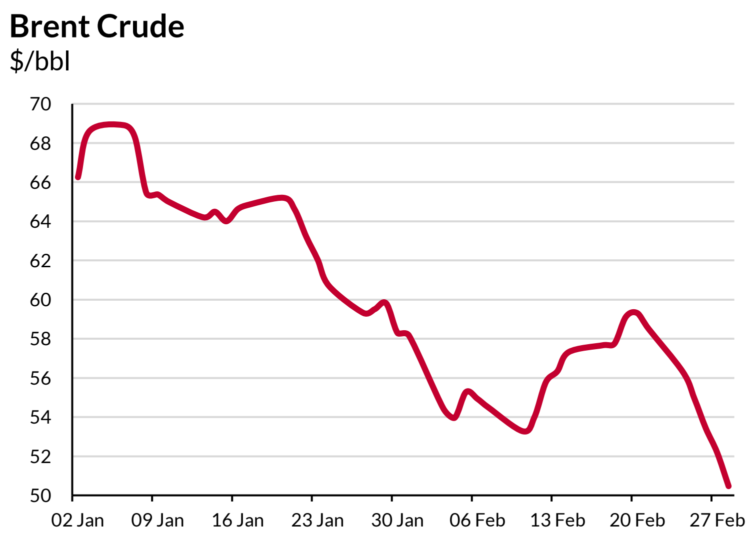
Too Little, Too Late?

Weekly Tanker Market Report

Much has already been said about the impact of Coronavirus on the oil and tanker markets. Chinese refineries have dramatically reduced refining runs in February, while crude imports into the country have also moved to noticeably lower levels. At the same time, expectations have been revised down for growth in world oil demand. In its latest monthly outlook released on 13 February, the IEA said that global oil consumption is to fall by 435 kb/d year-on-year in the 1st quarter of this year, the first quarterly contraction in more than 10 years. Although the expectations remained for a strong rebound in demand in 2Q20 and 3Q20 (with a quarterly growth at 1.5 and 1.6 million b/d year-on-year respectively), on an annual average basis gains in world oil consumption were revised down to just 0.8 million b/d, its lowest level since 2010.

Just over two weeks have passed since the IEA's report, but the situation has changed dramatically since then. Unprecedented efforts by China to fight Covid-19 outbreak appear to be effective, with the number of new confirmed cases according to official figures showing a steady decline over the past week or so. As a result, attempts have been made for at least partial resumption of work, leading to some optimism that the hit to oil demand will be short-lived. However, the accelerating spread of the virus in a number of other countries, most notably in South Korea, Italy and Iran renewed the fears of the global pandemic and its inevitable impact on global economy and oil demand. Earlier this week, energy consultancy FGE has forecasted that growth in world oil demand could essentially be zero, with this bearish projection taking into account the fact that Coronavirus has now spread to several countries beyond China.

As a result, oil prices have continued to slide, down to their lowest level in more than a year. Potentially, lower prices could hurt US shale industry and limit growth in US crude production and exports. Yet, many US producers have hedged at least partially their output for 2020 and as such gains in US crude production this year are still expected to be quite healthy, at around 0.95 million b/d. Elsewhere, Norway's output is also projected to rise by nearly 400,000 b/d year-on-year, while Brazilian production is expected to see a 300,000 b/d gain. Overall, this suggests that, non-OPEC crude production (excluding OPEC+ countries) is projected to increase substantially this year, well above any potential increases in world oil demand.



Against this backdrop, it comes as no surprise that OPEC technical committee recommended to extend existing production cuts until the end of the year and to cut by a further 600,000 b/d in the 2nd quarter, despite ongoing production outages in Libya. The final decision is expected next week, when OPEC+ meets in Vienna on 5-6 March. It is notoriously difficult to predict OPEC+ production policy, but even if a decision is made to cut production further by a recommended amount, the latest developments suggest that it may well be too little too late. Saudi Arabia is already considering a deeper cut, with Reuters reports emerging today that the country will reduce its crude supplies to China by at least 500,000 b/d in March.

Crude Oil

Middle East

VLCC levels have started to move steadily North here as Charterers continued working on 1st decade positions, which has depleted availability and provided Owners with a good platform to structure a recovery. Rates are not aggressively spiking so Owners will be hoping that levels will slowly strengthen, enabling them to continue this upward momentum for the duration, rather than just a short term spike. Current levels for a modern vessel to the Far East is 270,000mt x ws 49, with estimated levels West in the high ws 20's - low ws 30's on 280,000mt. An active week for the Suezmax sector but due to an abundance of tonnage rates have further softened to 140,000mt x ws 27.5 for UKCont/Med and 130,000mt x ws 72.5 East. A very disappointing week for Aframax Owners in the AGulf. Rates have quickly slipped back down from 80,000mt x ws 120 for AGulf/East to 80,000mt x ws 102.5. Rates will remain subdued at this level in the early stages of next week as availability will ensure levels remain deflated.

West Africa

An uneventful week for Suezmaxes. Owners have seen just enough activity to maintain current levels, which remain at 130,000mt x ws 77.5 for Europe and ws 90 to the East. VLCC Eastern ballasters cast more of an eye towards the AGulf region as that market picks up and it will need further premiums here if they are to entice Owners to lock in for the longer voyage. Rates currently remain in parity to the AGulf, with last done at 260,000mt x ws49 for Far Eastern destinations.

Mediterranean

A more positive week in the Med and Black Sea market as Aframax rates have pushed up slightly due to the reduction of tonnage in the area, as many have ballasted out to the perceived greener pastures in the USGulf. Those Owners that timed this right have reaped the rewards of solid front-haul earnings for USGulf exports to the Med and UKCont. Those who were late to the party have had to endure a slip in rates as tonnage has built up in the area. There is no sign of Libya returning in the short term and Owners are wary of missing their dates. We see rates holding sideways into next week. A particularly quiet week for Suezmax tonnage and we close the week with levels of 140,000mt x ws 70 being paid for X-Mediterranean and $2.6 million for Novo/East Coast India. With an abundance of available tonnage, it is looking likely that rates will soften further going into next week.

US Gulf/Latin America

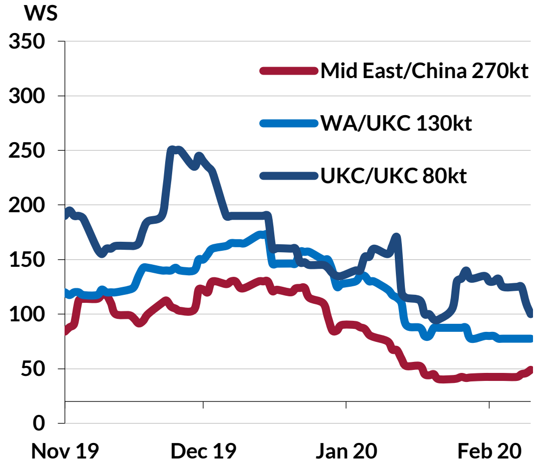
Similar to last week, Aframax availability at the start of the week was limited due to weather delays ensuring levels remained healthy. Unfortunately for Owners, the weather cleared freeing up a number of ships, ensuring rates have fallen on a daily basis since. Current levels for a Caribs/USGulf run are 70,000mt x ws 135. VLCC levels have held at around $5.5million for a US Gulf to

Singapore run. However, Owners will be hoping that, with increases seen in the East and in WAF, this may start to restrict the flow of Eastern ballasters to the region providing an opportunity to start pushing levels on.

North Sea

Further testing this week for Northern Aframaxes as a combination of vessels arriving from other markets, coupled with muted activity, applied downward pressure to the markets. X-North Sea is now trading around the 80 x ws 100 level and Baltic 100 x ws 80. Looking ahead it seems unlikely that there will be much positive change in this in the near term. The list of vessels holds plenty of options, allowing Charterers to cherry pick and explore various longer options, which plenty of Owners are now willing to entertain. A few questions have been asked about the Eastern arb, but this seems unlikely to make much sense on Aframaxes at the moment. Owners' optimism is low but it feels like we can't be far from the floor now. Like the week before, VLCC levels to Far Eastern destinations remain in the low $6million levels against muted interest, although if we see an uptick in levels from the US Gulf, we should expect to see similar rises here.

Crude Tanker Spot Rates



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

Clean Products

East

Having seen a pretty quiet week for the MRs a slight negative correction was expected. However, a last-minute surge of cargoes meant that rates just about held steady. The short hauls keep at $240k levels and will do as the LR1s continue to offer attractive alternatives. There remain some vulnerable ships in the natural fixing window – so last done is repeatable on most runs, given the current supply and demand picture. TC12 sits at 35 x ws 140 and runs into EAF at 35 x ws 157.5. The list is reasonably tight off the front and a flurry of cargoes early next week could see this market gain momentum and try to push. As such, smart Owners will be tentative to jump on anything too soon today, which could see a stale mate between owners and charterers at the end of this week.

This week was predicted to be the start of the Saudi refineries turning the taps back on. But this hasn't happened and in reality most rates have seen falls. 55,000mt naphtha AGulf/Japan saw it re-established at ws 100, some ws 10 points off. 65,000mt jet AGulf/UKCont is down to $1.65 million, but there may not be that many lefts of the more competitive ships remaining. Short hauls have been busier later in the week and rates are now holding. LR2s have seen very small volume. 75,000mt naphtha AGulf/Japan is hovering around ws 95 but could see less done. 90,000mt jet AGulf/UKCont is untested for good cubic tonnage and Owners conversely have actually upped their ambitions on the anticipation of higher Saudi volumes. For now it is around $2.3 million but could see rapid movement next week, depending how we start the week.

Mediterranean

IP week was always going to have a slight effect on proceedings in the Med this week, with various people travelling. With supply outweighing demand, this led to a softening seen for vanilla X-Med runs in midweek. Ws 10 points has been shaved off Med rates throughout the week, with 30 x ws 172.5-175 now the going rate ex West, with a handful more points achievable as you move further East. At the time of writing, however, a healthy list of outstanding cargoes are there to cover and this, coupled with dodgy weather around E-Med over the weekend, could move Owners onto the front foot come Monday. Black Sea rates have consistently traded around the 30 x ws 205 mark this week, with the market looking fairly balanced. However, with the softening seen in the Med, a negative test was due and at the time of writing 30 x ws 200 is on subs. Owners will be hoping to enter week 10 on the front foot given Friday activity; however, the likelihood is for rates to remain stable for the time being.

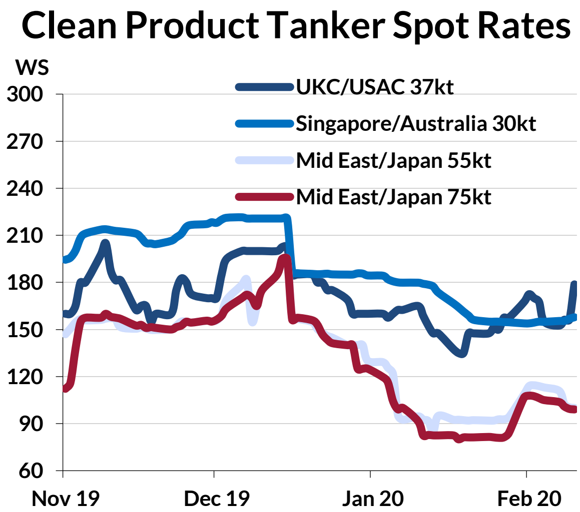
Finally we arrive to the MRs in the Mediterranean, where unlike the UKCont, we saw little activity across the board and no real opportunity for either party to make up ground. At the end of the week the benefit for Owners is the large jump in rates seen in the Continent. A fresh test for this Med market should see similar values being offered and, with many ballasters heading North, expect Owners to achieve these rates. Owners will be bullish heading into week 10 and rightly so, with the positivity seen across Europe.

UK Continent

Even the most optimistic of Owners would have had problems believing we would be ending this week so far ahead of where it began. With IP week in London and plenty of negative reports surrounding global fears related to Covid-19, we were more likely to see further softening. However, quite the opposite has happened. The TC2 arb appeared to be open to some, coupled with plenty of system barrels hitting the market off the first decade in addition. Further support came from WAF enquiry being at its busiest for some time and, with LRs not there to spoil the party, rates have moved up to an eye watering 37 ws x215. TC2 last done was 37 x ws 177.5 but on the back of WAF moving up to the next level, next done should see further significant improvement.

Overall, both parties will be content with their week's work for Handies up in the North. A slight dip on rates was seen early in the week but Owners have managed to do a good job and hold the line at 30 x ws 180 for Baltic/UKCont. The Continent has actually offered very little in terms of fixing opportunities and levels have once again been drawn from the Baltic , with 30 x ws 170 a fair benchmark. With big gains being seen on the MRs, looking ahead Owners will be hoping that this positive sentiment will trickle down onto the Handies and give them a chance to push come next week.

It's been a quiet week in the Flexi market, with slow levels of activity and little to report in the way of fixtures. As a result, ideas will likely fall in line with the UKCont Handy market, which after the start of the week's drop in rates, has begun to flatten out. 22 x ws 215-220 is today's call for a X-UKCont voyage. Heading into next week, Owners will be hoping for an increase in cargo activity to try and inject some life into this currently quiet market.



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

Dirty Products

Handy

The Handy market in the North continued this week as it finished last, with a tight tonnage list and firm sentiment. This said, since gains were seen in the market, it has been noticeable that cargo volumes have fallen back curtailing further increment. It could also be argued that a replacement number of ws 247.5 sparked the initial push, and due to the date sensitivity any relief from Med ballasters was not viable. Looking ahead, similar patterns are likely to frequent where long haul options are being utilised on deals recently fixed.

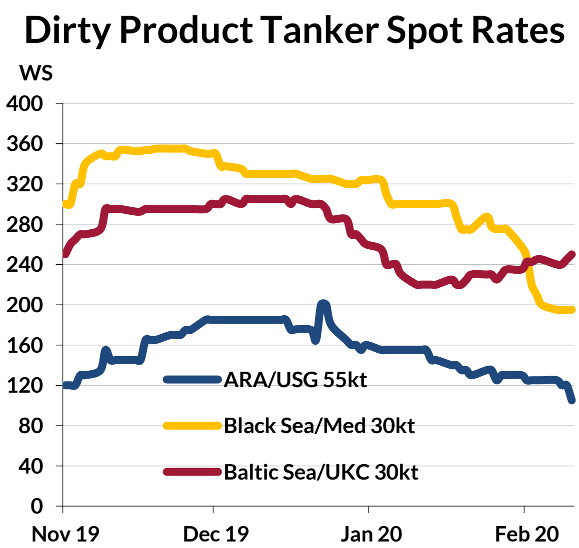
The Handy market in the Med has suffered once again, with an oversupply of tonnage illustrated by Monday's list not making a pretty picture. As for rates, levels have been somewhat mixed, with market quoted cargoes kicking off the initial challenges to Owners resolve. Eventually new benchmarks had been set, with ws 185 for X-Med being repeated thereafter. All things considered; this is not a bad response from a sector frequented with spot tonnage. Further testing is needed, however. With Owners willing to ballast up to the continent, question marks are placed on the long-term belief in this region.

MR

In both the Med and the Continent the theme tune being rolled out was dictated by the surrounding Handy markets rather than the merit of actual MR performance. In the Med, where Handies are soft, one Owner decided to display the white flag of surrender from their office windows for all to see. Even now questions present over whether such numbers are even repeatable. In the Continent, however, the tone is rather more upbeat. Although there has been an absence in activity, we aren't expecting such large drops as seen in the Med.

Panamax

In order to analyse and understand what exactly has happened this week we need to look at the prolonged underperformance in the surrounding Aframax sector. For a number of weeks Aframaxes have been Charterers first choice for a transatlantic move, where in the Med 80 x ws 65 can be booked and you wouldn't have to pay a whole lot more for a ship ex UKCont either. Let's then make it a "like for like", where we add some costs for heat incorporated in as standard on the Panamaxes (suggest ws +5 points), on a pro rate we start to now make sense of why such decline has occurred this week.



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

GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 27th	Feb 20th	Last Month*	FFA Feb/Mar
TD3C	VLCC	AG-China	**+5**	48	43	59	47
TD20	Suezmax	WAF-UKC	**-1**	77	78	106	77
TD7	Aframax	N.Sea-UKC	**-29**	104	133	119	122

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

			wk on wk change	Feb 27th	Feb 20th	Last Month*	FFA Feb/Mar
TD3C	VLCC	AG-China	**+11,250**	30,250	19,000	36,250	28,750
TD20	Suezmax	WAF-UKC	**+6,750**	29,500	22,750	40,000	29,250
TD7	Aframax	N.Sea-UKC	**-20,250**	20,250	40,500	31,500	32,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Feb 27th	Feb 20th	Last Month*	FFA Feb/Mar
TC1	LR2	AG-Japan	**-7**	99	106	83	
TC2	MR - west	UKC-USAC	**+14**	178	164	148	164
TC5	LR1	AG-Japan	**-14**	100	114	92	103
TC7	MR - east	Singapore-EC Aus	**+3**	158	155	177	163

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

			wk on wk change	Feb 27th	Feb 20th	Last Month*	FFA Feb/Mar
TC1	LR2	AG-Japan	**-500**	18,000	18,500	7,500	
TC2	MR - west	UKC-USAC	**+5,000**	23,500	18,500	14,250	20,500
TC5	LR1	AG-Japan	**-2,250**	12,000	14,250	6,500	12,750
TC7	MR - east	Singapore-EC Aus	**+2,000**	15,250	13,250	16,000	16,250

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

ClearView Bunker Price (Rotterdam VLSFO)	**-80**	381	461	466
ClearView Bunker Price (Fujairah VLSFO)	**-71**	429	500	573
ClearView Bunker Price (Singapore VLSFO)	**-60**	449	509	583
ClearView Bunker Price (Rotterdam LSMGO)	**-69**	431	500	483

* WS spot rates converted into 2020 WS100

www.gibsons.co.uk

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 1404, 14/f,
Allied Kajima Building
No. 138 Gloucester Road
Wan Chai, Hong Kong

T (852) 2511 8919
F (852) 2511 8910

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