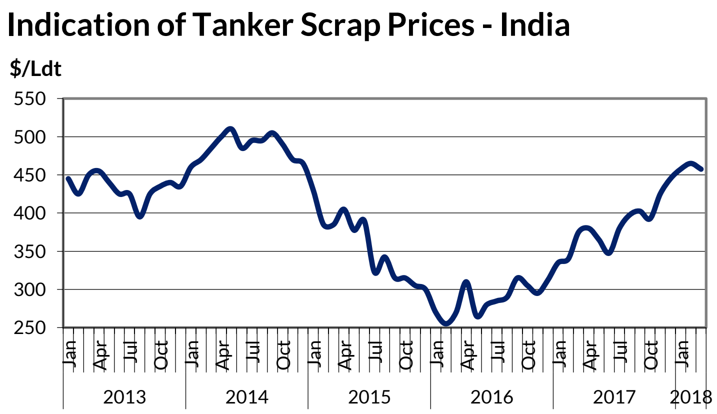
To Scrap or not to Scrap

Weekly Tanker Market Report

Traditionally, one of the key drivers for demolition has been weak spot earnings. Just a couple months ago in our weekly commentary we reported higher tanker scrapping in 2017 on the back of deteriorating trading conditions. Further increases have been seen more recently, most notably in the VLCC segment. For the year to date, 15 VLCCs have been reported sold for demolition, with this year's volume already exceeding the total for 2017. In addition, two former VLCCs (converted into FSOs and used for storage projects) were also sold for permanent removal. Tankers heading for scrapping are getting younger, relative to those demolished last year. This year's average age is 18.5 years versus 21.5 years for VLCCs demolished in 2017.

The latest deals are not surprising, considering the exceptional weakness in the spot market. Since the beginning of the year, spot TCE earnings for modern tonnage have averaged just $8,500/day (market speed) on the benchmark TD3 trade, an unprecedented level for this time of year for nearly two decades. Returns for aging tonnage have been under even greater pressure due to a typical minor rate discount, more waiting time between voyages and higher bunker consumption relative to modern and fuel-efficient tankers. Firmer scrap values have also helped to stimulate demolition: lightweight prices in the sub-continent have climbed above $450/ldt in recent months, their highest level in three years.



The prospects for the spot market remain poor in the short term, suggesting that we are likely to see more tonnage heading for demolition. The phase out of OPEC-led production cuts does not appear to be in sight anytime soon, while increases in long haul crude trade from the US and South America have been insufficient to offset the rapid fleet growth seen over the past two years. Brokers indicate that there are a few more VLCCs being circulated for demolition at present. In addition, a number of vintage VLCCs, which were used extensively for floating storage back in 2017, have struggled to find a suitable employment and could be considered for demolition. Finally, there are over a dozen VLCCs, which are due for their third or fourth special survey later this year. For some of these units, it would be more economical to exit trading instead of investing into an expensive circa $2.5 million survey and drydocking.

However, even if more VLCCs are scrapped, it is unlikely to be sufficient to offset 46 VLCCs still scheduled for delivery this year, even if we take slippage into account. We also should not forget that some tankers have been reported for demolition recently or are considered as likely candidates in the very short term, have been largely absent from the trading market anyway (for example, used for storage as discussed above).

Further down the line, regulations such as the Ballast Water Treatment (BWT) and the introduction of the global sulphur cap on marine bunkers are widely expected to offer a further boost to demolition. Although the date for the BWT system installation has been extended to September 2024 (if certain conditions are met), only a small portion of the aging fleet will be in position to benefit from it. Many owners decoupled their IOPP certificates from the special survey prior to the BWT deadline extension and so for them the next IOPP renewal and hence the BWT installation is due in 2022. As such, tanker demolition could peak in 2022, offering more substantial support to industry earnings compared to what we are likely to experience this year.

Crude Oil

Middle East

A steady but rather slow trawl through the week for VLCCs that remained rangebound over the close of the March programme, and also onto early April positions too. Owners will hope for the bargain hunting pace to pick up next week and lend a degree of momentum to the marketplace, though it will need to be a very sustained phase to haul TCE,s to much above Opex levels. Currently rates to the East operate at around ws 36/37 for modern units with runs to the West still moving in the high teens. Suezmaxes edged lower as longer haul volumes dwindled and shorthaul activity failed to impact. Rates fell off to ws 65 to the East and to ws 25 West accordingly. Aframaxes 'enjoyed' a steady flow, but a flow that only maintained rates at their recent lows of 80,000mt by ws 77.5 to Singapore though a slightly more active inter-Far East market may assist a little next week.

West Africa

Suezmax Owners attempted to defend, but Eastern ballasters began to impact, and Charterers then began to hold back to allow the marketplace to find a more definitive bottom. Rates fell to 130,000mt by ws 54 to the USGulf, and to ws 57.5 to Europe with perhaps a little further yet to go. VLCCs became busier in the second half of the week and Owners managed to squeeze just a very small premium as 'insurance' against the AGulf making a positive move next week. 260,000mt by ws 39.5 to the Far East 'last done' with runs to West Coast India marked as little higher than $2 million from Angola.

Mediterranean

Aframaxes failed to grow extra legs even as availability thinned and then lost initiative and settled back to 80,000mt by ws 90 X-Med with a flatline forecast over the next fixing phase. Suezmaxes found reasonable attention to the Far East with rates at up to $2.6 million to China, but were disappointed at the lack of solid locally designated cargoes which meant that those Owners that wished to remain in situ had to chip rates lower to 140,000mt by ws 67.5 from the Black Sea to European destinations. No big moves likely over the near term.

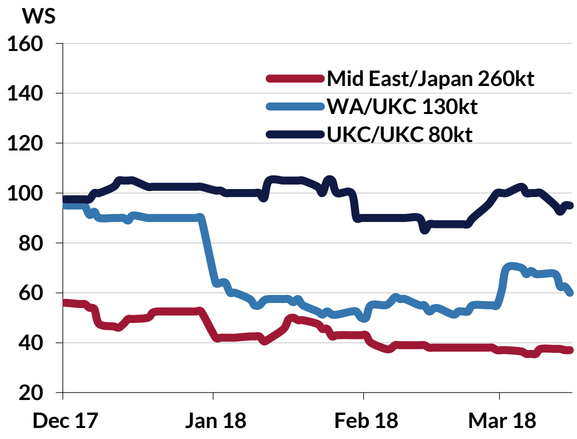
Caribbean

Aframaxes lived in hope but that hope was never realised, and rates crumpled to little better than 70,000mt by ws 90 upcoast and will have to just re-fire their hopes again for next week. VLCCs started slowly and availability weighed. Eventually a little more was seen but rates remained stagnant at down to $3.1 million Caribs/Singapore and to $2.55 million to West Coast India. Perhaps busier next week.

North Sea

Aframaxes continued to scrape the bottom and then found bed-rock at 80,000mt by ws 92.5 X-UKCont and 100,000mt by ws 82.5 from the Baltic. Charterers eye very easy upcoming availability and will probably merely drip feed the market early next week to thwart any hopes of new growth. VLCCs are very few and far between but Owners failed to gain any real rate advantage. $3.6 million paid for crude oil from Hound Point to South Korea and fuel oil from Rotterdam to Singapore marked at around $2.6 million.

Crude Tanker Spot Rates



Clean Products

East

On the whole it's been a pretty flat week for the MRs in the AGulf, there was a slight negative correction, however, it didn't affect the general steady sentiment that has embraced the market. Jet going West got a much-needed test and sits at the $1.1 million mark. EAF nudged down a few points to 35 x ws 190, but since correcting has held. X-AGulf cargoes as per usual are very date dependant, but rates between $205k and $215k depending on the voyage. AGulf/Red Sea have seen another week of good activity, however, with a little more tonnage to choose from rates adjusted a touch and finish the week at $550k. TC12 has held at 35 x ws 137.5 throughout the week and looks pretty set. With a balanced list of outstanding cargoes verses available tonnage, Owners will be hoping that end month stems make an appearance early next week to generate a little movement and get away from the flatness.

The LR2s have had an uninspiring week, a very quiet start inevitably led to rates softening. TC1 corrected to 75 x ws 110 and an UKCont is assessed at the $1.825 million level. With a few outstanding cargoes there needs to be an injection early next week to get things moving again. The LR1s have been a little different, a very steady start to the week with signs that the LR1s could have followed suit of the LR2s, however, with a push on UKCont cargoes there was a positive end to the week for Owners. UKCont saw decent activity and given the West remains an undesirable end location. A push on levels was seen and finishes the week at the $1.325 million. It wasn't only jet that saw a push, TC5 also followed suit and recovered a few points to close at 55 x ws 115. Owners will take this positivity into next week, but a few more cargoes would help to keep this pressure on.

Mediterranean

Week 11 started with a positive outlook with a strong level of enquiry and 30 x ws 160 the going rate for X-Med stems off the back of the momentum seen at the end of week 10. A couple of market quotes, however, exposed hidden tonnage and it was downhill from there... At the time of writing, X-Med stems are trading around the 30 x ws 145 mark with Black Sea rates realigning themselves at the ws 10+ point premium at 30 x ws 155. With prompt units still available across the Med and outstanding enquiry looking thin, week 12 will begin with a generally negative sentiment unless we see a fresh influx of cargoes come Monday.

A lacklustre week on the MR front with a slow level of enquiry and rates by and large being driven by action up in the UKCont. Med-transatlantic rates have come off this week and at the time of writing are trading at the 37 x ws 125 level and with a healthy-looking tonnage list coupled with ballasters ex WAF about to enter the picture, an uptick in enquiry will be required at the start of week 12 in order to stem further rate losses.

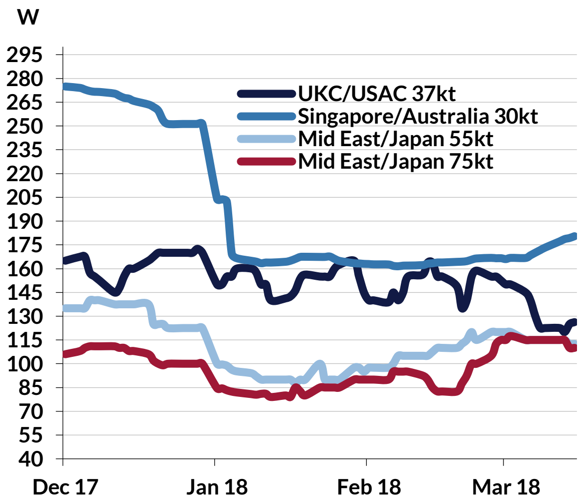
UK Continent

Once tonnage lists were drawn and analysed at the start of week 11, it was clear that MR Owners would be faced with an uphill struggle. With around ws 10+ prompt units available and numerous arbs slammed shut, levels have continued to hug the floor with little light at the end of the tunnel. Ice tonnage had also built which meant the ice premium ex Baltic was also dealt a blow for UKCont discharge as rates crumpled to 40 x ws 135. As we rolled through the week and Charterers continued to clip away prompt units the market had more of a balanced feel. By Friday TC2 seemed to have bottomed at 37 x ws 125 and WAF has made a slight incremental gain to 37 x ws 147.5 and ice cargoes had a rebound on rate with 40 x ws 160 on subs for Baltic / UKCont. Looking ahead Owners will be secretly optimistic heading into next week as talk spreads in the market that WAF demand is due to pick up.

Stable is the word that springs to mind when trying to describe the Handy market this week. With a decent amount of enquiry seen across the board, both Charterers / Owners have seemed happy enough to sing from the same song sheet and repeat last done levels with a few late runner's ex Baltic also supporting this. Many are expecting this trend to continue in the short-term future.

Limited fresh action to talk of here, with a number of Flexis being sent longhaul on more exotic voyages which has taken a few units out of the running leaving Handies as more viable options for Charterers especially considering that the pro-rated numbers more or less match up the same. It's still 22 x ws 195 for the most part and looking stable given the Handies seem to have stabilised on the back of better enquiry and the tonnage list balancing out.

Clean Product Tanker Spot Rates



Dirty Products

Handy

The majority of activity this week in the continent happened off market with tonnage ticking over steadily. This under the radar activity was enough for Owners to apply increment on last done and at the close of this working week Owners are pushing for further improvements. Charterers are currently presented with a shortening position list where firm itineraries remain key giving Owners a more optimistic view in the coming week ahead.

The Mediterranean market started off looking to be a steady week, influenced by good amount of activity early in the initial stages, especially for X-Mediterranean, but this optimism did not last. Enquiries started to dry up by mid-week, and the tonnage list was continuing to grow longer. Adding to this, Charterers started to push the loading window forward well into the last decade from the Black Sea. This tactic allowed Charterers to hold back stems and take advantage of the situation, and as a final result, the Black Sea/Mediterranean rate dropped arguably some ws 10-15 points, closing the week out with levels getting fixed around the ws 165-170. Come Monday we will be facing a number of prompt units in the region, but with the majority of these open in the West Mediterranean we could see a two-tier market opening between East and West Mediterranean load zones.

MR

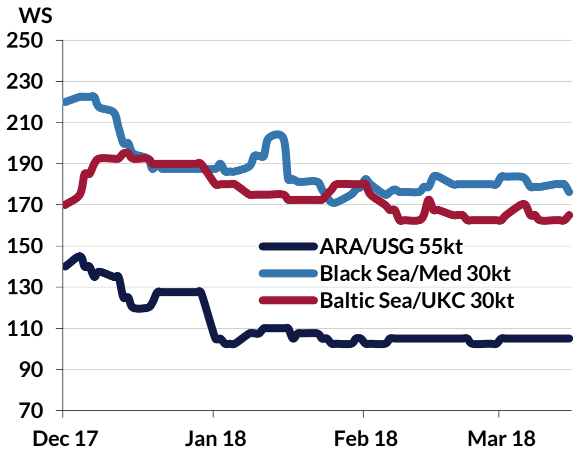
This week the North started off with the hangover of the negative rate correction seen last week. The region still lacks replenished positions, however, one Owner still sitting prompt (at the time of writing) will be keeping a close eye on the firming Handy market as 'Plan B', should natural sized enquiry remain steady. The lead time on the next full stem needs to be long enough to allow for ballasters into the region, but this will be on the forefront of the Owners mind who is naturally in the region.

MR's in the Mediterranean seem to have been subjected to the same conditions that operated within the surrounding Handy sector. Some initial enquiry was present in the early part of the week, however since then inactivity has afforded Charterers some time to re-evaluate their options. At the time of writing, realising there is an opportunity to claw back some value in fixing levels, next done is coming under negative pressure, as even part cargo opportunity evades for the most part.

Panamax

Fluctuations in fixing rates have proved a contentious topic of conversation this week, as no sooner Owners think they are making progress, they suddenly take a large step back with levels struggling to maintain treble digit value. In the continent, natural tonnage outweighs demand and herein lays the reason for such trend under which we operate. Looking ahead for forward predictions, with the US markets losing value the chances of Europe remaining in the doldrums increases, and adding to this backhaul tonnage hitting our lists, only with the transatlantic arb opening can we expect any change to trend across forward fixing windows.

Dirty Product Tanker Spot Rates



Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 15th	Mar 08th	Last Month	FFA Mar
TD3	VLCC	AG-Japan	**+1**	37	36	38	35
TD20	Suezmax	WAF-UKC	**-10**	59	69	55	63
TD7	Aframax	N.Sea-UKC	**-5**	95	100	90	98

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

			wk on wk change	Mar 15th	Mar 08th	Last Month	FFA Mar
TD3	VLCC	AG-Japan	**+1,250**	6,500	5,250	7,750	4,750
TD20	Suezmax	WAF-UKC	**-4,500**	8,750	13,250	7,250	10,500
TD7	Aframax	N.Sea-UKC	**-3,500**	500	4,000	-2,500	2,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 15th	Mar 08th	Last Month	FFA Mar
TC1	LR2	AG-Japan	**-8**	110	118	83	
TC2	MR - west	UKC-USAC	**+2**	127	126	156	135
TC5	LR1	AG-Japan	**-2**	113	115	108	112
TC7	MR - east	Singapore-EC Aus	**+7**	180	173	164	

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

			wk on wk change	Mar 15th	Mar 08th	Last Month	FFA Mar
TC1	LR2	AG-Japan	**-2,000**	13,250	15,250	5,000	
TC2	MR - west	UKC-USAC	**+250**	7,250	7,000	12,250	8,500
TC5	LR1	AG-Japan	**-250**	9,000	9,250	8,250	9,000
TC7	MR - east	Singapore-EC Aus	**+750**	12,750	12,000	10,250	

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

ClearView Bunker Price (Rotterdam HSFO 380)	**+7**	354	347	341
ClearView Bunker Price (Fujairah 380 HSFO)	**-6**	375	381	370
ClearView Bunker Price (Singapore 380 HSFO)	**+4**	373	369	368
ClearView Bunker Price (Rotterdam LSMGO)	**+4**	551	547	523

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