Ice Age: The Meltdown

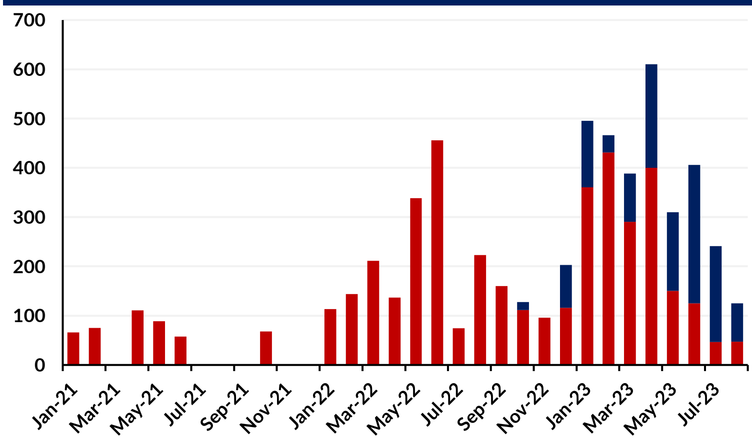
Weekly Tanker Market Report

Voyages through the Northern Sea Route (NSR) are no longer a surprise. Russia has been trying to develop this route for many years now, making it one of its strategic priorities in the 2000s. Reports of tanker shipments date back over a decade, with the 1st voyage successfully completed back in 2010 and volumes shipped (all commodities) gradually edging up over the past decade. The navigation season along the route is fairly short, typically beginning in early summer and ending mid/late autumn. Tonnage passing through the NSR is still accompanied by a nuclear ice breaker on some or all parts of the voyage, depending on ice class conditions.

The rationale behind efforts to develop the NSR is clear. Distance wise, the NSR is about 30% shorter for Russian Baltic shipments delivering into Northern China and about 45% for shorter for shipments from Murmansk. The importance of developing the NSR is even more critical now, following the introduction of the EU ban on imports of Russian crude in December last year.

With this in mind, the Russian government is targeting year-round sailing, potentially as early as 2025; however, navigation along the route remains challenging, at least at certain times. Back in November 2021, 18 vessels got stuck in various remote points along the NSR route when water froze quicker than expected. This year, two Aframaxes, the NS Arctic and the Primorsky Prospect, shipped Urals from the Baltic into Northern China along the NSR, with the voyage taking about 46-47 days, slightly longer that what would have taken these vessels to travel via Suez Canal at 12.5 knots speed. AIS tracking shows that both tankers slowed down notably at some ; stages between the Kara Sea and the Chukchi Sea, at times going as slow as 3-4 knots, probably due to challenging ice conditions.

Russian Seaborne Crude Exports to China from the Baltic/Murmansk (kbd)



In this instance, long voyage days certainly reduce the economics of the NSR passage, which include ice breaker costs, although lower bunker expenditure due to the shorter distance travelled via the NSR and no need to pay Suez Canal dues helps to balance that out. Also, with the NS Arctic and the Primorsky Prospect completing the Arctic voyage relatively early during the navigational season, it is likely that vessels that are attempting the voyage now will face better conditions and hence achieve higher speeds.

Furthermore, regardless of ice conditions, the economics of shipping crude from Murmansk to China are certainly more attractive. Last year, the Panamax Vasily Dinkov delivered crude from Umba FPSO to Rizhao in 28 days, this year the Aframax SCF Baltica has done a broadly similar voyage in 31 days, despite slowing down notably at certain parts along the route. This compares to an about 45-day voyage via Suez Canal at 12.5 knots.

Absolute seaborne crude exports from Murmansk are fairly small, at circa 325kbd so far this year but almost half of it (150 kbd) has been shipped to China (incl. shipments via the Myanmar pipeline). Meanwhile, Baltic shipments to China have averaged circa 230 kbd. Combined, this is not an insignificant volume, considering distances and time involved to deliver into China via the Suez Canal. For now, crude volumes shipped via the NSR are very modest in comparison to voyages via Suez, whilst the economics for Baltic shipments remain questionable. However, this trade will undoubtedly continue to grow going forward due to global warming, gradually chipping away at Russian crude tanker tonne mile demand.

Crude Oil

Middle East

The freefall in VLCC rates continued as the week progressed. VLCC Owners seem to have lost all hope and optimism and with that, last done has currently dropped to 270,000mt x ws 37 to the Far East. Voyages West remain sparse, and we would expect a voyage to the UKC to be now below 280,000mt x ws 25 via Suez. The AG Suezmax market started the week at a slow pace but has since ramped up as we come to a close. The list has been thinned out for Basrah suitable ships for the current fixing window however it does open up again from around the 20th. Charterers were able to put pressure on before Owner's resistance stiffened on Basrah/West which you could expect to pay around 140,000mt x ws 57.5. Enquiry for Long East has increased this week though Charterers were again able to chip away at last done levels, for an East run this currently stands at around 130,000mt x ws77.5. Aframaxes have enjoyed another active week in the AG region with a huge clear out taking place in the latter stages. Not only does this narrow the list of approved units a lot, but Charterers have also snapped up handicapped units. With this, the bottom should have been reached heading into next week with some small areas of potential for Owners. AG/East sits at 80,000mt x ws 102.5.

West Africa

Owners' desperation doesn't just apply to the AG market unfortunately as we see further rate reductions. The AG market has certainly impacted sentiment but the fall in rates in the US Gulf just adds another nail to the coffin. A voyage for WAF/East is expected to be next fixed at around 260,000mt x ws 45 level.

West Africa saw a steady level of enquiry on Suezmaxes this week with Owner's resistance stiffening here, questions are being raised over how strong the USG and South American markets are and whether this will pull tonnage away, at the moment a standard TD20 run rates steady around the 130,000mt x ws 70 level. Premiums to head East stand at approximately 10-15 points, though VLCC's can still make the final decade in WAF so some East Stems may be taken on the larger sizes.

Mediterranean

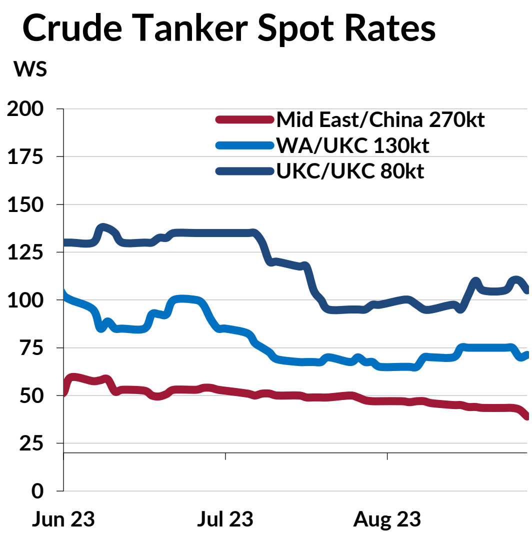
A disappointing week for Owners in the Med who had hoped for much more. A long U.K. bank holiday weekend gave hope that Tuesday would bring an influx of cargo; this did not materialise. Cross Med and Black Sea-Med rates were consequently eroded to ws 95 and ws 125 respectively for vanilla runs. There is little at the close to suggest a bounce is coming in the near term. Suezmax enquiry in the MED has progressed this week with a number of ships fixing off market as they await an upturn in rates, sentiment is steady here and big lifters will continue to look for East runs, In the Black Sea, rates have remained stable and Owners await the next stems to come out of CPC although with the rates as they are on Suezmaxes you could see some Owners compete with smaller sizes. For a standard TD6 run it will pay around 130,000mt x ws 72.5 and a Libya/Ningbo run holds at around the LS rate of $4.0Million.

US Gulf/Latin America

Throughout the week, Aframax Owners have seen some volatility in fixing and failing which has prevented any momentum being built. Delays due to hurricane Idalia may well provide some solace, but as it stands now levels hold at around 70,000mt x ws 125 for a short haul run. VLCC Owners are not faring any better here as the general pessimism felt throughout the VLCC markets takes hold here as well. Last done to the Far East is $7.45million and the potential for further discounts remains likely.

North Sea

Aframax activity has remained relatively consistent throughout the week in the North with rates closing at 80,000mt x ws 105. As we look to next week, Owners will hope for more of the same in terms of activity but will have an eye over their shoulder at those ships repositioning for Baltic business.



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

Clean Products

East

LR2s also have seen lower volume this week than had been hoped. But with the fairly short list on the front end, along with a renewed optimism is pushing Owner's ideas up. It will remain in Charterers hands to see if they can keep things muted enough to control ambitions. A 75,000 mt naphtha AG/Japan run has stayed flat at ws 135 but a 90,000 mt Jet AG/UKC run has edged nearer to $3.90 million for a fully approved, good cubic non-Russia vessels. With only a couple of stems in the market though, Charterers will feel last done levels are the top of where they will pay for now.

LR1s have been relatively quiet throughout and even with a fairly short list, rates have stalled somewhat. Some signs of higher rates were being seen in the late part of the week though and rising MRs again will encourage them. West runs have been the hardest to cover but accordingly returns are far better than East - together with a firmer market in the West that should be what Owners want to do. A 60,000 mt Jet AG/UKC voyage is now priced at $3.35 million but is poised to push higher. TC5 has remained steady at 55,000 mt Naphtha AG/Japan at ws 145 - but with expectations that it will soon rise over the ws 150 mark once again. The tonnage has cleared considerably this week though and although APPEC starts Monday we could see an active start to the week.

Another fluctuating week for the MRs, as 30 points were taken off both TC12 and TC17 - mainly caused by the large influx of Sing/Chit/Oz ballasters. However, as we finish the week, the list is incredibly tight, there is plenty of off market activity and Singapore is tight enough again meaning that we're unlikely to see a large number of ballasters. As such we should see the MRs push higher from here. The big unknown though being APPEC week in Singapore starting Monday, and whether this has a bullish or bearish effect.

Mediterranean

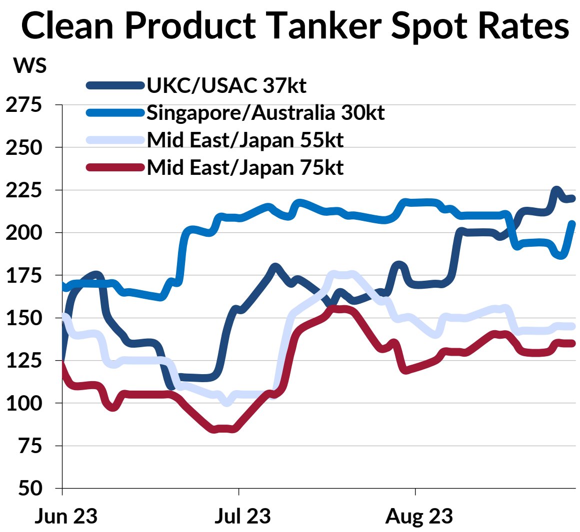
It's been a week of 2 halves in the Med Handy market, which after an active start has seen enquiry slow and rates begin to slip. We began the week with X-Med trading at the 30 x ws 275 mark, which soon rose to the ws 280 mark after an influx of cargoes on Tuesday. However, since then enquiry has been lacking and the list has begun to replenish itself. Last done is currently at 30 x ws 270 but, with the weekend approaching and little left to cover, expect some negative correction here.

Finally to the MRs here in the Mediterranean, where overall it has been a positive week for Owners in this sector. Rates started the week at the 37 x ws 220 mark for Med/TA but, with the list tight on the front-end and consistent cargo enquiry hitting the market, we have seen rates jump to the equivalent of 37 x ws 255. WAF action has been slightly slower but rates have continued to track at +10 on TA. Heading into the weekend, we expect Owners to remain bullish with their ideas, despite little left to cover.

UK Continent

The MR sector in the Continent never really found its groove this week for Owners with ambitions of improved rates walking into the office on Tuesday after the bank holiday. With the Mediterranean market showing what can happen with a lack of tonnage / ballasters (improving throughout from 37 x ws 230 up to ws 260), Charterers have managed to keep a lid on rates by carefully picking through the tonnage list and keeping their cards close to their chests. Rates have only been able to bounce around the 37 x ws 220-225 mark for TC2 for the majority and despite an active Wednesday, the second half has been very limited with enquiry and any buzz is dampened.

A steady flow of cargoes have been quoted this week and, with a healthy amount of ships available on the supply side, freight has traded sideways at 30 x ws 192.5 for X-UKC. Expect early second stems to be quoted come Monday, with more of the same expected to occur here.



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

Dirty Products

Handy

The Continent started the week where it left off, with ws 182.5 once again being repeated numerous times at the front end of the week, as drip fed enquiry kept the top of the list ticking over nicely. However, as we approached the latter half of the week, availability crowding the front end of the list caused sentiment to soften and rates to slide to ws 180. It is expected that rates will remain at this level for now, as we approach the weekend, but Owners will be wanting to hear a plethora of enquiry come next week to avoid the risk of the market falling even further. In the Med, the week began with a rather lengthy list of prompt tonnage seeking employment, which consequently caused the market to soften significantly on Tuesday as we saw 3 Owners go on subs at ws 150. As the week progressed, Owners found it increasingly difficult to better last done, as tonnage supply continued to overpower enquiry and led one particular Owner to accept an offer at a bleak ws 147.5 in amongst a selection of under the radar activity. Going into next week, level of enquiry is going to have to pick up should there be any hope of a resurgence in rates.

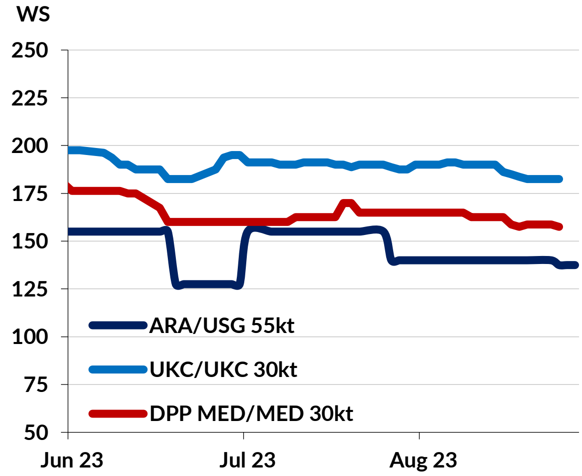
MR

Not quite the moto but near enough: "part cargo, we'll take it". It's been a slow week in terms of full 45kt requirement, with MR units in the Med and Cont alike having little option but to take out 30kt stems. Additionally, it's no surprise numbers are in need of a test, where questions surround the validity of last done. Next week Owners have their work cut out, but firstly some much needed activity needs to come this way.

Panamax

Theoretical levels are all we have to go by at present, where a lack of liquidity remains a constant blight upon the sector. As ever, we are left to use surrounding markets to pinpoint Panamax values, although at present the US isn't quite firing on all cylinders, which makes the ballast decision slightly trickier. That said, with a gap in availability here in Europe and fixing dates not quite matching up to open positions, this may be a blessing for those with tonnage coming open over here.

Dirty Product Tanker Spot Rates



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Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 31st	Aug 24th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	**-4**	40	44	49	47
TD20	Suezmax	WAF-UKC	**-5**	70	75	66	76
TD7	Aframax	N.Sea-UKC	**+0**	105	105	100	117

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

			wk on wk change	Aug 31st	Aug 24th	Last Month*	FFA Q3
TD3C	VLCC	AG-China	**-6500**	11,000	17,500	23,750	22,000
TD20	Suezmax	WAF-UKC	**-3750**	17,750	21,500	14,000	21,750
TD7	Aframax	N.Sea-UKC	**-1250**	13,500	14,750	9,750	24,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Aug 31st	Aug 24th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	**+1**	134	133	156	
TC2	MR - west	UKC-USAC	**+19**	224	205	162	180
TC5	LR1	AG-Japan	**+1**	145	144	177	143
TC7	MR - east	Singapore-EC Aus	**+0**	200	200	211	207

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

			wk on wk change	Aug 31st	Aug 24th	Last Month*	FFA Q3
TC1	LR2	AG-Japan	**+500**	29,000	28,500	38,000	
TC2	MR - west	UKC-USAC	**+3750**	29,500	25,750	15,250	19,500
TC5	LR1	AG-Japan	**+250**	22,000	21,750	31,500	21,500
TC7	MR - east	Singapore-EC Aus	**+0**	21,250	21,250	23,500	22,750

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

Bunker Price - Rotterdam VLSFO	**+14**	604	590	612
Bunker Price - Fujairah VLSFO	**+14**	625	611	630
Bunker Price - Singapore VLSFO	**+13**	635	622	633
Bunker Price - Rotterdam LSMGO	**+28**	920	892	891

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