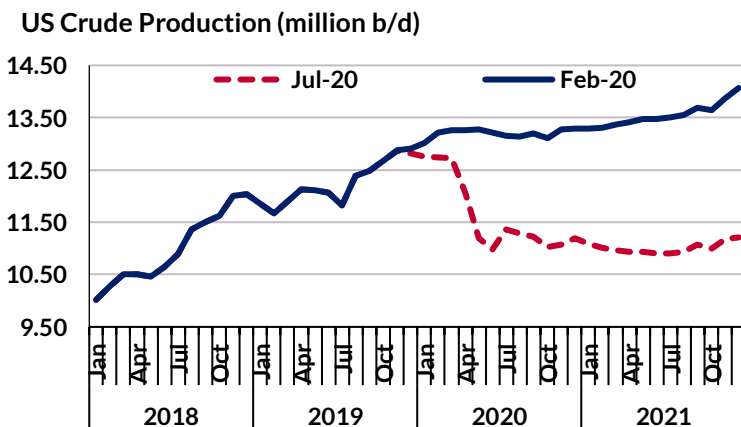


Production Pressure

Weekly Tanker Market Report

With world oil demand having collapsed in the wake of the Covid-19 pandemic, major downwards pressure on oil production was always going to be inevitable. Indeed, the US Department of Energy recently assessed that US crude output averaged 11 million b/d in June, showing a colossal 1.9 million b/d decline from the record level reached in November 2019 as weak crude demand and limited storage availability forced large scale shut-ins. Drilling activity also came to a near halt in response to collapsing oil prices, with Baker Hughes reporting in early July the lowest active drilling rig count in the US in its records, which date back to 1987. Although a 1.9 million b/d drop is quite a sobering figure, the picture is less extreme on an annual average basis due to steep rise in US production over the course of last year and expectations that output will stabilize in the 2nd half of 2020. A survey conducted in March by the Federal Reserve Bank of Dallas showed that shale producers could generally cover operating expenses for existing wells at WTI prices between \$23-\$36/bbl, which suggests that the majority of shut-in output could potentially return at current prices of around \$40/bbl. Indeed, some US producers have already announced last month partial reversals of production cuts; however, others, especially those heavily leveraged, still face bankruptcies.

On an annual average basis, the IEA expects US crude output to decline this year by 0.9 million b/d. A further drop in output is projected in 2021, with estimates showing an additional 0.4 million b/d fall year on year (YOY); however, that is uncertain. The concern here is a sharp reduction in upstream spending, with budgets cut nearly by half from original plans.



While the US shale industry is leading the way in terms of the non-OPEC+ response to lower oil prices, crude production in other countries is also under pressure. Most notably, Canadian output is expected to decline by 0.4 million b/d YOY in 2020. Next year output is anticipated to rebound almost as strongly, yet absolute levels will be nearly 0.45 million b/d below projections made a few months ago. In non-OECD Asia, crude production is forecast to decline by around 225,000 b/d this

year and a similar drop is projected in 2021, with China and India seeing steep revisions on the back of rapid declines at mature fields and spending cuts by oil companies. Elsewhere, UK crude production has been revised down since March by around 80,000 b/d both for 2020 and 2021. A similar downward revision has been made for Colombia.

Overall, only Norway, Brazil and Guyana are expected to see any meaningful gains over the two-year period as new projects start up. The IEA notes that if cuts stay in place as agreed through to April 2022 and full compliance is met, total non-OPEC output is anticipated to fall by nearly 3 million b/d year-on-year in 2020, while in the absence of increased investments in short-cycle projects, expectations are for non-OPEC supply to grow by just 0.74 million b/d in 2021.

However, such a modest rebound in non-OPEC supply points to a potential tightness next year if demand recovers as expected, with the latest IEA figures suggesting a 5.3 million b/d rebound in consumption. This may represent opportunities for producers that can increase output at ease, mainly those in the Middle East as evidenced in the past. If this proves to be the case, then perhaps OPEC efforts to defend its market share will finally yield results. For tanker markets this means a greater reliance on crude flows out of the Middle East, at least for a little while.

Crude Oil

Middle East

An early combination punch of good news got VLCCs up and running quickly this week. Low-ball rates in West Africa suddenly looked an easy bet for Charterers against raised Suezmax marks and as soon as the focus moved to the larger size, rates there rose, and almost simultaneously brought a firmer response here, which was then boosted by an extra pulse of price-chasing enquiry. Rates moved into the high ws 40's East, and back towards the mid ws 20's West accordingly, but by the week's end things had quietened off again, leading to a more defensive air. Suezmaxes saw reasonable, and occasionally heavier, action but a long list of candidates remained and ironically rates of down to ws 45 to the East are starting to attract VLCC splitting interest to further undermine the larger size's prospects. Aframaxes maintained a steady beat, with enough enquiry to begin to add a little rate pressure and the recent 80,000mt by ws 62.5 to Singapore could be bettered early next week if the trend continues.

West Africa

Suezmaxes restarted in positive mode, having enjoyed a mini rate-boost late the previous week, but although those levels were maintained, interest fell short of supplying the necessary critical mass to allow for another step higher. 130,000mt by ws 52.5 to Europe, and to ws 45 to the USGulf are present 'conference' marks and should remain similarly marked into

next week now. VLCCs, as above, found more headroom courtesy of Suezmax improvement and quickly pushed higher as demand increased, moving up to a peak ws 47 to the Far East, but as in the AGulf, things then stalled and a more flatline scene awaits the next fixing phase.

Mediterranean

News of potentially imminent Libyan barrels coming back to market gave the area a more positive vibe for a short while, but the reality has so far failed to materialise and Aframax rates can't be marked much higher than 80,000mt by ws 60 X-Med, and ws 65 from the Black Sea for the time being. Hopes will remain for next week, although further tensions between Turkey and Egypt around the Libyan issue are raising counter concerns. Suezmaxes would also benefit from those extra barrels and need them to make any upwards progress from very grey numbers, otherwise 140,000mt by no better than ws 55 from the Black Sea to European destinations, and down to \$2.7 million to China looks set to remain the case.

US Gulf/Latin America

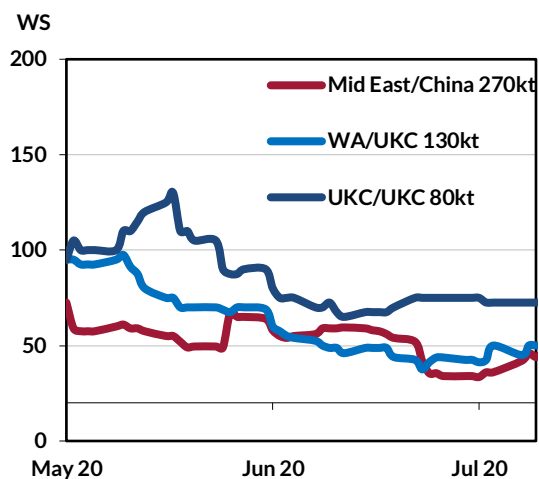
Slow, then busier, for overweight Aframaxes that needed just a little more to pull themselves off the 70,000mt by max ws 70 rocks both upcoast, and transatlantic. At least there is some hope now and an active move into the weekend could force the issue somewhat for next week. VLCCs enjoyed very good

attention and, with ballasters from the East beginning to make up more and more of the competition, and rates in other load areas inflating, levels here also had to rise. A very solid move to over \$5.5 million from the USGulf to Singapore was the result and although the main gains are over for a while, rates should hold quite close to that onto the next fixing window.

North Sea

Fuel oil interest mainly transatlantic, has helped to slightly rebalance the market here, and if the Med also firms a little more then some additional deletions may be seen. That said it's all preparatory work for now and rates remain stuck at little better than 80,000mt by ws 75 X-UKCont, and 100,000mt by ws 47.5 from the Baltic. VLCCs are in tight 'natural' supply here but interest has also been on the light side. A higher \$6.35 million for crude oil to South Korea/China was seen, which will be replicated, at least, if the USGulf area holds ground.

Crude Tanker Spot Rates



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

Clean Products

East

As we conclude what has been an active week by all recent accounts, we are finally starting to encounter a market where Owners are slowly edging back the ground they've lost of late. Eastern freight is the most obvious example of this, with TC12 on subs at 35 x ws 59.5 in a window with other naphtha stems in play, this has set the tone for a push back and we could even see rates get close to ws 70 in the next few fixtures. Naturally, with that being said, the imbalance between East and West has left Charterers holding Westbound cargoes with ample options and the ability, in places, to continue to chip away at freight with ideas at the \$850k mark. However, with East rates set to rally, psychologically it would be unlikely for Owners to continue to relent across other aspects of the market. On the whole, the rut should be over, now the real game is being able to position correctly against a rebound which (if it gains the right momentum) stands to be rather forceful.

A bad week for the bigger units, with activity levels dropping away and rates accordingly suffering. LR1s have seen 55,000mt naphtha AGulf/Japan collapse to ws 57.5 and 65,000mt jet AGulf/UKCont down to \$1.25 million. Even with a slight improvement on MRs and more optimism, LR1 tonnage remains abundant and exports still very much reduced so any recovery is likely to be a few weeks away. LR2s have also struggled with their quietest week in many years, but tonnage lists remain still relatively

balanced considering and rates have held a little better than the LR1s so far. 75,000mt naphtha AGulf/Japan down to ws 65 for now and 90,000mt jet AGulf/UKCont is now \$1.75 million and holding for the time being. Again, a real recovery of any sort is still weeks away.

Mediterranean

Week 28 has been a week to forget for Owners in the Mediterranean Handy market as rates took another tumble. The market has been littered with prompt units all week, with up to 20 at one point! This combined with the continuously slow levels of cargo enquiry means that X-Med rates slipped ws 5 points to the 30 x ws 85 mark. Black Sea activity has also been on the quiet side, with rates being driven by Med sentiment, leaving 30 x ws 95 the current benchmark. Although a fair few units were picked off midweek behind closed doors, a quiet back end of the week, plus a rejuvenation of tonnage over the weekend is likely to leave Charterers with ample amount of options come Monday morning.

MRs in the Mediterranean have seen a similar fate to the UKCont market, where Charterers continue to flex their advantage and rates have fallen. With the slightly lighter tonnage list available though, some have been able to hold a small premium, and transatlantic rates sit around 37 x ws 72.5-75, with WAF around ws 10 points higher. A fresh test heading East shows us \$735k for AGulf and \$935k for Singapore, which again will send shivers down many Owners' spines

but, with little outstanding, we better get used to it as we dig in for this Summer sentiment.

UK Continent

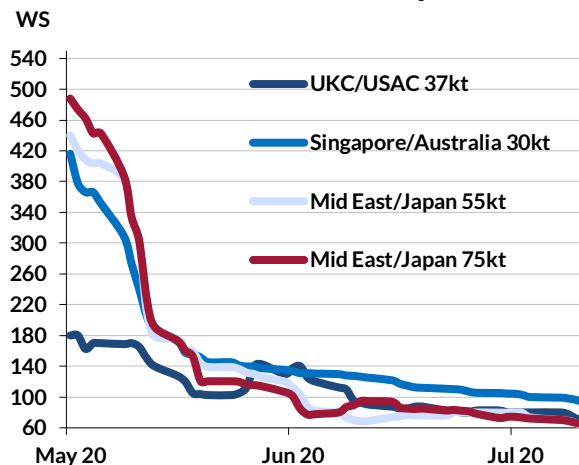
A lacklustre end to a dismal week on the MR's as tough market conditions continue to impact Owners earnings. We had a brief respite Mid-week when Wednesday saw fresh fixtures into double digits, but either side of that it has been a very slow week. The position list, despite Wednesday's best efforts, remains firmly in Charterers favour, with the front end continuing to be flooded with excess tonnage. The end result has once again been further rate reductions down to levels probably below even the most pessimistic experts' predictions, with TC2 ending the week at 37 x ws 70 and WAF somewhere around 37 x ws 82.5. For the time being, it looks very likely that the pressure will continue to be firmly on Owners shoulders and without a fairly dramatic improvement in demand we could yet see these rates go lower still.

It was a quiet start to the week in the UKCont Handy market, with rates continuing to hold the line at last done levels as they have done for almost a month now. However, as we reached the midpoint of the week, fixing activity began to build but even with this influx of enquiry, rates actually slipped slightly, with 30 x ws 90 going on subs for a Baltic/UKCont run. X-UKCont rates have also dropped today with 30 x ws 82.5 going on subs. With a few more cargoes

being quoted Friday afternoon Owners will be hopeful of preventing any further losses before we enter Week 29.

Another lacklustre week goes by in the UKCont Flexi market, with little to report in the way of fresh fixing activity and slow levels of enquiry throughout. However, there are glimmers of hope for Owners given the limited amount of tonnage available in the UKCont for July dates, but an influx of fresh cargoes will be needed Monday. For now, Flexi rates continue to track that of the UKCont Handy market, with 22 x ws 105-110 the current call for a X-UKCont run.

Clean Product Tanker Spot Rates



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

Dirty Products

Handy

In the North a mixed bag of results has seen this week. Sentiment has taken a slide as enquiry levels dropped below tonnage availability. For the first time since the market firmed some 3 weeks ago, the scales have tipped in Charterers' favour and the week closes with recent gains eroded. Adding to frustrations of Handy Owners, is a lack of full size enquiry in the MR market, which has seen prompt tonnage there compete for longer haul part cargoes to the Med in order to minimize down time and head to a market, which for now looks healthier. Going forward, expect much of the same in week 29, if enquiry in the region does not pick up from the off.

With sustained enquiry in the Med keeping tonnage ticking over in the last 2 weeks of trading, it should have come as no surprise that Owners had the bit between their teeth on Monday. As the East Med continued to clear down tonnage, with enquiry driven mostly from the Black Sea, by mid-week the conversation was dominated by one or two uncovered stems on forward dates. Being in the market for more than 24 hours suggests a struggle and before long ws 130 from the Black Sea was reported, with ws 5 points more confirmed today. A mixed bag of results has been seen further afield for X-Med enquiry as the fundamentals of supply and demand create a 2 tier market, depending on where you're loading. Expect week 29 to continue in much the same way as 28 has ended before tonnage is replenished in the East.

MR

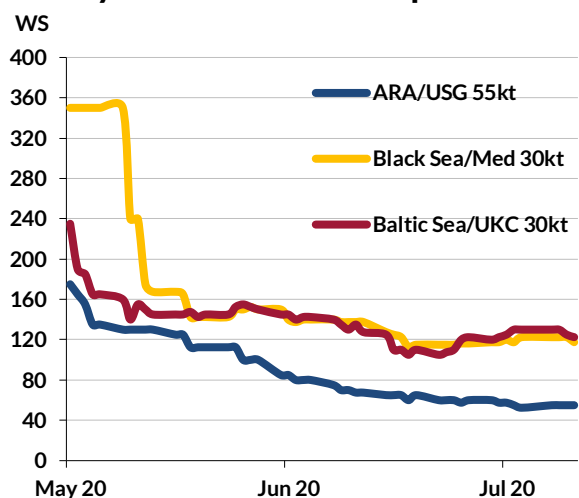
A familiar story continues for MR Owners in Europe, with mixed results largely driven by enquiry from the Handy market. In the North, resilience to drop levels has been forced to

give way to the attractiveness of longer voyages to the Med and a lack of full stems has seen Owners throw their hat in the ring for whatever was on offer for short term employment. A similar story has been told in the Med, with a position list littered with MRs, eventually finding employment for part cargoes.

Panamax

Several consecutive quiet weeks in the Panamax market have seen tonnage build to a point where 'sitting ducks' can do nothing more than sit and wait for cargo to materialise. Unfortunately, however, the taps are yet to flow for cargoes transatlantic from this region despite one or two movements being concluded quietly off market. In contrast, we report today of at least two units fixed to head to the UKCont and Med, with these loading in the Caribs and USGulf. Owners will be hoping to see some activity before further tonnage arrives on our shores. With green shoots of positivity from the Aframax in the last couple of days, they may well feel a sense of better things to come.

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	July 9th	June 2nd	Last Month*	FFA Q3
TD3C VLCC	AG-China	+11	47	36	60	42
TD20 Suezmax	WAF-UKC	+10	52	42	49	51
TD7 Aframax	N.Sea-UKC	-0	72	72	71	73

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

		wk on wk change	July 9th	June 2nd	Last Month*	FFA Q3
TD3C VLCC	AG-China	+13,500	34,750	21,250	52,750	28,750
TD20 Suezmax	WAF-UKC	+5,750	17,250	11,500	17,000	16,250
TD7 Aframax	N.Sea-UKC	-750	250	1,000	1,250	1,250

Clean Tanker Spot Market Developments - Spot Worldscale

		wk on wk change	July 9th	June 2nd	Last Month*	FFA Q3
TC1 LR2	AG-Japan	-8	65	73	95	
TC2 MR - west	UKC-USAC	-10	70	80	93	88
TC5 LR1	AG-Japan	-18	61	79	69	74
TC7 MR - east	Singapore-EC Aus	-10	93	103	126	114

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

		wk on wk change	July 9th	June 2nd	Last Month*	FFA Q3
TC1 LR2	AG-Japan	-3,250	10,000	13,250	21,750	
TC2 MR - west	UKC-USAC	-2,250	3,750	6,000	9,250	7,250
TC5 LR1	AG-Japan	-5,000	5,250	10,250	7,750	8,500
TC7 MR - east	Singapore-EC Aus	-2,000	6,250	8,250	13,000	10,000

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

ClearView Bunker Price (Rotterdam VLSFO)	+6	299	293	269	
ClearView Bunker Price (Fujairah VLSFO)	-1	323	324	304	
ClearView Bunker Price (Singapore VLSFO)	+3	331	328	313	
ClearView Bunker Price (Rotterdam LSMGO)	+9	357	348	319	

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