Fair Value?

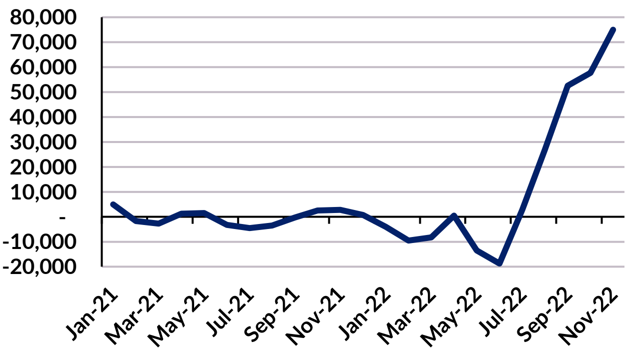
Weekly Tanker Market Report

VLCC earnings have been remarkably strong over the past few months despite the prospect of OPEC+ production cuts which are largely focused on the Middle East. With cuts planned, next year will also coincide with increases in regional refining runs, the fundamentals suggest earnings will ease into 2023. However, shifting trade flows and fleet developments make this outcome far from certain.

First, it is important to take stock of the supply side. Gibson counts 876 VLCCs on the water, however, the actual number of vessels available in the mainstream, non-sanctioned market is in fact lower, with 15% of the fleet engaged in sanctioned or unconventional activity. Furthermore, an additional 15% of the fleet (excluding those engaged in questionable activity) are over 15 years of age, putting almost 1/3rd of the VLCC fleet out of reach for many charterers. Coincidently, the number of VLCCs over 15 years of age sold to relatively unknown owners almost matches the number of newbuild VLCCs delivered from shipyards to date, suggesting that available fleet supply is largely unchanged year on year.

Secondly, global VLCC export volumes grew steadily from April to August as Middle East exports rose to a 6 year high (excluding April 2020), the West African VLCC market share also increased, Latam exports remained close to a 12-month high and total Gulf Coast exports hit record levels. However, due to the lag effect between loading and discharging, tonne miles peaked in October, whilst the time taken to ballast back to the next load port is likely to be keeping the market firm for now. It is also important to note that OPEC cuts for November onwards are from October's target, which despite a marginal trim of 100kbd from September, is up by nearly 2.2mbd since January. In effect, OPEC is cutting from a high baseline, which provides a hedge against VLCC earnings returning to the lows seen earlier in the year.

AG-Far East (TD3C $/day) - non eco, non scrubber.



Looking forward, the demand side fundamentals for VLCCs are mixed. Assuming OPEC+ cuts are adhered to, export volumes from the Middle East could decline by nearly 1mbd. Additionally, with 3 new refineries in the region planning to increase run rates in 2023, increased domestic crude intake also threatens export volumes. US crude exports may also be challenged over the coming months. As the SPR release program looks to conclude, coinciding with the end of US Gulf refinery maintenance season, it would be logical to assume that some downwards pressure in regional exports could materialise. However, it is not all negative. VLCCs could continue to benefit from volatile Aframax and Suezmax markets. Indeed, VLCCs have increased their market share on the US Gulf, Latin America and West Africa to Europe runs from almost nothing to 20% this year. Whilst this route is not as long haul as heading to Asia, it keeps VLCC supply locked into the Atlantic market, meaning these vessels never appear on a Middle East position list. As long as VLCCs continue to offer a superior $/tonne to the Aframax and Suezmax sector, they can expect to continue enjoying increased market share.

Finally, it's impossible to look at the VLCC market without understanding the dynamics in India and China. Both markets have increased their intake of Russian barrels, however, VLCC import volumes in China have grown steadily since the summer, notably in tandem with crude import quotas for 2023 being granted; whereas in India, VLCC volumes have remained flat year on year, with the most growth seen in Aframax volumes. Looking ahead, imports from Russia into these countries may have peaked, suggesting incremental barrels will have to come from elsewhere, possibly supporting larger crude carriers.

Putting these factors together, the VLCC market has reason to remain optimistic, even if current freight levels are likely to be overvalued. Generally speaking, the market should expect earnings to ease into 2023, but remain firmly above average 2022 levels, until the next black swan event comes to light.

Crude Oil

Middle East

The VLCC market has remained firm and busy this week. A pre Bahri rush to finish the November stems helped Owners push rates upwards and, with the new stems released next week, optimism remains in the air. Rates have remained at 270,000mt x ws 112.5 to the East and although Western voyages remain sparse, we expect next done to be nearer to 280,000mt x ws 62 to the US Gulf. Suezmax markets in the AG remain steady but, with the allure of a firm West African market, we are starting to see a few ballasters drawn down towards the Cape, which is helping to thin the tonnage list. Market levels today will have Owners expecting to achieve 140,000mt x ws 92.5 for Basrah/Med. Runs to the East remain infrequent and unpopular with Owners; Charterers should expect to pay somewhere around 130,000mt x ws 177.5. It has been a busy week with plenty of activity under the radar on the Aframaxes in the AG. The front end of the tonnage list has been cleared away and is tight up to 22-23 Nov, where thereafter a few more ships come into play. This, combined with a warm/hot Med, leaves the overall sentiment firm. Rates for AG/East end the week at 80 x ws 240-245.

West Africa

Rates on the VLCCs in West Africa also edged up slightly this week. Deals were done behind the scenes, with last done voyages to the East at 260,000mt x ws 110. These seem to feel steady, with some discounts achievable as we move into the Bahri week. Suezmax rates have pushed up this week as a result of some injection barrel cargoes and stand at approximately 130,000mt x ws 195 for WAF/UKCM on natural dates. Speculative Eastern ballasters will provide some downward pressure on rates, but the potential for weather delays and a steady flow of cargoes won't have them too worried. We still aren't seeing many cargoes heading East but those Charterers looking to fix the voyage should expect to pay somewhere in the region of 130,000mt x ws 195.

Mediterranean

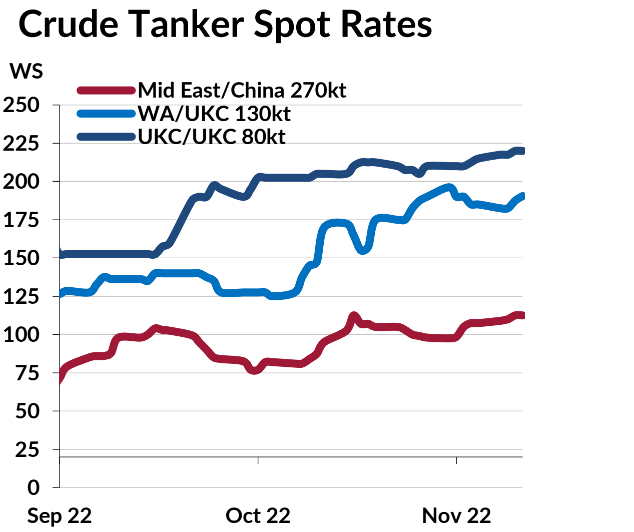
The Med has continued to firm, with a flurry of cargoes hitting the market loading from CPC. Owners remain bullish and will be looking to fix somewhere in the region 135,000mt x ws 215 for CPC/UKCM. The majority of Owners are looking to keep their ships West, but the odd one or two are still willing to take the longer voyage from the Med into China and for their long-term commitment, they will be looking for around $6.5 million. The Med market has remained firm and an influx of CPC cargos added fire and lit the touchpaper. Rates for these runs to the Med jumped 70-80 points to ws 360 as Owners willing to call Black Sea were quickly absorbed. Med rates eventually followed suit, but moved rather less drastically as Owners unwilling Black Sea took the next best. Vanilla Ceyhan runs warmed from ws 240 and TD19 is now showing ws 260 levels. Any Charterers with early or replacement cargos will continue to meet firm resistance and the next week remains strong as we march towards December 5th.

US Gulf/Latin America

A very quiet USG market with limited activity. The arb seems to be closed for the time being and activity has dried up. Rates require a new test but should remain firm due to the list remaining tight. Rates to the East are estimated to be around $12.8 million levels for a voyage East.

North Sea

A steadier week for the North as things trickled into the market with little organic growth. Rates are ticking along at ws 220 levels and, with the list looking a little stronger for the next fixing window, levels are unlikely to skyrocket in the near future.



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

Clean Products

East

The LR2s have seen a push with good levels of activity as the week draws to a close, with a total of five open long haul stems Owners are keen to build on this momentum and see rates improve on last done. All eyes are now on KPC as to where the UKC comes out at, but with many offers at the 4.6million mark its certainly going to be higher than last done and most likely it will be starting with a 4! TC1 took a slight dip early in the week, but with 75 x ws 170 on subs, a quick turnaround was seen and 75 x ws 180 is now on the cards. The LR1s had a very busy start of the week but with the pelorus trained on the LR2s, the sentiment levelled out and holds rather flat. TC5 should be at the 55 x 217.5 mark but needs a true test. A UKC run is at $3.5-3.55million but again is in need of fresh test. We will enter an interesting week with a lot of people traveling to Dubai, an up to date position list; fast and accurate market information will become a little less readily available. As we have seen in the past, we could see an interesting spread of rates next week.

It was a subdued week for the MRs as the 'pre-Bahri rush' never really got fully going. Good itineraries have not been easy to come by and the few have been whipped away off market quietly before next week's activities. Bahri Week is going to be very interesting as the entire market descends on Dubai for face-to-face meetings (and trading). As such, we fully expect to see a very different position list come Monday 21st as Charterers look to privately take tonnage away for 2H November before the expected rally into December.

For now, EAFR remains at ws 370, but this will likely be tested at a lower level next week.

Mediterranean

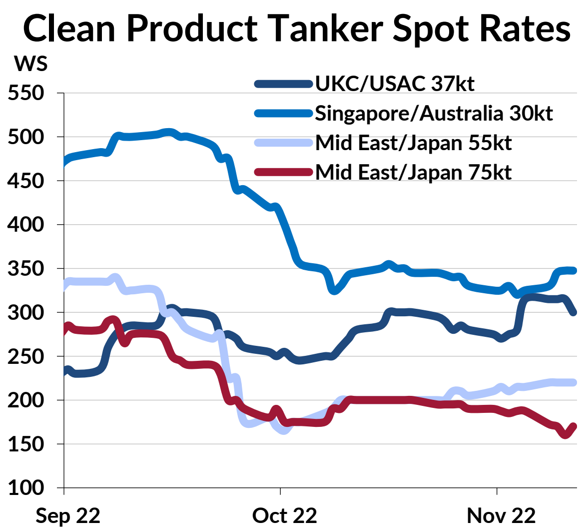
What a week it has been for the Handies here in the Mediterranean, which has seen rates jump around 100 points from Monday. We began proceedings with X-Med levels slipping to the 30 x ws 235 mark after a rather lacklustre week; however, with a busy couple days enquiry, the list soon started to tighten. Since then, levels have jumped with every fixture, and we now see TC6 trading at the 30 x ws 350 mark. Black Sea levels are therefore expected to positively correct off the back of this improvement, with rates still load dependent. At the time of writing, a handful of cargoes are still looking for cover before COB, so expect bullish ideas into the weekend.

All in all, a fairly positive week for MRs in the Med, with rates hanging onto the coattails of its UKC counterpart for the majority. 37 x ws 275 was the call for Med/TA on Monday morning, but with TC2 up in the 300's, it wasn't long until Med followed suit as we saw 37 x ws 310 achieved midweek. Since then, we have seen rates come under some pressure, with excess ballasters on their way from the States. As a result, rates have settled around the 37 x ws 300 mark. WAF is in need of a fresh test, with levels expected to land at 10 points more. As we approach the weekend, however, the Handies in the Med remain tight, which could see some more enquiry on the MRs, with cargoes sizing up.

UK Continent

Despite Owners walking into the office full of promise on Monday, the weight of excess ballast tonnage knocked the wind out of their sails once tonnage lists were drawn and the fear of missing out slowly increased. Reasonable activity has been seen throughout in fairness; yet, a couple of weak links were unfortunately found and rates slipped back down to 37 x ws 310 come midweek. As Friday appears so does 37 x ws 300 now for TC2 and, despite ws 325 being also seen for WAF, some will argue that a premium has been applied there for the entity. Pushing into next week, we still find a number of ballast units littering our lists, which will hinder Owners' optimism. However, with a few Handy stems sizing up and some reasonable levels of outstanding still, we can expect rates to stabilise around these levels once again.

With limited tonnage available from the start in this UKC Handy sector and the addition of some new entities appearing ex Russian Baltic, Owners have been largely in the driving seat and with that rates increase. A wide spread for Baltic load from mid 400s to mid 500s all depending on the entity always helps momentum for the Owning fraternity and, with good levels of X-UKC, rates pull up to around 30 x ws 275 now. We do see some Charterers exploring larger tonnage as an alternative but irrespective of that, expect further positivity on the horizon moving into next week.



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Dirty Products

Handy

On the face of it, handy Owners in the North have had a busy week but dig a little deeper and a mix of failing subs and swapping ships tells a more sluggish story. The tick over of firm units and rates for localised voyages has remained largely steady with ws 390 just about being out of reach for now. Units that have failed subs are still showing at time of writing and going into Monday, will more than likely be there to repeat last done to get moving, rather than look for opportunity to push on.

In the Med, a similar story has played out where the slower flow of cargo has failed to get the market overly excited about a push on levels, but last done has been maintained. Some anomalies have surfaced where Owners were tested. Disparity in availability between the East and West Med continues but with West Med units throwing their hat in for North cargoes, availability across the regions has remained largely balanced. The forward expectation is for levels to hold within the current range however an injection of activity is needed to swing sentiment firmly back in Owner's favour and limit challenges to last done.

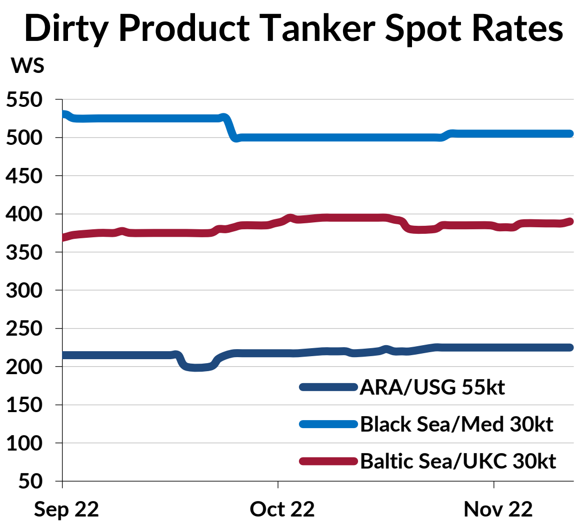
MR

The story on the MRs this week is a continuation of where we have seen this market over the last few weeks with naturally positioned tonnage not surfacing and as a result tonnage has to be drawn away from the Med and ballast up. As a result of these movements and units with firm itineraries being drip fed to the Med market, levels in both regions have been kept firm. With the Handy market still offering a firm back stop when full cargoes are not surfacing, Owners are confident of limiting idle days and pushing when tonnage in both markets is tight.

Going forward there is potential for a push should we see a flow of last decade cargoes surface on Monday.

Panamax

With very little in terms of supply this side of the pond, there is no surprise that another week rolls by with nothing to report in the Panamax market. As levels remain firm state side, attracting ballasters is not a viable option. Levels are expected to hold at last done when a test does surface, as surrounding markets show no sign of wavering.



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Nov 10th	Nov 3rd	Last Month*	FFA Q4
TD3C	VLCC	AG-China	**+6**	113	107	87	104
TD20	Suezmax	WAF-UKC	**+5**	191	186	146	178
TD7	Aframax	N.Sea-UKC	**+6**	220	214	204	180

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

			wk on wk change	Nov 10th	Nov 3rd	Last Month*	FFA Q4
TD3C	VLCC	AG-China	**+7500**	82,500	75,000	50,250	72,250
TD20	Suezmax	WAF-UKC	**+3000**	75,500	72,500	48,500	68,500
TD7	Aframax	N.Sea-UKC	**+4250**	86,250	82,000	72,500	58,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Nov 10th	Nov 3rd	Last Month*	FFA Q4
TC1	LR2	AG-Japan	**-20**	166	186	196	
TC2	MR - west	UKC-USAC	**+31**	306	275	270	308
TC5	LR1	AG-Japan	**-3**	212	215	191	239
TC7	MR - east	Singapore-EC Aus	**+28**	350	322	345	366

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

			wk on wk change	Nov 10th	Nov 3rd	Last Month*	FFA Q4
TC1	LR2	AG-Japan	**-6750**	27,750	34,500	36,250	
TC2	MR - west	UKC-USAC	**+6000**	33,500	27,500	25,500	34,250
TC5	LR1	AG-Japan	**-750**	29,500	30,250	23,000	36,000
TC7	MR - east	Singapore-EC Aus	**+4500**	38,250	33,750	36,500	41,000

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

ClearView Bunker Price (Rotterdam VLSFO)	**+4**	617	613	647
ClearView Bunker Price (Fujairah VLSFO)	**-12**	659	671	718
ClearView Bunker Price (Singapore VLSFO)	**+1**	685	684	730
ClearView Bunker Price (Rotterdam LSMGO)	**-53**	947	1000	1065

www.gibsons.co.uk

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