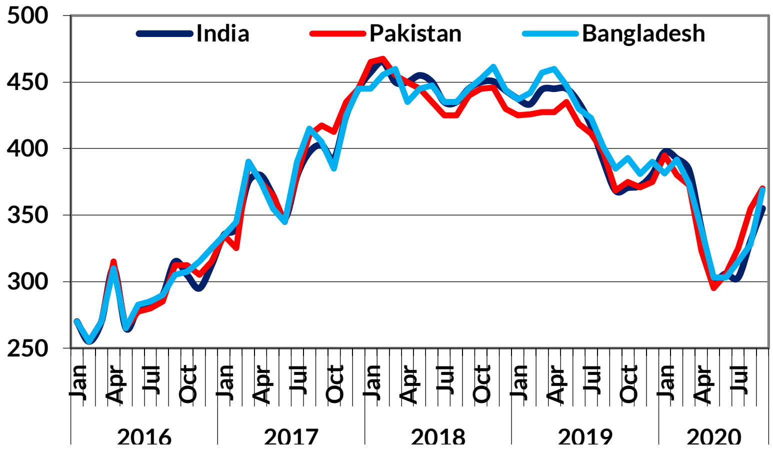
Time to Scrap?

Weekly Tanker Market Report

Since the beginning of last year less than 60 tankers over 25,000 dwt have been scrapped, roughly half of what was scrapped in 2018. In particular, just 4 VLCCs have been demolished over the period, compared to 38 in 2018. The stats are similar for Suezmaxes and Aframaxes/LR2s. In these size groups, 8 and 6 tankers have been sold for scrap since January 2019, versus 22 and 53 units respectively over the course of 2018. There are several reasons for this collapse. Intense demolition in 2018 temporarily reduced the pool of scrapping candidates. Then the extreme strength of the tanker market seen between October 2019 and April 2020 removed any incentive to scrap, even for those who intended to do so. In fact, some tankers, reported sold for scrap during the period, were renamed and continued trading. Further, the widespread closure of demolition yards in the Indian subcontinent for much of the 2nd quarter of 2020 and the collapse in scrap prices in May 2020 to a three year low did not help matters either. However, shipbreakers resumed operations in early summer and prices have rebounded to a six-month high as yards bid aggressively to fill capacity.

Indication of Tanker Scrap Prices ($ldt)



The future direction of scrap values is uncertain. Although there appears to be a strong willingness to acquire tonnage, particularly from Pakistani and more recently from Bangladeshi recyclers, the threat remains of further lockdown measures. Coronavirus outbreaks in both countries has been on a declining trend since June, but new cases in India have been rising rapidly through the summer, peaking at over 97,000 per day in mid-September. With demand from hospitals for medical grade oxygen surging, the supply of oxygen tanks to Indian shipbreakers and steel mills, which is needed for cutting equipment, is limited. On the other hand, however, the global supply of scrap steel remains restricted, as operations at scrap metal yards worldwide and global scrap trade have been severely disrupted by the pandemic. Going forward, demand for steel from the construction sector also has a potential to firm substantially in a post pandemic environment, if governments around the world are lured into major infrastructure projects in a bid to stimulate domestic economies. To an extent, this is already being witnessed in China, where the government has boosted infrastructure spending, which translated into robust demand for steel.

If firmer lightweight prices are here to stay, this may entice some owners to consider demolition, particularly in the current depressed earnings environment. Yet, this could take some time to manifest, as owners will be mindful of the winter season, hoping that weather related delays and disruptions will provide much needed volatility. If hopes for healthier returns fail to materialise, increases in scrapping could be on the cards in early 2021. Overall, 2021 could see robust demolition as restricted scrapping over the past two years has meant that the list of potential scrapping candidates has been replenished. Around 10% of the tanker fleet will be 20 years of age or more next year. Not all will head for the beaches. However, trading conditions for inefficient tonnage will undoubtedly become more challenging, particularly in a low earnings environment, with many expecting 2021 to be a testing year. In addition, some owners, even of less vintage tonnage in the 15 to 19 year bracket, will have to renew their International Oil Pollution Prevention (IOPP) certificates next year and hence face the deadline for an expensive ballast water treatment system retrofit. The choice whether to bite the bullet will be on a case-by-case basis; however, the arguments for demolition will certainly have more weight.

Crude Oil

Middle East

Some stability in VLCC levels won't come as good news for Owners as rates remain on the bottom yielding very little if not sub OPEX returns. We will need to see a good, prolonged run of enquiry to diminish availability or for Owners to withdraw their ships from trading to see any chance of a recovery. Current levels are around 270,000mt x ws 27 for Eastern destinations and 280,000mt x ws 17 to the West on a modern unit. An active week for the Suezmax segment but the tonnage lists remain over stocked and new lows have been posted at 130,000mt x ws 9 to Europe and rates to the East have slightly softened to ws 37. Owners are likely to face another challenging week. It has been a quiet week for Aframaxes in the AGulf. Tonnage lists have quickly replenished extinguishing a short-lived window of hope for Owners. The opportunity for Owners has passed and rates have come back under pressure. AGulf-East has slipped to 80,000mt x ws 62.5 and next week rates are likely to be destined to slip into the 50s.

West Africa

Suezmax tonnage has seen more activity this week due to a lack of VLCC tonnage being fixed in the second decade. However, tonnage supply is ample enough for rates to remain rangebound at 130,000mt x ws 35 to Europe and ws 39 for long East. WAF VLCC levels give a slightly better return for Owners albeit nothing eye watering and this is purely down to Owners having to lock in for a longer voyage covering their expected last quarter returns. Current levels are around 260,000mt x ws 30 to the Far East.

Mediterranean

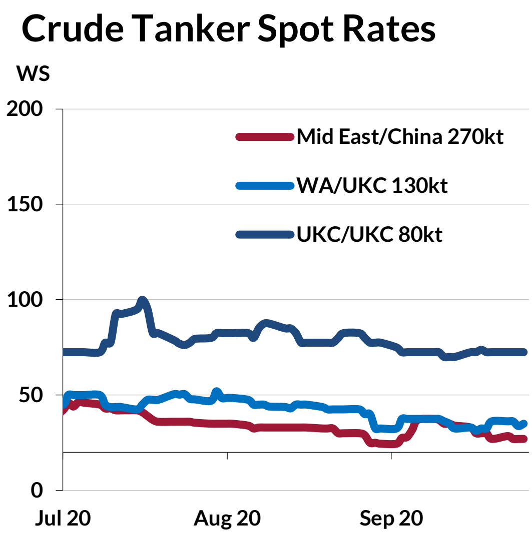
The Mediterranean and Black Sea markets have experienced 'more of the same' this week. Bargain basement prices are available for Aframax tankers, with current time charter equivalents varying from almost zero up to the heady heights of $5,000/day for good rotations. Vanilla Ceyhan/Med cargos are around 80,000mt x ws 57.5 and CPC to Med cargos are around ws 60. With neighbouring markets also faring poorly it is hard to see where the respite may come from. Having said this, the recent optimism engendered by some Libyan truces could have a say in the next direction. Zueitina, Hariga and Brega have begun exports and other ports could follow, and the extra volumes have the potential to cause a rally. In the medium term though any market showing promise is likely to attract players from further afield and the whole picture will remain similarly depressed on the back of the macro economic climate. Another quiet week for Suezmax tonnage in this region and rates remain at 140,000mt x ws 42.5 from Black Sea to Europe. Owners can only hope they will gain some benefit from future Libyan production.

US Gulf/Latin America

Aframax Owners will be hoping for an immediate turnaround in fortunes here as this prolonged stint of minimal enquiry and an overabundance of tonnage has brought Owners to their knees. Levels remain 70,000mt x ws 52.5 for a generic Caribs/Up run. VLCC rates keep quite respectable by comparison to other VLCC markets but the threat of more Eastern ballasters could start to impact as elsewhere provides very little encouragement. Levels hold for now at $4.65 million for a USGulf/Far East voyage.

North Sea

Another week for Owners to forget in the North as a dip of cargoes fails to stir any movement in the market. X-North Sea sits at 80,000mt x ws 70 levels and Baltic/Cont continues to disappoint trading at around ws 40, although even this has been tested recently. October stems look unlikely to perk up the market, with November looking to follow in a similar vein. At the moment it is proving difficult to see the light at the end of the tunnel…VLCC levels have been chipped away from last week as we see more Owners interested in ballasting West. Last done was $4.3 million from North Sea to China.



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

Clean Products

East

Not the week that the MR Owners were hoping for. With a lack of enquiry and a non-existent LR1 market, Owners struggled to make any progression on the hard work achieved last week. A negative correction was expected. With EAF going on subs ws 10 points less than last done (ws 129) on a Friday, a lack of confidence can be seen. Short hauls have come under pressure, with $175k on subs, and UKCont fixed at $1.0 million but in need of a fresh test. Going into the weekend there are several stems still to be covered but, with questions as to how firm they are, it doesn't look like it will be a Monday that Owners will be getting excited for.

LRs have had a flatter week than had been hoped for. The push of LR2 stems only partly happened and accordingly rates have struggled to move anything considerable. LR1s have been particularly quiet and Owners ambitions have had to be to scale back. 55,000mt naphtha AGulf/Japan is flat at ws 70 and 65,000mt jet AGulf/UKCont at $1.225 million. More activity is needed to drive these rates, if Owners are going to drag this market where they have hoped. Volumes though are not predicted to improve in the near future, so progress upwards is unlikely at present.

LR2s started the week with a promise but again volumes just haven't supported real improvements. 75,000mt naphtha AGulf/Japan was repeated at ws 60 and 90,000mt jet AGulf/UKCont is no higher than $1.6 million seen earlier in the week. Owners are starting to try and push after the list had cleared a fair amount and rumours have surfaced there is $1.70 million on subjects but we will see if this shows a sustainable move or just a one off. Again, more product moving is the only way this changes dramatically and that seems ever further away.

Mediterranean

Yet another week to forget for the Owning fraternity in the Med, with sentiment cemented as negative for the time being. A severe lack of cargoes, coupled with nearly 20 prompt ships at any one time, leaves rates at the bottom of the market. We have seen a new yearly low this week, with 30 x ws 70 for X-Med. With this put on subs on Friday, most Owners are scratching their heads as to how this level makes sense, with returns negative expect the large majority to hold firm and not fix at under the ws 75 mark. Black Sea activity continues to be almost non-existent but expect rates to trade in line with Med around the ws 80 mark. Monday is likely to bring more of the same, with the tonnage list expected to be replenished once again.

Although not as busy as the North market, the Med has enjoyed a steady week in terms of activity and Charterers will need to remain cautious of a thinning front end to the list as well as a busy UKCont market. Rates continue to largely track those seen from the Continent, with TA runs at 37 x ws 85-90 levels and WAF at ws 100-105 levels. A busy start to next week is likely to see these rates tested further and we would anticipate a likely improvement in the short term.

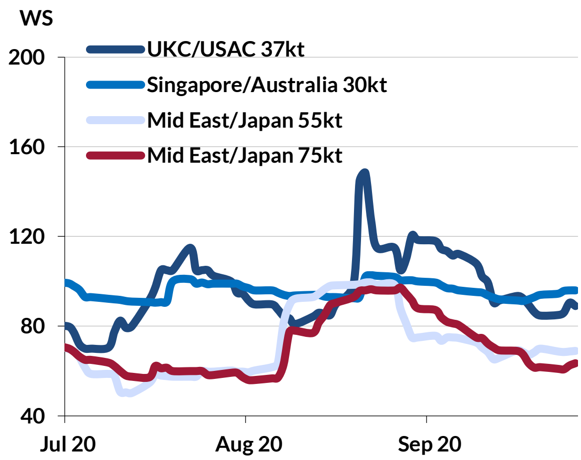
UK Continent

The busiest week for quite some time for the MRs in the North and as a result we end the week with the market starting to show some much overdue positivity. As yet, we haven't really seen much impact on rates. However, with the front end of the list having been virtually cleared out and a number of cargoes still uncovered, if this current climate remains, those numbers will start to improve more radically. TC2 has managed to climb a touch from the start of the week and currently sits at a date dependent 37 x ws 85-90. Improved enquiry into WAF has played a significant role this week as well, although numbers here are somewhat hot and cold right now again with dates being the key. We would rate it at 37 x ws 100-105 currently, although higher and lower have been done. Owners will be further buoyed by an improved picture across the Atlantic, which should see fewer units ballasting in this direction, adding to a more positive outlook. We are certainly not expecting the market to take-off but a gradual improvement looks well within this market's capabilities in the short term at least.

Another lacklustre week has passed by for Handies in the North, as both parties appeared happy enough to sing from the same song sheet and fix last done levels, with Baltic liftings at 30 x ws 90, 30 x ws 85 for X-UKCont and 30 x ws 75 for UKCont/MED. Charterers have had the luxury of ample units to pick and choose from and most Owners happily offered market off the bat in order to get fixed and move on. Looking ahead, it is hard to see how Owners fortunes change, with Primorsk volumes expected to decrease by 12% in October. In a market, which continues to lack long haul routes, this means tonnage continues to be recycled back on to our tonnage lists. Charterers in control here.

It's been a miserable week for Flexi Owners plying their trade in the UKCont market as fresh cargo enquiry remains slim. Any glimmers of fixing action have been kept behind closed doors. As a result, rate ideas here continue to be drawn from the UKCont Handy market, which has seen levels soften over the course of week 40. The benchmark for a X-UKCont run currently sits at the 22 x ws 110 mark but this market is in desperate need of a fresh test to see where levels really lie.

Clean Product Tanker Spot Rates



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Dirty Products

Handy

Closing the week out it's time to draw reflection from the week's proceedings, where some are left scratching their heads as to how ws 120 wasn't adopted with greater consistency. The activity which had occurred certainly led to increment being due. However, just at the worst possible time for Owners, activity levels quietened off and additional tonnage became firm enough to work. That said, there remains a positive sentiment up in the North, and for the short term, it is unlikely that further value will be lost in the immediate days ahead.

Elsewhere down in the Med, we can finally post some positivity, with success not being measured for now in a ws point increase, but by the cleardown in excess availability. No longer could Charterers simply rely on prompt availability, we started to see fixing dates move out from the Black Sea to ensure coverage met with the necessary approval to vetting departments. Looking ahead, if this positivity is to last then as ever, the cargo base needs to last. Going into next week, Owners will be pleased with the foundations they now have.

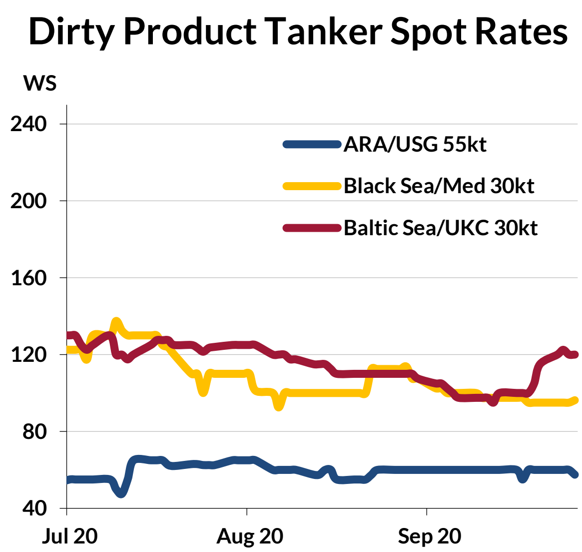
MR

This week shows a greater consistency on full stems coming to market, and where the Med stutters along, the Continent boasts a pickup in levels. That said, it has taken several deals to get Charterers to agree with Owners rate ideas, but nevertheless the Continent this week is finishing on a positive foot.

Where we go from here though down in the Med, is a little bit more unknown. The majority of recent deals fixed all seem to be of a short nature, meaning relief may only be temporary. It seems that Owners will have it all to do again in the near future.

Panamax

Just when this sector seemed to be on a more solid footing, we suffered a week of inactivity and vessels being allowed to fall out of their fixing windows. Their fate is also compounded by the surrounding Aframax market, which remains in the doldrums (for some time now, we will add). It would appear that the next test may show Charterers an opportunity to test the market in their favour.



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 1st	Sep 24th	Last Month*	FFA Q4
TD3C	VLCC	AG-China	**-2**	27	29	25	36
TD20	Suezmax	WAF-UKC	**+2**	35	33	37	48
TD7	Aframax	N.Sea-UKC	**+0**	73	73	78	94

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

			wk on wk change	Oct 1st	Sep 24th	Last Month*	FFA Q4
TD3C	VLCC	AG-China	**-3,250**	9,500	12,750	8,000	21,000
TD20	Suezmax	WAF-UKC	**+1,250**	7,000	5,750	7,500	15,250
TD7	Aframax	N.Sea-UKC	**-500**	1,750	2,250	3,500	16,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 1st	Sep 24th	Last Month*	FFA Q4
TC1	LR2	AG-Japan	**+2**	64	61	91	
TC2	MR - west	UKC-USAC	**+3**	89	86	121	105
TC5	LR1	AG-Japan	**+1**	69	68	75	84
TC7	MR - east	Singapore-EC Aus	**+3**	96	93	100	114

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

			wk on wk change	Oct 1st	Sep 24th	Last Month*	FFA Q4
TC1	LR2	AG-Japan	**+500**	9,500	9,000	20,000	
TC2	MR - west	UKC-USAC	**+250**	7,500	7,250	14,000	10,750
TC5	LR1	AG-Japan	**-250**	7,000	7,250	9,000	11,250
TC7	MR - east	Singapore-EC Aus	**+250**	6,500	6,250	7,750	9,750

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

	wk on wk change	Oct 1st	Sep 24th	Last Month*
ClearView Bunker Price (Rotterdam VLSFO)	**+7**	296	289	300
ClearView Bunker Price (Fujairah VLSFO)	**-13**	327	340	326
ClearView Bunker Price (Singapore VLSFO)	**+10**	336	326	326
ClearView Bunker Price (Rotterdam LSMGO)	**+2**	311	309	333

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