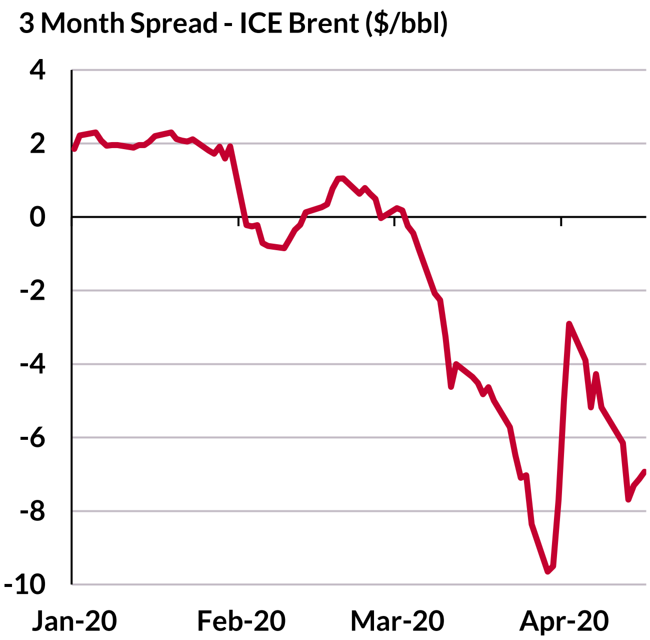
The World Is Not Enough

Weekly Tanker Market Report

A week after the biggest deal in oil history was agreed, the oil price has eased off and the contango spread in crude futures is wider than before the deal was signed. The markets seem underwhelmed.

However, this should not detract from the scale of the agreement. No matter what the baseline, removing 9.7 million b/d for May and June, followed up a deep 7.7 million b/d cut for the balance of the year and restrictions of 5.8 million b/d until April 2022, is unprecedented. To add to this, further cuts, be it State imposed or through economic declines from the US, Canada, Brazil and potentially Norway, could further reduce supply by 3-4 million b/d. Further action by key oil consumers to increase crude purchases for their strategic petroleum reserves (SPRs) will also have an effect. Nevertheless, given the current demand destruction, the fact remains that that these worldwide cuts are simply not enough.



According to the IEA, global oil demand is estimated to have fallen by 29 million b/d in April, and 26 million b/d for May, reducing demand to levels not seen in 25 years. A huge stock build is inevitable over the coming quarter and despite more storage capacity being made available via SPRs, floating storage will be inevitable. This floating storage demand is likely to be the main pillar of support for the tanker market once OPEC+ cuts are felt by the market. At the time of writing, calculations show that the contango in ICE Brent supports 3 months storage at $138,000/day and 6 months at $89,000/day, before any profit margin for the trader is accounted for. VLCC spot rates currently stand at $165,000/day.

The big question is for how long storage demand can support the tanker market? Latest projections from the IEA point to a significant stock build in Q2 2020, tuning into a stock draw as soon as Q3. However, a high degree of uncertainty exists in this forecast. Firstly, it assumes that demand begins to recover after steep reductions in April and May, and secondly, it assumes that OPEC+ stays the course on its deal. However, if this scenario is assumed to be the case, then the tanker markets face a rocky second half to 2020 as floating storage will start to decline and seaborne trade volumes will remain severely depressed. At this point in time, it seems hard to envisage such a quick recovery in demand, but irrespective of timing, demand will eventually recover, and oil stocks will be drawn down.

Beyond 2020, the tanker markets look to face a rocky period. World oil demand is not expected to recovery back to 2019 levels until well into 2021. Yes, the OPEC+ deal could be revised, or even collapse, but ultimately oil supply and demand will have to move towards a balance, be it from OPEC+ members or from other countries such as the US and Canada. It seems that right now, tanker owners should continue to make hay whilst the sun shines, wary of storm clouds gathering just over the horizon.

Crude Oil

Middle East

A very slowburn week for VLCCs as April requirements began to close out and fresh May programmes awaited. They will be in hand from early next week and there will be fingers and toes crossed by Owners that the production cuts don't hit too hard upon spot needs. That said, there is a wide contango, seemingly well entrenched, that has provided a very healthy safety-net, and discharge delays are also compromising clear itineraries. Rates may well ease, but a significant collapse is therefore unlikely. Currently rates to the East stand at around ws 140, with up to ws 100 asked for runs to the West, via Cape. Suezmaxes have recently seen extra action courtesy of splitting VLCC stems, and rates have benefited but found a ceiling of little better than 130,000mt by ws 150 to the East and ws 110 to the West before retreating a little to ws 135 and ws 92.5 respectively as demand began to fall away. VLCC fortunes will continue to dictate. Aframaxes enjoyed a steady cargo flow but rates couldn't hold above ws 130 to Singapore despite that. Availability is now thinning, however, and support from other load zones could aid over the next fixing phase.

West Africa

Suezmaxes held a reasonably steady line at down to ws 125 to Europe, and to ws 120 to the USGulf, with Eastern needs at close to ws 135, but availability keeps rolling in, and it will take even more enquiry, and/or a rebounding VLCC market, to solidify - or push higher. as in the AGulf, slow for VLCCs here and rate demands held a wider than usual range, and were particularly date sensitive. As high as ws 148 seen for a Nigeria/Far East movement but also down to ws 110 seen. Heavy, ongoing, liftings from Brazil provides good support too. Onward direction will have to wait for clarity from the Middle East.

Mediterranean

Aframaxes made a late-week turn for the better upon increased long haul enquiry and compromised discharge schedules. No big move yet but 80,000mt by ws 105 X-Med is the new bottom line, with Black Sea loadings at up to ws 112.5. Maybe Owners will stretch their legs a little further next week. A quiet Suezmax spot market but vessels are being steadily fixed out for T/C, and discharge delays continue to disrupt. Rates should therefore remain supported at 140,000mt by ws 125/130 to European destinations, and at just under $6 million to China

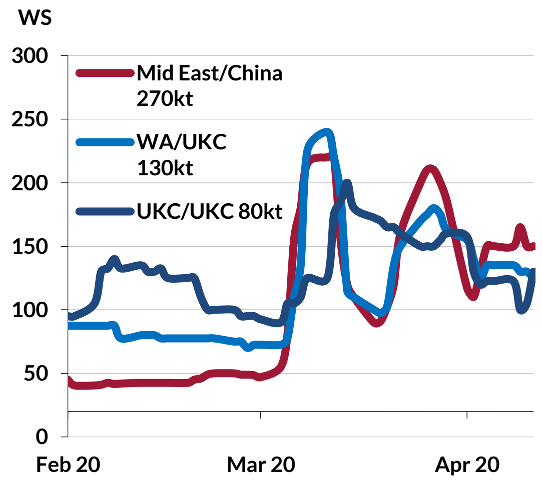
US Gulf/Latin America

Aframaxes spent most of the week slowly rebalancing but volumes were never sufficient to complete the job and rates upcoast held little better than 70,000mt by ws 105, with transatlantic deals running at down to ws 92.5. Perhaps a slight improvement into next week. VLCCs will face more of a challenge soon as a wave of laden units approach the USGulf, but itineraries will be uncertain, and ballasters will still demand strong numbers to break away from other load zones. Rates hold at at least $12 million for Singapore as things stand.

North Sea

Aframaxes bumbled through the week but then enjoyed a burst of interest that hit upon uncertain positions to bounce the market to 80,000mt by ws 150 X-UKCont, and to 100,000mt by ws 135 from the Baltic. Things should remain firm/firming into next week too. VLCCs had questions asked but little came of it as the 'bid/offer' spread failed to close sufficiently - Owners will look for around $12.5 million to the Far East for the time being.

Crude Tanker Spot Rates



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

Clean Products

East

At long last the majority of Owners have seen the value in the list. A few prompt loading cargoes quickly cleared out the "overhanging front end" of the list, which Charterers had been using to maintain pressure on the natural window - after that, big pool Owners have used an ample supply of westbound stems to inflate market levels, which has caused sympathetic firming on other routes. Shorthaul voyages are up to $450k levels for next done and TC12 is anyone's guess, Owners seem happy to take ws 230 levels whereas the limit probably sits circa 270 given the larger sizes and the state of the list. Westbound last done is $2.2 million (on subs) but likely pushed up to $2.4 million (and able to do so, given the LR2 push seen this week). East Africa will push to ws 250 levels to maintain the same earnings and we still see yet more enquiry coming in, added to naphtha tenders ex India, which need to be covered.

LRs have had another big week, with rates pushing up relentlessly. LR1s were slow to start this week but have ended up pushing West rates through the magic $3.0 million barrier. 65,000mt jet AGulf/UKCont now sits at $3.5 million some $550k up this week. 55,000mt naphtha AGulf/Japan is lagging a little but has still managed to move up to ws 235 and there is more to come. LR2s were as ever tentative early in the week but Charterers realised quickly they needed to get covered and the subsequent push of cargoes changed rates again. 75,000mt naphtha AGulf/Japan is now ws 240 and ws 250 likely next. 90,000mt jet AGulf/UKCont is up to $4.95 million and the $5 million barrier is agonisingly close. These are historical highs and where they will peak is hard to call but feelings are world demand must slow this soon.

Mediterranean

Week 16 has been a positive one for Handy Owners in this Med market, with the combination of a tight list and a consistent flow of fresh cargo enquiry causing rates to firm over the course of the week. We've seen a split market in terms of X-Med rates, with more points on offer for East Med loads due to the lack of tonnage available to Charterers and, with East Med cargoes in abundance, Owners have been bullish with their ideas. As a result, rates have skyrocketed today with 30 x ws 275 being put on subs ex East Med with a Libya option at 30 x ws 290. West Med rates will therefore be positively corrected when next tested. Black Sea activity has also been a driver of the market, with rates jumping ws 20 points from the start of the week to the 30 x ws 250 mark, with next done levels also expected to spike when next tested in light of today's activity.

Finally, we arrive at the MRs in the Mediterranean, which has seen Owners able to take the upper hand continually push rates, with limited tonnage available and good levels of enquiry. This market has been supplied by ballast tonnage from WAF, which has helped the UKCont market also prosper, as we see transatlantic runs blossom to 37 x ws 175 a number of times come the end of the week. With the Handy market also buoyant, Owners have a strong grip as we await to see how much further rates can push. Positive views ahead.

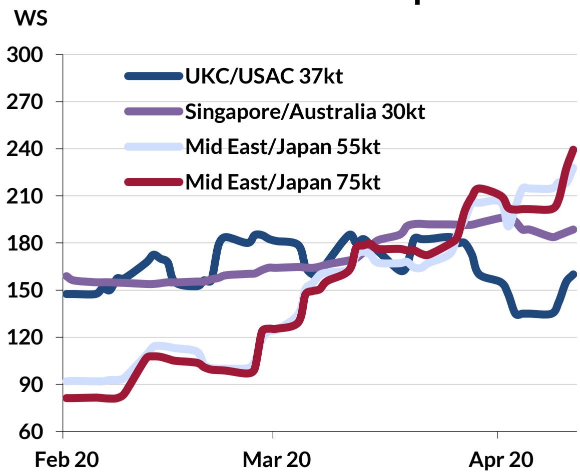
UK Continent

A very productive short week for MR Owners, which will come as a bit of a surprise to many just before the second Easter break. But, with the stimulus of a couple vessels taken out for storage, fresh interest in East moves, a positive Med market and a couple of cargoes getting caught out off prompt dates, Owners were able to improve this market with each fixture, and by the end of Wednesday we arrived at 37 x ws 155 transatlantic, and following a bit of a standoff on Thursday, we land at 37 x ws 175 transatlantic and ws 190 WAF today. Owners with firm tonnage will be confident in their position and, with the Mediterranean market also keeping ballasters away and outstanding cargoes to cover, we anticipate further gains ahead.

After a slow start to the week for Handies, activity levels in the UKCont Handy market have started to pick up in the past 2 days. Rates have held at the 30 x ws 135 mark ex Baltic and 30 x ws 125 X-UKCont throughout the week, with both numbers being fully fixed multiple times. However, with prompt tonnage now being cleared away and an uptick in cargo enquiry, the list now looks tight for the current fixing window. As a result, Owners will be confident that they can push for higher levels before this week is out. Further firming is expected.

It's been a quiet week in the UKCont Flexi market, with very little to report in the way of fixtures and slow levels of cargo enquiry throughout. As a result, rates have been drawn from the UKCont Handy market, which has seen an increase in activity over the back end of this week. 22 x ws 165 remains the call for a X-UKCont voyage but, with signs of positivity on the Handies, Flexi Owners will hope they can follow suit.

Clean Product Tanker Spot Rates



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Dirty Products

Handy

In the North, the short week has failed to put upward pressure on rates as the weak stream of Balt/UKCont enquiry failed to clear out a substantial enough number of units to maintain rates. Both Balt/UKCont and X-UKCont came down from ws 170 to end the week ws 10 points lower at ws 160, with rumours of a re-let going even 5 prompts lower still. Some fixing and failing out of the Baltic has also left some frustrated going into next week, with prompt tonnage in both the Baltic and ARA regions. The Med has not fared any better as being presented with a long tonnage list and a short working week left Owners little choice to take what was offered. With this in mind, Charterers managed to shave off last done levels fixture upon fixture, ending the week with a ws 15-20 point drop from where we were trading this time last week. Looking ahead, tonnage remains well stocked so expect more of the same next week unless the taps are turned on there is an upsurge in fresh enquiry.

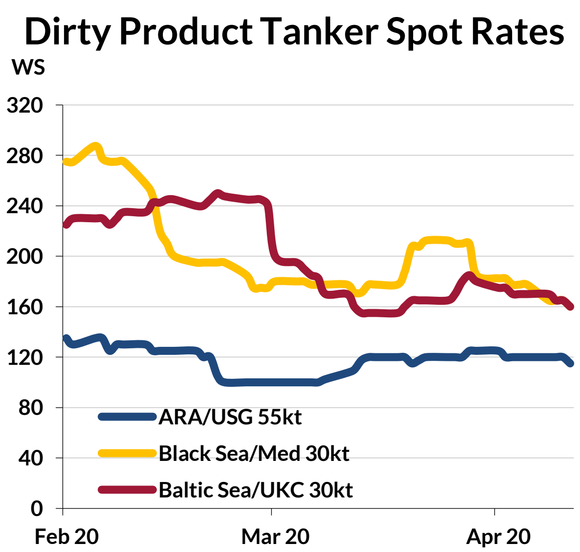
MR

Despite going into last Easter weekend, with no tonnage being marketed in the North for MRs, we have seen good activity for this sector as West Med ballasters have filled the hole left by natural units in the region. Owners pushed their ideas early in the week for UKCont/Med 45 x ws 130, however, private deals came to light, with X-UKCont at 45 x ws 120 as the conference level. It seems units are being drawn to the region to be chartered away into the dreary drain of the Med. Moving into next week we have two units heading North - one ballasting, one fully laden, both open 26th ARA.

The Med has been a total palaver this week as no Easter eggs have been seen on the horizon for Med MRs, with even the most positive of Owners struggling to talk things up. Rates, if they had tracked against Handies would have been 45 x ws 95 for X-Med, however, Owners looking at seriously bleak TCEs held their ground at 45 x ws 120, a rate indicated for both X-MED and Black Sea/MED on full size enquiry. This seems to have held going into the weekend all in the face of a growing prompt tonnage list. Next week will serve to reveal whether the small pool of Owners can hold their collective cool at this level, or whether we see someone crack under competitive pressure to lower lows.

Panamax

A sluggish start to the week but a revival was eventually seen as weak sentiment was bolstered by momentum filtering through from the surrounding Aframax markets. Given also the sparseness of availability once news began to circulate of a few units being on subjects, conversations quickly turned to suggest increment was on its way. At the time of writing, further testing is yet to occur, however, on the premise that if what is on subjects gets fixed away, then this sector is certainly placed on a positive footing. Looking ahead we may have to adopt a little more forward thinking to secure tonnage from further afield.



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GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Apr 16th	Apr 9th	Last Month*	FFA Current Q
TD3C	VLCC	AG-China	**+32**	154	122	130	117
TD20	Suezmax	WAF-UKC	**+5**	130	125	120	139
TD7	Aframax	N.Sea-UKC	**+1**	129	128	184	116

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

			wk on wk change	Apr 16th	Apr 9th	Last Month*	FFA Current Q
TD3C	VLCC	AG-China	**+41,000**	176,500	135,500	145,500	130,000
TD20	Suezmax	WAF-UKC	**+4,500**	70,000	65,500	63,750	75,750
TD7	Aframax	N.Sea-UKC	**+1,500**	45,500	44,000	86,250	35,000

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	Apr 16th	Apr 9th	Last Month*	FFA Current Q
TC1	LR2	AG-Japan	**+38**	239	201	179	
TC2	MR - west	UKC-USAC	**+21**	159	138	178	158
TC5	LR1	AG-Japan	**+23**	228	205	173	200
TC7	MR - east	Singapore-EC Aus	**-5**	189	194	176	169

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

			wk on wk change	Apr 16th	Apr 9th	Last Month*	FFA Current Q
TC1	LR2	AG-Japan	**+14,750**	77,500	62,750	55,000	
TC2	MR - west	UKC-USAC	**+4,750**	24,000	19,250	27,750	23,750
TC5	LR1	AG-Japan	**+7,250**	52,750	45,500	37,500	45,000
TC7	MR - east	Singapore-EC Aus	**-500**	26,250	26,750	23,750	22,500

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

ClearView Bunker Price (Rotterdam VLSFO)	**-25**	206	231	206	
ClearView Bunker Price (Fujairah VLSFO)	**-40**	221	261	278	
ClearView Bunker Price (Singapore VLSFO)	**-14**	251	265	260	
ClearView Bunker Price (Rotterdam LSMGO)	**-40**	251	291	271	

GIBSON SHIPBROKERS

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