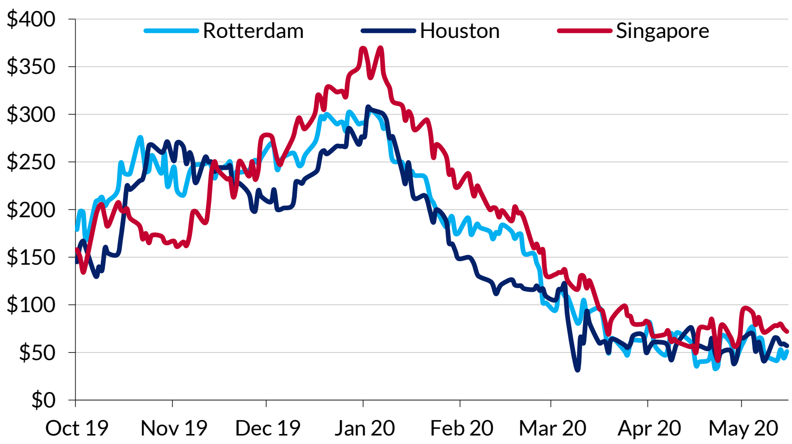
The Future of Scrubbers
Weekly Tanker Market Report

In recent weeks, several publicly listed tanker companies announced their decisions to postpone scrubber installations. During the release of their 1st quarter financial results, DHT Holdings said it would postpone installation of five scrubbers, citing strong market conditions as the reason. A similar statement was made by International Seaways. According to Platts, the company has postponed three planned installations to coincide with scheduled dry docking in 2021. Finally, Scorpio Tankers said it will delay the installation of nineteen scrubber retrofits until at least 2021, while Scorpio Bulkers announced its decision to delay the installation of thirteen scrubbers. These developments follow several scrubber cancellations (by independent owners) scheduled to take place in the 4th quarter of last year, with owners instead opting to take advantage of the strong tanker market at the time.

However, there has been no mention of a dramatic decline in bunker prices and lower spreads between very low sulphur fuel oil (VLSFO) and high sulphur fuel oil (HSFO) in recent public statements. The Covid-19 driven collapse in oil demand saw the differential between the two bunker fuels fall as low as $50-$60/tonne in March and April, compared to around $275-$300/tonne spread back in January 2020. As a result, the premium in spot earnings for scrubber equipped vessels declined substantially. Using TD3C as a guide, scrubber equipped VLCCs on average earned just $4,000/day more in April than tankers without scrubbers. This is compared to a premium of $16,000/day just a few months ago.

Due to these adverse market conditions, it is not surprising that there has been considerably less appetite for new scrubber installations. Wartsila announced a decline in new marine orders, largely due to a lack of scrubber investments. A similar trend has been confirmed by the classification society DNV GL, which also reported a slowdown in scrubber orders during the 1st three months of the year.

Spread between HSFO and VLSFO ($/tonne)
Source: ClearLynx



The economics of a scrubber retrofit have certainly been impacted by narrower spreads. At a $60/tonne differential between the two bunker fuels, the repayment period of an investment in an open loop VLCC scrubber retrofit is expected to be somewhere between 3 to 4 years, depending on a fuel efficiency of a tanker. The repayment period is shorter if the technology is installed on a newbuild due to lower installation costs and no offhire time. However, even here it would still take somewhere between 18 to 26 months to repay the investment.

Yet, the picture could change again in the future. Oil prices are expected to rebound once the world recovers from Covid-19, whilst OPEC+ is likely to continue its efforts to support oil prices. Further down the line, the upward pressure on oil prices could also intensify due to the major reductions in CAPEX by oil companies seen at present. With this in mind, investment in exhaust gas cleaning technology could come back on the agenda. Expectation of higher prices in years to come is perhaps one of the reasons why delays to scrubber installations and not outright cancellations are currently the preferred strategy of tanker owners.

Crude Oil

Middle East

An active start to the week initially enabled VLCC Owners to halt the previous market slide but from midweek things slowed as May needs began to close out and rates ended at no better than ws 60 to the East, and low ws 30's West via Cape. June programmes will be in hand from early next week but are anticipated to be even 'shorter' than the already heavily reduced May tally. Owners will be reliant upon continuing disport delays to spread availability, and maintain some degree of composure. Suezmaxes also began to feel the pressure late week, with very easy supply and spasmodic demand. Rates eased to ws 75 to the East but fell off more smartly to under ws 40 to the West, with no great hope of a u-turn anytime soon. Aframaxes kept steady through the week and even inched up a fraction to 80,000 by ws 145 to Singapore, although availability is starting to rebuild, and more enquiry will be needed in order to retain support.

West Africa

Suezmaxes had dug in at the end of last week and had hoped to have secured a platform for a fightback this week. Unfortunately the market dice didn't fall their way and, with Eastern ballasters also coming into play, rates fell away to 130,000mt by ws 80 to Europe, and to ws 75 to the USGulf, with further slippage now threatening. VLCCs trod water - there was some occasional fixing but it needed more than that in order to improve rates from the ws 55/57.5 range to the Far East that they had moved to last week, and now even that range looks vulnerable if Charterers maintain their disciplined approach.

Mediterranean

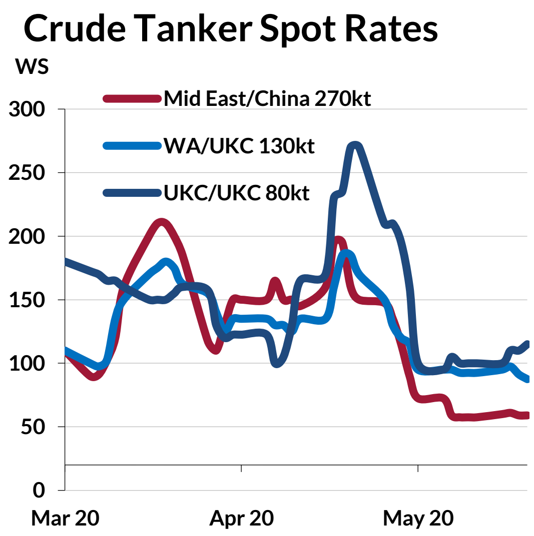
Aframax Owners did their best to hold last week's marks but lacked the stamina and although early dates became quite tight for tonnage, there was enough competition on the prevailing fixing window to draw rates back down to 80,000mt by ws 102.5 X-Med and to ws 110 from the Black Sea, with slim prospects of any near term push back unless there's an unexpected re-concentration of enquiry early next week. Suezmax availability for longer runs will now be supplemented by Eastern refugees and short hauls are unlikely to provide a particularly attractive alternative either. Rates have slipped to 140,000mt by ws 80 from the Black Sea to European destinations, and towards $4.4 million to China also.

US Gulf/Latin America

A busy kick off for Aframaxes here, giving Owners the ammunition to re-fire the market to 70,000mt by ws 147.5 upcoast and towards ws 140 transatlantic, though by the week's end the momentum seemed to have been lost and the market eased off a little. There will be hopes for another concentrated pulse of enquiry after the weekend, but nobody's betting. VLCC rates had already suffered heavy falls which, at least, brought Charterers out to shop more meaningfully. 'Local' availability remained weighty, however, and rates fell away further to end at little better than $5 million from the USGulf to Singapore, with further discounting possible.

North Sea

Strangely - for them - Aframaxes eventually found themselves in better territory than their Mediterranean compadres. X-UKCont movements busied in reaction to Baltic production cuts and rates shifted upwards to 80,000mt by ws 125 X-UKCont, with 100,000mt ex Baltic running at an average ws 95. perhaps a bit short-lived, but maybe Owners will be able to keep spinning for a little while yet. VLCCs began to have more questions than of late but with the market softening in the USGulf/Caribs it was hard for Owners to call for much more than $6 million for crude oil to China-S Korea and securing subjects remains a problematic issue too.



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

Clean Products

East

LRs have seen a rapid decline this week after a sudden change in sentiment at the end of last week. Rates have almost halved but in reality, are still high compared to usual market levels. LR1s have seen a few stems but a muted week and rates accordingly haven't been tested properly. Still 55,000mt naphtha AGulf/Japan is rated at ws 200 but less is surely there. 65,000mt jet AGulf/UKCont is now $2.75 million but again could see more of a fall shortly. LR2s are very quiet and have seen hardly any stems this week. We started the week with all the high fixtures from the previous week failing and, with the cut in production sentiment has just melted away. 75,000mt naphtha AGulf/Japan is also no higher than ws 200 but likely less. 90,000mt jet AGulf/UKCont is being assessed around $4.0 million but again needs a test. All sizes and routes need more volume to really examine where they are as they are very vulnerable - next week will prove very interesting.

A natural bottom has very much been carved out on the MR segment, with many Owners conceding that whilst the decline of the market was wholly justified – the extent of which constituted an oversell. Accordingly, our cargo last night received just one offer and to do ws 125 was a tad fortunate. Turning our attention back to the list, there are two important factors to consider; the first is that the next 10 days is not exactly oversupplied and there are still a healthy amount of cargoes both in the market and below the surface to keep Owners occupied. The second being that the Chems / non CPP market now has the capacity to pull tonnage away from CPP trading (especially at the current CPP earnings). The extent of the rebound, that is very much on the cards, could be diluted by the decline of the larger segments and the fragmented nature of the MR fleet could also play a role… but on the whole, there are a lot more Owners signing from the hymn sheet of resistance as opposed to defeat.

Mediterranean

It's been a week to forget for Owners in the Med, with tonnage lists pulled on Monday revealing over 25 prompt ships across the board, which meant it was a downward slide from the off. With a few market quotes revealing the true colours of the list and this coupled with slow enquiry (up until Thursday) this has led to rates bottoming out at 30 x ws 105 for Vanilla X-Med cargoes. Black Sea enquiry is still almost non-existent, which doesn't help proceedings and we expect rates to fall in line with the ws +10 point rule of thumb premium. An uptick in enquiry has been seen in the back end of the week (especially WMed), which has given Owners hope that momentum can be found with rumours of 30 x ws 115 on subs ex Arzew. Next week will hopefully see a slightly more balanced market than what we saw on Monday but this will only occur if cargoes continue to come out the woodwork with a replenished list likely over the weekend.

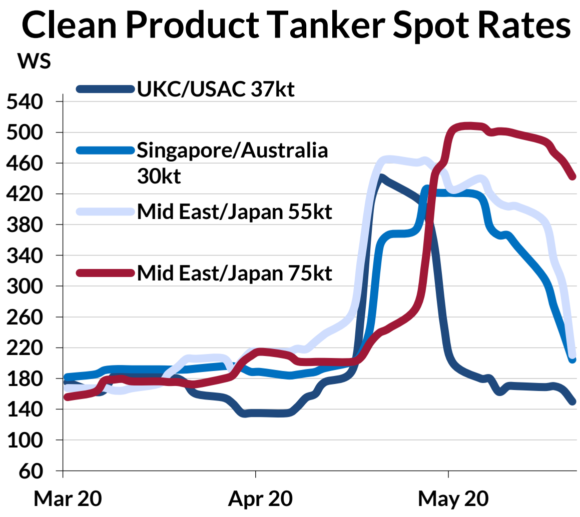
On the MRs in the Mediterranean it seemed a fairly positive week compared to the Handies by Wednesday as Owners were able to stabilise the falling market at call 37 x ws165 the norm for transatlantic. A number of runs heading to Japan at the $2 million mark early on also managed to keep tonnage turning over but, with the Handies crashing across the Med, Charterers now had alternatives for moving cargo. The lack of activity ultimately showed with the Continent market exhibiting the true strength as we hit ws 150 for transatlantic closely followed by ws 140 on Friday. WAF enquiry has remained slow throughout and expect this rate now to sit somewhere close to ws 160 with the new TC2 rate being achieved, and moving ahead Owners will be digging their heels in as we expect a fuller tonnage list on Monday morning with a lack of outstanding cargoes.

UK Continent

Up until yesterday Owners would have been satisfied that the week had shown some signs of stability in terms of rates against a reasonable level of enquiry. However, yesterday all that changed in one fixture and the market quickly ticked down another rung or two of the ladder to leave TC2 at 37 x ws 150 and probably facing further negative corrections. WAF rates have held up slightly better with the current differential as high as ws 25 points but that looks a little overpriced against the transatlantic number today. This market has benefited from ships on storage and others heading East in recent times but as other markets falter we are going to see the position list recover somewhat as ballasters head back to Europe. With demand still a major hump in the road going forwards, we continue to feel bearish about the prospects for this market in the short to medium term at least.

After a steady start to the week in this UKCont Handy market, with rates holding at last done levels for the majority, consistent enquiry has meant rates have begun to increase as we approach the weekend. With a healthy amount of vessels being fixed away, the front end of the list has tightened and as a result rates are now at the 30 x ws 155 mark ex Baltic, with X-UKCont expected to positively correct to 30 x ws 145 when next tested. As we head into next week, Owners will be quietly confident they can push for more if enquiry remains.

All in all, it's been a quiet week in this Flexi market, with slow levels of enquiry and little to report in the way of fixtures. However, Flexi Owners will take some positives from the UKCont Handy market, which after experiencing a steady start to the week, has seen rates start to increase on the back of consistent enquiry. As a result, rates for a X-UKCont voyage are expected to follow suit and fall around the 22 x ws 195-200 mark when next tested.



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Dirty Products

Handy

Pressure has come to a head this week on the Continent, where inactivity and a heavily weighted tonnage list formulate to reduce fixing levels. Lows of Sub ws 140 have been seen but at time of writing, there is argument circulating that repetition may not be guaranteed, given the circumstances of the deal in question. Still, if activity fails to present in the immediate near future then such lows could be anything but an outlier.

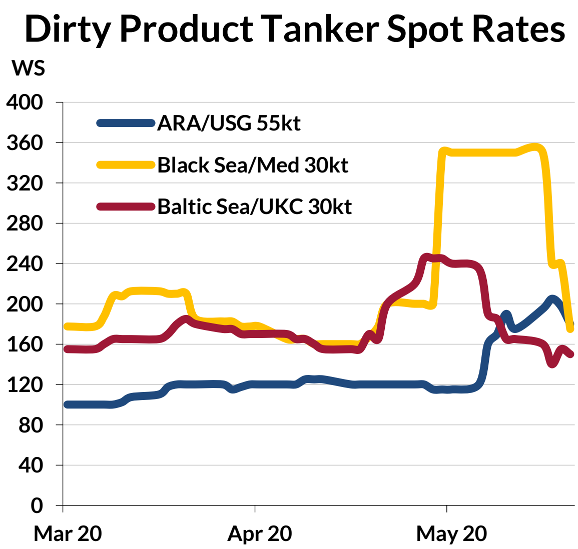
Elsewhere in the Med, on face value we have seen a greater number of deals concluded when compared with recent weeks, however, the bad news for Owners is that this activity has led to a pre-empted decrease in fixing levels. The real question on Monday morning was how much value would be lost and the end results were indeed seismic. Week on week we see a reduction of some 80+ worldscale points eradicated from benchmark routes, which given the length of Mondays tonnage list, which showed over 15 units having hit or nearing their open dates, what followed was always going to be a Charterers market.

MR

Following similar statistical curves plotted on the surrounding Handies, both the Continent and Med MR markets share a similar fate. Decrements have occurred and although in some cases theoretical rather than actual, the fact that we haven't seen much done in the Continent, with idle tonnage loitering on the lists, would suggest the next test be favourable for Charterers. Additionally, where the Med has also lost chunks of value there is now a mentality setting in of "take what's on offer" as the safety net of tapping up the surrounding Handies is escaping.

Panamax

Having felt the impacts from larger sizes, the Panamax market was tested down to ws 125-132.5 levels this week, with variance in rates being put down to tightness of tonnage availability across the dates in question. Going forward, however, whilst the US markets appear to be in the doldrums, Charterers have open to them additional supply of availability for transatlantic runs where most Owners are now prepared to ballast over to Europe for current returns. (The above statement though only holds validity until either the Panamaxes pick back up in the US or the Aframaxes over here don't come crashing down further).



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GIBSON SHIPBROKERS

Dirty Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 14th	May 6th	Last Month*	FFA Current Q
TD3C	VLCC	AG-China	**+2**	60	58	154	45
TD20	Suezmax	WAF-UKC	**-3**	87	89	130	70
TD7	Aframax	N.Sea-UKC	**+13**	115	103	129	105

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

			wk on wk change	May 14th	May 6th	Last Month*	FFA Current Q
TD3C	VLCC	AG-China	**+3,500**	57,500	54,000	176,500	37,750
TD20	Suezmax	WAF-UKC	**-1,250**	43,750	45,000	70,000	33,000
TD7	Aframax	N.Sea-UKC	**+9,750**	37,250	27,500	45,500	28,500

Clean Tanker Spot Market Developments - Spot Worldscale

			wk on wk change	May 14th	May 6th	Last Month*	FFA Current Q
TC1	LR2	AG-Japan	**-236**	226	462	239	
TC2	MR - west	UKC-USAC	**-14**	150	164	159	146
TC5	LR1	AG-Japan	**-198**	211	408	228	119
TC7	MR - east	Singapore-EC Aus	**-162**	204	366	189	191

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

			wk on wk change	May 14th	May 6th	Last Month*	FFA Current Q
TC1	LR2	AG-Japan	**-86,250**	73,250	159,500	77,500	
TC2	MR - west	UKC-USAC	**-2,500**	22,750	25,250	24,000	21,750
TC5	LR1	AG-Japan	**-53,000**	48,500	101,500	52,750	23,500
TC7	MR - east	Singapore-EC Aus	**-29,500**	29,500	59,000	26,250	26,750

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

ClearView Bunker Price (Rotterdam VLSFO)	**-5**	196	201	206
ClearView Bunker Price (Fujairah VLSFO)	**-12**	221	233	221
ClearView Bunker Price (Singapore VLSFO)	**-16**	235	251	251
ClearView Bunker Price (Rotterdam LSMGO)	**-6**	225	231	251

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