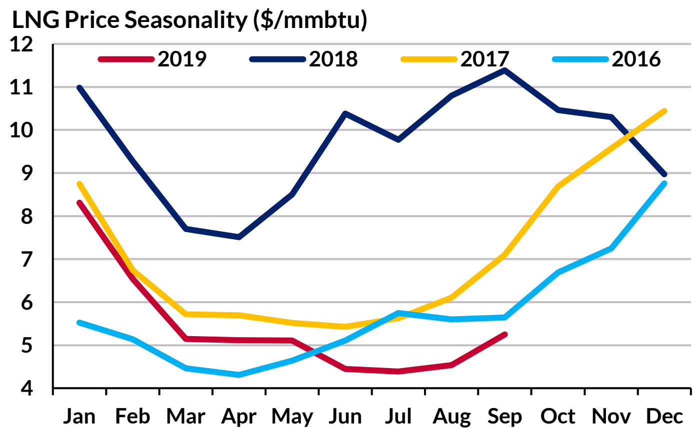
Fuelling the Future

Weekly Tanker Market Report

Back in May we discussed the IMO's plan to reduce CO2 emissions by 40% by 2030 and GHG emissions by 50% by 2050 (compared to 2008 levels). LNG propulsion, whilst by no means perfect, appeared to offer the best route to towards meeting the IMO's targets. Since then, LNG has gained popularity with more orders placed across the sectors, most notably for containerships, whilst new orders for tankers and bulkers have also emerged. If an owner is to order a ship today, what should they invest in? Will investing in LNG propulsion today give an owner first mover advantage, or lead to a technological or economic disadvantage? And will we see a surge in investment in the sector over the coming years?

The biggest barrier appears to be costs and corresponding charter rates/periods. Newbuild pricing requires owners to secure a premium over conventional charter rates to justify the investment and whilst deals are getting done, liquidity has been limited and rates are not often disclosed. Reports have emerged in the container sector of a $15,000 premium being paid for an LNG fuelled 15,000 TEU ship versus a scrubber fitted vessel of similar specifications, which if correct would represent a sizeable premium and see the owner recover the investment in a relatively short space of time. In the tanker and bulker sector, whilst deals have been concluded, rates have been harder to validate making it difficult to assess the economic benefit of an owner investing in LNG propulsion against long term charters. Owners also have to decide how to apportion the additional investment made in dual fuel vessels, in terms of whether to apportion the investment over the vessels life or try to recoup the investment in a shorter timeframe.



Forward visibility on fuel availability and costs, although nothing new, is also an issue. Supply concerns are likely to be overcome in time, whilst many of those going big on LNG have teamed up with LNG suppliers. CMA CGM has partnered with Total to fuel its 20 LNG fuelled containerships, whilst those chartering dual fuel tankers already have LNG experience. Interest has also emerged in the dry cargo space with several 'LNG Ready' bulkers already operating, orders on the books and tenders placed for further tonnage.

Pricing of LNG in the future is also a matter of uncertainty. Supply is projected to rise with the market being in surplus until 2023-2023. However, beyond this point the LNG market could become tighter on the supply side, pushing up LNG prices relative to conventional fuels. Similarly, LNG prices are highly seasonal meaning that prices peak in winter when demand is highest for heating and power generation, potentially eroding higher seasonal freight rates.

Large scale uptake of LNG is by no means a perfect route to solving the world's climate issues. However, right now it appears to be the most applicable and ready technology to meet the IMO's targets. Indeed, according to DNV GL "LNG is viewed as an attractive fuel for global shipping as it has potential to reduce emissions to air and is priced competitively compared with liquid marine fuels." However the Classification Society warns "[for all ship types] there is a significant risk that for a vessel built in 2020, the most competitive fuel in the ship's early life will not necessarily be the same as when it is scrapped… allowing for flexibility to switch to another fuel during the vessel's operating lifetime, would be crucial in mitigating the risk of becoming a stranded asset."

Crude Oil

Middle East

The hoped for busier week never materialised for VLCCs and Owners could only do their best to resist the consequent market gravity but rates slipped into the '90's to the East and into the '60's' to the West, nonetheless. Next week will certainly become busier but it will take a while before any pinch points develop to worry Charterers, and further slippage is a possibility despite any extra volume. Suezmaxes dropped rung by rung upon a drip feed of fresh enquiry to draw rates down towards ws 130 to the East and to ws 75 to the West and Holidays in India early next week won't assist either. Aframaxes found thin interest and were then pressured to 80,000 by ws 170 to Singapore and could slip off a little further over next week too.

West Africa

Suezmaxes had already lost momentum last week and this week saw a continuation of the slowing and weakening process. Rates are now down to 130,000 by ws 140 to Europe and ws 135 to the USGulf, but perhaps a bottom may now be soon achieved, although any rebound from that seems problematic over the near term at least. VLCCs took their cue from the softening AGulf scene and moved back towards ws 100 to the Far East, although a more concentrated spell of late November interest may give hopes of preventing a much sharper drop. That, however, will depend more upon Middle Eastern fortunes over the coming period.

Mediterranean

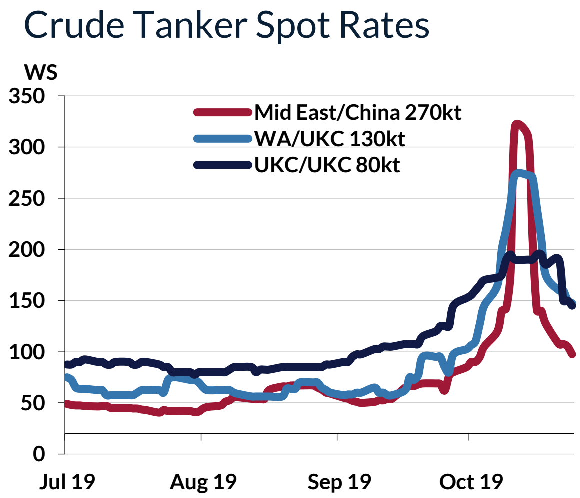
As predicted, Aframaxes set into a steady downward spiral to bring rates to 80,000 by ws 137.5 X-Med and to ws 147.5 from the Black Sea. Straits delays are just starting to tick higher, but a weak looking loading programme from the Black Sea will more than counter any potential positive from that. Suezmaxes, likewise, took a tumble as local interest faltered and availability grew together with downbeat reports from other load zones too. Rates now stand at around 140,000 by ws 150 from the Black Sea to European destinations and to $ 5.0 million for runs to China.

Caribbean

Aframaxes held up quite well through most of the week at 70,000 by ws 200+ upcoast and only just under that Trans Atlantic too. Late week, however, there was a degree of retreat underway and more volume will be needed into next week to restore full confidence. VLCCs found only occasional interest as Charterers viewed falling markets elsewhere and waited to see what effect that would have on rate demands. around $10 million from the USGulf to Singapore now, but some discounting from that is possible unless/until the wider scene rebuilds.

North Sea

A bearish week here for Aframaxes - availability easily managed lightweight demand and rates fell steadily to 80,000 by ws 142.5 X-UKCont, and to 100,000 by ws 117.5 from the Baltic with a noticeable fall-off in Urals November programmes month on month. A bottom may now be close, but it could then prove rather sticky. VLCCs were pretty well out of the game here but one crude oil deal was reported at $10.5 million to South Korea which is probably repeatable - maybe even to be beaten - next week.



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

Clean Products

East

As expected, the MRs negatively corrected this week, Owners will be disappointed that the sentiment is softer, however, levels that are being achieved remain higher than where the market had been trading a few weeks ago. EAF was the first to be tested and has settled at 35 xWs180. Short haul cargoes need to see a fresh test but depending on dates should be between 280k-300k. TC12 also dropped off with a lot of owners feeling that 35x Ws165 was to soft, but with the softening seen across the board – Charterers will be using Ws165 as last done. There are a few open cargoes as we approach the weekend, but with enough ships on the list to cover, added to the fact Singapore has a public holiday on Monday, it looks likely to be a rather uneventful commencement to next week.

Mediterranean

A topsy turvy week all in all with rates unsettled throughout. Owners will certainly feel hard done by given the healthy list of Med cargoes which has been seen throughout, however the nail in the coffin was the lack of Black Sea enquiry which meant that momentum was never able to kick start. Although rates held at 30 x ws185 for much of the week, a WMed fixture from a poor lifter at 30 x ws 177.5 and an Israel cargo at 30 x ws 187.5 gave Charterers new rates to aim for and this eventually proved successful. This left Owners on the back foot and come Thursday with a market quote seen on subs at 30 x ws 170 (albeit discharge/reload) this outlined the new rate achievable at the 30 x ws 175 mark. With Black Sea action extremely limited this week, this left rates tracking X-Med at the +10 point premium so expect a negative correction on the horizon down to 30 x ws 185. Come Monday, Owners will be hoping to stem any further losses and given the list of cargoes still outstanding, you would hope this is achievable, but prompt tonnage around WMed and the tonnage list replenishing over the weekend Charterers will inevitably keep the pressure on and under 175 would not be surprising.

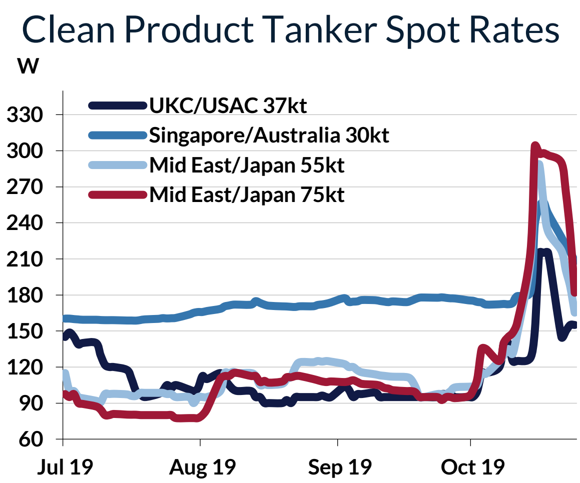
Finally we get to the MRs and a relatively slow week has passed, as Owners and Charterers alike take inspiration for rates from the UKCont. A fresh test heading to the AG gave us a benchmark of around $950-1m for that move, but Transatlantic has been stunted by the quiet second half of the week, leaving us settled around 37x150-155. A number of outstanding stems on Friday will give some further hope that Owners can keep rates ticking along here, but it looks like we'll end this week playing the waiting game.

UK Continent

A good first 3 days of the week was somewhat spoilt by a very quiet Thursday which owners will be hoping was just a temporary blip on an otherwise positive horizon. The fear of a quiet Thursday is that it will be followed by an even quieter Friday, therefore ending the week on negative sentiment. However, Friday so far has offered hope that it was just a one off yesterday. There is no doubt Owners confidence is generally still very fragile, understandable after such a weak summer period, but with fresh cargo activity back in the limelight this morning there is no reason for Owners to feel too downbeat. Despite the positivity of the week overall, opportunities could present themselves today for some further negative correction mainly due to a knock in confidence, as Owners hope to escape this week without further harm. The front of the list still needs a little bit of clearing out and there are 1 or 2 owners with multiple positions to cover in that window with recent performances not boding well for rates, but whatever does happen today we remain positive that we will see further opportunity for improvement as this fixing month (November) progresses.

A decent amount of fixing this week for Handies in the North as good Baltic demand for both end and early dated cargoes were seen. Even though enquiry had improved unfortunately for Owners the Monday morning tonnage lists which were drawn was always going to work in Charterers favour. The list was very top heavy which actually meant freight for Baltic liftings softened to 30 x ws 170 and X-UKCont also followed suit with 30 x ws160 being fixed on Wednesday. But it is not all doom and gloom for Owners as, by Friday, a healthy amount of ships have now been cleared from the tonnage list resulting in it tightening and with certain approvals on vessel needed for one cargo ex Baltic 30 x ws 175 has been placed on subs today. Expect Owners to be bullish next week and they look to capitalize on the bounce back on freight.

Apart from a few questions being asked on certain ships there isn't much fresh to report in the Flexi sector. Cargoes continue to be snapped up by own programme tonnage or COA's leaving the spot market a little stagnant. All eyes remain on the Handy sector to give an idea on where to land rates and in reality this needs assessing on case by case basis depending on the Owners with available units for certain dates. 22 x ws200 seems to be fair benchmark for X-UKCont.



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Dirty Products

Handy

In the North this week the handy market has followed a similar trend to last with tonnage very tight at the start of the week and cargoes still to cover. Very quickly increment came and we arrived at the current benchmark of ws 212.5. Discounts to leave the region are not forthcoming with some units being kept exclusively in the region. With just a handful of units to choose from at the end of this week, Charterers will be hoping for tonnage replenishment come next week in order to try and keep a lid on current levels.

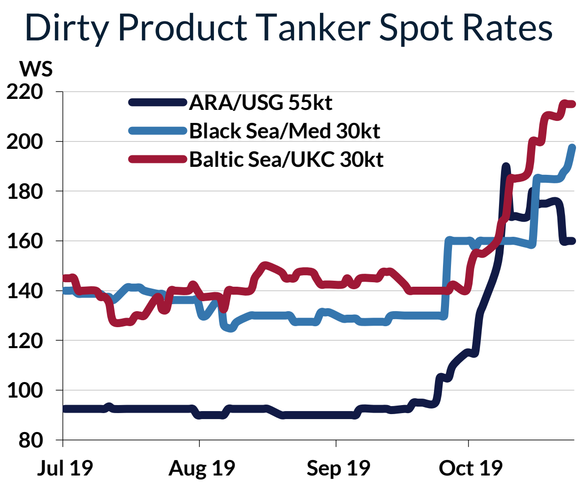
The Handy market in the Med continues to go from strength to strength as sustained activity over the last 2-3 weeks trading has kept tonnage moving, leaving Charterers with slim-pickings in terms of well approved units. Starting the week with a thinned out list Charterers quickly came to market where Owners pushed on last done levels. Even those with prompt or ex dd tonnage were not deterred and as such we have seen a climb of 25 ws points from last week with Black Sea-Med trading at ws 210. With November dates now being covered there may be less of a rush to fix, however with no sign of the market dwindling just yet and Owners pushing on a rate of knots, clipping away the perfect position early may still be best practice.

MR

A lack of availability and forward fixing keeps conditions equally as firm week on week as both the Med and Continent struggle to procure a healthy supply of tonnage. As a result when MR's are becoming workable Charterers are seeking them for the better $/mt they offer by comparison to a Handy. In turn this is keeping rates firm, but the sector is not blessed with liquidity whilst this one to one supply vs demand ratio is being maintained.

Panamax

What a difference a week in shipping can make! The last few days for the Panamax sector have proved troublesome for Owners as conditions have taken a turn for the worse owing to the surrounding Aframax sector collapsing. At the time of writing Charterers have sensed a correction and are now likely to hold back where on a prorata basis it has become cheaper to take a partially loaded Aframax instead of paying perceived prices that Panamax owners were asking. Don't be surprised therefore if we next report significant reductions from last done against approved modern tonnage.



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GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 24th	Oct 17th	Last Month	FFA Q4
TD3C	VLCC	AG-China	**-35**	98	133	75	93
TD20	Suezmax	WAF-UKC	**-49**	152	201	85	140
TD7	Aframax	N.Sea-UKC	**-49**	145	194	127	146

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

			wk on wk change	Oct 24th	Oct 17th	Last Month	FFA Q4
TD3C	VLCC	AG-China	**-39,000**	79,000	118,000	49,750	93
TD20	Suezmax	WAF-UKC	**-25,750**	62,750	88,500	22,750	140
TD7	Aframax	N.Sea-UKC	**-35,750**	49,000	84,750	36,500	146

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Oct 24th	Oct 17th	Last Month	FFA Q4
TC1	LR2	AG-Japan	**-116**	182	298	94	
TC2	MR - west	UKC-USAC	**-17**	153	171	96	173
TC5	LR1	AG-Japan	**-91**	165	256	101	157
TC7	MR - east	Singapore-EC Aus	**-49**	208	257	177	209

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

			wk on wk change	Oct 24th	Oct 17th	Last Month	FFA Q4
TC1	LR2	AG-Japan	**-36,250**	42,500	78,750	12,000	
TC2	MR - west	UKC-USAC	**-3,000**	16,500	19,500	3,750	20,750
TC5	LR1	AG-Japan	**-21,000**	26,500	47,500	9,500	25,500
TC7	MR - east	Singapore-EC Aus	**-9,000**	21,000	30,000	14,250	22,000

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

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