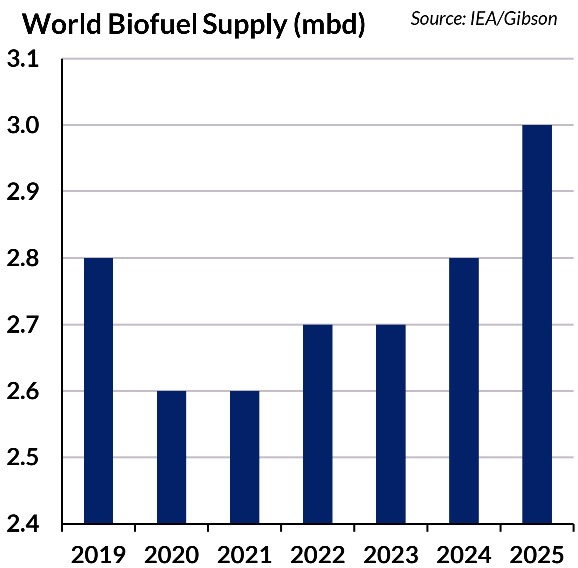
The Future of Europe

Weekly Tanker Market Report

There is no doubt that the green revolution is underway and arguably Europe is its epicentre. The European energy sector has faced headwinds for more than a decade as refiners overseas often held an advantage. Beit more sophisticated refineries, cheaper feedstock costs, or in many cases, both. Covid-19 was just another factor that would further diminish the significance of European refining and ultimately lead to another round of capacity closures. But now increasingly, European energy majors are seeing an opportunity to reorientate their business models to exploit the growing environmental pressure on their businesses and access government subsidies. Central to this is the European Unions' goal to cut greenhouse gas (GHG) emissions by 55% by 2030 and achieve climate neutrality by 2050. Whilst the strategies to achieve carbon neutrality are varied, most energy majors are investing in biofuels as part of their strategies to achieve their climate goals.



Among these, Total plans to convert its landlocked Grandpuits refinery into a 400,000 tonnes/year biofuel plant producing renewable diesel, sustainable aviation fuel (SAF) and renewable naphtha to supply local markets. In Italy, ENI is considering expanding its biofuel production, with potential expansions at existing facilities, as well as a potential conversion of its Livorno refinery by 2024. ENI has set out a goal to produce up to 5 million tonnes/year of biofuel by 2050 which will require continued investment and expansion. Combined, Total and ENI's plans will likely see up to 177,000 b/d of crude imports displaced by a much smaller volume of bio feedstocks.

Also in Italy, Saras is considering more than doubling hydrotreated vegetable oil (HVO) biodiesel output to 250,000 – 300,000 tonnes/year at its Sardinia plant. This will require the firm to source more feedstock such as palm and vegetable oils. In Spain, Repsol plans to build a biofuels plant in Spain by 2023, capable of producing 250,000 tonnes/year of biofuels. The facility will use recycled materials as its feedstock.

In Germany, Shell is investing in the Rheinland refinery to use green electricity to produce synthetic jet fuel and naphtha. As with most green investments, the scale will start small with just 100,000 tonnes/year of production by 2025. In Finland Neste plans to cease refining at its 58,000 b/d Naantali plant and increase output of SAF across its global refining assets. The company has also selected Rotterdam as the site for a biofuel refinery and plans to produce 500,000 tonnes of SAF there by late 2023.

Many other projects are taking place across the region, and indeed across the globe. These projects will undoubtedly influence seaborne crude and product flows, as well as boosting seaborne flows of biofuel feedstocks such as edible oils, tallow and used cooking oils to name a few. In the short term, the biggest impact will be felt in terms of seaborne crude trade into European refineries. Across the region, combined closures/conversion projects could amount to a loss of up to 600,000 b/d of crude oil demand, meaning that oil imports will never return to pre-pandemic levels. However, for refined product imports into Europe, the near-term picture is brighter. As fuel demand recovers from Covid-19, the closure of refining capacity, and slow build up in biofuel production will likely increase the product deficit in Europe. This will support imports of diesel, jet fuel and other products from overseas suppliers to plug the gap between capacity being taken offline and biofuel production being ramped up.

Crude Oil

Middle East

A week to forget for VLCC Owners here as we saw Charterers pull back their interest to just a drip feed of enquiry and combined with other areas softening, provided Owners with little to get excited about. Last done for a modern vessel to the East was 260,000mt x ws 32.5 and we estimate a level around 280,000mt x ws 19 to the US Gulf (via Cape). Another challenging week for Suezmax Owners and the trend of greater availability of tonnage and lower rates continues. The week closes with 140,000mt x ws 16 being paid to Europe. Rates to the East continue to be an uninspiring 130,000mt by ws 57.5 level and we see no fundamentals for an improvement in rates next week. A steady week for Aframaxes in the AGulf. A slight improvement either side of the AGulf region in the Med, and Indo regions towards the back end of the week have slightly improved Owners sentiment heading into the weekend. Rates for AGulf-East, however, for now sitting flat at around 80 x ws 80-82.5 level.

West Africa

A drop in VLCC rates earlier in the week ensured Owners have had to re-draw their battle lines here and for now rates have started to stabilise. Last done to China is 260,000mt x ws 35, with Charterers seemingly happy to repeat last. Difficult to forecast any sudden change in fortunes for Owners as the week closes. A further burgeoning of available Suezmax tonnage has seriously hampered Owners this week. Returns to Owners are currently so poor they are only receiving a meagre contribution to their Opex and there is very little room for rates to be discounted. That being said, 130,000mt by ws 52.5 has been achieved for Rotterdam discharge and rates to the East currently stand no higher than 130,000mt x ws 62.5.

Mediterranean

A week of much promise has led to very little for Med Aframaxes. The CPC program looked healthy enough and a string of larger stems led some to believe that there could be a pinch point in tonnage availability. However, the spectre of a weak Suez sector loomed large and straits delays remained insignificant. Consequently, the best Owners could do was hold tight at 80,000mt x ws 95 levels all week. Ceyhan cargoes settled at 80,000mt x ws 90 levels and so we move into next week with more of the same to be expected. As with other Suezmax markets, we have witnessed a growing availability of tonnage leading to lower levels being paid. 140,000mt by ws 57.5 has been paid for a Black Sea load to the Mediterranean and $1.8 million for Libya to WC India.

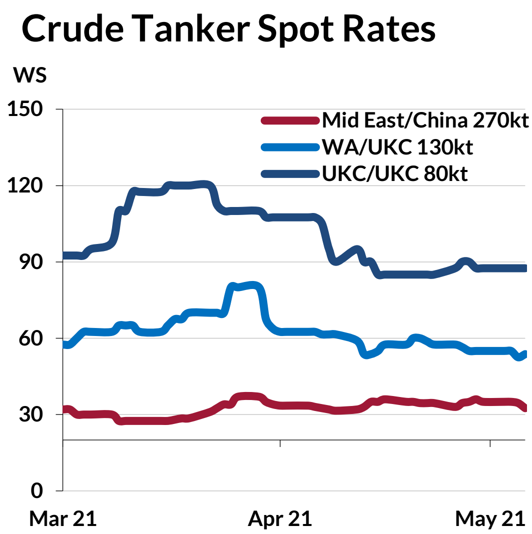
US Gulf/Latin America

Aframax Owners have been on the backfoot for the majority of the week here as again limited enquiry has dictated direction. Transatlantic rates remain on the bottom giving little apart from providing Owners a way out of the region with last done being 70,000mt x ws 82.5.

Shorter haul voyages are providing better returns with a run admittedly with restrictions from ECMexico to USGulf paying 70,000mt x ws 130 although a generic short haul voyage is around 70,000mt x ws 100 but again needs testing. VLCC levels continue to be chipped away at as more ships head West on-spec and a general depressed feel in all regions takes effect, last done from US Gulf/Far East was $4.45 million, with lower expected on the next deal concluded.

North Sea

A bit of a flat week for Aframaxes in the North and Baltic, though this was unsurprising it was nonetheless unwelcome by Owners. An influx of tonnage from the States is expected to give the list plenty of length over the next couple of weeks yet a busier third decade and expected bad weather could help give Owners a platform to resist. Baltic/UKCont is currently trading at 100,000mt x ws 65 levels, whilst X-North Sea is sitting at 80,000mt x ws 87.5.



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

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Clean Products

East

A very busy week on the LR2s, the majority of which came on Wednesday morning. The value in this segment has been evident for several weeks, and an inevitability that traders would stem up off their forward dated programme to take advantage as such. $1.5 million on subs going West and repeated numerous times without a significant chance for Owners to push rates. Unipec was the sticking point, with LOA restriction in Sikka cutting their options to very few with a BP relet is on subs at $1.65 million. Realistically, the list likely doesn't support a repeat at these levels but, with bunkers on a slight increase again Owners will push to set these levels as a new standard to cover toppier overheads and allow them to push away from break even returns. TC1 was tried and tested at ws 70 levels; no chance for improvement quite yet - expect Westbound cargoes to be a catalyst when it does come.

The LR1s have been quiet this week with the majority of volume flowing through the contract pre-Eid. Westbound stands resolute at $1.485 million levels ex Gulf, with Total only managing to knock $10k off before covering their jet. Naphtha traded at ws 92.5 - initially called out for being cheap but inevitably repeated elsewhere following a lack of enquiry. Shorthaul cargoes will inevitably soften in a market like this, big pools will find it more and more difficult to justify locking in longhaul returns and attention will turn to shorter runs. MR or LR1 parcels will suffice.

The MRs have been relatively busy this week with a flurry of activity on Monday seeing 20 points put on EAF very quickly, ws 150 to 160 and 170 not far afterwards. A new standard was set and repeated, with Owners evidently wary of Eid approaching and a potential lack of activity. Westbound was seldom tested, however, Latin America deliveries were more likely than traditional Cont/Med runs. $1.2 million was fixed on a P max with Stena cleverly using this number to leverage the same value out of their MR fixture after going on subs. TC12 was relatively quiet, Glencore should have been pushed more on a replacement, but Ardmore forgot to read the script and having been dropped elsewhere, saved ST's pocket by agreeing 35 x ws 120 on the replacement job. Ws 135 is on subs simultaneously elsewhere, let's see if that gets fixed going into a potentially quiet week ahead.

Mediterranean

It was no surprise that following the 3 day weekend, the lists pulled on Tuesday morning were grim reading, with an abundance of prompt tonnage across the Med (16 Handies to be exact). It was easy enough for Charterers to pick off these units behind the scenes with Owners not able to justify keeping rates at last done levels and we end the week bottomed out at the 30 x ws 120 and 30 x ws 130 mark for X-Med and Black Sea respectively. Given daily returns at the moment, the Owning fraternity are digging their heels in and seem to be working together to ensure that these current rates are the bottom line. Next week most will be hoping that third decade Black Sea cargoes begin to materialise, which will hopefully trigger some momentum.

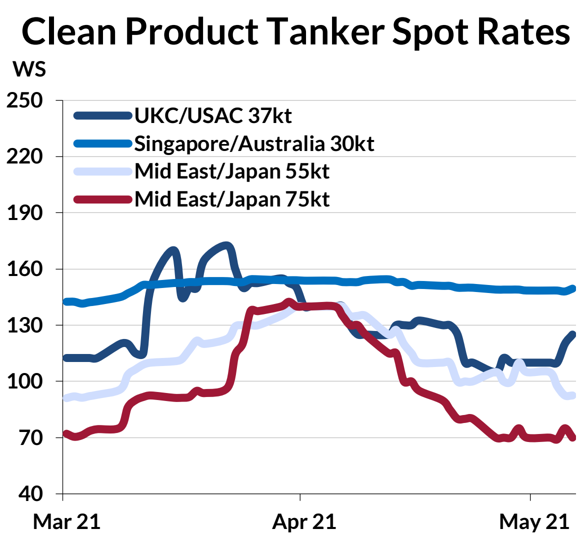
On the MRs, Charterers managed to play a clever game and somehow dissipate all positive sentiment by Friday. Mid-week with the transatlantic arb seemingly open with a NY refinery down, cargoes quickly came out the woodwork and rates firmed a touch with heights of 37 x ws 127.5 on subs transatlantic ex Turkey for an ex DD ship but, with the outstanding list thin, expect rates to trade in line with UKCont around the 37 x ws 125 mark transatlantic. There's talk on Friday of the arb now being shut and the UMS voyages ex Med will likely use their UKCont options for discharge which will ultimately put pressure on the NWE market. Expect pressure on Monday but, with Owners ideas still bullish, their asking price will still be the 37 x ws 125 and 37 x ws 135 to begin with for transatlantic & WAF respectively.

UK Continent

A week of "shoulda woulda coulda" passes for the MRs on the Continent as despite healthy levels of enquiry and an ever thinning tonnage list, rates only manage to climb up to the 37 x ws 125-130 level for transatlantic. With talks of the Arb wide open early in the week, a couple of cargoes getting caught out, and an improving States market, Owners felt momentum was swinging back into their favour and by midweek a 15 point improvement was seen to 37 x ws 125, leaving a tonnage list consisting of "on subs" vessels, and other less desirable (non CPP last cargoes / older) vessels. Unfortunately, despite a couple runs seen higher, we still see 37 x ws 125 being repeated and with the lack of WAF enquiry also, rates stuttered as Charterers played a tight game. A small handful of stems remain uncovered, but with a couple of failures also being seen, this market continues to sit around 37 x ws 125.

A real lacklustre week has passed on by for Handies in the North as the overhang of tonnage remains the thorn in Owners' side. Baltic stems continue to get covered under the radar which is one of the main factors on why rates remain stuck at last done levels (30 x ws 120) and with X-UKCont offering little fixing opportunities, rates traded flat at 30 x ws 115. Freight has hit the bottom and currently it is difficult to justify how this market improves in the short term future.

It's been a slow week in the UKCont Flexi market with very little to report in terms of both cargo enquiry and fixing action. Over the course of the shortened week rates here have been guided by the UKCont Handy market, which has been equally as dull and as a result means rates for a X-UKCont run stay flat at the 22 x ws 150 mark. Heading into next week, it looks like we will have a handful of prompt-ish vessels appear on our list so it would not be surprising to see Charterers push for less.



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Dirty Products

Handy

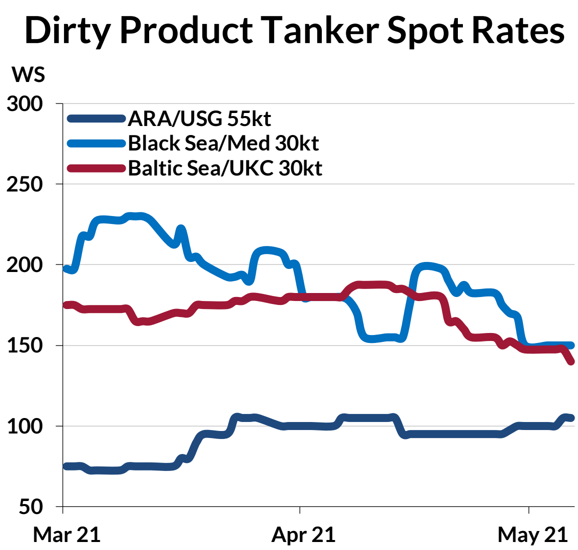
As a generalised summary, Handies in both the Med and Continent suffered rate erosion this week owing to a notable absence in cargo base. Tonnage lists have been allowed to lengthen as a result, where on the few times rates have been tested, Charterers found competition to be more than favourable for their requirement, with multiple options to provide cover. As such, Owners remain on the back foot particularly in the Med, where what is being marketed only scratches the surface of what's really there needing to be fixed. Whilst the Continent may have found its floor, unfortunately there is a looming possibility that the Med is a way off from finding it.

MR

Starting the week with what was looking like a fairly balanced sector, the market succumbed to negative sentiment filtering through from the surrounding Handies, whilst in the process, teaching us a lot about the underlying confidence MR Owners actually have. On paper the lists in both the Med and Continent have looked balanced but what proved to be one of the most significant factors to why the market behaved the way it did was just how many times the phones rang for anything other than just a position check. A number of people we spoke with were claiming not to have been shown much interest and the longer this went on, the easier it became for Charterers to get a sharper deal when rates were finally tested.

Panamax

Rarely do we say this, but there appears to be a loathsome supply issue of tonnage in Europe where actually, if availability were present then liquidity for this sector might have enjoyed a change in fortune. For anyone reading this - yes this could be deemed something of an outlier scenario we are experiencing but we cannot undermine current facts. Despite Aframaxes being cheaper on a pro rate basis, there seems to be a trend with traders preferring the flexibility which a Panamax offers. Additionally, not for the first time in recent weeks, we have seen gains with ws 105 now being set as a number for the benchmark US Gulf discharge option. Most circulated indices are yet to take note of this and as for next done, as long as ideas remain sensible, then slight further increment could be easily justified.



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 6th	Apr 29nd	Last Month*	FFA Q2
TD3C	VLCC	AG-China	**-3**	33	35	32	35
TD20	Suezmax	WAF-UKC	**+0**	55	55	61	56
TD7	Aframax	N.Sea-UKC	**+0**	88	88	99	91

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

			wk on wk change	May 6th	Apr 29nd	Last Month*	FFA Q2
TD3C	VLCC	AG-China	**-2750**	-250	2,500	250	2,000
TD20	Suezmax	WAF-UKC	**-250**	4,250	4,500	9,250	4,750
TD7	Aframax	N.Sea-UKC	**-500**	-2,750	-2,250	7,250	-1,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 6th	Apr 29nd	Last Month*	FFA Q2
TC1	LR2	AG-Japan	**+0**	71	71	126	
TC2	MR - west	UKC-USAC	**+17**	128	111	126	127
TC5	LR1	AG-Japan	**-9**	95	104	133	111
TC7	MR - east	Singapore-EC Aus	**+0**	149	149	154	151

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

			wk on wk change	May 6th	Apr 29nd	Last Month*	FFA Q2
TC1	LR2	AG-Japan	**+250**	1,500	1,250	19,250	
TC2	MR - west	UKC-USAC	**+2750**	5,250	2,500	6,000	5,000
TC5	LR1	AG-Japan	**-2250**	5,000	7,250	14,500	8,750
TC7	MR - east	Singapore-EC Aus	**+0**	7,500	7,500	9,000	7,750

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

ClearView Bunker Price (Rotterdam VLSFO)	**-4**	480	484	453
ClearView Bunker Price (Fujairah VLSFO)	**+0**	501	501	474
ClearView Bunker Price (Singapore VLSFO)	**-1**	503	504	478
ClearView Bunker Price (Rotterdam LSMGO)	**+10**	538	528	484

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