

Chinese Whispers

Weekly Tanker Market Report

China is set to sign a deal that will see \$400 billion invested in Iran over a 25-year period. The deal will include massive infrastructure projects, largescale spending on defence and closer ties between the two countries. The deal will initially see China invest \$280 billion in Iran’s oil, gas and petrochemical sectors over the next five years. The understanding is that further amounts will be available in each subsequent five-year period. Another \$120 billion will be provided to upgrade Iran’s transport and manufacturing infrastructure. In exchange, Chinese companies will be given the first option to bid on any new, postponed or uncompleted oil, gas and petrochemical projects in Iran. China will also be able to buy any and all oil, gas and petrochemical products at a minimum guaranteed discount to the six-month rolling mean average price of comparable benchmark products. In addition, China is looking to pay for the oil and other commodities via soft currencies, meaning that potentially China will be receiving a discount of around 30% on all oil, gas and petrochemical purchases.

Iranian Crude Exports



This deal comes at a time when the Iranian economy is estimated by the IMF to have contracted by 6% in the first six months of 2020, following a 7.6% contraction last year. Iranian oil exports have fallen from 2.8 mbd back in February 2018 to around 0.2 mbd currently, although some shipments have gone unreported. China currently accounts for the majority of Iranian crude exports. Ultimately, this potentially means that China will be able to purchase all of the Iranian crude output. Historically, countries

such as South Korea, India, Japan, Italy, Spain and France have all imported Iranian crude. Increased pressure from sanctions have meant that there have been almost no buyers left willing to purchase Iranian crude, but should sanctions ever be eased, there may not be enough Iranian crude to export to other countries once China is first in line to buy.

Whilst it is understood that this deal may take some time to come to fruition, as the Iranian parliament must ratify it first. Should the deal actually go through in its current state, there are still a number of questions that remain. Firstly, we are currently in a period of excess oil supply. Covid-19 has decimated demand, but all forecasts suggest that demand will return, albeit at a lower level than previously outlined. Increased Iranian crude production is likely to displace imports from other main crude exporters to China. Another question is how will the oil be transported? International owners are unlikely to get involved due to a threat of being sanctioned by the US government, with two Cosco subsidiaries temporarily blacklisted over alleged dealings with Iran. As such, idled NITC vessels are likely candidates to service this trade, but it will take away the trading demand from international companies shipping crude to China from elsewhere.

It is difficult to see how this deal will actually make it through in its current state, but it is clear that China and Iran could eventually have a very significant partnership which will impact significantly the crude tanker sector.

Crude Oil

Middle East

A frustrating, and defensive, week for VLCC Owners as fattened availability met low/moderate enquiry and competition forced rates hard into rate territory only broken away from a few weeks ago. There remain heavy delays in the Far East and there could be some chance of pinchpoints eventually developing - as they did last month - but that will remain just a hope for a while yet. Currently rates operate into the mid ws 30's to the Far East, with rare runs to the West marked at little better than ws 20 via Cape. Suezmaxes enjoyed a quite active week that allowed the market to slightly inflate into the high ws 50's to the East, but still at sub ws 25 to the West, although signs were that things would become more challenging again within short. Aframaxes remained reasonably active both here, and in the East, and tonnage lists thinned enough to allow for rates to nudge slightly higher to 80,000mt by ws 72.5 to Singapore, with a good chance of that holding, or even improving, early next week.

West Africa

Suezmaxes saw enough enquiry to allow for a gently upward push but, with 'gently' being the operative word, and by the week's end things had quietened once again and any premiums scored looked set to be clawed back by Charterers. 130,000mt at ws 42.5+ to the US Gulf and ws 45/47 to Europe as things stand. VLCCs moved through a briefly busier phase as AGulf bargain hunting ensued

but as rates slipped there, Owners here also had to sharpen their pencils, and a lower, conference, ws 39 to the Far East became entrenched late week. Owners will now dig in to defend their 'insurance' premiums for the longer voyage commitment at these poorer returns, but will not be able to break higher again unless the Middle East makes a turn.

Mediterranean

Aframaxes started brightly enough to enjoy a rare rate chase to higher marks but the market then lost stamina and it was then a half pace backwards again to revisit 80,000mt by ws 65 X-Med and to ws 72.5 from the Black Sea, with the defensive air likely to continue blowing into early next week too. Suezmaxes were steadily pruned, but by never enough to cause Charterers any real concern and late week Owners had again lost the support/alternative that had previously been available in West Africa. 140,000mt at down to ws 52.5 from the Black Sea to European destinations and to \$2.65 million for runs to China.

US Gulf/Latin America

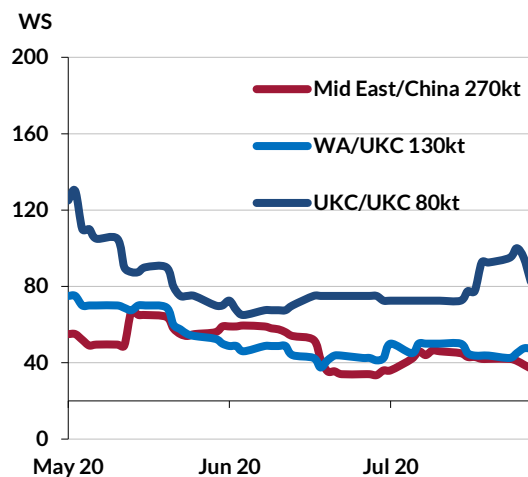
Aframaxes spent the week building their foundation for a big push...they were busy for sure, but never quite busy enough to allow rate demands to move above 70,000mt by ws 80 upcoast, or transatlantic, and the weekend will allow for some extra mouths to come to the table to handicap once again. VLCCs ticked over, defending 'last done' marks but, with a wary eye upon negative

proceedings elsewhere. Around \$5.7 million looks to be the next to be paid for USGulf to China, and maybe lower if the lower alternative markets become hard-set at their bottom markers.

North Sea

Aframaxes fell off the positive wave they were riding on and now find themselves being tossed back towards the rocky beach they had sprung from. 80,000mt by ws 80 X-UKCont, and 100,000mt by ws 55 from the Baltic, presently with further downside on the cards. VLCCs saw no public interest, with potential traders unimpressed at what was potentially on offer from Owners. Rate demands will be down to \$5.5 million to South Korea/China now, but may have to slip even lower to get a solid bite.

Crude Tanker Spot Rates



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

Clean Products

East

A large portion of scepticism regarding the strength of the MR market should now be put to the side. In their own right the MRs are standing in the strongest position we have seen for what feels like an eternity. From the looks of things going into the weekend, we are likely to face a minimal (at worst) overhang going into the month of August, which gives Owners a real fighting chance to restore some balance. The accelerant to this flame could well be the vacuum created by Owners deciding against ballasting to the AGulf at such depressed returns, which will be pretty evident for the first week of August as it stands. Having said that, there are some pretty obvious drawbacks in this situation. The main one is the simple mathematical imbalance between MRs and LR1s. This initially will be frustrating for MR Owners, although the objective amongst them will be to recognise the strength of the list and its ability to withstand a bit less vol, whilst simultaneously shifting it to the LR1s and in doing so excavating some invaluable room for them to progress further into.

As it has been the case in the past when MRs outperformed the larger sizes, progression will be capped by the larger sizes' need to keep moving. Given a distinct lack of activity you would expect minimal challenges in achieving ws 57.5 last done TC5. All eyes on potential volumes in the coming week, but also a woeful LR2 market.

Another week seeing a small number of stems reaching the market resulted in a dip both westbound and to Singapore, with rates at \$1.525 million and 90 x ws 55 respectively. The shorthauls are where Owners can take a discount as minimizing time on terrible returns is a benefit. Long runs really shouldn't see further decline. There is still no real light at the end of the tunnel and a lot more across the board is needed to see any real sustained growth.

Mediterranean

Sentiment seems to be cemented as negative during these Summer months, with no ability to find any momentum. A plethora of prompt tonnage has been available to Charterers and this, coupled with sluggish enquiry, means rates have held at the bottom of the market at 30 x ws 80 for X-Med throughout. There have been certain cargoes which have warranted a touch less but by and large, Owners are holding at this level. With wait days TCE's are already negative at this ws rate, so unless dates/position are in Owners' favour, there is really no reason for anyone to fix at less. Black Sea remains relatively quiet and is trading continuously at the ws +10 point rule of thumb premium. With week 31 looming, expect more of the same, with little change likely.

Pretty quiet week all in all on the MR front in the Med, with sentiment being driven by action in NWE. With an influx of cargoes in the UKCont, most Owners ideas translated from UKCont into the Med and at the time of writing, transatlantic and WAF runs from this

region will achieve ws 105 and ws 125 respectively. Fresh test is needed for a run East but expect this to be in the region of 725-750k roughly. With enquiry still healthy ex UKCont, expect this positive sentiment to spill over into next week.

UK Continent

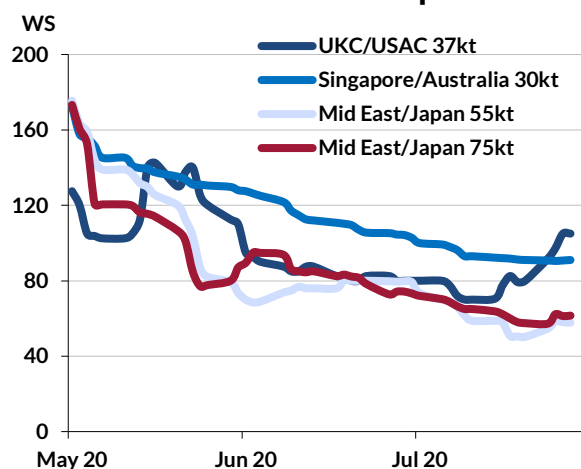
Some solid signs of recovery in this region as both transatlantic and WAF routes see demand well in excess of recent levels. The early part of the week was particularly fruitful for the Owners and a busy third decade began to decimate the front end of the list, allowing Owners to push rates back into 3 digits, with TC2 rising up to 37 x ws 105. WAF, which has been particularly quiet in recent weeks, has seen a return to more normal levels of enquiry in recent days. Owners have managed to improve rates up to 37 x ws 125 here and, although the threat from a weak LR market is likely to see some cargo moved on bigger ships, Owners will be buoyed by this recent revival. The latter part of the week has seen rates stabilise somewhat but, with a good number of uncovered stems now approaching prompt laycans, we would still anticipate next done rates showing further improvement, potentially this side of the weekend.

Another steady week for Handies in NWE, with rates consistently being fixed at 30 x ws 90 ex Baltic and 30 x ws 85 for X-UKCont. Charterers and Owners alike seem content to keep this trend going as this balanced market has kept things placid. Owners will remain hopeful that

the busier MR market will spill over and spark a spat of enquiry on the 30kt clips but for now summer markets are in full swing in this sector.

Another relatively quiet week for spot action on the Flexis leaves all parties involved looking to the Handy market for guidance on achievable rates. The steady Handy market means Flexi rates trade around the 22 x ws 110 mark for X-UKCont but in need of a fresh test. It must be said, however, that the numbers achieved vary from Owner to Owner and on the route in question.

Clean Product Tanker Spot Rates



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

Dirty Products

Handy

In the north this week, sentiment has managed to hold on to strands of positivity largely due to a clear down of tonnage. We started the week with light-hearted predictions of a ws 130 market by the end of the week should enquiry tick on; however, despite enquiry keeping units moving, sentiment has not yet pushed the market on. Levels have also managed to hold despite a number of longer voyages to leave the region being booked. In part though some of this negating effect has been caused by ballast units arriving in the continent, although heading into next week we are seeing a similar pattern unfold.

In the Med, Owners have had little to get their teeth into. Where tonnage has been tight in the East of late, a lack of demand this week has seen supply build, keeping levels stable. Despite a mixed bag of fortunes with some cargoes failing, X-Med enquiry has kept prompt units ticking over, with Owners taking what is on offer. On the face of it, levels have stayed fairly stable, with repetition reported at ws 125 for Black Sea and ws 115 for X-Med. However, there is an underlying current, suggesting there may be ws 2.5 points less for a quieter deal. As dates move into August, expect to see much of the same next week. The summer market has a firm grip, with levels being unable to break through the current ws 10-15 point range.

MR

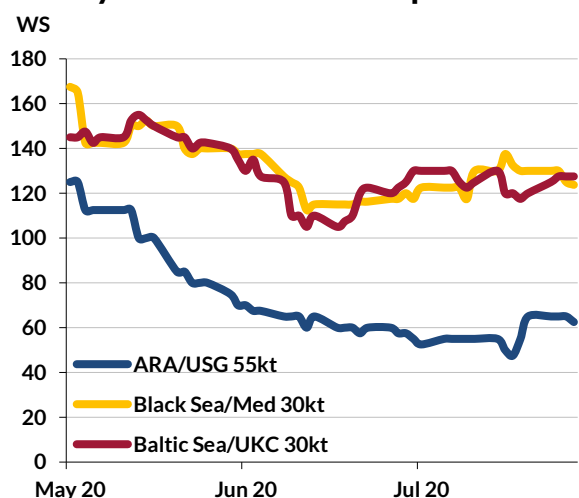
The MR market in Europe this week has seen a slowdown in what has been on offer in terms of full and part cargo sizes. This can be seen by ws 100 being broken in the North and in the Med/Black Sea, not just for longer voyages but for local/short business too. Discounts are being forced in order for Owners to limit

down time when the fall back of a relatively Handy market is not there. However, lower benchmarks have been difficult to claw back up from of late, so expect these levels to remain for now. Going into week 31, those with tonnage towards the top of the list will be looking for some green shoots of enquiry early on to avoid further decrement.

Panamax

Perhaps it was too much to hope for a second successive week of healthy activity, with Owners' frustrations laid bare. Furthermore, fixing dates have now moved forward in August, which offers Charterers more selection. It is fair to say that whilst for now recent gains have not been lost in the continent, the heat has been allowed to escape. In the Med, where activity has been lacking, highs seen on the Cont aren't quite being hit. One slight positive for Owners, however, is that even at levels in the 60's ballast units aren't being tempted to come this way, which should help with avoiding the scenario of complete oversupply.

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 23rd | June 16th | Last Month* | FFA Q3 |
|--------------|-----------|--------------------|--------------|--------------|----------------|-----------|
| TD3C VLCC | AG-China | -4 | 38 | 42 | 37 | 38 |
| TD20 Suezmax | WAF-UKC | +2 | 48 | 45 | 44 | 49 |
| TD7 Aframax | N.Sea-UKC | -8 | 85 | 93 | 75 | 84 |

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

| | | wk on wk change | July 23rd | June 16th | Last Month* | FFA Q3 |
|--------------|-----------|--------------------|--------------|--------------|----------------|-----------|
| TD3C VLCC | AG-China | -6,500 | 23,000 | 29,500 | 23,500 | 21,750 |
| TD20 Suezmax | WAF-UKC | +750 | 13,750 | 13,000 | 13,250 | 14,250 |
| TD7 Aframax | N.Sea-UKC | -7,500 | 8,500 | 16,000 | 3,750 | 7,750 |

Clean Tanker Spot Market Developments - Spot Worldscale

| | | wk on wk change | July 23rd | June 16th | Last Month* | FFA Q3 |
|---------------|------------------|--------------------|--------------|--------------|----------------|-----------|
| TC1 LR2 | AG-Japan | +4 | 62 | 58 | 82 | |
| TC2 MR - west | UKC-USAC | +27 | 106 | 79 | 81 | 107 |
| TC5 LR1 | AG-Japan | +7 | 58 | 51 | 80 | 76 |
| TC7 MR - east | Singapore-EC Aus | +0 | 91 | 91 | 107 | 107 |

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

| | | wk on wk change | July 23rd | June 16th | Last Month* | FFA Q3 |
|---------------|------------------|--------------------|--------------|--------------|----------------|-----------|
| TC1 LR2 | AG-Japan | +500 | 8,000 | 7,500 | 16,750 | |
| TC2 MR - west | UKC-USAC | +5,000 | 10,500 | 5,500 | 6,500 | 10,500 |
| TC5 LR1 | AG-Japan | +1,250 | 3,500 | 2,250 | 10,750 | 8,500 |
| TC7 MR - east | Singapore-EC Aus | -500 | 5,500 | 6,000 | 9,250 | 8,250 |

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

| | | | | | |
|--|-----|-----|-----|-----|--|
| ClearView Bunker Price (Rotterdam VLSFO) | +17 | 316 | 299 | 273 | |
| ClearView Bunker Price (Fujairah VLSFO) | +22 | 345 | 323 | 305 | |
| ClearView Bunker Price (Singapore VLSFO) | +22 | 353 | 331 | 315 | |
| ClearView Bunker Price (Rotterdam LSMGO) | +16 | 370 | 354 | 329 | |

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