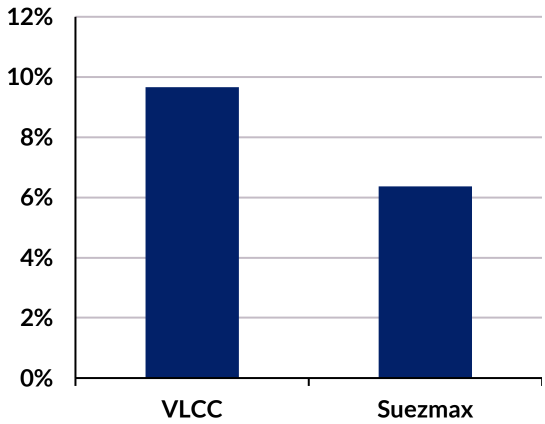
Up to no good

Weekly Tanker Market Report

Despite almost every driver being supportive, scrapping activity has continued to underperform during 2021. Gibson remains convinced that a key driver behind this is the presence of buyers willing to pay a premium price for vintage tonnage to operate in sanctioned trades. Focusing on the large tanker fleet, a significant proportion of older units sold in the past year have become involved in illicit activity. For now, the presence of these 'dark ships' is contributing to prolonged weakness in the freight markets, but could their time soon be up, and will they be forced to scrap in the not-too-distant future?

Perhaps one of the most important factors driving demand for older tonnage is US sanctions. Embargoes against Iran and Venezuela have forced buyers and sellers of sanctioned crude to find owners willing to risk the wrath of the US government. These owners are usually small, previously unknown single ship owning entities and often the vessels are likely to have been sold several times through multiple entities before ending up with the final owner, evading even the most stringent know your client (KYC) procedures. Gibson now tracks vessels which it suspects, but cannot always prove, are involved in Iranian or Venezuelan trade. At present we suspect up to 10% and 6% of the VLCC and Suezmax fleets respectively are involved in such activity. The actual number is likely to be higher with some vessels recently sold yet to sail from the delivery location, whilst other vessels are yet to perform illicit activity, but look likely to do so (and will be counted when they do).

% of tankers involved in sanctioned trades



Earlier in the year we heard unsubstantiated reports of an ageing VLCC being offered $100,000/day for a 6-month time charter for Venezuelan trade – more than 5 times the prevailing market rate for regular trade at the time. Such a deal would generate $18.25 million in revenue, allowing the owner to recoup approximately 75% of the value of the ship (less operating costs), and still have the residual value of the vessel, making a significant profit by selling the vessel for scrap, or performing another similar charter.

But whilst such profits can be earned by these vessels in the short term, their future is in doubt. The biggest short-term risk comes from the talks taking place between the US and Iran, which could see sanctions relief. If a sanctions deal is agreed, then vessels involved in Iranian shipments will see their freight rates drop to 'market' levels, and in many cases will be untradable due to their commercial history and vetting concerns, ultimately leaving few other options but to scrap, or try to find employment out of Venezuela. However, whilst the timeline looks longer, Venezuela might also achieve sanctions relief, even if it is more limited. Although the Biden administration appears less willing to engage with Venezuela, Maduro has recently taken small steps to ease tensions, and pressure in Washington is growing to allow crude for diesel/gasoline swaps on humanitarian grounds.

Further, demand in these illicit trades is finite, and eventually the market will become saturated. In addition, rising scrap prices have put scrap prices above 20-year-old second hand values, making it increasingly attractive to sell into the demolition market. Additionally, with China introducing a tax on bitumen mix imports from June 12th, the incentive to import sanctioned crudes described as bitumen mix may soon be eroded.

In summary, sales into these illicit trades are expected to slow down, whilst any sanctions relief will erode the premium rates paid for such activity. However, the fact that such a large portion of the crude tanker fleet is now effectively untradeable bodes well for the future. These vessels are unlikely to ever return to compete in the regular market, and when production rises and if sanctions are removed, the international fleet will be the main beneficiary.

GIBSON SHIPBROKERS

Crude Oil

Middle East

1st decade VLCC enquiry was quickly taken care of by VLCC Charterers, with the majority of that being concluded last week. Unfortunately, Charterers have taken a step back and are only now slowly starting to cover their 2nd decade positions. This more relaxed attitude has put Owners on a more defensive footing as they try to hold on to their recent gains. Last done on a modern vessel to the Far East is 270,000mt x ws 36.5, which is slightly down on last week's highs and we estimate a voyage West to remain in the region of 280,000mt x ws 19.5 to the US Gulf. A slow week for this region, with almost all fixing done off market fixing rates are unchanged, with a Suezmax fixing for Basrah to the West remaining in the region of 140,000mt x ws 22. AGulf/East is currently fixing at 130,000mt x ws 55, with plenty of available tonnage willing to compete at current levels. A quieter week on Aframaxes partly due to mid-week holidays in Singapore. With that, rates have stalled from their recent rally and the momentum has swung back in Charterers' favour, with AGulf/East now fixing at 80,000mt x ws 92.5

West Africa

VLCC levels come under a little pressure here as Owners have had very little to work with for the week. Initial resistance looks to be fading as reality starts to bite, with levels slowly starting to come off. Last done to China is 260,000mt x ws 36.5, with the expectation of further decreases next week if this apathy continues. In contrast to last week, WAF fixing has been rather slow with only a handful of Suezmax ships getting fixed away. Prompt tonnage remains as we part ways for the weekend and for a TD20 run 130,000mt x ws 47.5-50 is the best we are likely to see and this will almost certainly remain into early next week.

Mediterranean

A busy week for Aframaxes, with X-Med cargoes finally joining the party. As is often the case though, Owners are mindful that missing a cargo on dates can have a huge impact on the eventual TCE and so rates have moved very little. In addition, there always seem to be hamstrung units in play and this, coupled with the weak Suezmax sector has kept levels in check. From a low of 80,000mt x ws 90 last week CPC rates have managed to reach their recent high of ws 95, with Ceyhan loaders creeping back up to ws 90. However, the incoming bank holiday in the UK and a week of very good weather should be enough to temper ambitions and arrest momentum apart from in the most extreme of cases.

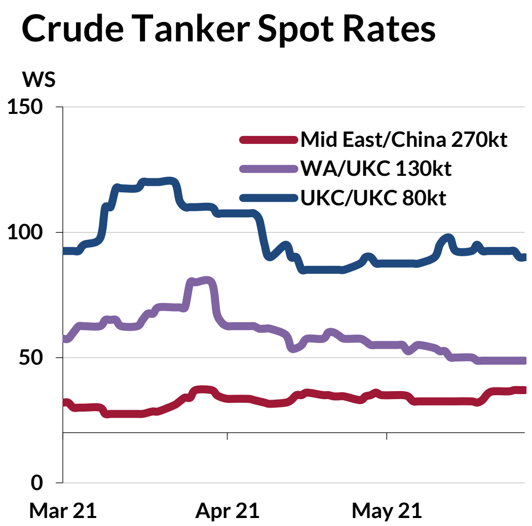
A number of Suezmaxes are taken off the list as they ply their trade with the Aframaxes, but it has only made a small dent on availability and as such made little difference to the rates. A voyage to Singapore was fixed at $1.7 million and $2.2 to China. A X-Med run remains in the region of 130,000mt x ws 50-52.5, with no expected sudden surprises prior to the long weekend.

US Gulf/Latin America

A week that Aframax Owners will want to quickly forget here as expected weather disruptions didn't materialise and combined with a slow flow of enquiry rates have languished on the bottom. Last done transatlantic went at 70,000mt x ws 75, with short haul runs in the region of around 70,000mt x ws 90 at best. A shortened upcoming week could be just what Owners need. VLCC levels have remained rangebound all week, with a good few questions being asked of Owners. As such, what actually develops into firm business is questionable but none the less it creates a seemingly active market, giving Owners the chance to at worst keep levels relatively respectable.

North Sea

A bit of a slow one in the North, with Aframax rates crabwalking through the week with little to surprise. National holidays have certainly affected the fixing pattern but since Tuesday there hasn't been a huge amount to talk about. Baltic is currently trading at 100,000mt x ws 67.5 levels and X-North Sea at 80,000mt x ws 92.5 level. The June Urals programme revealed a continuing growth in stems and has given Owners some hope in medium term growth.



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

Clean Products

East

Not quite the progressive week MR Owners were hoping for after starting the week with 10 cargoes outstanding. Charterers stayed firm and rarely paid up, taking many options, and once again showing creativity for discharge options just as Owners thought they had the market by the horns. Owners should start to realise that forward dates cargoes will be pushed into LR2 segment for longhaul as the economics make sense. Off the front, there sits a few veg / idle sire positions off, which will be traded at aggressive levels. Although these vessels do not clear all accounts, the numbers (less than ws 165-170 EAF and less than $1.15 - $1.2 million Argentina) will have a deflating effect on the rest of the list. Expect some further dampening of expectations amongst Owners.

The LR1s from stems quoted to the market looked rather quiet, but this wasn't telling the whole story. A fair amount of off market direct deals has meant that the front end of the tonnage list is looking tight. However, when there was an opportunity for Owners to push and capitalise on a possible sentiment change, it was not taken and the sentiment has stayed flat all week. UKCont at $1.45 million levels and TC5 at the 55 x ws 95-100 mark.

LR2s have been very quiet all week and as the tonnage list grew, it was only a matter of time before Charterers would start putting stems into the market. Rates close the week at UKCont $1.75 million and TC1 at 75 x ws 85 but expect the LR2s to be busier next week as Charterers look to stem up and take advantage of the competitive rates the larger ship currently offer.

Mediterranean

We entered week 21 with Owners ideas bullish at 30 x ws 180 X-Med and 30 x ws 190 ex Black Sea as the tonnage list for EMed/Black Sea end month dates remained tight. Unfortunately for Owners, WMed was quiet and well-supplied, which as a result allowed Charterers to be able to begin achieving 30 x ws 160 levels ex WMed, which soon dragged down the rest of the market along with it. As a result, a split market has formed, with WMed now at the 30 x ws 155 mark, with 5 points more available ex EMed. Owners did a good job at preventing any initial slip in rates ex Black Sea as we continued to see the 30 x ws 190 go on subs up until Wednesday, but then it was eventually corrected to the 30 x ws 170 mark. Rates have begun to settle over the back end of this week but, with the fixing window now being stretched up until mid-late first decade dates and, with a long weekend in the UK approaching, we will see a replenished tonnage list on Tuesday which could start to put some further pressure on this market.

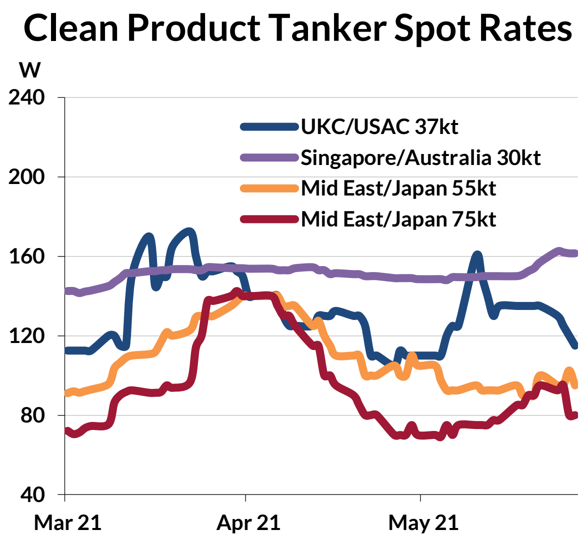
Finally, to the MRs in the Mediterranean, which with limited enquiry seen, has mainly been led by the falling UKCont sector plus 5-10 points for good luck. The lack of natural tonnage here has meant a small premium was kept for ballast tonnage but as stem levels have been to a minimal, Owners have never really been able to get this market started. A flurry of activity seen in the UKCont on Thursday/Friday will certainly have pricked Owners ears up, and expect with a fresh test to see a similar positive attitude here as well.

UK Continent

In reality a successful week has passed for the Chartering fraternity where they have drip fed the market cargoes, whilst also taking out some "friends" behind the scenes. This as a whole has led to what has felt like a rather starved market in terms of enquiry, which has pulled rates back down to the lows of 37 x ws 115 by midweek. Partnering this with 37 x ws 120 also being seen to WAF, arguably a more desirable route with the hope of some additional demurrage attached, Charterers have felt in control here for the majority of the week, until we reached Friday. With what seems like a UMS arb opening to the States now, market enquiry has shot up and the opportunities to press for a depleted tonnage list appear. So far we have seen 37x120 for transatlantic, but expect with a handful of enquiries outstanding and a long weekend ahead not helping Charterers, more to be achieved by COB today.

Summer markets are in full swing for Handies trading in NWE as another subdued week draws to a close. A good amount of deals continue to be fixed under the radar on COAs ex Baltic. This mainly keeps the larger fleets ticking over but not enough spot market cargoes are seen in order for Owners to at least try to shift freight from the bottom, with TC9 trading at 30 x ws 120 and 30 x ws 115 for X-UKCont. With higher freight rates available down in the Med and little fixing opportunities for X-UKCont or UKCont/Med, some Owners quickly decided to set sail south to try and fix the higher ws. More of the same is expected here in this sector.

All round a quiet week in the UKCont for the Flexis, with most of the 22kt action taking place in the Med over the first half of the week. Throughout the week, rates here have been guided by slightly discounted Handy levels, with the call for a X-UKCont run currently around the 22 x ws 150 mark. Market is slow.



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

Dirty Products

Handy

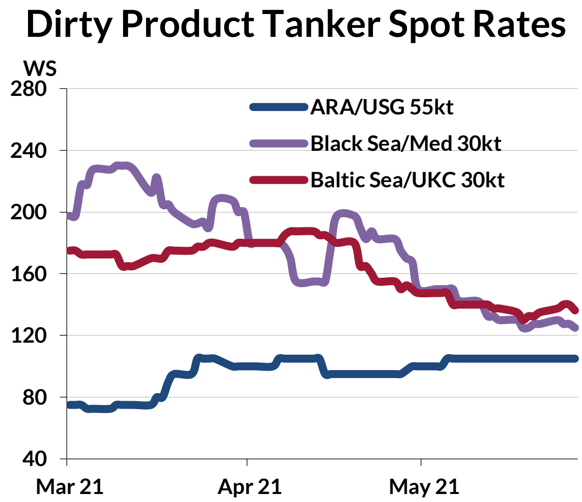
Rates in the Continent stuttered this week just as the market showed promise in reaching ws 140. As soon as the region was looking short on approved tonnage, fixing dates moved forward and inactivity for early June windows became apparent. A five point reduction was the overall settling point for the week. However, with a long weekend now approaching, Tuesday will be the “telling day” for forward sentiment. Elsewhere, in the Med and Black Sea, a similar tune rang out. Once recovery had been seen, fixing windows shifted into June, which fully opened up the tonnage lists to Charterers once again. From the Black Sea levels were again reduced to ws 125 (also showing a 5 point decrease week on week), with the Med yet to be fully tested. With this in mind though, what we need to take from recent events is the reminder that even in times like these, market characteristics can vary noticeably, with only a few days difference in the laycans being covered.

MR

Some recovery to report in this sector, although there is validity in the argument that perhaps MR rates in the Continent were undervalued at lows of ws 100. Finishing the week at ws 107.5, it's easy to gloss over the supporting fixtures concluded between this benchmark, where the sector found support with steady incitement in between, further tightening the region's supply of availability for the immediate windows ahead. In the Med, conditions haven't quite been so positive, with repetition of last week's numbers a best case scenario on the table for Owners. Handy activity has helped the lists tick over; however, there is a growing sense that perhaps the next full test may show Charterers have the upper hand, with a number of units likely to need employment come Tuesday.

Panamax

Aided mainly by their versatility which surrounding Aframaxes cannot offer, the Panamax seems to be holding its own in spite of cheaper alternatives on offer. That said, ws 105 is perhaps the best Owners can hope for with limited upside. There is a limit to the value that Charterers will pay for flexibility. With a US market having lost chunks of value in recent weeks, ships from the closest ballast areas in the US are, and will, come over to the continent if shown firm opportunity.



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 27th	May 20th	Last Month*	FFA Q2
TD3C	VLCC	AG-China	**+3**	36	35	35	35
TD20	Suezmax	WAF-UKC	**-0**	49	49	55	54
TD7	Aframax	N.Sea-UKC	**+2**	93	91	88	91

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

			wk on wk change	May 27th	May 20th	Last Month*	FFA Q2
TD3C	VLCC	AG-China	**+1000**	4,250	3,250	2,500	3,000
TD20	Suezmax	WAF-UKC	**-750**	750	1,500	4,500	3,500
TD7	Aframax	N.Sea-UKC	**+750**	-750	-1,500	-2,250	-1,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 27th	May 20th	Last Month*	FFA Q2
TC1	LR2	AG-Japan	**-10**	81	91	71	
TC2	MR - west	UKC-USAC	**-21**	114	135	111	126
TC5	LR1	AG-Japan	**+7**	96	89	104	105
TC7	MR - east	Singapore-EC Aus	**+5**	159	155	149	152

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

			wk on wk change	May 27th	May 20th	Last Month*	FFA Q2
TC1	LR2	AG-Japan	**-3500**	5,000	8,500	1,250	
TC2	MR - west	UKC-USAC	**-3750**	3,000	6,750	2,500	4,750
TC5	LR1	AG-Japan	**+1250**	5,750	4,500	7,250	7,750
TC7	MR - east	Singapore-EC Aus	**+500**	9,500	9,000	7,500	8,250

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

ClearView Bunker Price (Rotterdam VLSFO)	**+14**	485	471	484
ClearView Bunker Price (Fujairah VLSFO)	**+2**	488	486	501
ClearView Bunker Price (Singapore VLSFO)	**+12**	488	476	504
ClearView Bunker Price (Rotterdam LSMGO)	**+14**	550	536	528

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London
Audrey House
16-20 Ely Place
London EC1N 6SN

T +44 (0) 20 7667 1247
F +44 (0) 20 7430 1253
E research@eagibson.co.uk

Hong Kong
Room 1401, 14/F,
OfficePlus @Wan Chai,
303 Hennessy Road.
Wanchai. Hong Kong.

T (852) 2511 8919
F (852) 2511 8901

Singapore
8 Eu Tong Sen Street
12-89 The Central
Singapore 059818

T (65) 6590 0220
F (65) 6222 2705

Houston
770 South Post Oak Lane
Suite 610, Houston
TX77056 United States

Mumbai
Office 128, Level 1, Block A,
Shivsagar Estate,
Dr. Annie Besant Road, Worli,
Mumbai, Maharashtra, 400018,
India
T +9122-6110-0750