Saving a Buck

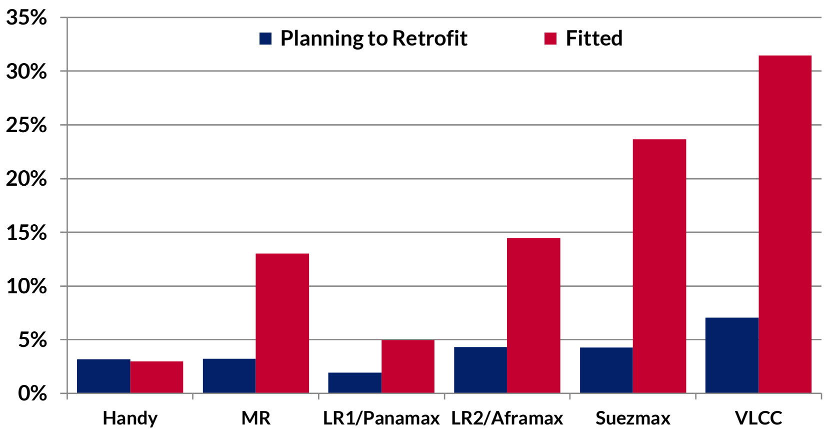
Weekly Tanker Market Report

After a turbulent 2020 that saw a brief oil price war, a global pandemic and oil demand destruction, it is perhaps not surprising that to many it feels like concerns surrounding IMO2020 have long gone. The transition to compliant bunker fuels went relatively smoothly, despite some teething issues. Prior to the onset of the pandemic, owners of scrubber tonnage enjoyed a very healthy discount for high sulphur fuel oil (HSFO) versus very low sulphur bunker fuel (VLSFO), which averaged between $250/tonne and $300/tonne in key bunkering hubs during December 2019/January 2020. However, the pandemic driven collapse in oil prices meant that the spread sunk to just $40 - $60/tonne between April and November last year. For scrubber tonnage, this meant that the savings for burning HSFO sunk from $16,000/day in January 2020 to just $3,000-$4,000/day (VLCCs trading TD3C route, slow steaming basis) for most of last year. Despite such a dramatic decline, the scope for scrubber cancellations has been limited due to contractual obligations with shipyards and scrubber manufacturers.

More recently, scrubber economics have started to change once again. The latest upward trend in oil prices has offered some welcome news to those who invested in this technology, with the spread between HSFO and VLSFO widening to around $80 - $100/tonne and scrubber savings climbing above $5,000/day for VLCCs.

In terms of statistics, the scrubber uptake is the highest in the VLCC fleet, followed by Suezmaxes. Scrubber penetration is considerably lower for smaller size groups. According to Gibson's records, scrubbers have already been installed on 31% of the existing VLCC fleet, while another 7% is yet to be retrofitted. In addition, 32% of current VLCC orderbook is expected to be fitted with the technology. This means that close to 40% of the VLCC fleet could be scrubber fitted by the end of the year. The actual penetration of scrubbers in the spot market is expected to be even higher when excluded tonnage (NITC, sanctioned/storage vessels) are accounted for, while the anticipated demolition over the course of this year will also reduce the absolute number of non-scrubber tankers.

% of Current Tanker Fleet Fitted/to be Fitted with Scrubbers



Although the scrubber uptake is significant for larger crude carriers, we are unlikely to see further exponential growth. Major scrubber manufacturers reported a sizable slowdown in new scrubber orders last year. The regulatory scrutiny is also expected to intensify. By now, the list of ports where the use of scrubbers is banned is extensive, while some governments are calling for a gradual phase out of the technology (EU) or in extreme cases an outright ban (Canada). It seems inevitable that the list of scrubber restrictions is only going to increase going forward. For now, however, while tanker supply/demand conditions remain severely unbalanced, even a modest scrubber premium could mean staying afloat and earnings above OPEX.

Crude Oil

Middle East

Once again, it is a week where there is hardly any VLCC market enquiry to work with, aside from the intra-Chinese deals, which bolster the monthly figures but gives little to the other Owners outside of that. Eventually we saw one market enquiry that attracted over 10 offers, which inevitably led to a new low being set. Last done to the East is 270,000mt by ws 25 (2021 ws rates) on an over 15 year built ship but probably nearer to 270,000mt x ws 33 for modern and we estimate that a run West would be in the region of 280,000mt by ws 20 (2021 ws rates). Suezmax tonnage has only fared slightly better this week for cargoes destined to the East and rates have peaked at 130,000mt by ws 40. Unfortunately for voyages West, Owners have not been able improve on levels and the week ends with 140,000mt by ws 8 to Europe. Aframaxes in the AGulf are ticking over. Generally East rates are showing some improvements due to delays and bunker prices increasing, but this is yet to trickle into the AGulf region where rates remain under pressure from the sheer number of vessels available. Rates are currently trading at around 80,000mt x ws 60/62.5 level (basis 2021 ws rates).

West Africa

VLCC Owners will need to re-draw their battle lines now that we have a new level set for the region. We may start to see Owners becoming apathetic as returns hover just over OPEX as increased bunker prices continue to bite. Last done for a voyage to China is 260,000mt by ws 33 (2021 ws rates). Another depressing week for Suezmax Owners, which has been light on activity and rates have remained firmly routed to the floor. Some enquiry still remains uncovered and although rates currently stand at 130,000mt by ws 37.5 to Europe and ws 47.5 East. However, there is now some resistance from Owners and there is real potential for higher to be paid next week.

Mediterranean

A strange week for Aframax Owners in the Mediterranean. More undercover activity than meets the eye has been concluded and this, coupled with ballasters leaving the region, has served to trim a burgeoning position list. By midweek the rate switchover had been achieved in the main, with 80,000mt by ws 70 being the conference for both Ceyhan and CPC/Supsa loaders which require well approved tonnage. There could have been hope for more but no sooner than the next window moves into range, does the next tranche of firm positions come into play. Only a brave analyst will suggest that there is more than only a little upside in the near future. Availability of Suezmax tonnage has tightened this week and in turn Owners have been able to achieve higher levels where rates peaked at 130,000mt by $2.35 million to Ningbo. The window of opportunity has now closed, and the availability of tonnage is far greater off forward dates, and it is anticipated that rates may slightly soften again next week.

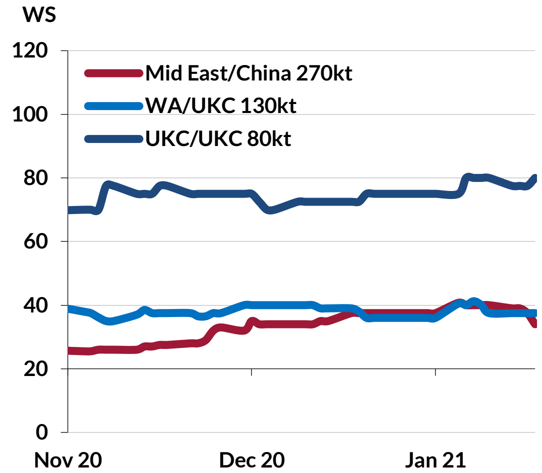
US Gulf/Latin America

Aframax Owners started the week with a good supply of enquiry, not just the short inter-US trade but longer runs transatlantic too. This initially cut availability of tonnage and Owners had every chance to structure a recovery, although the latter part of the week has settled back down and Owners are at best able to maintain levels which are around 70,000mt x ws 90 (2021 ws rates). VLCC rates continue to slide throughout the week as more Owners see this region as a potential saviour as AGulf and WAF markets offer very little with last done reported US Gulf to China at Lumpsum $4.45 million.

North Sea

A bit more of an exciting week for Northern Aframaxes. Much anticipated ice has caused some waves, pushing rates with longer haul enquiry and helping to boost Owner's sentiment. Baltic/UKCont is currently fixing at 80,000mt by ws 65 levels and X-Cont at ws 80 levels. Further gains are expected early next week, and premiums will continue to grow for ice class vessels leaving the region, giving some Owners hope of semi-respectable returns, at least in the short-term! VLCC levels continue to soften as naturally placed ships should better any proposed levels from Eastern ballasters with current levels expected to be in the low $4's million for a long run to the East.

Crude Tanker Spot Rates



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

GIBSON SHIPBROKERS

Clean Products

East

LRs have had a varied risk this week, with LR1s showing good initial promise but LR2s disappointing. LR1s saw a flood of cargoes into the market at the start of the week encouraged by the drop in rates the week before. With demand increased, Owners ideas started to rise but activity has fallen away towards the latter part of the week and rates have really only seen small increases. 65,000mt jet AGulf/UKCont is up a touch to $1.225 million and 55,000mt naphtha AGulf/Japan is up 7.5 points to ws 82.5 (2021 ws rates). Tonnage has cleared dramatically but it is a sign of how over supplied the market was that rises have been so minimal.

LR2s were quiet from the start after the hopeful week before. But with few outstanding stems and Charterers looking further out, it has left too many vessels to see anything but a decline. 75,000mt naphtha AGulf/Japan is hovering at ws 85 (2021 ws rates) but may well see less when properly tested. 90,000mt jet AG/UKCont has fallen from $1.75 million to $1.65 million in the last day and may have a little further to go. Activity is now at best steady on both sizes and a flattening out of rates is likely for the balance of January.

A busy start to the week on the MR segment saw the front end really clear out. EAF was the first route to shift in terms of market levels, unsurprising, given the volume of product moving in that direction already in January. Ws 175.5 EAF was the highest we have seen fixed (bss 2021 flats) and we would expect this run to trade down slightly next week as Charterers turn their attention towards the better economics available on the LRs. Shorthaul has pushed up to $200k levels but further progression was halted by an underperforming LR1 segment earlier in the week. TC12 in theory should have followed suit and pushed up to ws100, but as of yet we haven't seen this materialise, although Cepsa were seeing ws 110 levels offered on their East options, before they found the extra barrels and took the Hafnia LR1. With ws 88 the last deal fixed and despite looking cheap given the action this week, it will still be highlighted by Charterers as last done as we move from a quiet end to the week. Expect further Africa deliveries, inevitable given the appetite to import at the moment, but a segment tainted by underperforming larger sizes as we move into Feb laycans.

Mediterranean

Owners will be very happy with the progress made this week, with consistent firming throughout. We started the week on Monday bottomed out at 30 x ws 85 (2021 ws rates) for X-Med where TCE returns were on the verge of negative and at the time of writing, 30 x ws 110 (2021 ws rates) is on subs with potential for further improvements. Not only have we seen a flurry of cargoes throughout the week, which has taken out a plethora of ships from the list, but we also saw some tonnage set sail for NWE to get a slice of the action from this region where rates were stronger. A few replacements needed W-Med added fuel to the fire and this coupled with a lack of East Med tonnage has allowed Owners to capitalise with Black Sea rates now at the 30 x ws 122.5 (2021 ws rates) mark. A few early third decade stems are still there to cover so expect Owners ideas to be bullish and with weather poor in the Med, this will likely see Charterers to pay up for safe itineraries. Next week should see momentum translate into proceedings on Monday, however, a stretched fixing window and replenished list might take some wind out of Owners sails.

For much of this week, Med rates have traded ahead of NWE, which has seen a slightly more subdued sector. Consistent enquiry has been the key here in the Med and this alongside WAF ballasters heading further North to get a slice of the ice action coupled with a generally tight list in the Med, allowed Owners to firm 5 points throughout from 37 x ws 110 (2021 ws rates) transatlantic to 37 x ws 115 (2021 ws rates) on Thursday. TC2 however took a hit on Thursday with the going rate now just at the three figure mark at 37 x ws 100 (2021 ws rates), which will mean pressure will likely build in the Med and less than last is certainly on the cards here.

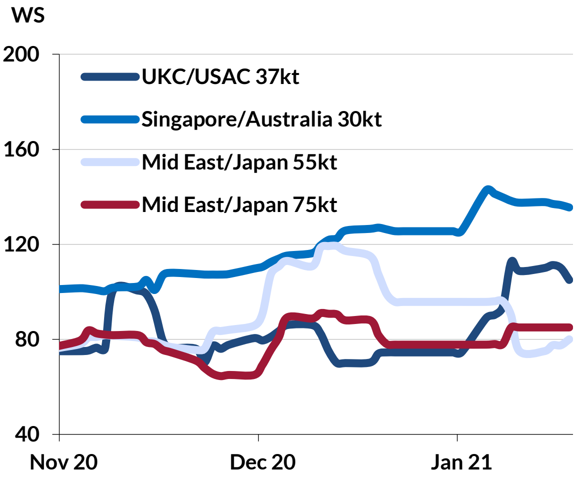
UK Continent

As week 2 comes to a conclusion, those in Chartering seats will certainly be feeling things have swung their way as despite good levels of fixtures and a buoyant Med market where they have been able to squeeze rates in the 2nd half of the week. After a few days of 2020 and 2021 rates being fixed, thankfully by Wednesday the market accepted the new year and it seemed 37 x ws 110 for transatlantic and the traditional 10-point premium for WAF was the safe call and, with a glimmer of optimism as more was being seen ex Med. But with relets a plenty picking off enquiry, a few vessels with non CPP background got itchy feet and rather rapidly 10 points was wiped away. Come Friday we see a few outstanding now looking at a 37 x ws 100 market for transatlantic and expect Charterers to continue the pressure moving into next week.

It's been a positive week for Handies up in the North as the combination of sustained enquiry and Charterers looking to protect against ice requirements has seen TC9 for most part of the week trade at a steady 30 x ws 125 (2021 ws rates). Better enquiry has also been seen for X-UKCont with 30 x ws 115 (2021 ws rates) being repeated a few times now and a healthy amount of non-ice vessels being fixed for Med discharge will only be beneficial for Owners as we head into next week. At the time of writing, 30 x ws 125 (2021 ws rates) was last done ex Baltic but with ice ships tight for certain dates, Owners are offering higher with 30 x ws 130 expected to be paid next. Owners are optimistic here.

All in all, it has been a pretty good week for this UKCont Flexi market, which has seen some fresh enquiry and snippets of fixing activity. The main boost has been the increase in rates seen on the Handies over the course of the week, which has meant Flexi Owners have been able to adjust their ideas in a positive fashion. As a result, the benchmark for a X-UKCont run has risen 15 points this week with 22 x ws 150 (2021 ws rates) now the call. Heading into next week, Owners will be hoping for some further enquiry to help take advantage of these levels.

Clean Product Tanker Spot Rates



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

Dirty Products

Handy

When only one Charterer makes a market in any given week, the writing is on the wall as far as sentiment is concerned. Irrespective of who that particular Charterer is, testing is inevitable in order to revalidate benchmarks. However, it's the gradient of decline seen this week, which will have Owners hiding their eyes in frustration, where needless to say this is not the start to 2021 they wanted, with TCE's at summer type lows. Such trends can also be seen in surrounding areas. The Med came into this week having already lost value but can at least boast that the downward curve is flattening out.

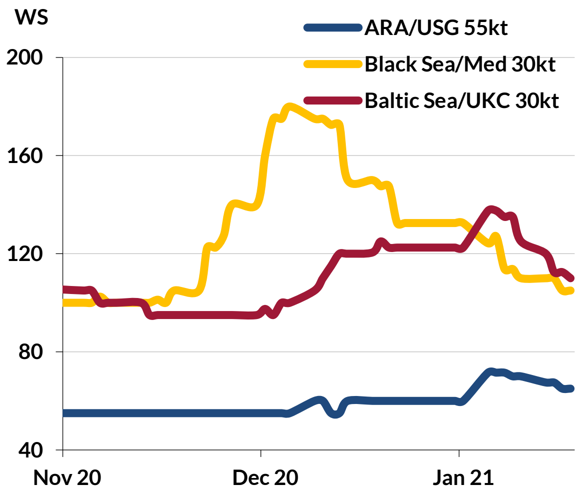
MR

With surrounding markets above and below struggling for any real traction, MR Owners knew that a week of tough trading conditions would be in store, and in that respect this week didn't disappoint. Indeed, levels have been tested showing this is totally a Charterer's market, but what is rather more concerning right now is the idle days racking up on multiple ships from a number of operators. Where we go from here now depends on how quickly the cargo base receives a much needed boost in volume.

Panamax

As the second week of the new year draws to a close, yet again, we are left to contemplate where rates should theoretically align in absence of anything concrete to go on. In making assumptions of how rates are to form, wider factors continue to influence the outcome. Oversupply and inactivity seem to be constant factors right now but, with an Aframax market pro-rating at less than previously achieved numbers (albeit from some time ago) then unless Ice Class or any other specific restriction are needed, next done is likely to raise some eyebrows. Some initial correction is therefore likely, especially given the necessity for some of the units open here in Europe to relocate back to the US.

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	Jan 14th	Jan 7th	Last Month*	FFA Q1
TD3C	VLCC	AG-China	**-5**	35	40	35	35
TD20	Suezmax	WAF-UKC	**+0**	38	38	38	43
TD7	Aframax	N.Sea-UKC	**-1**	80	81	80	99

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

			wk on wk change	Jan 14th	Jan 7th	Last Month*	FFA Q1
TD3C	VLCC	AG-China	**-7,500**	5,000	12,500	15,750	5,250
TD20	Suezmax	WAF-UKC	**-500**	-1,250	-750	4,500	1,000
TD7	Aframax	N.Sea-UKC	**-1,500**	-5,000	-3,500	-4,750	7,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Jan 14th	Jan 7th	Last Month*	FFA Q1
TC1	LR2	AG-Japan	**+5**	85	80	90	
TC2	MR - west	UKC-USAC	**-7**	103	110	71	117
TC5	LR1	AG-Japan	**-6**	82	88	119	93
TC7	MR - east	Singapore-EC Aus	**-3**	135	138	123	146

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

			wk on wk change	Jan 14th	Jan 7th	Last Month*	FFA Q1
TC1	LR2	AG-Japan	**+750**	7,500	6,750	16,750	
TC2	MR - west	UKC-USAC	**-1,750**	3,250	5,000	1,250	5,750
TC5	LR1	AG-Japan	**-2,000**	3,500	5,500	18,750	6,000
TC7	MR - east	Singapore-EC Aus	**-1,000**	6,750	7,750	9,500	8,500

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

ClearView Bunker Price (Rotterdam VLSFO)	**+20**	415	395	383
ClearView Bunker Price (Fujairah VLSFO)	**+24**	449	425	402
ClearView Bunker Price (Singapore VLSFO)	**+19**	449	430	401
ClearView Bunker Price (Rotterdam LSMGO)	**+14**	456	442	423

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