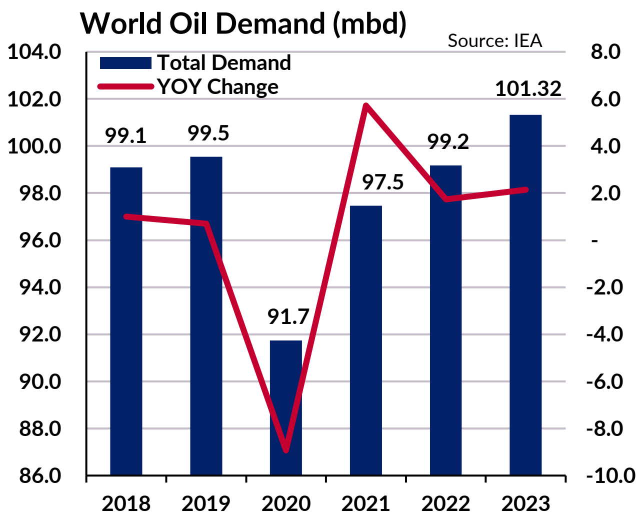
Peak Demand in Sight?

Weekly Tanker Market Report

The current spike in global oil prices and a tight supply situation has put the issue of peak oil demand back into focus. Those who thought the Covid-19 demand destruction of 2020 would permanently dent world oil demand were quickly proven wrong as shown by the 5.7% rebound in demand in 2021. Furthermore, demand has continued to expand despite oil prices trading firmly in the $100/bbl range since the start of the invasion of Ukraine and the looming threat of an economic recession. This calls into question when exactly peak oil demand could occur and what this might in practice look like as the demand outlook varies by region, particularly in terms of decarbonisation policies. Most current estimates place peak demand occurring between 2030 and 2040, although it is worth noting the subsequent decline in demand is unlikely to be cliff edge and oil is likely to play a role in the global economy for decades to come past 2040.



In their latest monthly report, the IEA has revised down its demand growth estimates for 2022 and 2023. It now forecasts demand at approximately 99.2 mbd and 101.32 mbd respectively versus 99.43 mbd and 101.6 mbd in their June forecast. This is being driven by a combination of economic uncertainty and signs that rising prices are causing some demand destruction; a weaker than expected start to US driving season gasoline demand may be evidence of this as consumers begin to cut back their spending across the board in response to higher and more persistent inflationary pressure. Whilst Chinese demand may be showing some signs of recovery as it eases strict "Zero-Covid" restrictions; overall economic activity remains weak and oil demand is yet to fully recover to robust levels. Chinese demand will likely be a key uncertainty in at least the short-term. Since the invasion, few have dared to predict longer term oil demand given the uncertainties involved, with the IEA's flagship oil 2022 report being understandably delayed past its original March release date. Few other forecasting agencies are willing to forecast long term oil demand with any degree of confidence.

Nonetheless, despite this shorter-term concern, demand has been improving compared to 2020 levels. Easing mobility restrictions are increasing seasonal demand for jet and road transport fuel, particularly in emerging markets, which in turn has resulted in higher refinery runs as refiners look to capture higher margins. This has led to higher crude demand; and comes as the global crude trade continues to shift and readjust to the new trade reality following sanctions on Russian oil. Other areas of continued oil demand include power generation where European and Middle Eastern utility companies are increasingly viewing oil as a cheaper alternative to natural gas and LNG in electricity generation. The petrochemical sector also represents a key source of expected future oil demand, in particular naphtha demand has been strong in recent years, although the IEA is now forecasting a 220 kbd drop in demand in 2022 as current uncertainties reduce demand in the short term, although in the long-term future economic growth should improve this outlook.

When it comes to putting an expected date on peak oil demand, a key factor is decarbonisation policy. Europe, the UK, US, and China are all scheduled to phase out the sale of new gasoline and diesel vehicles by 2040; with sales expected to decline dramatically over the course of the 2020s and 2030s in line with broader targets of net zero by 2050. This indicates peak oil demand is likely to occur between 2030 and 2040 but some regions such as Europe could peak earlier than developing economies in Asia, Africa, and the Middle East. Therefore, slower longer term oil demand growth rates and an eventual peak in demand suggests tanker owners will need to engage in lower fleet replenishment and this investment will likely concentrate on replacing older and less economical tonnage as well as ensuring regulatory compliance. Over the medium term, aside from recession risk, the oil trade is expected to continue growing before a longer-term peak and then decline once this eventually materialises.

Crude Oil

Middle East

VLCC Charterers quickly moved on to their August program with Owners quietly gaining the upper hand. No real dramatic shifts in levels just a steady and manageable incline. Rates currently stand at 270,000mt x ws 61-62 level to the East and a rate of 280.000mt x ws 33.5 to the UKC (via Suez) had been concluded. As we go into the weekend rates for a Suezmaxes in the Middle-East are approaching levels of 140,000mt x ws 85 for Basrah/Med and this market remains very firm especially with VLCC's and Afra's posting healthy gains throughout the week. Levels for AG/East have also pushed on and we expect 130,000mt x ws 145 levels to be achieved. AG Aframax activity continues to tick along however, a couple of ships have become available on the front end of the tonnage list, easing a little pressure for Charterers who will be looking to the weekend for a breather. Overall, Owners sentiment remains firm for now after a big clear out this week, WC India delays, and a warming Med market. AG/East now sits at 80,000mt x ws 190-200 level.

West Africa

Part cargo short haul runs were added to the mix for VLCC Owners here which provided enough opportunity to push levels on. Combined with a stronger US market, Owners have been able to secure levels up to 260,000mt x ws 62 to the East and rates now in the low ws 70's to the UK-Cont. Levels from West Africa on a Suezmax have firmed this week rather substantially with market rates currently sitting around 130,000mt x ws 135 levels to the East and 130,000mt x ws 140 for UK-Cont. We have seen a number of WAFR/UK-Cont runs co-freighting on VLCC's as of late due to the upwards pressure on rates on Suezmax vessels.

Mediterranean

The Med Aframax market has boomed this week as force majeure in Libya was lifted and many prompt cargoes hoovered up a lot of the early positions. 80,000mt x ws 300 was achieved a few times for the tightest of positions and Owners are now anchoring their hopes to high ws 200s at the close for normal dates. CPC stems inched up to 80,000mt x ws 355 with some Owners not willing to risk missing good earnings by pushing too far. The early August Libya program will set the next direction. Strong levels of enquiry, combined with a firm Afra market and resistance from Owners have pushed short runs from the Med up to around the 130,000mt x ws 190 level. The market for Med/East has also continued to firm throughout the week; rates currently stand at mid $5 million levels to China.

US Gulf/Latin America

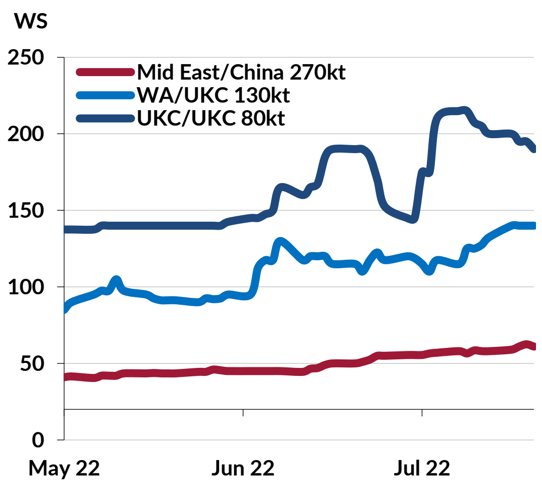
Aframax Owners were met with some resistance from Charterers to start the week but that quickly turned to a more compliant stance from Charterers as a busy period of activity swung the pendulum firmly back in Owners favour. Last done for short haul is around 70,000mt x ws 305 with Transatlantic voyages not far behind at around ws 240-250. VLCC interest has remained at a steady flow throughout the week with

Owners again making some promising gains. Last done for a Far Eastern voyage was US$7.45million from the US Gulf.

North Sea

The North Sea worked under the radar and not in heavy volumes which led to rates slowly being eroded from 80,000mt x ws 200 levels into the low 190s. The Baltic also wasn't openly busy and so rates are now theoretically at 100,000mt x ws 230 levels. Some ships have ballasted away from the region and so we can expect the erosion will stop soon.

Crude Tanker Spot Rates



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

Clean Products

East

A good week for the LR2 segment where we have seen AG/UKC firm to $4.7m. The big pools will take over TC1 ideas, but the current TCE equivalent is 75 x ws 245 which no Charterer will pay at the moment. Ws 230 is the last done and looking to be pushed. This segment should be busy early next week so look out for some further excitement.

LR1s have had a flat week whilst the other two segments have bloomed. AG/UKC is down to $3.95m ex Kuwait and could be further tested early next week as the list grows. TC5 should be retested at 55 x ws 285 given some very keen units for this run. Further adjustments are needed to encourage traders to consider this segment again.

Another active week for the MRs as more TC17 enquiry (led by Aramco) came up against a stubborn group of Owners with a thinning position list. Hafnia spearheaded the peloton and did the grunt of uphill work, forcing the well-established level of ws 450 to ws 470 and ws 490 - giving way for the likes of EPS and Norient to take the front on demanding ws 500 as next done. As we close out July, in terms of cargo count we look complete, but owners will be buoyed by the lack of August enquiry we have seen just nine days out. As TC7 is still earning more on a TCE equivalent than TC17 we are unlikely to see Singapore ballasters; so the thinning list isn't being replenished. As such the MRs look to be in a good place going into August and rates should maintain at these levels.

Mediterranean

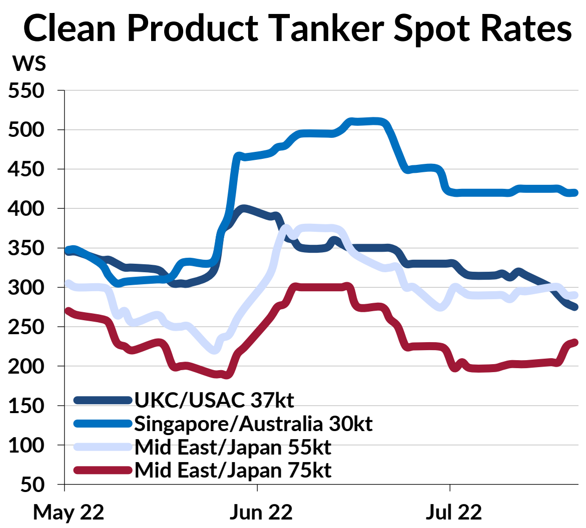
A disappointing week for handy Owners plying their trade in the Med as we see rates slip around 65 points since this time last week. This has been due to a build-up of available tonnage on the front end over the course of the week as well as average levels of enquiry with rates coming off with each fixture. At the time of writing the equivalent of 30 x ws 215 is on subs X-Med and with the weekend likely to replenish the list once more expect some further pressure come Monday morning. Black Sea activity has been kept under the radar this week with levels varying depending on Owner and load zone. A slow end to the week here.

The writing was on the wall for the Med MR's this week after a long period of little enquiry combined with a decline in UKC rates. We began the week with last done Med/Transatlantic at the 37 x ws 335 mark but with TC2 rates dropping like a stone and a lack of enquiry in the Med, we soon saw levels correct with 37 x ws 280 achieved Transatlantic on a market quote. WAF is in need of a fresh test in light of this new Transatlantic rate with levels expected to land around 5-10 points higher. Market quiet.

UK Continent

The time has finally come where Charterers have managed to take the upper hand of this excessive tonnage list and knock some wind out of Owners sails. An active WAF market partnered with a slow Transatlantic demand has seen rates slip by 5 points after each fixture and come Friday we find ourselves down to 37 x ws 270 Transatlantic with WAF holding a 5 point premium. It is not all doom and gloom though as despite Charterers still in control, Owners will be content that the US and East markets have improved considerably as we expect now less ballasters from the US and even some vessels setting sail for Suez to try their luck over there.

Similarly, the Handy sector also struggled under the weight of tonnage, as despite starting relatively solid around 30 x ws 290 on Monday, come Wednesday we saw ws 280 followed by ws 272.5 achieved fairly rapidly. Enquiry, especially in the second half of the week has been slow but with this activity, tonnage has been thinned with a number of uncertain positions advertised. Moving into next week we can expect Charterers to be looking to press further but slowly slowly there seems to be opportunities for Owners to dig in if they play their cards well.



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Dirty Products

Handy

The handy market in NWE has fared well this week off the back of a tight list and very little in terms of firm, workable units. Starting the week in this way always sees the market poised on a knife edge as an injection of cargo will see Owner's push, or a few quiet days has the potential to soften sentiment. For this week however, luck was with Owners and as cargoes trickled in, sentiment firmed to a point where by mid-week ws 350 had been achieved. A more subdued end to the week however come Monday, the list will still be devoid of firm workable tonnage so we could well see a repeat of this trend. In contrast, the Med market saw the reverse pattern where inactivity for the first 3 days trading saw lists lengthen and as tonnage built, levels came under pressure. The rumour mill was in full swing and while ws 330 and subsequently ws 320 were reported, the finer details were not.

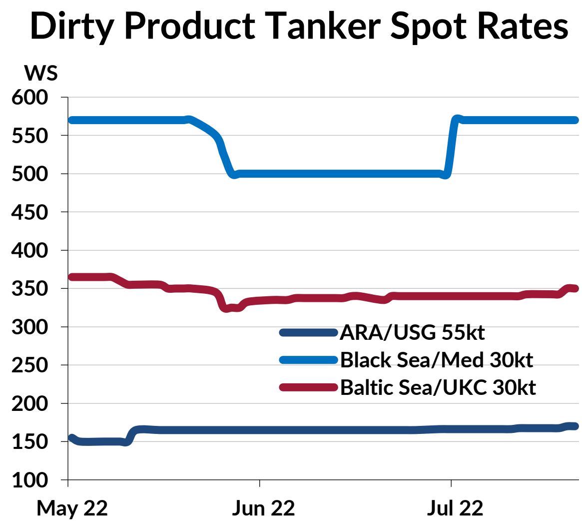
Sentiment continued to slide however and with new lower levels down to ws 310 the top of the list now looks to have thinned to a point where repetition is now expected into next week.

MR

Overall this sector has remained relatively untested in both NWE and the Mediterranean sectors this week due to the lack of full size enquiry. However, there are two sides to every story as the North has suffered with a lack of firm tonnage for a number of weeks now which in turn has left Charterers with no other option but to cover firm on alternative sized tonnage. In the Med however tonnage has been in play but the smaller handy market this week has softened leaving no other option for early tonnage but to compete with part cargo enquiry. Looking ahead to next week we expect much of the same with the hunt for firm units in the North and a weaker Med market to continue.

Panamax

What to say here without sounding like the broken record that has been stuck for the past 4 weeks. Once again fresh activity this side of the Atlantic has been limited and to be fair naturally restricted by the number of workable units over here. At the same time, the US markets continue to go from strength to strength where this week we saw a 25 point gain. Next units up this side of the pond are starting to come into play as they firm but we can expect Owners to be bullish while comparing a ballast to the firm US market.



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	July 21st	July 14th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	**+4**	62	58	49	63
TD20	Suezmax	WAF-UKC	**+12**	141	129	118	132
TD7	Aframax	N.Sea-UKC	**-10**	192	202	185	125

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

			wk on wk change	July 21st	July 14th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	**+7250**	10,250	3,000	-14,500	14,750
TD20	Suezmax	WAF-UKC	**+6250**	40,750	34,500	22,250	37,500
TD7	Aframax	N.Sea-UKC	**-6500**	61,250	67,750	46,000	14,250

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	July 21st	July 14th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	**+23**	227	204	292	
TC2	MR - west	UKC-USAC	**-39**	276	315	358	273
TC5	LR1	AG-Japan	**-1**	290	291	352	293
TC7	MR - east	Singapore-EC Aus	**-7**	419	426	503	362

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

			wk on wk change	July 21st	July 14th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	**+10250**	39,500	29,250	55,000	
TC2	MR - west	UKC-USAC	**-7000**	24,500	31,500	35,250	25,000
TC5	LR1	AG-Japan	**+1750**	41,500	39,750	51,750	43,500
TC7	MR - east	Singapore-EC Aus	**+500**	44,000	43,500	54,000	35,250

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

ClearView Bunker Price (Rotterdam VLSFO)	**+15**	771	756	871
ClearView Bunker Price (Fujairah VLSFO)	**-18**	971	989	1071
ClearView Bunker Price (Singapore VLSFO)	**-62**	911	973	1071
ClearView Bunker Price (Rotterdam LSMGO)	**-38**	1061	1099	1329

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