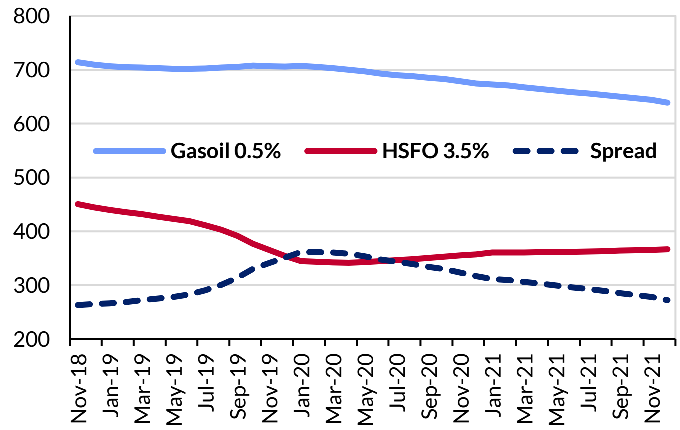
Beyond 2020

Weekly Tanker Market Report

Not so long ago, a lot of tanker and dry cargo owners had been fiercely opposed to the installation of exhaust gas cleaning technology. However, the attitude is rapidly starting to change. Following a surprise announcement by Frontline and DHT a few months ago to install scrubbers on their fleets, we have seen a notable increase in other owners committing to the installation as well. Last week DNV GL reported that over the past six months more than 1,000 scrubber systems (mainly retrofits) have been ordered across global merchant fleet, with the total number to date currently standing around 1,850 units for vessels fitted with scrubbers or have installations booked. The classification society also notes that hybrid systems are the most popular, due to possible restrictions over usage of open loop scrubbers.

The fact that scrubbers are becoming more and more popular is not surprising. There is a strong financial argument in favour of installation, on the basis of a short repayment period of the costs involved and prospects for additional savings thereafter. Of course, scrubber economics largely depend on the $/tonne spread between HSFO and the compliant 0.5% bunker fuel. There is an ongoing market debate at what level it will be in 2020, with the estimates ranging from $200/tonne to $450/tonne. If the forward prices are used as an indication of the future spread, the difference in swap contracts for high sulphur fuel oil vs 0.1% sulphur gasoil basis FOB ARA is currently trading just over $350/tonne for the 1st quarter 2020. However, over time the spread is expected to decline as refiners' ability to produce compliant bunker fuels increases. As such, early adopters of the technology will benefit the most both in terms of the shortest scrubber repayment period and the maximum additional savings once the costs are repaid.

Gasoil vs. HSFO ($/tonne) Forward Curve



In the tanker space, interest in scrubbers is most evident in the VLCC segment. Again, this is not surprising as VLCCs travel the longest distances and have the highest bunker consumption. As of now, nearly 20% of the existing VLCC fleet could be fitted with technology by 2020, if we are to count not only tankers where installation has been confirmed but also those where installation is planned and those which currently have "scrubber ready" status. There is also an element of the unknown. Although quite a few owners have confirmed installations on specific vessels; there are others which have only vaguely indicated that scrubbers will be installed on a number of vessels within their fleets. In addition, some deals could also have been done privately. As we move closer to 2020, we expect the size of the scrubber fitted fleet to increase. Further details of specific installations are likely to emerge. Likewise, as more scrubbers are confirmed to be fitted, owners that remain sceptical of the technology could come under pressure to follow suit in order not to find themselves at severe disadvantage versus the scrubber-equipped competition. For now, however, the biggest limiting factor is the capacity constraints: it is unrealistic to equip the whole global tanker fleet with the technology by January 2020. Yet, the situation could be very different in a few years after that. If the current trend continues, sooner or later the majority of the fleet could be scrubber fitted. At this point freight levels are likely be dictated by vessels operating with scrubbers on board, while the cost of installation will simply become just an extra expense, absorbed by the owner… Of course, for now this is just a hypothetical scenario. There are still plenty of owners who are not convinced, with HSFO bunker availability, risk of price spreads narrowing over time, environmental and future regulatory changes being amongst the key concerns. For those owners, it is still very much a "wait and see" approach. Only time will tell whether they have waited too long or adopted a prudent forward strategy.

Stop press: the latest announcement that Trump administration is seeking to slow down the IMO2020 implementation is yet another factor that needs to be considered by all parties involved.

Crude Oil

Middle East

A relatively slow week for VLCCs with fresh November programmes only gently introduced. Despite that, Owners continued to present a reasonably solid front with older units still holding at no lower than ws 70 to the East, and modern units toughing it out at around ws 80 to China. Next week will be key and Owners will hope that the cargo taps are opened as they were at the same time last month to provoke a sharp spike...Charterers may well have learnt their lesson, however...an interesting phase to come. Suezmaxes crept a little higher to 130,000mt by ws 100 to the East but rates to the West remained boxed in to little better than ws 35 as Owners showed a keen appetite to relocate to the steadily improving Mediterranean. Little early change likely. Aframaxes broadly held their recent gains at up to 80,000mt by ws 150 to Singapore and look set to give little ground under that over the coming period.

West Africa

Suezmaxes stalled upon their previously upward path as Charterers decided to withhold from chasing onto forward dates. That said, Owners remained ready, willing, and able to take advantage of any slip up, and will continue to threaten above the current 130,000mt by ws 100 UKCont/Med and ws 95 USGulf, so long as the Med market holds firm. Busier next week. VLCCs held ground on modest demand with rates against, or just under, ws 80 to the Far East with $4.05 million the last paid for a Nigeria/West Coast India run. Onward direction will be dictated by AGulf fortunes next week, with the odds being slightly weighted towards a small increase.

Mediterranean

Late week improvements seen for belatedly busier Aframaxes that found additional inspiration from increased Turkish Straits delays. 80,000mt by ws 115 X-Med now, and with an expectation of more to come over the next fixing phase too. Suezmaxes had already found a solid groove as Far Eastern demand continued to support, and local activity increased too. 140,000mt by ws 105+ from the Black Sea to European destinations, with up to $4 million payable to China. As things stand, the short term outlook is for more of the same - at least.

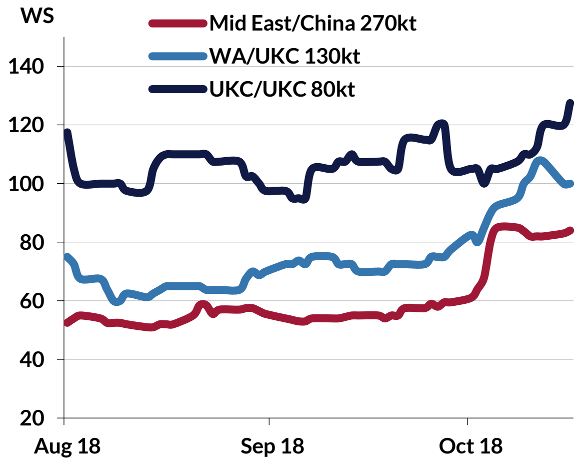
Caribbean

Aframaxes were bracing themselves for the usual retracement after last week’s gain but Charterers never gave themselves the chance and by piling cargoes into the marketplace allowed rates to re-spike to over 70,000mt by ws 200 upcoast, with Suezmaxes also coming to the party with up to $4.3 million seen from the USGulf to Singapore, and ws 110 transatlantic. Things should stay firm/very firm for a little while, but any slowdown would quickly impact. VLCCs remained very finely balanced with large swings seen upon date-range needs. In the end $6.75 million from the USGulf to Singapore became the default rate but moving forward that could be left behind again if the AGulf turns, and the supply of potential Eastern ballasters dries up.

North Sea

Aframax Charterers failed to keep their hands out of the market and last week's uptick was then converted into something more meaningful, as rates inflated to 80,000mt by ws 137.5 X-UKCont, and to 100,000mt by ws 125 from the Baltic and there could be further gains if the pace is maintained into next week. VLCCs are in thin supply and USGulf/Caribbean optionality also supports Owners rate stance. Crude oil from Hound Point to South Korea moves at no less than $6.8 million with over $5 million still asked for fuel oil from Rotterdam to Singapore, though traders are finding it tough to make those economics work at the moment.

Crude Tanker Spot Rates



Clean Products

East

LR2s have been relatively active this week, however, even with activity, TC1 has struggled to get above last done levels, 75 x ws 100 appears to have been set in stone this week. Cargoes heading West have come under pressure and have negatively corrected, with rates sitting around the $1.675 million mark. With a healthy number of ships still keen to reposition, West levels should hold for now. During the week Owners have been trying to push TC1 but similar to westbound jet movements, it is unlikely to see a positive rise just yet. The LR1s have also seen a healthy level of activity; however, the sentiment on the whole has been flat. TC5 sits a 55 x ws 130 and jet West hovers around the $1.4 million level. The front end has cleared out nicely for the Owners but, with open cargo falling on more forward dates, there is enough open tonnage to cover. For now, the sentiment holds flat and unlikely to see a push on rates in the short term.

On the whole the MRs have been pretty quiet this week. There was a brief flurry of activity mid-week; however, it never really came to anything. EAF floats around the 35 x ws 120 mark and TC12 corrected to 35 x ws 120. Similar to the larger ships, there are still quite a few ships willing to head West. Rates have gently pushed and close the week at $995k. Short cargoes also saw a very soft push, with X-AGulf at $135k and cargoes into the Red Sea at $350k. The tonnage list isn't overly tight and, with a handful of open cargoes going into the weekend, assess the sentiment is going to hold flat for the time being.

Mediterranean

A sense of equilibrium has been reached in the Med market this week, with 30 x ws 152.5 trading consistently throughout. Cargo enquiry has been strong, which has clipped away the tonnage at the front end of the list and left a balanced market. At the time of writing, however, outstanding stems have been dwindled down, which has meant pressure is mounting on Owners. Come Monday, unless an uptick of enquiry is seen, we could see South of last done. The Black Sea market has remained inflated in comparison to X-Med, with a tight East Med and Black Sea market off stems up to around the 26th, meaning rates have traded at the 37 x ws 175 mark throughout the week. In a similar way to the Med market, pressure is beginning to build on Black Sea rates for stems towards end month dates, with tonnage better supplied.

MRs in the Med have had a slow week, with enquiry ticking along as tonnage is readily available. With that in mind, it was not a surprise for rates to follow a similar path to the Continent, with transatlantic slipping from 37 x ws 135 down to high ws 120s now. WAF has seen a few stems appear and consistently picked off at ws 140 and AGulf moves are limited, with the only real test early in the week at $875k. Suspect this to slip in line with the softened sector. Pushing ahead, enquiry levels will need to improve to give Owners chances to regain a grip on fixing rates. However, longhaul runs will give an outlet as prorated rates look attractive for Charterers compared to Handy fixings at 30kt.

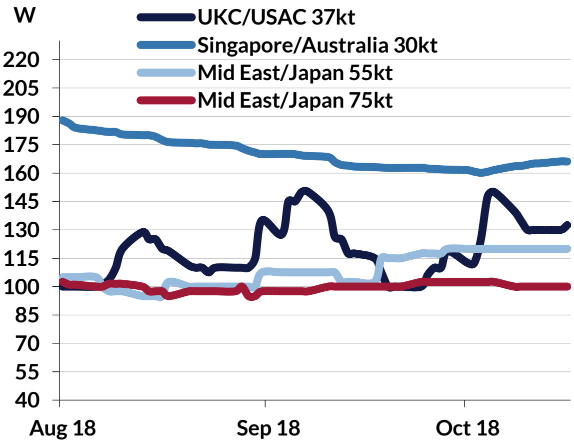
UK Continent

MR Owners in NWE will feel a little bit like this was the week, that never was. The strong USGulf market drawing tonnage away from European shores meant there was some sense off bullishness early in the week; however, in reality enquiry has been slow as poor gasoline crack spread has been uninspiring for trading opportunities. As a result, only system BBLS have been moved meaning 37 x ws 130 was maintained for the majority of the week on TC2. However, with the situation persisting, by Thursday 37 x ws 127.5 was put on and by Friday nothing North of 37 x ws 125 seems to be on offer. WAF enquiry has been relatively slow, also meaning rates have slipped back to hover ws +10 over TC2. Shorthaul routes haven't offered much more and are becoming attractive to Owners as the longhaul routes lose their value. Looking to next week, rates should hold in the early part due to the lack of ballast units. If November dates start working early and Owners play their cards wisely, they could swing the sentiment on its head.

Not the most thrilling week for Handies up in the Continent, as slower enquiry has resulted in freight rates softening. With a number of vessels being fixed for X-Continent voyages last week, the tonnage list was in Charterers' favour. At the time of writing, the market has settled at 30 x ws 155 for Baltic liftings and 30 x ws 145 for Continent. MRs have also been proving to be a thorn in the side for Handy owners this week, with a few 30kt stems being preferred on the bigger ships. Charterers in the driving seat here, with Owners expected to remain on the back foot.

Flexis suffer another slow week, with rates being mainly defined by the larger Handy numbers. COA moves keep certain vessels on the move but, with the limited market activity the true strength of this market is masked. For now, we continue to trade in the shadows of the Handies, which limits any rate movements. Rates on offer continue to vary quite dramatically, depending on the Owner in question.

Clean Product Tanker Spot Rates



Dirty Products

Handy

Starting any week with a short position list is bound to create activity and, with end month programmes starting Monday's conversations, NWEs green shoots led us into a much more active week. This week we saw a climb of ws 15 points, with Baltic cargoes fixing at ws 170. From this platform, one Owner was able to push one fixture to a reported ws 177.5; in addition, two Charterers were struggling to cover at the back end of the week. The week ended with a trimmed position list that will give Owners a firm sentiment leading into the weekend.

With the Mediterranean starting relatively slowly this week, the positive sentiment that has built in the initial few days took a negative shift. This led to a small drop in rates in the week's early activity. However, with the Black Sea rebounding by mid-week, a further decline was quickly halted, with X-Med holding at ws 200 levels and Black Sea at ws 210. Despite finishing this week ws 20 points below where we finished week 41, Owners may be expecting rates to hold, hoping the opposing position lists even out.

MR

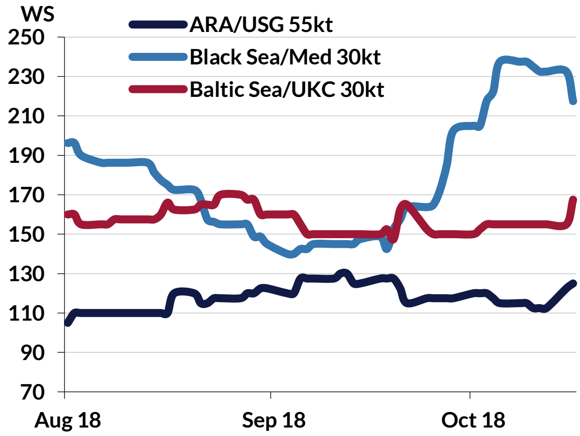
The continent was a week of two halves, where Monday opening showed a tonnage list burdened by spot units and not a peep of MR enquiry to match. This said from a Charterers perspective moving early was a wise move as some of the sharpest numbers to be fixed in this region where on offer. Past mid-week, however, the MRs received a welcome boost from the surrounding Aframax and Handy sectors, where alternate parcel sizes had to be explored and problems covering stems started to creep in. As a result, the week is now looking rather more positive at close, with ws 130 level a target price that holds potential to be improved upon.

In the Med, conditions fared rather less favourably as far as sentiment is concerned, although for once this need not be the storyline to remember. Still plump from recent proceedings, the discounts given this week still saw numbers trading only down into the ws 140s. For this reason the mood hasn't soured too much from a slower weeks trading.

Panamax

It was proceedings in the US that drove sentiment in the Panamax sector this week, as Monday through Friday saw volatility stretch some ws +50 points on the benchmark Caribs/USGulf run. Surrounding larger sizes also played their part, where Charterers have been afforded few alternatives than to grab onto the most competitive units they had in hand and move onto the next problem. All the while increment was subsequently leveraged onto the next Charterer covering a similar position. Going into next week, with Europe still playing catch up with the US, we can expect Owners ideas to remain bullish.

Dirty Product Tanker Spot Rates



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 18th	Oct 11th	Last Month	FFA Q4
TD3C	VLCC	AG-China	+1	83	82	55	80
TD20	Suezmax	WAF-UKC	-5	100	106	73	99
TD7	Aframax	N.Sea-UKC	+19	133	115	108	115

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

			wk on wk change	Oct 18th	Oct 11th	Last Month	FFA Q4
TD3C	VLCC	AG-China	+3,000	40,000	37,000	14,500	37,250
TD20	Suezmax	WAF-UKC	-2,000	22,500	24,500	11,500	22,000
TD7	Aframax	N.Sea-UKC	+12,000	24,000	12,000	7,750	12,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 18th	Oct 11th	Last Month	FFA Q4
TC1	LR2	AG-Japan	+0	100	100	100	
TC2	MR - west	UKC-USAC	-3	127	131	121	144
TC5	LR1	AG-Japan	+6	129	123	103	122
TC7	MR - east	Singapore-EC Aus	+2	167	165	164	

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

			wk on wk change	Oct 18th	Oct 11th	Last Month	FFA Q4
TC1	LR2	AG-Japan	+1,000	4,750	3,750	5,500	
TC2	MR - west	UKC-USAC	-250	4,500	4,750	4,250	7,250
TC5	LR1	AG-Japan	+1,500	8,250	6,750	4,250	7,250
TC7	MR - east	Singapore-EC Aus	+250	6,500	6,250	7,000	

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

ClearView Bunker Price (Rotterdam HSFO 380)	-12	461	473	431
ClearView Bunker Price (Fujairah 380 HSFO)	-18	501	519	480
ClearView Bunker Price (Singapore 380 HSFO)	-5	503	508	475
ClearView Bunker Price (Rotterdam LSMGO)	-9	684	693	655

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