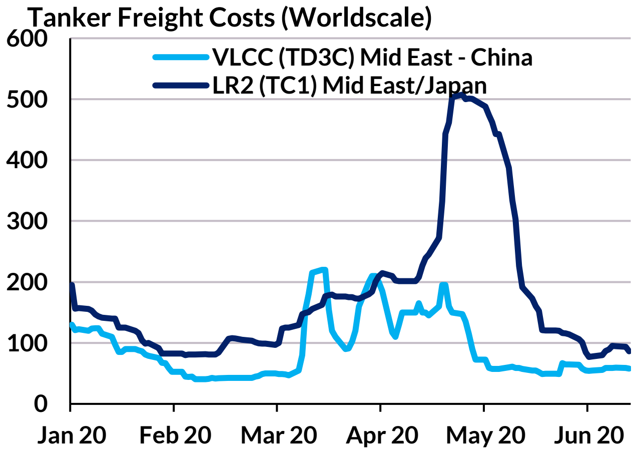
Taking Stock

Weekly Tanker Market Report

As we near the halfway point of 2020, it seems like an impossible task to summarize everything that has transpired over the past 6 months. Even events which were considered major at the time now seem like a distant memory. 2020 kicked off with high tensions between the US and Iran following the killing of General Soleimani. The world wondered how Iran might react, with attacks on shipping thought likely. Then, just weeks later, the US and China signed a Phase 1 trade agreement which was expected to lead to increased Chinese buying of US commodities. Seemingly connected to this deal, sanctions against COSCO Dalian were lifted, which increased tanker supply and pushed rates to lower levels, albeit briefly. Around the same time, increased conflict in Libya saw crude exports plummet, from which they have yet to recover. Whilst the World was already aware of Covid-19, in January (when these events occurred) it was largely seen as a Chinese problem. Most of the World carried on as normal.



However, the rapid spread of the infection across the World soon became the dominant force in the oil and shipping markets. Just as the spread of Covid-19 was starting to have a major impact on global oil demand, a fallout within OPEC+ led to a rapid increase in crude production from March until a new OPEC+ deal was signed in April. Rapid increases in crude exports from the Middle East pushed VLCC earnings to a 15 year high (on a monthly average basis).

At times during April and May, more than 4 billion people were under some form of lockdown, causing transportation fuel demand to evaporate and total demand down by 17.8mbd year on year (YOY) during Q2. Demand in April alone fell by 21.8mbd YOY – the single largest contraction ever witnessed. This record collapse in consumption occurred ahead of any reductions in oil supply, forcing the emergence of a super contango, making floating storage inevitable.

It was not just crude tankers which felt the impact. Product tankers saw record freight rates. In Europe, a lack of storage caused significant discharging delays, which led to previous records being obliterated; MR cargoes trading from Europe to the United States reached $64/tonne vs. a previous record of $39/tonne. Likewise, in the East, significant increases in exports from India, the Middle East and China pushed freight costs to unimaginable levels. LR2s, which had also benefitted from vessels switching to dirty trade earlier in the year, saw freight rates on the Middle East – Japan route reach $124/tonne, almost twice the previous record. Demand was not the driver, instead it was supply as refiners and traders sought to push refined products to any home they could find, whilst also exploiting a contango structure. However, as refinery runs were cut steeply to balance supply with demand, product tankers in particular came under heavy pressure. Crude tankers kept the party alive for slightly longer as oil production cuts took longer to implement, but eventually moved to a weaker position as refinery intake and crude exports adjusted to lower levels.

At the time of writing, floating storage is likely to have peaked. As more vessels are released from storage, vessel supply will increase. For the tanker market, one should hope that oil demand recovers quicker than analyst expectations. The fundamentals for the second half of 2020 look bleak, but looking back at the first half of the year shows us that anything can happen; sanctions, pandemics, trade wars, conflict and weather could all influence the remainder of 2020.

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Crude Oil

Middle East

June VLCC fixing is effectively over and has proved a 'shorter' month than even well-trimmed May. July is anticipated to yield little better and although supportive delays persist, and have led to limited on the water availability, the situation is likely to become even more testing for Owners. Rate cracks have already begun to appear with levels now down to ws 55 to the Far East and to ws 30 West for modern tonnage and those may prove the top of the range into next week. Suezmaxes have continued to enjoy quite reasonable attention, with VLCC stem splitting again seen at the start of the week but despite that, availability continued to swamp, and rates again flagged at down to ws 52.5 East and towards a super low ws 20 to the West. No relief in early sight either. Underfed Aframaxes continued to skid lower - to 80,000mt by ws 60 to Singapore and will remain under pressure well into next week too.

West Africa

As elsewhere, Suezmaxes couldn't shrug off a seemingly never ending queue of tonnage on the prevailing fixing window. It did eventually get tighter on the earlier dates but before Owners could take advantage, Charterers had rolled ahead to more populous positions, and hopes were again punctured.130,000mt by ws 45 to Europe, and little better than ws 40 to the USGulf now with down to ws 50 seen to the Far East. No recovery anytime soon as it seems. VLCCs had very little to do, and even more so because more flexible Suezmaxes provided even cheaper $/Tonne than theoretical VLCC Owner demands so stem splitting also impacted volume. Rates will be led by the nose by AGulf developments so it is likely a downhill path from the previous ws 57 mark to the Far East.

Mediterranean

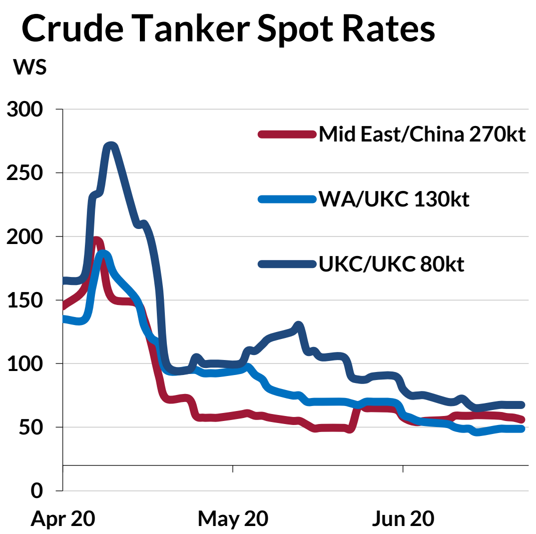
We could save time and effort and just cut and paste last week's Aframax commentary...nothing has changed - heavy tonnage, modest enquiry, and rates at down to 80,000mt by ws 50 X-Med, and ws 60 from the Black Sea. Owners won’t get much better next week, but apathy to such low levels may just add a few ws points of comfort as Charterers try to persuade their favourites to engage. Suezmaxes remained between a rock and a hard place upon minimal local interest and no realistic ballasting opportunities. Rates are at down to 140,000mt by ws 45 to European destinations, and to $2.6 million to China - where they look set to stay over the near term, at least.

UGulf/Latin America

Aframaxes huffed and puffed but although there were busier patches, there was not enough seen to allow Owners to tighten the market rope and pull themselves much above 70,000mt by ws 70 upcoast and a little lower than that transatlantic...more bargain shopping required to spark the necessary momentum. VLCCs started slowly but eventually reasonable interest circulated, although Charterers have found Suezmaxes competitive, and rates have thereby been capped at a maximum $7.5 million from the USGulf to China and ballasters will be increasingly called upon to supplement thinner naturally positioned units, and that should limit potential downside to gross freights somewhat, even if the actual TCE's for those ballasters don't inspire.

North Sea

As in the Med, Aframaxes had another repeat week of underwhelming enquiry, and rock bottom rates, to endure. 80,000mt at down to ws 67.5 X-North Sea - again - and to 100,000mt by ws 40 from the Baltic too. There has been a little covert end week coverage but any gaps in lists will refill pretty quickly to prevent any meaningful rebound. VLCCs saw very little and some Owners are upping sticks to ballast on-spec to the USGulf. In theory rates hold at around $6.25 million for crude oil to China/South Korea, but it will need re-testing next week.



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

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Clean Products

East

A quiet end to the week means that the stalling of the MRs is prolonged. With only a handful of outstanding cargoes in the market, anyone coming in today could be forgiven for being aggressive with their ideas. Owners will be hoping that the repetition of numbers like EAF freight (35x ws 130) will provide a degree of safety for them. If we are to see a muted end to the week and a quiet start to Monday, then rates are likely to come under even more pressure.

LRs have had a fairly steady week but volumes are still low. LR1s saw the best of it, with rates seeing definite improvements. 55,000mt naphtha AGulf/Japan moved up some ws 10 points to ws 80, which is still weak but at least just up above the bottom. 65,000mt jet AGulf/UKCont is back to $1.4 million and maybe could see more next week. LR2s have seen a steady although limited cargo flow. With lists still reasonably balanced, rates have stayed very flat, with 75,000mt naphtha AGulf/Japan at ws 85 and 90,000mt jet AGulf/UKCont at $2.3 million. It feels unlikely that we will see much change to this next week as we see more July stems.

Mediterranean

A week to forget for Owners, with rates consistently softening throughout. A combination of sluggish enquiry and a wealth of tonnage left Owners unable to stem rate losses with 30 x ws 95 now the going rate (ws 10 points lower than Monday). Black Sea enquiry has been almost non-existent (much like previous weeks) and rates have tracked Med action and continue to trade at the ws +10 point premium. Come Monday, an influx of cargoes will be needed in order for rates to stabilise and if not, further losses will be seen, with 30 x ws 95 possibly not quite the bottom just yet.

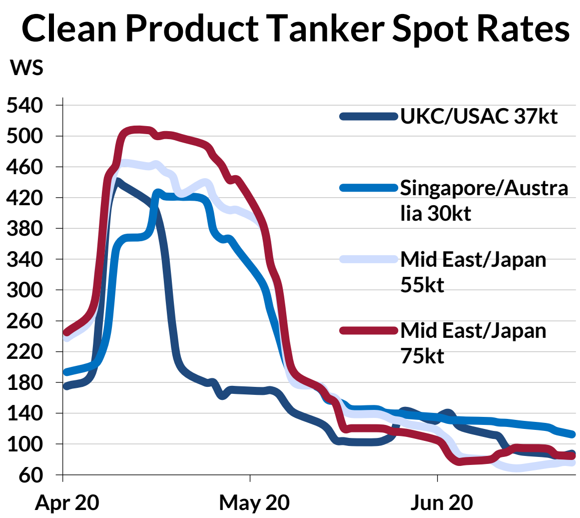
MRs in the Mediterranean took a similar route to the Continent, with a slow pace of enquiry and glut of tonnage keeping rates pressured throughout. Rates slipped to a low of 37 x ws 85 for transatlantic and $800k for AGulf but, with a busy day on Wednesday seen across both regions, a small uptick was seen. Coming into Friday we push up towards the ws 85 mark, with ws 90 being achieved as part of a voyage with multiple options, and we see a fresh test to the AGulf, pushing to $875k. Owners will be content that at least some of the prompt tonnage has been cleared out, but a quieter end to the week will show a healthy tonnage list once again come Monday. Expect rates to hold here for time being but as always, enquiry levels will be key early in week 26.

UK Continent

A quiet front end of the week saw this market finally reach it's floor after a prolonged period of inactivity had seen rates tumble down to the mid 80's for TC2. The second half of the week has seen much improved enquiry, with Wednesday being particularly busy as Charterers piled in to take advantage of the cheap freight levels on offer. Whilst most were successful, one or two were left more exposed and rates rebounded very minimally as the position list tightened for some dates. TC2 recovered to 37 x ws 87.5, with WAF up to 37 x ws 97.5, hardly anything to get excited about it has to be said but all the same a welcome change of course for the Owners. Generally, this market looks likely to continue to favour Charterers as most segments suffer from the summer blues and the added fallout from the continued global health crisis. Rates look certain to remain very soft overall for the summer months, with just the odd window here or there that could offer some opportunities for a premium.

Week 25 in this UKCont Handy market has seen good levels of enquiry and fixing activity throughout but unfortunately for Owners a healthy amount of tonnage has kept rates trading sideways all week. Baltic liftings have remained steady at the 30 x ws 95 mark, with X-UKCont trading at 30 x ws 85. 30 x ws 75 also remains the going rate for a UKCont/Med run. With the market well balanced, rates are expected to continue holding the line as we enter into the new week.

All in all, it's been a lacklustre week in this Flexi market, with slow levels of enquiry throughout and little to report fixture wise. Flexis have therefore been tracking the UKCont Handy market, which over the course of the week has seen rates hold the line at last done levels. As a result, Flexi rates have been trading just below a prorated Handy rate, with 22 x ws 105-110 the current benchmark for a X-UKCont run.



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Dirty Products

Handy

The Continent this week has enjoyed a flurry of activity, which for the most part has helped to reduce the overhang of spot availability. The problem for any market, however, is that when such events happen while Owners are forced to compete, rates inevitably fall victim to negative correction. The same can be said for what has happened on the Continent this week, although at the time of writing the tonnage lists now look a lot tighter and we have to look at cargoes with correct lead times being applied, rather than assuming spot coverage is possible.

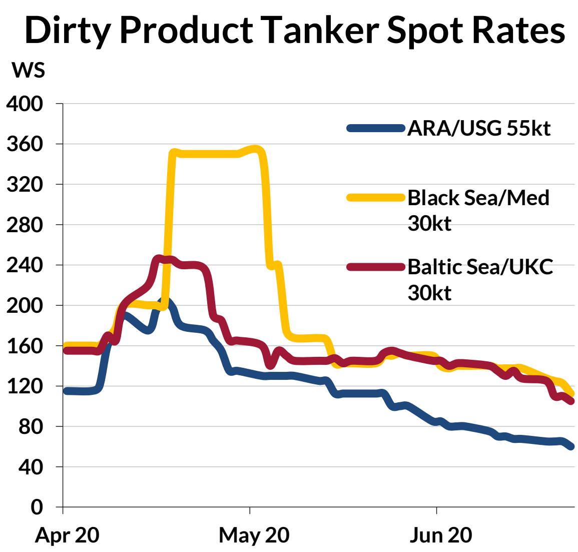
In the Mediterranean conditions have not fared quite so well, with tonnage imbalance still needing to be addressed before any recovery can happen. Furthermore, since we passed the mid-week stage of week 25, the Mediterranean cargo base has slowed even further, which places questions on the validity of recently corrected rates. That said, due to current low TCEs, resistance from Owners intensifies with every drop and so it is possible we are nearing the floor.

MR

As a generic summary for the Continent and the Mediterranean, the appetite from Charterers for full 45's has been present, but this only moves tonnage along into the next window, meaning that the longevity of any relief is just short lived. This said, however, with a number of Charterers looking to move cargoes on a 35kt basis, MRs will feel like they are at least being shown a bit more requirement. This could have a stabilising effect for now.

Panamax

With tonnage availability lengthening here in Europe and very little appetite for transatlantic runs, it was not exactly a prerequisite that any activity was needed for rates to come off. Simply following BITR's assumed pricing would have been enough to measure sentiment. Eventually though levels have been tested and with this, as expected, came the actual correction. However, just as we have seen in surrounding markets, at current levels resistance will intensify against further decline. As one Owner has suggested, don't rule out the prospects of units now ballasting back to the US.



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	June 18th	June 11th	Last Month*	FFA Current Q
TD3C	VLCC	AG-China	**-3**	56	60	50	54
TD20	Suezmax	WAF-UKC	**-1**	48	49	72	52
TD7	Aframax	N.Sea-UKC	**-0**	71	71	112	82

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

			wk on wk change	June 18th	June 11th	Last Month*	FFA Current Q
TD3C	VLCC	AG-China	**-5,000**	47,750	52,750	43,000	44,750
TD20	Suezmax	WAF-UKC	**-1,500**	15,500	17,000	32,000	17,750
TD7	Aframax	N.Sea-UKC	**-500**	750	1,250	32,700	7,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	June 18th	June 11th	Last Month*	FFA Current Q
TC1	LR2	AG-Japan	**-11**	84	95	121	
TC2	MR - west	UKC-USAC	**-8**	85	93	103	90
TC5	LR1	AG-Japan	**+8**	76	69	144	79
TC7	MR - east	Singapore-EC Aus	**-14**	112	126	151	125

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

			wk on wk change	June 18th	June 11th	Last Month*	FFA Current Q
TC1	LR2	AG-Japan	**-4,250**	17,500	21,750	32,500	
TC2	MR - west	UKC-USAC	**-2,000**	7,250	9,250	11,750	8,000
TC5	LR1	AG-Japan	**+1,750**	9,500	7,750	29,000	10,250
TC7	MR - east	Singapore-EC Aus	**-2,750**	10,250	13,000	18,500	12,500

(a) based on round voyage economics at 'market' speed

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