

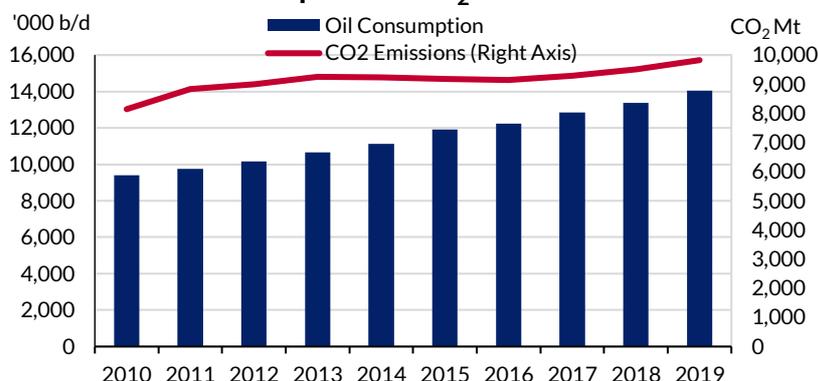
# China CO<sub>2</sub> Neutral: More than hot air?

## Weekly Tanker Market Report

China’s announcement last month that it pledged to reach ‘carbon neutrality’ before 2060 could have serious implications for the global economy and the tanker community alike. The challenges should not be underestimated, but President Xi Jinping has now committed one sixth of the world’s population and around a third of the world’s CO<sub>2</sub> output to achieve net-zero emissions within 40 years. Few can argue with China’s track record when it comes to rapidly implementing its policy ambitions. Nevertheless, the path to zero emissions will require intervention on a scale not seen before, with the need for new regulations, feed-in tariffs for renewables, subsidies for alternative fuels as well as more stringent laws to ensure compliance. Any new rules and regulations would inevitably ‘spill over’ to impact countries that trade with China.

China is the largest emitter of CO<sub>2</sub>, at nearly twice that of the next largest, the US. In his speech, Xi Jinping said China’s ‘aim’ is to reach peak CO<sub>2</sub> emissions ‘before 2030’. Meaning there is still some way to go before ‘peak’ emissions are reached. From here the economy will have to transition to a carbon neutral model. The country has already made efforts to open its economy to reduced carbon emissions, as such an emission trading scheme (ETS) is scheduled to commence operations in the near-future.

### Chinese oil consumption & CO<sub>2</sub> emissions



How the country will transition to a carbon neutral economy is currently unclear. China will need to start to reduce its fossil fuel consumption soon if it is to transition its economy to achieve its reduced emission targets. China currently accounts for approximately 52% of

coal, 14% of oil and 8% of natural gas global consumption. Moving its economy away from these fuels will have significant implications on all fossil fuels (including oil). This will impact both local production and import volumes. The refinery sector will also have to adapt to the new environment. Whether this can be accomplished with the current infrastructure is still to be decided.

Ultimately the climate goals of the world’s largest oil importer will have implications for the global tanker market. As oil demand growth from China slows, and eventually declines, tankers will need to look elsewhere for demand, some of which may be unconventional. Alternative fuels such as hydrogen, ammonia and methanol could well be the growth sectors of the future. Sinopec is already focusing on producing hydrogen. The country’s transition over the next 40 years will impact all aspects of the shipping sector, from bunker fuels to vessel design, all in a bid to reach the goal of being carbon neutral.

## Crude Oil

### Middle East

A relatively active start to the week for VLCCs lent Owners a very temporary, and rare, chance to exert upward leverage but the result was fractional - to ws 30 to the East, and still theoretically in the 'teens' to the West, and all too quickly the cargo feed reverted to barely drip feed as Charterers ran out October barrels and awaited November confirmations. All the while availability remained easy/over easy and it will be another testing week to come, albeit a more active one. Suezmaxes remained stuck fast at recent lows despite steady interest - again, just too many ships and that is likely to remain the case for some while yet. Aframaxcs plumbed new lows at down to 80,000mt by ws 55 to Singapore even as activity kept to a steady beat. It needs an even faster rhythm to get this market dancing.

### West Africa

Still grim in the Suezmax pond, with a lot more cargo needed to re-oxygenate what has been a stagnant scene for some while now. 130,000mt at ws 30 to Europe remains default, with a little under that payable to the USGulf. Availability needs to evaporate - somewhere, somehow. VLCCs existed on a rather thin diet of interest. There were some deals to do but the end result was always predictable and unchanging at ws 30/31 to the Far East, with \$2.64 million paid for a stray run to East Coast India. As in the AGulf, little material change anticipated over the coming week.

### Mediterranean

Every day the same for flatline Aframaxcs although Libyan barrels are becoming more of a feature to lend a degree of hope for the future. Rates bumped along in the low ws 50's X-Med and to ws 60 from the Black Sea and will stay there or thereabouts over the near term, at least. Suezmaxcs have bottomed at 140,000mt by ws 40 from the Black Sea to European destinations, and to \$2.2 million for runs to China but enough units remain to engage at 'last done' marks to prevent any upward foothold for the time being.

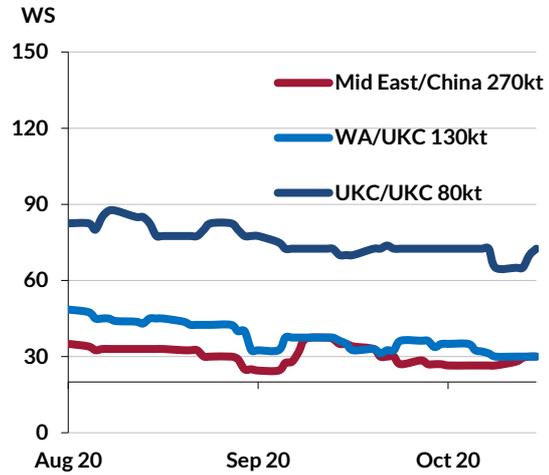
### US Gulf/Latin America

Nothing positive for Aframaxcs here either. Very flat at little better than 70,000mt in the mid ws 40's both upcoast and transatlantic. As elsewhere it needs a lot more enquiry for the market to change gear. VLCCs found little to get their teeth into and \$4.8 million to China/South Korea seems about the best of it, with discounting from that lurking whilst other load zones struggle.

## North Sea

Later week heavier Aframax interest did manage to rebalance things somewhat but it will need another similar pulse of activity to confidently shift rates higher than the ceiling 80,000mt by ws 75 level that has been in-situ for a while now....maybe...maybe. VLCCs saw little fresh action and, with a number of already loaded units swinging off the region Charterers may be reluctant to engage much next week too. Rates remain at around \$4.3 million to China/South Korea in the interim.

## Crude Tanker Spot Rates



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

## Clean Products

### East

A quiet week on the LR2s in the Middle East. Scorpio tried valiantly to keep market levels afloat by holding off tonnage at the ideas of smaller Owners, but unfortunately crumbled as a lack of enquiry forced their hand to fix ships. \$1.6 million West and 90 x ws 70 was a particularly uninspiring end to the week. To add further fuel to the fire, there has been little new enquiry, meaning that Charterers will take this new \$1.6 million level as a ceiling next week as they trade into the next window.

The talking point on the LR1s this week has been the strange Equinor move to forward fix naphtha 2.5 points up from last done in what can only be described as a saturated tonnage list. Shell naturally took their time on their TC5, trading initial offers at ws 75, down to ws 67.5 and most agreed that the longer they had waited, the lower their eventual levels would have gone. Then Equinor covered Qatar barrels at ws 70, strange given that the list is so long. As we move into the new week, Hafnia look likely to have 5 LR1s sat spot come Monday and an armada of ballasters come in off the natural window. Not pretty reading.

The MRs have been deathly slow this week. Westbound cargoes traded around the \$900k levels but Owners are really at the mercy of Charterers in terms of how low they wish to squeeze market levels. \$900k to Argie would suggest UKCont sits mid-to-low \$800k, and naphtha barely traded. Why would you, when LRs also unperformed so starkly? Ws 80 is on

subs ex Vizag but will likely get negatively tested in the new week. Tonnage mounts up further and new enquiry is desperately needed.

### Mediterranean

Med Handy rates have consistently traded on the floor this week, with 30 x ws 70 the going rate throughout. A couple of 30 x ws 65's were seen, however, with TCE returns negative, the vast majority of Owners refused to fix, with rates starting with a 6 and 70 was the rate most achieved. Black Sea rates (and Israel too in fact), have traded at this same level with differentials in this market out the window. UKCont warrants +5 now but I'm sure on certain occasions the 70 is likely to be done here too. Monday will bring a replenished list and expect rates to hold at these levels for the time being.

MRs in the Mediterranean have guided by the busier UKCont market, which has been in reverse most of the week. The fact we see one stem being replaced two times and still achieving 37 x ws 65 for transatlantic should tell us all we need, but a late in the day WAF stem picking up 37 x ws 87.5 has thrown up a cloud of uncertainty. Next week's activity will be crucial here if Owners are going to be able to hold onto any positivity seen this close of the week.

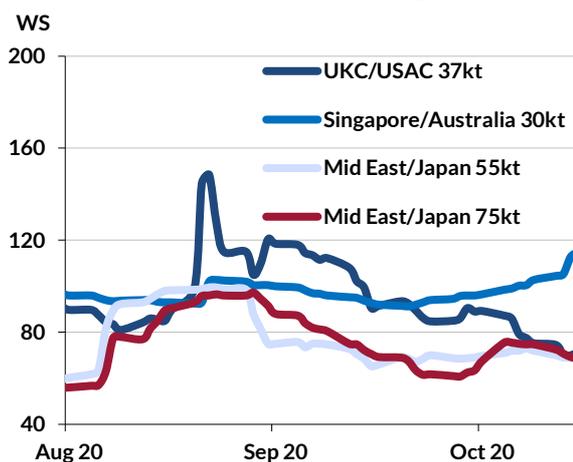
## UK Continent

Week 42 passes by and, with that we see Owners having to think a little outside of the box to keep tonnage employed. We found ourselves with one of the most densely occupied tonnage lists on Monday and it wasn't long till the few cargoes out there pulled TC2 down from 37 x ws 75 to ws 65. Whilst this was occurring we started to see a few X-UKCont 30kt stems being clipped out by MR Owners in hope that things will be improved by the time they open again and if the truth be told, this is starting to look like a rather savvy plan. Come the close of the week, we see much of the tonnage list taken out, 15 ships in the Tuesday-Wednesday period, and a couple of prompt-ish cargoes have had to take a small hit off the back of this. With a handful of stems still outstanding, we can expect a standoff between the two parties until next week, as we try to figure out if these inflated rates are just a blip or the start of improved times with tonnage turnover once again being key.

A busy end to the week here in the UKC Handy market, with an influx of fresh enquiry helping rates hold strong after coming under some pressure earlier this week. MRs looked to spoil Handy Owners ideas as 30 x ws 80 was paid X-UKCont a few times on Tuesday but the Handies have been resilient and rates have now bounced back to the 30 x ws 85 mark, with Baltic liftings trading ws 5 points higher at the 30 x ws 90 level. Heading into the weekend, Handy Owners will be hopeful that the positive sentiment now being seen on the MR's can trickle down to the 30kt sizes.

In comparison to previous weeks in the UKCont Flexi market, week 42 has been a much more active one, with multiple vessels going on subs throughout. Rates here have been tracking in line with the Handy market, which has seen fixing levels hold for the majority of the week. 22 x ws 110 therefore remains the benchmark for a X-UKCont run but, with improved enquiry both here and on larger sizes Owners will be hoping they can push for more in the coming weeks.

## Clean Product Tanker Spot Rates



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

# Dirty Products

## Handy

The weeks trading on the Continent has witnessed sentiment dip only to recover just shy of where the market closed last Friday, which depending on who you ask, shows ws 117.5 as a conference rate. Digging a little deeper, however, the noticeable goal among many was to simply cut the risk of idle time and not lose employment for the sake of ws 2.5 points. Perhaps it's fair to say then, that had this strategy been adopted by only one Owner, then reductions could be seen as a blip but when they all seem to be taking this approach it signals a lack of overall confidence and a rather more reliable representation of where market value should align. The outlook for next week remains equally unsettled despite bad weather moving into the region, which tends to offer stimulus. If Owners are to turn things around in the near term, they will need to grab a hold of the seasonal effect with both hands.

After weeks of steady enquiry in the Mediterranean, sentiment has finally taken a turn this week, which has resulted in Owners making positive ground. As far as fixing levels go, we report a ws 10 point gain in the region, with X-MED trading now around the ws 95 level. These gains were concluded by the middle of the week, where early availability started to thin. However, the challenge for Owners is whether this gain can be maintained as enquiry has slowed towards the end of the week. If recent form is anything to go by, this may be a hard task given the lack of consistency the region has endured. Come Monday fresh tonnage lists are going to give us a clearer indication immediately of near-term sentiment.

## MR

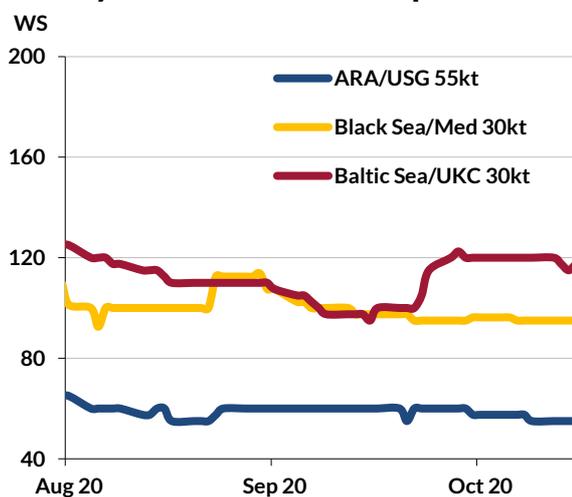
On the Continent, an immediate lack of availability has forced Charterers to reach out in terms of both fixing dates and in terms of securing tonnage from surrounding areas. So far though, only a limited uptick in rates has been seen, with levels now hovering around ws 90. Here in, however, lies the problem. The fact that Charterers can procure tonnage from

surrounding zones for such returns is likely to mean that the next fixing windows to come into play will encounter identical challenges, albeit with the emergence of natural tonnage, which is likely to see upticks short lived; this is unless of course, we see the Med market move off the bottom.

## Panamax

Rates were further tested this week where ws 55 is set as the conference rate, however, with little change week on week in the surrounding Aframax markets, we have a ceiling placed on this sector where no matter how much activity occurs, any uptick is thwarted. In addition to this, units have fallen so far out of their fixing windows that confidence is all but demolished. If we are to see any green shoots of recovery, it looks like the wider shipping community will have to gather confidence before this sector moves forward.

## 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	Oct 15th	Oct 8th	Last Month*	FFA Q4
TD3C VLCC	AG-China	+4	30	26	35	35
TD20 Suezmax	WAF-UKC	-2	31	33	35	41
TD7 Aframax	N.Sea-UKC	-1	71	72	74	92

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

		wk on wk change	Oct 15th	Oct 8th	Last Month*	FFA Q4
TD3C VLCC	AG-China	+4,000	13,000	9,000	21,000	19,000
TD20 Suezmax	WAF-UKC	-1,000	4,000	5,000	7,250	10,250
TD7 Aframax	N.Sea-UKC	-250	-500	-250	1,750	14,750

## Clean Tanker Spot Market Developments - Spot Worldscale

		wk on wk change	Oct 15th	Oct 8th	Last Month*	FFA Q4
TC1 LR2	AG-Japan	-6	69	75	70	
TC2 MR - west	UKC-USAC	-6	71	78	91	85
TC5 LR1	AG-Japan	-5	68	73	65	75
TC7 MR - east	Singapore-EC Aus	+14	115	100	93	114

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

		wk on wk change	Oct 15th	Oct 8th	Last Month*	FFA Q4
TC1 LR2	AG-Japan	-2,500	11,000	13,500	12,250	
TC2 MR - west	UKC-USAC	-1,000	3,750	4,750	7,750	6,500
TC5 LR1	AG-Japan	-1,500	6,750	8,250	6,500	8,500
TC7 MR - east	Singapore-EC Aus	+2,500	9,750	7,250	6,000	9,750

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

ClearView Bunker Price (Rotterdam VLSFO)	-3	305	308	293
ClearView Bunker Price (Fujairah VLSFO)	-5	338	343	325
ClearView Bunker Price (Singapore VLSFO)	+5	341	336	326
ClearView Bunker Price (Rotterdam LSMGO)	-6	330	336	319

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