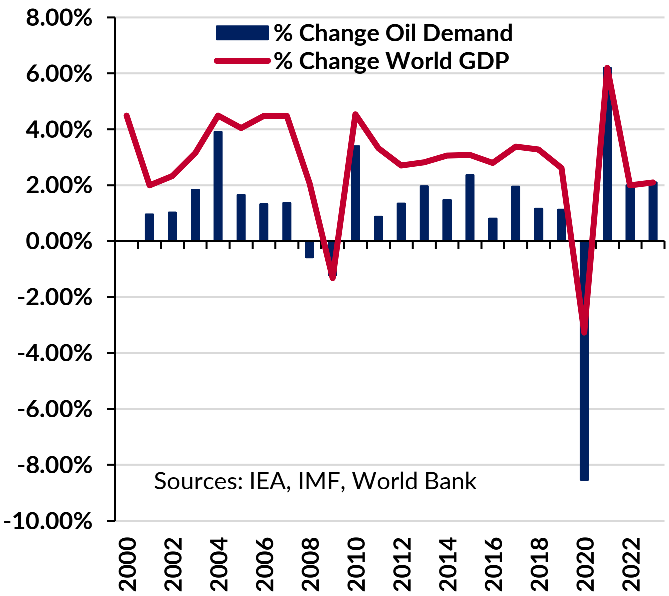
The Bulls and the Bears

Weekly Tanker Market Report

With the global economic picture continuing to be dominated by bearish sentiment, and oil prices falling to lows not seen since the start of the year, the picture couldn't be more different in the tanker market. Volatility remains extreme, rates are strong and sentiment is elevated ahead of the anticipated seismic shift in oil trade flows. Whilst historically tanker markets have sometimes performed well in economic downturns, this is usually driven by supply and demand mismatches, which triggers a contango and associated floating storage or trading inefficiencies. However, this time it will be different. Oil demand still has some upside and although growth rates risk being revised lower, tonne miles are growing, and high gas prices have encouraged a switch from gas to oil in power generation. These factors combined with low fleet growth, should be enough to sustain and perhaps even improve tanker markets into 2023. However, there are a number of key interrelated dependencies.

Changes in GDP vs Oil Demand



Firstly, oil demand must avoid a major collapse with this being largely reliant on developing economies such as India and China to offset sluggish growth in the OECD and struggling emerging economies. China alone accounts for 48% of 2023's total oil demand growth, highlighting how dependent the market is on China adopting a new covid strategy. Secondly, Europe must continue to implement oil sanctions on Russia. If the EU backtracks, or Russia ends the conflict (although unlikely in light of latest events), then the seismic shifts in trade flows predicted for 2023 would fail to materialise, limiting tonne mile demand growth, which if combined with weaker economic growth, would serve as a double blow to the tanker market. However, if the war was to end, then the economic outlook would also improve, softening the downside.

OPEC+ also have a role to play in the fortunes of the market. With Russia's position within the group, the political complexities are acute. But the biggest risk here is a major production cut in an attempt to put a floor under oil prices, which depending on the macroeconomic outlook could remain under pressure in 2023. If OPEC+ opts for a production cut, then VLCCs in particular could be impacted. However, again here it is worth noting that OPEC+ is already underproducing by around 3.4 million b/d, so any production cut might be merely symbolic, depending on how they were allocated across the group. Other factors to consider include the strength of the US dollar versus other currencies, the expected winding down of US SPR sales, Chinese export quotas and sanctions policy towards Iran and Venezuela, all of which influence the outlook.

However, amongst all this uncertainty, one thing is certain – vessel supply. Tanker fleet growth is slowing and very few yard slots remain available before 2025. The fleet is ageing and IMO regulations will reduce the trading capacity of the fleet. These factors suggest that the tanker market might better navigate a weaker demand environment than previous downturns, when weak demand typically coincided with a period of higher supply growth. However, the outlook for the tanker market has never been so uncertain. If the economic turmoil does spiral out of control and sanctions against Russia are repealed, then the outlook could look very different. Perhaps taking longer term time charter coverage sooner, rather than later might be the optimal strategy for owners.

Crude Oil

Middle East

VLCC Owners have not had the best of weeks as a slow drip feed of enquiry has pushed Owners into accepting sub last done. Next week is unlikely to be any better with holidays in the Far East ensuring most Charterers will be looking to take further steam out of the market and securing even greater discounts. Owners that decide to try and sit back may well be rewarded thereafter but for now the near future looks less encouraging. Last done to the East is 270,000mt x ws 85 on a modern approved unit. Voyages West remain sparse, with rates estimated to be around 280,000mt x ws 47.5 to the US Gulf via Suez. Suezmax markets in the Middle East have softened a touch this week, with rather minimal enquiry and current market levels at 140,000mt x ws 64 for Basrah/Med. Despite hesitancy from Suezmax Owners to send a vessel East, levels have dropped to 130,000mt x ws 140. With Appec in full swing, the Aframax market in the East has been slightly quieter. Rates continue to slip south across the board, with levels sitting around 80,000mt x ws 200 for AG/East to close the week.

West Africa

West African Suezmax markets have come off substantially this week due to lack of enquiry, with a drop of 10 points being seen for WAF/UKC and current levels sitting at 130,000mt x ws 127.5. Charterers are not blessed with the plethora of tonnage willing to consider Eastern options with those levels holding at around 130,000mt x ws 140. All the action seems to be elsewhere with very little activity of note to report here. VLCC rates will naturally reflect this apathetic approach and, with other areas softening, Owners will be under no illusions that levels here will follow suit. We expect next done to be around 260,000mt x ws 85 to the Far East.

Mediterranean

Another firm week for Med Aframaxes. The list remains extremely tight due to port delays of various kinds and ships leaving the region either laden or in ballast to the firm States market. Cross Med rates began trading around the ws 190 level for vanilla runs and gradually edged towards the psychological ws 200 mark. Finally, 80,000mt x ws 210 was concluded for a shortish run but now the bit is between the Owners' teeth, with rumours of ws 215 being now concluded on subs for a good voyage to Trieste. Black Sea runs remain thin on the ground but will pay significant premiums where available. The going remains firm into next week. The market in the Med has softened this week, with Suezmax rates for a short X-Med sitting at approximately 130,000mt x ws 160. Enquiry for runs heading East has continued to only a trickle though, which is keeping a lid on rates in the region. For a run into China today Charterers will be looking to match or inch just below $5m from Libya.

US Gulf/Latin America

The weather in the region has taken most of the limelight this week with Hurricane Ian hitting hard. Delays so far seem to be manageable with Charterers able to secure tonnage with safe itineraries and at the same time able to secure discounts from last done. This currently stands at for a short run around 70,000mt x ws 230 with T-A runs holding at around ws 215. VLCC levels have also drifted off as the week progressed with last done down to $9.55million from the US Gulf to South Korea. Continued interest for voyages Trans-Atlantic should ensure availability remains light enough to keep levels respectable.

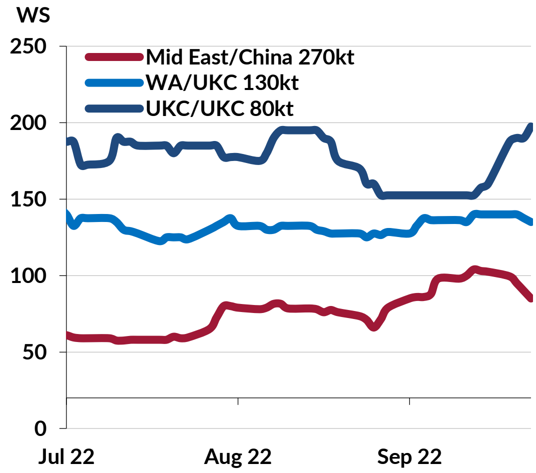
North Sea

In the North Sea there was the inevitable storm after the calm. Baltic cargoes worked in earnest once more and rates to India which had bottomed towards the low $5milion mark rebounded significantly, with a high of $6.1million achieved and more to come.

Generic Cross North Sea rates moved in sympathy having bottomed at 80,000mt x ws 152.5 and then steaming up to ws 200 as the week progressed.

The list remains thin and Owners remain optimistic going into the weekend.

Crude Tanker Spot Rates



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

Clean Products

East

For a week where the LR2's have seen a suppressed volume of activity; $3.5million on subs for a West bound cargo is a sizable correction, maybe too much for some Owners however, it is now a line in the sand with TC1 sitting at the 75 x ws 190 levels. The tonnage list isn't the Owners friend at present, and there will be hope that during the course of APPEC week, some off market deals have been done that will help chip away at the list come next week.

Similar to the LR2's it's been a disappointing week with negative corrections seen for the LR1s, with not enough volume to support these levels of tonnage; rates have come southwards. With TC5 getting snapped up at 55 x ws 175 this morning and UKC needing a test, but we assess this around the $3.4-3.5million mark (maybe lower). Although it is widely expected that on both sizes, we will see volume pick up, Owners will really be hoping that cargoes make an appearance early on in the week. A busy but disappointing week for the MR's. Rates have tumbled across every run and earnings are now moving into the low 20's. EAFR has reached a new low of ws 275, which should be close to the bottom if we see the return of good cargo flow. Options cargoes have been the flavour of week as traders have looked to move product and decide on the home later. The Far East continues to hold and has even begun to take Durban ballasters as well as the usual Oz/Chittagong/ECI ballasters. With the Far East earnings almost double those from loading in the AG, it wouldn't be a surprise to see even more make the longer sail this weekend.

Mediterranean

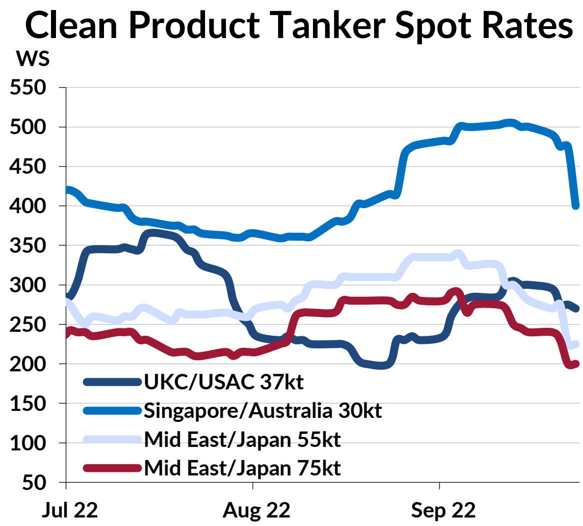
Overall, it's been a positive week for the Handies here in Med which has seen rates pushed up by around 30 points from Monday. We began the week with X-Med at the 30 x ws 290 mark, but with good enquiry and a tightening front end, rates managed to reach the heights of 30 x ws 325. Black Sea rates have also improved off the back of this with non-Russian runs up to 30 x ws 375 and Russian business trading in the high 500's. However, over the past 2 days, activity has begun to slow a touch and as a result we have seen X-Med levels slip back to the 30 x ws 320 mark and with the weekend approaching we could see some pressure begin to form.

Finally, to the MR's in the Mediterranean where we have seen rates come under pressure due to a weakening TC2 market. 37 x ws 300 Med/Transatlantic was the call at the start of the week but with slow cargo enquiry and with TC2 slipping, rates here soon followed suit as we now see 37 x ws 270 on subs Transatlantic with WAF tracking at 10 points more. Although enquiry here has improved over the back end of the week, we expect pressure to continue.

UK Continent

A softening market this week on MRs with rates coming off from 37 x ws 300 at the start of the week to now sitting around 37 x ws 260 for TC2.
Ultimately the lack of demand and a good supply of vessels has been crippling levels with each passing day. So far to end the week it's been a very quiet morning and we expect no change heading into next week unless we see a spur of fresh cargoes come Monday morning. Pressured.

It's been a positive week for Handy Owners up in the North as continued demand and a tightening tonnage list has seen freight levels improve. The main catalyst has been the influx of ULSD STS cargoes which has enabled Owners to push X-UKC up to 30 x ws 262.5. The UKC/MED also firmed with 30 x ws 247.5 on subs and non-Russian Baltic loads will be positively tested to the 30 x ws 280-285 level. The Russian Baltic is dominated again by COA liftings as rates close at 30 x ws 350. Potential here.



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

Dirty Products

Handy

The Handy market in the North this week has seen sentiment strengthen where, despite some fixing and failing, cargoes to leave the region have firmly established benchmarks throughout the week. Owners' confidence has seen ws 385 stick for X-UKC and ws 380 repeated for voyages to the Med. The mixed fortunes leaves just one Owner with a unit to fix as the week closes. Going in to week 40, the expectation is that should demand continue to push dates forward, levels will remain steady for now. A more sluggish week in the Med, where a lack of enquiry has seen tonnage build and Owners approaching their dates wondering if questions will be asked this side of the weekend. Levels, however, have been maintained for the most part of the week at ws 340, but we close the week with reports of decrement as Owners take what has been offered before the weekend.

MR

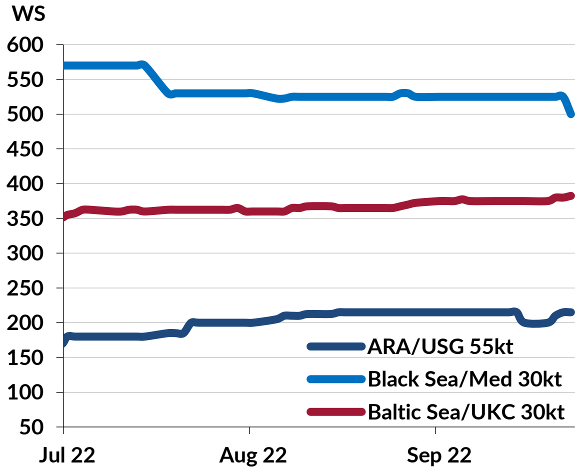
The MRs in Europe continue to ride the coat tails of the Handy market where, despite enquiry being slower in the Med, returns remain at good levels for MR Owners taking part cargo both in the North and the Med.

Going forward, replenishment and firming of itineraries in both regions will be welcome to see where levels on a full cargo basis actually sit.

Panamax

Once again, a week goes by with a very limited traction gained on the Panamaxes. The first test for some time was seen earlier in the week, where predictions of a drop in levels did not come to fruition. Ws 217.5 was fixed for the benchmark Transatlantic run - a reflection of a tight list and firm surrounding markets. With marketed tonnage being tight both on the Cont and down in the Med, there has been little in terms of questions, both long and short haul, for Owners to get their teeth into. Going forward, the expectation is for a quiet period to come, where the market waits for tonnage to replenish.

Dirty Product Tanker Spot Rates



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Sept 29th	Sep 22nd	Last Month*	FFA Q3
TD3C	VLCC	AG-China	**-19**	85	104	76	72
TD20	Suezmax	WAF-UKC	**-4**	136	140	128	131
TD7	Aframax	N.Sea-UKC	**+38**	197	159	189	179

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

			wk on wk change	Sept 29th	Sep 22nd	Last Month*	FFA Q3
TD3C	VLCC	AG-China	**-20,750**	50,250	71,000	38,750	34,750
TD20	Suezmax	WAF-UKC	**-1,250**	44,750	46,000	37,500	42,000
TD7	Aframax	N.Sea-UKC	**28,000**	70,750	42,750	61,500	57,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Sept 29th	Sep 22nd	Last Month*	FFA Q3
TC1	LR2	AG-Japan	**-46**	194	240	277	
TC2	MR - west	UKC-USAC	**-35**	267	302	208	287
TC5	LR1	AG-Japan	**-73**	216	289	305	286
TC7	MR - east	Singapore-EC Aus	**-49**	458	507	407	422

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

			wk on wk change	Sept 29th	Sep 22nd	Last Month*	FFA Q3
TC1	LR2	AG-Japan	**-14,750**	37,250	52,000	64,500	
TC2	MR - west	UKC-USAC	**-5,750**	26,500	32,250	14,000	30,000
TC5	LR1	AG-Japan	**-17,500**	30,250	47,750	52,000	47,250
TC7	MR - east	Singapore-EC Aus	**-8,000**	56,500	64,500	47,750	50,500

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

ClearView Bunker Price (Rotterdam VLSFO)	**-20**	611	631	679
ClearView Bunker Price (Fujairah VLSFO)	**-19**	677	696	733
ClearView Bunker Price (Singapore VLSFO)	**-10**	691	701	693
ClearView Bunker Price (Rotterdam LSMGO)	**-17**	964	981	1034

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