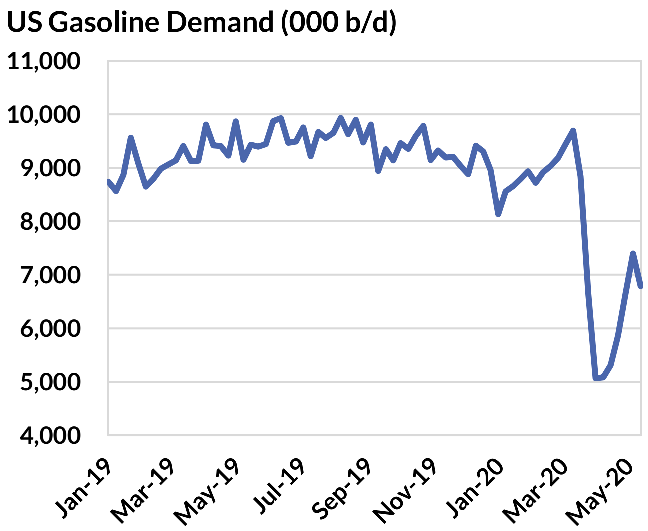
The Road to Recovery?

Weekly Tanker Market Report

In recent weeks, much of the focus in the oil markets has been on the supply side, be it through OPEC+ production cuts, rapidly falling US output or massive refinery run cuts. However, increasingly signs are now pointing to a tentative, albeit fragile demand recovery. The world is still expected to see its largest ever demand contraction, yet, from a more granular level, across the world, positive signs are emerging in many key regions.

China has been ahead of the curve in terms of its demand recovery. Refinery activity increased to 13.16mbd last month, almost identical to April 2019 levels, although much of what is being produced may be exported/stored. Elsewhere in the East, the Indian government expects demand to recover to 80% of normal levels by the end of the month, from around 60% now. However, mobility data has indicated notably lower driving levels. Elsewhere, Japan and Korea recently reported demand levels of 70%. Further south, Malaysia and Thailand have both scaled back lockdown measures, supporting regional fuel demand.



In the United States, government data shows gasoline demand is steadily recovering, and despite a slight dip last week, has rebounded to about 70% of where it should be for this time of year. Interestingly, demand for jet fuel almost doubled last week but is still only 42% of the levels seen this time last year. Reports from the United Kingdom also showed an increase in gasoline demand, with the UK Petroleum Industry Association reporting that demand had increased to around 55-60% of typical levels versus just 30-35% earlier in the lockdown. Elsewhere in Europe, similar trends are being observed.

At a global level, the importance of aviation demand cannot be ignored. Air traffic is increasing in China, whilst flights will gradually resume in India from next week. Elsewhere, airlines including Qantas, JetStar, AirAsia, EasyJet, Vietnam Airlines and Air New Zealand have all announced plans to increase flights over the coming weeks, albeit mostly focused on domestic or short haul routes. However, despite these positive developments, the International Air Transport Association is warning that demand might not return to 2019 levels until 2023-24. Last year, jet fuel accounted for 8% of oil consumption, highlighting its importance in the overall oil market recovery.

Despite these positive developments, parts of the world are still grappling with high infection rates. Latin America and Russia are clearly areas for concern. Brazil has overtaken the United Kingdom to become the 3rd worst affected country and could be forced to implement stricter containment measures, even against political pressure. Given how important the region is as an export outlet for US refined product, there are wider implications for the overall product tanker market if the virus continues to spread across Latin America. If US refiners do not see demand recovering south of the border, they will either need to maintain run rates at lower levels or push more product to the domestic markets, either way the outcome isn't great for the clean tanker market.

Uncertainty will remain elevated in the months ahead. A second wave and increased containment measures cannot be ruled out. The bottom line is that until there is a return to normality in the world, demand can only recover so much. However, given how good the tanker party was just a few weeks ago, should we really be surprised to find ourselves with such a big hangover?

Crude Oil

Middle East

Despite fresh June programmes being in hand, VLCCs endured a week of stuttering enquiry and 'healthy' competition to draw rates further downwards to just under ws 50 for long East, with runs to the West marked into the high ws 20's via Cape. Delays do persist, however, and there are Atlantic alternatives, so Owners will have a couple of straws to cling onto for next week's campaign. Suezmaxes limped along with underwhelming demand meeting still easy supply and some Owners are upping sticks to ballast west in defence. Rates flatline at ws 75 to the East and at down to ws 35 for popular movements to the west. Very slow for Aframaxes and although early dates remain quite tight, Owners are likely to be tested harder next week, with the current 80,000mt by ws 120 level to Singapore likely to come under pressure next week.

West Africa

The good news for Suezmax Owners is that rates seem to have effectively bottomed, the bad news is that barring something very unexpected, any short term rebound is most unlikely. rates have now been ground down to 130,000mt by ws 70 to Europe and to ws 75 to the East, with perhaps even lower levels possible for the latter into next week. VLCCs enjoyed a more active phase than of late, which initially allowed rates to keep steady within a ws 55/57.5 range to the Far East, although the later week slide in AGulf rates does now threaten discounting.

Mediterranean

Already soggy Aframaxes got another soaking as availability swamped demand and rates slid accordingly to 80,000mt by ws 80 X-Med and to ws 85 from the Black Sea too. This will take a while to dry out. Suezmaxes were steadily picked off through the week but it wasn't enough to prevent an early easing to 140,000mt by ws 72.5 from the Black Sea to European destinations, and a more marked shift to $3.3 million to China. If the overhang of units in the East Med gets pruned, some reflation could then be possible, but that will take a little time yet.

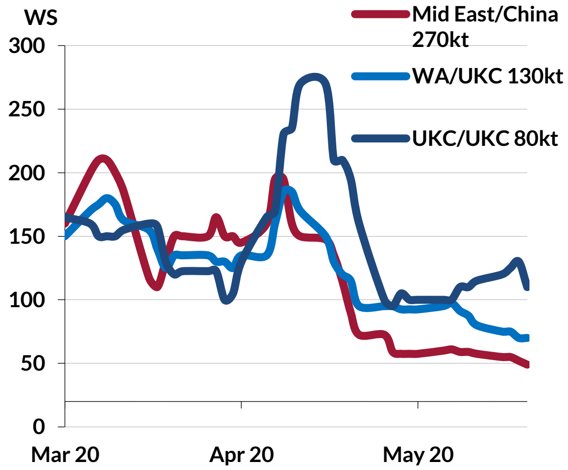
US Gulf/Latin America

Aframaxes found it increasingly challenging day by day, and by the week's end had shed around 50 ws points both Upcoast and transatlantic to end at 70,000mt by ws 90 and solid bargain hunting will be required to quickly rebalance. VLCCs had become busier last week as naturally positioned units shifted rates into more tradable territory, and this week proved equally as active but the steady competition handicapped Owners' efforts and rates eased off a little further to $5.75 million to China/South Korea, although further discounting may be more problematic for Charterers to achieve.

North Sea

A bright restart for Aframaxes but thereafter it was a reverse situation as demand faded away and tonnage rebuilt. Rates softened to 80,000mt by ws 105 X-UKCont, and to 100,000mt by ws 90 from the Baltic and an even rockier ride likely for next week's races. VLCCs found more to do than of late and, with finite locally discharging resources, Charterers were arm-twisted into actually paying higher numbers with up to $6.4 million reported for crude oil to South Korea/China, although that is now likely to hold as the high tide mark over the next fixing phase.

Crude Tanker Spot Rates



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

Clean Products

East

Busy week for the MRs, we now look at a list, which is incredibly tight until June dates. So tight, in fact, that replacement MR stems have been forced down the LR1 route; ATC paying 60 x ws 150 sing on an original MR cargo, pressure now is on dist traders to find the extra barrels and avoid wasted dead space. Charterers' tactics have been obvious - approach Owners direct and hope that they are so flattered that they don't realise they are one of very few ships to make dates. We have therefore seen numerous ships fixed away "off market". The interest is to find out whether Owners realised their own value on these positions.

As we move into the long weekend and Eid, the talking point is how the list will change as we start to trade June dates. Vitol, for example, has quoted their 2-3 June Sikka stem today, the tactic here being to pad out their offer sheet with Singapore positions and trade down offers thereafter. In reality, the pressure on Charterers is to cover before the weekend, as the new week will leave them with natural AGulf positions only, which are fewer and far between. TC12 likely sits flat at 135 levels for now, Westbound circa $1.6 million (but why take MRs with LR2s at $2.7 million??). Shorthaul numbers depend on dates, LR1s could be kinder to Charterers than the few remaining MRs pre June.

Rates had to be reset dramatically this week, with some freight at 1/3 of what it had been 2 weeks earlier when last fixed. LR2s suffered most, with 75,000mt naphtha AGulf/Japan down to ws 150 from ws 500. 90,00mt jet AGulf/UKCont is now at $2.70 million, down from $8.0 million only 10 days prior. These rates are now stabilising. Despite a busier front end due to the MR fleet being sold out, LR1s also saw big corrections, with 65,000mt AGulf/UKCont down to $2.15 million (down from a peak of $5.3 million). TC5 was also a big mover, with 55,000mt naphtha AGulf/Japan now ws 170, off some 230 ws points. Exports are heavily reduced from the Middle East and so June is expected to see no improvements on either size.

Mediterranean

A very positive week all in all for the Owners in the Mediterranean, with rates firming ws 60 points throughout. Consistent enquiry from E-Med and cargoes starting to emerge from the Black Sea left end month dates with few options, and Owners were able to play their cards right. At the time of writing, 30 x ws 167.5 is the going rate for a vanilla X-Med stem, with likely ws +10 points higher ex Black Sea. However, with a handful of end month stems still to cover around E-Med/Black Sea, it wouldn't be surprising to see this market continue its upward trajectory. Yet, with the long weekend in sight, Tuesday will likely bring a replenished list, which will take the sting out the market; so, expect Owners to try and push for higher rates before the new fixing window is seen.

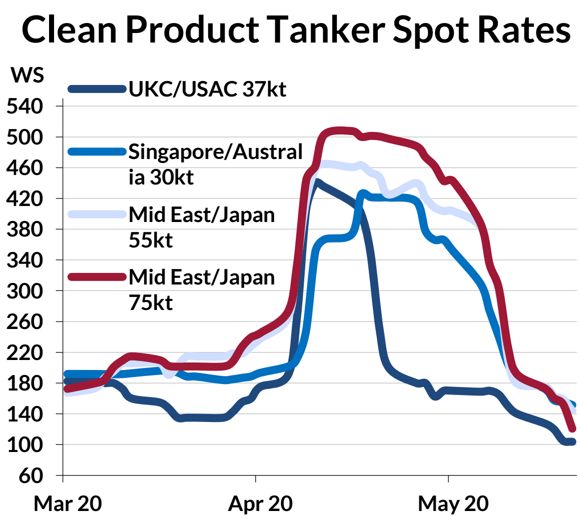
Finally, we reach the MRs here in the Mediterranean. Similar to the UKCont, Owners have felt the pressure at the beginning of the week and rates continued to slip further. Compared to recent weeks' enquiry, heading East was on the thin side but a little more WAF/Transatlantic stems were seen, which has kept tonnage turning over but never left a glut of prompt ships on our lists. By Friday we have reached 37 x ws 100 for transatlantic and ws 115 for WAF, which seems to be the floor, as a late fixture shows things could be bouncing back, with 37 x ws 110 is put on for Transatlantic. Enquiry levels early next week will be key, especially with a UK bank holiday on Monday, if Owners are going to be able to build off this.

UK Continent

The week has been largely dominated by falling rates as a lack of demand continued to cast its shadow across the market, despite the supply of ships remaining at relatively normal levels. TC2 has fallen down to 37 x ws 100 and WAF is down to 37 x ws 115, which represents about a ws 35-40 point drop from the beginning of the week. For the majority of the week the core TC2 and WAF runs have seen limited enquiry but the latter part of the week has seen some improvement along with some fresh demand for Asian destinations. Owners should be expecting current levels to now be the floor or very close to it. This should give Owners some hope that, along with improving sectors elsewhere, the post long weekend market could potentially offer some opportunity to regain some of the recently lost ground, if we see demand continue at the levels seen in the last 24 hours.

It's been a rather grim week for Owners plying their trade in this UKCont Handy market, with rates taking a tumble throughout. MRs have been the downfall of this Handy market as they continue to gobble up 30kt stems which has caused levels to drop around ws 25 points from where we began the week. At the time of writing, 30 x ws 130 is on subs X-UKCont, with next done ex Baltic expected to fall around the 30 x ws 140 mark. As we head into the long weekend, the tonnage available to Charterers is healthy. With enquiry currently on the slow side, this market remains under pressure.

Another quiet week passes by in this Flexi market, with very little to report in the way of fixtures and slow levels of enquiry throughout. With the UKCont Handy market coming under pressure all week and rates continuing to soften, the Flexis are expected to suffer the same fate. 22 x ws 170 remains the call for a X-UKCont voyage when next tested.



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Dirty Products

Handy

Prompt tonnage topped the list at the start of week 21 setting in motion an assumption that Owners may struggle to hold on to their hats if enquiry does not soak up the excess units. Fast forward a couple of days and fortunes favoured those pushing prompt tonnage as cargo enquiry started to chip away at the list, with several deals having options to leave the region. By mid-week repetition had been seen at ws152.5 for X-Cont. Despite a couple of anomalies, this level will see the week out. Going forward week 22 will start with a tighter list of marketed tonnage - seeing what is behind this will be key to where levels go next.

In the Med this week, the market has continued to soften as Monday's list presented a well-stocked outlook. Despite levels being tested against units that have been prompt for over a week, positives have been taken from the flow of enquiry seen from the Black Sea, which has, at the very least, chipped away at the top half of the list. Tonnage remains, however, and with levels firmly in the ws 140's for Black Sea, the cargo taps will have to remain on for Owners to hold on here. West Med units continue to build, though. With the prospect of the North reaching the bottom, this market may be a welcome reprieve for the cost of a short ballast.

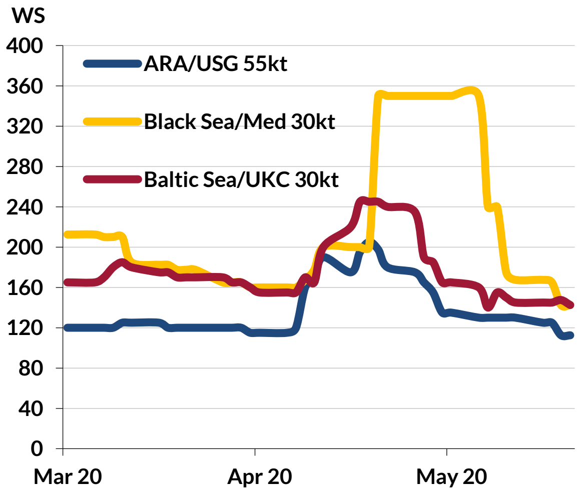
MR

In both the Med and Continent Owners' ambitions have been curtailed because of the effects from the sentiment adjustments being seen on the surrounding Handy markets. At least come Friday a degree of stability now lends itself to the MR sector. In the Continent units that were prompt have now largely been removed, with a slight recovery in fixing levels being seen. In the Med, which had suffered a correction, subsequent activity has restored a balance, which will see levels flatten off going forward.

Panamax

Week 21 has proven to be one to swiftly forget from an Owner's perspective as sentiment took a major setback as the markets buckled under the impact of limited activity. Furthermore, given the willingness of ships looking to exit the region, Charterers in Europe can now consider almost all US zones as options to lure ships away from when covering transatlantic runs. As a result, numbers this side have dropped, correcting down to ws 112.5. Further negative testing might now follow, if Charterers allow the lead time to make the arrival of ballasters count towards the supply.

Dirty Product Tanker Spot Rates



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GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 21st	May 14th	Last Month*	FFA Current Q
TD3C	VLCC	AG-China	**-9**	50	60	166	46
TD20	Suezmax	WAF-UKC	**-15**	72	87	182	66
TD7	Aframax	N.Sea-UKC	**-3**	112	115	239	104

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

			wk on wk change	May 21st	May 14th	Last Month*	FFA Current Q
TD3C	VLCC	AG-China	**-14,500**	43,000	57,500	193,750	36,250
TD20	Suezmax	WAF-UKC	**-11,750**	32,000	43,750	104,000	28,000
TD7	Aframax	N.Sea-UKC	**-4,250**	32,750	37,000	126,250	25,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 21st	May 14th	Last Month*	FFA Current Q
TC1	LR2	AG-Japan	**-106**	121	226	462	
TC2	MR - west	UKC-USAC	**-47**	103	150	433	119
TC5	LR1	AG-Japan	**-67**	144	211	458	119
TC7	MR - east	Singapore-EC Aus	**-53**	151	204	351	166

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

			wk on wk change	May 21st	May 14th	Last Month*	FFA Current Q
TC1	LR2	AG-Japan	**-40,750**	32,500	73,250	160,500	
TC2	MR - west	UKC-USAC	**-11,000**	11,750	22,750	79,750	14,500
TC5	LR1	AG-Japan	**-19,500**	29,000	48,500	115,500	22,250
TC7	MR - east	Singapore-EC Aus	**-11,000**	18,500	29,500	56,750	21,000

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

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