bring to the table next Monday.

Not quite as exciting a story here for the Handies plying their trade in the Continent but as a positive we did see rates continue to hold around the 30 x ws 300 mark throughout the week for X-UKCont. An improved premium was also seen for Russian Baltic load up to 30 x ws 425 and now expect this sector to hover around here, especially with the improved MR sector and therefore potential to spill over and offer Handy owners some longer voyages. Steady ahead.

Clean Product Tanker Spot Rates



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Dirty Products

Handy

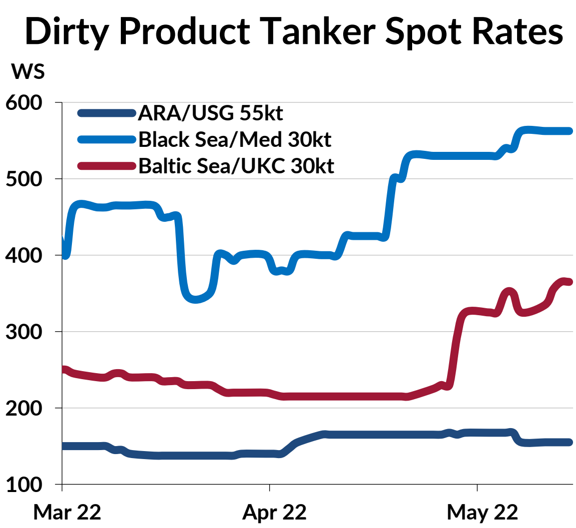
Numbers have strengthened again this week on the Continent, as the slow supply of availability is met with Charterers sitting back waiting for units to firm. Another trait of strong sentiment right now is that fixing dates for which units are being booked off are long forward, and of course stretching ahead comes with its own risk, especially in the Continent where of late we have seen units delayed. Furthermore, in the Med we are also seeing a similar situation occur, with firm units being hot property. There are questions of whether this may be the top of the market now for non-Russian activity, as the cut off on the 15th does hold potential to create some change in the market. Until such things are quantified though, Owners will continue to enjoy the ride of this bull run.

MR

What to say on the MRs!!! A rampant surrounding Handy sector and limited availability. For owners, you can't ask for a much better script right now. With this in mind it comes as no surprise to see they are fully in the driving seat. However, as always, there remains the need to add a degree of sensibility and generally this is being observed. Increments between deals haven't been too dramatic and as such, Charterers are still willing to meet the demands laid before them. It is the forward supply though, which continues to give Charterers a headache, with the advice being given to make sure you can move on alternate sizes just in case.

Panamax

Fresh enquiry at the end of week 18 provided uncertainty for Charterers in the beginning of this week, as availability of workable tonnage had been very limited. This theme has continued further through the week, despite some fixing and failing occurring. Furthermore, units positioned this side of the Atlantic have either slipped on dates or are just not workable for some. Looking forward into next week, we expect little tonnage replenishment close to our shores; however, the Caribs markets have gradually softened over the past couple of weeks. If this continues, more Owners with units in nearby ballast zones may start to seek employment here.



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 12th	May 5th	Last Month*	FFA Q2
TD3C	VLCC	AG-China	**-4**	41	45	52	45
TD20	Suezmax	WAF-UKC	**+11**	90	79	171	107
TD7	Aframax	N.Sea-UKC	**-11**	144	155	180	132

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

			wk on wk change	May 12th	May 5th	Last Month*	FFA Q2
TD3C	VLCC	AG-China	**-2250**	-10,250	-8,000	3,500	-4,000
TD20	Suezmax	WAF-UKC	**+9000**	13,000	4,000	54,000	23,250
TD7	Aframax	N.Sea-UKC	**-3000**	24,750	27,750	45,750	17,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 12th	May 5th	Last Month*	FFA Q2
TC1	LR2	AG-Japan	**+8**	297	289	130	
TC2	MR - west	UKC-USAC	**-6**	321	327	214	266
TC5	LR1	AG-Japan	**+7**	314	307	161	239
TC7	MR - east	Singapore-EC Aus	**-22**	369	391	276	292

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

			wk on wk change	May 12th	May 5th	Last Month*	FFA Q2
TC1	LR2	AG-Japan	**+4250**	65,750	61,500	9,500	
TC2	MR - west	UKC-USAC	**+1000**	32,750	31,750	11,250	23,250
TC5	LR1	AG-Japan	**+2750**	49,500	46,750	12,000	31,750
TC7	MR - east	Singapore-EC Aus	**-2750**	37,500	40,250	21,500	24,750

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

ClearView Bunker Price (Rotterdam VLSFO)	**-50**	751	801	830
ClearView Bunker Price (Fujairah VLSFO)	**-70**	841	911	868
ClearView Bunker Price (Singapore VLSFO)	**-33**	840	873	850
ClearView Bunker Price (Rotterdam LSMGO)	**-138**	1091	1229	1181

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