Above the Cap

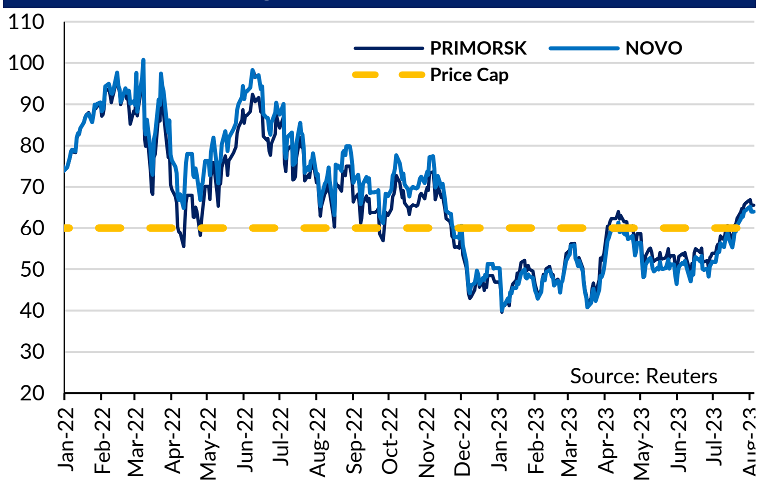
Weekly Tanker Market Report

With international oil prices climbing above the $80/bbl mark recently, so have the prices for Russian oil, with many indicators suggesting that levels are now above the price cap. According to Reuters calculations, Urals prices for Primorsk and Novorossiysk loadings have traded consistently above $60/bbl over the past two weeks, with the premium currently as high as $5.54/bbl. The picture is similar for clean and dirty products, with calculated prices also above the relevant price caps.

Still, there appears to be little interest among the EU member states to review the price ceiling on Russian crude, despite the initial agreement to review the ceiling every two months. However, the US administration is reportedly expected to increase monitoring of western trading houses, shippers and insurers in a move aimed at enforcement of the price cap, although the initial approach is likely to be soft rather than a forceful clampdown, which is feared to lead to add further upward pressure on oil prices. "The initial inclination on the part of Treasury is to be soft on it, not to come down like a hammer on tankers and tanker owners, to enforce, but enforce quietly with letters, phone calls," a source familiar with the administration's views told Reuters.

Will these latest developments bring another change to the tanker market? Since crude and product price caps came into effect, between 40% to 55% of all tankers (depending on size group) that loaded Russia are owned by G7/EU companies or companies with very strong links to price cap coalition, although many tankers in this category did only one or two Russian voyages before returning back into the conventional trade. With Russian prices above $60/bbl, cautious shipowners with significant G7/EU links are likely to withdraw from considering a Russian voyage in their next immediate loading window and seek alternative employment elsewhere in the mainstream market. Anecdotal evidence suggests this is already happening, with positions lists in several load regions already featuring a higher than usual number of vessels with recent history of Russian trade, although the general decline in Russian flows due to higher refining runs, peak domestic demand during summer months and Russia's pledge to cut its production by 0.5mbd in August also have had a role to play here.

Russian crude pricing vs the G7 price cap ($/bbl)



Over the past 16 months Russia (or Russian interests) have augmented substantially its tanker capacity capable to trade outside the G7/oil price coalition framework, as clearly demonstrated by a colossal uplift in second hand asset prices. Yet, the country still needs Western tonnage to some extent. Between 15% to 35% of tankers (depending on the size group), that traded solely Russia since the introduction of relevant price caps up to early July, are owned by western companies. With this in mind, Urals is likely to face downward pressure if there is any shortage of tonnage willing to trade/load Russia above price cap level but at present this depends on availability of non G7/EU tankers for the next fixing/loading window and ability of western shippers to receive attestation that purchased barrels are at or below the price cap.

In the longer run, if Russian crude and products are indeed forced to price back into the market, second hand prices of 10 and 15 year old tankers could resume facing upward pressure, until Russia has enough tonnage outside Western framework to meet its export needs.

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Crude Oil

Middle East

VLCCs have seen a real dearth of enquiry on the surface and open market, but we continue to see a good volume of vessels going on subjects with off market deals helping to keep the market at current levels, which some would argue are artificially high. Owners continue to show resistance citing opportunity in the Atlantic which presents more options to consider. Today, we would expect 270,000mt AG/China to fetch in the region of ws 50 and 280,000mt AG/USG to go for at least ws 31.

Suezmaxes in the AG have seen a volatile week with rates reportedly dropping by 10 points before rallying to what we see now and looking to push above 140,000mt x ws 60 for a Basrah/West run. The list has tightened but we still see suitable ships with 20 tonne cranes off the later dates we are currently fixing. Enquiry for long East has been limited this week, and rates have changed little at approximately 130,000mt x ws 115 today.

A frustrating week for Afra Owners in the East as the summer lull really seems to have taken grip. A decent number of ships have secured employment, yet the list has replenished even quicker leaving a handful of hungry Owners floating on the water to close the week. With a dire Med market, it's tough to see much change on the horizon. AG earnings are out preforming the Med, however, these will continue to be eroded next week. Levels for AG/East are in the ws 140s...for now.

West Africa

The VLCC sector in WAF has been under pressure for most of the week as Charterers continue to drip feed September cargoes into the market resulting in a softening of Owners sentiment. We have seen a large number of Eastern ballasters enter the market here but most will be forced to look further West for gainful employment. Today we are expecting a 260,000mt WAF/China to go for ws 53.5.
West Africa has been quiet this week with some Suezmax Owners fixing quietly and looking to keep fixtures under wraps. The floor has been found and Owners resistance began to show in the latter half of this week with a firming sentiment. Rates seem steady with tonnage available on natural dates; for a standard TD20 run rates look to push above 130,000mt x ws 70 for next done. Premiums to head East stand at approximately 10-12.5 points and we have seen more willing Owners to head East than in previous weeks.

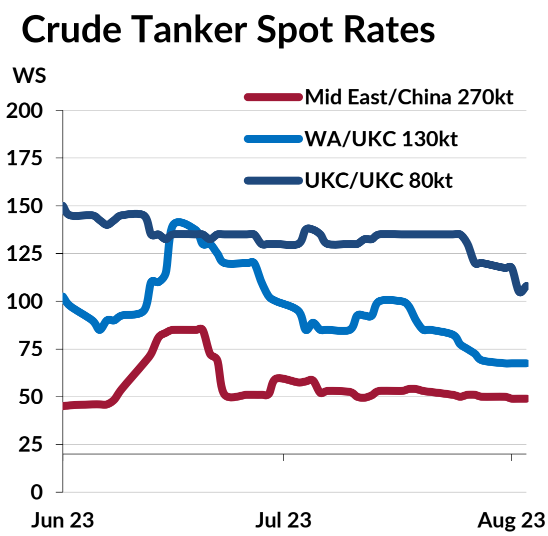
Mediterranean

Suezmax markets in the MED have been very quiet this week seemingly following on from last week off the back of limited enquiry in the region. Charterers in the Black Sea are in the hot seat here with some prompt ships available, though surely Insurance brokers will be trying to raise the AWRP here after Ukrainian attacks on a naval base in Novorossiysk, making the market uncertain. For a standard TD6 run it will pay around 130,000mt x ws 75. The Market for Libya/Ningbo is quiet and will have Charterers looking to break $3.8m.

The Mediterranean Aframax market dragged itself through this week as activity only helped to advertise the ample tonnage available. Owners have tried to hold at last done but Charterers did not find it hard to find ships to break it. Rates from CPC have taken the biggest hit starting the week at ws 142.5 and as we close having notched ws 110 . Cross-Med didn't fare much better and finds itself deep into double figures at below ws 90. As the Med begins to feel like it may be near its bottom as Opex levels are touched, there will need to be an increase in activity in order to buck this current trend as we move into next week. This seems unlikely for now given low Russian volumes and price cap breach risks for long haul stems.

North Sea

The North Aframax market concludes in a similar fashion to where it began... pretty quiet. Sentiment has remained soft throughout the week with little signs of change, as rates have inched downwards throughout. The week started with X-NSea trading at ws 117.5 and as we close, it is hovering around ws 100 levels. With plenty of options still available for Charterers to pick off coupled with limited activity, rates might continue to come under scrutiny as we move into next week..



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

Clean Products

East

The MRs have ticked along in the background with a decent level of cargoes coming into the market. Charterers who have had the ability to use Russian history tonnage have helped clear the front end of the list of many of these units and as such, Owners will be looking to push where they can next week. TC17 has been tried and tested at 35x ws 245 this week and expect this will be the footing going forward next week. TC12 should be at 35x ws 170 and UKC in the US$2.2m levels.

The LR1s have been busy with the tonnage list looking very tight up to the 14th August. TC5 is on subs at 55x ws 175 and UKC at US$3.3m level, but both of these rates could be tested if a certain ship (age/history/lc3/kpi) is required for Charterers lifting. With nothing outstanding Owners will be a little disappointed there won't be a buzz of activity come Monday. However, we are missing a lot of cargoes in the next fixing window and expect that early next could see rates pushed here.

The Charterers have played the LR2 market very well this week, sitting off on stems and waiting to put pressure on owners to ease the head of steam that was building. TC1 was tested at 75x ws 155 (but then failed this morning) and UKC corrected accordingly to US$4.0m. Similar to the LR1s we are missing stems, but there are questions been asked off market. Expect that we could see a little negative correction early next week as Charterer play on the lack of stems in the market, don't expect it to see a huge drop, but a dip could be on the cards.

Mediterranean

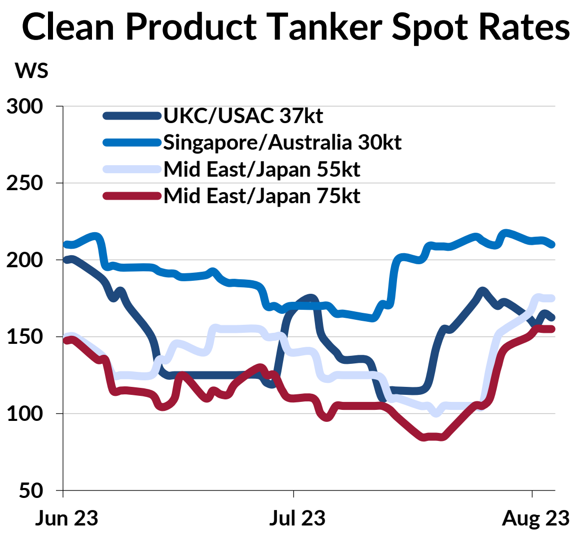
It's been another slow week for the Handies here in the Mediterranean, which has seen rates come under pressure throughout. 30 x ws160 was the call for X-Med on Monday morning but, with sluggish enquiry in the market, we saw the front-end begin to build. As a result, we now see 15 points off, with 30 x ws 145 repeated. Black Sea received a fresh test at the 30 x ws 200 mark at the start of the week; yet, with X-Med sliding, expect a negative test around the 30 x ws 180-185 levels. Quiet into the weekend.

Finally to the Med MR market, where it's been a pretty steady week, with rates bouncing around the 37 x ws 160-165 levels Med/TA for the majority. 37 x ws 160 achieved X Sines on Monday set the tone for the week, with ws 165 then on subs for a Naphtha stem leaving rates very much grade dependent. WAF action has been slow this week, with little to report, but expect standard +10 premium to be maintained. Expect levels to hold into the weekend.

UK Continent

Despite a relatively limited tonnage list presented to us on Monday morning, the lack of enquiry has eroded Owner's optimism of recent weeks and some negative correction is seen. Monday saw a slip early on to 37 x ws 162.5 and this has really set the tone, with only a couple of times Charterers getting caught out and therefore paying more, but in reality rates have sat around the ws 160 mark. With little outstanding come Friday and a few more options available come mid-month dates, we expect this gentle negativity to bleed into next week, with further correction to come.

Overall, it has been a steady week for Handies in the North as levels for X-UKC have traded around the 30 x ws 180 mark. The front end of the list has been tight throughout and Naphtha/Jet requirements have proved challenging to cover due to the lack of suitable units, which may see a slight premium paid for certain grades. X-MED continues to soften, which may now start to attract some Gib/West Med units for UKC/MED voyages. Charterers will be hopeful the weekend break enables a few more vessels itineraries to firm up, creating a few more options come next week.



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

Dirty Products

Handy

A rather sluggish week in the North, as the week started with Owners hoping to see activity pick up, but unfortunately, cargoes were drip-fed into the region, creating a relatively flat feel. Although activity was slow throughout the week, tonnage supply maintained levels at ws 190. An injection of enquiry will need to surface early next week before Owners succumb to negative sentiment and levels come under pressure.

In the Med, we started the week with one Owner managing to slightly improve levels as modern approved tonnage showed limited availability for this cargo, resulting in a 5 point premium paid at ws 170. Repetition followed as mid-week activity saw ws 170 repeated, but despite a recurrence, negative pressure was creeping up behind Owners as prompt units remained in the Med. The inevitable rate softening soon hit as one Owner took the plunge and went on subs at ws 165.

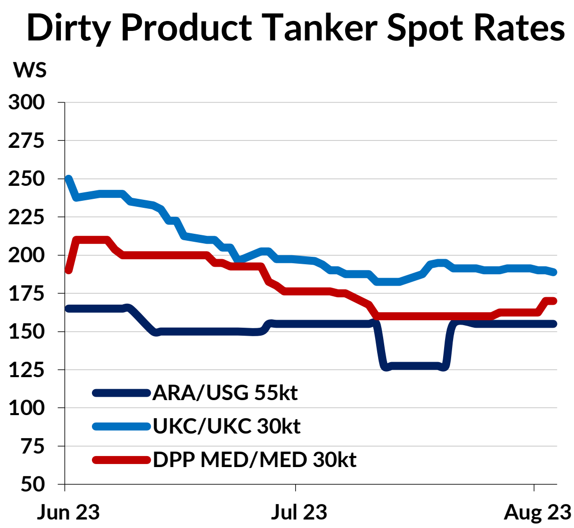
Replenishment over the weekend could see levels fall further.

MR

In the North this week there has been very little for Owners to get their teeth in to both on a full or part cargo basis. One unit has sat prompt all week after failing subs on 30kt and this is likely to be the catalyst for levels to be tested especially if this Owner sees a longer voyage out of the region. That said, natural tonnage beyond this unit is tight and as such a ballater may be reluctant to commit at lower levels despite the Med struggling to pick up. Both regions will likely carry on with the same trend into week 32 as the summer market kicks in and the pace of enquiry remains slow.

Panamax

Little to report again for this sector as availability on this side of the pond continued to show throughout this week, but enquiry failed to test Owners and see where levels genuinely lie. Adding to a relatively flat feel in the Europe market, the States market took a tumble which prevented tonnage from ballasting West. One unit managed to go on subs for an ex WAF cargo but unfortunately failed, leaving prompt availability still showing. Whilst idle days continue to stack up, the expectation is for levels to come under pressure from last done should enquiry surface.



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 3rd	July 27th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	**-2**	49	51	54	54
TD20	Suezmax	WAF-UKC	**-6**	66	72	84	83
TD7	Aframax	N.Sea-UKC	**-20**	100	120	131	122

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

			wk on wk change	Aug 3rd	July 27th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	**-6000**	23,750	29,750	35,000	31,750
TD20	Suezmax	WAF-UKC	**-6500**	14,000	20,500	31,000	25,750
TD7	Aframax	N.Sea-UKC	**-21000**	9,750	30,750	44,000	29,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 3rd	July 27th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	**+26**	156	130	99	
TC2	MR - west	UKC-USAC	**-11**	162	173	142	160
TC5	LR1	AG-Japan	**+38**	177	139	122	148
TC7	MR - east	Singapore-EC Aus	**-2**	211	213	165	201

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

			wk on wk change	Aug 3rd	July 27th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	**+9250**	38,000	28,750	16,750	
TC2	MR - west	UKC-USAC	**-4000**	15,250	19,250	13,500	15,000
TC5	LR1	AG-Japan	**+10250**	31,500	21,250	17,000	23,250
TC7	MR - east	Singapore-EC Aus	**-1250**	23,500	24,750	15,500	21,750

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

Bunker Price - Rotterdam VLSFO	**+45**	612	567	534
Bunker Price - Fujairah VLSFO	**+49**	630	581	560
Bunker Price - Singapore VLSFO	**+47**	633	586	575
Bunker Price - Rotterdam LSMGO	**+89**	891	802	713

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