

Beyond the Peak

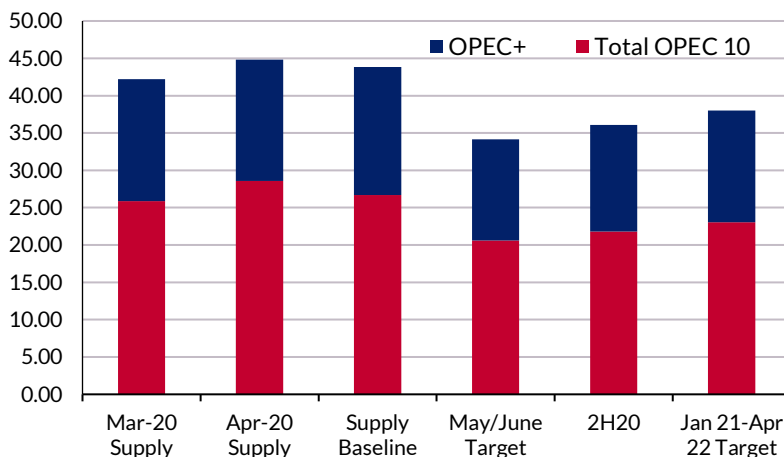
Weekly Tanker Market Report

In April both crude and product tanker rates surged to record levels, despite the agreement reached between OPEC+ members to cut crude production by 9.7 million b/d in May/June and expectations that non-OPEC+ countries will contribute a further 5 million b/d in cutbacks. Being hit by logistical bottlenecks and land-based storage capacity constraints, crude and product tanker floating storage started to rise, while disruptions caused by quarantine measures also translated into port delays, most notably in Latin America.

Over the next few months floating storage is expected to be a feature of the market, while the collapse in demand outstrips global production cuts. At the very least, this will offer a degree of protection to tanker earnings facing a dramatic drop in trading volumes. However, there is also a possibility that storage demand will be greater than the fall in trade, with TCE returns remaining at very healthy levels. One way or another, while tanker storage and port disruptions persist, extreme volatility in the tanker market is likely to remain.

However, the situation is expected to change dramatically once oil demand and supply conditions move towards a more balanced position. This is likely to take place once global economy leaves the peak of the Covid-19 pandemic behind and world oil demand begins to recover. The latest IEA monthly report tentatively suggests that this potentially could happen in the 3rd quarter of this year, with measures to soften lockdown restrictions already underway in several countries. However,

OPEC+ Supply Targets (000 b/d)



there is still a great degree of uncertainty about the duration and severity of virus outbreak.

When we move past the peak of the pandemic, floating storage could be the first to come under pressure due to its relatively high cost in comparison to land based facilities. Meanwhile, trading volumes are expected to remain severely disrupted as the demand recovery could be slow. The fear of a 2nd peak in the pandemic is likely to see some quarantine measures remaining in place well

into next year. As such, it could well take 12 to 18 months, if not longer for demand to get back to levels seen in 2019. In addition, there will be a need to bring down the inventories accumulated during the outbreak. With this in mind, it is not surprising that OPEC+ agreed to maintain 5.7 million b/d of output cuts throughout 2021 and during the 1st quarter of 2022. Non-OPEC+ production could also remain under pressure beyond 2020, due to a dramatic decline in oil prices, with US output arguably the most vulnerable. According to the latest EIA monthly outlook, US domestic crude production is expected to decline by around 0.75 million b/d in 2021, after a nearly 0.5 million b/d drop this year.

All of the above suggest a strong possibility that tanker demand next year could remain below 2019 levels. However, at the same time tanker supply is expected to increase, with over 300 new vessels over 25,000 dwt scheduled for delivery between now and December 2021. The combination of weak demand and rising supply could apply a considerable downward pressure on industry earnings, but the key sensitivity to this gloomy outlook is the speed and robustness of the oil demand recovery in months ahead.

Crude Oil

Middle East

A bad experience thrill ride for VLCCs this week - a surprisingly bright opening was quickly snuffed out as supportive contango was squeezed, and production cuts started to bite, keeping Charterers reluctant to commit, and Owners ever more hungry for them to do so. Eventually a few did and the result was a heavy dumping to no better than ws 80 to the East and to ws 40 to the West via Cape. Recently the market has quickly bounced back, but this time the odds are stacked against that in any meaningful way and it seems as if the whole marketplace - big and small - is entering a new paradigm. Suezmaxes took their lead from the larger size and also had to crumple. Rates slipped steadily to end at around 130,000mt by ws 105 to the East and to ws 70 West, with further settling likely. Aframaxes starting at ws 200-ish, also slowed and were shadow tested through the week - the eventual 'firm' deals will now likely move into the 80,000mt by ws 150/160 range.

West Africa

The theme of the moment is 'down' Suezmaxes watched the theoretical rate-meter tick lower day by day and Charterers did their best to also watch, rather than participate. rates have already discounted now to 130,000mt by ws 100 to Europe, and top ws 95 to the USGulf, with little over ws 100 payable to the Far East. A bottom of sorts should come into sight early next week though. VLCCs were also largely by-standers and

will have to equalise with depressed AGulf numbers once Charterers resume normal service. Rates in theory should now operate into the ws 70s to the Far East.

Mediterranean

Aframaxes were put to the test from mid-week and tracked down towards 80,000mt by ws 150 X-Med and to ws 165 from the Black Sea as availability inflated and demand subsided. There may yet be more discounting required before Charterers start again to shop in numbers. Suezmaxes kept to the softening script elsewhere, with only those Charterers that felt they had to take cover entertaining offers and the end result was for rates to sink to 140,000mt by ws 95 from the Black Sea to European destinations, and to \$4.8 million for runs to China. No early fightback likely either.

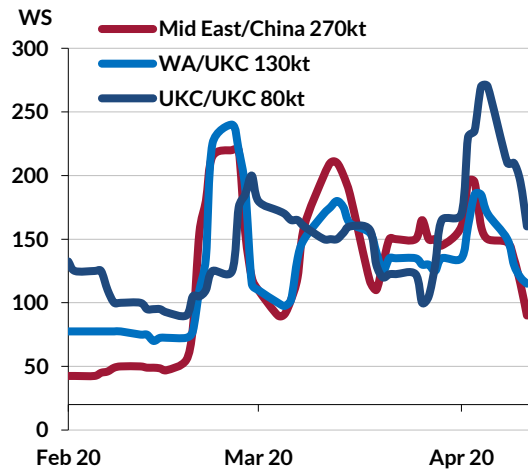
US Gulf/Latin America

Aframaxes kept above the 70,000mt by ws 200 upcoast, and ws 190 transatlantic marks for most of the week but by the week's end their position looked to be more precarious and a weaker phase looks on the cards into next week now. VLCCs only had questions but theoretical rate demands were way too high to attract traders. With a wave of USGulf dischargers appearing upon the next fixing window, the economics for Owners will dramatically change and what was \$12 million USGulf/Singapore could end up with many millions chopped away once activity does pick up.

North Sea

A sharp Aframax correction was predicted if this week didn't continue to provide the heavy interest that had propelled the market to new highs last week. Unfortunately for Owners the prediction came to pass and rates tumbled accordingly to 80,000mt by ws 145 X-UKCont, and to 100,000mt by ws 110 from the Baltic, with full availability upon the next fixing window threatening lower values for next week. VLCCs drew a blank and will be lucky to get near to \$10 million to SKorea/China when the next firm opportunity arises.

Crude Tanker Spot Rates



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

Clean Products

East

On the surface, you could be forgiven for thinking that the party would be over this week, with a subtle yet noticeable slowdown in activity when compared to two weeks preceding it. However, the slowdown in momentum was almost entirely driven by Owners' willingness to settle at these unprecedented returns....This then led to a few willing to repeat rates - giving the impression we had hit that glass ceiling everyone was waiting for. Dig a bit deeper though and this could all change, with a busy start to next week and another resurgence in Owners' resolve. Therefore, we must characterise them as finely balanced but whichever direction we turn next will be leaving one side very much in the ascendency...the question is which.

Although not an overly active week for the LR1s, the list remains very tight until mid-month and any position that does come up in that window has a very uncertain itinerary. Even if there were more cargoes in the market, the lack of ships would likely give a similar sentiment to that seen this week. Looking at the open cargoes, it does feel as we are missing a large proportion of mid-month stems, which no doubt Charterers are sitting on and waiting / hoping that positions firm up to allow coverage for their stems. Rate wise, there does need to be a fresh test across the board but TC5 at 55 x ws 450 levels and \$5.75 million for UKCont would be a good guide. With an expected supply of mid-month cargoes likely to be seen next week, owners will be hoping to maintain these current levels going forward.

No movement on the LR2s, there has been ONE fresh cargo entering the market (naphtha), which may well be downsized next week. The list still remains tight until end of May dates but will we see anything quoted earlier? We will have to wait until the new week for an answer here. What is interesting here is Charterers driven to split stems where possible due to the huge disparity between sizes and in particular on naphtha. TC1 offers came in 75 x ws 525 - whereas the MRs are still operating at the ws 375-400 levels, so there is absolutely no incentive to use the larger size unless absolutely necessary. Chevron had the largest TC1 level on subs (75 x ws 500). However, seeing enquiry disappear this week and due to 'clearance' issues, they dropped the number and took the 3rd last DPP ship to cover their requirements under the Maersk COA. As we move into the new week, the story remains the same as on the other sizes - naphtha will dictate market sentiment. Suezmaxes in the region are offering to cleanup, so those with Gasoil can make incredible savings if they can work cleanup tanks for West runs. Jet of course is a different story. Something will have to change on naphtha though. If a ws 125+ point disparity continues between the MRs and the LR2s, we simply won't see much product moved on the LR2s Eastbound. We cannot see ws 125 points to be taken up by Owners on the MRs, so there must be some correction on the LR2s.

Mediterranean

The fireworks seen in the market last week swiftly vanished, with Owners on the back foot from the off. 30 x ws 650 was where proceedings began. However, with few cargoes being seen (due to lack of interest from traders at these levels) and itineraries firming up, it was a simple case of demand vs supply, which left rates falling off a cliff. At the time of writing, 30 x ws 500 remains last done for a vanilla X-Med, with less on the cards. Another quiet Friday coupled with a replenished list on Monday will bring further pressure. Black Sea has followed X-Med sentiment and expect next done to be closer to the ws 530 level, although if next week continues in this fashion, further large negative corrections are inevitable. The saving grace for Owners will be ullage issues, which continue to provide uncertainty in itineraries but as it stands, Monday lists will be long and prompt.

Finally to the MRs, which like other sectors have been dominated by a lack of enquiry and slowly lengthening tonnage lists. With this, Charterers finally have been able to take the advantage away from Owners. MRs as a whole managed to lose value without actual vessels being taken out to show true strength and the silence in the middle part of the week was deafening for Owners. Now we find ourselves at the end of week 18 and, with TC2 looking around the low ws 200s, we have seen a small improvement in enquiry as Traders slowly are able to make sense of freight. With the Handy market still relatively high in comparison, MR Owners can be competitive in search of employment. This market looks as glum as

the weather outside. Owners look to see where they can stop this decline as soon as possible in hope this fun has not just been a 2 week holiday, ending up back where we started.

UK Continent

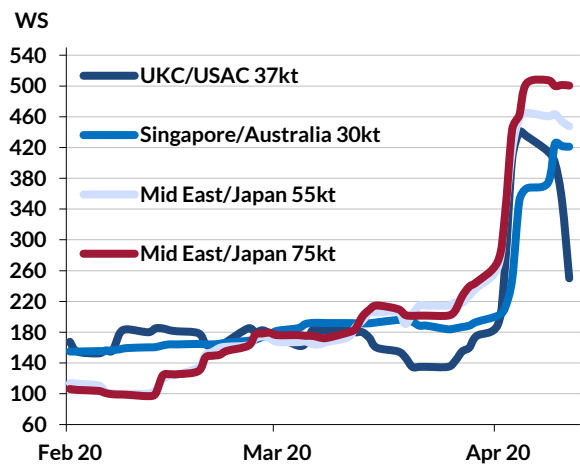
A somewhat sobering week for the Owners, dominated for the most part by a real lack of activity and a strengthening position list that very much dictated market direction before a deal was fixed. The only real uncertainty for a time was how much would rates actually come off. It turned out to be a very significant amount and we end the week with TC2 at 37 x ws 250 and WAF around 37 x ws 270-275 levels, close to ws 200 points off last week's record highs. However, further softening looks highly likely, as demand remains at very low levels, with the only crumb of comfort being that further falls will hopefully be far more gradual now. The outlook continues to look much softer going forwards as the global lockdown really starts to impact this market. There should still be some storage opportunities at least. With new lower freight levels now firmly set, the Asia runs could once again provide a useful distraction and opportunity to move to more positive markets.

It's been a tale of 2 weeks in this UKCont Handy market, which after reaching astronomical levels at the back end of last week has now begun its downward spiral, with rates softening over the course of this week. We began week 18 with Baltic liftings at the 30 x ws 435 mark and rates for a X-UKCont voyage at 30 x ws 425. However, with the tonnage list

replenishing over the duration of the week and Charterers shuffling dates & cargoes, rates have slipped, with 30 x ws 300 now on subs ex Baltic, albeit for an MR. Owners will argue this number is unrepresentative of where the Handy market really lies but, with MRs now willing these levels, the Handies are no longer in play at the rates we began the week. As a result, next done ex Baltic on a genuine Handy is expected to correct negatively, with X-UKCont fixtures following suit in the coming days.

It's been a quiet week in this Flexi market, with slow levels of enquiry and little to report in the way of fixtures. After the UKCont Handy market hit new heights last week, this week has been a different story, with rates taking a tumble throughout and as a result this Flexi market will follow suit when next tested.

Clean Product Tanker Spot Rates



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

Dirty Products

Handy

The NWE sector started off the week with Owners taking the helm as the volume of fresh enquiry on Monday allowed them to push on from last done. However, this has not really been the case. By mid-week as much failing as fixing had been seen and tonnage has remained balanced - in large part down to Charterers not securing the barrels rather than Owners aggressively pushing. As a result, this has left a disjointed mix of fixing levels in the region, with a ws 10 point spread up to ws 245. We expect a few more early positions to be pushed on Mondays opening so next week's activity is likely to be weighted towards the front end until these units clear down.

In the Med, week 18 started as the previous one finished, with Owners poised to ride the wave of bullish sentiment laid in part by a historic rally in the CPP market. As expected, the first cargoes to show threw up a mixed bag of results as Owners pushed for new benchmarks and X-Med trading anywhere between ws 320 and 330 and Black Sea enquiry hitting ws 340. With uncertain itineraries across the fleet, marketed tonnage has been slow to show which has only served to stem the flow of firm enquiry. With this slow down, rates have stalled at ws 350 and sentiment teetering on a knife edge. Going into next week, Owners will be looking for enquiry to pick up in order to maintain sentiment and current levels.

MR

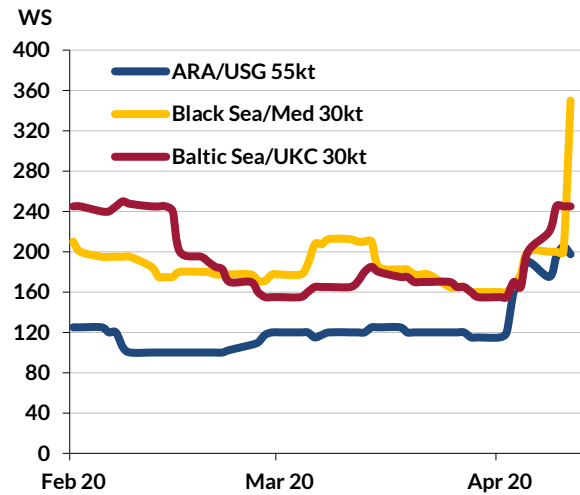
The front end of the week was dominated by speculation around whether Owners would clean up MRs and this was the primary driver for those with positions in play to push on rates. However, with fixtures failing to lift subjects and prompt tonnage building, this failing continuing throughout the week and 45 x ws 215 became conference rate at the back end of the week for all tonnage loading Baltic or UKCont for discharge UKCont or Med. Finally, as we close out the week, prompt tonnage is once again back on subs at these levels and Charterers can now look to ballast units fixing for 6-12th May. Deflationary pressure from a collapsing Aframax market is expected to smack any positive sentiment square between the eyes early next week.

In the Med and Black Sea markets, this week has been a hive of enquiry steadily picking away at continued tonnage. Levels for X-Med 45 x ws 225-230 have been seen and in the Black Sea, last reported was 45 x ws 235 fixing mid-month for a major trader, with other enquiry X-Med and Med/Canaries heard as traders shuffle around their blends in the face of rising oil prices. Tonnage has started to build now in the Med, with fixing looking around 7-11th May, pressure again from larger sizes and a stalling CPP market has incentivised Owners to renege on their plans to clean up some MRs in the region. We look to next week with expectations of a slight decline on the cards.

Panamax

With surrounding markets undergoing radical negative correction, the Panamax sector suffers a rather strange finish to the week but for now rates survive on the virtue of two main factors; limited natural tonnage, and where restrictions are in play forcing the usage of a 55kt bottom. That said, with Aframaxes now pro-rating at ws 55/160 - negative impacts will be seen further down the line, once the natural tonnage stocks repopulate, units over here will have to compete, or if US values fall when ballasting over makes sense once again.

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	Apr 30th	Apr 23rd	Last Month*	FFA Current Q
TD3C VLCC	AG-China	-68	98	166	209	63
TD20 Suezmax	WAF-UKC	-65	118	182	170	83
TD7 Aframax	N.Sea-UKC	-84	156	239	154	130

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

		wk on wk change	Apr 30th	Apr 23rd	Last Month*	FFA Current Q
TD3C VLCC	AG-China	-87,750	106,000	193,750	247,000	60,500
TD20 Suezmax	WAF-UKC	-40,500	63,500	104,000	94,250	41,750
TD7 Aframax	N.Sea-UKC	-61,000	65,250	126,250	63,000	46,000

Clean Tanker Spot Market Developments - Spot Worldscale

		wk on wk change	Apr 30th	Apr 23rd	Last Month*	FFA Current Q
TC1 LR2	AG-Japan	+39	501	462	209	
TC2 MR - west	UKC-USAC	-159	273	433	171	171
TC5 LR1	AG-Japan	-11	447	458	206	215
TC7 MR - east	Singapore-EC Aus	+71	421	351	192	219

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

		wk on wk change	Apr 30th	Apr 23rd	Last Month*	FFA Current Q
TC1 LR2	AG-Japan	+13,500	174,000	160,500	66,750	
TC2 MR - west	UKC-USAC	-32,250	47,500	79,750	26,250	27,000
TC5 LR1	AG-Japan	-3,250	112,250	115,500	47,000	49,250
TC7 MR - east	Singapore-EC Aus	+12,500	69,250	56,750	27,000	31,750

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

ClearView Bunker Price (Rotterdam VLSFO)	+8	184	176	212
ClearView Bunker Price (Fujairah VLSFO)	+25	206	181	251
ClearView Bunker Price (Singapore VLSFO)	+20	246	226	243
ClearView Bunker Price (Rotterdam LSMGO)	+11	221	210	281

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