

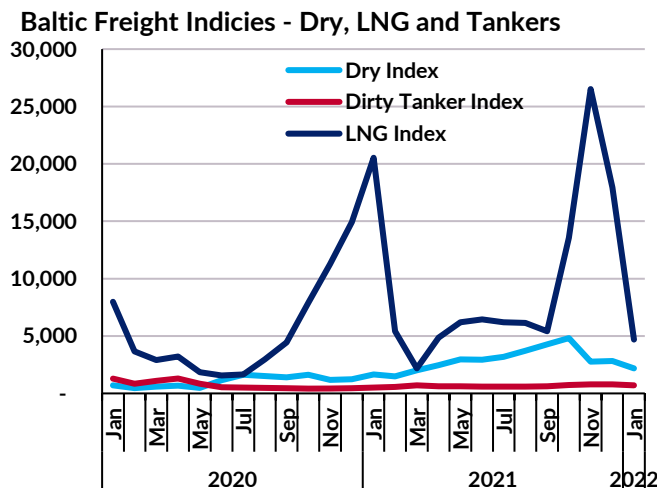
# Tanker Super Cycle?

## Weekly Tanker Market Report

For tankers, it feels like every other shipping sector has experienced some form of super cycle over the past 12-18 months. Whilst tanker owners witnessed record low earnings, rates in the container and LNG sectors soared to record highs. Even dry cargo rates touched multidecade highs. Such volatile container, dry and LNG rates were largely unpredicted. Record container rates were partly caused by changing consumer trends, rebounding demand and port congestion; LNG benefitted from the energy crisis, low stocks, reduced pipeline flows and huge arbitrage between West and East, all of which made the cost of freight temporarily irrelevant, whilst diversions also created inefficiencies. Dry owners benefitted from resurgent demand and geopolitical alterations to trade flows, whilst the energy crisis boosted coal demand. Port congestion also featured. Tanker owners, however, continued to suffer from global mobility restrictions, which although impacting the market to a lesser extent in 2021 than in 2020, still prevented oil demand from exceeding pre-pandemic levels. Indeed, the oil market's reliance on transportation fuel demand was its Achilles heel compared to other commodities.

So, the question is, should tanker owners be eyeing their own super cycle in the near term, or is this just a pipedream? On the face of it, the odds of such a scenario developing seems quite unlikely and is certainly not Gibson's base case. Quite simply, oil demand is only anticipated to return to pre-pandemic levels this year, whilst the fleet has expanded by 4% since the end of 2019. However, there are a number of key factors to watch this year, which could have the power to boost, or significantly alter global oil

trade and with that, give the outside chance of a significant upturn in tanker rates.



Firstly, the underlying fundamentals (i.e. oil demand) must continue improve, whilst fleet growth needs to be moderated through scrapping, thereby creating a positive underlying environment. Secondly, additional support could come from low oil stocks, which when met with resurgent demand, will force an increase in seaborne trade for both crude, as refiners increase runs to meet demand, and products as those fuels are distributed to market. There is of course the added possibility that demand could 'overshoot' expectations as pent-up demand

for both corporate and leisure travel rebounds. However, these factors alone would be insufficient to generate a super cycle this year.

Critically, some form of 'black swan' event would be needed to propel tanker rates to near record levels and given the current geopolitical environment, such an event is not inconceivable. Just as a trade dispute between Australia and China impacted dry bulk trades, the risk of a major confrontation between Russia, Europe and the United States could completely redefine oil trade. Assessing the impact of a possible oil embargo on Russia is a near impossible task, but undoubtedly global oil trade and prices would be severely impacted. Of course, other geopolitical risks remain, whilst natural events could also play a role.

However, there are significant risks, particularly if oil prices rise too much. Increased inflation and reduced purchasing power is a threat to economic growth, which could cap the gains in oil demand. Likewise, the risk of more lockdowns has not yet passed, and we still need clarity on China's long term Covid strategy, which continues to impact oil demand. Without a major overshoot in demand, or major disruption to trade flows, our base case remains modest for 2022. However, tanker owners should take comfort in 2023 newbuilding deliveries running at a ~25 year low and 2024 deliveries also looking to be relatively low. If anything, the past two years has taught us that anything can happen, and when it does, those who are agile and quick to respond, usually benefit the most.

## Crude Oil

### Middle East

VLCC Owners had another challenging week as rising bunker prices put more pressure on earnings. Cargo volumes going East were high as Charterers moved to cover end January stems but levels to Far East are now steady, showing 270 x ws 36.5 (22). There was no activity reported AGulf/West but we are calling 280 AGulf/US Gulf at ws 18 via Cape/Cape. For Suezmaxes, a healthy amount of end/early activity for both East and West discharge has constricted the list significantly enough, and Owners have been able to push rates into the low 30's for the TD23 runs and 130 x ws 60-62.5 for AGulf/East. Aframax activity has ticked along nicely for Owners in the AGulf/Red Sea region this week. Rates are steady at around low 80 x ws 100s basis 22 flats. Expecting rates to trade sideways, if not nudge up slightly in the early stages of next week due to bunker prices.

### West Africa

VLCC rates were under pressure this week initially due to low cargo enquiry levels but then a mid-February stem exposed the weakness of the market, with a very high volume of offers and WAF/East is now down to 260,000mt at ws 38 level. Regarding Suezmaxes, for large parts of this week Charterers have been in control, with rates flat for both East and West discharge. Tonnage has been drawn from the WMED into busier regions, such as the US Gulf and up North, which has given lists a tighter feel.

Yet, we haven't seen Charterers really squeezed at any point. Owners will feel, however, they are better poised going into next week, if aided by some fresh enquiry.

130 WAF/UKCM is at ws 54-56; 130 WAF/East is at ws 62.5-65.

### Mediterranean

Activity has been slow and steady on Suezmaxes this week, but tonnage has been consistently trimmed aided by a busy NWE market. So, the list has a slightly different complexion as the week ends, with a more balanced feel. Currently Black Sea to the Med is 135 x ws 62.5-65, while Black Sea to the Far East is \$2.75-2.85 million. A big week for Med Aframax, which have benefited greatly from the abandonment of force majeure in some Libyan ports. As many as 20 ships sat prompt on Monday and by the close, this has been eroded to barely a handful. This will be added to by next week but for now rates have risen from ws 82.5 to ws 100 levels for Ceyhan loaders and from ws 87.5 to ws 100 for CPC. The weak Suezmax sector looms large and some part/cargo interference has taken place, but the going is warm for now.

### US Gulf/Latin America

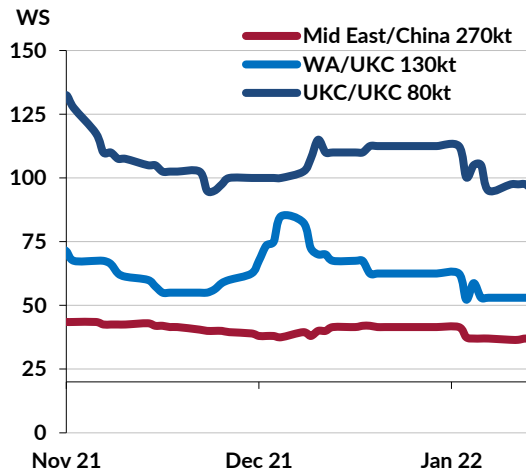
A busy week on VLCCs initially bought optimism and rates steadied, but by week's end Charterers had some joy off forward dates as East ballasters crowd the market and rates for US Gulf to Korea are now at around \$4.7 million level. On Aframax, we had another busy week on

US Gulf for UKCont, Med bound cargoes, two of which were covered by Suezmaxes as we saw spot rates vary from ws 97.5 - ws 102.5 but today probably settled at ws 100. We expect these levels to carry into next week, with ECM/USG voyages are also worth about ws 100, while Caribs/Up Coast is paying closer to ws 90. We don't expect any major changes as we head into next week.

## North Sea

A pretty flat week for the North, with little to capture people's attention. There is an undercurrent of hope for what is to come and despite a slow week, people are eyeing up February with a bit more enthusiasm. For now, X-North Sea is trading at ws 95 levels and Baltic at ws 105 levels.

## Crude Tanker Spot Rates



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

## Clean Products

### East

LRs have had a very mixed and contrasting week. LR1s have got busier especially with jet stems going West, with unexpected volume hitting the market. Rates have finally seen some improvements but progress has been slow. 60,000mt jet AGulf/UKCont is now \$1.65 million and 55,000mt naphtha AGulf/Japan has been put on subjects today at ws 96. The naphtha runs have been quiet though and will be back to ws 100 if any real volume is seen early part of the coming week.

There is one issue though preventing more rises on the LR1s and that's the disaster we are seeing on the LR2s. There have been just a couple of cargoes all week and ships have built up terribly. Rates have crashed some \$400k on expected levels from Monday. There is little hope to even stabilise there if we don't see the volume move from the LR1s to the LR2s. 90,000mt jet AGulf/UKCont is now \$1.80 million, with 75,000mt naphtha AGulf/Japan at ws 90 at best. A big week is needed or we could see the whole quarter be destroyed.

A busy week for the MR market, with over 30 fixtures done/on subs and a long outstanding cargo list (one Owner counting 16 cargoes left to cover on Friday). Rates have steadied and bounced as the position list for the next 10 days looks slim. Over ten fixtures have been done off market and for once, rates have remained unreported. 4-5 have been for EAF deliveries at around the ws 180 mark; levels which will look cheap by

the time they load next week. X-AGulf has held around \$210-220k and will be capped by the over supplied LR tonnage lists, whilst naphtha East and distillate West will continued be favoured on LRs where possible.

### Mediterranean

Although weather has been poor across the Med this week, cargo enquiry was not enough to stop rates from slipping, with 30 x ws 170 (22) is now the going rate across the board for X-Med cargoes. Black Sea action has stabilised things somewhat, with enough activity coupled with Turkish Straits delays (around 2-3 days) meaning that Owners have been able to achieve 30 x ws 185 (22) in return for safe itineraries. Come Monday, lists should be replenished with itineraries beginning to firm up and this will bring further pressure, if we don't see an end month rush of cargoes ex Black Sea then likelihood is a negative correction.

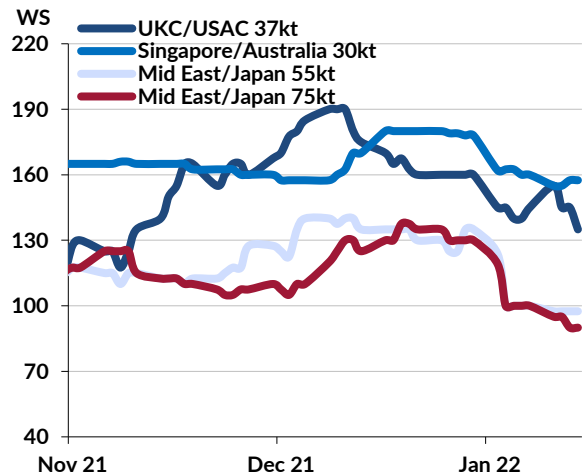
All in all, it's been an up and down week for MRs in the Med, which has seen good levels of activity throughout. We began the week with 37 x ws 145 on subs for Med/transatlantic and WAF trading between 5-10 points more. Unfortunately for Owners, the UKCont market took a tumble midweek causing Med rates to soon follow suit and we now see 37 x ws 140 on subs ex both Med and the Black Sea with the WAF premium now stable at +5. At the time of writing, however, cargoes off pre 20th dates are still looking for cover and, with the UKCont market beginning to bounce back expect rates to hold at last done heading into the weekend.

## UK Continent

With some inflated rates being seen last Friday, it was no surprise that Owners resolve was going to be tested and by Tuesday we began to see a wobble. 10 points were quickly wiped away but some stability was found also keeping transatlantic around 37 x ws 145. Further decline was then seen on some distressed tonnage, but thankfully for Owners a cluster of stems showed this market had some bounce back and come Friday we settled at 37 x ws 140 for TC2 and the usual +5 for WAF is expected. With a thinner looking tonnage list in front of us it seems unlikely for rates to slip any further and moving into next week expect this sector to remain balanced.

It was a week which fizzled out for Handies in the North. Monday saw a good number of units fixed for TC9 and rates holding steady at 30 x ws 200 (22) but with a few LRs being fixed ex Baltic gobbling up 30kt clips, a slower end to the week was seen. Levels have now closed at 30 x ws 190 (22) but Owners will be hopeful of holding the line here as fixing is still happening under the radar via COAs, keeping the tonnage list turning over. Non-ice ships have been in good supply, as X-UKCont trades at 30 x ws 165 (22) and 30 x ws 130 (22) but more demand is required for these sectors.

## Clean Product Tanker Spot Rates



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

# Dirty Products

## Handy

Rather lacklustre affair on the Continent this week where Owners have made a valiant attempt to hold the line at ws 225 (21), with sentiment being the driver rather than market fundamentals. The elephant in the room, however, is the length of the tonnage list which would suggest that gradual further negativity could be in store over the next few deals, as up until now activity levels have been eerily quiet.

In the Med, conditions were rather more stable where once ws 145 had been set, others were quick to repeat with minimal change to numbers seen despite multiple tests thereafter. Fixing date progression has happened rather quickly this week illustrating just how tight availability did become for front end units, however, with dates moving forward there has been ample availability for Charterers to draw upon leaving conditions rather balanced closing the week.

## MR

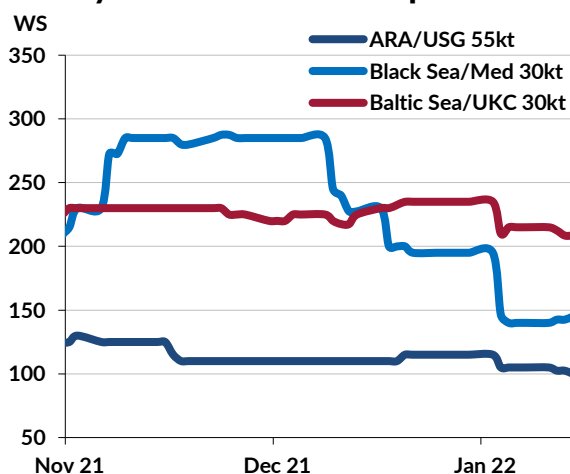
MRs on the Cont this week have suffered a similar struggle to the Handies where limited activity has not given Owners with tonnage to push the opportunity to gain any traction. Starting the week with firm natural tonnage relatively thin in the North, predictions were that levels would hold at last done should enquiry surface. Fast forward to the close of the week and there has been little change to the position list other than the loss of a spot relet and a build-up of potential ballasters. Going into week 3, Owners will be looking for an injection of pace to the region on a full or part cargo basis.

On the face of it, Med MRs have fared better in terms of being clipped away, with firm cargoes, however, it has taken until the end of the week for a full cargo to surface and the first real test for the MRs on 2022 rates. With ws 105 on subs for X-Med at least we have a fresh benchmark from which further business can be referenced, however, just like the Handies, with fixing date progression, one gets the feel that next week will present a carbon copy of the struggles currently seen.

## Panamax

Finally, this sector has been given a slight reprieve from inactivity where a clear down has been seen. In the event where levels have looked slightly “below market” there have been mitigating circumstances for the reasons why. However, as yet, we are still to move over to the current years ws rates so there remains some work to do before we can say that the year has really got going, and especially when caps from surrounding sectors continue to blight progress.

### Dirty Product Tanker Spot Rates



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

## Dirty Tanker Spot Market Developments - Spot Worldscale

|      |         |           | wk on wk<br>change | Jan<br>13th | Jan<br>6th | Last<br>Month* | FFA<br>Q1 |
|------|---------|-----------|--------------------|-------------|------------|----------------|-----------|
| TD3C | VLCC    | AG-China  | -1                 | 36          | 37         | 40             | 38        |
| TD20 | Suezmax | WAF-UKC   | -3                 | 52          | 55         | 72             | 54        |
| TD7  | Aframax | N.Sea-UKC | -9                 | 95          | 104        | 113            | 100       |

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

|      |         |           | wk on wk<br>change | Jan<br>13th | Jan<br>6th | Last<br>Month* | FFA<br>Q1 |
|------|---------|-----------|--------------------|-------------|------------|----------------|-----------|
| TD3C | VLCC    | AG-China  | -3500              | -3,500      | 0          | 1,250          | -750      |
| TD20 | Suezmax | WAF-UKC   | -3000              | 1,250       | 4,250      | 10,500         | 2,500     |
| TD7  | Aframax | N.Sea-UKC | -8000              | -1,500      | 6,500      | 9,500          | 1,250     |

## Clean Tanker Spot Market Developments - Spot Worldscale

|     |           |                  | wk on wk<br>change | Jan<br>13th | Jan<br>6th | Last<br>Month* | FFA<br>Q1 |
|-----|-----------|------------------|--------------------|-------------|------------|----------------|-----------|
| TC1 | LR2       | AG-Japan         | -10                | 89          | 99         | 122            |           |
| TC2 | MR - west | UKC-USAC         | -3                 | 137         | 140        | 180            | 136       |
| TC5 | LR1       | AG-Japan         | -1                 | 98          | 99         | 137            | 103       |
| TC7 | MR - east | Singapore-EC Aus | -2                 | 158         | 160        | 180            | 147       |

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

|     |           |                  | wk on wk<br>change | Jan<br>13th | Jan<br>6th | Last<br>Month* | FFA<br>Q1 |
|-----|-----------|------------------|--------------------|-------------|------------|----------------|-----------|
| TC1 | LR2       | AG-Japan         | -4750              | 2,750       | 7,500      | 13,250         |           |
| TC2 | MR - west | UKC-USAC         | -1250              | 5,250       | 6,500      | 12,000         | 4,750     |
| TC5 | LR1       | AG-Japan         | -1500              | 2,000       | 3,500      | 11,500         | 3,500     |
| TC7 | MR - east | Singapore-EC Aus | -1500              | 6,500       | 8,000      | 9,500          | 4,750     |

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

|  |     |     |     |     |
|--|-----|-----|-----|-----|
| ClearView Bunker Price (Rotterdam VLSFO) | +33 | 606 | 573 | 537 |
| ClearView Bunker Price (Fujairah VLSFO)  | +41 | 664 | 623 | 591 |
| ClearView Bunker Price (Singapore VLSFO) | +42 | 676 | 634 | 603 |
| ClearView Bunker Price (Rotterdam LSMGO) | +33 | 731 | 698 | 621 |



# GIBSON Paratus

SHIP BROKERS

## OFFERING THE WORLD'S FIRST PARAMETRIC FUEL AND FREIGHT PRICE INSURANCE

Please contact [enquiries@gibsonshipbrokers.co.uk](mailto:enquiries@gibsonshipbrokers.co.uk) to find out more on how the Paratus range of products could meet your risk management needs.

[www.gibsons.co.uk](http://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](mailto:research@eagibson.co.uk)

### Hong Kong

Room 1401, 14/F,  
OfficePlus @Wan Chai,  
303 Hennessy Road,  
Wanchai. Hong Kong.

T (852) 2511 8919  
F (852) 2511 8901

### 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

### Mumbai

Office 128, Level 1, Block A,  
Shivsagar Estate,  
Dr. Annie Besant Road, Worli,  
Mumbai, Maharashtra, 400018,  
India

T +9122-6110-0750