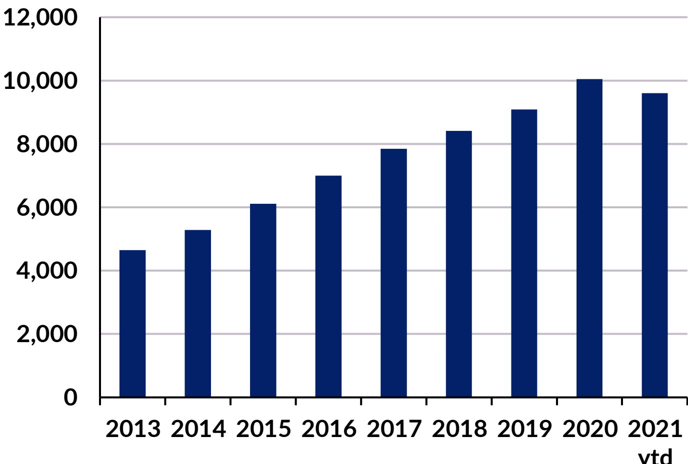
Peaking Duck

Weekly Tanker Market Report

For the past two decades, the tanker market has benefited from strong, near continuous growth in Chinese crude oil imports. Consistent refining capacity expansions and flat crude production have left Chinese oil companies with little choice but to boost imports, whilst prior to the pandemic, Chinese refiners were increasingly using their advanced and efficient facilities to boost product exports across Asia and beyond. However, just as the global energy landscape is moving towards a lower carbon future, so is China. So, what does this mean for tankers? Can Owners continue to rely on China to drive oil demand in the decade ahead or is Chinese oil demand close to peaking?

Last week, the Chinese government published an economy wide plan to peak emissions and achieve carbon neutrality by 2030, part of which includes a proposal to cap refining capacity at 20mbd by 2025 from around 18mbd at the end of 2020. Importantly, the restriction focuses on total capacity and not utilization. Evidently recently policy has focused on limiting output from older less efficient 'teapots' as new capacity comes online. If older teapots are replaced by more modern facilities with higher operating rates, then total crude imports will continue to grow through higher operating rates. Indeed, the State Council proposed that major refining units should raise their output to 80%, suggesting that whilst total capacity might grow at a slower rate, utilization of the remaining/replacement capacity would likely be higher, supporting overall crude throughputs. Furthermore, several large refineries are due to be launched by 2025. Rongsheng's recent commissioning of a 400kbd refinery has given the company total capacity of 800kbd, making it a major force in crude trading markets, whilst Shenghong Petrochemical has started receiving crude at its new 320kbd refinery. Next year is expected to see the startup of PetroChina's 400kbd Jeiyang facility, whilst Shandong Yulong Petrochemical is also adding a 400kbd plant in 2024, although this will replace several smaller teapot refineries which will close.



Source: Kpler

Taking account of new additions and closures, OPEC forecasts that Chinese crude throughput will rise by just 1.3mbd by 2025 compared to 2019 levels and then show little, if any growth out to 2045. Seaborne crude import growth rates have averaged 770kbd between 2013 and 2020 according to Kpler, but for the year to date they are tracking 440kbd below 2020 levels, which were boosted by low oil prices and stockpiling. Crude imports are expected to return to growth in 2022 as the full impact of Rongsheng and Shenghong is seen, whilst incremental demand will come from the startup of Jeiyang coupled with increased mobility. However, from 2023 the rate of growth will likely ease back unless stock building comes into play.

Evidently, the policy aims of the Chinese Government suggest peak oil demand may be closer than first thought. But as the ongoing energy crisis has highlighted, achieving net zero is a monumental task. Refining capacity will still rise in the medium term, whilst stock building is also likely to support Chinese imports once the price environment improves for buyers. In any case, for tanker Owners, under most scenarios, no single country will overtake China as the largest crude importer for decades to come, so all eyes remain on China.

Crude Oil

Middle East

VLCC Owners have had a number of battles on a few fronts this week as we witnessed a downturn in general enquiry from the AGulf coupled with limited interest in the West drawing less tonnage away from the region. This only exacerbated the continual over supply of tonnage versus demand. Rates have naturally dipped from last week where currently a voyage East is around 270,000mt x ws 43.5. Voyages West remain illiquid with levels holding at around 280,000mt x ws 22 to the US Gulf. Another week of light Suezmax activity with the exception of short haul cargoes to India. Availability of tonnage is building and Charterers will set their sights on paying lower levels for Basrah/Europe and the next concluded fixtures will be no higher than 140,000mt x ws 45. Rate to the East have slightly softened to 130,000mt x ws 72.5. Aframax momentum of the previous few weeks has faded due to a largely quiet week. However, a flurry of activity to close proceedings offers gave Owners refreshed hoped heading into the weekend. Rates are currently sitting at around 80,000mt x ws 107.5.

West Africa

A slower tempo of VLCC enquiry has meant Charterers have been able to gently chip away from last done levels and Owners have had to dance to the beat of Charterers desire. Owners will be hoping to press the reset button over the weekend and that they will be dancing to a quicker beat next week. For now, levels remain around 260,000mt x ws 47 to the Far East. A strange week for the Suezmax sector where the availability of tonnage coming open in the area should have put downward pressure on rates earlier in the week. But Owner held their nerve and showed resistance to discounting rates with 130,000 x ws77.5 being paid to Europe multiple times. As the week progressed the volume of cargoes has dried up and it is now anticipated that the next concluded fixture will be below ws 75 to Europe.

Mediterranean

A week of two halves for Aframaxes, it began brightly however, a lack of cargo enquiry has led to an inevitable decline in rates. Delays at the Straits are beginning to heat up and sitting just below double-digit days and this will help to underpin the market going into next week. We see potential upside to rates to push up early next week with levels currently standing at 80,000mt x ws 125/130 and rates to the Black Sea are pushing towards 80,000mt x ws130. Suezmax tonnage continues to benefit from Aframax cargoes and although it has been an active week for Black Sea loading rates quickly reached 135,000mt x ws 87.5 to Europe but pushed no higher. By the end of the week Charterers were able to test Owners resolve and rates eased back to ws 80 to the Continent and ws 85 for Mediterranean discharge. Rates to the East have fared better with $3.4 million being paid for a Black Sea to South Korea voyage.

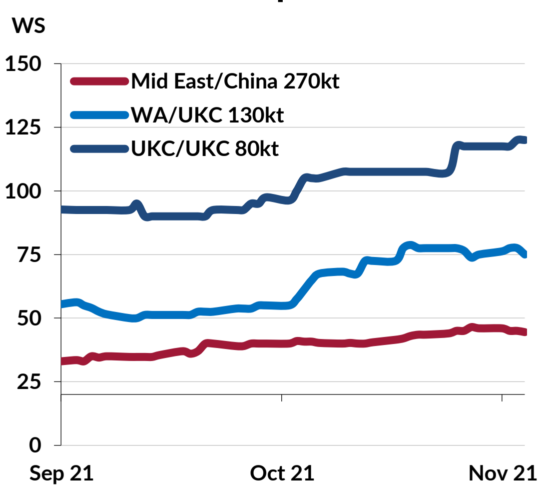
US Gulf/Latin America

If the Aframax market was a firework we would all feel a little let down by its bang as the barest minimum of enquiry has kept the market from falling further. Owners will be hoping Charterers bring out the big rockets next week as they look to recover some lost ground. A voyage transatlantic currently stands at around 70,000mt x ws 105, with short haul runs around 70,000mt x ws120. VLCC interest hasn't been any better with Owners again hoping that the commitment to ballast to the region isn't the wrong call, as Charterers have remained quite apathetic for the week. Next done levels are likely to be off last done, which currently stands at $5.5 million from the US Gulf to the Far East.

North Sea

A week ending with a bang as the Northern Aframax market continues its organic growth. Rates have made strong improvements over the past few days with Baltic/UKCont now stretching to 100,000mt x ws 110 for certain runs and X-UKCont voyages hitting 80,000mt x mid ws120s. The market seems set to rally further next week on the back of positive sentiment from an owner's perspective.

Crude Tanker Spot Rates



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

Clean Products

East

LR1s have had a quieter week while LR2s had all the focus. LR2 Owners commenced the week with big ambitions but these were tempered slightly as the volume started to lack quite enough. Still rates are better with TC1 paying 75,000mt naphtha AGulf/Japan at ws 110 and 90,000mt jet AGulf/UKCont is worth $2.25 million. If the Mid November volumes push on as expected these rates will rise from here fairly swiftly.

LR1s have bumped along waiting for the LR2s to gain separation. TC5 needs a genuine test but is hovering at ws 120-125. 60,000mt jet AGulf/UKCont is still being decided with Charterers holding for $1.80 million but Owners pushing for $1.90 million. Somewhere in between seems the likely result of course.

Next week will likely see a better reflection of markets without the holidays in the East we have had in the last 2 days.

MRs have really halted any progress seen last week. Ws 180-182.5 EAF levels repeated numerous times – with Engen paying ws 187.5 for jet. Suitability today reflects a very tight list. TC12 freights at ws 135 but will look softer when Singapore ballasters start to come across. West trades at $1.3 million basis UKCont and similar levels basis Argentina - achievable with veg candidates keen to triangulate. Next week the market likely softens a tad as traders look to utilise the bigger sizes off forward dates.

Mediterranean

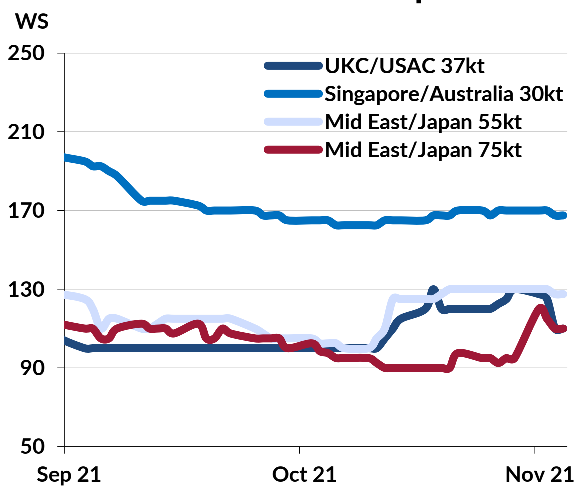
Ample tonnage has been around this week, which has kept rates subdued. An uptick in enquiry on Wednesday was not enough to stop rates from slipping with 30 x ws 137.5 soon the going rate across the board (5 points down from rates on Monday). Turkish Straits delays have eased somewhat but rates continue to trade a touch higher than the standard + 10 point premium at the 30 x ws 150 mark. A couple of trickier cargoes have seen higher done ex E-Med with 30 x ws 140-142.5 seen and prompt replacements needed could see Owners capitalise. Expect Monday to bring a replenished list and Owners likely on the back foot from the off.

With minimal ballasters heading this way and a reasonably active start to the week, Owners in the Mediterranean have been able to hold a premium over the stalling UKCont market with rates in the 37 x ws 130s. Inevitably though with TC2 now sliding to 37 x ws 110, some correction was required to ws 125 and we await to see how well Owners can dig in with a fresh test. It seems unlikely a 15 point premium can stay under the current climate but never say never in this ever turbulent sector.

UK Continent

Despite Owners best attempts partnered with an excitable US Gulf market, Charterers this week have held the upper hand and the slow drip-fed levels of enquiry have seen this market succumb to negativity. With LRs still being the preference for WAF runs, Owners have had only scraps to pick at for employment and with excess prompt tonnage Charterers pull TC2 down 20 odd points and as we arrive on Friday, we sit at 37 x ws 110. With rates corrected we see also a number of short haul runs appearing which has kept some vessels ticking along, but this unfortunately for some has just not been enough and we walk into next week with ships to pick off and this pressure still sitting on Owners shoulders.

After some positivity pulling Baltic runs to 30 x ws 150 for the Handies, the lack of fresh enquiry partnered with a couple of larger vessels taking out short runs, has ultimately been too much for Owners to combat. As we arrive at the end of this week further correction is sure to be on the cards but for now, we call rates around 30 x ws 137.5 ex Baltic, with X-UKCont 5 points lower and a fresh look needed on Monday morning. No doubt a list will show if any “behind closed door” fixing has been occurring and give us a chance to see what we are to expect in the coming days.



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

Dirty Products

Handy

The Continent this week has gone from strength to strength with a number of cargoes all being worked off a narrow date range, which bolstered sentiment and with conditions being tight for some time now this was more than what the region could handle without attracting extraordinary levels of volatility. To put this into context, the lack of availability has now forced Charterers to build stems with momentum flowing up beyond MRs and Panamaxes, which could see levels peak around where we are for now. That said, with all the units coming up from the Med at some point they will all re-populate the list.

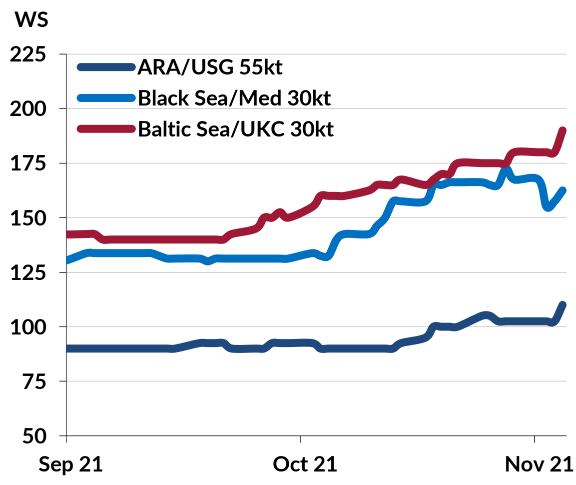
The Med on the other hand is receiving a much-welcomed boost by virtue of the Continent's strong performance, as anything opening in the West Med has been migrating north in order to trade in the better performing sector. What is left around Malta/East Med has now found itself in a desirable position where through a combination of Turkish Straight, weather delays in central Med and a pickup in cargo base, units have been able to defy the negative effect of Tuapse going off-line for maintenance.

MR

This sector Cont and Med have seen a complete mirrored effect of the surrounding Handy sectors, where Mediterranean units migrating north have left those in play down in the Med in a fortuitous position. Furthermore, in the Continent we have seen not only natural gains between deals, but we also see Charterers with only 30kt have to pay on the basis of a full 45kt stem. Such examples of strength have been rare this year, but in the short term where Charterers have had to reach out on dates this sentiment looks set to last.

Panamax

With so little tonnage opening here on this side of the Atlantic, Charterers in the Continent are having to look to alternate open zones in search of next availability. However, with bunker prices high and with long ballasts to factor in, Owners are looking to pass these cost on in the form of rate ambitions well in excess of last done. Furthermore, sentiment being firm in surrounding sectors, and a large disparity in earning US vs Europe, the supply imbalance is not likely to be addressed in the short team. These factors therefore are forcing the adjustment in rates needed to make the market more functional.



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Nov 4th	Oct 28th	Last Month*	FFA Q4
TD3C	VLCC	AG-China	**-1**	45	46	41	48
TD20	Suezmax	WAF-UKC	**+1**	76	75	64	76
TD7	Aframax	N.Sea-UKC	**+4**	121	117	106	112

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

			wk on wk change	Nov 4th	Oct 28th	Last Month*	FFA Q4
TD3C	VLCC	AG-China	**-1,750**	5,250	7,000	3,500	8,750
TD20	Suezmax	WAF-UKC	**1,500**	11,000	9,500	5,250	11,250
TD7	Aframax	N.Sea-UKC	**4,750**	12,500	7,750	2,000	6,750

Clean Tanker Spot Market Developments - Spot Worldscale

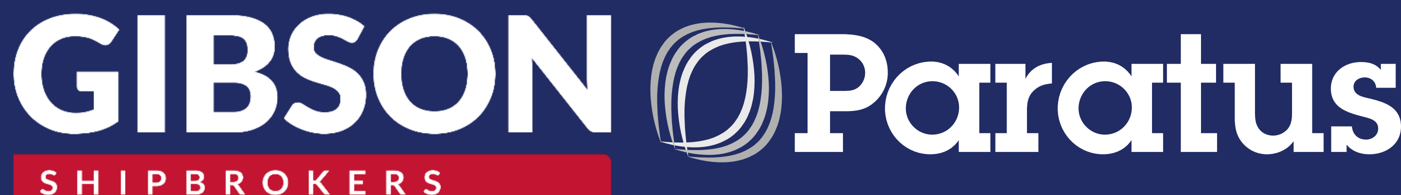
			wk on wk change	Nov 4th	Oct 28th	Last Month*	FFA Q4
TC1	LR2	AG-Japan	**+15**	110	95	97	
TC2	MR - west	UKC-USAC	**-13**	112	125	100	130
TC5	LR1	AG-Japan	**-3**	125	128	103	125
TC7	MR - east	Singapore-EC Aus	**-3**	167	170	163	174

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

			wk on wk change	Nov 4th	Oct 28th	Last Month*	FFA Q4
TC1	LR2	AG-Japan	**4,250**	8,750	4,500	6,750	
TC2	MR - west	UKC-USAC	**-1,750**	-500	1,250	-2,000	2,500
TC5	LR1	AG-Japan	**-750**	8,250	9,000	4,500	8,250
TC7	MR - east	Singapore-EC Aus	**-500**	7,000	7,500	7,500	8,250

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

	wk on wk change	Nov 4th	Oct 28th	Last Month*
ClearView Bunker Price (Rotterdam VLSFO)	**-17**	574	591	559
ClearView Bunker Price (Fujairah VLSFO)	**+1**	625	624	583
ClearView Bunker Price (Singapore VLSFO)	**+5**	618	613	576
ClearView Bunker Price (Rotterdam LSMGO)	**-23**	675	698	669



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