Stepping into 2023

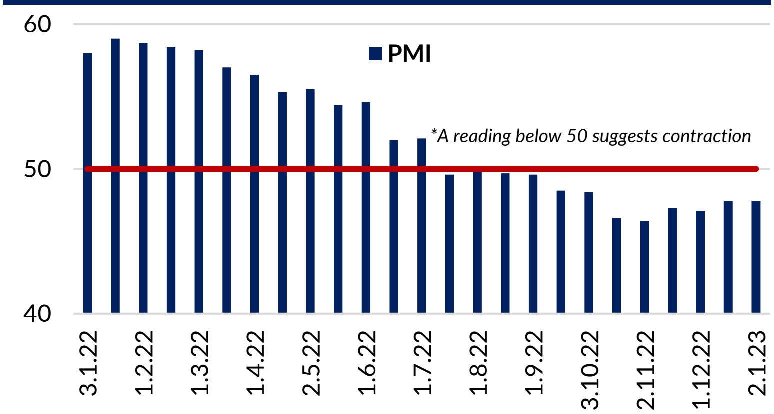
Weekly Tanker Market Report

Whilst 2022 ended with a fanfare, there is now a quieter feel for tanker markets as we step into 2023. The first Baltic Exchange assessments this week showed some notable red on TCE earnings relative to the values recorded in late December, particularly for crude tonnage. Despite the drop, however, earnings remain healthy, and owners are looking optimistically into the year ahead.

The tonne mile transformation of tanker flows is far from complete, particularly on the clean side where Russian clean product exports jumped in December, with the country maximising product exports ahead of the February deadline. For crude, we have seen international tonnage and G7/EU service providers engaging in Russian crude trades post Dec 5th, with market forces pushing Urals pricing below $60/bbl. Yet, the announcement that Russia will ban the supply of crude oil and oil products from Feb 1st for five months to nations that abide by the cap means that Russian companies will most likely not be able to provide necessary documentation to demonstrate compliance with the price cap and hence G7/EU service providers will no longer be able to participate in Russian trade. Although initially this means that the mainstream market is likely to be flooded with tonnage that previously lifted Russian barrels, fundamentally this supports the continued exit of ageing tonnage into a “niche” Russian market and hence over time will restrict tanker availability for non-sanctioned trades. Meanwhile, new IMO regulations, such as CII and EEXI will negatively impact vessel trading flexibility, also encouraging the exit of the ageing tankers into illicit fleet later in 2023.

The recent notable changes in China’s Covid policy, if maintained, will aid the country’s economic growth and its oil demand over the longer term. Ultimately, this will benefit the long haul crude trade from the Atlantic Basin into Asia, once the rebalancing of flows into Europe is complete. In the short term, however, a massive Covid wave is a bearish factor for Chinese crude demand. Yet, a nearly 50% hike in the first batch of Chinese product export quotas for 2023 is likely to keep product exports at elevated levels, maintaining crude inflows, particularly if refining margins in the East remain healthy, with growing volume of products being pulled West.

Eurozone Manufacturing Purchasing Managers Index



Nonetheless, headwinds remain. Sizable OPEC+ production cuts, with the actual decline in exports coming entirely from the Middle East, are yet to be fully felt by the crude tanker market. Regional exports will be further pressured as Middle East refining runs are projected to increase substantially this year due to a large-scale refining capacity expansion over the 2022-23 period. At the same time, alarm bells over the health of global economy are ringing somewhat louder. The IMF has recently warned that 2023 will be tougher than last year, with Europe, the US and China seeing their economies slowing. Tightness in tanker supply, which became apparent in the 2nd half of the year, will also be somewhat alleviated by new deliveries, albeit not critically. New additions are trending lower YoY, with just 133 tankers above 25,000 dwt (non-Russian) scheduled for delivery in 2023, compared to 184 units delivered last year.

Still, on balance it seems there are more positive indicators than negative, with increases in tonne mile demand and flattening supply curve prevailing over economic turbulence and prospects of lower crude exports out of the Middle East. Although we may not see the repeat of the same spectacular volatility in freight, fundamentals suggest that supply/demand balance is likely to remain tight this year.

Crude Oil

Middle East

The VLCC market has had a challenging start to the year owing to a large overhang of tonnage following a quiet end to 2022, coupled with slow cargo enquiry which has resulted in rates dropping off significantly. We can expect to see a modern VLCC for 270,000mt AG/China fetch ws 50.5 and 280,000mt AG/US Gulf via Cape to be ws 39 (2023 flat rates). The Suezmax markets remain soft in the AG with enquiry continuing to only trickle through and rates standing at 140,000mt x ws 67.5 for Basrah/Med. Runs into the East are still quite unpopular with Owners, and we expect next done to be in the region of 130,000mt x ws 137.5. Aframaxes remain steady/firm in the Med and steady in Indo, but with VLCCs and Suezmaxes weak, we expect this to start to pressure rates and with that we should see AG Aframax rates soften. Following a shortened week, rates are at 80,000 x ws 245 for AG/East (2023 flat rates).

West Africa

WAF VLCC has been very limited recently and Owners have faced significant reductions on both East and UKC runs. In today's market a Charterer would not have to pay more than 260,000mt x ws 52.5 basis 2023 flat rates. West African Suezmax markets remain under heavy pressure with prompt ships in the market who will be looking to fix quickly, Charterers in the region will be looking to break 130,000mt x ws 115 (2022 flat rates). There doesn't seem to be a huge number of Owners lining up for a run into the East and current market levels we estimate are 130,000mt x ws 105.

Mediterranean

Cargo in the Med remains limited and with cheaper Aframax's available for CPC/UKCM runs, the rate for a Suezmax is going to test 130,000mt x ws 200. There is a competitive atmosphere for voyages Med-East, and those looking to fix will be looking to break the $5 million mark.

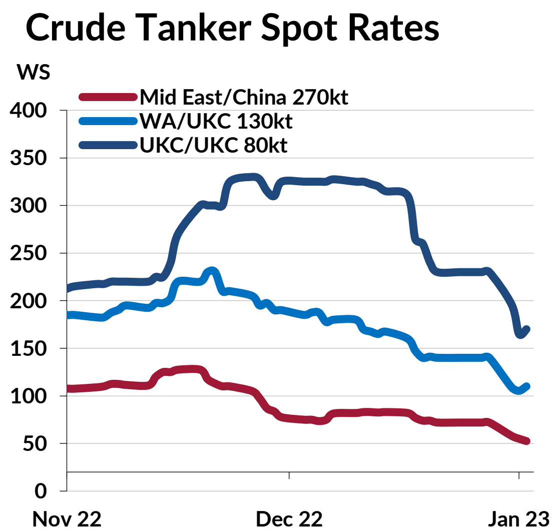
The week began sluggishly for Med Aframaxes, somewhat in contradiction to many predictions after a previous short week. This gave charterers more opportunity to erode rates into the ws 180s for certain X-Med runs and down to ws 320 for CPC loaders. As the midweek came, so did the eventual deluge, markedly for Libya cargos. The position list has been substantially thinned leaving bare scraps on the early side now and rate gains are happening. X-Med has settled into the low ws 200s but a very weak Suezmax market has provided a natural cap with ws 225 achieved on a part cargo X-Med lifting. (All rates basis 2022 wordscale).

US Gulf/Latin America

This zone has also seen rates come off on VLCC's recently as there is an oversupply of tonnage especially in the UKC. This has been further exasperated by ships failing and with Charterers now looking at February dates the omens are not good. Today we would expect a USG to Far East run to fetch in the region of $8.4million. Caribbean Sea Aframaxes have been through a torrid time over the last week with rates dropping daily and limited demand.

North Sea

The North Sea market has traded predominantly off market with Owners and Charterers seemingly happy enough to deal at last done ws 200 (2022 rates) levels for X-North Sea. The list has also been trimmed and so a natural balance has been reached.



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

Clean Products

East

The LR2 have had a slow start to the new year with only two cargoes publicly in the market now, with Greece off today, Japan off on Monday. We don't expect there to be any dramatic charge to the sentiment this side of the weekend. Charterers currently happy to sit back and let some pressure mount here. The 2H Jan is short on the cargo count to the tune of circa 30 now, so we will see more volume next week. TC1 is in need of a fresh test but assess at 75 x ws 230 (23) and West runs at $5.5 million levels: yet, expect these levels to be tested in week 2.

The LR1s fundamentally are the most stable sector - older units and stubborn counterparts who want a very specific type of run have meant that rates aren't correcting as quickly as paper is for example. TC5 is at the 55 x ws 280 (23) and West at $5.3 million levels. Moving into the forward window, we could see traders turn away from the LR1s where possible to utilise scale economies available on the MRs and LR2s; however, that may not be possible in the immediate window.

A week to forgot for MR Owners. Rates have been considerably slashed, and the position list remains long. The pain is not over yet. TC17 has sunk to ws 355 from ws 455 ('22 flats) at the end of last week (and from flirting with ws 500 just before Christmas). AG/UKC is down to $2.9 million, TC12 has dropped to ws 280 and shorthauls to ws 500-550k. All in all, earnings are now below $40k/day for standard EAFR and Eastbound runs and just above that for X-AG and West. Compared to where we were 12 months ago, Owners should be happy; yet, the correction we are seeing from the December highs was not what Owners were hoping for as we see in the new year. As we get stuck into January, there will be less East ballasters as earnings have reached levels that don't support the ballast. Sentiment is also aided by a busier North market, with good Chinese quotas announced for this week. So, for now things look bearish but, if the position list isn't further replenished this weekend and next week sees the return of a busy cargo flow, things should stabilize by the end of the week.

Mediterranean

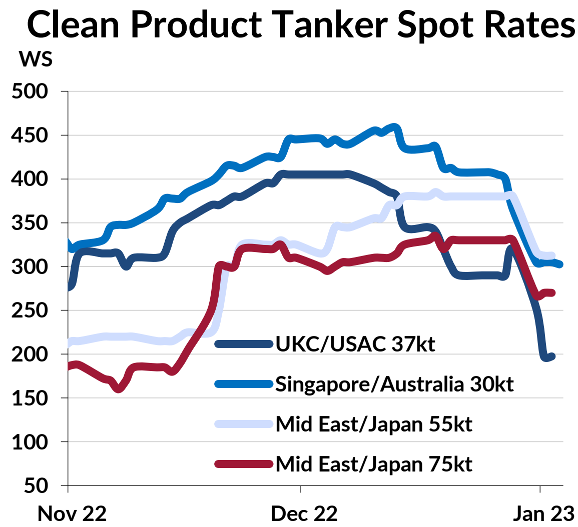
It's been a disappointing start to 2023 for the Med handy market as we see rates in decline. We began the week with X-Med trading at the 30 x ws 375 (22) mark but with slow enquiry and a buildup of prompt tonnage throughout the week we have seen rates slip over 100 points with 30 x ws 220 (23) now on subs which is equivalent to 30 x ws 250 on 2022 flats. Off the back of this, Black Sea levels have also come under pressure with last done for non-Russian loading at the 30 x ws 320 (23) mark with less expected next. The market is weak as we approach the weekend.

Finally, to the MR's here in the Mediterranean where this week we have seen rates come under some pressure. 37 x ws 290 (22) was the call for Med/TA at the start of the week but with ballasters making their way from the US we saw rates begin to slide with 37 x ws 260 (22) being repeated a couple of times midweek. Since then, cargo enquiry has started to slow and at the time of writing we see 37 x ws 247.5 (22) on subs Med/TA with WAF in need of a fresh test which is expected to land at +10-15 points.

UK Continent

All eyes were on this TC2 market when we finally stepped back into the office on Tuesday morning after the festive break with many assuming Owners were going to be in for a rough ride. Tonnage had built with the States market having crumbled, but thankfully throughout the week we have found ourselves with good levels of enquiry. This meant that once TA dropped to 37 x ws 250 (22) we have been able to maintain this for the majority of the week, with WAF holding around a 15-20 point premium (fixed on 23 rates). A slight dip in fixing on Thursday led to Friday seeing our first 23 rate for TC2 at 37 x ws 195 (23) which in turn means WAF needs a fresh test, but with 9-10 outstanding cargoes still there, expect little further slippage.

No fireworks to kick off the year for Handies in the North as fresh weekly tonnage lists revealed around 7 prompt vessels available for charterers. The market quickly adjusted to 23 flat rates as 30 x ws 250 was repeated a few times for X-UKC but with a real slow end to the week, pressure will be firmly on Owners to maintain last done levels. The Russian Baltic has been busy as the February deadline looms with a lot of fixing happening under the radar as levels have traded around 30 x ws 950-1000 throughout the week.



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Dirty Products

Handy

With most Charterers taking the week to get their feet under the desks, activity has been slow with only a handful of fixtures to report. Additionally, with so many units coming to the end of their previous voyages, availability has backed up on the lists, forcing Owners to compete harder than what they have been accustomed to as of late. At time of writing levels have corrected down to 30 x ws 510 but most will probably be in agreement this is not yet the floor.

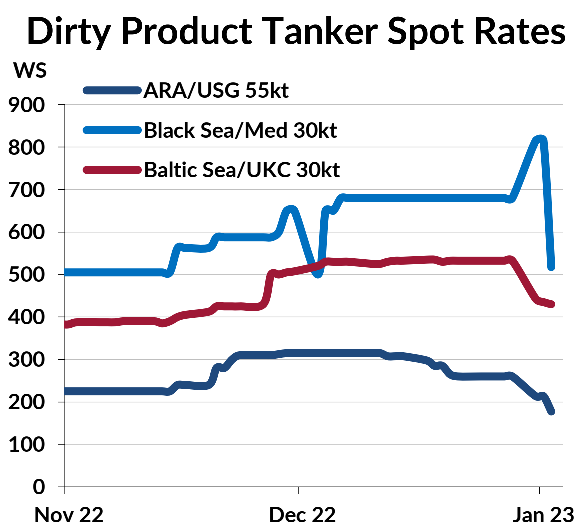
In the Med a similar story unfolded, with levels being tested between deals. Just like in the surrounding Continent market, numerous units had passed their open dates and populated the front end of the tonnage lists. In this region we have seen a much steeper gradient of decline, with week lows hitting ws 450 at time of writing. As for forward outlook, suspect the floor is yet to be established.

MR

One of the benefits for MR operators is that this size can be beneficial to Charterers. One example of this is where draft restricted ports are being protected, these MRs can often have an advantage over the Handies and in a market where Charterers can now pick and choose, a few units have found part cargo employment over the conventional Handies. This said, where a full stem has been worked, we have seen sentiment succumb to negative pressure; however, for now this sector shows more resilience.

Panamax

There were a few raised eyebrows this week as benchmarks coming into the year were heavily corrected down. The reason for a 40+ point drop can mainly be attributed to the performance of the surrounding Aframax sector where once again, if a Panamax wants to get fixed, we look at what an 80kt bottom pro rates are and stay within touching distance, whilst trying to take some advantage for the flexibility a 55kt move offers. The results of this equation have proved rather stomach churning for owners to take in. Still, these conditions are generally anticipated at this time of year and rates remain historically firm for when the markets get going again.



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 5th	Jan 4th	Last Month*	FFA Q1
TD3C	VLCC	AG-China	**-3**	53	56	74	42
TD20	Suezmax	WAF-UKC	**-15**	94	109	183	92
TD7	Aframax	N.Sea-UKC	**+0**	170	170	326	164

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

			wk on wk change	Jan 5th	Jan 4th	Last Month*	FFA Q1
TD3C	VLCC	AG-China	**-2750**	27,250	30,000	42,750	11,500
TD20	Suezmax	WAF-UKC	**-9500**	40,750	50,250	76,000	40,000
TD7	Aframax	N.Sea-UKC	**+1750**	84,250	82,500	167,000	79,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 5th	Jan 4th	Last Month*	FFA Q1
TC1	LR2	AG-Japan	**-21**	246	267	293	
TC2	MR - west	UKC-USAC	**+0**	199	199	407	215
TC5	LR1	AG-Japan	**-12**	303	315	346	225
TC7	MR - east	Singapore-EC Aus	**-15**	298	313	456	258

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

			wk on wk change	Jan 5th	Jan 4th	Last Month*	FFA Q1
TC1	LR2	AG-Japan	**-7500**	75,250	82,750	73,500	
TC2	MR - west	UKC-USAC	**+750**	28,000	27,250	55,250	32,000
TC5	LR1	AG-Japan	**-2500**	69,250	71,750	65,000	46,250
TC7	MR - east	Singapore-EC Aus	**-2500**	42,250	44,750	58,500	34,250

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

ClearView Bunker Price (Rotterdam VLSFO)	**-18**	527	545	510
ClearView Bunker Price (Fujairah VLSFO)	**-34**	580	614	606
ClearView Bunker Price (Singapore VLSFO)	**-24**	590	614	597
ClearView Bunker Price (Rotterdam LSMGO)	**-51**	830	881	780

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