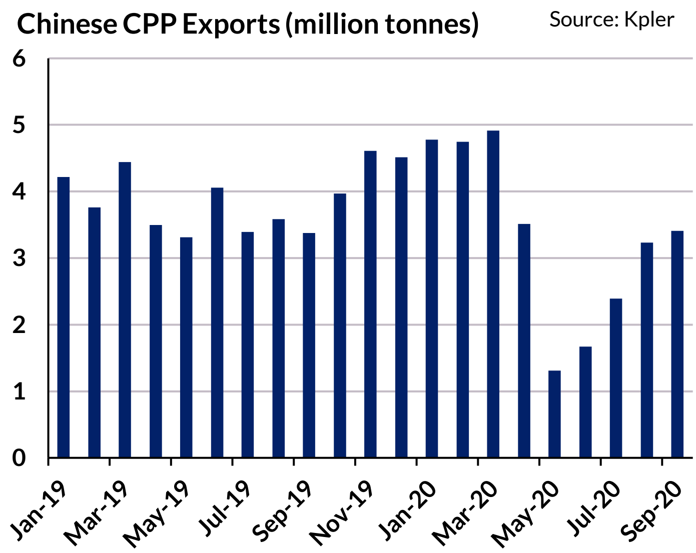
All Eyes on China

Weekly Tanker Market Report

Throughout the pandemic China has been a key focal point. Whilst it was the first country to go into full lockdown, and the first to see a significant collapse in oil demand, it has also been the country that so far, appears to have rebounded strongest. The country was also successful in exploiting the collapse in oil prices to snap up cheap crude, both for strategic and commercial inventories. Domestic refineries increased runs to capitalise on recovering internal demand and potential higher export demand as neighbouring countries emerged from lockdowns. However, overseas demand has remained stubbornly low, whilst renewed lockdown measures threaten any further consumption growth. The question heading into the end of the year is what will Chinese refiners do with their product surplus? Do they push it to export markets regardless, sell domestically or hold stocks?



China's quota system for crude imports and exports is a key factor which complicates matters for domestic refiners. Historically the system has operated on a 'use it or lose it' basis, with refiners fearful that if they do not fully utilise their quotas, they will receive lower allocations the following year. Customs data showed that between January and August, Chinese refiners had used 56% of their reported 56 million tonne export quota, meaning that they would have to export a total of 24 million tonnes between September and December before their quotas expire. However, so far looking at cargo tracking data, China exported just 3.36 million tonnes in September, suggesting that an average of 6.88 million tonnes/month needs to be exported to maximise quotas before the year end. Data from Kpler shows that the highest monthly total exported so far stands at 4.91mt. It therefore looks like an extremely tall order for Chinese refiners to fully utilise their export quotas by year end. However, there may still be a late rush to export refined products before year end, which could help lift the regional product tanker market.

It could of course be possible for the Government to make special dispensations this year, perhaps allowing for quotas to be rolled over. Afterall, 2020 has been an unprecedented year. And even if refiners want to export, their markets are limited. Heavy refinery maintenance and regional run cuts are helping, but the arbitrage out of Asia does not look wide enough to support significant flows. The one factor exporters have in their favour is cheap freight. With both the crude and products markets weak, rates are expected to remain under pressure and are unlikely to provide a barrier to export volumes. Floating storage may also be an option. Exporters may seek to push product into floating storage in order to clear customs, however even this option may be challenging.

It therefore remains uncertain whether China will see an export boost before the year is out. Seasonally exports typically surge in the 4th quarter and the country has plenty of unused quota volumes to increase exports. However, overseas demand remains the biggest impediment to flows. As with most things oil these days, all eyes are on China.

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Crude Oil

Middle East

Yet another week to forget for one paced, and over tonnaged, VLCCs. Rates do, at least, seem to have found a bottom to the East in the low ws 20's for 'challenged' units, and to ws 27 for the top of the class, but returns on those give under, and little better than, Opex levels respectively. Any stray, and rare, runs to the West would show little better than ws 17 via Cape. It may get a little busier next week after the Chinese Holidays have ended but the pressure looks set to remain on, nonetheless. Suezmaxes compressed as even reasonable interest failed to dent the wall of tonnage on the rolling fixing position. The recent record low of ws 9 wasn't repeated but rates still kept within a very poor ws 11/14 band to the West, with down to ws 30 payable to the East. Aframaxes continued a slow bleed to 80,000mt by ws 60 to Singapore and the pointers are for that to slip lower over the near term.

West Africa

Suezmax Owners couldn't achieve any grip as adverse fundamentals remained stubbornly in place and rates fell away further to 130,000mt by ws 27.5 to the USGulf and to ws 30 to Europe. There's no 'quick fix' in sight either. VLCCs ticked over at a 'conference' ws 31 to the Far East, which at least maintained a long time commitment premium over prevailing AGulf/East numbers and look set to remain cemented there even as dates push deeper through November.

Mediterranean

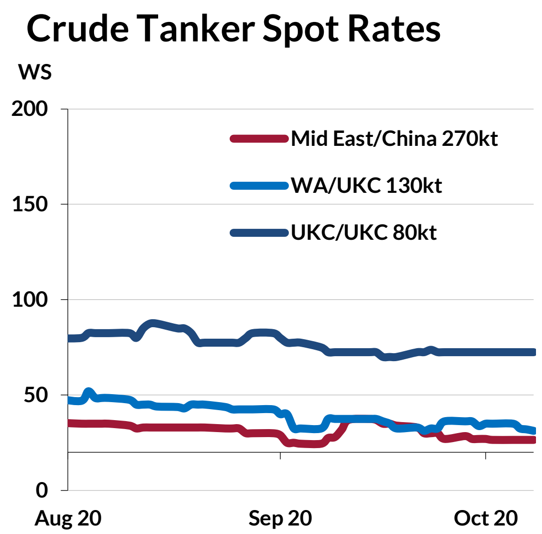
Aframaxes warrant little comment - another poor performance, with the supply/demand imbalance seemingly the default setting for a good while to come. 80,000mt at down to ws 50 X-Med, says it all really. Suezmaxes showed no spark either - as elsewhere, top heavy on the tonnage, and nowhere else realistically to flee to. 140,000mt by ws 40 from the Black Sea to European destinations, and to $2.2 million for any runs to China…perhaps even a little less.

US Gulf/Latin America

Aframaxes crumpled to 70,000mt ws 40 transatlantic and to ws 45 upcoast upon a never ending imbalance. Now, there yet another big storm rolling in and Owners will be hoping that this time there will be some disruption positives in its wake - unlike on recent previous occasions that is. VLCCs got temporarily excited by a higher $5.4 million being reported to China...but it was a tight early date, and the main market is now on dates that ballasters can more easily compete upon so the effect upon the mainstream has been minimal and the next deals are anticipated to be pegged back towards $4.6/$4.7 million.

North Sea

Any hopes of an Aframax pick-up here were quickly dashed and it became under-par service as normal - 80,000mt by ws 75 X-UKCont is again the top end of the range, with down to 100,000mt by ws 35 doable for anything from the Baltic....to be continued as it seems. Noticeably less VLCC interest here than of late but, with other Atlantic markets holding, rate demands here continue at around $4.3 million to South Korea/China but, with an effective strike underway in Norway causing uncertainty, there's little appetite for Charterers to engage.



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

Clean Products

East

A good level of activity on the MRs this week but no real movement in rates. Westbound cargoes headed to the Cont/States are unlikely to be the driver towards higher freight - relocation cargoes for underbalanced fleets don't demand any premium. Latin America cargoes are more likely to be the catalyst. Although Owners will look towards forward numbers as proof of some untapped potential, we must all admit that activity has not been sustained enough to drive the market and in reality, although the list looks extremely tight off the front end, a quiet 3-4 day period will numb any sentiment before Charterers address the next working window.

Any serious progression in rates on the LR1s have been blighted by Owners' complete lack of willingness / ability to set a higher marker on naphtha. Whereas you might usually see Hafnia plant a marker at 90 for example, and smaller Owners dip under to secure business, this week even the larger pools have chased down cargoes, which has made it all the more easy to cover at last done levels. To highlight this further, almost twenty-five fixtures and only a 2.5-point increase is pathetic intent from Owners. Therefore, it is no surprise to see Charterers taking their time on these few outstanding cargoes.

A busy start again on the LR2s this week but interest has fallen away as we approach the end of the week. Rates took a step up as predicted but, with the wealth of tonnage in the last week of October, there seems little opportunity for Owners to push any further. Next week will no doubt see more October enquiry but a good clear out of tonnage is needed to make any difference let alone see any firming.

Mediterranean

This week has seen the weakest X-Med market in most people's shipping careers. Consistently lists have been plagued with 28-30 prompt units, which from Monday-Wednesday was coupled with little to no cargoes. 30 x ws 70 has been the going rate for much of the week and Owners TCE calculations are the only thing stopping this market from slipping further. The majority are unwilling to move their ships at negative earnings, however, rumours of 30 x ws 65 ex Israel has been doing the rounds on Friday. Differentials normally seen ex Black Sea or Israel are no longer apparent with Charterers able to squeeze every last point out of Owners, with 30 x ws 70 seen ex Black Sea on Thursday. A slight influx of naphtha stems ex WMed on Friday will give Owners hope that Monday could see a slight improvement further West, (which looks tighter than CMed/EMed), however, the general sentiment remains negative.

The MRs never really started and subsequently it has been in a painful dive throughout. Limited enquiry partnered with a healthy tonnage list was a recipe for disaster as we see ws 15 points wiped out with little positivity on the horizon.

The final straw was a market quoted stem, which really stripped bare what little option Owners had to fix this week and 37 x ws 70 was put on subs for transatlantic. With tonnage still available, a quiet UKCont market and nothing outstanding here in the Med, Monday morning is unlikely to offer much of a respite to this struggling sector.

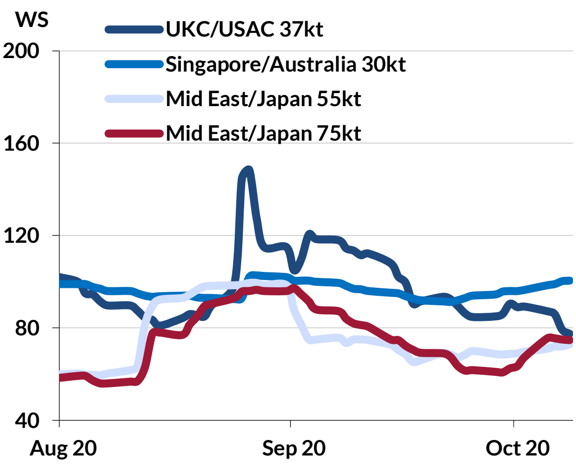
UK Continent

This week turned into something resembling a nightmare for Owners from start to finish. The lack of fresh activity was probably the most troubling aspect as we began the week with a position list already starting to build following a slow end to the previous week. It had been hoped, rather than expected, that we would therefore see a rush of cargoes early on in the week, therefore clearing out the front end of that list and at least reaching a point where the fundamentals were balanced once again. However, that didn't happen, and on the back of very weak demand continuing, the end result is that the list has continued to build and the inevitable impact on rates has taken hold. We end the week with TC2 down to 37 x ws 75-77.5 levels and WAF around 37 x ws 90-92.5 but, with the market still stagnant, further softening looks likely next week without some sort of spike in demand.

For the majority of the week, Owners in the UKCont Handy market have managed to keep rates trading sideways despite cargo enquiry being thin and tonnage well stocked. Rates have been holding at the 30 x ws 90 mark ex Baltic with X-UKCont ws 5 points below at 30 x ws 85. Many hoped this would continue into the weekend after we saw a large influx of fresh enquiry yesterday. However, with plenty of options still available to Charterers for the current fixing window, rates have slipped today with 30 x ws 87.5 on subs ex Baltic at the time of writing. As a result, X-UKCont is likely to slip in line with this and UKCont/Med runs also despite the bounce back we saw in rates here yesterday.

We began week 41 in the UKCont Flexi market with a very welcomed fresh test, which saw 22 x ws 115 fixed X-UKCont. However, since then it's been back to normality as cargo enquiry remains slow and any other glimmers of fresh activity have been kept below the market surface. Rate ideas therefore continue to be drawn from pro-rated Handy levels, with a ws 5 point discount leaving 22 x ws 107.5 the current benchmark for a X-UKCont run.

Clean Product Tanker Spot Rates



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Dirty Products

Handy

Both the NWE and Mediterranean regions kicked off the week with a decent amount of fresh enquiry, with rates being maintained from last week. As trading continued in the North, Owners could sense an opportunity to make up ground as the amount of well approved units started to look thin on the ground. To avoid a push on rates, however, Charterers looked a little further afield for coverage with the WMed being well stocked with prompt tonnage units. On the flip side, the Mediterranean was not blessed with such a tight tonnage list, which has only maintained levels from last week, which continue to hover around the ws 85 level. Looking towards next week, unless we see a significant upturn in enquiry levels, the outlook does not look like it is going to change any time soon.

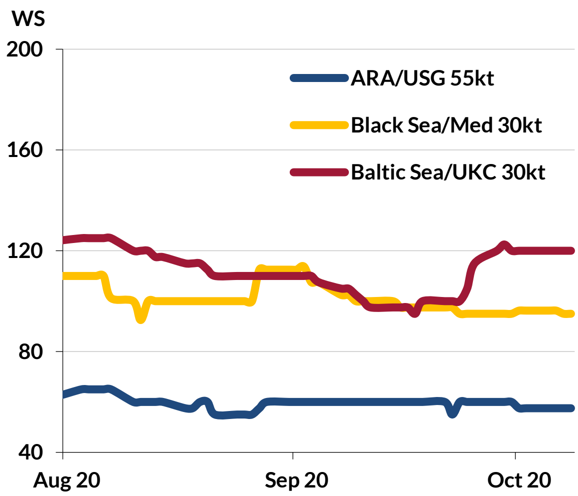
MR

The European markets for MRs continue to trade sideways in line with the surrounding Handies as cargo enquiry trickles along. On the Cont, questions were asked early in the week and as Charterers decided what quantity of cargo was being lifted, those with tonnage to fix saw no real opportunity to push on levels. With just a short voyage fixed, the tonnage list for next week looks very similar to this week, so expect more of the same come Monday. In the Med, very little else happened in terms of firm enquiry, with Owners' prompt tonnage not seeing any action all week - in turn Owners are keeping a close eye on part cargo's as a time filler.

Panamax

Coming into the week there was a rather nervous disposition surrounding the fate of the Panamax market, as with tonnage falling outside of its fixing windows and with additional units on their way over, depression was setting in. This, coupled with a dire Aframax market, meant that a negative correction was a foregone conclusion. However, to have only lost ws 5 points is an achievement for Owners in itself!

Dirty Product Tanker Spot Rates



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 8th	Oct 1st	Last Month*	FFA Q4
TD3C	VLCC	AG-China	**-1**	26	27	32	33
TD20	Suezmax	WAF-UKC	**-2**	33	35	38	42
TD7	Aframax	N.Sea-UKC	**-2**	72	73	75	93

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

			wk on wk change	Oct 8th	Oct 1st	Last Month*	FFA Q4
TD3C	VLCC	AG-China	**-500**	9,000	9,500	17,750	17,250
TD20	Suezmax	WAF-UKC	**-2,000**	5,000	7,000	9,500	10,750
TD7	Aframax	N.Sea-UKC	**-2,000**	-250	1,750	3,000	14,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 8th	Oct 1st	Last Month*	FFA Q4
TC1	LR2	AG-Japan	**+11**	75	64	81	
TC2	MR - west	UKC-USAC	**-11**	78	89	111	93
TC5	LR1	AG-Japan	**+4**	73	69	75	80
TC7	MR - east	Singapore-EC Aus	**+4**	100	96	97	113

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

			wk on wk change	Oct 8th	Oct 1st	Last Month*	FFA Q4
TC1	LR2	AG-Japan	**+4,000**	13,500	9,500	16,750	
TC2	MR - west	UKC-USAC	**-2,750**	4,750	7,500	12,500	8,000
TC5	LR1	AG-Japan	**+1,250**	8,250	7,000	9,500	10,000
TC7	MR - east	Singapore-EC Aus	**+750**	7,250	6,500	7,250	9,750

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

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