Dramatic Changes

Weekly Tanker Market Report

This year's events have been dominated by the Russian invasion of Ukraine, the resulting international sanctions, and the far-reaching consequences for the global economy. For tankers, once the European oil embargo on Russian oil comes into effect, global seaborne flows will be completely redefined. For now, however, Russia still exports the vast majority of its crude in the West to Europe. Yet, it is already becoming apparent that more crude is heading East, primarily to India and China. The picture is different for Russian clean products, which continue to flow to Europe, with no apparent shift in trade patterns seen to date, except for the halt in shipments to the US. We are also seeing Europe increasing its intake of both crude and products from alternative sources. Considerably more North Sea barrels are being retained within the European market, whilst crude imports from the US, West Africa, Latin America, and the Middle East are also rising. Likewise, there is more intra-European clean products trade, while product imports from the US, the Middle East and India are similarly on the up.

So far, the impact of changing trade flows has been primarily focused on the product tanker rates. Freight rates and earnings across all tanker segments in different markets have firmed impressively since March, with levels on many routes reaching almost unprecedented highs. The most spectacular gains have been seen in the Handy segment, where spot earnings for both clean and dirty tankers climbed in recent months close to (and in some cases even above) $100,000/day on a non-scrubber, non-Eco basis. Gains in the crude tanker market have been considerably more muted. Whilst Aframax and Suezmax earnings have improved from the extremely depressed levels seen in 2021 and in early 2022, they still lag behind the level of returns seen in the clean tanker market. In contrast, VLCC earnings have deteriorated further, with TD3C spot earnings on a non-scrubber, non eco basis averaging minus $10,250/day since March, with increased crude trade into Europe eating into traditional long haul VLCC demand from the Atlantic Basin and the Middle East.

Whilst tanker flows are reshaping, tanker supply is going through its own transformation. The fleet continues to grow, although slippage in delivery dates remains a feature of the market. During the 1st half of the year, 106 tankers were delivered, versus 51 reported demolition sales. Demolition prices peaked in April at around $685-695/ldt in the Indian Subcontinent but have started softening more recently due to a drop in demand from regional scrapyards, monsoon season disruptions, and low steel demand in China. The delivery profile remains robust over the next 9 to 12 months but should decline dramatically thereafter amid the modest ordering activity we have seen in recent years and scarce newbuilding slot availability all the way through to the 2nd half of 2025 following robust ordering in other shipping segments. This year, new tanker ordering activity has been minimal: just 28 confirmed tanker orders have been placed, almost entirely in the LR2 and MR segment, with investment in new tonnage discouraged by long lead time in terms of delivery, extremely high newbuilding prices, concerns about long term future for global oil demand and uncertainty about future vessel designs and propulsion types.

Amid Russian developments and with Iranian/Venezuelan negotiations seemingly not progressing, oil and bunker prices surged to multiyear highs. Record spreads between low sulphur and high sulphur bunker prices, averaging at $488/tonne in Singapore in June, have been an unintended consequence of geopolitics, with scrubber equipped tankers enjoying substantial premiums over non-scrubber tonnage. On a macroeconomic level, however, the surge in prices for oil and many other commodities, coupled with rising inflation and increases in interest rates globally, will undoubtedly apply a considerable downward pressure on consumer demand, fuelling fears about the global economic slump in the months to come. This year has also seen several covid-driven lockdowns in major cities in China and if Beijing maintains its zero-Covid policy in the long run, this could have additional negative consequences for the global economy.

Finally, there are also further regulatory changes coming. The European Parliament voted to include the maritime industry in the European Union's Emissions Trading Scheme, targeting 100% of emissions on intra-European and 50% on extra-European voyages in 2024, with 100% of emissions on extra-European voyages also covered by 2027. The legislation is yet to be finalised as lawmakers are still to negotiate the final laws with EU countries; however, it seems inevitable that soon the shipping industry will have to consider the cost of carbon, amongst all other things…

GIBSON SHIPBROKERS

Summary Table - Market & Fleet Data

		Jun-21		Jun-22		2022 YTD	
		WS	TCE/day	WS	TCE/day	WS Low	WS High
Rates	(TCEs at 'market speed', non-scrubber, non-Eco basis)						
VLCC	Middle East - Ningpo	32	$ (2,750)	47	$ -19,250	31.5	58
Suezmax	West Africa - UKCont	49	$ (250)	108	$ 14,750	52	185
Aframax	North Sea - UKCont	97	$ 1,250	158	$ 25,250	92.5	250
LR2	Middle East - Japan	76	$ 1,500	250	$ 39,250	70	310
LR1	Middle East - Japan	89	$ 3,000	311	$ 41,250	92.5	375
MR	UKCont - USAC	115	$ 2,500	353	$ 34,000	120	400

	Mid 2022 Fleet Size	
VLCC	861	
Suezmax / LR3	638	
Aframax/LR2	1091	
Panamax/LR1	448	
Handysize / MR	2199	
Tanker Firm Orderbook (25kdwt+)	285	(35.75 mln dwt)

	Jun-21	Jun-22
Brent Oil Price	$ 75.13	$ 114.81

	Singapore	Rotterdam
Bunkers 0.5% VLSFO (early July)	$1,103.50	$ 862.50

	May 2021	May-22	
World Oil Production (000 b/d)	94,280	98,980	4.99%
OPEC crude production (000 b/d)	25,430	28,520	12.15%
Non OPEC (000 b/d)	63,510	65,090	2.49%
World Oil Demand (Full Year) (000 b/d)	97,610	99,420	1.85%

Tankers Demolished (25,000 dwt+)	51	4.832 mln dwt

	India	Pakistan
Scrap Prices (Jun)	$625	$625
VLCCs sold for scrap number /dwt	4	1.19 mln dwt

Crude Oil

Middle East

VLCC levels have been shifting upwards all week as a steady flow of interest combined with stronger levels achieved elsewhere have given VLCC Owners the platform to be a little less compliant than previously seen. Rates currently stand at around 270,000mt x ws 57.5 for an approved unit for long East. Voyages West remain light but again levels have edged up to around 280,000mt x ws 34 to the US Gulf (via Suez). Suezmax rates have remained steady in the Middle East this week with the cargo enquiry increasing but not high enough to cause any substantial firming of the market. With the VLCC markets buoyant lately, there is likely to be a resistance from Owners next week, with levels currently standing around 130,000mt x ws 105 levels to the East. AG Aframaxes remain steady. The tonnage list was rather fruitful on Monday; however, a decent clear out has kept things steady. Rates hovering around 80,000mt x ws 180 level for AG/East.

West Africa

Only minimal gains have been realised for VLCC Owners, with last done holding at 260,000mt x ws 57.5 for Eastern destinations. Charterers now though will find fewer candidates willing just to repeat these levels, as potential higher numbers are achievable from the US Gulf which will be the main attraction.

There hasn't exactly been a flurry of Suezmax stems to be fixed from West Africa this week but a firm VLCC market in the region should help to keep rates propped up.

Levels for a Suezmax are currently in the region of 130,000mt x ws 117.5 mark for WAF/UK Cont-Med options.

Mediterranean

A difficult week for Med Aframax Owners, with a tight list giving hope, but a dearth of cargoes providing little inspiration. Libya remains Force Majeure in the main, so Ceyhan provides the main interest. Rates feathered down last week and have settled in the low 80,000mt x ws 160's this week, with CPC cargoes eventually feeling the pressure and dipping from ws 225 to 80,000mt x ws 207.5. There will be some settling here but, as ships in the West Med begin to ballast to the recovering states market, the list will become further pressured and gains could be made in the next days. Suezmax markets in the Med have firmed this week with a healthy level of enquiry for Owners to get their teeth into. Rates are currently sitting around 135,000mt x ws 130 for a short run and Owners are feeling optimistic. The market for Med/East has remained steady, with a slightly firmer feel; rates currently stand at approximately $4.1 million level to China.

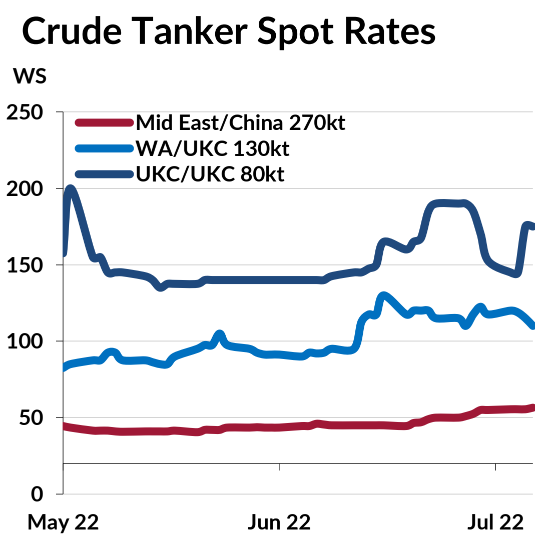
US Gulf/Latin America

Far happier times for Aframax Owners after their long weekend as tight early positions enabled some hefty premiums being realised. Owners have been able to build on this, with rates currently standing at around 70,000mt x ws 280 for short haul enquiry.

Transatlantic voyages may come under pressure after the increase in activity for the VLCCs and the arrival of ships ballasting in from the UKC/Med. VLCC levels are moving positively against strong demand for both long and short TA runs. Levels stand at just below $7 million to the Far East and a rate nearer to $3.5million for Transatlantic.

North Sea

A strong week of recovery for the North, with Owners not only digging their heels in but pushing rates upwards. The near side of the list resembles an oversized cat attempting to squeeze itself through an undersized cat flap. Most are in agreement that this sets a solid tone for the summer months ahead. X-North Sea is now trading around 80,000mt x ws 200 and Baltic/Cont also at 100,000mt x ws 200 levels.



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

Clean Products

East

An interesting week on the MRs. An initially underperforming LR2 and even LR1 segment should have put pressure on rates as all three sizes traded at parity, particularly on East/West movements. But MRs have held good sentiment despite TC17 obviously being a size specific route which has maintained enquiry into this segment. This run has traded down to 35 x ws 460 (and repeated) but will likely recover early next week as activity builds. AG/UKC needs a good test given where the larger sizes are trading. $3.8m is last done but fundamentally (given the economics available on the LR1s/2s) we should be closer to $3.25m, although Owners might not agree. TC12 still trades at 35 x ws 390 levels, but a soft south market will put this run under some pressure going into the next window. Look out for upcoming Argentina delivery tenders, which will inject some good enquiry into the market next week (these runs always pick sentiment up).

LR2s have been busy this week, mainly off the market, but a huge proportion of what was previously an over-packed list is now on subs or fixed away. West rates drove cheaper freight; $3.8m basis UKC discharge is the lowest we have seen from clean history tonnage ex AG (cheaper than freight available on smaller sizes). TC1 has dipped off to 75 x ws 197.5 and repeated several times, but due some recovery as we head into the new week. The diesel arb currently holds open so expect further East/West movements unless it flops back shut which could encourage further clean up units looking for 'cheap' diesel employment to get them in the game.

The LR1s have had an incredibly busy week. Both shorthaul and long. Presenting incredible value vs. MRs early in the week inevitably encouraged traders to book LR1s for shorthaul business with $800k on subs here until recovery came quickly as the list thinned. Owners stuck to their guns on East/West ideas with $4m their aim after a dip experienced last week and the LR2s emerged the only way for Charterers to achieve sub $4m freight. TC5 is on subs both at 55 x ws 280 and 300 with a 20-point premium paid here for Ras Tanura suitability, so should be taken with a pinch of salt. As we look to the next week the list looks much more balanced and bigger pools will have a firmer grip of freight ideas if cargo volume supports them (not forgetting holidays in Asia and the Middle East due to Eid).

Mediterranean

A week to forget for the handy Owners in the Med with losses seen throughout. We finish the week over 100 points below where we started with rates softening from 430 levels to 320 from Monday to Friday. Charterers have done a good job of drip feeding cargoes into an already quiet market and this coupled with a lengthy tonnage list has seen Charterers able to chip away at last done levels. Expect further pressure come Monday with paper trading at 30 x ws 285 levels for balmo and with more vessels heading our way (with multiple UKC/MED fixtures done recently), Owners will be hoping for an influx of cargoes to stem any further rate losses.

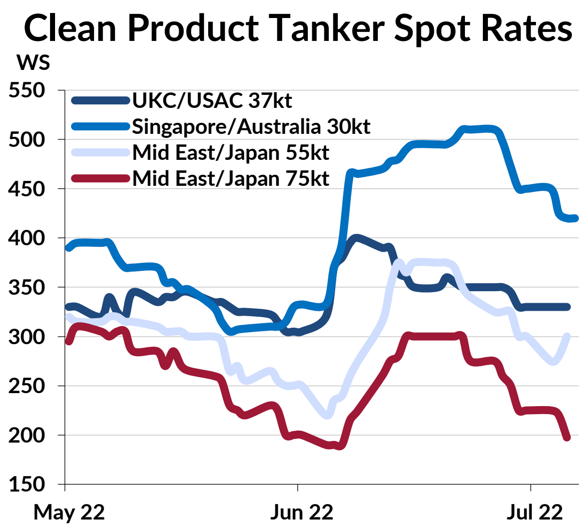
Black Sea continues to trade at huge premiums with Russian still around the 30 x ws 900 level whilst non-Russian is dependent on Owner with 30 x ws 650 achieved this week however with the softened Med market, this has brought new ideas around the 500-550 mark.

A quiet week all in all with little to report however Owners have done a good job here with rates seemingly looking steady throughout even with TC2 softening throughout the week. Red Sea rates are still very high which helps as Owners are comparing a ballast through Suez with rates X-Med & this coupled with still a fairly tight tonnage list has allowed Owners to dig their heels in. That being said, expect rates to negatively correct a touch with the gap between TC2 and Med/Transatlantic now rather large with most calling it around the 37 x ws 350-360 mark X-Med.

UK Continent

Unfortunately for Owners this week the writing has been on the wall since Monday with a hefty number of non CPP vessels dominating the top of our tonnage lists. Subsequently, Charterers who have had the option of taking such tonnage have been able to be rather bullish throughout and over the mid part of the week we have seen rates begin to decline. We now find ourselves down to around 37 x 315 for a vanilla TC2 run and still a number of opportunities for less if Charterers can be flexible on last cargoes and with a general slow week passing for TA and WAF, a good number of fresh stems will need to hit our shores on Monday if Owners are going to be able to dig in. Pressured.

Moving on to the Handies, where as you can imagine we are still seeing a high premium for Russian Baltic loading with rates relatively stable around 30 x ws 500-515 entity dependent. A slightly different story is seen for the X-UKCont market where a midweek slip due to lack of activity pulls rates to 30 x ws 350 for now with the feeling further decline could be around the corner if enquiry doesn't improve. The longer run down to the Med has equally seen some negative correction with 30 x ws 315 now the call and with the Med market also slipping. This market remains soft moving into the weekend.



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

Dirty Products

Handy

With noticeably fewer ships operating in dirty trade, the lists are looking tighter without much background activity necessarily having to take place. Herein, lies the additional challenge Charterers now face. Levels are remaining firm during the quieter spells and should we see a small fixing run take place, volatility in rates can quickly strike. The Med this week has gone from ws 315 to ws 350+ in just a few days, with a number of Charterers facing market conditions they were powerless to do anything about. Fixing date progression will of course come in to assist Charterers, but for the short term at least Owners can enjoy a bull run.

MR

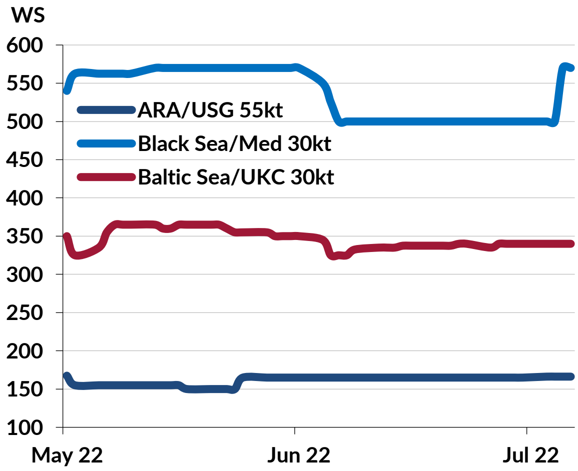
Scarcity of tonnage here also proves problematic to Charterers and as ever forward planning on this side is essential. Levels, however, remain fairly flat where Handies don't quite pro rate at more than a full 45 stem. Yet, we are getting close and in the Med, if the Handies move further, then the MR's go up.

In the Cont conditions have been rather more subdued but fixing ideas remain in line with last done despite inactivity. In the short term this sector will show greater resilience as replenishment seems to take that much longer to happen.

Panamax

Not a lot this week for owners to get their teeth into but as far as conditions and general sentiment are concerned, this does nothing to dent Owners confidence. Surrounding Aframaxes have taken a dip but, with levels bouncing back where local markets have tightened, Panamax Owners can afford to stick to their belief that last done levels hold validity.

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 change	July 7th	June 30th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	**+2**	57	55	45	58
TD20	Suezmax	WAF-UKC	**-6**	114	120	93	108
TD7	Aframax	N.Sea-UKC	**+11**	181	170	141	111

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

			wk on wk change	July 7th	June 30th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	**+10750**	500	-10,250	-22,500	4,250
TD20	Suezmax	WAF-UKC	**+500**	23,000	22,500	4,750	21,750
TD7	Aframax	N.Sea-UKC	**+14500**	53,500	39,000	13,750	3,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	July 7th	June 30th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	**-20**	206	226	215	
TC2	MR - west	UKC-USAC	**-15**	315	330	395	278
TC5	LR1	AG-Japan	**-8**	288	296	259	263
TC7	MR - east	Singapore-EC Aus	**-36**	418	454	459	339

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

			wk on wk change	July 7th	June 30th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	**-1500**	29,750	31,250	27,000	
TC2	MR - west	UKC-USAC	**-250**	30,250	30,500	40,250	24,500
TC5	LR1	AG-Japan	**+2000**	38,750	36,750	26,750	33,750
TC7	MR - east	Singapore-EC Aus	**-2750**	41,750	44,500	44,750	29,750

(a) based on round voyage economics at 'market' speed, non eco, non scrubber basis

ClearView Bunker Price (Rotterdam VLSFO)	**-59**	846	905	969
ClearView Bunker Price (Fujairah VLSFO)	**-113**	1026	1139	1121
ClearView Bunker Price (Singapore VLSFO)	**-132**	983	1115	1131
ClearView Bunker Price (Rotterdam LSMGO)	**-168**	1068	1236	1316

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