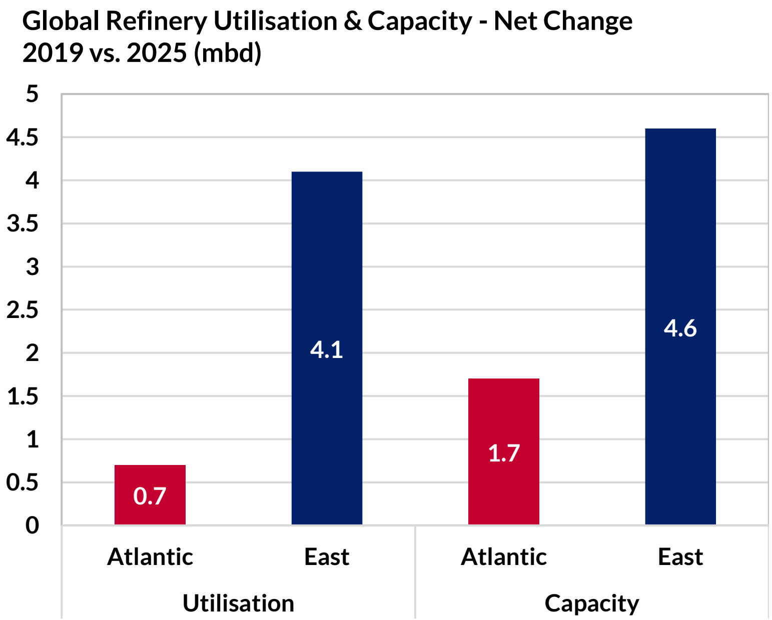
A Familiar Story

Weekly Tanker Market Report

Anyone who has worked in the tanker market for the last decade will be familiar with the story about the demise of old refineries in Europe in the face of stiff competition from newer, more efficient facilities in the East and the United States. Yet, in the last oil price crash (2014-2016), refineries in Europe had somewhat of a renaissance as lower prices boosted margins, and the story, which many product tanker owners used to beat the drum with investors, never fully materialised. Now, during the current price crash, the same old story has once again re-emerged – refinery rationalisation in Europe. But why, during this price crash, are analysts talking about the opposite outcome? Should this time really be any different?

Well, yes. The last oil price crash (2014-2016) was supply driven when OPEC and the United States engaged in a supply war. This price collapse has been demand driven. Looking ahead, it will be the evolution of demand, coupled with rising utilisation rates that will dictate global refining margins. In ordinary times, weaker margins might prompt renewed investment in plant upgrades, but given the scale of the financial shock across the energy space, the weakest refineries could finally throw in the towel. Many of these are in Europe (although not exclusively).



In the short term, there will be a delicate balance between regional refiners increasing runs in response to a rapidly evolving demand picture whilst also seeking to protect margins. To what level of utilisation refineries can sustain remains uncertain. Any increase in product prices in Europe will draw distillate cargoes from Middle East and United States, where stocks are at 10-year highs, keeping margins and utilisation under pressure.

Looking forward, over the next 5 years planned refinery capacity additions exceed demand growth. East of Suez, refinery capacity is expected to increase by 4.6mbd, whereas in the West, it is expected to increase by just 1.7mbd, with additions in Africa and the US accounting for most of the new capacity. However, despite rising capacity in the West, utilisation is expected to grow just 700kbd by 2025 (from 2019 levels), versus growth of 4.1mbd in the East. Quite simply, even with pre-Covid-19 demand projections, there is not enough room for everyone. Indeed, a recent forecast by consultancy IHSMarkit suggests that European plants could lose 2mbd of capacity over the next 5 years. This may seem aggressive, but with the competitive pressure increasing, at least some capacity will have to close or be repurposed. Less sophisticated refineries on the US East Coast may also be at risk.

Regardless of any potential rationalisation, Europe will remain a significant refining centre, with a large baseload of capacity to service local and export demand. Increasingly, however, it will find stronger competition both in domestic and overseas markets. Increased volumes of products from the East will support the tonne mile story, but this is likely to continue as an evolution, not a revolution.

Crude Oil

Middle East

VLCC Owners had hoped for a busy week to consolidate the gains of last week, but the pace disappointed and Charterers managed to then re-set the market back into a lower, interim, rate band with AGulf/Far East currently at little better than ws 55, and runs to the West slipping towards ws 30 via cape. Delays have kept lists from over building, and do support somewhat, but whilst production cuts continue to prune monthly volumes, there will be limited opportunity for Owners to stage much of a fightback anytime soon. Suezmaxes started slowly, and remained that way through the week. Owners felt the pressure and rates slipped nastily to as low as ws 55 to the East and into the low ws 20's West - effectively 'bottom', but where is the rescue to come from - some VLCC stem splitting may help just a little. Aframaxes continued upon their downward track to 80,000mt by ws 90 to Singapore and there remains a tonnage overhang to clear to stem further slippage too.

West Africa

Doom and gloom in the Suezmax camp - too many ships, not enough cargoes, and rates crumpled accordingly to around ws 55 to Europe and to sub ws 50 to the USGulf. Barring any large wave of bargain hunting, the pressure will remain on. VLCCs eased off a little but then kept to a fairly steady rate-line at up to ws 60 to the Far East although by the week's end, and No turnaround in the AGulf, Owners were bracing themselves for a more aggressive approach from Charterers upon the next first decade July fixing window.

Mediterranean

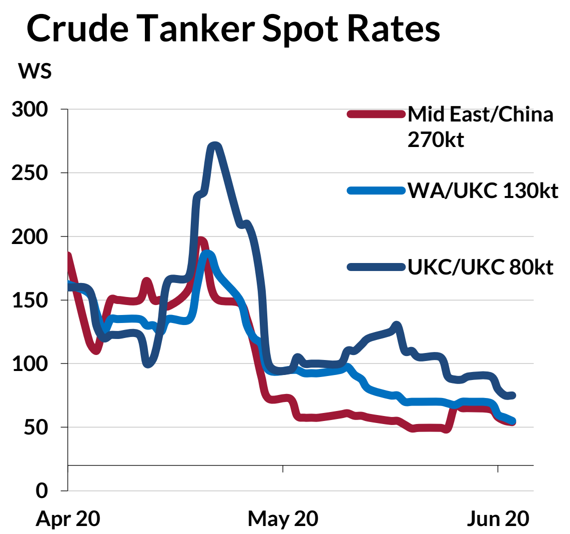
Rocky bottom feeding for Aframaxes to endure - day after day. 80,000mt by ws 60 X-Med has been hit, and any meaningful recovery will take a sustained spell of fixing - bad weather would be helpful! Suezmaxes kept to the wider weaker script. Even replacement needs were booked at lower levels than originally paid and there's nowhere to ballast away to either. Rates sagged to 140,000mt by ws 55 from the Black Sea to European destinations, with runs to China pegged at around $3 million.

US Gulf/Latin America

Horrible...Aframaxes crashed to ultimate lows at down to 70,000mt by ws 60 upcoast and even below ws 50 seen for a transatlantic run. It did then get a little busier, and bad weather is circling to give hopes of disruption benefit so some degree of improvement, at least, should be seen over the coming week. VLCCs started brightly and managed to push rates to a healthy $6.75 million level to Singapore before quietening late week. The wave of naturally positioned dischargers has been well trimmed, and bottom lines will now be supported by the market soon being 'made' by ballasters from the East, with their very different economics.

North Sea

A slack week for Aframaxes to match the malaise seen elsewhere. 80,000mt by ws 75 now X-UKCont, and 100,000mt by ws 55 from the Baltic, and it will take a while, and heavy interest, to pull the market up from here. VLCCs saw little but rate ideas remained positively influenced by USGulf/Caribs numbers and Charterers again faced ideas of up to $7 million for crude oil to South Korea/China. Perhaps some degree of discounting upon the next deals, but no big crash likely.



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

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Clean Products

East

The same theme shines through on the MRs going into the close of the week. If looked at it in isolation, the MRs list is not a terrible reading material. The problem continues to be the downward pressure from the larger sizes. Shorthauls will continue to be hotly contested between MRs and LR1s as we are seeing with Vitol into Pakistan. There remains a sufficient supply of cargoes over the next 10 days against a pretty balanced list. The real battle for charterers will be exploiting pockets on the list, where they can try to replicate the trends on the bigger ladies and strip back the individual of the segment.

Pretty self-explanatory here, especially when you take reference from the $1 3 million West and the Reliance naphtha deal capping Owners upside at ws 80. It will take a lot of work to sift through the rubble on the LR1s. Owners will hope that an increased availability of Shorthauls (natural MR stems) will go some of the way to keeping the list ticking over but something substantial is still required to make any sort of dent in an otherwise heavily imbalanced list in Charterers favour.

Not dissimilar to the MRs. Whilst they have had to absorb some inevitable corrections on the freight, the LR2s are benefiting from a steady supply of cargoes serving to keep Owners placated at these levels. The hope is that due to the nature of the LR2s and their tendency to work further forward, July cargoes will not be too far off the horizon, and Owners can put the carnage during June well and truly behind them.

Mediterranean

Quiet week all in all on the Handies, which has inevitably lead to a softening market. Rates started the week at the 30 x ws 150 mark. A combination of sluggish enquiry and healthy fixing window for tonnage has meant that at the time of writing, 30 x ws 130 is the going rate. Black Sea enquiry has remained slow and rates have been driven by Med sentiment, with a fresh negative test needed around the 30 x ws 140-145 mark. Monday will likely bring further pressure and Owners will be hoping for an influx of cargoes in order to try and find a modicum of stability.

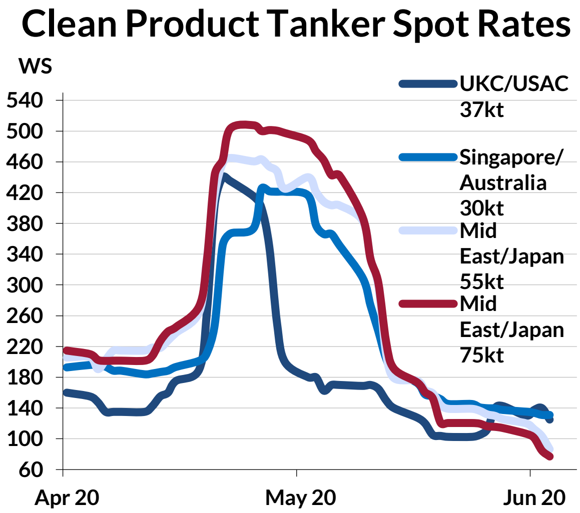
This MR Mediterranean market never really got a chance to get going this week, as a lack of enquiry has hampered Owners ambitions throughout. A small bounce back on Tuesday from Owners in the Continent was skipped here and rates never managed to climb much higher than 37 x ws 130 for transatlantic. With less now being seen ex North Spain, a fresh test should see the lower ws 125 being achieved. The quicker Owners can brush this week under the carpet the better, with the hope that some improved enquiry levels are on the cards in the not too distant future if rates are to be held here.

UK Continent

A topsy-turvy week for the MRs, which started with some positive numbers and a forward market that looked at least stable. However, this has then ended with an unexpected and big drop in rates. However, the list is still reasonably balanced, although the quieter second half of this week has certainly put some pressure on Owners with the lack of demand once again being the key downward feature. TC2 ends the week at 37 x ws 125 and WAF about 37 x ws 140 levels, but both are likely to see further pressure if demand doesn't recover quickly.

A week to forget for Handies plying their trade up in the North, as the combination of sluggish enquiry and a tonnage list plagued with available units for prompt and natural fixing dates has seen freight soften once again. Baltic liftings are now trading at 30 x ws 115 and, even though X-UKCont has seen improvements on volumes due to STS cargoes, it hasn't been enough to dent the tonnage list which should mean levels are negatively corrected to 30 x ws 105 when next tested again. Med discharge took a big hit too, with 30 x ws 85 going on subs later in the week. Charterers are in the driving seat here.

Flexi Owners have once again been influenced by Handies as fixing ideas come from pro-rated 30kt stems with a slight discount. Some fixtures though have been done behind the scenes and away from the prying eyes of the market, resulting in a few vessels disappearing quietly from our tonnage lists. Rates for X-UKCont end the week at 22 x ws 130-135.



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Dirty Products

Handy

The Handy sector in the North has seen little to get excited about as conference levels have been repeated and anomalies in rates largely ignored by the wider market. Activity has just about managed to keep the list of marketed tonnage ticking over. However, the week has ended with the trickle turning into a drip and tonnage expected to build, if this trend continues. With prompt tonnage showing today, going into week 24 ws 150 will be tested down by a few points should these units not see cargoes first thing Monday.

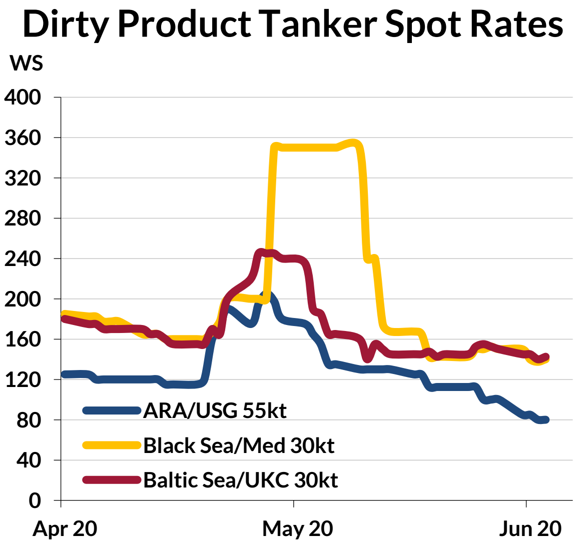
In the Med starting the week with the top of the position list being well stocked, prompt units have served to draw cargoes to the market, as both Med and Black Sea picked up early on. Despite a steady flow of activity, tonnage is only going to look balanced, if this trend continues as the opportunities for Charterers remain plentiful. As such, levels have been maintained at ws 130 x Med and ws 140 for Black Sea runs. Come Monday expect this trend to continue for the first day's trading, with opinion balanced as to who will hold the cards by the end of the week.

MR

Just like surrounding markets this sector has fallen short on delivering any reprieve for Owners looking to secure full size stem enquiry. The majority of the week has left Owners in the Med and NWE sectors with no other option apart from dipping their toes into the smaller Handy sector to find employment. The Black Sea has been the only market from which questions have come for natural size enquiry. Despite closing the week with two MRs on subs, it could be still said this is too little too late. If this business gets concluded, then all that has happened is a couple of the early units have been moved on but come next week we expect others to replenish the list.

Panamax

This week has seen a welcome return of activity on the Continent and, with a gap between last done and where the markets sat inevitable tests were going to happen. What followed was attributable to the Aframaxes, where a freighting formula dictates that on a pro rate basis Panamaxes are capped at what they can achieve. Levels of ws 55/80 have become the market and, even with such correction, Europe remains an attractive option for US tonnage where TCEs no longer cover Opex.



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	June 4th	May 28th	Last Month*	FFA Current Q
TD3C	VLCC	AG-China	**-11**	56	67	58	58
TD20	Suezmax	WAF-UKC	**-16**	55	71	89	59
TD7	Aframax	N.Sea-UKC	**-17**	77	94	103	97

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

			wk on wk change	June 4th	May 28th	Last Month*	FFA Current Q
TD3C	VLCC	AG-China	**-14,750**	49,000	63,750	54,000	51,500
TD20	Suezmax	WAF-UKC	**-11,250**	20,500	31,750	45,000	23,000
TD7	Aframax	N.Sea-UKC	**-14,250**	5,500	19,750	27,500	19,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	June 4th	May 28th	Last Month*	FFA Current Q
TC1	LR2	AG-Japan	**-39**	77	116	462	
TC2	MR - west	UKC-USAC	**+14**	126	112	164	128
TC5	LR1	AG-Japan	**-45**	86	132	408	81
TC7	MR - east	Singapore-EC Aus	**-9**	131	140	366	137

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

			wk on wk change	June 4th	May 28th	Last Month*	FFA Current Q
TC1	LR2	AG-Japan	**-14,750**	16,000	30,750	159,500	
TC2	MR - west	UKC-USAC	**+2,250**	16,000	13,750	25,250	16,000
TC5	LR1	AG-Japan	**-12,500**	13,250	25,750	101,500	11,750
TC7	MR - east	Singapore-EC Aus	**-1,750**	14,500	16,250	59,000	15,500

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

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