

## So, What Next?

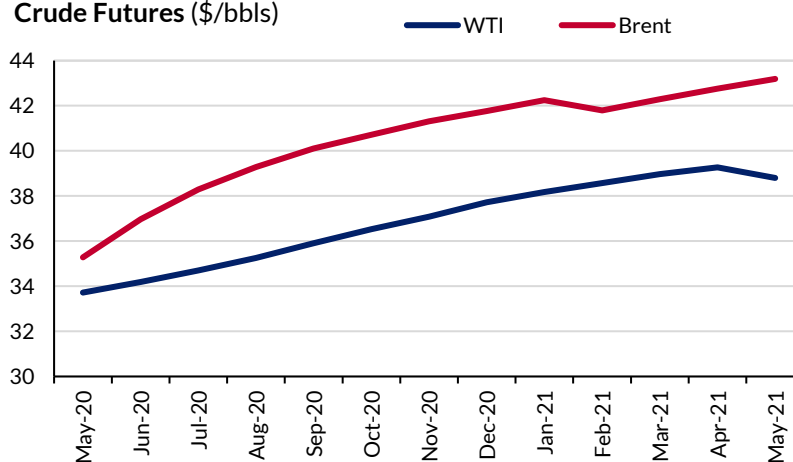
### Weekly Tanker Market Report

With the collapse of the OPEC talks last week, the spiraling down of the crude prices and the ever-developing coronavirus pandemic you could say ‘Life is like a box of chocolates. You never know what you’re gonna get....’ This is certainly the case for anyone who has an interest within the tanker sector, you never know what each week will bring. We have gone from a state of OPEC potentially cutting supply, to a market where Saudi will raise output from 9.7 million b/d to 12.3 million b/d. The UAE has also joined in and announced they will raise crude output to 4.0 million b/d from 3.2 million b/d in February, with an accelerated push to boost capacity to 5.0 million barrels. Russia’s response was to increase production by 200-300,000 b/d.

So, to try to decode what will happen within the tanker market over the coming weeks, there are several questions that need to be discussed. Firstly, how much oil will hit the market? Goldman Sachs has released their assessment and outlined that there could be a record surplus of about 6.0 million b/d by April. Running our Gibson World Oil Supply / Demand model highlights that in Q2, there is the real possibility of 4.9 million b/d of surplus oil production, and if Saudi and UAE continue production at elevated levels. If these production levels are maintained for the balance of the year, a staggering 3.7 million b/d surplus could build, although it seems inconceivable that such a scenario could be sustained.

The next question is: Where will all the crude go? Low crude prices mean that bargain hunters can stock-up and fill their storage tanks. The US, for example, currently has 451.7 million bbls of crude in storage. This is down from the 533.9 million bbls in March 2017. Similarly, OECD Europe had 337.9 million bbls in storage in January, which is down from the 356.8 million bbls that were in storage for the same month in 2017. It’s the same story in OECD Asian countries, where current storage levels are lower than levels two years ago. These figures

Crude Futures (\$/bbls)



highlight that there is some room for additional land-base storage in OECD countries. If production levels continue at these elevated levels, then eventually land-based storage will reach capacity, and the focus will move to floating storage opportunities.

Based on current contango levels, we assess that to make floating storage viable; a VLCC will require up to maximum of \$72,000/day for a three-month charter timecharter. However, this week we have seen a rapidly

rising market, with TD3C increasing from US\$38,000/day at the beginning of the week to US\$243,000/day by the end of the week, meaning that at current rate levels freight is too high to justify floating storage play. Potentially there could be a time when storage rates and the contango converge.

There could also be a move on floating storage for products. With the US now banning flights from mainland Europe, demand for jet fuel is bound to decline further. Demand for jet fuel for Transatlantic flights is estimated to fall by 600k b/d, in addition to collapsing jet fuel demand globally. Product inventories, like crude, have a potential to fill promptly to the brim, spilling the excess into tankers, if the contango structure becomes steep enough.

However, there are now signs that China’s economic activity is re-emerging, which may come just in time as the Western Countries enter a lock-down and short-term falling demand. Obviously, all this could change if Saudi and Russia come to a compromise over production levels and the various governmental measures in affected countries prove successful against the virus. From all this, we do know one thing; the market will prove to be very interesting in the coming weeks. Now, where’s that box of chocolates?

## Crude Oil

### Middle East

Superlatives are hard to find to reflect the huge spike in VLCC fortunes over the week TCE's have rocketed from around \$30,000 pd to \$250,000 pd+ within the period upon rates as high as ws 215 for long East runs and ws 400 paid for a short move to West Coast India. The massive Saudi production hike is the stand-a-lone catalyst and so long as that level of production is maintained, so the market will remain in stratospheric rate territory. Suezmaxes started upon the back foot but late week caught up to restore the economy of scale order as rates breached ws 300 to the East and moved towards ws 200 to the West also and fortunes will run hand in hand, with VLCCs over the next phase too. Aframaxes haven't yet found any benefit from the above, with rates remaining at around 80,000mt by ws 115 to Singapore, but that is about to change and things should get much more interesting next week.

### West Africa

Belated boomtime for Suezmaxes as Charterers initially sought alternatives to rampant VLCC demands to the East, but then began to shift Atlantic runs into super high territory too. 130,000mt by ws 200+ to Europe now, with little lower than that asked to the East also. This will run for a while yet. VLCCs found plenty of potential demand but at first, in order to equalise with AGulf earnings, Owners priced themselves higher than Suezmaxes and thereby failed to score

many hits. Now that the smaller sizes have played catch-up, however, one would expect an increase in volumes concluded with rates to be marked at up to ws 200 to the Far East.

### Mediterranean

Aframaxes moved up a notch or two to 80,000mt by ws 140 X-Med, ws 160 ex Black Sea, but the move was more in sympathy with the larger sizes inflating rather than particularly strong volumes. Owners remain in hope for next week though. Suezmaxes have climbed to 140,000mt by ws 135 from the Black Sea to European destinations and to over \$7 million for runs to China but this zone is still the poor relation compared to other load areas. Improvement next week, but probably still lagging.

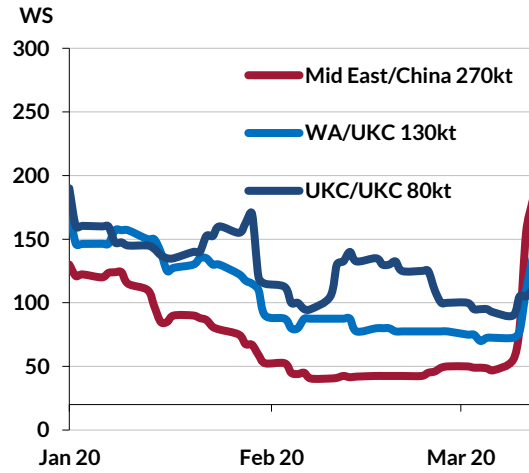
### US Gulf/Latin America

Fog assisted, Aframaxes edged rates higher to 70,000mt by ws 175 upcoast and ws 165 transatlantic and could stretch their sea legs further into next week, whilst the disruption lasts, and larger sizes support. VLCCs were sought in numbers but few deals were seen as ballasters from the East were more minded to stay in the east as rates spiked and 'sensible' rates were therefore not forthcoming. In theory, as high as \$20 million would be required for USGulf to Singapore...smaller sizes will be cheaper \$/barrel.

## North Sea

No market fireworks for Aframaxes here and many Owners were more minded to ballast away to the more lucrative USGulf-Caribs markets. 80,000mt by ws 117.5 X-UKCont and 100,000mt by ws 100 ex Baltic is about the best of it for now but there will be hopes for something a little better to come for next week. VLCCs didn't feature although there was potential interest circulating...but at what rate for crude oil to South Korea-China...\$17 million? \$18 million? higher??

## Crude Tanker Spot Rates



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

## Clean Products

### East

A huge week for the MRs, where rates have followed the bigger ships and commanded some impressively sizeable rates. West stems started the push at \$1.575 million, however, once the momentum started, last done levels were only ever going to be beaten and, with \$1.75 million on subs, its a pretty solid end to the week. TC12 is on subs at 35 x ws 155, but, with the tonnage list thinning fast, ws 165 levels for the next round of cargoes is realistic. EAF needs to see a test, open stems were seeing offers in at 35 x ws 180, a level that was a little too much for some Charterers as some cargoes were withdrawn. There are still a few ships out there, however, ships with firm itineraries and I3c CPP are becoming harder to find. With no sign of the larger ships slowing up at any time soon, the sentiment looks set to continue to push and Owners will be looking forward to new week as they try and push even further.

LRs have seen a major push this week. LR2s are quieter now, while the MRs take up the slack but will be value again next week. 75,000mt naphtha AGulf/Japan is now at ws 158.5 and will be ws 160 next fixture. 90,000mt jet AGulf/UKCont is harder to judge but will next be around \$3.5 million. If next week gets busy, rates could go higher than we have seen in some time. LR1s remain busy, with plenty of stems still outstanding and a fair percentage being long haul. 55,000mt naphtha AGulf/Japan is ws 160 today but more is likely next fixtures. The main

pressure is on Westbounds though with rates rapidly rising and Hafnia controlling the market. 65,000mt jet AGulf/UKCont is now \$2.60 million and could see further rises when the existing fixtures are forced to move.

### Mediterranean

Week 11 began with question marks over whether the sudden drop in oil prices would have an effect on this market. The answer simply is not quite yet, with a surge in VLCC cargoes this week, whether this product is refined or stored is yet to be seen but rates have remained stable throughout. X-Med has by and large traded at the 30 x ws 175 mark across the board, although some momentum was seen on Thursday, which allowed for a ws 7.5 point premium for a Greece load. The large majority of the week has also seen COVID-19 clauses being discussed and as expected, most Owners have now attempted to either exclude Italy from the discharge range or ask for a premium due to the limitation of various cargoes for 14 days having called Italy (whether this is now introduced to more countries will be seen next week). Black Sea rates have remained around the ws 200 mark with Owners able to lock in at higher min flats (MF Augusta), at this rate and for the bog standard MF Agioi a few more points are on offer. Next week will again start with question marks, however, with laycans now stretching to mid second decade, expect W-Med in particular to be under pressure, with enquiry still slower from this region.

Finally to the MRs, where a quiet week was sparked into life thanks to a bolshie LR market to WAF, which in turn saw fresh enquiry in the UKCont. Transatlantic runs have been limited and settled around 37 x ws 160, but with WAF pushing upwards, Owners will be looking for improved levels where possible as we expect this sentiment to push through into early next week. A fresh test on the infrequent run to Suez was seen at the \$900k mark and likewise, if Owners manage to take momentum with them, we would expect this similarly to improve.

## UK Continent

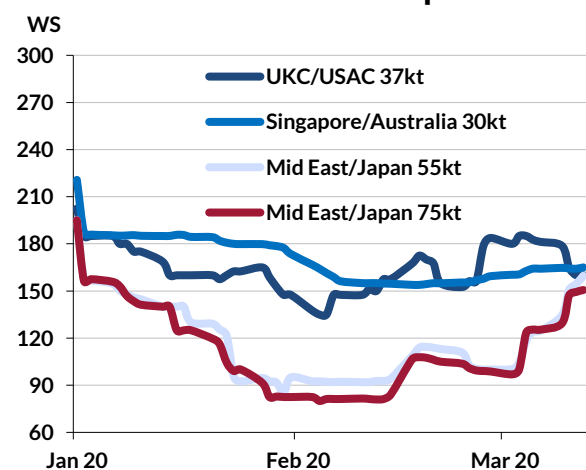
Rates took a hit in the early part of the week, with both TC2 and WAF rates coming off as demand stuttered. WAF has led the recovery in the second half of the week as LR freight rates brought the MRs back into play. As a result, rates have improved up to 37 x ws 200, but maybe pegged close to those levels by the LR's despite the increased requirements. The TC2 arb remains shut, with only system barrels currently moving transatlantic. Rates softened down to 37 x ws 160 and despite some fresh enquiry in the last 24 hours rates will likely stay static, or very close to current levels. Next week remains a bit of a guessing game as to where this market goes as outside factors, namely Covid-19, is likely to have a hugely increasing impact on direction.

A very positive week for Handies in the North as continued enquiry ex Baltic has kept Owners bullish, with their fixing ideas throughout. The fixing window has

now been pushed out to the 25th and, with it rates have firmed to 30 x ws 200. UKCont/Med cargoes have seen some more volumes too, with rates now firming to 30 x ws 177.5-180 and X-UKCont even though a touch quieter is expected to be positively corrected to 30 x ws 190 for natural fixing dates. Market expected to stay firm as we progress.

As this quiet week in the flexi market draws to an end there has been little activity to report on, with any snippets of action being kept out of the public domain. On the other hand, the UKCont Handy market has had a very positive week, with rates continuing to firm daily, including another increase today. As a result, Flexi Owners ideas on where next done levels are at should now also be boosted up to the 22 x ws 227.5-230 mark X-UKCont.

## Clean Product Tanker Spot Rates



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

## Dirty Products

### Handy

The Continent has endured another week of inactivity, with levels stood upon shaky ground. This opinion is based upon a realisation that, with spot tonnage on the lists combined with “special requirement” type business going for less than last done. On face value then, perhaps we are facing similar conditions just as we did when the market collapsed some ws 40 points last week. Furthermore, if these signals do prove to be cyclical, then this market may have to endure a drop before any revival can be seen.

In the Med sentiment has been more balanced throughout the week, with most deals settling within “guideline” parameters. As always, however, there are exceptions and as such, news of an outlier type fixture broke, the market was quick to dismiss rate movement in both directions! Balanced for now then, we are keeping an eye on what the surrounding Aframax are up to. The CPC programme seems to be causing quite a stir where further down the line, Handies could hope to enjoy a share of the spoils if positive longevity holds.

### MR

With tonnage showing at the start of this week, MR Owners in the North were hoping to see a rally of enquiry and one unit swiftly picked up a full stem. Fortunes turned, however, as this unit failed and for the rest of the week, just one MR has been clipped away on a full stem to leave the

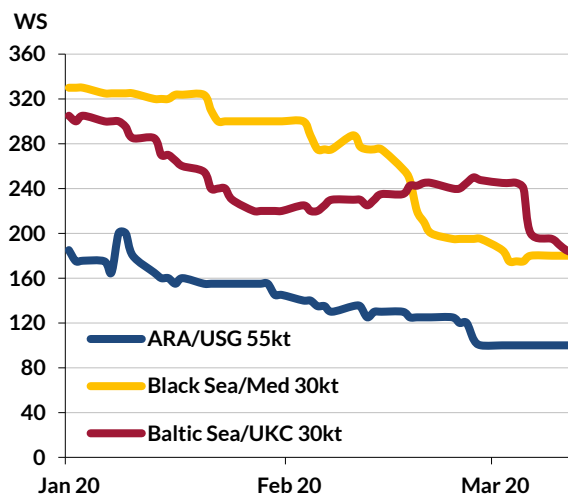
region. With the Handy market suffering from a second quiet week and drop in rates, MR Owners do not have the back stop of smaller stems to compete on. Going into next week sentiment is likely to remain weak but there may be some green shoots of recovery in surrounding markets at time of writing, so watch this space.

MRs in the Med this week have seen a few units clipped off on private business maintaining the rates as they were at the end of last week, with X-Med trading the ws 110-115 range and Black Sea/Med trading at ws 120. With this activity we have seen the window slip into the third decade and after corona virus sending the larger sizes rates into the stratosphere, Owners are starting to consider when the trickle down of bullish rates will hit the Aframax. Ultimately this will come once the Aframax market tightens and this week we have seen rates for CPC and Novo barrels move from 80 x ws 120 to 80 x ws 155-160, hence MRs might expect that rates will tighten in line as some of these see split stems. Optimism returns with caution next week for Owners but current rates are expected to be repeated a few times first.

## Panamax

The clear down of availability this week continues albeit with a notable amount of fixing and failing to be considered. As such rates have been unable to progress on from the ws 100 transatlantic mark for approved modern units but what has been interesting to see is the premiums some voyages have been able to absorb and still get fixed. Fixing date progression will now bring more tonnage into play, however, you can sense sentiment starting to simmer.

## 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	Mar 12th	Mar 5th	Last Month*	FFA Current Q
TD3C	VLCC AG-China	+130	179	49	42	173
TD20	Suezmax WAF-UKC	+58	134	76	88	144
TD7	Aframax N.Sea-UKC	+16	109	94	132	110

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

		wk on wk change	Mar 12th	Mar 5th	Last Month*	FFA Current Q
TD3C	VLCC AG-China	+171,250	204,000	32,750	17,750	196,250
TD20	Suezmax WAF-UKC	+41,250	69,500	28,250	28,750	75,750
TD7	Aframax N.Sea-UKC	+16,000	28,250	12,250	40,500	27,500

## Clean Tanker Spot Market Developments - Spot Worldscale

		wk on wk change	Mar 12th	Mar 5th	Last Month*	FFA Current Q
TC1	LR2 AG-Japan	+25	151	125	81	
TC2	MR - west UKC-USAC	-21	162	183	153	171
TC5	LR1 AG-Japan	+36	160	124	93	157
TC7	MR - east Singapore-EC Aus	+1	165	164	155	165

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

		wk on wk change	Mar 12th	Mar 5th	Last Month*	FFA Current Q
TC1	LR2 AG-Japan	+13,500	42,250	28,750	9,000	
TC2	MR - west UKC-USAC	-1,250	23,000	24,250	16,500	24,500
TC5	LR1 AG-Japan	+13,000	32,250	19,250	8,500	31,500
TC7	MR - east Singapore-EC Aus	+3,250	20,250	17,000	13,250	20,250

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

ClearView Bunker Price (Rotterdam VLSFO)	-113	271	384	461
ClearView Bunker Price (Fujairah VLSFO)	-91	330	421	503
ClearView Bunker Price (Singapore VLSFO)	-111	315	426	511
ClearView Bunker Price (Rotterdam LSMGO)	-112	331	443	489

\* WS spot rates converted into 2020 WS100



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