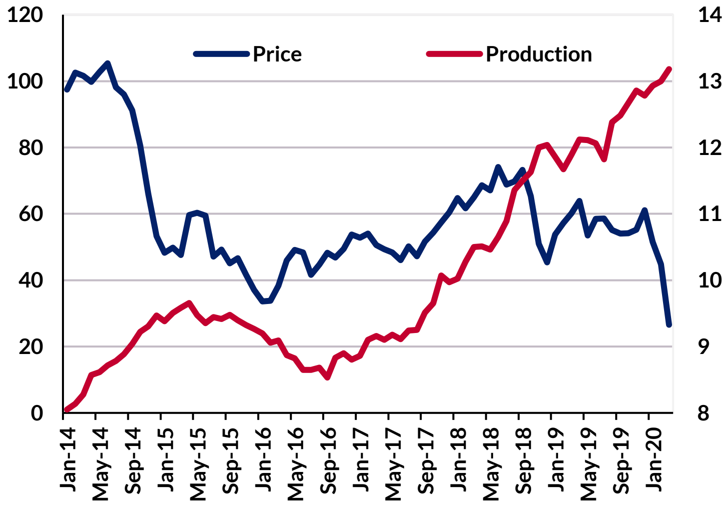
Oil Price Shock No. 4

Weekly Tanker Market Report

This week global crude benchmarks plummeted to their lowest levels in 18 years, as Saudi Arabia and Russia became embroiled in an oil price war coinciding with a period of colossal demand destruction, threatening the future of the growing US shale industry. Expectations now are that global inventories will rise very fast and concerns are emerging that the world could run out of spare land-based storage capacity. One of the questions being asked is how quickly and how fast US crude production is going to be affected. Although the US shale industry is relatively young, the sector has already lived through an oil price collapse before. Back in late 2014, OPEC took a decision to abandon production quotas, with the cartel's crude output rising gradually over the course of 2015 by over 2 million b/d. Increases in output translated into declining oil prices, which fell from $70/bbl in November 14 to under $35/bbl in January 2016. Lower prices impacted US crude production but not straight away. The country's output actually continued to rise through to April 2015, while the drop in production became apparent only towards the end of 2015, with output falling by over 0.8 million b/d between September 2015 and July 2016. In the 2nd half of 2016, oil prices started to rise once again and with it came a spectacular rebound in US production.

US Crude Production (mbd) vs. WTI ($/bbl)



The events back in 2015/16 suggest that it may take some time to see any meaningful decline in US crude production, despite the disastrous impact of Covid-19 on global demand and aggressive action by Saudi Arabia. In part, this is due to hedging programmes. Goldman Sachs indicated that US producers have 43% of their anticipated 2020 oil production hedged as of Q4 2019. Both the IEA and the EIA still expect US crude production to increase this year, although the growth rates have been reduced notably from previous expectations. There is also a possibility that the outlook for US crude production could be downgraded further, as news emerged that Pioneer Natural Resources and Parsley Energy asked the Texas state regulator to consider setting limits on how much oil large firms can send to the market.

The picture is gloomier for 2021, with just 2% of the expected US output being hedged. Shale producers are further slashing already reduced spending plans. Argus media reports that Occidental has announced a colossal $1.5-1.7 billion cut in its capital expenditure targeted for the year. Marathon plans around $0.5 billion in CAPEX reductions. Oil majors are in a better financial position to weather the storm, yet even they are not ruling out reduced spending. The EIA is suggesting that domestic output could decline by around 0.35 million b/d in 2021. The IEA is less pessimistic for next year at present; however, even they admit that the medium term outlook for the US crude production is considerably less positive than a year ago. Overall, the Paris-based agency anticipates a major deceleration in US oil supply growth over the next five years, with the US production flattening out around 2024/25.

These forecasts paint a realistic scenario of how US crude production could evolve over the coming years. However, one of the biggest sensitivities right now is for how long the current production policy by Saudi Arabia and Russia continues, if US crude output does not start falling soon and fast. In this scenario, oil prices are likely to fall even lower. Earlier this week, Energy Aspects suggested that Brent could fall as low as $10/bbl. Iraq has called for all involved OPEC+ countries to return to negotiating table but so far the mediation efforts appear to have yielded no results. Going forward, could there be a change of heart?

Crude Oil

Middle East

The production hike that catapulted VLCCs into sky-high rate territory may well still be in-play but spot market Owners found little evidence of that over the second half of the week and that, together with the ever increasing bad economic vibes and demand slump forecasts, have now badly dented sentiment, and rates are once again falling sharply. Little better than ws 100 to the Far East now and to around ws 80 to the West via Cape, although it is a market yet to be 'made' at the present. Suezmaxes also turned tail as fresh interest evaporated and rates tracked down to ws 110 East and to 90 West accordingly with further slippage looking likely. Aframaxes belatedly levered benefit from the larger size strength to 80,000mt by ws 140 to Singapore, but are likely to move onto the defensive again next week as the general correction washes in.

West Africa

Suezmaxes had previously ridden the VLCC instigated wave higher here, but then also had to ride back down upon the ebb...very limited fresh enquiry late week and rates shrinking to 130,000mt by ws 115 to Europe and to around ws 105 to the USGulf. Solid ground looks a little way off yet. VLCCs had never seen the volumes that the AGulf had enjoyed but had spiked up in sympathy, nonetheless. Now, however, Owners have had to similarly retreat and rates are heading towards ws 100 to the Far East.

Mediterranean

Aframaxes had a busy week of it and thereby made quite solid gains to 80,000mt by ws 180 X-Med and to ws 195 from the Black Sea before plateauing into the close. The wider economic malaise is likely to tell within short however. Suezmaxes also has to ease back upon limited demand and moderate supply, but did it more gracefully to shift back to 140,000mt by ws 135 for Black Sea to European destinations, and to $6 million to China. The softening trend to remain in-situ for a while yet.

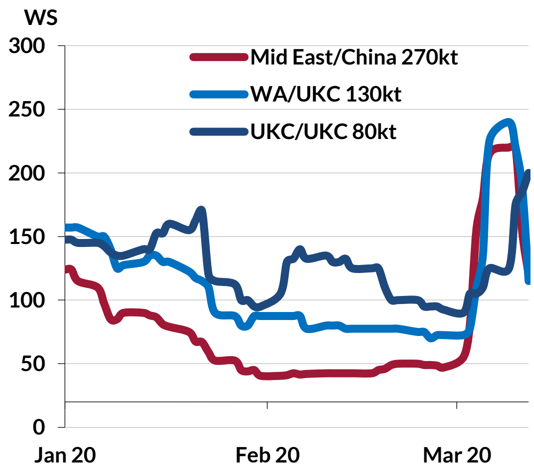
US Gulf/Latin America

Aframaxes kept active for most of the week and were initially assisted by lingering fog disruption. Rates moved to 70,000mt by ws 200 upcoast for a while but then things began to calm down later in the week and rates will fall away somewhat over the next fixing phase. VLCCs found all the regular faces willing to talk but as rates crashed off elsewhere the rate-knife proved hard to catch. In theory levels are now back to around $10 million from the USGulf to Singapore but it's very much horses for courses.

North Sea

As in the Med, Aframaxes had a good week of it, with rates pushing to 80,000mt by ws 185 X-UKCont and to 100,000mt by ws 160 from the Baltic but eventually Charterers saw less value in chasing ahead and a degree of recalibration is anticipated for early next week. VLCC Charterers started to get more interested than of late, and ironically just at the turning point in other load zones. Consequently, deals were done, and lost, but there is a move to have another go, albeit at a lower rate mark - down to around $10 million for crude oil to South Korea-China...for now, at least.

Crude Tanker Spot Rates



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

Clean Products

East

A busy week on the MRs comes to an end, as rates have climbed across all runs and the list continues to tighten each day. As such, Owners will be more than content with the progress the market has made this week, especially in the wake of the current global crisis. The natural fixing window continues to be slightly later than normal but, with the front of the list clearing out this week, this poses no real issues to Owners and more of a dilemma for Charterers with prompt stems. The next true TC12 stem will likely test ws 167.5-170 and, with EAFR repeating ws 185 six times this week, a busy Friday will give Owners the ambition to push further next week.

LRs have seen a further firming of rates this week, with steady pressure on all sizes. But they all seem overpriced now and rates must see a decline soon. 75,000mt naphtha AGulf/Japan is now ws 175 up some ws 15 points on the week, and 90,000mt jet AGulf/UKCont is now $3.70 million - again up some $200k. But there are very few stems in the market and the firming is purely down to a reduced number of Owners. Later in April this changes, and if volume doesn't increase, rates must suffer.

LR1s have ridden on the coattails of LR2s and, with most ships in the hands of a single Owner, rates have been pushed. But again, the enquiry is not that great so Owners have to keep an eye over their shoulder. 55,000mt naphtha AGulf/Japan is now ws 165 and 65,000mt jet AGulf/UKCont is $2.6 million. These could see adjustments into next week if lists look similar and enquiry doesn't increase.

On a more longer-term note, with grounded planes, stationary cars, and many countries globally now in (or about to go into) complete lockdown, when will this CPP bubble burst and demand dry up? Furthermore, we are hearing multiple reports of many fixtures having subs extended due to slow clearance issues given the volume of people globally working from home / with limited resources.

Mediterranean

As week 12 draws to a close it's been a week of positivity for Handy Owners in the Med. Consistent levels of cargo enquiry mixed in with a tight front end throughout, has meant the market has been busy and the sentiment positive. As a result, rates have been floating around the 30 x ws 185 mark ex West Med, with a ws 5-10 points more achievable further East, however, Thursday saw replacements / prompt stems struggling and at the time of writing, 30 x ws 205 is the going rate, which will in turn drag up West Med. Black Sea on the other hand has remained subdued and has by and large traded around the ws 205-210 mark although a positive correction was seen on Friday in light of the new numbers seen on Friday morning ex Med. With the front end of the list still in Owners favour, they will certainly come in on Monday morning with a spring in their steps hoping to continue the momentum seen in the back end of week 12.

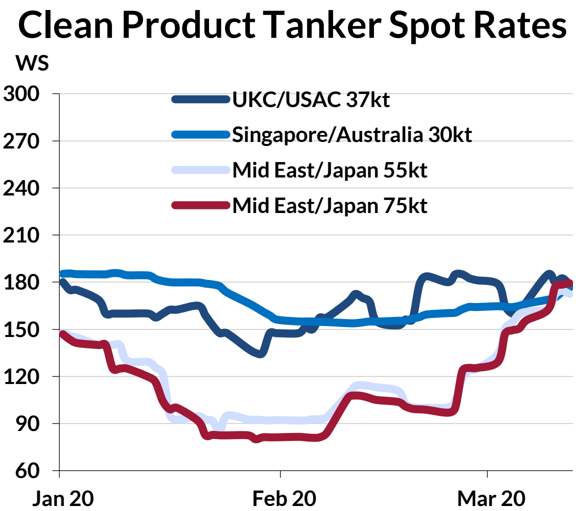
Finally, we come to the MRs in the Mediterranean and a week of slow, consistent enquiry not surprisingly has led to rates seemingly hold at 37 x ws 180 for transatlantic and the usual premium for WAF at ws 200. A fresh test heading to the AGulf settler at $1.05million, but recently the UKCont has been the dominant sector for that run. Owners as a whole across Europe have done well to keep rates where they are with the enquiry levels seen, but as a quiet end to week passes, there is a feeling of negative correction just around the corner.

UK Continent

MR Owners will be satisfied with how this week has played out so far. As far as rates are concerned, after some early gains at the front end of the week, rates were largely maintained for the balance until today. We end the week with TC2 at 37 x ws 175 and WAF 37 x ws 195 or thereabouts. However, with well-known forces working against demand currently, there is no denying that we are about to face some serious headwinds. Up to this point, Owners have shown a great deal of resilience in keeping rates steady but that has been aided by continued flow of cargo. It looks increasingly likely with land-based storage now reaching its maximum limitations, we will start to see NWE refineries shut for earlier than planned maintenance in the coming days or weeks. It remains a very difficult scenario to predict but we would expect next week to be the beginning of some negative correction.

Handies this week have as a whole been pretty slow, with a couple of replacement cargoes managing to add the occasional pinch of spice to the market. Highs of 30 x ws 210 have been achieved ex Baltic and this was the market call at the midpoint but, with enquiry lacking Charterers have been able to steal a few more points away from Owners and come the close of the week, we settle around 30 x ws 200 Baltic and ws 190 for X-UKCont. Owners will be hoping for a buoyant April export program from the Baltic to bolster this cracking market, but if this is not seen then momentum will swing in Charterers direction.

It's been an all-round quiet week in the Flexi market, with slow levels of enquiry and little activity to report in the way of fixtures. As a result, rates have been drawn from the UKCont Handy market, which has held at good levels for the majority of the week. Today's call for a X-UKCont voyage is around the 22 x ws 245 mark, but an uptick in cargo enquiry is needed to achieve these levels.



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Dirty Products

Handy

The soft sentiment in the North West European sector has taken its toll this week as the inevitable negative correction in fixing levels has taken place. After another quiet start to the week, it did not take long for us to see the fresh test we have been expecting and rates corrected down some ws 25 points by the middle of the week. In addition to this, we have seen some variations to this level as Owners approaching their opening dates scramble to find coverage. With this said, some Charterers continue to try for further discounts, however, with little success as tonnage has thinned and Owners with firm units hold their ground. Fresh tonnage lists will be key to where the market goes next, as a lack of tonnage replenishment on Monday could be the potential for a bounce back.

Looking towards the South, the Mediterranean has fared a little better than the North as the region remains stable, and is showing signs of firming as we approach the weekend. By mid-week, the consistent flow of enquiry throughout the week gave Owners confidence to push on from last done. This has resulted in a boost of ws 10 points from the Black Sea now trading at ws 185. To summarise, Owners within this region have finished the week with confidence, which will flow over into early trading next week. We must add that it is still unclear just how disruptive the spread of COVID-19 Europe is going to have on the shipping markets.

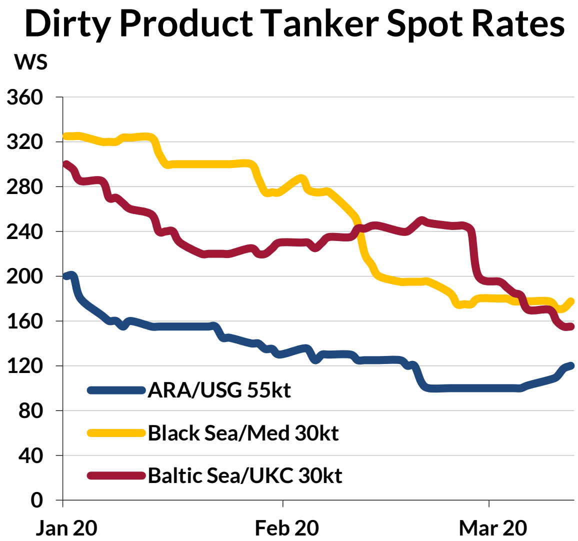
MR

It appears that Charterers and Owners alike in the North on MRs have been preparing next week for their WFH parties as the tonnage list has been cleared out with nothing now showing available until early April, apart from a ballast unit from the West Med. Early in the week we saw some fixing and failing on ARA-WAF as Owners succumbed to 40kt clips to ensure employment. However, the end of the week appeared, most vessels will be heading out of the region, as such, sentiment has taken a positive tone with expectations that next up will be looking at ws 125-130 for a X-UKCont full stem.

In the Med, the building tonnage list we touched on early in the week has been gently clipped away in the past two days, however, this is not enough to stop the steady sentiment turning to a more positive tone. Early in the week, the Aframaxes rallied and at the time of writing, with the last confirmed at ws 185 and rumours of ws 200 on subs for a KPC stem for Black Sea/Med leaving some Owners viewing the sentiment as ready to pump, however, if we look further to the larger sizes still it seems the market has dropped. It is fair to say if the Aframaxes maintain these rate another week we will see this feed into the MRs as Charterers look to split stems as we close out this week calling Black Sea/MEMed 45 x ws 130-135 and X-Med at ws 125-130 and steady. Keep an eye on the bigger sizes next week to see how this will progress.

Panamax

Week 12 started with the tonnage list looking thin on approved natural tonnage this side of the pond and as such, a feeling that sentiment will soon push the market on from last done levels. As a result of a shortened lists, and firm sentiment by mid-week ws 117.5 was on subs and along with some fixing and failing, ws 120 was being rumoured. We finish the week with this number on subjects and with tonnage tighter in the North and enquiry outstanding, the likelihood is that further increment is on the cards for the first cargoes up next week.



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GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 19th	Mar 12th	Last Month*	FFA Current Q
TD3C	VLCC	AG-China	**-49**	130	179	43	105
TD20	Suezmax	WAF-UKC	**-14**	120	134	78	125
TD7	Aframax	N.Sea-UKC	**+75**	184	109	133	142

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

			wk on wk change	Mar 19th	Mar 12th	Last Month*	FFA Current Q
TD3C	VLCC	AG-China	**-58,500**	145,500	204,000	19,000	113,500
TD20	Suezmax	WAF-UKC	**-5,750**	63,750	69,500	22,750	67,000
TD7	Aframax	N.Sea-UKC	**+58,000**	86,250	28,250	40,500	54,750

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Mar 19th	Mar 12th	Last Month*	FFA Current Q
TC1	LR2	AG-Japan	**+29**	179	151	106	
TC2	MR - west	UKC-USAC	**+16**	178	162	164	176
TC5	LR1	AG-Japan	**+13**	173	160	114	164
TC7	MR - east	Singapore-EC Aus	**+11**	176	165	155	167

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

			wk on wk change	Mar 19th	Mar 12th	Last Month*	FFA Current Q
TC1	LR2	AG-Japan	**+12,750**	55,000	42,250	18,500	
TC2	MR - west	UKC-USAC	**+4,750**	27,750	23,000	18,500	27,250
TC5	LR1	AG-Japan	**+5,250**	37,500	32,250	14,250	35,250
TC7	MR - east	Singapore-EC Aus	**+3,500**	23,750	20,250	13,250	22,000

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

	wk on wk change	Mar 19th	Mar 12th	Last Month*	FFA Current Q
ClearView Bunker Price (Rotterdam VLSFO)	**-65**	206	271	461	
ClearView Bunker Price (Fujairah VLSFO)	**-52**	278	330	503	
ClearView Bunker Price (Singapore VLSFO)	**-55**	260	315	511	
ClearView Bunker Price (Rotterdam LSMGO)	**-60**	271	331	489	

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