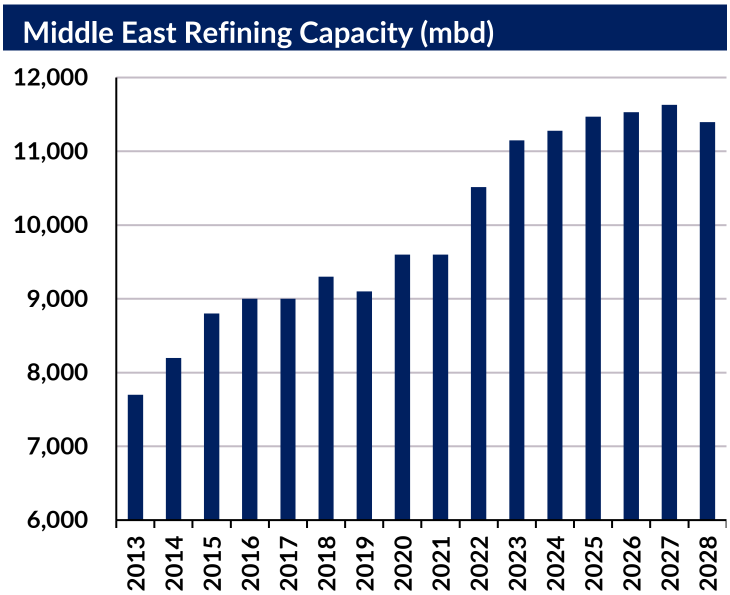
End of an Era

Weekly Tanker Market Report

For product tankers, much of the past decade's investment was focused on changing dynamics in the global refining scene. In short, the story of expanding capacity in the East, primarily driven by Middle East export refineries, and capacity rationalisation in the West supported the case for strong tonne mile demand growth. However, with most Middle East refining projects nearing completion, and plans to close capacity in the West being reassessed in the name of energy security, the sector needs to find a new investment case for the next decade.



From 2013 to 2022, Middle East refining capacity expanded by 2.8mbd, but from 2022, to 2028 that growth slows to 0.9mbd, with around 70% of that growth taking place over the next year. Ultimately this highlights that following the start-up of Duqm early next year, no new export originated Middle East refineries are due to come online. Those projects which do start up, are either small scale expansions or domestically focused. One also has to consider that regional demand is also set to increase over the next 5 years, which ultimately indicates that Middle East product balances will tighten over the medium term. Furthermore, given the lead time it takes to develop a greenfield refinery project, there is little chance of the outlook changing.

With the Middle East story largely concluded, the next stop should be India. However here, issues with acquiring land have prevented new mega projects materialising, with Middle East based investors choosing China instead. Although India is still expected to boost capacity, much of this is likely to be domestically focused, suggesting little upside for product exports in the medium term.

As is often the case, China is the big sensitivity here. With the country being responsible for the biggest capacity additions over the next 5 years, export policy will be key for global refining margins and products trade. In theory, China will see its middle distillate surplus increase by 1mbd by 2028; however, government policy will be the key determent of whether (or not) material gains in exports are witnessed.

In the long term, a slowing demand side story and expanding refining capacity will lead to overcapacity in the sector, which will require some rationalisation. Logically that would take place in Europe; however, uncertainty around government policy concerning energy security and healthy margins in the near term, are likely to delay refining closures.

Crude Oil

Middle East

VLCC Owners are currently experiencing a challenging environment in the Middle East with Opec production cuts being felt. This has resulted in a depressed market with tonnage building up and rates are under downwards pressure. Today, we would expect 270,000mt AG/China to fetch in the region of ws 46 and 280,000mt AG/USG to go for at least ws 29 level.

There is still some Suezmax optimism in the AG but with a very low level of activity, Charterers from Basrah will be looking to push back towards 140,000mt x ws 65. Activity heading East remains slow, and with a weak VLCC market in the region, there is still potential for VLCCs to step on part cargoes here.

West Africa

We have witnessed more activity in the VLCC sector in WAF this week but rates have not improved with the influx of eastern ballasters fleeing the muted AG market and cargo volumes are proving insufficient in offer employment to Owners who will now be tempted to try their luck further West in the Americas. Today we are expecting a 260,000mt WAF/China to go for ws 51 level.

West Africa has seen a healthy level of Suezmax enquiry this week and Charterers have chewed through the early portion of the list. Rates for TD20 are somewhere in the region of 130,000mt x ws 70 for natural dates. The market to head East is also firm, with very few looking to lock in this voyage, premiums have pushed up to around 15 points.

Mediterranean

Suezmax Charterers in the Med still have a reasonable number of ships to choose from but firmer sentiment in the Atlantic will have an effect on rates here. For TD6, Charterers will be looking to keep rates at 130,000mt x ws 70 for next-done. The Market for Libya/Ningbo has stayed around the same level and Charterers will be looking to break US$3.8m.

US Gulf/Latin America

It is becoming the norm to say that this sector again proved to be the shining light in the VLCC sector as we saw good volumes of stems from both USG and South America. The rates have generally been good especially on long runs from USG to Far East but the shorter runs are not gaining as much as many Owners choose to stay in the Atlantic for the balance of the year so there is lots of competition for the T/A runs. We expect a USG / China run will fix in the region of US $8.3m on today's market while a Brazil/China is paying ws 51.

Afra Owners enjoyed a more positive week in the USG/Caribs as an influx of cargo enquiry managed to curtail the recent downward spiral. By weeks end, we are seeing that rates have now steadied to the extent that Owners will be hopeful they can push on and raise the levels next week.

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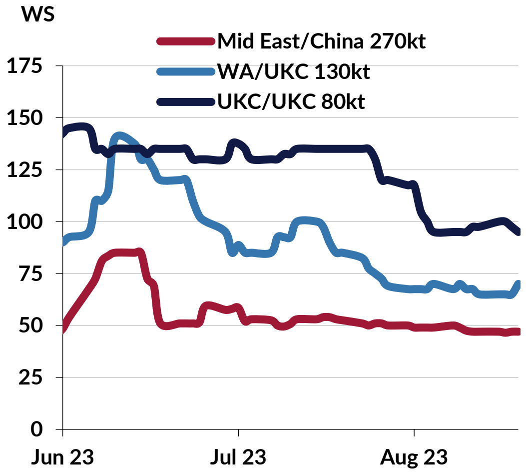
North Sea

North Sea Afras have moonwalked this week with little disturbing the surface. Rates are trading around ws 95 with nothing looking likely to change in the near term as Owners eye up surrounding markets.

Crude Tanker Spot Rates



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

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Clean Products

East

LR2s have seen a decent recovery this week after a rapid crash just the week before. But overall, the activity in August has continued to disappoint and we are now hitting September dates, which will dampen Owners spirits slightly. It's been a slow end to the week but there are enquiries being made under the radar. But rates should now hold and are expected to firm as we get into September fixing next week. 75,000 mt Naphtha AG/Japan is steady for now at ws 130, but 90,000 mt Jet AG/West is tougher to repeat the $3.65 m. West is not such a preferable direction, so a number of the usual West players are now pushing for higher 3's.

LR1s have had a similar time with a rapid TC5 recovery, with 55,000 mt Naphtha AG/Japan rising back to ws 150 level after a drop of some ws 25 points the week before. Again, the West bounds are the tougher runs to get interest from Owners, with rates seeing improvements accordingly. The upward pressure is only slow though as cargoes are still slightly limited. 60,000 mt Jet AG/UKC is now $3.20 m again, with Owners looking to push it from here. MR activity is making Charterers stem some cargoes up and this may be the extra factor needed to see LR1s move on from here.

A quieter finish to the week as expected but owners will be pleased with the moves made. Last done EAFR is now ws 270 (31-32k/day) and TC12 has nudged to ws 195-200 (31k/day) levels for the first time since early June. With the front of the position list so tight, we expect to see further stemming up where possible on short hauls and naphtha. Yet, if the trickle of African deliveries continues, this MR market will push further into September. Some Charterers are already looking at 1-5 September dates on MRs (as well as LR2s), which gives a good indication of how busy the segment is. We will see Singapore ballasters this weekend as TCE earnings exceed the Far East by enough to encourage ballasting on spec. This will help to fill out the list for first decade September, but remaining August laycans still have limited good vessels/itineraries to work with.

Mediterranean

Owners will be very pleased in this Mediterranean Handy market as I'm sure very few would have thought that 30 x ws 200+ would be the call for XMED come Friday. An active start to the week saw rates gradually pick up momentum pushing up from 30 x ws 140 to ws 160 by mid-week, but the second half of the week has really gathered speed. With a number of Nap/Jet stems quoted and limited options, we see 30 x ws 220 being achieved, with a fresh test needed for non-restricted grade, but expect Owners to be looking for a minimum of a repeat. A few stems remained uncovered at lunch and it certainly feels this week has more to offer before COB.

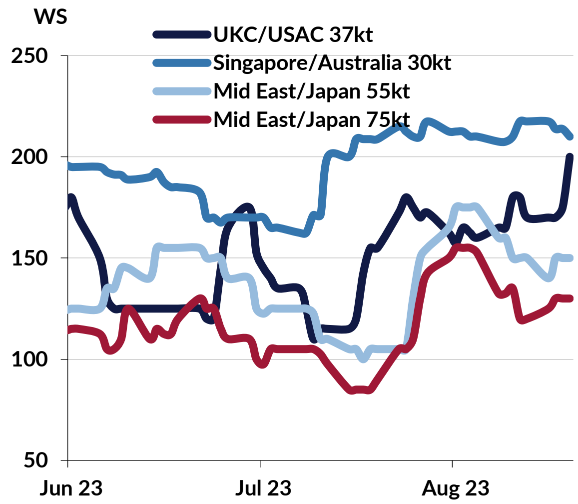
A little less to discuss here in this sector as a lack of enquiry has kept rates only guided by the active UKC market. Partner this increase with an equally spicy Handy sector as well as a limited number of ballasters, and we can expect with the next test for rates to fall within ws 5-10 points of that of TC2.

UK Continent

As the week started with a lack of fresh ballasters on the horizon from the States, we knew it wouldn't take much for this MR sector in the Continent to build momentum and see positivity. The first half of the week didn't quite reach its full potential as rates still held around 37 x ws 170 for TC2; but after that we saw a number of stems off similar dates both to WAF and TA and Owners took advantage. TA jumped to 37 x ws, 185 to only be eclipsed by the end of the week to near 37 x ws 200 now with a number of WAF stems helping keep momentum going. Heading into next week, inquiry will be crucial as of right now we see limited outstanding as Owners hope for an active Monday to keep this sentiment moving.

There has been good demand for XUKC (ULSD) up until Wednesday this week with a healthy amount of ships being fixed as levels have held the line at 30 x ws 185. There has been enough supply around to cater for cargo demand but one point to make is that as XMED continues to improve. Bay of Biscay positions have been taken on subs/fixed for WMED cargoes, which could see the list shorten heading into next week. Steady for now.

Clean Product Tanker Spot Rates



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

Dirty Products

Handy

Activity this week in the Continent started with a slight increment in levels, with ws 192.5 reportedly being done. Questions began to flow if the same number could be repeated; however, activity in the North for the rest of the week can only be described as “sluggish”. The floor for the Continent was reached at ws 190, which saw repetition midway through the week. For the latter half of the week, Owners started to wonder, if questions would be asked before the weekend as idle days continued to stack up, adding negative pressure to sentiment in the North. Replenishment over the weekend could see levels tested on Monday, but this sector is keeping stable for now.

In the Med, we have seen tonnage picked off mainly behind closed doors this week. There is now a discrepancy in perspectives from Owners, as early week activity saw one Owner finding employment at ws 170 +10 out of Israel but a similar deal fixing at ws 165. Despite Owners who were there to tuck away a ship off market, the feeling in the Med remains as the region will need to see an injection of pace next week to avoid current levels eroding.

MR

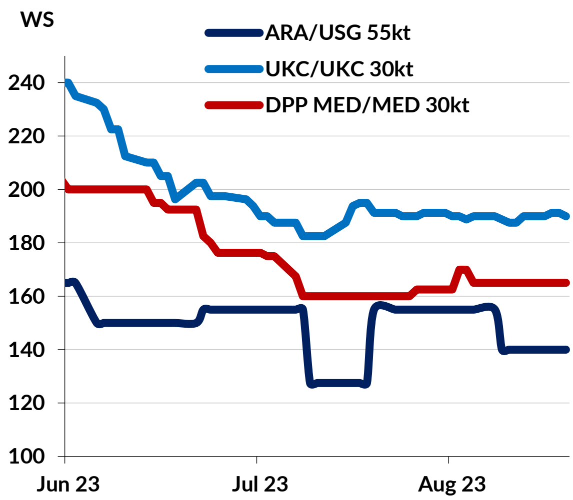
It’s been a lethargic week in the North, as full stem enquiry has been few and far between. This led one Owner to jump on a part cargo opportunity in order to keep the props turning. Despite this lack of enquiry, tonnage in the region has remained tight and consequently, has kept levels steady around the ws 170-175 mark.

In the Med levels were looking rather more precarious this week, with previously set benchmarks very much in the spotlight. An additional layer of concern was also being brought about from a weakening sentiment in the surrounding Handy sector, with ws 150 being the outcome from the week’s trading. Looking ahead, it’s fair to say Owners will need to see units moving away from the front end of the tonnage lists, if they are to maintain current values.

Panamax

Activity remains absent for this side of the pond, but there is no surprise here, as well-approved tonnage is proving more challenging to find, pushing cargo dates further back. Whilst this market is suffering from liquidity problems, a resurgence has been seen in the States after an uptick in activity saw Charterers fix off forward dates. Owners will need to see enquiry continue to flow before allowing them to make any further gain.

Dirty Product Tanker Spot Rates



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 18th	Aug 10th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	**-2**	46	47	52	52
TD20	Suezmax	WAF-UKC	**+3**	68	65	85	81
TD7	Aframax	N.Sea-UKC	**-1**	96	97	135	118

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

			wk on wk change	Aug 18th	Aug 10th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	**-250**	20,250	20,500	33,000	28,000
TD20	Suezmax	WAF-UKC	**+3250**	16,250	13,000	30,500	25,250
TD7	Aframax	N.Sea-UKC	**-250**	6,500	6,750	45,250	26,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 18th	Aug 10th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	**+10**	132	122	89	
TC2	MR - west	UKC-USAC	**+20**	199	178	155	175
TC5	LR1	AG-Japan	**+7**	152	145	101	146
TC7	MR - east	Singapore-EC Aus	**+2**	215	213	216	206

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

			wk on wk change	Aug 18th	Aug 10th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	**+5000**	28,000	23,000	12,750	
TC2	MR - west	UKC-USAC	**+5500**	24,250	18,750	16,000	19,000
TC5	LR1	AG-Japan	**+2500**	23,750	21,250	11,000	22,250
TC7	MR - east	Singapore-EC Aus	**+1000**	24,250	23,250	26,000	22,500

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

	wk on wk change	Aug 18th	Aug 10th	Last Month*
Bunker Price - Rotterdam VLSFO	**-26**	589	615	547
Bunker Price - Fujairah VLSFO	**-2**	629	631	562
Bunker Price - Singapore VLSFO	**+8**	639	631	570
Bunker Price - Rotterdam LSMGO	**-30**	871	901	753

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