

Flat Rates to Fall Next Year

Weekly Tanker Market Report

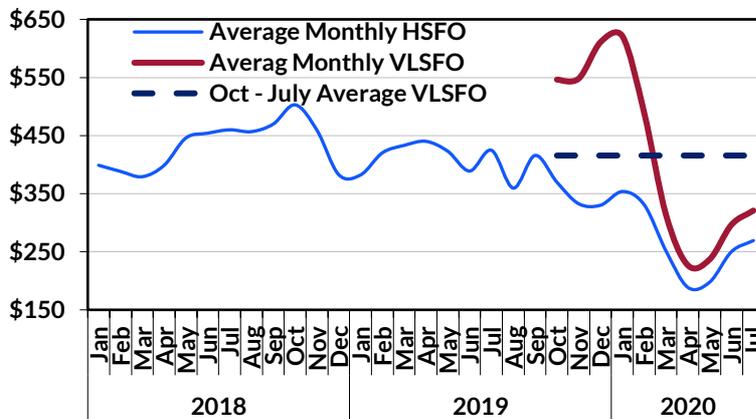
It feels like Worldscale (WS) flat rates were reset just a short time ago. However, time is rushing by and we are already beginning to think about at what level flat rates will be set at for next year.

On long haul routes, bunkers form the most significant component of all voyage costs and as such, major fluctuations in bunker prices can lead to sizable changes in WS flat rates (WS100). The picture is somewhat different for the short haul voyages. The shorter the distance, the less important the volatility in oil and bunker prices is; equally, this also means increased significance of changes in exchange rates and port costs. One of the most extreme examples of that are port costs heavy short haul Aframax trades, for example the benchmark TD7 route from Hound Point to Wilhelmshaven. On this very short haul route, port expenses account for approximately 70% of total voyage expenditure.

The reset of WS flat rates this year had been even more complicated due to the switchover from high sulphur fuel oil (HSFO) to IMO compliant 0.5% sulphur fuel oil (VLSFO), with VLSFO priced at a premium.

Next year we are expecting to see substantial changes in flat rates again, in line with the observed fluctuations in oil and bunker prices. Little volatility in prices was seen during the 2nd half of last year, with average monthly Brent assessments fluctuating within a narrow range between \$60/bbl and \$66/bbl. There were plenty of geopolitical tensions, with attacks on tankers in the Middle East and Saudi oil infrastructure being the prime examples. Yet, the upward pressure on oil prices arising from these developments was offset up rapid increases in US crude production and exports, as well as ramping up output from new fields in the North Sea. In

Representative Average Bunker Prices (\$/tonne)



contrast, this year energy markets have changed beyond recognition on the back of the rapid spread of Covid-19 globally. Brent futures collapsed to \$22/bbl in March and \$25/bbl in April on a monthly average basis. Prices have firmed thereafter as global quarantine measure started to ease. However, whilst Brent is currently trading around \$40-45/bbl mark, prices still remain well below levels seen last summer.

Taking into account the actual VLSFO assessments since October 2019 and the latest bunker forward curve, international bunker prices (that will be used to set 2021 WS flat rates) are expected to be substantially lower compared to the average VLSFO price used in this year's formula. This suggests that next year WS100s will need to decline notably to adjust for lower bunker expenses, with the biggest downward revisions expected on long haul voyages.

Crude Oil

Middle East

A reasonably active start to the week for VLCCs turned into a very slow trawl through the second half, with Holidays in the region also impacting. Rates had already compressed into a tighter range and, with easy availability on the next fixing window, Owners are likely to find little joy in next week's proceedings, even when volumes do pick up. Currently rates to the East stand at little better than ws 35, with untested western movements marked to ws 20 via Cape. Suezmaxes remained flatline throughout - there were occasional busier patches, but the conveyor belt of fresh tonnage was uninterrupted lending no leverage for Owners to force improvement. Some will ballast away, but that will be unlikely to tip the balance anytime soon. Aframax availability has been swollen by a rash of vessels discharging fuel from Singapore in to the wider area and rates are now back peddling into the ws 60's again back to Singapore and will continue to seek a bottom through next week too.

West Africa

Tails up, then down again. Suezmax Owners provoked Charterers into showing just enough extra interest to pull rates higher, but then lost the ball and ended the week back on the defensive, and back broadly to where they were last week. 130,000mt at down to ws 42 to the USGulf, and to ws 45 to Europe, and the 'game' could well play similarly next week, although Charterers are now less likely to fall for the same ruse easily. VLCCs

retained insurance premiums over prevailing AGulf/East numbers, but it was a fixture-lite week and Owners will be more willing to consider discounts on the next trading window. 260,000mt by ws 39 to the Far East for the time being.

Mediterranean

Aframaxes bottom-fed through the week at down to a rock bottom 80,000mt by ws 55 X-Med, and to ws 60 from the Black Sea. A further downshift is most unlikely but equally, it seems unlikely that the market will turn upwards with anything other than a token twitch. Suezmaxes registered very little of note and continue within their drifting Summer pattern. 140,000mt by ws 52.5 from the Black Sea to European destinations, and to \$2.65 million for any needs to China...to be continued.

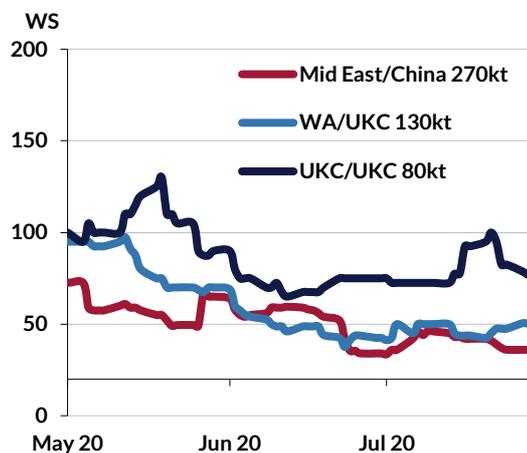
US Gulf/Latin America

Some gentle huffing and puffing but not enough to blow rates higher and unless upcoming bad weather does this time lead to significant disruption, then rates will again bump heads on a solid 70,000mt by ws 80 ceiling both for upcoast, and transatlantic movements. VLCCs had another slow week of it, and the malaise elsewhere began to further erode sentiment. Rates eased back to \$5.3 million from the USGulf to South Korea, and could yet be chipped further downwards.

North Sea

A good deal of positive talk from Aframax Owners but they ended the week with little materially to back it up. Rates stayed set at around 80,000 by ws 80 X-UKCont, and 100,000mt by ws 55 from the Baltic but a busier late month programme is still expected/hoped for, and perhaps some improvement may be seen next week. VLCCs scored a blank - again. Rate demands are softening towards \$5 million for crude to South Korea/China but there will be limited takers even at that number.

Crude Tanker Spot Rates



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

Clean Products

East

The MRs saw the week start with an air of promise, however, that was soon lost. With the prospects of the long weekend the fear set in and Owners jumped on cargoes as they entered the market knowing that realistically activity levels won't pick up until Tuesday next week. East Africa is on subs 35,000mt at ws 110 and UKCont at \$875k are not rates for Owners to get excited about, and come Monday there is going to be even more tonnage on the water that will be able to make the natural fixing window. The rather disappointing state of affairs the LRs find themselves in also compounds any sort of progress the MRs can currently make. There needs to be a sustained period of activity across the board before Owners will see any real progress – and presently that doesn't seem to be coming.

LRs are still languishing at the very bottom of their markets, with little encouragement so far. With a busier MR market in recent times, hopes had been raised that this would move onto the LRs, especially the LR1s but there is little sign yet. 55,000mt naphtha AGulf/Japan is now ws 60 and pretty steady, whilst 60,000mt jet AGulf/UKCont is now \$1.15 million once again rooted to the bottom. Lists are still well supplied and will need a good and steady increase in volume for a real difference.

LR2s have fared no better, with 75,000mt naphtha AGulf/Japan trading at ws 57.5 actually down from the slight encouragement last week. 90,000mt jet

AGulf/UKCont is pegged down at \$1.50 million and again struggling to see any improvement. Yanbu exports are a slightly more positive market for the LR2s, with the gap to AGulf rates closing - within \$115k now. Overall, until the volume comes back Owners will struggle to see any real progress and will be nickel and diming the odd point up or down.

Mediterranean

Yet another week to forget for the Owners in the Med, with this lackadaisical market continuing. Rates all week have traded sideways at the 30 x ws 80 and 30 x ws 90 mark for X-Med and Black Sea respectively. Owners have held their ground and are unwilling to dip south of this market given the TCE returns and given the number of prompt units littered across the Med (in excess of 20 at times), expect these rates to continue for the foreseeable. Week 32 is likely to bring more of the same with no glimmer of hope just yet.

On the MRs, Owners found themselves at one point in the driving seat and progression from 37 x ws 115 for transatlantic was almost a given. Charterers though managed to steer this market back into their favour and some sensible fixing mid-week calmed rates down once again. Most of this activity has been seen in the UKCont and the Mediterranean has sat on the coattails of the ebb and flow of rates we have seen. Pushing into next week, it's hard to see where the next spike in this market may come from with East demand almost non-existent, so expect rates to settle back down to previous weeks' lows.

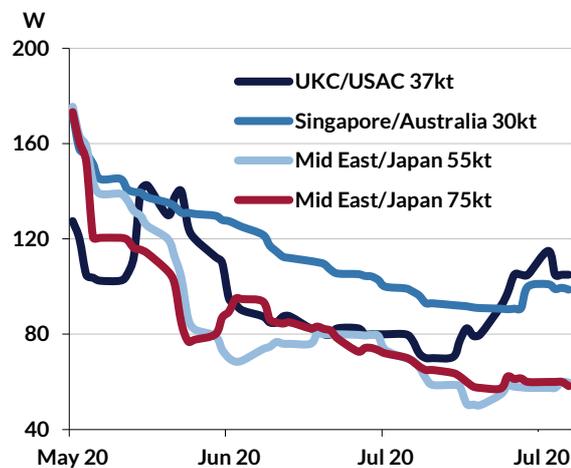
UK Continent

From opening Monday, it looked like this week would continue to see the market take further positive steps in its recent recovery as once again a favourable position list and rejuvenated demand buoyed Owners sentiment. Despite that happening early on Monday with TC2 reaching 115, the rest of the week was thrown into a tailspin by one or two Owners hitting the panic button rather unsuspectingly. Although demand never really reached the levels of the previous week, most had anticipated rates would at least hold at last done, but alas that has not been the case. We end the week with the TC2 hovering around 37 x ws 100-102.5 levels but are likely to see further pressure in the early part of next week without an improvement in demand again. WAF, which had also seen a recent resurgence in enquiry, has come under continued pressure this week in the shape of weak LR numbers giving them an economical edge where usable. This market has softened to 37 x ws 125 but may also face further corrections next week.

All round a steady week in this UKCont Handy market once again, with rates continuing to trade sideways at 30 x ws 90 ex Baltic, 30 x ws 85 X-UKCont and UKCont/Med runs trading ws 10 points below at the 30 x ws 75 mark. The August ULSD Primorsk programme is expected to be very similar to July in terms of volumes meaning this sideways market should remain for the short term future.

Another lacklustre week goes by in this Flexi market, with slow levels of cargo enquiry and little to report throughout. Flexi Owners ideas have therefore been derived from pro-rated UKCont Handy rates, with 22 x ws 110 being the current benchmark for a X-UKCont run. The market remains quiet.

Clean Product Tanker Spot Rates



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

Dirty Products

Handy

Perhaps the best analogy that comes to mind for the Continent Handy sector is that it's like an accordion being played, with just two notes sounding! As tonnage supply contracts and lengthens, we've seen all of a 5point band width of volatility, as activity eases back, fixing dates move forward, which allows tonnage supply to lengthen and rates to soften. This week we have seen a clear down in availability but throw into the mix a Med market that has lost more value, West Med ships are looking to get in on the potential better earnings on offer. The weekend has arrived at a timely place to avoid any uptick. Maybe in the next cycle we will have the +5 point note being struck?

In the Med, the Handy market continues to suffer from an oversupply of tonnage where cargo enquiry has slowed further this week, weakening sentiment and impacting on rates. In recent weeks, Black Sea offerings have kept tonnage ticking over in the East and Central Med, however, the brakes have been applied and competition for the few cargoes presented has seen a negative correction in rates. Despite a small amount of off market activity, X-Med is now trading at ws 100 and there is no doubt sentiment will see levels drop further as the natural window moves on. As tonnage is replaced early next week, expect those in the West Med to be looking North for employment should enquiry not pick up closer to home.

MR

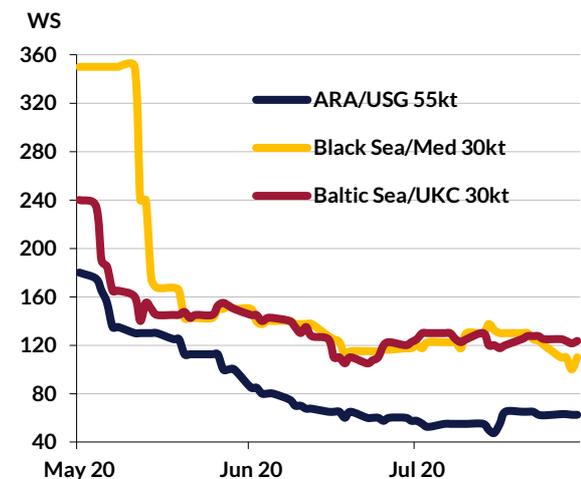
As far as rates are concerned, this week shows a flat trend continuing to grip the sector, where for the most, part owners have had to look at part cargo employment just to

move the ships on. Whilst this was particularly true of the Continent, the Mediterranean has also seen similar patterns emerge. However, with the weight of tonnage being significantly more in this region there is expectation that a softening trend on the Handy sector is at some point going to make an impression here too.

Panamax

Activity this week was rather more frequent and come Friday this has left a telling impact on the tonnage list. Confidence, however, has remained low, with reductions from the ws 65 mark being seen on some deals and Owners opting in other cases to jump on less than desired employment types. That said, there are some green shoots of promise for Owners, in the immediate windows coming up, the tonnage list continues to look rather sparse, and, with numbers in the US markets offering marginally better returns, the threat of ballast units is removed for now.

Dirty Product Tanker Spot Rates



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

Dirty Tanker Spot Market Developments - Spot Worldscale

		wk on wk change	July 30th	June 23rd	Last Month*	FFA Q3
TD3C VLCC	AG-China	-2	36	38	37	39
TD20 Suezmax	WAF-UKC	+0	48	48	44	51
TD7 Aframax	N.Sea-UKC	-7	78	85	75	80

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

		wk on wk change	July 30th	June 23rd	Last Month*	FFA Q3
TD3C VLCC	AG-China	-2,250	20,750	23,000	21,250	24,500
TD20 Suezmax	WAF-UKC	+500	14,250	13,750	11,500	16,000
TD7 Aframax	N.Sea-UKC	-5,500	3,000	8,500	1,000	4,500

Clean Tanker Spot Market Developments - Spot Worldscale

		wk on wk change	July 30th	June 23rd	Last Month*	FFA Q3
TC1 LR2	AG-Japan	-3	58	62	73	
TC2 MR - west	UKC-USAC	-1	105	106	80	106
TC5 LR1	AG-Japan	+2	60	58	79	73
TC7 MR - east	Singapore-EC Aus	+8	99	91	103	108

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

		wk on wk change	July 30th	June 23rd	Last Month*	FFA Q3
TC1 LR2	AG-Japan	-1,000	7,000	8,000	13,250	
TC2 MR - west	UKC-USAC	+0	10,500	10,500	6,000	10,500
TC5 LR1	AG-Japan	+1,000	4,500	3,500	10,250	7,750
TC7 MR - east	Singapore-EC Aus	+1,500	7,000	5,500	8,250	8,500

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

ClearView Bunker Price (Rotterdam VLSFO)	-10	306	316	293
ClearView Bunker Price (Fujairah VLSFO)	-6	339	345	324
ClearView Bunker Price (Singapore VLSFO)	-10	343	353	328
ClearView Bunker Price (Rotterdam LSMGO)	-9	361	370	348

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