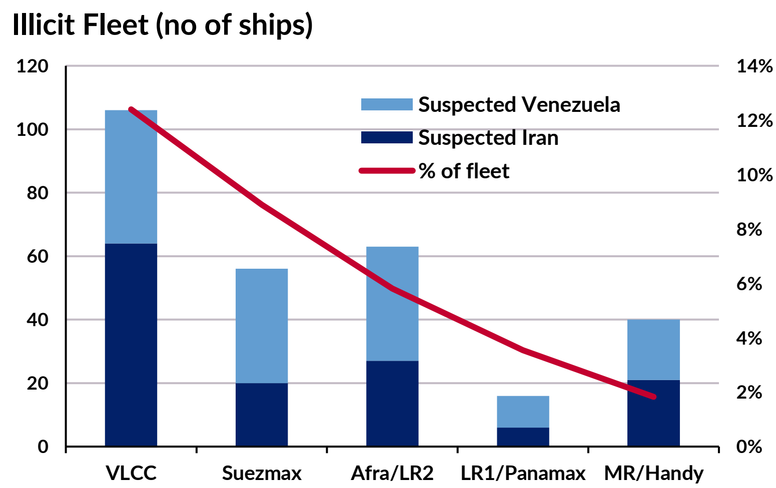
Where Ageing Tankers Go

Weekly Tanker Market Report

Last year saw a notable increase in tanker demolition, recording the second highest number of tankers (above 25,000 dwt) scrapped since 2020 on the back of depressed industry earnings. Activity was particularly robust in the Handy/MR segment, with over 50 tankers in this size group reported for demolition sales in 2021, whilst nearly 20 units have also been reported so far this year.

Nonetheless, whist some categories enjoyed and ultimately benefitted from robust scrapping activity, demolition sales for larger crude carriers, in particular VLCCs remained constrained. Just 12 VLCCs were scrapped last year, with one further sale reported so far in 2022, although a few more vessels permanently involved in storage operations were also reported for demolition sale. As a result, the VLCC fleet continued to age, with 10% of the existing fleet built in 2002 or earlier and another 4% built in 2003. Scrapping in the Suezmax segment has been more active compared to VLCCs; yet the percentage of ageing tankers in these categories is proportionally similar, with vessels built in 2003 or earlier accounting for 14% of the existing fleet.

We have long argued that the lack of demolition in the larger tanker segment is due to employment opportunities for ageing tankers to move Iranian and/or Venezuelan barrels. If anything, this trend has become even more pronounced since last year, with a list of tankers associated with sanctioned trade continuing to grow. As of now, 12% of the existing VLCC fleet and 9% of the Suezmax fleet are linked with the Iranian and/or Venezuelan trade. There are more vessels suspected to be involved; but the evidence so far has not been conclusive. Overall, tankers involved in illicit trade represent a sizable portion of the fleet, accounting for the vast majority of vessels built in 2003 or earlier. Once these units commence trading sanctioned barrels, they disappear from the mainstream international market. In addition, sanctioned trade operations appear to be highly inefficient, with most vessels being able to load (or seen/suspected to load) once or twice a year, with plenty of time spent in ballast waiting to load or laden waiting to discharge. Of course, tankers involved in such a trade, often go dark, making it much harder to obtain accurate picture of what is happening exactly. Yet, export data provides further evidence of the inefficiency of illicit operations. Kpler estimates that between May 2021 and April 2022, Venezuela and Iran exported 0.55 mbd and 0.73 mbd respectively. Assuming that all these barrels are destined to China with a 30/70 split between Suezmaxes and VLCCs, if operations were efficient, theoretically just 20 VLCCs and 30 Suezmaxes would be needed for this trade.



With more and more ageing vessels moving into illicit "closed" trades, there are not many tankers in this age group left in the conventional market, particularly if vessels involved in fuel oil/crude storage are taken out of the equation. According to our estimates, just 18% of VLCCs and 27% of Suezmaxes built in 2003 or earlier are seen as actively trading. Ageing tonnage seen regularly storing is unlikely to return to active trade; however, the future of those involved in illicit operations is uncertain. International efforts to reach a compromise with Iran and Venezuela have intensified in recent months and if sanctions related to Iranian and/or Venezuelan crude exports are eased or removed, then competitive, internationally traded tankers are likely to gain dominance in this market. For the "ghost" fleet this could facilitate demolition, but with Western governments increasingly moving away from Russia, at least some of those ships are likely to find new employment opportunities.

Crude Oil

Middle East

VLCC interest throughout the week has held up with some respectable fixing in terms of volume; unfortunately though this has not really resulted in Owners being able to push for much higher levels due to the overabundance of tonnage for the region. Last done for the East has moved up to 270,000mt x ws 43.5 to China and one fixture to the Cont returning 280,000mt x ws 24.75 via Suez. Increased fixing levels in other regions have pushed rates here. Increased optionality for Suezmax Owners has boosted sentiment and despite cargo volumes not being majorly up, what has been worked has seen positive increments on last done levels. TD23 has firmed to 140,000mt x ws 52.5-54 level, with a voyage East now at 130,000mt x ws 92-92.5. We don't expect any more rate hikes but, with a couple cargoes still working, Owners remain well placed going into next week. A whirlwind week for Aframaxes in the AGulf region. Rates bottomed to 80,000mt x ws 180 early on and then activity whipped up, clearing a large chuck of tonnage from the list. Owners will be looking to claw back lost ground and it is perfectly conceivable that rates will nudge back up to the ws 190-200 level early next week.

West Africa

A culmination of increased WAF and Americas activity has enabled Suezmax rates to firm here. WAF/UKCont-Med, currently being traded, likely to settle at around 130,000mt x ws 97.5-100, with a voyage East around ws 105-107.5. Owners' sentiment has been very strong, whilst fundamentals haven't quite equated to rates pushing on much further. With VLCCs close to capping Suezmaxes, Owners were always going to be brought back to reality. VLCC levels have been stable throughout the week, with only limited interest for Eastern destinations. Potential part cargo enquiry to the Continent has been added to the menu but it hasn't left the specials' board just yet, as we are yet to really see any real move on the Suezmax levels. Last done East is 260,0000mt x ws 45, with levels around ws 50 being paid to the Continent.

Mediterranean

The Mediterranean Aframax market has found a natural resting place, as most cargoes achieve last done or very close. Owners have reached a resistance level of between 5 and 10k TCE and will wait rather than commit to less. Ceyhan voyages are in the 80,000mt x ws 120-125 levels, depending on destination, and Black Sea voyages continue to outperform. TCEs here are $20k+, with rates at ws 170 levels. West Med ships are considering ballasting to stronger markets, whilst the Med may recover, yet the going will be tough for Owners. Rates have taken a tumble ex CPC after a light spell in terms of Suezmax enquiry. TD6 has bounced since early week lows of 135,000mt x ws 107.5 nearer to ws 112.5-115 level. Long haul East runs have been the real talking point, with one Charterer getting caught out, when

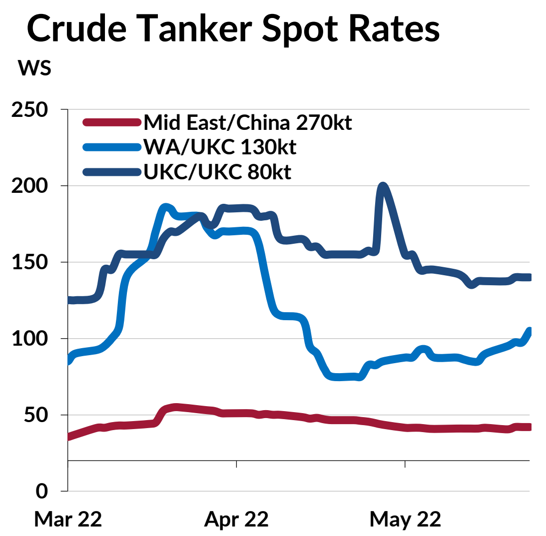
Owners duly took advantage of a low counter. Libya/Ningbo has firmed to \$3.9-4 million and CPC/South Korea \$4.2-4.3 million. We wouldn't be surprised, if next done levels test downwards with Force Majeure in Libya and a lighter June CPC programme not supporting Owners in the medium term.

US Gulf/Latin America

One region where Aframax Owners have been able to reap some healthy rewards due to a decent upturn in enquiry. Availability for early positions command a decent premium but anything forward will see Med and Cont ballasters competing, which will handcuff levels to a certain extent. Short haul runs are around 70,000mt x ws 205, with transatlantic holding at around ws 195. VLCC Owners have not had enough cargo enquiry to really hammer home any advantage here just yet; but, with Suezmax and Aframax interest on the up, it looks like it is only a matter of time before we see more Charterers looking to the VLCCs. Last done East is reportedly fixed at \$5.35 million and \$2.95 million to the Cont.

North Sea

A pretty tepid week in the North as Aframax rates bottomed out and then flat lined. The warmer States market has attracted a fair amount of ballasters from both Cont and Med. X-North Sea is trading at 80,000mt x ws 140 levels and Baltic/UKCont is around 100,000mt x ws 165 levels. This looks likely to travel sideways for now.



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

Clean Products

East

Same old in the MR market as volume has remained steady, with the average weekly count of fixtures (29) either fixed or with subjects due. The theory remains that options' cargoes should pay more but disappointingly this week Owners have not kept the pressure up and as a result all rates have dropped, except the market baffling TC12. X-AGulfs are lurching towards $500k, whilst EAF has jumped between ws 387.5 and ws 367.5 all week. Not all Owners are singing off the same hymn sheet. AGulf/West has corrected to $3 million, which still earns a cool $40k/day TCE ballasting from Singapore. Expect more ballasters this weekend.

A lacklustre end to the week for the LR1s, with the cargo count being very short. There were a few nervous Owners that did deals which have thrown a fair bit of confusion into the market. $4.0 million on subs for a jet West stem and short haul runs negatively correcting circa $500k. How this sets up for next week is hard to call. Jet suitable ships will still hold value, especially with the high bunkers, but all Charterers will be aiming to achieve at least last done. If we see a pre Posidonia run, rates could very easily recover to the $4.25 million levels West. TC5 is untested with only one deal done this week (Platts no floor/ceiling), so expect to see more enquiry on naphtha stems; however, assess TC5 at 55 x ws 270 levels for now. With public holidays in the UK at the end of next week and with Posidonia the week after, activity levels should pick up, which hopefully will at least give clarity as to where the market sits.

We have lacked a good volume of product on the LR2 segment. A flip-flopping diesel arb has meant less enquiry for AGulf/UKCont Westbound runs. Last done $4 million on a clean-up unit but a lengthy list means that Charterers would aim to repeat these levels on upcoming stems, regardless of grade. TC1 has been fixed at Platts, fixed rate would be 75 x ws 225 levels. The dollar per ton available on this segment will encourage further enquiry in the new week. EAF runs are likely a popular run and with missing Aramco volume, as always can change the landscape of sentiment very quickly.

Mediterranean

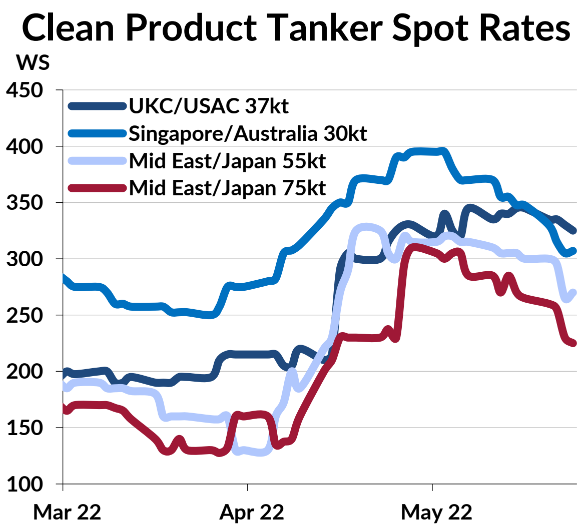
An influx of cargoes on Monday set the tone this week, with Owners on the front foot from the off. This coupled with a tightening list (due to a few more Black Sea cargoes taking longer haul options over last few weeks) led to rates firming throughout the week, resulting in an 80 point jump from Monday to Friday, with heights of 30 x ws 460 levels seen. Black Sea enquiry has been good and premiums remain here for obvious reasons, with non-Russian business in the mid-500s, whilst Russian trade has climbed to 30 x ws 625 levels. With the fixing window now firmly into first decade June, these are unprecedented levels for Summer and expect Owners to dig their heels in and ride this wave of earnings for the foreseeable.

With Handy levels at astronomical heights, this has helped Med MR Owners dig their heels in this week and, although we've seen a slight slip in rates from the 37 x ws 345 transatlantic mark on Friday, Owners will be happy with how the week has panned out. TC2 has been under pressure and 37 x ws 320 was paid transatlantic ex NEW; however, Med has held strong and we end the week at the 37 x ws 340 mark transatlantic. Charterers have to look at the MR size on Handy stems due to elevated freight levels and list, enabling Owners to trade sideways. Good levels of outstanding enquiry on Friday should see Owners come into work on Monday with a spring in their step.

UK Continent

You could well have believed this week that negative correction should be on the cards as we saw slower levels of activity paired against a reasonably healthy tonnage list... Yet, Owners with their new belief dug their heels in and managed to repeat 37 x ws 330 for transatlantic for the majority of the week. A couple of blips have been seen on certain troubled ships; but in reality at these levels returns are still healthy and so far Owners have been able to make excuses. With a truncated week ahead, we could see a glut of enquiry hit our shores on Monday, which will fall perfectly in line with Owners' logic. However, if Charterers can resist the temptation to jump in on top of each other, small negative correction could well be seen.

On the flip side, Handies have enjoyed a consistently active week passing in the Continent and saw rates slowly improve throughout. Russian Baltic rates once again improve to 30 x ws 435, with a slender number of Owners still willing/able to do this business. Off the back of a buzzing Mediterranean market, other Owners have pushed as well. X-UKCont improves to around the 30 x ws 310 mark and likewise Med runs gain to ws 260ish levels. Expect the threat of ballasting south to the Med sector to remain a constant excuse for Owners to press for more... Positive ahead.



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Dirty Products

Handy

Handies in the North this week have suffered from a lack of activity across the region, with the sentiment inevitably swinging in Charterers' favour. Despite replenishment coming on Monday and opportunities presenting to Charterers, cargo simply did not flow and by mid-week the writing was on the wall for correction. With 10 points shaved off last done and activity still to pick up, there is potential for more to come as itineraries firm over the weekend. All the market can hold on to is the prospect of a short week in London and a push for coverage in early trading in week 23. In the Med, Handies have experienced a slower week but activity levels have been enough to keep the top of the list trimmed, with prompt units being steadily clipped away. Ws 305 has been the level, which has stuck and going forward there is little to suggest sentiment will swing in Owners' or Charterers' favour.

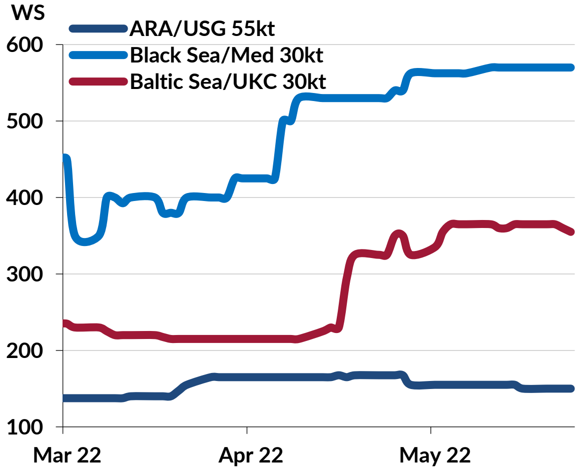
MR

MRs in both the North and Med markets this week have mirrored activity on the Handies and as such there has been little to report. In the Med, availability in the next window is tighter but, with full stems few and far between, MRs have been pushed to jump on part cargoes. With very little natural tonnage pushed this week in the North, there remains the expectation that last done could be tested, however, cargo needs to surface to see just how bullish Owners are willing to be.

Panamax

Testing this week showed the market fundamentals to be somewhat out of sync with the pressure being applied by the surrounding sizes above. Delving a little deeper into this statement, if you take a pro rate of an Aframax or a Suezmax (excluding heat) levels, this undercuts a Panamax. Herein lies the problem Charterers face, if you quote a cargo to a Panamax, they will ask "why not use a larger ship", so there is a bit of gamesmanship going on in this market. One result is clear, however, levels remain firm despite little activity being seen, and are likely to remain this way.

Dirty Product Tanker Spot Rates



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 26th	May 19th	Last Month*	FFA Q2
TD3C	VLCC	AG-China	**+1**	42	41	47	46
TD20	Suezmax	WAF-UKC	**+18**	103	85	78	111
TD7	Aframax	N.Sea-UKC	**+1**	140	139	158	136

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

			wk on wk change	May 26th	May 19th	Last Month*	FFA Q2
TD3C	VLCC	AG-China	**-5000**	-19,250	-14,250	-2,000	-13,500
TD20	Suezmax	WAF-UKC	**+7250**	16,000	8,750	2,250	21,250
TD7	Aframax	N.Sea-UKC	**-4000**	18,000	22,000	28,000	16,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 26th	May 19th	Last Month*	FFA Q2
TC1	LR2	AG-Japan	**-43**	226	269	234	
TC2	MR - west	UKC-USAC	**-14**	329	343	306	285
TC5	LR1	AG-Japan	**-29**	274	303	287	245
TC7	MR - east	Singapore-EC Aus	**-36**	311	347	366	304

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

			wk on wk change	May 26th	May 19th	Last Month*	FFA Q2
TC1	LR2	AG-Japan	**-18500**	35,000	53,500	44,750	
TC2	MR - west	UKC-USAC	**-4250**	32,000	36,250	27,250	24,500
TC5	LR1	AG-Japan	**-10500**	34,000	44,500	43,250	27,500
TC7	MR - east	Singapore-EC Aus	**-9000**	22,750	31,750	37,000	22,000

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

ClearView Bunker Price (Rotterdam VLSFO)	**+40**	839	799	821
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London
Audrey House
16-20 Ely Place
London EC1N 6SN

T +44 (0) 20 7667 1247
F +44 (0) 20 7430 1253
E research@eagibson.co.uk

Hong Kong
Room 1401, 14/F,
OfficePlus @Wan Chai,
303 Hennessy Road.
Wanchai. Hong Kong.

T (852) 2511 8919
F (852) 2511 8901

Singapore
8 Eu Tong Sen Street
12-89 The Central
Singapore 059818

T (65) 6590 0220
F (65) 6222 2705

Houston
770 South Post Oak Lane
Suite 610, Houston
TX77056 United States

Mumbai
Office 128, Level 1, Block A,
Shivsagar Estate,
Dr. Annie Besant Road, Worli,
Mumbai, Maharashtra, 400018,
India
T +9122-6110-0750