

2050

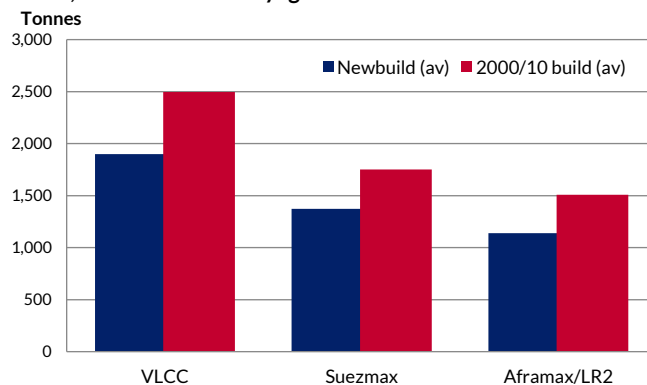
Weekly Tanker Market Report

Many industries, including shipping, are facing an increasing environmental pressure to act upon the Paris Agreement. In April last year, the IMO's Marine Environmental Protection Committee (MEPC) set out their initial strategy, which envisages the reduction of greenhouse gas (GHG) emissions by at least 50% by 2050 compared to 2008 levels. The ambition also is to reduce CO2 emissions (which account for about 82% of all GHG emissions) by at least 40% by 2030, pursuing efforts towards 70% by 2050 from the 2008 baseline.

The targets set represent a colossal challenge and there is a clear trend that the industry as a whole is intensifying its search for fuels and technologies that would help to achieve these goals. Classification society DNV GL identified LNG, LPG, methanol, biofuel and hydrogen as the most promising alternative fuels for shipping, while in terms of new technologies battery systems, fuel cell systems and wind-assisted propulsion are believed to have most potential for ship applications. Not all of these methods are applicable for tankers, but some indeed are being considered and trialed. LNG as a fuel is gaining some interest, despite the current limitations in terms of global bunkering availability (and the fact that LNG only partially contributes to CO2 reduction due to methane slip). Sovcomflot, AET and Teekay have invested into LNG-fueled Aframaxes, and in Sovcomflot's case, into MR tonnage as well. Meanwhile, Shell and Total have been reported earlier this year advancing their plans to build first ever LNG-fuelled VLCCs. Work is also underway to expand LNG bunkering facilities. Pavillion Energy recently has performed the first commercial ship-to-ship LNG refuelling operation in Singaporean waters. Facilities are also being developed in China and Japan. As LNG bunker availability increases and the industry's

experience of LNG-fuelled vessels grows, its uptake in shipping is expected to accelerate.

Indicative Bunker Consumption for 10,000 miles round voyage at 13 knots



In addition to LNG, a number of additional initiatives are needed to reach the 2030 and 2050 goals. Slow steaming has been strongly promoted as one of the short term measures, although no action has been taken on this proposal during the latest MEPC meeting earlier this month (MEPC 74). Yet, slow steaming amongst other measures will be reconsidered during the next GHG working group in November.

Improving vessel efficiency could also contribute meaningfully towards achieving

the overall targets. Without doubt, tankers that are coming out of the shipyards today consume some 15-25% less bunker fuel than tonnage built ten/fifteen years ago. Here, the Energy Efficiency Design Index (EEDI) for new ships is an important technical measure. Since 1 January 2013, following an initial two year phase zero, new ship designs need to meet the energy efficiency reference level for their ship type. The level is to be tightened incrementally every five years, meaning that ships yet to be constructed will need to become even more efficient. During MEPC 74, draft amendments were approved to enhance and strengthen these new energy efficiency (EEDI index) rules for several ship types.

During the same meeting, the IMO also initiated several other useful measures; however, there was no concrete action plan of how to achieve the ambitious 2030 and 2050 environmental targets. The IMO aims to adopt a revised strategy in 2023, which will include short, mid and long term measures of reductions to greenhouse gases. Whether this is achievable remains to be seen, but undoubtedly during this period the call for significant changes in shipping is likely to intensify. For owners, this means continued regulatory uncertainty regarding future vessel specifications and designs. Fuel efficiency of existing ships is also likely to come under increasing scrutiny, with Trafigura's intention to monitor fuel efficiency per tonne of cargo traded being an early indication of what is yet to come.

Crude Oil

Middle East

A reasonably busy midweek spell for VLCCs, but top and tailed by a slow start and finish. For a brief moment Owners thought that they may have been able to stage a break-out but, with availability always heavy on the fixing window, and momentum stalling, rates remained again boxed into their previous range, with the top end held at ws 40 to the Far East and with rates to the West still in the high teens via cape. Suezmaxes flatlined through the week, with most of the activity only of the shortest haul variety. Rates slid to ws 62.5 East and to ws 30 West, with no early u-turn in sight. Aframaxes kept quite steady overall at an average 80,000mt by ws 115 to Singapore and the near term outlook is for more of the same.

West Africa

Suezmaxes failed to find any inspiration - just overtonnaged, and under fed, with little nutrition likely over the near term either. Rates have now crumbled to as low as ws 47.5 to the USGulf and to ws 52.5 to Europe - effectively rock bottom now. VLCCs looked in hope to the temporarily more active AGulf market but once that failed to fire had again to accept slightly lower rates at down to ws 40.5 to China, with \$2.85 million the last seen from Nigeria to West Coast India and more of the same expected over the next fixing phase too.

Mediterranean

Aframaxes steadily lost all of the gains from the previous week as Charterers kept the pace slow and tonnage rebuilt. Now we're back to 80,000mt by ws 85 X-Med again, with Owners still scrambling to find a firm footing to make a stand. Suezmaxes had, initially, found support from part-cargo opportunities, whilst the Aframax market was at the higher level, but once that punctured they found little to do in their own right and rates eased to 140,000mt by ws 70 from the Black Sea to European destinations, with runs to China holding at around \$2.8 million. Defensive into next week.

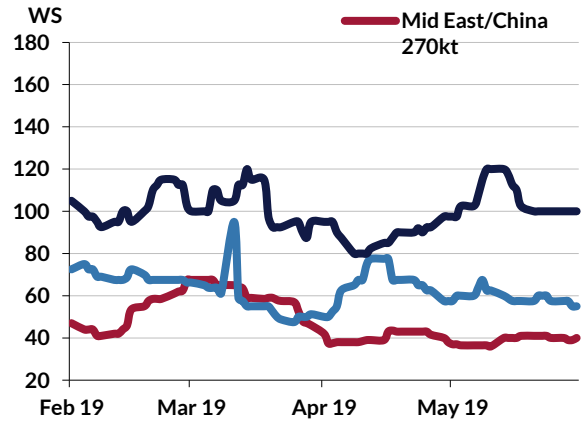
Caribbean

No joy at all for pressured Aframax - supply easily soaked up one-paced demand and rates bump along at down to 70,000mt by ws 80 upcoast and to ws 72.5 transatlantic - needs a lot more attention to force a positive turn. VLCCs nudged onto July dates and although availability isn't particularly thick on the fixing window, there has been enough to keep rates flatline at down to \$4 million from the USGulf to Singapore, and ballasters from the East will continue to prevent the balance tipping.

North Sea

No change at all in the Aframax rate structure here. 80,000mt at ws 97.5 X-UKCont and to 100,000mt by ws 70 from the Baltic are effectively 'conference' numbers that look likely to be repeated over the first half of next week too. VLCCs got the occasional knock but competition was strong enough to peg rates back to little better than \$4 million for crude oil to South Korea, with fuel oil to Singapore marked at, or a shade over, \$3 million, though no fresh trades were reported.

Crude Tanker Spot Rates



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

Clean Products

East

The LR2s have been busy this week, some prompt tonnage has brought down the sentiment, we have seen 75 x ws 105 on subs for TC1. We are definitely missing some mid-month naphtha, which we may see next week, despite it being Ramadan. We think you may get another ws 105 today, but if we see a busy start to next week, it could start to push up again. Westbound cargoes have been popular, \$2.25 million paid for a ship with a backhaul was a direct deal but is probably repeatable in this market. Very little outstanding, so the sentiment will be driven heavily by the level of enquiry early next week.

LR1s remain tight off the front end, but the sentiment in the market is driven by the weak West market. Most of the enquiry towards the end of the week has been westbound, and these levels must be pushed towards \$1.8 million to make any sense for Owners. TC5, on the other hand, is much preferred as a run, 55 x ws 117.5 is so easily repeatable, as it's the best cargo in the market.

MRs have been very busy, specialist cargoes off the front end have really pushed rates but we are seeing a lot of ships arriving off the forward window. EAF on subs at 35 x ws 180 is weak chartering from Owners, and then repeated, but this is nerves, as Owners fear a drop in rates. Returns on TC12 at ws 145 are very good, so we may see this number drop slightly next week, given that the South is looking fairly awful and we will likely see more Singapore ballasters. EAF needs a fresh test but

good to see \$1.5 million on subs on an old ship going to UKCont.

Mediterranean

The Black Sea and EMed market has been the driving force this week for the Handies, with good levels of enquiry keeping Black Sea rates steady at the 30 x ws 180 mark throughout. With tonnage being clipped away at the front end of the list from EMed/Black Sea, this has led to a variation seen in rates dependent on load area in the Med, with a mixture of ws 165 to ws 155 being clipped away. Owners will be pleased rates have held as the end of the week arrives and, with a number of cargoes still looking for cover pushing past the 1st decade of June, rates should have the foundations to hold.

Finally, to the MRs where Owners have capitalised on limited tonnage and been able to be the driving force behind this sector improving across Europe. Rates of 37 x ws 145 and ws 165 were seen for transatlantic and WAF alike by the midpoint, but as enquiry slowed and a pivotal Bank Holiday appeared, fresh stems have been slow to arise and pressure has slowly been built. Come Friday, we see 37 x ws 137.5 and ws 152.5 on subs for transatlantic and WAF, and Owners with available tonnage will be hoping the time out the office for some Charterers will provide a busier start to next week to aid the market holding firm.

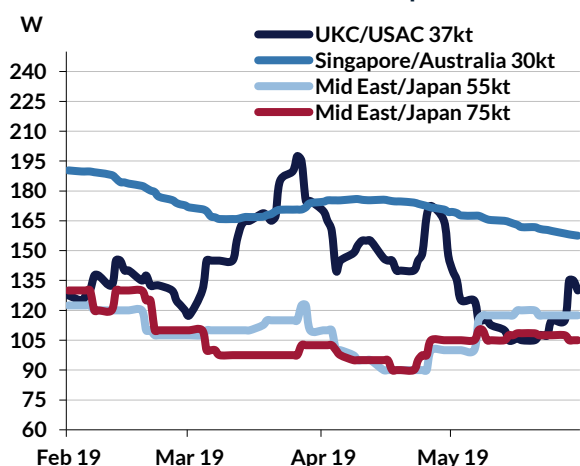
UK Continent

A messy week for MRs, with holidays at the beginning and at the end to really disrupt the flow of activity. In between, we had a very active Tuesday, but aside from that it has been a difficult week for Owners. Rates peaked at 37 x ws 135 for TC2 and ws 150 for WAF but as the weekend approaches levels are certainly going to be some way off those numbers now. With the market as quiet as it is and tonnage building next done will almost certainly be ws 130 and 145 respectively at best, but likely lower. Owners will start next week on the back foot but the hope will be we will see a fast start as Traders look to make up for lost time this week.

Rates have been on the floor and trading sideways for a large part of the week, both parties seemed happy to hold 30 x ws 110 for Baltic/UKCont runs and ws 10 points less for X-UKCont at least for the first half of the week. The tonnage list did tighten a touch by Wednesday and, with a slightly disjointed end to the week with holidays across much of Europe, rates did make some minor improvements by COB Wednesday. Owners are bullish on Friday and trying for 30 x ws 115 X-UKCont and 30 x ws 125 ex Baltic, although in reality fixing levels should be about ws 5 points less, hence why we have a standoff at lunchtime. With that in mind, the rest of today should be quiet leaving some battles to be picked up on Monday, with Charterers crossing their fingers for a few more positions on the list after the weekend.

Generally (and typically) another quiet week for the Flexis as enquiry has been minimal and insufficient to clear units from the front end of the list. Problems here have been compounded by Handies trading flat for the most part leaving rates unchanged 22 x ws 130 X-UKCont. Although there is some minor improvements on the Handies, the quiet week for the Flexis should anchor rates at levels previously stated. Charterers looking to take cover in this sector shouldn't have their work cut out too much next week either.

Clean Product Tanker Spot Rates



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

Dirty Products

Handy

Due to the limited fresh activity that has been seen in the market this week, it is easy to say that the NWE sector has suffered another week of a demoralising trend for Owners. With that said, the activity that has been concluded, has in general maintained at the last done levels of ws120. As the week progressed tonnage replenishment has been limited, resulting in a position list looking a little thinner than we have seen recently. In addition, at the time of writing, we report of a couple of uncovered stems that look to take more tonnage away from the region. Come Monday, all eyes will be on the fresh position list as to define the direction the region is heading.

Once again, we have witnessed a sharp contrast in activity levels from the Mediterranean compared to the north, as fresh enquiry remains buoyant. Fresh stems from both the Black Sea and Med steadily continue to come to market and as such we can report of a ws 10 point gain in fixing levels for both regions. As we start to draw the week to a close, fresh activity continues to tick over, in addition to some replacement business. This in turn is only going to add fuel to the fire and maintain the firm sentiment as we kick off proceedings next week.

MR

The North this week managed to shed the last of its natural MR availability early on off prompt dates leaving little by the way of replenishment thereafter. That said, as units in surrounding areas could have

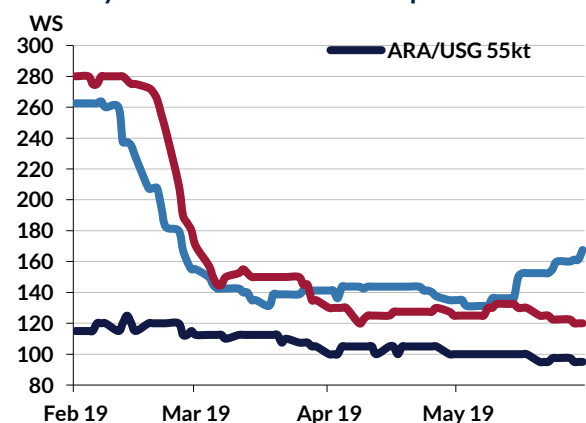
been enticed to come up, the rest of the week has offered Owners very little to get their teeth into. That said, as the Med is building in momentum with each fixture, attracting tonnage to head North will equally be a challenge.

Speaking of the Med, MRs in this sector have fared much better with full size enquiry and strength in the surrounding Handy sector is driving firm sentiment, with rates building from what has been established in previous weeks.

Panamax

Momentum seems to have stalled this week where numerous units have been allowed to approach their open dates, with the recent ws 97.5 type levels becoming questionable once again. Additionally, where transatlantic moves on this sector has been almost non-existent this week, with several units clocking up some real waiting time between employment, Owners will face an uphill task in the immediate deals ahead trying to reduce the impact of tonnage oversupply.

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 | May 30th | May 23rd | Last Month | FFA Q2 (Bal) |
|--------------|-----------|--------------------|-------------|-------------|---------------|-----------------|
| TD3C VLCC | AG-China | +0 | 40 | 40 | 37 | 40 |
| TD20 Suezmax | WAF-UKC | +0 | 54 | 54 | 58 | 57 |
| TD7 Aframax | N.Sea-UKC | +0 | 99 | 99 | 98 | 97 |

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

| | | wk on wk change | May 30th | May 23rd | Last Month | FFA Q2 (Bal) |
|--------------|-----------|--------------------|-------------|-------------|---------------|-----------------|
| TD3C VLCC | AG-China | +0 | 12,500 | 12,500 | 7,750 | 40 |
| TD20 Suezmax | WAF-UKC | +0 | 4,750 | 4,750 | 6,000 | 57 |
| TD7 Aframax | N.Sea-UKC | +0 | 13,750 | 13,750 | 12,500 | 97 |

Clean Tanker Spot Market Developments - Spot Worldscale

| | | wk on wk change | May 30th | May 23rd | Last Month | FFA Q2 (Bal) |
|---------------|------------------|--------------------|-------------|-------------|---------------|-----------------|
| TC1 LR2 | AG-Japan | +0 | 107 | 107 | 108 | |
| TC2 MR - west | UKC-USAC | +0 | 132 | 132 | 136 | 126 |
| TC5 LR1 | AG-Japan | +0 | 117 | 117 | 105 | 114 |
| TC7 MR - east | Singapore-EC Aus | +0 | 158 | 158 | 169 | 163 |

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

| | | wk on wk change | May 30th | May 23rd | Last Month | FFA Q2 (Bal) |
|---------------|------------------|--------------------|-------------|-------------|---------------|-----------------|
| TC1 LR2 | AG-Japan | +0 | 16,250 | 16,250 | 15,500 | |
| TC2 MR - west | UKC-USAC | +0 | 10,000 | 10,000 | 10,000 | 9,000 |
| TC5 LR1 | AG-Japan | +0 | 13,500 | 13,500 | 9,750 | 12,750 |
| TC7 MR - east | Singapore-EC Aus | +0 | 12,500 | 12,500 | 13,500 | 13,500 |

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

| | | | | | |
|---|-----|-----|-----|-----|--|
| ClearView Bunker Price (Rotterdam HSFO 380) | -8 | 389 | 397 | 420 | |
| ClearView Bunker Price (Fujairah 380 HSFO) | -7 | 405 | 412 | 435 | |
| ClearView Bunker Price (Singapore 380 HSFO) | -9 | 405 | 414 | 437 | |
| ClearView Bunker Price (Rotterdam LSMGO) | -22 | 585 | 607 | 605 | |

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

Hong Kong

Room 1404, 14/f,
Allied Kajima Building
No. 138 Gloucester Road
Wan Chai, Hong Kong

T (852) 2511 8919
F (852) 2511 8910

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