Inflation Reduction Act – Wind of Change?

Weekly Tanker Market Report

After many months of intense political negotiations, President Biden signed the Inflation Reduction Act (IRA) into law on 16th of August 2022. This bill is seen as the most significant climate bill in US history as although the lengthy legislation covers various aspects of US economy, the environmental provisions are unprecedented in scope and breath. The colossal $369 billion in funding is designed to incentivise multiple sources of clean energy, including electric cars, hydrogen, carbon capture and storage, nuclear power, solar and wind as long as they are carbon neutral. Companies will also benefit by getting payments for their credits directly from the government instead of making complex financing arrangements.

Here are some of the key takeaways. The solar and wind tax incentives that previously had to be renewed every year or two, are extended for a decade, enabling long term planning of new projects. The bill also offers support to electric vehicles (EV), extending a federal tax credit of $7,500 for the EV purchase, with credit capped at retail price of $55,000 or less for new cars and at $80,000 for new pick-up trucks. A new credit incentive of $4,000 is also introduced for the purchase of used EV. These credits only apply to EVs assembled in the US, whilst in later years there will be further restrictions on origin of electric batteries and minerals. Yet, even with these impending limitations, EV car sales in the US are expected to grow strongly in years ahead. The IRA also offers green hydrogen a significant boost, arguably putting US ahead of the European Union in terms of incentivising investment for the development of clean hydrogen. The bill provides for a base credit of $0.6/kg of clean hydrogen, which could increase to $3/kg if certain labour conditions are met. Experts say these clear tax incentives are likely to make the US one of the most competitive countries in the world for clean hydrogen production.

US Q2 2022 ELECTRIFIED VEHICLE SALES GROWTH

	Q2 2022	Q2 2021	YoY
EVs	196,788	118,235	66.4%
Hybrid EVs	245,204	272,935	-10.2%
Fuel Cell	796	1,074	-25.9%
Total Electrified	442,788	392,244	12.9%
Total Market	3,522,210	4,422,544	-20.4%
% Electrified	12.6%	8.9%	41.7%

Source: Cox Automotive

Although many initiatives are aimed at developing alternative energy sources, the interests of oil companies have not been ignored. The bill revives new oil and gas leasing in the Gulf of Mexico and onshore federal lands. A new principle is also introduced, which would require the government to offer fossil fuel development opportunities on federal lands wherever renewable energy development is promoted. Carbon capture and storage projects are offered additional incentives, with tax credit for new carbon capture and storage projects rising to a maximum of $85 a per tonne of CO_2 (up from $50/tonne previously). These incentives will be welcomed by ExxonMobil, who is pioneering a $100 billion US Gulf coast CCS hub, which aims to capture CO2 emissions from refineries and other industrial facilities along the Houston Ship Channel. Similarly, it will benefit Occidental Petroleum, which is building the world's largest plant to take CO2 directly from the atmosphere and store it underground in the Permian basin.

Yet, the IRA does not come without a cost. This includes a 15% tax on companies with profits over $1 billion. The bill also marks the US's first nationwide price on greenhouse gases. From 2024, a charge of $900 a tonne will be imposed on methane emitted by oil and gas companies from wells, pipelines, liquefied natural gas terminals and other facilities. This fee will increase incrementally to $1,500 a tonne by 2026. However, there are caveats. Small producers, which account for a significant share of all methane emissions, will be exempt from the fee. Similarly, companies that comply with minimum methane emission regulations would also be exempt.

Nonetheless, overall, with all of the above measures in place, the Inflation Reduction Act undoubtedly has a potential to significantly cut US emissions in coming years. However, at same time there is also a recognition that oil and gas industry is an important part of energy transition and will remain so for a long time.

Crude Oil

Middle East

The AG VLCC market this week has given a lot for Owners to be happy about. A good run of cargoes to complete the September program and a quick transition into October has added further fuel to the fire. VLCC rates currently stand at 270,000mt x ws 99 for a long East run and 280,000mt x ws 47.5 to the US Gulf via Cape. The prospects of stronger levels being achieved next week look very likely with more 1st decade positions yet to be covered. Suezmax markets in the Middle East remain rather steady for West runs, with the current market rate looking to be around 140,000mt x ws 65 for Basrah/Med. Owners remain rather reluctant to send ships to the East, which has kept levels at 130,000mt x ws 142.5 as we go into the weekend. It has been another slow week in the AG for Aframaxes, which in turn has seen the tonnage list replenish. As every day passes by, pressure is building, and sentiment and rates are inching down. A re-test is needed for AG/East, but for certain a chunk from last done will be taken. Rating AG/East at 80,000mt x ws 225-230 to close the week.

West Africa

Mirroring developments in the AG and in the US Gulf, this market was never going to be left behind. Charterers have found it increasingly difficult tying down Owners as the volatility of other markets ensure this is a rapidly changing scenario. Last done to China was 260,000mt x ws 94 and, if as predicted other markets continue to strengthen, then these levels will look competitive in the short term. Suezmaxes here are starting to firm on the back of the strengthening VLCC market. Charterers are seeing alternatives on the smaller ships as a voyage East has moved up to 130,000mt x ws 150. Runs to the UKC have shifted up to 130,000mt x ws 137.5 and the feel is stronger levels will come next week.

Mediterranean

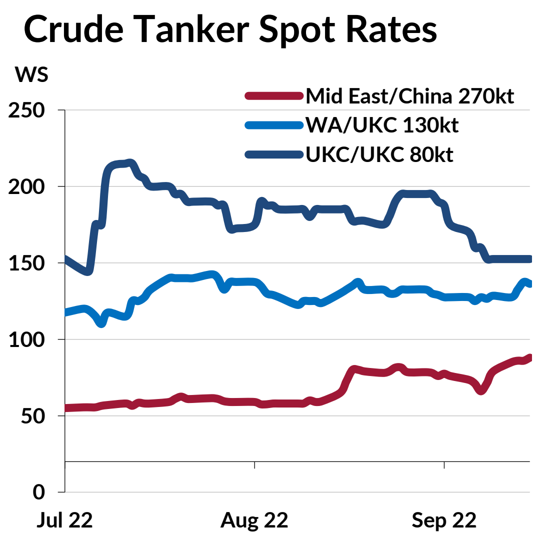
Med Aframax Owners have been suffering the past few weeks from poor volumes in the main due to the CPC downtime. During the week's trading, lows of 80,000mt x ws 140 were achieved for vanilla X-Med and the prospects seemed bleak. However, the allure of a States market paying ws 200+ backhaul has enticed a handful of overs to ballast away. This, in addition to a much fuller Ceyhan and Libya fixing window, has drained the position list and Owners are now looking for higher returns. By the close, 80,000mt x ws 155 was achieved and ws 160 shown with no takers for X-Med, so the prospects look firmer. The Med remains firm despite not seeing a huge number of cargoes this week. The current rate for a short voyage X-Med will likely pay 130,000mt x ws 165. Rates for Med/East have also pushed on, with Owners looking in the region of $5.2m for a run into China.

US Gulf/Latin America

Aframaxes in all areas seem to have been forgotten a little this week as Charterers concentrate on the larger units, and this region was no different. In a market where generally, levels can vary day- to-day, we in contrast have seen rates remain relatively stable and currently hold at around 70,000mt x ws 260 for short runs and around 70,000mt x ws 220 for Transatlantic. In contrast, the VLCC market has provided the most entertainment this week, with levels spiking to around $10m for a trip East. Again, we do expect to see more for the October program, so it is unlikely Owners will stop here as an acceptable last done level.

North Sea

The North has been pretty uneventful this week with little to write home about. The Baltic remains pretty under the radar, with fixing going on behind closed doors and levels sticking to circa 100,000mt x ws 180. X-North Sea has little to shout about either as levels were tested and a new floor has been found, at least for now. Trading around 80,000mt x ws 150 levels for now.



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

Clean Products

East

LR2s have seen a quieter week overall and never quite hit the peaks predicted in the last push. Rates have flattened out but, with a few failures and ships ballasting from the West, some feel a downward sentiment. However, overall, with LR1s still hard to find and Far East openers fixing locally, the fleet will not see too much replenishment and rates should remain where they are. 75,000 mt Naphtha AG/Japan dipped a touch to ws 275 and remains there today. 90,000 mt Jet AG/UKC is hovering around $5.5 million and shouldn't come off much before we see the next push of stems and rates potentially see a fresh upward curve.

Generally, a pretty frustrating week for the LR1s, as a lack of open stems has meant the positive sentiment that was building has eased off a touch. This is particularly disappointing for Owners as this week we saw a good section of ships with slightly uncertain positions starting to firm up, with Owners hoping to maximize on this. It feels as we are missing end month stems, which could be a sign that Charterers are sitting back for now and trying to take a little more control of the market; yet, the list is balanced and as a result rates hold flat for now. UKC is at the $4.5m levels and TC5 at 55 x ws 330 levels.

A hefty correction has taken place in the AG market this week. In the space of two days, TC17 dropped from ws 520 to ws 400 and X-AG tumbled from 1.075m to 600k. The large decline has been a result of over half a dozen Med ballasters coming through the Suez Canal to add extra tonnage to a well-supplied list. Combined with several LATAM, WAFR and SAFR ballasters, the list looks well stocked for the next fixing window. However, Vitol have had to cover two ppt cargoes at ws 440; the Owners ballasting in for the 22-27 Sep window could be categorized as bullish/ aggressive on trading; the Far East is booming, and we are short c. 20 cargoes for the last decade of September. Whilst the week has been negative, going forward this pain shouldn't last too long.

Mediterranean

It's been another positive week for the Handies here in the Mediterranean, which has seen rates firm up almost 40 points. As we came into the office on Monday, X-Med traded at the 30 x ws 185 mark X-Med but, with high numbers seen for ppt dates and the list tightening up throughout the week, Owners were able to push for more. This combined with good enquiry now sees X-Med at 30 x ws 220, with plenty of potential to keep pushing. Black Sea action has been on the quiet side for the majority of the week but expect rates to positively correct on the back of the improving TC6 market. Owners are bullish here as we approach the weekend.

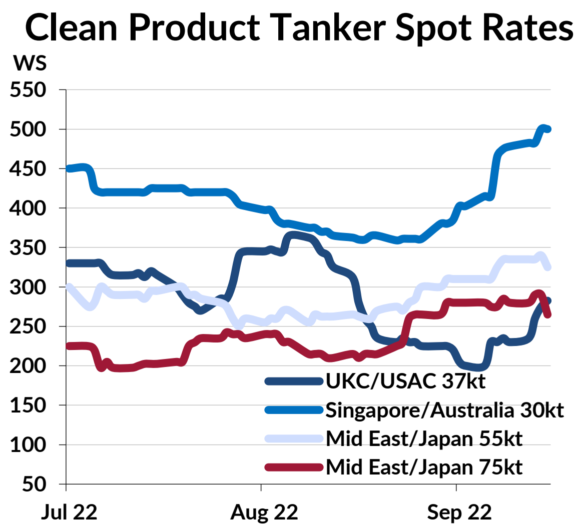
For most of this week the Med MR market has hung onto the coattails of those around it, with rates up around 50 points from where we started to the week. 37 x ws 235 was the call Med/Transatlantic to start the week but, with the list tight in the Med due to East ballasters and TC2 rates firming up, it wasn't long until the Med followed suit.

At the time of writing 37 x ws 285 is on subs Med/Transatlantic, with WAF expected to land at around 10 points more when next tested. As we near the weekend, a handful of cargoes remain outstanding, so expect Owners to remain positive here.

UK Continent

With many of our usual ballasters heading to the USG or East for premium rates, we saw a vacuum of tonnage in the UKC at the start of the week and it didn't take much till Charterers were scraping around for coverage. With a real mix of cargoes heading Transatlantic, WAF and Brazil, Owners have enjoyed the ability to press. Despite a few deals being done under the radar, we now pull up to 37 x ws 285 for Transatlantic and expect +10 for WAF. Owners will continue to look for opportunities to press from here towards the ws 300 mark. As such and despite slower USG and East markets, which will no doubt produce increased ballast tonnage, we can expect limited options for Charterers for at least another week.

It's been an active week for Handies in the North, with continued STS demand being the main catalyst and the tonnage list tightening throughout. X-UKC trades around the 30 x ws 185-190 mark at the time of writing but, with a few prompt cargoes left uncovered, there does seem to be some potential in this sector. Demand has also picked up down to the MED, which has seen a few units leave the area and will see the list shorter heading into more natural fixing dates. TC9 Russian is mostly dominated by COAs as rates close at 30 x ws 325 with more the same expected here.



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Dirty Products

Handy

The Continent this week continued to show an underlying supply imbalance, which is persistently causing Charterers a challenge beyond just a couple of WS points on last done. Forward planning is needed just to line ships up. With this in mind, Owners are definitely in the driving seat, whilst being mindful not to push too hard between deals where Charterers start to back off.

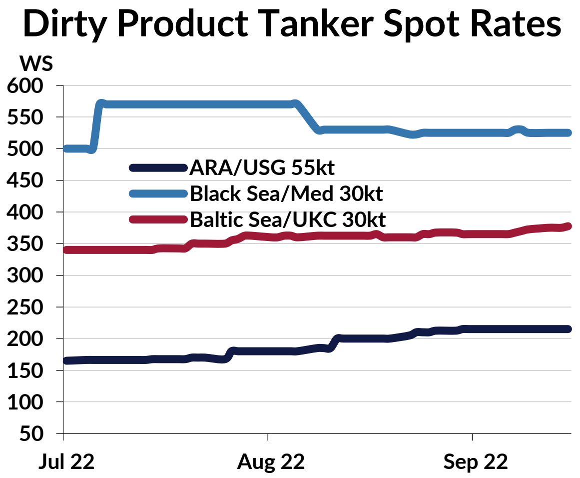
In the Med, Owners also enjoyed a fair week's trading with healthy levels in and around the mid 340's at time of writing. Attempts to push closer to ws 350 were made but, with hidden availability and a couple of slower days, these attempts were quashed on a number of occasions, with a balance being struck heading into the weekend.

MR

Actual full sized MR enquiry this week was generally lacking; however, the remarkable resistance this sector can endure through periods of inactivity holds true once more. Surrounding Handy activity has been more than sufficient to prevent the majority of units from falling out of their fixing windows. With replenishment only being drip fed, Charterers' lack of alternative will dictate where proceedings will resume when the next test arises.

Panamax

Liquidity in this sector is again put in the spotlight, where had enquiry been present conditions were primed for a test. Surrounding Aframaxes had lost value, Panamaxes in the US had also softened and we had a couple of spot ships relishing the chance to get paid for carrying oil Transatlantic rather than a little extra seawater in their ballast tanks. For now, we are left to theorise where values should be placed but with the lack of options for Charterers it seems opportunity missed and another wait before this test happens.



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Sept 15th	Sep 8th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	**+17**	88	71	81	71
TD20	Suezmax	WAF-UKC	**+10**	135	125	135	130
TD7	Aframax	N.Sea-UKC	**-2**	151	153	181	172

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

			wk on wk change	Sept 15th	Sep 8th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	**19,000**	53,500	34,500	41,250	34,000
TD20	Suezmax	WAF-UKC	**5,250**	42,250	37,000	39,250	39,500
TD7	Aframax	N.Sea-UKC	**2,750**	37,250	34,500	53,000	52,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Sept 15th	Sep 8th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	**+8**	288	280	216	
TC2	MR - west	UKC-USAC	**-22**	284	232	248	287
TC5	LR1	AG-Japan	**+7**	338	331	266	293
TC7	MR - east	Singapore-EC Aus	**+19**	498	479	362	401

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

			wk on wk change	Sept 15th	Sep 8th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	**1,250**	68,000	66,750	41,750	
TC2	MR - west	UKC-USAC	**10,000**	28,750	18,750	20,250	29,000
TC5	LR1	AG-Japan	**1,000**	60,000	59,000	40,250	49,000
TC7	MR - east	Singapore-EC Aus	**2,500**	63,000	60,500	38,250	46,750

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

	wk on wk change	Sept 15th	Sep 8th	Last Month*
ClearView Bunker Price (Rotterdam VLSFO)	+33	674	641	721
ClearView Bunker Price (Fujairah VLSFO)	+19	690	671	785
ClearView Bunker Price (Singapore VLSFO)	+30	695	665	758
ClearView Bunker Price (Rotterdam LSMGO)	-88	953	1041	1079

** WS spot rates converted into 2022 WS100* www.gibsons.co.uk

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