

Why So Weak?

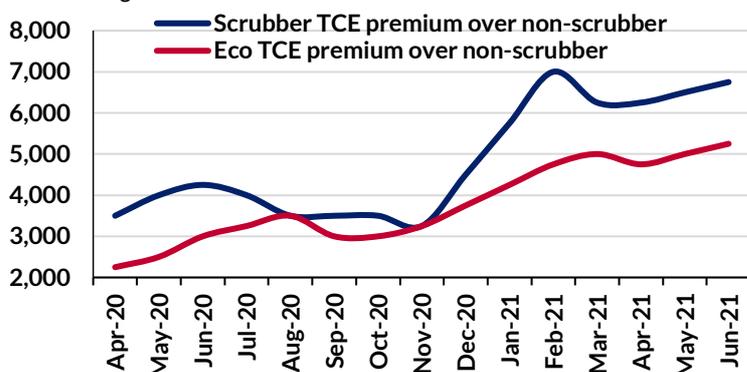
Weekly Tanker Market Report

VLCC spot earnings averaged just \$500/day on the benchmark TD3C trade during the 1st half of this year on slow steaming, non scrubber, non ECO basis; marking the lowest half yearly result since our records began in 2000. Although returns in other segments have also been far from healthy, VLCCs have been the worst performer, earning less than even Handy/MR tankers on benchmark round voyage trades.

Undoubtedly, the exceptional weakness in the VLCC market is almost entirely due to fundamentals. According to Kpler, during the 1st half of the year total Middle East crude exports, which account for the lion share of all VLCC trade, averaged 15.25 million b/d, down by a colossal 2.1 million b/d compared to 1H 2020 and even more if compared to 1H 2019. Meanwhile, 37 VLCCs have been delivered since July last year, while just 6 units have been scrapped (although there have been a few more reported demolition sales of floating storage units). There has also been a notable decline in VLCC floating storage. The 2nd quarter of last year saw a surge in storage requirements due to contango and oversupply of crude, with non-Iranian VLCC storage peaking in June 2020, when 77 VLCCs were used for crude and product

TD3C Spot TCE Earnings Analysis (\$/day)

Slowsteaming basis



floating storage. The picture is very different now, with our latest estimates showing just 25 vessels in non-Iranian storage, mainly fuel oil.

Apart from very weak fundamentals, there is also another factor at play, which could explain why VLCC earnings on non-scrubber, non-ECO basis have underperformed relative to other tanker sizes. The VLCC fleet has the highest uptake of exhaust gas cleaning technology. Nearly 39% of the existing fleet have scrubbers installed, while another 5% are still

planning to retrofit. The technology is also expected to be installed on around 34% of the orderbook. The penetration of scrubbers is considerably smaller on other size groups. Suezmaxes are in second place, with scrubbers installed on 26% of the fleet and another 4% planning to retrofit. Scrubber uptake on other sizes is even smaller.

Scrubber equipped vessels have been able to generate increasingly higher returns due to rising oil/bunker prices, with VLCCs benefitting the most due to long haul nature of their trade. The spread between HSFO and VLSFO increased from an average of \$50-70/tonne range in June 2020 to an average of \$110 - 120/tonne in June 2021. For scrubber equipped VLCC tonnage this means that the earnings premium on TD3C nearly doubled from \$4,000/day to \$7,000/day over the period, even though absolute freight/TCE levels were much higher in 1H 2020 compared to 1H 2021.

With 39% of existing VLCCs having scrubbers on board, the simple maths would suggest that the majority of the trading fleet is still generating much lower returns. In reality, however, the picture is more complex. As reported earlier by Gibsons, about 10% of the existing non scrubber VLCC fleet are employed solely in sanctioned trades and are not competing in the international market. In addition, a number of ageing non-scrubber ships involved in storage should also not be considered as trading vessels. Finally, some of the modern non scrubber vessels are much more fuel efficient, generating higher returns compared to an average 10 year old non-scrubber vessel.

To conclude, the above clearly demonstrates why VLCC earnings for non scrubber, non eco vessels have been so unsustainably depressed this year. Simply put, there are plenty of tankers around that can achieve higher returns.

Crude Oil

Middle East

A week dominated by Chinese COA VLCC voyages will get the fixing numbers for July up to near completion and Charterers will probably start to concentrate on their August 1st decade program next week. Owners will be hoping that this expected concentration of enquiry will lead to a potential upswing in rates as we are not seeing the usual heavy carry over of modern well approved tonnage going into the next month. As it stands last done East is around 270,000mt x ws 31.5 and we estimate a voyage West to be 280,000mt x ws 18.5 (via Cape). TD23 had gone through an uncharacteristically quiet period and was due a retest at the start of the week - and so it did - with AGulf/West falling to 140,000mt x ws 25 and Charterers trying to achieve cosmetic discounts throughout the week until the list tightened right back up again and quickly rebounded to ws 29.5. Rates to the East remain steady at 130,000mt x ws 52.5 level for modern tonnage. Aframax Owners are having to re-draw their battle lines as another quiet week of activity will ensure Charterers remain in a strong position to further push levels down from last done, with around 80,000mt x ws 87.5 achievable for an AGulf/East run.

West Africa

VLCC rates by comparison to the AGulf market hold at respectable levels, but if Owners are to hold on to such gains then we will need to see support from elsewhere otherwise the same fundamentals will naturally add pressure on Owners to concede. Bunker prices

have aided Owners resolve, but we will need to see more enquiry to further cement these small gains. Last done to the East tentatively holds at 260,000mt x ws 35. Good levels of Suezmax activity tightened up the front end of the list with Owners showing resistance off end July dates, with 130,000mt x ws 52.5 done for Europe discharge. There is some doubt as to how long these levels can sustain with a handful of ballasters arriving for August laycan, however, Owners will be looking to consolidate next week.

Mediterranean

More of the same this week for Aframaxes. The list remains balanced against cargo enquiry, which has prevented any major moves but the prevailing sentiment has been a weaker one. Beady eyes have been cast on less than encouraging August volumes and this has dampened the Owners' mood. Black Sea cargoes have been concluded at around 80,000mt x ws 92.5 levels in most cases, with Novo achieving slightly less. The outlook for next week at the moment is more of the same and the only hope is for port delays to have more of an effect than they are currently, and for some earlier cargoes to surface. A drab week with little Suezmax enquiry to talk of. TD6 started and ended the week paying a conference rate of 135,000mt x ws 60 and Black Sea/South Korea, although untested, assessed in the region of last done Lumpsum \$2.35 million.

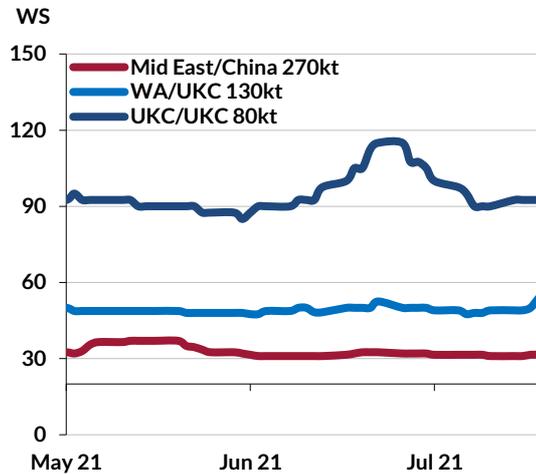
US Gulf/Latin America

A rush of short haul Aframax enquiry from EC Mexico has at least given some Owners a little excitement for the week and rates have shifted off the bottom as only a few Owners can muster the energy to compete, whether this rise in rates can provide the stimulus to push levels on elsewhere remains to be seen. Last done from EC Mexico to US Gulf is 70,000mt x ws 90, with transatlantic around 70,000mt x ws 72.5. Overall a quiet week for VLCC Owners with little enquiry for Owners to work with. Last done levels will be naturally tested once we do start to see some activity but for now we estimate levels to be around \$3.9million for a Far Eastern run.

North Sea

Another lacklustre week for Northern Aframaxes as most sat in the doldrums waiting for the winds of the market to pick up. Unfortunately, there was little to disturb the surface apart from a couple of gentle gusts. X-North Sea is currently trading at 80,000mt x ws 92.5 level and Baltic/UKCont in the low to mid ws 60s on 100,000mt. The horizon doesn't show any clear breeze in the near-future leaving a list of vessels with limp sails for the time being.

Crude Tanker Spot Rates



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

Clean Products

East

LR1s have seen a busier week, with rates climbing a touch but more is expected soon. Lists are tight especially for jet heading West. \$1.35 million still is there for AGulf/UKCont but will be pushed by Owners next week. TC5 is still around ws 90 with LR2s at parity we expect more next week and the magic ws 100 threatened.

Finally, some movement in the LR2 segment. Distillate is flowing a little easier than it has been in previous weeks and bigger cubics are a little harder to come by. \$1.7 million fixed ex AGulf, but cargoes in the market are currently trading at \$1.95 million vs \$1.775 million. The intent amongst Owners is obvious. 75 x ws 90 is on subs but again, reference remaining TC1 cargoes, Owners are offering at ws 100, our feeling is that they will settle at ws 90-95 levels this side of the weekend.

Another very depressed MR segment. Short haul cargoes will never clear the list to a degree that we see any real progress in rates. An incredibly depressed South market will encourage ballasters, expect a soft market to continue here, particularly with the arrival of Eid. EAF trades 35 x ws 135 but has been less popular than in previous weeks. Most distillate stays short. \$850k parity to UKCont or Argie and TC12 trades 35 x ws 85 but will come under negative pressure next week. As simple as it sounds - this segment needs LR improvement and a serious volume of cargoes going long.

Mediterranean

Rates have consistently traded at the bottom of the market this week, with Charterers easily able to pick off ships at the 30 x ws 120 mark for X-Med. Simply too many fixing window units have been available and that has resulted in a stagnant market at the floor throughout. Black Sea enquiry has been slow but expect discounts to be achievable dependent on vessel position. More of the same is likely next week.

A lacklustre week on the MRs with enquiry slow throughout. We started the week at the 37 x ws 120 mark transatlantic but the lack of cargoes coupled with negative sentiment in NWE meant that rates soon slipped. With 37 x ws 112.5 is now the going rate for TC2 so expect this to be the aiming point for Charterers ex Med. An influx of cargoes is needed in order to keep Owners out of this doom & gloom.

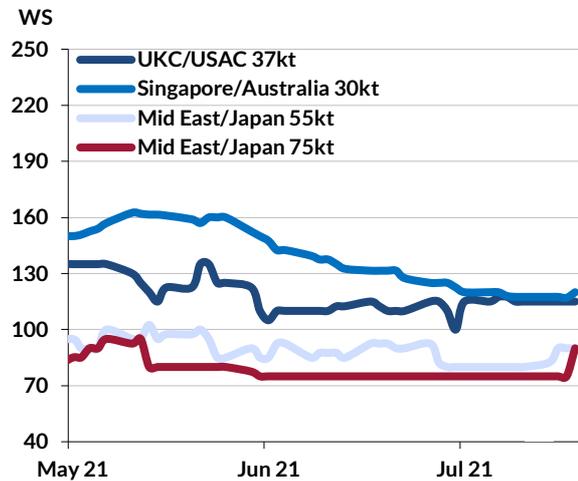
UK Continent

Unfortunately, another dismal week on the MRs in NWE, levels have remained around 37 x ws 115 for TC2, with the market under constant pressure from Charterers. Inevitably we see TC2 at ws 112.5 as we finish the week, with 2 cargoes outstanding in NWE. Other premiums are shrinking and with the lack of enquiry forcing Owners hands, WAF cargoes are more valuable as they seem to be more infrequent due to LR vessels being more favourable. All in all, a very slow week and the market remains under pressure.

Summer markets continue to prevail for Handies plying their trade up in the North as levels remain trading at the bottom of 30 x ws 120 for TC9 and 30 x ws 115 for X-UKCont. There has been better demand for cargoes down to the Med, which has seen a few vessels fixed and thankfully moved out of the region, however, with this being a desirable run for many, freight has softened to 30 x ws 80. The market is expected to trade sideways for the short term.

Little Flexi action to take note of this week meaning sentiment falls in line with the Handies. Rates are in need of a fresh test but are expected to land around 22 x ws 150 for X-UKCont. This sector is in desperate need of some cargoes with prompt units starting to build once again.

Clean Product Tanker Spot Rates



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

Dirty Products

Handy

On the face of it, the market in the North this week has stuttered along with very little in terms of volumes. However, Charterers have steadily picked off what is left of the already short position list. With the expectation of a possible softening in the market early in the week we finish with the region firm and the equivalent of 30 x ws 145 is on subs. Replenishment come Monday is expected to keep the region steady for now and while earnings are still not causing anyone to pop champagne, there is a feeling the glass is currently half full for Owners in the region.

In the Mediterranean, rates started off firm with ws 170 repeated right up until mid-week, however, a lengthening list and a lack of activity saw a swing in levels and rates were eroded. With enquiry slower we have seen a mixed bag of results with even a low of ws 160 reported for a Black Sea lifting as some Owners became acutely aware of what tonnage they had coming up. Limited replenishment come Monday could see the region swing in Owners favour once again should all that is on subs get fixed and cargoes flow early next week. There is a feeling the top has been reached and any further gains in the short term are unlikely. Despite this week's softening, it must be said the market is in a good place considering where we are in the summer season.

MR

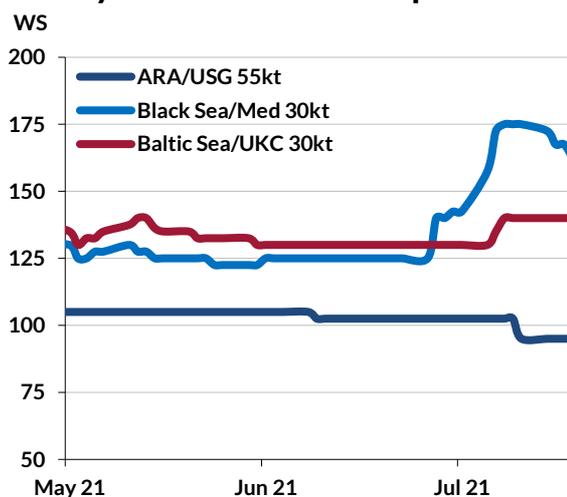
In the North, the market this week has seen very little in terms of activity largely due to a lack of available tonnage options. Looking towards next week we expect limited tonnage replenishment if any as most of the units that have been fixed over the past few weeks have done so with discharge option

away from this region. In contrast further south in the Med, the focus of cargo base has been dominated by Handies and as such all MR Owners have really had to hang on to are part cargo opportunities to keep idle days down. Going forwards, there is potential for an injection of pace on full stems as end month dates come in to play.

Panamax

Rinse, wash, repeat continues to be the theme in this market as unfortunately this sector is still being held to ransom by larger tonnage offering competitive pricing. The lack of fresh long-haul enquiry is a problem here for Owners with tonnage in the NWE region, which is now starting to build up. Even if Owners look towards the other side of the pond for potential employment the same theme is playing out there, with a week of little fresh enquiry. With all that said, rates look to have once again bottomed as voyage calculations simply do not offer any positive return.

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	Jul 15th	Jul 8th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	+0	32	32	31	34
TD20	Suezmax	WAF-UKC	+3	52	49	50	53
TD7	Aframax	N.Sea-UKC	+0	93	93	94	94

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

			wk on wk change	Jul 15th	Jul 8th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	-1250	-4,500	-3,250	-3,750	-1,750
TD20	Suezmax	WAF-UKC	+1250	750	-500	0	1,250
TD7	Aframax	N.Sea-UKC	-1000	-4,750	-3,750	250	-4,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jul 15th	Jul 8th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	+13	88	75	75	
TC2	MR - west	UKC-USAC	-3	114	117	113	121
TC5	LR1	AG-Japan	+11	90	79	88	101
TC7	MR - east	Singapore-EC Aus	+3	120	117	135	138

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

			wk on wk change	Jul 15th	Jul 8th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	+3250	4,750	1,500	-1,500	
TC2	MR - west	UKC-USAC	-500	1,500	2,000	2,000	2,500
TC5	LR1	AG-Japan	+2000	2,500	500	2,750	5,000
TC7	MR - east	Singapore-EC Aus	+0	1,500	1,500	4,500	4,500

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

ClearView Bunker Price (Rotterdam VLSFO)	+7	528	521	513
ClearView Bunker Price (Fujairah VLSFO)	+4	541	537	529
ClearView Bunker Price (Singapore VLSFO)	+18	549	531	533
ClearView Bunker Price (Rotterdam LSMGO)	+16	591	575	581

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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